REPORT OF THE BOARD OF DIRECTORS

(I). DISCUSSION AND ANALYSIS OF OPERATIONS DURING THE PERIOD UNDER REVIEW

Result

In the financial statements prepared in accordance with PRC Accounting Rules and Regulations for the year ended December 31, 2005, the principal operating income of the Group amounted to RMB2,728.92 million, representing an increase of 15.47% over that of last year. The audited consolidated net profit after taxation and minority interest amounted to RMB98.19 million representing an increase of 191.61% over that of last year. The earnings per share and that after deduction of exceptional items was RMB0.20 and RMB0.13 respectively, representing increases of 185.71% and 85.71% respectively.

In the financial statements prepared in accordance with HK GAAP for the year 2005, the turnover of the Group amounted to RMB 2,728.92 million, representing an increase of 15.47% over that of last year. The profit attributable to shareholders after taxation and minority interest amounted to RMB 135.01 million, representing an increase of 122% over that of last year. The earnings per share was RMB 0.2729.

In 2005, the principal operating income of the Group made a considerable increase, which mainly due to the better the shipbuilding market as well as the higher selling price of vessels in 2005; The net profit of the Group increased markedly, due to not only the higher selling price of vessels, strengthening of cost control and structure adjustment of shipbuilding products, which caused an increase by 84.46% in principal operating profit, but also the writing back of special provision in an amount of RMB36.17 million for the bad debts in Guangzhou International Trust Investment Company of the Company in the year 2005.

During this period under review, under the leadership of the target of " Lean Management, strengthen the competency of the Company to promote the healthy, harmonious, and sustainable development of the Company", the Company brought about the sustainable and harmonious development in the Company's shipbuilding operation and non-shipbuilding operations through optimising the capability of the handy size tankers constantly, deepening the operation and design, optimizing master flow chart of shipbuilding, operating and managing meticulously, applying key technology and new process, strengthening cost controlling and management, implementing performance management, as well as improving efficiency and economic performance and implementing project manager responsibility system in non-shipbuilding operations.

Major operation information by products

Unit: RMB'000

Products	Principal operating income	Principal operating cost	Principal operating profit margin	Change in principal income over that of 2004 (%)	Change in principal operating cost over that of 2004 (%)	Change in principal operating profit margin over that of 2004 (%)
Shipbuilding	2,335,531	2,168,909	7.13	10.92	6.47	143.32
Steel structure	287,658	264,532	8.04	104.07	106.41	80.63
Electrical & mechanical products and others	98,734	71,927	27.15	–1.70	8.03	–20.83
Ship repairing	6,993	6,425	8.13	–54.15	–46.95	–81.89

PRINCIPAL OPERATIONS

Shipbuilding

In the year 2005, the Group completed 14 vessels including two 35,000dwt product oil tankers, two 38,500dwt product oil tankers and three 29,000dwt chemical/product oil tankers for Danish customers, a 39,000dwt product oil tanker for Italian customer, as well as three 40,000dwt product oil tankers, a 3,000-ton patrol vessel and a 3,000-ton oil tanker and a salvage lifting vessel for domestic customers. The total completed tonnage amounted to 407,400dwt.

Moreover, there were 9 vessels commenced construction work, and 12 vessels launched in 2005. These vessels included, 38,500dwt product oil tankers and 29,000dwt chemical/product oil tankers for Danish customers, 51,8000dwt product oil tankers for a Swedish customer, 38,000dwt product oil tankers for a Malta customer, product oil tankers and chemical/ product oil tankers of 38,500dwt and 39,000dwt for Italian customers, as well as 40,000dwt product oil tankers and a salvage lifting vessel for domestic customers.

The turnover from shipbuilding amounted to RMB 2,335.53 million which represented an increase of 10.92% over that of last year. The turnover attributable to shipbuilding represents 85.58% of the Group's turnover, the gross profit of shipbuilding products amounted to RMB 166.62 million, and the gross profit rate accounted to 7.13% (excluding subsidy income). The principal operating income of shipbuilding in 2005 made a considerable increase due to the increase of the prices of the vessels; Meanwhile, the gross profit of the Group increased by 3.88 % compared with that of last year (3.25%), this is not only due to the increase in the vessel prices, but also due to the Company's strengthening work in cost control to shipbuilding and the foundation of modernization shipbuilding model.

In 2005, the Group took the opportunity of the flourishing shipbuilding market and secured new orders for 16 vessels, with a total tonnage of 710,000dwt and a total contract value of RMB5.1 billion. As at December 31, 2005, the Group has secured orders for 36 vessels with a total tonnage of 1.36 million dwt and a total contract value of RMB9.42 billion (RMB8.26 billion upon deducting those booked in the 2005 financial accounts in accordance with the ships process percentage).

Ship repairing

In 2005, ship-repairing operation of the Group was reduced compared with that of last year due to restriction of the geographical environment and the adjustment of product structure. The repairing services for 3 vessels with various types were completed including 1 foreign vessel. The turnover from the ship repairing operation amounted to RMB 6.99 million, the turnover attributable to the ship repairing operation represented 0.26% of the Group's turnover, and its gross profit amounted to RMB 0.57 million with gross profit rate of 8.15%.

Steel structure

During this period under review, due to that the steel structure market took a favourable turn and the Company intensified to develop steel structure, the steel structure turnover of the Company made a big increase compared with that of the last year. In 2005, the steel structure completed by the Group amounted to 32,025 ton, and the turnover contributed from the steel structure operation amounted to RMB 287.66 million and its gross profit amounted to RMB 23.13 million with gross profit rate of 8.04%. The turnover attributable to the steel structure operation represented 10.54% of the Group's turnover. In 2005, the Company tried out project manager responsibility system and budget management in non-shipbuilding operation which made a certain effect on cost control and improving gross profit of the production.

Mechanical and electrical equipment and other operations

The mechanical and electrical equipment operations of the Group including hydraulic bending machine, hydraulic shearing machine, residential elevators manufacture and installation and maintenance and alternation of hydrofoil of hovercraft. In 2005, the turnover from the mechanical and electrical equipment amounted to RMB 98.73 million, and the gross profit amounted to RMB 26.81 million with gross profit rate of 27.15%. The turnover attributable to mechanical and electrical and other operations represented 3.62% of the Group's turnover.

Geographical analysis of turnover

Countries or Regions	Principal operation income For the year 2005	For the year 2004	Change (%)
Malta	97,361,312.20	343,030,776.80	-71.62
Canada	143,498,882.44	–	100.00
Denmark	1,280,913,220.96	1,197,260,301.32	6.99
Marcao	25,599,082.48	675,709.56	3,688.47
The Philippines	5,059,536.41	2,595,952.57	94.90
U.S.A.	1,020,662.89	85,297.60	1,096.59
Hong Kong	382,927,585.75	17,758,804.82	2,056.27
The Marshall Islands	209,736,553.34	–	100.00
Taiwan	4,643,116.50	–	100.00
Norway	7,770,678.27	–	100.00
Others	5,251,694.21	–	100.00
Subtotal	2,163,782,325.45	1,561,406,842.67	38.58
Mainland China	565,133,754.69	801,995,907.85	-29.53
Total	2,728,916,080.14	2,363,402,750.52	15.47

Major product and its marketing occupancy

During the period under review, the operation scope of handy-size vessels is expanded to chemical tanker besides product oil tanker and crude oil tanker, the deadweight ton of vessel was expanded to 20,000dwt to 60,000dwt from 30,000dwt to 50,000dwt. Moreover, the market share of the Company in the international segment market rises to 14% from 11% in 2004.

Major products whose turnover or profit representing more than 10% of the total amount

Unit: RMB

Product	Principal operating income	Principal operating cost	Gross profit(%)
Shipbuilding	2,335,531,197.24	2,168,909,240.91	7.13
Steel Structure	287,657,617.19	264,532,458.20	8.04

Turnover from export operation

During the year, the Group's turnover attributable to exports amounted to US$268.1 million (2004: US$188.66 million).

Major customers and suppliers

In 2005, the turnover from the Group's five largest customers amounted to RMB1,549.18 million and accounted for 56.77% of the turnover of the Group, including of those, the turnover from China Shipping Development Co., Ltd., the Group's largest customer, accounted for 18.59% of the total turnover of the Group.

In 2005, the purchase of raw materials and equipment from the Group's five largest suppliers amounted to RMB 870.16 million and accounted for 13.79% of the total purchases of the Group, including of those, the purchase from Chongqing Iron and Steel Co., Ltd., the Group's largest supplier, accounted for 6.23% of the total purchase of the Group.

Except for Zhengjiang CSSC Equipment Co., Ltd. Zhengjiang Marine Diesel Factory, one of the five largest suppliers of the Company in 2005, is a subsidiary of CSSC, the controlling shareholder of the Company, none of the directors, supervisors and their respective associates had any interests in the major customers and suppliers noted above, nor had any of the Company's shareholders disclosed to the Company that he or she had any interest in the above mentioned major customers or suppliers.

Major subsidiaries

The operation conditions of the Company's major subsidiaries, with 51% or more interest held, during the year are summarised as follows:

	Company Name	Principal Activities	Registered Capital	Interest Attributable to the Company	Assets	Net profit (loss)
			RMB'000	*(%)*	*RMB'000*	*RMB'000*
Direct holding subsidiaries						
1	Guangdong Guangzhou Shipyard International Elevator Company Limited	Elevator production and sales	21,000	95	39,514	1,455
2	Guangzhou Hongfan Information Technique Company Limited	Development of computer software, system integration and sales of hardware	5,000	77	7,901	573

	Company Name	Principal Activities	Registered Capital	Interest Attributable to the Company	Assets	Net profit (loss)
			RMB'000	*(%)*	*RMB'000*	*RMB'000*
3	Guangzhou Xinsun Shipping Service Company Limited	Welding and coating of ships	2,000	83	17,614	1,069
4	Masterwood Company Limited	Furniture manufacturing	3,315	51	8,967	349
5	Guangzhou Guanglian Container Transportation Company Limited	Container transportation	20,000	75	21,167	–194
6	United Steel Structures Limited	Large-sized steel structure	73,573	51	110,879	6,173
7	Glory Group Development Co., Ltd.	Trading	HKD10,000	100	38,250	568
Indirect holding subsidiaries						
8	Masterwood Company Limited	Furniture manufacturing	3,315	25	8,967	349
9	Guangzhou Hongfan Hotel	Traveling and catering services	10,000	86.16	6,512	573
10	Guangdong Guangzhou Shipyard International Elevator Company Limited	Elevator production and sales	21,000	3.8	39,514	1,455
11	Fonkwang Development Ltd.	General trade	HKD200,000	70	15,265	666

Except for Glory Group Development Co., Ltd. and Fonkwang Development Ltd. were registered in Hong Kong, other above-mentioned subsidiaries are cooperated affiliated companies established and operated in Mainland China.

Problems and difficulties of operation and their solutions

During the period under review, the Company encountered problems and difficulties principally in respect of the increase in exchange rate risk and brain drain.

During the period under review, the impact of the appreciation in value of RMB to USD on the Company appeared gradually. Because about 70% of shipbuilding contracts are for export, and these contracts are settled by foreign currency, and the appreciation in value of RMB is unpredictable, so the Company is faced with certain exchange rate risk. In order to reduce the impact of exchange rate change, the Company adopted a series of appropriate measures, such as establishing an exchange rate risk prevention team which was composed of senior management of the Company, raising the ratio of first payment of new contracted vessels, using forward foreign exchange contracts to reduce the exchange rate risk fluctuation, optimising debts structure, strengthening the management of capital and standardizing the internal control of work flow to ensure safety in capital.

As a result of the development of China shipbuilding industry and the increasing demand for shipbuilding talents, the Company appeared the phenomenon of brain drain. In view of this problem, the Company implemented several measures such as: improved the salary of deferent talents to be geared market by fully pressing performance management of managers and implement reform of remuneration system; pressed the development and effective utilization of human resource; established talents achievements and made great efforts to talents project, opened up thinking of high-quality personnel introduction; carried out the management of training and exchange to improve the comprehensive qualities of talents, etc.

Financial position of the Group during 2005

RMB

Item	Closing balance	Opening balance	Increase/ decrease (+/-)	Change ratio (+/-%)
Total assets	2,544,604,337.13	2,213,066,567.01	331,537,770.12	14.98
Principal operating profit	215,188,764.16	116,660,476.17	98,528,287.99	84.46
Net profit	98,193,259.73	33,672,983.77	64,520,275.96	191.61
Net increase in cash and cash equivalents	266,729,465.63	-13,834,823.29	280,564,288.92	2,027.96
Shareholders' equity	808,455,948.62	710,262,688.89	98,193,259.73	13.82

Balance Sheet Items	Closing balance (RMB'0000)	Opening balance (RMB'0000)	Change (+/-%)	Percentage in total assets (%)
Total current assets	144,398	117,877	22.5	56.75
Long-term investment	1,574	1,581	-0.46	0.62
Fixed assets-net book value	94,817	90,784	4.44	37.26
Total assets	254,460	221,307	14.98	100
Total liabilities	168,643	145,059	16.26	66.31

Reason of change more than 30%:

The total current assets increased by 22.5% over that of the same period of last year that mainly due to:

1. Cash and bank balance increased by 70.62% which mainly due to the increase of the Net cash inflows from operating activities.

2. Other receivable decreased by 37.12% which mainly due to that the trust deposit in GZITIC was partially completed the debts restructuring.

3. Prepayment to suppliers increased by 49.41% is mainly due to increase of purchase earnest for marine material and equipment, which caused from the expending of the Company's production scope and the change of supply market of marine material and equipments.

4. Construction-in-progress in total assets increased by 81.70% is mainly due to that the Company invested in the construction of technical center building, numerical control plasma cutting machine and high precision gantry cutter and so on.

The total liabilities increased by 34.98% with the main reasons are as follows:

1. Short-term loans decreased by 47.91% which mainly due to the increase of new shipbuilding orders which caused the Company has sufficient capital and less bank loans.

2. Receipts in advance increased by 31.11% that mainly due to the increase of Company's orders.

3. Staff welfare payable increased by 78.64% which mainly due to the increase of wages payable.

4. Dividends payable increased significantly mainly due to that United Steel Structures Limited (a subsidiary of the Company) declared to pay out dividend of 2004, and the great increase of this item should be paid to minority shareholders.

5. Taxes payable increased by 36.32% that mainly due to the change of value-added tax items and corporation income tax item.

6. Other current liabilities increased by 299.25% mainly due to the increase of new-signed vessel orders led to the increase of the sum for shipbuilding contracts accordingly.

7. Special project payable increased by 30.52% that mainly due to the received technology reform and exploring fund.

Profit and Loss Statement Items	As at Dec. 31, 2005 (RMB'0000)	As at Dec. 31, 2004 (RMB'0000)	Change (+/-%)	Reason for change
Operating expenses	407	260	56.54	The increases are mainly due to the increase in operating income that caused from the increase of new orders.
Administrative expenses	11,632	14,351	-18.95	
Financial expenses	3,267	916	256.65	Mainly due to that the appreciation of RMB made an impact on exchange rate, and led to the increase of exchange loss of the Company. During this period under review, the exchange loss of the Company is RMB16.02 million.
Income tax	271	175	54.85	

Cash Flow statement Items	As at Dec. 31, 2005 (RMB'0000)	As at Dec. 31, 2004 (RMB'0000)	Change (+/-%)	Reason for change
Sub-total of cash outflows	84,558	20,531	311.85	The increases are due to that the Company has sufficient capital, which is the result of the increase of operation orders, and money in advanced of orders during this period under review.
Cash outflows per share	1.71	0.42	307.14	
Cash inflows from investing activities	1,597	944	69.17	The increase is mainly due to the Company received the cash of transferring the interest in Nanyang Industrial Trading Development Co., Ltd (a subsidiary of the Company).
Cash outflows from investing activities	8,893	4,975	78.76	The increase in this item in used to purchase fixed assets.
Net cash flow from financing activities	-7,296	-4,031	81	
Cash inflows from financing activities	43,380	84,700	-48.78	The decrease of this item is mainly due to that the Company has sufficient operation capital of this year and the loans made a notable decrease.
Cash outflows from financing activities	93,984	102,805	-8.58	
Net cash flows from financing activities	-50,604	-18,105	179.5	The decrease of this item is mainly due to that the Company has sufficient operation capital of this year and the loans made a notable decrease.
Net increase in cash and cash equivalents	26,673	-1,383	2,028.63	The great increase in this item is due to sufficient the operation capital.

Application of proceeds from share offering

The Company had not raised funds during the year nor utilized any proceeds previously raised.

Application of other capital

During the period under review, the investment capital not from share offering of the Company amounted to RMB 101.01 million, increased by RMB65.22 million and representing a increase of 182.23% compared with that of last year. The major invested projects are as follows:

Items	Amount (RMB'0000)	Progress	Income
Renovation of the docks	1,891	Half finished	Hasn't bring out any income
Construction of technical centre building	2,337	Finished and is using	–
Numerical control plasma cutting machine	233	Finished and is using	–
High precision gantry cutter	171	Installment, experiment and adjust	Hasn't bring out any income
Others	5,469	Finished and is using	–
Total	10,101	/	/

Responsibility ascertainment and treatment to relevant person for significant loss in assets

During the period under review, the Company had not happened any significant loss in assets.

Prospects for the coming year

In the coming year, the principal shipbuilding operation will continue the situation of developing sustainedly and harmoniously. The prices of the vessels in 2006 are higher than those in 2005, so the principal operating income of the Company will increase continuously on what we were in 2005. Moreover, the renovation of the dry dock will be completed in the end of 2006, and at that time, the dock shipbuilding production line is formed, and the shipbuilding capacity of the Company will be improved. However, due to the potential increase of the steel price and exchange risk, the rise of principal operating gross profit ratio is also faced with certain obstructions.

Being faced with such situation, the Group will still insist the policy of "strengthen the core competence in shipbuilding, vivify the development in non-shipbuilding operations", fully utilizes the good situation of the flourishing shipbuilding market to develop shipbuilding under the opportunities created by the State and Guangzhou City; expedites the establishment of modernization shipbuilding mode; perfects the management function of the Company and strengthens the organization of shipbuilding; fully presses performance management of managers and implement reform of remuneration system; carries cost control, perfects budget supervision and enhances prior exchange rate risk prevention; enhances development of new vessel types, improves productive and technical preparation system; actively opens up non-shipbuilding operations and develops the second pillar operation of the Company.

Moreover, in accordance with the developing tendency in China shipbuilding industry and the analysis on the demand for ship materials, in order to improve the competence and quality of the Company and increase the reward to shareholders, the fifth term of the Board of Directors of the Company approved Glory Group Development Co., Ltd., a subsidiary of the Company to invest in Zhengjian CSSC Equipment Co., Ltd, whose principal business is generator manufacturing, on the basis of over 10% yield, with the total investment not exceeding USD 2 million.

The profit forecast of the first quarter of 2006

Due to the higher price of ships which were built during the first quarter of 2006 and the less material cost over that of the same period of 2005, it is anticipated that the net profit in the first quarter of 2006 prepared under the PRC Accounting Rules and Regulation will increase by more than 100% over that of the same period of 2005.

(II). REPORT OF THE DAILY OPERATIONS OF THE BOARD OF DIRECTORS

Meetings of the Board of Directors

During the period under review, the Board of Directors held eleven meetings. The major points and resolutions arising from each of these meetings are as follows:

1. The 20th meeting of the fourth term of the Board of the Company was held on January 4, 2005 by means of written resolution and approved resolutions as follows: 1) Approved the cancellation of Kwang Chow Shipyard Container Factory and authorized the Company's management to proceed with the cancellation in accordance with the relevant Laws of regulations and at the same time to cancel the compiling of "Container Division" in the Company's organization structure; 2) Approved the establishment of military ship marketing department; Approved to engage qualified accountant, Mr. Li Chi Sing, as the financial adviser of the Company to assist the chief accountant of the Company in accordance with the Hong Kong Listing Rules.

2. The 21st meeting of the fourth term of the Board of the Company was held on February 23, 2005 by means of written resolutions and approved to remise its 69.71% interest in Nanyang Industrial Trading Development Co., Ltd with a transferring price of RMB 13,523,740.

3. The 22nd meeting of the fourth term of the Board of the Company was held at the reception room of the Company on March 31, 2005. The resolutions passed by the meeting were published on Shanghai Securities News and Hong Kong Commercial Daily and China Daily (overseas version) on April 1, 2005.

4. The 23rd meeting of the fourth term of the Board of the Company was held on April 13, 200 by means of written resolution and approved to revise several items of the Articles of Association of the Company, which was published on Shanghai Securities News and Hong Kong Commercial Daily and China Daily (overseas version) on April 19, 2005.

5. The 24th meeting of the fourth term of the Board of the Company was held at the reception room of the Company on April 22nd, 2005. All the eleven directors with 2 proxies attended the meeting and approved the First Quarterly Report of 2005.

6. The first meeting of the fifth term of the Board of the Company was held at the reception room of the Company on May 27, 2005. The resolutions passed by the meeting were published on Shanghai Securities News and Hong Kong Commercial Daily and China Daily (overseas version) on May 30, 2005.

7. The second meeting of the fifth term of the Board of the Company was held at the reception room of the Company on August 19, 2005. The resolutions passed by the meeting were announced on Shanghai Securities News and Hong Kong Commercial Daily and China Daily (overseas version) on August 22, 2005.

8. The third meeting of the fifth term of the Board of the Company was held on September 19, 2005. All eleven directors voted by means of written resolution. The meeting approved that Guangzhou International Trust and Investment Company ("GZITIC") use its disposed right which has a par value of RMB14.04 million to compensate the debt with a principal amount of RMB14.04 and the interest otherwise accrued thereon 40% of which should be cashed within 30 days. Whereas, since the creditor and the debtor interrelated did not carry this promise, the debt restructuring agreement between the Company and GZITIC became void after the specified date.

9. The fourth meeting of the fifth term of the Board of the Company was held at the reception room of the Company on October 10, 2005. The resolutions passed by the meeting were announced on Shanghai Securities News and Hong Kong Commercial Daily and China Daily (overseas version) on October 12, 2005.

10. The fifth meeting of the fifth term of the Board of the Company was held at the reception room of the Company on October 26, 2005. The resolutions passed by the meeting were announced on Shanghai Securities News and Hong Kong Commercial Daily and China Daily (overseas version) on October 27, 2005.

11. The sixth meeting of the fifth term of the Board of the Company was held on November 21, 2005 by means of written resolutions. All eleven directors voted on the resolutions which formally passed on December 1, 2005. The resolution passed were as follows: 1) Approved the proposal of internal control implementation framework (Trial Implementation), and authorized management to revise in accordance with actual condition; 2) Approved the comprehensive service agreement, and authorized the Company management to conclude correlated agreement with the connected party Guangzhou Shipyard (correlated notice was published on Shanghai Securities News and Hong Kong Commercial Daily and China Daily (overseas version) on December 9, 2005); 3) Approved the scheme correlated with cash and debt-paying by asset with GZITIC under the prerequisite of more than 20% of cash payment rate and more than 30% of cash-exchangeable value or the cash-exchangeable value is less than 30% but was approved by the Board chairman and the Board, and authorized management to signed the relevant documents with GZITIC; 4) Approved the lease of restructed real estate in Xinjiang Province, and authorized the management to signed agreement of tenancy.

The execution by the Board of Directors in respect of the resolutions passed at General Meetings

During the year, the Board of Directors had executed all the resolutions passed at the 2004 Annual General Meeting and the first Extraordinary General Meeting in 2005.

Interests of directors, supervisors and senior management

Except for the disclosure under "Information of Directors, supervisors, senior management and staff", at no time during the year had the Company been notified that any director, supervisor or member of senior management (including their spouses and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for equity or debt securities of the Company or its associated corporations (within the meaning of the SFO), nor did they have any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which were required to be notified to the Company and The Stock exchange of Hong Kong Limited pursuant to section 341 of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers or which were required to be entered in the register required to be kept under the section 352 of the SFO.

Service contracts of directors and supervisors

The service contracts of all members of the fourth term and the fifth term of the Board of Directors and supervisory committee of the Company with the Company do not provide for payment in compensation of early termination of the service contract or non re-election upon the expiration of the service contract.

Interests of directors and supervisors in contracts

During the year, no contracts of significance in relation to the Company's business, to which the Company and its subsidiaries were a party, and in which a director or a supervisor of the Company had a material interest, whether directly or indirectly, were in existence.

The highest paid individuals

The five highest paid individuals are either directors, supervisors or senior management whose emoluments have been disclosed in "Basic Information of Directors, supervisors, senior management and staff" noted above.

Profit forecast

The Company did not prepare any profit forecast for the period covered by this report.

Profit distribution for the year 2005

As the Company has a profit of RMB 98.19 million in the financial statements prepared in accordance with the PRC Accounting Rules and Regulations and a profit attributable to shareholders of RMB135.01 million in the financial statements prepared in accordance with the HK GAAP in 2005. Accumulated retained earnings of the Company is negative, the profit should offset loss first in accordance with the Articles of Association of the Company, the Board of Directors proposed not to recommend any profit distribution or capital increment for the year 2005. This proposal will be submitted to 2005 Annual General Meeting for approval.

Financial summary

Summaries of the results, assets and liabilities of the Group for the last five financial years prepared in accordance with the PRC Accounting Rules and Regulations and HK GAAP are set out on page 7 and page 8 , respectively.

Results and profit distribution

The results and profit distribution of the Group for the year ended December 31, 2005 prepared under PRC Accounting Rules and Regulations and HK GAAP are set out in the profit and loss statement on page 71 and consolidated income statement on page 129.

Reserves

The movements in the reserves of the Group which are prepared under PRC Accounting Rules and Regulations and HK GAAP are set out in note V(18) to V(21) to the financial statements on page 101 to 102 and note 21 on page 176 respectively.

Fixed assets

Details of movements in fixed assets (including properties and other tangible assets) of the Group which are prepared under PRC Accounting Rules and Regulations and HK GAAP are set out in note V(6) to the financial statements on page 93 and note 6 on page 162, respectively.

As at December 31, 2005, there was not any fixed assets pledged as security for the Group's banking facilities.

Properties held for development or sale

The Group received the properties as follows for recovering accounts receivable and taking for the investing properties. Except of that, the Group has no property held for development or sale, which represents over 15% of the value of net tangible assets, or where contribution derived from properties exceeded 15% of pre-tax operating profit.

Properties	Address	Purpose	Permanent freehold or not
Shops in Urumchi, Xinjiang	No. 3 Beijing Beilu New District Urumchi City, Xinjiang	Rent	Yes
Shops in Changchun, Jiling	Building 308 Guangfu Road, Nanguan in Changchun, Jiling Province	Rent	Yes
Apartments in Tianhe District, Guangzhou	Jinfu Garden, the storehouse of the former supply and Marketing Co., Guangzhou, Guangdong Province	Rent	Yes

Share capital

Details of the share capital of the Company are set out in "Share capital structure" on page 13.

Preemptive rights

As there is no provision for preemptive rights under the Company's Articles of Association, the Company had not arranged any scheme for such right during the year.

Warrants and others

During the year, neither the Company nor its subsidiaries have issued any warrants, convertible securities, options or other securities with similar rights, nor had any person exercised any right noted above.

Purchase, sale or redemption of the Company's securities

Neither the Company nor its subsidiaries made any purchase, sale or redemption of the Company's securities during the year.

Bank loans, overdraft and other borrowings

Details of bank loans, overdraft and other borrowings of the Group as at December 31, 2005 are set out in note V(10) and V(16) to the financial statements on page 95 and 100 and note 22 on page 178, respectively.

Interest capitalisation

Details of interest capitalization of the Group during the year are set out in note V(7) to the financial statement on page 94.

Application of Statutory Public Welfare Fund

During the year, the Company applied RMB66, 000 of statutory public welfare fund on purchasing drinking machines as fixed assets.

Capital expenditure

The Group expects that capital expenditure during 2006 would be approximately RMB109.41 million. The Group has sufficient financial resources to meet the demand for capital expenditure and its daily working capital.

Contingent liabilities

Up to December 31, 2005, the Group has no significant contingent liabilities.

Connected transactions

Framework agreement and its supplemental agreement for connected transactions

The supplemental agreement of the framework agreement for connected transactions of an operating nature made between the Company and CSSC was considered and approved by independent shareholders at the 2004 Annual General Meeting. Such transactions themselves are of an operational nature and in the normal and usual course of business of the Group, they allow the Group to leverage the reputation and bargaining power of the CSSC Group, provide a steady source of materials, labour and design and technology services necessary for the Group to conduct its business, and allow flexibility in handling excess resources which are in short supply for the CSSC Group. The Directors including four independent non-executive directors namely Mr. David Hon To, Yu, Mr. Philip Pat Yiu, Yuen, Mr. Bu Miaojin and Mr. Wu Fabo believed that the terms of the Framework Agreement, which are worked out in accordance with provisions of relevant laws and regulations of mainland China and Hong Kong, are fair and reasonable and in the interests of the independent shareholders.

Comprehensive service agreement

Both the comprehensive service agreement signed on April 20, 2001 (noticed on April 24, 2001) and the supplemental agreement signed on April 22, 2003 (announced on April 23, 2003) between the Company and the connected party, Guangzhou Shipyard, expired on December 31, 2005. To satisfy the needs of the Group, the staffs and their families for this comprehensive service, the Company signed the comprehensive service agreement for the next three years with Guangzhou Shipyard on December 8, 2005 with an annual service charge not exceeding HKD 10 million. The Company's independent director namely Mr. Bu Miaojin, Mr. Wu Fabo, Mr. Wang Xiaojun and Mr. Mak, Kin Kwong, Peter, examined this connected transaction and confirmed that the comprehensive service agreement was carried out in the ordinary course of business and had been entered into with terms no less favorable than terms available to third parties. This agreement is considered as fair and reasonable to the Company's shareholders. The relevant details of the connected transaction were announced on Shanghai Securities News and Hong Kong Commercial Daily and China Daily (overseas version) on December 9, 2005.

Details of the transactions above-mentioned are set out in note (VI) to the financial statements. Furthermore, the above transactions, which also constitute connected party transactions under the listing rules of The Stock Exchange of Hong Kong Limited ("Listing Rules"), require disclosure in accordance with Chapter 14A of the Listing Rules. Details are set out in note 38 to the financial statements prepared under the HK GAAP on page 191.

Employees' pension scheme

The Company and certain subsidiaries have joined the defined contribution retirement scheme operated by the provincial government of Guangdong Province since 1st January 1994. Under the scheme, during the period under review, the Company had made contributions at 18% of the standard salaries as required. Upon retirement, the retirees will receive monthly payments from the Social Insurance Bureau of Guangdong Province. The contribution made by the Group for the year ended December 2005 was RMB 23,931,000(2004: RMB 23,821,000). In addition, during the year the Company had made payments of RMB 1,387,719 (2004: RMB 1,092,000) as subsidies to retirees.

Purchase of staff quarters by employees

Guangzhou Shipyard owns staff quarters occupied by employees of the Company. The sale of staff quarters to the Company's employees by Guangzhou Shipyard are in accordance with the State and Guangzhou City's housing reform policy and the Company was not involved in the selling of staff quarters to the employees.

With respect to the document (Sui Fu [2000] 18) issued by Guangzhou Municipal Government concerning the one-time cash accommodation allowance to those employees to whom the Company has not allocated staff quarters and those aged employees whose allocated staff quartrs do not meet required standard, Directors considered that the said document is not legally binding on the Company. However, in order to ensure the stabilization of the operation circumstances of the Company, to undertake social responsibility and to stabilize the staff team, the seventh meeting of the fifth Board of Directors approved the proposal to initiate the lump-sum housing allowance, which amount would not exceed RMB 24 million for retired employees to whom the Company has not allocated staff quarters.

Publications for disclosure

The publications used for disclosing information of the Company during the year 2005 are "Shanghai Securities News", "Hong Kong Commercial Daily" and "China Daily" (overseas version).

Significant litigation

The significant litigation of the Group happened during the period under review is set out in item 1 of Significant Events.

PRC Certified Accountants' Special Statement on the Capital Impropriation by the Controlling Shareholder and Connected Parties

In accordance with the requirement of relevant notice from China Securities Regulatory Commission, we audited the transacted of funds of the Company by its controlling shareholder, CSSC and other connected parties. As at 31st December 2005, the funds transacted between the Company and CSSC and other connected parties are delivered from connected transactions in the normal operation of the Company. Apart from these, Guangdong Yangcheng Certified Public Accountants Co., Ltd has not found any breach by the Company of the requirements stated in "Notice of Standard Current Funds between Listed Companies and Connected Parties and External Guarantees of Listed Companies".

Independent Directors' Special Statement and Independent Opinion on the External Guarantees of the Company

In accordance with the regulation stated in "Notice of Regulating the Finance Dealing with Connected Parties and the External Guarantees of Listed Companies", Zheng Jian Zi [2003] No. 56 (the "Notice") issued by the China Securities Regulatory Commission, we, the independent directors of the Company, have thoroughly reviewed and checked the external guarantees and its decision procedure of the Company and found that, the decision procedure of the Company is in accordance with the regulations of relevant law, regulations and rules and the Articles of Association of the Company, and has not provided any guarantee for the controlling shareholder, other connected parties with less than 50% shares controlled by the Company, any unincorporated unit or individuals up to December 31, 2005.

Resolutions for significant assets loss resulted from external guarantees

During the period under review, the Company had not provided any external guarantees, and there were not any matters resulted from external guarantees.

Auditors

The financial statements for the year ended December 31, 2005 prepared under PRC Accounting Rules and Regulations and the HK GAAP have been audited by Guangdong Yangcheng Certified Public Accountants Company Limited and PricewaterhouseCoopers, Certified Public Accountants, respectively. They shall respectively retired and, being eligible, offer themselves for re-appointment.

Acknowledgment

The Board of Directors would like to extend its sincere gratitude to its customers for their trust in the Company, and to the shareholders for their valuable support to the Company, and to the staff for their efforts and dedication to the Company's development.

On behalf of the Board of Directors
Chairman
Li Zhushi

Guangzhou, March 23, 2006