

# NOTES TO THE ACCOUNTS

*(Prepared in accordance with accounting principles generally accepted in Hong Kong)*

## 1 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties are stated at fair value.

### (b) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### (c) Group accounting

#### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

# NOTES TO THE ACCOUNTS (continued)

*(Prepared in accordance with accounting principles generally accepted in Hong Kong)*

## 1 Principal accounting policies (continued)

### (c) Group accounting (continued)

#### (i) Consolidation (continued)

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (ii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

### (d) Translation of foreign currencies

Transactions in foreign currencies of the Company and subsidiaries, whose trade are more dependent on the economic circumstances of the Company's reporting currency than on their own reporting currency, are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of other subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

# NOTES TO THE ACCOUNTS (continued)

*(Prepared in accordance with accounting principles generally accepted in Hong Kong)*

## 1 Principal accounting policies (continued)

### (e) Property, plant and equipment

#### (i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

#### (ii) Other property, plant and equipment

Other property, plant and equipment, comprising land use rights, leasehold land, buildings, developments and structures, machinery, vehicles, equipment and transmission systems, instruments and meters, are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 1 Principal accounting policies (continued)

### (e) Property, plant and equipment (continued)

#### (iii) Depreciation

Depreciation of other property, plant and equipment is calculated to write off their cost less accumulated impairment losses over the unexpired periods of the leases or their expected useful lives to the Group whichever is shorter, if applicable, on the straight-line basis after taking into account their estimated residual value.

The principal annual rates of depreciation for various classes of other property, plant and equipment are as follows:

	Depreciation rates
Land use rights	2.0%
Leasehold land, buildings, developments and structures	2.0% – 12.5%
Machinery, vehicles, equipment and transmission systems	2.9% – 16.7%
Instruments and meters	10.0% – 20.0%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

#### (iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that other property, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of property, plant and equipment other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

# NOTES TO THE ACCOUNTS (continued)

*(Prepared in accordance with accounting principles generally accepted in Hong Kong)*

## 1 Principal accounting policies (continued)

### (f) Construction-in-progress

Construction-in-progress is stated at cost less any provision for impairment losses. Cost includes development expenditures and other direct costs, including interest expenses, attributable to projects for the development of buildings, structures, machinery and equipment for the Group's own use and transferred to property, plant and equipment upon completion.

### (g) Investment in securities

Investment 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.

### (h) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on a weighted average basis, comprises direct materials, direct labor and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (i) Construction contracts in progress

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to the standard labour hours incurred to date as a percentage of total estimated standard labour hours for each contract. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 1 Principal accounting policies (continued)

### (i) Construction contracts in progress (continued)

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on construction contracts, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts, under current liabilities.

### (j) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

### (l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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

### (m) Employee benefits

#### (i) Employee leave entitlements

Employee entitlement to annual leave, sick leave and maternity or paternity leave are not recognised until the time of leave.

#### (ii) Retirement obligations

The Group contributes to two defined contribution retirement schemes which are available to all employees. Contributions to the schemes are calculated as a percentage of employees' salaries. The retirement scheme costs charged to the profit and loss account represent contributions payable by the Group to the fund.

# NOTES TO THE ACCOUNTS (continued)

*(Prepared in accordance with accounting principles generally accepted in Hong Kong)*

## 1 Principal accounting policies (continued)

### (m) Employee benefits (continued)

#### (ii) Retirement obligations (continued)

The Group's contributions to those defined contribution retirement schemes are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The assets of one of the schemes are held separately from those of the Group in an independently administered fund while the assets of the other scheme are not held separately from those of the Company and subsidiaries.

#### (iii) Early retirement benefit

Early retirement benefits payable to eligible employees are accrued and expensed on the date of approval for early retirement. Where the obligations do not fall due wholly within twelve months, the obligations payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality investments.

#### (iv) Housing benefit

The Group's contributions to the defined contribution housing fund scheme organised by the Guangzhou People's Municipal Government are expensed when services are rendered.

#### (v) Medical insurance

The Group's contributions to the defined contribution medical insurance scheme organised by the Guangzhou People's Municipal Government for existing employees are expensed when services are rendered by the employees.

Contributions to the defined contribution medical insurance scheme for retired and retiring employees are accrued based on the period of their past services. Where the contributions do not fall due wholly within twelve months, the contributions payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality investments.

# NOTES TO THE ACCOUNTS (continued)

*(Prepared in accordance with accounting principles generally accepted in Hong Kong)*

## 1 Principal accounting policies (continued)

### (n) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

### (o) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existences will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (p) Revenue recognition

Revenue from individual construction contracts is recognised net of value-added tax when there is reasonable certainty as to the outcome of the contract. The revenue is recognised on the percentage of completion method measured by reference to the standard labour hours spent to date compared with the total estimated standard hours of the contracts with profit recognised limited to the amount of the progress payments received or receivable.



# NOTES TO THE ACCOUNTS (continued)

*(Prepared in accordance with accounting principles generally accepted in Hong Kong)*

## 1 Principal accounting policies (continued)

### (p) Revenue recognition (continued)

Revenue from the sale of containers, mechanical and electrical equipment, steel structure products (except for those with characteristic of construction contracts) and other products is recognised net of value-added tax when the title to the goods passes to customers. This generally takes place at the time when the risks and rewards associated with ownership of the goods are transferred from the Group and the Company to the customers.

Revenue from shiprepairing services is recognised net of value-added tax when the services provided to customers are completed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Operating lease rental income is recognised on a straight-line basis.

### (q) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government subsidy for shipbuilding on individual qualified vessels is recognised on the same basis as that of the respective construction contracts.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

### (r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

# NOTES TO THE ACCOUNTS (continued)

*(Prepared in accordance with accounting principles generally accepted in Hong Kong)*

## 1 Principal accounting policies (continued)

### (s) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

### (t) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and receivables, and mainly exclude investment properties, investments in securities and bank balances and cash. Segment liabilities comprise operating liabilities and mainly exclude taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment.

In respect of geographical segment reporting, turnover is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 2 Turnover, revenues and segment information

The Group is principally engaged in shipbuilding, shiprepairing, container manufacturing and steel structure, mechanical and electrical equipment manufacturing.

Revenues recognised during the year are as follows:

	2004 RMB'000	2003 RMB'000
<b>Turnover</b>		
Construction contracts revenue	2,105,612	2,117,845
Sales of goods	209,404	663,032
Rendering of services	48,387	59,569
	<u>2,363,403</u>	<u>2,840,446</u>
<b>Other revenues</b>		
Income from investment securities	621	810
Government subsidy income for shipbuilding	57,511	124,180
Gain on sales of scrap and other materials	10,420	13,595
Interest income	7,902	19,396
Others	7,456	6,450
	<u>83,910</u>	<u>164,431</u>
<b>Total revenues</b>	<u>2,447,313</u>	<u>3,004,877</u>

### Primary reporting format – business segments

The Group is organised on a China wide basis into four main business segments:

- Shipbuilding – construction and trading of vessels
- Shiprepairing – provision of ship repairing services
- Container manufacturing – manufacturing and trading of containers
- Steel structure and other manufacturing – manufacturing and trading of steel structure and mechanical and electrical equipment

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

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 2 Turnover, revenues and segment information (continued)

### Primary reporting format – business segments (continued)

	Shipbuilding	Ship-repairing	Container manufacturing	Steel structure and other manufacturing	Other operations	Elimination	Group
	2004	2004	2004	2004	2004	2004	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2,105,612	15,354	1,133	237,849	92,811	(89,356)	2,363,403
Segment results	125,987	3,141	405	33,690	22,450	(6,747)	178,926
Gain on disposal of discontinuing operation			5,316				5,316
Unallocated revenues							21,323
Unallocated costs							(149,037)
Operating profit							56,528
Finance costs							(22,046)
Share of profits less losses of associated companies					681		681
Profit before taxation							35,163
Taxation							23,170
Profit after taxation							58,333
Minority interests							2,612
Profit attributable to shareholders							60,945
Segment assets	1,732,806	4,504	2,756	195,875	65,341	(18,935)	1,982,347
Interests in associated companies					3,765		3,765
Unallocated assets							876,820
Total assets							2,862,932
Segment liabilities	1,273,130	6,643	–	54,417	13,745	(18,935)	1,329,000
Unallocated liabilities							763,208
Total liabilities							2,092,208
Capital expenditure	13,815	–	–	1,593	2,153		17,561
Depreciation	46,616	–	540	7,456	7,260		61,872

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 2 Turnover, revenues and segment information (continued)

### Primary reporting format – business segments (continued)

	Shipbuilding	Ship- repairing	Container manufacturing	Steel structure and other manufacturing	Other operations	Elimination	Group
	2003	2003	2003	2003	2003	2003	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2,117,845	14,192	514,475	186,148	184,474	(176,688)	2,840,446
Segment results	148,907	2,683	22,487	27,875	21,706	(8,810)	214,848
Unallocated revenues							18,850
Unallocated costs							(167,523)
Operating profit							66,175
Write back of provision for non-recovery on principals due from non-banking financial institutions							1,500
Finance costs							(41,426)
Share of profits less losses of associated companies					224		224
Profit before taxation							26,473
Taxation							(2,018)
Profit after taxation							24,455
Minority interests							100
Profit attributable to shareholders							24,555
Segment assets	1,463,077	5,504	243,883	245,667	72,062	(36,122)	1,994,071
Interests in associated companies					3,503		3,503
Unallocated assets							934,713
Total assets							2,932,287
Segment liabilities	1,144,398	5,435	41,822	71,675	27,275	(36,122)	1,254,483
Unallocated liabilities							960,502
Total liabilities							2,214,985
Capital expenditure	42,163	–	–	–	3,769		45,932
Depreciation	42,627	–	2,087	7,107	8,925		60,746
Other non-cash expenses	13,560	–	–	–	–		13,560

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 2 Turnover, revenues and segment information (continued)

### Secondary reporting format – geographical segments

Although the Group's four main business segments are managed on a China wide basis, turnover is contributed from four main geographical areas in which the customers are located:

Mainland China – shipbuilding, shiprepairing, steel structure and other manufacturing

Denmark – shipbuilding

Hong Kong – shipbuilding, shiprepairing, container manufacturing, steel structure and other manufacturing

Malta – shipbuilding

Other countries – shipbuilding, shiprepairing, steel structure and other manufacturing

	Turnover 2004 RMB'000	Segment results 2004 RMB'000	Total assets 2004 RMB'000	Capital expenditure 2004 RMB'000
Mainland China	801,996	130,416	2,835,867	49,745
Denmark	1,197,261	22,568	–	–
Hong Kong	17,758	3,249	23,300	–
Malta	343,031	34,554	–	–
Other countries	3,357	243	–	–
	<b>2,363,403</b>	<b>191,030</b>	<b>2,859,167</b>	<b>49,745</b>
Unallocated revenues		11,494		
Unallocated costs		(145,996)		
Operating profit		<b>56,528</b>		
Interests in associated companies			<b>3,765</b>	
Total assets			<b>2,862,932</b>	

## NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

### 2 Turnover, revenues and segment information (continued)

#### Secondary reporting format – geographical segments (continued)

	Turnover	Segment results	Total assets	Capital expenditure
	2003	2003	2003	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Mainland China	1,258,235	165,378	2,905,543	53,396
Denmark	576,750	6,336	–	–
Hong Kong	537,370	16,367	23,241	–
Malta	341,507	26,499	–	–
Other countries	126,584	(4,239)	–	–
	<u>2,840,446</u>	<u>210,341</u>	<u>2,928,784</u>	<u>53,396</u>
Unallocated revenues		28,234		
Unallocated costs		<u>(172,400)</u>		
Operating profit		<u>66,175</u>		
Interests in associated companies			<u>3,503</u>	
Total assets			<u>2,932,287</u>	

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 3 Discontinuing operation

On 16 April 2004, the Group announced its intention to terminate the container manufacturing segment. The subsidiary operated the container manufacturing segment was under liquidation as at 31 December 2004 and is disclosed as a discontinuing operation in these accounts. The turnover, results, cash flows and net assets of the container manufacturing segment were as follows:

	Year ended 31 December 2004 RMB'000	Year ended 31 December 2003 RMB'000
Turnover	1,133	514,475
Other revenues	225	9,089
Operating costs	(406)	(510,107)
Operating profit	952	13,457
Finance costs	(2,846)	(8,506)
(Loss)/profit before taxation	(1,894)	4,951
Taxation	281	(630)
(Loss)/profit after taxation	(1,613)	4,321
Net operating cash inflow/(outflow)	159,769	(6,820)
Net financing cash inflow	–	650
Total net cash inflow/(outflow)	159,769	(6,170)



# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 3 Discontinuing operation (continued)

	At 31 December 2004 RMB'000	At 31 December 2003 RMB'000
Property, plant and equipment	–	3,483
Current assets	<u>2,756</u>	<u>216,346</u>
Total assets	<b>2,756</b>	219,829
Total liabilities	<u>–</u>	<u>(44,150)</u>
Net assets	<b><u>2,756</u></b>	<b><u>175,679</u></b>
Net assets sold	<b>3,483</b>	
Proceeds from sale	<u>(8,799)</u>	
Gain on disposal of discontinuing operation	<b>(5,316)</b>	
Taxation thereon	<u>797</u>	
After-tax gain on disposal	<b><u>(4,519)</u></b>	
Proceeds from sale	<b>8,799</b>	
Less: proceeds receivables	<u>(2,756)</u>	
Sale of discontinued assets	<b><u>6,043</u></b>	

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 4 Operating profit

	2004 RMB'000	2003 RMB'000
Operating profit is stated after charging and crediting the following:		
<u>Charging:</u>		
Auditors' remuneration	2,229	2,035
Depreciation and amortization of property, plant and equipment	84,616	85,681
Add: amount capitalised in opening inventories	11,290	7,777
Less: amount capitalised in ending inventories	(6,818)	(11,290)
	89,088	82,168
Deficit on revaluation of investment properties	700	300
Loss on disposal of property, plant and equipment	8,983	12,579
Impairment of property, plant and equipment	1,928	–
Net exchange (gains)/loss	(4,416)	238
Provision for warranty (note 20)	8,189	28,863
Staff costs (including directors' and supervisors' emoluments)		
Wages and salaries	156,914	148,016
Retirement costs (note 25(a))	23,821	42,857
Housing fund (note a)	9,612	9,139
Medical insurance (note 25(b))	10,218	9,712
Other staff costs	34,315	34,371
	234,880	244,095
Cost of inventories sold	179,078	633,552
Research and development costs	6,860	6,873
<u>Crediting:</u>		
Grants received related to income other than for shipbuilding	3,478	–

Note a: The Company and its subsidiaries in the PRC are obliged to make contribution to a defined contribution scheme for the housing benefit of their employees. The Group's annual obligation for payment of this housing benefit contribution is calculated at a rate of 8% based on the total salaries of its employees.

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 5 Finance costs

	2004 RMB'000	2003 RMB'000
Interest on bank loans	19,417	40,248
Interest on amounts due to suppliers	953	998
Other incidental borrowing costs	1,676	620
	<hr/>	<hr/>
Total borrowing costs incurred	22,046	41,866
Less: amount capitalised in property, plant and equipment	–	(440)
	<hr/>	<hr/>
	22,046	41,426
	<hr/>	<hr/>

## 6 Taxation

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

	2004 RMB'000	2003 RMB'000
Current taxation – PRC enterprise income tax	1,752	1,917
Deferred taxation relating to the origination of temporary differences	(25,013)	–
Share of taxation attributable to associated companies	91	101
	<hr/>	<hr/>
Taxation	(23,170)	2,018
	<hr/>	<hr/>

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

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 6 Taxation (continued)

(a) (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate in the PRC applicable to the Company as follows:

	2004 RMB'000	2003 RMB'000
Profit before taxation	35,163	26,473
Calculated at a taxation rate of 15% (2003: 15%)	5,275	3,971
Effect of different taxation rates of subsidiaries and associated companies	(42)	273
Net loss of subsidiaries and associated companies not subject to tax	1,173	1,300
Income in previous years subject to taxation	15,119	–
Income not subject to taxation	(2,657)	(7,763)
Expenses not deductible for taxation purposes	1,763	4,398
Utilisation of previously unrecognised tax losses	(18,788)	(161)
Recognition of previous years unrecognised deferred tax assets	(25,013)	–
Taxation	(23,170)	2,018

(b) Turnover taxes applicable to the Group and the Company include:

Activity category	Tax category	2004 Tax rate	2003 Tax rate
Shipbuilding, shiprepairing, container manufacturing, steel structure and other manufacturing	Value-added tax ("VAT")	17%	17%
Transportation and installation services	Business tax	3%	3%
Other services	Business tax	5%	5%

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 6 Taxation (continued)

(c) Taxation payable represents:

	Group		Company	
	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
– PRC enterprise income tax	748	811	–	–
– VAT	3,204	1,142	509	–
– Other taxes	1,733	2,276	1,525	1,957
	<b>5,685</b>	<b>4,229</b>	<b>2,034</b>	<b>1,957</b>

(d) Tax recoverable represents:

	Group		Company	
	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
– PRC enterprise income tax	461	472	444	444
– VAT	33,637	134,410	33,572	127,056
– Other taxes	3	15	3	15
	<b>34,101</b>	<b>134,897</b>	<b>34,019</b>	<b>127,515</b>

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 6 Taxation (continued)

### (e) Deferred taxation

Deferred taxation is calculated on temporary differences under the liability method using a principal taxation rate of 15% (2003: 15%).

The movement on the deferred tax assets account is as follows:

	<b>Group and Company</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Deferred tax assets as at 1 January	—	—
Credited to profit and loss account	<b>25,013</b>	—
Deferred tax assets as at 31 December	<b>25,013</b>	—

The movement in deferred tax assets during the year is as follows:

	Provisions		Impairment of assets		Staff benefit		Tax losses		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	—	—	—	—	—	—	—	—	—	—
Credited to profit and loss account	<b>713</b>	—	<b>480</b>	—	<b>3,251</b>	—	<b>20,569</b>	—	<b>25,013</b>	—
At 31 December	<b>713</b>	—	<b>480</b>	—	<b>3,251</b>	—	<b>20,569</b>	—	<b>25,013</b>	—

The amounts shown in the balance sheet include the following:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Deferred tax assets to be recovered after more than 12 months	<b>19,501</b>	—

The potential deferred tax assets arising from the deductible temporary differences in respect of provision for non-recovery on principals due from non-banking financial institutions, provision for medical insurance, provision for early retirement, housing allowances to staff and unused tax losses, have not been recognised in the accounts due to the uncertainty of available future taxable profit against which the temporary differences can be utilised, amounted to RMB68,750,000 and RMB 67,575,000 for the Group and the Company (2003: RMB93,431,000 and RMB93,431,000) respectively.

## 7 Profit attributable to shareholders

Profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB58,841,000 (2003: loss RMB50,629,000).

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 8 Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of RMB60,945,000 (2003: RMB24,555,000) and the weighted average number of 494,677,580 (2003: 494,677,580) ordinary shares in issue during the year.

## 9 Directors', supervisors' and senior management's emoluments

The aggregate amounts of emoluments payable to directors, supervisors and senior management of the Company during the year are as follows:

	2004 RMB'000	2003 RMB'000
Non – executive directors		
Fee	397	376
Other emoluments and welfare	7	17
Retirement benefits	5	14
Executive directors		
Basis salary, allowance and benefits in kind	996	517
Retirement benefits	65	41
Supervisors		
Basis salary, allowance and benefits in kind	563	474
Retirement benefits	35	27
Senior management		
Basis salary, allowance and benefits in kind	805	882
Retirement benefits	63	80
	<b>2,936</b>	<b>2,428</b>

144

The emoluments for all of the Company's 11 directors (executive and non-executive), 5 supervisors and 4 senior management fell within the band of RMB nil to RMB250,000 during the year (2003: RMB nil to RMB200,000).

No directors, supervisors or senior management waived emoluments and no emoluments were paid or payable by the Group to any directors, supervisors or senior management as an inducement to join or as compensation for loss of office in respect of the year ended 31 December 2003 and 2004.

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2003 and 2004 were also directors and supervisors, and their emoluments are reflected in the analysis presented above.

During the year ended 31 December 2003 and 2004, the Company operates the same pension schemes for its executive directors, supervisors and senior management as for its other staff and no special arrangements have been made in this regard.

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 10 Property, plant and equipment

### Group

	Investment properties RMB'000	Land use rights RMB'000	Construction- in-progress RMB'000	Leasehold land, buildings, developments and structures RMB'000	Machinery, vehicles, equipment and transmission systems RMB'000	Instruments and meters RMB'000	Total RMB'000
<b>Cost or valuation</b>							
At 1 January 2004	5,900	81,838	30,248	675,185	847,200	6,362	1,646,733
Additions	–	–	45,792	–	1,205	–	46,997
Revaluation	(700)	–	–	–	–	–	(700)
Transfers	–	–	(41,117)	22,422	18,419	276	–
Disposals	–	–	(3,869)	(3,771)	(21,741)	(225)	(29,606)
<b>At 31 December 2004</b>	<b>5,200</b>	<b>81,838</b>	<b>31,054</b>	<b>693,836</b>	<b>845,083</b>	<b>6,413</b>	<b>1,663,424</b>
<b>Accumulated depreciation and impairment</b>							
At 1 January 2004	–	13,499	–	173,834	389,465	4,194	580,992
Charge for the year	–	1,994	–	21,828	60,146	648	84,616
Impairment	–	–	–	–	1,928	–	1,928
Disposals	–	–	–	(561)	(15,976)	(219)	(16,756)
<b>At 31 December 2004</b>	<b>–</b>	<b>15,493</b>	<b>–</b>	<b>195,101</b>	<b>435,563</b>	<b>4,623</b>	<b>650,780</b>
<b>Net book value</b>							
<b>At 31 December 2004</b>	<b>5,200</b>	<b>66,345</b>	<b>31,054</b>	<b>498,735</b>	<b>409,520</b>	<b>1,790</b>	<b>1,012,644</b>
At 31 December 2003	5,900	68,339	30,248	501,351	457,735	2,168	1,065,741
<b>The analysis of the cost or valuation at 31 December 2004 of the above assets is as follows:</b>							
At cost	–	81,838	31,054	693,836	845,083	6,413	1,658,224
At 2004 valuation	5,200	–	–	–	–	–	5,200
	<b>5,200</b>	<b>81,838</b>	<b>31,054</b>	<b>693,836</b>	<b>845,083</b>	<b>6,413</b>	<b>1,663,424</b>
<b>The analysis of the cost or valuation at 31 December 2003 of the above assets is as follows:</b>							
At cost	–	81,838	30,248	675,185	847,200	6,362	1,640,833
At 2003 valuation	5,900	–	–	–	–	–	5,900
	<b>5,900</b>	<b>81,838</b>	<b>30,248</b>	<b>675,185</b>	<b>847,200</b>	<b>6,362</b>	<b>1,646,733</b>



# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 10 Property, plant and equipment (continued)

### Company

	Investment properties RMB'000	Land use rights RMB'000	Construction- in-progress RMB'000	Leasehold land, buildings, developments and structures RMB'000	Machinery, vehicles, equipment and transmission systems RMB'000	Instruments and meters RMB'000	Total RMB'000
<b>Cost or valuation</b>							
At 1 January 2004	5,900	68,147	30,248	646,517	701,990	6,236	1,459,038
Additions	–	–	45,781	–	–	–	45,781
Revaluation	(700)	–	–	–	–	–	(700)
Transfers	–	–	(41,106)	22,422	18,408	276	–
Transferred from subsidiaries	–	–	–	17,980	39,044	–	57,024
Disposals	–	–	(3,869)	(771)	(20,842)	(225)	(25,707)
<b>At 31 December 2004</b>	<b>5,200</b>	<b>68,147</b>	<b>31,054</b>	<b>686,148</b>	<b>738,600</b>	<b>6,287</b>	<b>1,535,436</b>
<b>Accumulated depreciation and impairment:</b>							
At 1 January 2004	–	13,065	–	163,773	311,779	4,127	492,744
Charge for the year	–	1,720	–	21,378	49,522	630	73,250
Transferred from subsidiaries	–	–	–	9,892	16,985	–	26,877
Impairment	–	–	–	–	100	–	100
Disposals	–	–	–	(376)	(15,630)	(219)	(16,225)
<b>At 31 December 2004</b>	<b>–</b>	<b>14,785</b>	<b>–</b>	<b>194,667</b>	<b>362,756</b>	<b>4,538</b>	<b>576,746</b>
<b>Net book value</b>							
<b>At 31 December 2004</b>	<b>5,200</b>	<b>53,362</b>	<b>31,054</b>	<b>491,481</b>	<b>375,844</b>	<b>1,749</b>	<b>958,690</b>
At 31 December 2003	5,900	55,082	30,248	482,744	390,211	2,109	966,294
<b>The analysis of the cost or valuation at 31 December 2004 of the above assets is as follows:</b>							
At cost	–	68,147	31,054	686,148	738,600	6,287	1,530,236
At 2004 valuation	5,200	–	–	–	–	–	5,200
	<b>5,200</b>	<b>68,147</b>	<b>31,054</b>	<b>686,148</b>	<b>738,600</b>	<b>6,287</b>	<b>1,535,436</b>
<b>The analysis of the cost or valuation at 31 December 2003 of the above assets is as follows:</b>							
At cost	–	68,147	30,248	646,517	701,990	6,236	1,453,138
At 2003 valuation	5,900	–	–	–	–	–	5,900
	<b>5,900</b>	<b>68,147</b>	<b>30,248</b>	<b>646,517</b>	<b>701,990</b>	<b>6,236</b>	<b>1,459,038</b>

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 10 Property, plant and equipment (continued)

The land use rights are for land situated in the PRC each for a period of 50 years commencing from 1993 to 2003.

The net book value of investment properties, leasehold land, buildings, developments and structures are analysed as follows:

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
<b>In Hong Kong, held on:</b>				
Leases of over 50 years	13,967	14,364	13,967	14,364
Leases of between				
10 to 50 years	4,046	4,157	4,046	4,157
<b>In Mainland China, held on:</b>				
Leases of between				
10 to 50 years	485,922	488,730	478,668	470,123
	<b>503,935</b>	<b>507,251</b>	<b>496,681</b>	<b>488,644</b>

Investment properties at 31 December 2004 were revalued on the basis of their open market value by Greater China Appraisal Limited, an independent firm of surveyors registered in Hong Kong.

At 31 December 2004, the net book value of property, plant and equipment pledged as security for the Group's utilised banking facilities of RMB 82,765,000 (2003: RMB95,085,000) amounted to RMB161,141,000 (2003: RMB237,870,000).

## 11 Investments in subsidiaries

	Company	
	2004	2003
	RMB'000	RMB'000
Unlisted shares, at cost	159,881	182,705
Less: impairment charge	(67,834)	(56,157)
	<b>92,047</b>	<b>126,548</b>

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 11 Investments in subsidiaries (continued)

Particulars of subsidiaries at 31 December 2004:

Name	Issued and fully paid-up capital	Interest held		Nature of entity	Principal activities
		2004 %	2003 %		
Shares held directly:					
<u>Established in the PRC</u>					
Kwangchow Shipyard Container Factory	RMB44,924,640	100	100	Joint stock company	Manufacture of containers
MasterWood Company Limited (“MasterWood”)	RMB3,315,180	51	75	Sino-foreign equity joint venture	Manufacture of furniture
Xinhui City Guangzhou Shipyard International Nanyang Shipping Industrial Limited	RMB34,800,000	70	70	Cooperative limited liability company	Ship dismantling liability company
Guangzhou Guang-lian Container Transportation Company Limited	RMB20,000,000	75	75	Sino-foreign equity joint venture	Transportation services for containers
United Steel Structures Limited	US\$8,850,000	51	51	Sino-foreign equity joint venture	Large steel structure engineering
Guangzhou Xin Sun Shipping Service Company Limited	RMB2,000,000	83	83	Company with limited liability	Fabrication, welding and coating of ships
Guangzhou Sanlong Industrial Trade Development Company Limited	RMB1,500,000	67	67	Company with limited liability	Construction engineering, equipment leasing and technology consultancy
Guangdong Guangzhou Shipyard International Elevator Company	RMB21,000,000	95	95	Company with limited liability	Manufacture of elevators

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 11 Investments in subsidiaries (continued)

Particulars of subsidiaries at 31 December 2004:

Name	Issued and fully paid-up capital	Interest held		Nature of entity	Principal activities
		2004 %	2003 %		
Shares held directly:					
<u>Established in the PRC</u>					
Guangzhou Hongfan Information Technique Company Limited	RMB5,000,000	77	77	Cooperative limited liability company	Sales of computers development of computer software, system integration
Guangzhou Henghe Construction Engineering Company Limited	RMB27,500,000	–	75.9	Cooperative limited liability company	Large steel structure, indoor and outdoor decoration design, construction and administration
<u>Established in Hong Kong</u>					
Glory Group Development Company Limited	HKD10,000	100	100	Company with limited liability	Holding of FonKwang Development Limited and MasterWood
Shares held indirectly:					
<u>Established in the PRC</u>					
Guangzhou Hongfan Hotel Company Limited	RMB10,000,000	86.16	100	Company with limited liability	Hotel and catering
Guangdong Guangzhou Shipyard International Elevator Company	RMB21,000,000	3.8	5	Company with limited liability	Manufacture of elevators
MasterWood Company Limited	RMB3,315,180	25	25	Sino-foreign equity joint venture	Manufacture of furniture
<u>Established in Hong Kong</u>					
FonKwang Development Limited	HKD200,000	70	70	Company with limited liability	Trading of equipment and materials

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 12 Investments in associated companies

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted				
– at cost	–	–	2,522	2,522
– share of net assets	3,765	3,503	–	–
	<b>3,765</b>	<b>3,503</b>	<b>2,522</b>	<b>2,522</b>

The following is a list of associated companies at 31 December 2004 which are all established in the PRC:

Name	Issued and fully paid-up capital	Interest held		Nature of entity	Principal activities
		2004 %	2003 %		
Guangzhou Economic and Technical Development Zone South China Marine and Industrial Special Coating Limited	US\$1,200,000	25	25	Sino-foreign equity joint venture	Provision of special coating services
Zhanjiang Nanhai Naval New Technology & Service Company Limited	RMB2,000,000	40	40	Company with limited liability	Repair and maintenance of containers

## 13 Investment securities

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
At cost, unlisted equity securities	12,010	12,010	11,010	11,010

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 14 Inventories

	Group		Company	
	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	<b>308,542</b>	172,211	<b>303,894</b>	168,030
Work-in-progress	<b>53,550</b>	46,480	<b>21,374</b>	17,245
Finished goods	<b>4,525</b>	4,705	<b>4,430</b>	2,944
	<b>366,617</b>	223,396	<b>329,698</b>	188,219

At 31 December 2004, the carrying amount of inventories for the Group and the Company that are carried at net realisable value amounted to RMB1,973,000 and RMB1,937,000 (2003: RMB1,810,000 and RMB833,000) respectively.

At 31 December 2003 and 2004, no inventories were pledged as security for liabilities.

## 15 Trade receivables

		Group		Company	
		2004	2003	2004	2003
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	Note				
Receivables from third parties	(a)	<b>182,090</b>	441,847	<b>139,498</b>	168,464
Amounts due from related companies	(b)	<b>1,774</b>	1,299	<b>585</b>	946
		<b>183,864</b>	443,146	<b>140,083</b>	169,410

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 15 Trade receivables (continued)

(a) At 31 December 2004, the ageing analysis of receivables from third parties were as follows:

	Group		Company	
	2004	2003	2004	2003
	<b>RMB'000</b>	<i>RMB'000</i>	<b>RMB'000</b>	<i>RMB'000</i>
Not exceeding one year	<b>153,773</b>	369,345	<b>123,194</b>	143,278
More than one year but not exceeding two years	<b>16,338</b>	28,664	<b>6,135</b>	19,334
More than two years but not exceeding three years	<b>6,252</b>	9,265	<b>4,887</b>	–
More than three years	<b>5,727</b>	34,573	<b>5,282</b>	5,852
	<b>182,090</b>	441,847	<b>139,498</b>	168,464

The general credit terms of trade receivables are:

### Operations

Shipbuilding and shiprepairing

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

### Credit terms

Within one month after issue of invoice

Normally one to six months

(b) Amounts due from related companies are unsecured, interest-free and with no fixed terms of repayment.

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 16 Other receivables, prepayments and deposits

	Note	Group		Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Prepayments for trading materials and equipment		94,533	13,867	92,525	10,712
Amounts due from non-banking financial institutions (a)		445,474	445,503	444,474	444,503
Less: provision for non-recovery		(373,810)	(373,810)	(372,810)	(372,810)
		71,664	71,693	71,664	71,693
Government subsidy receivable for construction of vessels		38,744	69,067	38,744	69,067
Compensation for relocation receivable		–	78,932	–	78,932
Amounts due from related companies (b)		18,712	15,890	18,543	15,890
Others		22,605	16,140	14,153	3,946
		246,258	265,589	235,629	250,240



# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 16 Other receivables, prepayments and deposits (continued)

- (a) Amounts due from non-banking financial institutions

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Guangzhou International Trust and Investment Company ("GZITIC") (Note)	397,066	397,067	397,066	397,067
Guangzhou Economic and Technology Development Zone International Trust and Investment Company	48,408	48,436	47,408	47,436
	<b>445,474</b>	445,503	<b>444,474</b>	444,503

Note: An agreement was entered into between the Company and GZITIC on 31 January 2005 that certain properties are to be transferred to the Company to settle principal amount of RMB220,000,000 and the interest thereon. Pursuant to the agreement, the amount due from GZITIC is only settled when the legal titles of the properties are transferred to the Company. Due to the uncertainty in obtaining the legal titles to these properties at this stage, this transaction is not adjusted in these accounts.

- (b) Amounts due from related companies are unsecured, interest-free and with no fixed terms of repayment.

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 17 Trade payables

Note	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Payables to third parties (a)	<b>347,420</b>	264,236	<b>335,844</b>	250,482
Amounts due to related companies (b)	<b>25,050</b>	77,633	<b>24,660</b>	76,275
	<b>372,470</b>	341,869	<b>360,504</b>	326,757

(a) At 31 December 2004, the ageing analysis of payables to third parties were as follows:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Not exceeding one year	<b>345,854</b>	248,013	<b>334,694</b>	235,331
More than one year but not exceeding two years	<b>807</b>	15,704	<b>652</b>	14,888
More than two years but not exceeding three years	<b>320</b>	439	<b>315</b>	183
More than three years	<b>439</b>	80	<b>183</b>	80
	<b>347,420</b>	264,236	<b>335,844</b>	250,482

(b) Amounts due to related companies are unsecured, interest-free and with no fixed term of repayments.

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 18 Construction contracts in progress

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Contract costs incurred plus attributable profits less foreseeable losses	1,374,113	1,243,246	1,372,157	1,241,715
Less: progress billings to date	(1,599,599)	(1,494,483)	(1,599,599)	(1,494,483)
	<b>(225,486)</b>	<b>(251,237)</b>	<b>(227,442)</b>	<b>(252,768)</b>

Included in current assets/(liabilities) under the following captions:

Due from customers on construction contracts	600,960	392,470	599,320	391,041
Due to customers on construction contracts	(826,446)	(643,707)	(826,762)	(643,809)
	<b>(225,486)</b>	<b>(251,237)</b>	<b>(227,442)</b>	<b>(252,768)</b>

At 31 December 2004, there was no retention monies held by customers for contract works (2003: RMB10,197,000).

At 31 December 2003 and 2004, no advances were received from customers for contract work.

At 31 December 2003 and 2004, no vessels under construction have been pledged as security for liabilities.

## 19 Other payables and accruals

	Group		Company	
	2004	2003	2004	2003
Note	RMB'000	RMB'000	RMB'000	RMB'000
Payables to third parties and accruals	108,500	161,126	94,478	143,880
Amounts due to related companies and accruals (a)	283	2,927	258	2,927
	<b>108,783</b>	<b>164,053</b>	<b>94,736</b>	<b>146,807</b>

(a) Amounts due to related companies are unsecured, interest-free and with no fixed terms of repayment.

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 20 Provision for warranty

Movement of provision for warranty is as follows:

	Group and Company	
	2004	2003
	RMB'000	RMB'000
Total warranty as at 1 January	37,907	23,695
Additional provisions	19,021	30,881
Write back of expired warranty provision	(10,832)	(2,018)
Utilised during the year	(7,849)	(14,651)
Total warranty as at 31 December	38,247	37,907

## 21 Short-term loans

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Loans				
Unsecured	33,106	99,319	33,106	99,319
Secured	82,765	95,085	82,765	89,662
	115,871	194,404	115,871	188,981

No unsecured short-term loan was guaranteed by related parties (2003: loans of RMB49,662,000 were guaranteed by a company controlled by China State Shipbuilding Corporation ("CSSC"), the company's major shareholder).

## 22 Share capital

	Company	
	2004	2003
	RMB'000	RMB'000
Registered, issued and fully paid		
210,800,080 State shares of RMB1 each	210,800	210,800
126,479,500 A shares of RMB1 each	126,480	126,480
157,398,000 H shares of RMB1 each	157,398	157,398
	494,678	494,678

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 23 Reserves

	Group					
	Surplus reserves				Accumulated	Total
	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	losses RMB'000	RMB'000
At 1 January 2004	651,977	48,997	30,591	20,560	(589,234)	162,891
Profit for the year	—	—	—	—	60,945	60,945
<b>At 31 December 2004</b>	<b>651,977</b>	<b>48,997</b>	<b>30,591</b>	<b>20,560</b>	<b>(528,289)</b>	<b>223,836</b>
Company and subsidiaries	651,977	48,997	30,591	20,560	(533,212)	218,913
Associated companies	—	—	—	—	4,923	4,923
<b>At 31 December 2004</b>	<b>651,977</b>	<b>48,997</b>	<b>30,591</b>	<b>20,560</b>	<b>(528,289)</b>	<b>223,836</b>

	Group					
	Surplus reserves				Accumulated	Total
	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	losses RMB'000	RMB'000
At 1 January 2003	651,977	48,997	30,692	20,459	(613,789)	138,336
Profit for the year	—	—	—	—	24,555	24,555
Transfers (to)/from other reserves	—	—	(101)	101	—	—
<b>At 31 December 2003</b>	<b>651,977</b>	<b>48,997</b>	<b>30,591</b>	<b>20,560</b>	<b>(589,234)</b>	<b>162,891</b>
Company and subsidiaries	651,977	48,997	30,591	20,560	(593,895)	158,230
Associated companies	—	—	—	—	4,661	4,661
<b>At 31 December 2003</b>	<b>651,977</b>	<b>48,997</b>	<b>30,591</b>	<b>20,560</b>	<b>(589,234)</b>	<b>162,891</b>

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 23 Reserves (continued)

	Company					Total <i>RMB'000</i>
	Surplus reserves					
	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Accumulated losses	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
At 1 January 2004	651,977	48,476	30,493	20,560	(604,250)	147,256
Profit for the year	—	—	—	—	58,841	58,841
<b>At 31 December 2004</b>	<b>651,977</b>	<b>48,476</b>	<b>30,493</b>	<b>20,560</b>	<b>(545,409)</b>	<b>206,097</b>

	Company					Total
	Surplus reserves					
	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Accumulated losses	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2003	651,977	48,476	30,594	20,459	(553,621)	197,885
Loss for the year	–	–	–	–	(50,629)	(50,629)
Transfers (to)/from other reserves	–	–	(101)	101	–	–
At 31 December 2003	651,977	48,476	30,493	20,560	(604,250)	147,256

# NOTES TO THE ACCOUNTS (continued)

*(Prepared in accordance with accounting principles generally accepted in Hong Kong)*

## 23 Reserves (continued)

### (a) Capital reserve

This represents premium on issue of shares net of issuing expenses. Capital reserve can only be used to increase share capital.

### (b) Surplus reserves

Surplus reserves are part of shareholders' funds and comprise statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve.

#### (i) Statutory surplus reserve

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation prepared in accordance with PRC accounting standards and systems to the statutory surplus reserve until the balance reaches 50% of the paid up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

#### (ii) Statutory public welfare fund

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer between 5% to 10% of the profits after taxation prepared in accordance with PRC accounting standards and systems to the statutory public welfare fund. The use of this fund is restricted to capital expenditure for employees' collective welfare facilities, the ownership in respect of which belongs to the Group. The statutory public welfare fund is not available for distribution to shareholders except under liquidation. Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from the statutory public welfare fund to the discretionary surplus reserve. In 2004, the Group did not purchase welfare facilities (2003: RMB101,000) and accordingly, no amount has been transferred from the statutory public welfare fund to the discretionary surplus reserve.

# NOTES TO THE ACCOUNTS (continued)

*(Prepared in accordance with accounting principles generally accepted in Hong Kong)*

## 23 Reserves (continued)

### (iii) Discretionary surplus reserve

In accordance with the relevant PRC financial regulations, subject to approval by shareholders in general meetings, discretionary surplus reserve can be used to reduce any losses incurred or to increase share capital.

### (iv) Profit distribution

In accordance with the Company's articles of association, profit after taxation shall be appropriated in the following sequence:

- a. offset accumulated losses;
- b. 10% to be transferred to statutory surplus reserve (note 23(b)(i));
- c. 5-10% to be transferred to statutory public welfare fund (note 23(b)(ii));
- d. transfer to discretionary surplus reserve (note 23(b)(iii)); and
- e. pay dividends.

Pursuant to article 159 of the Company's articles of association, where the accounts prepared in accordance with the PRC accounting standards and systems differ from those prepared under the accounting principles generally accepted in Hong Kong, for the purpose of approving the profit distribution, profit after taxation of the Company for the relevant accounting year shall be deemed to be the lesser of the amounts in the two different accounts.



# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 24 Long-term bank loans

	<b>Group and Company</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Unsecured (Note)	<b>600,450</b>	680,510
Current portion of long-term bank loans	<b>(400,000)</b>	(380,000)
	<b>200,450</b>	300,510

Long-term bank loans were borrowed for the construction of vessels bearing interest at rate of 2.7% per annum (2003: 2.7% to 3.51% per annum).

At 31 December 2004, the Group and the Company's bank loans were repayable as follows:

	<b>Group and Company</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Repayable within one year	<b>400,000</b>	380,000
Repayable in the second year	<b>200,450</b>	300,510
	<b>600,450</b>	680,510

Note: Unsecured bank loans are guaranteed by CSSC, which the Company also provided a counter indemnity (2003: loans of RMB400,000,000 and RMB280,000,000 were guaranteed by CSSC and two companies controlled by CSSC respectively).

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 25 Retirement and other post retirement obligations

		Group and Company	
		2004	2003
		RMB'000	RMB'000
	Notes		
Obligations on:			
– supplemental defined contribution retirement scheme	(a)	3,286	25,763
– early retirement scheme	(a)	15,202	18,431
– medical insurance scheme	(b)	10,367	14,604
		<b>28,855</b>	58,798
Less: current portion included in other payables and accruals		<b>(9,612)</b>	(32,696)
		<b>19,243</b>	26,102

As stipulated by the relevant regulations of the PRC, the Company and its subsidiaries in Guangzhou City have participated in a number of defined contribution employees benefit plans for its existing and retired employees organised by the government. The Group has no other material obligations for payment of employee benefits to retirees or upon retirement of existing employees beyond the schemes as described below:

### (a) Retirement scheme

The Company and certain subsidiaries have joined the defined contribution retirement scheme operated by the provincial government of Guangdong Province since 1 January 1994. Under the scheme, the relevant group companies are required to make contributions at 18% of the standard salaries. Upon retirement, the retirees will receive monthly payments from the Social Insurance Bureau of Guangdong Province. Contributions made by the Group for the year ended 31 December 2004 was RMB23,821,000(2003: RMB22,161,000).

The Company has also operated a supplemental defined contribution retirement scheme since 1 March 1995. Under this scheme, the relevant group companies and the employees are required to make contributions at 10% and 5% of a specified amount of the employees' monthly salaries respectively. The staff will receive both contributions plus interest upon retirement. As approved by the Workers' Conference, the Company ceased this supplemental defined contribution retirement scheme on 18 January 2004. The accumulated contributions made by the Company and employees were paid to the employees in 2004. The remaining balance of RMB3,286,000 in this retirement scheme as at 31 December 2004 representing the contributions forfeited by the Group as a result of resignation of the employees before retirement and the interest difference arising from prior contributions, will be utilized for the welfare of employees. In addition, during the year the Group had made payments of RMB 1,092,000 (2003: RMB898,000) as subsidies to retirees.

## NOTES TO THE ACCOUNTS (continued)

*(Prepared in accordance with accounting principles generally accepted in Hong Kong)*

### 25 Retirement and other post retirement obligations (continued)

#### (a) Retirement scheme (continued)

In addition, certain employees of the Company have applied for early retirement and have been approved. Pursuant to the early retirement scheme, the retirees are entitled to similar benefits (including the Company's contribution in relation to retirement, housing and medical insurance) as that of a normal employee except that these contribution are calculated based on the monthly compensation to the retirees.

#### (b) Medical insurance scheme

As required by the Provisional Rules of Medical Insurance issued by the Guangzhou People's Municipal Government effective on 1 December 2001 ("Provisional Rules of Medical Insurance"), it is mandatory for the Company and its subsidiaries in Guangzhou to participate in a medical insurance scheme set up and managed by the government. Employees, included those retired employees, can be benefited from the medical insurance scheme around one month after the registration date.

The Group's annual obligations for payment of this medical insurance contribution is based on 8% of the preceding year's average annual salary of the Group or the preceding year's average annual salary of the Guangzhou City, depending on the length of the employment period of the employee concerned.

Pursuant to the Provisional Rules of Medical Insurance, contributions are also required for the past services rendered by the retired and retiring employees prior to 1 December 2001. Certain of these contributions do not fall due wholly within twelve months, such contributions payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality investments.

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 26 Consolidated cash flow statement

### (a) Reconciliation of profit before taxation to net cash generated from operating activities

	2004 RMB'000	2003 RMB'000
Profit before taxation	35,163	26,473
Share of profits less losses of associated companies	(681)	(224)
Depreciation of property, plant and equipment	89,088	82,168
Loss on disposal of property, plant and equipment	8,983	12,579
Gain on disposal of discontinuing operation	(5,316)	–
Deficit on revaluation of investment properties	700	300
Loss/(gain) on disposal of interest in subsidiaries	123	(206)
Income from investment securities	(621)	(810)
Provision for foreseeable losses of construction contracts	–	13,560
Impairment of property, plant and equipment	1,928	–
Write back of provision for non-recovery on principals due from non-banking financial institutions	–	(1,500)
Interest expenses	20,370	40,806
Interest income	(7,902)	(19,396)
Operating profit before working capital changes	141,835	153,750
(Increase)/decrease in inventories	(147,778)	131,088
(Increase)/decrease in net construction contracts in progress	(25,751)	454,190
Decrease in trade and other receivables, prepayments, deposits and tax recoverable	369,170	391,557
Decrease in trade and notes payables, other payables and accruals, including other taxation payable and current liabilities	(136,341)	(330,367)
Net cash generated from operations	201,135	800,218

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 26 Consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	Share capital and capital reserve		Loans		Minority interests	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	1,146,655	1,146,655	874,914	1,492,392	59,733	60,788
Increase in interests of subsidiaries	-	-	-	-	-	(1,605)
Decrease in interests of a subsidiary	-	-	-	-	(4,911)	650
Minority interests in share of losses	-	-	-	-	(2,612)	(100)
New loans payable	-	-	709,585	1,740,839	-	-
Repayment of amounts borrowed	-	-	(868,178)	(2,358,317)	-	-
At 31 December	1,146,655	1,146,655	716,321	874,914	52,210	59,733

## 27 Capital commitments for property, plant and equipment

At 31 December 2004, the Group and the Company had the following commitments:

	Contracted but not provided for		Authorised by directors but not contracted for	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Purchase of machinery and equipment	3,772	637	1,251	40,689
Purchase or construction of factories and buildings	168	4,626	11,585	24,940
	3,940	5,263	12,836	65,629

## 28 Contingent liabilities

At 31 December 2003 and 2004, the Group and the Company had no material contingent liabilities.

# NOTES TO THE ACCOUNTS (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

## 29 Related party transactions and balances

- (a) Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Notes	2004 RMB'000	2003 RMB'000
Companies controlled by CSSC			
Purchase of raw materials		62,335	72,548
Purchase of equipment for shipbuilding		84,097	198,157
Vessel sales commission payable	(i)	8,757	23,922
Other expenses payable	(ii)	37,562	71,391
Income from provision of service	(iii)	17,642	12,234

It has been confirmed by the independent directors of the Company that the above related party transactions were carried out in the ordinary course of business of the relevant companies and in normal commercial terms.

- (i) Vessel sales commission payable was computed based on 1% – 3% of the contract price of relevant vessels.
- (ii) 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 RMB7,330,000 (2003: RMB7,082,000) for its provision of staff welfare services (including the provision of staff quarters and other benefits) to GZS. The service fees for the year ended 31 December 2004 and 2003 did not include welfare to key management personnel. The comprehensive service agreement and supplementary agreement expired at the end of 2005.

Apart from the above, included in other expenses were vessel-related processing service fees, amounted to RMB24,383,000 (2003: RMB53,623,000). These service fees were computed based on tonnage.

- (iii) Income from provision of service represents provision of vessel-related processing services, ship repairing services and other services.

- (b) Save as disclosed elsewhere in the accounts, significant related party balances also include an amount of RMB1,853,000 (2003: RMB9,092,000) representing current deposits in a financial institution controlled by CSSC. This amount was included in bank balance and cash.

## 30 Approval of accounts

The accounts were approved by the board of directors on 31 March 2005.