

Significant Events

1. The Company initiated legal actions through Guangzhou City Intermediate People's Court against Shenzhen Saige Plaza Company Limited ("Saige Company") for payment of an outstanding project on 9th March 2000. The Court issued the civil conciliation ("[2000] Hui Zhong Fa Jing Chu Zi (00136 Hao)") on 9th August 2001, which judged Saige Company and the Saige Group to repay outstanding project payments amounting to RMB 74,430,000 and interest of RMB 8,180,000 to the Company over 5 instalments. Up to the end of 2001, Saige Company had repaid RMB 45,000,000 to the Company in accordance with the conciliation.
2. The connected transactions made between the Group and the associated enterprises under the control of CSSC or associated companies of the Group included sales of goods amounting to Rmb7,520,000 and purchases of raw materials and other expenses amounting to Rmb10,272,000. Those connected transactions were carried out in the ordinary course of business and had been entered in accordance with the terms of the agreement covering such transactions or (where there is no such agreement) on terms no less favourable than terms available to third parties. The Group did not receive any extra-ordinary benefit from such transactions, which are considered as reasonable to the Group's shareholders. Details of such transactions are set out in note vi to the financial statements prepared under PRC accounting standards on page 72 to 77.
3. The comprehensive services agreement signed between the Company and Guangzhou Shipyard (directly held by CSSC) on 28th December 1997 (the 'Service Agreement') was expired during the year. Both parties signed a new agreement on 20th April 2001 to extend the Service Agreement from 1st January 2001 to 31st December 2003. Furthermore, unless the Company issued a written announcement to terminate the Service Agreement before 30th September 2003, the effective date will extend to 31st December 2005 automatically. There are no significant changes between the new and old agreements except that the provision of the accommodation was replaced by dormitory management service. The annual comprehensive service fee is around RMB15,410,000. All directors of the Company agreed that the Service Agreement was fairly negotiated, the transaction was carried out within the normal course of business of the Company and on normal commercial terms, and is fair and reasonable to the Company.
4. As at 31st December 2001, trust deposits with non-banking financial institutions amounted to RMB456,537,000. These comprised trust deposits receivable from Guangzhou International Trust and Investment Company (GZITIC) amounted to RMB397,067,000 with non-recovery provision of RMB325,374,000, Guangzhou Economic and Technology Development Zone International Trust and Investment Company (GETDZITIC) amounted to RMB51,380,000 with non-recovery provision of RMB51,380,000, Guangdong Overseas Chinese Trust and Investment Company (GOCTIC) amounted to RMB8,090,000 with non-recovery provision of RMB5,660,000, respectively.

During the reporting period and up to the date of this report, the progress of recovering the trust deposits is as follows:

- (1) On 18th July 2001, the Company came to an agreement with GZITIC for partial settlement of trust deposits by auctioning a property located in Huizhou city, Guangdong within 90 days after signing the agreement. Before the end of November the Company had received cash amounting to RMB12,850,000. The Board of Directors agreed to offset the overdue trust deposits due from GZITIC amounted to RMB25,700,000.
- (2) Repayment by GETDZITIC has been described in the note 3(3) to the Financial Statement on page 56. Up to date of this report, the Board of Directors considers the provision for non-recovery of the trust deposit with GOCTIC is sufficient and no further provision is necessary.

Furthermore, Guangzhou Foreign Economic and Trade Trust and Investment Company had repaid RMB8,676,500 through an asset swap arrangement. The ownership of these assets (including properties located in Changchun city and another one located in Guangzhou) had been transferred to the Company. The Company had written off the remaining balance of RMB1.32 million in the reporting period.

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5. The Company had made a provision for foreseeable losses on two types of shipbuilding products under construction in year 2000, including provision for the two Ro/PAX amounted to RMB261,887,600 and provision for the two 40000dwt tankers amounted to RMB64,544,400. Up to 31st December 2001, Ro/PAX#1 has been 88% completed and RMB120,690,000 of the provision for foreseeable losses has been utilised, RO/PAX#2 has been 54% completed and RMB68,910,000 of the provision for foreseeable losses has been utilised and 40000dwt tankers 1# has been 100% completed and the final losses has been offset with the provision amounted to RMB33,220,000.
6. The subsidiary, Dongguan Yuedong Industry & Commerce Development Co. Ltd. of the Group, recorded a provision amounted to RMB13,900,000 for the variance between cost and market price of the land use right amounted to 21,980,000. In accordance with PRC accounting standards, the Company adjusted the provision to the opening retained earnings, while under the accounting principles generally accepted in Hong Kong, the loss was recorded in the profit and loss account for the period under review. Detail refers to note 18(3) – “Major accounting policy and Change in accounting estimate”
7. According to the Housing Reform Policy, from year 2000, enterprises are permitted to issue housing subsidy to staff who or whose spouse has not bought “Housing Reform Department”. From year 2001, the Company issued housing subsidy with reference to standards fixed by Guangzhou Government to the staff members who have applied for subsidy and their qualifications approved by relevant authorities in Guangzhou. The housing subsidy issued by the Company amounted to RMB4,610,000.
8. As the refund arrangements for value-added tax currently applicable to the Company are formulated by the Central Government and that the refund arrangement is not applicable to income tax, the changes in the tax refund arrangements granted by local tax authorities have no significant impact on the operating results of the Group during the period under review.
9. The re-appointment of Guangzhou Yangcheng Certified Public Accountants Company Limited (“YCPA”) and PricewaterhouseCoopers as the Company’s PRC auditors and international auditors respectively for 2001 was approved in the 2000 Annual General Meeting. Annual audit fee for 2000 of RMB400,000 and HK\$1,100,000 were paid to YCPA and PricewaterhouseCoopers, respectively. In addition, RMB250,000 was paid to PricewaterhouseCoopers as review fee for interim financial statements for 2000 and 2001.
10. The accession of China as a member of the World Trade Organisation will have no significant impact on the Company’s operations in the foreseeable future.