

NOTES TO FINANCIAL STATEMENTS

31 December 2001

	Group and Company	
	2001	2000
	Rmb'000	Rmb'000
Within one year	65,772	58,726
In the second to fifth years, inclusive	180,957	119,091
Beyond five years	15,340	16,660
	262,069	194,477

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above have been restated to accord with the current year's presentation.

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37(b) above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group and Company	
	2001	2000
	Rmb'000	Rmb'000
Contracted for	1,107,871	1,643,416
Authorised, but not contracted for	-	-

39. 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 2001 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:

	2001	2000
	Rmb'000	Rmb'000
Net profit attributable to shareholders for the year prepared under HK GAAP	325,258	281,967
Adjustments for depreciation, gain on disposal of vessels, and deferred staff expenditure, etc.	26,039	30,372
Net profit attributable to shareholders for the year prepared under PRC accounting standards	351,297	312,339
Shareholders' equity prepared under HK GAAP	5,354,804	5,178,359
Adjustments for revaluation surplus, depreciation, gain on disposal of vessels, and deferred staff expenditure, etc.	(121,523)	(22,463)
Adjustment for proposed final dividend	(148,800)	(148,800)
Shareholders' equity prepared under PRC accounting standards	5,084,481	5,007,096

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40. RELATED PARTY TRANSACTIONS

Business transactions between the Company and its holding company (i.e., China Shipping (Group) Company, or "China Shipping"), fellow subsidiaries, jointly-controlled entities, an associate and related companies for the year ended 31 December 2001 are set out as below:

(1) A 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 Services Agreement, China Shipping (or its subsidiaries) will provide to the Company the necessary supporting shipping materials and services for the ongoing 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 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 2001 are set out as below:

		2001	2000
	Pricing basis	Total value	Total value
		Rmb'000	Rmb'000
Dry-docking and repairs	State-fixed prices or market prices	245,420	119,432
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	517,853	465,089
Whitewashing and oily water treatment for vessels	State-fixed prices or market prices	6,603	6,000
Installation, repairs and maintenance of telecommunication and navigational services	State-fixed prices	14,822	15,695
Hiring of sea crew	Market prices	97,583	71,423
Accommodation, lodging and transportation for employees	Market prices	5,440	5,361
Medical services (for existing employees)	State-fixed prices	4,736	17,612
Miscellaneous management services	Market prices or actual cost	43,374	42,186
Agency commissions	Market prices	23,325	17,677
Service fees on sales and purchases of vessels, accessories and other equipment	Actual cost	2,819	223

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

		2001	2000
		Rmb'000	Rmb'000
Interest paid	(a)	36,086	16,865
Purchase of vessels	(a)	1,035,020	-
Vessel chartering charges paid		47,118	28,891
Agency commissions paid		3,863	4,621
Vessel chartering income received	(b)	(136,720)	(130,255)
Sale of vessels	(c)	(36,567)	(2,800)
Acquisition of a subsidiary	(d)	49,369	-
Vessel management fees	(e)	(17,275)	(23,585)

- (a) On 19 March 1998, the Company entered into two Acquisition Agreements (the "Acquisition Agreements") with 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 was satisfied by an interest-bearing loan of Rmb516 million from the holding company which was repaid during the year ended 31 December 2001.

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 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 Rmb931,518,000 from the holding company. At 31 December 2001, the unpaid loan balance was Rmb828,016,000.

- (b) The Company entered into various Bare-boat Charter-party Agreements with its associate, a jointly-controlled entity and two fellow subsidiaries. The amount represents vessel-chartering income as determined according to the charter-party agreements.
- (c) During the year, the Company sold four vessels to a jointly-controlled entity and a fellow-subsi-d-iary (2000: one vessel was sold to a fellow subsidiary).
- (d) In accordance with the Share Transfer Agreement dated 21 December 2001, the Company ac-quired 95% equity interest in Haixiang from Shanghai Shipping at a consideration of Rmb49,369,000.
- (e) 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 exer-cisable 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 fees 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 Vessels Management Agreement with Dalian Shipping ceased to be effective.

On 29 December 2000, a supplementary agreement was entered into between the Company and Guangzhou Maritime on the management fees. According to this supplementary agreement, Guangzhou Maritime should pay to the Company management fees of Rmb12,169,000 for the management of its oil vessels in the year 2001.

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With the New Acquisition Agreement dated 3 April 2001, the Company exercised the purchase option and acquired the remaining 20 oil vessels from Guangzhou Maritime. Following this acquisition, the Oil Vessels Management Agreement with Guangzhou Maritime ceased to be effective. The actual amount of management fees of oil vessels paid by Guangzhou Maritime for the year 2001 was Rmb5,070,000.

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 fees shall be reduced accordingly by the percentage represented by the tonnage of the disposed vessels to total tonnage of the Cargo Vessels.

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 the year ended 31 December 2001, while Dalian Shipping should pay Rmb2,083,000 for similar service in the same year.

In addition, the Company received vessel management fees of Rmb663,000 from a fellow subsidiary during the year 2001.

- (f) 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 to be paid each year until 2007 amount to approximately DM7.6 million.
- (g) Guarantees are given by the Company to banks in connection with facilities granted to a jointly-controlled entity and a related company with amounts of Rmb27,000,000 and Rmb2,000,000, respectively.

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, jointly-controlled entities, 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 bases were on terms no less favourable to the Company than normal commercial terms.

China Shipping and its subsidiaries were required by the Ministry of Communications to pay a fixed sum of freight surcharge for the year ended 31 December 2000. During the year, the Company was not required to pay such surcharge (2000: Rmb10 million) to China Shipping for onward payment to the Ministry of Communications.

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41. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2002.