Report of the Directors

The Directors are pleased to submit their report together with the audited financial statements for the year ended 31st December 2002 to the shareholders.

Review of operations

Results

In the financial statements prepared in accordance with PRC Accounting Standards and Systems for the year ended 31st December 2002, the principal operating income of the Company and its subsidiaries ('the Group') amounted to RMB2,413,101,000, representing an increase of 16.20% over that of last year. The consolidated net profit after taxation and minority interest amounted to RMB15,917,000 representing an increase of 77.28% over that of last year. The earning per share was RMB0.0322. In the financial statements prepared in accordance with accounting principles generally accepted in Hong Kong for the year ended 31st December 2002, the turnover of the Group amounted to RMB2,413,101,000, representing an increase of 16.2% over that of last year. The profit attributable to shareholders amounted to RMB15,020,000 representing an increase of 391.09% over that of last year. The profit per share was RMB0.0304.

In 2002, the increase in turnover of the Group was attributable to the significant increase in shipbuilding and container business. The increase in net profit was attributable to the tangible improvement of shipbuilding production situation of the Group in the second half of 2002. Especially the key products, the Ro/PAX ship and the half submarine vessel, were got staggered progresses, and created favorable conditions for improving production and operation situation of the Company. Besides, the other main cause of the increase in net profit was that Kwangchow Shipyard Container Factory and Mechanical Engineering Division of the Group were executed reallocation for environment protection, the Group was got compensation paid by Guangzhou Government for handing over the two pieces of land located at Haizhu district in Guangzhou.

Financial position of the Group

The relevant indexes of financial position of the Group for the year of 2002 (Prepared under PRC Accounting Standards and Systems) are as follows:

	For the year ended 31st December		
Item	**2002**	2001	Increase/decrease
	RMB'000	*RMB'000*	*(+/- %)*
Total assets	**3,192,625**	2,510,263	27.18
Total liabilities	**2,498,299**	1,830,445	36.49
Shareholders' equity	**633,538**	617,730	2.56
Principal operating profit	**4,214**	90,319	-95.33
Net profit/(loss)	**15,917**	8,978	77.28
Current ratio	**0.91**	0.96	-4.60
Quick ratio	**0.66**	0.77	-14.29
Gear ratio (%)	**78.25**	74.38	7.31

The above-mentioned indexes showed, total assets of the Group increased 27.18% over that of last year due to production scale of the Group was extended. And the increase in total liabilities owing to short of production funds after extension of production of the Group, that resulted significant increase in Short-term loans, Bill payable and Accounts receivable. The principal operating profit was decreased due to the increase of domestic sea going liners built by the Group. In accordance with the regulation of state, the domestic sea going liner could get national finance subsidy of 17% of the contract value excluding tax. The subsidy was listed as "subsidy income" according to relevant accounting standards but not as "Principal operating profit". Taking this reason into account, the principal operating profit of the Group would decrease by 10% which is affected by profitability dropping of container product of the Company. The quick ratio was mainly affected by the clear increase in inventories, of which a great quantity funds were detained.

Reviews of major operations

Shipbuilding

In the year 2002, the Group completed and delivered six vessels including two 38,000dwt product oil tanker for a Malta customer, two 35,000dwt product oil tankers for a Danish customer, one 40,000dwt product oil tanker and one 18,000dwt half submarine vessel for domestic customers. The total completed tonnage of 204,000dwt was ranked seventh in the China shipbuilding Industry (note) in 2002. The Group commenced construction work on nine vessels, eight of which were launched in 2002. These vessels included, 35,000dwt product oil tanker for a Danish customer, 38,000dwt product oil tanker for a Malta customer, 40,000dwt product oil tanker and 18,000dwt half submarine vessel for domestic customers. The turnover from shipbuilding amounted to RMB1,674,120,000 which represented an increase of 18.92% over that of last year. The turnover attributable to shipbuilding represents 69.38% of the Group's turnover.

Because there was a great quantity technical modification for the newly developed two Ro/PAX ships built for a Swedish customer during construction, the production progress had to slow down, and the cost increased, the increased loss provision of RMB33,048,000 was made. Besides, the increased domestic sea going liners secured by the Group in this period, which could get special finance subsidy in accordance with relevant state regulation, was listed as "Subsidy income" in non-operating profit in accordance with relevant accounting standard, and that caused the loss of gross profit from shipbuilding of the Group in this period.

Furthermore, during the year, the total sales cost of shipbuilding products was RMB1,703,400,000, and the loss amounted to RMB29,285,000. In 2002, the Group secured new orders for 3 vessels, with total contract value of RMB457,580,000. As at 31 December 2002, the Group has secured orders for 19 vessels with a total tonnage of 572,252dwt and a total contract value of RMB2,371,273,000.

Note: The information is extracted from the Secretariat of the Shipbuilding Industry Society.

Container Manufacturing

During the period under review, container manufacturing of the Group has made encouraging progress, the annual output surmounted 60,000TEU representing a new record of the Group. During the year, varieties of containers with a total of 62,614TEU were sold by the Group, the turnover from the manufacturing of containers amounted to RMB535,685,000, representing an increase of 60.58%, the turnover attributable to the container business represents 22.20% of the Group's turnover.

However, affected by the low price of containers and rising prices of raw materials, the profit form contain manufacturing went down continually. During the year, the sales cost of containers product amounted to RMB528,026,000. Gross profit amounted to RMB7,659,000 with gross profit rate of 1.43%, representing a decrease of 48.77% and 68.10% respectively over that of last year.

Shiprepairing

In 2002, shiprepairing operation of the Group was reduced due to restriction of the geographical environment and the dry repair dock circumstances. The repairing services for 56 vessels with various types were completed including 12 foreign vessels. The turnover from the ship repairing operation amounted to RMB20,329,000, the turnover attributable to the ship repairing operation represents 0.84% of the Group’s turnover. During the year, sales cost of ship repairing amounted to RMB18,227,000, and gross profit amounted to RMB2,102,000 with gross profit rate of 10.34% .

Steel structure

In 2002, the turnover and gross profit from steel structure of the Group were reduced due to the competition and the price dropping.

The turnover contributed from the steel structure operation amounted to RMB86,520,000 and the sales cost amounted to RMB75,070,000, gross profit amounted to RMB11,450,000 with gross profit rate of 13.24%. The major projects completed in 2002 included Hong Kong west subway, Engineering of sound insulation pillars on TuLu Port, Guangdong ShunDe Chen Cun Flower Center and Nan Hai Citizen Plaza. The turnover attributable to the steel structure operation represents 3.59% of the Group’s turnover.

Mechanical and electrical equipment and other operations

The mechanical and electrical equipment operations of the Group including Hydraulic Bending Machine, Hydraulic Shearing Machine, Refrigerator Processing Equipments, various Elevators Manufacture and Installation. In 2002, the mechanical and electrical equipment operations of the Group were reduced due to affection of fierce competition and partial products outmoded. The turnover from the mechanical and electrical equipment amounted to RMB96,450,000, representing a decrease of 60.35% over that of last year. The total sales cost of the mechanical and electrical equipment was about RMB79,120,000, and gross profit amounted to RMB17,330,000 with gross profit rates of 17.91%. The turnover attributable to mechanical and electrical and other operations represents 4% of the Group's turnover.

Geographical analysis of turnover

	Year ended 31 December			
	2002		2001	
Countries/Regions	**Turnover**	**Proportion**	Turnover	Proportion
	(RMB'000)	**(%)**	*(RMB'000)*	*(%)*
Hong Kong	**555,572**	**23.02**	119,478	5.45
Vietnam	**266**	**0.01**	–	0.00
Germany	**290**	**0.01**	85,220	3.89
Malaysia	**3,036**	**0.13**	–	0.00
Denmark	**543,551**	**22.52**	247,744	11.30
Malta	**314,116**	**13.02**	223,528	10.20
Sweden	**134,847**	**5.59**	561,153	25.60
The Philippines	**493**	**0.02**	–	0.00
USA	**17,289**	**0.72**	72,677	1.98
The Netherlands	**–**		23,533	1.07
Africa	**–**		4,085	0.19
Japan	**–**		80,097	3.65
Subtotal	**1,569,459**	**65.04**	1,417,526	63.34
Mainland China	**843,642**	**34.96**	659,078	36.66
Total	**2,413,101**	**100.00**	2,076,603	100.00

Turnover from export operation

During the year, the Group's turnover attributable to exports amounted to US$189,580,000 (2001: US$170,771,300).

Major customers and suppliers

The turnover from the Group's five largest customers accounted for 62.24% of the turnover of the Group in 2002. The largest customer of the Group accounted for 22.52% of the turnover of the Group in 2002.

The purchase of raw materials and equipment from the Group's five largest suppliers accounted for 27.36% of the total purchases of the Group in 2002. The largest supplier of the Group accounted for 9.71% of the total purchases of the Group in 2002.

None of the directors, supervisors and their respective associates had any interests in the major customers and suppliers noted above, nor had any of the Company's shareholders disclosed to the Company that he or she had an interest in the above mentioned major customers or suppliers.

Major subsidiaries

The operation conditions of the Company's major subsidiaries, with 51% or more interest held, during the year are summarised as follows:

No	Company Name	Principal Activities	Registered Capital	Interest Attributable to the Company	Assets	Net profit (loss)
			RMB'000	*(%)*	*RMB'000*	*RMB'000*
1.	Kwangchow Shipyard Container Factory	Container manufacturing	44,925	100	313,510	(7,692)
2.	Guangdong Guangzhou Shipyard International Elevator Company Limited	Elevator production and sales	21,000	95	31,176	983
3.	Guangzhou Hongfan Information Technique Company Limited	Development of computer software, system integration and sales of hardware	5,000	90	8,673	(1,316)
4.	Guangzhou Xinsun Shipping Service Company Limited	Welding and coating of ships	600	83	16,039	1,174
5.	Masterwood Company Limited	Furniture manufacturing	3,315	75	9,286	388
6.	Guangzhou Guanglian Container Transportation Company Limited	Container transportation	20,000	75	20,826	274
7.	Xinhui City Nanyang Shipping Industrial Company	Ship dismantling	34,200	70	28,224	(3,024)
8.	Guangzhou Sanlong Industrial Trading Development Co., Ltd.	Municipal construction project	1,500	67	2,457	95
9.	United Steel Structures Limited	Large-sized steel structure	73,573	51	77,018	1,087
10.	Guangzhou Henghe Construction Co. Ltd.	Services, wholesale and retail	27,500	75.9	32,281	18

The above subsidiaries, which are established and operated in Mainland China, in the opinion of the directors, represent those principally affected the Group's results of the year or formed a substantial portion of the net assets of the Group. In the opinion of the directors, a full listing of the operating conditions for all subsidiaries will result in excessive length.

The Company's investments

During the year, the Company invested RMB132,170,000 in relation to technical transformation. The completed projects transferred to fixed assets during the year amounted to RMB86,980,000. The major projects included: reinforcement of the slipways at No. 3 berth, reform of blasting and coating workshop, the second engineering of assembling and welding yard of Heavy Mechanical Engineering Division, 40t crane and reform of tube manufacturing workshop.

Prospects for the coming year

In the coming year, the Group will lay stress on the core operation of shipbuilding and widen the shipbuilding products market further, put forth effort on improving shipbuilding management lever, optimalize shipbuilding economic indexes, under the guideline of "strengthen the core competence in shipbuilding, vivify the development in non-shipbuilding operations", and make effort for a positive situation in the shipbuilding of the Company in 2003.

As at the date this report disclosed, the Group has secured several vessels successfully in the first quarter of 2003, the contracts value amounted to RMB840 million, including two 35,000dwt Product Tankers built for a Denmark customer, two 38,500dwt Product Tankers and a 3,000t investigation vessel built for Guangdong Marine Bureau. At the same time of devoting major efforts on shipbuilding business, the Group will explore and execute new vigorous operating measures to improve the non-shipbuilding business of the Group.

The key points of the work in 2003 include: firstly concentrating to putforth the production of No. 2 RO/PAX ship and half submarine vessel to resume the normal production of shipbuilding. Secondly advancing and improving the three management systems on cost, technique and plan of shipbuilding, and cultivating the staff with high accomplishment. Thirdly deepening the development of product oil tanker and chemical tanker, realizing the head position in technique and seriation of products. Fourthly carrying out subsidiary administration to non-shipbuilding business to realize independent accountability, autonomous management, sole responsibility for its profits or losses and self-development with programming and strategy under the Group.

We are in the view that the core operation will return to normal with the completion and delivery of No. 2 RO/PAX ship and half submarine vessel in the coming year, the Company will secured more shipbuilding orders, the condition of business, production and finance of the Company will return to their positive operating situation gradually.

Report of the daily operations of the Board of Directors

Meetings of the Board of Directors

During the year, the Board of Directors held eight meetings. The major points and resolutions arising from each of these meetings are as follows:

1. The eighteenth meeting of the third term of the board of the company was held on 19th April 2002, with ten directors present and one absent, The ten directors voted for approval of the company's Annual Report of 2001, approved the recommendation of the profit non-distribution and non-conversion to shares for the year of 2001, approved the recommondation of a name-list of candidates for the fourth term of the board, approved appointment of Mr. Yin Xueming and Mr. Xia Suijia to the position of deputy General Manager, approved respectively the amendment to Articles of association of the Company, the Rules of Procedure of the Annual General Meeting and the Rules of Procedure of the Board of Directors, approved company's Information Disclosure system, approved the recommendation to reappoint Yangcheng Certified Public Accountants Company Limited and PricewaterhouseCoopers as the auditors for 2002; approved respectively the financial budget for 2002 and the total payment to workers in 2002, approved authorizing the management to deal with the trust deposits with Guangzhou Economic and Technology Development Zone International Trust and Investment Company (GETDZITIC) under circumstance of no less than 20% recovery, approved the payment of RMB4,693,500 from Guangdong Chinese Trust and Investment Company (GOCTIC) to offset trust deposits due from GOCTIC amounted to RMB8,090,000, approved investment of RMB900,000 to found Beijing Luzhou Technology and Trade Development Company Limited with other investors, approved the resolution to close Casting and Forging Factory, a subsidiary of the Company, and to transfer the relevant assets to Guangzhou shipyard, approved a further operation of three years for the Company's Technical center, printing plant, hydraulic Engineering Branch Company and shunde shipyard, approved capital withdrawal from the following two affiliated companies and three subsidiary companies, i.e. Guangzhou Yongda International container Engineering Company Limited, Contech International container Engineering company Limited, Guangzhou Shipyard Machinery Equipment Engineering Company Limited, Guangzhou Jinfan Advertisement and Decoration Company, and Dongguan Yuedong Industry & Commerce Development Company Limited, and to reclaim benefits receivable to the Company, and approved the purchasing of liability insurance for directors and supervisors.

2. The nineteenth meeting of the third term of the Board of Directors was held on 27th May 2002. Ten of the eleven Directors voted by means of written resolution for approval of aggregate award of RMB298,600 to the management for their work in 2001 in accordance with company's financial report of 2001 and the service contracts signed by directors,.

3. The twentieth meeting of the third term of the Board of directors was held on 13th June 2002. Ten of the eleven Directors voted by means of written resolution for the approval of submission of the Modern Enterprise system self-checking report of the Company to China Securities Regulatory Commission and State Economic & Trade Commission.

4. The first meeting of the fourth term of the Board of directors was held on 14th June 2002. All the eleven directors voted to elect Mr. Hu Guoliang as the Chairman of the Board, appointed Mr. Yu Baoshan as the General Manager of the Company, appointed Mr. Ye Peihua, Mr. Zhong Jian, Mr. Wang Yi, Mr. Han Guangde, Mr. Yin Xueming, and Mr. Xia Suijia as deputy General Managers of the Company, appointed Mr. Li Zhidong as the secretary to the Board of Directors, determined the aggregate remuneration of RMB564,000 of the new-term non-director Management for the first years.

5. The second meeting of the fourth term of the Board of Directors was held on 30th July 2002. All eleven Directors voted by means of writhen resolution for approval of transferring 35% of the company's shareholding of Guanzhou Yongda International Engineering Company Limited to Guangzhou Deshun Transportation Company Limited at the price of RMB340,435.

6. The third meeting of the fourth term of the Board of Directors was held on 16th August 2002, with attendance of eleven directors (two valid proxies). All the 11 directors voted for approval of the Interim Report of 2002; appointed Mr. Chen Liping as the deputy general manager of the Company, approved the payment of HKD250,000 to PricewaterhouseCoopers for the review of the interim financial statement of 2002, approved a provision of RMB33,048,100 for foreseeable losses on shipbuilding products.

7. The fourth meeting of the fourth term of the Board of Directors was held on 11th October 2002. All eleven directors voted for approval the Third Quarter Report of 2002 of the Company.

8. The fifth meeting of the fourth term of the Board of Directors was held on 7th January 2003. All eleven Directors voted by means of written resolution for approval of setting up GSI (Nanhai) Mechanical and Electrical and Electrical Branch Company, with the core business in designing and manufacturing mechanical and electrical products. Ten Directors voting for and one abstention (Mr. Wu Fabo, the independent Director) approved the set-up of Zhangjang High-tech Shipping Service Company (a temporary name) together with other two shareholders, the Company will invest RMB800,000 and holding 40% shares, the new company mainly handling ships equipments and systems repairing, testing and maintenance. Ten Directors voting for and one abstention (Mr. Wu Fabo, the independent Director) approved the Company to gain the financing loan from Industrial & Commercial Bank of China Guangzhou Fangcun Branch Bank with mortgaging the real estate, including factories, workshops and office buildings, etc. worthy of RMB146,120,000.

The execution by the Board of Directors in respect of the resolution passed in the Annual General Meeting

During the year, the Board of Directors had executed all the resolutions passed in the 2000 annual general meeting.

Interests of directors and supervisors

Except for the disclosure under "Directors, supervisors, senior management and staff", at no time during the year, had the Company been notified that any director and supervisor (including their spouses and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for equity or debt securities of the Company and its associated corporations (within the meaning of the SFO), which were required to be notified to the Company and the Stock exchange of Hong Kong Limited pursuant to section 341 of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies or which were required to be entered in the register referred to the section 352 of the SFO.

Service contracts of directors and supervisors

None of the directors and supervisors who were elected in the 2001 annual general meeting had entered into any service contract with the Company with payment of compensation for early termination of the service contract or non re-election upon the expiration of the service contract.

Interests of directors and supervisors in contracts

During the year, no contracts of significance in relation to the Company's business, to which the Company and its subsidiaries were a party to, and in which a director and supervisor of the Company had a material interest, whether directly or indirectly, were in existence.

The highest paid individuals

The five highest paid individuals are either directors, supervisors or senior management whose emoluments have been disclosed in "Directors, supervisors, senior management and staff" noted above.

Profit forecast

The Company did not prepare any profit forecast for the period covered by this report.

Profit distribution for the year 2002

As the Company has a profit of RMB15,917,000 in the financial statements prepared in accordance with the PRC Accounting Standards and Systems and a profit of RMB15,020,000 in the financial statements prepared in accordance with the accounting principles generally accepted in Hong Kong in 2002,the directors do not recommend the profit distribution and capital increment. This proposal will be submitted to 2002 Annual General Meeting for approval.

Financial summary

Summaries of the results and of the assets and liabilities of the Group for the last five financial years in accordance with the accounting principles generally accepted in Hong Kong and PRC Accounting Standards and Systems are set out on page 5 and page 6 , respectively.

Report of the Directors

Results and profit distribution

The results and profit distribution of the Group for the year ended 31 December 2002 prepared under PRC Accounting Standards and Systems and the Hong Kong generally accepted accounting principals are set out in the profit and loss statement on page 44 and page 45, and consolidated profit and loss account on page 89.

Dividend

In accordance with the PRC Accounting Standards and Systems, the directors do not recommend the payment of a dividend and capital increment for the year 2002.

Reserves

The movements in the reserves of the Group which are prepared under PRC Accounting Standards and Systems and the accounting principles generally accepted in Hong Kong are set out on page 50 and note 24 on page 124 to 127, respectively.

Fixed assets

Details of movements in fixed assets (including properties and other tangible assets) of the Group which are prepared under PRC Accounting Standards and Systems and the accounting principles generally accepted in Hong Kong are set out in note 5(6) to the financial statements on page 66 and note 10 on page 112 and 113, respectively.

As at 31st December 2002, the net book value of fixed assets pledged as security for the Group's banking facilities amounted to RMB220,186,000.

Properties held for development or sale

The Group has no property held for development or sale, which represents over 15% of the value of net tangible assets, or where contribution derived from these properties exceeded 15% of pre-tax operating profit.

Share capital

Details of the share capital of the Company are set out in "Share capital structure" on page 11 and 12.

Pre-emptive rights

As there is no provision for pre-emptive rights under the Company's Articles of Association, the Company had not arranged any scheme for such right during the year.

Warrants and others

During the year, neither the Company nor its subsidiaries have issued any warrants, convertible securities, options or other securities with similar rights, nor had any person exercised any right noted above.

Purchase, sale or redemption of the Company's securities

Neither the Company nor its subsidiaries made any purchase, sale or redemption of the Company's securities during the year.

Bank loans, overdraft and other borrowings

Details of bank loans, overdraft and other borrowings of the Group are set out in note 5(11) and 5(17) to the financial statements on page 69 to 73, and note 22 and 25 on page 123, 127 and 128, respectively.

Interest capitalisation

Details of interest capitalisation of the Group during the year are set out in note 5(8) to the financial statement on page 68.

Application of Statutory Public Welfare Fund

During the year, the Company contributed its statutory public welfare fund to the purchase of medical facilities for the welfare of the Company's employees. The amount transferred to fixed assets was RMB778,000.

Connected transactions

The connected transactions made between the Group and the associated enterprise under the control of CSSC or associated companies of the Group included sales of goods amounting to RMB4,830,000 and purchases of raw materials and other expenses amounting to RMB161,022,000. Those connected transactions are audited by the Company's independent directors, and confirmed by its non-executive independent directors, Mr. David Hon To Yu, Mr. Philip Pat Yiu Yuen, Mr. Bo Miaojin and Mr. Wu Fabo, that they were carried out in the ordinary course of business and had been entered into 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 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 6 to the financial statements prepared under PRC accounting standards on page 81 to 86.

The above transactions, which also constitute related party transactions under the listing rules of the Stock Exchange of Hong Kong Limited ("Listing Rules"), require disclosure in accordance with Chapter 14 of the Listing Rules. Details are set out in note 30 to the financial statements prepared under the Hong Kong generally accepted accounting principals on page 133 and 134.

Application of proceeds from share offering

The Company had not raised funds during the year and the proceeds previously raised had been fully utilized.

Employees' pension scheme

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 2002 was RMB21,046,000 (2001: RMB21,861,000). 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 2002 was RMB2,457,379 (2001: RMB2,618,886). Contributions by the Group forfeited as a result of resignation of the employees before retirement totaling RMB76,513 (2001: RMB206,778) are utilized for the welfare of retirees. In addition, during the year the Group had made payments of RMB955,101 (2001: RMB636,453) as subsidies to retirees.

Purchase of staff quarters by employees

Guangzhou Shipyard owns staff quarters occupied by employees of the Company. Accordingly, the staff quarters provided to the Company's employees by Guangzhou Shipyard are in accordance with the State and Guangzhou City's housing reform policy and the Company was not involved in the selling of staff quarters to the employees.

Publications for disclosure

The Publications used for disclosing information of the Company during the year 2002 are "Shanghai Securities News", "Hong Kong Commercial Daily" and "Hong Kong iMail".

Code of Best Practice

The Board of Directors have not established an audit committee (the "Audit Committee") to review and supervise the Company's financial reporting procedures and internal controls pursuant to paragraph 14 of Code of Best Practice set out in Appendix 14 of the Listing Rules (the "Code of Best Practice"). However, the Company's organizational structure includes a supervisory committee (the "Supervisory Committee") which carries out functions similar to that of an Audit Committee, the differences being that the representatives of the Supervisory Committee (one of which shall be the representative of the Company's employees) are elected and removed by shareholders in an annual general meeting, and which is responsible to report to general meeting of shareholders instead of the Board of Directors, whereas the Listing Rules require the Audit Committee comprise of 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 at any time during the year, in compliance with the Code of Best Practice.

Significant litigation

Details of significant litigation of the Group during the year are set out in note 1 in "Significant Events" on page 38.

Auditors

The financial statements for the year ended 31st December 2001 prepared under PRC accounting standards and Systems and the accounting principles generally accepted in Hong Kong have been audited by Yangcheng Certified Public Accountants Company Limited and PricewaterhouseCoopers, respectively. They shall respectively resign and, being eligible, offer themselves for re-appointment.

Acknowledgment

The Board of Directors would like to extend its sincere gratitude to various customers for their trust in the Company, and to the shareholders for their valuable support to the Company, and to the staff for their efforts and dedication to the Company's development.

On behalf of the Board
Chairman
Hu Guoliang

Guangzhou, 22nd April 2003