



CHINA INTERNATIONAL MARINE CONTAINERS (GROUP) CO., LTD.

**ANNOUNCEMENT OF ANNUAL RESULTS**

**For the year ended 31<sup>st</sup> December, 2001**

**Important Notices:** Board of Directors of CHINA INTERNATIONAL MARINE CONTAINERS (GROUP) CO., LTD. and its members individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading. The annual report (summary) is abstracted from the annual report; investors are suggested to read the annual report to understand more details. Shenzhen Pan-China Schinda Certified Public Accountants audited financial report and issued an unqualified Auditors' Report with explanatory remarks for the Company. The Board of Directors and the Supervisory Committee also expressed detailed explanation on relevant events. Investors are suggested to read carefully. Hong Kong KPMG Certified Public Accountants issued unqualified auditors' report.

Director Mr. Erik Bøgh Christensen was absent from the 2<sup>nd</sup> meeting of the Board of Directors 2002.

## I. COMPANY PROFILE

1. Legal name of the Company  
In Chinese: 中国国际海运集装箱（集团）股份有限公司  
Short Form of Chinese Name: 中集集团  
In English: China International Marine Containers (Group) Co., Ltd.  
Short Form of English Name: CIMC
2. Legal Representative: Li Jianhong
3. Secretary of the Board of Directors: Wu Fapei  
Authorized Representatives in Charge of Securities Affairs: Yu Yuqun  
Liaison Address:  
Block 5, Financial Center of Shenkou Industrial Zone, Shenzhen, Guangdong  
Tel: (86) 755-6691130  
Fax: (86) 755-6826579  
E-mail: shareholder@cimc.com
4. Registered Address:  
Block 5, Financial Center of Shenkou Industrial Zone, Shenzhen, Guangdong  
Office Address: Block 5, Financial Center of Shenkou Industrial Zone, Shenzhen, Guangdong  
Post Code: 518067  
Company's Internet Web Site: <http://www.cimc.com>  
E-mail: shareholder@cimc.com
5. Newspapers Chosen for Disclosing Information of the Company:  
Securities Times and Ta Kung Pao  
Internet Web Site Designated by CSRC for Publishing the Annual Report:  
<http://www.cninfo.com.cn>  
The Place Where the Annual Report is Prepared and Placed:  
Financial Affairs Dept. of the Company
6. Stock Exchange Listed with: Shenzhen Stock Exchange  
Short Form of the Stock: A-share      CIMC      Stock Code: 000039  
Short Form of the Stock: B-share      CIMC-B      Stock Code: 200039
7. Initial Registration Date: Sep. 30, 1992;  
Initial Registration Place: Shenzhen Industry and Commerce Administration Bureau  
Registration Date after change: Dec.1, 2000;  
Registration Place after change:  
Shenzhen Industry and Commerce Administration Bureau  
Registration Number of the corporate business License:  
Shenzhen Listed Enterprise No. 101157  
Registration Number of Taxation:  
National taxation No.: 440301618869509      Local taxation No. : 440305618869509  
Name and Address of Certified Public Accountants Engaged by the Company:  
Domestic: Shenzhen Pan-China Schinda Certified Public Accountants  
Office Address: 16/F, Securities Building, 5020 Binhe Road, Shenzhen, P.R. China  
Overseas: KPMG Hong Kong Certified Public Accounts

Office Address: 8/F. Prince's Building., Central, Hong Kong

## II. Consolidated income statement for the year ended 31 December 2001

|                                        | <i>Note</i> | <i>2001</i><br><i>RMB'000</i> | <i>2000</i><br><i>RMB'000</i> | <i>1999</i><br><i>RMB'000</i> |
|----------------------------------------|-------------|-------------------------------|-------------------------------|-------------------------------|
| Revenue                                | 1           | 6,666,880                     | 8,851,900                     | 5,213,204                     |
| Cost of sales                          |             | <u>(5,330,086)</u>            | <u>(7,620,540)</u>            | <u>(4,408,777)</u>            |
| <b>Gross profit</b>                    |             | 1,336,794                     | 1,231,360                     | 804,426                       |
| Other operating income                 |             | 98,041                        | 155,068                       | 132,074                       |
| Distribution expenses                  |             | (201,177)                     | (224,810)                     | (164,283)                     |
| Administrative expenses                |             | (328,367)                     | (330,620)                     | (232,444)                     |
| Other operating expenses               |             | <u>(139,848)</u>              | <u>(138,144)</u>              | <u>(98,739)</u>               |
| <b>Profit from operations</b>          |             | 765,443                       | 692,854                       | 441,034                       |
| Net financing costs                    |             | (102,520)                     | (128,828)                     | (104,990)                     |
| Income from associates                 |             | <u>49,018</u>                 | <u>50,541</u>                 | <u>32,292</u>                 |
| <b>Profit before tax</b>               |             | 711,941                       | 614,567                       | 368,336                       |
| Income tax expense                     | 2           | <u>(88,847)</u>               | <u>(65,760)</u>               | <u>(56,685)</u>               |
| <b>Profit after tax</b>                |             | 623,094                       | 548,807                       | 311,351                       |
| Minority interests                     |             | <u>(58,919)</u>               | <u>(84,075)</u>               | <u>(3,254)</u>                |
| <b>Net profit for the year</b>         | 2           | 564,175<br>=====              | 464,732<br>=====              | 308,397<br>=====              |
| Basic earnings per share<br>(RMB Yuan) | 3           | 1.66<br>===                   | 1.37<br>===                   | 0.91<br>===                   |

Note1: The Revenue includes income of the manufacture and sale of marine containers, dry-freight containers, refrigerated containers and specified types of containers; airport ground facilities and internal combustion power-generating equipment; The logging and sale of timber.

Note2: Net profit and Net assets as calculated based on different accounting standards and system respectively and the explanation on difference in the net profit and net assets:

|                                                         | <i>Profit<br/>attributable to<br/>shareholders for<br/>the year ended<br/>31 December<br/>2001<br/>RMB'000</i> | <i>Net assets at<br/>31 December<br/>2001<br/>RMB'000</i> |
|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| Prepared under the PRC Accounting Rules and Regulations | 543,007                                                                                                        | 2,396,052                                                 |
| Adjustments to align with IAS:                          |                                                                                                                |                                                           |
| (i) Adjustment to provision for doubtful debts          | 15,864                                                                                                         | ---                                                       |
| (ii) Adjustment to minority interests                   | 8,629                                                                                                          | 8,323                                                     |
| (iii) Adjustment to deferred tax assets                 | (2,650)                                                                                                        | 15,566                                                    |
| (iv) Adjustment to goodwill and negative goodwill       | (4,195)                                                                                                        | (32,065)                                                  |
| (v) Adjustment to interest capitalisation               | 6,848                                                                                                          | 37,902                                                    |
| (vi) Dividend accounted for on paid basis               | ---                                                                                                            | 170,101                                                   |
| (vii) Others                                            | <u>(3,328)</u>                                                                                                 | <u>1,426</u>                                              |
| Prepared under IAS                                      | 564,175<br>=====                                                                                               | 2,597,305<br>=====                                        |

**Note3: Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB564,175,000 (2000: RMB464,732,000) and 340,201,398 shares (2000: 340,201,398 shares) in issue during the year.

There were no diluting potential ordinary shares in existence during the years ended 31 December 2000 and 2001.

### III. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

#### (I) Particulars about changes in share capital

##### 1. Statement of change in shares

Unit: share

| Items                                   | Before the change | Increase/decrease of this time (+, -) | After the change |
|-----------------------------------------|-------------------|---------------------------------------|------------------|
| I. Unlisted Shares                      |                   |                                       |                  |
| 1. Sponsor's shares                     | 151,575,422       | 0                                     | 151,575,422      |
| Including:                              |                   |                                       |                  |
| Shares held by domestic juristic person | 68,208,940        | 0                                     | 68,208,940       |
| Share held by foreign juristic person   | 83,366,482        | 0                                     | 83,366,482       |
| 2. Employees' shares (Notes)            | 230,888           | 0                                     | 230,888          |
| Total Unlisted shares                   | 151,806,310       | 0                                     | 151,806,310      |
| II. Listed Shares                       |                   |                                       |                  |
| 1. RMB ordinary shares                  | 45,991,287        | 0                                     | 45,991,287       |
| 2. Domestically listed foreign shares   | 142,403,801       | 0                                     | 142,403,801      |
| Total Listed shares                     | 188,395,088       | 0                                     | 188,395,088      |
| III. Total shares                       | 340,201,398       | 0                                     | 340,201,398      |

Note: 230,888 employee's shares refer to the frozen shares held by directors, supervisors and senior executives.

##### 2. Issuance and listing of the shares

(1) Particulars about the issuance and listing of the shares over the previous three years at the end the report year

Over the previous three years at the end the report year, the Company issued neither new shares nor derived securities.

Note: The Company successfully issued 13 million B shares with the issuance price of HK\$ 7.54 per share in Feb. 1994, and the said 13 million B shares were listed with Shenzhen Stock Exchange for trading on Mar. 23, 1994. The Company successfully issued 12 million A shares with the issuance price of RMB 8.50 per share in Feb. 1994, and the said 12 million A shares were listed with Shenzhen Stock Exchange for trading on Apr. 8, 1994.

##### (2) Particulars about change in share capital

By the end of the report year, there is no change in the total number of shares of the Company.

**(3) Issuance of employee's shares**

Approved by Bank of China Shenzhen Special Economic Zone Branch on Dec. 15, 1992, the Company issued 64 million inner shares, including 57.6 million employee's shares with the price of RMB 1.65 per share. Except for 230,888 shares held by directors, supervisors and senior executives in office at present, the other employee's shares were listed for circulation early or late.

**(II) About shareholders****1. Total shareholders at the end of the report year**

Ended Dec. 31, 2001, the Company had 51,327 shareholders in total, including 32,334 shareholders of A-shares and 18,993 shareholders of B-share.

**2. Shares held by major shareholders (ended Dec. 31, 2001, the top ten shareholders)**

| No. | Shareholders' name                                  | Amount at the year-end (share) | Type of share | Increase/decrease in the report year | Proportion in total shares |
|-----|-----------------------------------------------------|--------------------------------|---------------|--------------------------------------|----------------------------|
| 1   | CHINA OCEAN SHIPPING (GROUP) CO., LTD.              | 68,208,940                     | A             | 0                                    | 20.05%                     |
| 2   | CHINA MERCHANTS CONTAINER INDUSTRY CO., LTD.        | 68,208,940                     | B             | 0                                    | 20.05%                     |
| 3   | FAIR OAKS DEVELOPMENT LIMITED                       | 24,710,000                     | B             | -440,521                             | 7.26%                      |
| 4   | PROFIT CROWN ASSETS LIMITED                         | 15,157,542                     | B             | 0                                    | 4.46%                      |
| 5   | LONG HONOUR INVESTMENTS LIMITED                     | 3,996,545                      | B             | -22,203,460                          | 1.17%                      |
| 6   | CITRINE CAPITAL LIMITED                             | 3,002,655                      | B             | 0                                    | 0.88%                      |
| 7   | YANG ZHU SHI                                        | 2,418,000                      | B             | 0                                    | 0.71%                      |
| 8   | YUYANG SECURITIES INVESTMENT FUND                   | 1,734,669                      | A             | 0                                    | 0.50%                      |
| 9   | LUO YI                                              | 1,648,400                      | B             | 0                                    | 0.48%                      |
| 10  | HSBC BROKING SECURITIES (ASIA) LIMITED-CLILENTS A/C | 1,572,073                      | B             | 0                                    | 0.46%                      |

**Note 1:** The first shareholder and the second shareholder are the sponsor shareholders of the Company, and the shares held by the said shareholders were not circulated. In the report year, the fourth shareholder acquired 15,157,542 B shares held by East Asiatic Company Limited A/C. (original shareholder of the Company), the relevant equity transfer procedures has been conducted.

**Note 2:** Among the above the top ten shareholders, there exist the associated relationship between the first shareholder and the fifth shareholder: Long Honour Investment Limited is the wholly-owned subsidiary company of China Ocean Shipping (Group) Co., Ltd.; there exist the associated relationship between the second shareholder and the third shareholder: China Merchants Container Industry Co., Ltd. and Fair Oaks Development Limited are the wholly-owned subsidiary companies of

China Merchant Holdings (International) Co., Ltd..

Note 3: The shares held by legal person holding over 5% (including 5%) of total shares of the Company have never been pledged or frozen.

### 3. The Big shareholder of the Company

The Company has no shareholder holding over 30% of total shares of the Company (the controlling shareholder).

In the report period, the controlling shareholder of the Company remained unchanged.

| Shareholder's name                           | Proportion of total shares | Legal representative | Date of foundation | Registration capital | Structure of equity | Business scope                                                                                                                                                                                                                                          |
|----------------------------------------------|----------------------------|----------------------|--------------------|----------------------|---------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CHINA OCEAN SHIPPING (GROUP) CO., LTD.       | 20.05%                     | Wei Jiafu            | Apr. 27, 1961      | RMB 1.9 billion      | (Note 1)            | International passenger and cargo transportation; renting, manufacturing and sales of ship, container and relevant equipment maintenance and parts business, contracting, storing, customs applying and transportation for import or export commodities |
| CHINA MERCHANTS CONTAINER INDUSTRY CO., LTD. | 20.05%                     | Fu Yuning            | Jan. 17, 1995      | HKD 10 thousand      | (Note 2)            | Investment and share holding                                                                                                                                                                                                                            |

Note 1: China Ocean Shipping (Group) Co. is one of 44 backbone enterprises directly managed by the central government.

Note 2: China Merchants Containers Industry Co., Ltd. is the wholly-owned subsidiary company of China Merchants International Co., Ltd.. China Merchants Holdings (International) Co., Ltd. is a listed company in Hong Kong Exchanges; and its Chairman of the Board is Fu Yuning and is mainly engaged in investment and share holding; China Merchants Group (Hong Kong) Co., Ltd. holds 53.146% share equity of China Merchants Holdings (International) Co., Ltd.

## IV. PARTICULARS ABOUT DIRECTOR, SUPERVISOR AND SENIOR EXECUTIVE AND STAFF

### (I) Director, supervisor and senior executives

#### 1. Introduction

| Name           | Title                      | Gender | Age | Office term                               | Number of holding shares at the year-begin | Number of holding shares at the year-end | Increase / decrease |
|----------------|----------------------------|--------|-----|-------------------------------------------|--------------------------------------------|------------------------------------------|---------------------|
| Li Jianhong    | Chairman of the Board      | Male   | 45  | Office term of three years from May 2001  | 0                                          | 0                                        | 0                   |
| Zhao Huxiang   | Vice Chairman of the Board | Male   | 46  | Office term- of three years from May 2001 | 0                                          | 0                                        | 0                   |
| Mai Boliang    | Director,                  | Male   | 43  | Office term of three years from May 2001  | 78,078                                     | 78,078                                   | 0                   |
|                | General Manager            |        |     | Office term of three years from Jun. 2001 | 0                                          | 0                                        | 0                   |
| Du Feng        | Director                   | Male   | 58  | Office term of three years from May 2001  | 72,872                                     | 72,872                                   | 0                   |
| Wang Xiaodong  | Director                   | Male   | 43  | Office term of three years from May 2001  | 0                                          | 0                                        | 0                   |
| Yan Chengxiang | Director                   | Male   | 34  | Office term of three years from May 2000  | 0                                          | 0                                        | 0                   |
| Wu Sanqiang    | Director                   | Male   | 31  | Office term of three years from Jun. 1999 | 0                                          | 0                                        | 0                   |
| Xiao Zhuoji    | Independent Director       | Male   | 69  | Office term of three years from May 2001  | 0                                          | 0                                        | 0                   |
| Han Xiaojing   | Independent Director       | Male   | 47  | Office term of three years from May 2001  | 0                                          | 0                                        | 0                   |
| Qi Tianshun    | Independent Director       | Male   | 55  | Office term of three years from May 2001  | 0                                          | 0                                        | 0                   |
| Zhao Qingsheng | Deputy General Manager     | Male   | 50  | Office term of three years from Apr. 1999 | 0                                          | 0                                        | 0                   |
| Li Ruiting     | Deputy General Manager     | Male   | 54  | Office term of three years from Jun. 2001 | 52,052                                     | 52,052                                   | 0                   |
| Tang Guocai    | Deputy General Manager     | Male   | 63  | Office term of three years from Jun. 2001 | 0                                          | 0                                        | 0                   |
| Gu Hongren     | Deputy General Manager     | Male   | 46  | Office term of three years from Jun. 2001 | 27,885                                     | 27,885                                   | 0                   |
| Zhou Bosheng   | Deputy General Manager     | Male   | 59  | Office term of three years from Dec. 1998 | 0                                          | 0                                        | 0                   |
| Wu Fapei       | Secretary of the Board     | Male   | 44  | Office term of three years from Dec. 1999 | 0                                          | 0                                        | 0                   |

|               |                                       |        |    |                                          |   |   |   |
|---------------|---------------------------------------|--------|----|------------------------------------------|---|---|---|
| Zhou Xiedong  | Chairman of the Supervisory Committee | Male   | 52 | Office term of three years from May 2001 | 0 | 0 | 0 |
| Xiong Bo      | Supervisor                            | Male   | 42 | Office term of three years from May 2001 | 0 | 0 | 0 |
| Zheng Weijuan | Supervisor                            | Female | 44 | Office term of three years from May 2001 | 0 | 0 | 0 |

**Notes:**

- (1) Chairman of the Board Li Jianhong used to be Assistant of General Manager and Chief Economist of China Ocean Shipping (Group) Co., Ltd.. He acted as Deputy General Manager and member of Party Group of China Ocean Shipping (Group) Co., Ltd. from 2000.
- (2) Vice Chairman of the Board Zhao Huxiang used to be Assistant of General Manager of China Merchants Group Co., Ltd.; Director and General Manager of China Merchants International Co., Ltd.. He acted as Deputy General Manager of China Merchants Group Co., Ltd. and concurrent Vice Chairman of the Board of China Merchants International Co., Ltd. from Nov. 2001.
- (3) Director Wang Xiaodong acted as General Manager of COSCO Industrial Co. from Jan. 1998.
- (4) Director Yan Chengxiang used to be Deputy General Manager of Development Dept., Deputy General Manager and General Manager of Design Dept. of Zhongyuan Industrial Co.. He acted as Manager of Design Dept. of COSCO Shipping Engineering Group Co., Ltd. and concurrent Deputy General Manager of Nantong Ocean Shipping Engineering Co., Ltd. from July 2000.
- (5) Original Director Wu Guowei passed away in November of 2001 when he was still in his tenure of office.
- (6) Director Wu Sanqiang used to be General Manager of Industry Management Dept., General Manager of Transportation Capital Construction Dept. of China Merchants International Co., Ltd.. He acted as General Manager of Port Management Dept. of China Merchants International Co., Ltd. from March 2002.
- (7) Independent Director Xiao Zhuoji now acts as professor of economics of Beijing University.
- (8) Independent Director Han Xiaojing now acts as management copartner and lawyer of Beijing Commerce & Finance Law Offices.
- (9) Independent Director Qi Tianshun (Erik Bøgh Christensen) now acts as Director and General Manager of Hong Kong Modern Container Terminal Co., Ltd..

## 2. Particulars about the annual salary received by directors, supervisors and senior executives in the report year

- (1) The decision-making procedure and the determinate basis of compensation received by directors, supervisors and senior executives:

The Company has established the perfect compensation system and encouraging method, and implemented the annual salary system for directors, supervisor and senior executives. According to the relevant regulation of Articles of Association of

the Company, the rewards of directors and supervisors are decided by the Shareholders' General Meeting and the rewards of senior executives are decided by the Board of Directors; the Board of Directors conducted the annual checking system for senior executives. The year-end performance rewards are decided based on the accomplishment of the all-year operation targets, the performance reward of President is paid according to a fixed proportion of the total performance rewards; the performance rewards of the other senior executives are paid according to the scheme established by General Manager and is subject to Chairman of the Board and Vice Chairman of the Board for approval.

(2) There are 10 persons (director, supervisor and senior executive) draw their annual salary (including base salary, reward, welfare, subsidy, housing allowance and others) from the Company and the total annual salary amounts to RMB 2,620,000. The total amount of the top three directors was RMB 1,260,000. The total amount of the top three senior executives was RMB 1,260,000. Of them, 2 persons enjoy their annual salary from RMB 500,000 to RMB 700,000 respectively; 2 persons enjoy their annual salary from RMB 200,000 to RMB 300,000 respectively; 4 persons enjoy their annual salary from RMB 100,000 to RMB 200,000 respectively, and 2 persons enjoy their annual salary from RMB 50,000 to RMB 100,000 respectively. Independent directors Xiao Zhuji, Han Xiaojin and Qi Tianshun drew their allowance amounting to RMB 80,000 respectively from the Company.

Director Li Jianhong, Wang Xiaodong and Yan Chengxiang hold the post and draw their annual salary in China Ocean Shipping (Group) Co., Ltd. and its subsidiary company; Director Zhao Huxiang, Wu Sanqiang and Wu Guowei hold the post and draw their annual salary in China Merchants International Co., Ltd..

3. Directors, supervisors and senior executives leaving the office and the reason in the report year

In the report year, Zhuang Shunshan resigned from the post of Director because the shares held East Asiatic Company Limited A/C were transferred. Director Wu Guowei passed away during the term of office.

## (II) About staff

Ended Dec. 31, 2001, the Company had 185 employees registered.

Formation of employees is as follows:

|                 | Formation of posts |       |         |       |       | Education level |          |                  |        |
|-----------------|--------------------|-------|---------|-------|-------|-----------------|----------|------------------|--------|
|                 | Management         | Tech. | Finance | Sales | Admin | Post-graduate   | Graduate | College graduate | Others |
| Number (Person) | 79                 | 43    | 20      | 23    | 20    | 38              | 88       | 35               | 24     |
| Proportion (%)  | 42.7               | 23.3  | 10.8    | 12.4  | 10.8  | 20.5            | 47.6     | 18.9             | 13.0   |

The Company has no retirees for who it needs to bear costs.

## **V. Corporate Governance Structure**

### **1. The Implementation of Standardized Documents Concerning the Governance of Listed Companies.**

The company has since its inception made continuous improvement on its governance structure while following the Law of Corporation and the Securities Law as well as the stringent laws and requirements of China Securities Regulatory Commission (CSRC), CSRC representative offices and Shenzhen Security Exchanges. At present, the Company sees a balanced structure of share rights and a standardized practice by big shareholders; the shareholders' general meeting, the board of directors, and the supervisory board operate in standardized and effective manner. In order to effectively secure the interests of shareholders and the Company, the Company has decided to further specify the function and responsibilities of the shareholders' general meeting, the board of directors and the supervisory board through revising and formulating the Rules of Procedures for the Shareholders' General Meeting, the Rules of Procedures for the Board of Directors, and the Rules of Procedures for the Supervisory Board.

The corporate governance is fundamentally in line with the requirements of the Code for the Governance of Listed Companies distributed by the CSRC and the State Economic and Trade Commission in January 2002.

In line with the requirements in the Code of Governance, the board of directors has decided to set up the Strategic Commission, and Salaries and Assessment Commission. An audit commission and nomination commission will be formed in the future to abide by and improve the relevant rules.

For information publication, the Company is to take gradual steps to work out and improve the system of information publication, making it more authentic, accurate, complete and timely.

### **2. The selection of independent directors and their performance**

Pursuant to the requirements of related laws and regulations of the supervisory departments as well as of the Articles of Associations, the Company elected Xiao Zhuoji, Han Xiaojing and Qi Tianshun independent directors at 2000 shareholders' general meeting in May 2001. In the following operation of the board of directors, independent directors, taking into account the interests of the company and those of the medium and small shareholders in particular, has voiced their own opinion supported by their professional knowledge while discussing proposals in the board of directors. They have fulfilled their function and responsibility as independent directors and played their due role.

### **3. Separation of the Company and the controlling shareholders in five aspects of business, personnel, asset, institution and finance.**

20.05% of the Company's shares belong to its big shareholders, China Ocean Shipping (Group) Co. and the China Merchants Containers Industry Co., Ltd. The Company and its big shareholders practice separate accounts and undertake their own responsibilities and risks since they have realized their separation in five aspects of business, personnel, asset, institution and finance. Big shareholders have never bypassed the board of directors to have any interference, direct or indirect, with the decision-making or legitimate corporate production or management. The Company have never been involved in any competition with big shareholders in management of similar products of the same trade.

### **4. Mechanism of performance assessment and encouragement and binding for senior executives**

The Company has attracted talented personnel and ensured the stability of the high-level management with its long-established performance assessment and encourage and binding mechanism linking the earnings of senior executives and the performance of the Company as well as the individual performance. The board of directors designs the assessment indicators on the basis of its long and medium-term goal for strategic development and the interests of all shareholders. The total amount of the payment is determined at the end of the year by how well the indicators are fulfilled. The president, whose payment makes up a certain proportion of the total payment, works out a plan on the payment of other senior executives, and submits to the chairman and vice chairman of the board of directors for examination and approval.

## **VI General Introduction of the Shareholders' General Meeting**

This year saw the convening of two meetings of shareholders, including 2000 Shareholders' General Meeting and 2001 Extraordinary Meeting of Shareholders

### **1.2000 Shareholders' General Meeting**

(1) The Company gave a public notice on convening 2000 Shareholders' General Meeting in Securities Times and Hong Kong Economic Journal dated April 20, 2001.

(2) On May 20, 2001, the Company's 2000 Shareholders' General Meeting was held at Minghua International Conference Center in Shekou Industrial Zone of Shenzhen, Guangdong. Nineteen shareholders (or the representatives of shareholders) were present, representing 181,530,185 share rights, accounting for 53.36 percent of the

Company's total shares. Of these, twelve held A shares(or the representatives of shareholders), representing 72,912,046 share rights, or 21.43 percent of the total. Seven held B shares, representing 108,618,139 share rights, or 31.93 percent of the total. Adopted are the following proposals: 1) 200 work report of the board of directors; 2) 2000 work report of the supervisory board; 3) 2002 financial settlement report; 4) proposal for profit distribution for 2000; 5) proposal for the election of new directors; 6) proposal for changing directors; 7) proposal for revising the Company Articles of Associations; 8) proposal for engaging an accounting firm; 9) explanation on the utilization of the proceeds raised at the previous time; 10) proposal for the additional issuance of A shares not more than 80 million; 11) provisional proposals: A. the provisional proposal for the payment of the independent directors. B. the provisional proposal for transferring the share rights of its former shareholder, EAC (Hong Kong.) Co., Ltd.

(3) On May 22, 2001, the Company published a public notice on the resolution of shareholders' general meeting in Securities Times and Hong Kong Economic Journal.

(4) The Meeting renewed the position of Li Jianhong, Zhao Huxiang, Mai Boliang, Dufeng and Wang Xiaodong as the company's directors upon the completion of their term. Xiao Zhuoji, Han Xiaojing and Qi Tianshun are elected independent directors.

Its director Zhuang Shunshan left the post of director.

## 2. 2001 Extraordinary Meeting of Shareholders

(1) The Company published a public notice on convening 2000 Shareholders' General Meeting in Securities Times and Ta Kung Pao of Hong Kong on September 26, 2001.

2) The Company's 2000 Shareholders' General Meeting was held at Minghua International Conference Center in Shekou Industrial Zone of Shenzhen, Guangdong on October 26, 2001. Eight shareholders were present, representing 176,512,992 share rights, accounting for 51.88 percent of the company's total shares. Of these, four held A shares, representing 68,417,110 share rights or 20.11 percent of the total, seven held B shares, representing 108,095,882 share rights or 31.77 percent of the total. Adopted are the following proposals: 1) proposal for the terminating the employment of Zhongtianqin Accounting Firm; 2) proposal for engaging Shenzhen Pan-China Schinda Certified Public Accountants to be responsible for the accounting statement audit, net asset verification and other relevant consulting service for the company in 2001.

(3) The company published a public notice on the resolution of the Extraordinary Shareholders Meeting of in Securities Times and Ta Kung Pao of Hong Kong on October 27, 2001.

## VII Report of the Board of Directors

### ( I ) Corporate operation

#### 1. Business scope and management

##### 1) Principle business revenue and the operating of principle business profits

Global economy suffered a slump in 2001, especially at the second half of the year in the wake of the September 11<sup>th</sup> event of the United States. As a result, both global ocean shipment industry and China's foreign trade saw a lower growth rate compared with last year. The demand for containers therefore declined by a large margin. The group had therefore experienced its first negative growth in its earnings since it got listed. The group, under the leadership of the board of directors and the executive, has stricken a good performance and reached the designed goal for operation through the pursuit of the principle of optimizing connotation, controlling risks, upgrading while making consolidation and making innovation and breakthrough" By December 31 of 2001, the group had realized a principle business revenue of RMB 6,666,880,000, 24.68 percent lower than that of 2000, and a net profit of RMB 564,175,000, 21.40 percent higher than that of 2000.

The composition of principle business earnings and profits in 2001 is as follows:

*Unit: RMB'000*

|                                             | Business revenue | Proportion(%) |
|---------------------------------------------|------------------|---------------|
| <b>Categories of Business</b>               |                  |               |
| Containers                                  | 6,448,443        | 97.48         |
| Electrical and mechanical equipment         | 89,209           | 1.34          |
| Real estate                                 | 124,120          | 1.86          |
| Timber                                      | 5,108            | 0.08          |
| <b>In total</b>                             | <b>6,666,880</b> | <b>100.00</b> |
| <b>Container business on Regional Basis</b> |                  |               |
| Shenzhen                                    | 1,505,067        | 23.34         |
| Xinhui                                      | 818,952          | 12.70         |
| Nantong                                     | 1,022,078        | 15.85         |
| Dalian                                      | 285,021          | 4.42          |
| Shanghai                                    | 1,601,045        | 25.03         |
| Tianjin                                     | 435,270          | 6.75          |
| Qingdao                                     | 768,010          | 11.91         |
| <b>In total</b>                             | <b>6,448,443</b> | <b>100.00</b> |

2) Principle business operation in the report period is as follows:

The Company and its subsidiaries (hereinafter referred to as the Group) are mainly engaged in manufacturing and marketing modern communication and transport equipment, including the design, manufacture, sale and maintenance of standard dry cargo containers, refrigerator containers, special containers, airport facilities and other communications and transport equipment. In addition, it involves the business of timber and infrastructure and real estate. The Company is the first listed company in China's container manufacturing industry whereas the Group is the largest standard dry cargo container manufacturer and the second largest refrigerator container manufacturer in today's world. According to the comprehensive industrial statistics given by the Company, the Group's containers made up 37 percent of the global market in 2001. Its container products constituted more than ten percent of the principle business revenue and operating profits of the Company. Moreover, the Group is involved in infrastructure construction, real estate, electrical and mechanical equipment manufacturing.

The details about the products making up 10 percent of its principle business revenue and operating profits:

| Unit: RMB'000 |           |               |                       |
|---------------|-----------|---------------|-----------------------|
| Products      | Revenue   | Cost of sales | Gross profit rate (%) |
| Containers    | 6,666,880 | 5,330,086     | 20.05                 |

Firstly, as for the goal for future business development, the development strategy is further identified. In 2001, the Company made an in-depth study on its development strategy and work out its vision for development, that is “to become major suppliers, in line with clients' demand in the global market, for top-class modern communications and transport equipment as well as related service, to build a famous brand reliable for clients, and meanwhile, to maintain the healthy development and sustained grow of value for the Company so as to provide good reciprocation for shareholders and employees” Under the guidance of the vision, the group defined its strategic business development three levels: 1) existing core business—container business, focusing on taking advantage of the low manufacturing cost in China and the competitive edge of the Group to expand its market through speeding up technological innovation and connotation optimization. 2) the new business for prompt extension, primarily with trailer as the target. 3) the dynamic business in the industry of modern communications and transport facilities and service in compliance with the strategic position of the company, and the business which can be picked up in the future five years and is able to integrate the whole industry. The strategy, based on the existing core competitive edge of the Company, is to set up and develop the business simultaneously at these three levels through different stages. The efforts will continue to be made to consolidate and build on its advantage in the core business and optimize the product structure of container business. With more resources invested and business extended at the second level, the Group will enjoy a larger space for

development and foster stronger ability of sustainable development.

Secondly, the containers business is operated in a good manner. Due to the global economic slowdown in 2001, the demand for containers, mostly standard dry cargo containers, continued to decline in the second half of the year. The average prices for containers stand at a relatively high level despite some price slide in the second half of the year. Meanwhile the prices for raw material register a sharp decrease, bringing about the lowering of the cost of materials. On the other hand, the Group, under the guidance of the development strategy of “providing equipment and service in modern communications and transport”, continued to have its product structure adjusted. The proportion of refrigerator containers and special containers, two businesses with comparatively larger gross profits, continued to go up. The Company therefore secured a significant growth in its net profits. Despite some pressure from the competition in the industry, the situation is changing in a direction favorable for the sound development of the industry and the Group retains its dominance position in the industry.

The group realized a sales income of container RMB6,448,443,000 yuan, a 24.75 percent decrease over that of last year, and it made up 96.72 percent of the Group's total sales income. 1) Standard dry cargo containers maintained its market share. The sale through the year added up to 390,515 TEU, 40.40% less than that of last year, and it contributed to a 36.5% of global market. The sales profit rate in the whole year increased by 2.5% over last year. 2) Refrigerator container business picks up its competitive edge. The Group invested in the equipment transformation in the refrigerator plants in Shanghai and Qingdao, with a view to improving the productive capability and steady improvement of the product quality. New clients grew while new products were developed. The production and sale of refrigerator containers rose significantly compared with the same period of last year. The sales in 2001 totaled 36,466TEU, 24.06 % more than that of last year. It accounted for 8.04% of the sales of the containers of various kinds and the figure was climbing. The group's refrigerator containers were found in 39.3% of the global market, nearly 10% more than that of 2000. The sales profit rate of the year increased by 2.9% over that of last year. 3) Substantial results were achieved in the development of special containers and the market expansion. The proportion of special containers in the sales of all containers picked up. The year 2001 saw the gradual formation of the mainstream collection of special containers including ultra-wide containers, Japanese inland containers (including tray containers, JR containers), and special containers particularly for Australian market; and the development of the collection of potential tank containers and the North American inland containers. The first phase investment of the tin container project has been completed as scheduled with good cooperation with the British UBHI. In December of 2001 Nantong CIMC Special Transport Equipment Manufacturer Co., Ltd. completed the installment and adjustment of its tank container production line and launched the sample container production and trial production in batches. It was the first time for China to produce ISO/IMO1 tank

containers. The special container sales over the year added up to 26,317TEU, a 78.86% increase over that of last year. It contributed 5.81% to the total sales of containers, a remarkable rise compared with the year 2000. The sales profit rate of the year increased by 2.3% over that of last year.

Thirdly, The group made considerable progress in development of new business. With gradual modernization of domestic road transportation especially the transportation mode of expressway as well as the gradual improvement of information technology, clients will be increasingly demanding in the service of commodity interflow in the wake of China's entry into the WTO. The modern network of rapid commodity interflow will come into being at a faster pace. Therefore, the Group was devoted to providing domestic clients with a diversity of rapid, sage, energy-saving and environmentally friendly transport facilities. The Group injected huge resources and energy in market expansion and product development involving trailer and container chassis. 2001 saw the completion of its experimental manufacture of a dozen kinds of sample vehicles, and its trial sale in the Australian and Chinese market as well as the study of the North American market.

Fourthly, the Group continued to carry out a range of measures to optimize the connotation in management. 1) Quality management is strengthened. ISO9000: 2000 uniform certification was carried out within the group. 2) Technological development and scientific research management was stepped up. In order to achieve its strategic orientation, the group set up a technological research and development center to construct the technical system for the research and development, design, and manufacture of its modern communications and transport equipment. The technological research and development center of CIMC was recognized this year by the state as an "Enterprises' Technical Center enjoying the state preferential policies." CIMC basically established and developed institutions and relevant management system for the Center. It implemented a management approach for the technology development program, offering a innovative encouragement mechanism for technological development; results were achieved in patent application and new product development. A preliminary patent management system came into being and the independent technological development ability was further enhanced. 3) Information-based management of enterprises continued to be promoted. In the field of dry cargo container and refrigerator container business, digital management system for products based on network information technology was accomplished in its design and entered the stage of trial operation. The implementation of the project will have a far-reaching implication for the system of container production, and sharpen its competitive edge in terms of the cost. 4) Management of purchase was strengthened. New rules and regulations on purchase management were formulated and supplier appraisal system and the supply chain management was employed, making more competent executives. Appropriate adjustment on the purchase strategy and flexible cycle and amount of purchase brought about a lower purchase cost. 5) The account receivable and capital management was stepped up, significantly reducing the liability

rates.

3) No major changes took place in principle business and structure of the company during the report period.

## **2. Operation and performance by major holding companies and subsidiaries.**

Principle business of the Company is undertaken by its subsidiaries and holding companies. In addition to its principle business of container manufacturing, the Company is involved in the business of timber, electrical and mechanical equipment, infrastructure construction and real estate by its holding companies and subsidiaries.

During the report period, the preliminary results were achieved in its adjustment of the business beyond container manufacturing and profits were realized in some business.

### **1) Timber industry**

The timer industry experienced continuous adjustment of development strategy. In order to have a better control of the risks, the company continued to adopt in 2001 the strategy of temporarily suspending investment in overseas projects including suspending its operation in Cambodia; and seeking partners in Suriname and preliminary progress was achieved. Its business in the timber industry enjoyed the sales revenue of RMB 6,832,000 yuan, dropped by 57.78% over that of the year 2000.

The Group made up 72% of the interests in Xinhui CIMC Container Flooring Co., Ltd. with a registered capital of \$11.5 million. Xinhui CIMC Container Flooring Co., Ltd realized a sales revenue of 77,095,000 yuan, a dramatic 91.21% increase over that of last year.

### **2) Electrical and mechanical equipment business**

Seeing the contracted order and sale of airport equipment in 2001, the subsidiary of the Group, Shenzhen CIMC-Tianda Airport Support Co., Ltd. made vigorous efforts to expand market and step up its internal management, allowing its production to gradually pick up and the amount of both production and sales to surpass that of last year. Its goal of production and operation was fulfilled considerably. In 2001 sales revenue reached 93,040,000 yuan, a 43.78% increase over that of the year 2000. Shanghai CIMC Generating Set Co., Ltd., of which the Group held 73% of the equity, realized a RMB 19,774,000 yuan worth of interests, a little increase over that of the year 2000.

### **3) Infrastructure construction and real estate business**

Based on the reorganization made by the Group on infrastructure and real estate, CIMC (Shanghai) Development Co., Ltd. made comprehensive management, enabling the business in this regard to develop in the direction of self-management and self-revolving. CIMC (Shanghai) Development Co., Ltd. is mainly engaged in infrastructure investment, construction and management, real estate development and management, and industrial investment. It has a registered capital of RMB 500 million and the Company enjoys one hundred percent of its equity.

Shanghai Yixian Elevated Road invested by Twindridge Development Co., Ltd., of which the group held 40% of the equity, brought about in 2001 185,491,000 yuan of operation revenue, a 1.89% increase over that of the same period of last year; and 114,574,760 yuan net profits, a 6.55% drop against that of the same period of last year.

During the period of the report, Shanghai Baiyulan Garden program, of which the group held 60% of the equity, was undergoing desirable progress. The construction at the second phase has been started in a site of 28,900 sq. m. The construction area of the first and second phase added up to 51,900 sq.m and the total investment stroke 91,840,000 yuan. The first phase of the program saw a good marketing, with the sales revenue of 81,940,000 yuan.

Nanjing Zhongji Real Estate Development Co., Ltd., of which the Group held 100% equity rights, realized sales income of RMB 71,960,000. And Tianhai Garden Mansion, which was developed by Shenzhen CIMC Real Estate Development Co., Ltd., realized sales income of RMB 52,140,000.

### **3. Particulars about major suppliers and clients**

During the report period, the Group's total value of the purchase from its first five largest suppliers accounted for 47.34% of its total purchase in the year while its total value of sales to its first five largest clients made up 38.17% of its total sales in the year. Its major interests groups or its shareholders with five percent of promoter shares, have no equity in the above suppliers and clients.

### **4. Problems and settlement proposals in the company's operation**

Problems and difficulties: global ocean transport industry was stricken by the global economic slump and China's export suffered a lower growth rate. The production and management of dry cargo container is faced with considerable pressure as the demand for standard cargo container declined in the latter half of 2001.

Settlement: further efforts were made to adjust the product structure and reform the production line of refrigerator containers and special containers, thus enhancing the production capability and increasing the proportion of special and refrigerator containers with high added value; one the other hand, continuous efforts were made to

implement the measures of connotation optimization through stepping up management over quality, purchase, transport and capital, with a view to cutting the cost and improving profits.

**5. The company did not announce to the public its profit projection in this year**

**( II ) Corporate investment**

**1. Utilization of the proceeds raised**

This year did not see any utilization of fund raised.

**2. Investment with non-raised fund during the report period**

1) The tank container project undertaken by Nantong CIMC Special Transportation Equipment Manufacture Co., Ltd., of which the group holds 57.4% of the equity, is designed to have an annual production capacity of 1000 ISO/IMO tank containers. In December of 2001, the production line was installed and adjusted and the sample tank container and trial production in batches started.

2) The investment involved in Shanghai Baiyulan Garden Program is referred to the section on infrastructure construction and real estate business in the operation and performance of holding companies and subsidiaries in the report of the board of directors.

3) On June 8 of 2001, the Company invested another \$1,920,000 in Shenzhen CIMC-Tianda Airport Support Co., allowing the registered capital of Tianda to reach \$13,500,000, to which the Company contributed \$3,240,000. The Company held 24% of its equity while the Group enjoyed one hundred percent of its equity.

4) On June 18 of 2001, the Company invested another \$3,847,500 in Tianjin CIMC North Ocean Co., Ltd.(“NOC”) . NOC’s registered capital thus reached \$16,682,000, of which the Company contributed \$7,924,000. The Company claimed 47.5% of its equity while the group enjoyed 70.74% .

5) On August 18 of 2001, the company as the promoter received 1.00% share of CCSC Securities Co., Ltd., or 24,019,171 shares according to agreement. The Company paid the agreed transfer value of 42,507,300 yuan.

6) On November 9 of 2001, the Company signed a contract on share transfer with Shenzhen Huihe Investment Development Co., Ltd. Huihe transferred to the Company 62,667,196 shares of the Merchant Bank, each sold at an average price of RMB 3.66 yuan. The company accepted the transfer after deliberation of the board of

directors on November 20 of 2001 and the board of directors of the Merchant Bank C., Ltd. approved the transfer on November 22. The Company therefore accomplished transfer on December 20, 2001

### (III) Financial situation of the Company

The financial situation of the company is as follows:

Unit: RMB

| Items                 | 2001      | 2000<br>(restated) | Increase/<br>decrease (%) | Major causes of increase or<br>decrease            |
|-----------------------|-----------|--------------------|---------------------------|----------------------------------------------------|
| Total assets          | 6,108,082 | 6,586,036          | -9.27                     | Decrease of account<br>receivables and inventories |
| Long-term liabilities | 1,038,450 | 769,758            | 34.91                     | Increase of long-term<br>borrowings                |
| Shareholders' equity  | 2,597,305 | 2,101,398          | 23.60                     | Increase of net profits                            |
| Operating profits     | 1,336,794 | 1,231,360          | 8.56                      | Drop of costs of main business<br>lines            |
| Net profits           | 564,175   | 464,732            | 21.40                     | Drop of costs of main business<br>lines            |

(IV) The production and management environment, macro-economic policies and the change of laws and regulations and their implications for the Company.

The gradual downturn of global economy, the drop of the growth rate of global trade and ocean transport, and the decline of growth rate of China's foreign trade in 2001 all had implications for the group's container production and sales. The major implications are as follows:

A. The demand for containers, for standard dry cargo containers in particular, has since the second quarter dropped and the prices for containers were lowered.

B. The continuous drop of raw material price helped the group reduce the cost for production.

(V) In the report period, Shenzhen Pan-China Schinda Certified Public Accountants issued unqualified auditors' report carried with explanatory remarks for the financial report of the company while Hong Kong KPMG

## Certified Public Accountants issued unqualified auditors' report.

The explanatory remarks are as follows: As reported in the Note 49(1) of the consolidated financial statement, the Company had ever implemented the System on the Reward Plan of Stock Option for Management Staff of CIMC with president encouragement. In December of 2001, the Board of Directors decided to make self-inspection and rectification and stop implementation of stock option reward plan. On April 19, 2002, Shenzhen Securities Supervision and Administration Office ("SSSAO") of CSRC issued decision of disposal in SSSAO [2002] No. 83 document towards the aforesaid improper behavior of the Company.

In the light of the aforesaid explanatory remarks, the Board of Directors made the following explanation:

In order to encourage management staffs and core operation staffs more efficiently so as to connect the benefits of management staffs with the Company's business results and long-term development more closely and to further stabilize management team, the Board of Directors approved the System on the Reward Plan of Stock Option for Management Staff of CIMC in November 1998, which will come into trial operation from 1999.

Under the circumstance that there is no standardized stock option system in the country, the Company studied the mock reward plan of stock option in hope of connecting the benefits of management and core operation staffs with the long-term development of the Company to some extent. Since the Company had no long-term stock warrant, it had to purchase part of shares as the shares for the planned stock option. The Board of Directors approved to purchase the shares with President's reward. The team of stock option reward plan entrusted the third party to purchase part of the Company's shares for the planned mock option stock reward. Details see Note 49(1) of the financial statement.

In September of 2001, Shenzhen Securities Supervision and Administration Office issued SSSAO [2001] No. 386 Document, the Notification on Demanding Listed Companies to Standardize Operation according to Law and Seriously Make Self-inspection and Self-correction, asking listed companies to carry out self-inspection and self-correction towards normative operation. The Company conducted serious self-inspection in accordance with relevant laws and legislations. During inspection, the Company and its Board of Directors seriously summarized the mock reward plan of stock option, and realized that it was inconsistent with the current laws and legislations. In order to further standardize the Company's behavior and operate strictly according to law, the Board of Director made discussion and decided to suspend the mock reward plan of stock option for rectification and reform. Upon completion of rectification and reform, the Company shall submit the Report on Self-inspection and Rectification of Normative Operation to Shenzhen Securities Supervision and Administration Office regarding the implementation procedures as

well as reform and rectification of the stock option reward plan. By issuing SSSAO [2002] No. 83 document, Shenzhen Securities Supervision and Administration Office criticized the Company, the Board chairman and the president regarding the aforesaid improper behavior.

According to the spirit of notification issued by Shenzhen Securities Supervision and Administration Office, the Company's directors and management team seriously studied relevant securities laws and legislations and summarized experience and lesson. In the future, the Company will both probe into reform and renovation for operation and management mechanisms positively and comply with laws and legislations strictly so that the Company shall operate in a standardized way under the framework of laws and legislations.

Independent director Mr. Xiao Zhuoji and Mr. Han Xiaojing expressed independent opinions towards the explanatory remarks of certified public accountants:

After having an understanding of the mock reward plan of stock option, we believed that although the plan was just an exploration for encouraging management and core operation staffs under the circumstance that there was no stock option system domestically, there were still irregular places against the current laws and legislations. It reflects that the Board of Directors and the management team had certain shortages in learning, understanding and implementing the PRC Company Law and securities laws and legislations. The Company and its Board of Directors should summarize experience, enhance study of laws and legislations, solicit opinions of national securities supervision and administration authority when proposing reform plan, and standardize behaviors strictly according to relevant laws and legislations. As independent director, we shall keep on perform obligation of independent director and ensure the Company's activities comply with requirements of relevant laws and legislations at the same time when working hard to realize sustained development.

## (VI) Management plan for the new year

### **1. The company's goal for management in 2002**

Looking into 2002, global economy is recovering but the pace and strength of its upturn remains uncertain. Under this circumstance, the company looked back to the past and proposed the future-orientated comprehensive management objective of "aspiring for a world-class enterprise who creates values for clients with an optimized connotation"

For principle business, standard mode of production for perfect manufacture will be promoted vigorously in order to provide clients with cost-effective container products of improved quality, thus consolidating and improving its share in container market; for special containers, efforts will be made taking construction of state-level technical

center as turning point to improve technology and give a full play to its current all-in-one station service system including design, manufacture and maintenance. Continuous efforts will be made to expand the market to a certain scale and improve the recognition degree among clients. The tank container production and management will be well conducted with a view to continually increase market share.

As for the new business, the Group will continue to speed up the development of trailer and container chassis in the international market with huge space for development and the domestic market with huge potential of development. Substantial progress will be made in starting a market.

For other business, the management principle of “risk control, self-revolving and sustainable development” will be pursued. Their development is based on risk control.

## **2. Management measures of the corporate business in 2002**

1) Challenging objectives will be set, check system will be improved, the innovative spirit be carried forward and standardized management implemented.

2) A client-oriented institutional operation system will be established to meet the ever-changing market demand, offering clients better products and service. Special emphasis will be laid on research and development with a view to helping client realize renovation and offering clients specialized settlement, thus building an image of enterprise and products reliable for global clients.

3) Connotation optimization strategy will continue to be adopted in internal management, facilitating the uniform ISO9000 certification, perfect production and the sharing of resources. With this as the basis and backed by modern information network technology, an integrated quality management system of “endless improvement oriented towards clients” will be established on a gradual basis. An operation management platform, which is subject to the improvement with perfection as its principle, and the common platform, which can help improve the utilization rate and utilization results in purchase, technology, technical equipment and human resources, will also be set up.

4) Risks should be controlled and prevented in investment, management as well as management control so as to ensure the sound corporate development.

5) Corporate governance is to be standardized. Corporate operation should be standardized in accordance with the requirements of Code of Governance for Listed Companies enacted by the CSRC. Special efforts will be made in improving institutional and system construction for the operation of independent directors, the special committees of the board of directors, the operation of the supervisory board and the shareholders’ general meeting.

## **( VII ) Routine Work of the Board of Directors**

### **1. Board Meetings and Resolutions**

Board meetings in the report period are as follows:

1) On March 31 of 2001, the company held 2001 First Meeting of the Board of Directors, during which the following resolutions are examined and adopted: a) approval for the company's 2000 Report and Summary; b) approval for 2000 Work Report of the Board of Directors; c) approval for 2000 Financial Settlement Report; d) approval for the Profits Distribution and Interests Allotment Proposal; e) approval for 2001 Profits Distribution Policies; f) Resolution on a Separate Notice for Holding 2000 Shareholders' General Meeting.

Relevant information was made public on April 16, 2001 in Securities Times and Hong Kong Economic Journal.

2) On April 17, 2001, the company's 2001 Second Meeting of the Board of Directors discussed and adopted the following resolutions: a) changing and selecting supervisors nominated by representatives of directors or shareholders; b) revising the Articles of Associations of the company; c) that the company is qualified to apply for the issuance of new shares, according to the requirements of the Method on the Management of the Issuance of New Shares by Listed Companies; d) notes to the utilization of the proceeds raised through previous share offering; e) the proposal on the issuance through current public offering; f) the orientation of the proceeds raised through the current public offering; h) other issues related to the additional issuance through public offering; i) notice on convening 2000 shareholders' general meeting.

Relevant information was made public on April 20, 2001 in Securities Times and Hong Kong Economic Journal .

3) The company convened the board of directors on September 17 of 2001, working out the following resolutions: a) proposal for stopping engaging Zhongtianqin Accounting Firm and agreement on submitting the resolution on this matter to 2001 First Extraordinary Shareholders' General Meeting for deliberation and approval. b) proposal for engaging Shenzhen Pan-China Shinda Certified Public Accountants and agreement on submitting, to 2001 First Extraordinary Shareholders' General Meeting for deliberation and approval, the bill on the one-year employment of Shenzhen Pan-China Schinda Certified Public Accountants to be the accountant responsible for the audit of the company's accounting statement, net profits verification and other related consultation service.

Relevant information was made public on September 26, 2001 in Securities Times and Ta Kung Pao of Hong Kong.

## **2. The performance of the board of directors during the report period in implementing the resolutions of the shareholder' general meeting**

1) The board of director published its 2000 Public Notice on Interest Allotment in Securities Times and Ta Kung Pao of Hong Kong dated July 12, 2001. The share rights registration date was July 18 and the ex-div date was July 19. The interest allotment plan is to allot 2 yuan in cash for every ten shares. After taxation, A share holders can obtain 1.6 yuan in cash for every ten shares and B share holders and juristic person shares holders can secure two yuan for every 10 shares.

1) On May 20 of 2001, a resolution on the additional issuance of not more than 8000 A shares was adopted at 2000 Shareholders' General Meeting, during which the following authorizations were made: a) authorizing the board of directors to formulate and implement, in line with the concrete situation, the concrete plans on the additional issuance of this time, including the timing of issuance, the amount of issuance, the range of inquiry for prices, the issuance price, the categories of investors applying for the purchase not through the Internet, the proportion of the application for the purchase through the Internet and not through the Internet, principle and rules and regulations for the return of allotment not through the Internet, concrete method of applying for the purchase, percentage for priority purchase for previous social public share holders and other issues related to the pricing of issuance; b) authorizing the board of directors to made certain appropriate adjustment on the investment program of fund raised by the additional issuance through public offering; c) authorizing the board of directors to sign the major contracts arising from the operation of program; d) authorizing the board of directors to conduct revision on the relevant articles of the Articles of Association upon the completion of the additional issuance; e) authorizing the board of directors to deal with all the other issues arising from the additional issuance. The authorization on issuance will be effective for 12 months as of the date when the shareholders' general meeting approves the authorization.

The shareholders' general meeting authorized the board of directors to be engaged in the additional issuance of A shares. The documents produced by its domestic accountant, Zhongtianqin Accounting Firm, lose their legitimacy as the firm was under investigation by the executive departments in charge. The company had to engage Shenzhen Pan-China Schinda Certified Public Accountants to prepare new financial documents. Thus it was impossible to have additional issuance carried out within 2001 as scheduled.

## **(VIII )Profits Distribution Proposal of this year**

Audited by its domestic accountant, Shenzhen Pan-China Schinda Certified Public Accountants, the company realized a net profit RMB 543,006,715.99 after the deduction of taxation and equity of a few shareholders. The amount of the profit available for distribution in the year was RMB 543,006,715.99. With the statutory public welfare fund based on 5% of the net profit amounting to RMB 29,896,773.04 and plus retained profit of the previous year amounting to RMB274,464,138.06, the amount of the profit available for distribution to the shareholders in the year was RMB 761,141,129.24.

The board after deliberation made the following profits distribution proposal for the year 2001:

1) Based on the total share capital 340,201,398 shares ended Dec. 31, 2000, the Company would distribute RMB 5.00 cash for every 10 shares (including taxation.) The share interests totaled RMB5.00, the Company would distribute 5.00 share for every 10 shares and then the total share capital rose from 340,201,398 shares to 510,302,097 shares. the remaining RMB160,000,000 would be retained, the others shall be transferred to surplus public reserve.

Implementation of the above distribution proposal would be subject to the examination and approval of the annual shareholders' general meeting. The industrial and commercial registration shall be changed accordingly and amendment shall be made on relevant articles of the Articles of Association.

## **(IX) More about Publication**

2000 Shareholders' General Meeting on May 20, 2001 adopted the revision of the Articles of Association, including Hong Kong Commercial Newspaper, Wenhui Pao and Ta Kung Pao as the information publication outside Hong Kong in addition to the information publication Securities Times within Hong Kong and information publication Hong Kong Economic Journal and South China Morning outside Hong Kong.

The Company chose Securities Times and Hong Kong Ta Kung Pao as the information publication outside Hong Kong.

## **VIII Work Report of the Supervisory Board**

### **1. Meetings and resolutions of the supervisory board**

The supervisory board held the following meetings during the report period:

1. On April 4 of 2001, the First Meeting of the Supervisory Board of 2001 examined and adopted 2000 Work Report of the Supervisory Board.

2 On April 17 of 2001, the second meeting of the supervisory board of 2001 examined and adopted the resolution on the qualification of three candidates for independent directors.

3. On may 20 of 2001, the third meeting of the supervisory board of the year 2001 examined and adopted extraordinary proposal on share rights transfer by its previous shareholder, EAC (Hong Kong) Co., Ltd.; and the extraordinary proposal on the salary of the independent directors of the company. Both proposals had been put forward at 2000 Shareholders' General Meeting.

4. On August 3 of 2001, the fourth meeting of the supervisory board of 2001 examined and adopted 1) 2000 Interim Report and the Summary; 2) the resolution on electing Mr. Zhou Xiedong the head of supervisors of this board.

On October 28 of 2001, the fifth meeting of the supervisory board of 2001 examined and adopted the resolution on the report of self-examination and rectification on standardized corporate operation.

## 2 Independent Opinion of the Supervisory Board in 2001

1) On corporate operation in accordance with the Law. Supervisors of this year were present at all the meetings of the board of directors, exercising supervision on corporate decision making and operation. The board believed that all decision-making procedures complied with the Law and the internal control system. None of the directors, presidents, or senior executives breached the Articles of Association or did anything harmful to corporate interests. None abused its power and damaged the interests of shareholder and employees.

2) On examining the financial situation of the Company.  
The supervisory board examined the corporate business and financial situation and checked the financial report, extraordinary report and other documents submitted by the board of directors. The board maintained that the audit opinion of Shenzhen Pan-China Schinda Certified Public Accountants and KPMG produced was an authentic and just reflection of the financial situation and management results of the Company.

3) On utilizing the most recently raised fund. The Company did not see any fund raised during the report period. As for the previous fund raising, the Company additionally issued 48 million B shares on December 30,1997. The supervisory board believed that the fund raised this time really went to the projects as committed.

4) On purchase and sale of assets. The company did not see any assets purchase or sales during the report period.

5) On related transactions. There was no related transaction by the company during the report period.

6) In the report year, Shenzhen Pan-China Schinda Certified Public Accountants produced an unqualified auditors' report with explanatory remarks towards the Company's 2001 financial report.

After serious discussion on the explanation of the Board of Directors, the Supervisory Committee believed that the explanation was objective and true. The Company's mock stock option reward plan was an exploration for encouraging management and core operation staffs under the circumstance that there was no standardized stock option system domestically. However, there were still irregular places against the current laws and legislations. The Board of Directors and management team made self-inspection and self-correction with a serious attitude, and carried out rectification and reform promptly and efficiently. The Supervisory Committee hopes that in the future, the Board of Directors and management team shall reinforce study of securities laws and legislations, strictly comply with the PRC Company Law and securities laws and legislations when positively keeping on probing into reform and renovation of operation and management mechanisms, and standardize operation under the framework of laws and legislations; The Supervisory Committee shall further strengthen its supervision functions and work hard to achieve the above goals.

KPMG Certified Public Accountants produced an unqualified auditors' report towards the Company's 2001 financial report.

## **IX Significant Events**

**1. In the report period, the Company had never been involved in any material lawsuits or arbitration.**

**2. Assets Acquisition and Sales, and absorption and merger**

1) On August 18 of 2001, the Company as the promoter received the 1.00% transfer of the shares of Guotong Securities Co., Ltd., or 24,019,171 shares, in forms of agreed transfer. The company paid the agreed transfer value of 42,507,300 yuan.

2) On November 9 of 2001, the Company signed a contract on share transfer with Shenzhen Huihe investment Development Co., Ltd. Huihe transferred to the company 62,667,196 shares of the Merchant Bank, each sold at an average price of 3.66 yuan. The Company received the transfer after deliberation of the board of directors on November 20 of 2001 and the approval by the board of directors of the Merchant Bank on November 22. The Company therefore accomplished transfer on December

20, 2001

**3. In the report period, the Company had never been involved in significant related transactions.**

**4. Major contracts in the report period:**

A. This year, the company had never been involved in trustee, contracting and leasing the assets of other companies and had never been trusted, contracted or leased by other companies.

B. Major guarantees:

On September 22 of 1999, the Company signed with Sino Railway Container Transport Center an agreement attached to the Contract on Container Purchase and Sales dated August 15 of 1996. It signed with Beijing Branch of the Bank of Communications a loan guarantee contract, offering responsibility guarantee for the three-year loan of RMB 200,000,000.00 Sino Railway Container transport center borrowed from Beijing Gongzhufen Branch of the Bank of Communications.

By December 31 of 2001, China Railway Ministry Container transport center had returned RMB 37,500,000, cutting the guarantee responsibility of the company to RMB162,500,000.

(Note: China Railway Ministry Railway Container Transport Center borrowed RMB200,000,000 in order to return their debts to the company)

The guarantee business for foreign countries was aimed at expanding market. The procedure went like this: salesman's submitted an explanation including details about the program, vision of the program and the introduction of the units under guarantee, to the financial department of statement for examination and approval. The financial department then examined the project and submitted it to the board of director for deliberation. The guarantee with a large value shall be submitted to the shareholders' general meeting.

C. The company had never been involved in financial trustee in this year.

D. Other significant contracts:

1) On March 15 of 2001, the company signed in Shenzhen with Australian Macfield an five-year agreement on the export of special equipment for railway transport. According to the estimation made by Australian side, the value involved may amount to \$200 million within the effective term of the agreement (Relevant information was made public in Securities Times and Hong Kong Economic Journal dated March 17,

2001)

2) On June 8, 2001, the Company renewed in Shenzhen with China Bank of Import and Export the export credit of RMB 1.2 billion for two more years. (Relevant information had been released in Securities Times and Hong Kong Ta Kung Pao dated June 9, 2001)

3) On October 16, 2001, the company acquired the confirmation from P&O Nedlloyd B.V. for the order of 14,500 refrigerator containers. All refrigerators shall be delivered by its factories in Shanghai and Qingdao between December 2001 and November 2002. (Relevant information was made public in Securities Times and Hong Kong Ta Kung Pao dated October 16, 2001)

On October 17, 2001, the company clarified through a public notice significant issues released on October 16, 2001 and clarified the media report on the contract of an order more than \$200 million. P&O Nedlloyd B.V. sent out an order of more than \$200 million, including the refrigerator container the Company produced as well as the refrigerator system offered by Carrier Transicold offered. It does not mean that the order worth more than \$200 million. (Relevant information had been released in Securities Times and Hong Kong Economic Journal dated October 17, 2001)

#### **5. The fulfillment of the public commitment by the company and shareholders with more than 5% shares.**

In the report period, shareholders with more than 5% of shares had never released the commitment. The company has fulfilled its 2001 profits distribution policy it was committed in its 2000 report.

#### **6. Engaging accounting firm**

In the report period, seeing that the Ministry of Finance had suspended the business license of its domestic accounting firm, Zhongtianqin Accounting Firm, the Company held the shareholders' general meeting on October 26 of 2001, dismissing Zhongtianqin and engaging Shenzhen Pan-China Schinda Certified Public Accountants as its accountant responsible for the audit of 2001 accounting statements, net profit verification and other related consultation service.

In the report period, the company paid remuneration to the accounting firm as follows:

Zhongtianqin Accounting Firm remuneration of RMB1,034,000, including A share auditing charge, report auditing charge, business travel expenditure and annual exam of foreign exchange.

Pay Shenzhen Pan-China Schinda Certified Public Accountants RMB1,478,000 as remuneration including the additional issuance of A shares and business travel allowance.

Pay KPMG accountant remuneration of 1,459, 000 Hong Kong Dollar, including audit charge and business travel allowance.

**7. In the report period, the Company, the board of directors and directors had never seen involved in being punished by the supervisory departments.**

#### **8. Other significant issues**

In the report period, the B shares holder, Long Honour Investments Ltd., reported to the Company on March 27 of 2001 that it had collected 17,010,005 B shares, securing 5% of the total shares of the company, when the transaction system was declining at Shenzhen Security Exchange during March 7-27, 2001. (More public information had been released in Securities Times and Hong Kong Economic Journal dated March 29, 2001).

**X. FINANCIAL REPORT**

Auditors' Report

China International Marine Containers  
(Group) Ltd.

中国国际海运集装箱（集团）股份有限公司

31 December 2001

*(Established in the People's Republic of China with limited liability)*

**Report of the International Auditors to the Shareholders of  
China International Marine Containers (Group) Ltd.**

We have audited the consolidated balance sheet of China International Marine Containers (Group) Ltd. and its subsidiaries (the Group") as of 31 December 2001 and the related consolidated statements of income and cash flows for the year then ended, set out on pages 2 to 36.

**Respective responsibilities of directors and auditors**

These consolidated financial statements are the responsibility of the directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

**Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2001, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards adopted by the International Accounting Standards Board.

Certified Public Accountants

Hong Kong, China

22 April 2002

**Consolidated income statement  
for the year ended 31 December 2001**

|                                     | <i>Note</i> | <i>2001</i><br>RMB'000 | <i>2000</i><br>RMB'000 |
|-------------------------------------|-------------|------------------------|------------------------|
| Revenue                             | 3           | 6,666,880              | 8,851,900              |
| Cost of sales                       |             | <u>(5,330,086)</u>     | <u>(7,620,540)</u>     |
| <b>Gross profit</b>                 |             | 1,336,794              | 1,231,360              |
| Other operating income              | 4           | 98,041                 | 155,068                |
| Distribution expenses               |             | (201,177)              | (224,810)              |
| Administrative expenses             |             | (328,367)              | (330,620)              |
| Other operating expenses            | 5           | <u>(139,848)</u>       | <u>(138,144)</u>       |
| <b>Profit from operations</b>       |             | 765,443                | 692,854                |
| Net financing costs                 | 7           | (102,520)              | (128,828)              |
| Income from associates              |             | <u>49,018</u>          | <u>50,541</u>          |
| <b>Profit before tax</b>            |             | 711,941                | 614,567                |
| Income tax expense                  | 8           | <u>(88,847)</u>        | <u>(65,760)</u>        |
| <b>Profit after tax</b>             |             | 623,094                | 548,807                |
| Minority interests                  |             | <u>(58,919)</u>        | <u>(84,075)</u>        |
| <b>Net profit for the year</b>      |             | 564,175<br>=====       | 464,732<br>=====       |
| Basic earnings per share (RMB Yuan) | 10          | 1.66<br>===            | 1.37<br>===            |

The notes on pages 8 to 36 form part of these consolidated financial statements.

**Consolidated statement of recognised gains and losses  
for the year ended 31 December 2001**

|                                                               | <i>Note</i> | <i>2001</i><br>RMB'000 | <i>2000</i><br>RMB'000 |
|---------------------------------------------------------------|-------------|------------------------|------------------------|
| Net loss recognised directly to equity                        |             |                        |                        |
| - Exchange differences arising on translation of subsidiaries | 23          | (228)                  | (2,873)                |
| Net profit for the year                                       |             | <u>564,175</u>         | <u>464,732</u>         |
| Total recognised gains and losses                             |             | 563,947<br>=====       | 461,859<br>=====       |

The notes on pages 8 to 36 form part of these consolidated financial statements.

**Consolidated balance sheet  
as at 31 December 2001**

|                                  | <i>Note</i> | <i>2001</i><br>RMB'000 | <i>2000</i><br>RMB'000 |
|----------------------------------|-------------|------------------------|------------------------|
| <b>Assets</b>                    |             |                        |                        |
| Property, plant and equipment    | 11          | 1,653,756              | 1,588,477              |
| Construction in progress         | 12          | 97,594                 | 89,573                 |
| Timber concession rights         | 13          | 270,373                | 285,403                |
| Intangible assets                | 14          | 50,907                 | 68,327                 |
| Interests in associates          | 15          | 776,337                | 774,420                |
| Investments in equity securities | 16          | 302,777                | 62,530                 |
| Long-term receivables            | 17          | 153,581                | 178,227                |
| Deferred tax assets              | 8           | <u>15,566</u>          | <u>18,216</u>          |
| <b>Total non-current assets</b>  |             | 3,320,891              | 3,065,173              |
|                                  |             | -----                  | -----                  |
| Investments in equity securities | 16          | 30,917                 | -                      |
| Properties under development     | 18          | 105,250                | 23,432                 |
| Completed properties for sale    |             | 138,542                | 197,668                |
| Inventories                      | 19          | 717,904                | 1,160,202              |
| Trade and other receivables      | 20          | 1,403,200              | 1,914,353              |
| Cash and cash equivalents        | 21          | <u>391,378</u>         | <u>225,208</u>         |
| <b>Total current assets</b>      |             | 2,787,191              | 3,520,863              |
|                                  |             | -----                  | -----                  |
| <b>Total assets</b>              |             | 6,108,082              | 6,586,036              |
|                                  |             | =====                  | =====                  |
| <b>Equity</b>                    |             |                        |                        |
| Share capital                    | 22          | 340,201                | 340,201                |
| Reserves                         | 23          | <u>2,257,104</u>       | <u>1,761,197</u>       |
| <b>Total equity</b>              |             | 2,597,305              | 2,101,398              |
|                                  |             | -----                  | -----                  |
| <b>Minority interests</b>        |             | 565,229                | 551,721                |
|                                  |             | -----                  | -----                  |

**Consolidated balance sheet  
as at 31 December 2001 (continued)**

|                                                             | <i>Note</i> | 2001<br>RMB'000 | 2000<br>RMB'000 |
|-------------------------------------------------------------|-------------|-----------------|-----------------|
| <b>Liabilities</b>                                          |             |                 |                 |
| <i>Non-current liabilities</i>                              |             |                 |                 |
| Interest-bearing bank loans                                 | 24          | 1,038,450       | 769,758         |
|                                                             |             | -----           | -----           |
| Interest-bearing bank loans                                 | 24          | 438,487         | 1,577,117       |
| Trade and other payables                                    | 25          | 1,152,255       | 1,293,286       |
| Provision                                                   | 26          | 296,482         | 249,145         |
| Taxation                                                    | 8           | 19,874          | 43,611          |
|                                                             |             | -----           | -----           |
| <b>Total current liabilities</b>                            |             | 1,907,098       | 3,163,159       |
|                                                             |             | -----           | -----           |
| <b>Total liabilities</b>                                    |             | 2,945,548       | 3,932,917       |
|                                                             |             | -----           | -----           |
| <b>Total equity, minority interests<br/>and liabilities</b> |             | 6,108,082       | 6,586,036       |
|                                                             |             | =====           | =====           |

Approved and authorised for issue by the board of directors on 22 April 2002

)  
)  
) Directors  
)  
)

The notes on pages 8 to 36 form part of these consolidated financial statements.

**Consolidated cash flow statement  
for the year ended 31 December 2001**

|                                                                | <i>Note</i> | <i>2001</i><br>RMB'000 | <i>2000</i><br>RMB'000 |
|----------------------------------------------------------------|-------------|------------------------|------------------------|
| <b>Net cash inflow/(outflow) from<br/>operating activities</b> | 29(a)       | 1,527,134              | (238,630)              |
|                                                                |             | -----                  | -----                  |
| <b>Investing activities</b>                                    |             |                        |                        |
| Interest received                                              |             | 37,381                 | 7,675                  |
| Payment for property, plant and<br>equipment                   |             | (63,873)               | (75,414)               |
| Payment for construction in progress                           |             | (188,683)              | (207,629)              |
| Payment for acquisition of equity<br>securities                |             | (676,542)              | -                      |
| Payment for acquisition of minority<br>shareholdings           |             | (13,154)               | (14,093)               |
| Repayment of loans/(new loans) to<br>an associate              |             | 24,401                 | (47,503)               |
| Dividend received from an associate                            |             | 21,528                 | -                      |
| Payment for intangible assets                                  |             | -                      | (6,069)                |
| Proceeds from sales of property, plant and<br>equipment        |             | 427                    | 18,299                 |
| Proceeds of sales of partial interest in<br>a subsidiary       |             | 4,264                  | -                      |
| Proceeds from sales of equity securities                       |             | 435,741                | 233,115                |
| (Advance)/repayment of advance to<br>minority shareholders     |             | (23,664)               | 33,849                 |
|                                                                |             | -----                  | -----                  |
| <b>Cash outflow from investing activities</b>                  |             | (442,174)              | (57,770)               |
|                                                                |             | -----                  | -----                  |

**Consolidated cash flow statement  
for the year ended 31 December 2001 (continued)**

|                                                        | <i>Note</i> | <i>2001</i><br>RMB'000 | <i>2000</i><br>RMB'000 |
|--------------------------------------------------------|-------------|------------------------|------------------------|
| <b>Financing activities</b>                            |             |                        |                        |
| Interest paid                                          |             | (156,724)              | (145,039)              |
| Proceeds from bank loans                               | 29(b)       | 7,653,138              | 7,524,458              |
| Repayment of bank loans                                | 29(b)       | (8,603,019)            | (6,802,335)            |
| Proceeds from Receivables Framework Agreement          |             | 187,002                | 356,332                |
| Capital injection from minority shareholders           |             | 68,012                 | -                      |
| Advance from minority shareholders                     |             | 4,170                  | -                      |
| Dividends paid                                         |             | (68,040)               | (68,040)               |
| Dividends paid to minority shareholders                |             | <u>(83,272)</u>        | <u>(24,293)</u>        |
| <b>Cash (outflow)/inflow from financing activities</b> |             | <u>(998,733)</u>       | <u>841,083</u>         |
| <b>Net increase in cash and cash equivalents</b>       |             | 86,227                 | 544,683                |
| <b>Effect of foreign exchange rates</b>                |             | -                      | (6,425)                |
| <b>Cash and cash equivalents at 1 January</b>          |             | <u>187,120</u>         | <u>(351,138)</u>       |
| <b>Cash and cash equivalents at 31 December</b>        | 21          | 273,347<br>=====       | 187,120<br>=====       |

The notes on pages 8 to 36 form part of these consolidated financial statements.

## **Notes on the consolidated financial statements**

### **1 Background**

China International Marine Containers (Group) Ltd. (the Company”) is a joint stock company established in the People’s Republic of China (the PRC”) with limited liability. The consolidated financial statements of the Company for the year ended 31 December 2001 comprise the Company and its subsidiaries (together referred to as the Group”) and the Group’s interests in associates.

### **2 Significant accounting policies**

#### **(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS”) adopted by the International Accounting Standards Board (IASB”), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

#### **(b) Basis of preparation**

The consolidated financial statements are presented in Renminbi Yuan rounded to the nearest thousand. The directors of the Company consider that it is more appropriate to present the consolidated financial statements in Renminbi Yuan as the Company is domiciled in the PRC. Accordingly, the reporting currency of the consolidated financial statements has been changed from United States dollars to Renminbi Yuan.

The consolidated financial statements are prepared on the historical cost basis except for the carrying amount of certain property, plant and equipment (refer to accounting policy e) and that the listed investments are stated at fair value (refer to accounting policy i).

The accounting policies have been consistently applied by Group enterprises and are consistent with those used in the previous year.

A summary of the significant accounting policies adopted by the Group is set out below.

The Company also prepares a set of financial statements which complies with the PRC Accounting Rules and Regulations. A reconciliation of the Group’s consolidated results and net assets prepared under IAS and the PRC Accounting Rules and Regulations is presented on page 37.

#### **(c) Basis of consolidation**

##### **(i) Subsidiaries**

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

## **2 Significant accounting policies (continued)**

### **(c) Basis of consolidation (continued)**

**(ii) Associates**

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

**(iii) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

### **(d) Foreign currency**

**(i) Foreign currency transactions**

Transactions in currencies other than Renminbi Yuan are translated to Renminbi Yuan at the foreign exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in currencies other than Renminbi Yuan at the balance sheet date are translated to Renminbi Yuan at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated income statement.

**(ii) Financial statements of foreign operations**

The assets and liabilities of foreign operations prepared in currencies other than Renminbi Yuan are translated into Renminbi Yuan at foreign exchange rates ruling at the balance sheet date. The revenue and expense of foreign operations are translated to Renminbi Yuan at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in equity.

## **2 Significant accounting policies (continued)**

### **(e) Property, plant and equipment**

- (i) Items of property, plant and equipment are stated at cost or valuation (refer to note 11) less accumulated depreciation and impairment losses (refer to accounting policy t).

The cost of property, plant and equipment constructed by the Group includes the cost of materials, direct labour, and an appropriate proportion of fixed and variable overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

- (ii) Depreciation or amortisation is charged to the consolidated income statement on a straight-line basis, after taking into account the estimated residual value, over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. The estimated useful lives are as follows:

|                                   |                                       |
|-----------------------------------|---------------------------------------|
| Land use rights in the PRC        | Over the respective periods of grants |
| Buildings                         | 20 - 30 years                         |
| Machinery and equipment           | 10 - 12 years                         |
| Motor vehicles                    | 3 - 8 years                           |
| Office furniture and other assets | 5 years                               |

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is substantially completed and ready for its intended use.

- (iii) Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the consolidated income statement as an expense as incurred.
- (iv) Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the consolidated income statement on the date of retirement or disposal. The related portions of revaluation surpluses previously taken to reserve is transferred from the reserve to retained profits.

### **(f) Construction in progress**

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (refer to accounting policy t). Cost represents cost of materials, direct labour, borrowing costs capitalised (refer to accounting policy s), and an appropriate proportion of production overheads incurred during the periods of construction and installation. Capitalisation of those costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress.

## **2 Significant accounting policies (continued)**

### **(g) Timber concession rights**

Timber concession rights represent costs incurred to acquire the rights to extract timber from forest concession areas for an approved duration less accumulated amortisation and impairment losses (refer to accounting policy t). Cost includes cost of purchase and expenses exclusively related to the acquisition of timber concession rights. Timber concession rights are amortised over the remaining licence period until the expiry of the timber licences.

### **(h) Intangible assets**

#### **(i) Goodwill**

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation and impairment losses (refer to accounting policy t), and is amortised on a straight-line basis to the consolidated income statement over 5 years. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interests in associates.

#### **(ii) Negative goodwill**

Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition.

To the extent that negative goodwill relates to an expectation of further losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement on a straight-line basis over 5 years. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of associates, the carrying amount of negative goodwill is included in the carrying amount of the interests in associates. The carrying amount of other negative goodwill is deducted from the carrying amount of intangible assets.

#### **(iii) Technological know-how**

Other intangible assets represent expenses incurred for the acquisition of technological know-how by the Group are stated at cost less accumulated amortisation and impairment losses (refer to accounting policy t), and are amortised on a straight-line basis over their anticipated useful lives, which is between ten to fifteen years from the date of acquisition.

## **2 Significant accounting policies (continued)**

### **(i) Investments in equity securities**

Listed investments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the consolidated income statement. Other listed investments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in the consolidated income statement.

The fair value of listed investments is their quoted bid price at the balance sheet date.

The unlisted investments are stated in the balance sheet at cost less impairment losses (refer to accounting policy t).

### **(j) Properties under development**

Properties under development are stated at cost less provision for anticipated losses, where appropriate. Cost includes cost of land use rights acquired, development cost and borrowing costs capitalised (refer to accounting policy s).

### **(k) Completed properties for sale**

Completed properties for sale are stated at the lower of cost and the estimated net realisable value. Cost includes cost of land use rights acquired, development cost and borrowing costs capitalised (refer to accounting policy s). Net realisable value represents the estimated selling price less the estimated costs necessary to make the sale.

### **(l) Inventories**

- (i) Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Cost includes the cost of materials computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions, less the estimated costs of completion and the estimated costs necessary to complete the sale.
- (ii) Spare parts and consumables are stated at cost less any provision for obsolescence.

### **(m) Trade and other receivables**

Trade and other receivables are stated at cost less impairment losses (refer to accounting policy t).

## **2 Significant accounting policies (continued)**

### **(n) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and time deposits with an initial term of less than 3 months. For the purpose of the consolidated cash flow statement, cash and cash equivalents are presented net of bank loans which are due in less than 3 months from the date of advance.

### **(o) Trade and other payables**

Trade and other payables are stated at their cost.

### **(p) Provisions and contingent liabilities**

A provision is recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### **(q) Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## **2 Significant accounting policies (continued)**

### **(r) Revenue recognition**

- (i) Revenue from sales of containers and timber, airport ground facilities, internal combustion power-generating equipment and properties is recognised in the consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.
- (ii) Interest income from deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

### **(s) Expenses**

- (i) Operating lease payments

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Payments made under operating leases are recognised in the consolidated income statement on a straight-line basis over the terms of the respective leases.

- (ii) Net financing costs

Net financing costs comprise interest payable on borrowings, interest receivable on funds invested, dividend income and foreign exchange gains and losses.

Interest income is recognised in the consolidated income statement as it accrues, taking into account the effective yield on the asset. Dividend income is recognised in the consolidated income statement on the date that the dividend is declared.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

### **(t) Impairment**

- (i) The carrying amounts of the Group's assets, other than properties under development (refer to accounting policy j), completed properties for sale (refer to accounting policy k), inventories (refer to accounting policy l) and deferred tax assets (refer to accounting policy q), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement.

## **2 Significant accounting policies (continued)**

### **(t) Impairment (continued)**

- (ii) The recoverable amount of an asset is the greater of the net selling price and the value in use. In assessing value in use, expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.
- (iii) An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

### **(u) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (Business segment”), or in providing products or services within a particular economic environment (Geographical segment”), which is subject to risks and rewards that are different from those of other segments.

### **(v) Retirement plan**

Obligations for contributions to the defined contribution plans are recognised as an expense in the consolidated income statement as incurred.

### **(w) Dividends**

Dividends are recognised as a liability in the period in which they are declared or approved.

### **(x) Related parties**

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly through one or more intermediaries, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### **3 Segment reporting**

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, are based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income-earning assets and revenue, interest-bearing bank loans and the related expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

#### **(a) Business segments**

The Group comprises the following main business segments:

(i) Containers

The manufacture and sale of marine containers, dry-freight containers, refrigerated containers and specified types of containers.

(ii) Mechanical and electrical equipment

The manufacture and sale of airport ground facilities and internal combustion power-generating equipment.

(iii) Infrastructure and property development

The construction, operation and management of roads and toll bridges, and the construction and development of properties for sale.

(iv) Timber logging

The logging and sale of timber.

#### **(b) Geographical segments**

The containers, mechanical and electrical equipment, infrastructure and property developments and timber logging segments are managed in the PRC. The United States of America (the ISA"), Europe and Asia are major markets for sales of containers. The PRC is a major market for infrastructure and property developments which are included in Asia segment. The manufacturing plants and sales offices are operated principally in the PRC.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

### 3 Segment reporting (continued)

| Business segments           |                    |                    |                                           |                   |                                               |                   |                   |                   |                    |                    |
|-----------------------------|--------------------|--------------------|-------------------------------------------|-------------------|-----------------------------------------------|-------------------|-------------------|-------------------|--------------------|--------------------|
|                             |                    | Containers         | Mechanical<br>and electrical<br>equipment |                   | Infrastructure<br>and property<br>development |                   | Timber logging    |                   | Consolidated       |                    |
|                             | 2001<br>RMB'000    | 2000<br>RMB'000    | 2001<br>RMB'000                           | 2000<br>RMB'000   | 2001<br>RMB'000                               | 2000<br>RMB'000   | 2001<br>RMB'000   | 2000<br>RMB'000   | 2001<br>RMB'000    | 2000<br>RMB'000    |
| Revenue                     | 6,448,443<br>===== | 8,569,038<br>===== | 89,209<br>=====                           | 75,125<br>=====   | 124,120<br>=====                              | 151,243<br>=====  | 5,108<br>=====    | 56,494<br>=====   | 6,666,880<br>----- | 8,851,900<br>----- |
| Segment result              | 933,082<br>=====   | 857,319<br>=====   | (22,623)<br>=====                         | (38,990)<br>===== | 10,396<br>=====                               | (32,516)<br>===== | (62,797)<br>===== | (79,347)<br>===== | 858,058            | 706,466            |
| Unallocated net<br>expenses |                    |                    |                                           |                   |                                               |                   |                   |                   | (92,615)           | (13,612)           |
| Profit from operations      |                    |                    |                                           |                   |                                               |                   |                   |                   | 765,443            | 692,854            |
| Net financing costs         |                    |                    |                                           |                   |                                               |                   |                   |                   | (102,520)          | (128,828)          |
| Income from<br>associates   | (254)<br>=====     | 2,989<br>=====     | 3,415<br>=====                            | (803)<br>=====    | 45,857<br>=====                               | 48,355<br>=====   | -<br>=====        | -<br>=====        | 49,018             | 50,541             |
| Income tax expense          |                    |                    |                                           |                   |                                               |                   |                   |                   | (88,847)           | (65,760)           |
| Minority interests          |                    |                    |                                           |                   |                                               |                   |                   |                   | (58,919)           | (84,075)           |
| Net profit for the year     |                    |                    |                                           |                   |                                               |                   |                   |                   | 564,175<br>=====   | 464,732<br>=====   |
| Segment assets              | 4,423,588<br>===== | 4,803,145<br>===== | 183,654<br>=====                          | 203,630<br>=====  | 269,706<br>=====                              | 314,458<br>=====  | 454,797<br>=====  | 490,383<br>=====  | 5,331,745          | 5,811,616          |
| Interests in associates     | 21,058             | 21,694             | 15,393                                    | 12,817            | 739,886                                       | 739,909           | -                 | -                 | 776,337            | 774,420            |

*China International Marine Containers (Group) Ltd.*  
*Consolidated financial statements for the year ended 31 December 2001*

|                                  |             |             |          |          |           |           |          |          |             |             |
|----------------------------------|-------------|-------------|----------|----------|-----------|-----------|----------|----------|-------------|-------------|
| Unallocated assets               | =====       | =====       | =====    | =====    | =====     | =====     | =====    | =====    | =           | =           |
| Total assets                     |             |             |          |          |           |           |          |          | 6,108,082   | 6,586,036   |
|                                  |             |             |          |          |           |           |          |          | =====       | =====       |
| Segment liabilities              | (2,604,425) | (3,395,114) | (78,085) | (76,176) | (186,325) | (367,003) | (56,839) | (26,231) | (2,925,674) | (3,864,524) |
|                                  | =====       | =====       | =====    | =====    | =====     | =====     | =====    | =====    |             |             |
| Unallocated liabilities          |             |             |          |          |           |           |          |          | (19,874)    | (68,393)    |
|                                  |             |             |          |          |           |           |          |          |             |             |
| Total liabilities                |             |             |          |          |           |           |          |          | (2,945,548) | (3,932,917) |
|                                  |             |             |          |          |           |           |          |          | =====       | =====       |
| Capital expenditure              | 226,719     | 208,854     | 933      | 1,159    | 193       | 199       | 24,711   | 78,900   | 252,556     | 289,112     |
|                                  | =====       | =====       | =====    | =====    | =====     | =====     | =====    | =====    | =====       | =====       |
| Impairment losses                | 34,462      | -           | -        | -        | -         | -         | -        | -        | 34,462      | -           |
|                                  | =====       | =====       | =====    | =====    | =====     | =====     | =====    | =====    | =====       | =====       |
| Depreciation and<br>amortisation | 147,488     | 134,799     | 5,070    | 5,365    | 483       | 480       | 20,656   | 18,059   | 173,697     | 158,703     |
|                                  | =====       | =====       | =====    | =====    | =====     | =====     | =====    | =====    | =====       | =====       |

### 3 Segment reporting (continued)

#### Geographical segments

|                     | USA                |                    | Europe             |                    | Asia               |                    | Other regions    |                  | Total              |                    |
|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|------------------|--------------------|--------------------|
|                     | 2001<br>RMB'000    | 2000<br>RMB'000    | 2001<br>RMB'000    | 2000<br>RMB'000    | 2001<br>RMB'000    | 2000<br>RMB'000    | 2001<br>RMB'000  | 2000<br>RMB'000  | 2001<br>RMB'000    | 2000<br>RMB'000    |
| Revenue             | 1,076,890<br>===== | 2,793,614<br>===== | 2,663,207<br>===== | 3,640,161<br>===== | 2,716,394<br>===== | 1,929,000<br>===== | 210,389<br>===== | 489,125<br>===== | 6,666,880<br>===== | 8,851,900<br>===== |
|                     |                    |                    |                    |                    |                    |                    |                  |                  |                    |                    |
|                     | PRC                |                    | Non PRC            |                    | Total              |                    |                  |                  |                    |                    |
|                     | 2001<br>RMB'000    | 2000<br>RMB'000    | 2001<br>RMB'000    | 2000<br>RMB'000    | 2001<br>RMB'000    | 2000<br>RMB'000    |                  |                  |                    |                    |
| Segment assets      |                    |                    |                    |                    | 5,810,772<br>===== | 6,285,654<br>===== | 297,310<br>===== | 300,382<br>===== | 6,108,082<br>===== | 6,586,036<br>===== |
| Capital expenditure |                    |                    |                    |                    | 251,479<br>=====   | 287,911<br>=====   | 1,077<br>=====   | 1,201<br>=====   | 252,556<br>=====   | 289,112<br>=====   |

#### 4 Other operating income

|                                                           | 2001<br>RMB'000 | 2000<br>RMB'000  |
|-----------------------------------------------------------|-----------------|------------------|
| Gain on disposal of PRC listed securities                 | 30,363          | 123,786          |
| Tax refunds from capitalisation of subsidiaries' earnings | 21,959          | 17,810           |
| Profit on disposal of scrap materials                     | 35,013          | 4,918            |
| Service income                                            | 566             | 456              |
| Others                                                    | <u>10,140</u>   | <u>8,098</u>     |
|                                                           | 98,041<br>===== | 155,068<br>===== |

#### 5 Other operating expenses

|                                                                                | 2001<br>RMB'000 | 2000<br>RMB'000 |
|--------------------------------------------------------------------------------|-----------------|-----------------|
| Legal and professional fees on litigation (note 1)                             | -               | 25,014          |
| Loss on disposal of property, plant and equipment and construction in progress | 7,042           | 20,212          |
| Impairment loss of property, plant and equipment                               | 34,462          | -               |

*China International Marine Containers (Group) Ltd.*  
*Consolidated financial statements for the year ended 31 December 2001*

|                                                   |               |              |
|---------------------------------------------------|---------------|--------------|
| Amortisation of goodwill/(negative goodwill)      | 13,938        | 14,291       |
| Amortisation of timber concession rights          | 15,030        | 14,962       |
| Provision for doubtful debts                      | 7,576         | 19,781       |
| Amortisation of other intangible assets           | 1,715         | 1,648        |
| Amortisation of negative goodwill in an associate | (255)         | -            |
| Consultancy fees                                  | 5,564         | -            |
| Penalties (note 2)                                | 40,760        | 32,410       |
| Others                                            | <u>14,016</u> | <u>9,826</u> |
|                                                   | 139,848       | 138,144      |
|                                                   | =====         | =====        |

## 5 Other operating expenses (continued)

Notes:

- 1 Legal and professional fees on litigation for the previous year represented the legal fees and related costs incurred for the settlement of litigation against a subsidiary. The litigation was finalised during the previous year.
- 2 On 29 December 2001, the State Administration of Foreign Exchange (SAFE") issued a notice of administrative penalty that imposed a penalty of RMB40,760,000 against the Company for violation of foreign exchange regulations during the period from September 1992 to December 1998. The Company paid RMB22,036,000 to SAFE on 15 January 2002.

On 5 February 2002, the Company applied to SAFE for an administrative review of the aforesaid penalty.

## 6 Staff costs

|                                     | 2001<br>RMB'000 | 2000<br>RMB'000 |
|-------------------------------------|-----------------|-----------------|
| Wages and salaries                  | 342,148         | 517,417         |
| Contributions to retirement schemes | <u>20,237</u>   | <u>27,357</u>   |
|                                     | 362,385         | 544,774         |
|                                     | =====           | =====           |

The number of employees employed by the Group at 31 December 2001 was 11,258 (2000: 11,298).

## 7 Net financing expenses

|                                                                                                | 2001<br>RMB'000 | 2000<br>RMB'000 |
|------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Interest income                                                                                | 37,345          | 8,123           |
| Foreign exchange gains                                                                         | 5,404           | 4,479           |
| Dividend income                                                                                | <u>-</u>        | <u>36,184</u>   |
| Total financial income                                                                         | 42,749          | 48,786          |
|                                                                                                | -----           | -----           |
| Interest expense                                                                               | (141,514)       | (148,493)       |
| Foreign exchange losses                                                                        | (6,474)         | (3,403)         |
| Other financial expenses                                                                       | <u>(4,129)</u>  | <u>(25,718)</u> |
| Total financial expenses                                                                       | (152,117)       | (177,614)       |
| Less: Interest capitalised into construction in progress<br>and properties under development * | <u>6,848</u>    | <u>-</u>        |
|                                                                                                | (145,269)       | (177,614)       |
|                                                                                                | =====           | =====           |
| Net financing expenses                                                                         | (102,520)       | (128,828)       |
|                                                                                                | =====           | =====           |

\* The interest expense have been capitalised at a rate of 6.1% per annum.

## 8 Taxation

### (a) Taxation in the consolidated income statement represents:

|                                               | 2001<br>RMB'000 | 2000<br>RMB'000 |
|-----------------------------------------------|-----------------|-----------------|
| Provision for the PRC income tax for the year | 86,252          | 84,555          |
| Overprovision in respect of the prior year    | <u>(1,482)</u>  | <u>-</u>        |
|                                               | 84,770          | 84,555          |
| Share of associates' income tax               | 1,427           | (579)           |
| Benefit of tax losses recognised              | <u>2,650</u>    | <u>(18,216)</u> |
|                                               | 88,847          | 65,760          |
|                                               | =====           | =====           |

### (b) Reconciliation of income taxes calculated at the applicable tax rate with actual tax expense:

|                                                                                                                               | 2001<br>RMB'000 | 2000<br>RMB'000 |
|-------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Accounting profit before taxation                                                                                             | 711,941         | 614,567         |
|                                                                                                                               | =====           | =====           |
| Computed tax using the PRC income tax rate of 15%<br>applicable to foreign investment enterprises in<br>Special Economic Zone | 106,791         | 92,185          |
| Effect of tax rates differential in respect of<br>subsidiaries and associates                                                 | (45,095)        | (16,254)        |
| Non-taxable income                                                                                                            | (5,100)         | (6,193)         |
| Non-deductible expenses                                                                                                       | 29,601          | 14,242          |
| Others                                                                                                                        | <u>2,650</u>    | <u>(18,220)</u> |
| Income tax expense                                                                                                            | 88,847          | 65,760          |
|                                                                                                                               | =====           | =====           |

### (c) Taxation in the consolidated balance sheet represents:

|                                               | 2001<br>RMB'000  | 2000<br>RMB'000 |
|-----------------------------------------------|------------------|-----------------|
| Provision for the PRC income tax at 1 January | 43,611           | 43,512          |
| Charge for the year                           | 86,252           | 84,555          |
| Overprovision in respect of the prior year    | (1,482)          | -               |
| Income tax paid                               | <u>(108,507)</u> | <u>(84,456)</u> |
| Provision for income tax at 31 December       | 19,874           | 43,611          |
|                                               | =====            | =====           |

## **8 Taxation (continued)**

### **(d) Deferred taxation**

The movements during the year are as follows:

|                                  | 2001<br>RMB'000 | 2000<br>RMB'000 |
|----------------------------------|-----------------|-----------------|
| Balance as at 1 January          | 18,216          | -               |
| (Charge)/recognised for the year | <u>(2,650)</u>  | <u>18,216</u>   |
| Balance as at 31 December        | 15,566<br>===== | 18,216<br>===== |

At 31 December 2001, a deferred tax asset of RMB16 million (2000: RMB18 million) has been recognised. While the remaining balance of RMB64 million (2000: RMB28 million) has not been recognised as it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

## **9 Dividends**

### **(a) Dividend attributable to the year**

|                                                            | 2001<br>RMB'000  | 2000<br>RMB'000 |
|------------------------------------------------------------|------------------|-----------------|
| Final dividend proposed after the balance sheet date:      |                  |                 |
| Cash dividend of RMB0.5 per share (2000: RMB0.2 per share) | 170,101<br>===== | 68,040<br>===== |

In addition, the directors have proposed a scrip dividend in the ratio of 5 shares for 10 existing issued shares (2000: Nil).

The final dividend proposed after the balance sheet date has not been recognised as a liability at the relevant balance sheet date.

### **(b) Dividend attributable to the previous financial year, approved and paid during the year**

|                                                                                                                                           | 2001<br>RMB'000 | 2000<br>RMB'000 |
|-------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.2 per share (2000: RMB0.2 per share) | 68,040<br>===== | 68,040<br>===== |

## **10 Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB564,175,000 (2000: RMB464,732,000) and 340,201,398 shares (2000: 340,201,398 shares) in issue during the year.

There were no diluting potential ordinary shares in existence during the years ended 31 December 2000 and 2001.

## 11 Property, plant and equipment

|                                                     | <i>Land and<br/>buildings</i><br>RMB'000 | <i>Machinery<br/>and<br/>equipment</i><br>RMB'000 | <i>Motor<br/>vehicles</i><br>RMB'000 | <i>Office<br/>furniture<br/>and other<br/>assets</i><br>RMB'000 | <i>Total</i><br>RMB'000 |
|-----------------------------------------------------|------------------------------------------|---------------------------------------------------|--------------------------------------|-----------------------------------------------------------------|-------------------------|
| <b>Cost or valuation:</b>                           |                                          |                                                   |                                      |                                                                 |                         |
| Balance at 1 January 2001                           | 941,859                                  | 1,039,885                                         | 117,717                              | 90,566                                                          | 2,190,027               |
| Additions during the year                           | 23,168                                   | 21,934                                            | 6,938                                | 11,833                                                          | 63,873                  |
| Transfer from construction<br>in progress (note 12) | 74,778                                   | 97,696                                            | 3,445                                | 10,432                                                          | 186,351                 |
| Disposals                                           | <u>(1,689)</u>                           | <u>(19,526)</u>                                   | <u>(4,504)</u>                       | <u>(10,402)</u>                                                 | <u>(36,121)</u>         |
| Balance at 31 December<br>2001                      | 1,038,116                                | 1,139,989                                         | 123,596                              | 102,429                                                         | 2,404,130               |
|                                                     | -----                                    | -----                                             | -----                                | -----                                                           | -----                   |
| <b>Representing:</b>                                |                                          |                                                   |                                      |                                                                 |                         |
| Cost                                                | 922,613                                  | 1,017,519                                         | 114,604                              | 95,078                                                          | 2,149,814               |
| Valuation                                           | <u>115,503</u>                           | <u>122,470</u>                                    | <u>8,992</u>                         | <u>7,351</u>                                                    | <u>254,316</u>          |
|                                                     | 1,038,116                                | 1,139,989                                         | 123,596                              | 102,429                                                         | 2,404,130               |
|                                                     | =====                                    | =====                                             | =====                                | =====                                                           | =====                   |
| <b>Depreciation and<br/>impairment losses:</b>      |                                          |                                                   |                                      |                                                                 |                         |
| Balance at 1 January 2001                           | 136,554                                  | 340,341                                           | 74,843                               | 49,812                                                          | 601,550                 |
| Charge for the year                                 | 35,590                                   | 80,555                                            | 12,726                               | 14,143                                                          | 143,014                 |
| Impairment losses                                   | 22,944                                   | 11,103                                            | 225                                  | 190                                                             | 34,462                  |
| Disposals                                           | <u>(1,491)</u>                           | <u>(15,148)</u>                                   | <u>(3,749)</u>                       | <u>(8,264)</u>                                                  | <u>(28,652)</u>         |
| Balance at 31 December<br>2001                      | 193,597                                  | 416,851                                           | 84,045                               | 55,881                                                          | 750,374                 |
|                                                     | -----                                    | -----                                             | -----                                | -----                                                           | -----                   |
| <b>Carrying amount:</b>                             |                                          |                                                   |                                      |                                                                 |                         |
| At 31 December 2000                                 | 805,305                                  | 699,544                                           | 42,874                               | 40,754                                                          | 1,588,477               |
|                                                     | =====                                    | =====                                             | =====                                | =====                                                           | =====                   |
| At 31 December 2001                                 | 844,519                                  | 723,138                                           | 39,551                               | 46,548                                                          | 1,653,756               |
|                                                     | =====                                    | =====                                             | =====                                | =====                                                           | =====                   |

(a) All of the Group's buildings are located in the PRC.

(b) The land use rights are amortised using straight-line method over 11 to 50 years.

- (c) Pursuant to an approval document issued by the Shenzhen Municipal People's Government office on 31 December 1993, property, plant and equipment as at 31 August 1993 were revalued, as required by the relevant PRC rules and regulations, by a registered PRC valuer on a depreciated replacement cost method for the purpose of conversion of the Company into a joint stock company limited by shares. The revaluation surplus was incorporated in the financial statements for the year ended 31 December 1994.

## 12 Construction in progress

|                                                     | 2001<br>RMB'000 | 2000<br>RMB'000 |
|-----------------------------------------------------|-----------------|-----------------|
| At 1 January                                        | 89,573          | 68,881          |
| Additions                                           | 188,683         | 207,629         |
| Transfer to property, plant and equipment (note 11) | (186,351)       | (174,136)       |
| Interest capitalised                                | 5,689           | -               |
| Disposal                                            | <u>-</u>        | <u>(12,801)</u> |
| At 31 December                                      | 97,594<br>===== | 89,573<br>===== |

Construction in progress at 31 December 2001 is analysed as follows:

|                         | 2001<br>RMB'000 | 2000<br>RMB'000 |
|-------------------------|-----------------|-----------------|
| <b>Projects</b>         |                 |                 |
| Machinery and equipment | 44,693          | 40,522          |
| Office building         | 51,162          | 36,672          |
| Network facilities      | 724             | 6,442           |
| Transformation of plant | 356             | 5,606           |
| Storage                 | 659             | -               |
| Sawmill                 | <u>-</u>        | <u>331</u>      |
|                         | 97,594<br>===== | 89,573<br>===== |

## 13 Timber concession rights

|                                        | 2001<br>RMB'000  | 2000<br>RMB'000  |
|----------------------------------------|------------------|------------------|
| At 1 January                           | 285,403          | 296,813          |
| Effect of movement in foreign exchange | -                | 3,552            |
| Less: Amortisation                     | <u>(15,030)</u>  | <u>(14,962)</u>  |
| At 31 December                         | 270,373<br>===== | 285,403<br>===== |

These rights represent the cost of acquisition of timber concession rights in respect of designated areas of land in the Republic of Suriname and Kingdom of Cambodia with terms expiring between 2016 to 2023.

The timber concession rights are amortised using straight-line method over 15 to 23 years.

## 14 Intangible assets

|                                                                     | <i>Goodwill</i><br>RMB'000 | <i>Negative goodwill</i><br>RMB'000 | <i>Technological know-how</i><br>RMB'000 | <i>Total</i><br>RMB'000 |
|---------------------------------------------------------------------|----------------------------|-------------------------------------|------------------------------------------|-------------------------|
| At 1 January 2001                                                   | 60,179                     | (5,862)                             | 14,010                                   | 68,327                  |
| Acquisition through purchase of additional interest in subsidiaries | <u>1,497</u>               | <u>(3,264)</u>                      | <u>-</u>                                 | <u>(1,767)</u>          |
|                                                                     | 61,676                     | (9,126)                             | 14,010                                   | 66,560                  |
| Amortisation for the year                                           | <u>(20,454)</u>            | <u>6,516</u>                        | <u>(1,715)</u>                           | <u>(15,653)</u>         |
| At 31 December 2001                                                 | 41,222                     | (2,610)                             | 12,295                                   | 50,907                  |
|                                                                     | =====                      | =====                               | =====                                    | =====                   |

## 15 Interests in associates

|                            | <i>2001</i><br>RMB'000 | <i>2000</i><br>RMB'000 |
|----------------------------|------------------------|------------------------|
| <i>Unlisted associates</i> |                        |                        |
| Share of net assets        | 388,932                | 362,614                |
| Loans to an associate      | <u>387,405</u>         | <u>411,806</u>         |
|                            | 776,337                | 774,420                |
|                            | =====                  | =====                  |

Loans to an associate are unsecured, interest-free and have no fixed repayment terms.

Details of the associates are as follows:

| <i>Name of company</i>                | <i>Place of establishment and operation</i> | <i>Percentage of equity held by the Group</i> | <i>Principal activities</i>                                                              |
|---------------------------------------|---------------------------------------------|-----------------------------------------------|------------------------------------------------------------------------------------------|
| KYH Steel Holdings Limited            | The British Virgin Islands                  | 31.8%                                         | Investment holding with subsidiaries principally engaged in trading of steel products    |
| Twinbridge Development Corporation    | The British Virgin Islands                  | 40%                                           | Investment holding with a joint venture principally engaged in infrastructure investment |
| Beijing Bowei Airport Support Limited | PRC                                         | 40%                                           | Provision of repair and maintenance services for airport ground facilities               |

## 16 Investments in equity securities

|                                              | 2001<br>RMB'000 | 2000<br>RMB'000 |
|----------------------------------------------|-----------------|-----------------|
| <b><i>Investments available-for-sale</i></b> |                 |                 |
| Listed equity securities, at fair value      | -               | 24,575          |
| Unlisted equity securities, at cost          | <u>302,777</u>  | <u>37,955</u>   |
|                                              | 302,777         | 62,530          |
|                                              | =====           | =====           |
| <b><i>Investments held for trading</i></b>   |                 |                 |
| Listed equity securities, at fair value      | 30,917          | -               |
|                                              | =====           | =====           |

Listed equity securities are listed on the PRC Stock Exchanges.

The adoption of IAS 39 has resulted in the Group recognising listed investments available for sale at fair value, with any resultant gain or loss recognised in the consolidated income statement rather than stating these listed investments at the lower of cost and market value determined on a portfolio basis in 2000. As at 31 December 2000, all of these listed investments were marked down to fair value with the resulting decline in value recognised in the consolidated income statement in accordance with the accounting policy in 2000.

## 17 Long-term receivables

|                                                                        | 2001<br>RMB'000  | 2000<br>RMB'000 |
|------------------------------------------------------------------------|------------------|-----------------|
| Trade and other receivables                                            | 255,355          | 178,947         |
| Amounts due within one year included in trade<br>and other receivables | <u>(101,774)</u> | <u>(720)</u>    |
|                                                                        | 153,581          | 178,227         |
|                                                                        | =====            | =====           |

Long term receivables include RMB103 million receivable bearing interest at London Inter Bank Offered Rate plus 4% per annum, RMB28 million receivable bearing interest at 6.435% per annum, and RMB4 million receivable bearing interest at 10% per annum, which will be received by instalments up to 2005. The balance of RMB19 million receivable is interest-free and will be received in 2003.

## **18 Properties under development**

|                                              | 2001<br>RMB'000  | 2000<br>RMB'000  |
|----------------------------------------------|------------------|------------------|
| At 1 January                                 | 23,432           | 51,924           |
| Additions                                    | 117,757          | 165,840          |
| Interest capitalised                         | 1,159            | -                |
| Transfer to completed<br>properties for sale | <u>(37,098)</u>  | <u>(194,332)</u> |
| At 31 December                               | 105,250<br>===== | 23,432<br>=====  |

## **19 Inventories**

|                                               | 2001<br>RMB'000  | 2000<br>RMB'000    |
|-----------------------------------------------|------------------|--------------------|
| Raw materials                                 | 447,666          | 851,432            |
| Work in progress                              | 73,324           | 60,701             |
| Finished goods                                | 187,990          | 237,181            |
| Spare parts and<br>consumables                | <u>8,924</u>     | <u>10,888</u>      |
|                                               | 717,904<br>===== | 1,160,202<br>===== |
| Inventories stated at net<br>realisable value | 289,676<br>===== | 327,350<br>=====   |

## **20 Trade and other receivables**

|                                             | 2001<br>RMB'000    | 2000<br>RMB'000    |
|---------------------------------------------|--------------------|--------------------|
| Trade receivables                           | 1,110,449          | 1,699,114          |
| Deposits, prepayments and other receivables | <u>292,751</u>     | <u>215,239</u>     |
|                                             | 1,403,200<br>===== | 1,914,353<br>===== |

On 28 December 1999, the Group entered into a Receivables Framework Agreement" with Oasis Funding Limited (Oasis"). Pursuant to the agreement, the Group will sell, assign and transfer certain accounts receivable to Oasis. Oasis will accept the assignment of accounts receivable offered by the Group without recourse and provide funds to the Group in this regard. As at 31 December 2001, the Group has outstanding trade receivables of RMB189 million (2000: RMB770 million) assigned to Oasis and received advances of RMB149 million (2000: RMB356 million) from Oasis.

## 21 Cash and cash equivalents

|                                                                      | 2001<br>RMB'000  | 2000<br>RMB'000  |
|----------------------------------------------------------------------|------------------|------------------|
| Cash in hand                                                         | 425              | 83               |
| Bank balances                                                        | <u>390,953</u>   | <u>225,125</u>   |
| Cash and cash equivalents                                            | 391,378          | 225,208          |
| Bank loans repayable within 3 months<br>from the date of the advance | <u>(118,031)</u> | <u>(38,088)</u>  |
| Cash and cash equivalents in the consolidated<br>cash flow statement | 273,347<br>===== | 187,120<br>===== |

## 22 Share capital

|                                                      | 2001<br>RMB'000  | 2000<br>RMB'000  |
|------------------------------------------------------|------------------|------------------|
| <b><i>Registered, issued and paid up capital</i></b> |                  |                  |
| 151,575,422 legal person shares of RMB1 each         | 151,575          | 151,575          |
| 46,222,175 A' shares of RMB1 each                    | 46,222           | 46,222           |
| 142,403,801 B' shares of RMB1 each                   | <u>142,404</u>   | <u>142,404</u>   |
|                                                      | 340,201<br>===== | 340,201<br>===== |

All the legal person, A' and B' shares rank pari passu in all material respects.

## 23 Reserves

|                                                             | Share<br>premium<br>RMB'000 | Property<br>revaluation<br>reserve<br>RMB'000 | Exchange<br>reserve<br>RMB'000 | Surplus<br>reserve<br>RMB'000 | Statutory<br>public<br>welfare<br>fund<br>RMB'000 | Retained<br>profits<br>RMB'000 | Total<br>RMB'000 |
|-------------------------------------------------------------|-----------------------------|-----------------------------------------------|--------------------------------|-------------------------------|---------------------------------------------------|--------------------------------|------------------|
| Balance at 1 January 2000                                   | 613,637                     | 18,521                                        | 6,104                          | 576,680                       | 123,257                                           | -                              | 1,338,199        |
| Change in accounting policy                                 | =                           | =                                             | =                              | =                             | =                                                 | <u>29,179</u>                  | <u>29,179</u>    |
| Restated balance at 1 January 2000                          | 613,637                     | 18,521                                        | 6,104                          | 576,680                       | 123,257                                           | 29,179                         | 1,367,378        |
| Net profit for the year                                     | -                           | -                                             | -                              | -                             | -                                                 | 464,732                        | 464,732          |
| Dividends                                                   | -                           | -                                             | -                              | -                             | -                                                 | (68,040)                       | (68,040)         |
| Transfer from retained earnings                             | -                           | -                                             | -                              | 47,322                        | 23,113                                            | (70,435)                       | -                |
| Exchange adjustments arising on translation of subsidiaries | =                           | =                                             | <u>(2,873)</u>                 | =                             | =                                                 | =                              | <u>(2,873)</u>   |
| Balance at 31 December 2000                                 | <u>613,637</u>              | <u>18,521</u>                                 | <u>3,231</u>                   | <u>624,002</u>                | <u>146,370</u>                                    | <u>355,436</u>                 | <u>1,761,197</u> |
| Balance at 1 January 2001                                   | 613,637                     | 18,521                                        | 3,231                          | 624,002                       | 146,370                                           | 355,436                        | 1,761,197        |
| Net profit for the year                                     | -                           | -                                             | -                              | -                             | -                                                 | 564,175                        | 564,175          |
| Dividends                                                   | -                           | -                                             | -                              | -                             | -                                                 | (68,040)                       | (68,040)         |
| Transfer from statutory public welfare fund                 | -                           | -                                             | -                              | 3,854                         | (3,854)                                           | -                              | -                |
| Transfer from retained earnings                             | -                           | -                                             | -                              | 287,105                       | 29,833                                            | (316,938)                      | -                |
| Exchange adjustments arising on translation of subsidiaries | =                           | =                                             | <u>(228)</u>                   | =                             | =                                                 | =                              | <u>(228)</u>     |
| Balance at 31 December 2001                                 | <u>613,637</u>              | <u>18,521</u>                                 | <u>3,003</u>                   | <u>914,961</u>                | <u>172,349</u>                                    | <u>534,633</u>                 | <u>2,257,104</u> |

Notes:

- (a) Surplus reserve comprises a statutory surplus reserve of RMB200,319,000 (2000: RMB170,101,000) and a discretionary surplus reserve of RMB714,642,000 (2000: RMB453,901,000).

According to the current PRC Company Law and the Company's articles of association, the Company is required to transfer not less than 10% of its profit after taxation to the statutory surplus reserve until the surplus reaches 50% of the registered capital. For the purpose of calculating the transfer to reserve, the profit after taxation shall be the amount determined under PRC accounting regulations. The transfer to this reserve must be made before distribution of dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and for capitalisation issue provided that the balance after such issue is not less than 25% of the registered capital.

The transfer to discretionary surplus reserve from the retained earnings is subject to the approval of shareholders at general meetings. Its usage is similar to that of statutory surplus reserve.

- (b) According to the current PRC Company Law and the Company's articles of association, the Company is required to transfer 5% to 10% of its profit after taxation to the statutory public welfare fund. The statutory public welfare fund can only be used on capital expenditure for the collective benefits of the Company's employees such as the construction of dormitories, canteens and other staff welfare facilities. The fund forms part of the shareholders' equity as individual employees can only use these facilities, the titles of which will remain with the Company. The transfer to this fund must be made before distribution of dividends to shareholders.
- (c) According to the Company's Articles of Association, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC accounting rules and regulations and the amount determined in accordance with IAS. At 31 December 2001, the amount of retained profits available for distribution, which was the amount determined in accordance with the PRC accounting rules and regulations, was RMB366,581,000 (2000: RMB323,300,000).

## 24 Interest-bearing bank loans

|                                      | 2001<br>RMB'000  | 2000<br>RMB'000    |
|--------------------------------------|------------------|--------------------|
| <b>Unsecured</b>                     |                  |                    |
| Due within 3 months                  | 135,031          | 291,522            |
| Due after 3 months but within 1 year | 303,456          | 1,285,595          |
| Due after 1 year but within 2 years  | 957,450          | 615,502            |
| Due after 2 years but within 5 years | 81,000           | 5,257              |
| Due after 5 years                    | <u>-</u>         | <u>148,999</u>     |
|                                      | 1,476,937        | 2,346,875          |
| Amounts due within 1 year            | <u>(438,487)</u> | <u>(1,577,117)</u> |
| Amounts due after 1 year             | 1,038,450        | 769,758            |
|                                      | =====            | =====              |

Interest rates are within the range of 2.6% to 6.435% per annum.

Bank loans of RMB166 million are denominated in United States dollars and the remaining balances are denominated in Renminbi Yuan.

## 25 Trade and other payables

|                             | 2001<br>RMB'000 | 2000<br>RMB'000 |
|-----------------------------|-----------------|-----------------|
| Trade payables              | 388,114         | 592,840         |
| Other payables and accruals | 381,246         | 357,456         |
| Staff bonus                 | 240,846         | 259,984         |
| Deposits received           | 85,437          | 61,768          |
| Bills payable               | <u>56,612</u>   | <u>21,238</u>   |
|                             | 1,152,255       | 1,293,286       |
|                             | =====           | =====           |

## 26 Provision

|                                 | Warranties<br>RMB'000 |
|---------------------------------|-----------------------|
| Balance at 1 January 2001       | 249,145               |
| Provisions made during the year | 52,437                |
| Provisions used during the year | <u>(5,100)</u>        |
| Balance at 31 December 2001     | 296,482               |
|                                 | =====                 |

The provision for warranties relates mainly to containers sold during the last three years. The provision is based on estimates made from historical warranty data associated with similar products.

## 27 Capital and lease commitments

- (a) At 31 December 2001, the Group had capital commitments outstanding as follows:

|                                   | 2001<br>RMB'000  | 2000<br>RMB'000 |
|-----------------------------------|------------------|-----------------|
| Authorised and contracted for     | 10,204           | 71,812          |
| Authorised but not contracted for | <u>134,214</u>   | <u>-</u>        |
|                                   | 144,418<br>===== | 71,812<br>===== |

- (b) At 31 December 2001, the Group had commitments under non-cancellable operating leases, not provided for as follows:

|                                                | 2001<br>RMB'000  | 2000<br>RMB'000  |
|------------------------------------------------|------------------|------------------|
| <b><i>Operating lease charges payable:</i></b> |                  |                  |
| Within 1 year                                  | 32,605           | 6,558            |
| After 1 year but within 5 years                | 66,577           | 30,304           |
| After 5 years                                  | <u>101,348</u>   | <u>101,869</u>   |
|                                                | 200,530<br>===== | 138,731<br>===== |

The Group leases a number of offices and a factory under operating leases. The leases of offices and factory run for an initial period of one to two years and 30 years respectively, with an option to renew the lease after the date. Lease payments of factory are increased every three years to reflect market rentals. None of the leases includes contingent rentals.

## 28 Contingencies

- (a) The Group has provided guarantees to a bank for a loan facility amounting to RMB200 million (2000: RMB200 million) granted by that bank to a customer of the Group.
- (b) The Group has provided guarantee to a bank for a loan facility amounting to RMB32 million (2000: RMB32 million) granted by that bank to an associate.
- (c) The Group has provided guarantees to banks for mortgages amounting to RMB36 million (2000: RMB31 million) granted by those banks to customers of the Group.
- (d) In order to motivate management and key operational staff, the Company has set up a management incentive fund. The Company contributed RMB17,878,000 (2000: RMB15,067,000) to the fund during the year.

Pursuant to a share incentive scheme approved by the directors, the Company withdrew RMB40,456,000 from the fund to acquire 4,032,340 股 shares and 974,426 股 shares of the Company during the period from March 1999 to July 2001. In December 2001, the Company sold all the shares and closed the securities accounts. The result arising from the trading of shares was not borne by the Company.

## 28 Contingencies (continued)

- (d) At the same time, the Company reported the incident to the Shenzhen compliance office of the China Securities Regulatory Commission (CRCSZ). A notice was issued by CSRC SZ on 19 April 2002 to reprimand the Company, Chairman of the Board of Directors and the President for violation of the securities regulations.

## 29 Notes to the consolidated cash flow statement

### (a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities:

|                                                                               | 2001             | 2000            |
|-------------------------------------------------------------------------------|------------------|-----------------|
|                                                                               | RMB'000          | RMB'000         |
| Operating profit                                                              | 662,923          | 564,026         |
| Adjustments for:                                                              |                  |                 |
| Depreciation                                                                  | 143,014          | 127,802         |
| Impairment losses                                                             | 34,462           | -               |
| Amortisation of goodwill                                                      | 13,938           | 14,291          |
| Amortisation of other intangible assets                                       | 1,715            | 1,648           |
| Amortisation of negative goodwill of associates                               | (255)            | -               |
| Loss on sale of property, plant and equipment<br>and construction in progress | 7,042            | 20,211          |
| Interest income                                                               | (37,345)         | (8,123)         |
| Interest expenses                                                             | 134,666          | 148,493         |
| Gain on disposal of equity securities                                         | (30,363)         | (123,786)       |
| Amortisation of timber concession rights                                      | <u>15,030</u>    | <u>14,962</u>   |
| Operating profit before working capital changes                               | 944,827          | 759,524         |
| Decrease in long-term receivables                                             | 24,646           | 42,866          |
| Decrease/(increase) in trade and other receivables                            | 324,115          | (219,064)       |
| Decrease/(increase) in inventories                                            | 442,298          | (270,541)       |
| Decrease in provision, trade and other payables                               | (78,712)         | (441,382)       |
| (Increase)/decrease in properties under development                           | (80,659)         | 28,491          |
| Decrease/(increase) in completed properties for sale                          | <u>59,126</u>    | <u>(54,068)</u> |
| Cash inflow/(outflow) from operating activities                               | 1,635,641        | (154,174)       |
| PRC income tax paid                                                           | <u>(108,507)</u> | <u>(84,456)</u> |
| Net cash inflow/(outflow) from operating activities                           | 1,527,134        | (238,630)       |
|                                                                               | =====            | =====           |

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

|                          | 2001               | 2000               |
|--------------------------|--------------------|--------------------|
|                          | RMB'000            | RMB'000            |
| <b>Bank loans</b>        |                    |                    |
| Balance at 1 January     | 2,308,787          | 1,586,664          |
| Proceeds from bank loans | 7,653,138          | 7,524,458          |
| Repayment of bank loans  | <u>(8,603,019)</u> | <u>(6,802,335)</u> |
| Balance at 31 December   | 1,358,906          | 2,308,787          |
|                          | =====              | =====              |

### 30 Related parties transactions

- (i) The Group has undertaken transactions with the following related parties for the year ended 31 December 2001:

|                                                                                  | <i>Relationship<br/>with the<br/>Company</i> | <i>2001<br/>RMB'000</i> | <i>2000<br/>RMB'000</i> |
|----------------------------------------------------------------------------------|----------------------------------------------|-------------------------|-------------------------|
| Sale of containers to Florens Container Services Company Limited (Florens")      | Subsidiary of shareholder                    | 651,981                 | 494,564                 |
| Purchase of raw materials from Hempel-Hai Hong Coating Company Limited (Hempel") | Subsidiary of shareholder                    | 180,283                 | 321,090                 |
| Purchase of steel products from KYH Steel Holdings Limited                       | Associate                                    | 41,873                  | 137,315                 |
| Payment of consultancy fee to COSCO                                              | Shareholder                                  | 4,471                   | 4,678                   |
|                                                                                  |                                              | =====                   | =====                   |

The directors are of the opinion that these transactions were concluded based on normal commercial terms in the ordinary course of business of the Group and were entered into in accordance with the relevant agreements.

The balance with associate is disclosed in note 15 on the consolidated financial statements. Details of the balances with other related parties were as follows:

|                         | <i>2001<br/>RMB'000</i> | <i>2000<br/>RMB'000</i> |
|-------------------------|-------------------------|-------------------------|
| Amount due from Florens | 15,398                  | 47,262                  |
| Amount due to Hempel    | 85,754                  | 155,763                 |
| Amount due to COSCO     | 4,471                   | 4,678                   |
|                         | =====                   | =====                   |

- (ii) During the year, the Group has granted housing loans of RMB36,437,000 to certain directors and executive officers. The movements of the housing loans during the year were as follows:

|                    | <i>Balance<br/>as at 1<br/>January<br/>2001<br/>RMB'000</i> | <i>Loans<br/>granted<br/>during the<br/>year<br/>RMB'000</i> | <i>Balance<br/>as at 31<br/>December<br/>2001<br/>RMB'000</i> |
|--------------------|-------------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------|
| Directors          | -                                                           | 5,065                                                        | 5,065                                                         |
| Executive officers | -                                                           | 31,372                                                       | 31,372                                                        |
|                    | -                                                           | 36,437                                                       | 36,437                                                        |
|                    | =====                                                       | =====                                                        | =====                                                         |

The outstanding loans are unsecured, interest-free and are settled in two annual instalments up to June 2003.

### **31 Financial instruments**

Financial assets of the Group include cash, securities, and trade and other receivables. Financial liabilities of the Group include loans, and trade and other payables.

#### **(a) Interest rate risk**

The interest rates and terms of repayment of bank loans of the Group are disclosed in note 24 of the consolidated financial statements.

#### **(b) Foreign exchange risk**

Foreign exchange risk is defined as transaction risk, i.e. the risk of the Group's commercial cash flows being adversely affected by a change in exchange rates for foreign currencies against Renminbi Yuan, and balance sheet risk, i.e. the risk of net monetary assets in foreign currencies acquiring a lower value when translated into Renminbi Yuan as a result of currency movements. The Group strives to minimise the risk by achieving a balance between monetary assets and monetary liabilities in the respective currencies.

No forward exchange contracts are open at the balance sheet date.

#### **(c) Credit risk**

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted. Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To reduce exposure to credit risk, the Group performs ongoing credit evaluations of the financial condition of its counterparties.

Substantially all the Group's cash and cash equivalents are deposited with PRC financial institutions with high credit ratings.

The Group generally does not require collateral from its customers and is exposed to credit-related losses in the event of non-performance by customers. However, the Group does not have significant unwarranted concentration of exposure to individual customers. The ten largest trade debtors accounted for 17% (2000: 29%) of the Group's total assets at 31 December 2001.

#### **(d) Liquidity risk**

Liquidity risk is defined as the risk that the Group will be unable to meet its cash flow obligations as they fall due. To manage liquidity risk, the Group closely monitors its liquidity to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding needs.

## **31 Financial instruments (continued)**

### **(e) Fair value**

The fair value of unlisted equity securities could not reasonably be estimated without incurring excessive costs as there is no quoted market price for such securities in the PRC.

The fair values of trade and other receivables, and trade and other payables are not materially different from their carrying amounts.

As of 31 December 2001, the fair value of the long-term receivables as estimated by applying a discounted cash flow using current market interest rates for similar financial instruments was RMB146,200,000 (2000: RMB164,691,000).

As at 31 December 2001, the fair value of the interest-bearing bank loans, including the current portion, as estimated by applying a discounted cash flow using current market interest rates for similar financial instruments was RMB1,463,142,000 (2000: RMB2,339,201,000).

## **32 Subsidiaries**

Details of the Company's principal subsidiaries at 31 December 2001, all of which are unlisted, are as follows:

| <i>Name of company</i>                                     | <i>Issued and fully paid capital</i> | <i>Percentage of equity held by the Group</i> | <i>Place of establishment and operation</i> | <i>Principal activities</i>                  |
|------------------------------------------------------------|--------------------------------------|-----------------------------------------------|---------------------------------------------|----------------------------------------------|
| CIMC (Shanghai) Development Limited                        | RMB500,000,000                       | 100%                                          | PRC                                         | Investment holding                           |
| Shenzhen Southern Zhongji Containers Manufacture Co., Ltd. | US\$12,000,000                       | 100%                                          | PRC                                         | Manufacture of containers                    |
| Shenzhen CIMC Real Estate Co., Ltd.                        | RMB20,000,000                        | 100%                                          | PRC                                         | Property development                         |
| Nanjing Zhongji Real Estate Development Co., Ltd.          | US\$2,000,000                        | 100%                                          | PRC                                         | Property development                         |
| China International Marine Containers (Hong Kong) Limited  | HK\$2,000,000                        | 100%                                          | Hong Kong                                   | Trading of containers and investment holding |
| CIMC Holdings (B.V.I.) Limited                             | US\$34,001                           | 100%                                          | The British Virgin Islands                  | Investment holding                           |

### 32 Subsidiaries (continued)

| <i>Name of company</i>                                              | <i>Issued and fully paid capital</i> | <i>Percentage of equity held by the Group</i> | <i>Place of establishment and operation</i> | <i>Principal activities</i>                                               |
|---------------------------------------------------------------------|--------------------------------------|-----------------------------------------------|---------------------------------------------|---------------------------------------------------------------------------|
| Silveroad Woodproducts Limited                                      | US\$8,000                            | 100%                                          | Kingdom of Cambodia                         | Timber logging and trading                                                |
| Tacoba Consultant N.V.                                              | SF3,000,000                          | 100%                                          | Republic of Suriname                        | Timber logging and trading                                                |
| Xinhui CIMC Container Flooring Co., Ltd.                            | US\$11,500,000                       | 77%                                           | PRC                                         | Further processing of timber                                              |
| Qingdao CIMC Container Manufacture Co., Ltd.                        | US\$20,300,000                       | 81.19%                                        | PRC                                         | Manufacture of containers                                                 |
| Qingdao CIMC Reefer Container Manufacture Co., Ltd.                 | US\$24,060,000                       | 75.23%                                        | PRC                                         | Manufacture of containers                                                 |
| Shanghai CIMC Generating Set Co., Ltd.                              | US\$3,918,700                        | 73%                                           | PRC                                         | Manufacture of internal combustion engine generators and related services |
| Shanghai CIMC Reefer Containers Co., Ltd.                           | US\$31,000,000                       | 67%                                           | PRC                                         | Manufacture of containers                                                 |
| Tianjin CIMC North Ocean Container Co., Ltd.                        | US\$16,682,000                       | 70.7485%                                      | PRC                                         | Manufacture of containers                                                 |
| Nantong CIMC - Smooth Sail Container Co., Ltd.                      | US\$7,700,000                        | 51.8%                                         | PRC                                         | Manufacture of containers                                                 |
| Nantong CIMC Special Transportation Equipment Manufacture Co., Ltd. | US\$10,000,000                       | 57.4%                                         | PRC                                         | Manufacture of containers                                                 |
| Dalian CIMC Container Manufacturing Co., Ltd.                       | US\$8,855,000                        | 51.17%                                        | PRC                                         | Manufacture of containers                                                 |

### 32 Subsidiaries (continued)

| <i>Name of company</i>                               | <i>Issued and fully<br/>paid capital</i> | <i>Percentage<br/>of equity<br/>held by the<br/>Group</i> | <i>Place of<br/>establishment<br/>and operation</i> | <i>Principal<br/>activities</i>                |
|------------------------------------------------------|------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------|------------------------------------------------|
| Shenzhen CIMC - Tianda<br>Airport Support Ltd.       | US\$13,500,000                           | 100%                                                      | PRC                                                 | Manufacture of<br>airport ground<br>facilities |
| Shenzhen CIMC Heavy<br>Industries Co., Ltd.          | US\$1,000,000                            | 100%                                                      | PRC                                                 | Manufacture of<br>containers                   |
| Shanghai CIMC Far East<br>Container Co., Ltd. (note) | US\$9,480,000                            | 47.5%                                                     | PRC                                                 | Manufacture of<br>containers                   |
| Xinhui CIMC container<br>Co., Ltd. (note)            | US\$19,200,000                           | 40%                                                       | PRC                                                 | Manufacture of<br>containers                   |

Note: The financial statements of Xinhui CIMC Container Co., Ltd and Shanghai CIMC Far East Container Co., Ltd. are consolidated in the consolidated financial statements as the Group has the power to govern these companies' financial and operating policies in accordance with the terms of the relevant profit guarantee agreements. The directors are of the opinion that these profit guarantee agreements are extendable upon expiry.

**Reconciliation of the Group's consolidated results and  
net assets prepared under International Accounting Standards (IAS") and the PRC  
Accounting Rules and Regulations**

|                                                         | <i>Profit<br/>attributable to<br/>shareholders for<br/>the year ended<br/>31 December<br/>2001<br/>RMB'000</i> | <i>Net assets at<br/>31 December<br/>2001<br/>RMB'000</i> |
|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| Prepared under the PRC Accounting Rules and Regulations | 543,007                                                                                                        | 2,396,052                                                 |
| Adjustments to align with IAS:                          |                                                                                                                |                                                           |
| (i) Adjustment to provision for doubtful debts          | 15,864                                                                                                         | -                                                         |
| (ii) Adjustment to minority interests                   | 8,629                                                                                                          | 8,323                                                     |
| (iii) Adjustment to deferred tax assets                 | (2,650)                                                                                                        | 15,566                                                    |
| (iv) Adjustment to goodwill and negative goodwill       | (4,195)                                                                                                        | (32,065)                                                  |
| (v) Adjustment to interest capitalisation               | 6,848                                                                                                          | 37,902                                                    |
| (vi) Dividend accounted for on paid basis               | -                                                                                                              | 170,101                                                   |
| (vii) Others                                            | <u>(3,328)</u>                                                                                                 | <u>1,426</u>                                              |
| Prepared under IAS                                      | 564,175<br>=====                                                                                               | 2,597,305<br>=====                                        |

**XI. DOCUMENTS AVAILABLE FOR REFERENCE**

1. The financial statements carried with signatures and seals of the Company's legal representative and person in charge of accounting;
2. Original of the Auditors' Report carried with the seals of Certified Public Accounts as well as the signatures and seals of individual certified public accountants;
3. Originals of all documents and manuscripts of all public notices disclosed in Newspapers designated by CSRC in the report year.
4. Articles of Association of the Company approved in 2000 Shareholders' General Meeting.

**Board of Directors of**  
China International Marine Containers (Group) Co., Ltd.  
April 25, 2002