



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

Interim Report
for the six months
ended 30th June 2004



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

(A JOINT-STOCK COMPANY WITH LIMITED LIABILITY INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA)

SHARE CODE: 0317

INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH JUNE 2004

Important Notice

The Board of Directors of the Company declares that there are no false statements, misleading information or material omissions in this report. The directors are jointly and severally responsible for the authenticity, accuracy and integrity of the contents of this report.

Mr. Hu Guoliang, Chairman of the Board of Directors, and Mr. Zen Xiangxin, Chief Accountant and Ms. Yang Rong, Director to Financial Center of the Company declare and assure the facticity and integrity of the financial reports of this report.

Unless otherwise stated, financial data contained in this report is extracted from the accounts prepared by the Group in accordance with PRC Accounting Standards and Systems.

The financial reports in this interim report are unaudited.

I. OVERVIEW OF THE COMPANY

1. REGISTERED CHINESE NAME OF THE COMPANY

广州广船国际股份有限公司

REGISTERED ENGLISH NAME OF THE COMPANY

Guangzhou Shipyard International Company Limited

ABBREVIATION OF ENGLISH NAME OF THE COMPANY

GSI

2. PLACE OF LISTING OF THE COMPANY'S SHARES

A Shares – Shanghai Stock Exchange

Share Code: 600685

Abbreviated Name: Guangzhou Shipyard International

H Shares – The Stock Exchange of Hong Kong Limited

Share Code: 317

Abbreviated Name: Guangzhou Shipyard International

3. THE COMPANY'S REGISTERED ADDRESS AND OFFICE

40 South Fangcun Main Road, Guangzhou,

The People's Republic of China

Postal Code: 510382

URL OF THE COMPANY: <http://www.chinagsi.com>

E-MAIL ADDRESS: gsi@chinagsi.com

4. LEGAL REPRESENTATIVE OF THE COMPANY

Mr. Hu Guoliang

5. SECRETARY TO THE BOARD OF DIRECTORS

Mr. Li Zhidong

Tel: (8620) 8180 7839, 8189 6411

E-mail Address: lzd@chinagsi.com

AUTHORIZED SECURITIES REPRESENTATIVE

Ms. Yang Ping

Tel: (8620) 8189 1712 ext. 3118 or 3168

E-mail Address: yangping@chinagsi.com

Address: 40 South Fangcun Main Road, Guangzhou, P.R.C.

Fax: (8620) 8189 1575

6. PUBLICATIONS DESIGNATED BY CHINA SECURITIES REGULATORY COMMISSION FOR DISCLOSING INFORMATION

Shanghai Securities News
Hong Kong Commercial Daily
China Daily (oversea edition)

URL DESIGNATED BY CHINA SECURITIES REGULATORY COMMISSION FOR PUBLISHING THE REPORT: <http://www.sse.com.cn>
URL DESIGNATED BY THE STOCK EXCHANGE OF HONG KONG LIMITED: <http://www.hkex.com.hk>

PLACE FOR INSPECTION OF THE INTERIM REPORT: Office of the Secretary to the Board of Directors

7. MAJOR FINANCIAL DATA AND INDICATORS

(1). Prepared under the PRC Accounting Standards and Systems

| Financial Indicators | Unaudited | Audited | Change (%) |
|---|----------------------|--------------------------|------------|
| | As at 30th June 2004 | As at 31st December 2003 | |
| Current assets (RMB'000) | 1,371,181 | 1,429,953 | -4.11 |
| Current liabilities (RMB'000) | 1,469,213 | 1,448,163 | 1.45 |
| Total assets (RMB'000) | 2,442,568 | 2,513,408 | -2.82 |
| Shareholders' equity (excluding minority interests) (RMB'000) | 687,128 | 676,590 | 1.56 |
| Net assets per share (RMB) | 1.39 | 1.37 | 1.39 |
| Adjusted net assets per share (RMB) | 1.20 | 1.14 | 5.26 |

| Financial Indicators | Unaudited | | Change (%) |
|--|----------------|----------------|------------|
| | 2004 | 2003 | |
| | (Consolidated) | (Consolidated) | |
| Net profit/(loss) (RMB'000) | 10,539 | 10,027 | 5.11 |
| Net profit/(loss) after deduction of exceptional items (RMB'000) | 10,411 | 10,248 | 1.59 |
| Full diluted earnings per share (RMB) | 0.02 | 0.02 | - |
| Net cash flow from operating activities (RMB'000) | 238,177 | 312,560 | -23.8 |
| Fully diluted return on net assets (%) | 1.53 | 1.56 | -1.92 |
| Weighted average return on net assets ratio after deduction of exceptional items (%) | 1.56 | 1.59 | -1.89 |

Note: The nature and amount of exceptional items deducted are as follows:

| Exceptional items | Amount (RMB'000) |
|--|------------------|
| 1. Share right investment balance | 108 |
| 2. Subsidy income (exclude financial subsidy for domestic special vessels) | 1,042 |
| 3. Non-operating income | 272 |
| 4. Non-operating expenses | -1,293 |
| Total | 128 |

The subsidy income from the sale of domestic special vessels is a subsidy given in accordance with the state industry policy and can be determined accurately, it should therefore be taken as a part of the price of such ship construction project. For this reason, it is not accounted for as an exceptional item.

(2). Prepared under Accounting Principles Generally Accepted in Hong Kong (“HK GAAP”)

| Financial Indicators | Unaudited | Audited | Change |
|---|-----------------------------|---------------------------------|---------------|
| | As at 30th June 2004 | As at 31st December 2003 | |
| Current assets (RMB'000) | 1,761,405 | 1,851,033 | -4.8 |
| Current liabilities (RMB'000) | 1,878,121 | 1,888,373 | -0.5 |
| Total assets (RMB'000) | 2,830,869 | 2,932,287 | -3.5 |
| Shareholders' equity (excluding minority interests) (RMB'000) | 669,060 | 657,569 | 1.7 |
| Net assets per share (RMB) | 1.35 | 1.33 | 1.5 |
| Gearing ratio (%) | 74.25 | 75.54 | -1.7 |

| Financial Indicators | Unaudited | | Change |
|--|-----------------------|-----------------------|---------------|
| | 2004 | 2003 | |
| | (Consolidated) | (Consolidated) | (%) |
| Profit/(loss) attributable to shareholders (RMB'000) | 11,491 | 10,027 | 14.6 |
| Earnings/(loss) per share (RMB) | 0.0232 | 0.0203 | 14.3 |
| Return on net assets (%) | 1.72 | 1.56 | 10.3 |

(3). Statement of the difference due to prepared under different accounting principles

The difference in net profit of this period and net assets as at 30th June 2004 calculated on the basis of the PRC accounting standards and systems and the HK GAAP respectively is as follows:

| | Net profit | Net assets |
|--|-------------------|-------------------|
| | Amount | Amount |
| | (RMB'000) | (RMB'000) |
| Prepared under PRC accounting standards and systems | 10,539 | 687,129 |
| Realized gain on minority interest portion from inter-company transactions | – | 502 |
| Deficit on revaluation of investment properties | – | -854 |
| Obligation for early retirement scheme | 952 | -17,479 |
| Profit and loss items directly recorded in retained earnings brought forward | – | -238 |
| Prepared under HK GAAP | 11,491 | 669,060 |

(4) **Supplementary profit statement prepared pursuant to “Regulations on Information Disclosure for Companies with Listed Securities (No.9)” promulgated by China Securities Regulatory Committee.**

| Profit (loss) during the period under review | Return on net assets ratio (%) | | Earnings (loss) per share (RMB) | |
|--|--------------------------------|------------------|---------------------------------|------------------|
| | Fully diluted | Weighted average | Fully diluted | Weighted average |
| Profit from principal operations | 8.56 | 8.63 | 0.12 | 0.12 |
| Profit (loss) from operations | -1.15 | -1.16 | -0.02 | -0.02 |
| Net profit (loss) | 1.53 | 1.55 | 0.02 | 0.02 |
| Net profit (loss) after deduction of exceptional items | 1.52 | 1.53 | 0.02 | 0.02 |

Methods for calculating fully diluted return on net assets and fully diluted earnings (loss) per share are as follows:

Fully diluted return on net assets = Profit (loss) during the period under review ÷ Net assets at period end x 100%

Fully diluted earnings (loss) per share = Profit (loss) during the period under review ÷ Total number of ordinary shares at period end

Method for calculating the weighted average return on net assets ratio and the weighted average income (loss) per share are as follows:

Weighted average return on net assets = the profit (loss) during the period under review ÷ [(net assets at beginning of the period + net assets at closing of the period) ÷ 2] x 100%

Weighted average income (loss) per share = profit (loss) during the period under review ÷ [(total number of shares at the beginning of the period + total number of shares at the closing of the period) ÷ 2]

II. CHANGES OF SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDINGS

- There has not been any change in the share capital structure of the Company during the period under review.
- As at 30th June, 2004, the total number of shareholders of the Company was 58,926 including 58,661 shareholders holding A shares and 265 shareholders holding H shares.
- Top 10 shareholders of the Company are as follows:

| Shareholder | Addition/ Deductions closing the period (share) | Number of shares at the end of the period (share) | Percentage (%) | Shares classification (listed or unlisted) | Shares pledged or congealed | Nature of shareholders |
|---|---|---|-------------------|--|-----------------------------------|------------------------------|
| CHINA STATE SHIPBUILDING CORPORATION (“CSSC”) | – | 210,800,080 | 42.613 | Non-circulating | None | State-owned Shareholder |
| HKSCC NOMINEES LIMITED | -176,000 | 144,330,999 | 29.177 | Circulating | Unknown | Foreign capital Shareholder |
| YUYANG FUND | – | 7,340,576 | 1.484 | Circulating | Unknown | Corporation shareholder |
| HSBC NOMINEES (HONG KONG) LIMITED | 738,000 | 4,934,000 | 0.997 | Circulating | Unknown | Foreign capital Shareholder |
| CHAN CHEUK SANG | 600,000 | 3,000,000 | 0.606 | Circulating | Unknown | Foreign capital Shareholder |
| DESHEN FUND | – | 1,572,885 | 0.318 | Circulating | Unknown | Corporation shareholder |
| HEAVEST FUND MANAGEMENT | – | 542,502 | 0.110 | Circulating | Unknown | Corporation shareholder |
| LANCHOU GROWTH | – | 487,160 | 0.098 | Circulating | Unknown | Corporation shareholder |
| YUAN RONG HUA | – | 403,099 | 0.081 | Circulating | Unknown | Nature person shareholder |
| LIU ZHI | – | 350,000 | 0.071 | Circulating | Unknown | Nature person shareholder |

4. Top 10 shareholders of circulating shares

| Shareholder | Number of shares as at 30th June 2004 | Nature of shares |
|-----------------------------------|--|------------------|
| HKSCC NOMINEES LIMITED | 144,330,999 | H Shares |
| YUYANG FUND | 7,340,576 | A Shares |
| HSBC NOMINEES (HONG KONG) LIMITED | 4,934,000 | H Shares |
| CHAN CHEUK SANG | 3,000,000 | H Shares |
| DESHEN FUND | 1,572,885 | A Shares |
| HEAVEST FUND MANAGEMENT | 542,502 | A Shares |
| LANCHOU GROWTH | 487,160 | A Shares |
| YUAN RONG HUA | 403,099 | A Shares |
| LIU ZHI | 350,000 | A Shares |
| YULONG FUND | 316,300 | A Shares |

Note:

1. Apart from the top 10 shareholders and the top 10 shareholders of circulating shares disclosed above, as at 30th June 2004, the Company had not received any notice from H shareholders that their shareholding reached the level required to be disclosed under the Securities and Futures Ordinance, chapter 571 of the law of Hong Kong (“SFO”).
2. None of the shares of the Company held by CSSC during the period under review were either pledged or frozen.
3. The Company is not aware of any connection among the top 10 shareholders and the top 10 shareholders of circulating shares, nor whether these shareholders are acting in concert as stipulated in the “Rules Governing the Disclosure of Change in Shareholders”.

III. INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Interests or Short Positions of Directors, Supervisors and Senior Management in Shares, Underlying Shares and Debentures

As at 30th June 2004, the respective shareholdings of the Directors, Supervisors and Senior Management of the Company and their respective spouses and children under the age of 18 (“family members concerned”) in the Company were as follows:

| Directors | Number of shares held by self and family members concerned | Among which shares held by director in individual capacity |
|--------------------------|--|--|
| Hu Guoliang | A Shares 5,000 | A Shares 5,000 |
| | – | – |
| Yu Baoshan | – | – |
| Han Guangde | – | – |
| Wang Yi | – | – |
| Zhong Jian | – | – |
| Li Junfeng | – | – |
| Miao Jian | – | – |
| Wu Fabo | – | – |
| Bo Miaojin | – | – |
| David Hon To, Yu | – | – |
| Philip Pat Yiu, Yuen | – | – |
| Supervisors | | |
| Wang Shusen | – | – |
| Chen Jinqi | A Shares 2,000 | A Shares 2,000 |
| | – | – |
| Liang Mianhong | – | – |
| Wang Shiming | – | – |
| Ye Weiming | – | – |
| Senior management | | |
| Xia Suijia | – | – |
| Chen Ji | – | – |
| Zen Xiangxin | – | – |
| Li Zhidong | – | – |

Save as disclosed above, as at 30th June 2004, none of the directors, supervisors and senior management of the Company or their family members concerned had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the “SFO”) as notified to the Company and the Stock Exchange of Hong Kong Limited (“the Hong Kong Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or as recorded in the Register required to be kept under section 336 of the SFO. No rights to subscribe for shares or underlying shares of the Company had been granted to or exercised by any director, supervisor or senior management of the Company.

2. Change of Directors, Supervisors and Senior Management

At the 2004 Extraordinary General Meeting held on 26th March 2004, Mr. Wang Shiming and Mr. Ye Weiming were elected as supervisors of the Company, and approved Ms. Zhang Zhenya and Mr. Chen Xiongyi’s resignation of their positions as supervisors of the Company.

At the thirteen meeting of the fourth term of the board of directors held on 16th April 2004, Mr. Yu Baoshan, Mr. Han Guangde, Mr. Chen Ji and Mr. Zen Xianxin were elected as vice board chairman, president, vice president and chief accountant of the Company respectively, and approved Mr. Yu Baoshan’s resignation of his former position as president of the Company, and three vice president named Mr. Ye Peihua, Mr. Zhong Jian and Mr. Yin Xueming’s resignations.

At the 2003 Annual General Meeting held on 25th June 2004, Mr. Ye Peihua, Mr. Xu Guoqing and Ms. An Xiaofei’s resignations of their positions as directors of the Company were approved, and Mr. Han Guangde, Mr. Wang Yi and Mr. Zhong Jian was elected as new directors of the Company; Mr. Fu Dexiang and Mr. Han Zineng’s resignation of their positions as supervisors of the Company were approved, Mr. Wang Shusen and Mr. Liang Mianhong were elected as supervisors of the Company.

IV. MANAGEMENT DISCUSSION AND ANALYSIS

1. Information of Principal Operating Productions (unit: RMB)

| Production | Principal operating income | Principal operating costs | Principal operating gross profit | Change of principal operating income compared with that of the same of last year | Change of principal operating cost compared with that of the same period of last year | Change of principal operating gross profit compared with that of the same period of last year |
|--|----------------------------|---------------------------|----------------------------------|--|---|---|
| Shipbuilding | 992,718,869.27 | 950,121,807.46 | 4.29 (Note) | 13.20 | 10.82 | 117.15 |
| Container | 1,133,080.23 | 980,287.65 | 13.48 | -99.49 | -99.56 | 114.25 |
| Steel structure | 49,739,570.76 | 45,312,638.36 | 8.90 | 26.97 | 26.27 | 34.53 |
| Other mechanical and electrical products | 39,396,228.01 | 27,908,639.82 | 29.16 | -0.44 | -6.42 | 17.88 |
| Shiprepairing | 7,312,315.12 | 6,524,914.29 | 10.77 | 117.85 | 485.67 | -64.89 |
| Total | 1,090,300,063.39 | 1,030,848,287.58 | 5.45 | -7.65 | -10.12 | 75.78 |

Note: The gross profit from shipbuilding of the period under review was not include the subsidy income of domestic special vessels which amounted to RMB18,767,509.83. (The same period of last year: RMB54,739,067.70)

2. Geographical Statement of Principal Operation (unit: RMB)

| Area | Principal operating income | | | Subsection profit | |
|-----------------|----------------------------|------------------------------|------------|-------------------|------------------------------|
| | This period | The same period of last year | Change (%) | This period | The same period of last year |
| Malta | 307,852,320.47 | 64,405,811.11 | 377.99 | 25,215,514.89 | 2,176,671.38 |
| Sweden | – | 69,411,337.02 | – | – | -2,066,665.62 |
| Denmark | 444,307,995.31 | 365,057,250.88 | 21.71 | 5,820,450.94 | 8,314,223.15 |
| Macao | 675,709.56 | – | – | 161,165.40 | – |
| The Philippians | 177,953.35 | 502,420.36 | -60.58 | 6,091.51 | – |
| USA | 85,297.60 | 533,638.58 | -84.02 | 85,297.60 | 30,632.37 |
| Hong Kong | 1,907,080.23 | 223,365,867.93 | -99.15 | 690,656.03 | 751,725.15 |
| Subtotal | 755,006,356.52 | 723,276,325.88 | 4.39 | 31,979,176.37 | 9,206,586.43 |
| China Mainland | 335,293,706.87 | 457,398,456.47 | -26.70 | 27,472,599.44 | 24,615,422.20 |
| Total | 1,090,300,063.39 | 1,180,674,782.35 | -7.65 | 59,451,775.81 | 33,822,008.63 |

3. Review of Principal Operating

For the six months ended at 30th June 2004, the principal operating income of the Company and its subsidiaries (collectively the “Group”) amounted to RMB1,090.30 million representing a decrease of 7.65% compared with that of the same period of last year. The net profit of the Group amounted to RMB10.54 million representing an increase of 5.11% compared with that of the same period of last year.

During the period under review, effected by the sustaining price rising of steel products and the pressure from the appreciation of Euro, the Company was faced with huge challenge in shipbuilding and non-shipbuilding business. The Company strengthened cost control and management, carried out transferring shipbuilding management model, pressed “zero limitation” method actively, to control cost from design and construction, and through optimize products structure to promote steel products utilizing ratio. Those made there is a little increase in the profit in this period compared with that of the same period of last year.

During this period, the principal operating income decreased a little compared with that of the same period of last year, that mainly due to the exit of container manufacturing business. And the gross profit increased by 75.78% compared with that of the same period of last year, that mainly due to the adjustment of shipbuilding products structure, which made the decrease of the proportion of the domestic special vessels over the total products-in-process. If considered the subsidy income for the domestic special vessels from the state, the gross profit was almost equal to that of the same period of last year. Besides, the cost control method carried out by the Company could make up the impact from the price rising of steel products and the pressure from value rising of Eur, and improved the gross profit ratio also.

During the first half of 2004, the Group delivered and completed 6 vessels, including two 38000dwt product tanker for a Malta customer, one 35000dwt product tanker for a Denmark customer, and two 40000dwt product tankers and one large size auxiliary ship for domestic customers. Apart from that, the Group commenced construction work on 6 vessels, erected 5 vessels on slipways and launched 6 vessels. Moreover, the Group completed shiprepairing work on 6 vessels, and a batch of steel structure project.

The Group secured new contracts of various business that valued RMB1.088 billion for the first half year of 2004, and had secured orders valued RMB4.507 billion as at 30th June 2004.

4. Investments

As at 30th June 2004, investments in upgrading and transforming the technology used in the principal business of the Group amounted to RMB30.01 million.

5. Details of the Charge on Group Assets

As at 30th June 2004, fixed assets with net book value of RMB187 million have been pledged to secure bank loans for the Group.

6. Prospects for the Second Half of the Year

The two 35,000dwt product oil tankers, which had been made devaluation provision in the year 2003, will be completed and sold in the second half of this year. It is anticipated that the pressure from cost control of the Company will be extraordinary in the next half of the year, and the profitability will up against great challenge. So, in order to shoot at better result in the second half of the year, the Company will expand overall cost control, strengthen management and budget control, and persevere cost improvement in the phase of design. Moreover, the Company will press performance management to improve function management and embody value of each station. Besides, the Company will carry out overall shipbuilding model transfer work in the second half of the year.

7. Staff of the Company and the remuneration policy

As at 30th June 2004, the number of employees on the payroll register of the Company was 4,348. The remuneration of the employees of the Group includes their salaries, bonuses and other fringe benefits. The Group has different rates of remuneration for different employees, which are determined based on their performance, experience, position and other factors in compliance with the relevant PRC laws and regulations.

V. SIGNIFICANT EVENTS

1. During the period under review, the Company had not executed any profit distribution scheme, shares transferred from accumulation fund scheme or scheme for issuing new shares adopted in the period before and carried out in the period under review.
2. During the period under review, the Company had no significant litigation and arbitration.
3. During the period under review, there was no significant acquisition, sale or disposition of assets.
4. At the 2003 Annual General Meeting of the Company held on 25th June 2004, the framework agreement for connected transactions of an operating nature made between the Company and CSSC, the controlling shareholder of the Company, was voted for and unanimously passed by all independent shareholders. Connected shareholders abstained from voting in accordance with relevant rules.

During the period under review, the connected transactions between the Group and the associated enterprises under the control of CSSC and associated companies of the Group included providing products and labors amounted to RMB16.60 million, purchases of materials and equipment and other expenses amounted to RMB105.63 million. These connected transactions were carried out in the ordinary course of business and had been entered in accordance with the terms of the agreements covering such transactions or (where there was no such agreement) on terms no less favorable than terms available to third parties. The Group did not receive any extra-ordinary benefit from these transactions, which are considered as reasonable to the Group’s shareholders.

5. The Company had not managed by trust, by contract or leased the assets of other companies and the other companies had not managed by trust, by contract or leased the assets of the Company, which occurred during the period under review or occurred before but continued to the period under review.
6. The Company did not provide any guarantee of a significant nature that occurred during the period under review or before but continued to the period under review.
7. As at 30th June 2004, trust deposits with non-banking financial institutions amounted to RMB444.50 million. These comprised trust deposits receivable from Guangzhou International Trust and Investment Company (GZITIC) amounted to RMB397.07 million with non-recovery provision of RMB325.37 million.
The Company's trust deposits at Guangzhou Economic and Technology Development Zone International Trust and Investment Company ("GETDZITIC") amounted to RMB47.43 million. A full bad debt provision in respect of such deposit has been made in 2000. The liquidation team of GETDZITIC issued a notice of [2004] No. 11, which put forward a proposal of assigning the book creditor's rights of GETDZITIC to each creditor because most of the creditors did not agree to the scheme of "zero repayment", and sought opinions about the proposal from all creditors. The Company answered GETDZITIC on 15th July 2004 that the Company did not agree to the proposal, and requested for a bankruptcy liquidation.
Except for the above, the Company had no other significant trust that occurred during the period under review or before but continued to the period under review.
8. During the period under review, the Company or the shareholders who hold over 5% (including 5%) shares of the Company did not give any undertaking that might have a great impact on the business results or financial condition of the Company during the period under review or occurred before but continued to the period under review.
9. During the period under review, in accordance with the Measures Concerning Employee Medical Insurance, the Company joined the basic medical insurance that managed by Guangzhou Municipal Labor Protection Administration Department and bore insurance amounted to RMB5.19 million for its employees.
10. During the period under review, in accordance with the housing reform policy of Guangzhou City, the Company paid housing allowance amount to RMB3.75 million for the qualified staff.
11. The Company received the notification of Zhen Jian Li Tong No. 001 on 17th November 2003, due to the alleged breaches to securities laws and regulations by the Company, the Company is currently being investigated by the China Securities Regulatory Commission in respect of certain issues in the previous announcement commencing on 17th November 2003. The matter has been published on "Shanghai Securities News", "Hong Kong Commercial Daily" and "China Daily" (oversea edition) on 17th November 2003. The investigation is still carried out and there has not any final result up till this report disclosed.
12. During the period under review, the Company adopted relevant rectification measure in accordance with the rectification report, which was published on "Shanghai Securities News", "Hong Kong Commercial Daily" and "China Daily" (oversea edition) on 11th November 2003. The amended Inner Control System for Connected Transactions and Managerial System for Information Disclosure was approved at the twelfth meeting of the fourth term of the board of directors held on 6th February 2004; The Company invited persons from Shanghai Stock Exchange to come to the Company and to teach listing rules and financial information disclosure to the directors, supervisors, senior management and relevant persons of the Company on 8th March 2004. The 2004 Extraordinary General Meeting held on 26th March 2004, approved the establishment of the four special committees namely Emolument and Examination Committee, Nomination Committee, Audit Committee and Strategy Committee, approved to revise certain provision of the rules of procedure for the supervisor committee, changed two independent supervisors, approved the amendment of certain provisions of the articles of association of the Company. Relevant materials had been published on <http://www.sse.com.cn>, the website of Shanghai Stock Exchange and sent to shareholders in Hong Kong in print.
13. There had been no purchase, sale or redemption of the Company's securities by the Company or any of its subsidiaries during the six-month period ended 30th June 2004.
14. The general situation of financing occupancy by the controlled holder and its subsidiaries is stated in (VI) connected Party and Transactions in Notes to Financial Statement. The four independent directors namely Mr. Wu Fabo, Mr. Bo Miaoqing, Mr. David Hon To, Yu and Philip Pat Yiu, Yuen issued special statement and independent opinion on the matters of accumulated and current external guarantees are as follows:
As at 30th June 2004, there was no guarantee provided by the Company to its controlling holder, connected parties in which the Company hold less than 50% of their shares, any non-body corporation or individual accumulatively or currently.
15. Due to environment relocation and the adverse impact of container manufacturing market, the Company had decided to wholly exit container business market after detail analyses and research by the Board of Directors. During the period under review, the Company has liquidated relevant creditor's rights and liabilities belong to the container manufacturing factory of the Company, and dealt with various assets and inventories. It is anticipate the investment in the factory could be withdrawn in the year 2004.
16. The Company decided to withdraw all its investment in Guangzhou Henghe Construction Engineering Co., Ltd., 76% owned subsidiary of the Company, in accordance with the development need of the Company. It was anticipated that the withdrawal will not affect the benefit of the Company. Relevant withdrawal work is in process.
17. The Company planned to transfer part of its interests in Guangzhou Masterwood Co., Ltd., a subsidiary of the Company, to Guangzhou Hangpu Shipyard, a connected party of the Company, for benefit of the business development of the subsidiary. Relevant matters are in process, and the connected transaction will be announced specially by the Company.
18. The shipbuilding contract for two 52,000dwt product oil tankers between Gotland Shipping Co., Sweden and the Company was signed on 28th June 2004, and became effective on 22nd July 2004. The ships are the biggest ones signed by the Company up till now.

19. As required by paragraph 14 of Code of Best Practice set out in Appendix 14 to the Listing Rules issued by the Stock Exchange of Hong Kong Ltd., the Board of Directors of the Company has established Audit Committee to review and supervise the Company's financial reporting procedures and internal controls with the approval of 2004 Extraordinary General Meeting of the Company held on 26th March 2004.

VI. FINANCIAL REPORT (UNAUDITED)

The accounting policies adopted in the preparation of the following financial reports are either under PRC accounting standards and systems or HK GAAP.

I Prepared under PRC Accounting Standards and Systems

A. Financial Statements

Balance Sheets

As at 30th June 2004

Unit: RMB

| Assets | Note | Consolidated | | Parent Company | |
|---|---------|-------------------------|-------------------------|-------------------------|-------------------------|
| | | Closing balance | Opening balance | Closing balance | Opening balance |
| Current Assets | | | | | |
| Cash and bank balance | (V)1 | 473,700,861.59 | 391,535,307.44 | 439,676,441.95 | 340,723,321.84 |
| Short-term investment | | — | — | — | — |
| Bills receivable | | — | 397,837.56 | — | — |
| Dividends receivable | | 344,459.45 | 171,532.40 | 344,459.45 | 171,532.40 |
| Interests receivable | | — | — | — | — |
| Accounts receivable | (V)2(1) | 229,688,784.11 | 442,749,389.09 | 129,673,937.03 | 206,069,513.26 |
| Other receivables | (V)2(3) | 125,181,969.30 | 163,717,612.19 | 129,123,623.50 | 165,682,591.21 |
| Prepayments to suppliers | (V)2(2) | 120,602,909.34 | 29,730,300.54 | 114,568,891.57 | 26,575,496.91 |
| Subsidy receivable | (V)2(4) | 56,482,030.26 | 69,066,993.18 | 56,482,030.26 | 69,066,993.18 |
| Receivables from connected parties | | — | — | — | — |
| Inventories | (V)3 | 349,442,147.55 | 215,118,118.05 | 304,491,038.16 | 178,409,657.31 |
| Deferred expenses | (V)4 | 707,433.73 | 1,047,048.02 | 196,521.00 | 353,300.00 |
| Short-term loan | | — | — | — | — |
| Net losses of disposal current assets | | — | — | — | — |
| Long-term investment in | | — | — | — | — |
| bonds within one year | | — | — | — | — |
| Futures security | | — | — | — | — |
| Tax refund for exports receivable | (V)2(4) | 15,030,456.10 | 116,418,735.94 | 14,642,438.77 | 111,057,416.78 |
| Other current assets | | — | — | — | — |
| Total current assets | | 1,371,181,051.43 | 1,429,952,874.41 | 1,189,199,381.69 | 1,098,109,822.89 |
| Long-term investments | | | | | |
| On equity | (V)5(1) | 13,857,723.55 | 13,804,997.79 | 203,510,070.33 | 206,344,531.79 |
| On others | | — | — | — | — |
| On bonds | | — | — | — | — |
| Total long-term investments | | 13,857,723.55 | 13,804,997.79 | 203,510,070.33 | 206,344,531.79 |
| Closing balance (the loan | | — | — | — | — |
| balance indicated by “-“ | (V)5(2) | -1,599,886.46 | -1,707,743.96 | — | — |
| Equity investment balance | | — | — | -1,599,886.46 | -1,707,743.96 |
| Fixed Assets | | | | | |
| Fixed assets-cost | (V)6 | 1,530,709,522.01 | 1,518,724,143.47 | 1,393,002,374.32 | 1,343,082,494.90 |
| Less: accumulated depreciation | (V)6 | 597,599,244.33 | 559,687,354.71 | 525,516,450.93 | 471,440,848.91 |
| Fixed-assets-net book value | | 933,110,277.68 | 959,036,788.76 | 867,485,923.39 | 871,641,645.99 |
| Net loss on fixed assets to be written of | (V)6 | 1,082,819.57 | 1,082,819.57 | 1,082,819.57 | 1,082,819.57 |

Unit: RMB

| Assets | Note | Consolidated | | Parent Company | |
|---|----------|-------------------------|-------------------------|-------------------------|-------------------------|
| | | Closing balance | Opening balance | Closing balance | Opening balance |
| Net fixed assets | | 932,027,458.11 | 957,953,969.19 | 866,403,103.82 | 870,558,826.42 |
| Construction materials | | — | — | — | — |
| Construction-in-progress | (V)7 | 44,141,274.85 | 30,247,435.27 | 43,452,461.31 | 30,247,435.27 |
| Disposal of fixed assets | | — | — | — | — |
| Net loss of disposal fixed assets | | — | — | — | — |
| Total fixed assets | | 976,168,732.96 | 988,201,404.46 | 909,855,565.13 | 900,806,261.69 |
| Intangible and other assets | | | | | |
| Intangible assets | (V)8 | 79,788,504.12 | 79,599,508.04 | 66,668,208.87 | 66,342,305.33 |
| Long-term deferred expenses | (V)9 | 1,572,109.31 | 1,849,630.67 | 157,541.26 | 207,291.22 |
| Other long-term assets | | — | — | — | — |
| Total intangible and other assets | | 81,360,613.43 | 81,449,138.71 | 66,825,750.13 | 66,549,596.55 |
| Deferred taxation | | | | | |
| Deferred tax-assets | | | | | |
| Total assets | | 2,442,568,121.37 | 2,513,408,415.37 | 2,369,390,767.28 | 2,271,810,212.92 |
| Liabilities and shareholders' equity | | | | | |
| Current Liabilities | | | | | |
| Short term loan | (V)10(1) | 165,532,000.00 | 194,403,806.91 | 165,532,000.00 | 188,980,600.00 |
| Bill payable | (V)11(1) | 24,677,911.00 | 118,653,152.23 | 24,677,911.00 | 87,980,000.00 |
| Accounts payable | (V)11(2) | 353,349,267.72 | 341,867,140.48 | 356,671,503.48 | 348,760,819.76 |
| Receipts in advance | (V)11(3) | 57,456,291.66 | 31,711,711.36 | 37,737,981.50 | 18,325,005.99 |
| Accounts payable to connected companies | | | | | |
| Salary payable | | — | — | — | — |
| Staff welfare payable | | 5,653,173.57 | 3,296,564.40 | 4,000,192.77 | 1,774,608.09 |
| Dividends payable | (V)12 | 13,449.38 | 13,449.38 | 13,449.38 | 13,449.38 |
| Interest payable | | — | — | — | — |
| Taxed payable | (V)13 | -12,721,899.78 | -14,250,237.71 | -11,900,753.66 | -14,501,583.64 |
| Other unpaid items | | 952,992.80 | 1,634,615.85 | 870,035.90 | 1,379,031.31 |
| Other payables | (V)11(4) | 52,312,644.10 | 57,138,551.21 | 59,679,954.30 | -79,044,338.89 |
| Accrued expenses | (V)14 | 101,967,637.92 | 87,199,602.43 | 100,073,808.27 | 87,450,930.75 |
| Established liabilities | | — | — | — | — |
| Long-term liabilities within one year | (V)10(2) | 381,303,272.82 | 383,537,455.50 | 381,303,272.82 | 383,537,455.50 |
| Other current liabilities | (V)15 | 338,716,114.20 | 242,958,088.77 | 338,716,114.20 | 242,958,088.77 |
| Total current liabilities | | 1,469,212,855.39 | 1,448,163,900.81 | 1,457,375,469.96 | 1,267,614,067.02 |
| Long-term liabilities | | | | | |
| Long-term loans | (V)16 | 200,435,000.00 | 300,510,000.00 | 200,435,000.00 | 300,510,000.00 |
| Bonds payables | | — | — | — | — |
| Long-term payable | | — | — | — | — |
| Special project payables | (V)17 | 25,885,536.73 | 28,411,369.33 | 25,885,536.73 | 28,411,369.33 |
| Other long-term liabilities | | — | — | — | — |
| Deferred profit and loss | | — | — | — | — |
| Total long-term liabilities | | 226,320,536.73 | 328,921,369.33 | 226,320,536.73 | 328,921,369.33 |

| Liabilities and shareholders' equity | Note | Consolidated | | Parent Company | |
|---|-------|-------------------------|-------------------------|-------------------------|-------------------------|
| | | Closing balance | Opening balance | Closing balance | Opening balance |
| Deferred taxation | | | | | |
| Deferred tax-loans | | – | | | |
| Total liabilities | | 1,695,533,392.12 | 1,777,085,270.14 | 1,683,696,006.69 | 1,596,535,436.35 |
| Minority interests | | 59,906,259.29 | 59,733,440.11 | | |
| Shareholders' equity | | | | | |
| Share capital | (V)18 | 494,677,580.00 | 494,677,580.00 | 494,677,580.00 | 494,677,580.00 |
| Less: investments returned | | – | | – | |
| Net share capital | | 494,677,580.00 | 494,677,580.00 | 494,677,580.00 | 494,677,580.00 |
| Capital reserved | (V)19 | 651,977,481.72 | 651,977,481.72 | 651,977,481.72 | 651,977,481.72 |
| Surplus reserved | (V)20 | 100,147,511.34 | 100,147,511.34 | 99,527,585.23 | 99,527,585.23 |
| Including: statutory public welfare fund | | 30,592,815.41 | 30,592,815.41 | 30,592,815.41 | 30,592,815.41 |
| Remained earnings | (V)21 | -559,674,103.10 | -570,212,867.94 | -560,487,886.36 | -570,907,870.38 |
| Total shareholders' equity | | 687,128,469.96 | 676,589,705.12 | 685,694,760.59 | 675,274,776.57 |
| Total liabilities and shareholders' equity | | 2,442,568,121.37 | 2,513,408,415.37 | 2,369,390,767.28 | 2,271,810,212.92 |

Profit and Profit Distribution Statement

First half of 2004

Unit:RMB

| Item | Note | Consolidated | | Parent Company | |
|--------------------------------------|-------|-------------------------|-------------------------|-------------------------|-----------------------|
| | | This period | Last period | This period | Last period |
| 1. Principal operating income | (V)22 | 1,090,300,063.39 | 1,180,674,782.35 | 1,024,038,469.86 | 903,592,058.76 |
| Less: principal operating costs | (V)23 | 1,030,848,287.58 | 1,146,852,773.72 | 977,145,872.67 | 878,102,293.58 |
| Principal operating tax & surcharge | (V)24 | 617,074.64 | 4,483,274.67 | 148,955.44 | 3,632,716.24 |
| 2. Principal operating profit | | 58,834,701.17 | 29,338,733.96 | 46,743,641.75 | 21,857,048.94 |
| Add: Profit from other operations | (V)27 | 5,064,329.19 | 5,558,992.38 | 7,389,128.02 | 4,957,436.80 |
| Less: operating expenses | (V)26 | 1,238,245.08 | 4,130,173.39 | 876,632.60 | 1,223,345.14 |
| Management expenses | (V)26 | 63,967,641.07 | 54,199,065.52 | 55,951,690.93 | 45,106,419.39 |
| Financial expenses | (V)25 | 6,614,230.83 | 22,142,662.00 | 3,702,672.09 | 18,312,026.01 |
| 3. Operating profit | | -7,921,086.62 | -45,574,174.57 | -6,398,225.85 | -37,827,304.80 |
| Add: Investment income | (V)28 | 824,380.86 | 169,320.44 | -2,062,806.39 | -7,967,884.41 |
| Futures income | | – | – | – | – |
| Subsidy income | (V)29 | 19,809,039.74 | 56,016,829.07 | 19,772,469.83 | 56,016,829.07 |
| Non-operating income | (V)30 | 271,599.48 | 872,046.90 | 254,493.00 | 755,046.90 |
| Less: Non-operating expenses | (V)31 | 1,292,888.33 | 1,093,659.42 | 1,145,946.57 | 882,723.34 |
| 4. Total profit | | 11,691,045.13 | 10,390,362.42 | 10,419,984.02 | 10,093,963.42 |
| Add: Adjustment of profit and loss | | – | – | – | – |
| Less: income tax | | 979,461.09 | 859,400.00 | – | – |
| Profit & loss of minority interests | | 172,819.20 | - 495,848.46 | – | – |
| Add: Unacknowledged investment loss | | – | – | – | – |

| Item | Note | Consolidated | | Parent Company | |
|--|------|------------------------|------------------------|------------------------|------------------------|
| | | This period | Last period | This period | Last period |
| 5. Net profit | | 10,538,764.84 | 10,026,810.88 | 10,419,984.02 | 10,093,963.42 |
| Add: retained earnings at the beginning of the year | | -570,212,867.94 | -613,264,642.69 | -570,907,870.38 | -612,693,889.42 |
| Transfer from housing revolving funds | | — | — | — | — |
| Transfer from surplus reserves | | — | — | — | — |
| Compensation to loss of capital reserve | | — | — | — | — |
| Finance returns | | — | — | — | — |
| Reorganization profit | | — | — | — | — |
| Less: transfer from simple item | | — | — | — | — |
| Add: other item affected profit distribution | | — | — | — | — |
| 6. Distributable profit | | -559,674,103.10 | -603,237,831.81 | -560,487,886.36 | -602,599,926.00 |
| Less: Appropriation to statutory surplus reserve | | — | — | — | — |
| Appropriation to statutory public welfare fund | | — | — | — | — |
| Appropriation to staff award and welfare fund | | — | — | — | — |
| Appropriation to reserve fund | | — | — | — | — |
| Appropriation to development fund | | — | — | — | — |
| Profit investment | | — | — | — | — |
| Add: other item affected profit distribution | | — | — | — | — |
| 7. Profit distributable to shareholders | | -559,674,103.10 | -603,237,831.81 | -560,487,886.36 | -602,599,926.00 |
| Less: preference shares dividends payable | | — | — | — | — |
| Appropriation to discretionary surplus reserve | | — | — | — | — |
| Ordinary shares dividends payable | | — | — | — | — |
| Ordinary shares dividends | | — | — | — | — |
| 8. Retained earnings | | -559,674,103.10 | -603,237,831.81 | -560,487,886.36 | -602,599,926.00 |
| Additional information: | | | | | |
| 1. Income from selling and deposing department or invested Co. | | — | — | — | — |
| 2. Loss from nature disaster | | — | — | — | — |
| 3. The increased (or decreased) total profit result from the change of accounting policy | | — | — | — | — |
| 4. The increased (or decreased) total profit result from the change of accounting estimate | | — | — | — | — |
| 5. Loss from liabilities reorganization | | — | — | — | — |
| 6. Others | | — | — | — | — |

Cash Flow Statement

| Item | Consolidated | First half of 2004 Unit:RMB Parent company |
|--|------------------------|--|
| 1. cash flow from operating activities | | |
| Cash received from sales of goods or rendering of services | 1,584,469,598.26 | 1,245,423,523.02 |
| Rent received | | - |
| Refund of tax paid | 200,279,177.20 | 195,232,204.63 |
| Other cash received relating to operating activities | 95,765,266.00 | 87,815,274.95 |
| Sub-total of cash flows | 1,880,514,041.46 | 1,528,471,002.60 |
| Cash paid for goods and services | 1,350,110,646.06 | 1,149,917,660.07 |
| Cash paid to and on behalf of employees | 135,786,275.65 | 120,686,743.11 |
| All tax paid | 24,596,064.70 | 18,864,821.31 |
| Other cash paid relating to operating activities | 131,843,887.59 | -9,400,440.35 |
| Sub-total cash outflow relating to operating activities | 1,642,336,874.00 | 1,280,068,784.14 |
| Net cash flow from operating activities | 238,177,167.46 | 248,402,218.46 |
| 2. cash flow from investing activities | | |
| Cash received from return of investments | - | - |
| Cash received from distribution of dividends or profits | 775,840.99 | 775,840.99 |
| Cash received from disposal of fixed assets, intangible assets, other long-term assets | 1,169,737.50 | 1,169,737.50 |
| Other cash received relating to investing activities | 8,985.30 | - |
| Cash received from disposal of subsidiary | - | - |
| Sub-total of cash inflow relating to investing activities | 1,954,563.79 | 1,945,578.49 |
| Cash paid to acquire fixed assets, intangible assets, other long-term assets | 21,394,093.01 | 20,538,358.90 |
| Cash paid to investments | - | - |
| Cash paid relating to investing activities | - | - |
| Sub-total cash outflow relating to investing activities | 21,394,093.01 | 20,538,358.90 |
| Net cash flow from investment activities | -19,439,529.22 | -18,592,780.41 |
| 3. cash flows from financing activities | | |
| Proceeds from issuing investments | - | - |
| Including: cash received by subsidiary from minority shareholder equity investments | - | - |
| Proceeds from borrowing | 405,931,328.60 | 334,681,216.00 |
| Other proceeds relating to financing activities | 1,244,578.69 | 1,192,532.39 |
| Sub-total cash inflow from financing activities | 407,175,907.29 | 335,873,748.39 |
| Cash payment for liabilities | 534,647,955.51 | 457,974,636.00 |
| Cash payments for distribution of dividends or profits interest expenses | 9,915,142.50 | 9,909,441.10 |
| Including: cash paid by subsidiary for minority dividend | - | - |
| Cash paid by registered capital reduced | - | - |
| Cash paid to minority dividend by capital reduced | - | - |
| Other cash payments relating to financing activities | 649,771.95 | 411,165.26 |
| Sub-total of cash outflows from financing activities | 545,212,869.96 | 468,295,242.36 |
| Net cash flows from financing activities | -138,036,962.67 | -132,421,493.97 |
| 4. Effect of foreign exchange rate changes on cash and band balance | 1,464,878.58 | 1,565,176.03 |
| 5. net increase in cash and cash equivalents | 82,165,554.15 | 98,953,120.11 |

Additional information

| Item | Consolidated | Parent company |
|---|-----------------------|-----------------------|
| 1. Reconciliation of net profit to cash flows from operating activities | | |
| Net profit | 10,538,764.84 | 10,419,984.02 |
| Add: provision for diminution of assets | -4,610.95 | - |
| Minority loss | 172,819.20 | - |
| Unacknowledged investment loss | - | - |
| Depreciation of fixed assets | 39,519,867.72 | 62,922,372.96 |
| Amortization of intangible assets | 1,885,362.70 | 1,588,537.90 |
| Amortization of long-term deferred expenses | 277,521.36 | 49,749.96 |
| Decrease of deferred expenses (deduct: increase) | 928,614.25 | -156,779.00 |
| Increase of pre-operating expenses (deduct: increase) | 7,633,035.49 | 5,487,877.52 |
| Losses on disposal of fixed assets, intangible assets and other long-term assets (deduct: decrease) | - | - |
| Losses on write of fixed assets | 668,648.31 | 615,655.51 |
| Financial expenses | 9,987,720.59 | 9,809,053.76 |
| Losses from investments (deduct: income) | -824,380.86 | 2,062,806.39 |
| Deferred tax credit (deduct: assets) | - | - |
| Decrease in inventories (deduct: increase) | -134,324,029.50 | -126,081,380.85 |
| Decrease in operating receivables (deduct: increase) | 275,261,406.63 | 133,944,942.16 |
| Increase in operating payables (deduct: decrease) | 37,386,908.68 | 202,821,308.10 |
| Others | -10,930,481.00 | -55,081,909.97 |
| Net cash flows from operating activities | 238,177,167.46 | 248,402,218.46 |
| 2. Investing and financing activities not involving cash flows | - | - |
| Capital from debts | | |
| Company bonds changeable in one year | | |
| Financing or leasing fixed assets | | |
| 3. Net increase in cash and cash equivalents | | |
| Cash and bank balances at the end of the period | 473,700,861.59 | 439,676,441.95 |
| Less: the deposit balances at the end of the period beyond three months | - | - |
| Less: cash inflow this period | - | - |
| Add: cash outflow this period | - | - |
| Less: cash and bank balance at the beginning of the period | 391,535,307.44 | 340,723,321.84 |
| Add: cash equivalents at the end of the period | - | - |
| Less: cash equivalents at the beginning of the period | - | - |
| Add: deposit balance at the end of the period beyond three months | - | - |
| Net increase in cash and cash equivalents | 82,165,554.15 | 98,953,120.11 |

Profit and Loss Additional Statement

| Profit during the period under review | From January to June of 2004 | | | |
|---|--------------------------------|------------------|--------------------|------------------|
| | Return on net assets ratio (%) | | Earnings per share | |
| | Fully diluted | Weighted average | Fully diluted | Weighted average |
| Profit from principal operations | 8.56 | 8.63 | 0.12 | 0.12 |
| Profit from operations | -1.15 | -1.16 | -0.02 | -0.02 |
| Net profit | 1.53 | 1.55 | 0.02 | 0.02 |
| Net profit after deduction of exceptional items | 1.52 | 1.53 | 0.02 | 0.02 |

Diminution in Value Statement

From January to June of 2004

Unit: RMB

| Item | Balance of beginning of the year | Transference in the year | | | Total | Balance at the end of the year |
|--|----------------------------------|--------------------------|-----------------------------------|-------------------------------|---------------------|--------------------------------|
| | | Addition in this year | Transference by capital increased | Transference by other reasons | | |
| 1. Total provision for doubt debts | 383,611,355.92 | - | - | 106,628.23 | 106,628.23 | 383,504,727.69 |
| Including: accounts receivable | 5,384,372.88 | - | - | 78,461.45 | 78,461.45 | 5,305,911.43 |
| Other receivables | 378,226,983.04 | - | - | 28,166.78 | 28,166.78 | 378,198,816.26 |
| 2. Total diminution provision for short-term investment | - | - | - | - | - | - |
| Including: share investment | - | - | - | - | - | - |
| Bond investment | - | - | - | - | - | - |
| 3. Total diminution provision for inventories | 12,773,322.57 | - | - | 9,115,603.70 | 9,115,603.70 | 3,657,718.87 |
| Including: finish goods | 20,269.04 | - | - | - | - | 20,269.04 |
| Raw material | 1,098,117.87 | - | - | - | - | 1,098,117.87 |
| 4. Total diminution provision for long-term investment | - | - | - | - | - | - |
| Including: long-term share investment | - | - | - | - | - | - |
| Long-term debt investment | - | - | - | - | - | - |
| 5. Total diminution provision for fixed assets | 1,082,819.57 | - | - | - | - | 1,082,819.57 |
| Including: buildings and constructions | - | - | - | - | - | - |
| Facilities | 1,082,819.57 | - | - | - | - | 1,082,819.57 |
| 6. Total diminution provision for intangible assets | - | - | - | - | - | - |
| Including: patents | - | - | - | - | - | - |
| Brands | - | - | - | - | - | - |
| 7. Diminution provision for construction in progress | - | - | - | - | - | - |
| 8. Diminution provision for trust loans | - | - | - | - | - | - |
| 9. Total | 397,467,498.06 | - | - | 9,222,231.93 | 9,222,231.93 | 388,245,266.13 |

B. Notes to the Financial Statements

(I). Overview of the Company

Guangzhou Shipyard International Company Limited (the “Company” and its subsidiaries) was reorganized in 1993 from Guangzhou Shipyard, a state-owned enterprise under China State Shipbuilding Corporation, and incorporated in the PRC as a joint stock limited company. Upon approval by the Ministry of Foreign Trade and Economic Cooperation of the PRC, the Company was registered as a Sino-foreign joint stock limited company on 21st October 1994.

Currently, the Company is the largest modernized and comprehensive shipyard in southern China and enjoys the autonomy of operating import and export business.

The operation scope of the Company includes design, fabrication, installation and sales of ship and its auxiliary engines, steel structure and its components, pressure vessels, common machinery, casting and forging units, common parts and components, fabric reinforced plastic products, lines, pipes, tools and furniture; repair of machinery equipment and ships; ship dismantling; exploration and design; transfer of know-how; house decoration; and leasing of containers, ships and equipments.

At present, the Company owns three shipbuilding berths and a 440m shipbuilding quay, with the largest capacity of 60,000dwt, and a ship-repairing dock which can undertake repairing and modification work for ships up to 10,000dwt, and a 480m ship-repairing quay. It also owns steel plate processing lines, large pipe processing workshops and production line of elevator and other electrical and mechanical products.

The Company presently has 4 major product lines, including shipbuilding, ship-repairing, steel structure engineering, and other mechanical and electrical equipment. In addition to large size vessels, the Company’s principal products include steel structure’s manufacturing, coating & erecting for bridges & high-rise construction & large-size pipe, manufacturing & installing of passenger/goods lift, foils and studs for hydrofoil, port machinery, hydraulic machines, production line for external painted steel plates of refrigeration and design & manufacturing of crane machinery.

(II). Principal Accounting Policies adopted by the Company (Group)

(1) Accounting System

The Company adopts the Enterprise Accounting Standard and relevant regulations issued by the PRC Financial Department.

(2) Accounting Period

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

(3). Currency Adopted in Accounting Records

Accounting records are maintained in Renminbi.

(4). Basis of Recording and Valuation

Basis of recording adopts accrual system and Basis of Valuation is cost of acquisition. Devalue provision is made in accordance with the Enterprise Accounting System if there is any devalue of any asset.

(5). Foreign Currency Translation

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

(6). Cash Equivalents

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

(7). Short-term Investment and Profit

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

(8). Provisions for Doubtful Debts

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

(9). Inventories

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

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

Methods of making provision for diminution of value on inventories:

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

(10). Long-term Investments

- (i). Long-term equity investments

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

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

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

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

- (ii) The balance of the equity investment, the term of which is stipulated in the contract, is amortized and included as current income of investment according to the investment term; while those, the term of which is not stipulated in the contract, are amortized and included as current income of investment according to the term that does not exceed 10 years (including 10 years).
- (iii). Long-term bond investments: Bonds invested by the Company are regarded as original investment cost according to the exact payment. The interest, included by the exact payment, will be stated dividually as item receivable when the interest is at the expiration but not drawn. The original investment cost of long-term bonds includes the bond interest that is included by the exact payment and does not expire.
- (iv). The amortization of premium and discount of long-term bond investment is carried out at the same time with the confirmation of the relevant bond interest in order to adjust the investment income.
- (v). Provision for diminution in long-term investments
 - ① Provision for diminution in long-term investments that have market price is made according to the following symptom.
 - A. Market price lower than the account price for the 2 years
 - B. The transaction of investment suspended for one year or more
 - C. The company invested have a serious loss in this year
 - D. The loss of the company invested lasted for 2 years
 - E. The company invested is in process of rectification and liquidation or the company invested has other symptoms that show it cannot do business continually.
 - ② Provisions for diminution in long-term investments that have not market price are made according to the following symptom.
 - A. The company invested has a mint loss.
 - B. The financial status of the company invested has deteriorated, such as the rectification and liquidation, etc, because of the change of market and the descent of the competitive ability.
 - C. In other case, for example, it shows evidence that the investment actually did not bring any economic interest to the Company.

(11). Fixed Assets and Depreciation

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

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

| Fixed assets category | Service years | Depreciation rate (%) |
|-------------------------|---------------|-----------------------|
| Machinery and equipment | 6-20 | 5-16.67 |
| Transmission systems | 8-35 | 2.86-12.5 |
| Instrument and meters | 5-10 | 10-20 |
| Vehicles | 10-15 | 6.67-10 |
| Buildings | 8-50 | 2-12.5 |
| Structures | 15-50 | 2-6.67 |

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

- (i). The fixed assets, left unused for a long time, not are used in the foreseeable future and no any transference value.
- (ii). The fixed assets left unused for the sake of the technical advance.
- (iii). The fixed assets produced a great number of rejects, although the fixed assets can be used.
- (iv). The fixed assets, no any use and transference value because of damage.
- (v). The fixed assets, actually no any economic interest to the Company.

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

(12). Construction-in-process

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

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

(13). Loan Expenses

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

- (i). The payout (only including cash paid, transferred non-currency assets or holding debt liability) has been occurred.
- (ii). The expenses of loan have been occurred.
- (iii). The action of buy and construction, which are indispensable in order to reach the scheduled workable condition, has begun.

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

Method for calculating capitalized interest for each accounting period:

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

(14). Intangible Assets and Its Amortization

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

- (i). An Intangible asset whose profitability was adversely affect significantly to the economic interest of the enterprise, or has no usable value and transferring value.
- (ii). An Intangible asset which exceed the legal protection time limited, and wholly or partially lost its usable value and transferring value.
- (iii). The market price of an intangible asset decreased in a large degree, and was not anticipated could recover in the rest amortization years.
- (iv). Other intangible assets that were enough proved the situation that its sable value and transferring value was lost wholly or partially.

(15). Long-term Deferred Expenses And Amortization

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

(16). Income Realizing Principle

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

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

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

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

(17). Income Tax

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

(18). Basis of Preparation of Consolidated Financial Statements

In accordance with the "Tentative Regulations for Consolidated Financial Statements" issued by Finance Ministry, enterprises that the Company holds over 50% of total equity, or even less than that, but gets the actual holding rights, is consolidated into the accounting statements.

(III). Taxation

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

| Activity Category | Tax category | Tax rate |
|--|---------------------|-----------------|
| Shipbuilding, ship-repairing, steel structures & mechanical and electrical equipment manufacturing, other products and sales materials | Value-added tax | 17% |
| Transportation and installation | Sales tax | 3% |
| Other services | Sales tax | 5% |

(2). The Company's income tax is calculated at 15% on the assessable profit.

(IV). Principal Subsidiaries and Affiliates**(1) Principal Subsidiaries**

| Name | Registered Capital ('000) | Principal Business | Investment Capital ('000) | Interest Attributable to the Company | Indirect holding % |
|--|----------------------------------|---|----------------------------------|---|---------------------------|
| Kwangchow Shipyard Container Factory | RMB 44,925 | Container & steel structure manufacturing, installation and repairing | RMB 56,157 | 100% | |
| Masterwood Company Limited | RMB 3,315 | Manufacture and sales of all kind of material furniture series | RMB 2,486 | 75% | |
| Guangzhou Guanglian Container Transportation Company Limited | RMB 20,000 | Container transportation | RMB 15,000 | 75% | 25 |
| Xinhui City Guangzhou Shipyard Nanyang Shipping Industrial Company | RMB 34,800 | Ship dismantling, shipbuilding and steel structure engineering | RMB 25,200 | 70% | |
| Guangzhou Sanlong Industrial Trading Development Company Limited | RMB 1,500 | Business of steel structure and general ship component manufacturing | RMB 1,005 | 67% | |
| Guangzhou Xinsun Shipping Service Company Limited | RMB2,000 | Installation, welding, fitting, coating, repairing of hull structure | RMB 500 | 83% | |
| United Steel Structures Limited | USD8,850 | Manufacturing, sales and post sales service of steel structure | RMB 25,439 | 51% | |
| Guangdong GSI Elevator Limited | RMB 21,000 | Design, manufacturing, sales, installation, modification and repairing of all kinds of elevator | RMB 19,950 | 95% | 5 |
| Guangzhou Hongfan Information Technique Co., Ltd. | RMB 5,000 | Developing of computer software, system integration and sales | RMB 4,500 | 77% | |
| Guangzhou Henghe Construction Company Limited | RMB 27,500 | steel structure design, construction and installment | RMB 3,380 | 75.9% | |
| Rongguang Developing Co., Ltd. | HKD10 | Trading | RMB10.44 | 100% | |
| Indirect Holding Subsidiaries | | | | | |
| Guangzhou Hongfan Hotel | RMB500 | Traveling and catering services | RMB500 | 100% | Yes |
| Guangdong GSI Elevator Co. | RMB21,000 | Design, manufacture, sale, install, refit and repair various elevator | RMB350 | 5% | Yes |
| Guangzhou Masterwood Co., Ltd. | RMB3,315 | Manufacture and sell furniture made of various kind of materials | RMB829 | 25% | Yes |
| Fonkwang Development Ltd. | HKD200 | General trade | HKD200 | 70% | Yes |

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

The scope of consolidation and percentage of shares has not changed in this period.

(V). Notes to Items in the Financial Statements (unless special statement, the unit in this part is RMB)

1. Cash and Bank Balances

| Item | As at 30th June, 2004 | | As at 31st December, 2003 | |
|---|-----------------------|------------------------------|---------------------------|------------------------------|
| | Foreign currency | Equivalent RMB | Foreign currency | Equivalent RMB |
| Cash | | | | |
| RMB | | 72,155.86 | | 293,302.26 |
| HKD | 2,209.22 | 2,343.76 | 8,919.22 | |
| USD | 10,653.17 | 88,169.97 | 49,861.49 | |
| JPY | 500.00 | 38.18 | 500.00 | |
| Subtotal | | <u>162,707.77</u> | | <u>293,302.26</u> |
| Deposit | | | | |
| RMB | | 323,753,783.02 | | 331,932,020.38 |
| HKD | 2,200,758.75 | 6,452,458.61 | 4,296,829.61 | 4,579,131.31 |
| USD | 12,869,979.27 | 106,519,580.31 | 5,505,039.66 | 45,563,011.25 |
| EUR | 294,152.57 | 2,963,234.16 | | – |
| Subtotal | | <u>439,689,056.10</u> | | <u>382,074,162.94</u> |
| Deposit in CSSC Financial Co. (Note) | | <u>33,757,478.74</u> | | <u>9,091,916.06</u> |
| Others | | <u>91,618.98</u> | | |
| RMB | | – | | 75,926.18 |
| USD | | – | | – |
| Subtotal | | <u>91,618.98</u> | | <u>75,926.18</u> |
| Total | | <u><u>473,700,861.59</u></u> | | <u><u>391,535,307.44</u></u> |

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

2. Accounts Receivable

(1). Accounts Receivable

| Bond age | Amount | 30th June, 2004 | | | |
|-----------------------|-----------------------|---------------------|---------------------------------|---------------------------------|-----------------------|
| | | Percentage % | Provision for doubtful debts | Percentage of doubtful debts | Net receivable |
| Within 1 year | 139,066,618.07 | 59.18 | 695,333.09 | 0.50 | 138,371,284.98 |
| 1-2 years | 63,375,803.35 | 26.97 | 316,879.02 | 0.50 | 63,058,924.33 |
| 2-3 years | 11,162,177.22 | 4.75 | 55,810.89 | 0.50 | 11,106,366.33 |
| Over 3 years | 16,674,801.14 | 7.10 | 1,070,607.89 | 0.50 | 15,604,193.25 |
| 50 as doubtful debts | 1,619,265.33 | 0.69 | 1,619,265.33 | 100.00 | – |
| 100 as doubtful debts | 3,096,030.43 | 1.32 | 1,548,015.22 | 50.00 | 1,548,015.21 |
| Total | <u>234,994,695.54</u> | <u>100</u> | <u>5,305,911.43</u> | | <u>229,688,784.11</u> |
| Bond age | Amount | 31st December, 2003 | | | |
| | | Percentage % | Provision for doubtful debts | Percentage of doubtful debts | Net receivable |
| Within 1 year | 375,635,098.48 | 83.82 | 1,878,175.49 | 0.50 | 373,756,922.99 |
| 1-2 years | 30,549,870.31 | 6.82 | 152,749.35 | 0.50 | 30,397,120.96 |
| 2-3 years | 1,953,550.00 | 0.44 | 9,767.75 | 0.50 | 1,943,782.25 |
| Over 3 years | 35,279,947.42 | 7.87 | 176,399.74 | 0.50 | 35,103,547.68 |
| 50 as doubtful debts | 1,619,265.33 | 0.36 | 1,619,265.33 | 100.00 | – |
| 100 as doubtful debts | 3,096,030.43 | 0.69 | 1,548,015.22 | 50.00 | 1,548,015.22 |
| Total | <u>448,133,761.97</u> | <u>100.00</u> | <u>5,384,372.88</u> | | <u>442,749,389.09</u> |

- (i). Regarding 100% as doubtful debts, the Company has litigated through laws. But the debtors are unable to perform the sentence of the Court to pay. Therefore, with the approval of stated program of the Company, the doubtful debts are considered to draw in 100%.
- (ii). Regarding 50% as doubtful debts, there was some unfavorable situations occurred and effected receipt. Therefore, with the approval of stated program of the Company, the doubtful debts are considered to draw in 50%.
- (iii). The total debt from the top five debtors amounted to RMB 217.14 million representing 48.45% of the total of account receivable.
- (iv). The account receivable decreased by 48.12% compared with the beginning of the period, mainly due to the reception of shipbuilding progress payment.
- (v). None of accounts receivables is due from shareholders who hold 5% or above of the Company's interest.

(2). Prepayment from customers

| Bond Age | 31st December, 2003 | | 30th June, 2004 | |
|---------------|-----------------------|---------------|-----------------|--------------|
| | Amount | Percentage % | Amount | Percentage % |
| Within 1 year | 110,614,188.37 | 91.72 | 25,631,533.74 | 86.21 |
| 1-2 years | 6,419,354.62 | 5.32 | 3,295,066.80 | 11.08 |
| 2-3 years | 3,519,366.35 | 2.92 | 711,700.00 | 2.39 |
| Over 3 years | 50,000.00 | 0.04 | 92,000.00 | 0.31 |
| Total | 120,602,909.34 | 100.00 | 29,730,300.54 | 100.00 |

The amount of the five companies with highest prepayments is RMB 92.19million representing 75.86% of prepayment from customers.

Prepayment from customers increased by 305.66% compared with the beginning of the period, mainly due to short supply of materials and increase of prepayment for equipments and materials, such as marine engines.

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

(3). Other receivables

| Bond age | Amount | % | 30th June, 2004 | | Net receivable |
|------------------------|-----------------------|---------------|------------------------------|--------------------------------|-----------------------|
| | | | Provision for doubtful debts | Percentage of doubtful debts % | |
| Within 1 year | 519,338.16 | 0.10 | 2,596.69 | 0.50 | 516,741.47 |
| 1-2 years | 39,271,009.64 | 7.80 | 384,076.60 | 0.50 | 38,886,933.04 |
| 2-3 years | 7,143,718.46 | 1.42 | 35,718.59 | 0.50 | 7,107,999.87 |
| Over 3 years | 6,991,975.53 | 1.39 | 13,880.61 | 0.50 | 6,978,094.92 |
| 50% as doubtful debts | - | 0.00 | - | - | - |
| 80% as doubtful debts | 397,067,000.00 | 78.88 | 325,374,800.00 | 81.94 | 71,692,200.00 |
| 100% as doubtful debts | 52,387,743.78 | 10.41 | 52,387,743.78 | 100.00 | - |
| Total | 503,380,785.57 | 100.00 | 378,198,816.27 | - | 125,181,969.30 |

| Bond age | 31st December, 2003 | | Provision for doubtful debts | Percentage of doubtful debts % | Net receivable |
|------------------------|-----------------------|---------------|------------------------------|--------------------------------|-----------------------|
| | Amount | % | | | |
| Within 1 year | 15,076,246.49 | 2.78 | 75,381.23 | 0.50 | 15,000,865.26 |
| 1-2 years | 72,937,603.22 | 13.46 | 364,688.02 | 0.50 | 72,572,915.20 |
| 2-3 years | 664,328.79 | 0.12 | 3,321.64 | 0.50 | 661,007.15 |
| Over 3 years | 3,809,672.95 | 0.70 | 19,048.36 | 0.50 | 3,790,624.59 |
| 50% as doubtful debts | - | 0.00 | - | - | - |
| 80% as doubtful debts | 397,067,000.00 | 73.27 | 325,374,800.00 | 81.94 | 71,692,200.00 |
| 100% as doubtful debts | 52,389,743.78 | 9.67 | 52,389,743.78 | 100.00 | - |
| Total | 541,944,595.23 | 100.00 | 378,226,983.04 | - | 163,717,612.19 |

- (i) The amount of the five companies with highest other receivables is RMB 488.89million representing 96.37% of other receivables from customers.
- (ii) Trust Deposits (See Significant Events Item 7).
- (iii) None of other receivables is due from shareholders who hold 5% or above of the Company's interest.

(4). Subsidy receivable

| Items | 30th June, 2004 | 31st December, 2003 |
|--------------------------------------|-----------------|---------------------|
| Subsidy for domestic special vessels | 56,482,030.26 | 69,066,993.18 |
| Rebate taxes for exports | 15,030,456.10 | 116,418,735.94 |
| Total | 71,512,486.36 | 185,485,729.12 |

The subsidy receivable reduced significantly compared with the beginning of the period, mainly due to the government accelerated the process of tax refund.

3. Inventories and provision for diminution in value

| Item | 30th June, 2004 | | | 31st December, 2003 | | |
|-----------------------|-----------------|-----------------------------------|----------------|---------------------|-----------------------------------|----------------|
| | Amount | Provision for diminution in value | Net amount | Amount | Provision for diminution in value | Net amount |
| Raw material | 304,509,818.09 | 961,261.37 | 303,548,556.72 | 172,422,616.70 | 1,098,117.87 | 171,324,498.83 |
| Low-value Consumables | 887,803.60 | 30,704.50 | 857,099.10 | 900,165.57 | – | 900,165.57 |
| Work-in-progress | 43,154,636.80 | 2,645,483.96 | 40,509,152.84 | 49,716,458.38 | 11,654,935.66 | 38,061,522.72 |
| Finished goods | 4,547,607.93 | 20,269.04 | 4,527,338.89 | 4,852,199.97 | 20,269.04 | 4,831,930.93 |
| Total | 353,099,866.42 | 3,657,718.87 | 349,442,147.55 | 227,891,440.62 | 12,773,322.57 | 215,118,118.05 |

The net amount of inventories increased by 62.44% compared with the beginning of the period mainly due to increased inventories resulted from supply shortage of raw material and improvement of shipbuilding efficiency.

4. Deferred expenses

| Category | Opening balance | Addition in the period | Amortization in the period | Closing balance |
|---------------------------------|-----------------|------------------------|----------------------------|-----------------|
| Road maintainance and insurance | 1,047,048.02 | 588,999.96 | 928,614.25 | 707,433.73 |
| Total | 1,047,048.02 | 588,999.96 | 928,614.25 | 707,433.73 |

The deferred expenses decreased by 32.44% compared with the beginning of the period, mainly due to deferred road maintenance of last year.

5. Long-term investment

| Item | Opening balance | | Addition in the period | Deduction in the period | Closing balance | |
|------------------------------|-----------------|--------------------------|------------------------|-------------------------|-----------------|--------------------------|
| | Amount | Provision for diminution | | | Amount | Provision for diminution |
| Long-term equity investments | 15,512,741.75 | – | 272,576.51 | 327,708.25 | 15,457,610.01 | – |
| Long-term debt investments | – | – | – | – | – | – |
| Total | 15,512,741.75 | – | 272,576.51 | 327,708.25 | 15,457,610.01 | – |

(1). Long-term equity investment – other equity investment

| Name of Investees | Total investment | Percentage holding of investees' capital | Closing balance | Change in the period | Equity method Accumulated change |
|---|----------------------|--|-----------------------------|----------------------|----------------------------------|
| South China/Marine And Industrial Special Coating Limited | 1,722,060.00 | 25.00% | 2,756,692.89 | -55,131.74 | 1,034,632.89 |
| Zhanjiang Nanhai Naval New Technology & Service Co., Ltd. | 800,000.00 | 40.00% | 690,917.12 | -109,082.88 | -109,082.88 |
| Shenzhen Yuanzhou Science & Technology Industry Company Limited | 1,000,000.00 | 7.41% | 1,000,000.00 | | – |
| China Merchants Bank Information and Technology Company Limited of CSSC | 10,010,000.00 | 0.23% | 10,010,000.00 | | – |
| Guangli Marine Engineering Service Company Limited | 900,000.00 | 15.00% | 900,000.00 | | – |
| | 100,000.00 | 20.00% | 100,000.00 | | – |
| Sub-total | <u>14,532,060.00</u> | | <u>15,457,610.01</u> | <u>-164,214.62</u> | <u>925,550.01</u> |

(2). Consolidated Difference

| Name of Investees | Opening balance | Amortization period | Balance at the beginning of the year | Amortization in the period | Value after amortization |
|---|---------------------|---------------------|--------------------------------------|----------------------------|--------------------------|
| Guangzhou Henghe Construction Company Limited | 2,157,150.21 | 10 years | 1,707,743.96 | 107,857.50 | 1,599,886.46 |
| Total | <u>2,157,150.21</u> | | <u>1,707,743.96</u> | <u>107,857.50</u> | <u>1,599,886.46</u> |

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

| Item | Opening balance | Addition | Deduction | Closing balance |
|---------------------------|-------------------------|----------------------|---------------------|-------------------------|
| (1). Original Cost | | | | |
| Buildings | 427,526,771.33 | 1,577,861.47 | 172,515.18 | 428,932,117.62 |
| Structures | 254,880,272.25 | 333,068.21 | 289,051.73 | 254,924,288.73 |
| Vehicles | 25,868,824.72 | 310,418.00 | 301,065.00 | 25,878,177.72 |
| Instruments and meters | 6,361,208.81 | 226,235.75 | – | 6,587,444.56 |
| Transmission system | 36,892,854.35 | 0.00 | 15,823.35 | 36,877,031.00 |
| Machinery and equipment | 767,194,212.01 | 11,596,716.32 | 1,280,465.95 | 777,510,462.38 |
| Total | <u>1,518,724,143.47</u> | <u>14,044,299.75</u> | <u>2,058,921.21</u> | <u>1,530,709,522.01</u> |

(2). Accumulated depreciation

| | | | | |
|-------------------------|-----------------------|----------------------|---------------------|-----------------------|
| Buildings | 90,965,411.59 | 5,940,672.56 | 45,181.80 | 96,860,902.35 |
| Structures | 83,334,694.58 | 5,038,940.40 | 280,380.18 | 88,093,254.80 |
| Vehicles | 15,592,598.59 | 1,073,585.17 | 298,019.83 | 16,368,163.93 |
| Instruments and meters | 4,194,332.85 | 333,529.93 | – | 4,527,862.78 |
| Transmission system | 14,191,816.01 | 962,063.40 | 6,906.60 | 15,146,972.81 |
| Machinery and equipment | 351,408,501.09 | 26,171,076.26 | 977,489.69 | 376,602,087.66 |
| Total | <u>559,687,354.71</u> | <u>39,519,867.72</u> | <u>1,607,978.10</u> | <u>597,599,244.33</u> |

(3). Net value of fixed assets

| | | | | |
|--|-----------------------|-----------------------|-------------------|-----------------------|
| | <u>959,036,788.76</u> | <u>-25,475,567.97</u> | <u>450,943.11</u> | <u>933,110,277.68</u> |
|--|-----------------------|-----------------------|-------------------|-----------------------|

Fixed Assets Provision for diminution

| Item | Opening Balance | Addition | Deduction | Closing Balance |
|--------------|---------------------|----------|-----------|---------------------|
| Fixed Assets | <u>1,082,819.57</u> | <u>–</u> | <u>–</u> | <u>1,082,819.57</u> |

7. Construction-in-process

| Category | Opening balance Including: interest | Addition in the period Including: interest | Transfer to fixed assets Including: interest | Other reductions Including: interest | Closing balance Including: interest |
|--|---|---|---|---|--|
| 1. Facilities improvements | | | | | |
| (1) Capital construction: critical improvement project in national debt | 10,402,884.28 | 4,665,312.28 | 674,187.30 | – | 14,394,009.26 |
| Including: capitalized interests | 208,179.34 | – | – | – | 208,179.34 |
| (2) Others | 19,844,550.99 | 23,168,143.54 | 13,954,242.48 | – | 29,058,452.05 |
| 2. Subsidiaries | – | 688,813.54 | – | – | 688,813.54 |
| Total | <u>30,247,435.27</u> | <u>28,522,269.36</u> | <u>14,628,429.78</u> | <u>–</u> | <u>44,141,274.85</u> |
| Including: capitalized interests | 208,179.34 | – | – | – | 208,179.34 |

- (1). The abovementioned Critical Improvement Project in National Debt in constructions-in-progress is 18000dwt semi-submersible heavy lift vessel. The construction-in-progress increased by 45.93% compared with the beginning of the period, mainly due to additional investment for the technical building and shipbuilding assembly field.
- (2). Capitalizing rate is the actual corresponding bank loan rate. The Company collects capital itself for other projects.

8. Intangible assets

| Category | Initial cost | Opening balance | Addition | Transfer out | Amortization | Closing balance | Remained term |
|----------------|----------------------|----------------------|---------------------|-----------------|---------------------|----------------------|------------------|
| Land use right | 58,531,818.81 | 71,840,201.32 | – | – | 997,163.52 | 70,843,037.80 | 39 years |
| Know-how | 10,332,076.00 | 7,759,306.72 | 2,074,358.78 | – | 888,199.18 | 8,945,466.32 | 10-1 years |
| Total | <u>68,863,894.81</u> | <u>79,599,508.04</u> | <u>2,074,358.78</u> | <u>–</u> | <u>1,885,362.70</u> | <u>79,788,504.12</u> | |

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

9. Long-term deferred expenses

| Category | Opening balance | Addition | Amortization | balance |
|---------------------------------------|---------------------|----------|-------------------|---------------------|
| Modification expenses of fixed assets | 1,528,389.82 | – | 235,521.36 | 1,292,868.46 |
| Others | 321,240.85 | – | 42,000.00 | 279,240.85 |
| Total | <u>1,849,630.67</u> | <u>–</u> | <u>277,521.36</u> | <u>1,572,109.31</u> |

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

(1). Short-term loans

| Loans category | Note | | Loan's term | Annual interest |
|-----------------|------------------------------|------------------------|----------------|-----------------|
| | 30th June, 2004 | 31st December, 2003 | | |
| Mortgage loans | – | 89,660,200.00 | 2003/9-2004/11 | 1.65%~2.31 |
| Guarantee loans | 49,659,600.00 | 49,660,200.00 | 2004/2-2004/12 | 1.73%~1.876 |
| Credit loans | 115,872,400.00 | 55,083,406.91 | | |
| Total | <u>165,532,000.00</u> | <u>194,403,806.91</u> | | |

Mortgage loans are made with the guaranty of buildings worth of RMB 187.14 million owned by the Company. Guarantee loans are made with the warrantors of CSSC and its subsidiaries CSTC or Guangzhou Holding Company (refer to part (VI) Connected Parties and Transactions), the Company should pay 0.2%-0.3% guarantee bond annually, and provide anti-guaranty to them. The Company considers such anti-guaranty will not affect the benefit of the Company.

(2). Long-term loans within one year

| Loans category | Note | | | |
|-----------------|------------------------------|------------------------------|----------------|-----------------|
| | 30th June, 2004 | 31st December, 2003 | Loan's term | Annual interest |
| Guarantee loans | <u>380,000,000.00</u> | 380,000,000.00 | 2002/2~2004/10 | 2.7-4.05 |
| Credit loans | – | – | | |
| Other | <u>1,303,272.82</u> | 3,537,455.50 | | |
| Total | <u><u>381,303,272.82</u></u> | <u><u>383,537,455.50</u></u> | | |

Guarantee loans are made with the warrantors of CSSC and its subsidiaries CSTC or Guangzhou Holding Company (refer to part (VI) Connected Parties and Transactions), the Company should pay 0.2%-0.3% guarantee bond annually, and provide anti-guaranty to them.

11. Accounts payable

(1). Bills payable

| Category | Amount | Expired within | | Note |
|--------------------|-----------------------------|-----------------------------|--|------|
| | | one year | | |
| Bank honored draft | <u>12,000,000.00</u> | 12,000,000.00 | | |
| Commercial honored | <u>12,677,911.00</u> | 12,677,911.00 | | |
| Total | <u><u>24,677,911.00</u></u> | <u><u>24,677,911.00</u></u> | | |

Bills payable decreased 79.20% than the beginning of the year for good financial condition and improved payable capability of the Company. In the period, the Company had no bills payable to the shareholders with equity holding at 5% or above of share capital.

(2). Accounts payable

| Bond age | 31st December, 2003 | | 30th June, 2004 | |
|---------------|---------------------|-------------|-----------------|-------------|
| | Amount | Percentage% | Amount | Percentage% |
| Within 1 year | 347,768,758.69 | 98.42 | 334,979,312.47 | 97.99% |
| 1-2 years | 3,271,796.32 | 0.93 | 4,400,677.17 | 1.29% |
| 2-3 years | 2,227,659.35 | 0.63 | 2,225,660.60 | 0.65% |
| Over 3 years | 81,053.36 | 0.02 | 261,490.24 | 0.08% |
| Total | 353,349,267.72 | 100.00 | 341,867,140.48 | 100.00% |

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

(3). Advances from customers

| Category | 30th June, 2004 | 31st December, 2003 |
|--|-----------------|---------------------|
| Shipbuilding | 9,623,000.00 | – |
| Ship-repairing | 4,713,921.40 | 352,240.00 |
| Steel structure | 16,184,072.14 | 6,289,544.00 |
| Other products | 26,935,298.12 | 25,069,927.36 |
| Total | 57,456,291.66 | 31,711,711.36 |
| Include: balance with over 1-year's bond age | 981,907.80 | 3,455,598.17 |

- Advances from customers increased by 81.18% mainly due to the increased reception of shipbuilding progress payment arising from more securing of new shipbuilding contracts.
- In the period, the Company had no advances from shareholders with equity holding at 5% or above of share capital.

(4). Other Payables

| Category | 30th June, 2004 | 31st December, 2003 |
|--|-----------------|---------------------|
| Company retirement pension | 3,296,839.82 | 25,763,259.50 |
| Staff check off | 822,762.73 | 2,014,897.24 |
| Auditing expenses to accountants | 2,401,020.85 | 2,080,784.90 |
| Guangzhou Marine Affaires Bureau | 24,422,489.32 | 2,294,937.68 |
| Guangzhou Shipyard | 237,217.57 | – |
| Remuneration to independent directors | 100,928.48 | 400,008.48 |
| Medicare for retirees | 12,788,123.56 | 14,603,833.33 |
| Consultant cost | – | 800,000.00 |
| Guarantee cost | – | 297,800.00 |
| Other payables | 8,243,261.77 | 8,883,030.08 |
| Total | 52,312,644.10 | 57,138,551.21 |
| Include: balance with over 3-year's bond age | 1,339,882.62 | 7,951,555.77 |

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

12. Payable Dividends

| Category | 30th June, 2004 | 31st December, 2003 |
|-------------------------------------|-----------------|---------------------|
| Dividends from associated companies | 13,449.38 | 13,449.38 |
| Total | 13,449.38 | 13,449.38 |

13. Taxes Payable

| <u>Category</u> | <u>30th June, 2004</u> | <u>31st December, 2003</u> |
|-----------------------|------------------------|----------------------------|
| Value-added tax | -14,123,367.24 | -16,849,732.65 |
| Business tax | 251,340.20 | 284,273.10 |
| City construction tax | 37,561.84 | 1,297,155.37 |
| Income tax | -248,071.09 | 336,727.29 |
| Property tax | 782,882.38 | -14,974.64 |
| Land tax | 38,459.38 | -180.22 |
| Tax of staff income | 539,294.75 | 696,494.04 |
| Total | <u>-12,721,899.78</u> | <u>-14,250,237.71</u> |

14. Accrued expenses

| <u>Category</u> | <u>30th June, 2004</u> | <u>31st December, 2003</u> |
|--|------------------------|----------------------------|
| Product warranty provision | 44,427,873.75 | 50,948,419.41 |
| Costs for outstanding projects | 49,806,152.39 | 29,370,936.91 |
| Cleaning cost after moving office | - | 1,887,097.84 |
| Loan interest | 735,772.01 | 761,159.35 |
| Accrued Changes for water and electricity of the current month | 5,763,444.82 | - |
| Others | 1,234,394.95 | 4,231,988.92 |
| Total | <u>101,967,637.92</u> | <u>87,199,602.43</u> |

- 1) Product guarantee provision is made based on fixed percentage of delivered vessel contract price in accordance with the shipbuilding contract and the shipbuilding industry regulations. It is intended to cover product maintenance costs incurred within one-year from date of delivery.
- 2) Cost for outstanding project refers to the cost of shipbuilding product after finish the project, which may occur in future but have not yet paid.

15. Other Current Liabilities

| <u>Category</u> | <u>30th June, 2004</u> | <u>31st December, 2003</u> |
|--|------------------------|----------------------------|
| Settlement for long-term contractual project | 338,716,114.20 | 242,958,088.77 |
| Total | <u>338,716,114.20</u> | <u>242,958,088.77</u> |

Other current liabilities increased by 39.41% compared with the beginning balance, that mainly due to the received settlement at the end of the period under review was more than the actual cost of shipbuilding construction.

16. Long-term Bank Loans

| <u>Name of Bank</u> | <u>Amount</u> | <u>Loan's term</u> | <u>Annual interest</u> | <u>Conditions of loans</u> |
|------------------------------|-----------------------|--------------------|------------------------|----------------------------|
| China Import and Export Bank | 200,435,000.00 | 2003/8~2005/11 | 2.70% | Guaranteed |
| Total | <u>200,435,000.00</u> | | | |

Long-term bank loans were decreased by 33.30%, mainly due to payment of expired bank loans and part of it transferring into long-term loans within one year, such loans were all guaranteed by CSSC which is a connected party of the Company, and the Company should pay 0.3% annual guarantee fee and supply anti-guarantee for CSSC.

17. Special project payable

| Category | 30th June, 2004 | 31st December, 2003 |
|-----------------|-----------------|---------------------|
| National fund | 25,686,376.70 | 27,568,562.86 |
| Provincial fund | 199,160.03 | 842,806.47 |
| Total | 25,885,536.73 | 28,411,369.33 |

State fund of special project payable is central subsidy for High Value-added Ro/Pax Vessel Technology Renovation Project allotted in accordance with the relevant state regulations and scientific research appropriation for High Speed Ro/Pax Vessel. Provincial fund is fund of “Technical Innovation Project” allotted by relevant department of Guangdong Province. This fund is allotted by National Finance authority freely and should be used according to relevant regulations.

18. Capital share

| Item | Opening Balance | Mating share | Present | Change (+/-) | | | Sub-total | Closing Balance | Unit: share |
|--------------------------------|-----------------|--------------|---------|------------------|----------|-------|-----------|-----------------|-------------|
| | | | | Reserve transfer | Addition | Other | | | |
| 1. Non-public | | | | | | | | | |
| 1) Initiator | 210,800,080.00 | - | - | - | - | - | - | 210,800,080.00 | |
| Include: Nation | | | | | | | | | |
| Chinese juridical person | 210,800,080.00 | - | - | - | - | - | - | 210,800,080.00 | |
| Foreign juridical person | | | | | | | | | |
| Other | | | | | | | | | |
| 2) Collecting juridical person | - | - | - | - | - | - | - | - | |
| 3) Workers | - | - | - | - | - | - | - | - | |
| 4) Preferred stock and other | - | - | - | - | - | - | - | - | |
| Include: transferred stock | | | | | | | | | |
| Sub-total | 210,800,080 | - | - | - | - | - | - | 210,800,080.00 | |
| 2. Public | | | | | | | | | |
| 1) RMB common stock | 126,479,500 | - | - | - | - | - | - | 126,479,500.00 | |
| 2) Foreign stock at home | | | | | | | | | |
| 3) Foreign stock abroad | 157,398,000 | - | - | - | - | - | - | 157,398,000.00 | |
| 4) Other | | | | | | | | | |
| Sub-total | 283,877,500 | - | - | - | - | - | - | 283,877,500.00 | |
| Total | 494,677,580 | - | - | - | - | - | - | 494,677,580.00 | |

19. Capital reserve

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

20. Surplus reserve

| Item | Opening Balance | Addition | Deduction | Closing Balance |
|----------------------------|-----------------|----------|-----------|-----------------|
| Statutory surplus reserve | 48,998,046.01 | - | - | 48,998,046.01 |
| Public welfare fund | 30,592,815.41 | - | - | 30,592,815.41 |
| Discretionary surplus fund | 20,556,649.92 | - | - | 20,556,649.92 |
| Total | 100,147,511.34 | - | - | 100,147,511.34 |

21. Retained Profit

| Category | 30th June, 2004 | 31st December, 2003 |
|--------------------------------------|-----------------|---------------------|
| Balance at the beginning of the year | -570,212,867.94 | -613,264,642.69 |
| Balance adjustment of previous year | - | - |
| Profit this year | 10,538,764.84 | 43,051,774.75 |
| Statutory reserve | - | - |
| Statutory public welfare fund | - | - |
| Workers welfare fund | - | - |
| Prior share dividend distributed | - | - |
| Discretionary public reserve | - | - |
| Share dividend distributed | - | - |
| Balance at the end of the year | -559,674,103.10 | -570,212,867.94 |

22. Geographical distribution to turnover

| Country | Principal operating incomes | | Profit | | Income changes (%) |
|---------------|-----------------------------|--------------------|--------------------|--------------------|--------------------|
| | First half of 2004 | First half of 2003 | First half of 2004 | First half of 2003 | |
| Malta | 307,852,320.47 | 64,405,811.11 | 25,215,514.89 | 2,176,671.38 | 377.99 |
| Sweden | - | 69,411,337.02 | - | -2,066,665.62 | - |
| Denmark | 444,307,995.31 | 365,057,250.88 | 5,820,450.94 | 8,314,223.15 | 21.71 |
| Macao | 675,709.56 | - | 161,165.40 | - | - |
| Philippine | 177,953.35 | 502,420.36 | 6,091.51 | - | -60.58 |
| United States | 85,297.60 | 533,638.58 | 85,297.60 | 30,632.37 | -84.02 |
| Hong Kong | 1,907,080.23 | 223,365,867.93 | 690,656.03 | 751,725.15 | -99.15 |
| Sub-total | 755,006,356.52 | 723,276,325.88 | 31,979,176.37 | 9,206,586.43 | 4.39 |
| China | 335,293,706.87 | 457,398,456.47 | 27,472,599.44 | 24,615,422.20 | -26.70 |
| Total | 1,090,300,063.39 | 1,180,674,782.35 | 59,451,775.81 | 33,822,008.63 | -7.65 |

The sales of the top five sellers for the Company amounted to RMB992.72 million representing 90.62% of the total sales.

23. Principal operating incomes, cost of sales and gross profit

| Item | Operating income | | Cost of sales | | Gross profit | |
|-------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | First half of 2004 | First half of 2003 | First half of 2004 | First half of 2003 | First half of 2004 | First half of 2003 |
| Shipbuilding products | 992,718,869.27 | 876,968,914.94 | 950,121,807.46 | 857,352,553.36 | 42,597,061.81 | 19,616,361.58 |
| Container | 1,133,080.23 | 221,605,117.11 | 980,287.65 | 222,677,512.45 | 152,792.58 | (1,072,395.34) |
| Steel structure | 49,739,570.76 | 39,175,803.05 | 45,312,638.36 | 35,885,034.78 | 4,426,932.40 | 3,290,768.27 |
| Terrestrial machinery | 39,396,228.01 | 39,568,390.84 | 27,908,639.82 | 29,823,587.31 | 11,487,588.19 | 9,744,803.53 |
| Ship-repairing products | 7,312,315.12 | 3,356,556.41 | 6,524,914.29 | 1,114,085.82 | 787,400.83 | 2,242,470.59 |
| Total | 1,090,300,063.39 | 1,180,674,782.35 | 1,030,848,287.58 | 1,146,852,773.72 | 59,451,775.81 | 33,822,008.63 |

Principal operation income of this period is almost equal to that of the same period of last year. Compared with the same period of last year, the gross profit increased by 75.78%, that mainly due to the adjustment of shipbuilding products structure, which made the decrease of the proportion of the domestic special vessels over the total products-in-construction. If consider the subsidy income for the domestic special vessels from the state, the gross profit was almost equal to that of the same period of last year. Besides, the cost control method carried out by the Company could make up the impact from the price rising of steel and the pressure from value rising of Eur, and improved the gross profit ratio also.

24. Principal operating tax and additional tax

| Category | First half of 2004 | First half of 2003 |
|--------------------------|--------------------|--------------------|
| Sales tax | 401,702.85 | 784,355.83 |
| City construction tax | 144,684.20 | 2,589,263.06 |
| Education additional tax | 70,687.59 | 1,109,655.78 |
| Total | 617,074.64 | 4,483,274.67 |

Principal operating tax and additional tax decreased by 86.24% compared with that of the same period of last year, that mainly due to the deduction of operation tax business.

25. Financial expenses

| Category | First half of 2004 | First half of 2003 |
|-----------------------|--------------------|--------------------|
| Interest expense | 9,987,720.59 | 22,820,352.84 |
| Less: interest income | 3,106,378.64 | 2,881,112.54 |
| Exchange loss | -963,240.02 | 503,912.19 |
| Others | 696,128.90 | 1,699,509.51 |
| Total | 6,614,230.83 | 22,142,662.00 |

Financial expenses reduced mainly due to the financial condition of the Company became better so that the loans and interest reduced tremendously.

26. Operating and Management Expenses

| Item | First half of 2004 | First half of 2003 |
|------------------------|--------------------|--------------------|
| 1. Operating expenses | 1,238,245.08 | 4,130,173.39 |
| 2. Management expenses | 63,967,641.07 | 54,199,065.52 |

The operating expenses decreased by 70.02% mainly due to the exit of container manufacturing business.

27. Profit from other operations

| Item | Operating income | | Operating cost | | Operating gross profit | |
|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|-----------------------|
| | First half of 2004 | First half of 2003 | First half of 2004 | First half of 2003 | First half of 2004 | First half of 2003 |
| Sales of raw materials | 14,929,679.09 | 7,780,557.35 | 13,165,474.24 | 6,684,909.57 | 1,764,204.85 | 1,095,647.78 |
| Sales of scrap materials | 10,188,259.33 | 10,617,089.06 | 7,687,367.26 | 8,250,098.38 | 2,500,892.07 | 2,366,990.68 |
| Transportation services | 2,762.00 | 2,652.00 | - | - | 2,762.00 | 2,652.00 |
| Others | 8,902,566.45 | 5,973,810.92 | 8,106,096.18 | 3,880,109.00 | 796,470.27 | 2,093,701.92 |
| Total | 34,023,266.87 | 24,374,109.33 | 28,958,937.68 | 18,815,116.95 | 5,064,329.19 | 5,558,992.38 |

28. Investment income

| Category | Bonds investment | Equity investments | | Total income |
|------------------------|------------------|--------------------|------------|--------------|
| | | At equity | At cost | |
| Short-term investments | - | - | - | - |
| Long-term investments | - | 203,321.06 | 621,059.80 | 824,380.86 |
| Total | - | 203,321.06 | 621,059.80 | 824,380.86 |

Investment income increased mainly due to the reception of dividend from China Merchant Bank, a affiliated company of the Company.

29. Subsidy income

| <u>Item</u> | <u>First half of 2004</u> | <u>First half of 2003</u> |
|--------------------------------------|---------------------------|---------------------------|
| Subsidy for domestic special vessels | 18,767,509.83 | 54,739,067.70 |
| Others | 1,041,529.91 | 1,277,761.37 |
| Total | 19,809,039.74 | 56,016,829.07 |

(1) The subsidy income decreased by 64.64%, that mainly due to the subsidy income from the domestic special vessels reduced.

(2) The main sources of subsidy income this period are as follows:

The 42000dwt product oil tankers built for China Shipping Development Co., Ltd. are eligible for special financial subsidy at 17% on contract price excluding tax in according to relevant regulations of Ministry of Finance and State Taxation Bureau. The subsidy income is calculated by completion percentage and certain proportion to schedule settlement in accordance with relevant state regulations. Other subsidies consist of special subsidies from the Nation; export premium and drawback of new and high-technical products from the Government.

30. Non-operating income and expenses

(1) Non-operating income

| <u>Item</u> | <u>First half of 2004</u> | <u>First half of 2003</u> |
|----------------------------------|---------------------------|---------------------------|
| Gain on disposal of fixed assets | 155,514.00 | 625,591.78 |
| Penalty received | -69,519.00 | 4,500.00 |
| Income of fixed assets | - | - |
| Compensation | 4,500.00 | - |
| Income of bad debt | - | - |
| Others | 181,104.48 | 241,955.12 |
| Total | 271,599.48 | 872,046.90 |

Non-operating income decrease by 68.85% compared with that of the same period of last period, that mainly due to decreased gain on disposal of part fixed assets.

(2) Non-operating expenses

| <u>Item</u> | <u>First half of 2004</u> | <u>First half of 2003</u> |
|----------------------------------|---------------------------|---------------------------|
| Loss on disposal of fixed assets | 824,162.31 | 1,021,767.50 |
| Penalty expenses | 3,320.96 | 40,519.07 |
| Loss on fixed assets | - | - |
| Compensation | 145,217.00 | 3,593.15 |
| Non-commonweal imburse expense | 100,000.00 | - |
| Others | 220,188.06 | 27,779.70 |
| Total | 1,292,888.33 | 1,093,659.42 |

31. Exceptional profit and loss

| <u>Item</u> | <u>Amount</u> |
|---|---------------|
| 1. Equity Investment balance | 107,857.50 |
| 2. Subsidy income (exclude the subsidy income for domestic special vessels) | 1,041,529.91 |
| 3. Non-operating income | 271,599.48 |
| 4. Non-operating expenses | -1,292,888.33 |
| Total | 128,098.56 |

32. Other main expenses related to business:

| <u>Item</u> | <u>Amount</u> |
|----------------------|-----------------------|
| Management expenses | 24,894,930.49 |
| Operating expenses | 3,781,245.08 |
| Manufacture expenses | 103,167,712.02 |
| Total | <u>131,843,887.59</u> |

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

(1) Accounts receivable

| <u>30th June 2004</u> | | | | |
|------------------------|-----------------------|-------------------|-------------------------------------|-----------------------|
| <u>Age bond</u> | <u>Amount</u> | <u>Proportion</u> | <u>Provision for Doubtful debts</u> | <u>Record Value</u> |
| Within one year | 102,859,570.76 | 77.25 | 805,649.32 | 102,053,921.44 |
| 1-2 years | 11,121,018.31 | 8.35 | 56,302.25 | 11,064,716.06 |
| 2-3 years | - | 0.00 | - | - |
| Over 3 years | 15,179,355.45 | 11.40 | 172,071.13 | 15,007,284.32 |
| 50% as doubtful debts | 3,096,030.43 | 2.33 | 1,548,015.22 | 1,548,015.21 |
| 100% as doubtful debts | 887,209.95 | 0.67 | 887,209.95 | - |
| Total | <u>133,143,184.90</u> | <u>100.00</u> | <u>3,469,247.87</u> | <u>129,673,937.03</u> |

| <u>31st December 2003</u> | | | | |
|---------------------------|-----------------------|-------------------|-------------------------------------|-----------------------|
| <u>Age bond</u> | <u>Amount</u> | <u>Proportion</u> | <u>Provision for Doubtful debts</u> | <u>Record Value</u> |
| Within one year | 161,165,934.10 | 121.05 | 805,829.67 | 160,360,104.43 |
| 1-2 years | 11,260,450.03 | 8.46 | 56,302.25 | 11,204,147.78 |
| 2-3 years | - | 0.00 | - | - |
| Over 3 years | 33,129,316.97 | 24.88 | 172,071.13 | 32,957,245.84 |
| 50% as doubtful debts | 3,096,030.43 | 2.33 | 1,548,015.22 | 1,548,015.22 |
| 100% as doubtful debts | 887,209.95 | 0.67 | 887,209.95 | - |
| Total | <u>209,538,941.48</u> | <u>100.00</u> | <u>3,469,428.22</u> | <u>206,069,513.26</u> |

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

(2) Other accounts receivable

| <u>30th June 2004</u> | | | | |
|------------------------|-----------------------|-------------------|-------------------------------------|-----------------------|
| <u>Age bond</u> | <u>Amount</u> | <u>Proportion</u> | <u>Provision for Doubtful debts</u> | <u>Net receivable</u> |
| Within one year | 6,725,289.13 | 1.33 | 23,384.17 | 6,701,904.96 |
| 1-2 years | 41,184,159.04 | 8.13 | 426,596.39 | 40,757,562.65 |
| 2-3 years | 3,004,004.39 | 0.59 | 3,298.64 | 3,000,705.75 |
| Over 3 years | 8,321,323.33 | 1.64 | 1,350,073.19 | 6,971,250.14 |
| 80% as doubtful debts | 397,067,000.00 | 78.42 | 325,374,800.00 | 71,692,200.00 |
| 100% as doubtful debts | 50,039,743.78 | 9.88 | 50,039,743.78 | - |
| Total | <u>506,341,519.67</u> | <u>100.00</u> | <u>377,217,896.17</u> | <u>129,123,623.50</u> |

| <u>31st December 2003</u> | | | | |
|---------------------------|-----------------------|-------------------|-------------------------------------|-----------------------|
| <u>Age bond</u> | <u>Amount</u> | <u>Proportion</u> | <u>Provision for Doubtful debts</u> | <u>Net receivable</u> |
| Within one year | 4,676,834.12 | 0.86 | 23,384.17 | 4,653,449.95 |
| 1-2 years | 85,319,277.26 | 15.66 | 426,596.39 | 84,892,680.87 |
| 2-3 years | 659,728.79 | 0.12 | 3,298.64 | 656,430.15 |
| Over 3 years | 4,759,035.55 | 0.87 | 971,205.31 | 3,787,830.24 |
| 80% as doubtful debts | 397,067,000.00 | 72.87 | 325,374,800.00 | 71,692,200.00 |
| 100% as doubtful debts | 52,389,743.78 | 9.62 | 52,389,743.78 | - |
| Total | <u>544,871,619.50</u> | <u>100.00</u> | <u>379,189,028.29</u> | <u>165,682,591.21</u> |

(3) Long-term Investments

| Item | Opening balance | | | Closing balance | | |
|------------------------------|-----------------------|---|---------------------------|---------------------------|-----------------------|---|
| | Amount | Provision for diminution in value | Addition in the period | Disposal in the period | Amount | Provision for diminution in value |
| Long-term equity investments | 206,344,531.79 | - | - | 2,834,461.46 | 203,510,070.33 | - |
| Long-term debt investments | - | - | - | - | - | - |
| Total | <u>206,344,531.79</u> | <u>-</u> | <u>-</u> | <u>2,834,461.46</u> | <u>203,510,070.33</u> | <u>-</u> |

Long-term equity investments – Other equity investments

| Name of investees | Total investment | Percentage holding of investees' capital | Closing balance | Change in the period | Accumulated change |
|---|-----------------------|--|-----------------------|-------------------------|-----------------------|
| Kwangchow Shipyard Container Factory | 56,155,800.59 | 100% | 52,344,475.10 | -3,811,325.49 | -3,811,325.49 |
| Guangzhou Masterwood Company Limited | 2,486,385.00 | 75% | 4,395,212.68 | 263,236.96 | 1,908,827.68 |
| Guangzhou Guanglian Container Transportation Company Limited | 15,000,000.00 | 75% | 15,550,271.97 | 30,470.56 | 550,271.97 |
| Xinhui City Nanyang Shipping Industrial Company | 25,200,000.00 | 70% | 17,560,218.40 | -297,060.08 | -7,639,781.60 |
| Guangzhou Sanlong Industrial Trading Develop Company Limited | 1,005,000.00 | 67% | 112,051.26 | -7,745.83 | -892,948.74 |
| Guangzhou Xinsun Shipping Service Company Limited | 500,000.00 | 83% | 13,234,274.35 | 319,151.19 | 12,734,274.35 |
| United Steel Structures Limited | 25,438,698.00 | 51% | 39,907,040.45 | 277,556.30 | 14,468,342.45 |
| Guangdong GSI Elevator Limited | 19,950,000.00 | 95% | 21,876,277.27 | 368,604.83 | 1,926,277.27 |
| Guangzhou Hongfan Information Technique Co., Ltd | 4,500,000.00 | 77% | 3,932,209.75 | 36,834.72 | -567,790.25 |
| Guangzhou Henghe Construction Company | 3,380,000.00 | 75.9% | 18,277,631.85 | -62,271.42 | 14,897,631.85 |
| Rongguang Develop Company Limited | 10,439.94 | 100% | 1,862,797.24 | 103,218.53 | 1,852,357.30 |
| South china/Marin and Industrial Special Coating Limited | 1,722,003.00 | 25% | 2,756,692.89 | -55,131.73 | 1,034,689.89 |
| Zhanjiang Nanhai Naval ships high And new Technology Service Co. Ltd | 800,000.00 | 40% | 690,917.12 | - | -109,082.88 |
| Shenzhen Yuanzhou Science & Technology Industry Company Ltd | 1,000,000.00 | 7% | 1,000,000.00 | - | - |
| China Merchants Bank | 10,010,000.00 | 0% | 10,010,000.00 | - | - |
| Total | <u>167,158,326.53</u> | | <u>203,510,070.33</u> | <u>-2,834,461.46</u> | <u>36,351,743.80</u> |

(4) Investment income

| Item | Bonds | Equity investments | | Total income |
|------------------------|-------------------|--------------------|------------|---------------|
| | investment income | At equity | At cost | |
| Short-term Investments | - | - | - | - |
| Long-term investments | - | -2,683,866.19 | 621,059.80 | -2,062,806.39 |
| Total | - | -2,683,866.19 | 621,059.80 | -2,062,806.39 |

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

| Product Category | Operating income | | Operating cost | | Gross profit | |
|-------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | First half of 2004 | First half of 2003 | First half of 2004 | First half of 2003 | First half of 2004 | First half of 2003 |
| Shipbuilding products | 992,718,869.27 | 876,968,914.94 | 950,121,807.46 | 857,352,553.36 | 42,597,061.81 | 19,616,361.58 |
| Steel Structure | 10,234,084.60 | 10,900,326.09 | 9,824,801.17 | 10,794,533.75 | 409,283.43 | 105,792.34 |
| Terrestrial machinery | 13,773,200.87 | 12,366,261.32 | 10,674,349.75 | 8,841,120.65 | 3,098,851.12 | 3,525,140.67 |
| Ship-repairing products | 7,312,315.12 | 3,356,556.41 | 6,524,914.29 | 1,114,085.82 | 787,400.83 | 2,242,470.59 |
| Total | 1,024,038,469.86 | 903,592,058.76 | 977,145,872.67 | 878,102,293.58 | 46,892,597.19 | 25,489,765.18 |

Refer to the notes to the item in consolidation statements.

(VI) Connected Party and Transactions**(1) Connected parties under the control of the Company**

| Name | Registered address | Principal Business | Relationship With the Company | Nature of the Enterprise | Legal Representative |
|--|---|---|-------------------------------|--------------------------------|----------------------|
| CSSC | No. 1 Pudong main Road, Shanghai | Ship manufacturing And sales | State Shareholder | Company with Limited liability | Chen Xiaojin |
| Kwangchow Shipyard Container Factory | No.118 Gexin Road Guangzhou | Container manufacturing | Subsidiary | Joint stock | Yin Xueming |
| Guangzhou Xinsun Shipping Service Company Limited | No.40 Fangcun Main Road Guangzhou | Installation, welding Outfitting, coating, Repair of hull structure | Subsidiary | Company with Limited liability | Dai Zhengting |
| Masterwood Company Limited | No.40 Fangcun Main Road Guangzhou | Manufacture furniture | Subsidiary | Sino-foreign Joint Venture | Zhang Liangjin |
| Guangzhou Guanglian Container Transportation Company Limited | No.118 Gexin Road Guangzhou | Container Transportation | Subsidiary | Sino-foreign Joint Venture | Zhong Yuquan |
| Xinhui City Nanyang Shipping Industrial Co. | Gujin Town, Xinhui City, Guangdong | Ship dismantling | Subsidiary | Cooperative Company | Li Yizhen |
| Guangzhou Sanlong Industrial trading Develop Company Ltd | No.126 Gexin Road Guangzhou | Municipal construction engineering | Subsidiary | Company with Limited liability | Xia Suijia |
| United Steel Structures Limited | No.40 Fangcun Main Road Guangzhou | Steel Structure business | Subsidiary | Sino-foreign Joint Venture | Ye Peihua |
| Guangdong GSI Elevator Limited | No.126 Gexin Road Guangzhou | Manufacturing elevator | Subsidiary | Company with Limited liability | Ye Peihua |
| Guangzhou Hongfan Information Technique Co., Ltd | No.40 Fangcun Main Road Guangzhou | Development of computer Software, system integration and sales. | Subsidiary | Cooperative Company | Wang Yi |
| Guangzhou Henghe Construction Co. | No.40 Fangcun Main Road Guangzhou | Design manufacture and Installation of building steel structure | Subsidiary | Cooperative Company | Chen Ji |
| Ronggaung Developing Co., Ltd. | Catic plaza 8 causeway rd causeway bay HK | General Trading | Subsidiary | Cooperative Company | Yu Baoshan |

| Name | Registered address | Principal Business | Relationship With the Company | Nature of the Enterprise | Legal Representative |
|--|--|-------------------------|-------------------------------|----------------------------|----------------------|
| Connected parties under indirect control: | | | | | |
| Guangzhou Hongfa Hotel | No.126 Gexin Road Guangzhou | Lodge, restaurant | Subsidiary | Cooperative Company | Rao Jian |
| Fankwong Developing Co., Ltd. | Rm 503 Dominion Centre Queen's Road East, HK | General Trading | Subsidiary | Cooperative Company | Yu Baoshan |
| Guangzhou Masterwood Co., Ltd. | 40 Fangcun Main Road, Guangzhou | Furniture manufacturing | Subsidiary | Sino-foreign Joint Venture | Zhang Liangjin |

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

| Name | Opening Balance | | Additions in the period | | Disposal in The period | | Closing Balance | |
|--|-----------------|--|-------------------------|--|------------------------|--|-----------------|--|
| | RMB | | RMB | | RMB | | RMB | |
| CSSC | 6,374,300,000 | | | | | | 6,374,300,000 | |
| Kwangchow Shipyard Container Factory | 44,924,640 | | | | | | 44,924,640 | |
| Guangzhou Xinsun Shipping Service Company Limited | 600,000 | | | | | | 600,000 | |
| Masterwood Company Limited | 3,315,180 | | | | | | 3,315,180 | |
| Guangzhou Guanglian Container Transportation Company Limited | 20,000,000 | | | | | | 20,000,000 | |
| Xinhui City Nanyang Shipping Industrial Company | 34,800,000 | | | | | | 34,800,000 | |
| Guangzhou Sanlong Industrial Trading Develop Company Ltd | 1,500,000 | | | | | | 1,500,000 | |
| United Steel Structures Limited | 73,572,705 | | | | | | 73,572,705 | |
| Guangdong GSI Elevator Limited | 21,000,000 | | | | | | 21,000,000 | |
| Guangdong Hongfan Information Technique Co., Ltd | 5,000,000 | | | | | | 5,000,000 | |
| Guangzhou Henghe Construction Company | 27,500,000 | | | | | | 27,500,000 | |
| Ronggaung Developing Co., Ltd. | HK\$10,000 | | | | | | HK\$10,000 | |
| Connected parties under indirect control: | | | | | | | | |
| Guangzhou Hongfa Hotel | 500,000 | | | | | | 500,000 | |
| Fankwong Developing Co., Ltd. | HK\$200,000 | | | | | | HK\$200,000 | |

(3) The equity interests in connected parties under the control of the company and their changes.

| Name | Opening Balance | | Additions in the period | | Disposal in The period | | Closing Balance | |
|--|-----------------|-------|-------------------------|--|------------------------|--|-----------------|-------|
| | RMB | % | RMB | | RMB | | RMB | % |
| CSSC | 210,800,080.00 | 42.61 | - | | - | | 210,800,080.00 | 42.61 |
| Kwangchow Shipyard Container Factory | 56,155,800.59 | 100 | -3,811,325.49 | | - | | 52,344,475.10 | 100 |
| Guangzhou Xinsun Shipping Service Company Limited | 12,915,123.16 | 83 | 319,151.19 | | - | | 13,234,274.35 | 83 |
| Guangzhou Masterwood Co., Ltd. | 4,131,975.72 | 75 | 263,236.96 | | - | | 4,395,212.68 | 75 |
| Guangzhou Guanglian Container Transportation Company Limited | 15,519,801.41 | 75 | 30,470.56 | | - | | 15,550,271.97 | 75 |
| Xinhui City Nanyang Shipping Industrial Company | 17,857,278.48 | 70 | -297,060.08 | | - | | 17,560,218.40 | 70 |
| Guangzhou Sanlong Industrial Trading Develop Company Ltd | 119,797.09 | 67 | -7,745.83 | | - | | 112,051.26 | 67 |
| United Steel Structures Limited | 39,629,484.15 | 51 | 277,556.30 | | - | | 39,907,040.45 | 51 |
| Guangdong GSI Elevator Limited | 21,507,672.44 | 95 | 368,604.83 | | - | | 21,876,277.27 | 95 |
| Guangzhou Hongfan Information Technique Co., Ltd | 3,895,375.03 | 77 | 36,834.72 | | - | | 3,932,209.75 | 77 |
| Guangzhou Henghe Construction Company | 18,339,903.27 | 75.9 | -62,271.42 | | - | | 18,277,631.85 | 75.9 |
| Rongguang Developing Co., Ltd | 1,759,578.71 | 100 | 103,218.53 | | - | | 1,862,797.24 | 100 |
| Connected parties under indirect control: | | | | | | | | |
| Guangzhou Hongfa Hotel | 500,000.00 | 100 | - | | - | | 500,000.00 | 100 |
| Fankwong Developing Co., Ltd. | HK\$ 200,000.00 | 70 | - | | - | | HK\$ 200,000.00 | 2 |
| Guangzhou Masterwood Co., Ltd. | 1,377,325.24 | 25 | 87,745.65 | | - | | 1,465,070.89 | 25 |

The connected transactions under the control of the Company had been counteracted in the report.

(4) The condition of the connected parties uncontrolled by the Company**① The connected parties uncontrolled by the Company**

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

| Affiliated company | |
|--|---|
| South China Marine & Industrial Special Coating Company Limited | |
| Companies under control of China State Shipbuilding Corporation | |
| CSSC No. 708 Institute | Guangzhou Shipyard |
| Guangzhou Wenchong Shipyard Company Limited | Huanan Marine Mechanic and Electric Department |
| Guangzhou Huangpu Shipyard | Hudong Heavy Engineering Company Limited |
| Shanghai Navigation Instrument Factory | No.9 Design Institution of CSSC |
| CSSC International Trade Co., Ltd | Zhenjiang Marine Diesel Factory |
| Nanjing Liuzhou Machinery Factory | Zhenjiang Marine Auxiliary Machine Factory |
| Zhengmao Group Company Limited | Zhenjiang Marine Propeller Factory |
| Jiangxi Chaoyang Machine Factory | China Shipping Trading Corporation |
| Gaungzhou Administrative Bureau | China State Shipbuilding Corporation (CSSC) |
| Hudong Zhonghua Shipyard (Group Limited company) | Guangzhou Shipyard Guangda Company (a subsidiary of Guangzhou Shipyard) |
| Jiujiang Marine Mechanical Factory | Anqing Marine Electric Factory |
| Jiujiang Instrument Factory | Jiangxi marine Valve Factory |
| Huahai Marine Commodity Logistic Company | CSSC Fiance Co., Ltd. |
| Guangxi Guijiang Shipyard | Shanghai Hudong Shipyard Valve Co., Ltd. |
| CSSC Luzhou Environment Protection Equipment Co., Ltd | Guangzhou Shipyard Forging Co., Ltd. |
| CSSC System Engineering Department | Hong Kong China United Shipbuilding Co., Ltd |
| CSSC Guangzhou Holding Company | |

② Material provided by the Group to CSSC and its subsidiaries (unit: RMB)

| Company \ Item | First half of 2004 | | | | | First half of 2003 |
|---|--------------------|------------|--------------|----------------|---------------|--------------------|
| | Total | Power | Material | Operating Rent | Labor Service | |
| Guangzhou Shipyard Guangda Co. | 776,574.98 | 486,714.99 | 233,223.09 | 49,118.10 | 7,518.80 | 593,030.77 |
| Guangzhou Shipyard Forging Co., Ltd | 31,111.12 | - | - | - | 31,111.12 | - |
| Gtuangxi Guijiang Shipyard | - | - | - | - | - | - |
| Guangzhou Huangpu Shipyard | 1,009,309.28 | - | 972,327.40 | 26,640.00 | 10,341.88 | 551,697.41 |
| Guangzhou Naval Vessels & Marine Design & Research Institute | - | - | - | - | - | - |
| Guangzhou wenchong Shipyard | 4,812,676.24 | - | 21,572.00 | 365,340.00 | 4,425,764.24 | 3,735,295.71 |
| Guangzhou Shipyard | 1,384,313.55 | 503,939.92 | 772,089.63 | - | 108,284.00 | 512,315.07 |
| Guangzhou shipbuilding Corporation | - | - | - | - | - | - |
| Huanan Marine Mechanic and Electric Department | 8,579,393.32 | - | - | - | 8,579,393.32 | - |
| CSSC Liuzhou Environment Protection Equipment Co., Ltd | 1,223.00 | - | - | - | 1,223.00 | - |
| South China Marine & Industrial Special Coating Company Limited | 7,356.86 | 2,474.35 | 4,882.48 | - | - | 18,051.01 |
| China Shipping Trading Corporation | - | - | - | - | - | 244,444.44 |
| Total | 16,601,958.32 | 993,129.26 | 2,004,094.60 | 441,098.10 | 13,163,636.36 | 5,654,834.41 |

③ Material and labor provided by CSSC and its subsidiaries to the Company (unit: RMB)

| Related Companies | First half of 2004 | | | | | First half of 2003 |
|---|--------------------|--------------|---------------|----------------|---------------|--------------------|
| | Total | Power | Material | Operating Rent | Labor Service | |
| CSSC No. 708 Institute | 41,000.00 | - | 41,000.00 | - | - | |
| Anqing Marine Electric Factory | 93,000.00 | - | - | 93,000.00 | - | |
| Guangzhou Shipyard Guangda Company | 27,476,094.47 | 7,506,153.69 | 11,491,200.47 | - | 8,478,740.31 | 24,544,390.51 |
| Guangzhou Shipyard Forging Co., Ltd | 3,984,331.05 | 15,211.12 | 3,969,119.93 | - | - | |
| Guangzhou Huangpu Shipyard | 186,954.61 | - | - | - | 186,954.61 | 2,376,768.98 |
| Guangzhou Wenchong Shipyard | 2,506,602.75 | 33,210.00 | - | - | 2,473,392.75 | 493,587.00 |
| Guangzhou Shipyard | 14,242,803.69 | 1,764,073.84 | 4,502,198.87 | - | 7,976,530.98 | 6,347,734.27 |
| Huanan Marine Mechanic and Electric Department | 1,201,400.00 | - | - | 1,201,400.00 | - | 4,306,000.00 |
| Hudong Heavy Engineering Company Limited | 15,762,000.00 | - | - | 15,762,000.00 | - | 43,616,799.85 |
| Jiangxi Chaoyang Machine Factory | 1,732,907.96 | - | 1,732,907.96 | - | - | 1,400,671.84 |
| Jiangxi marine Valve Factory | 242,070.00 | - | 242,070.00 | - | - | 720,000.00 |
| Jiujiang Marine Mechanical Factory | 3,591,327.00 | - | 3,591,327.00 | - | - | 2,789,671.00 |
| Nanjing Liuzhou Machinery Factory | 1,133,400.00 | - | - | 1,133,400.00 | - | 8,498,512.82 |
| CSSC Luzhou Environment Protection Equipment Co., Ltd | 1,544,700.00 | - | - | 1,544,700.00 | - | |
| Shanghai Hudong Shipyard Valve Co., Ltd. | 1,008,015.96 | - | 1,008,015.96 | - | - | |
| Zhenjiang Marine Auxiliary Machine Factory | 1,216,000.00 | - | - | 1,216,000.00 | - | 2,408,000.00 |
| Zhenjiang Marine Propeller Factory | 1,206,090.00 | - | 1,206,090.00 | - | - | 300,000.00 |
| Zhenjiang Marine Diesel Factory | 24,103,271.73 | - | - | 24,103,271.73 | - | 21,348,857.30 |
| Zhengmao Group Company Limited | 1,636,078.00 | - | 1,636,078.00 | - | - | 1,532,750.00 |
| CSSC International Trade Co., Ltd | 519,754.25 | 519,754.25 | - | - | - | |
| China State Shipbuilding Corporation | 2,199,466.00 | - | 2,199,466.00 | - | - | 798,160.00 |
| China Shipping Trading Corporation | - | - | - | - | - | 9,951,565.32 |
| Guangxi Guijiang Shipyard | - | - | - | - | - | 107,000.00 |
| South China Marine & Industrial Special Coating Company Limited | - | - | - | - | - | 36,000.00 |
| Total | 105,627,267.47 | 9,838,402.90 | 31,619,474.19 | 45,053,771.73 | 19,115,618.65 | 131,576,468.89 |

④ Finance Service Provided by CSSC (unit: RMB)

| Item | Close Balance | | Interest received/paid | | Deposit/load Company |
|---------|--------------------|--------------------|------------------------|--------------------|----------------------|
| | First half of 2004 | First half of 2003 | First half of 2004 | First half of 2003 | |
| Deposit | 33,757,478.74 | 558,779.93 | 29,007.31 | 77,583.37 | CSSC Finance Company |
| Load | - | 50,000,000.00 | - | 666,697.50 | |

⑤ Assurance and assurance fee provided by CSSC and its subsidiaries (unit: RMB)

| Company | Assurance Amount | | Assurance fee | |
|------------------------------------|------------------|------------------------------|---------------|------------------------------|
| | This Period | The same period of Last year | This Period | The same period of Last year |
| CSSC | 500,000,000.00 | 100,000,000.00 | - | - |
| CSTC | 80,000,000.00 | 480,000,000.00 | - | - |
| Guangzhou Shipbuilding Corporation | 49,659,600.00 | - | 100,000.00 | - |
| Total | 629,659,600.00 | - | 100,000.00 | - |

⑥ Sales agent by CSSC and its subsidiaries (unit: RMB)

| Item | Commission | | Agent |
|-------|--------------------|--------------------|-------|
| | January-June, 2004 | January-June, 2003 | |
| Ships | 12,658,351.65 | 6,831,002.81 | CSTC |

⑦ Material purchase agent by CSSC (unit: RMB)

| Company | Total | | Imported material | | Marine equipment | |
|------------------------------------|--------------|-------------|-------------------|-------------|------------------|-------------|
| | This period | Last period | This period | Last period | This period | Last period |
| China United Shipbuilding Co., Ltd | 1,618,888.82 | 721,704.87 | - | - | 1,618,888.82 | 721,704.87 |
| CSTC | 2,139,076.51 | 146,677.39 | 419,588.08 | 120,121.35 | 1,719,488.43 | 26,556.04 |
| Total | 3,757,965.33 | 868,382.26 | 419,588.08 | 120,121.35 | 3,338,377.25 | 748,260.91 |

Note: China United Shipbuilding Co., Ltd is a subsidiary of CSSC, which has agent the import business of marine equipment and accessories for the Company. The Company and china United Shipbuilding Co., Ltd entered agent agreement according to trade convention, and in accordance with which, the Company should pay 1.2% agent fee of the total agent amount to China United Shipbuilding Co., Ltd.

⑧ Account receivable and payable of connected parties (unit: RMB)

A. Other receivable

| Name | 30th June 2004 | 31st December 2003 |
|------------------------------------|----------------|--------------------|
| Guangzhou Shipyard Guangda Company | 14,218.14 | - |
| Guangzhou Shipyard | 362,186.84 | - |
| Guangzhou Administrative Bureau | | 27,000.00 |
| Total | 376,404.98 | 27,000.00 |

B. Account receivable

| Name | 30th June 2004 | 31st December 2003 |
|---|----------------|--------------------|
| South China/Marine and Industrial Special Coating Limited | 2,284.75 | - |
| Guangzhou Shipyard Guangda Company | 757,068.95 | 441,808.66 |
| Guangzhou Huangpu Shipyard | 717,584.60 | - |
| Guangzhou Wenchong Shipyard | 2,802,555.04 | 733,813.13 |
| Huanan Marine Mechanic and Electric Department | 390,534.30 | - |
| Xijiang Shipyard | - | - |
| Guangzhou Shipyard | - | 102,578.39 |
| Guangzhou Shipbuilding corporation | - | 20,314.30 |
| Total | 4,670,027.64 | 1,298,514.48 |

C. Advanced payment

| Name | 30th June 2004 | 31st December 2003 |
|--|----------------|--------------------|
| Guangzhou Shipyard Guangda Company | 5,540,750.64 | 7,647,297.52 |
| Guijiang Shipyard | 128,000.00 | - |
| Huanan Marine Mechanic and Electric Department | 621,000.00 | - |
| Hudong Heavy Engineering Company Limited | 6,000,000.00 | 5,000,000.00 |
| Nanjing Liuzhou Machinery Factory | 2,000,000.00 | - |
| Zhenjiang Marine Diesel Factory | 10,500,000.00 | 2,190,000.00 |
| CSSC International Trade Co., Ltd | 1,063,771.76 | 1,583,526.01 |
| Total | 25,853,522.40 | 16,420,823.53 |

D. Account payable

| <u>Name</u> | <u>30th June 2004</u> | <u>31st December 2003</u> |
|---|-----------------------|---------------------------|
| CSSC No. 708 Institute | 267,000.00 | 1,486,000.00 |
| Anqing Marine Electric Factory | 26,100.00 | 21,450.00 |
| Guangzhou Shipyard Gaungda Company | 5,807,802.08 | 6,412,236.24 |
| Guangzhou Shipyard Forging Company | 1,027,619.62 | 2,173,144.23 |
| Guangzhou Huangpu Shipyard | – | 143,848.98 |
| Guangzhou Wenchong Shipyard | 1,000,000.00 | 746,952.00 |
| Guangzhou Shipyard | 909,807.29 | 547,533.04 |
| Huanan Marine Mechanic and Electric Department | 411,000.00 | 545,011.97 |
| Hudong Corporation Electric Division | 152,500.00 | |
| Hudong Heavy Engineering Company Limited | 2,630,237.67 | 9,112,000.00 |
| Huahai Marine Commodity Logistic Company | 32,500.00 | 325,000.00 |
| Hualian Marine company Limited | – | 30,451,031.57 |
| Jiangxi Chaoyang Machine Factory | 28,597.40 | 1,051,613.76 |
| Jiangxi marine Valve Factory | 312,430.00 | 170,360.00 |
| Jiujiang Marine Mechanical Factory | 1,018,215.30 | 1,225,854.94 |
| Jiujiang Instrument Factory | 26,000.00 | 26,000.00 |
| Nanjing Liuzhou Machinery Factory | 192,900.00 | 6,563,500.00 |
| CSSC Luzhou Environment Protection Equipment Co., Ltd | 676,880.00 | |
| Shanghai Shipyard | 142,794.70 | 142,794.70 |
| Shanghai Navigation Instrument Factory | 112,900.00 | 1,004,900.00 |
| Shanghai Hudong Shipyard Valve Co., Ltd. | 303,412.96 | 1,302,055.24 |
| Zhenjiang Marine Auxiliary Machine Factory | 29,550.00 | 1,291,453.00 |
| Zhenjiang Marine Propeller Factory | 70,430.00 | 822,840.00 |
| Zhenjiang Marine Diesel Factory | 3,566,963.00 | 6,782,287.16 |
| Zhengmao Group Company Limited | 1,052,328.00 | 1,019,750.00 |
| China State Shipbuilding Corporation | 740,000.00 | 1,631,316.26 |
| China Shipping Trading Corporation | 259,718.09 | 2,634,002.68 |
| CSSC System Engineering Department | 580,000.00 | |
| Total | <u>21,377,686.11</u> | <u>77,632,935.77</u> |

E. Other Payable

| <u>Name</u> | <u>30th June 2004</u> | <u>31st December 2003</u> |
|--------------------------------------|-----------------------|---------------------------|
| Guangzhou Shipyard | 237,217.57 | – |
| China State Shipbuilding Corporation | 27,000.00 | – |
| Total | <u>264,217.57</u> | <u>–</u> |

F. Advanced Payment

| <u>Name</u> | <u>30th June 2004</u> | <u>31st December 2003</u> |
|----------------------------|-----------------------|---------------------------|
| Guangzhou Huangpu Shipyard | 208,440.00 | 208,440.00 |
| Xijiang Shipyard | 180,000.00 | – |
| Total | <u>388,440.00</u> | <u>208,440.00</u> |

(VII) Condition of Capital inflow and outflow between the company and its subsidiaries

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

(VIII) Contingencies

As at 30th June 2004, the Company (the Group) had no significant contingent items.

(IX) Commitments

As at 30th June 2004, the Company (the Group) had no significant commitments

(X) Events post period of balance sheet

As at the date of this report disclosed, the Company (the Group) had no unadjusted item listed in Events post period of balance sheet.

(XI) Other Issues

The scheme of profit distribution for the first half of 2004: no profit distribution or capital increment in the meeting of Board of Directors held on 13th August 2004.

II Prepared under Accounting Principles Generally Accepted in Hong Kong**1. Condensed consolidated profit and loss account**

For the six months ended 30 June 2004

| | | Unaudited | |
|---|------|---------------------------------|-------------|
| | | Six months ended 30 June | |
| | | 2004 | 2003 |
| | Note | RMB'000 | RMB'000 |
| Turnover | | 1,090,300 | 1,180,675 |
| Construction costs | | (950,122) | (857,353) |
| Cost of inventories sold and services rendered | | (80,726) | (289,500) |
| Cost of sales | | (1,030,848) | (1,146,853) |
| Gross profit | | 59,452 | 33,822 |
| Other revenues | | 28,899 | 61,735 |
| Distribution, administrative and other operating expenses | | (66,247) | (62,489) |
| Operating profit | (3) | 22,104 | 33,068 |
| Finance costs | | (9,727) | (22,703) |
| Share of profits less losses of associated companies | | 313 | 70 |
| Profit before taxation | | 12,690 | 10,435 |
| Taxation | (4) | (1,026) | (909) |
| Profit after taxation | | 11,664 | 9,526 |
| Minority interests | | (173) | 501 |
| Profit attributable to shareholders | | 11,491 | 10,027 |
| Earnings per share | (5) | RMB0.0232 | RMB0.0203 |

2. **Condensed consolidated balance sheet**
As at 30 June 2004 and 31 December 2003

| | Note | Unaudited 30 June 2004 RMB'000 | Audited 31 December 2003 RMB'000 |
|--|------|---|---|
| Non current assets | | | |
| Property, plant and equipment | (6) | 1,054,006 | 1,065,741 |
| Interests or investments in associated companies | | 3,448 | 3,503 |
| Investment securities | | 12,010 | 12,010 |
| | | 1,069,464 | 1,081,254 |
| Current assets | | | |
| Inventories | | 352,088 | 223,396 |
| Due from customers on construction contracts | | 370,949 | 392,470 |
| Trade receivables | (7) | 229,689 | 443,146 |
| Other receivables, prepayments and deposits | | 305,279 | 265,589 |
| Tax recoverable | | 29,699 | 134,897 |
| Bank balances and cash | | 473,701 | 391,535 |
| | | 1,761,405 | 1,851,033 |
| Current liabilities | | | |
| Trade payables | (8) | 353,349 | 341,869 |
| Notes payable | | 24,678 | 118,654 |
| Due to customers on construction contracts | | 712,311 | 643,707 |
| Other payables and accruals | | 195,023 | 164,053 |
| Current portion of long-term bank loans | (9) | 380,000 | 380,000 |
| Taxation payable | | 2,335 | 4,229 |
| Provision for warranty | (10) | 43,577 | 37,907 |
| Dividends payable | | 13 | 13 |
| Deferred income | | 1,303 | 3,537 |
| Short-term loans | (11) | 165,532 | 194,404 |
| | | 1,878,121 | 1,888,373 |
| Net current liabilities | | (116,716) | (37,340) |
| Total assets less current liabilities | | 952,748 | 1,043,914 |
| Financed by: | | | |
| Share capital | | 494,678 | 494,678 |
| Reserves | | 174,382 | 162,891 |
| Shareholders' funds | | 669,060 | 657,569 |
| Minority interests | | 59,906 | 59,733 |
| Non-current liabilities | | | |
| Long-term bank loans | (9) | 200,435 | 300,510 |
| Retirement obligations | | 23,347 | 26,102 |
| | | 223,782 | 326,612 |
| | | 952,748 | 1,043,914 |

3. **Condensed consolidated statement of changes in equity**
For the six months ended 30 June 2004

| | Unaudited | | | | | | |
|-----------------------|------------------|-----------------|---------------------------|---------------------|-------------------------------|--------------------|---------|
| | Surplus reserves | | | | | | |
| | Share capital | Capital reserve | Statutory | | | Accumulated losses | Total |
| | | | Statutory surplus reserve | public welfare fund | Discretionary surplus reserve | | |
| RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| At 1 January 2004 | 494,678 | 651,977 | 48,997 | 30,591 | 20,560 | (589,234) | 657,569 |
| Profit for the period | - | - | - | - | - | 11,491 | 11,491 |
| At 30 June 2004 | 494,678 | 651,977 | 48,997 | 30,591 | 20,560 | (577,743) | 669,060 |

| | Unaudited | | | | | | |
|-----------------------|------------------|-----------------|---------------------------|---------------------|-------------------------------|--------------------|---------|
| | Surplus reserves | | | | | | |
| | Share capital | Capital reserve | Statutory | | | Accumulated losses | Total |
| | | | Statutory surplus reserve | public welfare fund | Discretionary surplus reserve | | |
| RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| At 1 January 2003 | 494,678 | 651,977 | 48,997 | 30,692 | 20,459 | (613,789) | 633,014 |
| Profit for the period | - | - | - | - | - | 10,027 | 10,027 |
| At 30 June 2003 | 494,678 | 651,977 | 48,997 | 30,692 | 20,459 | (603,762) | 643,041 |

4. **Condensed consolidated cash flow statement**
For the six months ended 30 June 2004

| | Unaudited | |
|---|--------------------------|-----------|
| | Six months ended 30 June | |
| | 2004 | 2003 |
| | RMB'000 | RMB'000 |
| Net cash inflow from operating activities | 204,329 | 290,971 |
| Net cash inflow/(outflow) from investing activities | 14,749 | (21,733) |
| Net cash outflow from financing activities | (136,912) | (275,443) |
| Increase/(decrease) in cash and cash equivalents | 82,166 | (6,205) |
| Cash and cash equivalents at 1 January | 391,535 | 284,849 |
| Cash and cash equivalents at 30 June | 473,701 | 278,644 |

Cash and cash equivalents represents bank balance and cash as appeared in the condensed consolidated balance sheet as of 30 June 2004 and 31 December 2003.

5. Notes to accounts

(1) Basis of preparation and accounting policies

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25, "Interim financial reporting", issued by the Hong Kong Society of Accountants.

These condensed accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed consolidated accounts are consistent with those used in the annual accounts for the year ended 31 December 2003.

(2) Segment information

The Group is principally engaged in three (2003: four) main business segments in the People's Republic of China (the "PRC"):

- Shipbuilding – construction and trading of ships
- Shiprepairing – provision of shiprepairing services
- Steel structure and other manufacturing – manufacturing and trading of steel structure and mechanical and electrical equipment

Other operations of the Group mainly comprise trading of computers and transportation services for containers, neither of which are of a sufficient size to be reported separately.

Discontinuing operation

On 16 April 2004, the Board resolved to terminate the business of Kwangchow Shipyard Container Factory, which was principally engaged in the manufacture of containers. Because the effect relating to the disposal of assets and settlement of liabilities attributable to this discontinuing operation is not material, the directors are of the opinion that separate disclosure in this condensed consolidated profit and loss account and condensed consolidated cash flow statement is not required.

Accordingly, financial information of container manufacturing business for the six months ended 30 June 2004 is included in the segment of other operations. The turnover and segment results for the six months ended 30 June 2004 related to the container manufacturing business is RMB1,133,000 and RMB224,000, respectively.

An analysis of the Group's turnover and results for the period by business segments is as follows:

| | 6 months ended 30 June 2004 | | | | | |
|--|-----------------------------|-------------------------------|---|--------------------------------|------------------------|------------------|
| | Shipbuilding RMB'000 | Ship- repairing RMB'000 | Steel structure and other manufacturing RMB'000 | Other operations RMB'000 | Elimination RMB'000 | Group RMB'000 |
| Turnover | 992,721 | 7,312 | 85,661 | 124,243 | (119,637) | 1,090,300 |
| Segment results | 61,824 | 787 | 9,221 | 10,315 | (2,886) | 79,261 |
| Unallocated revenues | | | | | | 7,987 |
| Unallocated costs | | | | | | (65,144) |
| Operating profit | | | | | | 22,104 |
| Finance costs | | | | | | (9,727) |
| Share of profits less losses of associated companies | | | | 313 | | 313 |
| Profit before taxation | | | | | | 12,690 |
| Taxation | | | | | | (1,026) |
| Minority interests | | | | | | (173) |
| Profit attributable to shareholders | | | | | | 11,491 |

6 months ended 30 June 2003

| | Shipbuilding RMB'000 | Ship- repairing RMB'000 | Container manufacturing RMB'000 | Steel structure and other manufacturing RMB'000 | Other operations RMB'000 | Elimination RMB'000 | Group RMB'000 |
|---|-------------------------|-------------------------------|---------------------------------------|---|--------------------------------|------------------------|------------------|
| Turnover | 876,969 | 3,361 | 221,605 | 80,204 | 66,552 | (68,016) | 1,180,675 |
| Segment results | 72,077 | 2,242 | (1,072) | 4,103 | 18,254 | (7,644) | 87,960 |
| Unallocated revenues | | | | | | | 2,434 |
| Unallocated costs | | | | | | | (57,326) |
| Operating profit | | | | | | | 33,068 |
| Finance costs | | | | | | | (22,703) |
| Share of profits less losses of associated companies | | | | | 70 | | 70 |
| Profit before taxation | | | | | | | 10,435 |
| Taxation | | | | | | | (909) |
| Minority interests | | | | | | | 501 |
| Profit attributable to shareholders | | | | | | | 10,027 |

(3) Operating profit

Operating profit is stated after crediting and charging the following:

| | 6 months ended 30 June | |
|--|------------------------|-----------------|
| | 2004 RMB'000 | 2003 RMB'000 |
| <u>Crediting</u> | | |
| Government grants received | (a) 19,809 | 56,017 |
| <u>Charging</u> | | |
| Depreciation and amortisation of property, plant and equipment | 41,296 | 43,107 |
| Add: amount capitalised in opening inventories | 11,290 | 7,777 |
| Less: amount capitalised in ending inventories | (7,125) | (14,739) |
| | 45,461 | 36,145 |
| Staff costs | 125,155 | 109,022 |
| Loss on disposal of property, plant and equipment | 668 | 405 |

(a) Pursuant to Chuan Gong Cai [2000] No.191, the Company is entitled to government subsidy for shipbuilding business on individual qualified vessels.

(4) **Taxation**

(a) The amount of taxation charged to the condensed consolidated profit and loss account represents:

| | 6 months ended 30 June | |
|--|-------------------------------|---------|
| | 2004 | 2003 |
| | RMB'000 | RMB'000 |
| Current taxation – PRC enterprise income tax | 979 | 859 |
| Share of taxation attributable to associated companies | 47 | 50 |
| | 1,026 | 909 |

The Company's PRC enterprise income tax is calculated at 15% (2003: 15%) on the estimated assessable profit for the current period. The normal PRC enterprise income tax rate is 33%. PRC enterprise income tax of subsidiaries and associated companies is charged on their respective assessable profits at applicable tax rates.

(b) Deferred tax

The Group has taxable temporary difference in respect of compensation for relocation and deductible temporary differences in respect of provision for non-recovery on principals due from non-banking financial institutions, provision for foreseeable losses of construction contracts, provision for medical insurance, provision for early retirement and unused tax losses, the resulting net potential deferred tax assets amounted to RMB 88,497,000 (31 December 2003: RMB 93,431,000). These net potential deferred tax assets have not been recognised in the accounts due to the uncertainty of available future taxable profit against which the temporary differences can be utilised.

(5) **Earnings per share**

Profit of RMB0.0232 (2003: RMB0.0203) per ordinary share of RMB1 each is calculated on the Group's profit attributable to shareholders of RMB 11,491,000 (2003: RMB10,027,000) and on the weighted average number of 494,677,580 (2003: 494,677,580) ordinary shares in issue during the period.

(6) **Capital expenditure**

| | Construction- in-progress RMB'000 | Property, plant and equipment RMB'000 | Total RMB'000 |
|---|--|--|--------------------------|
| Net book amount at 1 January 2004 | 30,248 | 1,035,493 | 1,065,741 |
| Additions | 28,521 | 1,490 | 30,011 |
| Transfers | (14,628) | 14,628 | – |
| Disposals | – | (450) | (450) |
| Depreciation/amortisation charge (Note (3)) | – | (41,296) | (41,296) |
| Net book amount at 30 June 2004 | <u>44,141</u> | <u>1,009,865</u> | <u>1,054,006</u> |

(7) **Trade receivables**

At 30 June 2004, the ageing analysis of trade receivables net of provision was as follows:

| | 30 June 2004 RMB'000 | 31 December 2003 RMB'000 |
|---|-------------------------------------|--------------------------------|
| Not exceeding one year | 138,371 | 370,644 |
| More than one year but not exceeding two years | 63,060 | 28,664 |
| More than two years but not exceeding three years | 11,106 | 9,265 |
| More than three years | 17,152 | 34,573 |
| | <u>229,689</u> | <u>443,146</u> |

The general credit terms of trade receivables are:

Operations

Shipbuilding and shiprepairing
Other operations (including container
manufacturing, steel structure and other manufacturing)

Credit terms

Within one month after issue of invoice
Normally one to six months

(8) **Trade payables**

At 30 June 2004, the ageing analysis of trade payables was as follows:

| | 30 June 2004 RMB'000 | 31 December 2003 RMB'000 |
|---|-------------------------------------|--------------------------------|
| Not exceeding one year | 347,769 | 325,646 |
| More than one year but not exceeding two years | 3,271 | 15,704 |
| More than two years but not exceeding three years | 2,228 | 439 |
| More than three years | 81 | 80 |
| | <u>353,349</u> | <u>341,869</u> |

(9) **Long-term bank loans**

| | 30 June 2004 RMB'000 | 31 December 2003 RMB'000 |
|---|-------------------------------------|--------------------------------|
| Unsecured bank loans | 580,435 | 680,510 |
| Current portion of long-term bank loans | (380,000) | (380,000) |
| | <u>200,435</u> | <u>300,510</u> |

At 30 June 2004, the Group's bank loans were repayable as follows:

| | 30 June 2004 RMB'000 | 31 December 2003 RMB'000 |
|------------------------------|-------------------------------------|--------------------------------|
| Repayable within one year | 380,000 | 380,000 |
| Repayable in the second year | 200,435 | 300,510 |
| | 580,435 | 680,510 |

Included in unsecured bank loans were loans of RMB 500,000,000 (31 December 2003: RMB 400,000,000) and RMB80,000,000 (31 December 2003: RMB280,000,000) guaranteed by China State Shipbuilding Corporation ("CSSC"), the Company's major shareholder, and a company controlled by CSSC, respectively.

(10) Provision for warranty

Movement of provision for warranty is as follows:

| | RMB'000 |
|--|----------------|
| At 1 January 2004 | 37,907 |
| Additional provisions | 11,687 |
| Write back of expired warranty provision | (2,784) |
| Utilised during the period | (3,233) |
| At 30 June 2004 | 43,577 |

The Group recognises a warranty provision for repairs or replacement of shipbuilding, shiprepairing and other machine products still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

(11) Short-term loans

| | 30 June 2004 RMB'000 | 31 December 2003 RMB'000 |
|-----------|-------------------------------------|--------------------------------|
| Loans | | |
| Unsecured | 165,532 | 99,319 |
| Secured | - | 95,085 |
| | 165,532 | 194,404 |

Included in unsecured loans were RMB 49,662,000 (31 December 2003: RMB 49,662,000) guaranteed by a company controlled by CSSC.

(12) Capital commitments for property, plant and equipment

| | Contracted but not provided for | | Authorised by directors but not contracted for | |
|--|--|--------------------------------|---|--------------------------------|
| | 30 June 2004 RMB'000 | 31 December 2003 RMB'000 | 30 June 2004 RMB'000 | 31 December 2003 RMB'000 |
| Purchase of machinery and equipment | 1,026 | 637 | 11,925 | 40,689 |
| Purchase or construction of factories and buildings | 4,627 | 4,626 | 3,071 | 24,940 |
| | 5,653 | 5,263 | 14,996 | 65,629 |

(13) Related party transactions

Significant related party transactions, which were carried out in the ordinary course of the Group's businesses are as follows:

| | | 6 months ended 30 June | |
|--|------|------------------------|---------|
| | | 2004 | 2003 |
| | Note | RMB'000 | RMB'000 |
| Companies controlled by CSSC | | | |
| Purchase of raw materials | | 41,458 | 35,418 |
| Purchase of equipment for shipbuilding | | 45,054 | 83,152 |
| Vessel sales commission payable | | 12,658 | 6,831 |
| Other expense payable | (i) | 22,945 | 13,596 |
| Income from provision of services | (ii) | 14,603 | 5,655 |

- (i) Pursuant to the comprehensive service agreement dated 19 April 2001 and supplementary agreement dated 22 April 2003 entered between the Company and Guangzhou Shipyard ("GZS"), a subsidiary of CSSC, the Group incurred service fees amounted to RMB3,503,000 (2003: RMB3,524,000) for its provision of staff welfare services (including the provision of staff quarters and other benefits) to GZS. The service fees for the six months ended 30 June 2004 did not include welfare to key management personnel (2003: nil). The effective period of this comprehensive service agreement have been extended to 31 December 2005 according to certain terms agreed in the original agreement.

The above related party transactions were carried out in the ordinary course of business of the relevant companies and at normal commercial terms.

- (ii) Income from provision of services represents provision of vessel-related processing services, shiprepairing services and other services.

The above related party transactions were carried out in the ordinary course of the business of the relevant companies and in normal commercial terms.

VII. DOCUMENTS AVAILABLE FOR INSPECTION

1. Financial statements with signatures and stamps of legal representative, chief accountant and accounting departments head.
2. The originals of announcements published in "Shanghai Securities News", "Hong Kong Commercial Daily" and "China Daily" (oversea edition) during the period under review and related company documents.