

NOTES TO THE FINANCIAL STATEMENTS

*(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2004*

(I). OVERVIEW OF THE COMPANY

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

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

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

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

The Company presently has 4 major operations, 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.

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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 cost, provision for diminution is made.

8. Provisions for Doubtful Debts

- (1). 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.
- (2). Accounting basis of doubtful debts lost: provision way.
- (3). 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.

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9. Inventories

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

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

Methods of making provision for diminution of value on inventories:

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

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

- (1). 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.

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

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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.

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

At the end of term, the value of fixed asset is calculated in accordance with the lower between the 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.

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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:

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

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.

- (1). The payout (only including cash paid, transferred non-currency assets or holding debt liability) has been occurred.
- (2). The expenses of loan have been occurred.
- (3). 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

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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:

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

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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.

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(IV). PRINCIPAL SUBSIDIARIES AND AFFILIATES

1. Principal Subsidiaries

Name	Registered Capital (‘000)	Principal Business	Interest Investment Capital (‘000)	Indirect Attributable to the Company (%)	Indirect interest (%)
Masterwood Company Limited	RMB 3,315	Manufacture and sales of all kind of material furniture series	RMB933	51	25
Guangzhou Guanglian Container Transportation Company Limited	RMB 20,000	Container transportation	RMB15,000	75	
Xinhui City Guangzhou Shipyard Nanyang Shipping Industrial Company	RMB 34,800	Ship dismantling, shipbuilding and steel structure engineering	RMB25,200	70	
Guangzhou Xinsun Shipping Service Company Limited	RMB 2,000	Installation, welding, fitting, coating, repairing of hull structure	RMB500	83	
United Steel Structures Limited	USD 8,850	Manufacturing, sales and post sales service of steel structure	RMB37,522	51	
Guangdong GSI Elevator Limited	RMB 21,000	Design, manufacturing, sales, installation, modification and repairing of all kinds of elevator	RMB19,950	95	3.8
Guangzhou Hongfan Information Technique Co., Ltd.	RMB 5,000	Developing of computer software, system integration and sales	RMB3,850	77	
Rongguang Developing Co., Ltd.	HKD10	Trading	RMB10.44	100	
Indirect holding subsidiaries					
Guangzhou Hongfan Hotel	RMB10,000	Traveling and catering services	RMB10,000	86.16	Yes
Guangdong GSI Elevator Limited	RMB21,000	Elevator manufacturing	RMB350	3.8	Yes
Masterwood Company Limited	RMB3,315	Manufacture and sales of all kind of material furniture series	RMB829	25	Yes
Fonkwang Development Ltd.	HKD200	General trade	HKD140	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.

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Holding subsidiaries out of the scope of consolidation in this period: Kwangchou Shipyard Container Factory has been liquidated and drew out from container manufacturing business with the approval of the Board for field transformation and disadvantage market condition. Guangzhou Sanlong Industrial Trading Development Company Limited was out of operation capability for improper risk management caused entrust deposit and partial receivable become doubtful debt and closed with the approval of the Board. The 75.93% interest in Guangzhou Henghe Construction Company Limited of the Company has been transferred on January 1st 2004 according to the Resolution of the Board and the amended Articles of Association. The transfer has been completed in 2004.

(V). NOTES TO ITEMS IN THE FINANCIAL STATEMENTS (UNIT: RMB, UNLESS SPECIAL STATEMENT)

1. Cash and Bank Balances

Item	As at 31st Dec. 2004		As at 31st Dec. 2003	
	Foreign currency	Equivalent RMB	Foreign currency	Equivalent RMB
Cash				
RMB		214,827.77		293,302.26
HKD	114,507.62	122,498.17	8,919.22	
USD	3,310.17	27,396.62	49,861.49	
JPY	500.00	39.85	500.00	
EUR	5,310.84	59,814.40		
Subtotal		424,576.81		293,302.26
Deposit				
RMB		336,447,268.52		331,932,020.38
HKD	1,356,502.10	1,446,997.80	4,296,829.61	4,579,131.31
USD	4,066,250.21	33,664,043.07	5,505,039.66	45,563,011.25
EUR	315,358.80	3,476,372.45		—
Subtotal		375,034,681.84		382,074,162.94
Deposit in CSSC Financial Co. (Note)		1,852,930.75		9,091,916.06
Others				
RMB		191,846.73		75,926.18
USD	23,735.64	196,448.02		—
Subtotal		388,294.75		75,926.18
Total		<u>377,700,484.15</u>		<u>391,535,307.44</u>

Note: CSSC Financial Co., parented to China State Shipbuilding Corporation, is a non-financial company approved and supervised by Bank of China.

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2. Accounts Receivable

(1). Accounts Receivable

31st December, 2004					
Bond age	Amount	Percentage%	Provision for doubtful debts	Percentage of doubtful debts	Net receivable
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	3.94%	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
Total	<u>192,781,298.99</u>	<u>100%</u>	<u>9,217,006.99</u>	<u>–</u>	<u>183,564,292.00</u>

31st December, 2003					
	Amount	Percentage%	Provision for doubtful debts	Percentage of doubtful debts	Net receivable
Within 1 year	375,635,098.48	83.82	1,878,175.49	0.50%	373,756,922.99
1-2 years	30,549,870.31	6.82	152,749.35	0.50%	30,397,120.96
2-3 years	1,953,550.00	0.44	9,767.75	0.50%	1,943,782.25
Over 3 years	35,279,947.42	7.87	176,399.74	0.50%	35,103,547.68
50% as doubtful debts	1,619,265.33	0.36	1,619,265.33	100.00%	–
100% as doubtful debts	3,096,030.43	0.69	1,548,015.22	50.00%	1,548,015.22
Total	<u>448,133,761.97</u>	<u>100</u>	<u>5,384,372.88</u>	<u>–</u>	<u>442,749,389.09</u>

- (i). Regard to 100% as doubtful debts, the Company has appealed, but the debtors are unable to perform the sentence of the Court to pay. Therefore, with the approval of the Board, the doubtful debts are considered in 100%.
- (ii). Regard to 50% as doubtful debts, some unfavorable situations occurred for taking back the money. 50% as doubtful debts is approved with relevant procedure of the Company.
- (iii). Accounts receivable reduced in 58.54% mainly due to the reception of shipbuilding settlements. The sum of first five largest debtors is RMB 98,690,000.00 representing 49.13% of the total of account receivable.
- (iv). None of prepayments is due from shareholders who hold 5% or above of the Company's interest.

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(2). Prepayment from customers

Bond Age	31 December, 2004		31 December, 2003	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	106,549,662.30	94.13	25,631,533.74	86.21
1-2 years	1,197,152.06	1.06	3,295,066.80	11.08
2-3 years	4,700,363.63	4.15	711,700.00	2.39
Over 3 years	750,000.00	0.66	92,000.00	0.31
Total	<u>113,197,177.99</u>	<u>100.00</u>	<u>29,730,300.54</u>	<u>100.00</u>

- (i). The amount of the five companies with highest prepayments is RMB107.42 million representing 94.89% of repayment from customers.
- (ii). Prepayment from customers increased in 280.75% due to tight supply of material and prepayment for marine engine.
- (iii). None of prepayments is due from shareholders who hold 5% or above of the Company's interest.

(3). Other receivables

Bond age	Amount	%	31st December, 2004		Net receivable
			Percentage of 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	<u>48,535,000.00</u>	<u>10.48</u>	<u>48,535,000.00</u>	<u>100.00%</u>	<u>–</u>
Total	<u>463,141,091.45</u>	<u>100.00</u>	<u>373,997,495.46</u>	<u>–</u>	<u>89,143,595.99</u>

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

(i). The amount of the five companies with highest other receivables is RMB 450.2 million representing 97% of other receivables from customers.

(ii). Trust Deposits (refer to item 8 of Significant Events):

(a) The trust deposits at Guangzhou Economic and Technology Development Zone International Trust and Investment Company ("GETDZITIC") remains RMB47,430,000.00 with full provision for doubtful debts in 2000.

(b) The accounts receivable of the Company from Guangzhou International Trust Investment Company ("GZITIC") was RMB 397,067,000.00 and has made in 80% as doubtful debts in last period. The Company and GZITIC have negotiated to restructure the debts. An agreement on debt restructuring was entered into on January 31st 2005 and under execution. The Company is following the procedure and will disclose relevant information accordingly.

Other receivable decreased by 45.55% over that of last year, that mainly due to the receiving compensation for relocation of the east area of the Company and the liquidating of part outstanding payment.

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

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(4). Subsidy receivable

Items	31st December 2004	31st December 2003
Subsidy for domestic sea going liners	38,743,592.72	69,066,993.18
Value-added tax refund for exports	8,886,559.24	116,418,735.94
Total	<u>47,630,151.96</u>	<u>185,485,729.12</u>

Subsidy receivable was decreased by 74.32% compared with the beginning of the period mainly due to the speed-up of value-added tax refund for export.

3. Inventories and provision for diminution in value

Item	31st December 2004			31st December 2003		
	Amount	Provision for diminution in value	Net amount	Amount	Provision for diminution in value	Net amount
Raw material	309,139,565.31	949,378.29	308,190,187.02	172,422,616.70	1,098,117.87	171,324,498.83
Low-value Consumables	247,525.42	–	247,525.42	900,165.57	–	900,165.57
Work-in-progress	53,653,680.54	–	53,653,680.54	49,716,458.38	11,654,935.66	38,061,522.72
Finished goods	4,545,713.38	20,269.04	4,525,444.34	4,852,199.97	20,269.04	4,831,930.93
Total	<u>367,586,484.65</u>	<u>969,647.33</u>	<u>366,616,837.32</u>	<u>227,891,440.62</u>	<u>12,773,322.57</u>	<u>215,118,118.05</u>

The net amount of inventories was increased by 70.43% compared with the beginning of the period mainly due to the improvement of shipbuilding efficiency and the increase of stock material for shortage of raw material supply.

4. Deferred expenses

Category	Opening balance	Addition in the period	Amortization in the period	Closing balance
Road maintenance and insurance	1,047,048.02	3,600.15	586,208.84	464,439.33
Property insurance	–	509,939.25	372,726.75	137,212.50
Total	<u>1,047,048.02</u>	<u>513,539.40</u>	<u>958,935.59</u>	<u>601,651.83</u>

Deferred expenses were decreased by 42.54% compared with the beginning of the period mainly due to amortized road maintenance last year.

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5. Long-term investment

Item	Opening balance (RMB)		Addition in the period	Deduction in the period	Closing balance (RMB)	
	Amount	Provision for diminution			Amount	Provision for diminution
Long-term equity investments	15,512,741.75	–	622,700.92	327,708.24	15,807,734.43	–
Long-term debt investments	–	–	–	–	–	–
Total	15,512,741.75	–	622,700.92	327,708.24	15,807,734.43	–

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

Name of Investees	Total investment	Percentage holding of investees' capital	Closing balance	Equity method	
				Change in the period	Accumulated change
South China/Marine And Industrial Special Coating Limited	1,722,060.00	25.00%	2,972,463.36	543,478.71	1,250,403.36
Zhanjiang Nanhai Naval New Technology & Service Co., Ltd.	800,000.00	40.00%	792,971.53	102,054.41	-7,028.47
Shenzhen Yuanzhou Science & Technology Industry Company Limited	1,000,000.00	7.41%	1,000,000.00	–	–
China Merchants Banking Corporation Information and Technology Company Limited of CSSC	10,010,000.00	0.23%	10,010,000.00	–	–
Guangli Marine Engineering Service Company Limited	900,000.00	15.00%	900,000.00	–	–
Guangzhou Sanlong Industrial Trading Development Company Limited	100,000.00	20.00%	100,000.00	–	–
	1,005,000.00	67%	32,299.54	-181,445	-972,700.46
Subtotal	15,537,060.00		15,807,734.43	464,088.12	270,674.43

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2004

(2). Consolidated Difference

Name of Investees	Opening balance	Amortization period	Balance at the beginning of the year	Amortization in the period	Value after amortization
Guangzhou Henghe Construction Company Limited	2,157,150.21	10 years	1,707,743.96	1,707,743.96	–
Guangzhou Hongfan Hotel	61,617.69	–	–	–	61,617.69
Total	<u>2,218,767.90</u>		<u>1,707,743.96</u>	<u>1,707,743.96</u>	<u>61,617.69</u>

Consolidated Difference was decreased largely mainly due to the investment draw back from Guangzhou Henghe Construction Company Limited.

Consolidated Difference was caused by the quit of Kwangchow Shipyard Container Factory, divided its interest in Guangzhou Hongfan Hotel into 80% and 20% and transferred them to Guangzhou Xinsun Shipping Service Company Limited and Guangdong Elevator Limited respectively.

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

Item	Opening balance	Addition	Deduction	Closing balance
(1). Original Cost				
Buildings	427,526,771.33	11,418,366.54	1,399,547.39	437,545,590.48
Structures	254,880,272.25	11,050,246.98	4,246,180.26	261,684,338.97
Vehicles	25,868,824.72	718,161.19	976,642.00	25,610,343.91
Instruments and meters	6,361,208.81	276,353.06	225,192.96	6,412,368.91
Transmission system	36,892,854.35	280,620.43	15,823.35	37,157,651.43
Machinery and equipment	767,194,212.01	36,854,183.76	42,984,018.17	761,064,377.60
Total	<u>1,518,724,143.47</u>	<u>62,426,095.93</u>	<u>49,847,404.13</u>	<u>1,531,302,835.27</u>

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2004

Item	Opening balance	Addition	Deduction	Closing balance
(2). Net value of				
Buildings	90,965,411.59	11,930,616.42	108,595.83	102,787,432.18
Structures	83,334,694.58	10,138,140.82	459,958.12	93,012,877.28
Vehicles	15,592,598.59	2,111,581.79	964,778.13	16,739,402.25
Instruments and meters	4,194,332.85	648,112.99	219,459.58	4,622,986.26
Transmission system	14,191,816.01	1,928,387.13	6,906.60	16,113,296.54
Machinery and equipment	351,408,501.09	59,049,579.64	20,267,411.76	390,190,668.97
Total	559,687,354.71	85,806,418.79	22,027,110.02	623,466,663.48
(3). Net value of fixed assets	959,036,788.76	-23,380,322.86	27,820,294.11	907,836,171.79

Fixed Assets Provision for diminution

Item	Opening Balance	Addition	Deduction	Closing Balance
Fixed Assets	1,082,819.57	1,828,168.97	151,324.34	2,759,659.20

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7. Construction-in-process

Category	Opening balance Including: interest	Addition in the period Including: interest	Transfer to fixed assets Including: interest	Other reductions Including: interest	Closing balance Including: interest
1. Facilities improvements					
(1) Capital construction:					
critical improvement					
project in					
national debt	10,402,884.28	4,156,257.29	650,855.81	3,869,219.79	10,039,065.97
Including:					
capitalized interests	208,179.34	—	30,358.03	91,259.26	86,562.05
(2) Others	19,844,550.99	31,636,311.36	30,465,924.84	—	21,014,937.51
2. Subsidiaries	—	—	—	—	—
Total	30,247,435.27	35,792,568.65	31,116,780.65	3,869,219.79	31,054,003.48
Including: capitalized					
interests	208,179.34	—	—	91,259.26	208,179.34

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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- (1). Critical Improvement Project in National Debt project of the above constructions-in-progress is construction and technical improvement for 18000dwt semi-submersible heavy lift vessel.
- (2). Capitalizing rate is loan rate from bank at the period. The Company collects capital for other engineering.

8. Intangible assets

Category	Initial cost	Opening balance	Addition	Transfer out	Amortization	Closing balance	Remained term
Land use right	107,695,527.12	71,840,201.32	–	–	2,311,379.64	69,528,821.68	38 years
Know-how	10,332,076.00	7,759,306.72	2,365,038.78	–	1,818,056.88	8,306,288.62	10-1 years
Total	118,027,603.12	79,599,508.04	2,365,038.78	–	4,129,436.52	77,835,110.30	

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

9. Long-term deferred expenses

Category	Opening balance	Addition	Amortization	Closing balance
Modification expenses				
of fixed assets	1,528,389.82	1,321,098.60	465,726.06	2,383,762.36
Others	321,240.85	2,116,777.31	361,134.44	2,076,883.72
Total	1,849,630.67	3,437,875.91	826,860.50	4,460,646.08

Long-term deferred expenses was increased by 141.16% compared with the beginning of the period mainly due to Masterwood Company Limited rented workshops and equipment for field shortage during the year of 2004.

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2004

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

(1). Short-term loans

Loans category	31st December 2004	31st December 2003	Note	
			Loan's term	Annual interest
Mortgage loans	82,765,000.00	89,660,200.00	2003/9-2004/11	1.65% – 2.31
Guarantee loans	–	49,660,200.00	2004/2-2004/12	1.73% – 1.876
Credit loans	33,106,000.00	55,083,406.91		
Total	115,871,000.00	194,403,806.91		

Mortgage loan is made with the guaranty of own buildings worth of RMB187,140,000.00. Guarantee loan is made with the warrantors of CSSC, CSTC and CSSC Guangzhou Holding Company and the Company pays 0.2%-0.3% annually as guarantee bond (see (VI) Related parties and transactions in this section). Short-term loans were decreased by 40.40% compared with the beginning of the period mainly due to abundance capital.

(2). Long-term loans within one year

Loans category	31st December 2004	31st December 2003	Note	
			Loan's term	Annual interest
Mortgage loans	400,000,000.00	380,000,000.00	2002/2 – 2005/5	2.7-4.05
Guarantee loans	–	–		
Other	–	3,537,455.50		
Total	400,000,000.00	383,537,455.50		

Guarantee loan is made with the warrantors of CSSC, CSTC and CSSC Guangzhou Holding Company and the Company pays 0.2% – 0.3% annually as guarantee bond (see (VI) Related parties and transactions in this section).

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2004

11. Accounts payable

(1). Bills payable

Category	Amount	Expired within one year	Note
Bank honored draft	5,000,000.00	5,000,000.00	
Commercial honored draft	—	—	
Total	<u>5,000,000.00</u>	<u>5,000,000.00</u>	

Bills payable was decreased by 95.79% compared with the beginning of the period mainly due to good capital condition and less credit purchase.

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

(2). Accounts payable

Bond age	31st December 2004		31st December 2003	
	Amount	Percentage%	Amount	Percentage%
Within 1 year	370,757,807.37	99.54	334,979,312.47	97.99
1-2 years	953,436.31	0.26	4,400,677.17	1.29
2-3 years	320,269.65	0.09	2,225,660.60	0.65
Over 3 years	<u>438,358.73</u>	<u>0.12</u>	<u>261,490.24</u>	<u>0.08</u>
Total	<u>372,469,872.06</u>	<u>100.00</u>	<u>341,867,140.48</u>	<u>100.00</u>

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

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2004

(3). Advances from customers

Category	31st December 2004	31st December 2003
Within 1 year	13,598,296.43	–
1-2 years	1,248,820.94	352,240.00
2-3 years	60,830.00	6,289,544.00
Over 3 years	–	25,069,927.36
	<hr/>	<hr/>
Total	<u>14,907,947.37</u>	<u>31,711,711.36</u>

Advances from customers was decreased by 52.99% compared with the beginning of the period mainly due to new shipbuilding orders transferred to “other current liabilities” according to contract accounting principle.

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

(4). Other Payables

Category	31st December 2004	31st December 2003
Company retirement pension	3,286,465.96	25,763,259.50
Staff check off	881,371.49	2,014,897.24
Auditing expenses to accountants	2,012,583.68	2,080,784.90
Guangzhou Marine Affaires Bureau	2,302,489.32	2,294,937.68
Guangzhou Shipyard	30,536.00	–
Emolument to independent directors	412,803.36	400,008.48
Medicare for retirees	10,367,169.48	14,603,833.33
Consultant cost	–	800,000.00
Guarantee cost	–	297,800.00
Other payables	9,813,133.60	8,883,030.08
	<hr/>	<hr/>
Total	<u>29,106,552.89</u>	<u>57,138,551.21</u>

Include: balance with over 3-year's bond age	88,924.70	7,951,555.77
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Other payable was decreased by 49.06% compared with the beginning of the period mainly due to mainly due to payment of the additional retirement pension balance of the Company.

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

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2004

12. Payable Dividends

Category	31st December 2004	31st December 2003
Dividends from associated companies	13,449.38	13,449.38
Total	13,449.38	13,449.38

13. Taxes Payable

Category	31st December 2004	31st December 2003
Value-added tax	-21,546,664.46	-16,849,732.65
Business tax	312,761.59	284,273.10
City construction tax	479,238.59	1,297,155.37
Income tax	286,431.30	528,727.29
Property tax	126,226.58	-14,974.64
Land tax	-3,357.11	-180.22
Tax of staff income	816,579.66	696,494.04
Total	-19,528,783.85	-14,058,237.71

14. Accrued expenses

Category	31st December 2004	31st December 2003
Product warranty provision	37,399,137.56	50,948,419.41
Costs for outstanding projects	30,994,593.31	29,370,936.91
Cleaning cost after moving office	–	1,887,097.84
Loan interest	168,705.25	761,159.35
Accrued water & power cost of this month	3,123,898.49	–
Others	6,015,465.44	4,231,988.92
Total	77,701,800.05	87,199,602.43

Product guarantee provision is made based on fixed percentage of vessel contract price in accordance with the shipbuilding contract and the shipbuilding industry regulations, that is, Cost Management and Auditing Regulations of Shipbuilding Corporations schemed by CSSC and approved by Ministry of Finance and National Taxation Bureau. It is intended to cover product maintenance costs incurred within one-year from date of delivery.

Cost for outstanding project refers to the cost of shipbuilding product after finish the project, which may occur in future but have not yet paid.

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2004

15. Other Current Liabilities

Category	31st December 2004	31st December 2003
Settlement for long-term contractual project	<u>225,486,044.23</u>	<u>242,958,088.77</u>
Total	<u><u>225,486,044.23</u></u>	<u><u>242,958,088.77</u></u>

16. Long-term Bank Loans

Name of Bank	Amount	Loan's term	Annual interest	Conditions of loans
China Import and Export Bank	<u>200,450,000.00</u>	2003/8~2006/1.5	2.70%	Guarantee
Total	<u><u>200,450,000.00</u></u>			

Long-term bank loans were decreased by 33.30% compared with the beginning of the period mainly due to payment of expired loan and partial transformation to long-term loans within one year, such loans were all guaranteed by CSSC which is a connected party of the Company, and the Company should paid 0.2%-0.3% annual guarantee fee and supply anti-guarantee for CSSC.

17. Special project payable

Category	31st December 2004	31st December 2003
National fund	22,792,562.86	27,568,562.86
Provincial fund	<u>—</u>	<u>842,806.47</u>
Total	<u><u>22,792,562.86</u></u>	<u><u>28,411,369.33</u></u>

State fund of special project payable is central subsidy for High Value-added Ro/Pax Vessel Technology Renovation Project allotted in accordance with the regulations [2001] 1271 issued by national Economic and Trading Committee, National Development and Planning Committee and National Finance Ministry and scientific research appropriation for High Speed Ro/Pax Vessel in accordance with the document [2001] 787 issued by CSCC. Provincial fund is fund of "Technical Innovation Project" allotted by Guangdong Finance Bureau and Guangdong Economic and Trading Committee. This fund is allotted by National Finance authority freely and should be used according to relevant regulations.

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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18. Capital share

Unit: share

Item	Opening Balance	Change (+/-)						Closing Balance
		Right issue	Bonus issue	Conversion from reserves	Addition issue	Others	Others Sub-total	
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

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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20. Surplus reserve

Item	Opening Balance	Addition	Deduction	Closing Balance
Statutory surplus reserve	48,998,046.01	—	—	48,998,046.01
Public welfare fund	30,693,515.41	—	—	30,693,515.41
Discretionary surplus fund	20,455,949.92	—	—	20,455,949.92
Total	<u>100,147,511.34</u>	<u>—</u>	<u>—</u>	<u>100,147,511.34</u>

21. Retained Profit

Item	31st December 2004	31st December 2003
Balance at the beginning of the year	-570,212,867.94	-613,264,642.69
Balance adjustment of previous years	—	—
Profit this year	33,672,983.77	43,051,274.75
Statutory reserve	—	—
Statutory public welfare fund	—	—
Workers welfare fund	—	—
Prior share dividend distributed	—	—
Discretionary public reserve	—	—
Share dividend distributed	—	—
Balance at the end of the year	<u>-536,539,884.17</u>	<u>-570,212,867.94</u>

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2004

22. Geographical distribution to turnover

Country	Principal operating incomes		Partial gross profit		Change Percentage
	2004	2003	2004	2003	
Malta	343,030,776.80	341,506,639.37	34,553,812.32	26,498,887.58	0.45
Sweden	–	98,080,771.31	–	-8,625,067.49	-100.00
Denmark	1,197,260,301.32	576,749,632.99	22,567,180.12	19,896,424.71	107.59
Macao	675,709.56	–	161,165.40	–	
Philippine	2,595,952.57	–	111,740.31	–	
United States	85,297.60	22,436,429.93	-30,164.17	3,168,528.84	-99.62
Hong Kong	17,758,804.82	611,485,901.01	3,248,698.18	14,626,157.44	-97.09
Sub-total	1,561,406,842.67	1,650,259,374.61	60,612,432.16	55,564,931.08	-5.38
China	801,995,907.85	1,190,186,150.17	58,002,044.67	32,139,075.75	-32.62
Total	<u>2,363,402,750.52</u>	<u>2,840,445,524.78</u>	<u>118,614,476.83</u>	<u>87,704,006.83</u>	<u>-16.79</u>

The sales of the top five sellers for the Company amounted to RMB196.526 million representing 83.15% of the total sales.

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

Item	Operating income (RMB)		Cost of sales (RMB)		Gross profit (RMB)	
	This period	Last period	This period	Last period	This period	Last period
Shipbuilding products	2,105,611,528.25	2,117,845,492.20	2,037,134,355.79	2,079,051,185.86	68,477,172.46	38,794,306.34
Container	1,133,080.23	514,474,976.58	800,441.12	501,480,187.90	332,639.11	12,994,788.68
Steel structure	140,961,939.86	78,078,622.63	128,159,600.15	69,413,259.22	12,802,339.71	8,665,363.41
Terrestrial machinery	100,444,374.78	116,698,998.94	66,582,598.26	91,814,829.19	33,861,776.52	24,884,169.75
Ship-repairing products	15,251,827.40	13,347,434.43	12,111,278.37	10,982,055.78	3,140,549.03	2,365,378.65
Total	<u>2,363,402,750.52</u>	<u>2,840,445,524.78</u>	<u>2,244,788,273.69</u>	<u>2,752,741,517.95</u>	<u>118,614,476.83</u>	<u>87,704,006.83</u>

Principal operation incomes was decreased by 16.79% compared with the beginning of the period and gross profit increased by 35.24% compared with the beginning of the period mainly due to the Company reinforced cost control on shipbuilding products and ship products restructure decreased the percentage of domestic sea gong liners. Other products have not achieved the expectation of the Company. The withdrawal of container manufacturing affected on the income of the Company. Steel structure products are not properly positioned and have difficulty in order seeking because of severe competition and high cost. Other terrestrial machinery needs more time to recover and come to order for the relocation of Nanji Mechanical & Electrical Co. and the operation environment changed. Ship-repairing narrowed business scope because of limited field.

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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24. Principal operating tax and additional tax

Category	The year of 2004	The year of 2003
Sales tax	918,803.88	1,343,198.28
City construction tax	715,643.74	1,385,053.49
Education additional tax	319,553.04	599,747.64
	<hr/>	<hr/>
Total	1,954,000.66	3,327,999.41
	<hr/>	<hr/>

Principal operating tax and additional tax decreased by 41.29%, mainly due to the deduction of business with operation tax.

25. Financial expenses

Category	The year of 2004	The year of 2003
Interest expense	19,512,715.14	40,246,035.17
Less: interest income	7,257,712.56	7,945,366.09
exchange loss	-4,531,595.54	238,326.03
Others	1,436,745.41	2,541,253.73
	<hr/>	<hr/>
Total	9,160,152.45	35,080,248.84
	<hr/>	<hr/>

The financial expenses decreased by 73.89% mainly due to capital turnover recovered better, and cut down loan scale, so the interest expense decreased.

26. Operation and management expenses

Item	The year of 2004	The year of 2003
1. Operation expenses	2,596,263.10	3,944,434.97
2. Management expenses	143,506,434.08	141,954,555.42
	<hr/>	<hr/>

The operation expense decreased by 34.18% mainly due to the quit of container manufacturing business.

NOTES TO THE FINANCIAL STATEMENTS

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27. Profit from other operations

Item	Operating income		Operating cost		Operating gross profit	
	The year of 2004	The year of 2003	The year of 2004	The year of 2003	The year of 2004	The year of 2003
Sales of raw materials	26,823,407.60	29,479,545.21	22,950,604.76	24,132,251.51	3,872,802.84	5,347,293.70
Sales of scrap materials	24,441,964.67	26,503,830.79	17,907,066.43	17,220,244.60	6,534,898.24	9,283,586.19
Transportation service	1,510,796.27	13,124.00	230,186.37	1,954.01	1,280,609.90	11,169.99
Others	17,298,242.44	13,598,173.20	13,745,926.88	10,788,838.78	3,552,315.56	2,809,334.42
Total	<u>70,074,410.98</u>	<u>69,594,673.20</u>	<u>54,833,784.44</u>	<u>52,143,288.90</u>	<u>15,240,626.54</u>	<u>17,451,384.30</u>

28. Investment income

Item	Bonds investment	Equity investments		Total income
		At equity	At cost	
Short-term investments	—	—	—	—
Long-term investments	—	-912,188.76	621,059.80	-291,128.96
Total	<u>—</u>	<u>-912,188.76</u>	<u>621,059.80</u>	<u>-291,128.96</u>

29. Subsidy income

Item	The year of 2004	The year of 2003
Subsidy for sea going liners	57,511,102.55	116,428,263.77
Others	<u>3,477,465.86</u>	<u>7,452,087.01</u>
Total	<u>60,988,568.41</u>	<u>123,880,350.78</u>

- (1) The subsidy income in this year decreased by 50.77%, mainly due to the decreased subsidy income for domestic sea going vessels, the 420000 dwt product oil tankers built for China Shipping Development Co., Ltd, which are eligible for special financial subsidy at 17% on contract price excluding tax in according to relevant regulations of Ministry of Finance and State Taxation Bureau. The Subsidy income is calculated by completion percentage and certain proportion to schedule settlement in accordance with Document [2000] 3 of Ministry of Finance.

NOTES TO THE FINANCIAL STATEMENTS

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- (2) Other subsidies consist of special subsidies from the state, export premium and drawback of new and high-technical products from the government.

30. Non-operating income and expenses

(1) Non-operating income

Item	The year of 2004	The year of 2003
Gain on disposal of fixed assets	5,488,546.57	1,545,372.30
Penalty received	54,409.43	17,320.00
Income of fixed assets	—	—
Compensation	45,315.10	9,015,584.13
Bad debt income	8,200.00	79,918.92
Others	423,934.84	540,510.22
Total	<u>6,020,405.94</u>	<u>11,198,705.57</u>

The Non-operating income decreased by 46.24% this year, mainly due to the receipt of the outstanding account of RMB9.02 million in 2003 from Changda Company. If eliminate the said outstanding account, the non-operating income in this year increased by 176%, which is caused by the sale of container line equipment.

(2) Non-operating expenses

Category	The year of 2004	The year of 2003
Loss on disposal of fixed assets	5,209,592.14	5,058,398.60
Penalty expenses	6,550.00	52,137.28
Loss on fixed assets	72,352.49	—
Compensation	429,827.84	244,919.60
Non-commonweal sponsor	100,000.00	6,051.00
Others	4,611,445.96	9,040,983.33
Total	<u>10,429,768.43</u>	<u>14,402,489.81</u>

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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31. Exceptional items

Category	Amount
1. Balance of equity investment	278,958.22
2. Subsidy income (excluding the subsidy income of domestical sea going liner)	477,465.86
3. Non-operating imcome	6,020,405.94
4. Non-operating expenses	-10,429,768.43
Total	-652,938.41

32. Other main expenses related to business:

Item	Amount
Management expenses	34,963,660.42
Operating expenses	2,596,263.10
Manufature expenses	243,728,182.75
Total	281,288,106.27

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

(1) Accounts receivable

31st December 2004				
Age bond	Amount	Proportion	Provision for doubtful debts	Record value
Within one year	148,041,125.79	93.44	740,205.63	147,300,920.16
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	158,439,078.45	100.00	4,544,711.85	153,894,366.60

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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31st December 2003

Age bond	Amount	Proportion	Provision for doubtful debts	Record value
Within one year	161,165,934.10	101.72	805,829.67	160,360,104.43
1-2 years	11,260,450.03	7.11	56,302.25	11,204,147.78
2-3 years	–	0.00	–	–
Over 3 years	33,129,316.97	20.91	172,071.13	32,957,245.84
50% as doubtful debts	3,096,030.43	1.95	1,548,015.22	1,548,015.22
100% as doubtful debts	887,209.95	0.56	887,209.95	–
Total	209,538,941.48	100.00	3,469,428.22	206,069,513.26

Refer to the notes of “Accounts Receivable”.

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

(2) Other accounts receivable

31st December 2004

Age bond	Amount	Proportion	Provision for doubtful debts	Record value
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	462,204,792.40	100.00	372,997,813.96	89,206,978.44

31st December 2003

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

NOTES TO THE FINANCIAL STATEMENTS

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(3) Long-term Investments

Item	Opening Balance			Closing Balance		
	Amount	Provision for diminution in value	Addition in the period	Deduction in the period	Amount	Provision for diminution in value
Long-term equity investments	206,344,531.79	–	–	82,086,256.03	124,725,409.65	1,828,163.97
Long-term debt investments	–	–	–	–	–	–
Total	206,344,531.79	–	–	81,619,122.14	124,725,409.65	1,828,163.97

Long-term equity investments – Other equity investments

Name of Investees	Total investment	Percentage holding of investees' capital	Closing Balance	Change in the period	Accumulated change
Kwangchow Shipyard Container Factory	56,155,800.59	100%	0.00	-56,155,800.59	-56,155,800.59
Masterwood Company Limited	2,486,385.00	51%	2,921,727.16	-1,375,093.56	435,342.16
Guangzhou Guanglian Container Transportation Company Limited	15,000,000.00	75%	15,576,701.36	331,969.50	576,701.36
Xinhui City Nanyang Shipping Industrial Company	25,200,000.00	70%	13,523,000.00	-2,067,111.33	-11,677,000.00
Guangzhou Sanlong Industrial Trading Develop Company Limited	1,005,000.00	67%	32,300.00	-181,445.00	-972,700.00
Guangzhou Xinshun Shipping Service Co., Ltd	500,000.00	83%	9,870,426.10	-3,791,201.73	9,370,426.10
United Steel Structures Limited	37,522,000.00	51%	38,388,035.80	-1,835,316.84	12,949,337.80
Guangdong GSI Elevator Limited	19,950,000.00	95%	21,165,109.27	-673,426.73	1,215,109.27
Guangzhou Hongfan Information Techique Co., Ltd	4,500,000.00	77%	4,286,433.70	369,502.63	-213,566.30
Henghe Construction Company	3,380,000.00	75.90%	0.00	-20,047,647.23	-3,380,000.00
Rongkwong Developing Co., Ltd	10,439.94	100%	1,890,943.51	-301,106.71	1,880,503.57
South China/Marin and Industrial	1,722,003.00	25%	2,972,463.36	543,478.70	1,250,460.36
Zhanjiang Nanhai Naval New Technology & Service Co., Ltd	800,000.00	40%	792,971.53	102,054.41	-7,028.47
Shenzhen Yuanzhou Science & Technology Industry Company Limited	1,000,000.00	7%	1,000,000.00		0.00
China Merchants Banking Corporation	10,010,000.00	0%	10,010,000.00		0.00
Total	167,158,326.53		122,430,111.79	-85,081,144.48	-44,728,214.74

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(prepared under PRC accounting Standards and Systems)
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- (1) Considering no profit margin caused by disadvantage of the market, the subsidiary company, Kwangchow Shipyard Container Factory was approved by Board of Directors on 16th April 2004 to quit out the container manufacturing business. The Company was on the proceeding of disposal the subsidiary's asserts and liabilities, and withdrew all investments at the end of 2004.
- (2) According to the decision of the shareholders meeting of Henghe Construction Company, the Company is approved to withdraw all its investment in Henghe Comapny. The Company commenced on the process of changing its equity this period, and withdrew all investment as at the end of 2004.
- (3) Considering the trust deposit and part of account receivable becoming bad debts caused by untrol business risk, the subsidiary company, Guangzhou Sanlong Industrial Tranding Develop Company Limited was approved by Board of Directors to be closed in this year. Relevant liquidation procedure is processing.

Pursuant to accounting system, the subsidiary was not consolidated in the account, but relevant liquidation profit and loss were calculated in current profit and loss.

- (4) An agrement was entered into between the Company and a individual investor on 25 February 2005, pursuant to the agreement, the Company transferred its 70% interest in itssubsidiary Xinhui City Nanyang Shipping Industrial Company with an amount of RMB13.52 million. Because the account is lower than the book value of Nanyang Company as at the end of the year 2004, the provision of diminution of this period with an amount of RMB1.83 million was considered in profit and loss of this year.
- (5) for the quit of container manufactueng business, in accordance with the decision of the Board of Directors, 80% and 20% interests in Guangzhou Hongfan Hotel and held by Kwangchow Shipyard Container Factory and Masterwood Company Limited respectively will be tranfered to Guangzhou Xinshun Shipping Service Company Limited and Guangdong GSI Elevator Limited respectively.

(4) Investment income

Item	Bonds investment income	Equity investment		Total income
		At equity	At cost	
Short-term Investments	—	—	—	—
Long-term investments	—	-2,544,172.39	621,059.80	-1,923,112.59
Total	—	-2,544,172.39	621,059.80	-1,923,112.59

NOTES TO THE FINANCIAL STATEMENTS

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

Product Category	Operating income		Cost of sales		Gross profit	
	The year of 2004	The year of 2003	The year of 2004	The year of 2003	The year of 2004	The year of 2003
Shipbuilding products	2,105,611,528.25	2,117,845,492.20	2,037,134,355.79	2,076,291,728.86	68,477,172.46	41,553,763.34
Steel Structure	34,514,326.73	22,319,605.68	32,896,081.75	22,515,378.67	1,618,244.98	(195,772.99)
Terrestrial machinery	45,566,123.10	41,758,813.75	35,074,206.60	38,304,889.81	10,491,916.50	3,453,923.94
Ship-repairing products	15,251,827.40	13,347,434.43	12,111,278.37	10,982,055.78	3,140,549.03	2,365,378.65
Total	<u>2,200,943,805.48</u>	<u>2,195,271,346.06</u>	<u>2,117,215,922.51</u>	<u>2,148,094,053.12</u>	<u>83,727,882.97</u>	<u>47,177,292.94</u>

Refer to relevant note in the Consolidated Statements.

(VI). CONNECTED PARTY AND TRANSACTIONS

1. Connected parties under the control of the company

Name	Registered address	Principal Business	Relationship With the Company	Nature of the Enterprise	Legal Representative
CSSC	No. 1 Pudong Main Road, Shanghai	Ship manufacturing and sales	State shareholder	Company with limited liability	Chen Xiaojin
Guangzhou Xinsun Shipping Service Company Limited	No.40 Fangcun Main Road Guangzhou	Installation, welding outfitting, coating, repair of hull structure	Subsidiary	Company with limited liability	Zhou Dushen
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 Company	Gujin Town, Xinhui City, Guangdong	Ship dismantling	Subsidiary	Cooperative company	Li Yizhen

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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Name	Registered address	Principal Business	Relationship		Legal Representative
			With the Company	Nature of the Enterprise	
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	Ling Liangguang
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.	Catic plaza 8 causeway rd causeway bay HK	General trading	Subsidiary	Cooperative company	Han Guangde
Connected parties under indirect control:					
Guangzhou Hongfa Hotel	No.126 Gexin Road Guangzhou	Lodge, restaurant	Subsidiary	Cooperative company	Wang Lijian
Fankwong Developing Co., Ltd.	Rm 503 Dominion Centre Queen's Road East,HK	General Trading	Subsidiary	Cooperative company	Zeng Xiangxin
Masterwood Company Limited	No.40 Fangcun Main Road Guangzhou	Manufacture furniture	Subsidiary	Sino-foreign joint venture	Chen Demin

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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2. The registered capital of connected parties under the control of the Company and their changes

Name	Opening Balance RMB	Additions in the period RMB	Disposal in the period RMB	Closing Balance RMB
CSSC	6,374,300,000	–	–	6,374,300,000
Kwangchow Shipyard Container Factory	44,924,640	–	44,924,640	–
Guangzhou Xinshun Shipping Service Company Limited	2,000,000	–	–	2,000,000
Masterwood Company Limited	3,315,180	–	–	3,315,180
Guangzhou Guanglian Container Transportation Co., Ltd.	20,000,000	–	–	20,000,000
Xinhui City Nanyang Shipping Industrial Company	34,800,000	–	–	34,800,000
Guangzhou Sanlong Industrial Trading Develop Co., Ltd.	1,500,000	–	1,500,000	–
United Steel Structures Limited	73,572,705	–	–	73,572,705
Guangdong GSI Elevator Limited	21,000,000	–	–	21,000,000
Guangzhou Hongfan Information Technique Co., Ltd	5,000,000	–	–	5,000,000
Henghe Construction Company	27,500,000	–	27,500,000	–
Ronggaung Developing Co.,Ltd.	HK\$10,000	–	–	HK\$10,000
Connected parties under indirect control:				
Guangzhou Hongfa Hotel	500,000	9,500,000	–	10,000,000
Fankwong Developing Co., Ltd.	HK\$200,000	–	–	HK\$200,000
Masterwood Company Limited	3,315,180	–	–	3,315,180

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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3. The equity interests in connected parties under the control of the company and their changes

Name	Opening Balance		Additions in the period		Disposal in the period		Closing Balance	
	RMB	%	RMB		RMB		RMB	%
CSSC	210,800,080.00	42.61	–		–		210,800,080.00	42.61
Kwangchow Shipyard								
Container Factory	56,155,800.59	100	–		56,155,800.59		–	0
Guangzhou Xinshun Shipping								
Service Co., Ltd.	15,560,389.35	83	–		3,894,581.96		11,665,807.39	83
Masterwood Company Limited	5,509,300.96	75	219,575.82		–		5,728,876.78	51
Guangzhou Guanglian Container								
Transportation Company Limited	20,693,068.54	75	75,866.60		–		20,768,935.14	75
Xinhui City Nanyang								
Shipping Industrial Co.	24,310,397.83	70	–		3,580,163.59		20,730,234.24	70
Guangzhou Sanlong Industrial Trading								
Develop Co., Ltd.	178,801.61	67	–		178,801.61		–	67
United Steel Structures Limited	77,704,870.88	51	2,066,371.58		–		79,771,242.46	51
Guangdong GSI Elevator Limited	22,639,655.20	95			360,592.81		22,279,062.39	95
Guangzhou Hongfan Information								
Technique Co., Ltd	5,058,928.61	77	507,868.41		–		5,566,797.02	77
Henghe Construction Company	26,413,237.46	76			26,413,237.46		–	
Rongguang Developing Co., Ltd	1,759,578.71	98	131,364.80		–		1,890,943.51	98

Connected parties under indirect control:

Guangzhou Hongfa Hotel	-6,435,802.68	100	9,768,079.13		–		3,332,276.45	86.16
Fankwong Developing Co., Ltd.	HK\$200,000.00	70	–		–		HK\$200,000.00	70
Masterwood Company Limited	<u>5,509,300.96</u>	75	<u>219,575.82</u>		–		<u>5,728,876.78</u>	25

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

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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4. The condition of the connected parties uncontrolled by the company

(1) The connected parties uncontrolled by the company

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

Affiliated company

South China Marine & Industrial Special Coating Company Limited

Companies under control of China State Shipbuilding Corporation

CSSC No. 708 Institute	Guangzhou Shipyard
Guangzhou Wenchong Shipyard	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
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	China United Shipbuilding Co., Ltd
Guangzhou Shipbuilding Corporation	

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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(2) Material and labor provided by CSSC to the Company (RMB)

Connected Parties	The year of 2004					The year of 2003
	Total	Power	Material	Operating Rent	Labour and Technical Service	
Affiliated Company		-	-	-	-	
South China Marine & Industrial Special Coating Company Limited	20,715.06	8,152.21	11,873.45	-	689.40	29,138.72
sub-total	20,715.06	8,152.21	11,873.45	-	689.40	29,138.72
Companies under control of CSSC						
Guangzhou Shipyard Guangda Co.	1,672,650.67	748,159.22	574,881.99	349,609.46	-	2,551,994.90
Guangzhou Shipyard Forging Co.,Ltd	144,790.16	-	94,840.00	8,753.58	41,196.58	-
Guangxi Guijiang Shipyard	163,787.42	-	163,787.42	-	-	-
Guangzhou Huangpu Shipyard	1,784,809.08	-	1,097,942.58	31,140.00	655,726.50	2,192,692.45
Guangzhou Wenchong Shipyard	13,266,500.86	-	33,786.00	939,580.20	12,293,134.66	8,682,587.41
Guangzhou Shipyard	3,250,448.18	1,585,225.22	1,641,667.34	22,615.62	940.00	3,493,929.86
CSSC Guangzhou Holding Co.	1,810.00	-	-	-	1,810.00	-
Huanan Marine Mechanic and Electric Department	953,681.20	-	-	-	953,681.20	-
Nanjing CSSC Lvzhou Environment Protect Equipment Co., Ltd.	1,153.77	-	-	-	1,153.77	-
CSSC System Engineering Department	900.00	-	900.00	-	-	-
Chian Shipping Trading Corporation	-	-	-	-	-	286,000.00
Sub-total	21,240,531.34	2,333,384.44	3,607,805.33	1,351,698.86	13,947,642.71	17,236,343.34
Total	21,261,246.40	2,357,841.07	3,643,425.68	1,351,698.86	13,948,332.11	17,236,343.34

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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Material and Labor provided by CSSC to the company

Related companies	The year of 2004				Labour and	The year of 2003
	Total	Power	Material	Operating Rent	Technical Service	
South China/Maring and Industrial						
Special Coating Limited	-	-	-	-	-	122,400.00
Huahai marine Commodity Logistic Co.	257,334.29	-	-	257,334.29	-	1,300,000.00
611 Institute Shanghai Sanjing						
Technology Co., Ltd.	2,672,780.00	-	-	2,672,780.00	-	-
CSSC No. 708 Institute	2,022,960.00	-	-	-	2,022,960.00	9,033,000.00
Anqing Marine Diesel Factory	-					
Anqing marine Electric Equipment Factory	213,199.00	-		213,199.00	-	429,000.00
Chenxi Shiprepairing Factory	77,997.60	77,997.60	-	-	-	-
Donghai Shiprepairing Factory	-					
Guangzhou Shipyard Guangda Co.	32,964,664.37	2,210,141.81	19,087,192.18	3,887,866.44	7,779,463.94	59,384,139.10
Guangzhou Shipyard Forging Co., Ltd.	4,971,909.71	1,153,139.40	3,818,770.31	-	-	9,023,298.83
Guangxi Guijiang Shipyard	-	-	-	-	-	107,000.00
Guangzhou Huangpu Shipyard	459,735.81	4,777.69	-	-	454,958.12	3,610,264.96
Guangzhou Wenchong Shipyard	3,038,665.95	163,639.20	-	736.00	2,874,290.75	2,961,421.39
Guangzhou Shipyard	38,882,648.82	4,696,478.88	22,926,194.07	29,745.99	11,230,229.88	16,807,951.98
Huanan Marine Mechanical Factory	4,966,989.33	-	-	4,966,989.33	-	11,790,761.97
Hudong Group Electrical Factory	485,000.00	-	-	485,000.00	-	-
Hudong Heavy Mechanical Co., Ltd.	15,783,060.00	-	-	15,783,060.00	-	76,311,506.10
Jiangxi Chaoyan Mechanical Factory	4,014,385.37	-	-	3,992,957.98	21,427.39	3,818,325.26
Jiangxi Marine Valve Factory	452,070.00	-	452,070.00	-	-	3,223,600.00
Jiangxi Navigation Instrument Factory	2,350.00	-	2,350.00	-	-	-
Jiujiang Marine Mechanical Factory	4,861,560.36	-	3,714,573.36	1,146,987.00	-	6,530,483.64
Junjian Instrument Factory	260,000.00	-	-	260,000.00	-	520,000.00
Nanjing Lvzhou Mechanical Factory	6,070,750.43	-	-	6,070,750.43	-	19,745,833.20
Nanjing Lvzhou Environment Protect						
Equipment Co., Ltd.	2,118,900.00	-	-	2,118,900.00	-	2,672,460.00
Shanghai Navigation Instrument						
General Factory	523,000.00	-	-	523,000.00	-	2,247,900.00
Shanghai Hudong Shipbuilding Valve Co., Ltd.	60,566.73	-	60,566.73	-	-	1,302,055.24
Zhenjiang marine Auxiliary Machine Factory	4,760,725.34	-	-	4,760,725.34	-	5,067,153.00

NOTES TO THE FINANCIAL STATEMENTS

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Related companies	The year of 2004					The year of 2003
	Total	Power	Material	Operating Rent	Labour and Technical Service	
Zhenjiang Marine Propeller Factory	1,206,090.00	-	-	1,206,090.00	-	1,200,440.00
Zhenjiang Marine Diesel Factory	34,855,013.38	-	-	34,855,013.38	-	51,448,696.46
Zhenmao Group Co., Ltd.	3,022,437.00	-	3,022,437.00	-	-	2,506,037.50
CSSC Finance Co., Ltd.	-	-	-	-	-	-
China State International Trading Co.	944,655.86	-	944,655.86	-	-	2,234,337.05
CSSC	19,647.73	-	-	19,647.73	-	6,418,311.26
CSSC No. 9 Design Institute	-	-	-	-	-	408,000.00
CSSC System Engineering Department	846,154.00	-	-	846,154.00	-	11,560,000.00
China State Trading Co.	-	-	-	-	-	19,053,481.25
Total	<u>170,815,251.08</u>	<u>8,306,174.58</u>	<u>54,028,809.51</u>	<u>84,096,936.91</u>	<u>24,383,330.08</u>	<u>330,837,858.19</u>

Pursuant to the comprehensive service agreement entered between the Company and Guangzhou Shipyard in the previous years, the Group paid the comprehensive service fee with a total amount of RMB7,329,977.48 during the period under review with the details referring to Note 29 on Page 167.

(4) Finance Service Provided by CSSC

Item	Close balance		Interest received/paid	
	The year of 2004	The year of 2003	The year of 2004	The year of 2003
1. Deposit				
CSSC Finance Company Ltd.	<u>1,852,930.75</u>	<u>9,091,916.06</u>	<u>75,400.13</u>	<u>153,800.00</u>
2. Loan				
CSSC Finance Company Ltd.	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,744,000.00</u>

(5) Assurance and Assurance fee provided by CSSC

Company	Amount of Guarantee		Guarantee fee paid by the Company	
	The year of 2004	The year of 2003	The year of 2004	The year of 2003
CSSC	600,000,000.00	400,000,000.00	1,225,000.00	275,000.00
CSTC	-	280,000,000.00	-	-
CSSC Guangzhou Holding Co.	-	49,660,200.00	340,000.00	-
Subtotal	<u>600,000,000.00</u>	<u>729,660,200.00</u>	<u>1,565,000.00</u>	<u>275,000.00</u>

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2004

(6) Sales agent by CSSC

Company	Agent Amount	
	The year of 2004	The year of 2003
China Shipping Industrial Trading Company	7,204,798.74	23,922,185.35
China Shipping Trading Company	1,552,219.77	—
Sub-total	8,757,018.51	23,922,185.35

(7) Sales agent by CSSC

Agent	Total		Imported Material		Marine Equipment		Production Equipment	
	This period	Last period	This period	Last period	This period	Last period	This period	Last period
China United Shipbuilding Co., Ltd	4,270,468.70	2,076,394.02	—	—	—	—	4,270,468.70	2,076,394.02
China Shipping Industrial Trading Company	88,836.60	234,600.00	6,200.81	28,000.00	82,635.79	206,600.00	—	—
Sub-total	4,359,305.29	2,310,994.02	6,200.81	28,000.00	82,635.79	206,600.00	4,270,468.70	2,076,394.02

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

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

A. Other receivable

Company	The year of 2004	The year of 2003
CSSC Guangzhou Administrative Bureau	—	27,000.00
CSSC Guangzhou Holding Co.	47,971.75	—
Total	47,971.75	27,000.00

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2004

B. Account receivable

Name	The year of 2004	The year of 2003
Guangzhou Shipyard Guangda Company	–	441,808.66
Guangzhou Huangpu Shipyard	106,747.20	–
Guangzhou Wenchong Shipyard	1,276,498.04	733,813.13
Guangzhou Shipyard	–	102,578.39
Guangzhou Shipbuilding Company	–	20,314.30
Huanan Marine Mechanic and Electric Department	390,534.30	–
	<hr/>	<hr/>
Total	1,773,779.54	1,298,514.48
	<hr/>	<hr/>

C. Advanced Payment

Company	The year of 2004	The year of 2003
Guangzhou Shipyard Guangda Company	4,596,057.79	7,647,297.52
Guijiang Shipyard	628,000.00	–
Guangzhou Shipyard	57,159.45	–
Huanan Marine Mechanic and Electric Department	621,000.00	–
Hudong Heavy Engineering Company Limited	6,000,000.00	5,000,000.00
Zhenjiang Marine Diesel Factory	6,680,000.00	2,190,000.00
CSSC International Trade Co., Ltd	81,535.77	1,583,526.01
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Total	18,663,753.01	16,420,823.53
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NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2004

D. Account payable

Company	The year of 2004	The year of
611 Institute Shanghai Sanjin Technology Co., Ltd.	668,195.00	–
CSSC No. 708 Institute	267,000.00	1,486,000.00
Anqing Marine Electric Factory	145,100.00	21,450.00
Guangzhou Shipyard Gaungda Company	3,599,323.41	6,412,236.24
Guangzhou Shipyard Forging Company	–	2,173,144.23
Guangzhou Huangpu Shipyard	–	143,848.98
Guangzhou Wenchong Shipyard	736.00	746,952.00
Guangzhou Shipyard	5,331,211.69	547,533.04
Huanan Marine Mechanic and Electric Department	1,532,151.30	545,011.97
Hudong Corporation Electric Division	138,500.00	–
Hudong Heavy Engineering Company Limited	550,000.00	9,112,000.00
Huahai Marine Commodity Logistic Company	289,834.29	325,000.00
Hualian Marine company Limited	–	30,451,031.57
Jiangxi Chaoyang Machine Factory	21,427.39	1,051,613.76
Jiangxi marine Valve Factory	215,000.00	170,360.00
Jiujiang Marine Mechanical Factory	1,328,200.30	1,225,854.94
Jiujiang Instrument Factory	26,000.00	26,000.00
Nanjing Liuzhou Machinery Factory	2,306,450.43	6,563,500.00
CSSC Luzhou Environment Protection Equipment Co.,Ltd	300,080.00	–
Shanghai Shipyard	142,794.70	142,794.70
Shanghai Navigation Instrument Factory	359,800.00	1,004,900.00
Shanghai Hudong Shipyard Valve Co.,Ltd.	–	1,302,055.24
Zhenjiang Marine Auxiliary Machine Factory	2,021,728.34	1,291,453.00
Zhenjiang Marine Propeller Factory	50,430.00	822,840.00
Zhenjiang Marine Diesel Factory	782,131.81	6,782,287.16
Zhengmao Group Company Limited	433,787.00	1,019,750.00
China State Shipbuilding Corporation	–	1,631,316.26
China Shipping Trading Corporation	2,634,002.68	–
CSSC System Engineering Department	1,426,154.00	–
Total	<u>21,936,035.66</u>	<u>77,632,935.77</u>

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2004

E. Other Account payable

Name	The year of 2004	The year of 2003
Guangzhou Wenchong Shipyard	30,536.00	—
Guangzhou Shipyard Guangda Company	17,072.00	—
China State Shipbuilding Corporation	27,000.00	—
	<hr/>	<hr/>
Total	74,608.00	—
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F. Advances form Customers

Name	The year of 2004	The year of 2003
Guangzhou Shipyard	3,500.00	—
Guagnzhou Huangpu Shipyard	24,500.00	208,440.00
Xijiang Shipyar	180,000.00	—
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Total	208,000.00	208,440.00
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(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 31st December 2004, the Company (the Group) had no significant contingent items.

(IX). COMMITMENTS

As at 31st December 2004, the Company (the Group) had no significant commitments

(X). EVENTS POST PERIOD OF BALANCE SHEET

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

(XI). OTHER ISSUES

The meeting of Board of Directors was held on 31st March 2005 and passed the decision of the profit non-distribution and non-conversation for the year of 2004.