

E. Report of the Board of Directors

The Board of Directors has the pleasure to present the report and audited financial statements for the year ended 31st December 2000 to the shareholders.

Conditions of Principal Operations

Results

The financial statements for the year ended 31st December 2000, prepared under the PRC accounting standards, revealed that the principal operating income of the Company and its subsidiaries (collectively “the Group”) was RMB2,222,270,000 which was almost the same as last year (the principal operating income of 1999 was RMB 2,281,357,000). The audited consolidated net loss after taxation and minority interests for the year was RMB725,869,600, representing a profit decrease of 66.03% when compared with last year. The loss per share for the year was RMB1.47. The financial statements prepared under the Hong Kong generally accepted accounting principles revealed that turnover of the Group for the year was RMB2,222,270,000 which was almost the same as last year (the turnover of 1999 was RMB 2,281,357,000). The audited loss for shareholders after taxation and minority interests for the year were RMB7,290,420,000, representing a profit decrease of 76,159.62% compared with last year. The loss per share for the year was RMB1.4731.

The loss of the Group in year 2000 was mainly due to additional provision for non-recovery of RMB350,433,000 trust deposits principals due from non-banking financial institutions, and provision for foreseeable losses of RMB326,432,000 in relation to two types of shipbuilding products, and provision for foreseeable losses of RMB45,470,000 in China Railroad containers.

Principal Operations

Shipbuilding

During 2000, the shipbuilding business of the Group continued its development in high-tech and new type shipbuilding products. In the year, eight ships were completed and delivered. The 188,000dwt total tonnage of completed ship ranked the fifth position in the China Shipbuilding Industry (note). The completed vessels included two 35,000dwt product oil tankers for a Danish customer, one 5700dwt RO/RO ship for a Dutch customer, one 21,000dwt multipurpose ship for a Iranian customer, and three 28,000dwt multipurpose ships, and a tone 4000dwt auxiliary ship for domestic customers. Additionally, the Group commenced construction work on seven ships and had six launched, including one RO/RO ship of 1600m lane for a Sweden customer, 38,000dwt product oil tanker for a Malta customer, and 40,000dwt crude oil/product oil tanker, 18,000dwt semi-submarine vessel for domestic customers. The turnover attributable to shipbuilding business was RMB1,490,201,000 which was almost the same as last year. owing to the effects of relatively low market price and high development costs for new type vessels, the gross profit before taxation of the shipbuilding business of the Group was RMB52,623,400, representing a decrease of 80% compared with last year. The turnover of shipbuilding represented about 67.06% of the Group’s total turnover for the year. In 2000, the Group secured new orders of eight vessels, of which the total tonnage is 253,000dwt, including one 38,000dwt product oil tanker for a Malta customer, four 35,000dwt product oil tankers for a Danish customer and four 40,000dwt crude oil/product oil tankers, two 18,000dwt semi-submarine vessels for domestic customers, with total contract value of RMB1,746,000,000. As at 31st December, 2000, the Group had secured orders of 24 vessels with a total tonnage of 811,300 dwt and total contract value of RMB3,978,000,000.

Note: The information was provided by the Secretariat of Shipbuilding Industry Society.

Container Manufacture

In 2000, having taken advantage of the retrieved container market and through efforts in market development, strengthening of internal management and exploiting the production potential, the Group continued to achieve a sizeable growth in production and sales. During the year, various types of containers with a total of 57,778 TEU were manufactured and 50,776 TEU were sold, representing an increase of 39.25% and 16.71% respectively. Moreover this represented a new record of the Group's annual container output. The turnover of the container business of the year was RMB520,549,000, representing an increase of 18.36%, with gross profit before taxation of RMB32,297,600, representing a slight increase when compared with the last year. The turnover of the container business of the year represents about 23.42% of the Group's total turnover.

Shiprepairing

In 2000, the shiprepairing business of the Group has improved through the reorganization of shiprepairing department, as well as extensive division and hence securing orders of high-tech and complicated shiprepairing projects. During the year, 38 vessels of various types were repaired. The turnover of the shiprepairing business was RMB21,064,000, with gross profit before taxation of RMB2,086,000, representing an increase of 112.57% and 61.83% respectively. The turnover of the shiprepairing business of the year represents about 0.95% of the Group's total turnover.

Steel Structure

In 2000, the substantial reduction of the steel structure business of the Group and the operating loss was due to market competition and internal management problems. The turnover of the steel structure business of the year was RMB76,901,600 with gross loss before taxation of RMB15,000. The turnover of the steel structure business of the year represents about 3.46% of the Group's total turnover.

Terrestrial Machinery and others

The terrestrial machinery was affected by market recession in the first half of 2000, but the market condition has improved in the second half of 2000. The production and sales of hydraulic press machines, elevators and so on increased in the second half of the year. The turnover of the terrestrial machinery business of the year was RMB105,686,000, with gross profit before taxation of RMB22,444,000, representing a decrease of 10.04% and an increase of 38.87% respectively. The turnover of the terrestrial machinery business of the year represents about 4.75% of the Group's total turnover.

Products of Glass Fabric Reinforced Products

In 2000, the glass fabric reinforced products business increased slightly compared with last year. The turnover of the glass fabric reinforced products business was RMB7,868,000, with gross profit before taxation of RMB1,736,000. However, given its small size and negligible profit, Group management decided to discontinue this business.

Turnover categorized by geographical locations

The countries/regions in which the Group realized over 10% of its annual consolidated turnover are listed as follows:

Year ended 31st December

	2000	1999
Countries/Regions	Percentage(%)	Percentage(%)
Iran	2.92%	13.06%
Denmark	35.79%	45.46%
U.S.A	8.10%	6.10%
China	33.32%	22.77%
Sweden	2.25%	-
Netherlands	10.09%	-
Others	7.53%	-

Export Turnover

The Group's turnover attributable to exports either directly or through trading agencies during the year amounted to USD178,994,900, while exports in 1999 amounted to USD212,809,400.

Major Customers and Suppliers

The turnover derived out of the diversified operations from the Group's five largest customers in 2000 accounted for 72.02% of the turnover of the Group in 2000. The largest customer accounted for 35.79% of the turnover of the Group in 2000.

The costs of purchasing raw materials out of the diversified operations from the Group's five largest suppliers in 2000 accounted for 35.11% of the aggregate purchasing costs of the Group in 2000. The largest customer accounted for 9.85% of the turnover of the Group in 2000.

None of the directors, supervisors and their respective associates had any interests in the customers and suppliers mentioned above, nor had any shareholder of the Company disclosed to the Company that he or she had any interests in the above mentioned customers and suppliers.

Major Subsidiaries

The summary of the production and operation status of this year for the major subsidiaries (at least 51% of shares owned by the company) are listed below:

No	Company Name	Nature of Entity	Registered Capital RMB'000	Interest Attributable to the Company (%)	Principal Activities	Production and Operation Status
1.	Kwangchow Shipyard Container Factory	Joint-stock	44,925	100	Container manufacturing	Increasing in business operation and profit
2.	Guangdong Guangzhou Shipyard International Elevator Company Limited	Limited liability company	21,000	95	Elevator production and sales	Stable business development with increasing orders
3.	Guangzhou Jinfan Advertisement and Decoration Company	Limited liability company	1,400	90	Advertising	Stable business operation and increasing economic return
4.	Guangzhou Hongfan Information Technique Company Limited	Cooperative limited liability company	5,000	90	Development of computer software, system integration and sales of hardware	Stable business development
5.	Guangzhou Xinsun Shipping Service	Limited liability	600	83	Welding and coating of ships	Growth in business operation and economic return

	Company Limited	company				
6.	Masterwood Company Limited	Sino-foreign joint venture	3,315	75	Furniture manufacturing	Stable production and good economic return
7.	Guangzhou Guanglian Container Transportation Company Limited	Sino-foreign joint venture	20,000	75	Container transportation	Stable business operation and economic return
8.	Xinhui City Nanyang Shipping Industrial Company	Cooperative limited liability company	34,200	70	Ship dismantling	Still looking for a favorable turn to carry out ship dismantling business and other new business
9.	Guangzhou Sanlong Industrial Trading Development Co., Ltd.	Limited liability company	1,500	67	Municipal construction project	Stable business development and good economic return
10.	Guangzhou Haizhu District Guanghua Machinery Factory	Cooperative limited liability company	1,438	65	Machine manufacturing	Stable business operation and good economic return
11.	United Steel Structures Limited	Sino-foreign joint venture	49,800	51	Large-sized steel structure	Owing to keen market competition, business operation and profit decreased
12.	Guangzhou Shipyard Machinery Equipment Engineering Co. Ltd.	Limited liability company	1,000	60	Mechanical & electrical product manufacturing and equipment maintenance	Business operation in good condition
13.	Dongguan Yuedong Industry & Commerce Development Co. Ltd.	Joint-stock	10,000	90	Services, wholesale and retail	Looking for new business

The above table includes subsidiaries of the Company which are established and operated in the PRC, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. In the opinion of the Directors, a full listing of the status for all subsidiaries will result in excessive length.

The Financial Position of the Company

According to PRC accounting standards, the fluctuations in total assets, long-term liabilities, shareholders' equity, profit from principal operations and net profit of the year as compared to last year are as follows:

Name of indicators	Up to 31 st December			
	2000 (RMB'000)	1999 (RMB'000)	Fluctuations (±%)	Main Reason
Total Assets	2,418,381	3,466,470	-30.24	Repay bank loans, additional specific provision for bad debts and provision for foreseeable losses on construction contracts
Long term Liabilities	282,474	418,743	-32.54	Repay bank loans
Shareholders' Equity	628,825	1,351,865	-53.48	Loss in the year 2000
Profit from Principal Operations	104,559	288,897	-63.80	Low price of shipbuilding products and reduced profit
Net Profit (loss)	(725,870)	1,101	-66,028.25	Affected by additional specific provision for

bad debts and provision for foreseeable losses
on construction contracts

Investments of the Company

In 2000, the Company invested RMB59,400,000 in fixed assets for the purpose of technical transformation, of which RMB40,390,000 was accomplished and transferred to fixed assets within the year including: technical transformation on slipway and product lines of plane section, track way modification of 30t crane and other newly acquired equipment.

Prospects in the New Year

In 2000, the economic performance of the Group was drastically affected by adverse factors, including the overdue trust deposits in non-banking financial institutions that affected the fund flow and the high development costs incurred on certain new shipbuilding products that affected the operating profit. Accordingly, this has resulted in a big challenge to the Group in the coming year. Despite of these temporary difficulties, the Group believes that these difficulties will be overcome eventually, given the good market environment for shipbuilding and container manufacturing operations at present and near future, the shipbuilding orders in hand sufficient to support production, the product increase in both shipbuilding skills and market penetration as indicated by new shipbuilding products, including RO/RO and RO/PAX vessels, semi-submersible vessels and crude oil / product oil tankers and finally the planned increase in volume of container manufacture.

In the coming year, the Group will do its best to ensure the successful construction of the new RO/PAX vessels, and implement modifications to achieve further reduction in the production cycle of shipbuilding. Besides, the Group will speed up the development of container manufacture business through relocation of production plant. In addition, there is a need for reform of the system of Technology Center, product development, fundamental technological research and production technological preparation, so as to enhance the ability in product technological creativity. Moreover, the Group will continue to insist on the importance of people and to strengthen the development and management of human resources, to increase efficiency through savings and cost reduction, to enhance risk and financial management, so as to ensure healthy growth of the Group's operations.

Report of the daily operations of the Board of Directors

Meetings of the Board of Directors

During the year, the Board of Directors held five meetings, the major points and the resolutions pertinent to each of those meetings are summarized as follows:

1. The Fifth Meeting of the third term of the Board of the Company was held on 26th April, 2000 with attendance by 11 directors (including two valid proxies). 11 directors voted for the Annual Report of 1999 of the Company, approved the recommendation to reappoint Yangcheng Certified Public Accountants Company Limited and PricewaterhouseCoopers as the auditors for the year 2000; approved the "Internal control system on provision for diminution in value of assets" of the Company; approved the total payments to workers in year 2000, approved to establish and invest RMB250,000 in Guangzhou Shipyard International Architecture Design Company; approved Mr. Wang Wenhui's resignation from secretary of the Board of Directors and appointment of Mr. Li Zhidong to be the secretary of the Board of Directors. One director abstained, 10 directors voted for the proposed no distribution for 1999. In the meeting, the

Company's independent directors Mr. David Hon To, Yu and Mr. Philip Pat Yiu, Yuen voted for the Annual Report of 1999 and had reservations on the adequacy of the 10% of provision for non-recovery of overdue trust deposits in non-banking financial institutions and considered that the provision may not be adequate. The resolutions has been disclosed on Shanghai Securities, Hong Kong Commercial daily and Hong Kong iMail on 27th April, 2000.

2. The Sixth Meeting of the third term Board of the Company was held on 14th June, 2000. 9 directors presented and 2 absented. 9 directors all voted by written resolution for the approval of amount of payment paid to Yangcheng Certified Accountants and PricewaterhouseCoopers.
3. The Seventh Meeting of the third term Board of the Company was held on 18th August, 2000. 11 directors presented (including 2 valid proxies). 11 directors voted for the Company's interim report of year 2000; approved "The internal control system on connected transactions"; approved the appointment of Jones, Day, Reavis & Pogue as the legal advisor of the Company after the expiry of engagement term of Victor Chu & Co. this year; approved the resignation of Mr. Hu Guoliang, Chairman and General Manager of the Company resigned from his general manager position and decided to appoint Mr. Yu Baoshan to be the General manager of the Company. The resolutions has been disclosed on Shanghai Securities, Hong Kong Commercial daily and Hong Kong iMail on 27th April, 2000.
4. The Eighth Meeting of the third term Board of the Company was held on 1st November, 2000. 11 directors of the Company all voted by written resolution to consider the capitalization of RMB20,000,000 received for research and development of shipbuilding products by State Development Planning Commission as State-Owned shares through proper legal procedures when considered appropriate.
5. The ninth Meeting of the third term Board of the Company was held on 7th November, 2000. 11 directors all voted to approve the resolution that Guangzhou Foreign Economic and Trading International Trust and Investment Company to settle its overdue trust deposits by its real estates in Chang Chun, Jiang Men and its equity interest in Fuo Shan Baihe Building Material Company Limited. Independent director, Mr. David Hon To, Yu voted for the motion and suggested that "After all these real estates and equity interest are taken over, a complete plan should be developed to convert them into money where practicable".

The Progress of Execution by the Board in Respect of Directors of the Resolution in the General Meeting

In this year, the Board of Directors has executed all the resolutions passed in the 1999 Annual General Meeting.

Briefs of Senior Management and Staff

Directors, Supervisors and Senior Management

As at 31st December, 2000, the Directors and Supervisors of the Company were elected at the 1998 Annual General Meeting on 25th July 1999, each with a service period of 3 years. As at 31st December 2000, the senior management of the Company (except Mr. Li Zhidong) were appointed by the Third term Board on 25th June 1999.

Name	Sex	Age	Term of service	Shares held individual or individual's family members (note)	Among which shares held by Individual	Annual total emoluments or remuneration RMB
Directors						
Directors-executive						
Hu Guoliang	Male	55	25/6/1999-24/6/2002	5,000 A shares	5,000 A shares	87,996
Ye Peihua	Male	56	25/6/1999-24/6/2002	4,000 A shares	4,000 A shares	70,404

Li Guanghui	Male	39	25/6/1999-24/6/2002	10,000 A shares	10,000 A shares	70,404
Xu Guoqing	Male	56	25/6/1999-24/6/2002	6,000 A shares	1,000 A shares	61,596

Directors-non-executive

Sun Guangmin	Male	38	25/6/1999-24/6/2002		None	52,800
Wang Xiaoxu	Male	36	25/6/1999-24/6/2002		None	52,800
Li Junfeng	Male	38	25/6/1999-24/6/2002		None	52,800
Huang Gang	Male	47	25/6/1999-24/6/2002		None	52,800
Guan Xuezhong	Male	56	25/6/1999-24/6/2002		None	52,800
David Hon To, Yu	Male	53	25/6/1999-24/6/2002		None	65,333
Philip Pat Yiu, Yuen	Male	66	25/6/1999-24/6/2002		None	65,333

Supervisors

Ji Anqin	Male	57	25/6/1999-24/6/2002	1,000 A shares	1,000 A shares	70,400
Han Zineng	Male	57	25/6/1999-24/6/2002	2,500 A shares	2,500 A shares	61,596
Chen Jnqi	Male	48	25/6/1999-24/6/2002	10,500 A shares	2,000 A shares	61,596
Chen Xongyi	Male	48	25/6/1999-24/6/2002		None	44,000
Zhang Zhenya	Female	44	25/6/1999-24/6/2002		None	44,000

Senior Management

Yu Baoshan	Male	41	25/6/1999-24/6/2002		None	67,464
Chen Miaogen	Male	58	25/6/1999-24/6/2002	11,500 A shares	11,500 A shares	70,404
Tao Quan	Male	57	25/6/1999-24/6/2002	1,000 A shares	1,000 A shares	70,404
He Shouxia	Male	59	25/6/1999-24/6/2002	4,000 A shares	3,000 A shares	70,404
Li Zhidong	Male	35	1/7/2000-24/6/2002		None	26,400

(Note: “Individual and individual’s family members concerned” means individual and individual’s spouse and children under the age of 18.)

Resignation of Directors, Supervisors and Senior Management

No directors, supervisors or senior management resigned in the year.

Appointment of Senior Management and Secretary of Company

On the Seventh Meeting held by the third term Board of Directors on 18th August, 2000, it was approved that Mr. Hu Guoliang, Chairman and General Manager of the Company resign from his position as the General Manager and that Mr. Yu Baoshan be appointed as the General Manager of the Company.

The brief resume of Mr. Yu Baoshan

Yu Baoshan, male, borne in July of 1960, the present General Manager of the Company, worked in Guangzhou Shipyard since 1978, Bachelor, Senior engineer, has been appointed to be technician and chief in the design office, assistant of factory manager in the Shipbuilding branch factory of Guangzhou Shipyard, deputy manager in Shipbuilding Division of GSI, Deputy General Manager of GSI, and deputy director in Economic Function Department of CSSC.

On the Fifth Meeting held by the third term Board of Directors on April 26th, 2000, it was approved that Mr. Wang Wenhui resigned from his position as the secretary of the Board of Director and that Mr. Li Zhidong be

appointed as the secretary of the Board of Directors.

The brief resume of Mr. Li Zhidong:

Li Zhidong, male, borne in April of 1966, the present secretary of the Board of Directors, graduated from Shanghai Jiaotong University and joined Guangzhou Shipyard in August of 1987, personal highest degree: MBA, qualified as an engineer in November of 1993. Presently, he is deputy chief of the head office of the Company.

Equity Interests of Directors and Supervisors

Save as disclosed in the section headed "Directors, Supervisors and Senior Management" as at 31st December, 2000, the Company had not received any notice from any Director, Supervisor's or the Senior Management of the Company, their respective spouses or children under the age of 18 that they had any other interests in the share capital or debt securities of the Company or any of its associated companies (as defined in the SDI Ordinance) as required by the SDI Ordinance. No rights to subscribe for the share capital or debt securities of the Company had been granted to or exercised by the Directors, Supervisors or the Senior Management of the Company.

Service Contracts of Directors and Supervisors

None of the Directors and Supervisors elected at the 1998 Annual General Meeting had entered into any service contract with the Company to the effect that the Company will compensate for early termination of his term prior to the expiration date or non-renewal of his term of service upon expiration

Interests of Directors and Supervisors in Contracts

During the year, none of the Directors or Supervisors of the Company was materially interested directly or indirectly in any contract to which the Company or any of its subsidiaries was a party.

Emoluments of Directors, Supervisors and Senior Management

For the year ended 31st December 2000, the aggregate remuneration paid by the Company to its executive Directors, non-executive Directors, Supervisors and Senior Management was RMB310,800, RMB394,700, RMB221,000, RMB532,400 respectively. Apart from the above-mentioned emoluments, the Company did not offer further allowances or bonuses to the Directors, Supervisors, Senior Management, nor payments to Directors, Supervisors and Senior Management as an inducement to join or upon joining the Company, nor any compensation to Directors, Supervisors and Senior Management for loss of office. The Directors, Supervisors and Senior Management are liable to pay their respective income taxes to the responsible government departments directly. During the year, the pension schemes for executive Directors, Supervisors and Senior Management were combined with the staff pension scheme of the Company, with total pension contribution by the Company for Directors or ex-directors amounted to RMB59,400, and there was no other special arrangement. The emoluments of Directors, Supervisors and Senior Management paid by the Company are listed in the above-mentioned table "Directors, Supervisors and Senior Management".

The Highest Paid Individuals

The five highest paid individuals of the Company during the year under review are current directors and the emoluments have already been disclosed in the section headed "Emoluments of Directors, Supervisors and Senior Management" above.

Particulars of Company Staff

As at 31st December 2000, the number of employees on the payroll register of the Company was 5,055, of which 2,988 were production related, 37 are sales related, 80 are finance related and 387 are administration related.

Among the employees in the Company there are 1,287 technicians with different skills, including 136 senior technicians and 329 intermediate technicians.

Among the employees in the Company there are 1,004 career high school graduates, 436 college graduates and 464 university graduates and 18 postgraduates.

As at 31st December 2000, the number of retired employees of the Company was 1,655, including 253 retired in 2000.

Profit Forecast

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

Profit Distribution for the year 2000

The Board of Directors do not recommend dividend distribution for 2000. This will be presented in 2000 Annual General Meeting for approval.

Profit Distribution Policy for 2001

In view of the substantial loss incurred by the Company for 2000, the Company intends not to distribute profit for 2001, though the Board of the Company may adjust its intention according to actual circumstances and present it in the Annual General Meeting for approval.

Financial Summary

The results, assets and liabilities of the Group prepared in accordance with the PRC accounting standards and Hong Kong generally accepted accounting principles for the last five years are set out on page 3 and 4 and page 5 and 6 respectively.

Results and Profit Distribution

The results of the Group for the year ended 31st December, 2000 prepared in accordance with PRC accounting standards and Hong Kong generally accepted accounting principles and profit distribution proposed by the Board of Directors are set out in the Consolidated Profit & Loss and Distribution Statement on page 39 and the Consolidated Profit and Loss Account on page 78.

Dividends

The Board of Directors do not recommend dividend distribution for 2000.

Reserves

The movements of the reserves during the year prepared in accordance with PRC accounting standards and Hong Kong generally accepted accounting principles, are set out in notes 20 to 22 and 23 to financial statements on pages 61 and 63 and pages 99 to 103 respectively.

Fixed Assets

The details of fixed assets (including property assets and other tangible assets), prepared in accordance with PRC accounting standards and Hong Kong generally accepted accounting principles, are set out in note 7 and 10 to

Financial Statements on pages 54 to 55 and pages 90 to 92 respectively.

Properties held for development /sale

No properties held for development /sale of the Group which represent more than 15% of net tangible assets, or where contribution derived from these properties exceeded 15% of profit before taxation.

Share Capital

The share capital of the Company and its structure are set out on pages 10 and 11 under "Share Capital Structure".

Pre-emptive Rights

As the Articles of Association of the Company do not have any provision on pre-emptive rights, the Company has not arranged for any pre-emptive right scheme during the year.

Warrants and others

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

Purchase, Sale and Redemption of the securities of the Company

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

Bank Loans, Overdrafts and other Borrowings

The bank loans, overdrafts and other borrowings of the Group as at 31st December, 2000 are set out in note 12 and 17 to the Financial Statements on pages 57 and 60 and note 21 on page 99 respectively.

Capitalized Interest

The details of interest capitalized by the Group during the year are set out in note 9 to the Financial Statements on page 56.

Application of Statutory Public Welfare Fund

In accordance with the provisions of the "Company Law of the People's Republic of China", the 1999 Annual General Meeting resolved that the Company allocated 10% of the net profit after taxation prepared under PRC accounting standards in 1999 to the statutory public welfare fund for acquisition of such fixed assets as welfare facilities for the Company's employees. In 2000, the collective welfare facilities, including newly purchased medical treatment facilities and apartments for couples married at a mature age, totalled RMB433,200, and had been transferred to fixed assets upon completion.

Connected Transactions

The connected transactions made between the Group and the associated enterprises under CSSC or associated enterprises under the Group during the year amounted to RMB168.68 million. The independent directors had reviewed such connected transactions. Furthermore, Mr. David Hon To, YU and Mr. Philip Pat Yiu, YUEN, the independent non-executive directors of the Company have confirmed that the transactions 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. Details of such transactions are set out in note vi on Financial statements.

Application of Proceeds from share offer

The Company had not raised funds during the year under review and proceeds raised previously had been fully applied.

Employees' Pension Scheme

The Company has participated in the employees' pension scheme of Guangdong Province since 1st January 1994. Pursuant to the relevant provisions, the Company has made a monthly contribution of 17% of the standard payroll of its staff. The Guangdong Social Insurance Bureau, which undertakes to provide pension payments, has been paying monthly pension to the retired employees of the Company. Meanwhile, pursuant to the relevant provisions of the State Council, the Company started a supplementary pension scheme for its staff from 1st March 1995. The scheme stipulated that the Company and its employees make contributions of 10% and 5% respectively of the specific salary (part of monthly payroll) of its staff as pension fund. The employees are entitled to claim the entire sum of the fund upon their retirement. In addition, according to the relevant provisions of the government regulations, the Company paid an amount of RMB643,800 as subsidies for the retired employees. Total pension costs charged to profit and loss account amounted to RMB230,500.

Purchases of Staff Quarters by Employees

Staff quarters occupied by employees of the Company are owned by Guangzhou Shipyard. Accordingly, the staff quarters are provided to employees of the Company by Guangzhou Shipyard in accordance with the State and Guangzhou City's housing reform policies and the Company had not been involved in the selling of staff quarters to the employees.

Publications Used for Disclosing Information

Publications used for disclosing information of the Company during the year of 2000 were "Shanghai Securities News", "Hong Kong Commercial Daily" and "Hong Kong iMail" .

Code of Best Practice

The Directors have not established an audit committee (the "Audit Committee") to review and supervise the Company's financial reporting process and internal controls pursuant to paragraph 14 of Code of Best Practice set out in Appendix 14 to the Listing Rules (the "Code of Best Practice"). However, the Company's organizational structure has, in lieu, a Supervisory Committee which carries out functions similar to that of an Audit Committee, the differences being that the representatives of the Company's Supervisory Committee (one of which shall be the representative of employees of the Company) are elected and removed by the shareholders in general meeting, and which reports to the general meeting of shareholders instead of the Board of Directors, whereas the Listing Rules required the members of the Audit Committee to comprise independent non-executive Directors of the listed Company. Apart from this, none of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not during any time in the period under review, in compliance with the Code of Best Practice.

Material Litigation

Up to 31st December, 2000, the Company was not engaged in any material litigation, except for legal proceedings against the three trust and investment companies namely Guangzhou Economic and Technology Development Zone International Trust and Investment Company, Guangzhou Foreign Economic and Trade Trust and Investment Company, Guangdong Overseas Chinese Trust and Investment Company for recovery of overdue trust deposits, and also against Shengzhen Saige Plaza Investment and Development Company Limited and Shengzhen Saige Group Company Limited for recovery of overdue project payments of RMB78,171,802.73. Please refer to Significant Events in the Report for status of this litigation.

Auditors

The financial statements of the Group for the year prepared in accordance with the PRC accounting standards and Hong Kong generally accepted accounting principles have been audited by Yangcheng Certified Public Accountants Company Limited and PricewaterhouseCoopers respectively. They shall respectively resign or expiration of term of appointment and being eligible offer themselves for re-appointment. There has been no change in the auditors of the Company in the last three years, save for the change in name in 1998 of our international auditors due to merger of their practice.

Acknowledgment

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

On behalf of the Board

Chairman

Hu Guoliang

Guangzhou, 20th, April 2001

F. Report of Supervisory Committee

The Third Supervisory Committee of the Company has the pleasure to present the 2000 Report of the Supervisory Committee and would like to extend our best wishes to every shareholder.

The Supervisory Committee faithfully carried out its duties, protected the interests of the Company and shareholders in a fiduciary serious, just and prudent manner and strengthened its role in supervising financial affairs, directors, managers and other senior management of the Company in accordance with the articles of association of the Company and the Company Law of the People's Republic of China. During the period under review, in order to adapt to the Supervisory Committee's organizational structure and to strengthen the contact with external Supervisors (independent Supervisors), we have introduced the position of Secretary to Supervisory Committee, and established the “Supervisors' daily work schedule” for the Supervisory Committee of Guangzhou Shipyard International Company Limited to further improved self- construction and working abilities of supervisors as well as to maintain the stable operation of the Supervisory Committee and carry out its duties in a better manner. During the year under review, members of the Supervisory Committee were able to attend working meetings of the Board of Directors and the General Manager and other relevant important meetings. They received and studied the relevant data and reports supplied by administrative departments

including finance, auditing, sales and enterprises management and obtained information from different sources so as to gain understanding on areas including financial position, fund flows and operational management. These have provided a sound basis for the Committee to carry out its duties.

During the year under review, the Supervisory Committee held three meetings.

1. The Fourth Meeting of the third term Supervisory Committee was held on 25th April 2000 in the Company, with attendance of four supervisors (one absent) out of a total of 5 supervisors. The main agenda of the meeting were: (1) To consider and approve the 1999 Report of the Supervisory Committee; (2) To consider and approve the 1999 Annual Report of the Company. The following resolutions were passed in the meeting: (1) The 1999 Report of the Supervisory Committee was approved and to be presented to the General Meeting for consideration and approval; (2) The 1999 Annual Report of the Company was approved.
2. The Fifth Meeting of the third term Supervisory Committee was held on 18th August 2000 with attendance of all (five) supervisors in the Company. Mr. Tao Quan, Deputy General Manager and Chief Accountant of the Company attended as a non-voting delegate. The main agenda of the meeting were: (1) To consider and approve the 2000 Interim Report of the Company; (2) To study the introduction of the position of Secretary to the Supervisory Committee and strengthening of the work of the Supervisory Committee. The 2000 Interim Report of the Company was approved after discussion. The introduction of the position of Secretary to the Supervisory Committee and the Supervisors' daily work schedule for the Supervisory Committee were also approved.
3. The Sixth Meeting of the third term Supervisory Committee was held on 22nd December 2000 with attendance of all (five) supervisors in the Company. Mr. Tao Quan, Deputy General Manager and Chief Accountant of the Company attended as a non-voting delegate. The main agenda of the meeting were: (1) Briefing by head of finance on financial budgeting of the Company for the current year; (2) Report on the status of work; (3) To consider and approve the Supervisors' daily work schedule for the Supervisory Committee of Guangzhou Shipyard International Company Ltd.. The Supervisors' daily work schedule for the Supervisory Committee of Guangzhou Shipyard International Company Ltd. was approved after discussion and was implemented.

The Committee has executed its powers in accordance with the Company Law of the People's Republic of China and the articles of association of the Company and duly reviewed the Report of the Directors, the Financial Statements of the Company and Profit Distribution Proposal. We consider that the financial records and the Financial Statements are properly prepared under PRC accounting standards and under Hong Kong generally accepted accounting principles and really reflect the financial position and business result of the Company. We also consent to the Report of the Board of Directors, Financial Statements and the Profit Distribution Proposal.

The Committee continue to be very concerned about the overdue trust deposits with GZITIC, pay close attention to the measures and efforts taken to settle this matter by the Board of Directors and the executive team, and was briefed as well as studied the issue on the deposits with GZITIC in two meetings of the Supervisory Committee. During the year under review, the Company had not raised any funds.

During the year under review, the connected transactions were fair and reasonable, and accordingly the interest

of the Company was not adversely affected.

We believe the directors, general manager and other senior management have carried out their duties strictly, scrupulously and diligently in accordance with the fiduciary, clean and prudent principles, abided by the regulations of Shanghai Securities Exchange and the Listing Rules of the Stock Exchange of Hong Kong Limited. We have established “The internal control system on provision for diminution in value of assets” and “The internal control system on connected transactions”. There was no violation of any laws, regulations or articles of association of the Company, nor was there abuse of power to the detriment of the Company, the shareholders or staff welfare. The Board of Directors and the executive team are united and well coordinated, actively striving for development and in view of the keen competition in the market, management have been taking advantage of opportunities, expanding business operations, adjusting organizational structure, adapting to market condition, strengthening management improving effectiveness and taking various effective measures to tackle difficulties in production and trading, mobilize staff initiative and to maintain stability and development of the business of the Company.

Yangcheng Certified Public Accountants Company Limited and PricewaterhouseCoopers appointed by the Company have audited the Financial Report of the Company for this year and presented their audit reports of the company with non-qualified opinions.

The Board of the Company has set out the relevant condition about the non-recovery trust deposits of the Company with non-banking institutions, the doubtful provision drawn for the trust deposits during this report and loss provision for two types of ship products in construction in details in the 6th and 7th item of the Significant Events and the notes of the Financial Report. The Committee hold that the doubtful provision drawn for trust deposits and two types of ship products is objective and based on the prudence principle in view of the information held by the Board of the Company in present, with which the Committee agreed.

We would like to extend our sincere gratitude to the Board of Directors, the top management, all the staff and shareholders of the Company for their trust, active support and their close coordination during the past year.

For and on behalf of the Supervisory Committee

Ji Anqin, Chairman

20th April, 2001, Guangzhou

G. Significant Events

- 1、Major litigation or arbitration of the Company occurred in the period under review, like the overdue debt from Shenzhen Saige Plaza Company, are described in this section.
- 2、During the period under review, neither the Company, the directors nor senior management had been punished by regulatory bodies.

- 3、 As approved by the seventh meeting of the third term of the Board of Directors of the Company held on 18th August, 2000, Mr. Hu Guoliang, the chairman of the Board of the Directors and General Manager of the Company, resigned from his position as General Manager because of job transfer and Mr. Yu Baoshan was appointed as the General Manager of the Company.
- 4、 As approved by the fifth meeting of the third term of the Board of Directors of the Company held on 26th April 2000, Mr. Wan Wenhui resigned from his position as the Secretary to the Board of Directors and Mr. Li Zhidong was appointed as the secretary to the Board of Directors.
- 5、 The connected transactions entered into between the Group and enterprises under the control of CSSC and affiliates of the Group during the period under review amounted to RMB170,338,000. Such connected transactions had been carried out on normal commercial terms, or on terms no less favorable than those available to third parties when there is no agreement. The Group did not receive any extraordinary benefit or suffer any extraordinary loss from such transactions. Details of such transactions are set out in note vi to financial statements of annual report of this period.
- 6、 As at 31st December 2000, trust deposits with non-banking financial institutions were RMB495,871,000. These comprised trust deposits receivable from Guangzhou International Trust and Investment Company, Guangzhou Economic and Technology Development Zone International Trust and Investment Company, Guangzhou Foreign Economic and Trade and Investment Company, Guangdong Overseas Chinese Trust and Investment Company of RMB422,781,000, RMB55,000,000, RMB10,000,000 and RMB8,089,760 respectively.

During the reporting period, the Company decided to make provision for non-recovery of the above mentioned four non-banking financial institutions. Details are as follows:

(1). Guangzhou International Trust and Investment Company (“GZITIC”)

The Company’s Management have made efforts in recovering the trust deposits in GZITIC and reported to China State Shipbuilding Corporation, the major shareholder of the Company, and the Commission of Science Technology and Industry for National Defense (“CSTIND”) , which is in charge of the affairs of the Company. CSTIND was concerned and assisted the Company by requesting related government bodies to treat the Company in similar manner as overseas creditors when considering repayments or asset swap arrangement. However, there had not been actual progress. Based on the present conditions, the Company’s management considers the full recovery of such trust deposits is doubtful. In view of the absence of any unfavourable news since the release of information in the financial advisor’s report (the estimated value of realizable assess of GZITIC represented approximately 20% of its liabilities, including contingent liabilities) during the creditors meeting held in 1999, the Board of Directors decided to make a total provision for non-recovery of 80% based on prudence principle. Given that a 10% provision was already make last year, additional provision required for the current year is 70% which amounted to RMB295,946,700.

(2). Guangdong Oversea Chinese Trust and Investment Company (“GOCTIC”)

The remaining deposits (principal) in GOCTIC were RMB8.09 million. The execution of the court judgment is still in progress. The Board of Directors agreed to make provision for non-recovery of 70%. Given that a 10% provision was already made last year, additional provision required for the current year is

60% which amount to RMB4.66 million.

(3). Guangzhou Foreign Economic and Trade Trust and Investment Company (“GFETTIC”)

The deposits (principal) in GFETTIC were RMB10 million. Up to the date of this Report, GFETTIC has repaid RMB8.6765 million with asset swap arrangements. The Board of the Directors of the Company agreed to make provision for non-recovery of the remaining RMB1.3235 million.

(4). Guangzhou Economic and Technology Development Zone International Trust and Investment Company (“GETDZITIC”)

The deposits (principal) in GETDZITIC were RMB55 million. Court execution involves a property located in Dumen City, Guangdong Province, as compensation for part of the debts. After review, the Company’s Management has disagreed the proposal because the realization on disposal of the property is considered as unsatisfactory. Accordingly, the Company has not been able to obtain assets for debt settlement through the court. The Board of the Directors decided to make a 100% provision for non-recovery. Given that a 10% provision was already made last year, additional provision required for the current year is 90% which amounted to RMB49.5 million.

7、 During this period, the Company decided to make provisions for losses to the following two types of shipbuilding products under construction:

1). RO/PAX vessels: the Company secured two vessels from GOTLAND, Switzerland in 1999. As this is the first attempt in construction of such type vessels in China, the research and design costs exceeded budget. Besides, in order to ensure proper completion and delivery, materials and equipments costs also exceeded budget as priority was given to quality. In addition, additional costs also resulted from lengthening of the construction cycle due to lack of experience. All of these resulted in huge foreseeable loss of RMB261,887,800. Pursuant to requirement of the accounting principle, the Company management considered that it is necessary to make full provision in the reporting period.

However, the Board of Directors believe that, the Company will ensure product quality and safeguard its reputation strictly by completing these vessels before the last delivery date. Moreover, the successful development of this new vessel type will have a positive effect in the future development of the Company.

2). 40,000dwt tankers for Huahai Petroleum Transport & Marketing Company Limited: the Company secured two 40,000dwt tankers from Huahai Petroleum Transport & Marketing Company Limited in December 1999. At the time when the contracts were secured, it was anticipated that these two vessels will be amongst the list of domestic cross ocean liners eligible for financial subsidy under the “Tenth-Five” plan. It was later found out that only vessels constructed domestically and only enterprises like COSCO, China Shipping Group, China Oversea Shipping Company could enjoy the financial subsidy. The two 40,000dwt vessels built for Huahai Petroleum Transport & Marketing Company Limited are not on the list, therefore the estimated total losses are about RMB64,544,400. Pursuant to requirement of the accounting principle, the Company’s management considered that it is necessary to make full provision for the foreseeing losses in the reporting period.

8、 The Company has initiated legal actions through Guangzhou City Intermediate People’s Court against Saige Co. for the outstanding project payment on 9th March, 2000, though both parties have not reached a

common opinion on the quantity of the project involved. Up till now, the case is still in progress with the confirmed project sum of RMB72,830,600 and unconfirmed project sum of RMB5.63 million. The unconfirmed part will be certified by a third party appointed by the court for supporting the final court judgment. The Company management considered that, according to the confirmed project sum of RMB72.83 million, adding the late fee of RMB11.3159 million for delayed payment pursuant to the contract, the total confirmed project sum reached RMB84,046,600. This amount is sufficient to cover the actual cost of the project of RMB75,338,100. Accordingly, the Board of Directors considered it is not necessary to make provision for this project.

9、 On 12th April, 2001, Guangzhou Customs notified the Company orally that Container Factory failed to follow up outstanding procedures timely in relation to the use of certain imported materials intended for exports when manufacturing containers for China Railroad Container and Transportation Company in 1996. After investigation and review, Customs head office held that this omission represents a violation of certain rules and regulations and the Company should pay customs duty and value added tax according to customs rules. It is estimated that the total taxation and fine payable will not exceed RMB65 million. In accordance with PRC accounting principles, the Company made a provision for these expenses whereby the customs duty and fine of RMB45.47 million are charged to profit and loss account in the period and the value added tax of RMB19.53 million is accounted for as deferred expense according to relevant taxation law.

10. Throughout the period from floatation of the Company's shares to 31st December 1999, quarters occupied by staff of the Company were provided by Guangzhou Shipyard which has the property rights. Therefore, quarters were sold to staff pursuant to the housing reform policy of Guangzhou through Guangzhou Shipyard. The Company was required to pay Guangzhou Shipyard for such staff quarters on an annual basis pursuant to "Comprehensive Service Agreement". From year 2000, enterprises are permitted to issue housing subsidy to staff who or whose spouse has not bought "Housing Reform Apartment". From year 2001, the Company will issue housing subsidy with reference to standards fixed by Guangzhou Government to the staff members who have applied for subsidy and their qualifications approved by relevant authorities in Guangzhou. The Board of Directors are of the view that the Housing Reform Policy of the Government is not legally binding on the Company and the Company is merely making reference to such policy in the execution of its own reform.

11. According to the requirement of the "Opinion on further development of standardized operating procedures and reform of overseas listed companies" promulgated by the National Economic and Trading Committee of China, the Company has implemented the "Three Segregations" in respect of personnel, assets and finance with CSSC, the representative for holding state-owned shares of the Company. The Company is independent in the management of labour, personnel and salary, and has independent facilities of production, auxiliary production and independent industrial property and brand. The Company has established independent financial department, accounting system and finance management rules.

12. The re-appointment of Guangzhou Yangcheng Certified Public Accountants Company Limited. and PricewaterhouseCoopers as the Company's PRC auditors and international auditors for 2000 respectively was approved in the 1999 Annual General Meeting.

13. The Company appointed Jones, Day, Reavis & Pogue as the legal advisor upon the expiry of engagement

term with the former legal advisor of the year, Victor Chu & Co.

14、 During the period under review, the Company had not acted as a guarantor to third parties.

15. During the period under review, the Company had not changed the name of the Company nor the abbreviated name for the listed shares.

16、 As the refund arrangements for value-added tax currently applicable to the Company are formulated by the Central Government and that the refund arrangement is not applicable to income tax, the changes in the tax refund arrangement granted by local tax authorities have no significant impact on the operating result of the Group during the period under review.

I. Other Corporate Information

Registration date and address

First registration date and address: 7th June, 1993, Guangzhou

Amended registration date and address: 21st October, 1994, Guangzhou

Business Registration Number

Qi Gu Yue Sui Zong Zi No. 000264

Taxation Registration Number

440107520102708

Auditors

Yangcheng Certified Public Accountants Company Limited

25th Floor

Jianlibao Plaza

Middle Dong Feng Road

Guangzhou

The People's Republic of China

PricewaterhouseCoopers, Certified Public Accountants

22nd Floor

Prince's Building

Central

Hong Kong

Financial Advisor

BNP Prime Peregrine Capital Limited

23rd Floor, New World Tower, 16-18 Queen's Road Central

Hong Kong

Solicitors

Guangzhou Z & T Law Firm
14th Floor, Guanghai Business Building
472 East Huangshi Road
Guangzhou
The People's Republic of China

JONES, DAY, REAVIS & POGUE

31st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Share Registrars***For A shares:***

Shanghai Central Securities Registration and Clearing Company
727 Pujan Road, Shanghai
Guangdong Nanfang Securities Registration Company
8 South Tianhe Second Road, Guangzhou

For H Shares

HKSCC (Registrars) Limited
2nd Floor Vicwood Plaza
199 Des Voeux Road
Central
Hong Kong

ADR Consign Bank

The Bank of New York
Investor Relations
P.O. Box 11258
Church Street Station
New York, NY 10286-1258

Location for Inspection of Corporate Information

Secretariat to the Board of Directors
Guangzhou Shipyard International Company Limited
40 South Fangcun Main Road, Guangzhou
The People's Republic of China
Tel: (020)-81891712-2943

Shareholders' Reception Dates

On 5th and 20th of every month
(The following day in case of holidays in the PRC)

From 8:30am to 11:00am and from 2:00pm to 4:00pm

Tel: (020)-81891712 ext 3232 or 2943

Fax: (020)-81891575

Documents Available for Inspection

1. The originals of the Company's Annual Report 2000 and its Extract Summary both with the signature of the chairman of the Board of Directors.
2. Financial statements with signatures and stamps of legal representative, chief accountant and accounting department heads.
3. The original auditors' reports with the stamps of Certified Public Accountants Firms and signatures of the certified public accountants.
4. The originals of announcements made in "Shanghai Securities News", "Hong Kong Commercial Daily" and "Hong Kong iMail" during the period under review and related company documents.

NOTICE IS HEREBY GIVEN that the 2000 Annual General Meeting of Guangzhou Shipyard International Company Limited (the "Company") will be held at the Conference Room of the Company at 40 South Fangcun Main Road, Guangzhou, PRC at 2:00P.M. on 15th June (Friday), 2001 for the following purposes:

1. To consider and approve the report of the Board of Directors for the year of 2000.
2. To consider and approve the report of the Supervisory Committee for the year of 2000.
3. To consider and approve the Financial Reports for the year of 2000.
4. To consider and approve the profit distribution for the year of 2000.
5. To consider and approve the re-appointment of Yangcheng Certified Public Accountants Co., Ltd as the Company's PRC auditors for the year of 2001, and authorize the Board of Directors to determine its remuneration.
6. To consider and approve the re-appointment of PricewaterhouseCoopers, Certified Public Accountants, as the Company's international auditors for the year of 2001, and authorize the Board of Directors to determine its remuneration.

Guangzhou Shipyard International Company Limited
Guangzhou, 23rd April, 2001

Notes:

1. Pursuant to the "Company Law of the People's Republic of China", no registration of changes will be made to the register of members within 30 days prior to the holding of the Annual General Meeting (from 16th May, 2001 to 14th June, 2001). Accordingly, holders of domestic shares (A shares) and overseas listed foreign shares (H shares) whose names appear on the register of members of the Company on 15th May, 2001 will be entitled to attend the Annual General Meeting.
2. Shareholders who intend to attend the Annual General Meeting are required to send a written reply, whether in person, by post, by cable or by fax to the registered office of the Company at least 20 days before the meeting. Completion and return of such written reply will not preclude the shareholders who are entitled to

attend the meeting as stated in Note 1 above from attending the meeting.

3. Each shareholder entitled to attend and vote at the meeting is empowered to appoint one or more proxies to attend and vote on behalf. A proxy needs not be a shareholder of the Company. In order to ensure validity proxy of the proxy form, the letter of authorization and other authorization documents (if any), must be delivered to the registered office of the Company not less than 24 hours before the time scheduled for the holding of the Meeting.
4. The Registration date for H Shares of the Company is 15th May, 2001. In order to rank for the proposed final dividend, holders of the Company's H shares must deliver their documents of transfer together with the relevant share certificates to the Company's H shares' Registrars, HKSCC Registrars Limited, at 2/F Vicwood Plaza, 199 Des Voeux Road, Central, Hong Kong no later than 4:00pm. on 15th May, 2001 (Tuesday).

The method and date of payment of dividends to the holders of A shares will be separately announced.

5. The Annual General Meeting of the Company will last for half a day. The shareholders and proxies attending the meeting shall be responsible for their own traveling and accommodation expenses.
6. The registered office of the Company is at General Managerial Office, Guangzhou Shipyard International Company Limited, 40 South Fangcun Main Road, Guangzhou, PRC.

Liaison officer: Mr. Li Zhidong

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