

Notes to the Financial Statements

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties are stated at fair value. They assume that all existing banking facilities will not be withdrawn prior to the next review dates in 2003 and beyond.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP1 (revised)	:	Presentation of financial statements
SSAP15 (revised)	:	Cash flow statements
SSAP33	:	Discontinuing operations
SSAP34 (revised)	:	Employee benefits

(b) Group accounting

93

(i) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of voter at the meetings of the board directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

1 Principal accounting policies (continued)

(b) Group accounting (continued)

(i) Consolidation (continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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

(ii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

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

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

(c) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

1 Principal accounting policies (continued)

(d) Fixed assets

(i) Investment properties

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

Investment properties are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual financial statements. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

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

(ii) Other fixed assets

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation of land use rights is calculated to write off their cost over the unexpired periods of the rights on a straight-line basis.

Leasehold land is stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation of leasehold land is calculated to write off its cost over the unexpired period of the lease on a straight-line basis.

Cost represents the purchase price of other fixed assets and other costs incurred to bring the asset into its existing use.

Leasehold buildings and other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

1 Principal accounting policies (continued)

(d) Fixed assets (continued)

(iii) Depreciation

Depreciation of leasehold buildings/improvements is calculated to write off their cost less accumulated impairment losses over the unexpired periods of the leases or their expected useful lives to the Group whichever is shorter after taking into account their estimated residual value.

Depreciation of other fixed assets is calculated to write off their cost less accumulated impairment losses over their expected useful lives to the Group on the straight-line basis after taking into account their estimated residual value.

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

Fixed assets category	Depreciation rates
Land use rights	2.0%
Leasehold land and buildings	2.0%
Buildings, developments and structures	2.0% – 12.5%
Machinery, vehicles, equipment and transmission systems	2.9% – 16.7%
Instruments and meters	10.0% – 20.0%

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

(iv) Impairment and gain or loss on sale

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

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(e) Construction-in-progress

Construction-in-progress is stated at cost less any provision for impairment losses. Cost includes development expenditures and other direct costs, including interest expenses, attributable to projects for the development of buildings, structures, machinery and equipment for the Group's own use and transferred to fixed assets upon completion.

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

1 Principal accounting policies (continued)

(f) Investment securities

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

The carrying amounts of individual securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(g) Inventories

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

Cost includes direct materials, direct labor and an appropriate proportion of all production overheads. In general, costs are assigned to individual items on a weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Construction contracts in progress

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to the standard labour hours incurred to date as a percentage of total estimated standard labour hours for each contract. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on construction contracts, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts, under current liabilities.

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

1 Principal accounting policies (continued)

(i) Accounts receivable

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

(j) Cash and cash equivalents

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

(k) Provisions

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

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

(l) Employee benefits

(i) Employee leave entitlements

Employee entitlement to annual leave, sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Retirement obligation

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

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

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

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

1 Principal accounting policies (continued)

(l) Employee benefits (continued)

(iii) Housing benefit

The Group's contributions to the defined contribution housing fund scheme organised by the Guangzhou People's Municipal Government are expensed when services are rendered.

(iv) Medical insurance

The Group's contributions to the defined contribution medical insurance scheme organised by the Guangzhou People's Municipal Government for employees are expensed when services are rendered by the employees.

(m) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(n) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existences will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

1 Principal accounting policies (continued)

(o) Revenue recognition

Revenue from individual construction contracts is recognised net of value-added tax when there is reasonable certainty as to the outcome of the contract. The revenue is recognised on the percentage of completion method measured by reference to the standard labour hours spent to date compared with the total estimated standard hours of the contracts with profit recognised limited to the amount of the progress payments received or receivable.

Revenue from the sale of containers, mechanical and electrical equipment, steel structure products (except for those with characteristic of construction contracts) and other products is recognised net of value-added tax when the title to the goods passes to customers. This generally takes place at the time when the risks and rewards associated with ownership of the goods are transferred from the Group and the Company to the customers.

Revenue from the sale of shiprepairing services is recognised net of value-added tax when the services provided to customers are completed.

Revenue from government subsidy for shipbuilding represents a fixed percentage finance subsidy, which is recognised on the same basis as that of the respective construction contracts.

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and interest rate applicable.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(q) Research and development costs

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

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

1 Principal accounting policies (continued)

(r) Segment reporting

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

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

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

2 Turnover, revenue and segment information

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

Revenues recognised during the year are as follows:

	2002 RMB' 000	2001 RMB'000
Turnover		
Construction contracts revenue	1,674,115	1,407,794
Sales of goods	650,772	575,784
Rendering of services	88,214	93,025
	2,413,101	2,076,603
Other revenue		
Income from investment securities	1,602	7,781
Government subsidy income for shipbuilding	121,221	48,082
Sales of scrap materials	5,355	4,308
Interest income	7,785	16,964
Others	9,153	8,656
	145,116	85,791
Total revenue	2,558,217	2,162,394

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

2 Turnover, revenue and segment information (continued)

Primary reporting format – business segments

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

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

Other operations of the Group mainly comprise computer marketing and transportation services for containers, neither of which are of a sufficient size to be reported separately.

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

2 Turnover, revenue and segment information (continued)

Primary reporting format – business segments (continued)

	Shipbuilding	Ship-repairing	Container manufacturing	Steel structure and other manufacturing	Other operations	Elimination	Group
	2002	2002	2002	2002	2002	2002	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	1,700,401	20,329	535,685	156,884	246,308	(246,506)	2,413,101
Segment results	57,711	1,910	5,566	19,066	43,073	(25,513)	101,813
Unallocated revenue							9,946
Unallocated costs							(177,517)
Operating loss							(65,758)
Compensation for relocation							126,097
Write back of provision for non-recovery on principals due from non-banking financial institutions							4,713
Finance costs							(49,060)
Share of profits less losses of associated companies					843		843
Profit before taxation							16,835
Taxation							(1,924)
Profit after taxation							14,911
Minority interests							109
Profit attributable to shareholders							15,020
Segment assets	2,050,992	4,395	395,955	320,958	68,967		2,841,267
Interests in associated companies					2,890		2,890
Unallocated assets							808,509
Total assets							3,652,666
Segment liabilities	1,206,095	1,233	194,495	48,212	45,418		1,495,453
Unallocated liabilities							1,463,411
Total liabilities							2,958,864
Capital expenditure	80,948	–	15,280	14,343	9,113		119,684
Depreciation	39,361	–	9,003	2,680	11,706		62,750
Other non-cash expenses	33,048	–	–	–	–		33,048

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

2 Turnover, revenue and segment information (continued)

Primary reporting format – business segments (continued)

	Shipbuilding	Ship-repairing	Container manufacturing	Steel structure and other manufacturing	Other operations	Elimination	Group
	2001	2001	2001	2001	2001	2001	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	1,463,466	28,031	337,639	281,828	143,211	(177,572)	2,076,603
Segment results	83,041	3,321	17,279	29,129	23,302	(4,305)	151,767
Unallocated revenue							24,745
Unallocated costs							(129,510)
Operating profit							47,002
Write back of provision for non-recovery on principals due from non-banking financial institutions							1,086
Finance costs							(51,627)
Share of profits less losses of associated companies					888		888
Loss before taxation							(2,651)
Taxation							(1,494)
Loss after taxation							(4,145)
Minority interests							(1,015)
Loss attributable to shareholders							(5,160)
Segment assets	1,279,463	10,357	301,072	302,444	373,983		2,267,319
Interests in associated companies					3,206		3,206
Unallocated assets							639,330
Total assets							2,909,855
Segment liabilities	1,056,568	4,358	78,404	54,586	61,999		1,255,915
Unallocated liabilities							973,858
Total liabilities							2,229,773
Capital expenditure	41,031	–	1,165	50,229	4,422		96,847
Depreciation	32,372	–	10,032	9,722	10,355		62,481

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

2 Turnover, revenue and segment information (continued)

Secondary reporting format – geographical segments

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

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

Denmark – shipbuilding and container manufacturing

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

Malta – shipbuilding

Sweden – shipbuilding

Other countries – shipbuilding, shiprepairing, container manufacturing, steel structure and other manufacturing

There are no sales between the geographical segments.

	Turnover	Segment	Total	Capital
	2002	results	assets	expenditure
	RMB'000	2002	2002	2002
		RMB'000	RMB'000	RMB'000
Mainland China	843,691	91,760	3,630,747	137,294
Denmark	543,551	4,539	–	–
Hong Kong	555,523	8,999	19,029	–
Malta	314,115	24,200	–	–
Sweden	134,847	(33,048)	–	–
Other countries	21,374	2,012	–	–
	2,413,101	98,462	3,649,776	137,294
Unallocated revenue		22,866		
Unallocated costs		(187,086)		
Operating loss		(65,758)		
Interests in associated companies			2,890	
Total assets			3,652,666	

105

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

2 Turnover, revenue and segment information (continued)

Secondary reporting format – geographical segments (continued)

	Turnover	Segment	Total	Capital
	2001	results	assets	expenditure
	RMB'000	2001	2001	2001
		RMB'000	RMB'000	RMB'000
Mainland China	558,335	58,234	2,887,249	116,171
Denmark	247,744	33,742	–	–
Hong Kong	220,221	18,448	19,400	–
Malta	223,528	655	–	–
Sweden	561,153	–	–	–
Other countries	265,622	29,547	–	–
	<u>2,076,603</u>	140,626	2,906,649	<u>116,171</u>
Unallocated revenue		37,709		
Unallocated costs		<u>(131,333)</u>		
Operating profit		<u>47,002</u>		
Interests in associated companies			<u>3,206</u>	
Total assets			<u>2,909,855</u>	

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

3 Operating (loss)/profit

	2002 RMB'000	2001 RMB'000
The operating (loss)/profit is stated after charging the following:		
Auditors' remuneration	1,996	2,051
Depreciation and amortisation of fixed assets	91,107	84,530
Less: amount capitalised in inventories	(7,777)	(19,181)
	83,330	65,349
Deficit on revaluation of investment properties	1,021	–
Loss on disposal of fixed assets	6,177	16,091
Net exchange losses/(gain)	251	(30)
Provision for warranty (note 21)	1,193	(1,946)
Staff costs (including directors' and supervisors' emoluments)		
Wages and salaries	146,691	127,063
Retirement costs (note 26(a))	23,503	24,480
Housing fund (note 26(b))	8,862	8,186
Medical insurance (note 26(c))	55,076	–
Other staff costs	36,549	34,615
	270,681	194,344
Cost of inventories sold	627,789	529,431
Research and development costs	5,954	3,154

4 Finance costs

	2002 RMB'000	2001 RMB'000
Interest on bank loans	49,082	51,009
Interest on amounts due to suppliers	967	1,102
Other incidental borrowing costs	876	211
Total borrowing costs incurred	50,925	52,322
Less: amount capitalised in construction-in-progress	(1,865)	(695)
	49,060	51,627

The capitalisation rate applied to funds borrowed and used for the development of construction-in-progress is 5.94% (2001: 5.94%) per annum.

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

5 Taxation

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

	2002	2001
	RMB'000	RMB'000
PRC enterprise income tax	1,762	1,396
Share of taxation attributable to associated companies	162	98
	1,924	1,494

As approved by the State Administration of Taxation, the Company's enterprise income tax in the People's Republic of China (the "PRC") is calculated at 15% (2001: 15%) on the estimated assessable profit for the current year. The normal PRC enterprise income tax rate is 33%. PRC enterprise income tax of subsidiaries and associated companies is charged on their respective assessable profits at applicable tax rates.

(b) Turnover taxes applicable to the Group and the Company include:

Activity category	Tax category	Tax rate	
		2002	2001
Shipbuilding, shiprepairing, container manufacturing, steel structure and other manufacturing	Value-added tax ("VAT")	17%	17%
Transportation and installation services	Business tax	3%	3%
Other services	Business tax	5%	5%

(c) Taxation payable represents:

	Group		Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
– PRC enterprise income tax	848	470	–	–
– Value-added tax	778	2,277	–	92
– Other taxes	3,439	2,128	2,764	1,441
	5,065	4,875	2,764	1,533

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

5 Taxation (continued)

(d) Tax recoverable represents:

	Group		Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
– Value-added tax	108,281	65,571	71,065	46,680
– PRC enterprise income tax	444	461	444	444
	108,725	66,032	71,509	47,124

(e) Deferred taxation:

Deferred taxation has not been provided in respect of the following:

	2002	2001
	RMB'000	RMB'000
Timing differences arising from:		
Write back of provision for foreseeable losses of construction contracts	(10,375)	(33,423)
Write back of provision for non-recovery on principals due from non-banking financial institutions	(524)	(163)
Pre-operating expenses written off	–	(1,136)
Provision for medical insurance	8,218	–
Other timing differences	4,319	21,103
	1,638	(13,619)

The potential deferred taxation not provided for in the financial statements amounted to:

Provision for foreseeable losses of construction contracts	5,167	15,542
Amount due from non-banking financial institutions:		
– Provision for non-recovery on principals	59,345	59,869
– Interest receivables written off	5,465	5,465
Provision for medical insurance	8,218	–
Other timing differences	25,422	21,103
	103,617	101,979

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

6 Profit/(loss) attributable to shareholders

Profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB19,486,000 (2001: loss of RMB12,795,000).

7 Earnings/(loss) per share

The calculation of earnings/(loss) per share is based on the Group's profit attributable to shareholders of RMB15,020,000 (2001: loss of RMB5,160,000) and the weighted average of 494,677,580 (2001: 494,677,580) ordinary shares in issue during the year.

8 Compensation for relocation

Pursuant to an agreement entered into between the Company and the Land Development Centre of the Guangzhou People's Municipal Government (the "Government") in November 2002, land currently occupied by certain business units of the Group are required to be returned to the Government before the expiry of the respective land use rights. A compensation of RMB197,330,000 has been awarded to the Company.

The compensation reflected in the profit and loss account is net of the net book value of the related land use rights and buildings, developments and structures of RMB46,938,000, impairment losses of fixed assets of RMB20,677,000 and provision for relocation costs of RMB3,618,000.

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

9 Directors', supervisors' and senior management's emoluments

The aggregate amounts of emoluments payable to directors, supervisors and senior management of the Company during the year are as follows:

	2002 RMB'000	2001 RMB'000
Non-executive directors		
Fee	379	456
Other emoluments and welfare	14	11
Retirement benefits	12	11
Executive directors		
Basis salary, allowance and benefits in kind	416	235
Retirement benefits	36	33
Supervisors		
Basis salary, allowance and benefits in kind	409	356
Retirement benefits	24	29
Senior management		
Basis salary, allowance and benefits in kind	637	389
Retirement benefits	49	49
	1,976	1,569

The emoluments for all of the Company's 11 directors (executive and non-executive), 5 supervisors and 7 senior managements fell within the band of RMB0 to RMB200,000 during the year (2001: RMB0 to RMB150,000).

No directors, supervisors or senior management waived emoluments in respect of the year ended 31st December 2001 and 2002.

The five individuals whose emoluments were the highest in the Group for both years were also directors and supervisors, and their emoluments are reflected in the analysis presented above.

The Company operates the same pension schemes for its executive directors, supervisors and senior management as for its other staff and no special arrangements have been made in this regard.

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

10 Fixed assets and construction-in-progress

Group

	Investment properties RMB'000	Land use rights RMB'000	Construction- in-progress RMB'000	Buildings in Hong Kong RMB'000	Buildings, developments and structures RMB'000	Machinery, vehicles, equipment and transmission systems RMB'000	Instruments and meters RMB'000	Total RMB'000
Cost or valuation								
At 1st January 2002	7,221	84,882	71,991	21,396	625,347	838,762	5,777	1,655,376
Additions	–	–	127,116	–	1,008	9,163	7	137,294
Revaluation	(1,021)	–	–	–	–	–	–	(1,021)
Transfers	–	–	(86,976)	–	46,201	40,427	348	–
Disposals	–	(12,454)	–	–	(50,749)	(27,578)	(574)	(91,355)
At 31st December 2002	6,200	72,428	112,131	21,396	621,807	860,774	5,558	1,700,294
Accumulated depreciation or amortisation and impairment								
At 1st January 2002	–	11,830	–	1,996	145,165	350,391	3,758	513,140
Charge for the year	–	1,877	–	371	21,724	66,553	582	91,107
Impairment charge	–	–	–	–	–	20,677	–	20,677
Disposals	–	(2,078)	–	–	(15,664)	(16,190)	(553)	(34,485)
At 31st December 2002	–	11,629	–	2,367	151,225	421,431	3,787	590,439
Net book value								
At 31st December 2002	6,200	60,799	112,131	19,029	470,582	439,343	1,771	1,109,855
At 31st December 2001	7,221	73,052	71,991	19,400	480,182	488,371	2,019	1,142,236
The analysis of the cost or valuation at 31st December 2002 of the above assets is as follows:								
At cost	–	72,428	112,131	21,396	621,807	860,774	5,558	1,694,094
At 2002 valuation	6,200	–	–	–	–	–	–	6,200
	6,200	72,428	112,131	21,396	621,807	860,774	5,558	1,700,294
The analysis of the cost or valuation at 31st December 2001 of the above assets is as follows:								
At cost	–	84,882	71,991	21,396	625,347	838,762	5,777	1,648,155
At 2001 valuation	7,221	–	–	–	–	–	–	7,221
	7,221	84,882	71,991	21,396	625,347	838,762	5,777	1,655,376

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

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

Company

	Investment properties RMB'000	Land use rights RMB'000	Construction- in-progress RMB'000	Buildings in Hong Kong RMB'000	Buildings, developments and structures RMB'000	Machinery, vehicles, equipment and transmission systems RMB'000	Instruments and meters RMB'000	Total RMB'000
Cost or valuation								
At 1st January 2002	7,221	62,847	63,744	21,396	578,197	606,628	5,571	1,345,604
Additions	–	–	126,282	–	–	5,127	–	131,409
Revaluation	(1,021)	–	–	–	–	–	–	(1,021)
Transfers	–	–	(77,895)	–	38,731	38,816	348	–
Transferred from a subsidiary	–	6,544	–	–	25,620	81,721	80	113,965
Disposals	–	(10,654)	–	–	(49,383)	(16,720)	(526)	(77,283)
At 31st December 2002	6,200	58,737	112,131	21,396	593,165	715,572	5,473	1,512,674
Accumulated depreciation or amortisation and impairment:								
At 1st January 2002	–	10,684	–	1,996	129,835	234,930	3,607	381,052
Charge for the year	–	1,586	–	371	20,106	46,844	566	69,473
Transferred from a subsidiary	–	1,277	–	–	7,903	60,937	70	70,187
Impairment charge	–	–	–	–	–	20,677	–	20,677
Disposals	–	(2,078)	–	–	(15,583)	(9,917)	(509)	(28,087)
At 31st December 2002	–	11,469	–	2,367	142,261	353,471	3,734	513,302
Net book value								
At 31st December 2002	6,200	47,268	112,131	19,029	450,904	362,101	1,739	999,372
At 31st December 2001	7,221	52,163	63,744	19,400	448,362	371,698	1,964	964,552
The analysis of the cost or valuation at 31st December 2002 of the above assets is as follows:								
At cost	–	58,737	112,131	21,396	593,165	715,572	5,473	1,506,474
At 2002 valuation	6,200	–	–	–	–	–	–	6,200
	6,200	58,737	112,131	21,396	593,165	715,572	5,473	1,512,674
The analysis of the cost or valuation at 31st December 2001 of the above assets is as follows:								
At cost	–	62,847	63,744	21,396	578,197	606,628	5,571	1,338,383
At 2001 valuation	7,221	–	–	–	–	–	–	7,221
	7,221	62,847	63,744	21,396	578,197	606,628	5,571	1,345,604

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

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

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

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

	Group		Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
In Hong Kong, held on:				
Leases of over 50 years	14,759	15,018	14,759	15,018
Leases of between 10 to 50 years	4,270	4,382	4,270	4,382
In Mainland China, held on:				
Leases of between 10 to 50 years	476,782	487,403	457,104	455,583
	495,811	506,803	476,133	474,983

Investment properties were revalued at their open market value by Mr. K.K. Ip of Greater China Appraisal Limited, an independent firm of valuer, at 31st December 2002. Mr. K.K. Ip is a Chartered Valuation Surveyor and a Registered Professional Surveyor.

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 (2001: RMB241,606,000).

11 Investments in subsidiaries

	Company	
	2002	2001
	RMB'000	RMB'000
At cost, unlisted	183,345	186,140

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

11 Investments in subsidiaries (continued)

The following is a list of the significant subsidiaries at 31st December 2002 and they are all established in the PRC:

Name	Issued and fully paid-up capital	Interest held		Nature of entity	Principal activities
		2002 %	2001 %		
Shares held directly:					
Kwangchow Shipyard Container Factory	RMB44,924,640	100	100	Joint stock company	Manufacture of containers
MasterWood Company Limited	RMB3,315,180	75	75	Sino-foreign equity joint venture	Manufacture of furniture
Xinhui City Guangzhou Shipyard International Nanyang Shipping Industrial Limited	RMB34,200,000	70	70	Cooperative limited liability company	Ship dismantling
Guangzhou Haizhu District Guanghua Machinery Factory	RMB1,438,062	65	65	Cooperative limited liability company	Manufacture of machinery
Guangzhou Jinfan Advertisement Decoration Company	RMB1,400,000	–	90	Joint stock company	Design and production of advertisements
Guangzhou Guang-lian Container Transportation Company Limited	RMB20,000,000	75	75	Sino-foreign equity joint venture	Transportation services for containers
United Steel Structures Ltd.	US\$8,850,000	51	51	Sino-foreign equity joint venture	Large steel structure engineering
Guangzhou Xin Sun Shipping Service Company Limited	RMB600,000	83	83	Company with limited liability	Fabrication, welding and coating of ships
Guangzhou Sanlong Dragon Industrial Trade Development Company Limited	RMB1,500,000	67	67	Company with limited liability	Construction engineering, equipment leasing and technology consultancy

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

11 Investments in subsidiaries (continued)

Name	Issued and fully paid-up capital	Interest held		Nature of entity	Principal activities
		2002 %	2001 %		
Guangdong Guangzhou Shipyard International Elevator Company	RMB21,000,000	95	95	Company with limited liability	Manufacture of elevators
Guangzhou Hongfan Information Technique Company Limited	RMB5,000,000	90	90	Cooperative limited liability company	Computer marketing
Guangzhou Shipyard Machinery Equipment Engineering Co., Ltd.	RMB1,000,000	60	60	Company with limited liability	Machinery & electrical product manufacturing and equipment maintenance
Guangzhou Henghe Construction Engineering Company Limited	RMB27,500,000	75.9	75.9	Cooperative limited liability company	Large steel structure, indoor and outdoor decoration design, construction and administration
Shares held indirectly:					
Guangzhou Hongfang Hotel Co., Ltd.	RMB500,000	100	100	Company with limited liability	Hotel and catering
Guangdong Guangzhou Shipyard International Elevator Company	RMB21,000,000	5	3.75	Company with limited liability	Manufacture of elevators

The above subsidiaries of the Company, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group.

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

12 Interests or investments in associated companies

	Group		Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted				
– at cost	–	–	1,721	2,147
– share of net assets	2,890	3,206	–	–
	2,890	3,206	1,721	2,147

The following is a list of associated companies at 31st December 2002 which are all established in the PRC:

Name	Issued and fully paid-up capital	Interests held		Nature of entity	Principal activities
		2002 %	2001 %		
Guangzhou Economic and Technical Development Zone South China Marine and Industrial Special Coating Limited	US\$1,200,000	25	25	Sino-foreign equity joint venture	Provision of special coating services
Guangzhou Yongda International Container Engineering Limited	US\$130,000	–	35	Sino-foreign equity joint venture	Repair and maintenance of containers
Contech International Container Engineering Company Limited	RMB650,000	–	25	Sino-foreign equity joint venture	Manufacture, repair and inspection services for containers

13 Investment securities

	Group		Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
At cost, unlisted shares	12,010	11,940	11,010	11,010

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

14 Long-term receivables and deferred income

Long-term receivables for the Group represent sales to a customer with an extended settlement period of more than one year. Deferred income of RMB8,006,000 (2001: RMB12,474,000), calculated as the difference between the nominal amount of the consideration and that of transactions carried out in the ordinary course of business and on normal commercial terms, are charged on a straight-line basis to the profit and loss account in accordance with the repayment schedule as provided in the agreement.

15 Inventories

	Group		Company	
	2002	2001	2002	2001
	RMB'000	<i>RMB'000</i>	RMB'000	<i>RMB'000</i>
Raw materials	245,065	232,372	196,284	189,561
Work-in-progress	57,038	65,091	17,017	48,376
Finished goods	48,868	70,596	2,836	3,265
	350,971	368,059	216,137	241,202

At 31st December 2002, the carrying amount of inventories for the Group and the Company that are carried at net realisable value amounted to RMB53,385,000 and RMB7,353,000 (2001: RMB3,519,000 and RMB2,985,000) respectively.

At 31st December 2001 and 2002, no inventories have been pledged as security for liabilities.

16 Trade receivables

		Group		Company	
		2002	2001	2002	2001
		RMB'000	<i>RMB'000</i>	RMB'000	<i>RMB'000</i>
Receivables from third parties	(a)	582,323	409,380	377,815	297,162
Amounts due from related companies	(b)	3,046	2,563	1,793	1,975
		585,369	411,943	379,608	299,137

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

16 Trade receivables (continued)

(a) At 31st December 2002, the ageing analysis of the receivables from third parties were as follows:

	Group		Company	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Not exceeding one year	470,516	303,724	321,883	236,593
More than one year but not exceeding two years	63,956	30,383	43,987	21,504
More than two years but not exceeding three years	11,960	37,335	11,945	37,016
More than three years	35,891	37,938	–	2,049
	582,323	409,380	377,815	297,162

The general credit terms of trade receivables are:

Operations

Credit terms

Shipbuilding and shiprepairing

Within one month after issue of invoice

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

Normally one to six months

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

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

17 Other receivables, prepayments and deposits

	Note	Group		Company	
		2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Prepayments for trading materials and equipment		96,452	171,225	90,797	169,936
Amounts due from non-banking financial institutions	(a)	446,008	456,537	446,008	456,537
Less: Provision for non-recovery		(374,310)	(382,417)	(374,310)	(382,417)
		71,698	74,120	71,698	74,120
Government subsidy receivable for construction of vessels		83,342	33,790	83,342	33,790
Compensation for relocation receivable		197,330	–	197,330	–
Amounts due from related companies	(b)	40,115	12,681	40,115	12,681
Others		26,580	22,865	11,416	8,760
		515,517	314,681	494,698	299,287

(a) Amounts due from non-banking financial institutions

	Group and Company	
	2002 RMB'000	2001 RMB'000
Guangzhou International Trust and Investment Company	397,072	397,067
Guangzhou Economic and Technology Development Zone International Trust and Investment Company	48,936	51,380
Guangdong Overseas Trust and Investment Company	–	8,090
	446,008	456,537
Less: Provision for non-recovery	(374,310)	(382,417)
Total	71,698	74,120

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

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

18 Trade payables

	Note	Group		Company	
		2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Payables to third parties	(a)	440,288	233,071	373,155	216,542
Amounts due to related companies	(b)	33,538	19,953	33,070	19,953
		473,826	253,024	406,225	236,495

(a) At 31st December 2002, the ageing analysis of payables to third parties were as follows:

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Not exceeding one year	423,011	228,168	357,118	211,639
More than one year but not exceeding two years	15,179	4,661	13,939	4,661
More than two years but not exceeding three years	2,045	–	2,045	–
More than three years	53	242	53	242
	440,288	233,071	373,155	216,542

(b) Amounts due to related companies are unsecured, interest-free and have no fixed term of repayments.

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

19 Construction contracts in progress

	Group		Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Contract costs incurred				
plus attributable profits less				
foreseeable losses	1,783,756	1,102,119	1,781,555	1,102,119
Less: progress billings to date	(1,567,243)	(1,516,583)	(1,567,243)	(1,516,583)
	216,513	(414,464)	214,312	(414,464)
Included in current assets/(liabilities) under the following captions:				
Due from customers on				
construction contracts	654,956	255,628	652,755	255,628
Due to customers on				
construction contracts	(438,443)	(670,092)	(438,443)	(670,092)
	216,513	(414,464)	214,312	(414,464)

No retention monies were held by customers for contract works at 31st December 2001 and 2002.

At 31st December 2002, advances received from customers for contract work included in other payables of the Group under note 20 amounted to RMB105,869,000 (2001: Nil).

At 31st December 2001 and 2002, no vessels under construction have been pledged as security for liabilities.

20 Other payables and accruals

		Group		Company	
		2002	2001	2002	2001
		RMB'000	RMB'000	RMB'000	RMB'000
Payables to third parties		319,436	177,568	283,675	106,898
Amounts due to related companies	(a)	3,025	4,977	3,025	4,977
		322,461	182,545	286,700	111,875

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

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

21 Provision for warranty

Movement of provision for warranty is as follows:

	Group and Company
	<u>RMB'000</u>
At 1st January 2002	31,808
Additional provisions	11,842
Write back of expired warranty provision	(10,649)
Utilised during the year	<u>(9,306)</u>
At 31st December 2002	<u>23,695</u>

The Group gives a one-year warranty on shipbuilding and crane machine products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RMB23,695,000 (31st December 2001: RMB31,808,000) has been recognised at 31st December 2002 for completed shipbuilding and crane machine products for expected warranty claims based on past experience of the level of repairs.

22 Short-term bank loans

	Group		Company	
	2002	2001	2002	2001
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Bank loans				
Unsecured	411,091	187,768	372,269	187,768
Secured	269,661	–	269,661	–
	<u>680,752</u>	<u>187,768</u>	<u>641,930</u>	<u>187,768</u>

23 Share capital

	Company	
	2002	2001
	<u>RMB'000</u>	<u>RMB'000</u>
Registered, issued and fully paid		
210,800,080 State shares of RMB1 each	210,800	210,800
126,479,500 A shares of RMB1 each	126,480	126,480
157,398,000 H shares of RMB1 each	157,398	157,398
	<u>494,678</u>	<u>494,678</u>

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

24 Reserves

	Group					Total
	Surplus reserves				Accumulated losses	
	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2002	651,977	48,997	31,470	19,681	(628,809)	123,316
Profit for the year	–	–	–	–	15,020	15,020
Transfers from/(to) other reserves	–	–	(778)	778	–	–
At 31st December 2002	651,977	48,997	30,692	20,459	(613,789)	138,336
Company and subsidiaries	651,977	48,997	30,692	20,459	(618,637)	133,488
Associated companies	–	–	–	–	4,848	4,848
At 31st December 2002	651,977	48,997	30,692	20,459	(613,789)	138,336

124

	Group					Total
	Surplus reserves				Accumulated losses	
	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2001	651,977	49,564	32,751	17,710	(623,526)	128,476
Loss for the year	–	–	–	–	(5,160)	(5,160)
Transfers from/(to) accumulated losses	–	(567)	(567)	1,257	–	123
Transfers from/(to) other reserves	–	–	(714)	714	(123)	(123)
At 31st December 2001	651,977	48,997	31,470	19,681	(628,809)	123,316
Company and subsidiaries	651,977	48,997	31,470	19,681	(633,095)	119,030
Associated companies	–	–	–	–	4,286	4,286
At 31st December 2001	651,977	48,997	31,470	19,681	(628,809)	123,316

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

24 Reserves (continued)

	Company					Total <i>RMB'000</i>
	Surplus reserves					
	Capital reserve <i>RMB'000</i>	Statutory			Accumulated losses <i>RMB'000</i>	
		Statutory surplus reserve <i>RMB'000</i>	public welfare fund <i>RMB'000</i>	Discretionary surplus reserve <i>RMB'000</i>		
At 1st January 2002	651,977	48,476	31,372	19,681	(573,107)	178,399
Profit for the year	–	–	–	–	19,486	19,486
Transfers from/(to) other reserves	–	–	(778)	778	–	–
At 31st December 2002	651,977	48,476	30,594	20,459	(553,621)	197,885

	Company					Total <i>RMB'000</i>
	Surplus reserves					
	Capital reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Discretionary surplus reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	
At 1st January 2001	651,977	49,043	32,653	17,710	(560,189)	191,194
Loss for the year	–	–	–	–	(12,795)	(12,795)
Transfers from/(to) accumulated losses	–	(567)	(567)	1,257	–	123
Transfers from/(to) other reserves	–	–	(714)	714	(123)	(123)
At 31st December 2001	651,977	48,476	31,372	19,681	(573,107)	178,399

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

24 Reserves (continued)

(a) Capital reserve

This represents premium on issue of shares net of issuing expenses. Capital reserve can only be used to increase share capital.

(b) Surplus reserves

Surplus reserves are part of shareholders' funds and comprise statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve.

(i) Statutory surplus reserve

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation prepared in accordance with PRC accounting standards and systems to the statutory surplus reserve until the balance reaches 50% of the paid up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(ii) Statutory public welfare fund

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer between 5% to 10% of the profits after taxation prepared in accordance with PRC accounting standards and systems to the statutory public welfare fund. The use of this fund is restricted to capital expenditure for employees' collective welfare facilities, the ownership in respect of which belongs to the Group. The statutory public welfare fund is not available for distribution to shareholders except under liquidation. Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from the statutory public welfare fund to the discretionary surplus reserve. In 2002, the Group spent RMB778,000 (2001: RMB714,450) for the purchase of relevant welfare facilities and accordingly, a same amount has been transferred from the statutory public welfare fund to the discretionary surplus reserve.

(iii) Discretionary surplus reserve

In accordance with the relevant PRC financial regulations, subject to approval by shareholders in general meetings, discretionary surplus reserve can be used to reduce any losses incurred or to increase share capital.

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

24 Reserves (continued)

(b) Surplus reserves (continued)

(iv) Profit distribution

In accordance with the Company's articles of association, profit after taxation shall be appropriated in the following sequence:

- a. offset accumulated losses;
- b. 10% to be transferred to statutory surplus reserve (note 24(b)(i));
- c. 5–10% to be transferred to statutory public welfare fund (note 24(b)(ii));
- d. transfer to discretionary surplus reserve (note 24(b)(iii)); and
- e. pay dividends.

Pursuant to article 141 of the Company's articles of association, where the financial statements prepared in accordance with the PRC accounting standards and systems differ from those prepared under the accounting principles generally accepted in Hong Kong, for the purpose of approving the profit distribution, profit after taxation of the Company for the relevant accounting year shall be deemed to be the lesser of the amounts in the two different financial statements.

25 Long-term bank loans

	Group and Company	
	2002	2001
	RMB'000	RMB'000
Bank loans		
Unsecured	756,940	726,000
Secured	54,700	54,700
	811,640	780,700
Current portion of long-term bank loans	(610,700)	(370,000)
	200,940	410,700

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

25 Long-term bank loans (continued)

At 31st December 2002, the Group and the Company's bank loans were repayable as follows:

	Group and Company	
	2002	2001
	RMB'000	RMB'000
Within one year	610,700	370,000
In the second year	200,940	410,700
	811,640	780,700

26 Retirement and other post retirement obligations

		Group and Company	
	Note	2002	2001
		RMB'000	RMB'000
Obligations on:			
– supplemental defined contribution retirement scheme	(a)	23,910	21,480
– medical insurance scheme	(c)	54,788	–
		78,698	21,480
Less: current portion included in other payables and accruals		(60,722)	(21,480)
		17,976	–

As stipulated by the relevant regulations of the PRC, the Company and its subsidiaries in Guangzhou City have participated in a number of defined contribution employees benefit plans for its existing and retired employees organised by the government. The Group has no other material obligation for payment of employee benefits, including any post-employment benefit, beyond the schemes as described below:

(a) Retirement 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).

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

26 Retirement and other post retirement obligations (continued)

(a) Retirement scheme (continued)

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 RMB2,457,000 (2001: RMB2,618,886). Contributions by the Group forfeited as a result of resignation of the employees before retirement totalling RMB77,000 (2001: RMB206,778) are utilised for the welfare of retirees. In addition, during the year the Group had made payments of RMB955,000 (2001: RMB636,453) as subsidies to retirees.

(b) Housing fund scheme

The Company and its subsidiaries in the PRC are obliged to make contribution to a defined contribution scheme for the housing benefit of their employees. The Group's annual obligation for payment of this housing benefit contribution is calculated at a rate of 8% based on the total salaries of its employees.

The Group has no contributions payable to the housing fund scheme at the year end (2001: Nil).

(c) Medical insurance scheme

As required by the Provisional Rules of Medical Insurance issued by the Guangzhou People's Municipal Government effective on 1st December 2001, it is mandatory for the Company and its subsidiaries in Guangzhou to participate in a medical insurance scheme set up and managed by the Government. Employees, included those retired employees, can be benefited from the medical insurance scheme around one month after the registration date.

The Group's annual obligations for payment of this medical insurance contribution is based on 7.5% to 8% of the preceding year's average annual salary of the Group or the preceding year's average annual salary of the Guangzhou City, depending on the length of the employment period of the employee concerned.

The medical insurance expenses of RMB55,076,000 charged to the 2002 profit and loss account has included an amount of RMB54,788,000 relating to the contributions accrued for the past service rendered by the retired and retiring employees. Where the contributions do not fall due wholly within twelve months, the contributions payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality investments.

Prior to joining the scheme, medical benefits to existing and retired employees were provided by the company under the comprehensive service agreement with Guangzhou Shipyard ("GZS"), a subsidiary of China State Shipbuilding Corporation ("CSSC").

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

27 Notes to the consolidated cash flow statement

(a) Reconciliation of profit/(loss) before taxation to net cash (outflow)/inflow from operating activities

	2002 RMB'000	As restated 2001 RMB'000
Profit/(loss) before taxation	16,835	(2,651)
Share of profits less losses of associated companies	(843)	(888)
Depreciation and amortisation of fixed assets	83,330	65,349
Loss on disposal of fixed assets	6,177	16,091
Deficit on revaluation of investment properties	1,021	–
Gain on sale of a subsidiary	(34)	(474)
Loss on disposal of associated companies	119	–
Income from investment securities	(1,602)	(7,781)
Provision for foreseeable losses of construction contracts	33,048	–
Write back of provision for a potential liability	–	(2,630)
Compensation for relocation	(126,097)	–
Provision for medical insurance	55,076	–
Write back of provision for non-recovery on principals due from non-banking financial institutions	(3,490)	(1,086)
Interest expenses	48,184	51,416
Interest income	(7,785)	(16,964)
Operating profit before working capital changes	103,939	100,382
Decrease in inventories	24,865	105,086
(Increase)/decrease in net construction contracts in progress	(664,025)	38,177
(Increase)/decrease in trade and other receivables, deposits, prepayments and tax recoverable	(181,065)	96,099
Increase in trade and notes payables, other payables and accruals, including other taxation payable and current liabilities	379,945	14,468
Net cash (outflow)/inflow from operations	(336,341)	354,212

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

(b) Analysis of changes in financing during the year

	Share capital and capital reserve		Bank loans		Minority interests	
	2002	2001	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January	1,146,655	1,146,655	968,468	1,127,000	62,088	55,063
Acquisition of a subsidiary					(172)	7,164
Sale of a subsidiary	-	-	-	-	(1,019)	-
Capital contribution						
from minority interests	-	-	-	-	-	88
Minority interests in						
share of profits	-	-	-	-	(109)	1,015
Dividends paid to minority shareholders	-	-	-	-	-	(1,242)
New loans payable	-	-	1,446,260	922,084	-	-
Repayment of amounts borrowed	-	-	(922,336)	(1,080,616)	-	-
At 31st December	1,146,655	1,146,655	1,492,392	968,468	60,788	62,088

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

27 Notes to the consolidated cash flow statement (continued)

(c) Purchase of subsidiaries

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Net assets acquired		
Fixed assets	–	17,725
Inventories	–	208
Trade and other receivables	–	14,705
Bank balances and cash	–	527
Trade and other payables	(172)	(3,909)
Taxation	–	(289)
Minority shareholders' interests	172	(7,164)
	–	21,803
Satisfied by		
Fixed assets	–	17,500
Cash	–	778
Transferred from an associated company	–	3,525
	–	21,803

The subsidiaries acquired in 2001 contributed RMB18,000 to the Group's net operating cash flows.

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

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Cash consideration	–	(778)
Bank balances and cash acquired	–	527
Net cash outflow in respect of the purchase of subsidiaries	–	(251)

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

28 Capital commitments for property, plant and equipment

At 31st December 2002, the Group and the Company had the following commitments:

	Contracted but not provided for		Authorised by directors but not contracted for	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Purchase of machinery and equipment	7,519	6,825	2,055	82,870
Purchase or construction of factories and buildings	38,049	5,123	1,431	–
	45,568	11,948	3,486	82,870

29 Contingent liabilities

The Group and the Company had no material contingent liabilities at 31st December 2002.

30 Related party transactions

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

	Note	2002 RMB'000	2001 RMB'000
Bank loan guaranteed by CSSC		30,000	270,000
Companies controlled by CSSC			
Purchase of raw materials		73,729	40,055
Purchase of equipment for shipbuilding		62,175	32,264
Other expenses	(a)	20,288	27,485
Bank loan guarantee		700,000	400,000
Associated companies			
Lease of equipment	(b)	–	4,605

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

30 Related party transactions (continued)

- (a) Apart from the above, pursuant to the comprehensive service agreement dated 19th April 2001 entered between the Company and GZS, the Group also incurred service fees (including the provision of staff quarters, medical service and other benefits) amounted to RMB15,381,000 (2001: RMB15,410,229) to GZS for its provision of staff welfare services. The transactions included the employee benefits to the key management personnel amounting to RMB27,000 (2001: RMB25,107). The comprehensive service agreement covers a three-year period from 2001 to 2003.

It has been confirmed by the independent directors of the Company that the above related party transactions were carried out in the ordinary course of business of the relevant companies and in normal commercial terms.

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

31 Reconciliation of financial statements

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

Group

	Profit/(loss) after taxation and minority interests		Net assets at 31st December	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Prepared under PRC accounting standards and systems	15,917	8,978	633,538	617,730
Pre-operating expenses fully written off	–	(676)	–	–
Realised gain on minority interest portion from intercompany transaction	–	502	502	502
Tax incentives items	–	88	–	–
Loss related to fixed assets	–	(13,900)	–	–
Profit and loss items directly recorded in retained earnings brought forward	–	(152)	(238)	(238)
Deficit on revaluation of investment properties	(788)	–	(788)	–
Appropriation to staff and worker's bonus and welfare fund	(109)	–	–	–
Prepared under HKGAAP	15,020	(5,160)	633,014	617,994

Notes to the Financial Statements (continued)

(Prepared in accordance with accounting principles generally accepted in Hong Kong)

31 Reconciliation of financial statements (continued)

Company

	Profit/(loss) after taxation		Net assets at 31st December	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Prepared under PRC accounting standards and systems	15,759	8,978	633,489	617,730
Operating results of subsidiaries and associated companies equity accounted for	4,731	(10,100)	57,939	53,208
Loss on investments in subsidiaries	–	(13,900)	–	–
Tax incentive items	–	88	–	–
Deficit on revaluation of investment properties	(788)	–	(788)	–
Realised gain on minority interest portion from inter-company transaction	(216)	2,139	1,923	2,139
Prepared under HKGAAP	19,486	(12,795)	692,563	673,077

135

32 Presentation of comparative figures

Amounts due from and due to customers on construction contracts were previously presented as a net figure in the balance sheet. With effect from this years, they are presented separately as an asset and a liability and the comparative figures have been restated accordingly.

33 Approval of financial statements

The financial statements were approved by the board of directors on 22nd April 2003.