

# NOTES TO THE ACCOUNTS

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

## 1. Principal accounting policies

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

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties are stated at fair value. They assume that all existing banking facilities will not be withdrawn prior to the next review dates in 2004 and beyond.

In the current year, the Group adopted SSAP 35 "Government Grants and Disclosure of Government Assistance" and SSAP 12 "Income Taxes" issued by the HKSA which are effective for accounting periods commencing on or after 1 July 2002 and 1 January 2003, respectively.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below.

### (b) Group accounting

#### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

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

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

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

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

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

# NOTES TO THE ACCOUNTS (continued)

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

## 1. Principal accounting policies (continued)

### (b) Group accounting (continued)

#### (i) Consolidation (continued)

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

#### (ii) Associated companies

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

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

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

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

### (c) Translation of foreign currencies

Transactions in foreign currencies of the Company and subsidiaries, whose trade are more dependent on the economic circumstances of the Company's reporting currency than on their own reporting currency, are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of other subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

# NOTES TO THE ACCOUNTS (continued)

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

## 1. Principal accounting policies (continued)

### (d) Property, plant and equipment

#### (i) Investment properties

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

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

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

#### (ii) Other property, plant and equipment

Other property, plant and equipment, comprising land use rights, leasehold land, buildings, developments and structures, machinery, vehicles, equipment and transmission systems, instruments and meters, are stated at cost less accumulated depreciation and accumulated impairment losses.

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

# NOTES TO THE ACCOUNTS (continued)

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

## 1. Principal accounting policies (continued)

### (d) Property, plant and equipment (continued)

#### (iii) Depreciation

Depreciation of other property, plant and equipment is calculated to write off their cost less accumulated impairment losses over the unexpired periods of the leases or their expected useful lives to the Group whichever is shorter, if applicable, on the straight-line basis after taking into account their estimated residual value.

The principal annual rates of depreciation for various classes of other property, plant and equipment are as follows:

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

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

#### (iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that other property, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of property, plant and equipment other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

# NOTES TO THE ACCOUNTS (continued)

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

## 1. Principal accounting policies (continued)

### (e) Construction-in-progress

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

### (f) Investment in securities

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

The Group has no trading securities and held-to-maturity securities during the current year.

### (g) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on a weighted average basis, comprises direct materials, direct labor and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (h) Construction contracts in progress

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

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

# NOTES TO THE ACCOUNTS (continued)

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

## 1. Principal accounting policies (continued)

### (h) Construction contracts in progress (continued)

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

### (i) Accounts receivable

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

### (j) Cash and cash equivalents

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

### (k) Provisions

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

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

### (l) Employee benefits

#### (i) Employee leave entitlements

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

#### (ii) Retirement obligations

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

# NOTES TO THE ACCOUNTS (continued)

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

## 1. Principal accounting policies (continued)

### (I) Employee benefits

#### (ii) Retirement obligations (continued)

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

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

#### (iii) Early retirement benefit

Early retirement benefits payable to eligible employees are accrued and expensed on the date of approval for early retirement. Where the obligations do not fall due wholly within twelve months, the obligations payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality investments.

#### (iv) Housing benefit

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

#### (v) Medical insurance

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

Contributions to the defined contribution medical insurance scheme for retired and retiring employees are accrued based on the period of their past services. Where the contributions do not fall due wholly within twelve months, the contributions payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality investments.

# NOTES TO THE ACCOUNTS (continued)

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

## 1. Principal accounting policies (continued)

### (m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

The adoption of SSAP 12 has no material effect on the Group's accounts in prior years.

### (n) Contingent liabilities and contingent assets

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

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

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

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



# NOTES TO THE ACCOUNTS (continued)

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

## 1. Principal accounting policies (continued)

### (o) Revenue recognition

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

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

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

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

### (p) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government subsidy for shipbuilding on individual qualified vessels is recognised on the same basis as that of the respective construction contracts.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

The adoption of SSAP 35 has no material effect on the Group's accounts in prior years.

# NOTES TO THE ACCOUNTS (continued)

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

## 1. Principal accounting policies (continued)

### (q) Borrowing costs

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

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

### (r) Research and development costs

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

### (s) Segment reporting

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

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and receivables, and mainly exclude investment properties, investments in securities and bank balances and cash. Segment liabilities comprise operating liabilities and mainly exclude taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment.

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

# NOTES TO THE ACCOUNTS (continued)

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

## 2 Turnover, revenues and segment information

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

Revenues recognised during the year are as follows:

	2003 RMB'000	2002 RMB'000
<b>Turnover</b>		
Construction contracts revenue	2,117,845	1,674,115
Sales of goods	663,032	650,772
Rendering of services	59,569	88,214
	<u>2,840,446</u>	<u>2,413,101</u>
<b>Other revenues</b>		
Income from investment securities	810	1,602
Government subsidy income for shipbuilding	124,180	121,221
Gain on sales of scrap and other materials	13,595	5,355
Interest income	19,396	7,785
Others	6,450	9,153
	<u>164,431</u>	<u>145,116</u>
<b>Total revenues</b>	<u>3,004,877</u>	<u>2,558,217</u>

### Primary reporting format – business segments

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

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

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

# NOTES TO THE ACCOUNTS (continued)

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

## 2 Turnover, revenues and segment information (continued)

### Primary reporting format – business segments (continued)

	Shipbuilding 2003 RMB'000	Ship- repairing 2003 RMB'000	Container manufacturing 2003 RMB'000	Steel structure and other manufacturing 2003 RMB'000	Other operations 2003 RMB'000	Elimination 2003 RMB'000	Group 2003 RMB'000
Turnover	2,117,845	14,192	514,475	186,148	184,474	(176,688)	2,840,446
Segment results	148,907	2,683	22,487	27,875	21,706	(8,810)	214,848
Unallocated revenues							18,850
Unallocated costs							(167,523)
Operating profit							66,175
Write back of provision for non-recovery on principals due from non-banking financial institutions							1,500
Finance costs							(41,426)
Share of profits less losses of associated companies					224		224
Profit before taxation							26,473
Taxation							(2,018)
Profit after taxation							24,455
Minority interests							100
Profit attributable to shareholders							24,555
Segment assets	1,463,077	5,504	243,883	245,667	72,062	(36,122)	1,994,071
Interests in associated companies					3,503		3,503
Unallocated assets							934,713
Total assets							2,932,287
Segment liabilities	1,144,398	5,435	41,822	71,675	27,275	(36,122)	1,254,483
Unallocated liabilities							960,502
Total liabilities							2,214,985
Capital expenditure	42,163	-	-	-	3,769		45,932
Depreciation	42,627	-	2,087	7,107	8,925		60,746
Other non-cash expenses	13,560	-	-	-	-		13,560

# NOTES TO THE ACCOUNTS (continued)

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

## 2 Turnover, revenues and segment information (continued)

### Primary reporting format – business segments (continued)

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

# NOTES TO THE ACCOUNTS (continued)

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

## 2 Turnover, revenues and segment information (continued)

### Secondary reporting format – geographical segments

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

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

Denmark – shipbuilding

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

Malta – shipbuilding

Sweden – shipbuilding

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

	Turnover 2003 RMB'000	Segment results 2003 RMB'000	Total assets 2003 RMB'000	Capital expenditure 2003 RMB'000
Mainland China	1,258,235	165,378	2,905,543	53,396
Denmark	576,750	6,336	–	–
Hong Kong	537,370	16,367	23,241	–
Malta	341,507	26,499	–	–
Sweden	98,081	(8,625)	–	–
Other countries	28,503	4,386	–	–
	<b>2,840,446</b>	<b>210,341</b>	<b>2,928,784</b>	<b>53,396</b>
Unallocated revenues		28,234		
Unallocated costs		(172,400)		
Operating profit		<b>66,175</b>		
Interests in associated companies			<b>3,503</b>	
Total assets			<b>2,932,287</b>	

## NOTES TO THE ACCOUNTS (continued)

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

### 2 Turnover, revenues and segment information (continued)

#### Secondary reporting format – geographical segments (continued)

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

# NOTES TO THE ACCOUNTS (continued)

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

## 3 Discontinuing operation

On 16 April 2004, the Group announced its intention to terminate the container manufacturing segment. The container manufacturing segment is disclosed as a discontinuing operation. The turnover, results, cash flows and net assets of the container manufacturing segment were as follows:

	Year ended 31 December 2003 RMB'000	Year ended 31 December 2002 RMB'000
Turnover	514,475	535,685
Other revenues	9,089	1,877
Operating costs	(510,107)	(539,121)
Operating profit/(loss)	13,457	(1,559)
Finance costs	(8,506)	(4,591)
Profit /(loss) before taxation	4,951	(6,150)
Taxation	(630)	(11)
Profit /(loss) after taxation	4,321	(6,161)
Net operating cash outflow	(6,820)	(25,428)
Net financing cash inflow	650	43,130
Total net cash (outflow)/inflow	(6,170)	17,702
	At 31 December 2003 RMB'000	At 31 December 2002 RMB'000
Property, plant and equipment	5,183	4,594
Current assets	216,346	290,589
Total assets	221,529	295,183
Total liabilities	(44,150)	(181,193)
Net assets	177,379	113,990



# NOTES TO THE ACCOUNTS (continued)

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

## 4 Operating profit/(loss)

	2003 RMB'000	2002 RMB'000
Operating profit/(loss) is stated after charging the following:		
Auditors' remuneration	2,035	1,996
Depreciation and amortisation of property, plant and equipment	85,681	91,107
Add: amount capitalised in opening inventories	7,777	19,181
Less: amount capitalised in ending inventories	(11,290)	(7,777)
Deficit on revaluation of investment properties	82,168	102,511
Loss on disposal of property, plant and equipment	300	1,021
Net exchange losses	12,579	6,177
Provision for warranty (note 22)	238	251
Staff costs (including directors' and supervisors' emoluments)	28,863	1,193
Wages and salaries	148,016	146,691
Retirement costs (note 27(a))	42,857	23,503
Housing fund (note a)	9,139	8,862
Medical insurance (note 27(b))	9,712	55,076
Other staff costs	34,371	36,549
	244,095	270,681
Cost of inventories sold	633,552	627,789
Research and development costs	6,873	5,954

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

# NOTES TO THE ACCOUNTS (continued)

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

## 5 Compensation for relocation

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

The compensation reflected in the 2002 profit and loss account was net of the net book value of the related land use rights and buildings, developments and structures of RMB46,938,000, impairment losses of property, plant and equipment of RMB20,677,000 and provision for relocation costs of RMB3,618,000.

## 6 Finance costs

	2003 RMB'000	2002 RMB'000
Interest on bank loans	40,248	49,082
Interest on amounts due to suppliers	998	967
Other incidental borrowing costs	620	876
	<hr/>	<hr/>
Total borrowing costs incurred	41,866	50,925
Less: amount capitalised in property, plant and equipment	(440)	(1,865)
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	41,426	49,060

The capitalisation rate applied to funds borrowed and used for the development of construction-in-progress was 5.94% (2002: 5.94%) per annum.

# NOTES TO THE ACCOUNTS (continued)

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

## 7 Taxation

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

	2003 RMB'000	2002 RMB'000
Current taxation – PRC enterprise income tax	1,917	1,762
Share of taxation attributable to associated companies	101	162
Taxation charge	<u>2,018</u>	<u>1,924</u>

As approved by the State Administration of Taxation, the Company's PRC enterprise income tax is calculated at 15% (2002: 15%) on the estimated assessable profit for the current year. The normal PRC enterprise income tax rate is 33%. PRC enterprise income tax of subsidiaries and associated companies is charged on their respective assessable profits at applicable tax rates.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate in the PRC applicable to the Company as follows:

	2003 RMB'000	2002 RMB'000
Profit before taxation	<u>26,473</u>	<u>16,835</u>
Calculated at a taxation rate of 15% (2002: 15%)	3,971	2,525
Deferred tax benefit arising from tax losses not recognised	–	18,595
Effect of different taxation rates of subsidiaries and associated companies	273	290
Net loss of subsidiaries and associated companies not subject to tax	1,300	1,274
Income not subject to taxation	(7,763)	(32,936)
Expenses not deductible for taxation purposes	4,398	12,176
Utilisation of previously unrecognised tax losses	<u>(161)</u>	<u>–</u>
Taxation charge	<u>2,018</u>	<u>1,924</u>

# NOTES TO THE ACCOUNTS (continued)

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

## 7 Taxation (continued)

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

Activity category	Tax category	Tax rate	
		2003	2002
Shipbuilding, shiprepairing, container manufacturing, steel structure and other manufacturing	Value-added tax ("VAT")	17%	17%
Transportation and installation services	Business tax	3%	3%
Other services	Business tax	5%	5%

(c) Taxation payable represents:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
– PRC enterprise income tax	811	848	–	–
– Value-added tax	1,142	778	–	–
– Other taxes	2,276	3,439	1,957	2,764
	<b>4,229</b>	<b>5,065</b>	<b>1,957</b>	<b>2,764</b>

(d) Tax recoverable represents:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
– PRC enterprise income tax	472	444	444	444
– Value-added tax	134,410	108,281	127,056	71,065
– Other taxes	15	–	15	–
	<b>134,897</b>	<b>108,725</b>	<b>127,515</b>	<b>71,509</b>

# NOTES TO THE ACCOUNTS (continued)

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

## 7 Taxation (continued)

- (e) The Group has taxable temporary difference in respect of compensation for relocation and deductible temporary differences in respect of provision for non-recovery on principals due from non-banking financial institutions, provision for foreseeable losses of construction contracts, provision for medical insurance, provision for early retirement and unused tax losses, the resulting net potential deferred tax assets amounted to RMB93,431,000 (2002: RMB103,617,000). These net potential deferred tax assets have not been recognised in the accounts due to the uncertainty of available future taxable profit against which the temporary differences can be utilised.

## 8 Profit attributable to shareholders

Loss attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB50,629,000 (2002: profit RMB19,486,000).

## 9 Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of RMB24,555,000 (2002: RMB15,020,000) and the weighted average number of 494,677,580 (2002: 494,677,580) ordinary shares in issue during the year.

## NOTES TO THE ACCOUNTS (continued)

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

### 10 Directors', supervisors' and senior management's emoluments

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

	2003 RMB'000	2002 RMB'000
Non-executive directors		
Fee	376	379
Other emoluments and welfare	17	14
Retirement benefits	14	12
Executive directors		
Basis salary, allowance and benefits in kind	517	416
Retirement benefits	41	36
Supervisors		
Basis salary, allowance and benefits in kind	474	409
Retirement benefits	27	24
Senior management		
Basis salary, allowance and benefits in kind	882	637
Retirement benefits	80	49
	<u>2,428</u>	<u>1,976</u>

The emoluments for all of the Company's 11 directors (executive and non-executive), 5 supervisors and 7 senior management fell within the band of RMBnil to RMB200,000 during the year (2002: RMBnil to RMB200,000).

No directors, supervisors or senior management waived emoluments in respect of the year ended 31 December 2002 and 2003.

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2002 and 2003 were also directors and supervisors, and their emoluments are reflected in the analysis presented above.

During the year ended 31 December 2002 and 2003, the Company operates the same pension schemes for its executive directors, supervisors and senior management as for its other staff and no special arrangements have been made in this regard.

# NOTES TO THE ACCOUNTS (continued)

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

## 11 Property, plant and equipment

### Group

	Investment properties RMB'000	Land use rights RMB'000	Construction- in-progress RMB'000	Leasehold land, buildings, developments and structures RMB'000	Machinery, vehicles, equipment and transmission systems RMB'000	Instruments and meters RMB'000	Total RMB'000
<b>Cost or valuation</b>							
At 1 January 2003	6,200	72,428	112,131	643,203	860,774	5,558	1,700,294
Additions	–	–	63,987	47	3,681	41	67,756
Revaluation	(300)	–	–	–	–	–	(300)
Transfers	–	9,410	(125,082)	34,587	80,105	980	–
Disposals	–	–	(20,788)	(2,652)	(97,360)	(217)	(121,017)
<b>At 31 December 2003</b>	<b>5,900</b>	<b>81,838</b>	<b>30,248</b>	<b>675,185</b>	<b>847,200</b>	<b>6,362</b>	<b>1,646,733</b>
<b>Accumulated depreciation and impairment</b>							
At 1 January 2003	–	11,629	–	153,592	421,431	3,787	590,439
Charge for the year	–	1,870	–	20,957	62,242	612	85,681
Impairment realised	–	–	–	–	(19,594)	–	(19,594)
Disposals	–	–	–	(715)	(74,614)	(205)	(75,534)
<b>At 31 December 2003</b>	<b>–</b>	<b>13,499</b>	<b>–</b>	<b>173,834</b>	<b>389,465</b>	<b>4,194</b>	<b>580,992</b>
<b>Net book value</b>							
<b>At 31 December 2003</b>	<b>5,900</b>	<b>68,339</b>	<b>30,248</b>	<b>501,351</b>	<b>457,735</b>	<b>2,168</b>	<b>1,065,741</b>
At 31 December 2002	6,200	60,799	112,131	489,611	439,343	1,771	1,109,855
<b>The analysis of the cost or valuation at 31 December 2003 of the above assets is as follows:</b>							
At cost	–	81,838	30,248	675,185	847,200	6,362	1,640,833
At 2003 valuation	5,900	–	–	–	–	–	5,900
	<b>5,900</b>	<b>81,838</b>	<b>30,248</b>	<b>675,185</b>	<b>847,200</b>	<b>6,362</b>	<b>1,646,733</b>
<b>The analysis of the cost or valuation at 31 December 2002 of the above assets is as follows:</b>							
At cost	–	72,428	112,131	643,203	860,774	5,558	1,694,094
At 2002 valuation	6,200	–	–	–	–	–	6,200
	<b>6,200</b>	<b>72,428</b>	<b>112,131</b>	<b>643,203</b>	<b>860,774</b>	<b>5,558</b>	<b>1,700,294</b>

# NOTES TO THE ACCOUNTS (continued)

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

## 11 Property, plant and equipment (continued)

### Company

	Investment properties RMB'000	Land use rights RMB'000	Construction- in-progress RMB'000	Leasehold land, buildings, developments and structures RMB'000	Machinery, vehicles, equipment and transmission systems RMB'000	Instruments and meters RMB'000	Total RMB'000
<b>Cost or valuation</b>							
At 1 January 2003	6,200	58,737	112,131	614,561	715,572	5,473	1,512,674
Additions	–	–	63,987	–	–	–	63,987
Revaluation	(300)	–	–	–	–	–	(300)
Transfers	–	9,410	(123,230)	34,570	78,270	980	–
Transferred from a subsidiary	–	–	–	–	461	–	461
Transferred to a subsidiary	–	–	(1,852)	–	–	–	(1,852)
Disposals	–	–	(20,788)	(2,614)	(92,313)	(217)	(115,932)
<b>At 31 December 2003</b>	<b>5,900</b>	<b>68,147</b>	<b>30,248</b>	<b>646,517</b>	<b>701,990</b>	<b>6,236</b>	<b>1,459,038</b>
<b>Accumulated depreciation and impairment:</b>							
At 1 January	–	11,469	–	144,628	353,471	3,734	513,302
Charge for the year	–	1,596	–	19,824	49,521	598	71,539
Transferred from a subsidiary	–	–	–	–	54	–	54
Impairment realised	–	–	–	–	(19,594)	–	(19,594)
Disposals	–	–	–	(679)	(71,673)	(205)	(72,557)
<b>At 31 December 2003</b>	<b>–</b>	<b>13,065</b>	<b>–</b>	<b>163,773</b>	<b>311,779</b>	<b>4,127</b>	<b>492,744</b>
<b>Net book value</b>							
<b>At 31 December 2003</b>	<b>5,900</b>	<b>55,082</b>	<b>30,248</b>	<b>482,744</b>	<b>390,211</b>	<b>2,109</b>	<b>966,294</b>
At 31 December 2002	6,200	47,268	112,131	469,933	362,101	1,739	999,372
<b>The analysis of the cost or valuation at 31 December 2003 of the above assets is as follows:</b>							
At cost	–	68,147	30,248	646,517	701,990	6,236	1,453,138
At 2003 valuation	5,900	–	–	–	–	–	5,900
	<b>5,900</b>	<b>68,147</b>	<b>30,248</b>	<b>646,517</b>	<b>701,990</b>	<b>6,236</b>	<b>1,459,038</b>
<b>The analysis of the cost or valuation at 31 December 2002 of the above assets is as follows:</b>							
At cost	–	58,737	112,131	614,561	715,572	5,473	1,506,474
At 2002 valuation	6,200	–	–	–	–	–	6,200
	<b>6,200</b>	<b>58,737</b>	<b>112,131</b>	<b>614,561</b>	<b>715,572</b>	<b>5,473</b>	<b>1,512,674</b>



# NOTES TO THE ACCOUNTS (continued)

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

## 11 Property, plant and equipment (continued)

The land use rights are for land situated in the PRC each for a period of 50 years commencing from 1993 to 2004.

The net book value of investment properties, leasehold land, buildings, developments and structures are analysed as follows:

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
<b>In Hong Kong, held on:</b>				
Leases of over 50 years	14,364	14,759	14,364	14,759
Leases of between				
10 to 50 years	4,157	4,270	4,157	4,270
<b>In Mainland China, held on:</b>				
Leases of between				
10 to 50 years	488,730	476,782	470,123	457,104
	<b>507,251</b>	<b>495,811</b>	<b>488,644</b>	<b>476,133</b>

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Investment properties at 31 December 2003 were revalued on the basis of their open market value by Greater China Appraisal Limited, an independent firm of surveyors registered in Hong Kong.

At 31 December 2003, the net book value of property, plant and equipment pledged as security for the Group's utilised banking facilities of RMB95,085,000 (2002: RMB324,361,000) amounted to RMB237,870,000 (2002: RMB220,186,000).

## 12 Investments in subsidiaries

	Company	
	2003	2002
	RMB'000	RMB'000
Unlisted shares, at costs	182,705	183,345
Less: impairment charge (Note)	(56,157)	—
	<b>126,548</b>	<b>183,345</b>

Note: This represents impairment provision made against investment in Kwangchow Shipyard Container Factory.

# NOTES TO THE ACCOUNTS (continued)

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

## 12 Investments in subsidiaries (continued)

Particulars of subsidiaries at 31 December 2003:

Name	Issued and fully paid-up capital	Interest held		Nature of entity	Principal activities
		2003 %	2002 %		
Shares held directly:					
<u>Incorporated in the PRC</u>					
Kwangchow Shipyard Container Factory	RMB44,924,640	100	100	Joint stock company	Manufacture of containers
MasterWood Company Limited	RMB3,315,180	75	75	Sino-foreign equity joint venture	Manufacture of furniture
Guangzhou Haizhu District Guanghua Machinery Factory	RMB1,438,062	–	65	Cooperative limited liability company	Manufacture of machinery
Xinhui City Guangzhou Shipyard International Nanyang Shipping Industrial Limited	RMB34,800,000	70	70	Cooperative limited liability company	Ship dismantling
Guangzhou Guang-lian Container Transportation Company Limited	RMB20,000,000	75	75	Sino-foreign equity joint venture	Transportation services for containers
United Steel Structures Limited	US\$8,850,000	51	51	Sino-foreign equity joint venture	Large steel structure engineering
Guangzhou Xin Sun Shipping Service Company Limited	RMB2,000,000	83	83	Company with limited liability	Fabrication, welding and coating of ships
Guangzhou Sanlong Industrial Trade Development Company Limited	RMB1,500,000	67	67	Company with limited liability	Construction engineering, equipment leasing and technology consultancy

# NOTES TO THE ACCOUNTS (continued)

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

## 12 Investments in subsidiaries (continued)

Particulars of subsidiaries at 31 December 2003:

Name	Issued and fully paid-up capital	Interest held		Nature of entity	Principal activities
		2003 %	2002 %		
Shares held directly:					
<u>Incorporated in the PRC</u>					
Guangdong Guangzhou Shipyard International Elevator Company	RMB21,000,000	95	95	Company with limited liability	Manufacture of elevators
Guangzhou Hongfan Information Technique Company Limited	RMB5,000,000	77	90	Cooperative limited liability company	Sales of computers, development of computer software and system integration
Guangzhou Shipyard Machinery Equipment Engineering Company Limited	RMB1,000,000	–	60	Company with limited liability	Machinery & electrical product manufacturing and equipment maintenance
Guangzhou Henghe Construction Engineering Company Limited	RMB27,500,000	75.9	75.9	Cooperative limited liability company	Large steel structure, indoor and outdoor decoration design, construction and administration
<u>Incorporated in Hong Kong</u>					
Glory Group Development Company Limited	HKD10,000	100	100	Company with limited liability	Holding of Fonkwang Development Limited and MasterWood Company Limited

# NOTES TO THE ACCOUNTS (continued)

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

## 12 Investments in subsidiaries (continued)

Particulars of subsidiaries at 31 December 2003:

Name	Issued and fully paid-up capital	Interest held		Nature of entity	Principal activities
		2003 %	2002 %		
Shares held indirectly:					
<u>Incorporated in the PRC</u>					
Guangzhou Hongfan Hotel Company Limited	RMB500,000	100	100	Company with limited liability	Hotel and catering
Guangdong Guangzhou Shipyard International Elevator Company	RMB21,000,000	5	5	Company with limited liability	Manufacture of elevators
MasterWood Company Limited	RMB3,315,180	25	–	Sino-foreign equity joint venture	Manufacture of furniture
<u>Incorporated in Hong Kong</u>					
Fonkwang Development Limited	HKD200,000	70	70	Company with limited liability	Trading of equipment and materials

# NOTES TO THE ACCOUNTS (continued)

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

## 13 Interests or investments in associated companies

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted				
– at cost	–	–	2,522	1,721
– share of net assets	3,503	2,890	–	–
	<b>3,503</b>	<b>2,890</b>	<b>2,522</b>	<b>1,721</b>

The following is a list of associated companies at 31 December 2003 which are all incorporated in the PRC:

Name	Issued and fully paid-up capital	Interest held		Nature of entity	Principal activities
		2003 %	2002 %		
Guangzhou Economic and Technical Development Zone South China Marine and Industrial Special Coating Limited	US\$1,200,000	25	25	Sino-foreign equity joint venture	Provision of special coating services
Zhanjiang Nanhai Naval New Technology & Service Co., Ltd.	RMB2,000,000	40	–	Company with limited liability	Repair and maintenance of containers

## 14 Investment securities

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
At cost, unlisted equity securities	12,010	12,010	11,010	11,010

# NOTES TO THE ACCOUNTS (continued)

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

## 15 Long-term receivables and deferred income

Long-term receivables for the Group as at 31 December 2002 related to sales to a customer with an extended settlement period of more than one year. Deferred income arising from such sales, calculated as the difference between the nominal amount of the consideration and that of transactions carried out in the ordinary course of business and on normal commercial terms, are recognised on a straight-line basis in the profit and loss account in accordance with the repayment schedule as provided in the agreement. The amounts outstanding as at 31 December 2003 of RMB27,524,000, which are due for settlement in 2004, were included in trade receivables.

## 16 Inventories

	Group		Company	
	2003	2002	2003	2002
	<b>RMB'000</b>	<i>RMB'000</i>	<b>RMB'000</b>	<i>RMB'000</i>
Raw materials	<b>172,211</b>	245,065	<b>168,030</b>	196,284
Work-in-progress	<b>46,480</b>	57,038	<b>17,245</b>	17,017
Finished goods	<b>4,705</b>	48,868	<b>2,944</b>	2,836
	<b>223,396</b>	350,971	<b>188,219</b>	216,137

At 31 December 2003, the carrying amount of inventories for the Group and the Company that are carried at net realisable value amounted to RMB1,810,000 and RMB833,000 (2002: RMB53,385,000 and RMB7,353,000) respectively.

At 31 December 2002 and 2003, no inventories have been pledged as security for liabilities.

## 17 Trade receivables

		Group		Company	
		2003	2002	2003	2002
	Note	<b>RMB'000</b>	<i>RMB'000</i>	<b>RMB'000</b>	<i>RMB'000</i>
Receivables from third parties	(a)	<b>441,847</b>	582,323	<b>168,464</b>	377,815
Amounts due from related companies	(b)	<b>1,299</b>	3,046	<b>946</b>	1,793
		<b>443,146</b>	585,369	<b>169,410</b>	379,608

# NOTES TO THE ACCOUNTS (continued)

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

## 17 Trade receivables (continued)

(a) At 31 December 2003, the ageing analysis of receivables from third parties were as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000	<b>RMB'000</b>	RMB'000
Not exceeding one year	<b>369,345</b>	470,516	<b>143,278</b>	321,883
More than one year but not exceeding two years	<b>28,664</b>	63,956	<b>19,334</b>	43,987
More than two years but not exceeding three years	<b>9,265</b>	11,960	–	11,945
More than three years	<b>34,573</b>	35,891	<b>5,852</b>	–
	<b>441,847</b>	582,323	<b>168,464</b>	377,815

The general credit terms of trade receivables are:

### Operations

Shipbuilding and shiprepairing

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

### Credit terms

Within one month  
after issue of invoice

Normally one to six months

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

# NOTES TO THE ACCOUNTS (continued)

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

## 18 Other receivables, prepayments and deposits

	Note	Group		Company	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Prepayments for trading materials and equipment		13,867	96,452	10,712	90,797
Amounts due from non-banking financial institutions		444,503	446,008	444,503	446,008
Less: provision for non-recovery		(372,810)	(374,310)	(372,810)	(374,310)
(a)		71,693	71,698	71,693	71,698
Government subsidy receivable for construction of vessels		69,067	83,342	69,067	83,342
Compensation for relocation receivable		78,932	197,330	78,932	197,330
Amounts due from related companies	(b)	15,890	40,115	15,890	40,115
Others		16,140	26,580	3,946	11,416
		<b>265,589</b>	<b>515,517</b>	<b>250,240</b>	<b>494,698</b>

(a) Amounts due from non-banking financial institutions

	Group and Company	
	2003 RMB'000	2002 RMB'000
Guangzhou International Trust and Investment Company	397,067	397,072
Guangzhou Economic and Technology Development Zone International Trust and Investment Company	47,436	48,936
	<b>444,503</b>	<b>446,008</b>
Less: provision for non-recovery	<b>(372,810)</b>	<b>(374,310)</b>
Total	<b>71,693</b>	<b>71,698</b>

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



# NOTES TO THE ACCOUNTS (continued)

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

## 19 Trade payables

Note	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Payables to third parties (a)	<b>264,236</b>	440,288	<b>250,482</b>	373,155
Amounts due to related companies (b)	<b>77,633</b>	33,538	<b>76,275</b>	33,070
	<b>341,869</b>	473,826	<b>326,757</b>	406,225

(a) At 31 December 2003, the ageing analysis of payables to third parties were as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Not exceeding one year	<b>248,013</b>	423,011	<b>235,331</b>	357,118
More than one year but not exceeding two years	<b>15,704</b>	15,179	<b>14,888</b>	13,939
More than two years but not exceeding three years	<b>439</b>	2,045	<b>183</b>	2,045
More than three years	<b>80</b>	53	<b>80</b>	53
	<b>264,236</b>	440,288	<b>250,482</b>	373,155

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

# NOTES TO THE ACCOUNTS (continued)

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

## 20 Construction contracts in progress

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Contract costs incurred				
plus attributable profits				
less foreseeable losses	<b>1,243,246</b>	1,783,756	<b>1,241,715</b>	1,781,555
Less: progress billings to date	<b>(1,494,483)</b>	(1,567,243)	<b>(1,494,483)</b>	(1,567,243)
	<b>(251,237)</b>	216,513	<b>(252,768)</b>	214,312
Included in current assets/(liabilities) under the following captions:				
Due from customers on				
construction contracts	<b>392,470</b>	654,956	<b>391,041</b>	652,755
Due to customers on				
construction contracts	<b>(643,707)</b>	(438,443)	<b>(643,809)</b>	(438,443)
	<b>(251,237)</b>	216,513	<b>(252,768)</b>	214,312

At 31 December 2003, the retention monies held by customers for contract works amounted to RMB10,197,000 (2002: nil).

At 31 December 2003, no advances were received from customers for contract work (2002: RMB105,869,000).

At 31 December 2002 and 2003, no vessels under construction have been pledged as security for liabilities.

# NOTES TO THE ACCOUNTS (continued)

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

## 21 Other payables and accruals

	Note	Group		Company	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Payables to third parties and accruals		161,126	319,436	143,880	283,675
Amounts due to related companies and accruals	(a)	2,927	3,025	2,927	3,025
		<b>164,053</b>	<b>322,461</b>	<b>146,807</b>	<b>286,700</b>

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

## 22 Provision for warranty

Movement of provision for warranty is as follows:

	Group and Company	
	2003 RMB'000	2002 RMB'000
Total warranty as at 1 January	23,695	31,808
Additional provisions	30,881	11,842
Write back of expired warranty provision	(2,018)	(10,649)
Utilised during the year	(14,651)	(9,306)
Total warranty as at 31 December	<b>37,907</b>	<b>23,695</b>

## 23 Short-term loans

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Loans				
Unsecured	99,319	411,091	99,319	372,269
Secured	95,085	269,661	89,662	269,661
	<b>194,404</b>	<b>680,752</b>	<b>188,981</b>	<b>641,930</b>

# NOTES TO THE ACCOUNTS (continued)

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

## 23 Short-term loans (continued)

Included in unsecured loans were RMB49,662,000 guaranteed by a company controlled by China State Shipbuilding Corporation ("CSSC"), the Company's major shareholder (2002: loans of RMB30,000,000 were guaranteed by CSSC).

## 24 Share capital

	Company	
	2003 RMB'000	2002 RMB'000
Registered, issued and fully paid		
210,800,080 State shares of RMB1 each	210,800	210,800
126,479,500 A shares of RMB1 each	126,480	126,480
157,398,000 H shares of RMB1 each	157,398	157,398
	<b>494,678</b>	<b>494,678</b>

## 25 Reserves

	Group					Total RMB'000
	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Accumulated losses RMB'000	
At 1 January 2003	651,977	48,997	30,692	20,459	(613,789)	138,336
Profit for the year	–	–	–	–	24,555	24,555
Transfers from /(to) other reserves	–	–	(101)	101	–	–
At 31 December 2003	<b>651,977</b>	<b>48,997</b>	<b>30,591</b>	<b>20,560</b>	<b>(589,234)</b>	<b>162,891</b>
Company and subsidiaries	651,977	48,997	30,591	20,560	(593,895)	158,230
Associated companies	–	–	–	–	4,661	4,661
<b>At 31 December 2003</b>	<b>651,977</b>	<b>48,997</b>	<b>30,591</b>	<b>20,560</b>	<b>(589,234)</b>	<b>162,891</b>

# NOTES TO THE ACCOUNTS (continued)

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

## 25 Reserves (continued)

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

	Company					
	Surplus reserves					Total
	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Accumulated losses	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2003	651,977	48,476	30,594	20,459	(553,621)	197,885
Loss for the year	—	—	—	—	(50,629)	(50,629)
Transfers from /(to) other reserves	—	—	(101)	101	—	—
At 31 December 2003	651,977	48,476	30,493	20,560	(604,250)	147,256

# NOTES TO THE ACCOUNTS (continued)

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

## 25 Reserves (continued)

	Company					
	Surplus reserves				Accumulated losses	Total
	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve		
	RMB'000	RMB'000	RMB'000	RMB'000		
At 1 January 2002	651,977	48,476	31,372	19,681	(573,107)	178,339
Profit for the year	–	–	–	–	19,486	19,486
Transfers from /(to) other reserves	–	–	(778)	778	–	–
At 31 December 2002	651,977	48,476	30,594	20,459	(553,621)	197,885

### (a) Capital reserve

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

### (b) Surplus reserves

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

#### (i) Statutory surplus reserve

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

# NOTES TO THE ACCOUNTS (continued)

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

## 25 Reserves (continued)

### (b) Surplus reserves (continued)

#### (ii) Statutory public welfare fund

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer between 5% to 10% of the profits after taxation prepared in accordance with PRC accounting standards and systems to the statutory public welfare fund. The use of this fund is restricted to capital expenditure for employees' collective welfare facilities, the ownership in respect of which belongs to the Group. The statutory public welfare fund is not available for distribution to shareholders except under liquidation. Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from the statutory public welfare fund to the discretionary surplus reserve. In 2003, the Group spent RMB101,000 (2002: RMB778,000) for the purchase of welfare facilities and accordingly, a same amount has been transferred from the statutory public welfare fund to the discretionary surplus reserve.

#### (iii) Discretionary surplus reserve

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

#### (iv) Profit distribution

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

- a. offset accumulated losses;
- b. 10% to be transferred to statutory surplus reserve (note 25(b)(i));
- c. 5-10% to be transferred to statutory public welfare fund (note 25(b)(ii));
- d. transfer to discretionary surplus reserve (note 25(b)(iii)); and
- e. pay dividends.

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

# NOTES TO THE ACCOUNTS (continued)

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

## 26 Long-term bank loans

		Group and Company	
		2003	2002
		RMB'000	RMB'000
Bank loans			
Unsecured		680,510	756,940
Secured		–	54,700
		680,510	811,640
Current portion of long-term bank loans		(380,000)	(610,700)
		300,510	200,940

Long-term bank loans were borrowed for the construction of vessels bearing interest at rates ranging from 2.7% to 3.51% per annum (2002: 3.51% to 4.05% per annum).

At 31 December 2003, the Group and the Company's bank loans were repayable as follows:

		Group and Company	
		2003	2002
		RMB'000	RMB'000
Repayable within one year		380,000	610,700
Repayable in the second year		300,510	200,940
		680,510	811,640

Included in unsecured bank loans were loans of RMB400,000,000 (2002: Nil) and RMB280,000,000 (2002: RMB700,000,000) guaranteed by CSSC and two companies controlled by CSSC respectively.

## 27 Retirement and other post retirement obligations

		Group and Company	
		2003	2002
		RMB'000	RMB'000
	Notes		
Obligations on:			
– supplemental defined contribution retirement scheme	(a)	25,763	23,910
– early retirement scheme	(a)	18,431	–
– medical insurance scheme	(b)	14,604	54,788
		58,798	78,698
Less: current portion included in other payables and accruals		(32,696)	(60,722)
		26,102	17,976



# NOTES TO THE ACCOUNTS (continued)

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

## 27 Retirement and other post retirement obligations (continued)

As stipulated by the relevant regulations of the PRC, the Company and its subsidiaries in Guangzhou City have participated in a number of defined contribution employees benefit plans for its existing and retired employees organised by the government. The Group has no other material obligations for payment of employee benefits to retirees or upon retirement of existing employees beyond the schemes as described below:

### (a) Retirement scheme

The Company and certain subsidiaries have joined the defined contribution retirement scheme operated by the provincial government of Guangdong Province since 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).

The Company has also 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: RMB2,457,000). Contributions by the Group forfeited as a result of resignation of the employees before retirement totalling RMB63,000 (2002: RMB77,000) are utilised for the welfare of retirees. In addition, during the year the Group had made payments of RMB898,000 (2002: RMB955,000) as subsidies to retirees.

In addition, certain employees of the Company have applied for early retirement and have been approved during the year. Pursuant to the early retirement scheme, the retirees are entitled to similar benefits (including the Company's contribution in relation to retirement, housing and medical insurance) as that of a normal employee except that these contribution are calculated based on the monthly compensation to the retirees. Obligations recognised by the Group for the year ended 31 December 2003 was RMB18,431,000 (2002: nil).

# NOTES TO THE ACCOUNTS (continued)

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

## 27 Retirement and other post retirement obligations (continued)

### (b) Medical insurance scheme

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

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

Pursuant to the Provisional Rules of Medical Insurance, contributions are also required for the past services rendered by the retired and retiring employees prior to 1 December 2001. These amounted to RMB54,788,000 and were charged and presented separately in the profit and loss account for 2002 under "Provision for medical insurance". Certain of these contributions do not fall due wholly within twelve months, such contributions payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality investments.

Due to the medical insurance expenses for 2003 are not material, separate presentation in the profit and loss account is not required. Therefore, the 2002 comparative amount has been aggregated with the administrative expenses.

# NOTES TO THE ACCOUNTS (continued)

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

## 28 Consolidated cash flow statement

### (a) Reconciliation of profit before taxation to net cash outflow from operating activities

	2003 RMB'000	2002 RMB'000
Profit before taxation	26,473	16,835
Share of profits less losses of associated companies	(224)	(843)
Depreciation of property, plant and equipment	82,168	102,511
Loss on disposal of property, plant and equipment	12,579	6,177
Deficit on revaluation of investment properties	300	1,021
Gain on disposal of interest in subsidiaries	(206)	(34)
Loss on disposal of associated companies	–	119
Income from investment securities	(810)	(1,602)
Provision for foreseeable losses of construction contracts	13,560	33,048
Compensation for relocation	–	(126,097)
Provision for medical insurance	–	55,076
Write back of provision for non-recovery on principals due from non-banking financial institutions	(1,500)	(3,490)
Interest expenses	40,806	48,184
Interest income	(19,396)	(7,785)
Operating profit before working capital changes	153,750	123,120
Decrease in inventories	131,088	5,684
Decrease/(Increase) in net construction contracts in progress	454,190	(664,025)
Decrease/(Increase) in trade and other receivables, prepayments, deposits, tax recoverable and long-term receivables	391,557	(181,065)
(Decrease)/Increase in trade and notes payables, other payables and accruals, including other taxation payable and current liabilities	(330,367)	379,945
Net cash generated from/(used in) operations	800,218	(336,341)

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# NOTES TO THE ACCOUNTS (continued)

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

## 28 Consolidated cash flow statement (continued)

### (b) Analysis of changes in financing during the year

	Share capital and capital reserve		Loans		Minority interests	
	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	1,146,655	1,146,655	1,492,392	968,468	60,788	62,088
Increase in interests of subsidiaries	-	-	-	-	(1,605)	(172)
Decrease in interests of a subsidiary	-	-	-	-	650	(1,019)
Minority interests in share of profits	-	-	-	-	(100)	(109)
New loans payable	-	-	1,740,839	1,446,260	-	-
Repayment of amounts borrowed	-	-	(2,358,317)	(922,336)	-	-
At 31 December	1,146,655	1,146,655	874,914	1,492,392	59,733	60,788

## 29 Capital commitments for property, plant and equipment

At 31 December 2003, the Group and the Company had the following commitments:

	Contracted but not provided for		Authorised by directors but not contracted for	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Purchase of machinery and equipment	637	7,519	40,689	2,055
Purchase or construction of factories and buildings	4,626	38,049	24,940	1,431
	5,263	45,568	65,629	3,486

# NOTES TO THE ACCOUNTS (continued)

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

## 30 Contingent liabilities

At 31 December 2002 and 2003, the Group and the Company had no material contingent liabilities.

## 31 Related party transactions and balances

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

	Note	2003 RMB'000	2002 RMB'000
Companies controlled by CSSC			
Purchase of raw materials		72,548	73,729
Purchase of equipment for shipbuilding		198,157	62,175
Vessel sales commission payable	(i)	23,922	4,322
Other expenses payable	(ii)	71,391	25,118
Income from provision of services	(iii)	<u>12,234</u>	<u>3,221</u>

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

- (i) Vessel sales commission payable was computed based on 1% – 3% of the contract price of relevant vessels.
- (ii) Pursuant to the comprehensive service agreement dated 19 April 2001 and supplementary agreement dated 22 April 2003 entered between the Company and Guangzhou Shipyard ("GZS"), a subsidiary of CSSC, the Group incurred service fees amounted to RMB7,082,000 (2002: RMB15,381,000) for its provision of staff welfare services (including the provision of staff quarters and other benefits) to GZS. The service fees for the year ended 31 December 2003 did not include welfare to key management personnel (2002: RMB27,000). The comprehensive service agreement and supplementary agreement expired at the end of 2003.

Apart from the above, included in other expenses were vessel-related processing service fees, amounted to RMB53,623,000 (2002: RMB9,737,000). These service fees were computed based on tonnage.

# NOTES TO THE ACCOUNTS (continued)

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

## 31 Related party transactions and balances (continued)

- (iii) Income from provision of services represents provision of vessel-related processing services, shiprepairing services and other services.
- (b) Save as disclosed elsewhere in the accounts, significant related party balances also include an amount of RMB9,092,000 (2002: RMB42,799,000) representing current deposits in a financial institution controlled by CSSC. This amount was included in bank balances and cash.

## 32 Subsequent event

Subsequent to the balance sheet date, Havens Steel Company, the minority shareholder of a subsidiary, United Steel Structures Limited ("USSL"), has filed for bankruptcy protection in the United States of America. The Company is currently assessing the impact of this event to the Group. However, it is not expected that it has any material impact on the going concern of USSL.

## 33 Approval of accounts

The accounts were approved by the board of directors on 16 April 2004.