

NOTES TO FINANCIAL STATEMENTS

CONTINUED

31 December 2000

	Company						
	Share premium account	Revaluation reserve	Statutory surplus reserve	Statutory public welfare fund	General surplus reserve	Retained profits /(accumu- lated losses)	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 1999	1,562,588	217,143	50,508	4,117	46,391	(51,187)	1,829,560
Net profit for the year	-	-	-	-	-	172,349	172,349
Transfer from/(to) reserves	-	-	16,030	16,030	-	(32,060)	-
Additions to staff quarters	-	-	-	(15,587)	15,587	-	-
Release on disposal of fixed assets	-	(25,716)	-	-	-	25,716	-
Reallocation of reserves	-	-	(4,560)	(4,560)	-	9,120	-
At 31 December 1999 and beginning of year	1,562,588	191,427	61,978	-	61,978	123,938	2,001,909
Net profit for the year	-	-	-	-	-	262,716	262,716
Transfer from/(to) reserves	-	-	31,180	31,180	-	(62,360)	-
Additions to staff quarters	-	-	-	(31,180)	31,180	-	-
Release on disposal of fixed assets	-	(971)	-	-	-	971	-
Dividends - note 10	-	-	-	-	-	(148,800)	(148,800)
At 31 December 2000	1,562,588	190,456	93,158	-	93,158	176,465	2,115,825

In accordance with the Company Law of the PRC and the Company's articles of association, the Company is required to allocate 10% of its profit after taxation, as determined in accordance with PRC accounting standards and regulations applicable to the Company, to the statutory surplus reserve ("SSR") until such reserve reaches 50% of the registered capital of the Company. Subject to certain restrictions set out in the Company Law of the PRC and the Company's articles of association, part of the SSR may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

In accordance with the Company Law of the PRC, the Company is required to transfer 5% to 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to the Company, to its statutory public welfare fund ("PWF") which is a non-distributable reserve other than in the event of the liquidation of the Company. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain as property of the Company unless subsequently transferred or disposed of.

When the PWF is utilised, an amount equal to the lower of cost of the assets and balance of the PWF is transferred from the PWF to the general surplus reserve. This reserve is non-distributable other than in liquidation. The original transfers from the PWF are reversed upon disposal of the relevant assets and satisfying other relevant requirements. During the year, the transfer from PWF to general surplus reserve represented construction costs for staff quarters amounting to Rmb31,180,000 (1999: Rmb15,587,000).

The directors have proposed to transfer Rmb31,180,200 (1999: Rmb16,029,700) to each of the SSR and the PWF, respectively. Each transfer represents 10% (1999: 10%) of the Company's profit after tax of Rmb311,802,000 (1999: Rmb160,297,000), determined in accordance with PRC accounting standards. The transfers to SSR and PWF are subject to shareholders' approval at the forthcoming annual general meeting.

According to the relevant regulations in the PRC, the reserve available for distribution is the lower of the amount determined under PRC accounting standards and the amount determined under generally accepted accounting principles in Hong Kong ("HK GAAP"). On this basis, as at 31 December 2000, the Company had a reserve of Rmb176,465,000 (1999: Rmb123,938,000) available for distribution as dividends.

In addition, in accordance with the Company Law of the PRC, an amount of approximately Rmb1,562,588,000 (1999: Rmb1,562,588,000) standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

NOTES TO FINANCIAL STATEMENTS

CONTINUED

31 December 2000

28. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2000	1999
	Rmb'000	Rmb'000
Profit from operating activities	535,996	466,313
Interest income	(7,838)	(8,958)
Depreciation	689,035	714,954
Amortisation of deferred staff expenditure	5,804	-
Gain on disposal of fixed assets	(12,499)	(8,768)
Gain on liquidation of a subsidiary	(1,125)	-
Decrease in trade and bills receivables	715	127,352
Decrease/(increase) in bunker oil inventories	(22,406)	2,165
Decrease in prepayments	23,410	105,934
Decrease/(increase) in deposits and other debtors	34,272	(14,430)
Decrease/(increase) in amount due from the holding company	3,657	(2,097)
Decrease/(increase) in amounts due from fellow subsidiaries	(144,684)	164,071
Increase in amounts due from related companies	(84,778)	(56,144)
Decrease in amount due from an associate	3,052	49,144
Increase/(decrease) in trade payables	(28,335)	7,829
Increase in accruals	27,066	16,902
Increase/(decrease) in other liabilities	2,373	(7,991)
Increase/(decrease) in amounts due to fellow subsidiaries	23,622	(25,726)
Decrease in amounts due to related companies	-	(7,823)
Net cash inflow from operating activities	<u>1,047,337</u>	<u>1,522,727</u>

(b) Analysis of changes in financing during the year

	Share capital (including share premium)	Bank and other borrowings	Finance lease payables	Minority interest
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at 1 January 1999	4,538,588	2,983,036	1,507,014	19,527
Net cash outflow from financing activities	-	(557,937)	(363,449)	-
Share of loss for the year	-	-	-	(362)
Balance at 31 December 1999 and beginning of year	4,538,588	2,425,099	1,143,565	19,165
Net cash outflow from financing activities	-	(562,955)	(331,178)	-
Liquidation of a subsidiary	-	-	-	(19,165)
Balance at 31 December 2000	<u>4,538,588</u>	<u>1,862,144</u>	<u>812,387</u>	<u>-</u>

NOTES TO FINANCIAL STATEMENTS

CONTINUED

31 December 2000

(c)Liquidation of a subsidiary

	2000	1999
	Rmb'000	Rmb'000
Net assets disposed of:		
Fixed assets	15,834	-
Trade receivables, prepayments and other receivables	19,328	-
Accruals and other liabilities	(1,288)	-
Minority interest	(19,165)	-
	14,709	-
Gain on liquidation of a subsidiary	1,125	-
	<u>15,834</u>	<u>-</u>
Satisfied by:		
Net book value of vessel "Hai Tang" collected by the Company	<u>15,834</u>	<u>-</u>

In respect of the cash flows for the year, the subsidiary liquidated had no significant impact on the Group's cash flows from operating activities, investing activities, financing activities, net returns on investments and servicing of finance and tax.

29. PENSION SCHEME

The Company is required to contribute to a pension scheme (the "Scheme"). Under this Scheme, the Company's retirement benefit obligations to its existing and future retiring employees is limited to its annual contributions equivalent to 17.7% of the salaries of the Company's employees for the current year (1999: 16.4% of the total salaries for the preceding year), excluding medical expenses of the retired staff. Contributions by the Company to the Scheme for the year ended 31 December 2000 amounted to Rmb41,729,000 (1999: Rmb42,850,000).

30. PLEDGE OF ASSETS

Details of the Group's bank loans secured by assets of the Group are included in note 22 to the financial statements.

31. CONTINGENT LIABILITIES

On 30 June 1995, a vessel of the Company, "Xin Hua 7", collided with a Panama registered vessel, "Alexander", in Pusan Port in South Korea. "Alexander" sank as a result of this collision. Claims amounting to US\$12,370,000 were brought against the Group by both the ship owner of "Alexander" and the chartering agent. On 7 November 1996, the court at first instance in Pusan decided in favor of the ship owner and the chartering agent, and the Company has appealed against this decision. However, there was no substantial progress of the case during the year. "Xin Hua 7" was fully insured with Shanghai branch of China Property Insurance Company and the China Ship-owners Mutual Insurance Association against losses and third party claims. The directors have been advised by PRC legal counsel that in any event the claims would be fully covered by the Group's insurance policy.

NOTES TO FINANCIAL STATEMENTS

CONTINUED

31 December 2000

32. COMMITMENTS

(a) Capital commitments

	Group and Company	
	2000	1999
	Rmb'000	Rmb'000
Contracted for	1,643,416	-
Authorised, but not contracted for	-	19,251

(b) Commitments under operating leases

As at 31 December 2000, the Group and the Company had commitments under non-cancellable operating leases to make payments in the following year as follows:

	Group and Company	
	2000	1999
	Rmb'000	Rmb'000
Land and buildings - expiring:		
Within one year	442	-
In the second to fifth years, inclusive	535	977
After five years	1,320	1,320
	2,297	2,297
Vessels - expiring:		
Within one year	28,498	-
In the second to fifth years, inclusive	28,408	1,920
After five years	-	28,409
	56,906	30,329
	59,203	32,626