

NOTES TO FINANCIAL STATEMENTS

31 December 2001

	Company						
	Share	Revaluation	Statutory	Statutory	General	Retained	Total
	premium	reserve	surplus	public	surplus	profits	
account	reserve	reserve	welfare	reserve	profits		
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2000	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	-
Proposed final dividend-note 12	-	-	-	-	-	(148,800)	(148,800)
At 31 December 2000 and beginning of year	1,562,588	190,456	93,158	-	93,158	176,465	2,115,825
Net profit for the year	-	-	-	-	-	602,980	602,980
Transfer (from)/to reserves	-	-	35,110	35,110	-	(70,220)	-
Release on disposal of fixed assets	-	(4,470)	-	-	-	4,470	-
Proposed final dividend-note 12	-	-	-	-	-	(148,800)	(148,800)
At 31 December 2001	1,562,588	185,986	128,268	35,110	93,158	564,895	2,570,005

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 tax, 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, there was no transfer from PWF to general surplus reserve (2000: Rmb31,180,000).

The directors have proposed to transfer Rmb35,110,000 (2000: Rmb31,180,000) to each of the SSR and the PWF, respectively. Each transfer represents 10% (2000: 10%) of the Company's profit after tax of Rmb351,100,000 (2000: Rmb311,802,000), 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 2001, before the proposed final dividend the Company had a reserve of Rmb547,232,000 (2000: Rmb325,265,000) available for distribution as dividends.

In addition, in accordance with the Company Law of the PRC, an amount of approximately Rmb1,562,588,000 (2000: 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.

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33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001	2000
	Rmb'000	Rmb'000
Profit from operating activities	898,156	535,996
Interest income	(7,237)	(7,838)
Depreciation	784,286	689,035
Amortisation of deferred staff expenditure	12,786	5,804
Gain on disposal of fixed assets	(33,061)	(12,499)
Gain on liquidation of a subsidiary	-	(1,125)
Write-off of construction in progress	5,200	-
Write-off of leasehold improvements	1,678	-
Decrease in trade and bills receivables	11,574	715
Increase in bunker oil inventories	(13,064)	(22,406)
Decrease/(increase) in prepayments	(72,641)	23,410
Decrease in deposits and other debtors	70,437	34,272
Decrease in amount due from the holding company	-	3,657
Increase in amounts due from fellow subsidiaries	(60,546)	(226,159)
Increase in amounts due from related companies	(900)	(3,303)
Decrease/(increase) in amount due from an associate	(12,923)	3,052
Increase in amounts due from jointly-controlled entities	(669)	-
Increase/(decrease) in trade payables	48,387	(28,335)
Increase in accruals	19,382	27,066
Increase/(decrease) in other liabilities	(31,159)	2,373
Increase in amounts due to fellow subsidiaries	2,470	23,622
Net cash inflow from operating activities	1,622,156	1,047,337

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

	Share capital (including share premium)	Bank and other borrowings	Finance lease payables	Minority interests
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at 1 January 2000	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 and beginning of year	4,538,588	1,862,144	812,387	-
Loan for purchase of 20 oil vessels-Note 40 (2)	-	931,518	-	-
Subsidiary acquired during the year	-	-	-	2,703
Net cash outflow from financing activities	-	(250,575)	(324,713)	-
Balance at 31 December 2001	<u>4,538,588</u>	<u>2,543,087</u>	<u>487,674</u>	<u>2,703</u>

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(c) Acquisition of a subsidiary

	2001
	Rmb'000
Net assets acquired	
Interest in a jointly-controlled entity	28,069
Cash and bank balances	5,995
Other receivables	20,000
Other payables	(12)
Minority interests	(2,703)
	51,349
Negative goodwill on acquisition	(1,980)
	49,369
Satisfied by:	
Cash	49,369

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary is as follows:

	2001
	Rmb'000
Cash consideration	(49,369)
Cash and bank balances acquired	5,995
Intercompany balance eliminated on consolidation	20,000
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary	(23,374)

On 30 December 2001, the Group acquired 95% interest in Hainan Haixiang Shipping Co., Ltd. ("Haixiang") from a fellow subsidiary of the Company. Haixiang is an investment holding company. Further details of the transaction are included in note 40 to the financial statements. The purchase consideration of Rmb49,369,000 for the acquisition was in the form of cash, which was fully paid on 30 December 2001.

Since the acquisition was completed close to the year end, it has had no material impact on the Group's operating results and cash flows for the year ended 31 December 2001.

(d) Major non-cash transaction

On 3 April 2001, the Company acquired from Guangzhou Maritime Transport (Group) Company Limited ("Guangzhou Maritime") 20 oil vessels at a consideration of approximately Rmb1,035,020,000. The consideration was satisfied by cash of Rmb103,502,000 and an interest-bearing loan of Rmb 931,518,000 from the holding company.

34. PENSION SCHEME

The Company is required to contribute to a pension scheme (the "Scheme") for the eligible employees. Under this Scheme, the Company's retirement benefit obligations to its existing and future retiring employees is limited to its annual contributions equivalent to 20% (2000: 17.7%) of the basic salaries of the Company's employees for the current year, excluding medical expenses of the retired staff. Contributions by the Company to the Scheme for the year ended 31 December 2001 amounted to Rmb52,790,000 (2000: Rmb41,729,000).

35. PLEDGE OF ASSETS

Details of the Group's bank loans secured by assets of the Group are included in note 27 to the financial statements.

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36. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2001	2000	2001	2000
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Guarantees given to banks in connection with facilities granted to:				
A jointly-controlled entity	27,000	-	27,000	-
A related company	2,000	-	2,000	-
	<u>29,000</u>	<u>-</u>	<u>29,000</u>	<u>-</u>

- (b) 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 favour 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 the Shanghai branch of China Property Insurance Company and the China Ship-owners Mutual Insurance Association against losses and third party claims. The directors of the Company have been advised by PRC legal counsel that in any event, the claims would be fully covered by the Group's insurance policy.

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its vessels (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to twelve years.

As at 31 December 2001, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follow:

	Group and Company	
	2001	2000
	Rmb'000	Rmb'000
Within one year	169,158	157,920
In the second to fifth years, inclusive	94,127	117,010
Beyond five years	6,247	7,927
	269,532	282,857

The total future minimum sublease payments expected to be received under non-cancellable sublease arrangements as at 31 December 2001 is Rmb108,855,000 (2000: Rmb136,648,000). Sublease payments recognised in the profit and loss account for 2001 were Rmb27,793,000 (2000: Rmb27,793,000).

(b) As lessee

The Group entered into non-cancellable operating lease arrangements on vessels, vehicles and buildings. The leases are negotiated for terms ranging from one to twelve years.

As at 31 December 2001, the Group and the Company had total future minimum lease rentals payable under non-cancellable operating leases falling due as follows: