

### 33. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER HK GAAP AND PRC ACCOUNTING STANDARDS

The Group has prepared a separate set of financial statements for the year ended 31 December 2000 in accordance with the PRC accounting standards. The major differences between the financial statements prepared under PRC accounting standards and HK GAAP are set out as follows:

	2000	1999
	<b>Rmb'000</b>	Rmb'000
Net profit attributable to shareholders for the year prepared under HK GAAP	<b>281,967</b>	126,873
Adjustments for depreciation, gain on disposal of vessels, doubtful debt provision, timing differences in the recognition of income and expenses, etc	<b>29,835</b>	33,424
Net profit attributable to shareholders for the year prepared under PRC accounting standards	<b>311,802</b>	160,297
Shareholders' equity prepared under HK GAAP	<b>5,029,559</b>	4,896,392
Adjustments for revaluation surplus, exchange fluctuation reserve, depreciation, gain on disposal of vessels, doubtful debt provision, timing differences in the recognition of income and expenses, etc	<b>(20,784)</b>	(50,227)
Shareholders' equity prepared under PRC accounting standards	<b>5,008,775</b>	4,846,165

## **NOTES TO FINANCIAL STATEMENTS**

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### **34. RELATED PARTY TRANSACTIONS**

Business transactions between the Company and its holding company (i.e., China Shipping (Group) Company, or "China Shipping"), fellow subsidiaries and related companies for the year ended 31 December 2000 were set out as below:

- (1) A Services Agreement dated 19 March 1998 between the Company and China Shipping became effective subsequent to an approval by the independent shareholders at an extraordinary general meeting held on 26 May 1998. Pursuant to the Services Agreement, China Shipping (or its subsidiaries) will provide to the Company the necessary supporting shipping materials and services for the on-going operations of the Company's vessels, including the provision of drydocking and repairs services, lubricating oil, fresh water supplies, raw materials, bunker oil, as well as other services. The Services Agreement is effective for a period of ten years. The service fees under the Services Agreement should be determined (after arm's length negotiations) with reference to, depending on applicability and availability, either state-fixed price, market price or cost.

Further details of the principal amounts paid by the Company to China Shipping and its subsidiaries in respect of the Services Agreement for the year ended 31 December 2000 are set out as below:

		<b>2000</b>	1999
	Pricing basis	<b>Total value</b>	Total value
		<b>Rmb'000</b>	Rmb'000
Drydocking and repairs	State-fixed prices or market prices	<b>119,432</b>	76,263
Supply of lubricating oil, fresh water supplies, raw materials, bunker oil, mechanical and electrical engineering, ship stores and repairs and maintenance services for life boats	Market prices	<b>465,089</b>	355,652
Whitewashing and oily water treatment for vessels	State-fixed prices or market prices	<b>6,000</b>	4,324
Installation, repairs and maintenance of telecommunication and navigational services	State-fixed prices	<b>15,695</b>	16,576
Hiring of sea crew	Market prices	<b>71,423</b>	73,404
Accommodation, lodging and transportation for employees	Market prices	<b>5,361</b>	5,440
Medical services (for existing employees)	State-fixed prices	<b>17,612</b>	18,905
Miscellaneous management services	Market prices or actual cost	<b>42,186</b>	40,307
Agency commissions	Market prices	<b>17,677</b>	22,266
Service fees on sales and purchases of vessels, accessories and other equipment	Actual cost	<b>223</b>	998

In connection with the above transactions and for other operating purposes, the Company made prepayments/ advances to subsidiaries of China Shipping from time to time.

## NOTES TO FINANCIAL STATEMENTS

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- (2) Save for the connected transactions outlined above, details of other connected transactions with the holding company, fellow subsidiaries, an associate, and related companies are as follows:

		2000	1999
		Rmb'000	Rmb'000
Interest paid	(a)	16,865	30,460
Vessel chartering charges paid		28,891	-
Agency commissions paid		4,621	8,990
Vessel chartering income received	(b)	(130,255)	(113,221)
Sale of vessels	(c)	(2,800)	(489,830)
Vessel management fees	(d)	(23,585)	(23,471)

(a) On 19 March 1998, the Company entered into two Acquisition Agreements (the "Acquisition Agreements") with Guangzhou Maritime Transport (Group) Company Limited ("Guangzhou Maritime") and Dalian Shipping (Group) Company ("Dalian Shipping") for the acquisition of 15 and 4 oil vessels, respectively, with an aggregate consideration of approximately Rmb1,431,770,000. Part of the consideration is satisfied by an interest-bearing loan of Rmb516 million from the holding company as described in note 22 (b).

(b) The Company entered into various bare-boat charterparty agreements with its associate and two fellow subsidiaries. The amount represents vessel chartering income as determined according to the charterparty agreements.

(c) During the year, the Company sold a vessel to a fellow subsidiary (1999: 15 vessels were sold to an associate, fellow subsidiaries and a related company).

(d) Management of oil vessels

On 9 February 1998, the Company entered into two Oil Vessels Management Agreements with Dalian Shipping and Guangzhou Maritime for the management of their 4 and 39 oil vessels (the "Oil Vessels"), respectively. Each of the Oil Vessels Management Agreements contains an option exercisable by the Company at any time prior to the expiration thereof to acquire any of the Oil Vessels, and under which the Company has a right of first refusal in respect of any proposed sale of the Oil Vessels. In the event that Dalian Shipping or Guangzhou Maritime ceases to own any of the Oil Vessels, the management fee shall be reduced accordingly by the percentage represented by the tonnage of the disposed vessels to total tonnage of the Oil Vessels. With the Acquisition Agreements dated 19 March 1998, the Company exercised the purchase option and acquired 15 oil vessels from Guangzhou Maritime and 4 oil vessels from Dalian Shipping. Following the said acquisition, the Oil Vessel Management Agreement with Dalian Shipping ceased to be effective.

On 17 November 1999, a supplementary agreement was entered into between the Company and Guangzhou Maritime on the management fee. According to this supplementary agreement, Guangzhou Maritime should pay to the Company management fees of Rmb12,330,000 for the management of its oil vessels in the year 2000.

## NOTES TO FINANCIAL STATEMENTS

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### Management of cargo vessels

On 27 May 1998, the Company entered into two Cargo Vessels Management Agreements with Dalian Shipping and Guangzhou Maritime for the management of their 15 and 57 cargo vessels (the "Cargo Vessels"), respectively. Each of the Cargo Vessels Management Agreements contains an option exercisable by the Company at any time prior to the expiration thereof to acquire any of the Cargo Vessels, and under which the Company has a right of first refusal in respect of any proposed sale of the Cargo Vessels. In the event that Dalian Shipping or Guangzhou Maritime ceases to own any of the Cargo Vessels, the management fee shall be reduced accordingly by the percentage represented by the tonnage of the disposed vessels to total tonnage of the Cargo Vessels.

On 17 November 1999, the Company entered into two supplementary agreements with Guangzhou Maritime and Dalian Shipping, respectively. According to these agreements, Guangzhou Maritime should pay to the Company Rmb9,172,000 for the management of its cargo vessels during the year, while Dalian Shipping should pay Rmb2,083,000 for similar service in the same year.

- (e) Pursuant to two bare boat charter-party agreements both dated 20 October 1994, Shanghai Shipping agreed to charter two vessels to the Company from their respective dates of delivery to the Company until full repayment of the principal and interest of the related loans borrowed by Shanghai Shipping to purchase the vessels and under which, on due completion of the charters, the vessels will become the Company's property. The vessels were delivered to the Company on 1 January 1996. Principal amounts paid each year until 2007 amount to approximately DM7.6 million.

The above connected transactions have been confirmed by the board of directors (including the non-executive directors) to be transactions made between the Company and the holding company, fellow subsidiaries, an associate and related companies in the normal course of business and that those transactions with market prices, cost or state-fixed prices as the pricing basis were on terms no less favorable to the Company than normal commercial terms.

China Shipping and its subsidiaries are required by the Ministry of Communications to pay a fixed sum of freight surcharge. The Company paid approximately Rmb10 million (1999: Rmb33 million) to China Shipping during the year for onward payment to the Ministry of Communications.

### **35. ULTIMATE HOLDING COMPANY**

In the opinion of the directors, the ultimate holding company of the Company is China Shipping (Group) Company, a state-owned enterprise established in the PRC.

### **36. COMPARATIVE AMOUNTS**

Certain comparative amounts have been reclassified to conform with the current year's presentation.

### **37. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the board of directors on 29 March 2001.