

# Notes to the Financial Statements

*(prepared under accounting principles generally accepted in Hong Kong)*

## 1 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 accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). 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which are prepared under the historical cost convention assumes that all existing banking facilities will not be withdrawn prior to the next review dates in 2003 and beyond.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1st July, 2000)
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

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### (b) Group accounting

#### (i) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

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.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

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 for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 1 Principal accounting policies (continued)

### (b) Group accounting (continued)

#### (iii) 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 and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

### (c) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual securities 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 impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

### (d) 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 or receivable.

Revenue from the sale of containers, mechanical and electrical equipment, steel structure products (except for those with characteristic of construction contracts) 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.

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 1 Principal accounting policies (continued)

### (e) Fixed assets

#### (i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual financial statements. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

#### (ii) Other 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 is stated at cost less accumulated amortisation and accumulated impairment losses.

Cost represents the purchase price of other fixed 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 accumulated impairment losses.

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 1 Principal accounting policies (continued)

### (e) Fixed assets (continued)

#### (ii) Other fixed assets (continued)

Depreciation of leasehold buildings/improvements is calculated to write off their cost less accumulated impairment losses 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 less accumulated impairment losses on the straight-line basis over their expected useful lives to the Group.

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

Fixed assets category	Depreciation rates
Land use rights	2.0%
Leasehold land and building	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%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

#### (iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset other than investment properties 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.

# Notes to the Financial Statements (continued)

*(prepared under accounting principles generally accepted in Hong Kong)*

## 1 Principal accounting policies (continued)

### (f) Construction-in-progress

Construction-in-progress is stated at cost less any provision for impairment losses. Cost 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 and transferred to fixed assets upon completion.

### (g) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

### (h) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value.

Cost includes direct materials, direct labor 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) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

### (j) Provisions

In accordance with SSAP 28, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

In relation to warranty provision, the Group recognises a provision for repairs or replacement of shipbuilding and crane machine products still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

# Notes to the Financial Statements (continued)

*(prepared under accounting principles generally accepted in Hong Kong)*

## 1 Principal accounting policies (continued)

### (k) 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(d), 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.

### (l) Accounts receivable

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

### (m) 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.

### (n) 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.

### (o) Retirement benefit costs

The Group contributes to two defined contribution retirement schemes which are available to all employees. Contributions to the schemes are calculated as a percentage of employees' salaries. The retirement benefit scheme costs charged to the profit and loss account represent contributions payable by the Group to the fund.

The Group's contributions to those defined contribution retirement schemes are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The assets of one of the schemes are held separately from those of the Group in an independently administered fund while the assets of the other scheme are not held separately from those of the Company and subsidiaries.

# Notes to the Financial Statements (continued)

*(prepared under accounting principles generally accepted in Hong Kong)*

## 1 Principal accounting policies (continued)

### (p) 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.

### (q) Segment report

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude investment properties and investment securities. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets (note 10).

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 2 Turnover, revenues and segment information

The Group is principally engaged in shipbuilding, shiprepairing, container manufacturing and steel structures, mechanical and electrical equipment manufacturing.

Revenues recognised during the year are as follows:

	2001 RMB'000	2000 RMB'000
<b>Turnover</b>		
Construction contract revenue	1,407,794	1,490,201
Sales of goods	575,784	626,647
Rendering of services	93,025	105,422
	<b>2,076,603</b>	<b>2,222,270</b>
<b>Other revenues</b>		
Income from investment securities	7,781	239
Government subsidy income for shipbuilding	48,082	65,010
Sales of scrap materials	4,308	3,699
Interest income	16,964	13,192
Others	8,656	3,691
	<b>85,791</b>	<b>85,831</b>
<b>Total revenues</b>	<b>2,162,394</b>	<b>2,308,101</b>

### Primary reporting format – business segments

The Group is organised on a China wide basis into four main business segments:

- Shipbuilding – ship construction
- Shiprepairing – provision of ship repairing services
- Container manufacturing – manufacturing and trading of containers
- Steel structure and other manufacturing – manufacturing and trading of steel structure and mechanical and electrical equipment



# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 2 Turnover, revenues and segment information (continued)

### Primary reporting format – business segments (continued)

Other operations of the Group mainly comprise computer marketing and design and production of advertisement, neither of which are of a sufficient size to be reported separately.

	Shipbuilding	Shiprepairing	Container manufacturing	Steel structure and other manufacturing	Other operations	Elimination	Group
	2001	2001	2001	2001	2001	2001	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	1,463,466	28,031	337,639	281,828	143,211	(177,572)	2,076,603
Segment results	83,041	3,321	17,279	29,129	23,302	(4,305)	151,767
Other revenues							24,745
Unallocated costs							(129,510)
Operating profit							47,002
Write back of provision for non-recovery on principals due from non-banking financial institutions							1,086
Finance costs							(51,627)
Share of profits less losses of associated companies					888		888
Loss before taxation							(2,651)
Taxation							(1,494)
Loss after taxation							(4,145)
Minority interests							(1,015)
Loss attributable to shareholders							(5,160)
Segment assets	1,023,835	10,357	301,072	302,444	373,983		2,011,691
Interests in associated companies					3,206		3,206
Unallocated assets							639,330
Total assets							2,654,227
Segment liabilities	800,940	4,358	77,300	93,855	85,922		1,062,375
Unallocated liabilities							973,858
Total liabilities							2,036,233
Capital expenditure	41,031	–	1,165	50,229	4,422		96,847
Depreciation	32,372	–	10,032	9,722	10,355		62,481

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 2 Turnover, revenues and segment information (continued)

### Primary reporting format – business segments (continued)

				Steel structure			
	Shipbuilding	Shiprepairing	Container	and other	Other	Elimination	Group
	2000	2000	manufacturing	manufacturing	operations	2000	2000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	1,551,204	26,536	529,321	144,148	127,674	(156,613)	2,222,270
Segment results	(205,691)	1,819	(24,710)	9,007	30,793	(15,773)	(204,555)
Other revenues							13,431
Unallocated costs							(119,928)
Operating loss							(311,052)
Provision for non-recovery on principals due from non-banking financial institutions							(350,433)
Finance costs							(60,218)
Share of profits less losses of associated companies					(59)		(59)
Loss before taxation							(721,762)
Taxation							(6,132)
Loss after taxation							(727,894)
Minority interests							(816)
Loss attributable to shareholders							(728,710)
Segment assets	1,128,981	10,198	447,241	320,380	286,501		2,193,301
Interests in associated companies					6,100		6,100
Unallocated assets							561,703
Total assets							2,761,104
Segment liabilities	363,574	1,938	89,250	83,622	461,248		999,632
Unallocated liabilities							1,138,318
Total liabilities							2,137,950
Capital expenditure	17,872	–	3,319	4,251	997		26,439
Depreciation	35,369	–	10,665	10,762	699		57,495
Other non-cash expenses	326,432	–	45,468	–	–		371,900

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 2 Turnover, revenues and segment information (continued)

### Secondary reporting format – geographical segments

Although the Group's four business segments are managed on a China wide basis, the sales are contributed from five main geographical areas in which the customers are located:

Denmark – shipbuilding

Mainland China – shipbuilding, shiprepairing, container manufacturing, steel structure and other manufacturing

Sweden – shipbuilding

Malta – shipbuilding

Hong Kong – shipbuilding, shiprepairing, container manufacturing, steel structure and other manufacturing

Other countries – shipbuilding, ship repairing, container manufacturing, steel structure and other manufacturing

There are no sales between the geographical segments.

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	Turnover 2001 RMB'000	Segment results 2001 RMB'000	Total assets 2001 RMB'000	Capital expenditure 2001 RMB'000
Denmark	247,744	33,742	–	–
Mainland China	558,335	58,234	2,631,621	116,171
Sweden	561,153	–	–	–
Malta	223,528	655	–	–
Hong Kong	220,221	18,448	19,400	–
Other countries	265,622	29,547	–	–
	<b>2,076,603</b>	<b>140,626</b>	<b>2,651,021</b>	<b>116,171</b>
Unallocated costs		<b>(93,624)</b>		
Operating profit		<b>47,002</b>		
Interests in associated companies			<b>3,206</b>	
Total assets			<b>2,654,227</b>	

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 2 Turnover, revenues and segment information (continued)

### Secondary reporting format – geographical segments (continued)

	Turnover	Segment results	Total assets	Capital expenditure
	2000	2000	2000	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Denmark	845,330	61,510	–	–
Mainland China	740,531	4,190	2,735,096	64,102
Sweden	–	(261,888)	–	–
The Netherlands	224,311	13,917	–	–
Other countries and regions	412,098	32,021	19,908	–
	<u>2,222,270</u>	<u>(150,250)</u>	<u>2,755,004</u>	<u>64,102</u>
Unallocated costs		<u>(160,802)</u>		
Operating loss		<u>(311,052)</u>		
Interests in associated companies			<u>6,100</u>	
Total assets			<u>2,761,104</u>	

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## 3 Operating profit/(loss)

The operating profit/(loss) is stated after charging the following:

	2001 RMB'000	2000 RMB'000
Auditors' remuneration	2,051	2,019
Depreciation and amortisation of fixed assets	84,530	82,517
Less: Amounts capitalised as inventories	(19,181)	(16,942)
	65,349	65,575
Loss on disposal of fixed assets	16,091	1,691
Net exchange (gain)/losses	(30)	928
Provision for warranty (note 21)	(1,946)	11,922
Staff costs	193,344	208,599
Retirement benefit costs (note 8)	24,480	22,405
Research and development costs	3,154	3,689

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 4 Finance costs

	2001 RMB'000	2000 RMB'000
Interest on bank loans	51,009	54,667
Interest on amount due to suppliers	1,102	6,069
Other incidental borrowing costs	211	928
	<hr/>	<hr/>
Total borrowing costs incurred	52,322	61,664
Less: amount capitalised in construction-in-progress	(695)	(1,446)
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	51,627	60,218

The capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress is 5.94% (2000: 4.85%) per annum.

## 5 Taxation

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

	2001 RMB'000	2000 RMB'000
PRC enterprise income tax	1,396	6,106
Share of taxation attributable to associated companies	98	26
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	1,494	6,132

As approved by the State Administration of Taxation, the Company's PRC enterprise income tax is calculated at 15% (2000: 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	
		2001	2000
Shipbuilding, shiprepairing, container manufacturing, steel structure and other manufacturing	Value-added tax ("VAT")	17%	17%
Transportation and installation services	Business tax	3%	3%
Other services	Business tax	5%	5%

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 5 Taxation (continued)

(c) Taxation payable represents:

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
– PRC enterprise income tax	470	4,624	–	3,952
– Value-added tax	2,277	–	92	3,309
– Other taxes	2,128	6,549	1,441	5,806
	<b>4,875</b>	11,173	<b>1,533</b>	13,067

(d) Tax recoverable represents:

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
– Value-added tax	65,571	28,016	46,680	18,162
– PRC enterprise income tax	461	–	444	–
	<b>66,032</b>	28,016	<b>47,124</b>	18,162

### (e) Deferred taxation

Deferred tax assets for the year has not been provided in respect of the following:

	2001 RMB'000	2000 RMB'000
Timing differences arising from:		
Provision for foreseeable losses of construction contracts	(33,423)	48,965
Amounts due from non-banking financial institutions:		
– Provision for non-recovery on principals	(163)	52,565
Pre-operating expenses written off	(1,136)	1,136
Other timing differences	21,103	–
	<b>(13,619)</b>	102,666
The potential deferred tax assets not provided for in the financial statements amounted to:		
Provision for foreseeable losses of construction contracts	15,542	48,965
Amounts due from non-banking financial institutions:		
– Provision for non-recovery on principals	59,869	60,032
– Interest receivables written off	5,465	5,465
Pre-operating expenses written off	–	1,136
Other timing differences	21,103	–
	<b>101,979</b>	115,598

# Notes to the Financial Statements (continued)

*(prepared under accounting principles generally accepted in Hong Kong)*

## 6 Loss attributable to shareholders

Loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB12,795,000 (2000: loss of RMB658,499,000).

## 7 Loss per share

The calculation of loss per share is based on the Group's loss attributable to shareholders of RMB5,160,000 (2000: loss of RMB728,710,000) and the weighted average of 494,677,580 (2000: 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, 2001 was RMB21,861,000 (2000: RMB20,090,091). In addition, the Company has 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, 2001 was RMB2,618,886 (2000: RMB2,315,397). Contributions by the Group forfeited as a result of resignation of the employees before retirement totalling RMB206,778 (2000: RMB169,256) are utilised for the welfare of retirees. In addition, during the year the Group had made payments of RMB636,453 (2000: RMB643,824) as subsidies to retirees.

## Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

### 9 Directors', Supervisors' and Senior Management's emoluments

The aggregate amounts of emoluments payable to Directors, Supervisors and Senior Management of the Company during the year are as follows:

	2001 RMB'000	2000 RMB'000
Non – executive Directors		
Fee	456	395
Other emoluments and welfare	11	–
Retirement benefits	11	–
Executive Directors		
Basis salary, allowance and benefits in kind	235	307
Retirement benefits	33	4
Supervisors		
Basis salary, allowance and benefits in kind	356	216
Retirement benefits	29	5
Senior Management		
Basis salary, allowance and benefits in kind	389	525
Retirement benefits	49	7
	<b>1,569</b>	<b>1,459</b>

The emoluments for all of the Company's 11 Directors (executive and non-executive), 6 Supervisors and 7 Senior Management fell within the band of RMB0 to RMB150,000 during the year (2000: RMB0 to RMB100,000).

No Directors, Supervisors or Senior Management waived emoluments in respect of the year ended 31st December, 2000 and 2001.

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.



# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 10 Fixed assets and construction-in-progress

### Group

	Investment properties <i>RMB'000</i>	Land use rights <i>RMB'000</i>	Construction- in-progress <i>RMB'000</i>	Land and buildings in Hong Kong <i>RMB'000</i>	Buildings, developments and structures <i>RMB'000</i>	Machinery, vehicles, equipment and transmission systems <i>RMB'000</i>	Instruments and meters <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost or revulation</b>								
At 1st January, 2001	–	106,862	40,265	21,396	609,658	817,221	5,540	1,600,942
Additions	–	–	94,974	–	430	20,767	–	116,171
Transfers	7,221	–	(63,248)	–	20,628	35,131	268	–
Disposals	–	(21,980)	–	–	(5,369)	(34,357)	(31)	(61,737)
At 31st December, 2001	<b>7,221</b>	<b>84,882</b>	<b>71,991</b>	<b>21,396</b>	<b>625,347</b>	<b>838,762</b>	<b>5,777</b>	<b>1,655,376</b>
<b>Accumulated depreciation or amortisation</b>								
At 1st January, 2001	–	10,140	–	1,488	127,029	304,719	3,149	446,525
Charge for the year	–	1,690	–	508	20,290	61,403	639	84,530
Disposals	–	–	–	–	(2,154)	(15,731)	(30)	(17,915)
At 31st December, 2001	<b>–</b>	<b>11,830</b>	<b>–</b>	<b>1,996</b>	<b>145,165</b>	<b>350,391</b>	<b>3,758</b>	<b>513,140</b>
<b>Net book value</b>								
<b>At 31st December, 2001</b>	<b>7,221</b>	<b>73,052</b>	<b>71,991</b>	<b>19,400</b>	<b>480,182</b>	<b>488,371</b>	<b>2,019</b>	<b>1,142,236</b>
At 31st December, 2000	–	96,722	40,265	19,908	482,629	512,502	2,391	1,154,417
The analysis of the cost or valuation at 31st December, 2001 of the above assets is as follows:								
At cost	–	84,882	71,991	21,396	625,347	838,762	5,777	1,648,155
At 2001 valuation	7,221	–	–	–	–	–	–	7,221
	<b>7,221</b>	<b>84,882</b>	<b>71,991</b>	<b>21,396</b>	<b>625,347</b>	<b>838,762</b>	<b>5,777</b>	<b>1,655,376</b>

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 10 Fixed assets and construction-in-progress (continued)

### Company

	Investment properties <i>RMB'000</i>	Land use rights <i>RMB'000</i>	Construction- in-progress <i>RMB'000</i>	Land and buildings in Hong Kong <i>RMB'000</i>	Buildings, developments and structures <i>RMB'000</i>	Machinery, vehicles, equipment and transmission systems <i>RMB'000</i>	Instruments and meters <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost or revaluation</b>								
At 1st January, 2001	–	69,391	32,017	21,396	562,938	598,885	5,323	1,289,950
Additions	–	–	93,810	–	–	–	–	93,810
Transfers	7,221	–	(62,083)	–	20,628	33,966	268	–
Disposals	–	(6,544)	–	–	(5,369)	(26,223)	(20)	(38,156)
At 31st December, 2001	<b>7,221</b>	<b>62,847</b>	<b>63,744</b>	<b>21,396</b>	<b>578,197</b>	<b>606,628</b>	<b>5,571</b>	<b>1,345,604</b>
<b>Accumulated depreciation or amortisation</b>								
At 1st January, 2001	–	10,139	–	1,488	113,222	203,028	3,014	330,891
Charge for the year	–	1,561	–	508	18,767	40,844	612	62,292
Disposals	–	(1,016)	–	–	(2,154)	(8,942)	(19)	(12,131)
At 31st December, 2001	<b>–</b>	<b>10,684</b>	<b>–</b>	<b>1,996</b>	<b>129,835</b>	<b>234,930</b>	<b>3,607</b>	<b>381,052</b>
<b>Net book value</b>								
<b>At 31st December, 2001</b>	<b>7,221</b>	<b>52,163</b>	<b>63,744</b>	<b>19,400</b>	<b>448,362</b>	<b>371,698</b>	<b>1,964</b>	<b>964,552</b>
At 31st December, 2000	–	59,252	32,017	19,908	449,716	395,857	2,309	959,059
The analysis of the cost or valuation at 31st December, 2001 of the above assets is as follows:								
At cost	–	62,847	63,744	21,396	578,197	606,628	5,571	1,338,383
At 2001 valuation	7,221	–	–	–	–	–	–	7,221
	<b>7,221</b>	<b>62,847</b>	<b>63,744</b>	<b>21,396</b>	<b>578,197</b>	<b>606,628</b>	<b>5,571</b>	<b>1,345,604</b>

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

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 10 Fixed assets and construction-in-progress (continued)

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

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
<b>In Hong Kong, held on:</b>				
Leases of over 50 years	15,018	15,414	15,018	15,414
Leases of between 10 to 50 years	4,382	4,494	4,382	4,494
<b>In Mainland China, held on:</b>				
Leases of between 10 to 50 years	487,403	482,629	455,583	449,716
	<b>506,803</b>	502,537	<b>474,983</b>	469,624

Investment properties have been revalued at their open market value by Mr K.K. Ip of Greater China Appraisal Limited, an independent firm of valuer, at 31st December, 2001. Mr K.K. Ip is a Chartered Valuation Surveyor and a Registered Professional Surveyor.

## 11 Investments in subsidiaries

	Company	
	2001 RMB'000	2000 RMB'000
At cost, unlisted	186,140	184,980
Amounts due from subsidiaries	–	3,847
	<b>186,140</b>	188,827

The amounts due from subsidiaries were unsecured and interest-free.

The following is a list of the significant subsidiaries at 31st December, 2001 and they are all established in the People's Republic of China:

Name	Issued and fully paid-up capital	Interest held		Nature of entity	Principal activities
		2001 %	2000 %		
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 Guangzhou Shipyard International Nanyang Shipping Industrial Limited	RMB34,200,000	70	70	Cooperative limited liability company	Ship dismantling

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 11 Investments in subsidiaries (continued)

Name	Issued and fully paid-up capital	Interest held		Nature of entity	Principal activities
		2001 %	2000 %		
Guangzhou Haizhu District Guanghua Machinery Factory	RMB1,438,062	<b>65</b>	65	Cooperative limited liability company	Manufacture of machinery
Guangzhou Jinfan Advertisement Decoration Company	RMB1,400,000	<b>90</b>	90	Joint stock company	Design and production of advertisements
Guangzhou Guang-lian Container Transportation Company Limited	RMB20,000,000	<b>75</b>	75	Sino-foreign equity joint venture	Transportation services for containers
United Steel Structures Ltd.	US\$8,850,000	<b>51</b>	51	Sino-foreign equity joint venture	Large steel structure engineering
Guangzhou Xin Sun Shipping Service Company Limited	RMB600,000	<b>83</b>	83	Company with limited liability	Fabrication, welding and coating of ships
Guangzhou Sanlong Dragon Industrial Trade Development Company Limited	RMB1,500,000	<b>67</b>	67	Company with limited liability	Construction engineering, equipment leasing and technology consultancy
Guangdong Guangzhou Shipyard International Elevator Company	RMB21,000,000	<b>95</b>	95	Company with limited liability	Manufacture of elevators
Guangzhou Hongfan Information Technique Company Limited	RMB5,000,000	<b>90</b>	90	Cooperative limited liability company	Computer marketing
Guangzhou Shipyard Machinery Equipment Engineering Co., Ltd	RMB1,000,000	<b>60</b>	60	Company with limited liability	Machinery & electrical product manufacturing and equipment maintenance
Guangzhou Henghe Construction Engineering Company Limited	RMB27,500,000	<b>75.9</b>	33.8	Cooperative limited liability company	Large steel structure, indoor and outdoor decoration design, construction and administration
Shares held indirectly:-					
Guangzhou Hongfang Hotel Co. Ltd.	RMB500,000	<b>100</b>	100	Company with limited liability	Hotel and catering
Guangdong Guangzhou Shipyard International Elevator Company	RMB21,000,000	<b>3.75</b>	–	Company with limited liability	Manufacture of elevators

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.

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 12 Interests or investments in associated companies

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Unlisted				
– at cost	–	–	2,147	5,528
– share of net assets	3,206	6,100	–	–
Dividend income from associated companies	–	–	–	280
	<b>3,206</b>	<b>6,100</b>	<b>2,147</b>	<b>5,808</b>

The following is a list of associated companies at 31st December, 2001 which are all established in the People's Republic of China:

	Issued and fully paid-up capital	Interests held		Nature of entity	Principal activities
		2001 %	2000 %		
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

## 13 Investment securities

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
At cost,				
Unlisted shares	11,940	12,690	11,010	11,760
Unlisted government debentures	–	18,000	–	18,000
	<b>11,940</b>	<b>30,690</b>	<b>11,010</b>	<b>29,760</b>

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 14 Long-term receivables and deferred income

Included in the long-term receivables for the Group is an amount of RMB63,416,000 (2000: RMB99,175,000) 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	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Raw materials	232,372	265,141	189,561	227,533
Work-in-progress	65,091	86,190	48,376	68,547
Finished goods	70,596	102,425	3,265	4,186
	<b>368,059</b>	<b>453,756</b>	<b>241,202</b>	<b>300,266</b>

At 31st December, 2001, the carrying amount of inventories for the Group and the Company that are carried at net realisable value amounted to RMB3,519,000 and RMB2,985,000 (2000: RMB10,703,000 and RMB1,069,000) respectively.

## 16 Trade receivables

		Group		Company	
		2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Receivables from third parties	(i)	409,380	504,459	297,162	368,755
Amounts due from related companies	(ii)	2,563	1,021	1,975	1,021
		<b>411,943</b>	<b>505,480</b>	<b>299,137</b>	<b>369,776</b>

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 16 Trade receivables (continued)

(i) At 31st December, 2001, the ageing analysis of the receivables from third parties were as follows:

	Group		Company	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Not exceeding one year	303,724	393,462	236,593	293,128
More than one year but not exceeding two years	30,383	72,805	21,504	72,653
More than two years but not exceeding three years	37,335	4,062	37,016	2,974
More than three years	37,938	34,130	2,049	–
	<b>409,380</b>	<b>504,459</b>	<b>297,162</b>	<b>368,755</b>

The general credit terms of trade receivables are:

### Operations

### Credit terms

Shipbuilding and shiprepairing

Within one month after issue of invoice

Other operations (including container manufacturing, steel structure and other manufacturing)

Normally one to six months

(ii) Amounts due from related companies are unsecured, interest free and have no fixed terms of repayment.

## 17 Other receivables, prepayments and deposits

	Group		Company	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments for trading materials and equipment	181,518	109,288	180,229	107,061
Amounts due from non-banking financial institutions	456,537	495,871	456,537	495,871
Less: Provision for non-recovery	(382,417)	(400,211)	(382,417)	(400,211)
	74,120	95,660	74,120	95,660
Government subsidy receivable for construction of vessels	33,790	44,682	33,790	44,682
Others	25,253	56,981	11,148	51,080
	<b>314,681</b>	<b>306,611</b>	<b>299,287</b>	<b>298,483</b>

Note

(a)

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 17 Other receivables, prepayments and deposits (continued)

### (a) Amounts due from non-banking financial institutions

	Group and Company	
	2001 RMB'000	2000 RMB'000
Guangzhou International Trust and Investment Company	397,067	422,781
Guangzhou Economic and Technology Development Zone International Trust and Investment Company	51,380	55,000
Guangzhou Foreign Economic and Trade Trust and Investment Company	–	10,000
Guangdong Overseas Trust and Investment Company	8,090	8,090
	456,537	495,871
Less: Provision for non-recovery	(382,417)	(400,211)
Total	74,120	95,660

## 18 Trade payables

	Note	Group		Company	
		2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Payable to third parties	(i)	233,071	221,712	216,542	169,277
Amounts due to related companies	(ii)	19,953	19,415	19,953	19,415
		253,024	241,127	236,495	188,692

(i) At 31st December, 2001, the ageing analysis of the payables to third parties were as follows:

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Not exceeding one year	228,168	221,334	211,639	168,899
More than one year but not exceeding two years	4,661	17	4,661	17
More than two years but not exceeding three years	–	–	–	–
More than three years	242	361	242	361
	233,071	221,712	216,542	169,277

(ii) Amounts due to related companies are unsecured, interest free and have no fixed terms of repayment.



# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 19 Payments received on account

	Group and Company	
	2001 RMB'000	2000 RMB'000
Costs incurred for construction contracts plus attributable profits	1,205,731	773,255
Less: Provision for foreseeable losses	(103,612)	(326,432)
Progress billings to date	(1,516,583)	(780,272)
	<b>(414,464)</b>	<b>(333,449)</b>
Represented by:		
Amounts due from customers on construction contracts	255,628	265,064
Amounts due to customers on construction contracts	(670,092)	(598,513)
	<b>(414,464)</b>	<b>(333,449)</b>

No retention monies were held by customers for contract works at 31st December, 2000 and 2001.

At 31st December, 2000 and 2001, no vessels under construction have been pledged as security for liabilities.

## 20 Provision for a potential liability

Early of the year, a subsidiary was verbally informed by the Customs Office that it did not comply with certain import rules and regulations, therefore, additional import duties and penalties would be levied. As at year end, the relevant import duties and penalties have been finalised. Over provision made last year of RMB 2,630,000 had been written back to current year's profit and loss account and the remaining balance payable of RMB 37,663,000 is included in "Other payable and accruals".

## 21 Provision for warranty

Movement of provision for warranty is as follows:

	Group and Company RMB'000
At 1st January, 2001	49,548
Additional provisions	11,974
Write back of expired warranty provision	(13,920)
Utilised during the period	(15,794)
At 31st December, 2001	<b>31,808</b>

The Group gives one-year warranty on shipbuilding and crane machine products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RMB31,808,000 has been recognised at 31st December, 2001 for completed shipbuilding and crane machine products (31st December, 2000: RMB49,548,000) for expected warranty claims based on past experience of the level of repairs.

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 22 Share capital

	Company	
	2001 RMB'000	2000 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
	<b>494,678</b>	494,678

## 23 Reserves

	Note	Group		Company	
		2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Accumulated losses	(a)	(628,809)	(623,526)	(573,107)	(560,189)
Other reserves	(b)	752,125	752,002	751,506	751,383
		<b>123,316</b>	128,476	<b>178,399</b>	191,194

### (a) Accumulated losses

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
At 1st January	(623,526)	105,516	(560,189)	98,642
Loss for the year	(5,160)	(728,710)	(12,795)	(658,499)
Transfer to reserves	(123)	(332)	(123)	(332)
At 31st December	<b>(628,809)</b>	(623,526)	<b>(573,107)</b>	(560,189)
Company and its subsidiaries	<b>(633,095)</b>	(627,022)	<b>(573,107)</b>	(560,189)
Associated companies	4,286	3,496	–	–
At 31st December	<b>(628,809)</b>	(623,526)	<b>(573,107)</b>	(560,189)

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 23 Reserves (continued)

### (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
Transfers from accumulated losses	–	166	166	–	332
Transfers from/(to) other reserves	–	–	(433)	433	–
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 1st January, 2001	651,977	49,564	32,751	17,710	752,002
Transfers from/(to) accumulated losses	–	(567)	(567)	1,257	123
Transfers from/(to) other reserves	–	–	(714)	714	–
At 31st December, 2001	651,977	48,997	31,470	19,681	752,125

	Company				Total
	Surplus reserves				
	Capital	Statutory	Statutory public	Discretionary	
	reserve	surplus reserve	welfare fund	surplus reserve	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2000	651,977	48,877	32,920	17,277	751,051
Transfers from accumulated losses	–	166	166	–	332
Transfers from/(to) other reserves	–	–	(433)	433	–
At 31st December, 2000	651,977	49,043	32,653	17,710	751,383

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 23 Reserves (continued)

	Company				
	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, 2001	651,977	49,043	32,653	17,710	751,383
Transfers from/(to) accumulated losses	–	(567)	(567)	1,257	123
Transfers from/(to) other reserves	–	–	(714)	714	–
At 31st December, 2001	651,977	48,476	31,372	19,681	751,506

### (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 and systems 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 and systems 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 2001, the Group spent RMB714,450 (2000: 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.

# Notes to the Financial Statements (continued)

*(prepared under accounting principles generally accepted in Hong Kong)*

## 23 Reserves (continued)

### **(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 23(b)(ii)(a));
- (iii) 5-10% to be transferred to statutory public welfare fund (Note 23(b)(ii) (b));
- (iv) transfer to discretionary surplus reserve (Note 23(b)(ii)(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 and systems differ from those prepared under the accounting principles generally accepted in Hong Kong, 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 and 2001, there were no distributable reserves of the Company available for distribution as dividends.

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 24 Long-term bank loans

	Group and Company	
	2001 RMB'000	2000 RMB'000
Within one year	370,000	542,000
In the second year	410,700	270,000
Long-term bank loans	<b>780,700</b>	<b>812,000</b>

At 31st December, 2001, bank loans of RMB54,700,000 (2000: RMB347,000,000) were secured by certain assets of the Group and the Company, including fixed assets with net book value of RMB241,606,000 (2000: RMB243,664,000).

## 25 Notes to the consolidated cash flow statement

### (a) Reconciliation of loss before taxation to net cash inflow from operating activities

	2001 RMB'000	2000 RMB'000
Loss before taxation	(2,651)	(721,762)
Share of (profit)/loss of associated companies	(888)	59
Loss on winding-up of a subsidiary	(474)	–
Loss on disposal of investment securities	–	100
Income from investment securities	(7,781)	(239)
Depreciation and amortisation	65,349	65,575
(Write back of provision)/provision for non-recovery on principals due from non-banking financial institutions	(1,086)	350,433
(Write back of provision)/provision for a potential liability	(2,630)	45,468
Provision for foreseeable losses of construction contracts	–	326,432
Interest expenses	51,416	59,290
Interest income	(16,964)	(13,192)
Loss on disposal of fixed assets	16,091	1,691
Provision for staff welfare	1,119	231
Decrease/(increase) in inventories	105,086	(154,455)
Decrease/(increase) in payments received on account	38,177	(139,539)
Decrease in trade and other receivables, deposits and prepayments, including amounts due from associated companies and tax recoverable	94,980	206,990
Increase in trade and notes payables, other payables and accruals, including amounts due to related companies, provision for a potential liability and other taxes payable	14,468	24,551
Net cash inflow from operating activities	<b>354,212</b>	<b>51,633</b>

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 25 Notes to the consolidated cash flow statement (continued)

### (b) Analysis of changes in financing during the year

	Share capital and capital reserve		Bank loans		Minority interests	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
At 1st January	1,146,655	1,146,655	1,127,000	1,353,431	55,063	57,293
Acquisition of a subsidiary	-	-	-	-	7,164	-
Capital contribution from minority interests	-	-	-	-	88	-
Minority interests in share of profits	-	-	-	-	1,015	816
Dividends declared to minority shareholders	-	-	-	-	(1,242)	(3,046)
Loans acquired	-	-	922,084	1,167,561	-	-
Repayment of loans	-	-	(1,080,616)	(1,393,992)	-	-
At 31st December	1,146,655	1,146,655	968,468	1,127,000	62,088	55,063

### (c) Major non-cash transactions

Part of the consideration for the purchase of a subsidiary during the year comprised fixed assets with an original value in the company of RMB17,500,000 (2000: Nil).

### (d) Purchase of subsidiaries

	2001 RMB'000	2000 RMB'000
Net assets acquired		
Fixed assets	17,725	-
Inventories	208	-
Trade and other receivables	14,705	-
Bank balances and cash	527	-
Trade and other payables	(3,909)	-
Taxation	(289)	-
Minority shareholders' interests	(7,164)	-
	<b>21,803</b>	-
Satisfied by		
Fixed assets	17,500	-
Cash	778	-
Transferred from an associated company	3,525	-
	<b>21,803</b>	-

The subsidiaries acquired during the year contributed RMB26,000 (2000: Nil) to the Group's net operating cash flows, paid RMB8,000 (2000: Nil) in respect of the net returns on investments and servicing of finance.

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 25 Notes to the consolidated cash flow statement (continued)

### (e) Analysis of the net outflow in respect of the purchase of subsidiaries:

	2001 RMB'000	2000 RMB'000
Cash consideration	(778)	–
Bank balances and cash acquired	527	–
Net cash outflow in respect of the purchase of subsidiaries	(251)	–

## 26 Capital commitments for property, plant and equipment

At 31st December, 2001, the Group and the Company had the following commitments:

	Contracted but not provided for		Authorised by Directors but not contracted for	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Purchase of machinery and equipment	6,825	6,254	82,870	–
Purchase or construction of factories and buildings	5,123	7,883	–	–
	11,948	14,137	82,870	–

## 27 Contingent liabilities

The Group and the Company had no material contingent liabilities at 31st December, 2001.



# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 28 Related party transactions

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

	Notes	2001 RMB'000	2000 RMB'000
Companies controlled by China State Shipbuilding Corporation ("CSSC")	(a)		
Purchase of raw materials		40,055	44,144
Purchase of equipment for shipbuilding		32,264	97,507
Other expenses		27,485	27,033
Associated companies	(b)		
Lease of equipment		4,605	3,239

- (a) Apart from the above, pursuant to the comprehensive service agreement dated 19th April, 2001 entered between the Company and Guangzhou Shipyard ("GZS"), a subsidiary of CSSC, the Group also incurred service fees (including the provision of staff quarters) amounted to RMB15,410,229 (2000: RMB14,986,009) to GZS for its provision of staff welfare services. The comprehensive service agreement covers a three-year period from 2001 to 2003.

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 of the relevant companies and in normal commercial terms.

- (b) This represents rental income arising from the leasing of plant and machinery to an associated company of the Group. The income received or receivable during the year was charged at 3% – 8% of the original cost of such plant and machinery per month.

# Notes to the Financial Statements (continued)

(prepared under accounting principles generally accepted in Hong Kong)

## 29 Reconciliation of financial statements

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

### Group

	Profit/(Loss) after taxation and minority interests		Net assets at 31st December	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Prepared under PRC accounting standards and systems (Note)	8,978	(739,769)	617,730	608,664
Pre-operating expenses fully written off	(676)	(5,670)	–	676
Realised gain on minority interest portion from inter-company transaction	502	–	502	–
Tax incentive items	88	2,829	–	–
Loss related to fixed assets	(13,900)	13,900	–	13,900
Profit and loss items directly recorded in retained earnings brought forward	(152)	–	(238)	(86)
Prepared under HKGAAP	(5,160)	(728,710)	617,994	623,154

Note: The 2000 figure has been restated in the PRC financial statements in accordance with PRC accounting standards and systems.

### Company

	Profit/(Loss) after taxation		Net assets at 31st December	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Prepared under PRC accounting standards and systems (Note)	8,978	(740,135)	617,730	608,664
Operating results of subsidiaries and associated companies equity accounted for	(10,100)	66,072	53,208	63,308
Loss on investments in subsidiaries	(13,900)	13,900	–	13,900
Tax incentive items	88	1,664	–	–
Realised gain on minority interest portion from inter-company transaction	2,139	–	2,139	–
Prepared under HKGAAP	(12,795)	(658,499)	673,077	685,872

Note: The 2000 figure has been restated in the PRC financial statements in accordance with PRC accounting standards and systems.

## 30 Approval of accounts

The accounts were approved by the Board of Directors on 19th April, 2002.