

NOTES TO THE FINANCIAL STATEMENTS

*(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2003*

1. OVERVIEW OF THE COMPANY

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES ADOPTED BY THE COMPANY (GROUP)

(1) Accounting System

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

(2) Accounting Period

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

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(3) Currency Adopted in Accounting Records

Accounting records are maintained in Renminbi.

(4) Basis of Recording and Valuation

Basis of recording adopts accrual system and Basis of Valuation is cost of acquisition. Devalue provision is made in accordance with the Enterprise Accounting System if there is any devalue of any asset.

(5) Foreign Currency Translation

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

(6) Cash Equivalents

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

(7) Short-term Investment and Profit

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

(8) Provisions for Doubtful Debts

- (i) Basis of recognition as of doubtful debts lost: If cases where debtors to bankrupt or is dead, doubtful debts unpaid represent balance after settlement out of liquidation or estate; The debtor do not pay back debt overdue, and certify it is impossible to get back after litigation process.
- (ii) Accounting basis of doubtful debts lost: provision way.
- (iii) Provision and applicable rate: For the account receivable which there is no bad information of in-receivable, 0.5% of its left will be draw out as provision; For the account receivable which there is special disadvantageous information for the bad debts, the provision will draw in accordance with the difference between the returnable amounts of debts and its book account.

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(9) Inventories

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

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

Methods of making provision for diminution of value on inventories:

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

(10) Long-term Investments

- (i) Long-term equity investments

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

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

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

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

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- (ii) The balance of the equity investment, the term of which is stipulated in the contract, is amortized and included as current income of investment according to the investment term; while those, the term of which is not stipulated in the contract, are amortized and included as current income of investment according to the term that does not exceed 10 years (including 10 years).
- (iii) Long-term bond investments: Bonds invested by the Company are regarded as original investment cost according to the exact payment. The interest, included by the exact payment, will be stated dividually as item receivable when the interest is at the expiration but not drawn. The original investment cost of long-term bonds includes the bond interest that is included by the exact payment and does not expire.
- (iv) The amortization of premium and discount of long-term bond investment is carried out at the same time with the confirmation of the relevant bond interest in order to adjust the investment income.
- (v) Provision for diminution in long-term investments
 - ① Provision for diminution in long-term investments that have market price is made according to the following symptom.
 - A. Market price lower than the account price for the 2 years
 - B. The transaction of investment suspended for one year or more
 - C. The company invested have a serious loss in this year
 - D. The loss of the company invested lasted for 2 years
 - E. The company invested is in process of rectification and liquidation or the company invested has other symptoms that show it cannot do business continually.
 - ② Provisions for diminution in long-term investments that have not market price are made according to the following symptom.
 - A. The company invested has a mint loss.
 - B. The financial status of the company invested has deteriorated, such as the rectification and liquidation, etc, because of the change of market and the descent of the competitive ability.
 - C. In other case, for example, it shows evidence that the investment actually did not bring any economic interest to the Company.

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(11) Fixed Assets and Depreciation

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

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

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

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

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

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

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(12) Construction-in-process

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

- (i) Constructions paused for long-term and was not anticipated to re-commence in 3 years.
- (ii) Constructions that were enough proved the situation of devaluing.

(13) Loan Expenses

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

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

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

Method for calculating capitalized interest for each accounting period:

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

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(14) Intangible Assets and Its Amortization

Intangible assets are state at cost. Amortization is provided to write off the cost evenly over the legal or contractual lives or, in the absence of legal or contractual lives, evenly over the useful lives. Where the useful lives of intangible assets cannot be ascertained, amortization is provided evenly over a period of not less than 10 years. The Company will made devalue provision to the balance between the book-value and the anticipated receivable amount of the intangible assets which met following situations:

- (i) An Intangible asset whose profitability was adversely affect significantly to the economic interest of the enterprise, or has no usable value and transferring value.
- (ii) An Intangible asset which exceed the legal protection time limited, and wholly or partially lost its usable value and transferring value.
- (iii) The market price of an intangible asset decreased in a large degree, and was not anticipated could recover in the rest amortization years.
- (iv) Other intangible assets that were enough proved the situation that its sable value and transferring value was lost wholly or partially.

(15) Long-term Deferred Expenses And Amortization

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

(16) Income Realizing Principle

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

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

When the result of construction contract (long-term contract engineering) is foreseeable, it is to calculate the business income on basis of the percentage of the construction progress when settle accounts, and to calculated the business cost on basis of the same percentage of scheduled cost. The provision for loss, which consists of the whole cost of construction, will be made when foreseeable loss. Generally, in accordance with the situation of the Company could anticipate the result for the contracts of a long-term project such as a first-made shipbuilding contract (or new order) reasonably when the construction progress reached 50%. And for the ships of batch production, the Company could anticipate the result when the construction progress reached 30%.

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Income from transferring assets using right was confirm when the relevant economic interest could inflow or the amount received could be accounted reliably.

(17) Income Tax

The income tax of the Company is on basis of accrual basis.

(18) Basis of Preparation of Consolidated Financial Statements

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

3. TAXATION

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

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

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

4. PRINCIPAL SUBSIDIARIES AND AFFILIATES

(1) Principal Subsidiaries

Name	Registered Capital ('000)	Principal Business	Interest Investment Capital ('000)	Attributable to the Company	Indirect holding
Kwangchow Shipyard Container Factory	RMB 44,925	Container & steel structure manufacturing, installation and repairing	RMB 56,157	100%	-
Masterwood Company Limited	USD 600	Manufacture and sales of all kind of material furniture series	RMB 2,486	75%	25

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Name	Registered Capital (‘000)	Principal Business	Interest Investment Capital (‘000)	Attributable to the Company	Indirect holding
Guangzhou Guanglian Container Transportation Company Limited	RMB 20,000	Container transportation	RMB 15,000	75%	–
Xinhui City Guangzhou Shipyard Nanyang Shipping Industrial Company	RMB 34,200	Ship dismantling, shipbuilding and steel structure engineering	RMB 25,200	70%	–
Guangzhou Sanlong Industrial Trading Development Company Limited	RMB 1,000	Business of steel structure and general ship component manufacturing	RMB 1,005	67%	–
Guangzhou Xinsun Shipping Service Company Limited	RMB 600	Installation, welding, fitting, coating, repairing of hull structure	RMB 500	83%	–
United Steel Structures Limited	USD 6,000	Manufacturing, sales and post sales service of steel structure	RMB 37,522	51%	–
Guangdong GSI Elevator Limited	RMB 21,000	Design, manufacturing, sales, installation, modification and repairing of all kinds of elevator	RMB 19,950	95%	5
Guangzhou Hongfan Information Technique Co., Ltd.	RMB 5,000	Developing of computer software, system integration and sales	RMB 4,500	90%	–
Guangzhou Henghe Construction Company Limited	RMB 27,500	Steel structure design, construction and installment	RMB 20,880	75.93%	–
Rongguang Developing Co., Ltd.	HKD10,000	Trading	RMB10.44	100%	–
Indirect holding subsidiaries					
Guangzhou Hongfan Hotel	RMB500	Traveling and catering services	RMB500	100%	Yes
Guangdong GSI Elevator Co.	RMB21,000	Elevator manufacturing	RMB350	5%	Yes
Fonkwang Development Ltd.	HKD200	General trade	HKD200	70%	Yes

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

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- (2) The change of the scope of consolidation and percentage of shares
- (i) The subsidiary Rongguang Developing Co., Ltd. and its subsidiary Fonkwang Development Ltd., whose 70% shares hold by Rongguang Developing Co., Ltd., were consolidated for the year 2003.
 - (ii) The Company transferred 13% shares of Guangzhou Hongfan Information Technique Co., Ltd, and the shares percentage of the Company is 77%, while the former is 90%.

5. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS (UNIT: RMB, UNLESS SPECIAL STATEMENT)

(1) Cash and Bank Balances

Item	As at 31st Dec. 2003		As at 31st Dec. 2002	
	Foreign currency	RMB	Foreign currency	RMB
Cash				
RMB		293,302.26		260,927.66
HKD	8,919.22	—	8,828.22	9,367.62
USD	49,861.49	—	3,603.17	29,824.16
JPY	500.00	—	500	34.41
Subtotal		<u>293,302.26</u>		<u>300,153.85</u>
Deposit				
RMB		331,932,020.38		209,333,813.77
HKD	4,296,829.61	4,579,131.31	3,069,863.49	3,230,800.57
USD	5,505,039.66	45,563,011.25	3,509,264.48	29,072,921.20
EUR		—		—
Subtotal		<u>382,074,162.94</u>		<u>241,637,535.54</u>
Deposit in CSSC Financial Co.		<u>9,091,916.06</u>		<u>42,799,299.16</u>
Others				
RMB		75,926.18		69,949.61
USD		—	5040.55	41,717.60
Subtotal		<u>75,926.18</u>		<u>111,667.21</u>
Total		<u><u>391,535,307.44</u></u>		<u><u>284,848,655.76</u></u>

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(2) Accounts Receivable

(i) Accounts Receivable

Bond age	31st December, 2003				
	Amount	Percentage %	Provision for doubtful debts	Percentage of doubtful debts	Net receivable
Within 1 year	375,635,098.48	83.82	1,878,175.49	0.50%	373,756,922.99
1-2 years	30,549,870.31	6.82	152,749.35	0.50%	30,397,120.96
2-3 years	1,953,550.00	0.44	9,767.75	0.50%	1,943,782.25
Over 3 years	35,279,947.42	7.87	176,399.74	0.50%	35,103,547.68
50% as doubtful debts	1,619,265.33	0.36	1,619,265.33	100.00%	–
100% as doubtful debts	3,096,030.43	0.69	1,548,015.22	50.00%	1,548,015.22
Total	448,133,761.97	100	5,384,372.88		442,749,389.09

Bond age	31st December, 2002				
	Amount	Percentage %	Provision for doubtful debts	Percentage of doubtful debts	Net receivable
Within 1 year	530,375,514.70	85.88	2,651,877.57	0.50%	527,723,637.13
1-2 years	9,002,399.45	1.46	45,012.00	0.50%	8,957,387.45
2-3 years	13,124,065.38	2.13	65,620.33	0.50%	13,058,445.05
Over 3 years	63,470,580.02	10.28	317,352.90	0.50%	63,153,227.12
100% as doubtful debts	1,619,265.33	0.26	1,619,265.33	100.00%	0.00
Total	617,591,824.88	100.00	4,699,128.13		612,892,696.75

- a) Regard to 100% as doubtful debts, the Company has appealed, but the debtors are unable to perform the sentence of the Court to pay. Therefore, with the approval of the Board, the doubtful debts are considered in 100%.
- b) Regard to 50% as doubtful debts, some unfavorable situations occurred for taking back the money. 50% as doubtful debts is approved with relevant procedure of the Company.
- c) The sum of first five largest debtors is RMB 303,015,458.89, representing 67.62% of the total of account receivable.
- d) None of prepayments is due from shareholders who hold 5% or above of the Company's interest.

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(ii) Prepayment from customers

Bond Age	31st December, 2003		31st December, 2002	
	Amount	Percentage	Amount	Percentage
		%		%
Within 1 year	25,631,533.74	86.21	134,704,138.26	99.31
1-2 years	3,295,066.80	11.08	792,122.72	0.58
2-3 years	711,700.00	2.39	–	0.00
Over 3 years	92,000.00	0.31	150,000.00	0.11
Total	<u>29,730,300.54</u>	<u>100.00</u>	<u>135,646,260.98</u>	<u>100.00</u>

The amount of the five companies with highest prepayments is RMB 16,705,907.52 representing 79.40% of prepayment from customers.

Prepayment from customers reduced in 78.08% due to material prepayment reduced after Kwangchow Shipyard Container Company closed.

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

(iii) Other receivables

Bond age	31st December, 2003				
	Amount	Percentage %	Provision for doubtful debts	Percentage of doubtful debts	Net receivable
Within 1 year	15,076,246.49	2.78	75,381.23	0.50%	15,000,865.26
1-2 years	72,937,603.22	13.46	364,688.02	0.50%	72,572,915.20
2-3 years	664,328.79	0.12	3,321.64	0.50%	661,007.15
Over 3 years	3,809,672.95	0.70	19,048.36	0.50%	3,790,624.59
50% as doubtful debts	–	0.00	–		0.00
80% as doubtful debts	397,067,000.00	73.27	325,374,800.00	81.94%	71,692,200.00
100% as doubtful debts	52,389,743.78	9.67	52,389,743.78	100.00%	0.00
Total	<u>541,944,595.23</u>	<u>100.00</u>	<u>378,226,983.04</u>		<u>163,717,612.19</u>

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Bond age	31st December, 2002				
	Amount	Percentage %	Provision for doubtful debts	Percentage of doubtful debts	Net receivable
Within 1 year	206,408,516.09	30.65	629,969.46	0.31%	205,778,546.63
1-2 years	4,131,956.34	0.61	409,805.43	9.92%	3,722,150.91
2-3 years	6,919,085.83	1.03	1,002,113.67	14.48%	5,916,972.16
Over 3 years	3,451,689.00	0.51	(946,764.82)	(27.43%)	4,398,453.82
50% as doubtful debts	2,604,743.78	0.39	1,302,371.89	50.00%	1,302,371.89
80% as doubtful debts	397,072,000.00	58.96	325,374,800.00	81.94%	71,697,200.00
100% as doubtful debts	52,898,633.12	7.85	52,898,633.12	100.00%	0.00
Total	<u>673,486,624.16</u>	<u>100.00</u>	<u>380,670,928.75</u>		<u>292,815,695.41</u>

The amount of the five companies with highest other receivables is RMB 531,011,243.78 representing 97.03% of other receivables from customers.

The net amount of other receivables was increased by 201.62% mainly due to the reception of compensation income of RMB 118,000,000.00 from Guangzhou Land Development Center for relocating the eastern part of the Company.

Trust Deposits

- (a) The trust deposits at Guangzhou Economic and Technology Development Zone International Trust and Investment Company (GETDZITIC) remains RMB 49,407,500.00 with full provision for doubtful debts in 2002. In accordance with the agreement with GETDZITIC, Liuzhou Zhongshan City Entertainment Co., Ltd. and Liuzhou Security and Service Company (hereinafter referred to "Liuzhou Companies), a payment of RMB 750,000.00 from the Liuzhou Companies to charge off certain debts of GETDZITIC.
- (b) The accounts receivable of the Company from Guangzhou International Trust Investment Company was RMB 397,067,000, and has not any development in this period under review.

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

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(iv) Subsidy receivable

Items	31st December, 2003	31st December, 2002
Subsidy for domestic sea going liners	69,066,993.18	83,342,246.73
Value-added tax refund for exports	116,418,735.94	87,529,477.11
Total	<u>185,485,729.12</u>	<u>170,871,723.84</u>

(3) Inventories and provision for diminution in value

Item	31st December, 2003			31st December, 2002		
	Amount	Provision in diminution in value	Net amount	Amount	Provision in diminution in value	Net amount
Raw materials	172,422,616.70	1,098,117.87	171,324,498.83	237,180,887.30	1,578,382.79	235,602,504.51
Low-value Consumables	900,165.57	-	900,165.57	1,677,567.68	-	1,677,567.68
Work-in-progress	49,716,458.38	11,654,935.66	38,061,522.72	314,646,369.89	34,444,334.73	280,202,035.16
Finished goods	4,852,199.97	20,269.04	4,831,930.93	50,795,111.54	793,268.30	50,001,843.24
Total	<u>227,891,440.62</u>	<u>12,773,322.57</u>	<u>215,118,118.05</u>	<u>604,299,936.41</u>	<u>36,815,985.82</u>	<u>567,483,950.59</u>

The net amount of inventories was decreased by 62.09% compared with the beginning of the period mainly due to the products under construction and inventories decreased largely arising from more vessels delivered and the container factory closed in September.

(4) Deferred expenses

Category	Opening balance	Addition in the period	Amortization in the period	Closing balance
Road maintainance and insurance	796,993.53	1,273,351.17	1,023,296.68	1,047,048.02
Total	<u>796,993.53</u>	<u>1,273,351.17</u>	<u>1,023,296.68</u>	<u>1,047,048.02</u>

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(5) Long-term investment

Item	Opening balance (RMB)			Closing balance (RMB)		
	Amount	Provision for diminution	Addition in the period	Deduction in the period	Amount	Provision for diminution
Long-term equity investments	16,006,417.99	-	2,012,213.58	2,505,889.82	15,512,741.75	-
Long-term debt investments						
Total	<u>16,006,417.99</u>	<u>-</u>	<u>2,012,213.58</u>	<u>2,505,889.82</u>	<u>15,512,741.75</u>	<u>-</u>

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

Name of Investees	Total investment	Percentage holding of investees' capital	Closing balance	Equity method	
				Change in the period	Accumulated change
South China/Marine And Industrial Special Coating Limited	1,722,060.00	25.00%	2,811,824.63	(77,905.72)	1,089,764.63
Zhanjiang Nanhai Naval New Technology & Service Co., Ltd.	800,000.00	40.00%	690,917.12	(109,082.88)	(109,082.88)
Shenzhen Yuanzhou Science & Technology Industry Company	1,000,000.00	7.41%	1,000,000.00		-
China Merchants Banking Corporation	10,010,000.00	0.23%	10,010,000.00		-
Information and Technology Company Limited of CSSC	900,000.00	15.00%	900,000.00		-
Guangli Marine Engineering Service Company Limited	100,000.00	20.00%	100,000.00		-
Total	<u>14,532,060.00</u>		<u>15,512,741.75</u>	<u>(186,988.60)</u>	<u>980,681.75</u>

The Company invested RMB 800,000.00 at the establishment of Zhanjiang Nanhai Naval New Technology & Service Co., Ltd., representing 40% of all its equity. It has made in Investment Income at the end of the period.

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(ii) Consolidated Difference

Name of Investees	Opening balance	Amortization period	Balance at the beginning of the year	Amortization in the period	Value after amortization
Guangzhou Henghe Construction Company Limited	2,157,150.21	10 years	1,923,458.96	215,715.00	1,707,743.96
Guangdong GSI Elevator Company	515,313.60	10 years	515,313.60	515,313.60	—
Consolidated differences			171,771.20	171,771.20	—
Total	2,672,463.81		2,610,543.76	902,799.80	1,707,743.96

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

Item	Opening balance	Addition	Deduction	Closing balance
(1) Original Cost				
Buildings	402,271,923.17	27,906,496.66	2,651,648.50	427,526,771.33
Structures	248,152,790.71	6,727,481.54	—	254,880,272.25
Vehicles	23,713,682.13	2,488,142.59	333,000.00	25,868,824.72
Instruments and meters	5,557,204.28	1,021,148.96	217,144.43	6,361,208.81
Transmission system	32,798,722.01	4,094,132.34	—	36,892,854.35
Machinery and equipment	788,164,428.47	76,056,945.57	97,027,162.03	767,194,212.01
Total	1,500,658,750.77	118,294,347.66	100,228,954.96	1,518,724,143.47
(2) Accumulated depreciation				—
Buildings	80,361,551.07	11,319,288.01	715,427.49	90,965,411.59
Structures	73,463,595.80	9,871,098.78	—	83,334,694.58
Vehicles	13,764,682.25	2,104,377.62	276,461.28	15,592,598.59
Instruments and meters	3,786,706.31	612,253.90	204,627.36	4,194,332.85
Transmission system	12,327,724.15	1,864,091.86	—	14,191,816.01
Machinery and equipment	369,098,195.30	56,648,195.23	74,337,889.44	351,408,501.09
Total	552,802,454.88	82,419,305.40	75,534,405.57	559,687,354.71
(3) Net value of fixed assets	947,856,295.89	35,875,042.26	24,694,549.39	959,036,788.76

NOTES TO THE FINANCIAL STATEMENTS

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Fixed Assets Provision for diminution

Item	Opening Balance	Addition	Deduction	Closing Balance
Fixed Assets	<u>20,676,975.67</u>	<u>-</u>	<u>19,594,156.10</u>	<u>1,082,819.57</u>

The close balance was decreased by 94.76% mainly due to part of the fixed assets after the business reallocation of the Company for the purpose of environment protection have been written off and made in provision for diminution.

(7) Construction-in-process

Category	Opening balance Including: interest	Addition in the period Including: interest	Transfer to fixed assets Including: interest	Other reductions Including: interest	Closing balance Including: interest
1. Facilities improvements					
Capital construction:					
critical improvement					
project in national debt	68,591,901.17	17,053,138.63	73,742,155.52	1,500,000.00	10,402,884.28
Including: capitalized					
interests	1,242,878.17	667,969.49	1,702,668.32	—	208,179.34
Others	43,538,861.24	46,933,454.35	51,339,709.12	19,288,055.48	19,844,550.99
2. Subsidiaries	—	—	—	—	—
Total	<u>112,130,762.41</u>	<u>63,986,592.98</u>	<u>125,081,864.64</u>	<u>20,788,055.48</u>	<u>30,247,435.27</u>
Including: capitalized					
interests	1,242,878.17	667,969.49	1,702,668.32	—	208,179.34

Construction-in-progress was decreased by 73.02% mainly caused by:

- (i) The above constructions-in-progress include Critical Improvement Project in National Debt project of 18000dwt semi-submersible heavy lift vessel and lodging project for single employees transferred to fixed assets of RMB 66,970,000.00 totally and carrying forward the reallocation expense of RMB 20,790,000.00.
- (ii) Capitalizing rate is loan rate from bank at the period. The Company collects capital for other engineering.

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(8) Intangible assets

Category	Initial cost	Opening balance	Addition	Transfer out	Amortization	Closing balance	Remained term
Land use right	58,531,818.81	60,798,992.87	12,911,403.28	-	1,870,194.83	71,840,201.32	39 years
Know-how	10,332,076.00	11,954,817.27	1,146,585.13	-	5,342,095.68	7,759,306.72	10-1 years
Total	68,863,894.81	72,753,810.14	14,057,988.41	-	7,212,290.51	79,599,508.04	

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

(9) Long-term deferred expenses

Category	Opening balance	Addition	Amortization	Closing balance
Modification expenses of fixed assets	1,488,318.64	584,071.68	544,000.50	1,528,389.82
Others	-	370,240.85	49,000.00	321,240.85
Total	1,488,318.64	954,312.53	593,000.50	1,849,630.67

(10) Short-term loans and long-term loans within one year

(i) Short-term loans

Loans category	31st December 2003	31st December 2002	Loan's term	Note
				Annual interest
Mortgage loans	89,660,200.00	308,485,223.52	2003/7 - 2004/9	1.68% - 4.536
Guarantee loans	49,660,200.00	30,000,000.00	2002.12.9 - 2003.12.9	1.6325% - 1.9025
Credit loans	55,083,406.91	342,266,540.00	2002.2.4 - 2003.12.19	1.68% - 1.736%
Total	194,403,806.91	680,751,763.52		

Short-term loan decreased by 71.44% mainly due to ship orders increased arising from enlarging production scale and payment in time so that the operation capital of the Company was abundant and the loan from bank decreased.

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Mortgage loan is made with the guaranty of own buildings worth of RMB 261,070,000.00. Guarantee loan is made with the warrantors of CSSC, CSTC and Guangzhou Holding Company and the Company pays 0.2% annually as guarantee bond (see VI Related parties and transactions).

(ii) *Long-term loans within one year*

Loans category	31st December 2003	31st December 2002	Note	
			Loan's term	Annual interest
Mortgage loans	380,000,000.00	500,000,000.00	2002/2 – 2004/10	2.7 – 4.05
Guarantee loans	–	110,700,000.00		
Other	3,537,455.50	4,468,365.36		
Total	<u>383,537,455.50</u>	<u>615,168,365.36</u>		

Long-term loan decreased by 37.65% mainly due to the reasons see notes to short-term loan. Guarantee loan is made with the warrantors of CSSC, CSTC and Guangzhou Holding Company and the Company pays 0.2% annually as guarantee bond (see VI Related parties and transactions).

(11) Accounts payable

(i) *Bills payable*

Category	Amount	Expired within one year	Note
Bank honored draft	24,149,017.43	24,149,017.43	
Commercial honored draft	94,504,134.80	94,504,134.80	
Total	<u>118,653,152.23</u>	<u>118,653,152.23</u>	

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

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

NOTES TO THE FINANCIAL STATEMENTS

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(ii) *Accounts payable*

Bond age	31st December 2003		31st December 2002	
	Amount	Percentage	Amount	Percentage
Within 1 year	334,979,312.47	97.99	472,705,980.57	99.76
1 – 2 years	4,400,677.17	1.29	998,316.80	0.21
2 – 3 years	2,225,660.60	0.65	69,188.36	0.01
Over 3 years	261,490.24	0.08	53,000.00	0.01
Total	<u>341,867,140.48</u>	<u>100.00</u>	<u>473,826,485.73</u>	<u>100.00</u>

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

(iii) *Advances from customers*

Category	31st December 2003	31st December 2002
Shipbuilding	–	105,868,848.67
Ship-repairing	352,240.00	1,406,141.86
Steel structure	6,289,544.00	–
Other products	<u>25,069,927.36</u>	<u>16,557,624.61</u>
Total	<u>31,711,711.36</u>	<u>123,832,615.14</u>
Include: balance with over 1-year's bond age	3,455,598.17	2,447,545.78

Advances from customers decreased by 74% mainly due to advance payment of shipbuilding settlement decreased arising from change of the accounting method for long-term project.

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

NOTES TO THE FINANCIAL STATEMENTS

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(iv) Other Payables

Category	31st December 2003	31st December 2002
Company retirement pension	25,763,259.50	23,909,893.14
Staff check off	2,014,897.24	732,461.65
Auditing expenses to accountants	2,080,784.90	1,802,360.17
Guangzhou Marine Affaires Bureau	2,294,937.68	–
Guangzhou Shipyard	–	3,025,105.49
Remuneration to independent directors	400,008.48	503,308.00
Medicare for retirees	14,603,833.33	54,787,580.00
Consultant cost	800,000.00	–
Guarantee cost	297,800.00	–
Other payables	8,883,030.08	5,299,565.05
Total	<u>57,138,551.21</u>	<u>93,690,479.20</u>
Include: balance with over 3-year's bond age	3,555,127.90	7,951,555.77

Other payable decreased 39.01% mainly due to payment of medical insurance to retirees and payment to Guangzhou Shipyard in the period.

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

(12) Payable Dividends

Category	31st December 2003	31st December 2002
Dividends from associated companies	<u>13,449.38</u>	<u>13,449.38</u>
Total	<u>13,449.38</u>	<u>13,449.38</u>

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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(15) Other Current Liabilities

Category	31st December 2003	31st December 2002
Settlement for long-term contractual project	<u>242,958,088.77</u>	<u>—</u>
Total	<u><u>242,958,088.77</u></u>	<u><u>—</u></u>

The main reason for other current liabilities increasing 100% is that the shipbuilding progress at the end of the year of certain vessels did not meet the requirement for transferring the settlement.

(16) Long-term Bank Loans

Name of Bank	Amount	Loan's term	Annual interest	Conditions of loans
China Import and Export Bank	<u>300,510,000.00</u>	2003/8-2005/11	2.70	guarantee
Total	<u><u>300,510,000.00</u></u>			

Long-term bank loans were decreased by 49.55%, mainly due to the change in loan structure of the Company, which increased long-term bank loans for part projects, such loans were all guaranteed by CSSC which is a connected party of the Company, and the Company should paid 0.2% annual guarantee fee and supply anti-guarantee for CSSC.

(17) Other Long-term Liabilities

Category	31st December 2003	31st December 2002
China Container Transportation Center of Railroad Bureau	<u>—</u>	<u>3,537,455.50</u>
Total	<u><u>—</u></u>	<u><u>3,537,455.50</u></u>

According to the contract signed with China Container Transportation Center of Railroad Bureau in 1996, the debts of goods payment should be amortized with 8 years. The above-mentioned debts were paid in 2004 completely and listed in Long-term Loans within One Year.

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(prepared under PRC accounting Standards and Systems)
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(18) Special project payable

Category	31st December 2003	31st December 2002
National fund	27,568,562.86	27,792,269.33
Provincial fund	842,806.47	1,000,000.00
Total	<u>28,411,369.33</u>	<u>28,792,269.33</u>

State fund of special project payable is central subsidy for High Value-added Ro/Pax Vessel Technology Renovation Project allotted in accordance with the regulations [2001] 1271 issued by national Economic and Trading Committee, National Development and Planning Committee and National finance Ministry and scientific research appropriation for High Speed Ro/Pax Vessel in accordance with the document [2001] 787 issued by CSCC. Provincial fund is fund of "Technical Innovation Project" allotted by Guangzhou Finance Bureau and Guangdong Economic and Trading Committee. This fund is allotted by National Finance authority freely and should be used according to relevant regulations.

(19) Capital share

Unit: share

Item	Opening Balance	Mating		Change (+/-)			Closing Balance Sub-total
		share	Present	Reserve transfer	Addition	Other	
1. Non-public							
1) Initiator	210,800,080.00	-	-	-	-	-	210,800,080.00
Include: Nation							
Chinese juridical person	210,800,080.00	-	-	-	-	-	210,800,080.00
Foreign juridical person							
Other							
2) Collecting juridical person							
3) Workers							
4) Preferred stock and other							
Include: transferred stock							
Sub-total	210,800,080	-	-	-	-	-	210,800,080.00
2. Public							
1) RMB common stock	126,479,500	-	-	-	-	-	126,479,500.00
2) Foreign stock at home							
3) Foreign stock abroad	157,398,000	-	-	-	-	-	157,398,000.00
4) Other							
Sub-total	283,877,500	-	-	-	-	-	283,877,500.00
Total	<u>494,677,580</u>	-	-	-	-	-	<u>494,677,580.00</u>

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(20) Capital reserve

Item	Opening Balance	Addition	Deduction	Closing Balance
Share premium	651,977,481.72	–	–	651,977,481.72
Total	<u>651,977,481.72</u>	<u>–</u>	<u>–</u>	<u>651,977,481.72</u>

(21) Surplus reserve

Item	Opening Balance	Addition	Deduction	Closing Balance
Statutory surplus reserve	48,998,046.01	–	–	48,998,046.01
Public welfare fund	30,693,515.41	–	100,700.00	30,592,815.41
Discretionary surplus fund	20,455,949.92	100,700.00	–	20,556,649.92
Total	<u>100,147,511.34</u>	<u>100,700.00</u>	<u>100,700.00</u>	<u>100,147,511.34</u>

(22) Retained Profit

Item	31st December 2003	31st December 2002
Balance at the beginning of the year	(613,264,642.69)	(629,072,774.99)
Balance adjustment of previous years	–	–
Profit this year	43,051,774.75	15,916,851.36
Statutory reserve	–	–
Statutory public welfare fund	–	–
Workers welfare fund	–	108,719.06
Prior share dividend distributed	–	–
Discretionary public reserve	–	–
Share dividend distributed	–	–
Balance at the end of the year	<u>(570,212,867.94)</u>	<u>(613,264,642.69)</u>

NOTES TO THE FINANCIAL STATEMENTS

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(23) Geographical distribution to turnover

Country	Percentage		Percentage	
	2003	%	2002	%
Viet Nam	–	–	265,703.46	0.01
New Zealand	164,942.16	0.01	–	0
Hong Kong	537,369,599.87	18.92	555,572,016.12	23.02
Tai Wan	1,489,788.00	0.05	–	–
Sweden	98,080,771.31	3.45	134,847,035.71	5.59
Japan	112,951.46	–	–	–
United States	22,436,429.93	0.79	17,289,215.54	0.72
Malaysia	–	–	3,036,017.12	0.13
Malta	341,506,639.37	12.02	314,115,699.34	13.02
Philippine	1,470,012.35	0.05	493,321.12	0.02
Germany	–	–	289,677.50	0.01
Denmark	576,749,632.99	20.3	543,550,778.00	22.52
Macao	2,829,377.91	0.1	–	–
Overseas Total	1,582,210,145.35	58.29	1,569,459,463.91	65.04
China	1,258,235,379.43	44.30	843,641,403.66	34.96
Total	2,840,445,524.78	100	2,413,100,867.57	100

The sales of the top five sellers for the Company amounted to RMB 1,942,790,000 representing 68.40% of the total sales.

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

Item	Operating income		Cost of sales		Gross profit	
	2003	2002	2003	2002	2003	2002
Shipbuilding products	2,117,845,492.20	1,674,115,472.22	2,079,051,185.86	1,703,400,323.16	38,794,306.34	(29,284,850.94)
Container	514,474,976.58	535,684,660.35	501,480,187.90	528,026,155.60	12,994,788.68	7,658,504.75
Steel structure	78,078,622.63	80,689,093.78	69,413,259.22	69,665,813.58	8,665,363.41	11,023,280.20
Terrestrial machinery	116,698,998.94	102,283,061.12	91,814,829.19	84,522,106.20	24,884,169.75	17,760,954.92
Ship-repairing products	13,347,434.43	20,328,580.10	10,982,055.78	18,226,621.30	2,365,378.65	2,101,958.80
Total	<u>2,840,445,524.78</u>	<u>2,413,100,867.57</u>	<u>2,752,741,517.95</u>	<u>2,403,841,019.84</u>	<u>87,704,006.83</u>	<u>9,259,847.73</u>

Operation incomes and gross profit increased 17.71% and 847.23% respectively. The efficiency of shipbuilding increased obviously mainly due to the adjustment of product structure and the cost control policy. The steel structure decreased by 21.39% mainly due to the intensive competition and high production cost.

NOTES TO THE FINANCIAL STATEMENTS

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(28) Profit from other operations

Category	Operating income		Operating cost		Operating gross profit	
	2003	2002	2003	2002	2003	2002
Sales of raw materials	29,479,545.21	10,737,774.73	24,132,251.51	10,408,412.09	5,347,293.70	329,362.64
Sales of scrap materials	26,503,830.79	17,043,595.58	17,220,244.60	11,896,906.38	9,283,586.19	5,146,689.20
Transportation services	13,124.00	105,958.00	1,954.01	38,599.53	11,169.99	67,358.47
Others	13,598,173.20	9,025,150.46	10,788,838.78	1,457,809.04	2,809,334.42	7,567,341.42
Total	<u>69,594,673.20</u>	<u>36,912,478.77</u>	<u>52,143,288.90</u>	<u>23,801,727.04</u>	<u>17,451,384.30</u>	<u>13,110,751.73</u>

Profit from other operations increase by 33.11% than the same time of last year, mainly due to the moving of the eastern part and disposal of overstock material.

(29) Investment income

Category	Bonds investment	Equity investments		Total income
		At equity	At cost	
Short-term investments			–	–
Long-term investments	–	2,533,522.48	810,078.00	3,343,600.48
Total	<u>–</u>	<u>2,533,522.48</u>	<u>810,078.00</u>	<u>3,343,600.48</u>

(30) Subsidy income

Item	2003	2002
Subsidy for sea going liners	116,428,263.77	86,594,555.28
Others	<u>7,452,087.01</u>	<u>34,622,325.37</u>
Total	<u>123,880,350.78</u>	<u>121,216,880.65</u>

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The main sources of subsidy income this period are as follows:

The 18000 dwt semi-submersible heavy-lift vessels built for COSCO and 42000 dwt product oil tankers built for China Shipping Development Co., Ltd. are eligible for special financial subsidy at 17% on contract price excluding tax in according to relevant regulations of Ministry of Finance and State Taxation Bureau. The subsidy income is calculated by completion percentage and certain proportion to schedule settlement in accordance with Document [2000] 3 of Ministry of Finance. Other subsidies consist of special subsidies from the Nation, export premium and drawback of new and high-technical products from the Government.

(31) Non-operating income and expenses

(i) Non-operating income

Category	2003	2002
Gain on disposal of fixed assets	1,545,372.30	466,578.94
Penalty received	17,320.00	73,910.20
Income of fixed assets	–	2,243,897.26
Compensation	9,015,584.13	7,500.00
Bad debt income	79,918.92	–
Compensation income from reallocation	–	197,330,000.00
Others	540,510.22	433,510.47
Total	<u>11,198,705.57</u>	<u>200,555,396.87</u>

Non-operating income decreased by 94.42% due to the eastern part moving compensation of RMB197,330,000.00 last year and the compensation from Changta Engineering Company of RMB9,015,584 this year. (See Important Events hereinafter)

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(ii) Non-operating expenses

Category	2003	2002
Loss on disposal of fixed assets due to the movement of the Eastern Part	–	38,360,994.44
Provision for fixed assets diminution for the movement of the Eastern Part	–	20,676,975.67
Estimated Eastern Part dismantling cost	–	3,618,400.00
Loss on disposal of fixed assets	5,058,398.60	3,397,000.00
Penalty expenses	52,137.28	44,827.78
Loss on fixed assets	–	886,782.37
Compensation	244,919.60	1,069,054.45
Non-commonweal sponsor	6,051.00	–
Detract the prophase exploration cost of container factory	8,838,055.48	–
Others	202,927.85	558,426.41
	<u>14,402,489.81</u>	<u>68,612,461.12</u>
Total	<u>14,402,489.81</u>	<u>68,612,461.12</u>

Non-operating expense decreased by 79.01% due to sorting out the fixed assets of the eastern part and the cleaning cost. Except this element, it increased by 241.81% due to the Company planned to close container business and detract the prophase exploration cost and fixed assets disposal cost of moving the eastern part.

(32) Except for un-usual business

Item	Amount
Balance amortization of equity investment	902,799.80
Investment income from Rongkwong Developing Co., Ltd	1,481,332.97
Non-operating income	11,198,705.57
Non-subsidy from sales of sea going liner domestically	7,452,087.01
Withdraw of provision for diminution in previous year	750,000.00
Non-operating expenses	(14,402,489.81)
Total	7,382,435.54

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(33) Other expenses related to Business

Item	Amount
Management cost	37,343,239.07
Operating cost	8,993,883.74
Manufacturing cost	324,600,133.06
Total	<u>370,937,255.87</u>

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

(i) Accounts receivable

31st December 2003				
Age bond	Amount	Proportion	Provision for doubtful debts	Record value
Within 1 year	161,165,934.10	76.91	805,829.67	160,360,104.43
1 – 2 years	11,260,450.03	5.37	56,302.25	11,204,147.78
2 – 3 years	–	0.00	–	–
Over 3 years	33,129,316.97	15.81	172,071.13	32,957,245.84
50% as doubtful debts	3,096,030.43	1.48	1,548,015.22	1,548,015.22
100% as doubtful debts	887,209.95	0.42	887,209.95	–
Total	<u>209,538,941.48</u>	<u>100.00</u>	<u>3,469,428.22</u>	<u>206,069,513.26</u>

31st December 2002				
Age bond	Amount	Proportion	Provision for doubtful debts	Record value
Within 1 year	370,303,666.35	82.42	1,851,518.33	368,452,148.02
1 – 2 years	4,133,353.92	0.92	20,666.77	4,112,687.15
2 – 3 years	10,543,277.04	2.35	52,716.39	10,490,560.65
Over 3 years	63,414,539.02	14.11	276,182.81	63,138,356.21
50% as doubtful debts	–	0.00	–	–
100% as doubtful debts	887,200.95	0.20	887,200.95	–
Total	<u>449,282,037.28</u>	<u>100.00</u>	<u>3,088,285.25</u>	<u>446,193,752.03</u>

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

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2003

(ii) Other accounts receivable

Age bond	Amount	Proportion	31st December 2003	
			Provision for doubtful debts	Record value
Within 1 year	4,676,834.12	0.86	23,384.17	4,653,449.95
1 – 2 years	85,319,277.26	15.66	426,596.39	84,892,680.87
2 – 3 years	659,728.79	0.12	3,298.64	656,430.15
Over 3 years	4,759,035.55	0.87	971,205.31	3,787,830.24
80% as doubtful debts	397,067,000.00	72.87	325,374,800.00	71,692,200.00
100% as doubtful debts	52,389,743.78	9.62	52,389,743.78	–
Total	<u>544,871,619.50</u>	<u>100.00</u>	<u>379,189,028.29</u>	<u>165,682,591.21</u>

Age bond	Amount	Proportion	31st December 2002	
			Provision for doubtful debts	Record value
Within 1 year	209,460,939.90	31.33	1,047,304.65	208,413,635.25
1 – 2 years	4,125,594.34	0.62	20,627.97	4,104,966.37
2 – 3 years	422,735.04	0.06	2,113.68	420,621.36
Over 3 years	841,361.72	0.13	4,206.81	837,154.91
50% as doubtful debts	2,604,743.78	0.39	1,302,371.89	1,302,371.89
80% as doubtful debts	397,072,000.00	59.38	325,374,800.00	71,697,200.00
100% as doubtful debts	54,121,133.12	8.09	50,557,175.85	3,563,957.27
Total	<u>668,648,507.90</u>	<u>100.00</u>	<u>378,308,600.85</u>	<u>290,339,907.05</u>

(iii) Long-term Investments

Category	Opening Balance			Closing Balance		
	Amount	Provision for diminution	Addition in the period	Disposal in the period	Amount	Provision for diminution
Long-term equity investments	204,798,996.96	–	1,705,921.91	160,387.08	206,344,531.79	–
Long-term debt investments	–	–	–	–	–	–
Total	<u>204,798,996.96</u>	<u>–</u>	<u>1,705,921.91</u>	<u>160,387.08</u>	<u>206,344,531.79</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2003

Long-term equity investments – other equity investments

Name of Investees	Total investment	Percentage holding of Investees' capital	Closing Balance	Change in the period	Accumulated change
Kwangchow Shipyard Container Factory	56,155,800.59	100%	56,155,800.59	-	
Masterwood Company Limited	2,486,385.00	75%	4,131,975.72	300,765.93	1,645,590.72
Guangzhou Guanglian Container Transportation Company Limited	15,000,000.00	75%	15,519,801.41	225,757.30	519,801.41
Xinhui City Nanyang Shipping Industrial Company	25,200,000.00	70%	17,857,278.48	-2,150,703.35	-7,342,721.52
Guangzhou Sanlong Industrial Trading Develop Company Limited	1,005,000.00	67%	119,797.09	-17,332.99	-885,202.91
Guangzhou Xinsun Shipping Service Company Limited	500,000.00	83%	12,915,123.16	1,184,147.49	12,415,123.16
United Steel Structures Limited	25,438,698.00	51%	39,629,484.15	545,586.45	14,190,786.15
Guangdong GSI Elevator Limited	19,950,000.00	95%	21,507,672.44	868,777.25	1,557,672.44
Guangzhou Hongfan Information Technique Co., Ltd	4,500,000.00	90%	3,895,375.03	-464,914.17	-604,624.97
Henghe Construction Company	3,380,000.00	76%	18,339,903.27	-360,291.54	14,959,903.27
Rongkwong Developing Co., Ltd.	10,439.94	98%	1,759,578.71	1,759,578.71	1,749,138.77
South china / Maring and Industrial Special Coating Limited	1,722,003.00	25%	2,811,824.62		1,089,821.62
Zhanjiang Nanhai Naval New Technology & Service Co., Ltd.	800,000.00	40%	690,917.12		-109,082.88
Shenzhen Yuanzhou Science & Technology Industry Company Limited	1,000,000.00	7%	1,000,000.00	-	-
China Merchants Banking Corporation	10,010,000.00	0%	10,010,000.00	-	-
Total	167,158,326.53		206,344,531.79	1,891,371.08	39,186,205.26

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2003

(iv) Investment income

Category	Bonds investment	Equity investments		Total income
		At equity	At cost	
Short-term Investments	–	–	–	–
Long-term Investments	–	6,682,954.95	810,078.00	7,493,032.95
Total	–	6,682,954.95	810,078.00	7,493,032.95

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

Item	Operating income		Cost of sales		Gross profit	
	2003	2002	2003	2002	2003	2002
Shipbuilding products	2,117,845,492.20	1,674,115,473.22	2,076,291,728.86	1,703,400,323.16	41,553,763.34	(29,284,849.94)
Steel structure	22,319,605.68	55,760,391.76	22,515,378.67	52,062,010.84	(195,772.99)	3,698,380.92
Electrical machinery	41,758,813.75	33,582,248.63	38,304,889.81	27,421,632.09	3,453,923.94	6,160,616.54
Ship-repairing products	13,347,434.43	20,328,580.43	10,982,055.78	18,226,621.30	2,365,378.65	2,101,959.13
Total	2,195,271,346.06	1,783,786,694.04	2,148,094,053.12	1,801,110,587.39	47,177,292.94	(17,323,893.35)

Refer to relevant note in the Consolidated Statements.

6. CONNECTED PARTY AND TRANSACTIONS

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

Name	Registered address	Principal Business	Relationship with the Company	Nature of the enterprise	Legal representative
CSSC	NO.1 Pudong main road, Shanghai	Ship manufacturing and sales	State shareholder	Company with limited liability	Chen Xiaojin
Kwangchow Shipyard Container Factory	No. 118 Gexin Road, Gaungzhou	Container manufacturing	Subsidiary	Joint stock	Yin Xueming
Guangzhou Xinsun Shipping Service Company Limited	40 Fangchun Main road, Guangzhou	Installation, welding, fitting, coating, repairing vessels	Subsidiary	Company with limited liability	Dai Zhengting

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2003

Name	Registered address	Principal Business	Relationship with the Company	Nature of the enterprise	Legal representative
Masterwood Company Limited	40 Fangchun Main road Guangzhou	Manufacture furniture	Subsidiary	Sino-foreign Joint venture	Zhang Liangjing
Guangzhou Guanglian containers Transportation Company Limited	No. 118 Gexin Road, Gaungzhou	Container transportation	Subsidiary	Sino-foreign Joint venture	Zhong Yuquan
Xinhui City Nanyang Shipping Industrial Company	Gujin town, Xinhui City, Guangdong	Ship dismantling	Subsidiary	Cooperative company	Li Yizhen
Guangzhou Sanlong Industrial Trading Develop Company Limited	No. 126 Gexin Road, Gaungzhou	Steel structure for city construction	Subsidiary	Company with limited liability	Xia Sujia
United Steel Structures Limited	40 Fangchun main road Guangzhou	Manufacturing large steel structure	Subsidiary	Sino-foreign joint venture	Ye Peihua
Guangdong GSI Elevator Limited	No. 126 Gexin Road, Gaungzhou	Manufacturing all kinds of elevator	Subsidiary	Company with limited liability	Ye Peihua
Guangzhou Hongfan Information Technique Co., Ltd	40 Fangchun main road Guangzhou	Development of computer Software, system integration and sales	Subsidiary	Cooperative company	Wang Yi
Guangzhou Henghe Construction Co., Ltd	40 Fangchun main road Guangzhou	Design, manufacturing and installation of constructional steel structure	Subsidiary	Cooperative company	Chen Ji
Rongkuang Developing Co., Ltd	Catic plaza 8 causeway rd causeway bay Hong Kong	General trading	Subsidiary	Cooperative company	Yu Baoshan
Connected parties under indirect control					
Guangdong Hongfan Hotel	No. 126 Gexin Road, Gaungzhou	Lodge, restaurant	Subsidiary	Cooperative company	Yao Jian
Fangkwong Developing Co., Ltd.	Rm 503 Dominion Centre Queen's Road East, Hong Kong	General trading	Subsidiary	Cooperative company	Yu Baoshan

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2003

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

Name	Opening Balance	Additions in	Deduction in	Closing Balance
	RMB	the period	the period	RMB
		RMB	RMB	RMB
CSSC	6,374,300,000			6,374,300,000
Kwangchow Shipyard				
Container Factory	44,924,640			44,924,640
Guangzhou Xinsun Shipping Service				
Company Limited	600,000			600,000
Masterwood Company Limited	3,315,180			3,315,180
Guangzhou Guanglian container				
Transportation Company Limited	20,000,000			20,000,000
Xinhui City Nanyang Shipping				
Industrial Company	34,800,000			34,800,000
Guangzhou Sanlong Industrial				
Trading Develop Company Limited	1,500,000			1,500,000
United Steel Structures Limited	73,572,705			73,572,705
Guangdong GSI Elevator Limited	21,000,000			21,000,000
Guangzhou Hongfan Information				
Technique Co., Ltd	5,000,000			5,000,000
Guangzhou Hehe Construction				
Co., Ltd.	27,500,000			27,500,000
Rongkuang Developing Co., Ltd	HKD10,000			HKD10,000
Connected parties under indirect control				
Guangdong Hongfan Hotel	500,000			500,000
Fangkwong Developing Co., Ltd.	HKD200,000			HKD200,000

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2003

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

Name	Opening Balance		Additions in the period		Deduction in the period		Closing Balance	
	RMB	%	RMB	RMB	RMB	%		
CSSC	210,800,080	42.61			210,800,080	42.61		
Kwangchow Shipyard								
Container Factory	44,925,000	100			44,925,000	100		
Guangzhou Xinsun Shipping								
Service Company Limited	498,000	83			498,000	83		
Masterwood Company Limited	2,486,000	75			2,486,000	75		
Guangzhou Guanglian Container								
Transportation Company Limited	15,000,000	75			15,000,000	75		
Xinhui City Nanyang Shipping								
Industrial Company	25,200,000	70			25,200,000	70		
Guangzhou Sanlong Industrial								
Trading Develop Company Limited	1,005,000	67			1,005,000	67		
United Steel Structure Limited	37,522,079.55	51			37,522,079.55	51		
Guangdong GIS Elevator Limited	19,950,000	95			19,950,000	95		
Guangzhou Hongfan Information								
Technique Co.Ltd.	4,500,000	90		650,000	3,850,000	87		
Guangzhou Henghe Construction								
Co., Ltd	18,470,471.74	75.9			18,470,471.74	75.9		
Rongkuang Developing Co., Ltd	HKD10,000	98			HKD10,000	98		

Connected parties under indirect control

Guangdong Hongfan Hotel	500,000	100			500,000	100		
Fangkwong Developing Co., Ltd.	HKD200,000	70			HKD200,000	70		

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

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2003

(4) The connected parties uncontrolled by the Company

① The connected parties uncontrolled by the Company

The connected transactions made between the Group and the associated enterprises under CSSC or associated enterprises under the Group during the year had been carried out in the ordinary course of business of the relevant companies and on normal commercial terms, and had been entered into in accordance with the terms of the agreement covering such transactions or (where there is no such agreement) on terms no less favorable than terms available to third parties. The Group did not receive any extraordinary benefit or suffer any extraordinary loss from such transactions, which are fair and reasonable as far as the shareholders are concerned.

1. Affiliated Company

South China Marine & Industrial special Coating Limited Company

2. Companies under control of China State Shipbuilding Corporation

CSSC No. 708 Institute	Guangzhou Shipyard
Guangzhou Wengchong Shipyard	Huanan Marine Mechanic and Electric Department
Guangzhou Huangpu Shipyard	Hudong Heavy Engineering Company Limited
Shanghai Navigation Instrument Factory	No. 9 Design Institution of CSSC
China Shipbuilding Trading Co., Ltd.	Zhenjiang Marine Diesel Factory
Nanjing Liuzhou Machinery Factory	Zhenjiang Marine Auxiliary Machine Factory
Zhengmao Group Company Limited	Zhenjiang Marine Propeller Factory
Jiangxi Chaoyang Machine Factory	China Shipping Trading Corporation
Guangzhou Administrative Bureau	China State Shipbuilding Corporation
Hudong Zhonghua Shipyard	Guangzhou Shipyard Guangda Company
(Group Limited Company)	(subsidiary of Guangzhou shipyard)
Jiujiang Marine Mechanical Factory	Anqing Marine Electric Equipment Factory
Jiujiang Instrument Factory	Jiangxi Marine Valve Factory
Huahai Marine Commodity Logistic Company	CSSC Finance Co., Ltd.
Guangxi Guijiang Shipyard	Shanghai Hudong Shipyard Valve Co., Ltd.
CSSC Luzhou Environment Protection Equipment Co., Ltd.	Guangzhou Shipyard Forging Co., Ltd.
CSSC System Engineering Department	China United Shipbuilding Co., Ltd.

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2003

② Material provided by the Group to CSSC:

No.	Category	Amount		Related companies
		2003	2002	
1	Labor and software service	8,682,587.41	1,899,809.40	Guangzhou Wengchong Shipyard
2	Labor service	1,112,518.00	–	Guangzhou Huangpu Shipyard
		79,700.00	1,314,183.76	Guangzhou Shipyard
		286,000.00	–	China Shipping Trading Corporation
		29,138.72	6,896.81	South china / Maring and Industrial Special Coating Limited
3	Material	1,754,524.61	–	Guangzhou Shipyard Guangda Company
		2,434,959.57	–	Guangzhou Shipyard
		1,080,174.45	1,609,005.56	Guangzhou Huangpu Shipyard
4	Power	979,270.29	–	Guangzhou Shipyard
		705,070.29	–	Guangzhou Shipyard Guangda Company
5	Operating rent	92,400.00	–	Guangzhou Shipyard Guangda Company
	Total	17,236,343.34	4,829,895.53	

③ Material and labor provided by CSSC to the Company

No.	Category	2003	2002	Related companies
1	Raw material	–	17,155.80	Hudong Zhonghua Shipbuilding Group
		68,012.39	–	Guangzhou Wengchong Shipyard
		2,443,942.98	–	Guangzhou Huangpu Shipyard
		21,921,033.29	39,129,200.00	Guangzhou Shipyard Guangda Company
		2,931,000.00	–	CSSC No. 708 Institute
		10,393,184.70	8,461,086.29	China Shipping Trading Corporation
		2,234,337.05	–	China Shipbuilding Trading Co., Ltd.
		4,651,591.55	2,196,609.50	Guangzhou Shipyard
		9,023,298.83	–	Guangzhou Shipyard Forging Co., Ltd.
	Sub-total	53,666,400.79	49,803,051.59	
2	Labor service	2,893,409.00	2,141,571.56	Guangzhou Wengchong Shipyard
		1,166,321.98	5,426,190.22	Guangzhou Huangpu Shipyard
		12,156,360.43	15,380,935.84	Guangzhou Shipyard
		37,156,610.62	19,768,132.55	Guangzhou Shipyard Guangda Company
		127,895.40	–	China Shipping Trading Corporation
		122,400.00	0.00	South china / Maring and Industrial Special Coating Limited
	Sub-total	53,622,997.43	42,716,830.17	

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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No.	Category	2003	2002	Related companies
3	Marine equipment	3,818,325.26	1,071,045.00	Jiujiang Chaoyan Machinery Factory
		6,530,483.64	6,252,259.77	Jiujiang Marine Mechanical Factory
	–	8,532,401.15	–	China Shipping Trading Corporation
	Sub-total	18,881,210.05	7,323,304.77	
4	Production equipment	107,000.00	–	Guangxi Guijiang Shipyard
		2,247,900.00	–	Shanghai Marine Instrument Factory
		19,745,833.20	6,503,900.00	Nanjing Liuzhou Machinery Factory
		2,506,037.50	2,010,480.00	Zhengmao Group Company Limited
		429,000.00	–	Anqing Marine Electric Equipment Factory
		520,000.00	–	Jiujiang Instrument Factory
		3,223,600.00	–	Jiangxi Marine Valve Factory
		11,790,761.97	9,090,100.00	Huanan Marine Mechanic and Electric Department
		76,311,506.10	26,518,117.44	Hudong Heavy Engineering Company Limited
		51,448,696.46	11,659,227.96	Zhenjiang Marine Diesel Factory
		5,067,153.00	3,846,800.00	Zhenjiang Marine Auxiliary Machine Factory
		1,200,440.00	1,415,122.00	Zhenjiang Marine Propeller Factory
		1,300,000.00	–	Huawai Marine Commodity Logistic Company
		6,418,311.26	7,490.62	China Shipping Trading Corporation
		2,672,460.00	–	CSSC Luzhou Environment Protection Equipment Co., Ltd.
		306,495.19	–	Guangzhou Shipyard Guangda Company
		1,302,055.24	–	Shanghai Hudong Shipyard Valve Co., Ltd.
		11,560,000.00	–	CSSC System Engineering Department
	Sub-total	198,157,249.92	61,051,238.02	
5	Design cost	408,000.00	–	No. 9 Design Institution of CSSC
		6,102,000.00	–	CSSC No. 708 Institute
	Total	330,837,858.19	160,895,424.55	

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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④ Finance service provided by CSSC

No.	Item	Close balance		Interest received/paid		Related companies
		2003	2002	2003	2002	
1	Deposit	9,091,916.06	42,799,299.16	153,800.00	42,000.00	CSSC Finance Company
2	Loan	-	30,000,000.00	1,744,000.00	-	

⑤ Assurance and assurance fee provided by CSSC

Item	Close balance		Assurance fee by the Company	
	2003	2002	2003	2002
Assurance by CSSC	400,000,000.00	-	275,000.00	-
Assurance by CSTC	280,000,000.00	700,000,000.00	-	600,000.00
Credit assurance by Guangzhou Shipbuilding Corporation	49,660,200.00	-	-	-

⑥ Sales agent by CSSC

No.	Item	Commission		Agent
		2003	2002	
1	Ships	23,922,185.35	4,322,482.62	CSTC

⑦ Material purchase agent by CSSC

No.	Item	Commission		Agent
		2003	2002	
1	Imported steel	28,000.00	78,000.00	CSTC
2	Marine equipment	206,600.00	48,900.00	
3	Production equipment	2,076,394.02	1,226,600.00	China United Shipbuilding Co., Ltd
	Total	2,310,994.02	1,353,500.00	

Note: China United Shipbuilding Co., Ltd. is a subsidiary of CSSC, which has agent the import business of marine equipment and accessories for the Company all along heretofore. The Company and China United Shipbuilding Co., Ltd entered agent agreement according to the trade convention, and in accordance with which, the Company should pay 1.2% agent fee of the total agent amount to China United Shipbuilding Co., Ltd. In the year 2003, the Company imported marine equipment and accessories under the agent by China United Shipbuilding Co., Ltd. amounted to RMB170,770,437.50. (2002: RMB102,218,100.00)

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2003

⑧ Account receivable and payable of connected parties (Unit: RMB)

A. Other receivable

Name	2003	2002
South China Special Coating Limited Company	–	920,786.60
Guangzhou Shipyard	–	–
Guangzhou Administrative Bureau	27,000.00	–
Total	27,000.00	920,786.60

B. Account receivable

Name	2003	2002
South China Special Coating Limited Company	–	1,200,000.00
Guangzhou Wenchong Shipyard	733,813.13	798,978.49
Guangzhou Huangpu Shipyard	–	184,780.00
Guangzhou Shipyard	102,578.39	270,082.50
Hudong Heavy Machine Company Limited	–	592,172.81
Guangzhou Shipyard	20,314.30	–
Guangzhou Shipyard Guangda Company	441,808.66	–
Total	1,298,514.48	3,046,013.80

C. Advanced payment

Name	2003	2002
South China Special Coating Limited Company	–	780,000.00
Guangzhou Wenchong Shipyard	–	58,656.00
Guangzhou Shipyard	–	–
Jiangxi Jiujiang Marine Machine Factory	–	20,000.00
Huanian Marine Company Limited	–	718,000.00
Hudong Heavy Machine Company Limited	5,000,000.00	19,130,544.40
Zhenjiang Marine Diesel Factory	2,190,000.00	2,391,722.80
China Shipbuilding Trading Corporation	–	6,474,864.78
China State Shipbuilding Corporation	–	4,620,000.00
Guangzhou Shipyard Guangda Company	7,647,297.52	5,000,000.00
China Shipbuilding Trading Co., Ltd.	1,583,526.01	–
Total	15,863,489.15	39,193,787.98

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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D. Account payable

Name	2003	2002
Guangzhou Wenchong Shipyard	746,952.00	1,696,780.00
Guangzhou Huangpu Shipyard	143,848.98	866,208.93
Shanghai Shipyard	142,794.70	142,794.70
Nanjing Liuzhou Machinery Factory	6,563,500.00	35,300.00
Zhengmao Group Company Limited	1,019,750.00	93,000.00
Jiangxi Jiujiang Marine Machine Factory	1,019,750.00	1,622,072.96
Guangzhou Shipyard	547,533.04	2,534,283.43
Huanian Marine Company Limited	545,011.97	3,215,000.00
Hudong Heavy Machine Company Limited	9,112,000.00	3,944,622.44
Zhenjiang Marine Diesel Factory	6,782,287.16	4,787,655.83
Zhenjiang Marine Auxiliary Machine Factory	1,291,453.00	–
Zhenjiang Marine Propeller Factory	822,840.00	315,122.00
No. 9 Design Institution of CSSC	–	96,000.00
Guangzhou Shipyard Guangda Company	6,412,236.24	14,189,009.90
Shanghai Navigation Instrument Factory	1,004,900.00	–
Anqing Marine Electric Equipment Factory	21,450.00	–
Jiujiang Instrument Factory	26,000.00	–
Jiangxi Marine Valve Factory	170,360.00	–
Jiangxi Chaoyang Machinery Factory	1,051,613.76	–
Huahai Marine Commodity Company	325,000.00	–
China State Shipbuilding Corporation	1,631,316.26	–
China Shipbuilding Trading Corporation	2,634,002.68	–
Guangzhou Shipyard Forging Factory	2,173,144.23	–
No. 708 Institution	1,486,000.00	–
China United Shipbuilding Co., Ltd.	30,451,031.57	–
Shanghai Hudong Marine Valve Co., Ltd.	1,302,055.24	–
Total	77,833,767.11	33,537,850.19

E. Other payment

Name	2003	2002
Guangzhou Shipyard	–	3,025,105.49
Guangzhou Shipyard Guangda Company	–	3,630,205.70
Total	–	6,655,311.19

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
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F. Advances from Customers

Name	2003	2002
Guangzhou Huangpu Shipyard	208,440.00	–
South China Special Coating Limited Company	–	902,876.60
Guangzhou Shipyard	–	2,771,207.14
Guangzhou Shipyard Guangda Company	–	395,000.00
Total	208,440.00	4,068,903.74

7. CONTINGENCIES

As at the 31st June 2003, the Company (the Group) had no significant contingent items.

8. COMMITMENTS

As at the 31st October 2003, the Company (the Group) had no significant commitments.

9. EVENTS IN POST PERIOD OF BALANCE SHEET

On 22nd March 2004, the Company acknowledged one shareholder US Hivens Steel Company, holding 49% of total equity, of the subsidiary Guangzhou United Steel Structures Limited, the Company holding 51%, has called for bankrupt on 18th March 2004. The Company considered it could not be any great affect on the subsidiary's operation. The affect on its finance is under evaluation of the Company and the subsidiary. The Company will keep close attention on the process and exposed in accordance to the relevant exposure regulations.

Except for the above-mentioned events, the Company (the Group) had no unadjusted item listed in Events post period of balance sheet as at the date of this report disclosed.

NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting Standards and Systems)
For the year ended 31st December 2003

10. OTHER INFORMATION

Analysis on significant changes in operating results and their composition in comparison with 2002

Profit item	This year RMB'000	Last year RMB'000	Change	Change reason
Principal operating tax and additional	3,328	5,046	-34.05%	Mainly due to the decrease of payable sales tax
Principal operating profit	84,376	4,214	1902.47%	Mainly due to the increase of shipbuilding amount and the profitability
Other operating profit	17,451	13,111	33.11%	Mainly due to the disposal of part inventory overstock material for the environment re-location of the east part of the Company
Operating expenses	3,944	5,172	-23.73%	Mainly due to the decrease operating expenses for the exiting of container manufacturing business
Management expenses	141,955	208,137	-31.80%	Mainly due to the additional loss provision for ro/pax vessels and the one-off transition medical insurance provision for workers who are retired and will be retired within 10 years made in last year, and the loss provision for No.15 and No.16 vessel of 35000dwt product tankers made in this year, except of those, the increase will amount to 14.92%.
Operating profit	-79,152	-237,601	-66.69%	Refer to the statement to "principal operating profit"
Investment income	3,344	2,010	66.31%	Mainly due to the profit increase from the affiliate company of the Company.
Non-operating income	11,199	200,555	-94.42%	Last year, the Company gained compensation income with an amount of RMB197.33 million for the environment relocation of the east part of the Company, and in this year, the Company gained the overdue penalty with an amount of RMB9.02 million from Guangdong Changda Highway Engineering Company Limited.
Non-operating expenses	14,402	68,612	-79.01%	The non-operating expenses decreased by 79.01% compared that of the last year, that mainly due to the liquidate fee for fixed assets and dismantle and relocation of the east part of the Company. Except of that, it will increased by 241.81%, that mainly due to the write-off in respect of preliminary development expenses and fixed assets incurred for the re-location of container factory

11. OTHER NOTES

The meeting of the Board of Directors was hold on 16th April 2004 and passed the decision of the profit non-distribution and non-conversion to shares for the year of 2003.