

Chairman's Statement

II、Major financial data and indicators

The accounting policies adopted in the preparation of the following financial data and indicators are either under PRC accounting standards or Hong Kong generally accepted accounting principles:

(I) Prepared under the PRC accounting standards

| | For six months ended 30 th June | | At the end of 2000 |
|---|--|----------------|--------------------|
| | 2001 | 2000 | |
| | (Consolidated) | (Consolidated) | (Consolidated) |
| Net profit (RMB'000) | 6,535 | 23,928 | -739,770 |
| Net profit after deduction of exceptional items (RMB'000) | 6,494 | 24,236 | -17,437 |
| Earnings per share (RMB) | 0.0132 | 0.0483 | -1.50 |
| Return on net assets (%) | 1.06 | 1.73 | -1.21 |
| Net cash flow from operating activities per share | 0.29 | 0.52 | 0.048 |

Note: The nature and amount of exceptional items occurred in 2000 excluded are as follows:

| | |
|---|----------------|
| Additional provision for non-recovery of trust deposits | RMB350,433,000 |
| Provision for foreseeable losses on construction contract | RMB326,432,000 |
| Provision for penalty for China Railroad containers | RMB 45,468,000 |

| | As at 30 th June, 2001 | As at 31 st Dec., 2000 |
|--|-----------------------------------|-----------------------------------|
| Total assets (RMB'000) | 2,714,043 | 2,418,381 |
| Assets liabilities ratio (%) | 75.33 | 71.64 |
| Shareholders' equity (RMB'000)(Excluding minority interests) | 615,565 | 628,825 |
| Net assets per share (RMB) | 1.24 | 1.27 |
| Adjusted net assets per share (RMB) | 1.17 | 1.12 |

Notes:

Methods for calculating the major financial indicators are as follows:

Earnings per share = net profit / total ordinary shares at the end of the period covered in this report

Return on net assets = net profit / shareholders' equity at the end of the period covered in this report x 100%

Assets liabilities ratio = total liabilities / total assets

Net assets per share = shareholders' equity at the end of the period covered in this report / total ordinary shares at the end of the period covered in this report

Adjusted net assets per share = (shareholders' equity – accounts receivable aged over three years – deferred expenses – net loss on assets (current and fixed) to be written off – pre-operating expenses – long term deferred expenses – negative balance of housing circulation fund) / total ordinary shares at the end of the period covered in this report.

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

| | For six months ended 30 th June | |
|--|--|----------------|
| | 2001 | 2000 |
| | (Consolidated) | (Consolidated) |

| | | |
|---|----------|--------|
| (Loss) / profit attributable to shareholders (RMB'000) | (7,589) | 23,935 |
| (Loss) / earnings per share (RMB) | (0.0153) | 0.0484 |
| Return on net assets (%) | (1.23) | 1.73 |

| | As at 30th June, 2001 | As at 31st Dec., 2000 |
|--|---|---|
| Shareholders' equity (RMB'000) (Excluding minority interests) | 615,565 | 623,154 |
| Net assets per share (RMB) | 1.24 | 1.26 |
| Assets liabilities ratio (%) | 79.67 | 77.43 |

Notes:

The methods for calculating (loss) / earnings per share, return on net assets, net assets per share and assets liabilities ratio are the same as those methods used for calculating earnings per share, return on net assets, net assets per share and assets liabilities ratio prepared under the PRC accounting standards.

IV Review and prospects

1. Major business operations for the period under review

V. Significant events

1. The Board of Directors had resolved not to declare interim dividends for the six months ended 30th June 2001.
2. The proposed nil distribution and no conversion as share capital were approved in the 2000 Annual General Meeting of the Company .
3. During the period under review, the major litigation that the Company had been involved in is that the litigation against Saige Co. for the outstanding project payment which has disclosed in 2000 annual report. The Company has initiated legal actions through Guangzhou City Intermediate People's Court against Saige Co. at 30 April 2001, for freezing 100 million state-owned legal person shares of Shenzhen Saige Co. Ltd.(Shen Saige A) controlled by Saige Co.. The case now is in process.
4. The matter and the amount of the connected transactions entered into between the Group and the enterprises under the control of CSSC or associated companies of the Group during the period under review were set out in item 5 of the notes to financial statements in finance report in the interim report. Such transactions had been carried out in the ordinary course of business of the relevant companies and on normal commercial terms, or on terms no less favorable than those available to third parties where there is no agreement. The Group did not receive any extraordinary benefit or suffer any extraordinary loss from such transactions.
5. As at 30th June 2001, the Company had trust deposits with non-banking financial institutions of RMB495,871,000. These comprised trust deposits receivable from Guangzhou International Trust and Investment Company ("GZITIC"), Guangzhou Economic and Technology Development Zone International Trust and Investment Company ("GETDZITIC"), Guangzhou Foreign Economic and Trade Trust and Investment Company ("GFETTIC") and Guangdong Overseas Chinese Trust and Investment Company ("GOCTIC") of RMB422,781,000, RMB55,000,000, RMB10,000,000 and RMB8,090,000 respectively.

In 2000, the Company had made a special provision for non-recovery against the deposits in the above-mentioned non-banking financial institutions. Up to the end of 2000, the accumulated total provisions for non-recovery of the trust deposits receivable from GZITIC, GETDZITIC, GFETTIC and GOCTIC are 80%, 100%, 100% and 70% respectively, and total amount being RMB338,220,000, RMB55,000,000, RMB1,320,000 and RMB5,660,000 respectively.

During this reporting period, and as at the disclosure date of this report, the progress about recovery of the above-mentioned trust deposits are as follows:

- (1) At July 18, 2001, the Group agreed with GZITIC that within 90 days from the date of execution of the agreement GZITIC will repay its part of the un-recovered deposits to the Group with the sum received from the auction of its land located in Guangdong Huizhou City.
- (2) The store located in Changchun and the house property located in Guangzhou city, being the properties used by GFETTIC to setoff its debt of RMB10,000,000 to the Group, have undergone the process of change in ownership of their property rights and are undergoing the process of conversion of their values into cash.
Besides, up to the date of this interim report disclosed, the Board of Directors of the Company considered the bad debts provision for deposits is enough, and unnecessary redraw new provision for such bad debts.
6. During 2000, the Company decided to make a provision for losses of two types of shipbuilding products under construction. These comprised a loss provision for two Ro/Pax vessels and two 40,000dwt product tankers amounted to RMB261,887,800 and RMB64,544,400 respectively. As at 30th June 2001, the first Ro/Pax vessel and the first 40,000dwt product tanker have a sale completion progress of 54.69% and 81.37% respectively. The provisions reversed after verification are RMB73,988,600 and RMB27,031,100 respectively.
7. According the “Housing Reform Policy”, from year 2000, enterprises are permitted to issue a housing subsidy to staff or their spouse who have not bought a “Housing Reform Apartment”. From 2001, the Company will issue the housing subsidy with reference to standards fixed by Guangzhou Government to the staff members who have applied for the subsidy and have had their qualifications approved by relevant authorities in Guangzhou. During this reporting period, the Company has issued housing subsidies totaling RMB1,930,000.
8. According to the requirement of the “Opinion on further development of standardized operating procedures and reform of overseas listed companies” promulgated by the National Economic and Trading Committee of China, the Company has implemented the “Three Segregations” in respect of personnel, assets and finance with CSSC, the representative for holding state-owned shares of the Company.
9. As approved by the thirteenth meeting of the third term Board of the Company held on 20th April 2001, Mr. He Shuoxia, the former deputy manager would no longer serve as the deputy manager due to age concern; and Mr. Tao Quan, deputy manager and former general accountant would no longer serve as the general accountant due to change of business in charge.
10. During the period under review, the Company had not acted as a guarantor to third parties.
11. During the period under review, the Company had not changed the name of the Company nor the abbreviated name for the listed shares.
12. As the refund arrangements for value-added tax currently applicable to the Company are formulated by the Central Government and the refund arrangement is not applicable to income tax, the changes in the tax refund arrangement adopted by local tax authorities have no significant impact on the operating result of the Group during the period under review.
13. The cost of the land use right of the land purchased by Dongguan Yuedong Industry and Developing Co. was RMB21,980,000,. As the estimated realizable value of this land is lower than the book value, the Company has made a provision amounting to RMB13,900,000 for the difference, and adjusted the non-distributable profit at the beginning of the year in accordance with PRC accounting standards, but charged to the current profit and losses in accordance with Hong Kong generally accepted accounting principles. The details were set out in item 3, “Principal Accounting Policies” and item 6, “Notes to the significant items in the financial statements” in the notes to the financial statements in Finance Report.

VI Granted Financial reports (UNAUDITED)

The accounting policies adopted for the preparation of the following financial statements are either under PRC accounting standards or Hong Kong generally accepted accounting principles.

VII、 Documents available for inspection

- 1、 The Company's interim report signed by the Chairman of the Company.
- 2、 Financial statements with signature and stamp of legal representative, chief accountant and other persons in charge of the finance and accounting function.
- 3、 The original copy of Company's documentations and announcements disclosed to the public during the period under review through the official publications of the China Securities Regulatory Commission.
- 4、 The articles of association of the Company.

By the order of the Board

Hu Guoliang

Chairman

Guangzhou, 13th August, 2001