



广州广船国际股份有限公司
GUANGZHOU SHIPYARD INTERNATIONAL COMPANY LIMITED

(A JOINT-STOCK COMPANY WITH LIMITED LIABILITY INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH JUNE 2003

Important Notice

The Board of Directors of the Company declares that there are no false statements, misleading information or material omissions in this report. The directors are jointly and severally responsible for the authenticity, accuracy and integrity of the contents of this report.

Mr. Hu Guoliang, Chairman of the Board of Directors, Mr. Yu Baoshan, President of the Company and Mr. Zen Xiangxin, Director to Financial Center of the Company declare and assure the facticity and integrity of the financial reports of this report.

Unless otherwise stated, financial data contained in this report is extracted from the accounts prepared by the Group in accordance with PRC Accounting Standards and Systems.

The financial reports in this interim report are unaudited.

I. OVERVIEW OF THE COMPANY

1. REGISTERED CHINESE NAME OF THE COMPANY

广州广船国际股份有限公司

REGISTERED ENGLISH NAME OF THE COMPANY

Guangzhou Shipyard International Company Limited

ABBREVIATION OF ENGLISH NAME OF THE COMPANY

GSI

2. PLACE OF LISTING OF THE COMPANY'S SHARES

A Shares – Shanghai Securities Exchange

Share Code: 600685

Abbreviated Name: Guangzhou Shipyard International

H Shares – The Stock Exchange of Hong Kong Limited

Share Code: 317

Abbreviated Name: Guangzhou Shipyard International

3. THE COMPANY'S REGISTERED ADDRESS AND OFFICE

40 South Fangcun Main Road, Guangzhou,

The People's Republic of China

Postal Code: 510382

URL OF THE COMPANY: www.chinagsi.com

E-MAIL ADDRESS: gsi@chinagsi.com

4. LEGAL REPRESENTATIVE OF THE COMPANY

Mr. Hu Guoliang

5. SECRETARY TO THE BOARD OF DIRECTORS

Mr. Li Zhidong

Address: 40 South Fangcun Main Road, Guangzhou, P.R.C.

Tel: (020) 8189 6411

Fax: (020) 8189 1575

E-mail Address: lzd@chinagsi.com

6. PUBLICATIONS DESIGNATED BY CHINA SECURITIES REGULATORY COMMISSION FOR DISCLOSING INFORMATION

Shanghai Securities News

Hong Kong Commercial Daily

China Daily

URL DESIGNATED BY CHINA SECURITIES REGULATORY COMMISSION: www.sse.com.cn

THE WEBSITE OF HONG KONG EXCHANGES AND CLEARING LIMITED: www.hkex.com.hk

PLACE FOR INSPECTION OF THE INTERIM REPORT: Office of the Secretary to the Board of Directors

7. MAJOR FINANCIAL DATA AND INDICATORS

(1) Prepared under the PRC Accounting Standards and Systems

Financial Indicators	Unaudited	Audited	Change (%)
	As at 30th June 2003	As at 31st December 2002	
Current assets (RMB'000)	1,678,051	2,065,677	(18.77)
Current liabilities (RMB'000)	1,655,519	2,265,029	(26.91)
Total assets (RMB'000)	2,772,498	3,192,625	(13.16)
Shareholders' equity (excluding minority interests) (RMB'000)	643,565	633,538	1.58
Net assets per share (RMB)	1.30	1.28	1.56
Adjusted net assets per share (RMB)	1.12	1.12	-

Financial Indicators	Unaudited	
	2003	2002
	(Consolidated)	(Consolidated)
Net profit/(loss) (RMB'000)	10,027	(67,974)
Net profit/(loss) after deduction of exceptional items (RMB'000)	10,248	(67,740)
Full diluted earnings per share (RMB)	0.02	(0.14)
Net cash flow from operating activities (RMB'000)	312,560	(252,664)
Fully diluted return on net assets (%)	1.56	(12.36)
Weighted average return on net assets ratio after deduction of exceptional items (%)	1.59	(11.60)

Note: The nature and amount of exceptional items deducted are as follows:

Non-operating income	RMB872,000
Non-operating expenses	RMB1,094,000
Total	RMB(222,000)

(2) Prepared in Accordance with Accounting Principles Generally Accepted in Hong Kong

Financial Indicators	Unaudited	Audited	Change (%)
	As at 30th June 2003	As at 31st December 2002	
Current assets (RMB'000)	2,126,469	2,500,387	(14.95)
Current liabilities (RMB'000)	2,324,475	2,731,942	(14.91)
Total assets (RMB'000)	3,228,766	3,652,666	(11.61)
Shareholders' equity (excluding minority interests) (RMB'000)	643,041	633,014	1.58
Net assets per share (RMB)	1.30	1.28	1.56
Gearing ratio (%)	78.22	81.01	3.44

Financial Indicators	Unaudited	
	2003	2002
	(Consolidated)	(Consolidated)
Profit/(loss) attributable to shareholders (RMB'000)	10,027	(67,974)
Earnings/(loss) per share (RMB)	0.0203	(0.1374)
Return on net assets (%)	1.56	(12.36)

(3) Statement of the difference due to prepared under different accounting principles

- 1) There is no difference in this period's net profit calculated on the basis of the PRC accounting standards and systems and the accounting principles generally accepted in Hong Kong.
- 2) The difference in net assets as of 30th June 2003 calculated on the basis of the PRC accounting standards and systems and the accounting principles generally accepted in Hong Kong respectively is as follows:

	Amount (RMB'000)
Net assets (under PRC accounting standards and systems)	643,565
Reconciling items	
– Deficit on revaluation of investment properties	(788)
– Realized gain on minority interest portion from inter-company transaction	502
– Profit and loss items directly recorded in accumulated losses brought forward	(238)
Net assets (under the accounting principles generally accepted in Hong Kong)	643,041

- 3) Supplementary profit statement prepared pursuant to “Regulations on Information Disclosure for Companies with Listed Securities (NO. 9)” promulgated by China Securities Regulatory Committee

Profit (loss) during the period under review	Return on net assets ratio (%)		Earnings (loss) per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	4.56	4.59	0.06	0.06
Profit (loss) from operations	(7.08)	(7.14)	(0.09)	(0.09)
Net profit (loss)	1.56	1.57	0.02	0.02
Net profit (loss) after deduction of exceptional items	1.59	1.60	0.02	0.02

Methods for calculating fully diluted return on net assets and fully diluted earnings (loss) per share are as follows:
Fully diluted return on net assets = Profit (loss) during the period under review ÷ Net assets at period end x 100%
Fully diluted earnings (loss) per share = Profit (loss) during the period under review ÷ Total number of ordinary shares at period end

Methods for calculating the weighted average return on net assets ratio and the weighted average income (loss) per share are as follows:
Weighted average return on net assets = the profit (loss) during the period under review ÷ [(net assets at beginning of the period + net assets at closing of the period) ÷ 2] x 100%
Weighted average income (loss) per share = profit (loss) during the period under review ÷ [(total number of shares at the beginning of the period + total number of shares at the closing of the period) ÷ 2]

II. CHANGES OF SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDINGS

1. There has not been any change in the structure of share capital of the Company during the period covered in this report.
2. The total number of shareholders of the Company was 71,358 at the end of the period covered in this report, including 71,065 A share shareholders and 293 H share shareholders.
3. Interests of the top 10 shareholders in share capital.

Name	Addition/ Deductions closing the period (share)	Number of shares at the end of the period (share)	Percentage (%)	Share classification (listed or unlisted)	Shares pledged or congealed	Shares Classification
CHINA STATE SHIPBUILDING CORPORATION	–	210,800,080	42.613	Unlisted	None	State-owned Shares
HKSCC NOMINEES LIMITED	392,000	144,410,999	29.193	Listed	Unknown	H Shares
HSBC NOMINEES (HONG KONG) LIMITED	126,000	4,846,000	0.980	Listed	Unknown	H Shares
CHAN CHEUK SANG	–	2,400,000	0.485	Listed	Unknown	H Shares
CHEUNG YEE MEI ELIZABETH	–	364,000	0.074	Listed	Unknown	H Shares
LEUNG CHI YAN	–	250,000	0.051	Listed	Unknown	H Shares
SHANGHAI VEGITABLE (GROUP)	–	201,901	0.041	Listed	Unknown	A Shares
WONG CHAM KING	–	200,000	0.040	Listed	Unknown	H Shares
NGAI YIN KIUNG	–	200,000	0.040	Listed	Unknown	H Shares
WANG TAO	–	200,000	0.040	Listed	Unknown	A Shares

Notes:

1. Apart from the top 10 shareholders disclosed above, as at 30th June 2003, the Company had not received any notice from H shareholders that their shareholding reached the level required to be disclosed under the Securities and Futures Ordinance, chapter 521 of the law of Hong Kong (“SFO”).
2. None of the shares of the Company held by CSSC during the period under review were either pledged or frozen.
3. The Company has not been noticed the relations or accordant behavior relations among the top 10 shareholders disclosed above.

III. INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Interests or Short Positions of Directors, Supervisors and Senior Management in Shares, Underlying Shares and Debentures

As at 30th June 2003, the respective shareholdings of the Directors, Supervisors and Senior Management of the Company and their respective spouses and children under the age of 18 (“family members concerned”) in the Company were as follows:

Directors	Number of shares held by self and family members concerned		Among which shares held by director in individual capacity	
Hu Guoliang	A Shares	5,000	A Shares	5,000
Yu Baoshan		None		
Ye Peihua	A Shares	4,000	A Shares	4,000
Xu Guoqing	A Shares	6,000	A Shares	1,000
Li Junfeng		None		
An Xiaofei		None		
Miao Jian		None		
Bo Miaojin		None		
Wu Fabo		None		
David Hon To, Yu		None		
Philip Pat Yiu, Yuen		None		
Supervisors				
Fu Dexiang		None		
Han Zineng	A Shares	2,500	A Shares	2,500
Chen Jinqi	A Shares	10,500	A Shares	2,000
Chen Xiongyi		None		
Zhang Zhenya		None		
Senior management				
Chen Liping		None		
Zhong Jian		None		
Wang Yi		None		
Han Guangde		None		
Yin Xuemin		None		
Xia Suijia		None		
Li Zhidong		None		

Apart from the above, as at 30th June 2003, none of the Directors, Supervisors and Senior Management of the Company or their family members concerned had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the “SFO”) requiring recording in the register maintained pursuant to Divisions 7 and 8 of Part XV of the SFO, or notification to the Company and the Stock Exchange pursuant to the “Model Code for Securities Transactions by Directors of Listed Companies” of the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). No rights to subscribe for equity or debt securities of the Company had been granted to or exercised by any Director, Supervisor or Senior Management of the Company.

2. Change of Directors, Supervisors and Senior Management

At the 2002 General Meeting held on 20th June 2003, Ms. An Xiaofei and Mr. Miao Jian were elected as directors of the Company, and Mr. Huang Gang and Mr. Yu Mingsheng’s cessation of being directors due to their job relocation.

IV. MANAGEMENT DISCUSSION AND ANALYSIS

1. Information of Principal Operating Productions (RMB'000)

Production	Operating income	Operating costs	Gross profit rate (%)	Change of operating income compared with that of the same period of last year (%)	Change of operate cost compared with that of the same period of last year (%)	Change of gross profit rate compared with that of the same period of last year (%)
Shipbuilding	876,969	857,353	2.24	2.91	-3.40	6.39
Container	221,605	222,678	-0.48	-3.92	0.15	-4.35
Steel structure	39,176	35,885	8.4	63.38	89.21	-12.51
Other mechanical and electrical products	39,568	29,823	24.63	-20.44	-19.12	1.33
Shiprepairing	3,357	1,114	66.81	-45.04	-79.64	56.39
Total	1,180,675	1,146,853	2.86	1.55	-2.10	3.66

2. Geographical Statement of Principal Operating

Area	Principal operating income (RMB'0000)	Change compared with the same period of last year (%)
Hong Kong	22,337	-3.63
Denmark	36,506	20.52
Malta	6,441	-56.31
Sweden	6,941	20.61
The Philippians	50	2,872.91
USA	53	-95.81
Subtotal	72,328	-3.94
China	45,739	12.01
Total	118,067	1.55

3. Review of Principal Operating

During the first half of 2003, the principal operating income of the Company and its subsidiaries (collectively the "Group") amounted to RMB1,180,670,000 representing an increase of 1.55% compared with that of the same period of last year. The net profit of the Group amounted to RMB10,030,000, increased by RMB78,000,000 compared with that of the same period of last year.

The increase of the principal operating income and the net profit of the Group is mainly due to the continuative improvement of the shipbuilding production situation of the Group on the basis of the tangible improvement in the second half of 2002. Especially the significant progress was occurred in the production of the new developed high-tech Ro/Pax vessels and half submarine vessels, of which the No.1 Ro/Pax vessel was completed and delivered at the beginning of 2003 following the delivering of No.1 half submarine vessel at the end of year of 2002. Technical difficulties were surmounted for construction of the two type new building vessels, that wholly promoted the capability in developing and building new type vessel of high-tech. Besides, the Group has strengthened cost controlling in building handsize product tanker, and decreased the cost of the such shipbuilding products in this period, and raised the profitability of shipbuilding products of the Group.

During the first half of 2003, the Group delivered and completed 5 vessels, including one 1600m-lane Ro/Pax vessel for a Sweden customer, one 38000dwt product tanker for a Malta customer, one 35000dwt product tanker for a Denmark customer, and two 40000dwt product tankers for a domestic customer. Apart from that, the Group commenced construction work on 5 vessels, erected 4 vessels on slipways and launched 6 vessels. The container manufacturing of the Group also made a significant progress compared with that of the same period of last year and produced 33,937 TEU representing an increase of 46.75% compared with that of the same period of last year, and sold 24,284 TEU.

Besides, the Group has completed a batch of steel structure projects, for example, Hunan Huangcun Bridge, etc., and repaired 7 various vessels. The Group secured new contracts of various business that valued RMB1,473 million in the period, and has secured orders valued RMB2,659 million as at the end of June 2003.

4. Investments

During the first half of 2003, investments in upgrading and transforming the technology used in the principal business of the Group amounted to RMB24.12 million.

5. Details on the Charges on Group Assets

Fixed assets with net book value of RMB145 million have been pledged to secure the bank loans of the Group.

6. Prospects for the Second Half of the Year

During the second half of the year, the Group will execute strategy management focusing on its strategy target. At present, the Company has organized Shipbuilding Management Dept., which is a top organization to manage shipbuilding business of the Company, and will realize united management to marine design department, shipbuilding division, Shunde Shipyard and other units of shipbuilding business, to meet the target of "Strengthen shipbuilding".

The No.2 Ro/Pax vessel and No. 2 half submarine vessel are still the focus of the work in the second half of 2003, their delivering and completing within this year should be ensured. Besides, the Company will enhance the production of product tanker and the work of cost control, and try best to shorten the production cycle on slipway and quay of series type vessels. Moreover, in the aspect of marine design, the Company will strengthen organization and deploy labors reasonably to ensure the continuous commence of shipbuilding in next year.

The Company will carry out non-shipbuilding work gradually also under the direction of "Vitalize non-shipbuilding". After the relocation of mechanical business of the Company, the subsidiary will re-edify operating capacity as soon as possible, and focus on business developing, strengthen the force to secure orders to ensure the performance goal of operating income of this year. The new Steel Structure and Mechanical Equipment Company should hold the opportunity of the re-vital steel structure market, take advantage of the flexible operating policy, develop steel structure and large size mechanical equipment business.

The Group will commit itself on harmonize administrative policy, adjust production structure and organization structure, try best to decrease production cost and improve profitability.

It is expected that the Company will keep the profitable tendency in the third quarter of this year.

V. SIGNIFICANT EVENTS

1. During the period under review, the Company had no execution of profit distribution scheme, shares transferred from accumulation fund scheme or scheme for issuing new shares adopted in the period before and carried out in the period under review.
2. During the period under review, the Company had no significant litigation and arbitration.
3. During the period under review, there was no any transition, sale or disposition of significant assets.
4. During the period under review, the connected transactions between the Group and the associated enterprises under the control of CSSC and associated companies of the Group included sales of goods amounting to RMB5.64 million, purchases of materials and equipment and other expenses amounting to RMB131.57 million. Those connected transactions were carried out in the ordinary course of business and had been entered in accordance with the terms of the agreement covering such transactions or (where there is no such agreement) on terms no less favorable than terms available to third parties. The Group did not receive any extra-ordinary benefit from such transactions, which are considered as reasonable to the Group's shareholders.
5. The Company had not managed by trust, by contract or leased the assets of other companies and the other companies had not managed by trust, by contract or leased the assets of the Company, which occurred during the period under review or occurred before but continued to the period under review.
6. The Company did not provide any guarantee of a significant nature that occurred during the period under review or before but continued to the period under review.
7. As at 30th June 2003, trust deposits with non-banking financial institutions amounted to RMB445.76 million. These comprised trust deposits receivable from Guangzhou International Trust and Investment Company (GZITIC) amounting to RMB397.07 million with non-recovery provision of RMB325,374,800.
8. During the period under review, the Company or the shareholders who hold over 5% (including 5%) shares of the Company did not give any undertaking that might have a great impact on the business results or financial condition of the Company during the period under review or occurred before but continued to the period under review.
9. During the period under review, in accordance with the Measures Concerning Employee Medical Insurance, the Company joined the basic medical insurance that managed by Guangzhou Municipal labor protection administration department and bore insurance amounting to RMB882,000 for its employees.
10. During the period under review, in accordance with the housing reform policy of Guangzhou City, the Company paid housing allowance amount to RMB976,000 for the qualified staff.
11. The mechanical business of the Company has completed relocation on schedule successfully, and has renamed to Nanhai Mechanical and Electrical Company to continue business of the former Mechanical division. The land located at 124 Gexin Road, which has been used by it has been handed over to Guangzhou Municipal Land Developing Center on schedule.
In accordance with relevant agreement signed by Guangzhou Municipal Land Developing Center and the Company, the land, which located at 118 Gexin Road and occupied by Kwangchow Shipyard Container Factory, should be handed over to Guangzhou Municipal Land Developing Center before 18th December 2003. It is expected that the container manufacturing that operating on this land will be ceased before the dead line. The rearrangement scheme for container business of the Company has not been determined up till now.
12. The Board of the Directors had not established an audit committee (the "Audit Committee") to review and supervise the Company's financial reporting procedures and internal controls as required by paragraph 14 of Code of Best Practice set out in Appendix 14 to the Listing Rules (the "Code of Best Practice") issued by the Hong Kong Stock Exchange. However, the Company's organizational structure includes a supervisory committee (the "Supervisory Committee") that carries out functions similar to that of an Audit Committee. The differences being that the representatives of the Supervisory Committee (one of which shall be the representative of the Company's employees) are elected and removed by shareholders in general meeting, and the Supervisory Committee is responsible to report to shareholders in general meeting of shareholders instead of the Board of Directors, whereas the Listing Rules require independent non-executive Directors of the listed company to comprise a majority of the Audit Committee. Apart from this, none of the Directors are aware of any information that would reasonably indicate that the Company is not, or was not at any time during the period under review, in compliance with the Code of Best Practice. The Supervisory Committee had reviewed this interim report and the relevant financial statements, and confirmed that there were no special matters requiring discussion with the Company's auditors or to be brought to the attention of the shareholders.
13. There had been no purchase, sale or redemption of the Company's securities by the Company or any of its subsidiaries during the six-month period ended 30th June 2003.

VI. FINANCIAL REPORT (UNAUDITED)

The accounting policies adopted in the preparation of the following financial reports are either under PRC accounting standards and systems or accounting principles generally accepted in Hong Kong.

(I) Prepared Under PRC Accounting Standards and Systems

(A) Financial Statements

Balance sheets

As at 30th June, 2003

Unit: RMB

Assets	Remarks	Consolidated		Parent Company	
		At the end of the period	At the beginning of the period	At the end of the period	At the beginning of the period
Current Assets:					
Cash and bank balances	(V)1	278,644,466.86	284,848,655.76	236,094,401.29	237,541,899.99
Short-term investments		–	–	–	–
Bills receivable	(V)2	745,000.00	–	–	–
Interests receivable		–	–	–	–
Dividends receivable		320,659.45	320,659.45	389,301.80	389,301.80
Accounts receivable	(V)3(1)	426,224,032.03	612,892,696.75	244,144,589.52	446,193,752.03
Other receivables	(V)3(3)	207,368,385.19	292,815,695.41	211,296,927.52	290,339,907.05
Prepayments to suppliers	(V)3(2)	32,805,982.67	135,646,260.98	28,791,596.70	130,139,706.26
Subsidy receivables	(V)3(4)	266,562,962.53	170,871,723.84	224,334,096.78	142,796,410.97
Inventories	(V)4	464,757,027.97	567,483,950.59	257,566,225.12	430,449,558.81
Deferred expenses	(V)5	622,567.59	796,993.53	288,258.00	500,150.00
Long-term bonds mature within one year		–	–	–	–
Other current assets		–	–	–	–
Total current assets		1,678,051,084.29	2,065,676,636.31	1,202,905,396.73	1,678,350,686.91
Long-term investments:					
Long-term investments in equity	(V)6	16,191,266.93	16,006,417.99	196,939,648.55	204,798,996.96
Long-term investments in bonds		–	–	–	–
Total long-term investments		16,191,266.93	16,006,417.99	196,939,648.55	204,798,996.96
Consolidated price difference		-2,502,686.26	-2,610,543.76		
Fixed assets					
Fixed assets-cost	(V)7	1,543,619,235.61	1,500,658,750.77	1,368,029,731.66	1,325,092,602.47
Less: accumulated depreciation	(V)7	583,100,167.10	552,802,454.88	500,678,095.99	475,608,919.70
Fixed assets-net book value	(V)7	960,519,068.51	947,856,295.89	867,351,635.67	849,483,682.77
Less: fixed assets diminution provision	(V)7	19,879,537.68	20,676,975.67	19,879,537.68	20,676,975.67
Fixed assets net value	(V)7	940,639,530.83	927,179,320.22	847,472,097.99	828,806,707.10
Construction materials					
Construction in progress	(V)8	67,418,993.85	112,130,762.41	67,418,993.85	112,130,762.41
Disposal of fixed assets		–	–	–	–
Total fixed assets		1,008,058,524.68	1,039,310,082.63	914,891,091.84	940,937,469.51
Intangible and other assets					
Intangible assets	(V)9	71,040,723.32	72,753,810.14	57,646,613.15	59,222,792.51
Long-term deferred expenses	(V)10	1,659,500.22	1,488,318.64	257,041.18	306,791.14
Other long-term assets		–	–	–	–
Total intangible and other assets		72,700,223.54	74,242,128.78	57,903,654.33	59,529,583.65
Deferred taxation					
Deferred taxation assets		–	–	–	–
Total assets		2,772,498,413.18	3,192,624,721.95	2,372,639,791.45	2,883,616,737.03

Liabilities and shareholders equity	Remarks	Consolidated		Parent Company	
		At the end of the period	At the beginning of the period	At the end of the period	At the beginning of the period
Current liabilities:					
Short-term loans	(V)11(1)	636,551,177.27	680,751,763.52	551,938,400.00	641,929,740.00
Bills payable	(V)12(1)	221,192,104.27	176,987,116.91	117,500,000.00	110,357,765.00
Accounts payable	(V)12(2)	413,212,931.44	473,826,485.73	374,137,658.51	422,283,203.65
Receipts in advance	(V)12(3)	50,712,762.52	123,832,615.14	43,891,105.08	118,702,282.31
Salaries payable		–	–	–	–
Staff welfare payable		3,063,496.95	2,560,140.79	1,450,632.22	1,227,688.06
Dividends payable	(V)13	13,449.38	13,449.38	13,449.38	13,449.38
Taxes payable	(V)14	-14,262,210.76	-16,130,194.53	122,306.57	-9,289,755.20
Other unpaid items		2,418,177.35	1,744,084.09	2,254,245.12	1,510,565.47
Other payables	(V)12(4)	51,369,423.48	93,690,479.20	-53,260,169.06	27,589,551.43
Accrued expenses	(V)15	89,013,814.02	112,584,669.20	75,648,035.17	87,365,244.21
Estimated expenses		–	–	–	–
Long-term liabilities due within one year	(V)11(2)	202,234,182.68	615,168,365.36	202,234,182.68	615,168,365.36
Other current liabilities		–	–	–	–
Total current liabilities		1,655,519,308.60	2,265,028,974.79	1,315,929,845.67	2,016,858,099.67
Long-term loans:					
Long-term loans	(V)16	380,397,500.00	200,940,155.00	380,397,500.00	200,940,155.00
Bonds payable		–	–	–	–
Long-term accounts payable		–	–	–	–
Special accounts payable	(V)18	29,192,269.33	28,792,269.33	29,192,269.33	28,792,269.33
Other long-term liabilities	(V)17	3,537,455.50	3,537,455.50	3,537,455.50	3,537,455.50
Total long-term liabilities		413,127,224.83	233,269,879.83	413,127,224.83	233,269,879.83
Deferred taxation					
Deferred taxation-liabilities					
Total liabilities		2,068,646,533.43	2,498,298,854.62	1,729,057,070.50	2,250,127,979.50
Minority interests		60,287,138.50	60,787,936.96	–	–
Shareholders' equity:					
Share capital	(V)19	494,677,580.00	494,677,580.00	494,677,580.00	494,677,580.00
Capital reserve	(V)20	651,977,481.72	651,977,481.72	651,977,481.72	651,977,481.72
Surplus reserves	(V)21	100,147,511.34	100,147,511.34	99,527,585.23	99,527,585.23
Including: statutory public welfare fund		30,974,259.73	30,693,515.41	30,693,515.41	30,693,515.41
Retained earnings	(V)22	-603,237,831.81	-613,264,642.69	-602,599,926.00	-612,693,889.42
Total shareholders' equity		643,564,741.25	633,537,930.37	643,582,720.95	633,488,757.53
Total liabilities and shareholders' equity		2,772,498,413.18	3,192,624,721.95	2,372,639,791.45	2,883,616,737.03

Profit and Loss Statement

For the six months ended 30th June,2003

Unit: RMB

Item	Remarks	Consolidated		Parent Company	
		This period	The same period of last year	This period	The same period of last year
(i) Principal operating income	(V)24	1,180,674,782.35	1,162,636,917.53	903,592,058.76	885,128,022.86
Less: principal operating costs	(V)24	1,146,852,773.72	1,171,847,045.49	878,102,293.58	915,726,053.37
Tax and surcharges	(V)25	4,483,274.67	1,343,945.41	3,632,716.24	386,324.58
(ii) Principal operating profit		29,338,733.96	-10,554,073.37	21,857,048.94	-30,984,355.09
Add: profit from other operations	(V)28	5,558,992.38	6,367,256.16	4,957,436.80	7,785,579.26
Less: Selling expenses	(V)27	4,130,173.39	1,679,785.41	1,223,345.14	1,511,269.08
Administrative expenses	(V)27	54,199,065.52	88,240,604.78	45,106,419.39	76,687,773.76
Financial expenses	(V)26	22,142,662.00	20,286,133.36	18,312,026.01	18,548,180.29
(iii) Operating profit		-45,574,174.57	-114,393,340.76	-37,827,304.80	-119,945,998.96
Add: investment income	(V)29	169,320.44	838,480.05	-7,967,884.41	5,385,914.12
Subsidy income	(V)30	56,016,829.07	46,656,456.65	56,016,829.07	46,656,456.65
Non-operating income	(V)31	872,046.90	221,307.24	755,046.90	150,039.51
Less: non-operating expenses	(V)31	1,093,659.42	454,708.84	882,723.34	220,231.90
(iv) Total profit		10,390,362.42	-67,131,805.66	10,093,963.42	-67,973,820.58
Less: income tax		859,400.00	619,786.88	—	—
Less: minority interests		-495,848.46	222,228.04	—	—
(v) Net profit		10,026,810.88	-67,973,820.58	10,093,963.42	-67,973,820.58

Profit and Loss and Distribution Statement

For the six months ended 30th June 2003

Item	Remarks	Consolidated		parent Company	
		June 2003	June 2002	June 2003	June 2002
(i) Net profit		10,026,810.88	-67,973,820.58	10,093,963.42	-67,973,820.58
Add: retained earnings at the beginning of the period		-613,264,642.69	-629,072,774.99	-612,693,889.42	-628,452,848.88
Other profit transfer in		—	—	—	—
(ii) Distributable profit		-603,237,831.81	-697,046,595.57	-602,599,926.00	-696,426,669.46
Appropriation to statutory surplus reserve		—	—	—	—
Appropriation to statutory public welfare fund		—	—	—	—
Appropriation to staff bonus and welfare fund		—	—	—	—
Appropriation to reserve fund		—	—	—	—
Appropriation to enterprise development fund		—	—	—	—
Profit return to investment		—	—	—	—
(iii) Profit distributable to shareholders		-603,237,831.81	-697,046,595.57	-602,599,926.00	-696,426,669.46
Less: preference shares dividends		—	—	—	—
Appropriation to discretionary surplus reserve		—	—	—	—
Ordinary shares dividends		—	—	—	—
Ordinary shares dividends transferred to capital stock		—	—	—	—
(iv) Retained earnings		-603,237,831.81	-697,046,595.57	-602,599,926.00	-696,426,669.46

Statement of cash flow

For the six months ended 30th June, 2003

Unit: RMB

Item of cash flow	Remarks	The period	
		Consolidated	Parent Company
1. Cash flow from operating activities			
Cash received from sales of goods or rendering of services		1,757,442,031.52	1,442,358,987.64
Refund of tax paid		224,481.44	-
Other cash received relating to operating activities		120,647,726.88	108,091,317.02
Sub-total of cash inflows		1,878,314,239.84	1,550,450,304.66
Cash paid for goods and services		1,136,273,593.99	815,629,438.91
Cash paid to and on behalf of employees		143,486,692.18	123,020,489.74
Tax paid		31,699,988.89	17,150,764.79
Other cash paid relating to operating activities		254,294,400.06	234,132,214.48
Sub-total of cash outflows		1,565,754,675.12	1,189,932,907.92
Net cash flow from operating activities	(V)32	312,559,564.72	360,517,396.74
2. Cash flows from investing activities:			
Cash received from return of investments		-	-
Cash received from bond interest income received		-	-
Cash received from disposal of fixed asset, intangible assets and other long-term assets		1,075,656.04	1,075,656.04
Other cash received relating to investing activities		6,638.15	-
Subtotal of cash inflows		1,082,294.19	1,075,656.04
Cash paid to acquire fixed assets, intangible assets and other long-term assets		21,019,164.16	18,660,863.16
Cash paid to investments		-	-
Other cash paid relating to investing activities		-	-
Sub-total of cash outflows		21,019,164.16	18,660,863.16
Net cash flow from investment activities		-19,936,869.97	-17,585,207.12
3. Cash flows from financing activities			
Proceeds from investment		-	-
Proceeds from borrowings		936,430,766.70	804,487,400.00
Other proceeds relating to financing activities		1,091,726.46	1,055,501.05
Sub-total of cash inflows		937,522,493.16	805,542,901.05
Cash repayment of amounts borrowed		1,210,734,352.89	1,125,180,950.00
Cash payments for distribution of dividends or profits		24,991,821.51	24,452,934.12
Other cash payments relating to financing activities		214,203.02	-43,358.14
Sub-total of cash outflows		1,235,940,377.42	1,149,590,525.98
Net cash flows from financing activities		-298,417,884.26	-344,047,624.93
4. Effect of foreign exchange rate changes on cash and bank balances		-408,999.39	-332,063.39
5. Net increase in cash and cash equivalents		-6,204,188.90	-1,447,498.70

Additional information:

Item	The period	
	Consolidated	Parent Company
Reconciliation of net profit to cash flows from operating activities		
Net profit	10,026,810.88	10,093,963.42
Add: Minorities interests	-495,848.46	–
Diminution provision for assets	580,682.23	-340,655.99
Depreciation of fixed assets	26,852,097.37	21,808,618.87
Amortization of intangible assets	1,631,754.61	1,494,847.15
Amortization of long term deferred expenses	1,319,583.59	1,080,619.93
Deferred expenses decreased (deduct: increase)	1,032,551.45	1,080,619.93
Advanced appropriation expenses (deduct: decrease)	328,400.00	–
Losses on disposal of fixed assets, intangible assets and other long-term assets	–	–
Losses on write off of fixed assets	404,506.75	197,191.04
Financial expenses	22,243,623.29	18,312,026.01
Losses from investments (deduct: income)	-169,320.44	7,967,884.41
Deferred tax credit (deduct: assets)	–	–
Decrease in inventories (deduct: increase)	-150,340,069.52	-83,523,443.79
Decrease in operating receivables (deduct: increase)	756,966,637.57	752,743,433.71
Decrease in operating payables (deduct: decrease)	-183,553,354.61	-179,274,602.11
Others	-174,268,489.99	-191,123,105.84
Net cash flows from operating activities	312,559,564.72	360,517,396.74
2. Investing and financing activities not involving cash flows		
Debts transfer to principal	–	–
Transferable bonds matured with one year	–	–
Financing or leasing fixed assets	–	–
3. Net increase in cash and cash equivalents		
Cash and bank balances at the end of the period	278,644,466.86	236,094,401.29
Less: cash and bank at the beginning of the period	284,848,655.76	237,541,899.99
Add: Cash equivalents at the end of the period	–	–
Less: cash equivalents at the beginning of the period	–	–
Net increase in cash and cash equivalents	-6,204,188.90	-1,447,498.70

(B) Notes to the Financial Statements**(I). Overview of the Company**

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

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

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

At present, the Company owns three shipbuilding berths and a 440m shipbuilding quay, with the largest capacity of 60,000dwt, and a ship-repairing dock which can undertake repairing and modification work for ships up to 10,000dwt, and a 480m ship-repairing quay. It also owns production lines that can produce various international standards and non-standard specialized steel dry cargo containers.

The Company presently has 5 major product lines, including shipbuilding, container manufacturing, shiprepairing, steel structure engineering, and other mechanical and electrical equipment. In addition to large vessels and containers, the Company’s principal products include steel structure’s manufacturing & coating & erecting for bridges & high-rise construction & large-size pipe, manufacturing & installing of passenger/goods lift, foils and studs for hydrofoil, port machinery, hydraulic machines, production line for external painted steel plates of refrigeration and design & manufacturing of crane machinery.

(II) Principal Accounting Policies adopted by the Company (Group)

1. Accounting System

The Company adopted the Enterprises Accounting System and relevant regulations issued by the PRC Financial Department.

2. Accounting Period

The accounting period covers the calendar year from 1st January to 31st December.

3. Currency Adopted in Accounting Records

Accounting records are maintained in Renminbi.

4. Basis of Recording and Valuation

Basis of recording adopts accrual system and Basis of Valuation is cost of acquisition.

5. Foreign Currency Translation

Foreign currency translations during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China on the first day of the month in which the transactions take place. At the end of the month, the monetary balances are adjusted in accordance with the regulations of Accounting System with the differences arising stated as exchange difference.

6. Cash Equivalents

Cash equivalents are defined as investments that are short-term (within three months), highly liquid, and readily convertible to cash and are subject to low risk of changes in value.

7. Short-term Investments

The short-term investments, including shares, bonds and funds, refer to the investment that can be realized at any moment, and the time of holding the investment does not exceed 1 year (including 1 year). The investment is stated on basis of the cost of the investment while returning the investment. At the end of the term, short-term investment is stated in accordance with the lower between the cost and market price. When the market price is lower than the cost, provision for diminution is made.

8. Provisions for Doubtful Debts

- (1) Basis of recognition of doubtful debts lost: If cases where debtors to bankrupt or is dead, doubtful debts unpaid represent balance after settlement out of liquidation or estate; The debtor do not pay back debt overdue, and certify it is impossible to get back after litigation process.
- (2) Accounting basis of doubtful debts lost: provision way.
- (3) Provision and applicable rate: For the account receivable which there is no bad information of in-receivable, 0.5% of its left will be draw out as provision; For the account receivable which there is special disadvantageous information for the bad debts, the provision will draw in accordance with the difference between the returnable amounts of debts and its book account.

9. Inventories

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

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

Methods of making provision for diminution of value on inventories:

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

For finished goods covered by contracts, provision is made based on the difference between cost and sales proceeds when the actual cost is more than the foreseeable operating income.

10. Long-term Investments

- (1) Long-term equity investments

Long-term equity investments by the Company are stated as the investment cost.

For enterprises in which the Company's investment representing more than 50% of the investee's issued capital, equity method of accounting is adopted and consolidated financial statements are prepared.

For enterprises in which the Company has made an investment representing more than 20% but equal to or less than 50% of the investee's issued capital, equity method of accounting is adopted and no consolidated financial statements are prepared generally except where the Company has control over the investing project.

The Company's investments representing 20% or less of the investee's issued capitals are stated at cost.

- (2) The balance of the equity investment, the term of which is stipulated in the contract, is amortized and included as current income of investment according to the investment term; while those, the term of which is not stipulated in the contract, are amortized and included as current income of investment according to the term that does not exceed 10 years (including 10 years).
- (3) Long-term bond investments: Bonds invested by the Company are regarded as original investment cost according to the exact payment. The interest, included by the exact payment, will be stated dividually as item receivable when the interest is at the expiration but not drawn. The original investment cost of long-term bond includes the bond interest that is included by the exact payment and does not expire.
- (4) The amortization of premium and discount of long-term bond investment is carried out at the same time with the confirmation of the relevant bond interest in order to adjust the investment income.
- (5) Provision for diminution in long-term investments.
 - ① Provision for diminution in long-term investments that have market price is made according to the following symptom.
 - A. Market price lower than the account price for the 2 years.
 - B. The transaction of investment suspended for one year or more.
 - C. The company invested have a serious loss in this year.
 - D. The loss of the company invested lasted for 2 years.
 - E. The company invested is process of rectification and liquidation or the company invested has other symptoms that show it cannot do business continually.
 - ② Provisions for diminution in long-term investments that have not market price are made according to the following symptom.
 - A. The company invested has a mint loss.
 - B. The financial status of the company invested has deteriorated, such as the rectification and liquidation, etc, because of the change of market and the descent of the competitive ability.
 - C. In other case, for example, it shows evidence that the investment actually did not bring any economic interest to the Company.

11. Fixed Assets and Depreciation

Fixed assets refer to the house, building, machinery and the equipment of transportation that have been used for one year or more, including other equipment relevant to the production and business. The Fixed assets include articles that do not involve the Company's business and production, and the value and the useful lives of which does not exceed RMB 2000 and 2 years respectively. The Fixed assets are stated at cost.

Depreciation is provided to write off the cost over their useful lives on a straight-line method, after taking into account the estimated residual value of 3% to 10% of the cost. The annual rates of depreciation for various categories of fixed assets are as follows:

Fixed assets category	Service years	Depreciation rate (%)
Machinery and equipment	6-20	5-16.67
Transmission systems	8-35	2.86-12.5
Instrument and meters	5-10	10-20
Vehicles	10-15	6.67-10
Buildings	8-50	2-12.5
Structures	15-50	2-6.67

Provision for diminution should be made if the Company's fixed assets had devaluation,. Provision for diminution is made when the fixed assets comply with one of the items in the following.

- (1) The fixed assets, remained unused for a long time, or be unuseful in the foreseeable future and not any transference value.
- (2) The fixed assets remained unused for the sake of the technical advance.
- (3) The fixed assets produced a great number of rejects, although the fixed assets can be used.
- (4) The fixed assets, not use and transference value due to damage.
- (5) The fixed assets, actually not economic interest to the Company.

At the end of term, the value of fixed asset is calculated in accordance with the lower between the accounting value and the receivable value. When the receivable sum is lower than the accounting sum, the balance will be regarded as the fixed assets provision for diminution that is stated in accordance with one asset.

12. Construction-in-progress

Construction-in-progress is stated at cost. The relevant interests are included as project cost before the project is delivered for use. For the project is considered to list fixed assets as the project is delivered for use. For the project could be delivered for use but not process the final account for completed project, from the date of the project could be delivered, and in accordance with the budget and the construction value of the project, the project could be transferred into fixed asset, and drawn depreciation in accordance with relevant regulation of Enterprise Accounting System. The readjustment will make after the final account for completed project was processed.

Construction-in-progress in following situations would be drawn provision for diminution:

- (1) Construction-in-progress has been shut down for a long term and has been forecasted will not restart within 3 years;
- (2) Other situations which could prove that the construction-in-progress has devalued.

13. Loan Expenses

When the following requirements are met simultaneously, the expenses of loan in order to buy or construct a fixed asset is capitalized and covered by the cost of the asset.

- (1) The payout (only including cash paid, transferred non-currency assets or holding debt liabilities) has been occurred.
- (2) The expenses of loan have been occurred.
- (3) The action of buy and construction, which are indispensable in order to reach the scheduled workable condition, has begun.

The loan expenses for buying or constructing fixed assets, fulfilling the condition of capitalization and the fixed assets reaching the scheduled workable condition, can be stated as cost of fixed assets. The loan expenses occurred after the construction was reached the scheduled workable condition would be stated as the current financial expenses.

Method for calculating capitalized interest for each accounting period:

The weighted average of accumulated outlay for buying and constructing fixed assets as to the end of the period × capitalized ratio.

14. Intangible Assets and Its Amortization

Intangible assets are stated at cost. Amortization is provided to write off the cost evenly over the legal or contractual lives or, in the absence of legal or contractual lives, evenly over the useful lives. Where the useful lives of intangible assets cannot be ascertained, amortization is provided evenly over a period of not less than 10 years.

The Company will draw provision for diminution in accordance with the difference between the estimate recoverable intangible assets and book value in situations as follows:

- (1) The profitability of an intangible asset was affected unfavorably significantly, or not possess useable value or transferable value any more.
- (2) An intangible asset has exceeded the term limit of legal protection, and has lost useable value or transferable value wholly or partly.
- (3) The current price of an intangible asset decreased significantly and was expected will not recover in the remainder amortization years.
- (4) Other situations that can prove an intangible asset which has lost its useable value or transferable value wholly or partly.

15. Long-term Deferred Expenses And Amortization

Long-term deferred expenses are amortized evenly during favorable period of expense items.

16. Income Realizing Principle

Commodity sale: the Company has no any managing and controlling right after the important risk and reward has been transferred to the seller. The evidence of receiving money has been possessed in respect of the relevant income and the cost concerning the commodity sale can be calculated reliably in order to confirm the business income.

Labor services: the contract has been executed and the sum of money in contract or the evidence of receiving money has been received.

When the result of construction contract (long-term contract engineering) is foreseeable, it is to calculate the business income on basis of the percentage of the construction progress when settle accounts, and to calculated the business cost on basis of the same percentage of scheduled cost. The provision for loss, which consists of the whole cost of construction, will be made when foreseeable loss.

Getting amortization of right of using assets: economic interest relevant to the transaction could transfer in, or the amount of income could be calculated reliably.

17. Income Tax

The income tax of the Company is on basis of accrual basis.

18. Basis of Preparation of Consolidated Financial Statements

In accordance with the "Tentative Regulations for Consolidated Financial Statements" issued by Finance Ministry, enterprises that the Company holds over 50% of total equity, or even less than that, but gets the actual holding rights, is consolidated into the accounting statements.

(III) Taxation

1. The type and rate of tax applicable to the major business activities are:

Activity Category	Tax category	Tax rate
Shipbuilding, shiprepairing, container, steel structures, mechanical & electrical equipment manufacturing, other products and sales materials	Value-added tax	17%
Transportation and installation	Sales tax	3%
Other services	Sales tax	5%

2. The Company's income tax is calculated at 15% on the assessable profit.

(IV) Principal Subsidiaries and Affiliates

(1) Principal Subsidiaries

Name	Registered Capital ('000)	Principal Business	Investment Capital ('000)	Interest Attributable to the Company	Consolidate or not
Kwangchow Shipyard Container Factory	RMB44,925	Container & steel structure manufacturing, installation and repairing	RMB56,157	100%	Yes
Masterwood Company Limited	USD600	Manufacture and sales of all kind of material furniture series	RMB2,486	75%	Yes
Guangzhou Guanglian Container Transportation Company Limited	RMB20,000	Container transportation	RMB15,000	75%	Yes
Xinhui City Guangzhou Shipyard Nanyang Shipping Industrial Company	RMB34,200	Ship dismantling, shipbuilding and steel structure engineering	RMB25,200	70%	Yes
Guangzhou Sanlong Industrial Trading Development Company Limited	RMB1,000	Business of steel structure and general ship component manufacturing	RMB1,005	67%	Yes
Guangzhou Xinsun Shipping Service Company Limited	RMB600	Installation, welding, fitting, coating, repairing of hull structure	RMB498	83%	Yes
United Steel Structures Limited	USD6,000	Manufacturing, sales and post sales service of steel structure	RMB25,439	51%	Yes
Guangdong GSI Elevator Limited	RMB21,000	Design, manufacturing, sales, installation, modification and repairing of all kinds of elevator	RMB19,950	95%	Yes
Guangzhou Hongfan Information Technique Co., Ltd.	RMB5,000	Developing of computer software, system integration and sales	RMB4,500	90%	Yes
Guangzhou Henghe Construction Company Limited	RMB27,500	Steel structure design, construction and installment	RMB20,881	75.93%	Yes

The above-mentioned principal subsidiaries are all registered and operated in PRC.

The operation period of Guangzhou Haizhu District Guanghua Machinery Factory expired and has been processing liquidation this year, and has not been consolidated in this report.

(V) Notes to Items in the Financial Statements (unless otherwise stated, the unit in this part is RMB)

1. Cash and Bank Balances

Item	Closing Balance		Opening Balance	
	Foreign currency	Equivalent RMB	Foreign currency	Equivalent RMB
Cash in hand				
– RMB Account	–	78,277.58	–	260,927.66
– HKD Account	6,884.82	7,306.17	8,828.22	9,367.22
– USD Account	7,204.23	59,632.29	3,603.17	29,824.16
– Yen Account	500.00	34.82	500.00	34.41
Sub-total	–	145,250.86	–	300,153.85
Cash at bank				
– RMB Account	–	259,994,884.99	–	252,133,112.93
– HKD Account	1,125,938.76	1,194,846.21	3,069,863.49	3,230,800.57
– USD Account	2,077,184.77	17,193,689.22	3,509,264.48	29,072,921.20
Sub-total	–	278,383,420.42	–	284,436,834.70
Others	–	–	–	–
– RMB Account	–	65,795.53	–	69,949.61
– USD Account	6040.55	50,000.05	5040.55	41,717.60
Sub-total	–	115,795.58	–	111,667.21
Total	–	278,644,466.84	–	284,848,655.76

2. Notes Receivable

	Closing Balance	Opening balance
	745,000.00	–

Detail list for closing balance of notes receivable:

Remitter	Amount (RMB'000)	Data of issue	Due data	Category
Chongqin Nanfang Group Company, Ltd.	500	22nd April 2003	22nd Oct. 2003	Bank acceptance
Chongqin Nanfang Group Company, Ltd.	245	28th April 2003	28th Oct. 2003	Bank acceptance

The Notes receivable in this period is the account receivable of sale on elevators of the subsidiary of Guangdong GSI Elevator Limited.

3. Accounts Receivable

(1) Accounts Receivable

Bond age	Closing Balance			Opening Balance		
	Amount	Percentage %	Provision for doubtful debts	Amount	percentage %	Provision for doubtful debts
Within 1 year	362,930,005.96	84.22%	2,636,192.29	530,375,514.70	85.88%	2,636,192.29
1–2 years	8,267,469.73	1.92%	43,078.01	9,002,399.45	1.46%	43,078.01
2–3 years	1,661,082.00	0.39%	72,939.60	13,124,065.38	2.12%	72,939.60
Over 3 years	58,064,602.56	13.47%	1,946,918.23	65,089,845.35	10.54%	1,946,918.23
Total	<u>430,923,160.25</u>	<u>100.00%</u>	<u>4,699,128.13</u>	<u>617,591,824.88</u>	<u>100.00%</u>	<u>4,699,128.13</u>

The amounts of the five companies with highest accounts receivable are RMB 224,489,223.65 representing 52.10% of the accounts receivable of the Company.

The accounts receivable was decreased by 30.46% mainly due to the reclamation of the shipbuilding progress payment of this year on schedule.

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

(2) Prepayment from customers

Bond Age	Closing Balance		Opening Balance	
	Amount	%	Amount	%
Within 1 year	32,755,282.67	99.85%	135,496,260.98	99.89%
1–2 years	–	–	–	–
2–3 years	50,700.00	0.15%	–	0.00%
Over 3 years	–	0.00%	150,000.00	0.11%
Total	<u>32,805,982.67</u>	<u>100%</u>	<u>135,646,260.98</u>	<u>100%</u>

The amounts of the five companies with highest prepayment are RMB30,828,372.03 representing 93.98% of the prepayment from customers.

Prepayment from customers decrease by 75.82% compared with the opening balance. That mainly due to arrival of part marine materials and equipments.

None of prepayments is due from shareholders who hold 5% or above of the Company's interest.

(3) Other receivables

Bond Age	Closing Balance			Opening Balance		
	Amount	%	Provision for doubtful debts	Amount	%	Provision for doubtful debts
Within 1 year	118,645,590.14	20.19%	1,032,042.58	206,408,516.09	30.65%	1,032,042.58
1-2 years	6,514,292.06	1.11%	20,659.78	4,131,956.34	0.61%	20,659.78
2-3 years	6,728,175.10	1.14%	1,002,113.67	6,919,085.83	1.03%	1,002,113.67
Over 3 years	455,760,123.50	77.56%	378,224,979.60	456,027,065.90	67.71%	378,616,112.72
Total	<u>587,648,180.82</u>	<u>100%</u>	<u>380,279,795.63</u>	<u>673,486,624.16</u>	<u>100%</u>	<u>380,670,928.75</u>

The amounts of the five companies with highest other accounts receivable are RMB551,251,243.78 representing 93.81% of other accounts receivable.

Other accounts receivable decreased by 12.95% compared with the opening balance. That mainly due to receive the first compensation income which amounted to RMB98,665,000 for the relocation of the east plant site of the Company.

There is not any progress in recovering trust deposits.

The provision for doubtful debts were decreased RMB391,133.12, that mainly due to the received debts which have been drawn as doubtful debts through the judgment of court.

None of other accounts receivable is due from shareholders who hold 5% or above of the Company's interest.

(4) Subsidy receivable

Items	Closing Balance	Opening Balance
Subsidy for domestic ocean-going vessels	138,081,314.43	83,342,246.73
Value-added tax refund for exports	128,481,648.10	87,529,477.11
Total	<u>266,562,962.53</u>	<u>170,871,723.84</u>

The subsidy receivable increased by 56% compared with that of opening balance. That mainly due to the increase of subsidy resulted from the increased construction of domestic ocean-going vessels of the Company in accordance with relevant state regulations and calculated according to the completion progress proportion, and the value-added tax refund for exports, which mainly refer to the tax refund for export vessels and containers, has not received on account of the influence of state tax refund index for exports.

4. Inventories and provision for diminution in value

Items	Closing balance		Opening balance	
	amount	provision for diminution in value	amount	provision for diminution in value
Raw material	300,710,709.57	969,678.91	237,180,887.30	1,578,382.79
Low-value	1,471,848.42	-	1,677,567.68	-
Consumables	35,085,602.50	10,132,448.49	314,646,369.89	34,444,334.73
Finished goods	138,611,263.92	20,269.04	50,795,111.54	793,268.30
Total	<u>475,879,424.41</u>	<u>11,122,396.44</u>	<u>604,299,936.41</u>	<u>36,815,985.82</u>

5. Deferred Expenses

Category	opening balance	addition in the period	amortization in the period	Closing balance
Maintaining charge and insurance premium for vehicles	796,993.53	2,073,292.03	2,304,746.29	622,567.59
Total	<u>796,993.53</u>	<u>2,073,292.03</u>	<u>2,304,746.29</u>	<u>622,567.59</u>

6. Long-term Investment

Items	Opening balance		addition in the period	deduction in the period	Closing balance	
	amount	provision for diminution			amount	provision for diminution
Long-term equity investments	16,006,417.99	–	184,848.94	–	16,191,266.93	–
long-term debt investments	–	–	–	–	–	–
Total	16,006,417.99	–	184,848.94	–	16,191,266.93	–

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

Name of investees	Total investment	Percentage holding of investees' capital	Closing balance	Equity method	
				Change in the period	Accumulated change
South China/Marine And Industrial Special Coating Limited	1,722,060.00	25.00%	2,910,221.47	20,491.13	1,188,161.47
Shenzhen Yuanzhou Science & Technology Industry Company Limited	1,000,000.00	7.41%	1,000,000.00	–	–
China Merchants Banking Corporation Information and Technology Company Limited of CSSC	10,010,000.00	0.23%	10,010,000.00	–	–
Guangli Marine Engineering Service Company Limited	30,000.00	10.00%	900,000.00	–	–
Zhanjiang Nanhai Naval ships high and new Technology Service Company Limited	100,000.00	20.00%	100,000.00	–	–
Sub-total	800,000.00	40.00%	800,000.00	–	–
Guanghua Machinery Factory Machiner Equipment Company (unconsolidated)	13,662,060.00		15,720,221.47	20,491.13	1,188,161.47
Total	1,675,187.80	75%	471,045.45	–	–
Total	15,337,247.80		16,191,266.93	20,491.13	1,188,161.47

(2) Consolidated Balance

Name of investees	Opening balance	Amortization period	Balance at the beginning of the year	Amortization in the period	Value after amortization
Guangzhou Henghe Construction Company Limited	2,157,150.21	10 years	1,923,458.96	107,857.50	1,815,601.46
Guangdong GSI Elevator Company	515,313.60	10 years	515,313.60	–	515,313.60
Consolidated difference	–	–	171,771.20	–	171,771.20
Total	2,672,463.81	–	2,610,543.76	107,857.50	2,502,686.26

7. Fixed assets and depreciation

Items	Opening balance	Addition	Diminution	Closing balance
(1)original cost				
Buildings	402,271,923.17	3,014,477.52	810,423.59	404,475,977.10
Structures	248,152,790.71	1,162,757.52	–	249,315,548.23
Vehicles	23,713,682.13	324,353.13	135,000.00	23,903,035.26
Instruments and meters	5,557,204.28	520,828.42	73,368.00	6,004,664.70
Transmission system	32,798,722.01	4,094,132.34	–	36,892,854.35
Machinery and equipment	788,164,428.47	47,408,937.76	12,546,210.26	823,027,155.97
Total	<u>1,500,658,750.77</u>	<u>56,525,486.69</u>	<u>13,565,001.85</u>	<u>1,543,619,235.61</u>
(2)Accumulated depreciation				
Buildings	80,361,551.07	5,610,307.00	273,484.55	85,698,373.52
Structures	73,463,595.80	4,916,438.70	–	78,380,034.50
Vehicles	13,764,682.25	1,677,807.86	95,456.28	15,347,033.83
Instruments and meters	3,786,706.31	285,924.92	69,699.60	4,002,931.63
Transmission system	12,327,724.15	901,512.12	–	13,229,236.27
Machinery and equipment	369,098,195.30	28,031,565.91	10,687,203.86	386,442,557.35
Total	<u>552,802,454.88</u>	<u>41,423,556.51</u>	<u>11,125,844.29</u>	<u>583,100,167.10</u>
(3)Net value of fixed assets	<u>947,856,295.89</u>	<u>15,101,930.18</u>	<u>2,439,157.56</u>	<u>960,519,068.51</u>

Fixed assets provision for diminution

Item	Opening balance	Addition	Diminution	Closing balance
Fixed assets	<u>20,676,975.67</u>	<u>–</u>	<u>797,437.99</u>	<u>19,879,537.68</u>

8. Construction-in-process

Category	Opening balance (including: interest)	Addition in the period (including: interest)	Transference to fixed assets (including: interest)	Other reductions (including: interest)	Closing balance (including: interest)
1. Facilities improvements					
(1) capital construction:					
technical improvement with national debt	68,591,901.17	–15,101,992.87	40,150,649.62	–	13,339,258.68
Including: capitalized interests	1,242,878.17	740,038.66	1,423,060.63	–	559,856.20
(2) others	43,538,861.24	39,218,516.13	14,317,642.20	14,360,000.00	54,079,735.17
2. Projects of subsidiary companies	–	–	–	–	–
Total	<u>112,130,762.41</u>	<u>24,116,523.26</u>	<u>54,468,291.82</u>	<u>14,360,000.00</u>	<u>67,418,993.85</u>
Including: capitalized interests	1,242,878.17	740,038.66	1,423,060.63	–	559,856.20

Construction-in-process decrease by 39.87% compared with the opening balance. That mainly due to the increase of transferring in fixed assets of completed projects and the reclamation of the protected fee for farm land which was planned to be used as Nansha basis workplace in this reporting period.

9. Intangible assets

Category	Initial cost	Opening balance	Addition	Transfer out	Amortization	Closing balance	Remained Amortization
Land use right	106,862,000.00	60,798,992.87	–	–	822,625.61	59,976,367.26	40 years
Know-how	10,332,076.00	11,954,817.27	–	–	890,461.21	11,064,356.06	5-10 years
Total	<u>117,194,076.00</u>	<u>72,753,810.14</u>	<u>–</u>	<u>–</u>	<u>1,713,086.82</u>	<u>71,040,723.32</u>	

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

10. Long-term deferred expenses

Category	Opening balance	Addition	Amortization	Closing balance
Modification expenses of fixed assets	1,488,318.64	310,417.10	139,235.52	1,659,500.22
Others	–	–	–	–
Total	1,488,318.64	310,417.10	139,235.52	1,659,500.22

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

(1) Short-term loans

Loans category	Closing balance	Opening balance	Note	
			Loan's term	Annual interest (%)
Mortgage loans	269,980,909.20	308,485,223.52	2002.8.12-2003.11.27	2.905%~5.044%
Guarantee loans	50,000,000.00	30,000,000.00	2002.12.9-2003.12.9	4.536%
Credit loans	316,570,268.07	342,266,540.00	2002.2.4-2003.12.19	1.632%~4.536%
Total	636,551,177.27	680,751,763.52	–	–

(2) Long-term loans within one year

Loans category	Closing balance	Opening balance	Note	
			Loan's term	Annual interest (%)
Guarantee loans	200,000,000.00	500,000,000.00	2001.2.9-2003.3.28	2.7-4.05
Guarantee loans	–	110,700,000.00	2001.3.12-2003.9	5.49-5.94
Other	2,234,182.68	4,468,365.36		
Total	202,234,182.68	615,168,365.36		

The item decreased by 67.13% compared with the opening balance, mainly due to returning part of the due loans to the banks.

12. Accounts payable

(1) Bills payable

Category	Amount	Expired within 1 year	Note
Bank acceptance	47,592,409.52	47,592,409.52	
Trade acceptance	173,599,694.75	173,599,694.75	
Total	221,192,104.27	221,192,104.27	

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

(2) Accounts payable

Category	Closing balance	Opening balance
Amounts payable for materials purchased	380,894,001.46	435,352,508.75
Amounts payable for subcontracting services	32,318,929.98	38,473,976.98
Total	413,212,931.44	473,826,485.73

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

(3) Advances from customers

Category	Closing Balance	Opening Balance
Shipbuilding	–	105,868,848.67
Shiprepairing	625,075.00	1,406,141.86
Other products	50,087,687.52	16,557,624.61
Total	50,712,762.52	123,832,615.14

Advances from customers increased by 59.05 % compared with the opening balance mainly due to the carry down to sale of progress payment for shipbuilding products.

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

(4) Other Payables

<u>Category</u>	<u>Closing Balance</u>	<u>Opening Balance</u>
Company retirement pension	25,026,376.39	23,909,893.14
Staff check off	841,856.23	732,461.65
Auditing expenses to accountants	1,251,419.20	1,802,360.17
Guangzhou Shipyard	1,945,032.07	3,025,105.00
Remuneration to independent directors	–	503,308.00
Medicare for retirees	16,936,754.50	54,787,580.00
Other payables	5,367,985.09	8,929,771.24
Total	<u>51,369,423.48</u>	<u>93,690,479.20</u>

Other payables were increased by 45.17% compared with the beginning of the period, mainly due to medical insurance payment for retirees.

In the period, the company did not have other payables due to shareholders holding 5% or above of the total share capital.

13. Dividends Payable

<u>Category</u>	<u>Closing Balance</u>	<u>Opening Balance</u>
State shares	–	–
A shares	–	–
H shares	–	–
Dividends from associated companies	13,449.38	13,449.38
Total	<u>13,449.38</u>	<u>13,449.38</u>

14. Taxes Payable

<u>Category</u>	<u>Closing Balance</u>	<u>Opening Balance</u>
Value-added tax	-19,498,956.61	-19,973,117.44
Business tax	171,063.63	649,350.75
City construction tax	2,554,426.32	1,662,799.69
Income tax	-183,652.63	403,781.82
Property tax	1,174,018.19	323,144.51
Land tax	824,884.62	65,710.50
Tax of staff income	696,005.72	738,135.64
Total	<u>-14,262,210.76</u>	<u>-16,130,194.53</u>

15. Accrued expenses

<u>Category</u>	<u>Closing Balance</u>	<u>Opening Balance</u>
Product warranty provision	29,458,129.91	35,620,997.06
Costs for outstanding projects	33,217,963.01	41,050,084.43
Loan interest	1,259,092.25	2,884,282.85
Others	25,078,628.85	33,029,304.86
Total	<u>89,013,814.02</u>	<u>112,584,669.20</u>

Product warranty provision is made based on fixed percentage of delivered vessel contract price in accordance with industry practice or construction contract. It is intended to cover product maintenance costs incurred within one-year from date of delivery.

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

16. Long-term Bank Loans

<u>Name of bank</u>	<u>Amount</u>	<u>Loan's term</u>	<u>Note</u>	
			<u>Annual interest (%)</u>	<u>Conditions of loans</u>
China Import and Export Bank	<u>380,397,500.00</u>	2002.2.9-2005.5.25	2.7	guaranty
Total	<u>380,397,500.00</u>			

Long-term bank loans were increased by 89.31% compared with opening balance, that mainly due to the increased revolving loans for shipbuilding.

17. Other Long-term Liabilities

Category	Closing Balance	Opening Balance
China Container Transportation Center of Railroad Bureau	3,537,455.50	3,537,455.50
Total	<u>3,537,455.50</u>	<u>3,537,455.50</u>

According to the contract signed with China Container Transportation Center of Railroad Bureau in 1996, the debts of goods payment should be amortized with 8 years. The above-mentioned debts are the interest of unpaid goods payment, and were received normally.

18. Special project payable

Catalogue	Closing Balance	Opening Balance
National fund	28,192,269.33	27,792,269.33
Provincial fund	1,000,000.00	1,000,000.00
Total	<u>29,192,269.33</u>	<u>28,792,269.33</u>

National fund of special project payable is state subsidy fund for the high additional value of Ro/Pax vessel technology reform project in accordance with "Guojimao Investment [2001] No. 1271" issued by National Economic and Trading Committee, National Development and Planning Committee and National Finance Ministry, and the high technique vessel scientific research appropriation for high-speed Ro/pax vessel in accordance with "Chuanggongji [2001] No. 787" issued by CSSC.

Provincial fund is research and developing fund for 40000dwt chemical tanker allotted by Guangdong Finance Bureau and Guangdong Economic and Trading Committee. This fund is allotted by national finance department freely and should be used according to relevant regulations.

19. Capital (unit: share)

Catalogue	At the beginning of the year	Right issue	Movements during the year (+, -)			Sub-total	At the end of the year
			Bonus issue	Conversion from reserves	Others		
1. Non-public							
1). Initiator	210,800,080	-	-	-	-	-	210,800,080
Including: Nation	-	-	-	-	-	-	-
Chinese juridical person	210,800,080	-	-	-	-	-	210,800,080
Foreign juridical person	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
2). Collecting juridical person	-	-	-	-	-	-	-
3). Workers	-	-	-	-	-	-	-
4). Preferred stock and others	-	-	-	-	-	-	-
Including: transferred stock							
Subtotal	210,800,080	-	-	-	-	-	210,800,080
2. Public	-	-	-	-	-	-	-
1). RMB common stock	126,479,500	-	-	-	-	-	126,479,500
2). Foreign stock at home	-	-	-	-	-	-	-
3). Foreign stock abroad	157,398,000	-	-	-	-	-	157,398,000
4). Other	-	-	-	-	-	-	-
Subtotal	283,877,500	-	-	-	-	-	283,877,500
Total	<u>494,677,580</u>	-	-	-	-	-	<u>494,677,580</u>

20. Capital Reserve

Item	Opening Balance	Addition	Deduction	Closing Balance
Share premium	651,977,481.72	-	-	651,977,481.72
Total	<u>651,977,481.72</u>	<u>-</u>	<u>-</u>	<u>651,977,481.72</u>

21. Surplus reserves

Item	Opening Balance	Addition	Deduction	Closing Balance
Statutory surplus reserve	48,998,046.01	–	–	48,998,046.01
Statutory public welfare fund	31,471,502.41	–	–	31,471,502.41
Discretionary surplus reserve	19,677,962.92	–	–	19,677,962.92
Total	<u>100,147,511.34</u>	<u>–</u>	<u>–</u>	<u>100,147,511.34</u>

22. Retained Earnings

Item	30th June 2003	31st Dec. 2002
Balance at the beginning of the year	-613,264,642.69	-629,072,774.99
Balance adjustment of previous years	–	–
Profit this period	10,026,810.88	159,168,513.36
Statutory reserve	–	–
Statutory public welfare fund	–	–
Workers welfare fund	–	108,719.06
Prior share dividend distributed	–	–
Discretionary public reserve	–	–
Share dividend distributed	–	–
Balance at the end of this period	<u>-603,237,831.81</u>	<u>-613,264,642.69</u>

23. Geographical distribution to turnover

Geographical area	Income		Profit from principal operating	
	First half of 2003	First half of 2002	First half of 2003	First half of 2002
Germany	–	289,677.50	–	47,643.65
Vietnam	–	265,703.46	–	112,897.88
The Philippines	502,420.36	12,646.16	–	–
Malta	64,405,811.11	147,422,660.54	2,176,671.38	8,493,650.27
Sweden	69,411,337.02	57,549,657.23	-2,066,665.62	–
Denmark	365,057,250.88	302,900,040.28	8,314,223.15	1,799,266.32
USA	533,638.58	12,748,434.37	30,632.37	-2,429,527.89
Hong Kong	223,365,867.93	231,768,168.20	751,725.15	-6,636,441.60
Subtotal	723,276,325.88	752,956,987.74	9,206,586.43	1,387,488.63
China	457,308,914.42	409,679,929.79	24,615,422.20	-10,597,616.59
Total	<u>1,180,674,782.35</u>	<u>1,162,636,917.53</u>	<u>33,822,008.63</u>	<u>-9,210,127.96</u>

The sales of the top five seller for the Company amounted to RMB849.33 million representing 71.94% of the total sales.

24. Principal operating income, cost of sales and gross profit

Item	Operating income		Operating cost		Gross profit	
	This period	The same period of last year	This period	The same period of last year	This period	The same period of last year
Shipbuilding products	876,968,914.94	852,169,684.76	857,352,553.36	887,532,219.83	19,616,361.58	-35,362,535.07
Container	221,605,117.11	230,647,416.17	222,677,512.45	221,730,400.76	-1,072,395.34	8,917,015.41
Steel structure	39,175,803.05	23,978,065.20	35,885,034.78	18,965,243.10	3,290,768.27	5,012,822.10
Terrestrial machinery	39,568,390.84	49,735,002.46	29,823,587.31	38,148,500.74	9,744,803.53	11,586,501.72
Shiprepairing products	3,356,556.41	6,106,748.94	1,114,858.2	5,470,681.06	2,242,470.59	636,067.88
Total	<u>1,180,674,782.35</u>	<u>1,162,636,917.53</u>	<u>1,146,852,773.72</u>	<u>1,171,847,045.49</u>	<u>33,822,008.63</u>	<u>-9,210,127.96</u>

The above table shows, principal operating income was increased by 1.55% compared with that of the same period of last year. From the operating income structure, it is reflected that shipbuilding, which representing 74% of the total income of the Company, still is the main economic support of the Company, and is the main factor of benefit increase of the whole company.

The next is container, which representing 19% of the total income of the Company, its sales amount and gross profit were decreased due to the adverse effects such as high raw material price and SARS, and its income proportion in the total income was decreased 1.08% compared with that of the same period of last year.

In this period Steel structure business was increased, its income proportion in the total income was decreased from 2.06% of last period to 3.31%. The incomes from other principal operating were decreased compared with last period.

From the gross profit structure, the total gross profit of this period was increased by RMB42.62 million mainly due to the profitability increase of shipbuilding products and keeps the stable progress in the total profitability of the Company. But the profitability of container, steel structure and terrestrial machinery was decreased mainly due to the limitation by market environment and workplace.

25. Principal operating tax and additional tax

Category	First half of 2003	First half of 2002
Sales tax	784,355.83	1,125,982.67
City construction tax	2,589,263.06	115,080.20
Education additional tax	1,109,655.78	102,882.54
Total	4,483,274.67	1,343,945.41

Principal operating tax and additional tax was increased by 233.59% compared with that of last period, mainly due to the increase of turnover.

26. Financial expenses

Category	First half of 2003	First half of 2002
Interest expense	22,820,352.84	22,377,529.73
Less: interest income	2,881,112.54	3,286,866.92
Exchange loss	503,912.19	69,275.78
Less: Exchange income	-	-
Others	1,699,509.51	1,126,194.77
Total	22,142,662.00	20,286,133.36

27. Operation and management expenses

Item	First half of 2003	First half of 2002
1. Operation expenses	4,130,173.39	1,679,785.41
2. Management expenses	54,199,065.52	88,240,604.78

Management expenses was decreased 38.58% compared with that of last period, that mainly due to the additional provision for loss for Ro/Pax vessel. Except that, the management expenses keep balance as last period.

28. Profit from other operations

Category	Principal income		Operating cost		Operating gross profit	
	This period	The same period of last year	This period	The same period of last year	This period	The same period of last year
Sales of raw materials	7,780,557.35	4,596,060.36	6,684,909.57	4,699,210.91	1,095,647.78	-103,150.55
Sales of scrap materials	10,617,089.06	7,064,572.33	8,250,098.38	5,170,676.99	2,366,990.68	1,893,895.34
Transportation services	2,652.00	48,712.00	-	24,854.93	2,652.00	23,857.07
Others	5,973,810.92	8,109,436.61	3,880,109.00	3,556,782.31	2,093,701.92	4,552,654.30
Total	24,374,109.33	19,818,781.30	18,815,116.95	13,451,525.14	5,558,992.38	6,367,256.16

29. Investment income

Item	Bonds investment	Equity investments		Total income
		At equity	At cost	
Short-term investments	-	-	-	
Long-term investments	-	169,320.44	-	169,320.44
Total	-	169,320.44	-	169,320.44

30. Subsidy income

Item	This period	Last period
Subsidy for cross ocean liners	54,739,067.70	45,156,456.65
Others	1,277,761.37	1,500,000.00
Total	56,016,829.07	46,656,456.65

The main source of subsidy income in the period is:

The 18000dwt half submarine vessel and 40000dwt product tanker built for domestic customers are eligible for special financial subsidy at 17% on contracted price excluding tax in accordance with relevant regulations of State Finance Ministry and State Taxation Bureau. Other subsidy incomes refer to the refund of value-added tax for the development of new product approved by the State.

31. Non-operating income and expenses

(1) Non-operating income

Category	First half of 2003	First half of 2002
Gain on disposal of fixed assets	625,591.78	19,466.63
Penalty received	4,500.00	7,445.00
Income of fixed assets	–	–
Compensation	–	25,238.20
Others	241,955.12	169,157.41
Total	872,046.90	221,307.24

(2) Non-operating expenses

Category	First half of 2003	First half of 2002
Loss on disposal of fixed assets	1,021,767.50	330,231.58
Penalty expenses	40,519.07	34,524.03
Loss on fixed assets	–	–
Compensation	3,593.15	50,168.80
Others	27,779.70	39,784.43
Total	1,093,659.42	454,708.84

Non-operating income and expenses increase by 140.52% compared with that of last period, that mainly due to obsolescence of part assets.

32. Other main expenses related to business

Item	Amount
Management expenses	18,702,781.32
Operation expenses	1,790,208.99
Manufacture expenses	292,066,574.41
Total	312,559,564.72

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

(1) Accounts receivable

Age bond	Closing Balance			Opening Balance		
	Amount	Proportion	Provision for Doubtful debts	Amount	Proportion	Provision for doubtful debts
Within 1 year	202,947,249.70	82.09%	2,547,697.75	370,303,666.35	82.42%	1,788,600.24
1–2 years	-11,569,644.46	-4.68%	22,473.48	4,133,353.92	0.92%	22,473.48
2–3 years	419,282.00	0.17%	–	10,543,277.04	2.35%	72,928.93
Over 3 years	55,435,987.53	22.42%	518,114.2	64,301,739.97	14.31%	1,204,282.60
Total	247,232,874.77	100%	3,088,285.25	449,282,037.28	100%	3,088,285.25

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

(2) Other accounts receivable

Age bond	Closing Balance			Opening Balance		
	Amount	Proportion	Provision for Doubtful debts	Amount	Proportion	Provision for doubtful debts
Within 1 year	127,958,951.82	21.72%	644,726.45	209,460,939.90	31.33%	620,961.56
1–2 years	6,454,292.06	1.10%	32,271.46	4,125,594.34	0.62%	409,805.43
2–3 years	409,597.20	0.07%	2,047.99	422,735.04	0.06%	2,113.67
Over 3 years	454,391,554.17	77.12%	377,238,421.83	454,639,238.62	67.99%	377,275,720.19
Total	589,214,395.25	100%	377,917,467.73	668,648,507.90	100%	378,308,600.85

(3) Long-term Investments

Item	Closing Balance		Addition in the period	Disposal in the period	Opening Balance	
	Amount	Provision for diminution in value			Amount	Provision for diminution in value
Long-term equity Investments	204,732,399.40	–	1,521,000	9,313,750.85	196,218,648.55	–
Long-term debt Investments	–	–	–	–	–	–
Total	204,732,399.40	–	1,521,000	9,313,750.85	196,218,648.55	–

Long-term equity investments—other equity investments

Name of investees	Total investment	Percentage holding of investees' capital	Closing Balance	Change in the period	Accumulated change
Kwangchow Shipyard Container Factory	56,155,800.59	100%	48,851,911.84	-7,043,995.63	—
Masterwood Company Limited	2,486,385.00	75%	3,587,237.14	-243,972.65	1,100,852.14
Guangzhou Guanglian Container Transportation Company Limited	15,000,000.00	75%	15,444,549.54	150,505.43	444,549.54
Xinhui City Nanyang Shipping Industrial Company	25,200,000.00	70%	19,836,434.41	-892,547.42	-5,363,565.59
Guangzhou Haizhu District Guanghua Machinery Factory	934,700.00	65%	471,045.45	—	-463,654.55
Guangzhou Sanlong Industrial Trading Develop Company Limited	1,005,000.00	67%	107,118.62	-30,011.46	-897,881.38
Guangzhou Xinsun Shipping Service Company Limited	500,000.00	83%	12,316,860.44	585,884.77	11,816,860.44
United Steel Structures Limited	25,438,698.00	51%	38,667,201.36	-416,696.34	13,228,503.36
Guangdong GSI Elevator Limited	19,950,000.00	95%	20,597,489.19	-41,406.00	647,489.19
Guangzhou Hongfan Information Technique Co., Ltd	4,500,000.00	90%	3,654,231.75	-558,217.45	-845,768.25
Henghe Construction Company	20,880,000.00	75.9%	18,685,347.34	-122,704.97	-2,194,652.66
South china / Maring and Industrial Special Coating Limited	1,722,003.00	25%	2,910,221.47	20,491.13	1,188,218.47
Zhanjiang Nanhai Naval ships high and new Technology Service Co. Ltd.	800,000.00	40.00%	800,000.00	800,000.00	—
Shenzhen Yuanzhou Science & Technology Industry Company Limited	1,000,000.00	7%	1,000,000.00	—	—
China Merchants Banking Corporation	10,010,000.00	0%	10,010,000.00	—	—
Total	185,582,586.59	—	196,939,648.55	-7,792,670.59	18,660,950.71

(4) Investment income

Items	Bonds investment income	Equity investment income		Total income
		At equity	At cost	
Short-term Investments	—	—	—	—
Long-term Investments	—	-8,688,884.41	—	-8,688,884.41
Total	—	-8,688,884.41	—	-8,688,884.41

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

Products category	Operating income		Operating cost		Gross profit	
	First half of 2003	First half of 2002	First half of 2003	First half of 2002	First half of 2003	First half of 2002
Shipbuilding products	876,968,914.94	852,169,684.76	857,352,553.36	887,532,219.83	19,616,361.58	-35,362,535.07
Steel structure	10,900,326.09	3,555,201.11	10,794,533.75	2,522,684.03	105,792.34	1,032,517.08
Terrestrial machinery	12,366,261.32	23,296,388.05	8,841,120.65	20,200,468.45	3,525,140.67	3,095,919.60
Ship-repairing products	3,356,556.41	6,106,748.94	1,114,085.82	5,470,681.06	2,242,470.59	636,067.88
Total	903,592,058.76	885,128,022.86	878,102,293.58	915,726,053.37	25,489,765.18	-30,598,030.51

Refer to the notes to the item in consolidation statements.

(VI) Connected party and transactions**Connected parties under the control of the Company**

Name	Registered address	Principal Business	Relationship with the Company	Nature of the enterprise	Legal representative
CSSC	N0.1 Pudong Main Road, Shanghai	Ship manufacturing and sales	State shareholder	Company with limited liability	Chen Xiaojin
Kwangchow Shipyard Container Factory	No. 118 Gexin Road, Gaungzhou	Container manufacturing	Subsidiary	Joint stock	Yin Xueming
Guangzhou Xinsun Shipping Service Company Limited	40 Fangchun Main Road Guangzhou	Installation, welding, outfitting, coating, repair of hull structure	Subsidiary	Company with limited liability	Dai Zhengting
Masterwood Company Limited	40 Fangchun Main Road Guangzhou	Manufacture furniture	Subsidiary	Sino-foreign Joint venture	Zhang Liangjing
Guangzhou Guanglian Container Transportation Company Limited	No. 118 Gexin Road, Gaungzhou	Container transportation	Subsidiary	Sino-foreign Joint venture	Zhong Yuquan
Xinhui City Nanyang Shipping Industrial Company	Gujin Town, Xinhui City, Guangdong	Ship dismantling	Subsidiary	Cooperative company	Li yizhen
Guangzhou Sanlong Industrial Trading Develop Company Limited	No. 126 Gexin Road, Gaungzhou	Municipal construction engineering	Subsidiary	Company with limited liability	Xia Suijia
United Steel Structures Limited	40 Fangchun Main Road Guangzhou	steel structure business	Subsidiary	Sino-foreign joint venture	Ye Peihua
Guangdong GSI Elevator Limited	No. 118 Gexin Road, Gaungzhou	manufacturing elevator	Subsidiary	Company with limited liability	Ye Peihua
Guangzhou Hongfan Information Technique Co., Ltd	40 Fangchun Main Road Guangzhou	Development of computer software, system integration and sales	Subsidiary	Cooperative company	Wang Yi
Guangzhou Henghe Construction Co., Ltd	40 Fangchun Main Road Guangzhou	Design, manufacture and installation of building steel structure	Subsidiary	Cooperative company	Chen Ji

The registered capital of connected parties under the control of the Company and their changes

Name	Opening Balance RMB	Additions in the period RMB	Disposal in the period RMB	Closing Balance RMB
CSSC	6,374,300,000	-	-	6,374,300,000
Kwangchow Shipyard Container Factory	44,924,640	-	-	44,924,640
Guangzhou Xinsun Shipping Service Company Limited	600,000	-	-	600,000
Masterwood Company Limited	3,315,180	-	-	3,315,180
Guangzhou Guanglian container Transportation Company Limited	20,000,000	-	-	20,000,000
Xinhui City Nanyang Shipping Industrial Company	34,800,000	-	-	34,800,000
Guangzhou Sanlong Industrial Trading Develop Company Limited	1,500,000	-	-	1,500,000
United Steel Structures Limited	73,572,705	-	-	73,572,705
Guangdong GSI Elevator Limited	21,000,000	-	-	21,000,000
Guangzhou Hongfan Information Technique Co., Ltd	5,000,000	-	-	5,000,000
Guangzhou Hehe Construction Co., Ltd.	27,500,000	-	-	27,500,000

The equity interests in connected parties under the control of the Company and their changes.

Name	Opening Balance		Additions in The period RMB	Disposal in the period RMB	Closing Balance	
	RMB	%			RMB	%
CSSC	210,800,080	42.61	–	–	210,800,080	42.61
Kwangchow Shipyard Container Factory	44,925,000	100	–	–	44,925,000	100
Guangzhou Xinsun Shipping Service Company Limited	498,000	83	–	–	498,000	83
Masterwood Company Limited	2,486,000	75	–	–	2,486,000	75
Guangzhou Guanglian Container Transportation Company Limited	15,000,000	75	–	–	15,000,000	75
Xinhui City Nanyang Shipping Industrial Company	25,200,000	70	–	–	25,200,000	70
Guangzhou Sanlong Industrial Trading Develop Company Limited	1,005,000	67	–	–	1,005,000	67
United Steel Structure Limited	37,522,079.55	51	–	–	37,522,079.55	51
Guangdong GIS Elevator Limited	19,950,000	95	–	–	19,950,000	95
Guangzhou Hongfan Information Technique Co.Ltd.	4,500,000	90	–	–	4,500,000	90
Guangzhou Henghe Construction Co., Ltd	18,470,471.74	75.9	–	–	18,470,471.74	75.9

The connected transactions under the control of the Company had been counteracted in the Report.

Besides, CSSC, the holding company of the Company, supplied guarantee for a long-term loan that amounts to 100 million and a short-term loan amounts to 50 million applied to CSSC Finance Co., Ltd., a connected party of the Company. The company should pay commission which equal to 2‰-3‰ of the loans in accordance with the agreement signed by both sides.

(4) The condition of the connected parties uncontrolled by the Company

① The connected parties uncontrolled by the Company

The connected transactions made between the Group and the associated enterprises under CSSC or associated enterprises under the Group during the year had been carried out in the ordinary course of business of the relevant companies and on normal commercial terms, and had been entered into in accordance with the terms of the agreement covering such transactions or (where there is no such agreement) on terms no less favorable than terms available to third parties. The Group did not receive any extraordinary benefit or suffer any extraordinary loss from such transactions, which are fair and reasonable as far as the shareholders are concerned.

Apart from the transactions listed below, CSTC, a connected party of the company supplied guarantee for four bank loans which total amounts to 480 million, and the Company should pay commission which equal to 2‰-3‰ of the loans in accordance with the agreement.

Affiliated company	
South China Marine & Industrial Special Coating Company Limited	
Companies under control of China State Shipbuilding Corporation	
Shanghai Shipyard	Guangzhou Shipyard
Guangzhou Wenchong Shipyard	Huanan Marine Mechanic and Electric Department
Guangzhou Huangpu Shipyard	Hudong Heavy Engineering Company Limited
Jiangnan Shipbuilding Company Limited	No. 9 Design Institution of CSSC
Shanghai Waigaoqiao Shipbuilding Company	Zhenjiang Marine Diesel Factory
Nanjing Liuzhou Machinery Factory	Zhenjiang Marine Auxiliary Machine Factory
Zhengmao Group Company Limited	Zhenjiang Marine Propeller Factory
Jiangxi Chaoyang Machine Factory	China Shipping Trading Corporation
Guangzhou Administrative Bureau	China State Shipbuilding Corporation
Hudong Zhonghua Shipyard (Group Limited Company)	Guangzhou Shipyard Guangda Company (a subsidiary of Guangzhou Shipyard)
Jiujiang Marine Mechanical Factory	Guangxi Guijiang Shipyard
Jiangxi Marine Valve Plant	Jiangxi Chaoyang Machine Factory

② **Selling Materials**

Name of Company	First half of 2003	First half of 2002
Affiliated company		
South China Marine & Industrial Special Coating Company Limited	18,051.01	604,656.11
Companies under control of China State Shipbuilding Corporation		
Guangzhou Wenchong Shipyard	3,735,295.71	202,767.67
Guangzhou Huangpu Shipyard	551,697.41	240,156.63
Guangzhou Shipyard	512,315.07	50,566.81
Guangzhou Shipyard Guangda Company	593,030.77	–
China Shiping Trading Corporation	244,444.44	–
Subtotal	5,636,783.40	1,098,147.22

③ **Purchasing Materials**

The information of the Company purchasing materials from connected parties in first half of 2003 and in first half of 2002 (unit: RMB)

Companies under control of China State Shipbuilding Corporation	First half of 2003	First half of 2002
Guangzhou Wenchong Shipyard	493,587.00	355,479.81
Guangzhou Huangpu Shipyard	2,376,768.98	2,795,742.43
Nanjing Liuzhou Machinery Factory	8,498,512.82	828,300.00
Zhengmao Group Company Limited	1,532,750.00	1,003,000.00
Jiangxi Jiujiang Marine Machine Factory	2,789,671.00	2,346,775.00
Guangzhou Shipyard	2,823,772.10	8,462,159.89
Huanan Marine Factory	4,306,000.00	3,429,000.00
Hudong Heavy Engineering Company Limited	43,616,799.85	15,380,000.00
Zhenjiang Marine Diesel Factory	21,348,857.30	3,432,478.15
Zhenjiang Marine Auxiliary Machine Factory	2,408,000.00	2,536,000.00
Zhenjiang Marine Propeller Factory	300,000.00	729,122.00
China Shiping Trading Corporation	9,951,565.32	463,303.96
Jiangxi Marine Valve Plant	720,000.00	–
Jiangxi Chaoyang Machine Factory	1,400,671.84	–
Guangxi Guijiang Shipyard	107,000.00	–
China State Shipbuilding Corporation	798,160.00	3,314,514.70
Guangzhou Shipyard Guangda Company	24,544,390.51	–
South China Marine & Industrial Special Coating Company Limited	36,000.00	–
Guangzhou Shipyard	3,523,962.17	–
Total	131,576,468.89	450,758,875.94

④ **Account receivable and payable of connected parties (unit: RMB)**

Name of Company	Closing balance	Opening balance
1) Account receivable		
South China Marine & Industrial special Coating Company Limited	–	920,786.60
Guangzhou Administration Bureau	27,000.00	–
Total	27,000.00	920,786.60
2) Other receivable		
South China Marine & Industrial special Coating Company Limited	13,245.83	1,200,000.00
Guangzhou Wenchong Shipyard	1,133,922.79	798,978.49
Guangzhou Huangpu Shipyard	171,966.00	184,780.00
Guangzhou Shipyard	206,300.00	270,082.50
Hudong Heavy Machine Company Limited	–	592,172.81
Jiangnan Shipbuilding Company Limited	24,733.00	–
Total	1,550,167.62	3,046,013.80
3) Advanced payment		
South China Marine & Industrial special Coating Company Limited	–	780,000.00
Guangzhou Wenchong Shipyard	–	58,656.00
Jiujiang Marine Machine Factory	–	20,000.00
Huanan Marine Machine Factory	540,000.00	718,000.00
Hudong Heavy Machine Company Limited	1,120,000.00	19,130,544.40
Zhenjiang Marine diesel Factory	–	2,391,722.80
China Shipping Trading Corporation	4,620,000.00	6,474,864.78
China State Shipbuilding Corporation	–	4,620,000.00
Guangzhou Shipyard Guangda Company	5,600,934.96	5,000,000.00
Total	11,880,934.96	39,193,787.98

4) Account payable

Guangzhou Wenchong Shipyard	611,467.00	1,696,780.00
Guangzhou Huangpu Shipyard	466,900.00	866,208.93
Shanghai Shipyard	–	142,794.70
Nanjing Liuzhou Machinery Factory	771,900.00	35,300.00
Zhengmao Group Company Limited	650,650.00	93,000.00
Jiujiang Marine Machine Factory	788,618.96	1,622,072.96
Guangzhou Shipyard	1,213,537.96	2,534,283.43
Huanan Marine Machine Factory	1,940,000.00	3,215,000.00
Hudong Heavy Machine Company Limited	2,529,411.96	3,944,622.44
Zhenjiang Marine diesel Factory	3,789,135.30	4,787,655.44
Zhenjiang Marine Propeller Factory	–	315,122.00
No. 9 Design Institution of CSSC	96,000.00	96,000.00
Guangzhou Shipyard Guangda Company	7,329,481.54	14,189,009.90
China Shipping Trading Corporation	259,743.67	–
China State Shipbuilding Corporation	740,675.00	–
Total	21,187,521.39	33,537,850.19

5) Other payable

Guangzhou Shipyard	1,945,032.07	3,025,105.49
Guangzhou Shipyard Guangda Company	–	3,630,205.70
China State Shipbuilding Corporation	14,000.00	–

6) Bills payable

Guangzhou Shipyard	900,000.00	–
Guangzhou Shipyard Guangda Company	6,900,000.00	–
Zhenjiang Marine diesel Factory	6,700,000.00	–

(VII) Contingencies

As at 30th June 2003, the Company (the Group) had no significant contingent items.

(VIII) Commitments

As at 30th June 2003, the Company (the Group) had no significant commitments.

(IX) Events post period of balance sheet

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

(II) Prepared under accounting principles generally accepted in Hong Kong

1. Condensed consolidated profit and loss account

For the six months ended 30th June 2003

	Note	Unaudited	
		Six months ended 30th June	
		2003	2002
		RMB'000	RMB'000
Turnover		1,180,675	1,162,637
Construction costs		(857,353)	(887,532)
Cost of inventories sold and services rendered		(289,500)	(284,315)
Cost of sales		(1,146,853)	(1,171,847)
Gross profit/(loss)		33,822	(9,210)
Provision for foreseeable losses of construction contracts		–	(33,048)
Other revenues		61,735	56,535
Distribution, administrative and other operating expenses		(62,489)	(61,094)
Operating profit/(loss)	(4)	33,068	(46,817)
Write back of provision for non-recovery on principals due from non-banking financial institutions		–	2,267
Finance costs		(22,703)	(22,865)
Share of profits less losses of associated companies		70	354
Profit/(loss) before taxation		10,435	(67,061)
Taxation	(5)	(909)	(691)
Profit/(loss) after taxation		9,526	(67,752)
Minority interests		501	(222)
Profit/(loss) attributable to shareholders		10,027	(67,974)
Earnings/(loss) per share	(6)	RMB0.0203	(RMB0.1374)

2. Condensed consolidated balance sheet
As at 30th June 2003 and 31st December 2002

	Note	Unaudited 30th June 2003 RMB'000	Audited 31st December 2002 RMB'000
Non-current assets			
Fixed assets	(7)	1,009,580	997,724
Construction-in-progress	(7)	67,419	112,131
Interests in associated companies		3,710	2,890
Investment securities		12,010	12,010
Long-term receivables		9,578	27,524
		1,102,297	1,152,279
Current assets			
Inventories		506,547	350,971
Due from customers on construction contracts		393,330	654,956
Trade receivables	(8)	416,646	585,369
Other receivables, prepayments and deposits		382,075	515,517
Tax recoverable		149,227	108,725
Bank balances and cash		278,644	284,849
		2,126,469	2,500,387
Current liabilities			
Trade payables	(9)	413,213	473,826
Notes payable		221,192	176,987
Due to customers on construction contracts		435,120	438,443
Other payables and accruals		182,445	322,461
Current portion of long-term bank loans	(10)	400,000	610,700
Taxation payable		6,483	5,065
Provision for warranty	(11)	29,458	23,695
Dividends payable		13	13
Short-term bank loans	(12)	636,551	680,752
		2,324,475	2,731,942
Net current liabilities		(198,006)	(231,555)
Total assets less current liabilities		904,291	920,724
Financed by:			
Share capital		494,678	494,678
Reserves		148,363	138,336
Shareholders' funds		643,041	633,014
Minority interests		60,287	60,788
Non-current liabilities			
Long-term bank loans	(10)	180,398	200,940
Retirement and other post retirement obligations		14,793	17,976
Deferred income		5,772	8,006
		200,963	226,922
		904,291	920,724

3. Condensed consolidated statement of changes in equity
For the six months ended 30th June 2003

	Unaudited						Total RMB'000
	Surplus reserves						
	Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Accumulated losses RMB'000	
At 1st January 2003	494,678	651,977	48,997	30,692	20,459	(613,789)	633,014
Profit for the period	–	–	–	–	–	10,027	10,027
At 30th June 2003	<u>494,678</u>	<u>651,977</u>	<u>48,997</u>	<u>30,692</u>	<u>20,459</u>	<u>(603,762)</u>	<u>643,041</u>

	Unaudited						Total RMB'000
	Surplus reserves						
	Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Accumulated losses RMB'000	
At 1st January 2002	494,678	651,977	48,997	31,470	19,681	(628,809)	617,994
Loss for the period	–	–	–	–	–	(67,974)	(67,974)
At 30th June 2002	<u>494,678</u>	<u>651,977</u>	<u>48,997</u>	<u>31,470</u>	<u>19,681</u>	<u>(696,783)</u>	<u>550,020</u>

4. Condensed consolidated cash flow statement
For the six months ended 30th June 2003

	Unaudited	
	Six months ended 30th June	
	2003 RMB'000	2002 RMB'000
Net cash inflow from/(used in) operating activities	<u>290,971</u>	(260,554)
Net cash used in investing activities	<u>(21,733)</u>	(38,471)
Net cash (used in)/inflow from financing activities	<u>(275,443)</u>	170,207
Decrease in cash and cash equivalents	<u>(6,205)</u>	(128,818)
Cash and cash equivalents at 1st January	<u>284,849</u>	272,714
Cash and cash equivalents at 30th June	<u>278,644</u>	<u>143,896</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<u>278,644</u>	143,896

5. Notes to interim financial statements

(1) Independent review

The interim results for the six months ended 30th June 2003 are unaudited, but have been reviewed in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (“HKSA”), by PricewaterhouseCoopers.

(2) Basis of preparation and accounting policies

These unaudited condensed consolidated financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim financial reporting”, issued by the HKSA.

These condensed financial statements should be read in conjunction with the 2002 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31st December 2002 except that the Group has changed certain of its accounting policies following its adoption of SSAP 35 “Government Grants and Disclosure of Government Assistance” and SSAP 12 “Income Taxes” issued by the HKSA which are effective for accounting periods commencing on or after 1st July 2002 and 1st January 2003, respectively.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out below:

(a) Government grants

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

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

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

The adoption of SSAP 35 has no material effect on the Group's financial statements in prior years.

(b) Deferred taxation

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

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

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

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

The adoption of SSAP 12 has no material effect on the Group's financial statements in prior years.

(3) Segment information

The Group is principally engaged in four main business segments in the People's Republic of China (the "PRC"):

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

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

An analysis of the Group's turnover and results for the period by business segments is as follows:

6 months ended 30th June 2003							
	Steel structure						
	Shipbuilding	Ship-repairing	Container manufacturing	and other manufacturing	Other operations	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	876,969	3,361	221,605	80,204	66,552	(68,016)	1,180,675
Segment results	72,077	2,242	(1,072)	4,103	18,254	(7,644)	87,960
Unallocated revenue							2,434
Unallocated costs							(57,326)
Operating profit							33,068
Finance costs							(22,703)
Share of profits less losses of associated companies					70		70
Profit before taxation							10,435
Taxation							(909)
Minority interests							501
Profit attributable to shareholders							10,027
6 months ended 30th June 2002							
	Steel structure						
	Shipbuilding	Ship-repairing	Container manufacturing	and other manufacturing	Other operations	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	852,170	6,107	230,647	41,191	54,951	(22,429)	1,162,637
Segment results	(20,811)	518	9,120	10,826	20,731	(11,246)	9,138
Unallocated revenue							3,510
Unallocated costs							(59,465)
Operating loss							(46,817)
Write back of provision for non-recovery on principals due from non-banking financial institutions							2,267
Finance costs							(22,865)
Share of profits less losses of associated companies					354		354
Loss before taxation							(67,061)
Taxation							(691)
Minority interests							(222)
Loss attributable to shareholders							(67,974)

(4) Operating profit / (loss)

The operating profit / (loss) is stated after crediting and charging the following:

	6 months ended 30th June	
	2003	2002
	RMB'000	RMB'000
<u>Crediting</u>		
Government grants received related to income	56,017	48,213
<u>Charging</u>		
Depreciation and amortisation of fixed assets	43,107	42,340
Less: Amounts capitalised as inventories	(14,739)	(17,469)
	28,368	24,871
Staff costs	109,022	111,405
Loss on disposal of fixed assets	405	1,296

(5) Taxation

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	6 months ended 30th June	
	2003	2002
	RMB'000	RMB'000
PRC enterprise income tax	859	620
Share of taxation attributable to associated companies	50	71
	909	691

As approved by the State Administration of Taxation, the Company's PRC enterprise income tax is calculated at 15% (2002: 15%) on the estimated assessable profit for the current period. The normal PRC enterprise income tax rate is 33%. PRC enterprise income tax of subsidiaries and associated companies is charged on their respective assessable profits at applicable tax rates.

(6) Earnings/(loss) per share

Profit of RMB0.0203 (2002: loss of RMB0.1374) per ordinary share of RMB1 each is calculated on the Group's profit attributable to shareholders of RMB10,027,000 (2002: loss of RMB67,974,000) and on the weighted average number of 494,677,580 (2002: 494,677,580) ordinary shares in issue during the period.

(7) Capital expenditure

	Construction- in-progress RMB'000	Fixed assets RMB'000	Total RMB'000
Opening net book amount at 1st January 2003	112,131	997,724	1,109,855
Additions	24,118	2,137	26,255
Transfers	(68,830)	54,468	(14,362)
Disposals	–	(1,642)	(1,642)
Depreciation/amortisation charge (Note(4))	–	(43,107)	(43,107)
Closing net book amount at 30th June 2003	67,419	1,009,580	1,076,999

(8) Trade receivables

At 30th June 2003, the ageing analysis of trade receivables net of provision was as follows:

	30th June 2003 RMB'000	31st December 2002 RMB'000
Not exceeding one year	300,411	472,362
More than one year but not exceeding two years	69,508	65,156
More than two years but not exceeding three years	1,653	11,960
More than three years	45,074	35,891
	416,646	585,369

The general credit terms of trade receivables are:

Operations

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

Credit terms

Within one month after issue of invoice
 Normally one to six months

(9) Trade payables

At 30th June 2003, the ageing analysis of trade payables was as follows:

	30th June 2003 RMB'000	31st December 2002 RMB'000
Not exceeding one year	394,787	456,549
More than one year but not exceeding two years	18,161	15,179
More than two years but not exceeding three years	183	2,045
More than three years	82	53
	413,213	473,826

(10) Long-term bank loans

	30th June 2003 RMB'000	31st December 2002 RMB'000
Bank loans		
Unsecured	580,398	756,940
Secured	–	54,700
	580,398	811,640
Current portion of long-term bank loans	(400,000)	(610,700)
	180,398	200,940

At 30th June 2003, the Group's bank loans were repayable as follows:

	30th June 2003 RMB'000	31st December 2002 RMB'000
Within one year	400,000	610,700
In the second year	180,398	200,940
	580,398	811,640

Included in unsecured bank loans were loans of RMB100,000,000 (31st December 2002: Nil) and RMB480,000,000 (31st December 2002: RMB700,000,000) guaranteed by China State Shipbuilding Corporation ("CSSC"), the Company's major shareholder, and a company controlled by CSSC respectively.

(11) Provision for warranty

Movement of provision for warranty is as follows:

	RMB'000
At 1st January 2003	23,695
Additional provisions	10,579
Write back of expired warranty provision	(2,018)
Utilised during the period	(2,798)
At 30th June 2003	29,458

The Group gives a one-year warranty on shipbuilding and crane machine products and undertakes to repair or replace items that fail to perform satisfactorily. The provision of RMB29,458,000 at 30th June 2003 (31st December 2002: RMB23,695,000) was in respect of completed shipbuilding and crane machine products for expected warranty claims based on past experience of the level of repairs.

(12) Short-term bank loans

	30th June 2003 RMB'000	31st December 2002 RMB'000
Bank loans		
Unsecured	366,571	411,091
Secured	269,980	269,661
	636,551	680,752

Included in unsecured bank loans was a loan of RMB50,000,000 (31st December 2002: RMB30,000,000) guaranteed by CSSC.

(13) Capital commitments for fixed assets

	Contracted but not provided for		Authorised by directors but not contracted for	
	30th June 2003 RMB'000	31st December 2002 RMB'000	30th June 2003 RMB'000	31st December 2002 RMB'000
Purchase of machinery and equipment	3,383	7,519	3,730	2,055
Purchase or construction of factories and buildings	6,400	38,049	400	1,431
	9,783	45,568	4,130	3,486

(14) Related party transactions

Significant related party transactions, which were carried out in the ordinary course of the Group's business are as follows:

	Note	6 months ended 30th June	
		2003 RMB'000	2002 RMB'000
Companies controlled by CSSC			
Purchase of raw materials		35,418	8,108
Purchase of equipment for shipbuilding		83,152	25,605
Other expenses	(a)	7,352	10,265

- (a) Pursuant to the comprehensive service agreement dated 19th April 2001 and supplementary agreement dated 22nd April 2003 entered between the Company and Guangzhou Shipyard ("GZS"), a subsidiary of CSSC, the Group incurred service fees amounted to RMB7,352,000 (2002: RMB10,265,000) for its provision of staff welfare services (including the provision of staff quarters and other benefits) to GZS. The service fees for the six months ended 30th June 2003 did not include welfare to key management personnel (2002: RMB13,151). The comprehensive service agreement and supplementary agreement shall expire at the end of 2003.

The above related party transactions were carried out in the ordinary course of business of the relevant companies and in normal commercial terms.

(III) Reconciliation of results and net assets between financial statements prepared in accordance with PRC accounting standards and systems and accounting principles generally accepted in Hong Kong ("HKGAAP") are as follows:

	Profit/(loss) after taxation and minority interests 6 months ended 30th June		Net assets at	
	2003 RMB'000	2002 RMB'000	30th June 2003 RMB'000	31st December 2002 RMB'000
Prepared under PRC accounting standards and systems	10,027	(67,974)	643,565	633,538
Deficit on revaluation of investment properties	-	-	(788)	(788)
Realised gain on minority interest portion from inter-company transactions	-	-	502	502
Profit and loss items directly recorded in accumulated losses brought forward	-	-	(238)	(238)
Prepared under HKGAAP	10,027	(67,974)	643,041	633,014