

Notes to the Financial Statements

*(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002*

1. Overview of the Company

Guangzhou Shipyard International Company Limited (the "Company" and its subsidiaries) was reorganized in 1993 from Guangzhou Shipyard, a state-owned enterprise under China State Shipbuilding Corporation, and incorporated in the PRC as a joint stock limited company. Upon approval by the Ministry of Foreign Trade and Economic Cooperation of the PRC, the Company was registered as a Sino-foreign joint stock limited company on 21st October 1994.

Currently, the Company is the largest modernized and comprehensive shipyard in southern China and enjoys the autonomy of operating import and export business.

The operation scope of the Company includes design, fabrication, installation and sales of ship and its auxiliary engines, containers, steel structure and its components, pressure vessels, common machinery, casting and forging units, common parts and components, fabric reinforced plastic products, lines, pipes, tools and furniture; repair of machinery equipment and ships; ship dismantling; exploration and design; transfer of know-how; house decoration; and leasing of containers, ships and equipments.

At present, the Company owns three shipbuilding berths and a 440m shipbuilding quay, with the largest capacity of 60,000dwt, and a ship-repairing dock which can undertake repairing and modification work for ships up to 10,000dwt, and a 480m ship-repairing quay. It also owns production lines that can produce various international standards and non-standard specialized steel dry cargo containers.

The Company presently has 5 major product lines, including shipbuilding, containers manufacturing, ship-repairing, steel structure engineering, and other mechanical and electrical equipment. In addition to large vessels and containers, the Company's principal products include steel structure's manufacturing & coating & erecting for bridges & high-rise construction & large-size pipe, manufacturing & installing of passenger/goods lift, foils and studs for hydrofoil, port machinery, hydraulic machines, production line for external painted steel plates of refrigeration and design & manufacturing of crane machinery.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

2. Principal Accounting Policies adopted by the Company (Group)

(1) Accounting System

The Company adopts the Enterprise Accounting System and relevant regulations issued by the PRC Financial Department.

(2) Accounting Period

The accounting period covers the calendar year from 1st January to 31st December.

(3) Currency Adopted in Accounting Records

Accounting records are maintained in Renminbi.

(4) Basis of Recording and Valuation

Basis of recording adopts accrual system and Basis of Valuation is cost of acquisition.

(5) Foreign Currency Translation

Foreign currency translations during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China on the first day of the month in which the transactions take place. At the end of the month, the monetary balances are adjusted in accordance with the regulations of Accounting System with the differences arising stated as exchange difference.

(6) Cash Equivalents

Cash equivalents are defined as investments that are short-term (within three months), highly liquid, and readily convertible to cash and are subject to low risk of changes in value.

(7) Short-term Investment and Profit

The short-term investment, including shares, bonds and funds, refers to the investment that can be realized at any moment, and the time of holding the investment does not exceed 1 year (including 1 year). The investment is calculated on basis of the cost of the investment while returning the investment. At the end of the term, short-term investment is valued in accordance with the lower between the cost and market price. When the market price is lower than the cost, provision for diminution is made.

(8) Provisions for Doubtful Debts

(i) Basis of recognition as of doubtful debts lost: If cases where debtors to bankrupt or is dead, doubtful debts unpaid represent balance after settlement out of liquidation or estate; The debtor do not pay back debt overdue, and certify it is impossible to get back after litigation process.

(ii) Accounting basis of doubtful debts lost: provision way.

(iii) Provision and applicable rate: For the account receivable which there is no bad information of in-receivable, 0.5% of its left will be draw out as provision; For the account receivable which there is special disadvantageous information for the bad debts, the provision will draw in accordance with the difference between the returnable amounts of debts and its book account.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

(9) Inventories

Inventories of the Company are valued on the basis of cost, including:

- (i) Raw materials and low-value consumables are stated at standard costs. The amount is adjusted for price variance to arrive at actual cost at the end of month.
- (ii) Low-value consumables are amortized upon issuance for use.
- (iii) Finished products and work-in-progress are stated at actual cost.

Methods of making provision for diminution of value on inventories:

- (i) For materials (excluding those special materials for the products with the support of contract), provision is made on those damaged or rotten materials based on the difference between cost and net realizable value.
- (ii) For construction contracts (including products under long-term contracts), provision is made against total impact of foreseeable loss.
- (iii) For finished goods

For finished goods covered by contracts, provision is made based on the difference between cost and sales proceeds when the actual cost is more than the foreseeable operating income.

55

(10) Long-term Investments

- (i) Long-term equity investments

Long-term equity investments by the Company are stated as the investment cost.

For enterprises in which the Company's investment representing more than 50% of the investee's issued capital, equity method of accounting is adopted and consolidated financial statements are prepared.

For enterprises in which the Company has made an investment representing more than 20% but equal to or less than 50% of the investee's issued capital, equity method of accounting is adopted and no consolidated financial statements are prepared generally except where the Company has control over the investing project.

The Company's investments representing 20% or less of the investee's issued capitals are stated at cost.

- (ii) The balance of the equity investment, the term of which is stipulated in the contract, is amortized and included as current income of investment according to the investment term; while those, the term of which is not stipulated in the contract, are amortized and included as current income of investment according to the term that does not exceed 10 years (including 10 years).

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

- (iii) Long-term bond investments: Bonds invested by the Company are regarded as original investment cost according to the exact payment. The interest, included by the exact payment, will be stated dividually as item receivable when the interest is at the expiration but not drawn. The original investment cost of long-term bonds includes the bond interest that is included by the exact payment and does not expire.
- (iv) The amortization of premium and discount of long-term bond investment is carried out at the same time with the confirmation of the relevant bond interest in order to adjust the investment income.

- (v) Provision for diminution in long-term investments

①④⑤ Provision for diminution in long-term investments that have market price is made according to the following symptom.

- A. Market price lower than the account price for the 2 years
- B. The transaction of investment suspended for one year or more
- C. The company invested have a serious loss in this year
- D. The loss of the company invested lasted for 2 years
- E. The company invested is in process of rectification and liquidation or the company invested has other symptoms that show it cannot do business continually.

②④⑤ Provisions for diminution in long-term investments that have not market price are made according to the following symptom.

- A. The company invested has a mint loss.
- B. The financial status of the company invested has deteriorated, such as the rectification and liquidation, etc, because of the change of market and the descent of the competitive ability.
- C. In other case, for example, it shows evidence that the investment actually did not bring any economic interest to the Company.

(11) Fixed Assets and Depreciation

Fixed assets refer to the house, building, machinery and the equipment of transportation that have been used for one year or more, including other equipment related to the production and business. Fixed assets are stated at cost.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

Depreciation is provided to write off the cost over their useful lives on a straight-line method, after taking into account the estimated residual value of 3% to 10% of the cost. The annual rates of depreciation for various categories of fixed assets are as follows:

Fixed assets category	Service years	Depreciation rate (%)
Machinery and equipment	6–20	5–16.67
Transmission systems	8–35	2.86–12.5
Instrument and meters	5–10	10–20
Vehicles	10–15	6.67–10
Buildings	8–50	2–12.5
Structures	15–50	2–6.67

Provision for diminution is made when the fixed assets comply with one of the items in the following.

- (i) The fixed assets, left unused for a long time, not are used in the foreseeable future and no any transference value.
- (ii) The fixed assets left unused for the sake of the technical advance.
- (iii) The fixed assets produced a great number of rejects, although the fixed assets can be used.
- (iv) The fixed assets, no any use and transference value because of damage.
- (v) The fixed assets, actually no any economic interest to the Company.

At the end of term, the value of fixed asset is calculated in accordance with the lower between the accounting value and the receivable value. When the receivable sum is lower than the accounting sum, the balance will be regarded as the fixed assets provision for diminution that is stated in accordance with one asset.

(12) Construction-in-process

Construction-in-process is stated at cost. The relevant interests are included as project cost before the project is delivered for use. The project is considered to list into fixed assets as the project is delivered for use. For the project could be delivered for use but not process the final account for completed project, from the date of the project could be delivered, and in accordance with the budget and the construction value of the project, the project could be transferred into fixed assets, and drawn depreciation in accordance with relevant regulations of Enterprise Accounting System. The readjustment will make after the final account for completed project was processed.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

(13) Loan Expenses

When the following three requirements are met simultaneously, the expenses of loan in order to buy or construct a fixed asset is capitalized and covered by the cost of the asset.

- (i) The payout (only including cash paid, transferred non-currency assets or holding debt liability) has been occurred.
- (ii) The expenses of loan have been occurred.
- (iii) The action of buy and construction, which are indispensable in order to reach the scheduled workable condition, has begun.

The loan expenses for buying or constructing fixed assets, fulfilling the condition of capitalization and the fixed assets reaching the scheduled workable condition, can be stated as cost of fixed assets. The loan expenses occurred after the construction was reached the scheduled workable condition would be stated as the current financial expenses.

Method for calculating capitalized interest for each accounting period:

The weighted average of accumulated outlay for buying and constructing fixed assets as to the end of the period \times capitalization rate

(14) Intangible Assets and Its Amortization

Intangible assets are state at cost. Amortization is provided to write off the cost evenly over the legal or contractual lives or, in the absence of legal or contractual lives, evenly over the useful lives. Where the useful lives of intangible assets cannot be ascertained, amortization is provided evenly over a period of not less than 10 years.

(15) Long-term Deferred Expenses And Amortization

Long-term deferred expenses are amortized evenly during favorable period of expense items.

(16) Income Realizing Principle

Commodity sale: the Company has no any managing and controlling right after the important risk and reward has been transferred to the seller. The evidence of receiving money has been possessed in respect of the relevant income and the cost concerning the commodity sale can be calculated reliably in order to confirm the business income.

Labor services: the contract has been executed and the sum of money in contract or the evidence of receiving money has been received.

When the result of construction contract (long-term contract engineering) is foreseeable, it is to calculate the business income on basis of the percentage of the construction progress when settle accounts, and to calculated the business cost on basis of the same percentage of scheduled cost. The provision for loss, which consists of the whole cost of construction, will be made when foreseeable loss.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

(17) Income Tax

The income tax of the Company is on accrual basis.

(18) Basis of Preparation of Consolidated Financial Statements

In accordance with the "Tentative Regulations for Consolidated Financial Statements" issued by Finance Ministry, enterprises that the Company holds over 50% of total equity, or even less than that, but gets the actual holding rights, is consolidated into the accounting statements.

3. Taxation

(1) The type and rate of tax applicable to the major business activities are:

Activity Category	Tax category	Tax rate
Shipbuilding, Ship-repairing, container, Steel structures & mechanical and electrical equipment manufacturing, other products and sales materials	Value-added tax	17%
Transportation and installation	Sales tax	3%
Other services	Sales tax	5%

(2) The Company's income tax is calculated at 15% on the assessable profit.

4. Principal Subsidiaries and Affiliates

(1) Principal Subsidiaries

Name	Registered Capital (('000)	Principal Business	Interest Investment Attributable to Capitalthe Company (('000)
Kwangchow Shipyard Container Factory	RMB44,925	Container & steel structure manufacturing, installation and repairing	RMB56,157100%
Masterwood Company Limited	USD600	Manufacture and sales of all kind of material furniture series	RMB2,48675%
Guangzhou Guanglian Container Transportation Company Limited	RMB20,000	Container transportation	RMB15,00075%
Xinhui City Guangzhou Shipyard Nanyang Shipping Industrial Company	RMB34,200	Ship dismantling, shipbuilding and steel structure engineering	RMB25,20070%
Guangzhou Sanlong Industrial Trading Development Company Limited	RMB1,000	Business of steel structure and general ship component manufacturing	RMB1,00567%

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

Name	Registered Capital (‘000)	Principal Business	Interest Investment Attributable to Capital the Company (‘000)
Guangzhou Xinsun Shipping Service Company Limited	RMB600	Installation, welding, fitting, coating, repairing of hull structure	RMB50083%
United Steel Structures Limited	USD6,000	Manufacturing, sales and post sales service of steel structure	RMB37,52251%
Guangdong GSI Elevator Limited	RMB21,000	Design, manufacturing, sales, installation, modification and repairing of all kinds of elevator	RMB19,95095%
Guangzhou Hongfan Information Technique Co., Ltd.	RMB5,000	Developing of computer software, system integration and sales	RMB4,50090%
Guangzhou Henghe Construction Company Limited	RMB27,500	Steel structure design, construction and installment	RMB20,88075.93%

The above subsidiaries are all established and operated under the law of the People’s Republic of China.

The subsidiaries, Guangzhou Jinfan Advertisement Decoration Company Limited, Guangzhou Haizhu District Guanghua Machinery Factory, are under liquidation due to expiry of operation period. Guangzhou Shipyard Machinery Equipment Engineering Co., Ltd is dismissed in advance and in procedure of final liquidation. Therefore, these three subsidiaries are not included in the statement in this period under review.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

5. Notes to Items in the Financial Statements

5(1) Cash and Bank Balances

The balance on 31st December 2002 is RMB284,848,655.76. The details are as follows:

Item	Opening Balance		Closing Balance	
	Foreign currency	Equivalent RMB	Foreign currency	Equivalent RMB
Cash in hand				
– RMB Account		260,927.66		240,434.51
– HKD Account	8,828.22	9,367.62	2,372.81	2,517.79
– USD Account	3,603.17	29,824.16	2,495.44	20,654.26
– EUR Account	500.00	34.41	500.00	36.21
Sub-total		300,153.85		263,642.77
Cash at bank				
– RMB Account		252,133,112.93		179,596,960.57
– HKD Account	3,069,863.49	3,230,800.57	3,415,223.80	3,623,893.97
– USD Account	3,509,264.48	29,072,921.20	10,731,349.92	88,821,237.02
– EUR Account				
Sub-total		284,436,834.70		272,042,091.56
Others				
– RMB Account		69,949.61		408,028.46
– USD Account	5,040.55	41,717.60		
Sub-total		111,667.21	0	408,028.46
Total		284,848,655.76		272,713,762.79

5(2) Accounts Receivable

(i) Accounts Receivable

The balance on 31st December 2002 is RMB612,892,696.75. The details are as follows:

Bond age	31st December 2002			31st December 2001		
	Amount	percentage %	Provision for doubtful debts	Amount	percentage %	Provision for doubtful debts
Within 1 year	530,375,514.70	85.88%	2,636,192.29	291,831,368.98	63.05%	1,245,812.30
1-2 years	9,002,399.45	1.46%	43,078.01	28,712,895.35	6.20%	118,819.83
2-3 years	13,124,065.38	2.12%	72,939.60	39,379,120.51	8.51%	106,489.15
Over 3 years	65,089,845.35	10.54%	1,946,918.23	102,915,974.39	22.24%	2,967,731.97
Total	617,591,824.88	100.00%	4,699,128.13	462,839,359.23	100.00%	4,438,853.25

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

The amounts of the five companies with highest accounts receivable are RMB552,233,871.88 representing 89.42% of the accounts receivable of the Company.

The accounts receivable was increased by 33.70% mainly due to the two vessels delivery at the end of the year and other several vessels achieved the production schedule but the settlement is not received. The balance of accounts receivable over 3 years included payment for goods of RMB63,090,000 that should paid within eight years from China Container Transportation Center of Railroad Bureau in accordance with contract. Such payment for goods was received ordinarily.

None of accounts receivables is due from shareholders who hold 5% or above of the Company's interest.

(ii) Prepayment from customers

The balance on 31st December 2002 is RMB135,646,260.98. The details are as follows:

Bond Age	31st December 2002		31st December 2001	
	Amount	%	Amount	%
Within 1 year	138,496,260.98	99.89%	180,196,516.66	99.34%
1-2 years		0.00%	95,200.00	0.05%
2-3 years		0.00%	40,893.11	0.02%
Over 3 years	150,000.00	0.11%	1,052,381.28	0.58%
Total	<u>135,646,260.98</u>	100%	<u>181,384,991.05</u>	100%

The amount of the five companies with highest prepayments is RMB129,462,269.02 representing 95.44% of prepayment from customers.

None of prepayments is due from shareholders who hold 5% or above of the Company's interest.

(iii) Other receivables

The balance on 31st December 2002 is RMB292,815,695.41. The details are as follows:

Bond age	31st December 2002			31st December 2001		
	Amount	%	Provision for doubtful debts	Amount	%	Provision for doubtful debts
Within 1 year	206,408,516.09	30.65%	629,969.46	1,557,463.15	0.32%	427,461.57
1-2 years	4,131,956.34	0.61%	409,805.43	6,782,070.64	1.37%	2,461.44
2-3 years	6,919,085.83	1.03%	1,002,113.67	1,000,000.00	0.20%	1,004,913.79
Over 3 years	456,027,065.90	67.71%	378,629,040.19	473,805,678.93	98.11%	384,648,657.97
Total	<u>673,486,624.16</u>	100.00%	<u>380,670,928.75</u>	<u>483,165,212.72</u>	100.00%	<u>386,083,494.77</u>

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

The amount of the five companies with highest other receivables is RMB652,164,243.78 representing 96.83% of other receivables from customers.

①. The net amount of other receivables was increased by 201.62% mainly due to certain compensation for business reallocation is not received (See Significant Events Item 8). As at the date of this annual report disclosing, the first settlement of RMB98,665,000.00 has been in the account on 8th February 2003 and the rest settlements will be paid for 4 settlements within two years.

②. Trust Deposits

A. The accounts receivable of the Company from Guangdong Overseas Chinese Trust and Investment Company (GOCTIC) was RMB8,089,756.58. During the period under review, the Company agreed that GOCTIC pays RMB4,693,376.29 one-off, and would not sue for the balance through negotiation. The payment was paid on 5th April 2002, and the balance was canceled after verification as doubtful debts.

B. The accounts receivable of the Company from Guangzhou Economic and Technical Development Zone International Trust Investment Company (GETDZITIC) was RMB51,380,000.00. During the period under review, the Company negotiated with GETDZITIC and Liuzhou Zhongshan City Entertainment Company Limited and Liuzhou Security and Service Company (hereinafter referred to "Liuzou Companies"), and agreed a payment of RMB1,222,500 from Liuzou Companies to charge off certain debts of GETDZITIC.

C. The accounts receivable of the Company from Guangzhou International Trust Investment Company was RMB397,072,000.00, and has not any development in this period under review.

None of other receivables is due from shareholders who hold 5% or above of the Company's interest.

(iv) Subsidy receivable

The balance on 31st December 2002 is RMB170,871,723.84. The details are as follows:

Items	31st December 2002	31st December 2001
Subsidy for domestic sea going liners	83,342,246.73	33,789,930.08
Value-added tax refund for exports	87,529,477.11	43,434,721.59
Total	<u>170,871,723.84</u>	<u>77,224,651.67</u>

Subsidy receivable was increased by 121.27% compared with the beginning of this period, mainly due to the increased domestic sea going liners built by the Company, and that caused increased subsidy receivable pursuant to calculation under relevant state policy of the percentage of completion progress. The unreturned exports refunds for the export vessels and containers of the Company were affected by the ceiling amounts of state export refunds.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

5(3) Inventories and provision for diminution in value

The balance on 31st December 2002 is RMB567,483,950.59. The details are as follows:

Items	31st December 2002		31st December 2001	
	Amount	Provision for diminution in value	Amount	Provision for diminution in value
Raw material	237,180,887.30	1,578,382.79	230,870,384.52	1,034,477.21
Low-value Consumables	1,667,567.6 8	0	1,383,305.76	
Work-in-progress	314,646,369.89	34,444,344.73	62,639,821.38	103,611,460.81
Finished goods	50,795,111.54	793,268.30	75,098,579.77	1,018,541.33
Total	<u>604,299,936.41</u>	<u>36,815,985.82</u>	<u>369,992,091.43</u>	<u>105,664,479.35</u>

The net amount of inventories was increased by 114.69% compared with the beginning of the period mainly due to the increased products in construction arising from the enlarged production scale.

5(4) Deferred expenses

The balance on 31st December 2002 is RMB796,993.53. The details are as follows:

64

category	Opening balance RMB	Addition in the period RMB	Amortization in the period RMB	Closing balance RMB
	<u>827,737.78</u>	<u>1,055,566.99</u>	<u>1,086,311.24</u>	<u>796,993.53</u>
Total	<u>827,737.78</u>	<u>1,055,566.99</u>	<u>1,086,311.24</u>	<u>796,993.53</u>

5(5) Long-term investment

The balance on 31st December 2002 is RMB16,006,417.98. The details are as follows:

Item	Opening balance (RMB)				Closing balance (RMB)	
	Amount	Provision for diminution	Addition in the period	Deduction in the period	Amount	Provision for diminution
Long-term equity investments	15,146,318.40	–	1,630,007.22	769,907.64	16,006,417.98	–
Long-term debt investments	–	–	–	–	–	–
Total	<u>15,146,318.40</u>	<u>–</u>	<u>1,630,007.22</u>	<u>769,907.64</u>	<u>16,006,417.98</u>	<u>–</u>

(1) Long-term equity investment – other equity investment

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

Name of investees	Total investment	holding of investees' capital	Closing balance	Equity method	
				Change in the period	Accumulated change
Guangzhou Yongda International Container Engineering Company Limited	263,299.40	35.00 %	–	338,296.07	-263,299.40
South China/Marine And Industrial Special Coating Limited	1,722,060.00	25.00 %	2,889,730.34	517,830.68	1,167,670.34
Contech International Container Engineering Company Limiter	162,500.00	20.00 %	–	496,122.66	-162,500.00
Shenzhen Yuanzhou Science & Technology Industry Company Limited	1,000,000.00	7.41 %	1,000,000.00		
China Merchants Banking Corporation	10,010,000.00	0.23%	10,010,000.00		
Information and Technology Company Limited of CSSC	900,000.00	15.00%	900,000.00		
Machinery and Electric Equipment Company	30,000.00	10.00%	–		
Guangli Marine Engineering Service Company Limited	100,000.00	20.00%	100,000.00		
Sub-total	14,187,859.40		14,899,730.34	1,352,249.41	741,870.94
Guanghua Machinery Factory	1,675,187.80		471,45.45		
Machinery Equipment Company	663,636.41		635,642.20		
Total	16,526,683.61	–	16,006,417.99	1,352,249.41	741,870.94

In this period, the Company decided to withdraw the investment from Guangzhou Yongda International Container Engineering Company Limited and Contech International Container Engineering Company Limited. Through negotiation, the equity is transferred to Guangzhou Deshun Logistic Company Limited totally on 11th September with a price of RMB340,435.00. Contech International Container Engineering Company Limited was dismissed and processed the final account as its operation period expiry, the income of RMB375,000.00 has been in the account on 30th December with a loss of RMB116,708.33 made in Profit and Loss Statement of that period.

Affected by the operation period expiry and operating environment, three affiliates, Guangzhou Jinfan Advertisement Decoration Co. Ltd., Guanghua Machinery Factory and Machinery Equipment Company are processed final account. The liquidation for Jinfan Advertisement Decoration Co. Ltd has been finished, while other two companies has being processed liquidation. It was estimate that profit or losses from the liquidation has litter affect to the Company.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

(2) Consolidated Difference

The balance on 31st December 2002 is RMB2,610,543.76. The details are as follows:

Unit: RMB

Name of Investees	Opening balance	Amortization period	Balance at the		Value after amortization
			beginning of the year	Amortization in the period	
Guangzhou Henghe Construction Company Limited	2,157,150.21	10 years	2,139,173.96	215,715.00	1,923,458.96
Guangdong GSI Elevator Company	515,313.60	10 years	515,313.60	–	515,313.60
Consolidated differences				-171,771.20	171,771.20
Total	2,672,463.81		2,654,487.56	43,943.80	2,610,543.76

5(6) Original Cost, Accumulated Depreciation and Provision for Diminution of Fixed Assets

The balance on 31st December 2002 is RMB927,179,320.22. The details are as follows:

Unit: RMB

Items	Opening balance	Addition	Disposal	Closing balance
(1) Original Cost				
Buildings	441,601,888.74	6,580,063.63	45,910,029.20	402,271,923.17
Structures	212,362,489.20	40,629,074.05	4,838,772.54	248,152,790.71
Vehicles	23,682,065.51	4,039,201.82	3,025,513.20	24,695,754.13
Instruments and meters	5,777,148.10	354,909.83	574,853.65	5,557,204.28
Transmission system	40,238,328.32	2,024,527.79	9,464,134.10	32,798,722.01
Machinery and equipment	766,060,591.51	37,190,943.12	15,087,106.16	788,164,428.47
Total	1,489,722,511.38	89,836,648.24	78,900,408.85	1,500,658,750.77
(2) Accumulated depreciation				
Buildings	80,217,717.50	12,671,342.58	12,527,509.01	80,361,551.07
Structures	66,943,251.29	9,657,212.44	3,136,867.93	73,463,595.80
Vehicles	12,649,904.33	2,945,350.81	1,803,572.89	13,764,682.25
Instruments and meters	3,758,234.67	582,077.79	553,606.15	3,786,706.31
Transmission system	13,073,207.70	2,105,297.84	2,850,781.49	13,327,724.15
Machinery and equipment	320,186,062.82	60,420,693.44	11,508,560.96	369,098,195.30
Total	496,828,378.31	88,381,975.00	32,407,898.43	552,802,454.88
(3) Net value of fixed assets	992,897,133.07	1,454,673.24	46,492,510.42	947,856,295.89

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

Fixed Assets Provision for diminution

Item	Opening balance	Addition	Disposal	Closing balance
Fixed Assets	–	20,676,975.67		20,676,975.67

Affected by the business reallocation of the Company for the purpose of environment protection (See Significant Events Item 8), according to Reallocation Compensation Contract signed between the Company and Guangzhou Land Development Center on 8th November 2003, the property right of all buildings at No. 118 Gexin Road, Guangzhou (Container Factory, Guangzhou Shipyard International Company Limited) and No. 126 (Machinery Engineering Division) has been drawn back and written off by Guangzhou Government. Therefore, all buildings and workshops on the areas have been discarded. The original cost and net value of the discarded workshops are RMB48,218,750.55 and RMB33,377,410.52 respectively, the original cost and net value of the other relevant facilities are RMB7,789,369.27 and RMB4,983,583.92 respectively.

According to Reallocation Compensation Contract, Machinery Engineering Division and Container Factory should hand over the land and finish moving by 18th June 2003 and 18th December 2003 respectively. Part of the machinery, which cannot or need not move, should be written off. Provision for diminution with an amount of RMB20,676,975 has been made according to the difference between net value and expected convertible value after calculation.

5(7) Construction Materials

Category	31st December 2002 (RMB)	31st December 2001 (RMB)
Steels	–	110,103.70
Nonmetallic materials	–	9,545.00
Total	–	<u>119,648.70</u>

The Closing Balance of Construction Materials is Zero because all the raw materials are used on construction projects and storage has been quashed.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

5(8) Construction-in-process

The balance on 31st December 2002 is RMB112,130,762.41. The details are as follows:

Unit: RMB

Category	Addition Opening balance (Including: interest)	Transfer to in the period (Including: interest)	fixed assets (Including: interest)	Other reductions (Including: interest)	Closing balance (Including: interest)
1. Facilities improvements					
Capital construction: critical improvement project in national debt	13,742,755.99	76,482,991.45	21,633,846.27		68,591,901.17
Including: capitalized interests		1,865,152.64	622,274.47		1,242,509.17
(2) Others	50,001,089.70	49,854,804.17	56,317,132.63		43,538,762.24
2. Subsidiaries	8,247,210.97			824,210.97	–
Total	71,991,156.66	126,337,795.62	77,950,978.90	824,210.97	112,130,762.41
Including: capitalized interests	1,018,143.80	1,865,152.64	622,274.47	–	1,242,878.17

Construction-in-process was increased by 55.76% compared with the beginning of the period that mainly caused by:

- (1) The above Critical Improvement Project in National Debt scheme refers to the high value Ro/Pax vessel approved by the document of National Economical and Trading Investment [2001] 1271.
- (2) Capitalizing rate is loan rate from bank at the period. The Company collects capital for other engineering.
- (3) Affected by the business reallocation (See Significant Events Item 8), the Group had gained a 20,000 square meter manufacture plant with related facilities that belonged to Nanhai Mechanical Factory located in Yanbu town, Foshan City, Guangdong Province for RMB12,500,000 by auction. The transaction was finished on 19th December 2002, and the payment was paid and listed as the cost of Construction-in-process.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

5(9) Intangible assets

The balance on 31st December 2002 is RMB72,753,810.14. The details are as follows:

Unit: RMB

Category	Initial cost	Opening balance	Addition	Transfer out	Amortization	Closing balance	Remained term
Land use right	106,862,000	73,137,887.95	–	8,576,769.38	3,762,125.70	60,798,992.87	40 years
Know-how	10,332,076	5,849,958.63	7,402,663.76	–	1,297,805.12	11,954,817.27	10-1 years
Total	117,194,076	78,987,846.58	7,402,663.76	8,576,769.38	5,059,930.82	72,753,810.14	

Land use right is amortized evenly over the useful lives of 50 years. Know-how is amortized evenly over a period of 10 years.

Due to the business reallocation of the Company (See Significant Events Item 8), land use right of two pieces of land located at No. 118 and No. 126 Gexin Road Guangzhou has been withdrawn by Government. Amortization value RMB8,580,000 is cancelled and recorded in Profit and Loss Statement.

5(10) Long-term deferred expenses

The balance on 31st December 2002 is RMB1,448,318.64. The details are as follows:

Unit: RMB

Category	Opening balance	Addition	Amortization	Closing balance
Modification expenses of fixed assets	440,816.77	1,146,477.80	98,975.93	1,448,318.64
Others	986,820.76		986,820.76	
Total	1,427,637.53	1,146,477.80	1,085,796.69	1,448,318.64

5(11) Short-term loans and long-term loans within one year

(1) Short-term loans

The balance on 31st December 2002 is RMB680,751,763.52. The details are as follows:

Loans category	31st December 2002 Unit: RMB	31st December 2001 Unit: RMB	Note Loan's term	Annual interest
Mortgage loans	308,485,223.52	105,000,000.00	2002.6.24–2003.6.18	4.536%
Guarantee loans	30,000,000.00	41,384,000.00	2002.12.9–2003.12.9	4.779%
Credit loans	342,266,540.00	41,384,000.00	2002.2.4–2003.12.19	2.5–5.5575%
Total	680,751,763.52	187,768,000.00		

Short-term loan increased by 262.55% than the Opening Balance for enlarging production scale and increasing short-term loan from bank.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

(2) Long-term loans within one year

The balance on 31st December 2002 is RMB615,168,365.36. The details are as follows:

Loans category	31st December 2002	31st December 2001	Note	
	Unit: RMB	Unit: RMB	Loan's term	Annual interest
Mortgage loans	50,000,000.00	370,000,000.00	20012.9-2003.3.28	2.7-4.05%
Guarantee loans	110,700,000.00		2001.3.12-2003.9	5.49-5.94%
Other	4,468,365.36	4,468,365.36		
Total	615,168,365.36	374,468,365.36		

This item increased by 64.28% compared with the beginning of the period. The main reason of that refers to "Short-term loans".

5(12)Accounts payable

(1) Bills payable

The balance on 31st December 2002 is RMB176,987,116.91. The details are as follows:

Category	Amount	Expired within one year	Note
Bank honored draft	5,685,008.31	5,685,008.31	
Commercial honored draft	171,302,108.60	171,302,108.60	
Total	176,987,116.91	176,987,116.91	

Bills payable increased 66.97% than the beginning of the year for credit procurement of shipbuilding and container manufacturing material.

In the period, the Company had no bills payable to the shareholders with equity holding at 5% or above of share capital.

(2) Accounts payable

The balance on 31st December 2002 is RMB473,826,485.73. The details are as follows:

Category	31st December 2002	31st December 2001
Amounts payable for materials purchased	435,352,508.75	233,272,901.47
Amounts payable for subcontracting services	38,473,976.98	24,895,671.55
Total	473,826,485.73	258,168,573.02

Accounts payable increased by 102.58% for the reason as "Bills Payable".

In the period, the Company had no accounts payable to from the shareholders with equity holding at 5% or above of share capital.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

(3) Advances from customers

The balance on 31st December 2002 is RMB123,832,615.14. The details are as follows:

Category	31st December 2002	31st December 2001
Shipbuilding	105,868,848.67	–
Ship-repairing	1,406,141.86	1,131,814.00
Other products	16,557,624.61	32,434,254.56
Total	<u>123,832,615.14</u>	<u>33,566,068.56</u>

Advances from customers were decreased by 268.92% mainly due to the advances of progress payment for shipbuilding products.

In the period, the Company had no advances from shareholders with equity holding at 5% or above of share capital.

(4) Other Payables

The balance on 31st December 2002 is RMB93,690,479.20. The details are as follows:

Category	31st December 2002	31st December 2001
Company retirement pension	23,909,893.00	21,497,701.37
Staff check off	732,461.64	769,223.72
Auditing expenses to accountants	1,802,360.17	2,000,000.00
Administration expenses to Gujin town	–	1,200,000.00
Guangzhou Shipyard	3,025,105.00	2,610,259.75
National defense research expenses	–	10,113,479.12
Remuneration to independent directors	503,308.00	634,099.92
Medicare for retirees	54,787,580.00	
Other payables	8,929,771.24	7,804,509.01
Total	<u>93,690,479.20</u>	<u>46,611,272.89</u>

Other Payables were increased by 101% compared with the beginning of the period, mainly due to the Company has participated in the medical insurance for employees in December 2002 (see item 10 of Significant Event) under requirements of Guangzhou Government. In accordance with the relevant rules of medical insurance, the Company should pay transition medical insurance of RMB36,590,000 for the retired employees at one time, and the medical insurance balance of the next ten years of RMB18,200,000 for the employees who will retired within the next ten years. The total amount of the two above mentioned item is RMB54,790,000 and recorded in Profit and Loss Statement as liability and will be paid after finishing the procedure of medical insurance. As at the date of this annual report disclosed, the transition medical insurance of RMB36,590,000 has been paid on 10th March 2003.

In the period, the company did not have other payables to shareholders holding 5% or above of the total share capital.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

5(13) Payable Dividends

The balance on 31st December 2002 is RMB13,449.38. The details are as follows:

Category	31st December 2002	31st December 2001
State shares		
A shares		
H shares		
Dividends from associated companies	13,449.38	487,355.45
Total	13,449.38	487,355.45

Payable Dividends is less than the period beginning by 97.24%. The main reason is that an affiliated company paid payable dividends in the period.

5(14) Taxes Payable

The balance on 31st December 2002 is RMB -16,130,194.53. The details are as follows:

Category	31st December 2002	31st December 2001
Value-added tax	-19,973,117.44	-19,860,349.06
Business tax	649,350.75	1,379,217.11
City construction tax	1,662,799.69	146,647.46
Income tax	403,781.82	8,785.80
Property tax	323,144.51	189,606.36
Land tax	65,710.50	-47,110.72
Tax of staff income	738,135.64	459,816.82
Total	-16,130,194.53	-17,723,386.23

5(15) Accrued expenses

The balance on 31st December 2002 is RMB112,584,669.21. The details are as follows:

Category	31st December 2002	31st December 2001
Product warranty provision	35,620,997.06	38,602,411.73
Costs for outstanding projects	41,050,084.43	22,929,239.82
Transportation costs	—	177,526.53
Loan interest	2,884,282.85	—
Others	33,029,304.87	45,490,349.26
Total	112,584,669.21	107,199,527.34

Product guarantee provision is made based on fixed percentage of vessel contract price in accordance with industry practice. It is intended to cover product maintenance costs incurred within one-year form date of delivery.

Cost for outstanding project refers to the cost of shipbuilding product after finish the project, which may occur in future but have not yet paid.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

5(16)Other Current Liabilities

Category	31st December 2002	31st December 2001
Settlement for long-term contractual project	—	310,852,950.77
Total	—	310,852,950.77

The main reason for other current liabilities deduction is that the shipbuilding progress at the end of the year of certain vessels did not met the requirement for transferring the settlement.

5(17)Long-term Bank Loans

Name of Bank	Amount	Loan's term	Annual interest	Conditions of loans
China Import and Export Bank	200,940,155.00	2002.2.9–2004.5.24	3.51–4.05%	Guarantee
Total	<u>200,940,155.00</u>			

5(18)Other Long-term Liabilities

The balance on 31st December 2002 is RMB3,537,455.50.

Catalogue	Opening balance	Closing balance
China Container Transportation Center of Railroad Bureau	3,537,455.50	8,005,820.86
Total	<u>3,537,455.50</u>	<u>8,005,820.86</u>

According to the contract signed with China Container Transportation Center of Railroad Bureau in 1996, the debts of goods payment should be amortized with 8 years. The above-mentioned debts are the interest of unpaid goods payment, and were received normally.

5(19)Special project payable

The balance on 31st December 2002 is RMB28,792,269.33. The details are as follows:

Unit: RMB

Category	31st December 2002	31st December 2001
National fund	27,792,269.33	—
Provincial fund	<u>1,000,000.00</u>	—
Total	<u>28,792,269.33</u>	—

State fund of special project payable is scientific research appropriation for high technique vessel allotted in accordance with relevant regulations issued by National Economic and Trading Committee, National Development and Planning Committee and National Finance Ministry.

Provincial fund is fund of "Technical Innovation Project" allotted by Guangdong Finance Bureau and Guangdong Economic and Trading Committee. This fund is allotted by National Finance Authority freely and should be used according to relevant regulations.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

5(20)Capital share

Unit: share

Item	Opening Balance	Mating Present Share	Change (+/-) Reserve Addition Other transfer	Sub- total	Closing Balance
1. Non-public					
1) Initiator	210,800,080				210,800,080
Include: Nation					
Chinese juridical person	210,800,080				210,800,080
Foreign juridical person					
2) Collecting juridical person					
3) Workers					
4) Preferred stock and other					
Include: transferred stock					
Sub-total	210,800,080				210,800,080
2. Public					
1) RMB common stock	126,479,500				126,479,500
2) Foreign stock at home					
3) Foreign stock abroad	157,398,000				157,398,000
4) Other					
Sub-total	283,877,500				283,877,500
Total	494,677,580				494,677,580

74

5(21)Capital reserve

Unit: RMB

Item	Opening Balance	Addition	Deduction	Closing Balance
Share premium	651,977,481.72	—	—	651,977,481.72
Total	651,977,481.72	—	—	651,977,481.72

5(22)Surplus reserve

Unit: RMB

Item	Opening Balance	Addition	Deduction	Closing Balance
Statutory surplus reserve	48,998,046.01			48,998,046.01
Public welfare fund	31,471,502.41		777,987.00	30,693,515.41
Discretionary surplus fund	19,677,962.92	777,987.00		20,455,949.92
Total	100,147,511.34	777,987.00	777,987.00	100,147,511.34

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

5(23)Retained Profit

Unit: RMB

Item	31st December 2002	31st December 2001
Balance at the beginning of the year	-629,072,774.99	-638,051,089.36
Balance adjustment of previous years		
Profit this year	15,916,851.36	8,978,314.37
Statutory reserve		
Statutory public welfare fund		
Workers welfare fund	108,719.06	
Prior share dividend distributed		
Discretionary public reserve		
Share dividend distributed		
Balance at the end of the year	<u>-613,264,642.69</u>	<u>-629,072,774.99</u>

5(24)Geographical distribution to turnover

Please refer to "Geographical Statement". The sales of the top five seller for the Company amounted to RMB1,597,770,000 representing 66.21% of the total sales.

5(25)Principal operating incomes, cost of sales and gross profit

Unit: RMB

Item	Operating income		Cost of sales		Gross profit	
	This period	Last period	This period	Last period	This period	Last period
Shipbuilding products	1,674,115,473.22	1,407,794,498.16	1,703,400,323.16	1,375,342,946.38	(29,284,849.94)	32,451,551.78
Container	535,684,660.35	333,599,533.61	528,026,155.60	318,650,528.13	7,658,504.75	14,949,005.48
Steel structure	86,522,883.53	68,472,864.31	75,068,623.77	49,358,377.87	11,454,259.76	19,114,486.44
Terrestrial machinery	96,449,271.37	243,257,311.21	79,119,296.01	148,351,074.12	17,329,975.36	16,050,299.03
Ship-repairing products	20,328,580.43	23,479,013.46	18,226,621.30	20,420,141.26	2,101,959.13	3,058,872.20
Total	<u>2,413,100,867.57</u>	<u>2,076,603,220.75</u>	<u>2,403,841,019.84</u>	<u>1,984,058,856.28</u>	<u>9,259,847.73</u>	<u>92,544,364.47</u>

Gross profit reduction of this period is mainly due to the negative affect of shipbuilding and containers operations. Among the shipbuilding products in last year, many vessels were firstly built, lots of technical modifications during construction caused the production progress slower, the delayed delivery of some vessels, and production cost increased. Increased raw material price of container and lower unit price of container caused gross profit decreased compared with that of last period.

5(26)Principal operating tax and additional tax

Unit: RMB

Category	2002	2001
Sales tax	2,432,160.68	1,663,667.04
City construction tax	1,795,361.85	355,314.67
Education additional tax	818,720.10	206,397.00
Total	<u>5,046,242.63</u>	<u>2,225,378.71</u>

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

5(27)Financial expenses

Unit: RMB

Category	2002	2001
Interest expense	49,110,945.66	50,457,916.05
Less: interest income	1,594,353.44	16,455,317.69
Exchange loss	251,012.52	5,258.07
Less: Exchange income		
Others	-6,151,078.65	1,872,733.13
Total	<u>41,616,526.09</u>	<u>35,880,579.56</u>

5(28)Operation and Management Expenses

Unit: RMB

Item	2002	2001
1. Operation expenses	5,171,667.54	2,391,107.90
2. Management expenses	208,136,923.64	110,447,961.11
Includes: Loss preparation for Ro/Pax	33,048,140.00	—
Medicare for retirees	36,587,580.00	—
	8,576,769.38	—
10-year's Medicare supplement for retirees	18,200,000.00	—

Operating expenses increased by 116.29% than that of last year due to container transportation cost increasing. Management expense increased by 89.45% compared with that of last year due to additional loss provision for Ro/Pax vessels, and medical premium for retirees (See Significant Events Item 10).

5(29)Profit from other operations

Unit: RMB

Category	Operating income		Operating cost		Operating gross profit	
	2002	2001	2002	2001	2002	2001
Sales of raw materials	10,737,774.73	15,268,050.41	10,408,412.09	13,523,474.68	329,362.64	1,744,575.73
Sales of scrap materials	17,043,595.58	8,420,856.90	11,896,906.38	5,769,208.17	5,146,689.20	2,651,648.73
Transportation services	105,958.00	193,085.00	38,599.53	73,958.15	67,358.47	119,126.85
Others	9,025,150.46	22,855,807.11	1,457,809.04	14,405,298.86	7,567,341.42	8,450,508.25
Total	<u>36,912,478.77</u>	<u>46,737,799.42</u>	<u>23,801,727.04</u>	<u>33,771,939.86</u>	<u>13,110,751.73</u>	<u>12,965,859.56</u>

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

5(30)Investment income

Unit: RMB

Category	Bonds investment	Equity investments		Total income
		At equity	At cost	
Short-term investments		—	—	
Long-term investments	—	408,238.32	1,602,190.49	2,010,428.81
Total	—	408,238.32	1,602,190.49	2,010,428.81

Investment income is decreased by 76.98% than that of last year. The main reason is that Investment Income is only from affiliated companies and Band Investment has been over last year.

5(31)Subsidy income

Item	Amount (RMB)
Subsidy for sea going liners	86,594,555.28
Others	34,622,325.37
Total	121,216,880.65

The main source of subsidy income in the period is:

The 18000dwt half submarine cargo carrier built for COSCO and 4,2000dwt vessel for China Shipping Development Company Limited are eligible for special financial subsidy at 17% on contracted price excluding tax in accordance with relevant regulations of State Finance Ministry and State Taxation Bureau. Other subsidy incomes refer to the refund of value-added tax for the development of new product approved by the State.

5(32)Non-operating income and expenses

(1) Non-operating income

Unit: RMB

Category	2002	2001
Gain on disposal of fixed assets	466,578.94	136,873.14
Penalty received	73,910.20	21,113.80
Income of fixed assets	2,243,897.26	
Compensation	7,500.00	122,334.98
Compensation income from reallocation	197,330,000.00	
Others	433,510.47	576,849.57
Total	200,555,396.87	854,171.49

Non-operating income increased by 23379.55% compared with that of last year is mainly due to the compensation for the business reallocation (See Significant Events) and income from checking fixed assets.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

(2) Non-operating expenses

Unit: RMB

Category	2002	2001
Loss on disposal of fixed assets due to the movement of the Eastern Part	38,360,994.44	—
Provision for fixed assets diminution for the movement of the Eastern Part	20,676,975.67	—
Estimated Eastern Part dismantling cost	3,618,400.00	—
Loss on disposal of fixed assets	3,397,000.00	3,069,257.83
Penalty expenses	44,827.78	-2,450,053.20
Loss on fixed assets	886,782.37	
Compensation	1,069,054.45	6,939.93
Others	558,426.41	282,461.57
Total	<u>68,612,461.12</u>	<u>908,606.13</u>

The main cause for non-operating expenses increased by 7451.4% compared with last year is disposal fixed assets and cleaning cost for the Eastern Part.

5(33) Other expenses related to Business

Item	Amount (RMB)
Management cost	123,351,138.28
Operating cost	5,171,667.54
Manufacturing cost	34,757,284.37
Total	<u>163,280,090.19</u>

5(34) Notes to the major items of financial statements of the parent company

(1) Accounts receivable

The detail information for the net amount RMB446,193,752.03 by 31st December 2002 as follows:

Age bond	31st December 2002			31st December 2001		
	Amount	Proportion	Provision for doubtful debts	Amount	Proportion	Provision for doubtful debts
Within 1 year	370,303,666.35	82.42%	1,788,600.24	254,932,269.57	62.9%	1,132,275.31
1-2 years	4,133,353.92	0.92%	22,473.48	9,225,184.33	2.3%	38,357.91
2-3 years	10,543,277.04	2.35%	72,928.93	39,059,799.51	9.6%	77,950.52
Over 3 years	64,301,739.97	14.31%	1,204,282.60	102,168,769.01	25.2%	859,811.83
Total	<u>449,282,037.28</u>	100%	<u>3,088,285.25</u>	<u>405,386,022.42</u>	100%	<u>2,108,395.57</u>

None of accounts receivables is due from shareholders who hold 5% or above of the Company's shares.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

(2) Other accounts receivable

The detail information for the net amount RMB290,339,907.05 by 31st December 2002 as follows:

Age band	31st December 2002			31st December 2001		
	Amount	Proportion	Provision for doubtful debts	Amount	Proportion	Provision for doubtful debts
Within 1 year	209,460,939.90	31.33%	620,961.56	9,372,907.01	1.9%	428,023.28
1-2 years	4,125,594.34	0.62%	409,805.43	6,429,126.60	1.30%	488.00
2-3 years	422,735.04	0.06%	2,113.67	972,158.10	0.20%	4,860.79
Over 3 years	454,639,238.62	67.99%	377,275,720.19	466,045,088.56	96.6%	383,298,657.97
Total	<u>668,648,507.90</u>	100%	<u>378,308,600.85</u>	<u>482,819,280.27</u>	100%	<u>383,732,030.04</u>

(3) Long-term Investments

The detail information for the net amount RMB204,798,996.96 by 31st December 2002 as follows:

Category	Opening Balance			Closing Balance		
	Amount	Provision for diminution	Addition in the period	Disposal in the period	Amount	Provision for diminution
Long-term equity Investments	204,732,399.40		3,519,729.81	3,453,132.25	204,798,996.96	
Long-term debt Investments	-	-	-	-	-	-
Total	<u>204,732,399.40</u>				<u>204,798,996.96</u>	-

Long-term equity investments – other equity investments

Name of investees	Total investment	Percentage holding of investees' capital %	Closing Balance	Share of results-equity method	
				Change in the period	Accumulated change
Kwangchow Shipyard Container Factory	56,155,800.59	100%	56,155,800.59		-
Guangzhou Jinfan Advertisement Decoration Company Limited	1,260,000.00	90%	-	1,719,276.62	-1,260,000.00
Masterwood Company Limited	2,486,385.00	75%	3,831,209.79	383,454.43	1,344,824.79
Guangzhou Guanglian Container Transportation Company Limited	15,000,000.00	75%	15,294,044.11	204,563.87	294,044.11
Xinhui City Nanyang Shipping Industrial Company	25,200,000.00	70%	20,007,981.83	-2,116,859.05	-5,192,028.17
Guangzhou Haizhu District Guanghua Machinery Factory	934,700.00	65%	471,045.45	-1,204,142.35	463,654.55
Guangzhou Sanlong Industrial Trading Develop Company Limited	1,005,000.00	67%	137,130.08	63,358.83	-867,869.92
Guangzhou Xinsun Shipping Service Company Limited	500,000.00	83%	11,730,975.67	974,522.15	11,230,975.67
United Steel Structures Limited	25,438,698.00	51%	39,083,897.70	499,020.47	13,645,199.70
Guangdong GSI Elevator Limited	19,950,000.00	95%	20,638,895.19	1,103,352.66	688,895.19
Guangzhou Hongfan Information Technique Co., Ltd	4,500,000.00	90%	4,212,449.20	-1,206,880.05	-287,550.80

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

Name of investees	Total investment RMB	Percentage holding of investees' capital %	Share of results-equity method		
			Closing Balance RMB	Change in the period RMB	Accumulated change RMB
Guangzhou Shipyard Machinery Equipment Engineering Co. Ltd.	600,000.00	60%	635,642.20	-27,994.21	35,642.20
Henghe Construction Company	20,880,000.00	76%	18,700,1974.81	229,723.07	-2,179,805.19
Guangzhou Yongda International Container Engineering Company Limited	263,299.40	35%	—	-338,296.07	-263,299.40
South china / Maring and Industrial Special Coating Limited	1,722,003.00	25%	2,889,730.34	517,830.68	1,167,727.34
Contech International Container Engineering Company Limited	162,500.00	25%	—	-496,122.66	-162,500.00
Shenzhen Yuanzhou Science & Technology Industry Company Limited	1,000,000.00	7%	1,000,000.00	—	—
China Merchants Banking Corporation	10,010,000.00	0%	10,010,000.00	—	—
Total	187,068,385.99		204,798,996.96	304,808.39	17,730,610.97

(4) Investment income

Item	Bonds investment income RMB	Equity investment income		Total income RMB
		At equity	At cost	
Short-term Investments				
Long-term Investments		-7,645,216.60	1,602,190.49	-6,043,026.11
Total		-7,645,216.60	1,602,190.49	-6,043,026.11

(5) Principal operating incomes, cost of sales and gross profit

Item	Operating income (RMB)		Cost of sales (RMB)		Gross profit (RMB)	
	2002	2001	2002	2001	2002	
2001						
Shipbuilding products	1,674,115,473.22	1,407,794,498.16	1,703,400,323.16	1,375,342,946.38	(29,284,849.94)
32,451,551.78						
Steel structure	55,760,391.76	24,490,311.20	52,062,010.84	23,987,740.27	3,698,380.92	502,570.93
Terrestrial machinery	33,582,248.63	164,401,373.15	27,421,632.09	148,351,074.12	6,160,616.54	16,050,299.03
Ship-repairing products	20,328,580.43	23,479,013.46	18,226,621.30	20,420,141.26	2,101,959.13	3,058,872.20
Total	1,783,786,694.04	1,620,165,195.97	1,801,110,587.39	1,568,101,902.03	(17,323,893.35)	52,063,293.94

Refer to relevant note in the Consolidated Statements.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

6. Connected party and transactions

(1) Connected parties under the control of the Company (included in the consolidated statements):

Name	Registered address	Principal Business	Relationship with the Company	Nature of the enterprise	Legal representative
CSSC	No.1 Pudong Main Road, Shanghai	Ship manufacturing and sales	State shareholder	Company with limited liability	Chen Xiaojin
Kwangchow Shipyard Container Factory	No. 118 Gexin Road, Gaungzhou	Container manufacturing	Subsidiary	Joint stock	Yin Xueming
Guangzhou Xinsun Shipping Service Company Limited	40 Fangchun Main Road, Guangzhou	Installation, welding, fitting, coating, repairing vessels	Subsidiary	Company with limited liability	Dai Zhengting
Masterwood Company Limited	40 Fangchun Main Road, Guangzhou	Manufacture furniture	Subsidiary	Sino-foreign Joint venture	Zhang Liangjing
Guangzhou Guanglian Container Transportation Company Limited	No. 118 Gexin Road, Gaungzhou	Container transportation	Subsidiary	Sino-foreign Joint venture	Zhong Yuquan
Xinhui City Nanyang Shipping Industrial Company	Gujin town, Xinhui City, Guangdong	Ship dismantling	Subsidiary	Cooperative company	Li Yizhen
Guangzhou Sanlong Industrial Trading Develop Company Limited	No. 126 Gexin Road, Gaungzhou	Steel structure for city construction	Subsidiary	Company with limited liability	Xia Suijia
United Steel Structures Limited	40 Fangchun Main Road, Guangzhou	Manufacturing large steel structure	Subsidiary	Sino-foreign joint venture	Ye Peihua
Guangdong GSI Elevator Limited	No. 116 Gexin Road, Gaungzhou	Manufacturing all kinds of elevator	Subsidiary	Company with limited liability	Ye Peihua
Guangzhou Hongfan Information Technique Co., Ltd	40 Fangchun Main Road, Guangzhou	Development of computer Software, system integration and sales	Subsidiary	Cooperative company	Wang Yi
Guangzhou Henghe Construction Co., Ltd	40 Fangchun Main Road, Guangzhou	Design, manufacturing and installation of constructional steel structure	Subsidiary	Cooperative company	Chen Ji

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

(2) The registered capital of connected parties under the control of the Company and their changes:

Name	Opening Balance <i>RMB</i>	Additions in the period <i>RMB</i>	Disposal in the period <i>RMB</i>	Closing Balance <i>RMB</i>
CSSC	6,374,300,000			6,374,300,000
Kwangchow Shipyard Container Factory	44,924,640			44,924,640
Guangzhou Xinsun Shipping Service Company Limited	600,000			600,000
Masterwood Company Limited	3,315,180			3,315,180
Guangzhou Guanglian container Transportation Company Limited	20,000,000			20,000,000
Xinhui City Nanyang Shipping Industrial Company	34,800,000			34,800,000
Guangzhou Sanlong Industrial Trading Develop Company Limited	1,500,000			1,500,000
United Steel Structures Limited	73,572,705			49,879,800
Guangdong GSI Elevator Limited	21,000,000			21,000,000
Guangzhou Hongfan Information Technique Co., Ltd	5,000,000			5,000,000
Guangzhou Hehe Construction Co., Ltd.	27,500,000			27,500,000

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

(3) The equity interests in connected parties under the control of the Company and their changes:

Name	Opening Balance		Additions in the period	Disposal in the period	Closing Balance	
	RMB	%	RMB	RMB	RMB	%
CSSC	210,800,080	42.61			210,800,080	42.61
Kwangchow Shipyard Container Factory	44,925,000	100			44,925,000	100
Guangzhou Xinsun Shipping Service Company Limited	498,000	83			498,000	83
Masterwood Company Limited	2,486,000	75			2,486,000	75
Guangzhou Guanglian Container Transportation Company Limited	15,000,000	75			15,000,000	75
Xinhui City Nanyang Shipping Industrial Company	25,200,000	70			25,200,000	70
Guangzhou Sanlong Industrial Trading Develop Company Limited	1,005,000	67			1,005,000	67
United Steel Structure Limited	37,522,079.55	51			37,522,079.55	51
Guangdong GIS Elevator Limited	19,950,000	95			19,950,000	95
Guangzhou Hongfan Information Technique Co.Ltd.	4,500,000	90			4,500,000	90
Guangzhou Henghe Construction Co., Ltd	18,470,471.74	75.9			18,470,471.74	75.9

The connected transactions under the control of the Company had been counteracted in the Report.

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

(4) The conditions of the connected parties uncontrolled by the Company:

①. *The connected parties uncontrolled by the Company*

The connected transactions made between the Group and the associated enterprises under CSSC or associated enterprises under the Group during the year had been carried out in the ordinary course of business of the relevant companies and on normal commercial terms, and had been entered into in 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 extraordinary benefit or suffer any extraordinary loss from such transactions, which are fair and reasonable as far as the shareholders are concerned.

1) Affiliated Company

South China Marine & Industrial special Coating Limited Company

2) Companies under control of China State Shipbuilding Corporation

Shanghai Shipyard	Guangzhou Shipyard
Guangzhou Wengchong Shipyard	Huanan Marine Mechanic and Electric Department
Guangzhou Huangpu Shipyard	Hudong Heavy Engineering Company Limited
Shanghai Shipyard	No. 9 Design Institution of CSSC
Shanghai Waigaoqiao Shipbuilding Company	Zhenjiang Marine Diesel Factory
Nanjing Liuzhou Machinery Factory	Zhenjiang Marine Auxiliary Machine Factory
Zhengmao Group Company Limited	Zhenjiang Marine Propeller Factory
Jiangxi Chaoyang Machine Factory	China Shipping Trading Corporation
Guangzhou Administrative Bureau	China State Shipbuilding Corporation
Hudong Zhonghua Shipyard (Group Limited Company)	Guangzhou Shipyard Guangda Company (subsidiary of Guangzhou shipyard)
Jiujiang Marine Mechanical Factory	

②. Selling Materials

Name and relationship with the Company	2002	2001
Affiliated Company		
South China Marine & Industrial special Coating Limited Company	6,896.81	
Sub-total	6,896.81	
Companies under CSSC		
Guangzhou Wenchong Shipyard	1,899,809.40	1,190,755.71
Guangzhou Huangpu Shipyard	1,609,005.56	265,591.08
Shanghai Waigaoqiao Shipbuilding Company	—	3,961.23
Guangzhou Shipyard	1,314,183.76	1,003,790.33
Guangzhou Administrative Bureau	—	348,070.00
Sub-total	4,829,895.53	2,812,168.35

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

③. Purchasing Materials

The information of the Company purchasing materials from connected parties in 2000 and 2001

Companies under CSSC	2002	2001
Hudong Zhonghua Shipyard (Company Limited)	17,155.80	—
Guangzhou Wenchong Shipyard	2,141,571.56	—
Guangzhou Huangpu Shipyard	5,426,190.22	895,502.34
Nanjing Liuzhou Machinery Factory	6,503,900.00	2,031,970.00
Zhengmao Group Company Limited	2,010,480.00	816,988.00
Jiangxi Chaoyang Machine Factory	1,071,045.00	780,319.20
Jiangxi Jiujiang Marine Machine Factory	6,252,259.77	1,564,531.00
Guangzhou Shipyard	17,577,545.34	20,793,629.65
Hualian Marine Company Limited	9,090,100.00	6,512,100.00
Hudong Heavy Engineering Company Limited	26,518,117.44	14,814,730.68
Zhenjiang Marine Diesel Factory	11,659,227.96	11,632,193.60
Zhenjiang Marine Auxiliary Machine Factory	3,846,800.00	1,745,300.40
Zhenjiang Marine Propeller Factory	1,415,122.00	731,895.00
CSTC	8,587,986.29	—
No. 9 Design Institution of CSSC	—	1,745,300.40
CSSC	7,490.62	66,934,229.62
Guangzhou Shipyard Guangda Company	58,897,332.55	
Sub-total	<u>161,022,324.55</u>	<u>130,998,689.89</u>

85

④. Account receivable and payable of connected parties

1) Account receivable	2002	2001
South China Special Coating Limited Company	920,876.60	92,078.60
Guangzhou Shipyard		1,995,947.14
Guangzhou Administrative Bureau		300,000.00
Total	<u>920,786.60</u>	<u>2,388,025.74</u>
2). Other receivable		
South China Special Coating Limited Company	1,200,000.00	
Guangzhou Wenchong Shipyard	798,978.49	2,426,233.40
Guangzhou Huangpu Shipyard	184,780.00	
Guangzhou Shipyard	270,082.50	
Hudong Heavy Machine Company Limited	592,172.81	
Guangzhou Administrative Bureau		136,490.00
Total	<u>3,046,013.80</u>	<u>2,562,723.40</u>

Notes to the Financial Statements

(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002

3) Advanced payment

South China Special Coating Limited Company	780,000.00	
Guangzhou Wenchong Shipyard	58,656.00	
Nanjing Liuzhou Machinery Factory		120,000.00
Jiangxi Jiujiang Marine Machine Factory	20,000.00	215,000.00
Hualian Marine Company Limited	718,000.00	718,000.00
Hudong Heavy Machine Company Limited	19,130,544.40	9,240,000.00
Zhenjiang Marine Diesel Factory	2,391,722.80	
China Shipbuilding Trading Corporation	6,474,864.78	
China State Shipping Company	4,620,000.00	
Guangzhou Shipyard Guangda Company	5,000,000.00	
Total	39,193,787.98	10,293,000.00

4) Account payable

Guangzhou Wenchong Shipyard	1,696,780.00	
Guangzhou Huangpu Shipyard	866,208.93	
Shanghai Shipyard	142,794.70	142,794.70
Nanjing Liuzhou Machinery Factory	35,300.00	376,496.77
Zhengmao Group Company Limited	93,000.00	600,000.00
Jiangxi Jiujiang Marine Machine Factory	1,622,072.96	240,000.00
Guangzhou Shipyard	2,534,283.43	766,185.85
Hualian Marine Company Limited	3,215,000.00	1,127,000.00
Hudong Heavy Machine Company Limited	3,944,622.44	343,867.63
Zhenjiang Marine Diesel Factory	4,787,655.83	3,648,777.68
Zhenjiang Marine Auxiliary Machine Factory		480,000.00
Zhenjiang Marine Propeller Factory	315,122.00	
No. 9 Design Institution of CSSC	96,000.00	
Guangzhou Shipyard Guangda Company	14,189,009.90	
Total	33,537,850.19	7,725,122.63

5) Other payment

Guangzhou Shipyard	3,025,105.49	4,977,388.87
--------------------	--------------	--------------

Notes to the Financial Statements

*(prepared under PRC accounting standards and systems)
For the year ended 31st December 2002*

7. Contingencies

As at the 31st June 2002, the Company (the Group) had no significant contingent items.

8. Commitments

As at the 31st June 2002, the Company (the Group) had no significant commitments.

9. Events post period of balance sheet

As at the date of this report disclosed, the Company (the Group) had no unadjusted item listed in Events post period of balance sheet.

10. Other Notes

The meeting of the Board of Directors was hold on 22nd April 2003 and passed the decision of the profit non-distribution and non-conversion to shares for the year of 2002.