

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Appendix 2

### Interim report prepared in accordance with HK accounting principles generally accepted in Hong Kong

#### 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 2001 except in relation to SSAP1 (Revised) and SSAP 15 (Revised).

The Group has complied with SSAP 1 (Revised) and SSAP 15 (Revised) for the first time in this interim reporting period. As a result, a condensed consolidated statement of changes in equity is presented and the comparatives of the condensed consolidated cash flow statement for the six months ended 30 June 2001 have been restated to reflect the requirements of the SSAP.

#### 2. TURNOVER

During the six months ended 30 June 2002 (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 |                         |                     |                         |
|-------------------------------------|----------------------------------|-------------------------|---------------------|-------------------------|
|                                     | 2002                             |                         | 2001                |                         |
|                                     | (Unaudited)                      |                         | (Unaudited)         |                         |
|                                     | Turnover<br>Rmb’000              | Contribution<br>Rmb’000 | Turnover<br>Rmb’000 | Contribution<br>Rmb’000 |
| By activity:                        |                                  |                         |                     |                         |
| Crude oil and refined oil shipments | 1,349,648                        | 444,632                 | 1,055,520           | 320,908                 |
| Coal shipments                      | 493,218                          | 116,572                 | 471,784             | 78,367                  |
| Dry bulk shipments                  | 188,646                          | 15,079                  | 186,576             | 7,711                   |
|                                     | <b>2,031,512</b>                 | <b>576,283</b>          | <b>1,713,880</b>    | <b>406,986</b>          |
| Other revenue                       |                                  | 90,465                  |                     | 102,337                 |
| Administrative expenses             |                                  | (98,889)                |                     | (90,607)                |
| Other operating expenses            |                                  | (80,790)                |                     | (54,355)                |
| Profit from operating activities    |                                  | <b>487,069</b>          |                     | <b>364,361</b>          |

## 2. TURNOVER(Continued)

|                                  | <b>For the six months ended 30 June</b> |                       |                         |                       |
|----------------------------------|---|-----------------------|-------------------------|-----------------------|
|                                  | <b>2002</b>                             |                       | <b>2001</b>             |                       |
|                                  | <b>(Unaudited)</b>                      |                       | <b>(Unaudited)</b>      |                       |
|                                  | <b>Turnover</b>                         | <b>Contribution</b>   | Turnover                | Contribution          |
|                                  | <b>Rmb'000</b>                          | <b>Rmb'000</b>        | Rmb'000                 | Rmb'000               |
| By geographical area:            |   |                       |                         |                       |
| Domestic                         | <b>1,425,028</b>                        | <b>477,060</b>        | 1,171,632               | 286,284               |
| International                    | <b>606,484</b>                          | <b>99,223</b>         | 542,248                 | 120,702               |
|                                  | <b><u>2,031,512</u></b>                 | <b><u>576,283</u></b> | <b><u>1,713,880</u></b> | <b><u>406,986</u></b> |
| Other revenue                    |   | <b>90,465</b>         |                         | 102,337               |
| Administrative expenses          |   | <b>(98,889)</b>       |                         | (90,607)              |
| Other operating expenses         |   | <b>(80,790)</b>       |                         | (54,355)              |
| Profit from operating activities |   | <b><u>487,069</u></b> |                         | <b><u>364,361</u></b> |

## 3. OTHER REVENUE AND GAINS

|                                       | <b>For the six months ended 30 June</b> |                       |
|---------------------------------------|---|-----------------------|
|                                       | <b>2002</b>                             | 2001                  |
|                                       | <b>(Unaudited)</b>                      | (Unaudited)           |
|                                       | <b>Rmb'000</b>                          | Rmb'000               |
| Gain on disposal of fixed assets      | <b>5,445</b>                            | 9,107                 |
| Exchange gains, net                   | -                                       | 14,478                |
| Interest income                       | <b>3,236</b>                            | 3,480                 |
| Rental income from leased vessels     | <b>72,505</b>                           | 64,814                |
| Service income from vessel management | <b>7,122</b>                            | 10,270                |
| Others                                | <b>2,157</b>                            | 188                   |
| Total                                 | <b><u>90,465</u></b>                    | <b><u>102,337</u></b> |

**4. PROFIT FROM OPERATING ACTIVITIES**

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

|   | <b>For the six months ended 30 June</b>             |                                |
|---|---|--------------------------------|
|   | <b>2002</b><br><b>(Unaudited)</b><br><b>Rmb'000</b> | 2001<br>(Unaudited)<br>Rmb'000 |
| Cost of shipping services rendered:           |   |                                |
| Bunker oil inventories consumed and port fees | <b>528,191</b>                                      | 511,111                        |
| Depreciation                                  | <b>433,747</b>                                      | 358,333                        |
| Operating lease rentals:                      |   |                                |
| Land and buildings                            | <b>13,537</b>                                       | 10,367                         |
| Vessels                                       | <b>29,757</b>                                       | 16,823                         |
|   | <b>43,294</b>                                       | 27,190                         |
| Staff costs                                   | <b>249,484</b>                                      | 195,042                        |
| Dry docking and repairs                       | <b>139,745</b>                                      | 127,439                        |

**5. FINANCE COSTS**

|                            | <b>For the six months ended 30 June</b>             |                                |
|----------------------------|---|--------------------------------|
|                            | <b>2002</b><br><b>(Unaudited)</b><br><b>Rmb'000</b> | 2001<br>(Unaudited)<br>Rmb'000 |
| Total interest             | <b>87,056</b>                                       | 92,642                         |
| Less: Interest capitalised | <b>(11,505)</b>                                     | -                              |
| Interest expenses          | <b>75,551</b>                                       | 92,642                         |

**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% (six months ended 30 June 2001: 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 2001: 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.

|  | <b>For the six months ended 30 June</b>             |                                |
|--|---|--------------------------------|
|  | <b>2002</b><br><b>(Unaudited)</b><br><b>Rmb'000</b> | 2001<br>(Unaudited)<br>Rmb'000 |
| Hong Kong  | -   | -                              |
| PRC  | <b>56,037</b>                                       | 45,131                         |
|  | <b>56,037</b>                                       | 45,131                         |
| Share of tax attributable to an associate<br>and jointly-controlled entities | -   | -                              |
| Tax charge for the period  | <b>56,037</b>                                       | 45,131                         |

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

**7. DIVIDEND**

The directors do not recommend the payment of interim dividend (six months ended 30 June 2001: Nil).

**8. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the Period of Rmb262,218,000 (six months ended 30 June 2001: Rmb178,200,000) and the weighted average number of shares of 3,061,083,000 (six months ended 30 June 2001: 2,976,000,000) in issue during the Period.

Diluted earnings per share for the six-month periods ended 30 June 2001 and 2002 have not been presented as no diluting events existed during these periods.

**9. FIXED ASSETS**

During the Period, two cargo vessels at a total cost of Rmb341,917,000 were constructed and had been put into operation.

**10. TRADE AND BILLS RECEIVABLES**

|                                  | <b>30 June 2002</b>                        |                                   | <b>31 December 2001</b>         |                         |
|----------------------------------|--|-----------------------------------|---------------------------------|-------------------------|
|                                  | <b>Balance<br/>(Unaudited)<br/>Rmb'000</b> | <b>Percentage<br/>(Unaudited)</b> | Balance<br>(Audited)<br>Rmb'000 | Percentage<br>(Audited) |
| Within one year                  | <b>288,153</b>                             | <b>89</b>                         | 231,913                         | 86                      |
| One to two years                 | <b>400</b>                                 | <b>-</b>                          | 1,193                           | -                       |
| Beyond two years                 | <b>36,556</b>                              | <b>11</b>                         | 36,988                          | 14                      |
|                                  | <b>325,109</b>                             | <b>100</b>                        | 270,094                         | 100                     |
| Provision for doubtful debts     | <b>(38,689)</b>                            |                                   | (34,252)                        |                         |
| Trade and bills receivables, net | <b>286,420</b>                             |                                   | 235,842                         |                         |

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

**11. TRADE PAYABLES**

|                  | <b>30 June 2002</b>                        |                                   | <b>31 December 2001</b>         |                         |
|------------------|--|-----------------------------------|---------------------------------|-------------------------|
|                  | <b>Balance<br/>(Unaudited)<br/>Rmb'000</b> | <b>Percentage<br/>(Unaudited)</b> | Balance<br>(Audited)<br>Rmb'000 | Percentage<br>(Audited) |
| Within one year  | <b>141,982</b>                             | <b>75</b>                         | 195,027                         | 82                      |
| One to two years | <b>4,331</b>                               | <b>3</b>                          | 8,115                           | 3                       |
| Beyond two years | <b>41,877</b>                              | <b>22</b>                         | 36,101                          | 15                      |
|                  | <b>188,190</b>                             | <b>100</b>                        | 239,243                         | 100                     |

**12. SHARE CAPITAL**

The Company issued 350 million A shares with a par value of Rmb1 each to institutional investors and the general public in the PRC on 17 May 2002. The A shares are listed on the Shanghai Stock Exchange.

**13. CONTINGENT LIABILITIES**

|   | <b>30 June 2002</b><br><b>(Unaudited)</b><br><b>Rmb'000</b> | 31 December 2001<br>(Audited)<br>Rmb'000 |
|---|---|--|
| Guarantees given to banks in connection with facilities granted to: |   |  |
| A jointly-controlled entity   | <b>27,000</b>   | 27,000                                   |
| A related company   | <b>6,600</b>  | 2,000                                    |
|   | <b>33,600</b>   | 29,000                                   |

Save as disclosed above, there are no material changes in the Group's contingent liabilities since 31 December 2001.

**14. OPERATING LEASE ARRANGEMENTS**

(a) As lessor

The Group leases its vessels under operating lease arrangements, with leases negotiated for terms ranging from one to twelve years.

As at 30 June 2002, the Group had total future minimum lease rentals receivable under non-cancellable operating leases falling due as follows:

|   | <b>30 June 2002</b><br><b>(Unaudited)</b><br><b>Rmb'000</b> | 31 December 2001<br>(Audited)<br>Rmb'000 |
|---|---|--|
| Within one year                         | <b>108,266</b>  | 169,158                                  |
| In the second to fifth years, inclusive | <b>77,206</b>   | 94,127                                   |
| Beyond five years                       | <b>5,413</b>  | 6,247                                    |
|   | <b>190,885</b>  | 269,532                                  |

The total future minimum sublease payments expected to be received under non-cancellable sublease arrangements as at 30 June 2002 is Rmb94,998,000 (31 December 2001: Rmb108,855,000). Sublease payments recognised in the profit and loss account for the Period were Rmb13,902,000 (six months ended 30 June 2001: Rmb13,897,000).

**14. OPERATING LEASE ARRANGEMENTS** (Continued)

(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 30 June 2002, the Group had total future minimum lease rentals payable under non-cancellable operating leases falling due as follows:

|   | <b>30 June 2002</b><br><b>(Unaudited)</b><br><b>Rmb'000</b> | 31 December 2001<br>(Audited)<br>Rmb'000 |
|---|---|--|
| Within one year                         | <b>91,710</b>   | 65,772                                   |
| In the second to fifth years, inclusive | <b>151,189</b>  | 180,957                                  |
| Beyond five years                       | -   | 15,340                                   |
|   | <b>242,899</b>  | 262,069                                  |

**15. COMMITMENTS**

In addition to the operating lease commitments detailed in note 14(b) above, the Group had the following capital commitments at the balance sheet date:

|                                    | <b>30 June 2002</b><br><b>(Unaudited)</b><br><b>Rmb'000</b> | 31 December 2001<br>(Audited)<br>Rmb'000 |
|------------------------------------|---|--|
| Contracted for                     | <b>723,636</b>  | 1,107,871                                |
| Authorised, but not contracted for | <b>623,707</b>  | -  |

**16. POST BALANCE SHEET EVENT**

On 2 August 2002, Shanghai Hai Xing Shipping (Hong Kong) Co., Ltd., a dormant subsidiary wholly-owned by the Group, was liquidated.

The following resolutions were passed on a board meeting of the Company held on 2 August 2002:

- (a) It was resolved that the Company would increase the registered capital of its 95% owned subsidiary, Hainan Haixiang Shipping Co., Ltd. ("Haixiang"), from Rmb50 million to Rmb100 million. The increase in capital will be used by Haixiang for the additional investment in its jointly-controlled entity, Shanghai Times Shipping Co., Ltd..
- (b) It was resolved that the Company would enter into a contract to build two oil vessels with a total contract sum of US\$46,960,000. The construction works of these two vessels are expected to be completed in March and July 2004, respectively.
- (c) It was resolved that the Company would apply for a long-term loan of Rmb299,398,000 from the Industrial and Commercial Bank of China for the construction of the two oil vessels as mentioned in paragraph (b) above. The bank loan will be secured by the oil vessels under construction.

**17. 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:

|   | <b>For the six months ended 30 June</b>                               |  |
|---|---|--|
|   | <b>2002</b><br><b>(Unaudited)</b><br><b>Rmb'000</b>                   | 2001<br><b>(Unaudited)</b><br>Rmb'000              |
| Net profit attributable to shareholders prepared under HK GAAP  | <b>262,218</b>  | 178,200  |
| Adjustments for depreciation, gain on disposal of vessels and deferred staff expenditures, etc.                     | <b>(11,976)</b>   | 28,709   |
| Net profit attributable to shareholders prepared under PRC accounting standards                                     | <b>250,242</b>  | 206,909  |
|   | <b>30 June</b><br><b>2002</b><br><b>(Unaudited)</b><br><b>Rmb'000</b> | 31 December<br>2001<br><b>(Audited)</b><br>Rmb'000 |
| Shareholders' equity prepared under HK GAAP   | <b>6,293,518</b>  | 5,354,804  |
| Adjustments for revaluation surplus, depreciation, gain on disposal of vessels and deferred staff expenditure, etc. | <b>(133,499)</b>  | (121,523)  |
| Adjustment for proposed final dividend  | -   | (148,800)  |
| Shareholders' equity prepared under PRC accounting standards  | <b>6,160,019</b>  | 5,084,481  |

**18. 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 Period 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 Period are set out as below:

|  | Pricing basis                       | For the six months ended 30 June              |   |
|--|-------------------------------------|---|---|
|  |                                     | 2002<br>Total value<br>(Unaudited)<br>Rmb’000 | 2001<br>Total value<br>(Unaudited)<br>Rmb’000 |
| Dry-docking and repairs  | State-fixed prices or market prices | 85,280  | 94,029  |
| 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                       | 265,164                                       | 221,383                                       |
| Whitewashing and oily water treatment for vessels  | State-fixed prices or market prices | 3,429   | 3,046   |
| Installation, repairs and maintenance of telecommunication and navigational services   | State-fixed prices                  | 6,616   | 6,825   |
| Hiring of sea crew   | Market prices                       | 65,600  | 35,967  |
| Accommodation, lodging and transportation for employees  | Market prices                       | 2,720   | 2,720   |
| Medical services (for existing employees)  | State-fixed prices                  | -   | 8,231   |
| Miscellaneous management services  | Market prices or actual costs       | 23,526  | 23,425  |
| Agency commissions   | Market prices                       | 21,784  | 13,551  |

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.

18. RELATED PARTY TRANSACTIONS (Continued)

- (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:

|                                   |     | <b>For the six months ended 30 June</b> |             |
|-----------------------------------|-----|---|-------------|
|                                   |     | <b>2002</b>                             | 2001        |
|                                   |     | <b>(Unaudited)</b>                      | (Unaudited) |
|                                   |     | <b>Rmb'000</b>                          | Rmb'000     |
| Interest paid                     | (a) | <b>18,627</b>                           | 7,943       |
| Purchase of vessels               | (a) | -                                       | 1,035,020   |
| Vessel chartering charges paid    |     | <b>15,274</b>                           | 14,298      |
| Vessel chartering income received | (b) | <b>(71,956)</b>                         | (64,814)    |
| Vessel management fees            | (c) | <b>(7,122)</b>                          | (10,270)    |

- (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 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. The loan was fully settled in May 2002.

- (b) The Company entered into various Bare-boat Charter-party Agreements with its associate, two jointly-controlled entities and two fellow subsidiaries. The amount represents vessel-chartering income as determined according to the charter-party agreements.

- (c) Management of vessels

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 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.

**18. RELATED PARTY TRANSACTIONS** (continued)

(2) (continued)

Management of vessels (continued)

Management of oil vessels (continued)

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 ended 31 December 2001.

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 six-month period ended 30 June 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. Currently, Guangzhou Maritime and Dalian Shipping pay management fees for the Period according to the supplementary agreements entered into for 2001.

[In addition, the Company received vessel management fees of Rmb1,351,000 from three jointly-controlled entities during the Period.]

**18. RELATED PARTY TRANSACTIONS** (continued)

(2) (continued)

- (d) Pursuant to two Bare-boat Charter-party Agreements both dated 20 October 1994, Shanghai Shipping (Group) Company (“Shanghai Shipping”, the former holding company and now 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 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 ERUO 3,886,000.
- (e) 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 Rmb6,600,000, respectively.

**19. 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.

**20. APPROVAL OF INTERIM FINANCIAL REPORT**

These condensed consolidated interim financial statements were approved by the board of directors on 19 August 2002.