



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

| Interim Report 2005 |



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

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

SHARE CODE: 0317

## INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH JUNE 2005

### 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.

All the directors, including Mr. Li Junfeng acting as proxy of Mr. Miao Jian attended the 2nd meeting of the fifth term of the Board of Directors held on 19th August 2005.

Mr. Hu Guoliang, Chairman of the Board of Directors, Mr. Zeng Xiangxin, Chief Accountant and Ms. Yang Rong, Director of Financial Center, declare and assure the facility and integrity of the financial information 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 Rules and Regulations.

The Audit Committee of the Company has reviewed and confirmed the interim report for the six months ended 30th June 2005 of the Company.

The financial reports in this interim report are unaudited.

## I. OVERVIEW OF THE COMPANY

### 1. REGISTERED CHINESE NAME OF THE COMPANY

廣州廣船國際股份有限公司

### 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 Securities 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](mailto: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

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E-mail Address: [lzd@chinagsi.com](mailto:lzd@chinagsi.com)

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

### AUTHORIZED SECURITIES REPRESENTATIVE

Ms. Yang Ping

Tel: (8620) 8189 6411

Fax: (8620) 8189 1575

E-mail Address: [yangping@chinagsi.com](mailto:yangping@chinagsi.com)

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

## 6. PUBLICATIONS DESIGNATED BY CHINA SECURITIES REGULATORY COMMISSION FOR INFORMATION DISCLOSURE

Shanghai Securities News  
 Hong Kong Commercial Daily  
 China Daily (overseas version)

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 Rules and Regulations

Financial Indicators	Unaudited	Audited	Change (%)
	As at 30th June 2005	As at 31st December 2004	
Current assets (RMB'000)	1,393,112	1,178,771	18.18
Current liabilities (RMB'000)	1,606,169	1,227,352	30.86
Total assets (RMB'000)	2,412,312	2,213,067	9.00
Shareholders' equity (excluding minority interests) (RMB'000)	730,815	710,263	2.89
Net assets per share (RMB)	1.48	1.44	2.78
Adjusted net assets per share (RMB)	1.31	1.27	3.15

  

Financial Indicators	Unaudited		Change (%)
	2005	2004	
	(Consolidated)	(Consolidated)	
For six months ended 30th June			
Net profit/(loss) (RMB'000)	20,553	10,539	95.02
Net profit/(loss) after deduction of exceptional items (RMB'000)	18,549	10,411	78.17
Earnings per share (RMB)	0.0415	0.0213	94.80
Return on net assets (%)	2.81	1.53	83.66
Net cash flow from operating activities (RMB'000)	-133,287	238,177	Incomparable as the figure for this year is a negative figure

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

Exceptional items	Amount (RMB'000)
Subsidy income from government	1,693
Non-operating income	896
Non-operating expenses	585
Total	2,004

The special subsidy income, which is a part of the price of certain ship construction project, is not accounted for as an exceptional item.

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

Financial Indicators	Unaudited	Restated	Change (%)
	As at 30th June 2005	As at 31st December 2004	
Current assets (RMB'000)	1,989,022	1,809,500	9.9
Current liabilities (RMB'000)	2,213,981	1,872,515	18.2
Total assets (RMB'000)	3,034,359	2,862,932	6.0
Shareholders' equity (excluding minority interests) (RMB'000)	754,917	718,514	5.1
Net assets per share (RMB)	1.53	1.45	5.5
Gearing ratio (%)	73.55	73.08	0.6

  

Financial Indicators	Unaudited		Change (%)
	2005	2004	
Profit/(loss) attributable to shareholders (RMB'000)	27,235	11,491	137.0
Earnings/(loss) per share (RMB)	0.0551	0.0232	137.0
Return on net assets (%)	3.61	1.72	109.9

(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 2005 calculated on the basis of the PRC accounting rules and regulations and the accounting principles generally accepted in Hong Kong respectively is as follows:

Item	Net profit		Shareholder's equity	
	Amount (RMB'000)		Amount (RMB'000)	
	For the six months ended 30th June 2005	For the six months ended 30th June 2004	As at 30th June 2005	As at 1st January 2005
Prepared under PRC accounting rules and regulations	20,552	10,539	730,815	710,263
Prepared under HK GAAP	27,235	11,491	754,917	718,514
Reconciling items:				
Impairment of investment property	1,322	–	–	(1,322)
Obligation for early retirement scheme	1,886	952	(13,316)	(15,202)
Profit and loss items directly recorded in retained earnings brought forward	–	–	(238)	(238)
Deferred taxation credited to profit and loss account	(3,941)	–	21,072	25,013
Fair value adjustment on derivative financial instruments	7,416	–	7,416	–
Fair value adjustment on available-for-sale financial assets	–	–	9,168	–

(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	10.54	10.69	0.16	0.16
Profit (loss) from operations	0.41	0.42	0.01	0.01
Net profit (loss)	2.81	2.85	0.04	0.04
Net profit (loss) after deduction of exceptional items	2.54	2.57	0.04	0.04

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  $\div$  [(net assets at beginning of the period + net assets at closing of the period)  $\div$  2] x 100%

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

## II. CHANGES IN SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDINGS

### 1. CHANGES IN SHARE CAPITAL

There has not been any change in the share capital structure of the Company during the period under review.

### 2. SHAREHOLDERS INFORMATION

1. As at 30th June 2005, the total number of shareholders of the Company was 56,782, including one shareholder of unlisted state-owned A-Shares, 56,541 shareholders of listed A-Shares and 240 shareholders of listed H-Shares.

2. Top 10 shareholders of the Company are as follows:

Shareholder	Addition/ Deductions during 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	Unlisted	None	State-owned Shareholder
HKSCC Nominees Limited	2,186,000	146,664,999	29.649	Listed	Unknown	Foreign capital Shareholder
Yuyang Fund	-2,919,071	5,000,000	1.011	Listed	Unknown	Public shareholder
HSBC Nominees (Hong Kong) Limited	30,000	4,984,000	1.008	Listed	Unknown	Foreign capital Shareholder
Boshi Jingxuan Fund	-3,763,270	2,435,592	0.492	Listed	Unknown	Public shareholder
Chan Cheuk Sang	-2,000,000	1,000,000	0.202	Listed	Unknown	Foreign capital Shareholder
Social Insurance Fund	731,001	731,001	0.148	Listed	Unknown	Public shareholder
Zhuang Sen Cong	-97,207	332,422	0.067	Listed	Unknown	Public shareholder
Pan Jing Chang	-1,200	300,000	0.061	Listed	Unknown	Public shareholder
Huang Shao Wei	250,000	250,000	0.051	Listed	Unknown	Public shareholder

Except that Yuyang Fund and Boshi Jingxuan Fund are belong to the Boshi Fund Management Corporation, the Company is not aware of whether the top 10 shareholders disclosed above are connected with each other or they are persons acting in concert as defined in "Information Disclosure Management Procedure to Changes of Share-holding of List Company".

### 3. Top 10 listed shareholders

Shareholder	Number of shares as at 30th June 2005	Nature of shares (A, B, H and others)
HKSCC Nominees Limited	146,664,999	H Share
Yuyang Fund	5,000,000	A Share
HSBC Nominees (Hong Kong) Limited	4,984,000	H Share
Boshi Jingxuan Fund	2,435,592	A Share
Chan Cheuk Sang	1,000,000	H Share
Social Insurance Fund	731,001	A Share
Zhuang Sen Cong	332,422	A Share
Pan Jing Chang	300,000	A Share
Huang Shao Wei	250,000	A Share
Qing Liang Zhong	238,700	A Share

Except that Yuyang Fund and Boshi Jingxuan Fund are belong to the Boshi Fund Management Corporation, the Company is not aware of whether the top 10 listed shareholders disclosed above are connected with each other or they are persons acting in concert as defined in “Information Disclosure Management Procedure to Changes of Share-holding of List Company”.

- Apart from the top ten shareholders and the top ten listed shareholders disclosed above, as at 30th June 2005, the Company had not received any notice from any person that their shareholdings reached the level required to be disclosed under the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (“SFO”).
- During the period under review, the controlling shareholder and actual controller of the Company have not changed.

China State Shipbuilding Corporation (“CSSC”) is the representative holder of the State-owned shares, which accounted for 42.61% of the shares of the Company. CSSC, the registered capital of which is RMB6,374,300,000, was founded on 1st July 1999 through reorganizing China State Shipbuilding Company. Mr. Chen Xiaojin is the legal representative of CSSC. The business of CSSC includes: shipbuilding, ship-repairing, manufacturing and export/import of marine equipment, diversified business such as other steel structure manufacturing and international cooperation, joint venture, financing, technology trading and exchange workforce exportation etc. None of the Company’s shares held by CSSC was pledged during the period under review.

The actual controller of the Company is State Council State Assets Supervisory and Administrative Committee (“SCSASAC”). CSSC manages the state-owned shares of the Company under SCSASAC’s authorization.

### 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 2005, 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:

	Number of shares held by self and family members concerned	Among which number of shares held by director in individual capacity
<b>Directors</b>		
Hu Guoliang	A Shares 5,000	A Shares 5,000
Yu Baoshan	–	–
Han Guangde	–	–
Chen Jingqi	A Shares 2,000	A Shares 2,000
Zhong Jian	–	–
Li Junfeng	–	–
Miao Jian	–	–
Wu Fabo	–	–
Bu Miaojin	–	–
Wang Xiaojun	–	–
Mak, Kin Kwong, Peter	–	–
<b>Supervisors</b>		
Wang Shusen	–	–
Liang Mianhong	–	–
Liu Shibai	–	–
Wang Shiming	–	–
Ye Weiming	–	–
<b>Senior Management</b>		
Wang Yi	–	–
Xia Suijia	–	–
Chen Ji	–	–
Zeng Xiangxin	–	–
Li Zhidong	–	–

Save as disclosed above, as at 30th June 2005, none of the Directors, Supervisors and Senior Management of the Company and 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 (“HKEX”) 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. Appointment and Cessation of Directors, Supervisors and Senior Management

The fourth term of the Board of Directors and Supervisory Committee expired in 2005. The 2004 Annual General Meeting (“AGM”) of the Company, which was held on 27th May 2005, elected the fifth term of the Board of Directors and Supervisory Committee. The first meeting of the fifth term of the Board of Directors and the Supervisory Committee, which were held on the same day, elected the Chairman, Vice Chairman, Chairman of the Supervisory Committee, President and Senior Management of the new term.

**Members of the fifth Term of the Board of Directors:**

Executive Directors: Messrs. Hu Guoliang (Chairman), Yu Baoshan (Vice Chairman), Han Guangde, Chen Jingqi  
Non-executive Directors: Messrs. Zhong Jian, Li Junfeng, Miao Jian  
Independent and Non-executive Directors: Messrs. Wu Fabo, Bu Miaojin, Wang Xiaojun, Mak, Kin Kwong, Peter.

**Members of the fifth Term Supervisory Committee:**

Internal Supervisors: Messrs. Liang Miaohong, Liu Shibai  
External Supervisors: Messrs. Wang Shusen (Chairman of the Supervisory Committee), Wang Shiming, Ye Weiming

**Senior Management:**

President: Messrs. Han Guangde  
Vice Presidents: Messrs. Wang Yi, Xia Huijia, Chen Ji  
Chief Accountant: Messrs. Zeng Xiangxin  
Company Secretary: Messrs. Li Zhidong

Mr. Wang Yi, Mr. David Hon To, Yu and Mr. Philip Pak Yiu, Yuen retired as directors of the Company, and Mr. Chen Jingqi retired as supervisor of the Company upon conclusion of the AGM, in accordance with Article 91 of the Articles of Association of the Company and their respective service contracts. Mr. Wang Yi did not offer himself for re-election. Mr. David Hon To, Yu and Mr. Philip Pak Yiu, Yuen could not be re-elected for they have been directors of the Company for 3 continuing terms of the Board in accordance with relevant regulation of China Securities Regulatory Commission. Mr. Chen Jingqi was not eligible to be re-elected as supervisor of the Fifth Term Supervisory Committee as he was a candidate for the Fifth Term Board. Each retiring director and supervisor confirmed with the Company that there are no matters that needed to be brought to the attention of the shareholders of the Company in respect of their retirement from the Fourth Term Board and Supervisory Committee.

The Board takes this opportunity to thank the retiring directors and supervisor for their valuable services rendered.

## **IV. MANAGEMENT DISCUSSION AND ANALYSIS**

**(I). Discussion and Analysis of Operation during the Period under Review**

During the period under review, the principal operating income of the Company and its subsidiaries (collectively the “Group”) amounted to RMB1,189.68 million, representing an increase of 9.11% compared with that of the corresponding period of last year. The net profit of the Group amounted to RMB20.55 million, representing an increase of 95.02% compared with that of the corresponding period of last year. The earnings per share was RMB0.04, representing an increase of 94.80% compared with that of the corresponding period of last year.

In the first half of 2005, the gross profit ratio of the shipbuilding products of the Group was 5.36%, representing an increase of 24.94% compared with that of the corresponding period of last year, this was mainly due to that the shipbuilding business has already resumed sustaining and balanced production, at the same time, the vessels being built during the reporting period are mostly contracted after 2003, whose price are higher than that of 2004. In addition, faced with the adverse impact of the change of raw material price and the fluctuation in the exchange rate, in order to gain maximal profits for the Group as a whole, the Group improved the profitability of shipbuilding products and achieved a steady increase of the income and net profits of principal operations through active implementation of performance management, change of shipbuilding mode, strengthening of cost control and management and improving production efficiency.

**(II). Overview of the Operation during the Period under Review****1. Business Scope and review of Principal Operation****1> Review of principal operation**

During the first half of 2005, the Group delivered and completed 7 vessels, including two 35000dwt product tankers and two 38500dwt product tankers for two Denmark customers, and one 40000dwt product tanker, one 3000dwt patrol ship and one first class oil tanker for domestic customers. Apart from that, the Group commenced construction work on 3 vessels, and launched 6 vessels. Moreover, the Group completed shiprepairing work on 3 vessels and 12,335 ton steel structure, and sold 74 hydraulic share and bend machines and 146 elevators.

The Group secured new contracts for building 4 vessels with contract value of RMB1.184 billion for the first half year of 2005. As at 30th June 2005, the Group has accumulated orders for building of 31 vessels with a total tonnage of 1,075,600dwt and a total contract value of RMB7.089 billion (RMB5.909 billion upon deducting of the amount booked in accordance with the percentage of work completed).



2> Major products whose turnover or profit representing more than 10% of the total amount. (unit: RMB)

Production	Principal operating income	Principal operating costs	Principal operating gross profit	Change of principal operating income compared with that of the corresponding period of last year	Change of principal operating cost compared with that of the corresponding period of last year	Change of principal operating gross profit compared with that of the corresponding period of last year
Shipbuilding	1,066,536,410.29	1,009,334,208.77	5.36	7.44	6.23	24.94
Steel structure	74,507,769.69	69,590,022.42	6.6	49.80	53.58	-25.84

3> Geographical Statement of Principal Operation (unit: RMB)

Region	Principal operating income		Change (%)
	For the six months ended 30th June 2005	For the six months ended 30th June 2004	
Malta	-	307,852,320.47	-100
Canada	32,604,456.93	-	100
Denmark	595,996,616.50	444,307,995.31	34.14
Macao	-	675,709.56	-100
The Philippians	-	177,953.35	-100
USA	228,431.40	85,297.60	167.81
Hong Kong	84,778,472.67	1,907,080.23	4345.46
The Republic of Marshal Islands	153,389,130.48	-	100
Taiwan	550,387.25	-	100
Mauritius	117,178.69	-	100
Malaysia	4,643,116.50	-	100
Subtotal	<b>872,307,790.42</b>	<b>755,006,356.52</b>	<b>-15.54</b>
Mainland China	317,367,947.33	335,293,706.87	-5.35
Total	1,189,675,737.75	1,090,300,063.39	9.11

4> During the period under review, the connected transactions that the Company sold products to CSSC and its subsidiaries amounted to RMB11.31 million.

5> Reasons for the significant change in gross profit of principal operations compared with the corresponding period of last year

During this period under review, the gross profit ratio of the principal operations was 6.51%, representing an increase of 19.45% compared with that of the corresponding period of last year. This was mainly due to the increase in the price of partly-built vessels compared with those of corresponding period of last year with the improvement in the market conditions and the sustaining improvement of cost management of the Company. The increase in the profitability of shipbuilding products was the main reason for the increase in the economic benefit of the Company as a whole.

2. Problems and difficulties encountered in operation and the solutions

During the period under review, the problems and difficulties encountered was 2% appreciation of RMB, increase of exchange rate risk.

China began to adopt a floating exchange rate system on 21st July 2005, the exchange rate of RMB to US dollar increased by 2%. It was expected that the matter would impact the Company on its result for the second half of 2005, especially on the contracted export shipbuilding projects and the creditor's rights and debts that settled by foreign exchanges.

In order to avoid exchange rate risk, the Company established an exchange rate risk prevention team, which composed of senior management of the Company and an external financial institute employed by the Company, to provide to Board of Directors on exchange rate risk management, and to monitor and manage the implementation of relevant risk avoiding measures. Recently, faced with the potential increase in value of RMB, the Company has taken the exchange rate fluctuation into consideration in the new contracted shipbuilding projects, and will use hedging to reduce the exchange rate risk fluctuation on the Company.

It is estimated that the impact of the 2% appreciation in value of RMB on the Company in 2005 can still be accepted by the Company. However, for the years 2006 and 2007, the further increase in value of RMB will have a negative impact on the Company's result. Due to the inscrutability of the exchange rate, the Company will take different measures to avoid exchange rate risk in line with the changes in the market condition, and make reasonable forecast on its impact.

During the period under review, the Company has gradually solved the problem of power supply shortage, and was placed as one of the priority power supply enterprises. At present, the situation of the Company's power usage was much better than corresponding period of last year.

### **(III). Investments Information**

#### **1. Application of proceeds from share offering**

The Company had not raised funds during this period nor utilized any proceeds previously raised.

#### **2. Application of other capital**

During this period, the Group totally invested RMB39.08 million in renewal and rebuilding of fixed assets, including:

- 1> Invested RMB13.46 million in the construction of a technical center building, and now it can be put into operation.
- 2> Invested RMB12.85 million in the renovation of the docks, rock-bombing projects in forward areas of No.1 slipway and No.3 slipway, as well as some general technical transformation projects, such as electric increment of the workshop and land-building transformation of Nanhai Mechanical and Electrical Company after its removal. Now these projects are still in progress.
- 3> Invested RMB12.77 million to purchase fixed assets.

### **(IV). Details of the Charge on Group's Assets**

As at 30th June 2005, fixed assets with net book value of RMB156.84 million have been pledged to secure bank loans for the Group.

### **(V). Staff of the Company and the Remuneration Policy**

As at 30th June 2005, the number of employees on the payroll register of the Company was 4,127. 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.

### **(VI). Prospects for the Second Half of the Year**

In the second half of this year, the Company will still face great pressure on cost control and risk of fluctuation in exchange rates. So in order to shoot at a better result in the second half of the year, the Company will expend 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. Meanwhile, the Company will continue to strengthen control of the exchange rate risk and improve ability in risk defense actively. As in the field of the market operation, the Company will expand the market actively and vigorously, so as to increase the number of orders.

## **V. SIGNIFICANT EVENTS**

### **(I). Corporate Governance Information**

#### **1. Corporate Governance Practices**

The Board of Directors of the Company (the "Board") is of the view that during the period under review, the situation of corporate governance in the period under review is basically the same as in 2004, and other than Article C.2.1 of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules of HKEX which has yet to be reinforced, the Company has complied with the provisions of the Code in a comprehensive manner.

As regards the internal control matters contained in Article C.2.1 of the Code, the Company will arrange and consummate internal control system and the same will be approved at the meeting of the Board, and will be implemented in the second half of this year and the corporate governance of the Company will be further enhanced.

## **2. Securities Transactions by Directors**

The Company has strictly complied with the relevant restrictive provisions imposed by Hong Kong and PRC regulatory organs in relation to securities transactions by directors and has consistently upheld the principle of complying with the most stringent provisions.

The Company has adopted the required standards set out in the Model Code for Securities Transactions by Directors of Listing Issuers in Appendix 10 of the Listing Rules of HKEX. The Company has inquired all directors of the Company for preparing this report, and all directors confirmed that they have complied with such code of conduct during the period under review.

## **3. Board of Directors**

The fifth term of the Board was elected at the 2004 AGM of the Company. The number and the constitution of the Board fully comply with the requirement of the Company Law. The fifth term of the Board of Directors consists of 11 directors, including 4 independent directors which exceed 1/3 of the total number of the Board. For details of members of the Board, please refer to "Directors, Supervisors and Senior Management".

During the period under review, 6 meetings were held by the Board, 3 of which were passed by written resolutions. All directors including their proxies attended the meetings.

## **4. Specific Committees**

Members of the specific committees of the fifth term of the Board are as follows:

Audit Committee: Messrs. Wu Fabo (Director Member), Mak, King Kwong, Peter, Miao Jian

Strategy Committee: Messrs. Hu Guoliang (Director Member), Hang Guangde, Chen Jingqi, Zhong Jian, Li Junfeng

Nomination Committee: Messrs. Mr. Bo Miaojin (Director Member), Wang Xiaojun, Zhong Jian

Emolument and Examination Committee: Messrs. Bo Miaojin (Director Member), Wu Fabo, Yu Baoshan

During the period under review, the specific committees of the Board have commenced work.

The Audit Committee held 2 meetings with all members attended, and has reviewed the financial statements for the year 2004 and the first quarterly report of 2005. The Audit Committee held a meeting on August 12, 2005 to review the financial report of this interim report.

The Strategy Committee held 1 meeting with all members attended to discuss the long-term development strategy of the Company.

The Nomination Committee held 2 meetings with all members attended to nominate and review the candidates for the directors, supervisors and senior management of the fifth term of the Board.

The Emolument and Examination Committee held 1 meeting with all members attended to establish remuneration policy and detailed rules of performance examination of the Company's directors, supervisors and senior management.

## **5. Qualified Financial Consultant**

The Company's qualified financial consultant, Mr. Li Chi Sing, commenced work during the period under review. He reviewed the procedure for finance reporting and internal control of the Company, and confirmed that the connected transactions of the Company entered into during the period under review were within daily operations of the Company, were carried out in the ordinary course of business, were fair and reasonable to all shareholders, and accorded with the interest of the Company as a whole.

**6.** During the period under review, the Company amended the Company's Articles of Association in accordance with the requirements of the Company Law, the Securities Law of the PRC, and the requirement of the documents in relation to corporate governance issued by the Shanghai Securities Exchange.

**(II).** During the period under review, the Company had not executed any profit distribution scheme, shares transferred from accumulation reserve fund, new share issue or right issue adopted in the period before and carried out in the period under review.

**(III).** The Company did not put up any profit distribution, or any increase in share capital from accumulation reserve.

(IV). The Group's 51% holding subsidiary, United Steel Structure Company (the "Subsidiary") had produced some batches of steel structures ("Steel Structures") in the previous years for another shareholder, Havens Steel Company ("Havens") that holds 49% of the Subsidiary. As Havens has been filed for bankruptcy in U.S., the Subsidiary has filed on 29th December 2004 in U.S. District Court for the Western District of Missouri against St. Paul Fire & Marine Insurance Company, the guarantee Company to the Steel Structures for Havens, in order to recover the balance of the Steel Structures amount to approximately USD1.2 million ("Balance"). The case is still in process.

There is no significant litigation or arbitration event to the Group during the period under review.

Due to the bankruptcy of Havens, the 49% share right of Havens in the Subsidiary would be listed as clearing asset. The Company is evaluating its influence on the normal production and operation of the Subsidiary. At present, the Subsidiary operates as normal and has not been influenced by the event.

(V). Due to the long-term unsuccessfully business development since the establishment of the subsidiary Xinhui City Nanyang Industrial Trading Development Co., Ltd ("Nanyang Company"), which was 70% controlled by the Company, the 21th meeting of the fourth term of the Board of Directors of the Company held on 23rd February 2005 determined to remise its interest in Nanyang Company.

An interest transferring agreement ("Agreement") was entered into between the Company and an individual investor on 25th February 2005 under friendly negotiation. The transferring price is RMB 13.52 million, which was calculated in the account on 9th March 2005. Now the transfer has been finished, and does not exert special influence on the operation, financial affairs and achievements in operation of the Company.

Except for the above-mentioned case, there is no other purchase and sale of assets, nor any enrolment and amalgamation.

#### (VI). Connected Transactions

1. Connected parties of routine connected transactions of the Company are as follows:

CSSC No. 708 Institute	Guangzhou Shipyard
Guangzhou Wenchong Shipyard	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
Guangzhou Administrative Bureau	China State Shipbuilding Corporation
Hudong Zhonghua Shipyard	Guangzhou Shipyard Guangda Company
(Group Limited 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	China United Shipbuilding Co., Ltd
Guangzhou Shipbuilding Corporation	

2. The contents, amounts and pricing of connected transactions (Unit: RMB)

No.	Content and category	Caps in 2005	Transaction amount in the first half year of 2005	Pricing basis
<b>1</b>	<b>Total materials and labor services supplied to CSSC Group by the Company</b>	67,500,000.00	11,308,699.89	
1.1	Steel, material and accessories	19,200,000.00	1,447,565.46	Market price
1.2	Utilities	10,400,000.00	1,590,611.34	Cost plus management fee of 25%
1.3	Labor services	37,900,000.00	8,270,523.09	Not less than the price to third parties.
<b>2</b>	<b>Total materials and labor services supplied to the Company by CSSC Group</b>	485,600,000.00	118,783,623.45	
2.1	Steel, material and accessories	219,500,000.00	3,866,304.28	Market price
2.2	Ship accessories and equipments	188,800,000.00	95,166,614.66	Market price
2.3	Labor services	77,300,000.00	19,750,704.51	Cost plus management fee of 10%.
<b>3</b>	<b>Total financial services supplied from CSSC Group</b>	5,000,000.00		
3.1	Deposits	110,000,000.00	Balance: 866,602.99	Interest rate on deposits published by the People's Bank of China
3.2	Interest from deposits	250,000.00	4,313.19	
3.3	Loans	100,000,000.00	–	
3.4	Interest for loans	4,750,000.00	–	
<b>4</b>	<b>Total guarantee fees for guarantee supplied to the Company from CSSC Group</b>	2,700,000.00	200,000.00	Agreed fee for providing guarantee ranging from 0.2% to 0.5% of guaranteed amount
<b>5</b>	<b>Total sales agency fees</b>	31,943,700.00	10,336,692.66	1% of contract price in accordance with international practice
<b>6</b>	<b>Total purchases agency fees</b>	13,510,000.00	1,549,061.11	
6.1	Steel, metallic accessories	6,760,000.00	–	1% to 1.5% of contract price in accordance with international practice
6.2	Ship accessories	450,000.00	–	
6.3	Ship equipment	6,300,000.00	1,549,061.11	

- The Group had since the H-shares of the Company were listed on the Stock Exchange engaged in various continuing connected transactions with the CSSC Group due to the nature of assembly building. The transactions of importing raw materials and equipment and handling export through subsidiaries of CSSC, purchasing electrical and mechanical equipment from manufacturers under the supervision of CSSC, provision of testing, design, management and subcontracting services by companies controlled by CSSC, and purchase of steel through the materials procurement department of CSSC pursuant to the State's steel allocation plan.
- The routine connected transactions are entered into in the ordinary and usual course of business of the Group and do not constitute any significant impact on the profit of the Group.
- The caps for connected transactions items 1 and 2 were revised pursuant to a supplemental agreement to the framework agreement dated 31 March 2005 between the Company and CSSC Group, and approved at the 2004 Annual General Meeting. The caps for connected transactions items 3 to 6 were the amounts approved at the 2003 Annual General Meeting.
- Each connected transaction was settled through commercial banks, advanced payment is required for certain transactions.
- The caps for the routine connected transactions of the Company are estimated yearly, and their occurrence is related to construction progress, therefore the transaction amount is not balanced.

## **(VII). Significant Contract and Implementation**

1. 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 be the period under review.
2. During the period under review, the Company had not provide any significant guarantee, except for counter indemnities provided to related companies that provided guarantees to the Company.
3. 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 Company answered GETDZITIC on 15th July 2004 that the Company requested for a bankruptcy liquidation.

Except for trust deposits, the Company had no other significant trust that occurred during the period under review or before but continued to the period under review.

4. A debt restructuring agreement ("Agreement") was entered into between the Company and GZITIC on January 31, 2005. Pursuant to the terms of the Agreement, GZITIC will procure transfer of certain unencumbered shops with an approximate area of 19,250 sq. meters located in Urumuqi ("Real Estate") to the Company, in settlement of debts owing to the Company in the principal amount of RMB220 million and interest otherwise accrued thereon. In accordance with the Agreement, debts owing by GZITIC to the Company in the principal amount of RMB220 million together with interest otherwise accrued thereon will be treated as fully and finally settled upon the Company obtaining the building ownership certificate to the Real Estate. The Company is actively procuring GZITIC to transact the relevant procedures. As at the date of this interim report, the building ownership certificate for part of the Real Estate in an area of 17,751.97 sq. meters had been obtained, and the building ownership transfer procedures for the remaining part of the Real Estate is in process.

Further, the land use right certificate of the Real Estate cannot be obtained currently because the developer had not yet paid the land grant fees in full. GZITIC and the developer of the Real Estate had promised to pay off the land grant fees before June 2008 and undertook the relevant obligations for non-compliance. In accordance with the terms of the Agreement, the debts restructuring has not completed.

5. 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.

## **(VIII). Other Significant Events**

1. The Company received the notification of Zhen Jian Li Tong NO. 001 17th November 2003, due to the alleged breaches to securities laws and regulations by the Company, the Company is currently being investigated by the Guangzhou Investigation Bureau of China Securities Regulatory Commission (the "GIB") in respect of certain issues in the previous announcement commencing on 17th November 2003. The matter has been published in "Shanghai Securities News", "Hong Kong Commercial Daily" and "China Daily" (overseas version) on 17th November 2003. As at the date of the disclosure of this report, the investigation has not any final conclusion.
2. 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 amounting to RMB5.1 million for its employees.
3. During the period under review, in accordance with the housing reform policy of Guangzhou City, the Company paid housing allowance amounted to RMB8.34 million for the qualified staff.
4. The 2004 Annual General Meeting approved to reappoint Guangdong Yangcheng Certified Accountants Company Limited and Pricewaterhousecooper as the domestic auditor and international auditor of the Company respectively.
5. Guangzhou Foreign Trade and Economic Cooperation Bureau granted the managerial authority of external undertaking of labor services to

the Company. Accordingly, the scope of the Company's operations expanded to include three additional operations: undertaking mechanical and electrical projects of foreign countries and domestic international public bidding projects, equipments and material export required by those external projects, as well as labor workers sent to foreign countries to undertake external projects. The acquisition of operation credential for external project undertaking pave the way for opening up the international market.

6. Foreign exchange rate risk

Because about 70% of shipbuilding contracts are for export, and these contracts are settled accounts by foreign currency, 2% appreciation of RMB has certain impact on the achievement of the Company.

It is estimated that the impact of the 2% appreciation in value of RMB on the Company in 2005 can still be accepted by the Company. However, for the years 2006 and 2007, the further increase in value of RMB will have a negative impact on the Company's result. Due to the inscrutability of the exchange rate, the Company will take different measures to avoid exchange rate risk in line with the changes in the market condition, and make reasonable forecast on its impact.

7. Contingent Liabilities

As at 30th June 2005, the Group had no significant contingent liabilities.

8. Bank loans, overdraft and other borrowings

Details of bank loans, overdraft and other borrowings of the Group are set out in note (V) 10 and 16 to financial statements on page 28 and 30 respectively.

9. Gearing Ratio

As at 30th June 2005, the gearing ratio of the Company is 67.72% (65.54 % at the beginning of this period), with no significant change compared with that at the beginning of this period.

## VI. FINANCIAL REPORT (UNAUDITED)

### I. Prepared under PRC Accounting Rules and Regulations

#### A. Financial Statements

#### Balance Sheets

As at 30th June 2005

Unit: RMB

Assets	Consolidated		Parent Company	
	Closing balance	Opening balance	Closing balance	Opening balance
<b>Current Assets</b>				
Cash and bank balance	300,561,261.35	377,700,484.15	269,098,443.26	320,159,059.51
Short-term investment	-	-	-	-
Bills receivable	-	300,000.00	-	300,000.00
Interests receivable	-	-	-	-
Dividends receivable	16,751.21	16,751.21	16,751.21	16,751.21
Accounts receivable	207,025,766.49	183,564,292.00	196,301,129.62	153,894,366.53
Other receivables	91,745,704.71	89,143,595.99	92,020,653.72	89,206,978.44
Prepayments to suppliers	155,890,422.63	113,197,177.99	152,369,329.75	114,542,200.22
Subsidy receivable	88,953,147.62	47,630,151.96	88,953,147.62	47,630,151.96
Inventories	548,538,188.45	366,616,837.32	486,617,416.32	329,698,226.77
Deferred expenses	380,264.51	601,651.83	195,328.02	358,100.00
Long-term investment in bonds within one year	-	-	-	-
Other current assets	-	-	-	-
<b>Total current assets</b>	<b>1,393,111,506.97</b>	<b>1,178,770,942.45</b>	<b>1,285,572,199.52</b>	<b>1,055,805,834.64</b>

Unit: RMB

Assets	Consolidated		Parent Company	
	Closing balance	Opening balance	Closing balance	Opening balance
<b>Long-term investments</b>				
On equity	15,961,892.56	15,807,734.42	111,593,107.63	122,430,111.79
On bonds	–	–	–	–
<b>Total long-term investments</b>	<b>15,961,892.56</b>	<b>15,807,734.42</b>	<b>111,593,107.63</b>	<b>122,430,111.79</b>
Less: Diminution provision for long-term investment	–	–	–	–
Long-term investments net book value	15,961,892.56	15,807,734.42	111,593,107.63	122,430,111.79
Consolidated difference	61,617.69	61,617.69	–	–
<b>Fixed Assets</b>				
Fixed assets-cost	1,526,322,340.44	1,531,302,835.27	1,419,177,226.45	1,415,492,418.84
Less: accumulated depreciation	652,139,934.03	623,466,663.48	577,159,007.42	550,454,992.77
Fixed assets net book value	874,182,406.41	907,836,171.79	842,018,219.03	865,037,426.07
Less: Diminution provision for fixed assets	873,123.81	2,759,659.20	873,123.81	931,495.23
Net fixed assets	873,309,282.60	905,076,512.59	841,145,095.22	864,105,930.84
Construction materials	–	–	–	–
Construction-in-progress	62,966,679.54	31,054,003.48	58,466,760.35	31,054,003.48
Disposal of fixed assets	–	–	–	–
<b>Total fixed assets</b>	<b>936,275,962.14</b>	<b>936,130,516.07</b>	<b>899,611,855.57</b>	<b>895,159,934.32</b>
<b>Intangible and other assets</b>				
Intangible assets	62,891,651.93	77,835,110.30	62,891,651.93	64,851,722.51
Long-term deferred expenses	4,009,420.14	4,460,646.08	58,041.34	107,791.30
Other long-term assets	–	–	–	–
<b>Total intangible and other assets</b>	<b>66,901,072.07</b>	<b>82,295,756.38</b>	<b>62,949,693.27</b>	<b>64,959,513.81</b>
<b>Deferred taxation</b>				
Deferred tax-loans	–	–	–	–
<b>Total assets</b>	<b>2,412,312,051.43</b>	<b>2,213,066,567.01</b>	<b>2,359,726,855.99</b>	<b>2,138,355,394.56</b>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities</b>				
Short term loan	336,571,500.00	115,871,000.00	336,571,500.00	115,871,000.00
Bill payable	35,850,000.00	5,000,000.00	35,850,000.00	5,000,000.00
Accounts payable	376,543,767.20	372,469,872.06	381,357,161.89	363,644,374.54
Advanced receivment	37,232,308.35	14,907,947.37	32,433,017.47	9,625,050.10
Salary payable	–	–	–	–
Staff welfare payable	7,336,018.24	5,028,645.76	5,531,646.20	3,315,995.91
Dividends payable	13,181.88	13,449.38	13,181.88	13,449.38
Taxed payable	-32,417,965.54	-19,528,783.85	-28,284,273.48	-23,098,071.21
Other unpaid items	932,210.60	1,295,078.04	863,251.49	1,195,892.37
Other payables	22,676,205.61	29,106,552.89	18,151,569.34	25,554,626.05
Accrued expenses	84,378,604.67	77,701,800.05	83,026,153.53	77,443,480.64
Established liabilities	–	–	–	–
Long-term liabilities within one year	500,375,000.00	400,000,000.00	500,375,000.00	400,000,000.00
Other current liabilities	236,678,668.03	225,486,044.23	236,678,668.03	227,442,044.23
<b>Total current liabilities</b>	<b>1,606,169,499.04</b>	<b>1,227,351,605.93</b>	<b>1,602,566,876.35</b>	<b>1,206,007,842.01</b>
<b>Long-term liabilities</b>				
Long-term loans	–	200,450,000.00	–	200,450,000.00
Bonds payables	–	–	–	–
Long-term payable	–	–	–	–
Special project payables	27,522,562.86	22,792,562.86	27,522,562.86	22,792,562.86
Other long-term liabilities	–	–	–	–
<b>Total long-term liabilities</b>	<b>27,522,562.86</b>	<b>223,242,562.86</b>	<b>27,522,562.86</b>	<b>223,242,562.86</b>



Unit: RMB

Liabilities and shareholders' equity	Consolidated		Parent Company	
	Closing balance	Opening balance	Closing balance	Opening balance
<b>Deferred taxation</b>				
Deferred tax-loans	-	-	-	-
<b>Total liabilities</b>	<b>1,633,692,061.90</b>	<b>1,450,594,168.79</b>	<b>1,630,089,439.21</b>	<b>1,429,250,404.87</b>
Minority interests	47,804,513.42	52,209,709.33	-	-
<b>Shareholders' equity</b>				
Share capital	494,677,580.00	494,677,580.00	494,677,580.00	494,677,580.00
Capital reserved	651,977,481.72	651,977,481.72	651,977,481.72	651,977,481.72
Surplus reserved	100,147,511.34	100,147,511.34	99,527,585.23	99,527,585.23
Including: public welfare fund	30,592,815.41	30,592,815.41	30,592,815.41	30,592,815.41
Remained earnings	-515,987,096.95	-536,539,884.17	-516,545,230.17	-537,077,657.26
Converted difference	-	-	-	-
<b>Total shareholders' equity</b>	<b>730,815,476.11</b>	<b>710,262,688.89</b>	<b>729,637,416.78</b>	<b>709,104,989.69</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,412,312,051.43</b>	<b>2,213,066,567.01</b>	<b>2,359,726,855.99</b>	<b>2,138,355,394.56</b>

## Profit and Profit Distribution Statement

First half of 2005  
Unit: RMB

Item	First half of 2005		First half of 2004	
	Consolidated	Parent Company	Consolidated	Parent Company
<b>1. Principal operating income</b>	<b>1,189,675,737.75</b>	<b>1,087,976,355.71</b>	<b>1,090,300,063.39</b>	<b>1,024,038,469.86</b>
Less: principal operating costs	1,112,285,377.41	1,027,019,338.55	1,030,848,287.58	977,145,872.67
Principal operating tax & surcharge	355,187.37	67,858.94	617,074.64	148,955.44
<b>2. Principal operating profit</b>	<b>77,035,172.97</b>	<b>60,889,158.22</b>	<b>58,834,701.17</b>	<b>46,743,641.75</b>
Add: Profit from other operations	8,450,319.65	11,319,073.01	5,064,329.19	7,389,128.02
Less: operating expenses	1,955,130.86	1,082,275.99	1,238,245.08	876,632.60
Management expenses	69,178,339.82	60,430,622.34	63,967,641.07	55,951,690.93
Financial expenses	11,336,297.59	11,345,764.83	6,614,230.83	3,702,672.09
<b>3. Operating profit</b>	<b>3,015,724.35</b>	<b>-650,431.93</b>	<b>-7,921,086.62</b>	<b>-6,398,225.85</b>
Add: Investment income	1,318,730.39	3,577,821.64	824,380.86	-2,062,806.39
Subsidy income	17,485,104.05	17,292,574.33	19,809,039.74	19,772,469.83
Non-operating income	896,008.66	766,499.04	271,599.48	254,493.00
Less: Non-operating expenses	584,888.43	454,035.99	1,292,888.33	1,145,946.57
<b>4. Total profit</b>	<b>22,130,679.02</b>	<b>20,532,427.09</b>	<b>11,691,045.13</b>	<b>10,419,984.02</b>
Less: income tax	720,908.79	-	979,461.09	-
Profit & loss of minority interests	856,983.01	-	172,819.20	-
Add: Unacknowledged investment loss	-	-	-	-
<b>5. Net profit</b>	<b>20,552,787.22</b>	<b>20,532,427.09</b>	<b>10,538,764.84</b>	<b>10,419,984.02</b>
Add: retained earnings at the beginning of the year	-536,539,884.17	-537,077,657.26	-570,212,867.94	-570,907,870.38
Transfer from others	-	-	-	-
<b>6. Distributable profit</b>	<b>-515,987,096.95</b>	<b>-516,545,230.17</b>	<b>-559,674,103.10</b>	<b>-560,487,886.36</b>
Less: Appropriation to statutory surplus reserve	-	-	-	-
Appropriation to public welfare fund	-	-	-	-
Appropriation to staff award and welfare fund	-	-	-	-
Appropriation to reserve fund	-	-	-	-
Appropriation to development fund	-	-	-	-
Profit return to investment	-	-	-	-

Unit: RMB

Item	First half of 2005		First half of 2004	
	Consolidated	Parent Company	Consolidated	Parent Company
<b>7. Profit distributable to shareholders</b>	<b>-515,987,096.95</b>	<b>-516,545,230.17</b>	<b>-559,674,103.10</b>	<b>-560,487,886.36</b>
Less: preference shares dividends payable	-	-	-	-
Appropriation to discretionary reserve	-	-	-	-
Ordinary shares dividends payable	-	-	-	-
Ordinary shares dividends	-	-	-	-
<b>8. Retained earnings</b>	<b>-515,987,096.95</b>	<b>-516,545,230.17</b>	<b>-559,674,103.10</b>	<b>-560,487,886.36</b>

## Cash Flow Statement

Cash flow items	First half of 2005	
	Consolidated	Parent company
<b>1. cash flow from operating activities</b>		
Cash received from sales of goods or rendering of services	1,313,629,238.20	1,139,651,157.13
Refund of tax paid	71,457,185.25	71,250,355.65
Other cash received relating to operating activities	65,406,132.12	60,330,197.24
Sub-total of cash flows	1,450,492,555.57	1,271,231,710.02
Cash paid for goods and services	1,291,266,709.40	1,122,511,335.46
Cash paid to and on behalf of employees	121,019,725.55	104,419,044.28
All tax paid	28,568,769.34	21,121,331.90
Other cash paid relating to operating activities	142,924,665.47	133,331,662.39
Sub-total cash outflow relating to operating activities	1,583,779,869.76	1,381,383,374.03
<b>Net cash flow from operating activities</b>	<b>-133,287,314.19</b>	<b>-110,151,664.01</b>
<b>2. cash flow from investing activities</b>		
Cash received from return of investments	13,523,740.00	13,523,740.00
Include: Cash received from disposal of subsidiary	13,523,740.00	13,523,740.00
Cash received from dividends or profits	891,085.80	891,085.80
Cash received from disposal of fixed assets, intangible assets, other long-term assets	379,570.00	379,570.00
Other cash received relating to investing activities	-	-
Sub-total of cash inflow relating to investing activities	14,794,395.80	14,794,395.80
Cash paid to acquire fixed assets, intangible assets, other long-term assets	30,804,638.38	27,964,617.19
Cash paid to investments	-	-
Cash paid relating to investing activities	-	-
Sub-total cash outflow relating to investing activities	30,804,638.38	27,964,617.19
<b>Net cash flow from investment activities</b>	<b>-16,010,242.58</b>	<b>-13,170,221.39</b>
<b>3. cash flows from financing activities</b>		
Proceeds from issuing investments	-	-
Include: cash received by subsidiary from minority Shareholder equity investments	-	-
Proceeds from borrowing	333,596,058.23	287,299,900.00
Other proceeds relating to financing activities	1,895,183.79	1,882,574.37
Sub-total cash inflow from financing activities	335,491,242.02	289,182,474.37
Cash payment for liabilities	253,350,630.90	207,054,472.67
Cash payments for distribution of dividends or profits interest expenses	10,833,765.23	10,833,765.23
Include: cash paid to minority dividend	-	-
Cash paid by registered capital reduced	789,345.02	673,800.42
Include: Cash paid to minority dividend by capital reduced	-	-
Sub-total of cash outflows	264,973,741.15	218,562,038.32
<b>Net cash flows from financing activities</b>	<b>70,517,500.87</b>	<b>70,620,436.05</b>
<b>4. Effect of foreign exchange rate changes on cash and bank balance</b>	<b>1,640,833.10</b>	<b>1,640,833.10</b>
<b>5. net increase in cash and cash equivalents</b>	<b>-77,139,222.80</b>	<b>-51,060,616.25</b>

Cash flow items	Consolidated	Unit:RMB Parent company
<b>Additional information</b>		
<b>1. Reconciliation of net profit to cash flows from operating activities</b>		
Net profit	20,552,787.22	20,532,427.09
Add: Minority loss	856,983.01	–
Provision for diminution of assets	1,524,064.42	1,508,754.46
Depreciation of fixed assets	38,713,710.70	34,083,315.83
Amortization of intangible assets	1,845,789.06	1,800,153.24
Amortization of long-term deferred expenses	464,843.24	–
Decrease of deferred expenses (deduct: increase)	1,447,478.08	1,368,862.74
Increase of pre-operating expenses (deduct: decrease)	1,094,131.73	–
Losses on disposal of fixed assets, intangible assets and other long-term assets (deduct: income)	16,594.65	-60,009.39
Losses on write of fixed assets	46,048.40	–
Financial expenses	-2,943,746.60	-3,020,946.56
Losses from investments (deduct: income)	-1,318,730.39	-3,577,821.64
Deferred tax credit (deduct: loans)	–	–
Decrease in inventories (deduct: increase)	-350,030,882.70	-326,697,324.31
Decrease in operating receivables (deduct: increase)	64,729,817.64	71,108,418.70
Increase in operating payables (deduct: decrease)	-237,166,345.94	-234,253,496.60
Others	326,880,143.29	327,056,002.43
<b>Net cash flows from operating activities</b>	<b>-133,287,314.19</b>	<b>-110,151,664.01</b>
<b>2. Investing and financing activities not involving cash flows</b>		
<b>Capital from debts</b>		
Company bonds changeable in one year	–	–
Financing or leasing fixed assets	–	–
<b>3. Net increase in cash and cash equivalents</b>		
Cash and bank balances at the end of the period	300,561,261.35	269,098,443.26
Less: cash and bank balance at the beginning of the period	377,700,484.15	320,159,059.51
Add: cash equivalents at the end of the period	–	–
Less: cash equivalents at the beginning of the period	–	–
<b>Net increase in cash and cash equivalents.</b>	<b>-77,139,222.80</b>	<b>-51,060,616.25</b>

## **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.

At present, the Company owns three shipbuilding berths, fully equipped shipbuilding/repairing quay and a ship-repairing dock, which can undertake repairing and modification work for ships up to 10,000dwt. 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 vessels, the Company’s principal products include steel structure’s manufacturing, coating & erecting for bridges & high-rise construction & large-size pipe, manufacturing & installing of passenger/goods lift, foils and studs for hydrofoil, port machinery, hydraulic machines, production line for external painted steel plates of refrigeration and design & manufacturing of crane machinery.

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

### **(1) Accounting System**

The Company adopts *the Enterprise Accounting Standard and the Enterprise Accounting System* and relevant regulations issued by the 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 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 %
Masterwood Company Limited	USD 3,315	Manufacture and sales of all kind of material furniture series	RMB9,336	51%	25
Guangzhou Guanglian Container Transportation Company Limited	RMB20,000	Container transportation	RMB15,000	75%	
Guangzhou Xinsun Shipping Service Company Limited	RMB2,000	Installation, welding, fitting, coating, repairing of hull structure	RMB500	83%	
United Steel Structures Limited	USD8,850	Manufacturing, sales and post sales service of steel structure	RMB37,522	51%	
Guangdong GSI Elevator Limited	RMB21,000	Design, manufacturing, sales, installation, modification and repairing of all kinds of elevator	RMB19,950	95%	3.8
Guangzhou Hongfan Information Technique Co., Ltd.	RMB5,000	Developing of computer software, system integration and sales	RMB3,850	77%	
Rongguang Developing Co., Ltd.	HKD10	Trading	RMB10.44	100%	
<b>Indirect holding subsidiaries</b>					
Guangzhou Hongfan Hotel	RMB10,000	Traveling and catering services	RMB10,000	86.16%	Yes
Guangdong GSI Elevator Co.	RMB21,000	Design, manufacture, sale, install, refit and repair various elevator	RMB350	3.8%	Yes
Guangzhou Masterwood Co., Ltd.	RMB3,315	Manufacture and sell furniture made of various kind of materials	RMB829	25%	Yes
Fonkwang Development Ltd.	RMB200	General trade	RMB140	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.

(2) Holding subsidiaries out of the scope of consolidation in this period: The 70% interest in Xinhui City Guangzhou Shipyard Nanyan Shipping Industrial Company of the Company has been transferred to an investor by RMB13.52 million on March 9th 2005 according to the Resolution of the 11th meeting of the 4th term of the Board of the Company. The transfer has been completed 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, 2005		As at 31st December, 2004	
	Foreign currency	Equivalent RMB	Foreign currency	Equivalent RMB
<b>Cash</b>				
RMB	47,872.18	76,181.41		214,827.77
HKD	48,288.93	51,664.34	114,507.62	122,498.17
USD	1,345.17	11,133.30	3,310.17	27,396.62
JPY	500.00	37.57	500.00	39.85
EUR	7,098.84	70,711.55	5,310.84	59,814.40
Sub-total		<u>209,728.17</u>		<u>424,576.81</u>
<b>Deposit</b>				
RMB		230,718,476.64		336,447,268.52
HKD	2,707,516.30	2,891,950.06	1,356,502.10	1,446,997.80
USD	7,252,595.63	60,042,506.89	4,066,250.21	33,664,043.07
EUR	547,706.75	5,487,425.94	315,358.80	3,476,372.45
Sub-total		<u>299,140,359.53</u>		<u>375,034,681.84</u>
<b>Deposit in CSSC Financial Co. (Note)</b>		<u>866,602.99</u>		<u>1,852,930.75</u>
<b>Others</b>				
RMB		148,122.64		191,846.73
USD	23,735.64	196,448.02	23,735.64	196,448.02
Subtotal		<u>344,570.66</u>		<u>388,294.75</u>
<b>Total</b>		<u><u>300,561,261.35</u></u>		<u><u>377,700,484.15</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.

Cash and bank balance decreased by 20.42% compared with the beginning of the period, mainly due to increased payment for material purchase.

**2. Accounts Receivable****(1). Accounts Receivable**

Bond age	Amount	30th June, 2005			Net receivable
		Percentage %	Provision for doubtful debts	Percentage of doubtful debts	
Within 1 year	190,446,042.55	87.46	844,244.29	0.50%	189,601,798.26
1-2 years	6,922,258.66	3.18	37,987.25	0.50%	6,884,271.41
2-3 years	2,891,334.15	1.33	25,337.62	0.50%	2,865,996.53
Over 3 years	753,363.05	0.35	32,738.07	0.50%	720,624.98
50% as doubtful debts	2,832,378.91	1.30	2,832,378.91	100.00%	-
100% as doubtful debts	13,906,150.62	6.39	6,953,075.31	50.00%	6,953,075.31
<b>Total</b>	<u><u>217,751,527.94</u></u>	<u><u>100</u></u>	<u><u>10,725,761.45</u></u>		<u><u>207,025,766.49</u></u>
Bond age	Amount	31st December, 2004			Net receivable
		Percentage %	Provision for doubtful debts	Percentage of doubtful debts	
Within 1 year	168,848,858.09	87.59	844,244.29	0.50%	168,004,613.80
1-2 years	7,597,450.56	3.49	37,987.25	0.50%	7,559,463.31
2-3 years	5,067,524.36	2.63	25,337.62	0.50%	5,042,186.74
Over 3 years	2,047,029.42	1.06	32,738.07	0.50%	2,014,291.35
50% as doubtful debts	2,832,378.91	1.47	2,832,378.91	100.00%	-
100% as doubtful debts	6,388,057.65	3.31	5,444,320.85	50.00%	943,736.80
<b>Total</b>	<u><u>192,781,298.99</u></u>	<u><u>100</u></u>	<u><u>9,217,006.99</u></u>		<u><u>183,564,292.00</u></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 69.94 million representing 33.78% of the total of account receivable. The detail situation is as follows:

<b>Company</b>	<b>Amount</b>	<b>Reason</b>
A.P.MOLLER	41,540,084.56	Shipbuilding settlements, before the due date for payment
Guangdong Marine Affaires Bureau	14,669,133.00	Shipbuilding settlements, before the due date for payment
Military Site Office	8,682,500.00	Shipbuilding settlements, before the due date for payment
Guangzhou Offshore Petroleum Company	3,017,508.92	50% has been drawn as doubtful debts
No.1 Construction Company (Guangzhou) of China No.3 Construction Bureau	2,032,025.45	Project payment, before the due date for payment
<b>Total</b>	<b>69,941,251.93</b>	

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

## (2). Prepayment from customers

<b>Bond Age</b>	<b>30th June, 2005</b>		<b>31st December, 2004</b>	
	<b>Amount</b>	<b>Percentage %</b>	<b>Amount</b>	<b>Percentage %</b>
Within 1 year	<b>115,747,641.49</b>	<b>74.25</b>	106,549,662.30	94.13
1-2 years	<b>35,270,532.83</b>	<b>22.63</b>	1,197,152.06	1.06
2-3 years	<b>600,000.00</b>	<b>0.38</b>	4,700,363.63	4.15
Over 3 years	<b>4,272,248.31</b>	<b>2.74</b>	750,000.00	0.66
<b>Total</b>	<b>155,890,422.63</b>	<b>100.00</b>	<b>113,197,177.99</b>	<b>100.00</b>

- (i) Prepayment from customers increased by 37.72% compared with the beginning of the period, mainly due to short supply of materials and increase of prepayment for purchasing equipments and materials, such as marine engines.
- (ii) The account of the five companies with highest prepayments amounted to RMB 142.28million representing 91.27% of prepayment from customers. The detail situation is as follows:

<b>Company</b>	<b>Amount</b>	<b>Reason</b>
Dalian Marine Diesel Works	100,200,000.00	In 2005 material for shipbuilding is still in short supply. Subscription and prepayment are needed for most marine equipments.
Shanxi Diesel Company	17,160,000.00	
Zhenjiang Marine Diesel Factory	9,000,000.00	Such payment is normal transaction.
Huanan Marine Mechanic and Electric Department	8,089,536.11	
CSSC Hanan Equipment Company	7,833,439.82	
<b>Total</b>	<b>142,282,975.93</b>	

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

## (3). Other receivables

<b>Bond age</b>	<b>Amount</b>	<b>%</b>	<b>30th June, 2005</b>		<b>Net receivable</b>
			<b>Provision for doubtful debts</b>	<b>Percentage of doubtful debts</b>	
Within 1 year	<b>16,998,918.72</b>	<b>3.65</b>	75,476.15	0.50%	<b>16,923,442.57</b>
1-2 years	<b>2,767,874.21</b>	<b>0.59</b>	404.07	0.50%	<b>2,767,470.14</b>
2-3 years	<b>49,619.60</b>	<b>0.01</b>	-	0.50%	<b>49,619.60</b>
Over 3 years	<b>342,472.40</b>	<b>0.07</b>	-	0.50%	<b>342,472.40</b>
80% as doubtful debts	<b>48,508,000.00</b>	<b>10.42</b>	48,535,500.00		<b>-27,500.00</b>
100% as doubtful debts	<b>397,065,000.00</b>	<b>85.26</b>	325,374,800.00	100.00%	<b>71,690,200.00</b>
<b>Total</b>	<b>465,731,884.93</b>	<b>100.00</b>	<b>373,986,180.22</b>	-	<b>91,745,704.71</b>

Bond age	Amount	%	31st December, 2004		Net receivable
			Provision for doubtful debts	Percentage of doubtful debts	
Within 1 year	13,867,193.72	2.99	69,335.97	0.50%	13,797,857.75
1-2 years	2,345,425.33	0.51	11,727.13	0.50%	2,333,698.20
2-3 years	0.00	0.00	0.00	0.50%	–
Over 3 years	1,326,472.40	0.29	6,632.36	0.50%	1,319,840.04
80% as doubtful debts	397,067,000.00	85.73	325,374,800.00		71,692,200.00
100% as doubtful debts	48,535,000.00	10.48	48,535,000.00	100.00%	–
<b>Total</b>	<b>463,141,091.45</b>	<b>100</b>	<b>373,997,495.46</b>	<b>–</b>	<b>89,143,595.99</b>

(i) The account of the five companies with highest other receivables amounted to RMB452.35 million representing 97% of other receivables from customers. The detail situation is as follows:

Company	Amount	Reason
Guangzhou International Trust Investment Company	397,065,000.00	Trust deposit, 80% has been drawn as doubtful debts
Guangzhou Economic and Technology Development Zone International Trust and Investment Company	47,408,000.00	Trust deposit, 100% has been drawn as doubtful debts
Sinkiang West Real Estate Development Co., Ltd.	3,425,575.00	Reconstruction fee for trust deposit (refer to Significant Event)
Huahai Petroleum Transport & Marketing Co., Ltd.	2,700,000.00	Service and consultation fee
Xiyu Investment (Hong Kong) Company	1,756,000.00	The last payment of sales of container production line
<b>Total</b>	<b>452,354,575.00</b>	

(ii) Trust Deposits (refer to Significant Event)

(a) The trust deposits at Guangzhou Economic and Technology Development Zone International Trust and Investment Company (“GETDZITIC”) remains RMB47,408,000 with full provision for doubtful debts in 2000.

(b) The Company and Guangzhou International Trust Investment Company (“GZITIC”) has negotiated to restructure the trust deposits in GZITIC. The Company is following the procedure and will disclose relevant information accordingly.

(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, 2005	31st December, 2004
Special subsidy	54,535,254.05	38,743,592.72
Rebate taxes for exports	34,417,893.57	8,886,559.24
<b>Total</b>	<b>88,953,147.62</b>	<b>47,630,151.96</b>

Subsidy receivable increased by 86.76% compared with the beginning of the period mainly due to not received due subsidy receivable.

### 3. Inventories and provision for diminution in value

Item	30th June, 2005			31st December, 2004		
	Amount	Provision for diminution in value	Net amount	Amount	Provision for diminution in value	Net amount
Raw material	444,354,461.05	589,983.52	443,764,477.53	309,139,565.31	949,378.29	308,190,187.02
Low-value Consumables	5,798.09	–	5,798.09	247,525.42	–	247,525.42
Work-in-progress	101,544,803.08	–	101,544,803.08	45,159,003.43	20,269.04	45,138,734.39
Finished goods	3,223,109.75	–	3,223,109.75	13,040,390.49	–	13,040,390.49
<b>Total</b>	<b>549,128,171.97</b>	<b>589,983.52</b>	<b>548,538,188.45</b>	<b>367,586,484.65</b>	<b>969,647.33</b>	<b>366,616,837.32</b>

The net amount of inventories increased by 49.62% compared with the beginning of the period mainly due to increased inventories result from supply shortage of raw material and improvement of shipbuilding output.

#### 4. Deferred expenses

Category	Opening balance	Addition in the period	Amortization in the period	Closing balance
Road maintenance and insurance	464,439.33	68,053.37	287,406.68	245,086.02
Property insurance	137,212.50	168,794.50	170,828.51	135,178.49
Total	<u>601,651.83</u>	<u>236,847.87</u>	<u>458,235.19</u>	<u>380,264.51</u>

The deferred expenses decreased by 36.80% compared with the beginning of the period, mainly due to deferred road maintenance of last year.

#### 5. Long-term investment

Item	Opening balance			Closing balance		
	Amount	Provision for diminution	Addition in the period	Deduction in the period	Amount	Provision for diminution
Long-term equity investments	15,807,734.42	–	154,158.14	–	15,961,892.56	–
Long-term debt investments						
Total	<u>15,807,734.42</u>	<u>–</u>	<u>154,158.14</u>	<u>–</u>	<u>15,961,892.56</u>	<u>–</u>

##### (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%	<b>3,308,486.84</b>	543,478.71	1,586,426.83
Zhanjiang Nanhai Naval New Technology & Service Co., Ltd.	800,000.00	40.00%	<b>611,106.18</b>	102,054.41	-188,893.82
Shenzhen Yuanzhou Science & Technology Industry Company Limited	1,000,000.00	7.41%	<b>1,000,000.00</b>	–	–
China Merchants Bank Information and Technology Company Limited of CSSC	10,010,000.00	0.23%	<b>10,010,000.00</b>	–	–
Guangli Marine Engineering Service Company Limited	900,000.00	15.00%	<b>900,000.00</b>	–	–
Guangzhou Sanlong Company Limited	100,000.00	20.00%	<b>100,000.00</b>	–	–
Sub-total	<u>15,537,060.00</u>		<u><b>15,961,892.56</b></u>	<u>464,088.12</u>	<u>424,832.55</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 Hongfan Hotel	61,617.69	–	61,617.69	–	61,617.69
Total	<u>61,617.69</u>	<u>–</u>	<u>61,617.69</u>	<u>–</u>	<u>61,617.69</u>

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

<u>Item</u>	<u>Opening balance</u>	<u>Addition</u>	<u>Deduction</u>	<u>Closing balance</u>
<b>(1). Original Cost</b>				
Buildings	437,545,590.48	9,671,336.35	3,247,625.95	443,969,300.88
Structures	261,684,338.97	57,355.36	7,551,208.06	254,190,486.27
Vehicles	25,610,343.91	186,380.00	1,371,422.70	24,425,301.21
Instruments and meters	6,412,368.91	31,165.06	59,424.00	6,384,109.97
Transmission system	37,157,651.43	1,162,571.08	0.00	38,320,222.51
Machinery and equipment	762,892,541.57	3,426,516.14	7,286,138.11	759,032,919.60
Total	<u>1,531,302,835.27</u>	<u>14,535,323.99</u>	<u>19,515,818.82</u>	<u>1,526,322,340.44</u>
<b>(2). Accumulated depreciation</b>				
Buildings	102,787,432.18	6,011,840.44	841,986.10	107,957,286.52
Structures	93,012,877.28	5,004,481.24	2,934,842.27	95,082,516.25
Vehicles	16,739,402.25	982,258.48	1,298,127.36	16,423,533.37
Instruments and meters	4,622,986.26	290,084.73	54,354.00	4,858,716.99
Transmission system	16,113,296.54	969,172.51	0.00	17,082,469.05
Machinery and equipment	390,190,668.97	25,545,029.69	5,000,286.81	410,735,411.85
Total	<u>623,466,663.48</u>	<u>38,802,867.09</u>	<u>10,129,596.54</u>	<u>652,139,934.03</u>
<b>(3). Net value of fixed assets</b>	<u>907,836,171.79</u>	<u>-24,267,543.10</u>	<u>9,386,222.28</u>	<u>874,182,406.41</u>

### Fixed Assets Provision for diminution

<u>Item</u>	<u>Opening Balance</u>	<u>Addition</u>	<u>Deduction</u>	<u>Closing Balance</u>
Fixed Assets	<u>2,759,659.20</u>	<u>-</u>	<u>1,886,535.39</u>	<u>873,123.81</u>

## 7. Construction-in-process

<u>Category</u>	<u>Opening balance</u> <u>Including:</u> <u>interest</u>	<u>Addition in</u> <u>the period</u> <u>Including:</u> <u>interest</u>	<u>Transfer to</u> <u>fixed assets</u> <u>Including:</u> <u>interest</u>	<u>Other</u> <u>reductions</u> <u>Including:</u> <u>interest</u>	<u>Closing</u> <u>balance</u> <u>Including:</u> <u>interest</u>
1. Facilities improvements					
(1) Capital construction: critical improvement project in national debt	10,039,065.97	6,059,728.16	278,255.94	-	15,820,538.19
Including: capitalized interests	86,562.05	-	-	-	86,562.05
(2) Others	21,014,937.51	32,084,097.30	6,884,797.65	-	46,214,237.16
2. Subsidiaries	-	931,904.19	-	-	931,904.19
Total	<u>31,054,003.48</u>	<u>39,075,729.65</u>	<u>7,163,053.59</u>	<u>-</u>	<u>62,966,679.54</u>
Including: capitalized interests	208,179.34	-	-	-	208,179.34

- (1). The abovementioned Critical Improvement Project in National Debt in constructions-in-progress is the technical building, numerical plasma-cutting machine and high-efficient portal cutting machine.
- (2). Capitalizing rate is the actual corresponding bank loan rate.

## 8. Intangible assets

Category	Initial cost	Opening	Addition	Transfer	Amortization	Closing	Remained term
		balance		out		balance	
Land use right	107,695,527.12	69,528,821.68	–	12,983,387.79	813,059.88	55,732,374.01	38 years
Know-how	10,332,076.00	8,306,288.62	–	–	1,147,010.70	7,159,277.92	10-1 years
Total	118,027,603.12	77,835,110.30	–	12,983,387.79	1,960,070.58	62,891,651.93	

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

Transfer out in this period mainly is the interest transformation of the holding subsidiary Xinhui City Guangzhou Shipyard Nanyan Shipping Industrial Company.

## 9. Long-term deferred expenses

Category	Opening balance	Addition	Amortization	Closing balance
Modification expenses of fixed assets	2,383,762.36	–	227,995.20	2,155,767.16
Others	2,076,883.72	63,367.26	286,598.00	1,853,652.98
Total	4,460,646.08	63,367.26	514,593.20	4,009,420.14

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

### (1). Short-term loans

Loans category	30th June,		31st December,		Loan's term	Annual interest
	2005	2004	2004	2004		
Mortgage loans	82,766,000.00	–	82,765,000.00	–	2004/11-2005/12	3.86%-3.93
Guarantee loans	116,211,000.00	–	–	–	2005/1-2006/1	4.194%-4.698
Credit loans	137,594,500.00	–	33,106,000.00	–	2005/3-2005/12	4.31%-4.698
Total	336,571,500.00	–	115,871,000.00	–		

Loans increased 190.47% compared with the beginning of the period, mainly due to loans restructure to meet the practical need and avoid exchange rate risks, reduced RMB long-term loans and increased USD short-term loans.

### (2). Long-term loans within one year

Loans category	30th June,		31st December,		Loan's term	Annual interest
	2005	2004	2004	2004		
Guarantee loans	500,375,000.00	–	400,000,000.00	–	2003/9 – 2006/5	2.70
Credit loans	–	–	–	–		
Other	–	–	–	–		
Total	500,375,000.00	–	400,000,000.00	–		

## 11. Accounts payable

### (1). Bills payable

Category	Amount	Expired within one year	Note
Bank honored draft	35,850,000.00	35,850,000.00	
Commercial honored draft	–	–	
Total	35,850,000.00	35,850,000.00	

Bills payable increased by 617% compared with the beginning of the period mainly due to the increased credit purchase caused by the adjustment of capital operation method.

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	30th June, 2005		31st December, 2004	
	Amount	Percentage%	Amount	Percentage%
Within 1 year	373,445,402.80	99.18	370,757,807.37	99.54
1-2 years	1,133,588.90	0.30	953,436.31	0.26
2-3 years	1,585,726.05	0.42	320,269.65	0.09
Over 3 years	379,049.45	0.10	438,358.73	0.12
Total	376,543,767.20	100.00	372,469,872.06	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

Bond age	30th June, 2005	31st December, 2004
Within 1 year	35,864,975.41	13,598,296.43
1-2 years	154,562.00	1,248,820.94
2-3 years	596,540.94	60,830.00
Over 3 years	616,230.00	–
Total	37,232,308.35	14,907,947.37

Advances from customers increased by 149.75% 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, 2005	31st December, 2004
Company retirement pension	–	3,286,465.96
Staff check off	759,183.53	881,371.49
Auditing expenses to accountants	949,149.47	2,012,583.68
Guangzhou Marine Affaires Bureau	2,302,489.32	2,302,489.32
Guangzhou Shipyard	–	30,536.00
Remuneration to independent directors	–	412,803.36
Medicare for retirees	8,851,429.80	10,367,169.48
Guarantee cost	700,000.00	–
Other payables	9,113,953.49	9,813,133.60
Total	22,676,205.61	29,106,552.89
Include: balance with over 3-year's bond age	30,209.80	88,924.70

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, 2005	31st December, 2004
Dividends from associated companies	13,181.88	13,449.38
Total	13,181.88	13,449.38

### 13. Taxes Payable

Category	30th June, 2005	31st December, 2004
Value-added tax	-34,015,264.55	-21,546,664.46
Business tax	216,715.96	312,761.59
City construction tax	19,707.69	479,238.59
Income tax	190,162.21	286,431.30
Property tax	302,197.64	126,226.58
Land tax	256,080.89	-3,357.11
Tax of staff income	612,434.62	816,579.66
Total	<u>-32,417,965.54</u>	<u>-19,528,783.85</u>

### 14. Accrued expenses

Category	30th June, 2005	31st December, 2004
Product warranty provision	43,420,746.99	37,399,137.56
Costs for outstanding projects	30,216,335.86	30,994,593.31
Loan interest	406,062.86	168,705.25
Accrued water & power cost of this month	8,211,620.65	3,123,898.49
Others	2,123,838.31	6,015,465.44
Total	<u>84,378,604.67</u>	<u>77,701,800.05</u>

Product guarantee provision is intended to cover product maintenance costs incurred within one-year from date of delivery.

### 15. Other Current Liabilities

Category	30th June, 2005	31st December, 2004
Settlement for long-term contractual project	236,678,668.03	225,486,044.23
Total	<u>236,678,668.03</u>	<u>225,486,044.23</u>

### 16. Long-term Bank Loans

Name of Bank	Amount	Loan's term	Annual interest	Conditions of loans
China Import and Export Bank	-			
Total	<u>-</u>			

Long-term bank loans decreased by 100% compared with the beginning of the period and for the reason please refer to Note 10.

### 17. Special project payable

Category	30th June, 2005	31st December, 2004
National fund	25,792,562.86	22,792,562.86
Provincial fund	1,730,000.00	-
Total	<u>27,522,562.86</u>	<u>22,792,562.86</u>

The special project payable, which approved by relevant stated bureau, is the payment for technical renovation projects and technical research of the Company's high-tech products.

## 18. Capital share

Item	Opening Balance	Mating share	Change (+/-)				Sub-total	Unit: share
			Present	Reserve transfer	Addition	Other		Closing Balance
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

Item	30th June, 2005	31st December, 2004
Balance at the beginning of the year	-536,539,884.17	-570,212,867.94
Balance adjustment of previous years	-	-
Profit this year	20,552,787.22	33,672,983.77
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	-515,987,096.95	-536,539,884.17



## 22. Geographical distribution to turnover

Area	Principal operating incomes		Profit		Income changes (%)
	First half of 2005	First half of 2004	First half of 2005	First half of 2004	
Malta	–	307,852,320.47	<b>1,082,779.38</b>	25,215,514.89	-100.00
Canada	<b>32,604,456.93</b>	–	<b>2,407,288.15</b>	–	100.00
Denmark	<b>595,996,616.50</b>	444,307,995.31	<b>31,846,650.41</b>	5,820,450.94	34.14
Macao	–	675,709.56	–	161,165.40	-100.00
Philippine	–	177,953.35	–	6,091.51	-100.00
United States	<b>228,431.40</b>	85,297.60	<b>37,847.35</b>	85,297.60	167.81
Hong Kong	<b>84,778,472.67</b>	1,907,080.23	<b>12,069,009.89</b>	690,656.03	4,345.46
Marshall Islands	<b>153,389,130.48</b>	–	<b>71,860.48</b>	–	100.00
Taiwan	<b>550,387.25</b>	–	<b>24,511.18</b>	–	100.00
Mauritius	<b>117,178.69</b>	–	<b>22,033.85</b>	–	100.00
Malaysia	<b>4,643,116.50</b>	–	<b>237,741.42</b>	–	100.00
Sub-total	<b>872,307,790.42</b>	755,006,356.52	<b>47,799,722.11</b>	31,979,176.37	15.54
China	<b>317,367,947.33</b>	335,293,706.87	<b>29,590,638.23</b>	27,472,599.44	-5.35
Total	<b>1,189,675,737.75</b>	1,090,300,063.39	<b>77,390,360.34</b>	59,451,775.81	9.11

The top five sellers for the Company:

No.	Client	Amount	Percentage of principal operating income
1	A.P MOLLER-MAERSK	343,816,057.92	28.90
2	Nortide shipping Ltd.	238,620,018.07	20.06
3	Solarshipping Inc.	153,389,130.48	12.89
4	China Shipping Co., Ltd.	92,892,125.40	7.81
5	Military Representatives	109,399,500.00	9.2
	Total	<b>938,116,831.87</b>	<b>78.85</b>

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

Item	Operating income		Cost of sales		Gross profit	
	First half of 2005	First half of 2004	First half of 2005	First half of 2004	First half of 2005	First half of 2004
Shipbuilding products	<b>1,066,536,410.29</b>	992,718,869.27	<b>1,009,334,208.77</b>	950,121,807.46	<b>57,202,201.52</b>	42,597,061.81
Container	–	1,133,080.23	–	980,287.65	<b>0.00</b>	152,792.58
Steel structure	<b>74,507,769.69</b>	49,739,570.76	<b>69,590,022.42</b>	45,312,638.36	<b>4,917,747.27</b>	4,426,932.40
Terrestrial machinery	<b>43,934,595.12</b>	39,396,228.01	<b>28,943,216.81</b>	27,908,639.82	<b>14,991,378.31</b>	11,487,588.19
Ship-repairing products	<b>4,696,962.65</b>	7,312,315.12	<b>4,417,929.41</b>	6,524,914.29	<b>279,033.24</b>	787,400.83
Total	<b>1,189,675,737.75</b>	1,090,300,063.39	<b>1,112,285,377.41</b>	1,030,848,287.58	<b>77,390,360.34</b>	59,451,775.81

Principal operating incomes increased by 9.11% compared with the corresponding period of last year mainly due to marked increase in income of steel structure and electro-machinery products.

Gross profit increased by 30.17% compared with the corresponding period of last year mainly due to the improvement of cost management, increased operation income and contract price.

#### 24. Principal operating tax and additional tax

<u>Category</u>	<u>First half of 2005</u>	<u>First half of 2004</u>
Sales tax	219,655.37	401,702.85
City construction tax	95,304.96	144,684.20
Education additional tax	40,227.04	70,687.59
Total	<u>355,187.37</u>	<u>617,074.64</u>

Principal operating tax and additional tax decreased by 42.44% compared with the corresponding period of last year mainly due to decreased business on operating tax.

#### 25. Financial expenses

<u>Category</u>	<u>First half of 2005</u>	<u>First half of 2004</u>
Interest expense	11,917,614.16	9,987,720.59
Less: interest income	2,065,918.80	3,106,378.64
Exchange loss	749,482.66	-963,240.02
Others	735,119.57	696,128.90
Total	<u>11,336,297.59</u>	<u>6,614,230.83</u>

Financial expenses increased by 71.39% compared with the corresponding period of last year mainly due to that part of financial expense was counteracted by the deferred income with an amount of RMB2.23million from China Container Transportation Center of Railroad Bureau in 2004, and increased exchange loss caused by interest rate changes, increased interest payment and exchange rate changes during this period.

#### 26. Operating and Management Expenses

<u>Items</u>	<u>First half of 2005</u>	<u>First half of 2004</u>
1. Operating expenses	1,955,130.86	1,238,245.08
2. Management expenses	69,178,339.82	63,967,641.07

Operation expenses increased by 57.90% compared with the corresponding period of last year mainly due to increased operation activities.

#### 27. Profit from other operations

<u>Category</u>	<u>Operating income</u>		<u>Operating cost</u>		<u>Operating gross profit</u>	
	<u>First half of 2005</u>	<u>First half of 2004</u>	<u>First half of 2005</u>	<u>First half of 2004</u>	<u>First half of 2005</u>	<u>First half of 2004</u>
Sales of raw materials	701,214.39	14,929,679.09	4,793,456.38	13,165,474.24	-4,092,241.99	1,764,204.85
Sales of scrap materials	15,580,543.73	10,188,259.33	8,345,176.60	7,687,367.26	7,235,367.13	2,500,892.07
Transportation services	5,276.00	2,762.00	-	-	5,276.00	2,762.00
Others	14,810,089.64	8,902,566.45	9,508,171.13	8,106,096.18	5,301,918.51	796,470.27
Total	<u>31,097,123.76</u>	<u>34,023,266.87</u>	<u>22,646,804.11</u>	<u>28,958,937.68</u>	<u>8,450,319.65</u>	<u>5,064,329.19</u>

Profit from other operations increased by 66.86% compared with the corresponding period of last year mainly due to increased sales of scrap materials.

#### 28. Investment income

<u>Category</u>	<u>Bonds investment</u>	<u>Equity investments</u>		<u>Total income</u>
		<u>At equity</u>	<u>At cost</u>	
Short-term investments	-	-	-	-
Long-term investments	-	427,644.59	891,085.80	1,318,730.39
Total	-	<u>427,644.59</u>	<u>891,085.80</u>	<u>1,318,730.39</u>

Investment income increased by 59.97% compared with the corresponding period of last year mainly due to the reception of dividend from invested China Merchant Bank.

## 29. Subsidy income

<u>Item</u>	<u>First half of 2005</u>	<u>First half of 2004</u>
Special subsidy income	15,791,661.33	18,767,509.83
Others	1,693,442.72	1,041,529.91
Total	17,485,104.05	19,809,039.74

- (1) Special subsidy income is a part of the price of certain ships, and calculated by completion percentage and certain proportion to schedule settlement.
- (2) Other subsidies consist of the reception of special subsidies for scientific trading and drawback of self-developed software.

## 30. Non-operating income and expenses

### (1) Non-operating income

<u>Item</u>	<u>First half of 2005</u>	<u>First half of 2004</u>
Gain on disposal of fixed assets	531,354.54	155,514.00
Penalty received	850.00	- 69,519.00
Income of fixed assets	-	-
Compensation	3,911.00	4,500.00
Income of bad debt	-	-
Others	359,893.12	181,104.48
Total	896,008.66	271,599.48

Non-operating income increased by 229.90% compared with that of the corresponding period of last year mainly due to increased gain on disposal of part fixed assets.

### (2) Non-operating expenses

<u>Item</u>	<u>First half of 2005</u>	<u>First half of 2004</u>
Loss on disposal of fixed assets	435,355.89	824,162.31
Penalty expenses	20,968.50	3,320.96
Loss on fixed assets	-	-
Compensation	12,189.40	145,217.00
Non-commonweal imburse expense	110,300.00	100,000.00
Others	6,074.64	220,188.06
Total	584,888.43	1,292,888.33

Non-operating expenses decreased by 54.76% compared with that of the corresponding period of last year mainly due to decreased loss on disposal of part fixed assets.

## 31. Exceptional profit and loss

<u>Item</u>	<u>Amount</u>
1. Subsidy income (exclude the special subsidy income)	1,693,442.72
2. Non-operating income	896,008.66
3. Non-operating expenses	-584,888.43
Total	2,004,562.95

**32. Other main expenses related to business**

<u>Item</u>	<u>Amount</u>
Management expenses	5,345,124.79
Operating expenses	1,955,130.86
Manufacture expenses	135,624,409.82
Total	<u>142,924,665.47</u>

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

**(1) Accounts receivable**

<b>30th June 2005</b>				
<u>Age bond</u>	<u>Amount</u>	<u>Proportion</u>	<u>Provision for Doubtful debts</u>	<u>Record Value</u>
Within one year	191,912,135.46	94.82	555,338.49	191,356,796.97
1-2 years	1,508,628.65	0.75	140.00	1,508,488.65
2-3 years	4,638,393.53	2.29	1,820.07	4,636,573.46
Over 3 years	3,468,162.31	1.71	205,486.69	3,262,675.62
50% as doubtful debts	861,000.00	0.43	2,871,913.81	-2,010,913.81
100% as doubtful debts	-	0.00	2,452,491.27	-2,452,491.27
Total	<u>202,388,319.95</u>	<u>100.00</u>	<u>6,087,190.33</u>	<u>196,301,129.62</u>

  

<b>31st December 2004</b>				
<u>Age bond</u>	<u>Amount</u>	<u>Proportion</u>	<u>Provision for Doubtful debts</u>	<u>Record Value</u>
Within one year	148,041,125.72	93.44	740,205.63	147,300,920.09
1-2 years	366,230.00	0.23	1,831.15	364,398.85
2-3 years	3,325,778.06	2.10	16,628.89	3,309,149.17
Over 3 years	1,986,092.07	1.25	9,930.46	1,976,161.61
50% as doubtful debts	2,832,378.91	1.79	2,832,378.91	-
100% as doubtful debts	1,887,473.62	1.19	943,736.81	943,736.81
Total	<u>158,439,078.38</u>	<u>100.00</u>	<u>4,544,711.85</u>	<u>153,894,366.53</u>

Refer to the notes to the item in consolidation statements.

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

(2) Other accounts receivable

30th June 2005

<u>Age bond</u>	<u>Amount</u>	<u>Proportion</u>	<u>Provision for Doubtful debts</u>	<u>Net receivable</u>
Within one year	18,920,288.50	4.07	74,495.41	18,845,793.09
1-2 years	1,180,629.70	0.25	404.07	1,180,225.63
2-3 years	2,000.00	0.00	–	2,000.00
Over 3 years	329,935.00	0.07	–	329,935.00
80% as doubtful debts	47,508,000.00	10.22	47,535,500.00	-27,500.00
100% as doubtful debts	397,065,000.00	85.39	325,374,800.00	71,690,200.00
Total	<u>465,005,853.20</u>	<u>100.00</u>	<u>372,985,199.48</u>	<u>92,020,653.72</u>

31st December 2004

<u>Age bond</u>	<u>Amount</u>	<u>Proportion</u>	<u>Provision for Doubtful debts</u>	<u>Net receivable</u>
Within one year	15,727,556.32	3.40	78,637.78	15,648,918.54
1-2 years	1,561,301.08	0.34	7,806.51	1,553,494.57
2-3 years	–	0.00	–	–
Over 3 years	313,935.00	0.07	1,569.68	312,365.33
80% as doubtful debts	397,067,000.00	85.91	325,374,800.00	71,692,200.00
100% as doubtful debts	47,535,000.00	10.28	47,535,000.00	–
Total	<u>462,204,792.40</u>	<u>100.00</u>	<u>372,997,813.96</u>	<u>89,206,978.44</u>

(3) Long-term Investments

<u>Item</u>	<u>Amount</u>	<u>Opening balance</u>		<u>Closing balance</u>		<u>Provision for diminution in value</u>
		<u>Provision for diminution in value</u>	<u>Addition in the period</u>	<u>Disposal in the period</u>	<u>Amount</u>	
Long-term equity investments	124,258,275.76	1,828,163.97	2,685,995.84	15,351,163.97	111,593,107.63	–
Long-term debt investments	–	–	–	–	–	–
Total	<u>124,258,275.76</u>	<u>1,828,163.97</u>	<u>2,685,995.84</u>	<u>15,351,163.97</u>	<u>111,593,107.63</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
Guangzhou Masterwood Company Limited	2,486,385.00	51%	3,009,545.92		523,160.92
Guangzhou Guanglian Container Transportation Company Limited	15,000,000.00	75%	15,602,288.72		602,288.72
Xinhui City Nanyang Shipping Industrial Company	25,200,000.00	70%	0.00	-15,602,288.72	-15,602,288.72
Guangzhou Sanlong Industrial Trading Develop Company Limited	1,005,000.00	67%	32,299.55		-972,700.45
Guangzhou Xinshun Shipping Service Company Limited	500,000.00	83%	10,426,509.40		9,926,509.40
United Steel Structures Limited	25,438,698.00	51%	38,874,668.83		13,435,970.83
Guangdong GSI Elevator Limited	19,950,000.00	95%	21,674,112.79		1,724,112.79
Guangzhou Hongfan Information Technique Co., Ltd	4,500,000.00	77%	4,471,585.46		-28,414.54
Rongguang Develop Company Limited	10,439.94	100%	2,572,503.95		2,562,064.01
South China/Marine and Industrial Special Coating Limited	1,722,003.00	25%	3,308,486.83		1,586,483.83
Zhanjiang Nanhai Naval Ships High and New Technology Service Co. Ltd	800,000.00	40%	611,106.18		-188,893.82
Shenzhen Yuanzhou Science & Technology Industry Company Ltd	1,000,000.00	7%	1,000,000.00		0.00
China Merchants Bank	10,010,000.00	0%	10,010,000.00		0.00
<b>Total</b>	<b>167,158,326.53</b>		<b>111,593,107.63</b>	<b>-15,602,288.72</b>	<b>13,568,292.97</b>

The 70% interest in Xinhui City Guangzhou Shipyard Nanyang Shipping Industrial Company of the Company has been transferred to an investor by RMB13.52 million with an agreement signed on February 25th 2005. The transfer is completed on March 9th 2005.

### (4) Investment income

Item	Bonds investment income	Equity investments		Total income
		At equity	At cost	
Short-term Investments	-	-	-	-
Long-term investments	-	2,686,735.84	891,085.80	3,577,821.64
<b>Total</b>	<b>-</b>	<b>2,686,735.84</b>	<b>891,085.80</b>	<b>3,577,821.64</b>

(5) Principal operating income, cost of sales and gross profit refer to the notes to the item in consolidation statements.

Product Category	Operating income		Operating cost		Gross profit	
	First half of 2005	First half of 2004	First half of 2005	First half of 2004	First half of 2005	First half of 2004
Shipbuilding products	<b>1,066,536,410.29</b>	992,718,869.27	<b>1,009,334,208.77</b>	950,121,807.46	<b>57,202,201.52</b>	42,597,061.81
Steel Structure	<b>4,504,384.52</b>	10,234,084.60	<b>4,207,552.79</b>	9,824,801.17	<b>296,831.73</b>	409,283.43
Terrestrial machinery	<b>12,238,598.25</b>	13,773,200.87	<b>9,059,647.58</b>	10,674,349.75	<b>3,178,950.67</b>	3,098,851.12
Ship-repairing products	<b>4,696,962.65</b>	7,312,315.12	<b>4,417,929.41</b>	6,524,914.29	<b>279,033.24</b>	787,400.83
<b>Total</b>	<b>1,087,976,355.71</b>	1,024,038,469.86	<b>1,027,019,338.55</b>	977,145,872.67	<b>60,957,017.16</b>	46,892,597.19

### 34. Contingent assets

Pursuant to the debt restructuring agreement entered into between the Company and GZITIC, the Group has obtained the building ownership certificate of part but not all of the restructuring real estate as at 30th June 2005 because the developer had not yet paid the land grant fees in full, and in accordance with the terms of the debt restructuring agreement, the restructuring has not completed. As the real estate has not transfer to the Company entirely, the balance receivable from GZITIC of the Group has not been discharged. So the real estate could only be regarded as contingent assets.

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

Name	Registered address	Principal business	Relationship with the Company	Nature of the enterprise	Legal representative
CSSC	No. 1 Pudong Main Road, Shanghai	Ship manufacturing and sales	State shareholder	Company with limited liability	Chen Xiaojin
Guangzhou Xinshun Shipping Service Company Limited	No.40 Fangcun Main Road Guangzhou	Installation, welding outfitting, coating, repair of hull structure	Subsidiary	Company with limited liability	Zhou Dusheng
Masterwood Company Limited	No.40 Fangcun Main Road Guangzhou	Manufacture furniture	Subsidiary	Sino-foreign joint venture	Chen Demin
Guangzhou Guanglian Container Transportation Company Limited	No.126 Gexin Road Guangzhou	Container transportation	Subsidiary	Sino-foreign joint venture	Wang Lijian
Xinhui City Nanyang Shipping Industrial Co.	Gujin Town, Xinhui City, Guangdong	Ship dismantling	Subsidiary	Cooperative company	Li Yizhen
United Steel Structures Limited	No.40 Fangcun Main Road Guangzhou	Steel structure business	Subsidiary	Sino-foreign joint venture	Chen Jianrong
Guangdong GSI Elevator Limited	No.40 Fangcun Main Road Guangzhou	Manufacturing elevator	Subsidiary	Company with limited liability	Lin Lianguang
Guangzhou Hongfan Information Technique Co., Ltd	No.40 Fangcun Main Road Guangzhou	Development of computer software, system integration and sales.	Subsidiary	Cooperative company	Wang Lijian
Ronggaung Developing Co., Ltd.	Calic plaza, 8 Causeway Road Causeway Bay HK	General trading	Subsidiary	Cooperative company	Han Guangde
<b>Connected parties under indirect control:</b>					
Guangzhou Hongfan Hotel	No.126 Gexin Road Guangzhou	Lodge, restaurant	Subsidiary	Cooperative company	Wang Lijian
Fankwong Developing Co., Ltd.	Calic plaza, 8 Causeway Road Causeway Bay HK	General trading	Subsidiary	Cooperative company	Zeng Xiangxin
Guangzhou Masterwood Co., Ltd.	40 Fangcun Main Road, Guangzhou	Furniture manufacturing	Subsidiary	Sino-foreign joint venture	Chen Demin

**(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
Guangzhou Xinshun Shipping Service Company Limited	2,000,000	-	-	2,000,000
Masterwood Company Limited	3,315,180	-	-	3,315,180
Guangzhou Guanglian Container Transportation Company Limited	20,000,000	-	-	20,000,000
Xinhui City Nanyang Shipping Industrial Company	34,800,000	-	34,800,000	0
United Steel Structures Limited	73,572,705	-	-	73,572,705
Guangdong GSI Elevator Limited	21,000,000	-	-	21,000,000
Guangzhou Hongfan Information Technique Co., Ltd	5,000,000	-	-	5,000,000
Ronggaung Developing Co.,Ltd.	HKS10,000	-	-	HKS10,000
<b>Connected parties under indirect control:</b>				
Guangzhou Hongfan Hotel	10,000,000	-	-	10,000,000
Fankwong Developing Co., Ltd.	HKS200,000	-	-	HKS 200,000
Masterwood Company Limited	3,315,180	-	-	3,315,180

(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
Guangzhou Xinshun Shipping Service Company Limited	11,665,807.39	83.00	669,979.31		12,335,786.70	83.00
Guangzhou Masterwood Co., Ltd.	5,728,876.78	51.00	172,193.67		5,901,070.45	51.00
Guangzhou Guanglian Container Transportation Company Limited	20,768,935.14	75.00	34,116.49		20,803,051.63	75.00
Xinhui City Nanyang Shipping Industrial Company	20,730,234.24	70.00		20,730,234.24	-	
United Steel Structures Limited	79,771,242.46	51.00	954,182.42		80,725,424.88	51.00
Guangdong GSI Elevator Limited	22,279,062.39	95.00	535,793.18		22,814,855.57	95.00
Guangzhou Hongfan Information Technique Co., Ltd	5,566,797.02	77.00	240,456.83		5,807,253.85	77.00
Rongguang Developing Co., Ltd	1,890,943.51	98.00	681,560.43		2,572,503.94	98.00
<b>Connected parties under indirect control:</b>						
Guangzhou Hongfan Hotel	3,332,276.45	86.16	131,731.27		3,464,007.72	86.16
Fankwong Developing Co., Ltd.	HK\$200,000	70.00				70.00
Guangzhou Masterwood Co., Ltd.	5,728,876.78	25.00	172,193.67		5,901,070.45	25.00

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.

<b>Affiliated company</b>	
South China Marine & Industrial Special Coating Company Limited	
<b>Companies under control of China State Shipbuilding Corporation</b>	
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)

Related Companies	First half of 2005					First half of 2004
	Total	Power	Material	Operating Rent	Labor Service	
<b>Affiliated company</b>						
South China Marine & Industrial Special Coating Company Limited	-	-	-	-	-	7,356.86
Sub-total	-	-	-	-	-	7,356.86
<b>Companies under control of China State Shipbuilding Corporation</b>						
Guangzhou Shipyard Guangda Co.	-	-	-	-	-	776,574.98
Guangzhou Shipyard Forging Co., Ltd	<b>29,389.73</b>	-	-	-	<b>29,389.73</b>	31,111.12
Guangzhou Huangpu Shipyard	<b>956,425.16</b>	-	<b>663,310.78</b>	-	<b>293,114.38</b>	1,009,309.28
Guangzhou Wenchong Shipyard	<b>7,359,038.51</b>	-	<b>7,065.81</b>	-	<b>7,351,972.70</b>	4,812,676.24
Guangzhou Shipyard	<b>2,760,616.49</b>	<b>1,590,611.34</b>	<b>573,958.87</b>	<b>41,058.10</b>	<b>554,988.18</b>	1,384,313.55
Stated Huanan Marine Mechanical Factory	-	-	-	-	-	8,579,393.32
CSSC Liuzhou Environment Protection Equipment Co.,Ltd	-	-	-	-	-	1,223.00
China Shipbuilding Trading Company	<b>203,230.00</b>	-	203,230.00	-	-	-
Sub-total	<b>11,308,699.89</b>	<b>1,590,611.34</b>	<b>1,447,565.46</b>	<b>41,058.10</b>	<b>8,229,464.99</b>	16,594,601.49
Total	<b>11,308,699.89</b>	<b>1,590,611.34</b>	<b>1,447,565.46</b>	<b>41,058.10</b>	<b>8,229,464.99</b>	16,601,958.35

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

Related Companies	First half of 2005					First half of 2004
	Total	Material	Ship accessories	Equipment	Labor Service	
CSSC No. 708 Institute	-	-	-	-	-	41,000.00
Anqing Marine Electric Factory	119,000.00	-	-	119,000.00	-	93,000.00
Guangzhou Shipyard Guangda Company	-	-	-	-	-	27,476,094.47
Guangzhou Shipyard Forging Co.,Ltd	8,789,447.62	328,076.91	8,461,370.71	-	-	3,984,331.05
Guangzhou Huangpu Shipyard	120,000.00	-	-	-	120,000.00	186,954.61
Guangzhou Wenchong Shipyard	2,973,109.28	-	-	-	2,973,109.28	2,506,602.75
Guangzhou Shipyard	32,551,742.28	3,538,227.37	12,396,270.47	41,649.21	16,575,595.23	14,242,803.69
Huanan Marine Mechanic Factory	7,354,305.89	-	-	7,354,305.89	-	1,201,400.00
Hudong Group Electric Factory	505,000.00	-	-	505,000.00	-	-
Hudong Heavy Machinery Company Limited	14,672,410.26	-	-	14,672,410.26	-	15,762,000.00
Jiangxi Chaoyang Machine Factory	420,826.18	-	420,826.18	-	-	1,732,907.96
Jiangxi marine Valve Factory	-	-	-	-	-	242,070.00
Jiujiang Marine Mechanical Factory	1,781,747.03	-	1,781,747.03	-	-	3,591,327.00
Nanjing Liuzhou Machinery Factory	3,008,547.00	-	-	3,008,547.00	-	1,133,400.00
CSSC Luzhou Environment Protection Equipment Co.,Ltd	727,521.37	-	-	727,521.37	-	1,544,700.00
Shanghai Navigation Instrument Factory	259,800.00	-	-	259,800.00	-	-
shanghai Shipbuilding Institute	82,000.00	-	-	-	82,000.00	-
Shanghai Hudong Shipyard Valve Co.,Ltd.	-	-	-	-	-	1,008,015.96
Zhenjiang Marine Auxiliary Machine Factory	2,382,692.31	-	-	2,382,692.31	-	1,216,000.00
Zhenjiang Marine Propeller Factory	-	-	-	-	-	1,206,090.00
Zhenjiang Marine Diesel Factory	43,035,474.23	-	-	43,035,474.23	-	24,103,271.73
Zhengmao Group Company Limited	-	-	-	-	-	1,636,078.00
CSSC International Trading Co.,Ltd	-	-	-	-	-	519,754.25
China State Shipbuilding Corporation	-	-	-	-	-	2,199,466.00
Total	118,783,623.45	3,866,304.28	23,060,214.39	72,106,400.27	19,750,704.51	105,627,267.47

④ Finance Service Provided by CSSC (unit: RMB)

Item	Close Balance		Interest received/paid	
	First half of 2005	First half of 2004	First half of 2005	First half of 2004
1. Deposit				
CSSC Finance Company	866,602.99	33,757,478.74	4,313.19	29,007.31
2. Loan				
CSSC Finance Company	-	-	-	-

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

Company	Assurance Amount		Assurance Fee	
	This period	Last period	First half of 2005	First half of 2004
CSSC	500,000,000.00	500,000,000.00	-	-
CSTC	-	80,000,000.00	-	-
Guangzhou Shipbuilding Corporation	66,212,000.00	49,659,600.00	200,000.00	100,000.00
Total	566,212,000.00	629,659,600.00	200,000.00	100,000.00

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

Agent	Amount	
	First half of 2005	First half of 2004
China Shipbuilding Trading Company	5,035,836.42	12,658,351.65
CSSC International Trade Co.,Ltd	5,300,856.24	-
Total	10,336,692.66	12,658,351.65

⑦ Material purchase agent by CSSC (unit: RMB)

Agent	Total		Imported material		Marine equipments		Equipments	
	This period	Last period	This period	Last period	This period	Last period	This period	Last period
China United Shipbuilding Co.,Ltd	1,538,260.21	1,618,888.82	-	-	-	1,618,888.82	1,538,260.21	-
CSTC	10,800.90	2,139,076.51	-	419,588.08	7,821.29	1,719,488.43	2,979.61	-
Total	1,549,061.11	3,757,965.33	-	419,588.08	7,821.29	3,338,377.25	1,541,239.82	-

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

A. Other receivable

Name	As at 30th June 2005	As at 31st December 2004
CSSC	600,000.00	-
CSSC Guangzhou Holding Co.	55,873.43	47,971.75
Total	655,873.43	47,971.75

B. Account receivable

Name	As at 30th June 2005	As at 31st December 2004
Guangzhou Huangpu Shipyard	647,717.60	106,747.20
Guangzhou Shipyard	593,009.86	-
Guangzhou Wenchong Shipyard	1,100,857.23	1,276,498.04
Huanan Marine Mechanic and Electric Department	390,534.30	390,534.30
Total	2,732,118.99	1,773,779.54

C. Advanced payment

Name	As at 30th June 2005	As at 31st December 2004
Guangzhou Shipyard Guangda Company		4,596,057.79
Guijiang Shipyard	628,000.00	628,000.00
Guangzhou Shipyard	3,443,597.76	57,159.45
Huanan Marine Mechanic and Electric Department	8,089,536.11	621,000.00
Hudong Heavy Engineering Company Limited		6,000,000.00
Nanjing Liuzhou Machinery Factory	15,680,000.00	6,680,000.00
Zhenjiang Marine Diesel Factory	700,000.00	
CSSC International Trade Co.,Ltd	163,071.54	81,535.77
Total	28,704,205.41	18,663,753.01

**D. Account payable**

<u>Name</u>	<u>As at 30th June 2005</u>	<u>As at 31st December 2004</u>
Shanghai Sanjin Science Company, No. 611 Institute		668,195.00
CSSC No. 708 Institute		267,000.00
Anqing Marine Electric Factory	4,650.00	145,100.00
Guangzhou Shipyard Gaungda Company	736,967.37	4,514,884.53
Guangzhou Shipyard Forging Company	4,043,271.65	175,674.00
Guangzhou Wenchong Shipyard	1,000,000.00	736.00
Guangzhou Shipyard	4,469,745.93	7,096,667.35
Huanan Marine Mechanic and Electric Department	205,000.00	1,532,151.30
Hudong Corporation Electric Division	73,750.00	138,500.00
Hudong Heavy Engineering Company Limited	–	550,000.00
Huahai Marine Commodity Logistic Company	–	289,834.29
CSSC Finance Company	21,450.00	–
Jiangxi Chaoyang Machine Factory	85,229.55	21,427.39
Jiangxi marine Valve Factory	221,000.00	215,000.00
Jiujiang Marine Mechanical Factory	499,820.00	1,328,200.30
Jiujiang Instrument Factory	26,000.00	26,000.00
Nanjing Liuzhou Machinery Factory	1,650,900.00	2,306,450.43
CSSC Luzhou Environment Protection Equipment Co.,Ltd	651,200.00	300,080.00
Shanghai Shipyard	142,794.70	142,794.70
Shanghai Navigation Instrument Factory	38,970.00	359,800.00
Zhenjiang Marine Auxiliary Machine Factory	1,304,200.00	2,021,728.34
Zhenjiang Marine Propeller Factory	50,430.00	50,430.00
Zhenjiang Marine Diesel Factory	21,965,555.00	782,131.81
Zhengmao Group Company Limited	3,787.00	433,787.00
China Shipbuilding Trading Company	257,046.82	257,046.82
CSSC System Engineering Department	–	1,426,154.00
Total	<u>37,451,768.02</u>	<u>25,049,773.26</u>

**E. Other Payable**

<u>Name</u>	<u>As at 30th June 2005</u>	<u>As at 31st December 2004</u>
Guangzhou Wenchong Shipyard	–	30,536.00
Guangzhou Shipyard Gaungda Company	17,072.00	17,072.00
China State Shipbuilding Corporation	27,000.00	27,000.00
Total	<u>44,072.00</u>	<u>74,608.00</u>

**F. Advanced Payment**

<u>Name</u>	<u>As at 30th June 2005</u>	<u>As at 31st December 2004</u>
Guangzhou Shipyard	3,500.00	3,500.00
Guangzhou Huangpu Shipyard	–	24,500.00
Xijiang Shipyard	180,000.00	180,000.00
Total	<u>183,500.00</u>	<u>208,000.00</u>

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

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

## (VIII) Contingencies

As at 30th June 2005, the Company (the Group) had no significant contingent items.

## (IX) Commitments

As at 30th June 2005, the Company (the Group) had no significant commitments

## (X) Events post period of balance sheet

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 2005: no profit distribution or capital increment passed at the meeting of Board of Directors held on 19th August 2005.

## II. Prepared under HK GAAP (All amounts in Renminbi Yuan thousands unless otherwise stated)

This report is prepared in both English and Chinese. In the event that different interpretation occurs, the English version shall prevail.

### Condensed Consolidated Balance Sheet

ASSETS	Note	30 June 2005 Unaudited	31 December 2004 Restated
<b>Non-current assets</b>			
Property, plant and equipment	6	940,267	941,099
Investment properties	6	6,396	5,200
Land use rights	6	52,505	66,345
Interest in associates		4,019	3,765
Deferred income tax assets		19,454	25,013
Non-trading securities	7	–	12,010
Available-for-sale financial assets	8	22,696	–
		<u>1,045,337</u>	<u>1,053,432</u>
<b>Current assets</b>			
Inventories		548,233	366,617
Due from customers on construction contracts		544,289	600,960
Trade receivables	9	207,026	183,864
Other receivables	10	306,671	246,258
Derivative financial instruments	11	12,376	–
Current income tax recoverable		464	461
Other taxes recoverable		69,402	33,640
Bank balances and cash		300,561	377,700
		<u>1,989,022</u>	<u>1,809,500</u>
<b>Total assets</b>		<u>3,034,359</u>	<u>2,862,932</u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the company's equity holders</b>			
Share capital	12	1,146,655	1,146,655
Other reserves	13	109,316	100,148
Accumulated losses		(501,054)	(528,289)
		<u>754,917</u>	<u>718,514</u>
<b>Minority interest</b>		<u>47,805</u>	<u>52,210</u>
<b>Total equity</b>		<u>802,722</u>	<u>770,724</u>

<b>LIABILITIES</b>	Note	<b>30 June 2005</b> <b>Unaudited</b>	31 December 2004 Restated
<b>Non-current liabilities</b>			
Borrowings	14	–	200,450
Retirement benefit obligations		<u>17,656</u>	<u>19,243</u>
		<u>17,656</u>	<u>219,693</u>
<b>Current liabilities</b>			
Notes payable		35,850	5,000
Due to customers on construction contracts		780,660	826,446
Trade payables	15	376,544	372,470
Other payables and accruals	16	134,790	108,783
Current income tax liability		654	748
Other tax liabilities		2,376	4,937
Borrowings	14	836,947	515,871
Derivative financial instruments	11	4,960	–
Provisions for warranty	17	41,187	38,247
Dividends payable		<u>13</u>	<u>13</u>
		<u>2,213,981</u>	<u>1,872,515</u>
<b>Total liabilities</b>		<u>2,231,637</u>	<u>2,092,208</u>
<b>Total equity and liabilities</b>		<u>3,034,359</u>	<u>2,862,932</u>
<b>Net current liabilities</b>		<u>(224,959)</u>	<u>(63,015)</u>
<b>Total assets less current liabilities</b>		<u>820,378</u>	<u>990,417</u>

**Condensed Consolidated Income Statement**

		<b>Unaudited</b>	
		<b>For the six months ended</b>	
Note	<b>30 June 2005</b>	<b>30 June 2004</b>	
Sales	<b>1,189,676</b>	1,090,300	
Construction costs	<b>(1,007,242)</b>	(950,122)	
Cost of goods sold and services rendered	<b>(105,044)</b>	(80,726)	
Cost of sales	<b>(1,112,286)</b>	(1,030,848)	
<b>Gross profit</b>	<b>77,390</b>	59,452	
Other gains – net	18 <b>38,141</b>	28,899	
Selling and marketing costs	<b>(2,310)</b>	(1,855)	
Administrative expenses	<b>(65,971)</b>	(62,907)	
Other operating expenses	<b>(343)</b>	(1,485)	
<b>Operating profit</b>	<b>46,907</b>	22,104	
Finance costs	20 <b>(14,307)</b>	(9,727)	
Share of profits of associates	<b>154</b>	266	
<b>Profit before income tax</b>	<b>32,754</b>	12,643	
Income tax expense	21 <b>(4,662)</b>	(979)	
<b>Profit for the period</b>	<b>28,092</b>	11,664	
<b>Attributable to:</b>			
Equity holders of the company	<b>27,235</b>	11,491	
Minority interest	<b>857</b>	173	
	<b>28,092</b>	11,664	
<b>Earnings per share for profit attributable to the equity holders of the company during the period</b> (expressed in RMB per share)			
– basic & diluted	22 <b>0.0551</b>	0.0232	

## Condensed Consolidated Statement of Changes in Equity

		Unaudited				
		Attributable to equity holders of the company			Minority interest	Total
Note	Share capital	Other reserves	Accumulated losses			
<b>Balance at 1 January 2004,</b>						
as previously reported as equity	1,146,655	100,148	(589,234)	–	657,569	
as previously separately reported as minority interest	–	–	–	59,733	59,733	
<b>Balance at 1 January 2004,</b>						
as restated	1,146,655	100,148	(589,234)	59,733	717,302	
Profit for the period	–	–	11,491	173	11,664	
<b>Balance at 30 June 2004</b>	<u>1,146,655</u>	<u>100,148</u>	<u>(577,743)</u>	<u>59,906</u>	<u>728,966</u>	
<b>Balance at 1 January 2005,</b>						
as previously reported as equity	1,146,655	100,148	(528,289)	–	718,514	
as previously separately reported as minority interest	–	–	–	52,210	52,210	
<b>Balance at 1 January 2005,</b>						
as restated	1,146,655	100,148	(528,289)	52,210	770,724	
Disposal of interest in a subsidiary	–	–	–	(5,262)	(5,262)	
Fair value gains, net of tax:						
– available-for-sale financial assets	–	9,168	–	–	9,168	
Profit for the period	–	–	27,235	857	28,092	
<b>Balance at 30 June 2005</b>	<u>1,146,655</u>	<u>109,316</u>	<u>(501,054)</u>	<u>47,805</u>	<u>802,722</u>	

## Condensed Consolidated Cash Flow Statement

	Unaudited	
	For the six months ended	
	30 June 2005	30 June 2004
Net cash (used in)/generated from operating activities	(165,976)	204,329
Net cash (used in)/generated from investing activities	(31,039)	14,749
Net cash generated from/(used in) financing activities	119,876	(136,912)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(77,139)</b>	<b>82,166</b>
Cash and cash equivalents at 1 January	377,700	391,535
<b>Cash and cash equivalents at 30 June</b>	<u><b>300,561</b></u>	<u><b>473,701</b></u>

The cash and cash equivalents at 30 June 2005 and 2004 represented bank balances and cash as stated in the respective balance sheets.



## Notes to the condensed consolidated financial information

### 1. Basis of preparation and accounting policies

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRS”) which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information. The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.

### 2. Changes in accounting policies

#### (a) Effect of adopting new HKFRS

In 2005, the group adopted the new HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 21, 23, 24, 27, 28, 33, 36 and 37 did not result in substantial changes to the group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 23, 27, 28, 33, 36 and 37 had no material effect on the group's policies.
- HKAS 21 had no material effect on the group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of group's investment properties which are stated at cost less accumulated depreciation and accumulated impairment losses. In prior years, the investment properties were stated at fair value and the decreases in fair value were expensed in the income statement.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the group require retrospective application other than:

- HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

(i) The adoption of revised HKAS 17 resulted in a reclassification of accounts as below:

	<b>30 June 2005</b>	31 December 2004
Decrease in property, plant and equipment	<b>52,505</b>	66,345
Increase in land use rights	<b>52,505</b>	66,345

(ii) The adoption of HKAS 39 resulted in an adjustment to the balance sheet at 30 June 2005 and profit and loss for the six months ended 30 June 2005 as follows:

	<b>30 June 2005</b>
Increase in available-for-sale financial assets	<b>22,696</b>
Decrease in non-trading securities	<b>12,010</b>
Increase in derivative financial instruments (assets)	<b>12,376</b>
Increase in derivative financial instruments (liabilities)	<b>4,960</b>
Decrease in accumulated losses	<b>7,416</b>
Increase in other reserves	<b>9,168</b>
	<b>For the six months ended</b>
	<b>30 June 2005</b>
Increase in other gains	<b>7,416</b>

(iii) The adoption of revised HKAS 40 resulted in a reclassification of accounts as below:

	30 June 2005	31 December 2004
Increase in investment properties	6,396	5,200
Decrease in property, plant and equipment	<u>6,396</u>	<u>5,200</u>

(b) New Accounting Policies

The accounting policies used for the condensed consolidated financial information for the six months ended 30 June 2005 are the same as those set out in note 1 to the 2004 annual financial statements except for the following:

## 2.1 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi Yuan ("RMB"), which is the functional and presentation currency of the company and the group entities.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

## 2.2 Property, plant and equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

## 2.3 Investment properties

Property that is held for long-term rental yields and that is not occupied by the companies in the consolidated group, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at cost less accumulated depreciation and accumulated impairment losses.

Depreciation on investment properties is calculated using the straight-line method to allocate their costs less accumulated impairment losses to their residual values over their estimated useful lives to the group. The principal annual rate of the depreciation for investment properties is 3.2%.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying value at the date of reclassification becomes its cost for accounting purposes.

## 2.4 Impairment of assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

## 2.5 Investments

From 1 January 2004 to 31 December 2004:

The group classified its investments in securities, other than subsidiaries and associates as non-trading securities.

Non-trading securities are stated at cost less any provision for impairment losses. The carrying amounts of individual securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

From 1 January 2005 onwards:

The group classifies its investments in securities as available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement.

## 2.6 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

## 2.7 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### **3. Financial risk management**

#### **3.1 Financial risk factors**

The group's activities expose it to a variety of financial risks: market risk (mainly foreign exchange risk), credit risk (mainly risk related to trade receivables), liquidity risk and fair value interest rate risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the group's financial performance. The group uses derivative financial instruments to mitigate certain risk exposures.

A Foreign Exchange Risk Management Committee comprised of senior management of the group and financial consultants from financial institutions was set up to advise the Board of Directors to monitor the exchange risk exposure and evaluate the performance of the financial derivatives. A treasury team in the Finance Department is dedicated to the day-to-day management of cash flows.

A Contract Risk Management Committee comprised of senior management of the group and in-house legal consuls was set up to monitor the credit risk pursuant to the risk management guidelines approved by the Board of Directors.

##### **(i) Foreign exchange risk**

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. The group's foreign currency transactions are mainly denominated in US dollars. When the exchange rate of RMB was pegged to US dollars in the past, the foreign exchange risk was relatively low. However, with the recent appreciation of the RMB, the group has considered its implication when entering into new business contracts and used forward contracts to mitigate such risk.

##### **(ii) Credit risk related to trade receivables**

Credit risk related to trade receivables is the risk that the receivables cannot be collected in the due date. The group has no significant credit risk for ship building business as full payment should be made prior to delivery of vessels to customers. In respect of the non-ship building business and the specific ship building business, the group will carry out customer credit checks prior to entering business contracts, request progress payments from customers and press for immediate settlement upon delivery of goods to mitigate the risk. Contract Risk Management Committee is responsible for monitoring the collection of receivables over due for more than one year.

##### **(iii) Liquidity risk**

Due to the dynamic nature of the underlying businesses, the treasury team aims to maintain flexibility in funding by keeping committed credit lines available, so as to meet operating needs.

##### **(iv) Fair value interest rate risk**

As the group has no significant interest-bearing assets, the group's income and operating cash flows are substantially independent of changes in market interest rates. The group's fair value interest rate risk arises from long-term loans borrowed at fixed rates, which are limited to certain import and export RMB loans with lower interest rate than the normal commercial interest rate.

#### **3.2 Accounting for derivative financial instruments**

From 1 January 2004 to 31 December 2004:

The transactions that, according to the group's policy for risk management, are not able to meet the conditions for hedge accounting although they have been set up for the purpose of managing risk (since the group's policy does not permit speculative transactions), are designated as 'non-hedging instruments'. The group records derivative financial instruments at cost. The gains and losses on derivative financial instruments are included in the income statement on maturity to match the underlying hedged transactions where relevant.

From 1 January 2005 onwards:

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The group's derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

### 3.3 Fair value estimation

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

## 4. Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4.1 Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Estimated provision for amount due from GZITIC

The company has a deposit of RMB397,066,000 placed with the Guangzhou International Trust and Investment Company (“GZITIC”). A provision of RMB325,370,000 has been made towards the principle when GZITIC failed to repay the amount as scheduled. An agreement was entered into between the company and GZITIC on 31 January 2005 that certain real properties are to be transferred to the company to settle a principle amount of RMB220,000,000 and the interest thereon. These properties were revalued at RMB125,000,000 by Sallmanns (Far East) Limited, an independent firm of surveyors registered in Hong Kong, on 15 February 2005. Pursuant to the agreement, the amount due from GZITIC is settled only when the legal title of the properties have been transferred to the company. As at 30 June 2005, the legal title of these properties have not been fully transferred, and there is no further progress on the collectability of the remaining balance. The company considered that maintaining the current provision amount is the best estimation.

Material adjustments to the book value of the company’s assets may be required should the properties are subsequently disposed of or the remaining balance has been repaid in the future.

(b) Amount due from a minority shareholder

As at 30 June 2005, the group has trade and other receivables due from Havens Steel Company (“Havens”) amounted to RMB10,570,000. Havens is a minority shareholder of United Steel Structures Limited (“USSL”), a subsidiary of the group, and it has filed for bankruptcy protection in the United States of America.

Management of USSL considered that the amounts due may not be collectible in full, therefore, a provision of RMB4,500,000 has been made in 2004. However, Rmb9,000,000 of the debt is guaranteed by a third party and USSL has already claimed compensation. Considering that the guarantor only has queries for RMB3,000,000 of the debt, and there are legal fees and other charges payable, management considered that the provision of RMB 4,500,000 is adequate at present .

Since USSL is still in the process of securing more compensations, material adjustments to the book value of the group’s assets may be required in the future when the remaining balance are settled.

(c) Budgeted construction costs

The company's budget for construction contracts are prepared by individual management department according to their specific responsibilities then analysed and consolidated. The budget will then be updated on a monthly basis based on latest construction status and market environment. Upon approval by management, the budgeted costs will be used as the source of preparing financial statements.

When there is a probable loss on the construction contracts, a provision for foreseeable losses will be made upon approval by the Board of Directors.

As at 30 June 2005, the company's budgeted costs for construction contracts have been updated based on latest information, and there is no provision for foreseeable losses of construction contracts in progress considered necessary. Material adjustment to the budgeted costs may occur when the construction status or market environment changed significantly in the future.

(d) Accrual for warranty

The company provides warranties on goods sold and services rendered. A professional department is established to manage affairs concerning product warranties. The department will also propose a warranty provision, when the ownership and risk of the products are transferred to customers, based on historical warranty expenses for similar goods or services, industry practices or warranty expenses of other similar enterprises and market environment.

At the balance sheet date, the department designated to monitor the repairs and maintenance of products shall update the utilisation status of the warranty provision.

Due to the special nature of the company's products and constructions, and the uncertainty in accepting warranty obligations, material adjustments for warranties may be required for certain products and constructions upon final settlement.

#### 4.2 Important accounting policy judgment

##### Recognition of revenue

Revenue of the group included sales and installation of steel structure projects. The HKAS 11 "Construction Contracts" is not applicable to these projects since the production and installation period is often less than 1 year. Revenue shall only be recognised when the outcome of the project can be measured reliably. This generally takes place at the time when the steel structure products have been delivered and installed and the final acceptance documents have been obtained.

#### 5. Segment information

##### Primary reporting format – business segments

At 30 June 2005, the group is organised on the People's Republic of China (the "PRC") basis into three main business segments:

- (1) Shipbuilding – construction and trading of vessels;
- (2) Shiprepairing – provision of ship repairing services; and
- (3) Steel structure and other manufacturing – manufacturing and trading of steel structure and mechanical and electrical equipment.

The container manufacturing segment was discontinued in 2004.

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

The segment results for the six months ended 30 June 2004 are as follows:

	Shipbuilding	Ship-repairing	Steel structure and other manufacturing	Other operations	Elimination	Group
Sales	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 of associates				266		266
Profit before income tax						12,643
Income tax expense						(979)
Profit for the period						11,664
Depreciation	19,137	–	6,544	4,156		29,837
Amortisation	–	–	239	–		239
Capital expenditure	4,136	–	1,836	452		6,424

The segment results for the six months ended 30 June 2005 are as follows:

	Shipbuilding	Ship-repairing	Steel structure and other manufacturing	Other operations	Elimination	Group
Total gross segment sales	1,066,537	4,838	128,091	41,177	(50,967)	1,189,676
Inter-segment sales	–	(243)	(26,219)	(24,505)	50,967	–
Sales	1,066,537	4,595	101,872	16,672	–	1,189,676
Segment results	81,881	318	13,146	10,684	(337)	105,692
Unallocated revenues						8,475
Unallocated costs						(67,260)
Operating profit						46,907
Finance costs						(14,307)
Share of profits of associates				154		154
Profit before income tax						32,754
Income tax expense						(4,662)
Profit for the period						28,092
Depreciation	18,802	–	7,825	3,438		30,065
Amortisation	–	–	140	–		140
Capital expenditure	12,724	–	882	1,008		14,614

Unallocated costs represent corporate expenses. Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Capital expenditure comprises additions to property, plant and equipment.



The segment assets and liabilities at 31 December 2004 are as follows:

	Shipbuilding	Ship-repairing	Steel structure and other manufacturing	Other operations	Elimination	Group
Segment assets	1,732,806	4,504	195,875	68,097	(18,935)	1,982,347
Interests in associates				3,765		3,765
Unallocated assets						876,820
Total assets						<u>2,862,932</u>
Segment liabilities	1,273,130	6,643	54,417	13,745	(18,935)	1,329,000
Unallocated liabilities						763,208
Total liabilities						<u>2,092,208</u>

The segment assets and liabilities at 30 June 2005 are as follows:

	Shipbuilding	Ship-repairing	Steel structure and other manufacturing	Other operations	Elimination	Group
Segment assets	<b>1,848,071</b>	<b>2,980</b>	<b>232,527</b>	<b>62,889</b>	<b>(15,589)</b>	<b>2,130,878</b>
Interests in associates				<b>4,019</b>		<b>4,019</b>
Unallocated assets						<b>899,462</b>
Total assets						<u><b>3,034,359</b></u>
Segment liabilities	<b>1,265,743</b>	<b>7,381</b>	<b>72,811</b>	<b>20,407</b>	<b>(15,589)</b>	<b>1,350,753</b>
Unallocated liabilities						<b>880,884</b>
Total liabilities						<u><b>2,231,637</b></u>

Segment assets consist primarily of property, plant and equipment, inventories, derivatives financial instruments and receivables, and mainly exclude investment properties, deferred taxation, available-for-sale financial assets and bank balances and cash.

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

#### Secondary reporting format – geographical segments

Although the group's three main business segments are managed on a PRC wide basis, turnover is contributed from five main geographical areas in which the customers are located:

Mainland China	–	shipbuilding, shiprepairing, steel structure and other manufacturing
Denmark	–	shipbuilding
Hong Kong	–	shipbuilding, shiprepairing, steel structure and other manufacturing
Malta	–	shipbuilding
Marshall Island	–	shipbuilding
Other countries	–	shipbuilding, shiprepairing, steel structure and other manufacturing

	<b>For the six months ended</b>	
	<b>30 June 2005</b>	30 June 2004
<b>Sales</b>		
Mainland China	317,368	335,294
Denmark	595,997	444,308
Hong Kong	84,778	1,907
Malta	–	307,852
Marshall Island	153,389	–
Other countries	38,144	939
	<u>1,189,676</u>	<u>1,090,300</u>

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

	<b>30 June 2005</b>	31 December 2004
	<b>Total assets</b>	
Mainland China	3,002,874	2,835,867
Hong Kong	27,466	23,300
	<u>3,030,340</u>	<u>2,859,167</u>
Interest in associates	4,019	3,765
	<u>3,034,359</u>	<u>2,862,932</u>

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

	<b>For the six months ended</b>	
	<b>30 June 2005</b>	30 June 2004
<b>Capital expenditures</b>		
Mainland China	46,448	30,011
	<u>46,448</u>	<u>30,011</u>

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

	<b>For the six months ended</b>	
	<b>30 June 2005</b>	30 June 2004
<b>Analysis of sales by category</b>		
Revenue from construction contracts	1,066,537	992,721
Sales of goods	101,879	70,422
Revenue from services	21,260	27,157
	<u>1,189,676</u>	<u>1,090,300</u>

## 6. Capital expenditure

	Property, plant and equipment	Investment properties	Land use rights	Total capital expenditure
Opening net book amount as at 1 January 2005	941,099	5,200	66,345	1,012,644
Additions	46,448	–	–	46,448
Disposals	(2,116)	–	–	(2,116)
Disposal of interest in a subsidiary	(5,444)	–	(12,938)	(18,382)
Depreciation/amortisation charge (Note 19)	(39,720)	(126)	(902)	(40,748)
Impairment reverse (Note 19)	–	1,322	–	1,322
Closing net book amount as at 30 June 2005	<u>940,267</u>	<u>6,396</u>	<u>52,505</u>	<u>999,168</u>
Opening net book amount as at 1 January 2004	991,502	5,900	68,339	1,065,741
Additions	30,011	–	–	30,011
Disposals	(450)	–	–	(450)
Depreciation/amortisation charge (Note 19)	(40,191)	(108)	(997)	(41,296)
Closing net book amount as at 30 June 2004	<u>980,872</u>	<u>5,792</u>	<u>67,342</u>	<u>1,054,006</u>
Additions	16,986	–	–	16,986
Disposals	(12,400)	–	–	(12,400)
Depreciation/amortisation charge	(42,431)	(125)	(997)	(43,553)
Impairment charge	(1,928)	(467)	–	(2,395)
Closing net book amount as at 31 December 2004	<u>941,099</u>	<u>5,200</u>	<u>66,345</u>	<u>1,012,644</u>

## 7. Non-trading securities

**31 December 2004**

Unlisted equity securities	<u>12,010</u>
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Non-trading securities were designated as available-for-sale financial assets on 1 January 2005.

## 8. Available-for-sale financial assets

At 1 January 2005	12,010
Transfer to interest in associates	(100)
Revaluation surplus transfer to equity (Note 13)	<u>10,786</u>
<b>At 30 June 2005</b>	<u><u>22,696</u></u>

There were no disposals or impairment provisions on available-for-sale financial assets in 2005.

Available-for-sale financial assets are unlisted equity securities traded on inactive markets and of private issuers.

## 9. Trade receivables

	30 June 2005	31 December 2004
Trade receivables	207,631	130,721
Less: provision for impairment of trade receivables	(10,726)	(9,214)
Trade receivables – net	<u>196,905</u>	<u>121,507</u>
Receivables from related parties (Note 25)	<u>10,121</u>	<u>62,357</u>
	<u><u>207,026</u></u>	<u><u>183,864</u></u>

The carrying amounts of trade receivables approximate to their fair value.

The general credit terms of trade receivables are:

<u>Operations</u>	<u>Credit terms</u>
Shipbuilding	Within one month after issue of invoice
Other operations (including ship repairing, steel structure and other manufacturing)	Normally one to six months

At 30 June 2005 and 31 December 2004, the ageing analysis of the trade receivables were as follows:

	30 June 2005	31 December 2004
Not exceeding one year	182,961	106,181
More than one year but not exceeding two years	11,200	11,671
More than two years but not exceeding three years	1,426	3,182
More than three years	1,318	473
	<u>196,905</u>	<u>121,507</u>

There is no concentration of credit risk with respect to trade receivables, as the group has a large number of customers.

The group has recognised a loss of RMB1,509,000 (2004 June: nil) for the impairment of its trade receivables during the six months ended 30 June 2005. The loss has been included in administrative expenses in the income statement.

## 10. Other receivables

	30 June 2005	31 December 2004
Prepayments for trading materials and equipment	2,473	4,547
Subsidy receivable for construction of vessels	54,535	38,744
Amounts due from non-banking financial institutions (Note)	445,474	445,474
Less: provision for non-recovery	(373,810)	(373,810)
	71,664	71,664
Amounts due from other related parties (Note 25)	157,498	108,698
Others	20,501	22,605
	<u>306,671</u>	<u>246,258</u>

Note: Amounts due from non-banking financial institutions contain the principle of amount due from GZITIC, a state-controlled enterprise, amounted to RMB397,066,000. Please refer to note 4.1(a).

The carrying amounts of other receivables approximate to their fair value.

## 11. Derivative financial instruments

	30 June 2005	
	Assets	Liabilities
Forward foreign exchange contracts	<u>12,376</u>	<u>(4,960)</u>

At 31 December 2004, the fair value of forward foreign exchange contracts is RMB2,714,000 (including assets of RMB 2,894,000 and liabilities of RMB 180,000).

## 12. Share capital

	1 January, 30 June, 31 December 2004 and 30 June 2005
Registered, issued and fully paid	
210,800,080 State shares of RMB1 each	210,800
126,479,500 A shares of RMB1 each	126,480
157,398,000 H shares of RMB1 each	<u>157,398</u>
	494,678
Share premium	<u>651,977</u>
Total	<u>1,146,655</u>

## 13. Other reserves

	1 January, 30 June and 31 December 2004	Available-for-sale financial assets	30 June 2005
Statutory surplus reserve	48,997	–	48,997
Statutory public welfare fund	30,591	–	30,591
Discretionary surplus reserve	20,560	–	20,560
Revaluation – gross	–	10,786	10,786
Revaluation - tax	–	(1,618)	(1,618)
Total	<u>100,148</u>	<u>9,168</u>	<u>109,316</u>

## 14. Borrowings

	30 June 2005	31 December 2004
<b>Non-current</b>		
Bank borrowings	<u>–</u>	<u>200,450</u>
<b>Current</b>		
Bank borrowings		
– short-term bank borrowings	336,572	115,871
– current portion of long-term bank borrowings	<u>500,375</u>	<u>400,000</u>
	<u>836,947</u>	<u>515,871</u>
<b>Total borrowings</b>	<u>836,947</u>	<u>716,321</u>

Short-term bank borrowings of RMB82,765,000 (31 December 2004: RMB82,765,000) are secured by the property, plant and equipments of the group of RMB156,835,000 (31 December 2004: RMB161,141,000) as at 30 June 2005.

Short-term bank borrowings of RMB116,212,000 (31 December 2004: nil) are guaranteed by a company controlled by China State Shipbuilding Corporation ("CSSC"), the immediate major shareholder of the company.

Long-term bank borrowings of RMB500,000,000 (31 December 2004: RMB600,000,000) are guaranteed by CSSC, which the company also provided a counter indemnity.

The maturity of borrowings is as follows:

	<b>Bank borrowings</b>	
	<b>30 June 2005</b>	31 December 2004
Within 1 year	<b>836,947</b>	515,871
Between 1 and 2 years	-	200,450
	<b>836,947</b>	<b>716,321</b>

The effective interest rates at the balance sheet date were as follows:

	<b>30 June 2005</b>			31 December 2004		
	<b>RMB</b>	<b>USD</b>	<b>EUR</b>	RMB	USD	EUR
Short-term bank borrowings	<b>4.7%</b>	<b>4.0%</b>	<b>3.2%</b>	4.6%	2.0%	2.8%
Long-term bank borrowings	<b>2.7%</b>	-	-	2.7%	-	-

The carrying amounts and fair value of the non-current borrowings are as follows:

	<b>Carrying amounts</b>	<b>Fair values</b>
At 31 December 2004	<b>200,450</b>	<b>200,450</b>

The fair values are based on cash flows discounted using a rate based on the borrowings rate of 2.7%.

The carrying amounts of short-term borrowings approximate to their fair value.

The carrying amounts of the borrowings are denominated in the following currencies:

	<b>30 June 2005</b>	31 December 2004
RMB	<b>580,375</b>	600,450
US dollar	<b>256,572</b>	115,871
	<b>836,947</b>	<b>716,321</b>

The group has the following undrawn borrowing facilities:

	<b>30 June 2005</b>	31 December 2004
Expiring within one year	<b>1,162,592</b>	<b>898,292</b>

**15. Trade payables**

	<b>30 June 2005</b>	31 December 2004
Trade payables	216,768	194,566
Amounts due to related parties (Note 25)	<u>159,776</u>	<u>177,904</u>
	<u><b>376,544</b></u>	<u><b>372,470</b></u>

The carrying amounts of trade payables approximate to their fair value.

At 30 June 2005 and 31 December 2004, the ageing analysis of the trade payables were as follows:

	<b>30 June 2005</b>	31 December 2004
Not exceeding one year	215,592	193,000
More than one year but not exceeding two years	400	807
More than two years but not exceeding three years	397	320
More than three years	<u>379</u>	<u>439</u>
	<u><b>216,768</b></u>	<u><b>194,566</b></u>

**16. Other payables and accruals**

	<b>30 June 2005</b>	31 December 2004
Payables to third parties and accruals	119,044	103,672
Amounts due to related parties (Note 25)	<u>15,746</u>	<u>5,111</u>
	<u><b>134,790</b></u>	<u><b>108,783</b></u>

The carrying amounts of other payables approximate to their fair value.

**17. Provisions for warranty**

At 1 January 2005	38,247
Additional provisions	9,156
Unused amounts reversed	(1,646)
Used during the period	<u>(4,570)</u>
At 30 June 2005	<u><b>41,187</b></u>

**18. Other gains – net**

	<b>For the six months ended</b>	
	<b>30 June 2005</b>	30 June 2004
Forward contracts not qualifying as hedges accounting:		
– realised gains on derivative instruments	1,213	–
– fair value gains on derivative instruments	7,416	–
Interest income	2,047	3,577
Dividend income	891	621
Subsidy income for shipbuilding	15,791	18,768
Gain on sales of scrap and other materials	7,236	4,265
Others	<u>3,547</u>	<u>1,668</u>
	<u><b>38,141</b></u>	<u><b>28,899</b></u>

## 19. Expenses by nature

	For the six months ended	
	30 June 2005	30 June 2004
Depreciation and amortisation charges (Note 6)	40,748	41,296
Add: amount capitalised in opening inventories	6,818	11,290
Less: amount capitalised in ending inventories	(15,071)	(7,125)
	32,495	45,461
Raw materials and consumables used	1,035,324	735,572
Staff costs	127,655	125,155
Provisions of warranty (Note 17)	7,510	8,903
Reversal of impairment (Note 6)	(1,322)	–
Subcontract cost	141,657	137,373
Vessel design fee	14,431	15,217
Vessel inspection fee	12,751	7,638
Commission and agent fee	17,902	16,614

## 20. Finance costs

	For the six months ended	
	30 June 2005	30 June 2004
Interest expense:		
– bank borrowings	11,185	9,982
– amounts due to suppliers	733	468
Other incidental borrowing costs	426	240
	12,344	10,690
Net foreign exchange transaction losses/(gains)	1,963	(963)
	14,307	9,727

## 21. Income tax expense

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

	For the six months ended	
	30 June 2005	30 June 2004
Current income tax – the PRC enterprise income tax	721	979
Deferred income tax	3,941	–
	4,662	979

Share of associates' taxation for the six months ended 30 June 2005 of RMB59,000 (2004: RMB47,000) are included in the income statement as share of profits of associates.

## 22. Earnings per share

The calculation of basic and diluted earnings per share is based on the group's profit attributable to shareholders of RMB27,235,000 (2004: RMB11,491,000) and the weighted average number of 494,677,580 (2004: 494,677,580) ordinary shares in issue during the period.



### 23. Contingent assets

As mentioned in note 4.1(a), the group has obtained legal title to certain real properties according to the agreement. However, since the developer has not paid the land use right fees to the government, the group has not fully secured the rights to these assets. Accordingly, the amounts due from GZITIC are not considered as settled and the properties in questions are treated as contingent assets.

### 24. Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	30 June 2005	31 December 2004
Contracted but not provided for	27,811	3,940
Authorised but not contracted for	24,930	12,836
	<u>52,741</u>	<u>16,776</u>

### 25. Significant related-party transactions

CSSC, the immediate major shareholder of the company which owns 42.613% of the company's shares, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the company's ultimate controlling party. State-controlled enterprises and their subsidiaries, in addition to CSSC group companies, directly or indirectly controlled by the PRC government are also related parties of the group. Neither CSSC nor the PRC government publishes financial statements available for public use.

The PRC government controls a substantial number of entities in the PRC. For the purpose of related party transactions disclosure, the group has established procedures, to the extent possible, to identify the immediate ownership structure of its customers and suppliers as to whether they are state-controlled enterprises. The Board of Directors believes that all significant related party transactions and balances have been adequately disclosed.

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

The following significant transactions were carried out with related parties:

#### i) Sales of goods and services

	<u>For the six months ended</u>	
	30 June 2005	30 June 2004
Sales of goods		
– to companies controlled by CSSC (a)	1,448	1,999
– to other state-controlled enterprises (a)	130,162	168,597
	<u>131,610</u>	<u>170,596</u>
Sales of services		
– to companies controlled by CSSC (b)	9,861	14,603

Note:

- (a) Goods are sold at market price.
- (b) Income from provision of service represents provision of vessel-related processing services, ship repairing services and other services.

Services are provided either on the basis of the price in force with non-related parties or on a cost-plus basis, allowing a margin around 25%.

ii) Purchases of goods and services

	For the six months ended	
	30 June 2005	30 June 2004
Purchases of goods:		
– from companies controlled by CSSC (a)	99,033	86,512
– from other state-controlled enterprises (a)	338,833	229,001
	<u>437,866</u>	<u>315,513</u>
Purchase of services:		
– from companies controlled by CSSC (b)	19,751	15,613
	<u>19,751</u>	<u>15,613</u>

Note:

- (a) Goods are purchased at market price.
- (b) Services are purchased on a cost-plus basis, allowing a margin around 10%.

iii) Payment of expenses and other charges

	For the six months ended	
	30 June 2005	30 June 2004
Vessel sales commissions payable:		
– to companies controlled by CSSC (a)	10,337	12,658
Other expenses payable:		
– to companies controlled by CSSC (b)	5,363	7,332
	<u>15,700</u>	<u>19,990</u>

Note:

- (a) Vessel sales commission payable was computed based on 1% - 3% of the contract price of relevant vessels.
- (b) 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 RMB3,618,000 (2004: RMB3,503,000) 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 2005 and 2004 did not include welfare to key management personnel. The comprehensive service agreement and supplementary agreement expired at the end of 2005.

iv) Key management compensation

	For the six months ended	
	30 June 2005	30 June 2004
Emolument, salaries and other short-term employee benefits	2,030	1,861
Post-employment benefits	77	102
	<u>2,107</u>	<u>1,963</u>

v) **Period-end balances**

	<b>30 June 2005</b>	31 December 2004
Receivables from related parties (Note 9 & Note 10):		
– to CSSC and companies controlled by CSSC	<b>30,707</b>	20,486
– to other state-controlled enterprises	<b>208,576</b>	222,233
	<u><b>239,283</b></u>	<u>242,719</u>
Payables to related parties (Note 15 & Note 16):		
– to CSSC and companies controlled by CSSC	<b>98,684</b>	107,176
– to other state-controlled enterprises	<b>76,838</b>	75,839
	<u><b>175,522</b></u>	<u>183,015</u>

Save as disclosed as above, significant related party balances also include an amount of RMB 867,000 (31 December 2004: RMB1,853,000) representing current deposits in a financial institution controlled by CSSC. This amount was included in bank balance and cash.

## **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” (overseas version) during the period under review and related company documents.