

INTERIM RESULTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting”. The accounting policies and basis of preparation used in the preparation of these interim financial statements are similar to those used in the annual financial statements for the year ended 31 December 2000.

These interim financial statements are prepared under the going concern basis notwithstanding the Group’s current liabilities exceeded its current assets as at 30 June 2001. Given the expected proceeds from issuance of new shares (note 12), availability of unutilized banking facility and/or expected net cash inflows from operations in the foreseeable future, the directors expect that the Company and its subsidiaries (the “Group”) will have sufficient funds to meet its daily working capital requirements in the foreseeable future and will not encounter going concern problem due to a lack of working capital.

2. TURNOVER

During the six months ended 30 June 2001 (the “Period”), the Group were involved in the following principal activities:

- (a) investment holding; and
- (b) oil and cargo shipment along the PRC coast and international shipment.

There is no major seasonality for the Group’s turnover. An analysis of the Group’s turnover and contribution to profit from operating activities by principal activity and geographical area of operations for the Period is as follows:

	For the six months ended 30 June			
	2001		2000	
	(Unaudited)		(Unaudited)	
	Turnover	Contribution	Turnover	Contribution
	Rmb’000	Rmb’000	Rmb’000	Rmb’000
By activity:				
Crude oil and refined oil shipments	1,055,520	320,908	877,972	188,961
Coal shipments	471,784	78,367	444,888	71,787
Dry bulk shipments	186,576	7,711	198,748	8,754
	<u>1,713,880</u>	<u>406,986</u>	<u>1,521,608</u>	<u>269,502</u>
Other revenue		102,337		99,619
Administrative expenses		(90,607)		(64,449)
Other operating expenses		(54,355)		(55,963)
Profit from operating activities		<u>364,361</u>		<u>248,709</u>

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(continued)

2. TURNOVER (continued)

	For the six months ended 30 June			
	2001		2000	
	(Unaudited)		(Unaudited)	
	Turnover	Contribution	Turnover	Contribution
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
By geographical area:				
Domestic	1,171,632	286,284	1,092,337	262,418
International	<u>542,248</u>	<u>120,702</u>	<u>429,271</u>	<u>7,084</u>
	<u>1,713,880</u>	406,986	<u>1,521,608</u>	269,502
Other revenue		102,337		99,619
Administrative expenses		(90,607)		(64,449)
Other operating expenses		<u>(54,355)</u>		<u>(55,963)</u>
Profit from operating activities		<u>364,361</u>		<u>248,709</u>

3. OTHER REVENUE

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	Rmb'000	Rmb'000
Gain on disposal of property, plant and equipment	9,107	8,814
Exchange gains, net	14,478	10,784
Interest income	3,480	4,034
Rental income from leased vessels	64,814	64,855
Service income from vessel management	10,270	10,850
Others	<u>188</u>	<u>282</u>
Total	<u>102,337</u>	<u>99,619</u>

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4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	Rmb'000	Rmb'000
Cost of shipping services rendered:		
Bunker oil inventories consumed and port fees	511,111	526,843
Depreciation:		
Owned property, plant and equipment	283,099	268,063
Leased property, plant and equipment	75,234	75,060
	358,333	343,123
Operating lease rentals:		
Land and buildings	10,367	10,637
Vessels	16,823	14,372
	27,190	25,009
Staff costs	195,042	171,101
Dry docking and repairs	127,439	101,500

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5. FINANCE COSTS

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	Rmb'000	Rmb'000
Interest expenses	<u>92,642</u>	<u>118,252</u>

6. TAX

Pursuant to a directive 1998 (250) jointly issued by the Shanghai State Tax Bureau and Shanghai Bureau of Finance on 8 October 1998, the Company is entitled to a preferential income tax rate of 15% effective from 1 January 1998. Accordingly, PRC income tax of the Company has been provided at the rate of 15% (2000: 15%) on the estimated assessable profits for the period.

No Hong Kong profits tax has been provided as no assessable profits were earned in or derived from Hong Kong during the Period (six months ended 30 June 2000: No assessable profits were earned). Taxes on profits assessable elsewhere, if applicable, have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	Rmb'000	Rmb'000
Hong Kong	-	-
PRC	<u>45,131</u>	<u>20,251</u>
	45,131	20,251
Share of tax attributable to an associate	<u>-</u>	<u>-</u>
Tax charge for the period	<u>45,131</u>	<u>20,251</u>

There was no material amount of un-provided deferred tax liability in respect of the six months ended 30 June 2001 (six months ended 30 June 2000: Nil).

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7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the Period of Rmb178,200,000 (six months ended 30 June 2000: Rmb111,495,000) and the 2,976,000,000 (six months ended 30 June 2000: 2,976,000,000) shares in issue during the Period.

Diluted earnings per share for the six months ended 30 June 2000 and 2001 have not been presented as no diluting events existed during these periods.

8. INTERIM DIVIDENDS

The directors do not recommend the payment of interim dividends (six months ended 30 June 2000: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group bought 21 oil vessels at a consideration of Rmb1,297,547,000 and disposed of an oil vessel with a net book value of Rmb2,058,000.

10. TRADE AND BILLS RECEIVABLES

	30 June 2001		30 June 2000	
	Balance	Percentage	Balance	Percentage
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
	Rmb'000		Rmb'000	
Within one year	229,532	68	228,679	68
One to two years	-	-	-	-
Beyond two years	106,975	32	108,495	32
	336,507	100	337,174	100
Provision for doubtful debts	(109,194)		(108,545)	
Trade and bills receivables, net	227,313		228,629	

The Group normally allows a credit period of 30 days to its major customers.

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11. TRADE PAYABLES

	30 June 2001		30 June 2000	
	Balance (Unaudited) Rmb'000	Percentage (Unaudited)	Balance (Audited) Rmb'000	Percentage (Audited)
Within one year	162,442	77	139,788	79
One to two years	16,035	8	11,515	7
Beyond two years	31,463	15	25,209	14
	<u>209,940</u>	<u>100</u>	<u>176,512</u>	<u>100</u>

12. OTHER PAYABLES AND ACCRUALS

The balance as at 30 June 2001 includes an amount due to China Shipping (Group) Company ("China Shipping", the Company's holding company) of approximately Rmb1,061 million, which mainly represents balance payable for purchases of vessels as described in note 17(2).

13. SHARE CAPITAL

By special resolutions passed at the class meetings for holders of State-owned legal person shares and H shares, respectively, and an extraordinary general meeting held on 22 May 2001, the Company is empowered to apply to the relevant PRC authorities for the issue of not more than 350 million A shares to institutional investors and the general public in the PRC and for the listing of such A shares on the Shanghai Stock Exchange; the Company will also apply to the relevant PRC authorities for the issue of not more than 52.5 million A shares in the event that the underwriter exercises an over-allotment option.

The application for the issuance of A shares is in progress as at the approval date of these financial statements.

14. CONTINGENT LIABILITIES

There are no material changes in the Group's contingent liabilities since 31 December 2000.

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15. COMMITMENTS

(a) **Capital commitments**

	30 June 2001 (Unaudited) Rmb'000	31 December 2000 (Audited) Rmb'000
Contracted for	1,218,747	1,643,416
Authorized, but not contracted for	<u>-</u>	<u>-</u>

(b) **Commitments under operating leases**

As at 30 June 2001, the Group had commitments under non-cancelable operating leases to make payments in the forthcoming twelve months:

	30 June 2001 (Unaudited) Rmb'000	31 December 2000 (Audited) Rmb'000
Land and buildings - expiring:		
Within one year	3,355	442
In the second to fifth years, inclusive	-	535
After five years	<u>1,320</u>	<u>1,320</u>
	<u>4,675</u>	<u>2,297</u>
Vessels - expiring:		
Within one year	14,347	28,498
In the second to fifth years, inclusive	8,150	-
After five years	<u>23,548</u>	<u>-</u>
	<u>46,045</u>	<u>28,498</u>
	<u>50,720</u>	<u>30,795</u>

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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16. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN HONG KONG (“HK GAAP”) AND PRC ACCOUNTING STANDARDS

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

	For the six months ended 30 June	
	2001 (Unaudited) Rmb'000	2000 (Unaudited) Rmb'000
Net profit attributable to shareholders prepared under HK GAAP	178,200	111,495
Adjustments for depreciation, gain on disposal of vessels, doubtful debt provision, timing differences in the recognition of income and expenses, etc.	28,709	12,374
Net profit attributable to shareholders prepared under PRC accounting standards	206,909	123,869
	2001 (Unaudited) Rmb'000	2000 (Unaudited) Rmb'000
Shareholders' equity prepared under HK GAAP	5,207,746	5,029,559
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.	(118,685)	(20,784)
Shareholders' equity prepared under PRC accounting standards	5,089,061	5,008,775

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17. RELATED PARTY TRANSACTIONS

Business transactions between the Company and its holding company, fellow subsidiaries and related companies for the Period are as follows:

- (1) A Revised Services Agreement (the “Revised Services Agreement”) dated 3 April 2001 between the Company and China Shipping became effective subsequent to an approval by the independent shareholders at an extraordinary general meeting held on 22 May 2001. Pursuant to the Revised 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, including the provision of dry docking and repairs services, lubricating oil, fresh water supplies, raw materials, bunker oil, as well as other services. The service fees under the Revised 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 Revised Services Agreement (and the related original agreement which the Revised Services Agreement replaced) for the Period are set out as below:

	Pricing basis	For the six months ended 30 June 2000	
		Total cost (Unaudited) Rmb’000	Total cost (Unaudited) Rmb’000
Drydocking and repairs	State-fixed prices or market prices	94,029	51,343
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	221,383	217,479
Whitewashing and oily water treatment for vessels	State-fixed prices or market prices	3,046	1,663
Installation, repairs and maintenance of telecommunication and navigational services	State-fixed prices	6,825	8,553
Hiring of sea crew	Market prices	35,967	35,669
Accommodation, lodging and transportation for employees	Market prices	2,720	2,720
Medical services	State-fixed prices	8,231	8,388
Miscellaneous management services	Market prices or actual cost	23,425	19,642
Agency commissions	Market prices	13,551	14,383

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.

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(continued)

17. RELATED PARTY TRANSACTIONS *(Continued)*

- (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:

		For the six months ended 30 June	
		2001	2000
		(Unaudited)	(Unaudited)
		Rmb'000	Rmb'000
Interest paid	(a)	7,943	10,710
Purchase of vessels	(a)	1,035,020	-
Vessel chartering charges paid		14,298	14,372
Vessel chartering income received	(b)	(64,814)	(64,562)
Vessel management fees	(c)	(10,270)	(10,850)

- (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 from the China Shipping.

On 3 April 2001, the Company entered into another Acquisition Agreement (the “New Acquisition Agreement”) with Guangzhou Maritime for the acquisition of its remaining 20 vessels at a consideration of approximately Rmb1,035,020,000. The unpaid balance is interest-bearing.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

17. RELATED PARTY TRANSACTIONS *(Continued)*

(2) *(continued)*

(c) Management of oil vessels

On 9 February 1998, the Company entered into two Oil Vessels Management Agreements (the “Oil Vessels Management Agreements”) with Dalian Shipping and Guangzhou Maritime for the management of their oil vessels (the “Oil Vessels”). 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 this acquisition, the Oil Vessel Management Agreement with Dalian Shipping ceased to be effective.

In respect of the New Acquisition Agreement, the Company exercised the purchase option again and acquired the remaining 20 oil vessels from Guangzhou Maritime. Following this acquisition, the Oil Vessel Management Agreement with Guangzhou Maritime ceased to be effective.

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.

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(continued)

17. RELATED PARTY TRANSACTIONS *(Continued)*

(2) *(continued)*

(c) Management of cargo vessels*(continued)*

On 29 December 2000, 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 Rmb9,459,000 for the management of its cargo vessels during 2001, while Dalian Shipping should pay Rmb2,083,000 for similar service in the same year.

(d) Pursuant to two bareboat charter-party agreements both dated 20 October 1994, a fellow subsidiary 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 the fellow subsidiary 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.

China Shipping and its subsidiaries were required by the Ministry of Communications to pay a fixed sum of freight surcharge. During the Period, the Company need not pay such surcharge (six months ended 30 June 2000: Rmb10 million) to China Shipping for onward payment to the Ministry of Communications.

18. 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.

19. APPROVAL OF INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved by the board of directors on 29 August 2001.