

REPORT OF THE DIRECTORS

The Directors are pleased to submit their report together with the audited financial statements for the year ended 31 December 2003 to the shareholders.

REVIEW OF OPERATIONS

Results

In the financial statements prepared in accordance with PRC Accounting Standards and Systems for the year ended 31 December 2003, the principal operating income of the Company and its subsidiaries ("the Group") amounted to RMB2,840,446,000, representing an increase of 17.71% over that of last year. The consolidated net profit after taxation and minority interest amounted to RMB43,052,000 representing an increase of 170.48% over that of last year. The earning per share was RMB0.087. In the financial statements prepared in accordance with accounting principles generally accepted in Hong Kong for the year ended 31 December 2003, the turnover of the Group amounted to RMB2,840,446,000, representing an increase of 17.71% over that of last year. The profit attributable to shareholders amounted to RMB24,555,000 representing an increase of 63.48% over that of last year. The profit per share was RMB0.0496.

In 2003, the increase in turnover and net profit of the Group was attributable to the development of the shipbuilding business. The Group made a record in the business volume of shipbuilding, and delivered two Ro/Pax vessels and the other semi-submersible heavy lift vessel after the delivery of the first vessel at the end of the year of 2002, which exploited by the Group and are advanced and high-technical in the world. That promoted the capacity of the Group in exploiting and constructing new type vessels with leading technology, besides, it provided condition for continual and balanced production, strengthening cost control and increasing profitability.

REVIEWS OF MAJOR OPERATIONS



Shipbuilding

In the year 2003, the Group completed and delivered twelve vessels including two 1,600LM Ro/Pax vessels with advanced technology in the world for a Sweden customer, three 35,000dwt product oil tankers for a Danish customer, a 38,000dwt product tanker for a Malta customer, and four 40,000dwt product oil tankers, a semi-submersible heavy lift vessel and a 3000dwt oil tanker for domestic customers. The total completed tonnage of 364,500dwt was ranked 6th in the China shipbuilding Industry (note) in 2003.

The Group commenced construction work on 12 vessels, 11 of which were launched in 2003. These vessels included, 35,000dwt product oil tankers for a Danish customer, 38,000dwt product oil tankers for a Malta customer, 40,000dwt product oil tankers for domestic customers. The Company made a record in the volume of commenced construction, launching and completion of shipbuilding.

REPORT OF THE DIRECTORS

The turnover from shipbuilding amounted to RMB2,117,845,000 which represented an increase of 26.51% over that of last year. The turnover attributable to shipbuilding represents 74.56% of the Group's turnover. Furthermore, during the year, the total sales cost of shipbuilding products was RMB2,077,520,000, the gross profit accounted to RMB40,330,000, and the gross profit rate accounted to 1.90%. In 2003, the Group secured new orders for 22 vessels, with total contract value of RMB4.2 billion. As at 31 December 2003, the Group has secured orders for 29 vessels with a total tonnage of 920,000dwt and a total contract value of RMB5.7 billion.

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

Container Manufacturing

During the period under review, container manufacturing of the Group was paused in September 2003 due to the environment relocation.

During the 3 quarters before the production line was paused, varieties of containers with a total of 55,504TEU were sold by the Group, the turnover from the manufacturing of containers amounted to RMB514,475,000, the sales cost of containers product amounted to RMB501,480,000. Gross profit amounted to RMB12,995,000 with gross profit rate of 2.52%, the turnover attributable to the container business represents 18.11% of the Group's turnover.

Shiprepairing

In 2003, shiprepairing operation of the Group was reduced compared with that of last year due to restriction of the geographical environment and the adjustment of product structure. The repairing services for 17 vessels with various types were completed including 2 foreign vessels. The turnover from the ship repairing operation amounted to RMB13,350,000, the turnover attributable to the ship repairing operation represents 0.47% of the Group's turnover. During the year, sales cost of ship repairing amounted to RMB10,980,000, and gross profit amounted to RMB2,370,000 with gross profit rate of 17.75% .

Steel structure

In 2003, the steel structure completed by the Group amounted to 3,962 ton, which mainly belonged to the Shenzhen airport project and lifting equipments. The turnover of the Group of the year were reduced due to the price competition and higher cost, and resulted in an operating loss.

The turnover contributed from the steel structure operation amounted to RMB78,079,000 and the sales cost amounted to RMB69,410,000, gross profit amounted to RMB8,670,000 with gross profit rate of 11.10%. The turnover attributable to the steel structure operation represents 2.75% of the Group's turnover.



REPORT OF THE DIRECTORS



Mechanical and electrical equipment and other operations

The mechanical and electrical equipment operations of the Group including Hydraulic Bending Machine, Hydraulic Shearing Machine, Ship Elevator, Refrigerator Processing Equipments, various Elevators Manufacture and Installation. Among that, 190 various Hydraulic Bending Machines and Hydraulic Shearing Machines was manufactured and 181 was sold in 2003 representing an outstanding achievement in the recent 5 years.

In 2003, the turnover from the mechanical and electrical equipment amounted to RMB116,700,000, the total sales cost of the mechanical and electrical equipment was about RMB93,350,000, and gross profit amounted to RMB23,350,000 with gross profit rates of 20.01%. The turnover attributable to mechanical and electrical and other operations represents 4.11% of the Group's turnover.

Geographical analysis of turnover

Countries/Regions	2003		2002	
	Turnover (RMB'000)	Proportion (%)	Turnover (RMB'000)	Proportion (%)
Hong Kong	537,370	18.92	555,572	23.02
Vietnam	—	—	266	0.01
Germany	—	—	290	0.01
Malaysia	—	—	3,036	0.13
Denmark	576,750	20.30	543,551	22.52
Malta	341,507	12.02	314,116	13.02
Sweden	98,081	3.45	134,847	5.59
The Philippines	1,470	0.05	493	0.02
USA	22,436	0.79	17,289	0.72
Japan	113	0.00	—	—
Taiwan	1,490	0.05	—	—
New Zealand	165	0.01	—	—
Macao	2,829	0.10	—	—
Subtotal	1,582,210	58.29	1,569,410	65.03
Mainland China	1,258,235	44.30	843,692	34.97
Total	2,840,446	100.00	2,413,101	100

Turnover from export operation

During the year, the Group's turnover attributable to exports amounted to US\$191,160,000 (2002:US\$189,580,000).

REPORT OF THE DIRECTORS

Major customers and suppliers

The turnover from the Group's five largest customers accounted for 68.40% of the turnover of the Group in 2003. The largest customer of the Group accounted for 23.05% of the turnover of the Group in 2003.

The purchase of raw materials and equipment from the Group's five largest suppliers accounted for 27.17% of the total purchases of the Group in 2003. The largest supplier of the Group accounted for 7.80% of the total purchases of the Group in 2003.

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

Major subsidiaries

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

No	Company Name	Principal Activities	Registered Capital RMB'000	Interest Attributable to the Company (%)	Assets RMB'000	Net profit (loss) RMB'000
1	Kwangchow Shipyard Container Factory	Container manufacturing	44,925	100	239,687	3,775
2	Guangdong Guangzhou Shipyard International Elevator Company Limited	Elevator production and sales	21,000	95	34,106	915
3	Guangzhou Hongfan Information Technique Company Limited	Development of computer software, system integration and sales of hardware	5,000	77	8,150	186
4	Guangzhou Xinsun Shipping Service Company Limited	Welding and coating of ships	2,000	83	18,017	1,426.68
5	Masterwood Company Limited	Furniture manufacturing	3,315	75	8,367	420.82
6	Guangzhou Guanglian Container Transportation Company Limited	Container transportation	20,000	75	21,000	301.01
7	Xinhui City Nanyang Shipping Industrial Company	Ship dismantling	34,800	70	25,087	(3,072.43)
8	Guangzhou Sanlong Industrial Trading Development Co., Ltd.	Municipal construction project	1,500	67	503	-25.87
9	United Steel Structures Limited	Large-sized steel structure	73,573	51	87,906	1,188.64
10	Guangzhou Henghe Construction Co. Ltd.	Services, wholesale and retail	27,500	75.9	30,735	(758.90)
11	Rongguang Developing Co., Ltd.	Trading	HKD10,000	100	35,075	267.55

REPORT OF THE DIRECTORS

Indirect holding subsidiaries

Masterwood Company Limited	Furniture manufacturing	3,315	25	8,367	420.82
Guangzhou Hongfan Hotel	Traveling and catering services	500	100	5,350	123
Guangdong GSI Elevator Co.	Elevator manufacturing	21,000	5	34,106	915
Fonkwang Development Ltd.	General trade	HKD200,000	70	10,456	225

Except Fonkwang Development Ltd. and Rongguang Developing Co., Ltd. were registered in Hong Kong, other above subsidiaries are established and operated in Mainland China.

The Company's investments

During the year, the Company invested RMB63,990,000 in relation to technical transformation. The completed projects transferred to fixed assets during the year amounted to RMB125,080,000. The major projects included: increasing in capacity of electric power, 1200 ton gantry crane, expending the main workshop in Shunde Shipyard, 80 ton fixed gantry crane, 30 ton beam gantry crane, and work station for Tribon system.

Financial position of the Group

The relevant indexes of financial position of the Group for the year of 2003 (Prepared under PRC Accounting Standards and Systems) are as follows:

Item	For the year ended 31st December		
	2003 RMB'000	2002 RMB'000	Increase/decrease (+/- %)
Total current assets	1,429,953	2,065,677	-30.78
Long-term equity investment	13,805	13,396	3.05
Fixed assets	957,954	927,179	3.32
Total assets	2,513,408	3,192,625	-21.27
Total liabilities	1,777,085	2,498,299	-28.87
Shareholders' equity	676,590	633,538	6.80
Principal operating profit	84,376	4,214	1902.47
Net profit/(loss)	43,052	15,917	170.48
Current ratio	0.99	0.91	8.79
Quick ratio	0.84	0.66	27.27
Gear ratio (%)	70.70	78.25	-9.65

The analyse and explanation to the above-mentioned indexes and changes are as follows:

- (1) The total current assets decreased 30.78% over that of last year, the items changed significantly including: the inventory decreased due to the pause of container manufacturing, the account receivable decreased due to the received of shipbuilding progress payment, other receivable decreased due to received relocation compensation.

REPORT OF THE DIRECTORS

- (2) The total liabilities decreased 28.87% over that of last year, that mainly due to the repayment of bank loans.
- (3) The principal operating profit increased mainly due to the increased profitability of shipbuilding product, which result in an increasement in the total economic benefit of the Company.

Prospects for the coming year

In the coming year, the productive task of shipbuilding of the Group is full, and the technology of manufacturing products are relatively mature and construction schedule are within control limit. All these are advantageous to achieving continual and balanced production. Furthermore, the shipbuilding of the Group was anticipated to develop further in the 2004. However, it was expected that the turnover contributed from principal operations of the Group in 2004 would be reduced significantly due to the pause of container manufacturing. Besides, the Group will concentrate on strengthening its cost control and practicing cost reducing and efficiency rising to release the pressure of price raising of raw materials such as steel plates.

In 2004, the Group aims at the target of “to be the leader of the handy-size shipbuilding market in the world”, insists on the policy of “strengthen the core competence in shipbuilding, vivify the development in non-shipbuilding operations, and win the market with the first-class price performance ration and customerize service” to deepen strategic management, and execute the persevere technical exploitation, cost control and shipbuilding mode transformation for building the first-class handy-size ships with high efficiency and in low cost.

REPORT OF THE DAILY OPERATIONS OF THE BOARD OF DIRECTORS

Meetings of the Board of Directors

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

1. The sixth meeting of the fourth term of the board of directors of the Company was held on 17th March, 2003. Ten of the eleven Directors presented and voted by means of written resolution for approval that the documents disclosed by the Company will be handed in Hong Kong Securities and Futures Committee at the same time when handed in The Stock Exchange of Hong Kong Limited, and the authorization to The Stock Exchange of Hong Kong Limited to submit such documents to Hong Kong Securities and Futures Committee.
2. The seventh meeting of the fourth term of the board of the Company was held on 22nd April, 2003 with 11 directors including 6 valid proxies present. The 11 directors voted for approval of the company's Annual Report of 2002, approved the provision of RMB54,787,600 made by the Company in relation to the Company's payment for medical insurance premium for the retired employees and employees who will be retiring within 10 years, approved the provision made in respect of the reallocation of the container and mechanical business of the Company with the amount of RMB85,767,693,800 for the loss of the land use

REPORT OF THE DIRECTORS

right, RMB38,360,994.44 for 104 kinds of fixed assets, RMB20,676,975.67 for devalue of the equipments disposal of not relocated and RMB3,618,400 for the dismantling and reallocation expenses of the east plant area, approved the recommendation of the profit non-distribution and non-conversion to shares for the year of 2002, which will be submitted to the General Meeting for approval, approved the first quarter report of 2003, approved supplementary agreement of "Comprehensive Service Contract" between Guangzhou Shipyard and the Company, approved that in accordance with authorization by the 2001 General Meeting, the annual remuneration for the year 2003 of PricewaterhouseCoopers and Yangcheng Certified Public Accountants Company Limited be fixed at HK\$1,150,000 and RMB420,000 respectively, and that PricewaterhouseCoopers and Yangcheng Certified Public Accountants Company Limited be recommended for re-appointment at the Annual General Meeting as the Company's international auditor and PRC auditor respectively for the year of 2003, approved the total reward of RMB140,800 for the executive directors and interior supervisors of the Company for the year of 2002, which will be submitted to Annual General Meeting for approval, approved the closing down of the operation of the Company's Printing Factory and the cancellation of registration of such branch of the Company, approved the financial budget for 2003 and authorized the two executive directors to sign on relevant credit documents of the Company under the line of authorized credit with amount of RMB1.39 billion, approved the proposal of holding shares by staff of Guangzhou Hongfan Technology Co., Ltd. ("Hongfan Technology"), and approved to transfer 39% shares of the 90% shares, which was calculated in accordance with the unaudited net asset per share of the year of 2002, hold by the Company to skeleton clerck of Hongfan Technology, and if the subscription is insufficient, the rest could be subscribed by Guangchuan Science & Technology Consulting Association, which is one of the shareholders of Hongfan Technology, and authorize the executive team of the Company to procedure matters concerned such as business register and register of changes of shareholders, approved the total payment, which amounted to RMB147 million, to workers in 2003, and approved the aggregate award of RMB161,100, to senior managers for their work in 2002.

3. The eighth meeting of the fourth term of the Board of Directors was held on 6th June 2003. Ten of the eleven Directors voted by means of written resolution for approval the renewal of operation terms of Masterwood Co., Ltd., a subsidiary of the Company, and the changing of its name to Guangzhou Masterwood Co., Ltd., the registered capital and the structure of share's equity will not change.
4. The ninth meeting of the fourth term of the Board of Directors was held on 15th August 2003. Eleven directors presented and voted for the proposals and approved the Interim Report for the six months ended 30th June 2003 of the Company, approved the proposal for profit distribution for the six months ended 30th June 2003: no profit distribution or capital increment, approved the proposal of establishing Strategy Committee, and submit it to the next general meeting for approval, approved the proposal of establishing Committee on Public Accounts, and submit it to the next general meeting for approval, approved South China Marine and Industrial Special Coating Company Limited to continue operation in coating business with the Company (the "Operation") for another 10 years, and within the 10 years, once its return on investment is less than 6% for continuous 3 year, the Operation will be stopped immediately, approved the resignation of Mr. Chen Liping from his position as vice president of the Company.
5. The tenth meeting of the fourth term of the Board of Directors was held on 24th October 2003. Eleven directors including a proxy presented and voted for the proposal and approved the third quarter report of 2003.

REPORT OF THE DIRECTORS

6. The eleventh meeting of the fourth term of the Board of Directors was held on 7th November 2003. Eleven directors presented and voted for the proposals and approved the rectification report to the problems found by Guangzhou Regional Office of China Securities Regulatory Commission (the “GRO”) during the routine inspection.

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

During the year, the Board of Directors had executed all the resolutions passed in the 2002 annual general meeting.

Interests of directors and supervisors

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

29

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

None of members of the fourth term of the board of directors and supervisory committee of the Company had entered into any service contract with the Company with payment of compensation for early termination of the service contract or non re-election upon the expiration of the service contract.

Interests of directors and supervisors in contracts

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

The highest paid individuals

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

Profit forecast

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

REPORT OF THE DIRECTORS

Profit distribution for the year 2003

The Company has a profit of RMB43,052,000 in the financial statements prepared in accordance with the PRC Accounting Standards and Systems and a profit of RMB24,555,000 in the financial statements prepared in accordance with the accounting principles generally accepted in Hong Kong in 2003, the directors do not recommend the profit distribution and capital increment. This proposal will be submitted to 2003 Annual General Meeting for approval.

Financial summary

Summaries of the results and of the assets and liabilities of the Group for the last five financial years in accordance with the accounting principles generally accepted in Hong Kong and PRC Accounting Standards and Systems are set out in the financial statements on page 6 and on page 7, respectively.

Results and profit distribution

The results and profit distribution of the Group for the year ended 31 December 2003 prepared under PRC Accounting Standards and Systems and the Hong Kong generally accepted accounting principals are set out in the profit and loss statement on page 47 and consolidated profit and loss account on page 96.

Dividend

In accordance with the PRC Accounting Standards and Systems, the directors do not recommend the payment of a dividend and capital increment for the year 2003.

Reserves

The movements in the reserves of the Group which are prepared under PRC Accounting Standards and Systems and the accounting principles generally accepted in Hong Kong are set out in note 5 (19) and 5 (20),(21),(22) to the financial statements on page 73 to 74 and note 25 on page 135, respectively.

Fixed assets

Details of movements in fixed assets (including properties and other tangible assets) of the Group which are prepared under PRC Accounting Standards and Systems and the accounting principles generally accepted in Hong Kong are set out in note [5 (5)] to the financial statements on page 65 and note 11 on page 122, respectively.

As at 31st December 2003, the net book value of fixed assets pledged as security for the Group's banking facilities amounted to RMB237,870,000.

REPORT OF THE DIRECTORS

Properties held for development or sale

Except of the property of the shop located at Building 308 Guangfu Road, Nanguan in Changchun, Jiling Province for lending was evaluated at RMB5.9 million by Hong Kong Hanhua Worth Assessment Co., Ltd., the Group has no property held for development or sale, which represents over 15% of the value of net tangible assets, or where contribution derived from these properties exceeded 15% of pre-tax operating profit.

Share capital

Details of the share capital of the Company are set out in “Share capital structure” on page 73.

Pre-emptive rights

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

Warrants and others

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

Purchase, sale or redemption of the Company's securities

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

Bank loans, overdraft and other borrowings

Details of bank loans, overdraft and other borrowings of the Group are set out in notes 5(10) and 5(16) to the financial statements on page 61 to 72 and notes 23 and note 26 on page 134 and page 139, respectively.

Interest capitalisation

Details of interest capitalization of the Group during the year are set out in note 5(7) to the financial statement on page 66.

Application of Statutory Public Welfare Fund

During the year, the Company contributed its statutory public welfare fund to purchase accessories of B-model supersonic diagnostic instrument as the welfare of the Company's staff with the character of fixed assets, which has been transferred to fixed assets with an amount of RMB100,000.

REPORT OF THE DIRECTORS

Capital expenditure

The Group expects that capital expenditure during 2004 would be approximately RMB78.78 million. The Group has sufficient financial resources to meet the demand for capital expenditure and daily working capital.

Exposure to fluctuation in exchange rate

For the year of 2003, part of the revenue, expenses, assets and liabilities denominated in foreign currency of the Group had not significant risk in exposure to fluctuations in exchange rate.

Contingent liabilities

Up to 31 December 2003, the Group has no significant contingent liabilities.

Connected transactions

The connected transactions made between the Group and the associated enterprise under the control of CSSC or associated companies of the Group included sales of goods amounting to RMB17.24 million and purchases of raw materials and other expenses amounting to RMB36.602 million. Those connected transactions are audited by the Company's independent directors, and confirmed by its non-executive independent directors, Mr. David Hon To YU, Mr. Philip Pat Yiu YUEN, Mr. Bo Miaojin and Mr. Wu Fabo, that they were carried out in the ordinary course of business and had been entered into accordance with the terms of the agreement covering such transactions or (where there is no such agreement) on terms no less favorable than terms available to third parties. The Group did not receive any extra ordinary benefit from such transactions, which are considered as reasonable to the Group's shareholders. Details of such transactions are set out in note 6 to the financial statements prepared under PRC accounting standards on page 83.

The above transactions, which also constitute related party transactions under the listing rules of the Stock Exchange of Hong Kong Limited ("Listing Rules"), require disclosure in accordance with Chapter 14 of the Listing Rules.

Application of proceeds from share offering

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

Employees' pension scheme

The Company and certain subsidiaries have joined the defined contribution retirement scheme operated by the provincial government of Guangdong Province since 1 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 31 December 2003 was RMB22,161,000 (2002: RMB21,046,000). In addition, the

REPORT OF THE DIRECTORS

Company has operated a supplemental defined contribution retirement scheme since 1 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 31 December 2003 was RMB2,265,000 (2002: RMB2,457,379). Contributions by the Group forfeited as a result of resignation of the employees before retirement totaling RMB63,000 (2002: RMB76,513) are utilized for the welfare of retirees. The Company has determined to pause the supplementary defined contribution retirement scheme since 1st January 2004 due to the regulation that the payment, which should be paid by the Company and be part of the supplementary retire pension, could not be accounted as cost in accordance with relevant regulation of the state, and the pension which has been paid by the staff and the Company will refund to staff totally. The balance will be accounted in the welfare fee of the Company and used for welfare for staff. In addition, during the year the Group had made payments of RMB897,755 (2002: RMB995,101) as subsidies to retirees.

Purchase of staff quarters by employees

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

Publications for disclosure

The Publications used for disclosing information of the Company during the year 2003 are "Shanghai Securities News", "Hong Kong Commercial Daily" and "China Daily" (oversea edition).

CODE OF BEST PRACTICE

In accordance with the demand of establishing a supervisory committee aimed to review and supervise the Company's financial reporting procedures and internal controls pursuant to paragraph 14 of Code of Best Practice set out in Appendix 14 of the Listing Rules (the "Code of Best Practice"), the Board of Directors of the Company determined on 15th August 2003 to establish the Audit Committee, which would run after the approval by the General Meeting. And before that, the Company's organizational structure has included a supervisory committee (the "Supervisory Committee") which carries out functions similar to that of an Audit Committee, the differences being that the representatives of the Supervisory Committee (one of which shall be the representative of the Company's employees) are elected and removed by shareholders in an annual general meeting, and which is responsible to report to general meeting of shareholders instead of the Board of Directors, whereas the Listing Rules require the Audit Committee comprise of independent non-executive Directors of the listed company. Apart from this, none of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year, in compliance with the Code of Best Practice.

REPORT OF THE DIRECTORS

Significant litigation

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

Certified Accountants' Special Statement to the Capital Impropriation with the Controlling Shareholder and Connected Parties

In accordance with the requirement of relevant notice from China Securities Regulatory Committee, Guangzhou Yangcheng Certified Public Accountants Co., Ltd. Audited the occupation of funds of the Company by its controlling holder, CSSC and other connected parties. As at 31st December 2003, the current funds between the Company and CSSC and other connected parties are connected transactions which results from normal operating of the Company. Except for those, Guangzhou Yangcheng Certified Public Accountants Co., Ltd. has not found any inobservant situation stated in "Notice of Standard Current Funds between List Companies and Connected Parties and External Guarantees of List Companies" in the Company.

Independent Directors' Special Statement to the External Guarantees of the Company

In accordance with the regulation stated in "the Notice of Standard the Finance Dealing with Connected Parties and the External Guarantees of List Companies", Zhen Jian Zi [2003] No. 56 (the "Notice") issued by China Securities Regulatory Commission (the "CSRC"), we, the independent directors of the Company, reviewed and checked the external guarantees of the Company seriously and state as follows:

1. The Company has checked itself in accordance with the requirement of the Notice, and has submitted the self-checking report to Guangzhou Regional Office of CSRC on 26th November 2003.
2. The Company has abided by relevant law, regulations and rules issued by CSRC, and has not provided any guarantee for controlling shareholder, other connected parties less than 50% shares controlled by the Company, any unincorporated unit or individuals up to 31st December 2003.

AUDITORS

The financial statements for the year ended 31 December 2003 prepared under PRC accounting standards and Systems and the accounting principles generally accepted in Hong Kong have been audited by Yangcheng Certified Public Accountants Company Limited and PricewaterhouseCoopers, respectively. They shall respectively resign and, being eligible, offer themselves for re-appointment.

REPORT OF THE DIRECTORS

ACKNOWLEDGMENT

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

On behalf of the Board of Directors

Chairman

Hu Guoliang

Guangzhou, 16th April 2004