## 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 29 March 2007.

## 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 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 judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

(a) Standards, amendments and interpretations effective in 2006

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but either are not relevant or do not have material impact to the Group's operations:

Hong Kong Accounting Standard ("HKAS") 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures;

HKAS 21 Amendment – Net Investment in a Foreign Operation;

HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

HKAS 39 Amendment – The Fair Value Option;

HKAS 39 and HKFRS 4 Amendment – Financial Guarantee Contracts;

HKFRS 6 – Exploration for and Evaluation of Mineral Resources;

HKFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards and HKFRS 6 Amendment – Exploration for and Evaluation of Mineral Resources;

HK(IFRIC)-Int 4 – Determining whether an Arrangement Contains a Lease;

HK(IFRIC)-Int 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and

HK(IFRIC)-Int 6 – Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

(b) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

HKFRS 7 – Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosure (effective for annual periods beginning on or after 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 analyses to market risk. 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 analyses 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;

HK(IFRIC)-Int 10 – Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK (IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts; and

HKFRS 8 – Operating Segments (effective for annual periods beginning on or after 1 January 2009). The HKFRS 8 replaces HKAS 14 Segment Reporting. The main changes from HKAS 14 are identification of segments, measurement of segment information and disclosures. Management is currently assessing the impact of HKFRS 8 on the Group's operations.

(c) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 March 2006 or later periods but are not relevant for the Group's operations:

HK(IFRIC)-Int 7 – Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006);

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

(c) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations (continued)

HK(IFRIC)-Int 8 – Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006);

HK(IFRIC)-Int 9 – Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);

HK(IFRIC)-Int 11 – HKFRS 2-Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007); and

HK(IFRIC)-Int 12 – Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

### 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of 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 unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but consider an impairment indicator 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 (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Consolidation (continued)

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) 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 recognized at cost.



The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized 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 investments in associated companies are stated at cost less provision for impairment losses (Note 2.8). The results of associated companies 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 presentation currency of the Company and the functional currency of the Company and the group entities.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized 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 recognized 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 costs 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, meters and power systems | 5.0% – 20.0% |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Construction in progress represents property, plant and equipment under construction or pending installation and is stated at cost. Cost includes the costs of construction of property and costs of plant and equipment. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

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 (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and recognized in the income statement.



### 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 for assets 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.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Operating lease as a lessee

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.

Land use rights and leasehold land represented upfront payments made for the use of land and are amortized over the unexpired terms of the lease on a straight-line basis. Amortization of land use rights and leasehold land are expensed in the income statement.

### 2.8 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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).



### 2.9 Financial Assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss are 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. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9 Financial Assets (continued)

(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. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

(c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; these are classified as current assets.



(d) 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 investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized 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 recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized 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 and held-to-maturity financial assets are carried at amortized cost using the effective interest method.

Gains or 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9 Financial Assets (continued)

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

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as gains and losses from investment securities.

Dividends on available-for-sale equity instruments are recognized in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established 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, discounted cash flow analyses and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 as 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 recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.12.

### 2.10 Accounting for derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into. The Group's derivative instruments do not qualify for hedge accounting, and are accounted for at fair value though profit and loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement within 'other (losses)/gains – net'.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 Inventories

Inventories are stated at the lower of cost and net realizable 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 realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.12 Trade receivables and other receivables

Trade receivables and other receivables are recognized initially at fair value and subsequently measured at amortized 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 reorganization, 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 original effective interest rate. The amount of the provision is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs 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 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized 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.

### 2.17 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. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. 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 realized or the deferred income tax liability is settled.



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

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.

### 2.18 Construction contracts

Contract costs are recognized when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized 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 recognized over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18 Construction contracts (continued)

The Group uses the 'percentage of completion method' to determine the appropriate amount to be recognized 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 recognized profits (less recognized losses) exceeds progress billings. Progress billings not yet paid by customers are included within trade and other receivables.

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 recognized profits (less recognized losses).

### 2.19 Provisions



Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provision is not recognized for future operating loss.

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 recognized 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 recognizes 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.

### 2.20 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to the employee. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.20 Employee benefits (continued)

(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 recognized 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.



(d) Housing benefit

The Group's contributions to the defined contribution housing fund scheme organized by the Guangzhou People's Municipal Government are expensed as incurred.

(e) Medical insurance

The Group's contributions to the defined contribution medical insurance scheme organized 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. 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.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognized as follows:

(a) Contract revenue

Revenue from individual construction contracts is recognized net of value-added tax when there is reasonable certainty as to the outcome of the contract. The revenue is recognized 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 recognized 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 recognized net of value-added tax when the services provided to customers are completed.

(d) Interest income

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

(e) Operating lease rental income

Lease income is recognized over the term of the lease on a straight-line basis.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.22 Research and development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(b) management intends to complete the intangible asset and use or sell it;

(c) there is an ability to use or sell the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

### 2.23 Government grants

Grants from the government are recognized 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 recognized 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 recognized 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 recognized in the income statement on a straight-line basis over the expected lives of the related assets.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.24 Borrowing costs

Borrowing costs incurred for the construction of qualifying asset are capitalized 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 minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to mitigate certain risk exposures.

A Foreign Exchange Risk Management Committee comprising 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 comprising 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, recognized assets and liabilities. The Group's foreign currency transactions are mainly denominated in US dollars. The Group has considered this risk factor when entering into new business contracts and used forward foreign exchange contracts to mitigate such risk.

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Financial risk factors (continued)

(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.

(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 non-current 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 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 JUDGMENTS

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 to 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 RMB13,994,000 placed with the Guangzhou International Trust and Investment Company ("GZITIC") as at 31 December 2006. Management has considered the contingency and recoverable amounts of certain assets to be obtained under a debt restructuring agreement signed with GZITIC, and made a provision of RMB8,748,000 to cover the estimated shortfall as at year end. Since the above mentioned assets contained properties and other interests, the Company has considered a variety of indicators when evaluating their recoverable amounts. These indicators include:



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

(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.

Since the provision for non-bank deposit is estimated based on recoverable amounts 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 of, due to the changes in economic conditions.

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

The non-circulating corporate shares of China Merchants Bank and China Merchants Energy Shipping Co., Ltd. held by the Company are 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 average closing price of the circulated shares in December and adjusted to reflect the limitation on exchange of non-circulating shares.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

### 4.1 Critical accounting estimates and assumptions (continued)

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

The fluctuation in the stock exchange market may cause material adjustments to the book value of the Company's assets 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 the best information available in the market environment, the Group prepares a cost budget for each shipbuilding contract and the budget, which is used in the Group's financial reporting, is revisited on a monthly basis. Foreseeable losses are provided when identified.

In preparing the financial statements for the year ended 31 December 2006, 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 is recognized when the ownership and risk of the products or projects were 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.

(e) Income taxes

The Group is subject to income taxes in two jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 4.2 Critical judgments in applying the entity's accounting policies

(a) Recognition of revenue

The Group has recognized revenue for sales and installation of steel structure projects, which are normally completed within one year, 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.

(b) Trigger point of revenue recognition for individual construction contract

The group does not recognize revenue from individual construction contract, until the percentage of completion is over 50% for a new vessel and 30% for the subsequent vessel of the same batch, given that the outcome of the contract can be reasonably ascertained.

## 5. SEGMENT INFORMATION

**Primary reporting format – business segments**



At 31 December 2006, the Group is organized on the PRC basis into two main business segments:

(1) Shipbuilding – construction and trading of vessels;

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

Other operations of the Group mainly comprise the trading of computers, containers transportation services and ship repairing services, none of which are of a sufficient size to be reported separately.

*(Prepared in accordance with HKFRS. 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 2006 were as follows:

| Business segment | Ship building | Steel structure and other manufacturing | Other operations | Elimination | Group |
|---|---|---|---|---|---|
| Total segment revenue | 2,860,687 | 482,326 | 97,286 | (118,000) | 3,322,299 |
| Inter-segment revenue | – | (58,909) | (59,091) | 118,000 | – |
| **Sales** | 2,860,687 | 423,417 | 38,195 | – | 3,322,299 |
| Segment results | 428,024 | 69,354 | 53,383 | (23,381) | 527,380 |
| Unallocated revenues | | | | | 21,630 |
| Unallocated costs | | | | | (260,750) |
| **Operating profit** | | | | | 288,260 |
| Finance income-net | | | | | 23,044 |
| Share of (loss)/profit of associates | | | (326) | | (326) |
| **Profit before income tax** | | | | | 310,978 |
| Income tax expense | | | | | (34,009) |
| **Profit for the year** | | | | | 276,969 |

*(Prepared in accordance with HKFRS. 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 were as follows:

| Business segment | Ship building | Steel structure and other manufacturing | Other operations | Elimination | Group |
|---|---|---|---|---|---|
| Total segment revenue | 2,335,531 | 409,464 | 96,631 | (112,710) | 2,728,916 |
| Inter-segment revenue | – | (51,951) | (60,759) | 112,710 | – |
| **Sales** | 2,335,531 | 357,513 | 35,872 | – | 2,728,916 |
| Segment results | 174,912 | 43,247 | 20,469 | (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-net | | | | | (15,690) |
| Share of profit 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 were entered into under the normal commercial terms and conditions that were also available to unrelated third parties.

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 5. SEGMENT INFORMATION (continued)

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

Other segment items for the year ended 31 December 2006 were as follows:

| | **Ship building** | **Steel structure and other manufacturing** | **Other operations** | **Unallocated** | **Group** |
|---|---|---|---|---|---|
| Depreciation and amortization | **45,972** | **9,055** | **7,069** | **21,674** | **83,770** |
| Impairment for trade receivables | **–** | **271** | **–** | **–** | **271** |
| Reversal of impairment for other receivables | **–** | **–** | **–** | **(650)** | **(650)** |
| Impairment for inventory | **1,966** | **–** | **–** | **–** | **1,966** |
| Capital expenditure | **82,125** | **6,850** | **20,398** | **9,125** | **118,498** |

Other segment items for the year ended 31 December 2005 were as follows:

| | Ship building | Steel structure and other manufacturing | Other operations | Unallocated | Group |
|---|---|---|---|---|---|
| Depreciation and amortization | 37,113 | 7,298 | 5,496 | 30,796 | 80,703 |
| Impairment for trade receivables | – | 453 | – | 807 | 1,260 |
| Reversal of impairment for other receivables | – | – | – | (151) | (151) |
| Impairment for inventory | 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 HKFRS. 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 2006 were as follows:

| | Ship building | Steel structure and other manufacturing | Other operations | Elimination | Group |
|---|---|---|---|---|---|
| Segment assets | **4,849,317** | **299,491** | **102,734** | **(23,607)** | **5,227,935** |
| Interest in associates | | | **18,611** | | **18,611** |
| Unallocated assets | | | | | **2,425,691** |
| **Total assets** | | | | | **7,672,237** |
| Segment liabilities | **4,457,431** | **144,463** | **40,702** | **(23,607)** | **4,618,989** |
| Unallocated liabilities | | | | | **1,730,197** |
| **Total liabilities** | | | | | **6,349,186** |



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

| | Ship building | Steel structure and other manufacturing | Other operations | Elimination | Group |
|---|---|---|---|---|---|
| Segment assets | 1,774,292 | 220,411 | 60,508 | (16,530) | 2,038,681 |
| Interest in associates | | | 3,825 | | 3,825 |
| Unallocated assets | | | | | 1,389,580 |
| **Total assets** | | | | | 3,432,086 |
| Segment liabilities | 2,108,161 | 63,465 | 36,782 | (16,530) | 2,191,878 |
| Unallocated liabilities | | | | | 307,772 |
| **Total liabilities** | | | | | 2,499,650 |

Segment assets consist primarily of operating cash, 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 held-to-maturity financial assets.

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

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 5. SEGMENT INFORMATION (continued)

**Secondary reporting format – geographical segments**

Although the Group's two main business segments are managed in the PRC, turnover is contributed from main geographical areas in which the customers are located:

Mainland China – ship building, ship repairing, steel structure and other manufacturing
Denmark – ship building
Hong Kong – ship building, ship repairing, steel structure and other manufacturing
Sweden – ship building
Liberia – ship building
Malta – ship building
Marshall Island – ship building
Macao – steel structure and other manufacturing
Canada – steel structure and other manufacturing
United State of America – steel structure and other manufacturing
Oman – steel structure and other manufacturing
Other countries – ship repairing, steel structure and other manufacturing

| **Revenue** | **2006** | 2005 |
|---|---|---|
| Denmark | **1,004,956** | 1,280,913 |
| Liberia | **637,893** | – |
| Sweden | **549,955** | – |
| Mainland China | **464,676** | 565,134 |
| Malta | **273,676** | 97,361 |
| United State of America | **202,039** | 1,021 |
| Oman | **31,626** | – |
| Hong Kong | **80,334** | 382,928 |
| Macao | **49,935** | 25,599 |
| Canada | **20,444** | 143,499 |
| Marshall Island | **21** | 209,737 |
| Other countries | **6,744** | 22,724 |
| | **3,322,299** | 2,728,916 |

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 5. SEGMENT INFORMATION (continued)

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

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

| **Total assets** | **2006** | 2005 |
|---|---|---|
| Mainland China | **7,612,494** | 3,396,185 |
| Hong Kong | **41,132** | 32,076 |
| | **7,653,626** | 3,428,261 |
| Interest in associates | **18,611** | 3,825 |
| | **7,672,237** | 3,432,086 |

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

| **Capital expenditures** | **2006** | 2005 |
|---|---|---|
| Mainland China | **118,498** | 106,338 |



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

| **Analyses of sales by category** | **2006** | 2005 |
|---|---|---|
| Revenue from construction contracts | **2,860,687** | 2,335,531 |
| Sales of goods | **423,481** | 355,753 |
| Revenue from services | **38,131** | 37,632 |
| | **3,322,299** | 2,728,916 |

*(Prepared in accordance with HKFRS. 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, meters and power systems | Total |
|---|---|---|---|---|---|
| **At 1 January 2005** | | | | | |
| 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 |
| **Year ended 31 December 2006** | | | | | |
| **Opening net book amount** | **56,425** | **503,355** | **400,046** | **1,384** | **961,210** |
| **Additions** | **98,931** | **2,943** | **12,174** | **–** | **114,048** |
| **Transfers** | **(121,777)** | **57,219** | **44,964** | **19,594** | **–** |
| **Disposals (Note 36)** | **(643)** | **(3,843)** | **(8,413)** | **(8)** | **(12,907)** |
| **Depreciation** | **–** | **(22,732)** | **(57,680)** | **(372)** | **(80,784)** |
| **Closing net book amount** | **32,936** | **536,942** | **391,091** | **20,598** | **981,567** |
| **At 31 December 2006** | | | | | |
| **Cost** | **32,936** | **770,702** | **859,602** | **44,772** | **1,708,012** |
| **Accumulated depreciation** | **–** | **(233,760)** | **(468,511)** | **(24,174)** | **(726,445)** |
| **Net book amount** | **32,936** | **536,942** | **391,091** | **20,598** | **981,567** |

*(Prepared in accordance with HKFRS. 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, meters and power systems | Total |
|---|---|---|---|---|---|
| **At 1 January 2005** | | | | | |
| 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 |
| **Year ended 31 December 2006** | | | | | |
| **Opening net book amount** | **54,018** | **502,575** | **369,144** | **1,354** | **927,091** |
| **Additions** | **98,931** | **–** | **2,565** | **–** | **101,496** |
| **Transfers** | **(119,370)** | **57,219** | **42,557** | **19,594** | **–** |
| **Disposals** | **(643)** | **(3,342)** | **(7,088)** | **(7)** | **(11,080)** |
| **Depreciation** | **–** | **(21,855)** | **(48,555)** | **(375)** | **(70,785)** |
| **Closing net book amount** | **32,936** | **534,597** | **358,623** | **20,566** | **946,722** |
| **At 31 December 2006** | | | | | |
| **Cost** | **32,936** | **767,140** | **751,301** | **44,691** | **1,596,068** |
| **Accumulated depreciation** | **–** | **(232,543)** | **(392,678)** | **(24,125)** | **(649,346)** |
| **Net book amount** | **32,936** | **534,597** | **358,623** | **20,566** | **946,722** |

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 7. INVESTMENT PROPERTIES

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| Beginning of the year | **67,134** | 5,200 |
| Additions | **33,171** | 62,265 |
| Depreciation | **(1,584)** | (331) |
| End of the year | **98,721** | 67,134 |

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| Cost | **102,657** | 69,486 |
| Accumulated depreciation and impairment | **(3,936)** | (2,352) |
| Net book amount | **98,721** | 67,134 |

The investment properties were revalued at 31 December 2006 by management with reference to the 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 | |
|---|---|---|
| | **2006** | 2005 |
| Fair value of investment properties | **111,021** | 69,289 |

The following amounts have been recognized in the income statement:

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| Rental income | **200** | – |

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| No later than 1 year | **200** | – |

The Company leased out properties under various agreements which will expire in 2007 and have no option for an extension.

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 8. LAND USE RIGHTS AND LEASEHOLD LAND

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

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| In Hong Kong held on: | | |
| Lease of between 10 to 50 years | **8,494** | 8,751 |
| In PRC held on: | | |
| Lease of between 10 to 50 years | **59,290** | 42,896 |
| | **67,784** | 51,647 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Beginning of the year | **51,647** | 66,345 | **51,647** | 53,362 |
| Additions | **17,539** | – | **17,539** | – |
| Disposal of a subsidiary (Note 36) | **–** | (12,938) | **–** | – |
| Amortization | **(1,402)** | (1,760) | **(1,402)** | (1,715) |
| End of the year | **67,784** | 51,647 | **67,784** | 51,647 |

## 9. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2006** | 2005 |
| Unlisted shares, at costs | **77,224** | 78,524 |

*(Prepared in accordance with HKFRS. 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 2006:

| Name | Issued and fully paid-up capital | Interest held 2006 % | 2005 % | Nature of entity | Principal activities |
|---|---|---|---|---|---|
| **Shares held directly:** | | | | | |
| Established in the PRC | | | | | |
| MasterWood Company Limited | 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 | 51 | 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 |

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 9. INVESTMENTS IN SUBSIDIARIES (continued)

| Name | Issued and fully paid-up capital | Interest held 2006 % | Interest held 2005 % | Nature of entity | Principal activities |
|---|---|---|---|---|---|
| **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 |

* With indirect interests

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

## 10. INTEREST IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Unlisted | | | | |
| Beginning of the year | **3,825** | 3,765 | **2,522** | 2,522 |
| Additions | **15,559** | 100 | **–** | – |
| Share of (loss)/profit of associates | **(326)** | 489 | **–** | – |
| Dividend | **(447)** | (529) | **–** | – |
| End of the year | **18,611** | 3,825 | **2,522** | 2,522 |

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

| **Name** | **Assets** | **Liabilities** | **Revenues** | **Profit/(loss)** | **Interest held** |
|---|---|---|---|---|---|
| **2006** | | | | | |
| Guangzhou Economic and Technical Development Zone South China Marine and Industrial Special Coating Limited ("South China Special Coating") | **12,871** | **824** | **11,522** | **2,080** | **25%** |
| Zhangjiang Nanhai Naval New Technology & Service Company Limited ("Nanhai Naval") | **2,114** | **204** | **7,792** | **11** | **40%** |
| Guangzhou Guangli Shipping Engineering Service Company Limited ("Guangzhou Guangli ") | **12,618** | **10,139** | **56,920** | **460** | **20%** |
| Zhenjiang CSSC Hyundai Generator Equipment Company Limited | **56,533** | **9,477** | **769** | **(2,944)** | **32%** |
| | **84,136** | **20,644** | **77,003** | **(393)** | |

*(Prepared in accordance with HKFRS. 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 | 7,134 | 5,116 | 39,810 | 119 | 20% |
| | 22,119 | 6,439 | 58,039 | 2,027 | |

## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Beginning of the year | **46,252** | 12,010 | **45,352** | 11,010 |
| Transfer to interest in associates (Note 10) | **–** | (100) | **–** | – |
| Addition | **42,300** | – | **42,300** | – |
| Revaluation surplus transfer to equity (Note 21) | **132,113** | 34,342 | **132,113** | 34,342 |
| End of the year | **220,665** | 46,252 | **219,765** | 45,352 |

Available-for-sale financial assets represent non-circulating corporate shares of China Merchants Bank, China Merchants Energy Shipping Co., Ltd. (Note 4.1 (b)), other unlisted equity interests of private issuers and golf club membership.

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 12. 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 | |
|---|---|---|
| | **2006** | 2005 |
| Deferred tax assets/(liabilities): | | |
| - To be (settled)/recovered after more than 12 months | **(23,436)** | 25,580 |
| - To be recovered within 12 months | **25,700** | 24,665 |
| | **2,264** | 50,245 |

Deferred taxation is provided on temporary differences under the liability method using a principal taxation rate of 15% (2005: 15%).

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

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| Beginning of the year | **50,245** | 25,013 |
| Recognized in the income statement (Note 32) | **(28,164)** | 30,383 |
| Tax charged to equity (Note 21) | **(19,817)** | (5,151) |
| End of the year | **2,264** | 50,245 |

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

## 12. 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 assets:**

| | Group and Company | | | | |
|---|---|---|---|---|---|
| | **Provision of assets** | **Impairment losses** | **Tax losses** | **Staff benefit** | **Total** |
| **At 1 January 2005** | 713 | 480 | 20,569 | 3,251 | 25,013 |
| Recognized in the income statement | 24,345 | (480) | 7,047 | (150) | 30,762 |
| **At 31 December 2005** | 25,058 | – | 27,616 | 3,101 | 55,775 |
| Recognized in the income statement | (22,615) | – | (8,979) | 3,072 | (28,522) |
| **At 31 December 2006** | **2,443** | **–** | **18,637** | **6,173** | **27,253** |

**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 2005** | – | – | – |
| Recognized in the income statement | (379) | – | (379) |
| Charged to equity | – | (5,151) | (5,151) |
| **At 31 December 2005** | (379) | (5,151) | (5,530) |
| Recognized in the income statement | 358 | – | 358 |
| Charged to equity | – | (19,817) | (19,817) |
| **At 31 December 2006** | **(21)** | **(24,968)** | **(24,989)** |

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

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 12. DEFERRED INCOME TAX (continued)

The potential deferred tax assets, arising from the deductible temporary differences in respect of provision for medical insurance, provision for early retirement, housing allowances to staff and unused tax losses, not recognized in the accounts due to the uncertainty of available future taxable profit against which the temporary differences can be utilized, amounted to RMB1,380,000 and RMB825,000 for the Group and the Company (2005: RMB15,609,000 and RMB15,303,000) respectively.

## 13. HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets are discounted government bonds which will mature from February 2007 to October 2007.

The movement in held-to-maturity financial assets is summarized as follows:

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| Beginning of year | **–** | – |
| Additions | **345,069** | – |
| Interest recognized in the year | **1,551** | – |
| Repayments received | **(50,000)** | – |
| End of year | **296,620** | – |

The fair value of held-to-maturity financial assets as at 31 December 2006, based on quoted market bid prices, is RMB295,348,000.

## 14. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Raw materials | **302,458** | 246,592 | **298,449** | 241,557 |
| Work in progress | **106,631** | 67,358 | **21,707** | 23,612 |
| Finished goods | **4,534** | 4,578 | **4,492** | 4,550 |
| | **413,623** | 318,528 | **324,648** | 269,719 |

The cost of inventories recognized as expense and included in cost of goods sold amounted to RMB341,143,000 (2005: RMB310,804,000).

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

## 15. CONSTRUCTION CONTRACTS IN PROGRESS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Contract costs incurred plus attributable profits | **2,096,608** | 1,635,271 | **2,093,838** | 1,633,404 |
| Less: progress billings to date | **(5,416,066)** | (2,535,528) | **(5,416,066)** | (2,535,528) |
| | **(3,319,458)** | (900,257) | **(3,322,228)** | (902,124) |
| Representing: | | | | |
| Due from customers on construction contracts | **736,708** | 781,915 | **734,005** | 780,048 |
| Due to customers on construction contracts | **(4,056,166)** | (1,682,172) | **(4,056,233)** | (1,682,172) |
| | **(3,319,458)** | (900,257) | **(3,322,228)** | (902,124) |



At 31 December 2006, there were no retention monies held by customers for contract works (2005: RMB1,500,000).

## 16. TRADE RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Trade receivables | **119,563** | 59,195 | **32,804** | 27,364 |
| Less: provision for impairment of trade receivables | **(8,430)** | (8,159) | **(5,721)** | (6,219) |
| Trade receivables – net | **111,133** | 51,036 | **27,083** | 21,145 |
| Amounts due from related parties | **68,853** | 169,925 | **67,690** | 166,976 |
| | **179,986** | 220,961 | **94,773** | 188,121 |

The carrying amounts of trade receivables approximate their fair value.

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 16. TRADE RECEIVABLES (continued)

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 2006 and 2005, the ageing analyses of the trade receivables were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Not exceeding one year | **107,318** | 34,300 | **25,902** | 19,095 |
| More than one year but not exceeding two years | **423** | 5,284 | **391** | 834 |
| More than two years but not exceeding three years | **192** | 9,816 | **183** | 71 |
| More than three years | **3,200** | 1,636 | **607** | 1,145 |
| | **111,133** | 51,036 | **27,083** | 21,145 |

At 31 December 2006 and 2005, the ageing analyses of the amounts due from related parties were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Not exceeding one year | **68,853** | 167,348 | **67,690** | 166,976 |
| More than one year but not exceeding two years | **–** | 2,577 | **–** | – |
| | **68,853** | 169,925 | **67,690** | 166,976 |

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

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 17. OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Prepayments for trading materials and equipment | | | | |
| - prepayments to third parties | **33,754** | 27,188 | **18,037** | 22,471 |
| - prepayments to related parties | **216,928** | 141,915 | **216,378** | 141,915 |
| Other taxes recoverable | **49,777** | 52,520 | **42,636** | 45,587 |
| Amounts due from non-banking financial institutions (Note) | **13,994** | 216,491 | **13,994** | 215,491 |
| Less: provision for non-recovery (Note) | **(8,748)** | (166,219) | **(8,748)** | (165,219) |
| | **5,246** | 50,272 | **5,246** | 50,272 |
| Others | **10,790** | 9,790 | **4,633** | 3,971 |
| | **316,495** | 281,685 | **286,930** | 264,216 |



The carrying amounts of other receivables approximate their fair value.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Amount due from GZITIC (a) | **13,994** | 168,083 | **13,994** | 168,083 |
| Provision for the amount due from GZITIC | **(8,748)** | (117,811) | **(8,748)** | (117,811) |
| Amount due from Guangzhou Economic and Technology Development Zone International Trust and Investment Company ("GETDZITIC") (b) | **–** | 48,408 | **–** | 47,408 |
| Provision for the amount due from GETDZITIC | **–** | (48,408) | **–** | (47,408) |
| | **5,246** | 50,272 | **5,246** | 50,272 |

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

## 17. OTHER RECEIVABLES (continued)

(a) According to a debt restructuring general agreement entered into between the Company and GZITIC on 20 February 2006, certain properties and vehicles ("commuting assets") totaling Rmb154,089,000 were transferred to the Company to settle the outstanding debts due by GZITIC and the interest thereon. A provision has been made for non-recovery as at year end after taking into account the estimated recoverable amount of the remaining commuting assets to be obtained.

(b) During the year, the debts owed by Guangzhou Economic and Technology Development Zone International Trust and Investment Company and its full provision totaling RMB48,408,000 were written off.

## 18. DERIVATIVE FINANCIAL INSTRUMENTS

| | Asset | | Liability | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| **Group and Company** | | | | |
| Forward foreign exchange contracts | **712** | 3,802 | **(570)** | (1,278) |



## 19. BANK BALANCES AND CASH

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Cash at bank and in hand | **1,873,807** | 499,430 | **1,788,000** | 430,878 |
| Bank deposits | **2,464,200** | 145,000 | **2,464,200** | 145,000 |
| | **4,338,007** | 644,430 | **4,252,200** | 575,878 |

The effective annual interest rate on bank deposits was 2.5% (2005: 2.1%); these deposits have an average maturity of 240 days (2005: 43 days).

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Bank balances and cash | **4,338,007** | 644,430 | **4,252,200** | 575,878 |
| Less: restricted cash | **17,928** | – | **–** | – |
| Cash and cash equivalent | **4,320,079** | 644,430 | **4,252,200** | 575,878 |

The restricted cash was held in bank accounts for warranty of containers transportation services and importation.

## 20. SHARE CAPITAL

| | As at 1 January and 31 December 2005 | | Transfers in/(out) | | As at 31 December 2006 | |
|---|---|---|---|---|---|---|
| | *Number of shares (thousands)* | *Amount* | *Number of shares (thousands)* | *Amount* | *Number of shares (thousands)* | *Amount* |
| **Share capital registered, issued and fully paid** | | | | | | |
| Non-circulating State Shares | 210,800 | 210,800 | (210,800) | (210,800) | – | – |
| Circulating State Shares subject to exchange restrictions | – | – | 176,651 | 176,651 | 176,651 | 176,651 |
| Ordinary A Shares | 126,480 | 126,480 | 34,149 | 34,149 | 160,629 | 160,629 |
| Ordinary H Shares | 157,398 | 157,398 | – | – | 157,398 | 157,398 |
| | 494,678 | 494,678 | – | – | 494,678 | 494,678 |
| Share premium | | 651,977 | | | | 651,977 |
| Total | | 1,146,655 | | | | 1,146,655 |

Note: Following the PRC government policy on State Share Reform, the Company completed its reform (the "Reform") on 24 May 2006. Effectively, the non-circulating State Shares were converted into the circulating State Shares subject to exchange restrictions by an allotment of 2.7 shares for every 10 shares to the A Shares shareholders by the immediate holding company, China State Shipbuilding Corporation ("CSSC"). The circulating State Shares will be tradable at the Shanghai Stock Exchange three years after the Reform. In addition, CSSC will be required to allot additional shares to the A Shares shareholders if the Company's performance for years 2006 and 2007 does not meet the criteria set out in the Reform.

(Prepared in accordance with HKFRS. 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 2005** | 48,997 | 30,591 | 20,560 | – | 100,148 |
| **In 2005:** | | | | | |
| Revaluation – gross (Note 11) | – | – | – | 34,342 | 34,342 |
| Revaluation – tax (Note 12) | – | – | – | (5,151) | (5,151) |
| Transfer (to)/from | – | (66) | 66 | – | – |
| **Balance at 31 December 2005** | 48,997 | 30,525 | 20,626 | 29,191 | 129,339 |
| **In 2006:** | | | | | |
| Revaluation – gross (Note 11) | – | – | – | 132,113 | 132,113 |
| Revaluation – tax (Note 12) | – | – | – | (19,817) | (19,817) |
| Transfer (to)/from | 30,525 | (30,525) | – | – | – |
| **Balance at 31 December 2006** | **79,522** | **–** | **20,626** | **141,487** | **241,635** |
| **b) Company** | | | | | |
| **Balance at 1 January 2005** | 48,476 | 30,493 | 20,560 | – | 99,529 |
| **In 2005:** | | | | | |
| Revaluation – gross (Note 11) | – | – | – | 34,342 | 34,342 |
| Revaluation – tax (Note 12) | – | – | – | (5,151) | (5,151) |
| Transfer (to)/from | – | (66) | 66 | – | – |
| **Balance at 31 December 2005** | 48,476 | 30,427 | 20,626 | 29,191 | 128,720 |
| **In 2006:** | | | | | |
| Revaluation – gross (Note 11) | – | – | – | 132,113 | 132,113 |
| Revaluation – tax (Note 12) | – | – | – | (19,817) | (19,817) |
| Transfer (to)/from | 30,427 | (30,427) | – | – | – |
| **Balance at 31 December 2006** | **78,903** | **–** | **20,626** | **141,487** | **241,016** |

## 21. OTHER RESERVES (continued)

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.

### (ii) Statutory public welfare fund

Pursuant to the amendment to the Company Law in the PRC effective 1 January 2006, the PRC Companies are not required to provide statutory public welfare fund. According to the relevant accounting regulations, these companies have transferred the balance of statutory public welfare fund to statutory surplus reserve since 1 January 2006.



### (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 appropriations

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. transfer 10% to statutory surplus reserve (note 21(i));

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

d. pay dividends.

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

## 21. OTHER RESERVES (continued)

### (iv) Profit appropriations (continued)

Pursuant to Article 206 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 Hong Kong Financial Reporting Standards, 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.

## 22. BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| **Non-current** | | | | |
| Bank borrowings | **1,082,591** | – | **1,082,591** | – |
| **Current** | | | | |
| Bank borrowings | | | | |
| – short term bank borrowings – unsecured | **63,786** | 60,355 | **–** | 60,355 |
| – current portion of long term bank borrowings | **573,002** | 200,150 | **573,002** | 200,150 |
| | **636,788** | 260,505 | **573,002** | 260,505 |
| **Total borrowings** | **1,719,379** | 260,505 | **1,655,593** | 260,505 |

Long term bank borrowings of RMB1,655,593,000 (2005: RMB200,000,000) are guaranteed by CSSC, the immediate shareholder of the Company.

The maturity of borrowings is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Within 1 year | **636,788** | 260,505 | **573,002** | 260,505 |
| Between 1 and 2 years | **961,088** | – | **961,088** | – |
| Between 2 and 5 years | **121,503** | – | **121,503** | – |
| | **1,719,379** | 260,505 | **1,655,593** | 260,505 |

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

## 22. BORROWINGS (continued)

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| 6 months or less | **23,786** | 240,505 | **–** | 240,505 |
| 6 – 12 months | **1,695,593** | 20,000 | **1,655,593** | 20,000 |
| | **1,719,379** | 260,505 | **1,655,593** | 260,505 |

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

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **RMB** | **USD** | RMB | USD |
| Short term bank borrowings | **5.6%** | **6.6%** | 4.8% | 4.0% |
| Long term bank borrowings | **–** | **3.5%** | 2.7% | – |

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

| | **Carrying amounts** | **Fair values** |
|---|---|---|
| At 31 December 2006 | 1,082,591 | 1,082,591 |

The fair values are based on cash flows discounted using a rate based on the borrowings rate of 3.5%.

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| RMB | **58,710** | 220,150 | **–** | 220,150 |
| US dollar | **1,660,669** | 40,355 | **1,655,593** | 40,355 |
| | **1,719,379** | 260,505 | **1,655,593** | 260,505 |

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

## 22. BORROWINGS (continued)

The Group has the following undrawn borrowing facilities:

| | 2006 | 2005 |
|---|---|---|
| Expiring within one year | **259,444** | 1,347,700 |
| Expiring beyond one year* | **159,090** | 159,090 |
| | **418,534** | 1,506,790 |

* This undrawn borrowing facility is secured by the property, plant and equipment with net book amount of RMB140,447,000 (2005: RMB147,284,000).

## 23. RETIREMENT BENEFIT OBLIGATIONS

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| **Balance sheet obligations for:** | | |
| – early retirement scheme (note a) | **7,062** | 11,529 |
| – medical insurance scheme (note b) | **4,597** | 7,300 |
| | **11,659** | 18,829 |
| Less: current portion included in other payables and accruals | **(3,664)** | (4,978) |
| | **7,995** | 13,851 |

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 organized 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.

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 23. RETIREMENT BENEFIT OBLIGATIONS (continued)

### (a) Retirement scheme (continued)

In addition, certain employees of the Company have applied for early retirement and their applications 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 contributions are calculated based on the monthly compensation to the retirees.

### (b) Medical insurance scheme

As required by the Provisional Rules of Medical Insurance issued by the Guangzhou People's Municipal Government effective on 1 December 2001 ("Provisional Rules of Medical Insurance"), it is mandatory for the Company and its subsidiaries in Guangzhou to participate in a medical insurance scheme set up and managed by the government. Employees, including 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 which do not fall due wholly within twelve months are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality corporate bonds.

The movements in the liability recognized in the balance sheet are as follows:

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| Beginning of the year | **18,829** | 28,855 |
| Total expense, included in employee benefit expense | **(2,482)** | (1,315) |
| Amounts paid | **(4,688)** | (8,711) |
| End of the year | **11,659** | 18,829 |

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 24. TRADE PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Trade payables | **279,655** | 208,101 | **260,137** | 194,232 |
| Amounts due to related parties | **102,217** | 164,808 | **101,881** | 164,675 |
| | **381,872** | 372,909 | **362,018** | 358,907 |

The carrying amounts of trade payables approximate their fair value.

At 31 December 2006 and 2005, the ageing analyses of the trade payables were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Not exceeding one year | **277,420** | 207,803 | **258,160** | 194,049 |
| More than one year but not exceeding two years | **2,091** | 70 | **1,833** | 70 |
| More than two years but not exceeding three years | **70** | 113 | **70** | 113 |
| More than three years | **74** | 115 | **74** | – |
| | **279,655** | 208,101 | **260,137** | 194,232 |

At 31 December 2006 and 2005, the ageing analyses of the amounts due to related parties were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Not exceeding one year | **101,950** | 164,808 | **101,614** | 164,675 |
| More than one year but not exceeding two years | **267** | – | **267** | – |
| | **102,217** | 164,808 | **101,881** | 164,675 |

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 25. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Payables to third parties and accruals | **123,461** | 125,348 | **93,379** | 106,045 |
| Amounts due to related parties | **18,444** | 1,051 | **18,444** | 1,051 |
| | **141,905** | 126,399 | **111,823** | 107,096 |

The carrying amounts of other payables approximate their fair value.

## 26. PROVISIONS FOR WARRANTY AND LEGAL CLAIM

| | Group | | |
|---|---|---|---|
| | **Legal claim** (Note b) | **Warranty** (Note a) | **Total** |
| **At 1 January 2005** | – | 38,247 | 38,247 |
| Additional provisions | – | 20,050 | 20,050 |
| Surplus amounts written-back | – | (6,173) | (6,173) |
| Used during the year | – | (13,363) | (13,363) |
| **At 31 December 2005** | – | 38,761 | 38,761 |
| Additional provisions | 1,384 | 26,433 | 27,817 |
| Surplus amounts written-back | – | (8,044) | (8,044) |
| Used during the year | – | (19,892) | (19,892) |
| **At 31 December 2006** | **1,384** | **37,258** | **38,642** |

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 26. PROVISIONS FOR WARRANTY AND LEGAL CLAIM (continued)

| | Company |
|---|---|
| | **Warranty** |
| **At 1 January 2005** | 38,247 |
| Additional provisions | 20,050 |
| Surplus amounts written-back | (6,173) |
| Used during the year | (13,363) |
| **At 31 December 2005** | 38,761 |
| Additional provisions | 26,433 |
| Surplus amounts written-back | (8,044) |
| Used during the year | (19,892) |
| **At 31 December 2006** | **37,258** |

Note:

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

(b) The amounts represent a provision for loss of container legal claims brought against the Group. The provision charge has been recognized in profit or loss within administrative expenses. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2006.

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 27. OTHER LOSSES – NET

| | 2006 | 2005 |
|---|---|---|
| Net foreign exchange transaction losses (Note 33) | **(28,638)** | (26,782) |
| Forward foreign exchange contracts not qualified for hedge accounting: | | |
| – realized gains on derivative financial instruments | **2,577** | 5,470 |
| – fair value (losses)/gains on derivative financial instruments (Note 36) | **(2,382)** | 2,524 |
| | **(28,443)** | (18,788) |

## 28. EXPENSES BY NATURE

| | 2006 | 2005 |
|---|---|---|
| Change in construction contracts in progress relating to cost recognition variance | **(283,941)** | (285,532) |
| Changes in inventories of finished goods and work in progress | **(39,229)** | (13,861) |
| Depreciation and amortization charges (Notes 6, 7 and 8) | **83,770** | 80,703 |
| Reversal of impairment for property, plant and equipment (Note 6) | **–** | (931) |
| Provision of impairment for trade receivables | **271** | 1,260 |
| Reversal of impairment for other receivables | **(650)** | (151) |
| Provision of impairment for inventories | **1,966** | 406 |
| Raw materials and consumables used | **2,232,780** | 1,997,519 |
| Employee benefit expense, include directors' emoluments (Note 31) | **346,699** | 273,341 |
| Provisions for warranty (Note 26) | **26,433** | 20,050 |
| Surplus warranty written-back (Note 26) | **(8,044)** | (6,173) |
| Auditors' remuneration | **2,593** | 2,326 |
| Research and development cost | **3,665** | 8,834 |
| Subcontract cost | **397,264** | 329,250 |
| Vessel design fee | **9,576** | 37,038 |
| Vessel inspection fee | **20,133** | 25,137 |
| Commission and agent fee | **111,292** | 66,768 |
| VAT input transfer out | **27,005** | 16,339 |
| Taxes and duty | **19,954** | 8,024 |
| Other expense | **86,929** | 106,643 |
| Total cost of sales, selling and marketing costs and administrative expenses | **3,038,466** | 2,666,990 |

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 29. OTHER INCOME

| | 2006 | 2005 |
|---|---|---|
| Interest income* (Note 36) | **–** | 5,076 |
| Dividend income (Note 36) | **3,160** | 891 |
| Subsidy income for shipbuilding | **–** | 21,888 |
| Gain on sales of scrap and other materials | **9,721** | 13,420 |
| Subsidy income for compensations related to income | **19,463** | 4,006 |
| Others | **4,826** | 7,105 |
| | **37,170** | 52,386 |

* The interest income is included in finance costs in 2006 (Note 30).

## 30. FINANCE INCOME/(COSTS) – NET

| | 2006 | 2005 |
|---|---|---|
| Interest income (Note 36) | **18,577** | – |
| Interest expense from bank borrowings | **(7,333)** | (18,977) |
| Interest expense from amounts due to suppliers | **(261)** | (1,559) |
| Other incidental borrowing costs | **(2,679)** | (377) |
| Net foreign exchange gains arising from borrowings (Note 33) | **14,740** | 5,223 |
| | **23,044** | (15,690) |



## 31. EMPLOYEE BENEFIT EXPENSE

| | 2006 | 2005 |
|---|---|---|
| Wages and salaries | **215,118** | 178,008 |
| Retirement costs | **29,093** | 23,931 |
| Housing fund (Note a) | **11,479** | 10,908 |
| Medical insurance | **11,464** | 11,023 |
| Retiree housing subsidy (Note b) | **23,391** | – |
| Other staff costs | **56,154** | 49,471 |
| | **346,699** | 273,341 |

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

## 31. EMPLOYEE BENEFIT EXPENSE (continued)

### (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 standard salaries of its employees.

### (b) Retiree housing subsidy

On 4 January 2006, the Board of Directors of the Company resolved to provide a monetary housing subsidy to qualified retried employees who have not been granted any housing properties during the Housing System Reform carried out in year 2000.

### (c) Directors' and supervisors' emoluments

The remuneration of every Director and Supervisor for the year ended 31 December 2006 is set out below:



| Name of Director and Supervisor | Salary and bonus | Other benefits (i) | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| Director Mr. Li Zhushi | 180 | – | – | 180 |
| Director Mr. Yu Baoshan | 336 | 31 | 28 | 395 |
| Director Mr. Han Guangde | 338 | 30 | 28 | 396 |
| Director Mr. Chen Jingqi | 303 | 27 | 28 | 358 |
| Director Mr. Zhong Jian | 144 | 23 | 28 | 195 |
| 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. Wang Xiaojun | 62 | – | – | 62 |
| Director Mr. Mak, Kin Kwong Peter (ii) | 31 | – | – | 31 |
| Director Mr. Li Xinliang (iii) | 31 | – | – | 31 |
| Supervisor Mr. Wang Shusen | 96 | – | – | 96 |
| Supervisor Mr. Liang Mianhong | 266 | 25 | 28 | 319 |
| Supervisor Mr. Wang Shiming | 40 | – | – | 40 |
| Supervisor Mr. Ye Weiming | 40 | – | – | 40 |
| Supervisor Mr. Liu Shibai | 225 | 24 | 28 | 277 |

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 31. EMPLOYEE BENEFIT EXPENSE (continued)

### (c) Directors' and supervisors' emoluments (continued)

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 | 276 | 27 | 16 | 319 |
| Director Mr. Li Zhushi | – | – | – | – |
| Director Mr. Yu Baoshan | 273 | 29 | 16 | 318 |
| Director Mr. Han Guangde | 270 | 29 | 16 | 315 |
| Director Mr. Wang Yi | 216 | 24 | 16 | 256 |
| Director Mr. Chen Jingqi | 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 | 26 | – | – | 26 |
| Director Mr. Yuen, Pat Yiu Philip | 26 | – | – | 26 |
| Director Mr. Wang Xiaojun | 62 | – | – | 62 |
| Director Mr. Mak, Kin Kwong Peter | 62 | – | – | 62 |
| Supervisor Mr. Wang Shusen | 96 | – | – | 96 |
| Supervisor Mr. Chen Jingqi | 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 | 156 | 13 | 10 | 179 |

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

(ii) Resigned on 09 May 2006.

(iii) Appointed on 09 May 2006.

### (d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2005: five) directors or supervisors whose emoluments are reflected in the analyses presented above.

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 32. INCOME TAX EXPENSE/(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.

| | **2006** | 2005 |
|---|---|---|
| Current income tax – the PRC enterprise income tax | **5,845** | 2,718 |
| Deferred income tax (Note 12) | **28,164** | (30,383) |
| | **34,009** | (27,665) |

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:

| | **2006** | 2005 |
|---|---|---|
| Profit before income tax | **310,978** | 112,288 |
| Tax calculated at domestic tax rates applicable to profits in the respective areas | **47,604** | 17,014 |
| Income not subject to tax | **(1,814)** | (6,442) |
| Expenses not deductible for tax purposes | **386** | 148 |
| Utilization of previously unrecognized temporary difference or tax losses | **(315)** | (22,721) |
| Tax losses for which no deferred income tax assets was recognized | **120** | 643 |
| Recognition of previous years unrecognized deferred tax assets | **(11,972)** | (16,307) |
| Income tax expense/(credit) | **34,009** | (27,665) |

The weighted average applicable tax rate was 15.3% (2005: 15.2%). The increase is caused by a change in the profitability of the Group's subsidiaries subjected to different tax rate.

## 33. NET FOREIGN EXCHANGE (LOSSES)/GAINS

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

| | **2006** | 2005 |
|---|---|---|
| Other losses – net (Note 27) | **(28,638)** | (26,782) |
| Finance costs (Note 30) | **14,740** | 5,223 |
| | **(13,898)** | (21,559) |

*(Prepared in accordance with HKFRS. 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 RMB252,546,000 (2005: RMB129,701,000)

## 35. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of RMB266,635,000 (2005: RMB135,011,000) and the weighted average number of 494,677,580 (2005: 494,677,580) ordinary shares in issue during the year.

## 36. CASH GENERATED FROM OPERATIONS

| | **2006** | 2005 |
|---|---|---|
| Profit for the year | **276,969** | 139,953 |
| Adjustments for: | | |
| – Tax (Note 32) | **34,009** | (27,665) |
| – Depreciation and amortization (Note 28) | **83,770** | 80,703 |
| – Reversal of impairment of property, plant and equipments (Note 28) | **–** | (931) |
| – Loss on sale of property, plant and equipment (Note (a)) | **4,406** | 5,025 |
| – Fair value gains on derivative financial instruments (Note 27) | **2,382** | (2,524) |
| – Gain on disposal of subsidiaries (Note (b)) | **–** | (273) |
| – Loss on disposal of interest in a subsidiary | **8** | – |
| – Write back of provision for non-recovering on principal due from non-banking financial institution | **–** | (36,171) |
| – Interest income (Note 29 and 30) | **(18,577)** | (5,076) |
| – Dividend income (Note 29) | **(3,160)** | (891) |
| – Interest expense | **7,588** | 20,536 |
| – Investment income from held-to-maturity financial assets | **(1,551)** | – |
| – Share of loss/(profit) from associates (Note 10) | **326** | (489) |
| – Exchange gains on borrowings (Note 30) | **(14,740)** | (5,223) |
| – Exchange losses on cash and cash equivalent | **2,577** | 2,075 |
| Changes in working capital: | | |
| – Inventories | **(95,095)** | 47,817 |
| – Construction contracts in progress | **2,419,201** | 674,771 |
| – Trade and other receivables and current income tax recoverable | **(44,130)** | (71,753) |
| – Restricted cash | **(17,928)** | – |
| – Trade and other payables and accruals, provision for warranties and legal claims and current income tax liability | **13,677** | 605 |
| Cash generated from operations | **2,649,732** | 820,489 |

*(Prepared in accordance with HKFRS. 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:

| | **2006** | 2005 |
|---|---|---|
| Net book amount (Note 6) | **12,907** | 7,377 |
| Loss on sale of property, plant and equipment | **(4,406)** | (5,025) |
| Decrease in receivables in sale of property, plant and equipment | **–** | 1,800 |
| Proceeds from sale of property, plant and equipment | **8,501** | 4,152 |

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

| | 2005 |
|---|---|
| Net assets disposed: | |
| Property, plant and equipment (Note 6) | 5,444 |
| Land use right and leasehold land (Note 8) | 12,938 |
| Inventories | 272 |
| Trade receivables | 75 |
| Other receivables | 624 |
| Trade payables | (713) |
| Other payables and accruals | (145) |
| Minority interests | (5,261) |
| Gain on disposal of interest in subsidiaries | 273 |
| | 13,507 |
| Less: proceeds receivables | – |
| Disposal of interest in subsidiaries, net of cash disposed | 13,507 |

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

| | 2005 |
|---|---|
| Proceeds from disposal of interest in subsidiaries | 13,523 |
| Bank balances and cash disposed | (16) |
| Disposal of interest in subsidiaries, net of cash disposed | 13,507 |

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 36. CASH GENERATED FROM OPERATIONS (continued)

(c) Non-cash transactions

The major non-cash transaction of 2005 and 2006 was the exchange of investment properties, golf club membership and vehicles with principal due from non-banking financial institution for debt restructuring.

## 37. CAPITAL COMMITMENTS

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

| | 2006 | 2005 |
|---|---|---|
| Contracted but not provided for | **7,619** | 19,944 |
| Authorized but not contracted for | **53,005** | 24,834 |
| Total commitments of property, plant and equipment | **60,624** | 44,778 |

## 38. SIGNIFICANT RELATED-PARTY TRANSACTIONS

CSSC, the immediate shareholder of the Company which owns 35.71% of the Company's shares (2005: 42.613%), 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

| | 2006 | 2005 |
|---|---|---|
| Sales of goods | | |
| – to companies controlled by CSSC (a) | **3,802** | 4,126 |
| – to other state-controlled enterprises (a) | **413,022** | 834,537 |
| | **416,824** | 838,663 |
| Sales of services | | |
| – to companies controlled by CSSC (b) | **14,050** | 18,448 |

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 38. SIGNIFICANT RELATED-PARTY TRANSACTIONS (continued)

### i) Sales of goods and services (continued)

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%.

### ii) Purchases of goods and services

| | 2006 | 2005 |
|---|---|---|
| Purchases of goods: | | |
| – from companies controlled by CSSC (a) | **163,015** | 158,610 |
| – from other state-controlled enterprises (a) | **704,221** | 686,932 |
| | **867,236** | 845,542 |
| Purchase of services: | | |
| – from companies controlled by CSSC (b) | **100,356** | 71,395 |
| – from other state-controlled enterprises (a) | **7,861** | 12,447 |
| | **108,217** | 83,842 |

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%.

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 38. SIGNIFICANT RELATED-PARTY TRANSACTIONS (continued)

### iii) Payment of expenses and other charges

| | **2006** | 2005 |
|---|---|---|
| Vessel sales commissions payable: | | |
| – to companies controlled by CSSC (a) | **48,111** | 29,108 |
| – to other state-controlled enterprises (b) | **5,251** | 9,375 |
| Other expenses payable: | | |
| – to companies controlled by CSSC (c) | **13,244** | 11,819 |
| | **66,606** | 50,302 |

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 8 December 2005 entered into between the Company and Guangzhou Shipyard ("GZS"), a subsidiary of CSSC, the Group incurred service fees amounted to RMB7,292,000 (2005: RMB7,328,000) for the 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 2006 and 2005 did not include the provision of welfare for key management personnel. The effective period of this comprehensive service agreement is from 1 January 2006 to 31 December 2008.

### iv) Transfer of interest in a subsidiary

On 6 January 2006, the Company transferred 26% interest in Guangzhou Hongfan Information Technique Company Limited ("Hongfan"), a subsidiary of the Company, to China Shipyard Information and Technology Company Limited, a subsidiary of CSSC at a consideration of Rmb1,588,000. Following the transfer, Hongfan has become a 51% held subsidiary of the Company.

### v) Property transfer

In 2006, the Company sold certain office building to Guangzhou Marine Engineering Corporation, a subsidiary of CSSC, at a consideration of RMB5,580,000 mutually agreed by both parties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated.)*

## 38. SIGNIFICANT RELATED-PARTY TRANSACTIONS (continued)

### vi) Key management compensation

| | **2006** | 2005 |
|---|---|---|
| Emolument, salaries and other short-term employee benefits | **3,853** | 3,310 |
| Post-employment benefits | **304** | 185 |
| | **4,157** | 3,495 |

### vii) Year-end balances

| | **2006** | 2005 |
|---|---|---|
| Receivables from related parties (Note 16 & Note 17): | | |
| – to CSSC and companies controlled by CSSC | **76,867** | 23,931 |
| – to other state-controlled enterprises | **214,160** | 338,181 |
| | **291,027** | 362,112 |
| Payables to related parties (Note 24 & Note 25): | | |
| – to CSSC and companies controlled by CSSC | **30,575** | 91,260 |
| – to other state-controlled enterprises | **90,086** | 74,599 |
| | **120,661** | 165,859 |

Save as disclosed as above, significant related party balances also include an amount of RMB458,195 (2005: RMB928,000) 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

New Corporate Income Tax Law ("New Tax Law") was passed by the National People's Congress on 16 March 2007. The Law will take effect on 1 January 2008.

The New Tax Law provides that almost all enterprises established in the PRC shall be subject to a unified corporate income tax rate of 25 percent. This will has impact on the tax policies currently enjoyed by the Group.

The Group will evaluate the financial impact of the New Tax Law after the detail implementation measures for the transitional periods and rules on the existing tax polices were announced.