1. GENERAL INFORMATION

Guangzhou Shipyard International Company Limited ("the Company") is a joint stock company established in the People's Republic of China ("the PRC") with limited liability. The address of its registered office is 40 South Fangcun Main Road, Guangzhou, the PRC.

The Company is listed on Shanghai Securities Exchange and The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of Renminbi Yuan (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 23 March 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company and its subsidiaries (together "the Group") have been prepared in accordance with accounting principles generally accepted in Hong Kong and complied with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new/revised HKFRS (continued)

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

– HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 23, 27, 28, 33, 36 and 37 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

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

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

The adoption of revised HKAS 40 has resulted in a change in the accounting policy relating to the reclassification of investment properties from property, plant and equipment. The investment properties are stated at cost less accumulated depreciation and accumulated impairment losses. In prior years, the investment properties were stated at fair value and the decreases in fair value were expensed in the income statement.

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new/revised HKFRS (continued)

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

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

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

	2005	2004
Decrease in property, plant and equipment	**51,647**	66,345
Increase in land use rights	**51,647**	66,345

(ii) The adoption of HKAS 39 resulted in adjustments to the balance sheets at 31 December 2005 and the income statement for the year then ended are as follows:

	2005
Increase in available-for-sale financial assets	**46,252**
Decrease in non-trading securities	**11,910**
Decrease in deferred income tax assets	**5,151**
Increase in other reserves	**29,191**
Increase in derivative financial instruments (assets)	**3,802**
Increase in derivative financial instruments (liabilities)	**1,278**
Increase in other (losses)/gains – net	**2,524**

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) The adoption of new/revised HKFRS (continued)

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

	2005	2004
Increase in investment properties	**67,134**	5,200
Decrease in property, plant and equipment	**67,134**	5,200

(b) Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 December 2005 or later periods but which the Group has not early adopted, as follows:

HKAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment is not relevant to the Group's operations as the Group has no defined benefit plan and does not participate in any multi-employer plans.

HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements at 31 December 2005 and 2004.

HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 January 2006.

HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006). This amendment is not relevant to the Group's operation as the Group does not enter into financial guarantee contracts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards, interpretations and amendments to published standards that are not yet effective (continued)

HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). These amendments are not relevant to the Group's operations, as the Group is not a first-time adopter and does not carry out exploration for and evaluation of mineral resources.

HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). HKFRS 6 is not relevant to the Group's operations.

HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). HKFRS-Int 5 is not relevant to the Group's operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards, interpretations and amendments to published standards that are not yet effective (continued)

HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005). HK(IFRIC)-Int 6 is not relevant to the Group's operations.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indication of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 dividend received and receivable.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(b) Associates (continued)

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(b) Transactions and balances

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

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of property, plant and equipment acquired in exchange is measured at fair value.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives. The principal annual rates of depreciation for various classes of property, plant and equipment are as follows:

	Depreciation rates
– 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%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Investment properties

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

Investment property is measured initially at its cost, including related transaction costs. The cost of investment property acquired in exchange is measured at fair value.

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

Depreciation on investment properties is calculated using the straight-line method to allocate their costs less accumulated impairment losses to their residual values over their estimated useful lives to the Group. The principal annual rate of the depreciation for investment properties is 1.4% – 3.2%.

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

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment.

2.7 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.8 Impairment of non-financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets

From 1 January 2004 to 31 December 2004:

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

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

From 1 January 2005 onwards:

The Group classifies its financial assets in the following categories: at fair value through profit and loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category represents financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. Loans and receivables are classified as "trade receivables' and "other receivables' in the balance sheet (Note 2.12).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

(c) Available-for-sale financial assets

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

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss' category are presented in the income statement within "other (losses)/gains – net', in the period in which they arise.

Changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as "gains or losses from investment securities'. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing relevant to loans and receivables is described in Note 2.12.

2.10 Accounting for derivative financial instruments

From 1 January 2004 to 31 December 2004:

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

From 1 January 2005 onwards:

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The Group's derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within "other (losses)/gains – net".

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Trade receivables and other receivables

Trade receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

2.14 Share capital

Ordinary shares are classified as equity.

2.15 Borrowings

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

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

2.16 Deferred income tax

Deferred income tax 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 consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Deferred income tax (continued)

Deferred income 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 income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Construction contracts

Contract costs are recognised when incurred.

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

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group uses the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the standard labour hours incurred up to the balance sheet date as a percentage of total estimated standard labour hours for each contract.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Provisions (continued)

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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.

2.19 Employee benefits

(a) Employee leave entitlements

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

(b) Retirement obligation

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme are calculated as a percentage of employees' salaries. The retirement scheme costs charged to the income statement represent contributions payable by the Group to the fund. The Group has no further payment obligations once the contributions have been paid.

The Group's contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(c) 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 corporate bonds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Employee benefits (continued)

(d) 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.

(e) 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 corporate bonds.

2.20 Contingencies

A contingent liability is a possible obligation that arises from past events and whose existences will be confirmed only 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 financial statements. 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 future events not wholly within the control of the Group.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Contract revenue

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.

(b) Sales of goods

Revenue from the sale of 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 a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(c) Sales of services

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

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(e) Operating lease rental income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Research and development

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

2.23 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that 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 government grants and are recognised in the income statement on a straight line basis over the expected lives of the related assets.

2.24 Borrowing costs

Borrowing costs incurred for the construction of qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

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

(i) Foreign exchange risk

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

(ii) Credit risk related to trade receivables

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(iii) Liquidity risk

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

(iv) Fair value interest rate risk

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

3.2 Fair value estimation

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

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

The fair value of available-for-sale financial assets that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods, such as quoted market prices for similar assets and discounted cash flows, and makes assumptions that are based on market conditions existing at each balance sheet date.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

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

(a) Estimated provision for amount due from GZITIC

The Company has a deposit of RMB168,083,000 placed with the Guangzhou International Trust and Investment Company ("GZITIC") as at 31 December 2005. Management has considered the contingency and recoverable amounts of certain assets, by reference to a debt restructuring proposal provided by GZITIC, and made a provision of RMB117,811,000 towards the principals as at year end. Since the above mentioned assets contained properties, golf club membership, debts and other interests, the Company has considered a variety of indicators when evaluating their recoverable amount. These indicators include:

(1) quoted market price for same or similar assets, and adjusted for difference in nature, condition and location;

(2) recent prices of same or similar assets in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(3) discounted cash flow projections based on reliable estimates of future cash flows, derived from these assets, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Since the provision for non-bank deposit is estimated base on recoverable amount of the above mentioned assets, there may be material adjustments to the book value of the Company's assets if these assets are subsequently acquired or disposed, due to the changes in economic conditions.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 Critical accounting estimates and assumptions (continued)

(b) Fair value estimation for non-circulating corporate shares

The non-circulating corporate shares of China Merchants Bank held by the Company is classified as available-for-sales financial assets and measured at fair value at the balance sheet date. The fair value estimation is based on the "Announcement of Split-share Reform of China Merchants Bank (revised)" dated on 30 December 2005, considering the closing price of the circulated shares at the balance sheet date and adjusting to reflect the limitation on exchange of non-circulating shares.

Since the uncertainty in the stock exchange market, material adjustments to the book value of the Company's assets may be required in the future when the assets are re-valued at subsequent balance sheet date or available for trading in the stock exchange market.

(c) Budgeted shipbuilding costs

Based on best information on market environment available, the Group prepares a cost budget for each shipbuilding contract and the budget, which is used in the Group's financial reporting, will be revisited on a monthly basis. Foreseeable losses are provided when identified.

In preparing the financial statements for the year ended 31 December 2005, the Directors have reviewed the shipbuilding contracts and consider that a provision for loss is not necessary. Material adjustments to the budgeted shipbuilding costs may occur in future if there is a significant change in the shipbuilding market environment.

(d) Accrual for warranty

The Group provides warranties on goods sold and services rendered. A warranty provision will be recognised when the ownership and risk of the products or projects are transferred to customers, based on historical information, industry practices and market environment.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Critical judgements in applying the entity's accounting policies

Recognition of revenue

The Group has recognised revenue for sales and installation of steel structure projects, which are normally completed within one year. Such revenue shall be recognised when the steel structure products have been delivered and installed, the final acceptance documents have been obtained, and the outcome of the project can be measured reliably.

5. SEGMENT INFORMATION

Primary reporting format – business segments

At 31 December 2005, the Group is organised on the PRC basis into three main business segments:

(1) Shipbuilding – construction and trading of vessels;

(2) Shiprepairing – provision of ship repairing services; and

(3) Steel structure and other manufacturing – manufacturing and trading of steel structure and mechanical and electrical equipment.

The container manufacturing segment was discontinued in 2004.

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

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

5. SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

The segment results for the year ended 31 December 2004 are as follows:

	Shipbuilding	Ship–repairing	Steel structure and other manufacturing	Other operations	Elimination	Group
Sales	2,105,612	15,354	237,849	93,944	(89,356)	2,363,403
Segment results	125,987	3,141	33,690	22,855	(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 of associates				590		590
Profit before income tax						35,072
Income tax credit						23,261
Profit for the year						58,333

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

5. SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

The segment results for the year ended 31 December 2005 are as follows:

	Shipbuilding	Ship–repairing	Steel structure and other manufacturing	Other operations	Elimination	Group
Total gross segment sales	2,335,531	7,290	409,464	89,341	(112,710)	2,728,916
Inter-segment sales	–	(297)	(51,951)	(60,462)	112,710	–
Sales	2,335,531	6,993	357,513	28,879	–	2,728,916
Segment results	174,912	575	43,247	19,894	(8,406)	230,222
Unallocated revenues						21,749
Unallocated costs						(160,653)
Operating profit						91,318
Write back of provision for non-recovery on principal due from non-banking financial institution						36,171
Finance costs						(15,690)
Share of profits of associates				489		489
Profit before income tax						112,288
Income tax credit						27,665
Profit for the year						139,953

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

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

5. SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

Other segment terms for the year ended 31 December 2004 are as follows:

	Shipbuilding	Ship–repairing	Steel structure and other manufacturing	Other operations	Unallocated	Group
Depreciation and amortisation	46,616	–	7,456	7,800	27,449	89,321
(Reversal of) impairment for trade receivables	–	–	6,728	–	(1,278)	5,450
(Reversal of) impairment for other receivables	–	–	–	–	(1,526)	(1,526)
Impairment for inventories	200	–	–	–	–	200
Impairment for property, plant and equipment and investment properties	–	–	1,928	–	467	2,395
Capital expenditure	13,815	–	1,593	2,153	29,436	46,997

Other segment terms for the year ended 31 December 2005 are as follows:

	Shipbuilding	**Ship–repairing**	**Steel structure and other manufacturing**	**Other operations**	**Unallocated**	**Group**
Depreciation and amortisation	**37,113**	**–**	**7,298**	**5,496**	**25,127**	**75,034**
Impairment for trade receivables	**–**	**–**	**453**	**–**	**807**	**1,260**
(Reversal of) impairment for other receivables	**–**	**–**	**–**	**–**	**(151)**	**(151)**
Impairment for inventories	**406**	**–**	**–**	**–**	**–**	**406**
(Reversal of) impairment for property, plant and equipment	**–**	**–**	**(931)**	**–**	**–**	**(931)**
Capital expenditure	**63,260**	**–**	**4,972**	**3,667**	**34,439**	**106,338**

Capital expenditure comprises additions to property, plant and equipment.

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

5. SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

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

	Shipbuilding	Ship–repairing	Steel structure and other manufacturing	Other operations	Elimination	Group
Segment assets	1,732,806	4,504	195,875	68,097	(18,935)	1,982,347
Interests in associates				3,765		3,765
Unallocated assets						876,820
Total assets						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

The segment assets and liabilities at 31 December 2005 are as follows:

	Shipbuilding	**Ship–repairing**	**Steel structure and other manufacturing**	**Other operations**	**Elimination**	**Group**
Segment assets	**1,774,292**	**2,280**	**220,411**	**58,228**	**(16,530)**	**2,038,681**
Interests in associates				**3,825**		**3,825**
Unallocated assets						**1,389,580**
Total assets						**3,432,086**
Segment liabilities	**2,108,161**	**7,423**	**63,465**	**29,359**	**(16,530)**	**2,191,878**
Unallocated liabilities						**307,772**
Total liabilities						**2,499,650**

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

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

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

5. SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments

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

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

Sales	2005	2004
Mainland China	**565,134**	801,996
Denmark	**1,280,913**	1,197,261
Hong Kong	**382,928**	17,758
Malta	**97,361**	343,031
Marshall Island	**209,737**	–
Macao	**25,599**	–
Canada	**143,499**	–
Other countries	**23,745**	3,357
	2,728,916	2,363,403

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

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

5. SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments (continued)

Total assets	**2005**	2004
Mainland China	**3,396,185**	2,835,867
Hong Kong	**32,076**	23,300
	3,428,261	2,859,167
Interest in associates	**3,825**	3,765
	3,432,086	2,862,932

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

Capital expenditures	**2005**	2004
Mainland China	**106,338**	46,997

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

Analysis of sales by category	**2005**	2004
Revenue from construction contracts	**2,335,531**	2,105,612
Sales of goods	**355,753**	209,404
Revenue from services	**37,632**	48,387
	2,728,916	2,363,403

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Construction-in-progress	Buildings, developments and structures	Machinery, vehicles, equipment and transmission systems	Instruments and meters	Total
At 1 January 2004					
Cost	30,248	675,185	847,200	6,362	1,558,995
Accumulated depreciation and impairment	–	(173,834)	(389,465)	(4,194)	(567,493)
Net book amount	30,248	501,351	457,735	2,168	991,502
Year ended 31 December 2004					
Opening net book amount	30,248	501,351	457,735	2,168	991,502
Additions	45,792	–	1,205	–	46,997
Transfers	(41,117)	22,422	18,419	276	–
Disposals (Note 36)	(3,869)	(3,210)	(2,131)	(6)	(9,216)
Disposal of discontinuing operation	–	–	(3,483)	–	(3,483)
Disposal of subsidiaries (Note 36)	–	–	(151)	–	(151)
Depreciation	–	(21,828)	(60,146)	(648)	(82,622)
Impairment	–	–	(1,928)	–	(1,928)
Closing net book amount	31,054	498,735	409,520	1,790	941,099
At 31 December 2004					
Cost	31,054	693,836	845,083	6,413	1,576,386
Accumulated depreciation and impairment	–	(195,101)	(435,563)	(4,623)	(635,287)
Net book amount	31,054	498,735	409,520	1,790	941,099
Year ended 31 December 2005					
Opening net book amount	**31,054**	**498,735**	**409,520**	**1,790**	**941,099**
Additions	**101,011**	**5,043**	**4,551**	**8**	**110,613**
Transfers	**(75,640)**	**30,922**	**44,578**	**140**	**–**
Disposals (Note 36)	**–**	**(2,652)**	**(4,714)**	**(11)**	**(7,377)**
Disposal of subsidiaries (Note 36)	**–**	**(5,365)**	**(79)**	**–**	**(5,444)**
Depreciation	**–**	**(23,328)**	**(54,741)**	**(543)**	**(78,612)**
Reversal of impairment (Note 28)	**–**	**–**	**931**	**–**	**931**
Closing net book amount	**56,425**	**503,355**	**400,046**	**1,384**	**961,210**
At 31 December 2005					
Cost	**56,425**	**715,853**	**868,180**	**6,368**	**1,646,826**
Accumulated depreciation	**–**	**(212,498)**	**(468,134)**	**(4,984)**	**(685,616)**
Net book amount	**56,425**	**503,355**	**400,046**	**1,384**	**961,210**

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT – COMPANY

	Construction-in-progress	Buildings, developments and structures	Machinery, vehicles, equipment and transmission systems	Instruments and meters	Total
At 1 January 2004					
Cost	30,248	646,517	701,990	6,236	1,384,991
Accumulated depreciation and impairment	–	(163,773)	(311,779)	(4,127)	(479,679)
Net book amount	30,248	482,744	390,211	2,109	905,312
Year ended 31 December 2004					
Opening net book amount	30,248	482,744	390,211	2,109	905,312
Additions	45,781	–	–	–	45,781
Transfers from subsidiaries	–	8,088	22,059	–	30,147
Transfers	(41,106)	22,422	18,408	276	–
Disposals	(3,869)	(395)	(1,729)	(6)	(5,999)
Disposal of discontinuing operation	–	–	(3,483)	–	(3,483)
Depreciation	–	(21,378)	(49,522)	(630)	(71,530)
Impairment	–	–	(100)	–	(100)
Closing net book amount	31,054	491,481	375,844	1,749	900,128
At 31 December 2004					
Cost	31,054	686,148	738,600	6,287	1,462,089
Accumulated depreciation and impairment	–	(194,667)	(362,756)	(4,538)	(561,961)
Net book amount	31,054	491,481	375,844	1,749	900,128
Year ended 31 December 2005					
Opening net book amount	**31,054**	**491,481**	**375,844**	**1,749**	**900,128**
Additions	**98,604**	**4,285**	**–**	**–**	**102,889**
Transfers	**(75,640)**	**30,922**	**44,578**	**140**	**–**
Disposals	**–**	**(2,652)**	**(4,336)**	**(4)**	**(6,992)**
Depreciation	**–**	**(21,461)**	**(47,873)**	**(531)**	**(69,865)**
Reversal of impairment	**–**	**–**	**931**	**–**	**931**
Closing net book amount	**54,018**	**502,575**	**369,144**	**1,354**	**927,091**
At 31 December 2005					
Cost	**54,018**	**714,915**	**760,225**	**6,285**	**1,535,443**
Accumulated depreciation	**–**	**(212,340)**	**(391,081)**	**(4,931)**	**(608,352)**
Net book amount	**54,018**	**502,575**	**369,144**	**1,354**	**927,091**

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

7. INVESTMENT PROPERTIES

	Group and Company	
	2005	2004
Beginning of the year	**5,200**	5,900
Additions	**62,265**	–
Depreciation	**(331)**	(233)
Impairment	**–**	(467)
End of the year	**67,134**	5,200

The investment properties were revalued at 31 December 2005 by independent, professionally qualified valuers, Guangdong Xinhua Certified Public Accountants Co., Ltd and Guangdong Feng Heng Certified Public Accountants Co., Ltd. Valuations were based on current prices in an active market or discounted cash flow projections.

The fair value of the Group's investment properties are presented as follows:

	Group and Company	
	2005	2004
Fair value of investment properties	**69,289**	5,200

The Group's interests in investment properties at their net book values are analysed as follows:

	Group and Company	
	2005	2004
In the PRC, held on:		
Leases of over 50 years	**1,433**	–
Leases of between 10 to 50 years	**65,701**	5,200
	67,134	5,200

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

8. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid land use right payments in terms of operating lease and their net book value are analysed as follows:

The land use rights are for land situated in the PRC for a period of between 10 to 50 years commencing from 1993 to 2003.

	Group		Company	
	2005	2004	**2005**	2004
Beginning of the year	**66,345**	68,339	**53,362**	55,082
Disposal of subsidiary (Note 36)	**(12,938)**	–	**–**	–
Amortisation	**(1,760)**	(1,994)	**(1,715)**	(1,720)
End of the year	**51,647**	66,345	**51,647**	53,362

9. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
Unlisted shares, at costs	**78,524**	159,881
Less: impairment provision	**–**	(67,834)
	78,524	92,047

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

9. INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of the principal subsidiaries at 31 December 2005:

Name	Issued and fully paid-up capital	Interest held 2005 %	2004 %	Nature of entity	Principal activities
Shares held directly:					
Established in the PRC					
MasterWood Company Limited ("MasterWood")	RMB3,315,180	**51**	51	Sino-foreign equity joint venture	Manufacture of furniture
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	USD8,850,000	**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
Guangdong Guangzhou Shipyard International Elevator Company	RMB21,000,000	**95**	95	Company with limited liability	Manufacture of elevators
Guangzhou Hongfan Information Technique Company Limited	RMB5,000,000	**77**	77	Company with limited liability	Sales of computers development of computer software, system integration
Incorporated in Hong Kong					
Glory Group Development Company Limited	HKD10,000	**100**	100	Company with limited liability	Intermediate holding company
Shares held indirectly:					
Established in the PRC					
Guangzhou Hongfan Hotel Company Limited	RMB10,000,000	**86.16**	86.16	Company with limited liability	Hotel and catering
Guangdong Guangzhou Shipyard International Elevator Company	RMB21,000,000	**3.8**	3.8	Company with limited liability	Manufacture of elevators
Masterwood Company Limited	RMB3,315,180	**25**	25	Sino-foreign equity joint venture	Manufacture of furniture
Incorporated in Hong Kong					
Fon Kwang Development Limited	HKD200,000	**70**	70	Company with limited liability	Trading of equipment and materials

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

10. INTEREST IN ASSOCIATES

	Group		Company	
	2005	2004	**2005**	2004
Unlisted				
Beginning of the year	**3,765**	3,503	**2,522**	2,522
Addition (Note 12)	**100**	–	**–**	–
Share of profits of associates				
– profit before income tax	**599**	681	**–**	–
– income tax	**(110)**	(91)	**–**	–
	489	590	**–**	–
Dividend	**(529)**	(328)	**–**	–
End of the year	**3,825**	3,765	**2,522**	2,522

The Group's interest in its principal associates, all of which are established in the PRC and unlisted, and its gross amounts of assets, liabilities, revenues and profit or loss are as follows:

Name	Assets	Liabilities	Revenues	Profit/(loss)	Interest held
2004					
Guangzhou Economic and Technical Development Zone South China Marine and Industrial Special Coating Limited ("South China Special Coating")	12,922	1,036	9,877	1,926	25%
Zhangjiang Nanhai Naval New Technology & Service Company Limited ("Nanhai Naval")	3,424	1,616	6,986	270	40%
	16,346	2,652	16,863	2,196	

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

10. INTEREST IN ASSOCIATES (continued)

Name	Assets	Liabilities	Revenues	Profit/(loss)	Interest held
2005					
South China Special Coating	**12,423**	**667**	**11,249**	**1,988**	**25%**
Nanhai Naval	**2,562**	**656**	**6,980**	**(80)**	**40%**
Guangzhou Guangli Shipping Engineering Service Company Limited	**7,134**	**5,116**	**39,810**	**119**	**20%**
	22,119	**6,439**	**58,039**	**2,027**	

11. NON-TRADING SECURITIES

	Group 2004	Company 2004
Unlisted equity securities	12,010	11,010

Non-trading securities were designated as available-for-sale financial assets on 1 January 2005.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group 2005	Company 2005
Beginning of the year	**12,010**	**11,010**
Transfer to interest in associates (Note 10)	**(100)**	**–**
Revaluation surplus transfer to equity (Note 21)	**34,342**	**34,342**
End of the year	**46,252**	**45,352**

Available-for-sale financial assets represent non-circulating corporate shares of China Merchants Bank (Note 4.1 (b)) and other unlisted equity interests of private issuers.

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

13. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group and Company	
	2005	2004
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**25,580**	19,501
– Deferred tax asset to be recovered within 12 months	**24,665**	5,512
	50,245	25,013

Deferred taxation is provided on temporary differences under the liability method using a principal taxation rate of 15% (2004: 15%).

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

	Group and Company	
	2005	2004
Beginning of the year	**25,013**	–
Recognised in the income statement (Note 32)	**30,383**	25,013
Tax charged to equity (Note 21)	**(5,151)**	–
End of the year	**50,245**	25,013

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

13. DEFERRED INCOME TAX (continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities:

	Group and Company		
	Fair value gains on derivative financial instruments	Fair value gains on available-for-sale financial assets	Total
At 1 January and 31 December 2004	–	–	–
Recognised in the income statement	(379)	–	(379)
Charged to equity	–	(5,151)	(5,151)
At 31 December 2005	**(379)**	**(5,151)**	**(5,530)**

Deferred tax assets:

	Group and Company				
	Provision of assets	Impairment losses	Tax losses	Staff benefit	Total
At 1 January 2004	–	–	–	–	–
Recognised in the income statement	713	480	20,569	3,251	25,013
At 31 December 2004	713	480	20,569	3,251	25,013
Recognised in the income statement	24,345	(480)	7,047	(150)	30,762
At 31 December 2005	**25,058**	**–**	**27,616**	**3,101**	**55,775**

The deferred income tax charged to equity represents fair value reserve for available-for-sale financial assets (Note 21).

The potential deferred tax assets arising from the deductible temporary differences in respect of provision for non-recovery on provision for medical insurance, provision for early retirement, housing allowances to staff and unused tax losses, not recognised in the accounts due to the uncertainty of available future taxable profit against which the temporary differences can be utilised, amounted to RMB15,609,000 and RMB15,303,000 for the Group and the Company (2004: RMB68,750,000 and RMB67,575,000) respectively.

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

14. INVENTORIES

	Group		Company	
	2005	2004	**2005**	2004
Raw materials	**246,592**	308,542	**241,557**	303,894
Work in progress	**67,358**	53,550	**23,612**	21,374
Finished goods	**4,578**	4,525	**4,550**	4,430
	318,528	366,617	**269,719**	329,698

The cost of inventories recognised as expense and included in cost of goods sold amounted to RMB310,804,000 (2004: RMB179,078,000).

15. CONSTRUCTION CONTRACTS IN PROGRESS

	Group		Company	
	2005	2004	**2005**	2004
Contract costs incurred plus attributable profits	**1,635,271**	1,374,113	**1,633,404**	1,372,157
Less: progress billings to date	**(2,535,528)**	(1,599,599)	**(2,535,528)**	(1,599,599)
	(900,257)	(225,486)	**(902,124)**	(227,442)
Due from customers on construction contracts	**781,915**	600,960	**780,048**	599,320
Due to customers on construction contracts	**(1,682,172)**	(826,446)	**(1,682,172)**	(826,762)
	(900,257)	(225,486)	**(902,124)**	(227,442)

At 31 December 2005, there was retention monies held by customers for contract works amounted to RMB1,500,000 (2004: nil).

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

16. TRADE RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
Trade receivables	**59,195**	130,721	**27,364**	83,689
Less: provision for impairment of trade receivables	**(8,159)**	(9,214)	**(6,219)**	(4,579)
Trade receivables – net	**51,036**	121,507	**21,145**	79,110
Amounts due from related parties	**169,925**	62,357	**166,976**	60,973
	220,961	183,864	**188,121**	140,083

The carrying amounts of trade receivables approximate their fair value.

The general credit terms of trade receivables are:

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

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

	Group		Company	
	2005	2004	**2005**	2004
Not exceeding one year	**34,300**	106,181	**19,095**	75,797
More than one year but not exceeding two years	**5,284**	11,671	**834**	1,468
More than two years but not exceeding three years	**9,816**	3,182	**71**	1,817
More than three years	**1,636**	473	**1,145**	28
	51,036	121,507	**21,145**	79,110

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

16. TRADE RECEIVABLES (continued)

At 31 December 2005 and 2004, the ageing analysis of the amounts due from related parties were as follows:

	Group		Company	
	2005	2004	**2005**	2004
Not exceeding one year	**167,348**	49,366	**166,976**	47,982
More than one year but not exceeding two years	**2,577**	4,667	**–**	4,667
More than two years but not exceeding three years	**–**	3,070	**–**	3,070
More than three years	**–**	5,254	**–**	5,254
	169,925	62,357	**166,976**	60,973

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

17. OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
Prepayments for trading materials and equipment	**27,188**	4,547	**22,471**	2,539
Other taxes recoverable	**52,520**	33,640	**45,587**	33,575
Subsidy receivable for construction of vessels	**–**	38,744	**–**	38,744
Amounts due from non-banking financial institutions (Note)	**216,491**	445,474	**215,491**	444,474
Less: provision for non-recovery (Note)	**(166,219)**	(373,810)	**(165,219)**	(372,810)
	50,272	71,664	**50,272**	71,664
Amounts due from other related parties	**141,915**	108,698	**141,915**	108,529
Others	**9,790**	22,605	**3,971**	14,153
	281,685	279,898	**264,216**	269,204

The carrying amounts of other receivables approximate their fair value.

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

17. OTHER RECEIVABLES (continued)

Note: Amounts due from non-banking financial institutions, two state-controlled enterprises, are as follows:

	Group		Company	
	2005	2004	**2005**	2004
Amount due from GZITIC (a)	**168,083**	397,066	**168,083**	397,066
Provision for the amount due from GZITIC	**(117,811)**	(325,402)	**(117,811)**	(325,402)
Amount due from Guangzhou Economic and Technology Development Zone International Trust and Investment Company ("GETDZITIC")	**48,408**	48,408	**47,408**	47,408
Provision for the amount due from GETDZITIC	**(48,408)**	(48,408)	**(47,408)**	(47,408)
	50,272	71,664	**50,272**	71,664

(a) A debt restructuring general agreement has been entered into between the Company and GZITIC on 20 February 2006 that certain properties, golf club membership, debts and other interests ("commuting assets") are to be transferred to the Company to settle principal amount of RMB168,083,000 and the interest thereon. The fair values of these commuting assets and their recoverable amounts have been properly considered when the Company assessed the provision for non-recovery as at year end.

18. DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company 2005	
	Assets	**Liabilities**
Forward foreign exchange contracts	**3,802**	**(1,278)**

At 31 December 2004, the fair value of forward foreign exchange contracts is RMB2,714,000 (including assets of RMB2,894,000 and liabilities of RMB180,000).

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

19. BANK BALANCES AND CASH

	Group		Company	
	2005	2004	**2005**	2004
Cash at bank and in hand	**499,430**	377,700	**430,878**	320,159
Short-term bank deposits	**145,000**	–	**145,000**	–
	644,430	377,700	**575,878**	320,159

The effective interest rate on short-term bank deposits was 2.1% (2004: N/A); these deposits have an average maturity of 43 days.

20. SHARE CAPITAL

	Group and Company	
	2005	2004
At 1 January and 31 December:		
Share capital 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
Share premium on issue of shares net of issuing expenses	**651,977**	651,977
Total	**1,146,655**	1,146,655

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

21. OTHER RESERVES

	Surplus reserves			Fair value	
	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	reserve for available-for-sale financial assets	Total
a) Group					
Balance at 1 January and 31 December 2004	48,997	30,591	20,560	–	100,148
In 2005:					
Revaluation – gross (Note 12)	–	–	–	34,342	34,342
Revaluation – tax (Note 13)	–	–	–	(5,151)	(5,151)
Transfer (to)/from	–	(66)	66	–	–
Balance at 31 December 2005	**48,997**	**30,525**	**20,626**	**29,191**	**129,339**
b) Company					
Balance at 1 January and 31 December 2004	48,476	30,493	20,560	–	99,529
In 2005:					
Revaluation – gross (Note 12)	–	–	–	34,342	34,342
Revaluation – tax (Note 13)	–	–	–	(5,151)	(5,151)
Transfer (to)/from	–	(66)	66	–	–
Balance at 31 December 2005	**48,476**	**30,427**	**20,626**	**29,191**	**128,720**

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 (after setting off accumulated losses of previous years) prepared in accordance with PRC accounting rules and regulations 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.

21. OTHER RESERVES (continued)

(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 (after setting off accumulated losses or previous years) prepared in accordance with PRC accounting rules and regulations 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 2005, the Group spend RMB66,000 (2004: nil) for the purchase of welfare facilities and accordingly, a same amount has been transferred from the statutory public welfare fund to the discretionary surplus reserve.

(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 income tax shall be appropriated in the following sequence:

a. offset accumulated losses;

b. 10% to be transferred to statutory surplus reserve (note 21(i));

c. 5-10% to be transferred to statutory public welfare fund (note 21(ii));

d. transfer to discretionary surplus reserve (note 21(iii)); and

e. pay dividends.

Pursuant to article 169 of the Company's articles of association, where the financial statements prepared in accordance with the PRC accounting rules and regulations differ from those prepared under the accounting principles generally accepted in Hong Kong, for the purpose of approving the profit distribution, profit after income tax of the Company for the relevant accounting year shall be deemed to be the lesser of the amounts in the two different financial statements.

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

22. BORROWINGS

	Group and Company	
	2005	2004
Non-current		
Bank borrowings	**–**	200,450
Current		
Bank borrowings		
– short term bank borrowings	**60,355**	115,871
– current portion of long term bank borrowings	**200,150**	400,000
	260,505	515,871
Total borrowings	**260,505**	716,321

None of the short term bank borrowings (2004: RMB82,765,000) are secured by the property, plant and equipment of the Group.

Current portion of long term bank borrowings of RMB200,000,000 (2004: RMB600,000,000) are guaranteed by China State Shipbuilding Corporation ("CSSC"), the immediate shareholder of the Company, which the Company also provided a counter indemnity.

The maturity of borrowings is as follows:

	Group and Company	
	2005	2004
Within 1 year	**260,505**	515,871
Between 1 and 2 years	**–**	200,450
	260,505	716,321

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

22. BORROWINGS (continued)

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

	2005		2004	
	RMB	**USD**	RMB	USD
Short term bank borrowings	**4.8%**	**4.0%**	4.6%	2.0%
Long term bank borrowings	**2.7%**	**–**	2.7%	–

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

	Carrying amounts	**Fair values**
At 31 December 2004	200,450	200,450

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

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

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

	Group and Company	
	2005	2004
RMB	**220,150**	600,450
US dollar	**40,355**	115,871
	260,505	716,321

The Group has the following undrawn borrowing facilities:

	2005	2004
Expiring within one year	**1,347,700**	898,292

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

23. RETIREMENT BENEFIT OBLIGATIONS

	Group and Company	
	2005	2004
Balance sheet obligations for:		
– supplemental defined contribution retirement scheme (note a)	**–**	3,286
– early retirement scheme (note a)	**11,529**	15,202
– medical insurance scheme (note b)	**7,300**	10,367
	18,829	28,855
Less: current portion included in other payables and accruals	**(4,978)**	(9,612)
	13,851	19,243

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 legal or constructive 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.

The Company had also operated a supplemental defined contribution retirement scheme since 1 March 1995 but ceased it in year 2004. The remaining balance has been utilised for the welfare of employees.

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.

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

23. RETIREMENT BENEFIT OBLIGATIONS (continued)

(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 corporate bonds.

The movement in the liability recognised in the balance sheet is as follows:

	2005	2004
Beginning of the year	**28,855**	58,798
Total expense, included in employee benefit expense	**(1,315)**	1,235
Amounts paid	**(8,711)**	(31,178)
End of the year	**18,829**	28,855

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

24. TRADE PAYABLES

	Group		Company	
	2005	2004	**2005**	2004
Trade payables	**208,101**	194,566	**194,232**	182,990
Amounts due to related parties	**164,808**	177,904	**164,675**	177,514
	372,909	372,470	**358,907**	360,504

The carrying amounts of trade payables approximate their fair value.

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

	Group		Company	
	2005	2004	**2005**	2004
Not exceeding one year	**207,803**	193,000	**194,049**	181,840
More than one year but not exceeding two years	**70**	807	**70**	652
More than two years but not exceeding three years	**113**	320	**113**	315
More than three years	**115**	439	**–**	183
	208,101	194,566	**194,232**	182,990

At 31 December 2005 and 2004, the ageing analysis of the amounts due to related parties were all within one year.

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
Payables to third parties and accruals	**125,348**	108,609	**106,045**	91,934
Amounts due to related parties	**1,051**	5,111	**1,051**	4,836
	126,399	113,720	**107,096**	96,770

The carrying amounts of other payables approximate their fair value.

26. PROVISIONS FOR WARRANTY

	Group and Company	
	2005	2004
Beginning of the year	**38,247**	37,907
Additional provisions	**20,050**	19,021
Surplus amounts written-back	**(6,173)**	(10,832)
Used during the year	**(13,363)**	(7,849)
End of the year	**38,761**	38,247

The Group mainly gives a one-year warranty on shipbuilding, shiprepairing and other machine products and undertakes to repair or replace items that fail to perform satisfactorily (Note 4.1(d)).

27. OTHER (LOSSES)/GAINS – NET

	2005	2004
Net foreign exchange transaction (losses)/gains (Note 33)	**(26,782)**	4,416
Forward foreign exchange contracts not qualified for hedge accounting:		
– realised gains on derivative financial instruments	**5,470**	–
– fair value gains on derivative financial instruments (Note 36)	**2,524**	–
	(18,788)	4,416

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

28. EXPENSES BY NATURE

	2005	2004
Depreciation and amortisation charges (Note 6, 7 and 8)	**80,703**	84,849
Add: amount capitalised in opening inventories	**6,818**	11,290
Less: amount capitalised in ending inventories	**(12,487)**	(6,818)
	75,034	89,321
(Reversal)/provision of impairment for property, plant and equipment and investment properties (Note 6 and 7)	**(931)**	2,395
Provision of impairment for trade receivables	**1,260**	5,450
Reversal of impairment for other receivables	**(151)**	(1,526)
Provision of impairment for inventories	**406**	200
Raw materials and consumables used	**1,997,519**	1,668,460
Employee benefit expense, include directors' emoluments (Note 31)	**273,341**	234,880
Provisions for warranty (Note 26)	**20,050**	19,021
Surplus warranty written-back (Note 26)	**(6,173)**	(10,832)
Auditors' remuneration	**2,326**	2,229
Research and development cost	**8,834**	6,860
Subcontract cost	**329,250**	259,414
Vessel design fee	**37,038**	33,462
Vessel inspection fee	**25,137**	16,280
Commission and agent fee	**66,768**	32,796

29. OTHER INCOME

	2005	2004
Interest income (Note 36)	**5,076**	7,902
Dividend income (Note 36)	**891**	621
Subsidy income for shipbuilding	**21,888**	57,511
Gain on sales of scrap and other materials	**13,420**	10,420
Subsidy income for technology	**4,006**	4,485
Others	**7,105**	2,971
	52,386	83,910

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

30. FINANCE COSTS

	2005	2004
Interest expense from bank borrowings	**18,977**	19,417
Interest expense from amounts due to suppliers	**1,559**	953
Other incidental borrowing costs	**377**	1,676
	20,913	22,046
Net foreign exchange transaction gains (Note 33)	**(5,223)**	–
	15,690	22,046

31. EMPLOYEE BENEFIT EXPENSE

	2005	2004
Wages and salaries	**178,008**	156,914
Retirement costs	**23,931**	23,821
Housing fund (Note a)	**10,908**	9,612
Medical insurance	**11,023**	10,218
Other staff costs	**49,471**	34,315
	273,341	234,880

(a) Housing fund

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 is calculated at a rate of 8% based on the total salaries of its employees.

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

31. EMPLOYEE BENEFIT EXPENSE (continued)

(b) Directors' and supervisors' emoluments

The remuneration of every Director and Supervisor for the year ended 31 December 2005 is set out below:

Name of Director and Supervisor	Salary and bonus	Other benefits (i)	Employer's contribution to pension scheme	Total
Director Mr. Hu Guoliang (ii)	276	27	16	319
Director Mr. Li Zhushi (iii)	–	–	–	–
Director Mr. Yu Baoshan	273	29	16	318
Director Mr. Han Guangde	270	29	16	315
Director Mr. Wang Yi (iv)	216	24	16	256
Director Mr. Chen Jingqi (v)	81	14	10	105
Director Mr. Zhong Jian	40	10	16	66
Director Mr. Li Junfeng	40	–	–	40
Director Mr. Miao Jian	40	–	–	40
Director Mr. Wu Fabo	60	–	–	60
Director Mr. Bo Miaojin	60	–	–	60
Director Mr. Yu, Hon To David (iv)	26	–	–	26
Director Mr. Yuen, Pat Yiu Philip (iv)	26	–	–	26
Director Mr. Wang Xiaojun (v)	62	–	–	62
Director Mr. Mak, Kin Kwong Peter (v)	62	–	–	62
Supervisor Mr. Wang Shusen	96	–	–	96
Supervisor Mr. Chen Jingqi (iv)	157	11	6	174
Supervisor Mr. Liang Mianhong	178	20	15	213
Supervisor Mr. Wang Shiming	40	–	–	40
Supervisor Mr. Ye Weiming	40	–	–	40
Supervisor Mr. Liu Shibai (v)	156	13	10	179

Notes:

(i) Other benefits include several subsidies, allowance, housing fund and other social insurance.

(ii) Resigned on 10 October 2005.

(iii) Appointed on 10 October 2005.

(iv) Resigned on 27 May 2005.

(v) Appointed on 27 May 2005.

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

31. EMPLOYEE BENEFIT EXPENSE (continued)

(b) Directors' and supervisors' emoluments (continued)

The remuneration of every Director and Supervisor for the year ended 31 December 2004 is set out below:

Name of Director and Supervisor	Salary and bonus	Other benefits	Employer's contribution to pension scheme	Total
Director Mr. Hu Guoliang	208	25	14	247
Director Mr. Yu Baoshan	208	26	14	248
Director Mr. Han Guangde	186	25	14	225
Director Mr. Wang Yi	166	23	14	203
Director Mr. Ye Peihua	118	12	8	138
Director Mr. Zhong Jian	90	7	5	102
Director Mr. Li Junfeng	40	–	–	40
Director Mr. Miao Jian	40	–	–	40
Director Mr. Wu Fabo	40	–	–	40
Director Mr. Bo Miaojin	40	–	–	40
Director Mr. Yu, Hon To David	64	–	–	64
Director Mr. Yuen, Pat Yiu Philip	64	–	–	64
Director Mr. Xu Guoqing	20	–	–	20
Supervisor Mr. Wang Shusen	96	–	–	96
Supervisor Mr. Chen Jingqi	166	23	14	203
Supervisor Mr. Liang Mianhong	50	15	13	78
Supervisor Mr. Wang Shiming	40	–	–	40
Supervisor Mr. Ye Weiming	40	–	–	40
Supervisor Mr. Han Zineng	118	13	8	139

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2004: five) directors or supervisors whose emoluments are reflected in the analysis presented above.

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

32. INCOME TAX CREDIT

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

	2005	2004
Current income tax – the PRC enterprise income tax	**2,718**	1,752
Deferred income tax (Note 13)	**(30,383)**	(25,013)
	(27,665)	(23,261)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2005	2004
Profit before income tax	**112,288**	35,072
Tax calculated at domestic tax rates applicable to profits in the respective areas	**17,014**	6,315
Income in previous years subject to tax	**–**	15,119
Income not subject to tax	**(6,442)**	(2,657)
Expenses not deductible for tax purposes	**148**	1,763
Utilisation of previously unrecognised temporary difference or tax losses	**(22,721)**	(18,788)
Tax losses for which no deferred income tax assets was recognised	**643**	–
Recognition of previous years unrecognised deferred tax assets	**(16,307)**	(25,013)
Income tax credit	**(27,665)**	(23,261)

The weighted average applicable tax rate was 15.2% (2004: 18.0%). The decrease is due to the disposal of a subsidiary with applicable tax rate at 33%.

33. NET FOREIGN EXCHANGE (LOSSES)/GAINS

The exchange differences recognised in the income statement are included as follows:

	2005	2004
Other (losses)/gains – net (Note 27)	**(26,782)**	4,416
Finance costs (Note 30)	**5,223**	–
	(21,559)	4,416

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

34. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB129,701,000 (2004: RMB58,841,000)

35. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of RMB135,011,000 (2004: RMB60,945,000) and the weighted average number of 494,677,580 (2004: 494,677,580) ordinary shares in issue during the year.

36. CASH GENERATED FROM OPERATIONS

	2005	2004
Profit for the year	**139,953**	58,333
Adjustments for:		
– Tax (Note 32)	**(27,665)**	(23,261)
– Depreciation and amortisation (Note 28)	**75,034**	89,321
– Impairment of property, plant and equipments and investment properties (Note 28)	**(931)**	2,395
– Loss on sale of property, plant and equipment (Note (a))	**5,025**	8,983
– Fair value gains on derivative financial instruments (Note 27)	**(2,524)**	–
– (Gain)/loss on disposal of interest in subsidiaries (Note (b))	**(273)**	123
– Gain on disposal of discontinuing operation	**–**	(5,316)
– Write back of provision for non-recovering on principal due from non-banking financial institution	**(36,171)**	–
– Interest income (Note 29)	**(5,076)**	(7,902)
– Dividend income (Note 29)	**(891)**	(621)
– Interest expense	**20,536**	20,370
– Share of profit from associates (Note 10)	**(489)**	(590)
– Exchange gains on borrowings (Note 30)	**(5,223)**	–
– Exchange losses on cash and cash equivalent	**2,075**	–
Changes in working capital:		
– Inventories	**53,486**	(147,778)
– Construction contracts in progress	**674,771**	(25,751)
– Trade and other receivables and current income tax recoverable	**(71,753)**	369,170
– Trade, notes and other payables and accruals, provision for warranties and current income tax liabilities	**605**	(136,341)
Cash generated from operations	**820,489**	201,135

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

36. CASH GENERATED FROM OPERATIONS (continued)

(a) In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2005	2004
Net book amount (Note 6)	**7,377**	9,216
Loss on sale of property, plant and equipment	**(5,025)**	(8,983)
Decrease in receivables in sale of property, plant and equipment	**1,800**	–
Proceeds from sale of property, plant and equipment	**4,152**	233

(b) In the cash flow statement, disposal of interest in subsidiaries, net of cash disposed comprise:

	2005	2004
Net assets disposed:		
Property, plant and equipment (Note 6)	**5,444**	151
Land use right (Note 8)	**12,938**	–
Inventories	**272**	84
Trade receivables	**75**	10,283
Other receivables	**624**	6,171
Trade payables	**(713)**	(3,428)
Other payables and accruals	**(145)**	(896)
Minority interests	**(5,261)**	(4,911)
Gain/(loss) on disposal of interest in subsidiaries	**273**	(123)
	13,507	7,331
Less: proceeds receivables	**–**	(6,217)
Disposal of interest in subsidiaries, net of cash disposed	**13,507**	1,114

Analysis of the net inflow in respect of the disposal of interest in subsidiaries:

	2005	2004
Proceeds from disposal of interest in subsidiaries	**13,523**	1,553
Bank balances and cash disposed	**(16)**	(439)
Disposal of interest in subsidiaries, net of cash disposed	**13,507**	1,114

(c) Non-cash transactions

The major non-cash transaction was the exchange of investment properties with principal due from non-banking financial institution for debt restructuring.

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

37. CAPITAL COMMITMENTS

Capital expenditure of the Group and Company at the balance sheet date but not yet incurred is as follows:

	2005	2004
Property, plant and equipment		
Contracted but not provided for	**19,944**	3,940
Authorised but not contracted for	**24,834**	12,836
	44,778	16,776

38. SIGNIFICANT RELATED-PARTY TRANSACTIONS

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

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

The following significant transactions were carried out with related parties:

i) Sales of goods and services

	2005	2004
Sales of goods		
– to companies controlled by CSSC (a)	**4,126**	3,608
– to other state-controlled enterprises (a)	**834,537**	584,756
	838,663	588,364
Sales of services		
– to companies controlled by CSSC (b)	**18,448**	17,642

Note:

(a) Goods are sold at market price.

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

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

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

38. SIGNIFICANT RELATED-PARTY TRANSACTIONS (continued)

ii) Purchases of goods and services

	2005	2004
Purchases of goods:		
– from companies controlled by CSSC (a)	**158,610**	146,432
– from other state-controlled enterprises (a)	**686,932**	468,280
	845,542	614,712
Purchase of services:		
– from companies controlled by CSSC (b)	**71,395**	24,383
– from other state-controlled enterprises (a)	**12,447**	34,682
	83,842	59,065

Note:

(a) Goods and services are purchased at market price.

(b) Services are purchased on a cost-plus basis, allowing a margin of around 10%.

iii) Payment of expenses and other charges

	2005	2004
Vessel sales commissions payable:		
– to companies controlled by CSSC (a)	**29,108**	8,757
– to other state-controlled enterprises (b)	**9,375**	3,881
Other expenses payable:		
– to companies controlled by CSSC (c)	**11,819**	13,179
	50,302	25,817

Note:

(a) Vessel sales commission payable was computed based on 1% of the contract price of relevant vessels.

(b) Vessel sales commission payable to other state-controlled enterprises was computed based on 1% – 3% of the contract price of relevant vessels.

(c) 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 RMB7,328,000 (2004: RMB7,330,000) 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 2005 and 2004 did not include welfare to key management personnel. The comprehensive service agreement and supplementary agreement expired at the end of 2005.

(Prepared in accordance with HK GAAP. All amounts in Renminbi Yuan thousands unless otherwise stated)

38. SIGNIFICANT RELATED-PARTY TRANSACTIONS (continued)

iv) Key management compensation

	2005	2004
Emolument, salaries and other short-term employee benefits	**3,310**	2,768
Post-employment benefits	**185**	168
	3,495	2,936

v) Year-end balances

	2005	2004
Receivables from related parties (Note 16 & Note 17):		
– to CSSC and companies controlled by CSSC	**23,931**	20,486
– to other state-controlled enterprises	**338,181**	222,233
	362,112	242,719
Payables to related parties (Note 24 & Note 25):		
– to CSSC and companies controlled by CSSC	**91,260**	107,176
– to other state-controlled enterprises	**74,599**	75,839
	165,859	183,015

Save as disclosed as above, significant related party balances also include an amount of RMB928,000 (2004: RMB1,853,000) representing current deposits in a financial institution controlled by CSSC. This amount was included in bank balances and cash.

39. EVENTS AFTER THE BALANCE SHEET DATE

At a meeting on 4 January 2006, the Board of Directors of the Company resolved that a monetary housing subsidy would be paid to certain qualified retired employees. A detailed plan for this housing subsidy scheme is yet to be developed. Management has estimated that the total amount payable under this planned scheme is in the region of RMB24,000,000.