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## Management Discussion and Analysis

### 2. Investments

In the first half of this year, investments in upgrading and transforming the technology used in the principal businesses of the Group amounted to RMB42,220,000. Apart from this, there were no other new development programs.

### 3. Financial position

During the period under review, the changes in the financial and accounting data of the Group prepared under the PRC accounting standards are as follows:

#### (1). Balance sheet items

Item	30 <sup>th</sup> June, 2001 (RMB'000)	31 <sup>st</sup> December, 2000 (RMB'000)	Change (+/-)%	Main Reason
Total assets	2,714,043	2,395,925	13.3	
Accounts receivable	404,705	581,069	-30.4	Return of receivable payment for goods
Inventories	260,689	127,180	105	Increase of long-term construction contract and merchandises reserve
Long-term liabilities	480,940	282,474	70.26	New loans relating to technological reform and restructuring of loans, the proportion of loans that over one year is increased

#### (2). Profit and loss items

Item	6 months ended 30 <sup>th</sup> June, 2001 (RMB'000)	6 months ended 30 <sup>th</sup> June, 2000 (RMB'000)	Change (+/-)%	Main Reason
Profit of principal operations	65,991	86,628	-23.82	The selling prices of the products decreased compared with previous period
Net profit	6,535	23,935	-72.7	The selling prices of vessels decreased compared with previous period

### 4. Prospects for the second half of the year

In the first half of the year, the Group has made a concerted effort to address the problem of significant decrease in income in the prior year. In the second half of the year, the Group will continue to engage its staff to persist with efforts to overcome difficulties, strive to complete all production and business tasks, and endeavor to reverse the loss suffered in this year through every possible means. The Group will continue to take full advantage of the sufficient number of shipbuilding orders in hand, by focusing on the following : increasing

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total shipbuilding construction turnout; further improving shipbuilding production administration; ensuring realization of production of the vessels under construction; and reducing the shipbuilding production cycle and production costs. In addition, the Group will continue to closely consider the relocation of the container production plant to enable a more rapid development of the container manufacturing business. To achieve healthy growth of its operations, the Group will continue to engage in market development and seek new products for each principal business, further enhance risk and financial management, and increase efficiency through savings and cost reduction.

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