

(III). 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 that had been established for 46 years 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 integrated 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 equipments.

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 two production lines that can produce various international standards and non-standard specialized steel dry cargo containers, and a production line.

The Company presently has six major product lines, including shipbuilding, containers manufacturing, ship-repairing, steel structure engineering, fabric reinforced plastic boats and terrestrial machinery. 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 accounting policies adopted by the Company are in accordance with “Accounting System of Joint Stock Companies -- Accounting Items And Financial Statements” which was issued on document of Finance (1998) No. 7 by Ministry of Finance. Masterwood Company Limited, Guangzhou Guanglian Transportation Company Limited and United Steel Structures Limited are carrying out “Accounting System of Foreign Investment Enterprises”, the Company has adjusted their financial statements according to “Accounting System of Joint Stock Companies” when consolidated the financial statements.

2. Accounting Period

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

3. Currency Adopted in Accounting Records

Accounting records are maintained in Renminbi.

4. Basis of Recording and Valuation

Basis of recording adopts accrual concept 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

According to "Accounting Standards for Enterprises—Cash Flow Statement" issued by Ministry of Finance, cash equivalents are defined as investments that are short-term (within three months), highly liquid, readily convertible to cash and are subject to low risk of changes in value.

7. Provisions for Doubtful Debts

- (1) Basis of recognition as 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 unreceivable, 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 the most dovish of debts and its book account.

8. Inventories

Inventories of the Company include raw materials, low-value consumables, products under manufacture and store products, stated at 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 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. For other finished goods, provision is made on the difference between cost and net sales proceeds based on market price.

9. Short-term investments

Bonds are stated at investment cost.

Short-term investments provision for diminution is made in accordance with the lower between the cost and market price.

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.

The Company's investments other than the above are stated at cost.

(2). Long-term bonds investments: Bonds invested by the Company are stated at cost, except where the investment cost is inclusive of accrued interest which will be deducted.

Provision for diminution in long-term investments value represents the difference between the carrying value of investment and the share of investee's net assets.

11. Fixed Assets and Depreciation

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 (%)
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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 and developments	8-50	2-12.5
Structures	15-50	2-6.67

12. Construction-in-progress

Construction-in-progress is stated at cost. The relevant interests are capitalized before the project is delivered for use, and included as project cost. The construction-in-progress is recognized as fixed assets in the month when they passed the quality control procedures.

13. Intangible Assets and Its Amortization

Intangible assets are state 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.

14. Flotation expenses & long-term deferred expenses and amortization

Flotation expenses (incurred during establishment) are amortized evenly over a period of not less than 5 years from the first month after the month of commencing operations, or amortized evenly over the stipulated period if the period of operation is shorter than five years.

Long-term deferred expenses—Improvements made to leased fixed assets are capitalized and amortized evenly over the lease period.

15. Recognition of income

Income in respect of sales of goods is recognized when the title to the goods and its major risks and rewards are passed to customers, while the Company will not execute the right of supervision and the practical mastery for the goods, and either proceeds are received or that the entitlement of proceeds is evidenced, and the cost of sale of goods could be estimated reliably.

Income in respect of service rendered is recognized on completion of contracts and either contracted fees are received or that the entitlement of fees is evidenced.

Income in respect of construction contracts (long-term contracts) is recognized when there is reasonable certainty as to the contract outcome at a percentage based on the completion of the contract.

16. Income tax

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

17. Basis of Preparation of Consolidated Financial Statements

In accordance with the “Tentative Regulations for Consolidated Financial Statements” issued by Finance Ministry, enterprises which the Company holds over 50% of total equity, or even less than that, but

get the actual holding rights, are consolidated into the accounting statements.

III. Taxation

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

Activity Category	Tax category	Tax rate
Shipbuilding, Ship-repairing, container manufacturing, steel structures, terrestrial machines manufacture, other products and sales of 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. Deductions in excess of these allowed by the relevant tax regulations will be subject to tax adjustments. Tax adjustments are also required for investment income from enterprises with applicable income tax rate below 15%.

IV. Principal Subsidiaries and Affiliates

1. Principal Subsidiaries

Name	Registered Capital RMB ('000)	Principal Business	Investment Capital RMB ('000)	Interest Attributable to the Company
Kwangchow Shipyard Container Factory	RMB 44,925	Container & steel structure manufacturing, installation and repair	RMB 56,157	100%
Guangzhou Jinfan Advertisement Decoration Company Limited	RMB 1,400	Design and make all kinds of domestic advertisement	RMB 1,260	90%
Masterwood Company Limited	USD600	Manufacture and sales of all kind of material furniture series	RMB 2,486	75%
Guangzhou Guanglian Container Transportation Company Limited	RMB 20,000	Container transportation	RMB 15,000	75%
Xinhui City Nanyang Shipping Industrial Company	RMB 34,200	Ship dismantling, shipbuilding and steel structure engineering	RMB 25,200	70%
Guangzhou Haizhu District Guanghua Machinery Factory	RMB 1,438	Machine manufacturing, Production design, motor and electrical equipment.	RMB 935	65%
Guangzhou Sanlong Industrial Trading Develop Company Limited	RMB 1,500	Business of steel structure and general ship component manufacturing	RMB 1,005	67%
Guangzhou Xinsun Shipping Service Company Limited	RMB 600	Installation, welding, fitting, coating, repair of hull	RMB 498	83%

		structure		
United Steel Structures Limited	USD 6,000	Manufacturing, sales and post sales service of steel structure	RMB 25,439	51%
Guangdong GSI Elevator Limited	RMB 21,000	Design, manufacturing, sales, installation, modification and repair of all kinds of elevator	RMB19,950	95%
Guangzhou Hongfan Information Technique Co., Ltd	RMB 5,000	Developing of computer software, system integration and sales	RMB 4,500	90%
Guangzhou Shipyard Machinery Equipment Engineering Co., Ltd.	RMB1,000	Mechanical & electrical Product manufacturing and equipment maintenance	RMB600	60%
Dongguang Yuedong Industry & Commerce Development Co. Ltd.	RMB10,000	Service, wholesale and retail materials, hardware electrical appliances, feed, and general merchandises	RMB19,782	100%

2. Affiliates

Name	Registered Capital ('000)	Principal Business	Investment Capital ('000)	Interest Attributable to the Company
Guangzhou Yongda International Container / Engineering Co. Ltd.	USD130	Container repair	RMB 263	35%
South china / Maring and industrial Special Coating Limited	USD 1,200	Production & sales of all kinds of special coating and post service	RMB 1,722	25%
Contech International Container Engineering Company Limited	RMB 650	Manufacturing and repair of container	RMB 163	25%
Huanan Plastic Coated Steel Pipe Factory	RMB3,000	Coating of steel pipe and plastic component	RMB750	18.75%
Shenzhen Yuanzhou Science & Technology Industry Co. Ltd.	RMB13,500	Development and transferring of science production	RMB 1,000	7.41%
Henghe Construction Co.	RMB10,000	Indoor and outdoor Decoration design, construction and administration.	RMB3,380	33.8%
China Merchants Banking Corporation	RMB4,200,000	RMB, foreign currency deposit, loan and settle accounts	RMB10,010	0.23%
CSSC Information Tech. Co., Ltd.	RMB6,000	Network consultation	RMB900	15%
Guangzhou Shipyard Mechanical and Electrical Equipment Co.	RMB30	Mechanical and Electrical equipments	RMB300	10%

V. Notes to Item in the Financial Statements

1. Cash and Bank balances

Item	Foreign currency	<u>Consolidated</u>	
		Opening Balance	Closing Balance
		Equivalent RMB	Equivalent RMB
Cash in hand			
--RMB Account		362,188.19	215,499.10
--HKD Account	28,845.74	30,724.38	29,226.81
--USD Account	3,394.44	28,103.59	2,495.44
-- EUR Account		500.00	36.21
Sub-total		421,016.16	267,212.25
Cash at bank			
--RMB Account		305,904,399.97	129,854,851.07
--HKD Account	1,158,908.33	1,234,418.22	504,872.20
--USD Account	20,707,969.66	171,447,540.36	5,089,902.04
-- EUR Account			804,726.01
Sub-total		478,586,358.55	104,433.92
Others			- 61,609.99
Total		479,045,047.75	173,658,559.64

Closing balance decreased by 64% compared with the opening balance. This is mainly due to the opening balance includes an account of loan which planned for return, and that made the balance too high, but not used for operating. The closing balance is normal.

2. Short-term investments

Item	<u>Consolidated</u>	
	Opening Balance RMB	Closing Balance RMB
Bonds investment	18,000,000.00	18,000,000.00
Others		
Total	18,000,000.00	18,000,000.00

The RMB18 million represents 96 Government Bonds of JunAn Bond Co., Guangzhou Office. At 31st December 2000, the price (average) of 96 Government Bonds was RMB 144.79 per share, which is RMB3.75 per share less than purchase price. Bonds investments are merely far temporary balancing of funds rather than for investment purpose. The Company has sold the bonds and received all capital and interests up till the annual report disclosed.

3. Accounts Receivable

(1) Accounts Receivable

Consolidated

Bond age	Opening Balance (RMB)			Closing Balance (RMB)		
	Amount	percentage	Provision for doubtful debts	Amount	percentage	Provision for doubtful debts
		%			%	
Within 1 year	573,964,299.45	68.61%	<u>2,422,763.54</u>	371,270,774.77	63.10%	<u>1,758,096.98</u>
1-2 years	84,681,197.92	10.12%	<u>423,405.99</u>	74,145,969.44	12.60%	<u>1,340,906.86</u>
2-3 years	1,980,073.80	0.24%	<u>9,900.37</u>	4,083,106.12	0.69%	<u>21,450.53</u>
Over 3 years	<u>175,937,952.88</u>	21.03%	<u>5,699,555.23</u>	<u>138,851,392.59</u>	23.60%	<u>4,161,983.78</u>
Total	836,563,524.88	100%	<u>8,555,625.13</u>	588,351,242.92	100%	<u>7,282,438.15</u>

The five highest companies of account receivables are:

Company Name	Debts RMB	Debts Age	Debts Reason
COSCO	204,800,194.00	Over 1 year	Payment for goods
China Container Transportation Center of Railroad Bureau	135,194,683.98	Over 3 years	Payment for goods
Shenzhen Seig Plaza Investment Company	70,134,060.59	1-2 years	Payment for goods
Emeralt Shipping Limited, Malta	20,157,173.50	Within 1 year	Payment for goods
China Aviation Tech. Import/Export Co.	19,276,027.05	Within 1 year	Payment for goods

Among the balances of debts owed by COSCO has repayed totally before annual report disclosed.

Among the balances of debts aged over 3 years, the payment of goods of China Container Transportation Center of Railroad is RMB135.19 million, it should be received within 8 years, and the debts have been receiving ordinate.

Included in balances aged between 1 to 2 years is amount due from Shenzhen Seig Plaza Investment Company is RMB70.13 million. The Company has initiated legal actions against this company, but the court has not sentenced up till now. Details refer to “Significant Events”

The total accounts receivable of fully provision for bad debts are six scores and amount to RMB4,621,077.20. These are proved can’t be received or less possibility to be received with conclusive evidences. Accordingly, pursuant to solidity principle, the Company considers it is necessary to make fully provision for bad debts.

The total accounts receivable of actual charge off are six scores and amount to RMB2,154,808.58. The Company has initiated legal actions against debtors and wins lawsuits, but due to the judgments carry out difficultly for the debtors are unable to return the accounts assuredly, the Company approved to check off these accounts.

This does not include amount due from shareholders who hold 5% or above of the Company's interest.

(2) Prepayment from customers

	Consolidated			
	Opening Balance		Closing Balance	
	Amount RMB	%	Amount RMB	%
Within 1 year	144,756,925.52	98.45%	106,392,576.59	97.35%
1-2 years	1,276,177.95	0.87%	2,858,941.45	2.62%
2-3 years	1,000,000.00	0.68%	36,000.00	0.03%
Over 3 years	-		-	
Total	147,033,103.47	100%	109,287,518.04	100%

This does not include amount due from shareholders who hold 5% or above of the Company's interest.

The five highest companies of prepayments are:

Company Name	Debts RMB	Debts Age	Debts Reason
Wärtsilä NSD Switzerland Company Limited	17,886,591.67	Within 1 year	Prepayment for goods
Callenberd Engineering A.B.	14,267,305.35	Within 1 year	Prepayment for goods
COSCO	13,145,243.20	Within 1 year	Prepayment for goods
Hanmworphy KFE	9,519,815.00	Within 1 year	Prepayment for goods
Frank Mohn	7,160,556.50	Within 1 year	Prepayment for goods

(3). Other receivables

Age bond	Consolidated			Consolidated		
	Opening Balance (RMB)		Provision for doubtful debts	Closing Balance (RMB)		Provision for doubtful debts
	Amount	%		Amount	%	
Within 1 year	9,316,002.05	1.77%	46,580.00	14,710,251.40	2.67%	446,255.25
1-2 years	256,178,660.69	48.59%	24,023,000.00	1,844,186.46	0.34%	4,596.83
2-3 years	260,609,664.92	0.20%	25,874,043.00	261,827,016.91	47.57%	170,421,756.17
Over 3 years	1,075,438.17	-	5,377.00	271,986,548.57	49.42%	230,956,114.20
Total	527,179,765.83	100%	49,949,000.00	550,368,003.34	100%	401,828,722.45

The balance does not include amount due from shareholders holding 5% or above of the Company's interest.

The five highest amounts of other receivables are:

Company Name	Debts RMB	Debts Age	Debts Reason
Guangzhou International Trust and Investment Company (“CZITIC”)	422,781,000.00	2-4years	See note (1) (A)
Guangzhou Economic and Technology Development Zone International Trust and Investment Company (“GFETDZITIC”)	55,000,000.00	2-4years	See note (1) (B)
Guangzhou Shipyard		Over 1	
	25,000,000.00	year	See note (2)
Guangzhou Wanlong Investment Company.	17,000,000.00	3-4years	See note (3)
Guangdong Overseas Chinese Trust and Investment Company	10,000,000.00	3-4years	See note (1) (C)

Note:

- 1、 In accordance with the notice Finance (1999) No.35 issued by Ministry of Finance concerning “Supplementary Additional Regulations of Accounting System For Joint Stock Companies”, should be made on “other receivable”. During this year, specific provision has been made for overdue trust deposit for non-necessary in GZITIC, GETDZITIC, GOCTIC and GFETTIC, while the remaining balances are subject to general provision of 0.5% on the balance due.

Details as follows:

- (A) GZITIC: cumulative provision for non-recovery of 80% at RMB338.22 million with 70% made in this year of RMB295.95 million because 10% was made in last year.(details refer to item 6 (1) of “Significant Event”)
 - (B) GETDZITIC: cumulative provision for non-recovery of 100% with 10% made in last year, thereof 90% made in this year of RMB49.5 million. (details refer to item 6 (4) of “Significant Event”)
 - (C) GOCTIC: 70% provision non-recovery should be made with RMB4.66 million made in this year.(details refer to item 6 (2) of “Significant Event”)
 - (D) GFETTIC: cumulative provision non-recovery being RMB1.3235 million with RMB0.3235 million made in this year (details refer to item 6 (3) of “Significant Event”)
- 2、 Up to the date of this Report, Guangzhou Shipyard has repaid RMB23 million of the RMB25 million loans.
 - 3、 Guangzhou Wanlong Investment Company (GWIC) : The principal is RMB17 million .Both sides has signed a contract to compensate RMB5.5 million of the deposits with properties owned by GWIC (property transferring procedures are still outstanding) . Guangzhou Jinniu Meat Investment Company Limited has guarantee jointly with its marketable stocks as the debt returning guarantee owned by GWIC. The Company’s Management is of the view that GWIC has enough assets repayment of the deposits and all deposits will be refunded shortly, so there’s no need to make specific provision. Details are set out in “Significant Events”.

(4). Subsidy receivable

Item	Consolidated		Closing Balance	Balance
	Opening	Balance		
		RMB		RMB
Notes to the Accounts				

Subsidy for domestic cross ocean liners	31,897,237.34	41,372,831.83
Value-added tax refund for exports	-1,974,697.64	12,903,881.36
Total	29,922,539.70	54,276,713.19

Subsidy value-added and tax refund for domestic cross ocean liners are also operated under the notice of Finance (97) No. 114 “Quoted from Notice of finance and Tax Policy for Domestic Cross Ocean Liners in Ninth Five-year” issued by original CSSC. The subsidy and tax refund in the period is the subsidy of the two 28,000dwt bulk cargo carriers built for COSCO. The subsidy and tax refund policy is the National policy, is not the local referential policy.

Value-added tax refund for exports mainly is the receivable tax refund of exported container products.

4. Inventories and provision for diminution in value

	Consolidated			
	Opening Balance		Closing Balance	
	Amount	Provision for	Amount	Provision for
	RMB	diminution in value RMB	RMB	diminution in value RMB
Raw materials	179,892,591.53	<u>4,681,431.66</u>	262,101,939.87	<u>2,920,555.25</u>
Low-value consumables	163,296.04	-	1,395,072.02	
Work-in-progress	84,032,345.74	-	79,704,754.90	326,432,200.00
Finished goods	<u>26,641,506.84</u>	<u>5,309,000.00</u>	119,614,820.97	6,283,375.84
Total	292,197,740.15	9,990,431.66	462,816,587.76	335,636,131.09

Closing balance of inventories increased by 57% compared with the opening balance, mainly due to the RO/PAX vessel constructed by the Company, whereby its' import materials and equipments like main engine have arrived. The significant increase in finished good was mainly due to the finished container products were pending for export custom clearance and hence sales.

Note to provision for diminution in value for work-in-progress:

- 1). 1600 meters RO/PAX vessels: RMB261.88 million provision made for. Details refer to item 7 (1) of “Significant Event”.
- 2). 40,000dwt Product Oil Tankers: RMB54.544 million provision made for. Details refer to item 7 (2) “Significant Event”.

5. Deferred expenses

Category	Opening Balance	Addition in the period	Amortization in the period	Closing Balance
	RMB	RMB	RMB	RMB
Potential additional	-	19,532,050.43	-	19,532,050.43

Notes to the Accounts

value-added

tax

Other	598,393.12	2,025,305.06	1,489,220.59	1,134,477.59
Total	598,393.12	21,557,335.49	1,489,220.59	20,666,528.02

Closing balance of deferred expenses increased compared with opening balance mainly due to the additional value-added tax for violating regulations and using import materials on the batch of containers made for Container Transportation Centre of Railroad Bureau, China (“Chian Railroad”) by the Container Factory, a subsidiary of the Company, during 1996. details refer to “Significant Events”.

6. Long-term investments

Consolidated

	Opening Balance (RMB)			Opening Balance (RMB)		
	Amount	Provision for diminution in value	Addition in the period	Disposal in the period	Amount	Provision for diminution in value
Long-term equity investments	14,912,125.51	-	4,051,824.04	173,757.10	18,790,192.45	
Long-term debt investments	3,900,000.00	-	-	700,000.00	3,200,000.00	
Total	18,812,125.51	-	4,051,824.04	873,757.10	21,990,192.46	

(1) Long-term equity investments -----other equity investments

Name of investees	Total investment RMB	Percentage holding of investees' capital %	Closing Balance RMB	Share of results-equity method Change in the period RMB	Accumulated change RMB	Remark
Guangzhou Yongda International Container Engineering Company Limited	263,299.40	35.00%	336,133.50	18,881.78	72,834.10	
South china / Maring and Industrial Special Coating Limited	1,722,060.00	25.00%	2,316,591.73	105,221.07	594,531.73	
Contech International Container Engineering Company Limited	162,500.00	20.00%	452,297.05	81,478.17	289,797.05	
Huanan Plastic Coated Steel Pipe Factory	750,000.00	18.75%	750,000.00		-	
Huaxia Containers & Material Associated Company	150,000.00	15.00%	-	-100,000.00	-150,000.00	
Henghe Construction Company	3,380,000.00	33.80%	2,995,170.17	-384,829.82	-384,829.82	
Shenzhen Yuanzhou Science &	1,000,000.00	7.41%	1,000,000.00			

Notes to the Accounts

Technology Industry Co., Ltd.

China Merchants Banking Corporation	10,010,000.00	0.23%	10,010,000.00		
CSSC Information Tech. Co., Ltd.	900,000.00	15.00%	900,000.00		
Guangzhou Shipyard Mechanical & Electrical Company	30,000.00	10.00%	30,000.00		
Total	18,367,859.40		18,790,192.45	-279,248.80	422,333.06

(2) Long-term loan investments ----other loan investments

Name of debtor	Loan principal RMB	Term	Interest per year	Expiry date	Received interest in the year RMB	Accumulative amounts RMB	Principal received In the year RMB	Accumulative amounts RMB	Balance of outstanding principle RMB
Guangzhou Electric Power Corporation	7,000,000	13	4.2-9	2007.6	239,400.00	2,138,800.00	700,000.00	3,800,000.00	3,200,000.00
Total					239,400.00	2,138,400.00	700,000.00	3,800,000.00	3,200,000.00

Raising funds for the electric power is a long-term loan agreement for increasing electro-index and gaining favorable electric price signed between Guangzhou Electric Power Corporation and the Company. This loan's annual interest is 4.2% -- 9%; the capital and interest will be amortized with 10 years. The Company has received capital and interest of the residual bonds up till the annual report disclosed.

7.Fixed Assets and Accumulated Depreciation

(1) Movements of cost are as follows:

Category	Opening Balance RMB	Addition RMB	Consolidated	
			Disposal RMB	Closing Balance RMB
Buildings	428,988,837.60	5,953,839.42		434,942,677.02
Structures	189,895,482.62	6,215,228.88		196,110,711.50
Vehicles	22,775,716.49	359,403.50	318,321.10	22,816,798.89
Instruments and Meters	4,955,796.37	647,419.67	61,719.78	5,541,496.26
Transmission System	39,390,702.53	153,395.12	84,036.84	39,460,060.53
Machinery and Equipment	722,755,753.53	30,523,012.07	8,666,946.88	744,611,818.72
Total	1,408,762,288.86	43,852,298.66	9,131,024.60	1,440,483,562.92

(2) Aggregate Depreciation and net value of fixed assets

Category	Opening Balance RMB	Addition RMB	Consolidated	
			Dispose RMB	Closing Balance RMB
Buildings	56,887,565.57	12,775,596.77	54,000.00	69,609,162.34
Structures	51,070,603.28	7,703,624.89		- 58,774,228.17

Notes to the Accounts

Vehicles	9,271,019.05	1,969,885.57	277,794.01	10,963,110.61
Instruments and Meters	2,566,689.56	630,503.72	47,734.18	3,149,459.10
Transmission System	8,957,576.31	2,060,693.69	32,607.36	10,985,662.64
Machinery and Equipment	231,336,027.85	54,797,439.22	6,672,990.25	279,457,476.82
Total	360,089,481.62	79,937,743.86	7,085,125.80	432,939,099.68
Net value of fixed assets	1,048,627,807.24	-36,085,445.20	2,045,898.80	1,010,544,463.24

8. Construction Materials

Category	Opening Balance RMB	<u>Consolidated</u> Closing Balance RMB	
Steels	109,575.70		110,103.70
Non-metal	9,545.00		9,545.00
Electrical appliances	12,056.00		4,380.00
Tube	20,505.40		18,280.40
Total	151,682.10		142,309.10

9. Construction-in-Progress

Category	Opening balance (Including interest) RMB	Addition in The Period (Including interest) RMB	<u>Consolidated</u> Transfer to Fixed assets (Including interest) RMB			Other Reductions (Including interest) RMB	Closing Balance (Including interest) RMB
Facilities Improvements and --“Ninth five-year plan”	8,930,052.89	36,072,042.46	20,350,873.29			-	24,651,222.06
including: capitalized interest	(233,864.20)	(1,445,528.76)	(661,249.16)			-	(1,018,143.80)
--Others	4,025,419.80	23,425,315.43	20,083,824.22			-	7,366,911.01
including: capitalized interest	-	-	-			-	-
Projects for Subsidiary Companies	8,247,210.97						8,247,210.97
Total	21,202,683.66	59,497,357.89	40,434,697.51			-	40,265,344.04
	(233,864.20)	(1,445,528.76)	(661,249.16)			-	(1,018,143.80)

The loans of above mentioned facilities improvements projects are all returned. The capital source of all other constructions in progress will be raised by ourselves.

10. Intangible Assets

Category	Initial	Opening	<u>Consolidated</u> Addition Transfer Amortiz-			Closing

Notes to the Accounts

	Cost RMB	Balance RMB		Out RMB	ation RMB	Balance RMB
Land use right	106,862,000.00	98,343,786.23			1,621,373.96	96,722,412.27
Know-how	10,332,076.00	6,657,075.70	1,189,000.00		960,020.47	6,886,055.23
Total	117,194,076.00	105,000,861.93	1,189,000.00	-	2,581,394.43	103,608,467.50

Land use rights are amortized evenly over the useful lives of 50 years. Know-how is amortized evenly over a period of not less than 10 years.

The cost of the land use right for Xinhui City Nanyang Shipping Industrial Company of RMB15,491,000, is temporarily not amortized because it has not yet commenced operations. But the enterprise was estimated to operate in 2001.

11.Pre-operating Expenses, Long-term Deferred Expenses

Category	<u>Consolidated</u>			
	Opening Balance RMB	Additions in the period RMB	Amortization in the period RMB	Closing Balance RMB
I. Pre-operating expenses	9,416,086.73	243,241.61	2,079,830.62	7,579,497.72
Total	9,416,086.73	243,241.61	2,079,830.62	7,579,497.72
Long-term deferred expenses				
--Modification expenses of fixed assets	763,238.92	169,900.00	268,978.53	664,160.39
--Computer leased	287,054.38	348,467.38	118,434.16	517,087.60
--Others		271,634.00		271,634.00
Total	1,050,293.30	790,001.38	387,412.69	1,452,881.99

12.Short-term Loans, long-term loans within one year

(1) Short-term loans

Loans category	Opening Balance RMB	Closing Balance RMB	<u>Consolidated</u>		
			Loan's term	Note	Annual interest
				(%)	
Mortgage loans	222,955,100.00	215,000,000.00	2000.3.17-2001.11.28		5.5575-5.85
Guarantee loans	41,675,571.69	100,000,000.00	2000.8.16-2001.4.27		5.301-5.58
Credit loans	2,000,000.00				
Total:	266,630,671.69	315,000,000.00			

(2). Long-term loans due within one year

Loans category	Opening Balance RMB	Closing Balance RMB	<u>Consolidated</u>		
			Loan's term	Note	Annual interest

	Balance RMB	Balance RMB	Loan's term	Annual interest (%)
Mortgage loans	25,000,000.00	132,000,000.00	1999.10.20-2001.11.08	5.94
Guarantee loans	660,000,000.00	410,000,000.00	1999.11.17-2001.1.9	4.05
Others	4,648,365.36	4,468,365.36		
Total	689,468,365.36	546,468,365.36		

13.Accounts Payable

(1) Bills payable

Item	Remit date	Maturity	<u>Consolidated</u>	
			Closing balance	Note
Bank acceptance	2000.12.26	2001.1.22	11,400,000.00	

Bank acceptance relates to payment of ship's steel plates purchased from Chongqing Steel Co., Ltd.

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

(2) Accounts payable

Category	<u>Consolidated</u>	
	Opening Balance RMB	Closing Balance RMB
Amounts payable for materials purchased	312,065,113.69	232,581,580.51
Amounts payable for subcontracting services	785,341.41	8,544,991.14
Total	319,950,455.10	241,126,571.65

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

(3) Advances from customers

Category	<u>Consolidated</u>	
	Opening Balance RMB	Closing Balance RMB
Shipbuilding	6,229,062.27	80,000,000.00
Ship-repairing	3,682,815.38	1,316,108.00
Other products	30,445,302.64	40,099,571.35
Total	40,357,180.29	121,415,679.35

The closing balance of advances from customers increased by RMB81.06 million compared with the opening balance because shipbuilding products fund arrived their location preferably.

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

(3) Other Payables

Category	<u>Consolidated</u>	
	Opening Balance RMB	Closing Balance RMB
Company retirement pension		18,792,870.69
Staff check off		871,426.82
Guangda Company	11,876,764.04	
Guangzhou Foreign Economic and Trade International	598,690.58	
Trust and Investment Company		
Auditing expenses to accountants	2,268,048.22	1,986,412.75
Military projects expenses		2,244,647.04
Administration expenses to Gujin town		1,206,500.00
Guangzhou Shipyard		4,977,388.87
National defense research expenses		3,448,917.32
Technical expenses allotted from Guangzhou government		6,256,731.60
Labor union expenses Check off		370,113.39
Remuneration to independent directors		519,626.00
KF company, Germany		803,721.36
Other payables	25,707,933.29	7,147,275.73
Total	40,451,436.13	48,625,631.57

Company retirement pension always deposited as a special account and not bring into Balance Sheet of the Company. From year 2000, this capital was ploughed into operating, and listed in the Balance Sheet as an item of debts.

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

14.Dividends Payable

Category	<u>Consolidated</u>	
	Opening Balance RMB	Closing Balance RMB
State shares		
A shares		
H shares		
Dividends from associated companies	73,737.68	804,577.76
Total	73,737.68	804,577.76

15. Taxes Payable

Category	<u>Consolidated</u>	
	Opening Balance RMB	Closing Balance RMB
Value-added tax	17,578,218.98	-18,421,440.41
Business tax	981,017.53	1,444,644.88
City construction tax	97,679.04	231,893.54
Income tax	12,371,568.38	4,624,205.24
Property tax		2,567,039.61
Land tax		1,485,012.69
Tax of staff income	1,002,049.93	785,684.41
Total	32,030,533.86	-7,248,295.23

16. Accrued expenses

Category	<u>Consolidated</u>	
	Opening Balance RMB	Closing Balance RMB
Product warranty provision	41,342,436.50	55,443,013.59
Finalisation costs for projects	40,476,521.08	32,036,655.41
Transportation costs		3,483,706.89
Specific expenses of CCTCRB		65,000,000.00
Others	19,065,760.68	3,442,167.04
Total	100,884,718.26	159,405,542.93

Products warranty provision is made based on fixed percentage of vessel contract price of seven vessels delivered during the year in accordance with industry practice. It is intended to cover product maintenance costs incurred within one-year form date of delivery.

The specific expenses for Chian Railroad is foreseeable additional value-added tax or penalty in accordance with requirement of customs for violating regulations and using import materials on the batch kof containers made for Container Transportation Center of Railroad Bureau.China (“China Railroad”) by the Container Factory, a subsidiary of the Company during 1996. Details refer to “Significant Events”.

17. Long-term Bank Loans

Name of bank	<u>Consolidated</u>			
	Amount RMB	Loan's term	Annual interest (%)	Conditions of loans
China Import and Export Bank	270,000,000.00	2000.7.19-2002.9	4.05	Guarantee
Total	270,000,000.00			

Notes to the Accounts

18. Other long-term liabilities

Catalogue	Consolidated	
	Opening balance RMB	Closing balance RMB
China Container Transportation Center of Railroad Bureau	16,942,551.58	12,474,186.22
Total	16,942,551.58	12,474,186.22

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.

19. Capital

Unit: share

Item	Opening balance	Addition in the period (+/-)						Closing balance
		Right issue	Bonus shares	Conversion from reserves	New shares	Others	Subtotal	
I. Unlisted shares								
Promoter's shares	210800080							210800080
Including: State-owned shares	210800080					-210800080	-210800080	0
Domestic legal person shares						210800080	210800080	210800080
Oversea legal person shares								
Others								
2. Subscribed legal person shares								
3. Employee shares								
4. Preference shares or others								
Including: conversion and rights issue								
Total unlisted shares	210800080							210800080
II. Listed shares								
1. PRC listed domestic shares (A shares)	126479500							126479500
2. PRC listed foreign shares								
3. Overseas listed foreign shares (H shares)	157398000							157398000
4. Others								
Total listed shares	283877500							283877500
Total number of shares	494677580							494677580

20. Capital Reserve

Consolidated

Item	Opening Balance RMB	Additions in The period RMB	Amortization in The period RMB	Closing Balance RMB
Share premium	651,973,158.72			651,973,158.72
Provision for donation in the form of assets				-
Transfer from housing fund				-
Provision for revaluation of assets				-
Provision for equity investment				-
Provision for donation in the form of assets of investees				-
Provision for revaluation of assets of investees				-
Provision for share investment of investees				-
Foreign current target of investees				-
Other	3,825.00			3,825.00
Total	651,976,983.72	-	-	651,976,983.72

21. Surplus reserves

Item	<u>Consolidated</u>			
	Opening Balance RMB	Additions in the period RMB	Amortization in the period RMB	Closing Balance RMB
Statutory surplus reserve	49,398,689.60	16,391.88		49,565,081.48
Statuary public welfare fund	33,019,843.48	166,391.88	433,247.48	32,752,987.88
Discretionary surplus reserve	17,277,306.69	1,598,392.39		18,875,699.08
Total	99,695,839.77	1,931,176.15	433,247.48	101,193,768.44

The increased statutory surplus reserve and statuary public welfare fund of this period are the adjusted accounts related to profit distribution of the quits income tax of RMB1,663,918.80 in year 1999, which according to Sui Guo Fa [2000] No. 942 “Notice of quits enterprise income tax of investment of homemade equipments reconstructed by Guangzhou Shipyard International Company Limited”.

The reduction of Discretionary surplus reserve of this period mainly due to the newly purchased medical treatment facilities and apartments for couples married at a nature age.

Discretionary surplus reserve increased by RMB1.17 million mainly due to remit taxation of subsidiary Xinsun Shipping Serve Company Limited.

22. Retained Earnings

Item	<u>Consolidated</u> Amount RMB
Retained earnings at the beginning of the year	105,514,759.09
Annual loss and income before adjustment	1,663,918.80
Profit in the period	-725,869,601.67
Notes to the Accounts	

Transfer to statutory reserve	166,391.88
Transfer to statutory public welfare fund	166,391.88
Distribution as preference shares dividend	-
Transfer to discretionary reserve	-
Distribution as ordinary shares dividend	-
Retained earnings at the end of the year	-619,023,707.54

The increased statutory surplus reserve and statutory public welfare fund of this period are the adjusted accounts related to profit distribution of the quits income tax of RMB1,663,918.80 in year 1999, which according to Sui Guo Fa [2000] No. 942 “Notice of quits enterprise income tax of investment of homemade equipments reconstructed by Guangzhou Shipyard International Company Limited”.

23. Financial expenses

Category	<u>Consolidated</u>	
	Amount of the year RMB	Amount of last year RMB
Interest expense	53,400,516.28	69,262,486.39
Less: interest income	10,822,635.09	-19,750,309.95
Exchange loss	929,225.38	583,737.58
Less: Exchange income		
Others	4,769,052.84	3,360,108.87
Total	48,276,049.41	92,956,642.79

Financial expenses decreased by 48% comparing with last period mainly due to adjustment of trust deposits interests for the period is effectively making provision for interests’ receivable.

24. Profit from other operations

Category	<u>Consolidated</u>	
	Opening Balance RMB	Closing Balance RMB
Sales of raw materials	-1,043,654.03	-98,653.05
Sales of scrap materials	6,416,574.88	4,398,611.47
Transportation services	144,146.60	1,165,509.87
Others	-769,811.10	2,111,405.12
Total	4,747,256.35	7,576,873.41

Profit from other operations decreased by 37% compared with last period, mainly due to the disposal of aged materials at reduced price by the Company.

25. Investment income

Item	<u>Consolidated</u>			Total income
	Bonds	Equity investments		
	investment	At equity	At cost	
	RMB	RMB	RMB	RMB
Short-term investments	-	-	-	-
Long-term investments	239,400.00	-258,175.95	1,152,079.82	1,133,303.87
Total	239,400.00	-258,175.95	1,152,079.82	1,133,303.87

26. Subsidy income

Item	<u>Consolidated</u> Amount RMB
Value-added tax refunded	6,923,717.79
Subsidy for cross ocean liners	58,085,926.03
Total	65,009,643.82

The source of subsidy income in the period is:

The 28,000dwt bulk cargo carrier No.1 to No. 4 built for COSCO are eligible for the tax refund pursuant to Cai Shui Zi [2000] No. 54 “Policy for Domestic Cross Ocean Liners”. Subsidy income included special financial subsidy at 12% on contracted price from State Finance Bureau as well as value-added tax refund under “levy first, refund later” policy.

27. Non-operating income and expenses

(1) Non-operating income

Category	<u>Consolidated</u>	
	Amount of the year	Amount of last year
	RMB	RMB
Gain on disposal of fixed assets	94,412.17	527,849.99
Penalty received	14,855.50	45,482.92
Write back of liabilities	96,045.60	2,000.00
Compensation	210,720.52	177,552.00
Others	333,056.20	211,430.36
Total	749,089.99	964,315.27

(2). Non-operating expenses

Category	<u>Consolidated</u>	
	Amount of the year	Amount of last year
	RMB	RMB
Loss on disposal of fixed assets	1,787,201.78	1,880,699.14

Notes to the Accounts

Penalty expenses	34,624,908.48	129,979.25
Donations		130,000.00
Compensation	146,802.39	5,700.00
Others	539,151.90	495,439.76
Total	2,901,270.46	2,641,818.15

Non-distribution profit for the year ended.

Non-operating expenses increased compared with the amount of last year because the specific expenses for China Railroad is foreseeable additional value-added tax or penalty in accordance with requirement of customs for violating regulations and using import materials on the batch of containers made for Container Transportation Centre of Railroad Bureau China (“China Railroad”) by the Container Factory, a subsidiary of the Company during 1996. Details refer to “Significant Events”.

28. Other paid cash relevant to operation activities

Item	Amount (RMB)
Allowances for business trips	3,749,240.18
Charges for water and electricity	1,213,348.25
Insurance fee for pension	26,819,716.62
Research and development expenses	3,742,985.00
Insurance fee for laboring	4,325,183.89
Administrative expenses	3,206,013.77
Traffic expenses	8,624,463.77
Products maintenance expenses	51,343,271.27
Others	28,184,922.99
Current accounts	34,276,570.30
Total	165,485,716.04

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

(1). Accounts receivable

Age bond	Parent-company					
	Opening Balance RMB			Closing Balance RMB		
	Amount	Proportion	Provision for doubtful debts	Amount	Proportion	Provision for doubtful debts
Within 1 year	339,789,932.19	56.7%	<u>1,400,945.00</u>	295,627,310.09	57.7%	<u>1,477,613.55</u>
1-2 years	81,608,000.00	13.6%	<u>408,040.00</u>	73,992,965.20	14.4%	<u>1,340,355.86</u>
2-3 years	1,980,000.00	0.3%	<u>9,900.00</u>	4,083,106.12	0.8%	<u>20,415.53</u>
Over 3 years	175,907,866.98	29.4%	<u>5,669,469.33</u>	138,814,614.70	27.1%	<u>4,161,983.78</u>
Total	599,285,799.17	100%	<u>7,488,354.33</u>	512,517,997.11	100%	<u>7,000,368.72</u>

The five highest accounts receivable are:

Notes to the Accounts

Company Name	Debts RMB'000	Age of debts
COSCO	204,800,194.00	Within 1 year
Container Transportation Center of Railroad Bureau of China (Note 1)	135,194,683.98	Over 3 years
Shenzhen Seig Investment Company (Note 2)	70,134,060.59	1 to 2 years
Emeralt Shipping Limited, Malta	20,157,173.50	Within 1 year
China Aviation Tech. Import/Export Co.	19,276,027.05	Within 1 year

Note:

For more details please refer to notes to accounts.

The above does not include amount due from shareholders who hold 5% or above of the Company's interest.

(2). Long-term Investments

	Parent-company					
	Opening Balance RMB		Opening Balance RMB			
	Amount	Provision for diminution in value	Addition in the period	Disposal in the period	Amount	Provision for diminution in value
Long-term equity investments	206,908,143.90		11,377,968.09	4,563,886.01	213,722,225.98	
Long-term debt investments	3,900,000.00			700,000.00	3,200,000.00	
Total	210,808,143.90	-	11,377,968.09	5,263,886.01	216,922,225.98	-

(3) Long-term equity investments -----other equity investments

Name of investees	Total investment RMB	Percentage holding of investees' capital %	Closing Balance RMB	Share of results-equity method		Remark
				Change in the period RMB	Accumulated change RMB	
Kwangchow Shipyard Container Factory	56,155,800.59	100%	56,155,800.59	-	-	
Guangzhou Jinfan Advertisement Decoration Company Limited	1,260,000.00	90%	-408,552.48	-367,559.83	-1,668,552.48	
Masterwood Company Limited	2,486,385.00	75%	3,243,348.93	1,008,346.91	756,963.93	
Guangzhou Guanglian container Transportation Company Limited	15,000,000.00	75%	15,476,896.47	-699,481.28	476,896.47	
Xinhui City Nanyang Shipping Industrial Company	25,200,000.00	70%	25,200,000.00	-	-	
Guangzhou Haizhu District Guanghua	934,700.00	65%	1,675,187.80	62,352.42	740,487.80	

Notes to the Accounts

Machinery Factory					
Guangzhou Sanlong Industrial Trading					
Develop Company Limited	1,005,000.00	67%	1,299,688.11	17,160.99	294,688.11
Guangzhou Xinsun Shipping Service					
Company Limited	500,000.00	83%	9,895,555.15	5,398,339.39	9,395,555.15
United Steel Structures Limited	25,438,698.00	51%	37,971,978.58	-1,187,830.17	12,533,280.58
Guangdong GSI Elevator Limited	19,950,000.00	95%	19,760,840.97	19,545.53	-189,1259.03
Guangzhou Hongfan Information					
Technique Co., Ltd	4,500,000.00	90%	5,158,770.34	-435,377.88	658,770.34
Guangzhou Shipyard Machinery					
Equipment Engineering Co. Ltd.	600,000.00	60%	650,519.06	50,519.06	50,519.06
Dongguang Yuedong Industry & Commerce Development Co. Ltd.					
	19,782,000.00	90%	19,782,000.00	-	-
Guangzhou Yongda International					
Container Engineering Company					
Limited	263,299.40	35%	336,133.50	-33,618.22	72,834.10
South china / Maring and Industrial					
Special Coating Limited	1,722,003.00	25%	2,316,591.73	128,963.97	594,588.73
Contech International Container					
Engineering Company Limited	162,500.00	25%	452,297.06	-42,448.98	289,797.06
Huanan Plastic Coated Steel Pipe Factory	750,000.00	19%	750,000.00	-	-
Huaxia Containers & Material					
Associated Company	100,000.00	15%	-	-100,000.00	-100,000.00
Henghe Construction Company	3,380,000.00	33%	2,995,170.17	2,995,170.17	-384,829.83
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	190,200,385.99		213,722,225.98	6,814,082.08	23,521,839.99

(4) Long-term loan investments ----other loan investments

Name of debtor	Loan principal RMB	Term	Interest per year	Expiry date	Received interest in the year RMB	Accumulative amounts RMB	Received principle in the year RMB	Accumulative amounts RMB	Balance outstanding principle RMB
Guangzhou Electric Power Corporation	7,000,000.00	13	4.2-9	2007.6	239,400.00	2,138,800.00	7,000,000.00	3,800,000.00	3,200,000.00
Total	7,000,000.00				239,400.00	2,138,800.00	7,000,000.00	3,800,000.00	3,200,000.00

Raising funds for the electric power is a long-term loan agreement for increasing electro-index and gaining favorable electric price signed between Guangzhou Electric Power Corporation and the Company. This loan's annual interest is 4.2% -- 9%; the capital and interest will be amortized with 10 years. The Company

has received capital and interest of the residual bonds up till the annual report disclosed.

(5). Investment income

Item	Parent-company			
	Investment			Total
	income	Share investment income		income
	RMB	Share of results-equity method	Cost	RMB
Long-term investment	239,400.00	-34,361,904.31	1,152,079.82	12,497,525.08
Total	239,400.00	-34,361,904.31	1,152,079.82	12,497,525.08

Investment income decreased 427.55% compared with the amount of last year because the specific expenses for China Railroad is foreseeable additional value-added tax or penalty in accordance with requirement of customs for violating regulations and using import materials on the batch of containers made for Container Transportation Centre of Railroad Bureau China (“China Railroad”) by the Container Factory, a subsidiary of the Company during 1996. Details refer to “Significant Events”.

(6). Principal operating incomes cost of sales and gross profit

Products category	Operating income RMB		Cost of sales RMB		Gross profit RMB	
	Last year	This year	Last year	This year	Last year	This year
Shipbuilding products	1,560,936,802.47	1,490,200,805.70	1,326,469,855.52	1,437,577,320.05	234,466,946.95	52,623,485.65
Ship-repairing products	9,909,494.18	21,064,280.28	8,620,525.02	18,978,229.88	1,288,969.16	2,086,050.40
FRP and speed boats	3,655,215.01	7,867,509.07	2,576,560.56	6,131,120.58	1,078,654.45	1,736,388.49
Steel structure	91,079,227.71	31,298,997.00	93,461,746.01	42,900,546.79	-2,381,518.30	-11,601,549.79
Terrestrial machinery	63,097,501.69	32,201,334.21	57,199,694.07	27,972,465.78	5,897,807.62	4,228,868.43
Total	1,728,678,241.06	1,582,632,926.26	1,488,328,381.18	1,533,559,683.08	240,349,859.88	49,073,243.18

The gross profit was decreased 80% compared with last period; the main reasons are as follow:

1. The low prices of the batch of 28,000dwt vessels and lower prices of 2 35,000dwt product oil tankers made the gross profit of shipbuilding products reduced by a big margin.
2. Due to the drastic market competition, the steel structure products’ prices lowered by a big dramatically, that caused the costs out of control and losses.

Both these two reasons made the Company’s total gross profit decreased dramatically.

VI Connected party and transactions

1. Connected parties under the control of the Company (included in the consolidated statements):

Name	Registered address	Principal Business	Relationship with the Company	Nature of the enterprise	Legal representative
Kwangchow Shipyard Container Factory	No. 118 Gexin Road, Gaungzhou	Container & steel structure manufacturing, installation and repair	Subsidiary	Joint stock	Yin Xueming
Guangzhou Jinfan Advertisement Decoration Company Limited	40 Fangchun main road Guangzhou	Design and make all kinds of domestic advertisement	Subsidiary	Company with limited liability	Guan Zhiquang
Guangzhou Xinsun Shipping Service Company Limited	40 Fangchun main road Guangzhou	Installation, welding, fitting, coating, repair of hull structure	Subsidiary	Company with limited liability	Dai Zhengting
Masterwood Company Limited	40 Fangchun main road Guangzhou	Manufacture and sales of all kind of material furniture series	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, shipbuilding and steel structure engineering	Subsidiary	Cooperative company	Luo Yupei
Guangzhou Sanlong Industrial Trading Develop Company Limited	No. 126 Gexin Road, Gaungzhou	Business of steel structure and general ship component manufacturing	Subsidiary	Company with limited liability	Li Guanghui
Guangzhou Haizhu District Guanghua Machinery Factory	No. 70 Xijixi, Lifu road, Guangzhou	Machine manufacturing, production design, motor and electricial equipment.	Subsidiary	Cooperative company	Feng Ruilin
United Steel Structures Limited	40 Fangchun main road Guangzhou	Manufacturing, sales and post sales service of steel structure	Subsidiary	Sino-foreign joint venture	Ye Peihua
Guangdong GSI Elevator Limited	No. 118 Gexin Road, Gaungzhou	Design, manufacturing, sales, Installation, modification and repair of all kinds of 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 Shipyard Machinery Equipment Engineering Co. Ltd.	No. 138 Gexin Road, Gaungzhou	Manufacturing and installation of mechanical-electrical products	Subsidiary	Cooperative company	Zhong Jian

Dongguang Yuedong Industry & Commerce Development Co. Ltd.	Mayong town, Dongguan	Consulting service	Subsidiary	Joint stock	Zhong Jian
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2. 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 Jinfan Advertisement Decoration Company Limited	1,400,000			1,400,000
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
Guangzhou Haizhu District Guanghua Machinery Factory	1,438,062			1,438,062
United Steel Structures Limited	49,879,800			49,879,800
Guangdong GSI Elevator Limited	21,000,000			21,000,000
Guangzhou Hongfan Information Technique Co., Ltd	5,000,000			5,000,000
Guangzhou Shipyard Machinery Equipment Engineering Co. Ltd.	1,000,000			1,000,000
Dongguang Yuedong Industry & Commerce Development Co. Ltd.	10,000,000			10,000,000

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

Name	Opening Balance		Additions in the period	Diposal in the period	Closing Balance RMB	
	RMB	%	RMB	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 Jinfan Advertisement Decoration Company Limited	1,260,000	90			1,260,000	90
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
Guangzhou Haizhu District Guanghua Machinery Factory	935,000	65			935,000	65
United Steel Structure Limited	25,439,000	51			25,439,000	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 Shipyard Machinery Equipment Engineering Co.Ltd.	6,000,000	60			6,000,000	60
Dongguang Yuedong Industry & Commerce Co.Ltd.	19,782,000	90			19,782,000	90

4. Details of connected transactions under the control of the Company

(1). Purchasing materials

During the reporting period, there was not any purchasing operation happened between the Company and connected parties under the control of the Company.

(2). Selling materials

Name	1999		2000		Contents
	Amount	Proportion	Amount	Proportion	
Guangzhou Jinfan Advertisement Decoration Company Limited	536,342.00	0.02%	353,500.00	0.02%	Press and model manufacturing
Masterwood Company Limited	18,012,451.49	0.77%	20,235,091.70	0.89%	Carpentry engineering
Guangzhou Guanglian container Transportation Company Limited	6,565,263.87	0.28%	6,784,072.20	0.30%	Containers transporting
Guangzhou Sanlong Industrial Trading Develop Company Limited	4,317,789.71	0.19%	989,430.39	0.04%	Machine manufacturing
Guangzhou Haizhu District Guanghua Machinery Factory	1,831,915.40	0.08%			Machine manufacturing
Guangzhou Xinsun Shipping Service Company Limited	11,633,200.70	0.50%	17,589,461.86	0.78%	Blasting and painting
Guangzhou Hongfan Information Technique Co., Ltd	1,154,450.39	0.05%	454,506.37	0.02%	Software development
Kwangchow Shipyard Container Engineering Company			58,993.63	0.00%	Others
Guangzhou Hongfan Information Technique Co., Ltd			1,650,761.00	0.07%	Computers tenancy
United Steel Structures Limited	5,000,000.00	0.21%	6,000,000.00	0.26%	Workshop tenancy

5. Balances of accounts receivable from and payable to connected parties

Catalogue	At the end of 1999	proportion	At the end of 2000	proportion
1. Account receivable				
Kwangchow Shipyard Container Engineering Company			86,450.60	0.01%
Guangzhou Jinfan Advertisement Decoration Company Limited				0.00%
Guangzhou Hongfan Information Technique Co., Ltd			12,800.00	0.00%
Guangzhou Shipyard Machinery Equipment Engineering Co. Ltd.			265,400.10	0.05%
Guangzhou Haizhu District Guanghua Machinery Factory			1,231,624.80	0.21%
Masterwood Company Limited	149,340.96	0.02%	1,290,166.12	0.22%
Guangzhou Guanglian container Transportation Company Limited			2,209,476.40	0.38%
Guangzhou Xinsun Shipping Service Company Limited			5,923,881.67	1.01%

2. Other receivable				
Guangzhou Jinfan Advertisement Decoration Company Limited	296,000.00	0.06%		
Guangdong GSI Elevator Limited		0.00%		
Masterwood Company Limited	2,685,952.35	0.51%		
United Steel Structures Limited	116,066.27	0.02%	11,037.40	0.00%
Xinhui City Nanyang Shipping Industrial Company			2,123,576.25	0.39%
Guangzhou Hongfan Information Technique Co., Ltd			78,118.50	0.01%
Dongguang Yuedong Industry & Commerce Development Co. Ltd.			271,834.00	0.05%
3. Other payable				
Kwangchow Shipyard Container Engineering Company	6,773,497.55	16.74%	7,930,170.62	16.31%
United Steel Structures Limited	28,003.61	0.07%	208,520.16	0.43%
Guangzhou Hongfan Information Technique Co., Ltd		0.00%	2,058,185.32	4.23%
Guangdong GSI Elevator Limited	10,168,109.36	25.14%	98,787,620.40	18.07%
Masterwood Company Limited			2,489,312.35	5.12%
Guangzhou Jinfan Advertisement Decoration Company Limited			245,000.00	0.50%
4. advanced payment				
Guangzhou Hongfan Information Technique Co., Ltd			749,168.10	0.62%
Guangzhou Sanlong Industrial Trading Develop Company Limited			180,205.58	0.15%
5. account payable				
Guangzhou Shipyard Machinery Equipment Engineering Co. Ltd.			151,307.07	0.06%
Guangzhou Xinsun Shipping Service Company Limited	2,151,224.85	0.67%		
United Steel Structures Limited	60,113.00	0.02%		
Guangzhou Xinsun Shipping Service Company Limited	4,576,698.96	1.43%		

The condition of the connected parties uncontrolled by the Company

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.

Name	Connection with the Company
Huangpu Shipyard	Under CSSC
Guangzhou Wenchong Shipyard	Under CSSC
Guangzhou Shipyard	Under CSSC
Jiangxi Jiujiang Marine Machine Factory	Under CSSC
China Marine & Industrial Special Coating Limited Company	Affiliated Company
Guangda Company	Under CSSC
Guangzhou Shipyard Nanhai Casting & Forging Factory	Under CSSC
CSSC Guangzhou Company	Under CSSC
An'qing Marine Electrical Equipment Factory	Under CSSC
Beijing Marine System Engineering Department	Under CSSC
Haiying Enterprise Group Company Limited	Under CSSC
Hudong Shipyard	Under CSSC
Hualian Marine Company Limited	Under CSSC
Huanan Marine Machine Factory	Under CSSC
Jiangxi Chaoyang Machine Factory	Under CSSC
Jiangxi Jiujiang Marine Machine Factory	Under CSSC
Jiangxi Jiujiang Instrument Factory	Under CSSC
Liuzhou Machinery Factory	Under CSSC
Shanghai Marine Design Institution	Under CSSC
Shanghai Shipyard	Under CSSC
Zhengmao Group Company Limited	Under CSSC
CSSC Industrial Material Company Beijing Branch	Under CSSC
No. 711 Institute of CSSC	Under CSSC
CSSC Industrial Material Company	Under CSSC
China Marine Science Research Center	Under CSSC
Guangzhou Marine Material Company	Under CSSC
CSSC Material Company Huanan Branch	Under CSSC
Huanan Marine Mechanic and Electric Department	Under CSSC
Huanan Material Station	Under CSSC

The condition of the connected transactions not under the control of the Company

Item	<u>Consolidated</u>			
	1999		2000	
	Income RMB	Expenses RMB	Income RMB	Expenses RMB
Design fees		4,030,000.00		2,076,200.00
Subcontracting charges	381,699.00	1,720,000.00	193,977.31	2,124,754.80
Purchase of raw materials and equipment	203,114.12	262,614,840.32	339,901.82	149,025,148.37
Other expenses	1,501,784.92	88,426,368.43	565,908.25	17,111,769.64
Total	1,636,598.04	356,791,208.75	1,099,787.38	170,337,872.81

To subsidiaries

3). Account receivable and payable of connected parties

Item	<u>Consolidated</u>			
	1999		2000	
	Income RMB	Expenses RMB	Income RMB	Expenses RMB
Design fees				-
Subcontracting charges				

Notes to the Accounts

Purchase of raw materials and equipment	38,361.35	-	47,067.38	
Other expenses	500,000.00		507,398.04	
Total	538,361.35	-	554,465.42	-

A). Account receivable

Name	1999		<u>Consolidated</u>	
	RMB	%	RMB	2000 %
Guangzhou Shipyard			567,736.20	0.10%
Wenchong Shipyard	326,094.25	0.04%	240,272.50	0.04%
Huangpu Shipyard			15,000.00	0.00%
Total	326,094.25		823,008.70	

B). Account payable

Name	1999		<u>Consolidated</u>	
	RMB	%	RMB	2000 %
Hudong Shipyard	5,638,960.00	1.76%	-	
Shanghai Hudong Heavy Machine Shanghai Shipyard Machine Manufacturing Company Limited			11,046,505.00	4.58%
Hudong Heavy Machine Company Limited			1,280,000.00	0.53%
Shanghai Marine Design Institution			525,000.00	0.22%
Guangzhou Wenchong Shipyard			311,808.00	0.13%
Nanjing Liuzhou Machinery Factory	7,515,847.09	2.35%	2,526,000.00	1.05%
Guangxi South China Machinery Factory	457,800.00	0.14%		
Jiangxi Jiujiang Marine Machine Factory	157,000.00	0.05%		
Changzhou Switch Factory	2,151,224.85	0.67%		
South China Marine & Industrial Special Coating Limited Company	2,694,242.39	0.84%		
Total	18,615,074.33		15,689,313.00	

VII. Contingencies and Commitments

As at the 31st December 2000, the Company (the Group) had no significant contingent items or commitments.

IX. Other Notes

1. As at the 31st December 2000, the Company (the Group) had not made any financial commitments and financial guarantee to other parties.
2. The Company has not prepared audited financial statements for a period subsequent to 31st December 2000.

Guangzhou Shipyard International Company Limited

Notes to the financial statements
(prepared under Hong Kong generally accepted accounting principles)
Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The financial statements which are prepared under the historical cost convention assumes that all existing banking facilities will not be withdrawn prior to the next review dates in 2002 and beyond.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

In the Company's balance sheet the investments in associated companies are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(d) Investment securities

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

(e) Revenue recognition

Revenue from individual construction contracts is recognised net of value-added tax when there is reasonable certainty as to the outcome of the contract. The revenue is recognised on the percentage of completion method measured by reference to the standard labour hours spent to date compared with the total estimated standard hours of the contracts with profit recognised limited to the amount of the progress payments received.

Revenue from the sale of containers, terrestrial machinery and other products is recognised net of value-added tax when the title to the goods passes to customers. This generally takes place at the time when the risks and rewards associated with ownership of the goods are transferred from the Group and the Company to the customers.

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

Revenue from government subsidy for shipbuilding comprises a fixed percentage finance subsidy and value-added tax rebate. The fixed percentage finance subsidy is recognised on the same basis as that of the respective construction contracts while value-added tax rebate is recognised at the completion of the respective construction contracts.

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and interest rate applicable.

(f) Fixed assets

Land use rights are stated at cost less accumulated amortisation. Amortisation of land use rights is calculated to write off their cost over the unexpired periods of the rights on a straight-line basis.

Leasehold land are stated at cost less accumulated amortisation and any provision required to reflect

recoverable amount.

Cost represents the purchase price of the assets and other costs incurred to bring the asset into its existing use.

Amortisation of leasehold land is calculated to write off its cost over the unexpired period of the lease on a straight-line basis.

Leasehold buildings and other fixed assets are stated at cost less accumulated depreciation and any provisions required to reflect recoverable amount.

Depreciation of leasehold buildings/improvements is calculated to write off their carrying amounts over the unexpired periods of the leases or their expected useful lives to the Group whichever is shorter.

Depreciation of other fixed assets is calculated to write off their cost on the straight line basis over their expected useful lives to the Group whichever is shorter.

The principal annual rates of depreciation for various classes of fixed assets are as follows:

Fixed assets category	Depreciation rates
Land use rights	2.0%
Leasehold land	2.0%
Buildings, developments and structures	2.0% - 12.5%
Machinery, vehicles, equipment and transmission systems	2.9% - 16.7%
Instruments and meters	10.0% - 20.0%

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amounts.

The gain or loss on the disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(g) Construction-in-progress

Construction-in-progress is stated at cost which includes development expenditures and other direct costs, including interest expenses, attributable to projects for the development of buildings, structures, machinery and equipment for the Group's own use. Costs are transferred to fixed assets upon

completion.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost includes direct materials, direct labour and an appropriate proportion of variable and fixed production overheads. In general, costs are assigned to individual items on a weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Construction contracts in progress

Construction contracts in progress are stated at construction cost plus attributable profits recognised on the basis set out in note 1(e), less provisions for foreseeable losses and progress payments received and receivable. Cost is calculated on the weighted average basis and includes direct materials, subcontractor's costs and direct overheads.

Where progress payments received and receivable exceed construction costs incurred to date plus estimated attributable profits less foreseeable losses, the surplus is shown in the balance sheet as payments received or receivable on account.

(j) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(k) Deferred taxation

Deferred taxation is 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.

(l) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(m) Research and development costs

Research and development costs are expensed as incurred, except for development costs where the technical feasibility of the product under development has been demonstrated, costs are identifiable

and a market exists for the product such that it is probable that it will be profitable.

(n) Retirement benefit costs

The Group's contributions to the defined contribution retirement scheme are expensed . The assets of the scheme are held separately from those of the Group in an independently administered fund.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

2 Turnover and revenues

The Group is principally engaged in shipbuilding, shiprepairing, steel structures construction and manufacture of containers and terrestrial machinery. An analysis of revenues recognised and the Group's turnover and contribution to gross profit for the year by principal activities and markets are as follows:

	Turnover			
Gross profit	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Principal activities:				
Shipbuilding and steel structures construction	1,567,103	1,710,538	52,608	246,645
Sales of containers	520,549	439,766	32,298	32,171
Shiprepairing services	21,064	9,909	2,086	1,289
Terrestrial machinery, others products and services	<u>113,554</u>	<u>121,144</u>	<u>24,180</u>	<u>17,229</u>
	<u>2,222,270</u>	<u>2,281,357</u>	<u>111,172</u>	<u>297,334</u>
Principal markets:				
Denmark	845,330	1,037,102	61,510	144,107
China	740,531	519,529	3,724	(856)
Netherlands	224,311	132,736	13,917	9,710
United States	179,943	139,263	13,042	10,188
Iran	64,961	297,873	1,001	122,046
Others	167,194	154,854	17,978	12,139
	<u>2,222,270</u>	<u>2,281,357</u>	<u>111,172</u>	<u>297,334</u>

As operating expenses ,which include distribution costs,administrative expenses and finance expenses, represent non-distinctive amounts incurred and therefore do not necessarily have a direct correlation with the respective activities , it is impracticable to analyse these expenses by activities.

	2000	
1999	RMB'000	RMB'000
Other revenues		
Income from unlisted investments	239	1,227
Government subsidy income for shipbuilding	65,010	32,982
Sales of scrap materials	3,699	5,776
Interest income	13,192	6,839
Others	3,691	1,003
	<u>85,831</u>	<u>47,827</u>

3 Operating (loss)/profit

	Group	
	2000 RMB'000	1999 RMB'000
The operating (loss)/profit is stated after charging the following:		
Auditors' remuneration	2,019	2,000
Depreciation and amortisation of fixed assets	82,517	81,433
Less: Amounts capitalised as inventories	(16,942)	(19,024)
	65,575	62,409
Loss on disposal of fixed assets	1,691	1,406
Provision for warranty	11,922	25,522
Net exchange losses	928	568
Staff costs	208,599	188,899
Research and development costs	3,689	3,165

4 Finance costs

	Group	
	2000	1999

	RMB'000	RMB'000
Interests on bank loans	54,667	68,998
Interests due to suppliers	6,069	4,434
Other incidental borrowing costs	928	568
Total borrowing costs incurred	61,664	74,000
Less: interests capitalised in construction-in-progress	(1,446)	(455)
	<u>60,218</u>	<u>73,545</u>

The capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress is between 4.05% and 5.94%. (1999: 4.05% and 6.60%)

5 Taxation

- (a) The amount of taxation charged to the consolidated profit and loss account represents:

	2000 RMB'000	Group 1999 RMB'000
PRC enterprise income tax	6,106	13,225
Share of taxation attributable to associated companies	<u>26</u>	<u>75</u>
	<u>6,132</u>	<u>13,300</u>

As approved by the State Tax Bureau, the Company's PRC enterprise income tax is calculated at 15% (1999: 15%) on the estimated assessable profit for the current year. 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.

- (b) Turnover taxes applicable to the Group and the Company include:

Activity category		Tax category	
Tax rate		2000	1999
Shipbuilding , shiprepairing, steel structure construction , manufacture of containers , terrestrial machinery and other products	Value-added tax ("VAT")	17%	17%
Transportation and installation services	Business tax	3%	3%
Other services	Business tax	5%	5%

- (c) Taxation payables represent:

	Group		Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Taxation payable:				
- PRC enterprise income tax	4,624	12,372	3,952	12,359
- Value-added tax	-	17,576	3,309	6,701
- Other taxes	6,549	2,083	5,806	1,767
		32,031	13,607	20,827
	<u>11,173</u>			
(d) Tax recoverable represents:				
- Value-added tax	<u>28,016</u>	<u>-</u>	<u>18,162</u>	<u>-</u>

(e) Deferred taxation

Deferred taxation for the year has not been provided in respect of

	2000	1999
	RMB'000	RMB'000
Timing differences arising from:		
Provision for foreseeable losses of construction contracts	48,965	-
Amount due from non-banking financial institutions		
-Provision for non-recovery on principals	52,565	7,467
-Interest receivables written off	-	5,465
Pre-operating expenses written off	1,136	-
	<u>102,666</u>	<u>12,932</u>

The potential deferred tax assets not provided for in the accounts amounts to:

Provision for foreseeable losses of construction contracts	48,965	-
Amounts due from non-banking financial institutions		
-Provision for non-recovery on principals:	60,032	7,467
-Interest receivables written off	5,465	5,465
Pre-operating expenses written off	1,136	-
	<u>115,598</u>	<u>12,932</u>

6 Loss attributable to shareholders

Loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB658,499,000 (1999: loss of RMB6,537,000).

7 (Loss)/earnings per share

Loss of RMB1.4371 (1999: profit of RMB0.0019) per ordinary share of RMB1 each are calculated on the Group's loss attributable to shareholders of RMB728,710,000 (1999: profit of RMB956,000) and on the weighted average number of shares of 494,677,580 (1999: 494,677,580) ordinary shares in issue during the year.

8 Pension scheme and costs

The Company and certain subsidiaries have joined the defined contribution retirement scheme operated by the provincial government of Guangdong Province since 1st January 1994. Under the scheme, the relevant group companies are required to make contributions at 18% of the standard salaries. Upon retirement, the retirees will receive monthly payments from the Social Insurance Bureau of Guangdong Province. Contributions made by the Group for the year ended 31st December 2000 was RMB20,090,091 (1999: RMB17,499,000). In addition, the Company and a subsidiary have operated a supplemental defined contribution retirement scheme since 1st March 1995. Under this scheme, the relevant group companies and the employees are required to make contributions at 10% and 5% of a specified amount of the employees' monthly salaries respectively. The staff will receive both contributions plus interest upon retirement. Contributions made by the Group for the year ended 31st December 2000 was RMB2,315,397 (1999: RMB2,042,000). Contributions by the Group forfeited as a result of resignation of the employees before retirement totalling RMB169,256 (1999: RMB118,012) are utilized for the welfare of retirees. In addition, during the year the Group had made payments of RMB643,824 (1999: RMB698,000) as subsidies to retirees.

9 Directors', supervisors' and senior management's emoluments

The aggregate amounts of emoluments payable to directors, supervisors and senior management during the year are as follows:

	2000 RMB'000	1999 RMB'000
Fees		
Executive directors	-	-
Non – executive directors	395	395
Supervisors	-	-
Other emoluments for executive directors		
Basis salary, allowance and benefits in kind	307	451
Retirement benefits	4	59
Other emoluments for supervisors		
Basis salary, allowance and benefits in kind	216	288
Retirement benefits	5	19
Other emoluments for senior management		
Basis salary, allowance and benefits in kind	525	342
Retirement benefits	7	48
	<u>1,459</u>	<u>1,602</u>

The emoluments for all of the Company's 11 directors (executive and non-executive), 4 supervisors and 9 senior managers fell within the band of RMB 0 to RMB100,000 during the year (1999: RMB 0 to RMB 150,000).

No directors, supervisors or senior management waived emoluments in respect of the years ended 31st December 1999 and 2000.

The five highest paid individuals are either directors, supervisors or senior management whose emoluments have been disclosed in directors', supervisors' and senior management's emoluments note above.

Note: The Company operates the same pension schemes for its executive directors, supervisors and senior management as for its other staff and no special arrangements have been made in this regard.

10 Fixed assets

Group

	Land use rights	Construction- in-progress	Land and buildings in Hong Kong	Buildings, developments and structures	Machinery, Vehicles, Equipment and transmission systems	Instruments and meters	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1 st January 2000	106,862	21,203	21,396	597,489	794,066	4,956	1,545,972
Additions	-	59,497	-	31	3,927	647	64,102
Transfers	-	(40,435)	-	12,138	28,297	-	
Disposals	-	-	-	-	(9,069)	(63)	(9,132)
At 31 st December 2000	106,862	40,265	21,396	609,658	817,221	5,540	1,600,942
Accumulated depreciation or amortisation							
At 1 st January 2000	8,519	-	980	107,111	251,918	2,566	371,094
Charge for the year	1,621	-	508	19,972	59,785	631	82,517
Disposals	-	-	-	(54)	(6,984)	(48)	(7,086)
At 31 st December 2000	10,140		1,488	127,029	304,719	3,149	446,525
Net book value							
At 31 st December 2000	96,722	40,265	19,908	482,629	512,502	2,391	1,154,417
At 31 st December 1999	98,343	21,203	20,416	490,378	542,148	2,390	1,174,878

Company

	Land use rights	Construction- In-progress	Land and buildings in Hong Kong	Buildings, developments and structures	Machinery, vehicles, Equipment and transmission systems	Instruments and meters	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000

Cost

At 1 st January 2000	69,391	12,955	21,396	545,791	580,804	4,740	1,235,077
Additions	-	59,497	-	5,588	422	-	65,507
Transfers	-	(40,435)	-	12,138	27,652	645	40,435
Disposals	-	-	-	(579)	(9,993)	(62)	(10,634)
At 31 st December 2000	69,391	32,017	21,396	562,938	598,885	5,323	1,289,950

Accumulated depreciation**or amortisation**

At 1 st January 2000	8,518	-	980	93,822	167,655	2,460	273,435
Charge for the year	1,621	-	508	19,441	40,551	602	62,723
Disposals	-	-	-	(41)	(5,178)	(48)	(5,267)
At 31 st December 2000	<u>10,139</u>	<u>-</u>	<u>1,488</u>	<u>113,222</u>	<u>203,028</u>	<u>3,014</u>	<u>330,891</u>

Net book value

At 31 st December 2000	59,252	32,017	19,908	449,716	395,857	2,309	959,059
At 31 st December 1999	60,873	12,955	20,416	451,969	413,149	2,280	961,642

The land use rights are for land situated in the PRC each for a period of 50 years commencing from 1993 to 1996.

The net book value of land and buildings, developments and structures comprises:

	Group		Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
In Hong Kong, held on:				
Leases of over 50 years	15,414	15,810	15,414	15,810
Leases of between 10 to 50 years	4,494	4,606	4,494	4,606
Outside Hong Kong, held on:				
Leases of between 10 to 50 years	482,629	490,378	449,716	451,969
	<u>502,537</u>	<u>510,794</u>	<u>469,624</u>	<u>472,385</u>

11 Investments in subsidiaries

Company
2000
1999

	RMB'000	RMB'000
At cost, unlisted	184,980	184,980
Amounts due from/(to) subsidiaries	<u>3,847</u>	<u>(246)</u>
	<u>188,827</u>	<u>184,734</u>

The amounts due from and due to subsidiaries are unsecured, interest-free, and not repayable within twelve months from the balance sheet date.

The following is a list of the principal subsidiaries at 31st December 2000 and they are all established and operate in the People's Republic of China:

	Issued and fully				
Name	paid-up capital	Interest held		Nature of entity	Principal activities
		2000	1999		
		%	%		
Shares held directly:-					
Kwangchow Shipyard Container Factory	RMB44,924,640	100	100	Joint stock company	Manufacture of containers
MasterWood Company Limited	RMB3,315,180	75	75	Sino-foreign equity joint venture	Manufacture of furniture
Xinhui City Nanyang Shipping Industrial Company	RMB34,200,000	70	70	Cooperative limited liability company	Ship dismantling
Guangzhou Haizhu District Guanghua Machinery Factory	RMB1,438,062	65	65	Cooperative limited liability company	Manufacture of machinery
Guangzhou Jinfan Advertisement Decoration Company	RMB1,400,000	90	90	Joint stock company	Design and production of advertisements
Guangzhou Guang-lian Container Transportation Company Limited	RMB20,000,000	75	75	Sino-foreign equity joint venture	Transportation services for containers
United Steel Structures Ltd.	US\$6,000,000	51	51	Sino-foreign equity joint venture	Large steel structure engineering
Guangzhou Xin Sun Shipping Service Company Limited	RMB600,000	83	83	Company with limited liability	Fabrication, welding and coating of ships
Guangzhou Sanlong Dragon Industrial Trade Development Company Limited	RMB1,500,000	67	67	Company with limited liability	Construction engineering, equipment leasing and technology consultancy
Guangdong Guangzhou Shipyard International Elevator Company	RMB21,000,000	95	95	Company with limited liability	Manufacture of elevators

Guangzhou Hongfan Information Technique Company Limited	RMB5,000,000	90	90	Cooperative limited liability company	Computer marketing
Guangzhou Shipyard Machinery Equipment Engineering Co., Ltd	RMB1,000,000	60	60	Company with limited liability	Machinery & electrical product manufacturing and equipment maintenance
Dongguan Yuedong Industry & Commerce Development Co., Ltd	RMB10,000,000	90	90	Joint stock company	Service, retailing and wholesaling
Shares held indirectly:- Guangzhou Hongfang Hotel Co. Ltd.	RMB500,000	100	100	Company with limited liability	Hotel and catering
Dongguan Yuedong Industry & Commerce Development Co., Ltd	RMB10,000,000	10	10	Joint stock company	Service, retailing and wholesaling

The above subsidiaries of the Company, 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.

12 Investments or interests in associated companies

	Group		Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
At cost, unlisted	-	-	5,528	2,148
Share of net assets	6,100	3,052	-	-
Divided income from associated companies	-	-	280	697
	<u>6,100</u>	<u>3,052</u>	<u>5,808</u>	<u>2,845</u>

The following is a list of associated companies at 31st December 2000 which are all established and operate in the People's Republic of China:

Name	Issued and fully paid-up capital	Interests held		Nature of Entity	Principal activities
		2000 %	1999 %		
Guangzhou Economic and Technical Development Zone South China Marine and Industrial Special Coating Limited	US\$1,200,000	25	25	Sino-foreign equity joint venture	Provision of Special Coating Services
Guangzhou Yongda International Container Engineering Limited	US\$130,000	35	35	Sino-foreign equity joint venture	Repair and Maintenance of containers

Contech International Container Engineering Company Limited	RMB650,000	25	25 Sino-foreign equity joint venture	Manufacture, repair and inspection services for containers
Guangzhou Henghe Construction Engineering Company Limited	RMB10,000,000	33.8	- Cooperative limited liability company	Design, Construction and provision of management services

13 Investment securities

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
At cost, Unlisted shares	12,690	11,860	11,760	11,860
Unlisted government debentures	18,000	18,000	18,000	18,000
	<u>30,690</u>	<u>29,860</u>	<u>29,760</u>	<u>29,860</u>

14 Long term receivables

Included in the long term receivables for the Group is an amount of RMB99,175,000 (1999: RMB135,074,000) arising from sales to a customer with an extended settlement period of more than one year. Deferred income, calculated as the difference between the nominal amount of the consideration and that of transactions carried out in the ordinary course of business and on normal commercial terms, are charged on a straight line basis to the profit and loss account in accordance with the repayment schedule as provided in the agreement.

15 Inventories

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Raw materials	265,141	177,308	227,533	123,573
Work-in-progress	86,190	80,082	68,547	45,266
Finished goods	<u>102,425</u>	<u>24,969</u>	<u>4,186</u>	<u>3,036</u>
	<u>453,756</u>	<u>282,359</u>	<u>300,266</u>	<u>171,875</u>

At 31st December 2000, the carrying amount of inventories for the Group and the Company that are carried at net realisable value amounted to RMB10,703,000 and RMB1,069,000 (1999: RMB11,519,000 and RMB1,911,000) respectively.

16 Trade receivables

At 31st December 2000, the ageing analysis of the trade receivables were as follows:

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Not exceeding one year	394,483	571,541	294,149	301,818
More than one year but not exceeding two years	72,805	84,258	72,653	81,200
More than two years but not exceeding three years	4,062	1,970	2,974	1,970
More than three years	34,130	35,056	-	35,174
	<u>505,480</u>	<u>692,825</u>	<u>369,776</u>	<u>420,162</u>

The general credit terms of trade receivables are:

Operations	Credit term
Shipbuilding and shiprepairing	Within one month after issue of invoice
Other operations (including manufacture of containers, machinery and large steel structures)	Normally one to six months

17 Other receivables, prepayments and deposits

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Note				
Prepayments for trading materials and equipment	109,288	133,407	107,061	133,407
Amount due from non-banking financial institutions	495,869	497,781	495,871	497,781
Less: Provision for non-recovery	(400,211)	(49,778)	(400,211)	(49,778)
(a)	95,660	448,003	95,660	448,003
Government subsidy receivable for construction of vessels	44,682	29,922	44,682	29,269
Others	56,981	56,774	51,080	31,940

Notes to the Accounts

<u>306,611</u>	<u>668,106</u>	<u>298,483</u>	<u>642,619</u>
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(a) Amounts due from non-banking financial institutions

	2000	1999
	RMB'000	RMB'000
Guangzhou International Trust and Investment Company	422,781	422,781
Guangzhou Economic and Technology Development Zone International Trust and Investment Company	55,000	55,000
Guangzhou Foreign Economic and Trade Trust and Investment Company ("GFETTIC")	10,000	10,000
Guangdong Overseas Trust and Investment Company	<u>8,090</u>	<u>10,000</u>
	495,871	497,781
Less: provision for non-recovery	<u>(400,211)</u>	<u>(49,778)</u>
Total	<u>95,660</u>	<u>448,003</u>

During the year ,additional provision amounting to RMB350,433,000 has been made against the amounts due from the above non-banking financial institutions based on the latest information available to the Company and the actual progress made in recovery of these receivables. Total provision made as at 31st December 2000 represents the amount of the above outstanding receivables which the Company is uncertain of its recovery.

18 Trade payables

At 31st December 2000, the ageing analysis of the trade payables were as follows:

	Group		Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Not exceeding one year	240,749	359,680	188,314	284,864
More than one year but not exceeding two years	17	195	17	195
More than two years but not exceeding three years	--	--	--	--
More than three years	361	432	361	432
	<u>241,127</u>	<u>360,307</u>	<u>188,692</u>	<u>285,491</u>

19 Provision for a potential liability

Subsequent to the year end ,a subsidiary has been verbally informed by the Custom Office that the subsidiary did not comply with certain import rules and regulations And therefore additional import duties and penalties would be levied. Based on best Estimates available ,the directors made a provision of RMB45,468,000 being anticipated effect on the Group's results.

20 Payment received on account

	Group and Company	
	2000	1999
	RMB'000	RMB'000
Costs incurred for construction contracts plus attributable	773,255	892,435
Less: Provision for foreseeable losses	(326,432)	-
Progress billings to date	<u>(780,272)</u>	<u>(1,038,991)</u>
	<u>(333,449)</u>	<u>(146,556)</u>

No retention were held by customers for contract works at 31st December 1999 and 2000.

At 31st December 2000, no vessels under construction have been pledged as security for liabilities. (1999: RMB209,958,000).

21 Long-term bank loans

	Group		Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	542,000	266,631	542,000	222,955
In the second year	270,000	301,800	270,000	301,800
Long term bank loans	812,000	568,431	812,000	524,755

At 31st December 2000, bank loans of RMB347,000,000 (1999: RMB619,713,000) of the Group and the Company were secured by fixed assets of the Company with net book value of RMB243,664,000 (1999: RMB301,750,000).

22 Share capital

	Company	
	2000	1999
	RMB'000	RMB'000
Registered, issued and fully paid		
210,800,080 State shares of RMB1 each	210,800	210,800
126,479,500 A shares of RMB1 each	126,480	126,480
157,398,000 H shares of RMB1 each	157,398	157,398
	494,678	494,678

23 Reserves

	Note	Group		Company	
		2000	1999	2000	1999
		RMB'000	RMB'000	RMB'000	RMB'000
(Accumulated loss)/					
retained profits	(a)	(623,526)	105,516	(560,189)	98,642
Other reserves	(b)	752,002	751,670	751,383	751,051
		128,476	857,186	191,194	849,693

(a) (Accumulated loss)/retained profits

	Group		Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 st January	105,516	105,231	98,642	105,418
(Loss)/ profit for the year retained	(728,710)	956	(658,499)	(6,537)
Transfer to reserves	(332)	(671)	(332)	(239)

Notes to the Accounts

At 31st December	<u>(623,526)</u>	<u>105,516</u>	<u>(560,189)</u>	<u>98,642</u>
Company and its subsidiaries	(627,022)	101,935	(563,685)	95,061
Associated companies	<u>3,496</u>	<u>3,581</u>	<u>3,496</u>	<u>3,581</u>
	<u>(623,526)</u>	<u>105,516</u>	<u>(560,189)</u>	<u>98,642</u>

(b) Other reserves

	Group				
	Surplus reserves				
	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2000	651,977	49,398	33,018	17,277	751,670
Profit for the year retained	-	166	166	-	332
Transfers from /(to) other reserves	-	-	(433)	433	-
Others	-	-	-	-	-
At 31st December 2000	651,977	49,564	32,751	17,710	752,002

	Group				
	Surplus reserves				
	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 st January 1999	651,977	48,862	33,217	16,449	750,505
Profit for the year retained	-	536	135	-	671
Transfers from /(to) other reserves	-	-	(334)	334	-
Others	-	-	-	494	494
At 31st December 1999	651,977	49,398	33,018	17,277	751,670

Group				
Surplus reserves				Total
Capital Reserve	Statutory Surplus Reserve	Statutory Public welfare fund	Discretionary surplus reserve	
RMB'000	RMB'000	RMB'000	RMB'000	

At 1 st January 2000	651,977	48,877	32,920	17,277	751,051
Profit for the year retained	-	166	166	-	332
Transfers from /(to) other reserves	-	-	(433)	433	-
Others	-	-	-	-	-
At 31st December 2000	<u>651,977</u>	<u>49,043</u>	<u>32,653</u>	<u>17,710</u>	<u>751,383</u>

	Group				Total RMB'000
	Capital Reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	
At 1st January 1999	651,977	48,758	33,134	16,449	750,318
Transfer from retained profits	-	119	120	-	239
Transfers from /(to) other reserves	-	-	(334)	334	-
Others	-	-	-	494	494
At 31st December 1999	<u>651,977</u>	<u>48,877</u>	<u>32,920</u>	<u>17,277</u>	<u>751,051</u>

(i) Capital reserve

This represents premium on issue of shares net of issuing expenses. Capital reserve can only be used to increase share capital.

(ii) Surplus reserves

Surplus reserves are part of shareholders' equity and comprise statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve.

(a) Statutory surplus reserve

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation prepared in accordance with PRC accounting standards to the statutory surplus reserve until the balance reaches 50% of the paid up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital

(b) Statutory public welfare fund

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer between 5% to 10% of the profits after taxation prepared in accordance with PRC accounting standards to the statutory public welfare fund. The use of this fund is restricted to capital expenditure for

employees' collective welfare facilities, the ownership in respect of which belongs to the Group. The statutory public welfare fund is not available for distribution to shareholders except under liquidation. Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from the statutory public welfare fund to the discretionary surplus reserve. In 2000, the Company spent RMB433,247 for the purchase of relevant welfare facilities and accordingly, a same amount has been transferred from the statutory public welfare fund to the discretionary surplus reserve.

(c) Discretionary surplus reserve

In accordance with the relevant PRC financial regulations, subject to approval by shareholders in general meetings, discretionary surplus reserve can be used to reduce any losses incurred or to increase share capital.

(d) Profit distribution

In accordance with the Company's Articles of Association, profit after taxation shall be appropriated in the following sequence:

- (i) offset accumulated losses;
- (ii) 10% to be transferred to statutory surplus reserve (Note 22(b)(ii)(a));
- (iii) 5-10% to be transferred to statutory public welfare fund (Note 22(b)(ii) (b));
- (iv) transfer to discretionary surplus reserve (Note 22(b)(iii)(c)); and
- (v) pay dividends.

Pursuant to article 141 of the Company's Articles of Association, where the financial statements prepared in accordance with the PRC accounting standards differ from those prepared under the Hong Kong generally accepted accounting principles, for the purpose of approving the profit distribution, profit after taxation of the Company for the relevant accounting year shall be deemed to be the lesser of the amounts in the two different financial statements.

At 31st December 2000, there were no distributable reserves of the Company available for distribution as dividends (1999: RMB98,642,000).

24 Notes to the consolidated cash flow statement

(a) Reconciliation of operating (loss)/profit to net cash inflow from operating activities

	2000 RMB'000	1999 RMB'000
Operating (loss)/ profit	(721,762)	18,865

Notes to the Accounts

Share of losses/(profits) of associated companies	59	(208)
Loss on disposal of an associated company	-	392
Loss on disposal of other investment	100	-
Income from unlisted investments	(239)	(1,227)
Depreciation and amortisation	65,575	62,409
Provision for non-recovery on principals due from non-banking financial investments	350,433	49,778 -
Interests from non-receivables banking financial institutions written off	-	36,432
Provision for a potential liabilities	45,468	--
Provision for foreseeable losses of construction contracts	326,432	
Interest expenses	59,290	68,875
Interest income	(13,192)	(6,839)
Loss on disposal of fixed assets	1,691	1,406
Provision for staff welfare	231	414
(Increase)/Decrease in inventories	(154,455)	20,074
(Increase) /decrease in payments received on account	(139,539)	(353,746)
Decrease/(increase) in trade and other receivables, deposits and prepayments, including tax credit and tax recoverable	206,992	(13,049)
Increase in trade and notes payables, other payables and accruals, including other taxes payable	24,551	131,768
Exchange difference	--	(69)
Net cash inflow from operating activities	51,633	15,275

(b) Analysis of change in financing during the year

	Share capital and capital reserve		Bank loans		Minority interests	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
At 1st January	1,146,655	1,146,655	1,353,431	937,897	57,293	52,341
Capital contribution from minority interests	-	-	-	-	-	700
Minority interests in share of profits	-	-	-	-	816	4,609
Dividends declared to minority shareholders	-	-	-	-	(3,046)	(357)
Loans acquired	-	-	1,167,561	1,713,308	-	-
Repayment of loans	-	-	(1,393,992)	(1,297,732)	-	-
Effect of foreign exchange rate changes	-	-	-	(42)	-	-
Others	-	-	-	-	-	-
At 31st December	1,146,655	1,146,655	1,127,000	1,353,431	55,063	57,293

25 Capital commitments for property, plant and equipment

At 31st December 2000, the Group and the Company had the following commitments:

	Contracted but not provided for		Authorised by directors but not contracted for	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Purchase of machinery and equipment	6,254	13,292		6,950
Purchase or construction of factories and buildings	7,883	5,676		1,200
	14,137	18,968		8,150

26 Contingent liabilities

The Group had no material contingent liabilities at 31st December 2000.

27 Related party transactions

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

	2000 RMB'000	1999 RMB'000
Notes to the Accounts		

Companies controlled by China State Shipbuilding Corporation
("CSSC")

Purchase of raw materials	44,144	120,087
Purchase of equipment for shipbuilding	97,507	142,137
Other expenses	27,033	94,568

The other expenses above included service fees (including the provision of staff quarters) made amounted to RMB14,986,009(1999:RMB36,795,000) to GZS for its provision of staff welfare services. Pursuant to the comprehensive service agreement dated 28 December 1997 entered between the Company and Guangzhou Shipyard("GZS"), a subsidiary of CSSC,the Group also incurred .The comprehensive service agreement covers a three-year period from 1998 to 2000.

It has been confirmed by the independent directors of the Company that the above related party transactions were carried out in the ordinary course of business at terms no less than those charged to and contracted with other third party customers of the Group.

28 Reconciliation of financial statements

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

(a) Results and net assets

Group

	(Loss)/Profit after taxation and minority interests		Net assets at 31st December	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Prepared under PRC accounting Standards	(725,869)	956	628,824	1,351,864
Pre-operating expenses fully written off	(5,670)	-	(5,670)	-
Tax incentives items	2,829	-	-	-
Prepared under HKGAAP	<u>(728,710)</u>	<u>956</u>	<u>623,154</u>	<u>1,351,864</u>

Company

	(Loss)/Profit after taxation and minority interests		Net assets at 31st December	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000

Prepared under PRC accounting Standards	(725,869)	1,194	629,062	1,352,102
Operating results of subsidiaries and associated companies equity accounted for	65,706	(7,731)	(56,810)	(7,731)
Tax incentive items	1,664	-	--	-
Prepared under HKGAAP	<u>(685,499)</u>	<u>(6,537)</u>	<u>685,872</u>	<u>1,344,371</u>

(b) Balance sheets

Group-31 st Dec	Inventories	Trade receivables, deposits, prepayments and other receivables	Trade and note payables, accrued charges, provision for warranty and other payables	Payments received on account	Investment (including short term investment)	Bank loans	Deferred income
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Prepared under PRC accounting standards	127,180	922,991	(588,078)	(7,017)	39,990	(1,143,943)	-
Written off of pre-Operating expenses	-	(7,570)	-	-	-	-	-
Accounts reclassification							
- Provision for a potential liability	-	(19,532)	19,532	-	-	-	-
- Construction contracts work-in-progress	326,432	-	-	(326,432)	-	-	-
- Others	144	18,577	20,497	-	(3,200)	16,943	16,943
Prepared under HKGAAP	<u>453,756</u>	<u>914,466</u>	<u>548,049</u>	<u>(333,449)</u>	<u>36,790</u>	<u>(1,127,000)</u>	<u>(16,943)</u>

Group-31st Decembe	Inventories	Trade receivables, deposits, prepayments and other receivables	Trade and note payables, accrued charges, provision for warranty and other payables	Payments received on account	Investment (including short term investment)	Bank loans	Tax deferred and recoverable	Deferred income
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Prepared under PRC accounting Standards	282,207	1,493,529	(650,367)	-	36,812	(1,374,842)	-	-

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reclassification								
- Construction contracts work-in-progress	-	-	146,556	(146,556)	-	-	-	-
- Others	152	6,376	(2,628)	-	(3,900)	21,411	-	21,411
Prepared under HKGAAP	<u>282,359</u>	<u>1,499,905</u>	<u>(506,439)</u>	<u>(146,556)</u>	<u>32,912</u>	<u>(1,353,431)</u>	<u>-</u>	<u>21,411</u>

(b) Balance sheets

Company-31st December 2000						
	Inventories	Long term receivables trade receivables, deposits, prepayments and other receivables	Trade and note payables, accrued charges, provision for warranty and other payables	Payments received on account	Investment (including short term investment)	Bank Loans
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Prepared under PRC accounting standards	(26,309)	813,000	(339,239)	(7,017)	234,922	(1,143,943)
Accounts reclassification						
Provision for a potential liability	-	-	45,468	-	-	-
Current account will subsidiaries	-	(148,040)	(165,813)	-	-	-
- Construction contract work-in-progress	326,432	-	-	(326,432)	-	-
- Others	143	6,499	7,210	-	(10,527)	16,943
Prepared under HKGAAP	<u>300,266</u>	<u>671,459</u>	<u>(452,374)</u>	<u>(333,449)</u>	<u>224,395</u>	<u>(1,127,000)</u>
Company-31st December 1999						
	Inventories	Trade receivables, deposits, prepayments and other receivables	Trade and note payables, accrued charges, provision for warranty and other payables	Payments received on account	Investments (including short term investment)	Bank loans
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Prepared under PRC accounting standards	171,723	1,247,077	(332,039)	-	228,808	(1,331,166)
Accounts reclassification						
- Construction contracts work-in-progress	-	-	146,556	(146,556)	-	-
- Others	152	238,563	(266,617)	-	(11,369)	21,411
Prepared under HKGAAP	<u>171,875</u>	<u>1,485,640</u>	<u>(452,100)</u>	<u>(146,556)</u>	<u>217,439</u>	<u>(1,309,755)</u>

29 Approval of accounts

The accounts were approved by the board of directors on 20th April 2001.