

33. NOTES TO THE CONSOLIDATED**CASH FLOW STATEMENT**

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

	2003	2002
	人民幣千元	人民幣千元
	Rmb'000	Rmb'000
Profit before tax	1,178,832	702,780
Share of profits of jointly-controlled entities	(20,751)	(14,495)
Share of loss of an associate	-	100,101
Interest income	(13,330)	(6,627)
Depreciation	750,091	848,660
Amortisation of deferred staff expenditure	12,785	12,784
Amortisation of negative goodwill	(198)	(198)
Provision for bad debts	2,654	955
Impairment loss for fixed assets	936	-
Loss/(profit) on disposal of fixed assets	(7,483)	7,328
Deferred income on disposal of vessels	(705)	(34,451)
Loss on winding-up of subsidiaries	-	1,245
Write-off of construction in progress	5,296	-
Write-off of fixed assets improvements	5,000	-
Operating profit before working capital changes	1,913,127	1,618,082
Decrease/(increase) in trade and bills receivables	21,249	(31,309)
Increase in bunker oil inventories	(626)	(4,521)
Decrease in prepayments	41,902	128,013
Decrease/(increase) in deposits and other debtors	84	(11,083)
Decrease in amounts due from fellow subsidiaries	5,654	129,789
Decrease in amounts due from related companies	-	6,500
Decrease in amount due from an associate	-	26,122
Decrease/(increase) in amounts due from jointly-controlled entities	17,150	(431)
Decrease in trade payables	(39,864)	(48,952)
Increase in accruals	19,915	12,917
Decrease in other liabilities	(20,634)	(30,690)
Decrease in amounts due to fellow subsidiaries	(12,813)	(21,255)
Cash generated from operations	1,945,144	1,773,182
Finance costs	95,689	132,022
Income tax paid	(159,893)	(117,939)
Net cash inflow from operating activities	<u>1,880,940</u>	<u>1,787,265</u>

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(b) Winding-up of subsidiaries

	2003	2002
	人民幣千元	人民幣千元
	Rmb'000	Rmb'000
Net assets disposed:		
Cash and bank balances	-	224
Other debtors	-	1,195
Trade payables	-	(174)
Loss on winding-up of subsidiaries	<u>-</u>	<u>1,245</u>

(c) Significant non-cash transactions

The Group incurred payables of Rmb41,762,000(2002: Nil) to shipyards for vessels under construction as at 31 December 2003.

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 22.5% (2002: 20%) of the basic salaries of the Company's employees, after certain adjustments on individual employee's salary in accordance with applicable regulations. Contributions by the Company to the Scheme for the year ended 31 December 2003 amounted to Rmb60,223,000(2002:Rmb54,161,000).

35. PLEDGE OF ASSETS

Details of the Group's bank loans secured by assets of the Group are included in note 26 to the financial statements.

36. CONTINGENT LIABILITIES

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

	本集團及本公司 Group and company	
	2003	2002
	人民幣千元 Rmb'000	人民幣千元 Rmb'000
Guarantees given to banks in connection with facilities granted to:		
A jointly-controlled entity	42,000	42,000
A related company	-	4,600
	<u>42,000</u>	<u>46,600</u>

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 five years.

As at 31 December 2003, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

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	Group		Company	
	2003	2002	2003	2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Within one year	124,232	103,931	44,446	49,531
In the second to fifth years, inclusive	1,556	1,155	1,556	1,155
	125,788	105,086	46,002	50,686

(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 six years.

As at 31 December 2003, the Group and the Company had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003	2002	2003	2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Within one year	106,698	102,132	144,587	122,883
In the second to fifth years, inclusive	11,575	53,537	11,575	53,537
	118,273	155,669	156,162	176,420

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	
	2003	2002
	Rmb'000	Rmb'000
Contracts for construction of vessels	<u>4,006,262</u>	<u>2,076,237</u>

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 2003 in accordance with PRC GAAP. The major differences between the financial statements prepared under PRC GAAP and HK GAAP are set out as follows:

	2003	2002
	人民幣千元	人民幣千元
	Rmb'000	Rmb'000
Net profit attributable to shareholders for the year prepared under HK GAAP	1,023,640	591,196
Adjustments for depreciation, gain on disposal of vessels and deferred staff expenditure, etc.	(41,591)	(19,277)
Net profit attributable to shareholders for the year prepared under PRC GAAP	<u>982,049</u>	<u>571,919</u>
Shareholders' equity prepared under HK GAAP	7,313,595	6,622,493
Adjustments for revaluation surplus, depreciation, gain on disposal of vessels and deferred staff expenditure, etc.	(182,437)	(140,799)
Shareholders' equity prepared under PRC GAAP (restated)	<u>7,131,158</u>	<u>6,481,694</u>

40. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, business transactions between the Group and its holding company, fellow subsidiaries, jointly-controlled entities as well as related parties for the year ended 31 December 2003, which are also considered by the directors as connected transactions, 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 Group the necessary supporting shipping materials and services for the on-going operations of the Group, including the provision of dry-docking and repairs services, lubricating oil, fresh water supplies, raw materials and bunker oil, as well as other services. The Services Agreement is effective for a period of 10 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 Group to China Shipping and its subsidiaries in respect of the Services Agreement for the year ended 31 December 2003 are set out as below:

		2003	2002
		Total value	Total value
	Pricing basis	Rmb'000	Rmb'000
Dry-docking and repairs	State-fixed prices or market prices	222,751	241,275
Supply of lubricating oil, fresh water supplies, raw materials, bunker oil, mechanical and elec- trical engineering, ship stores and repairs and maintenance services for lifeboats	Market prices	756,024	603,808
White washing and water treatment for ves- sels	State-fixed prices or market prices	9,272	7,940
Installation, repairs and maintenance of tele- communication and navigational services	State-fixed prices	13,072	10,383
Hiring of sea crew	Market prices	156,473	141,011
Accommodation, lodging and transportation for employees	Market prices	6,232	6,929
Medical services (for existing employees)	State-fixed prices	1,763	522
Miscellaneous management services	Market prices or actual cost	45,141	43,724
Agency commissions	Market prices	24,997	20,695
Service fees on sales and purchases of ves- sels, accessories and other equipment	Market prices	-	254

In connection with the above transactions and for other operating purposes, the Group 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:

		2003	2002
		Rmb'000	Rmb'000
Interest paid	(a)	-	18,627
Vessel chartering charges paid	(b)	86,517	62,617
Agency commissions paid		966	3,728
Vessel chartering income received	(c)	(110,256)	(131,633)
Sale of vessels	(d)	(13,848)	(5,262)
Vessel management fees	(e)	(12,842)	(13,983)
Guarantees provided	(f)	42,000	46,600

- (a) On 3 April 2001, the Company entered into an acquisition agreement with Guangzhou Maritime Transport (Group) Company Limited ("Guangzhou Maritime") for the acquisition of 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, which had been repaid by 31 December 2002.
- (b) The Group entered into time charter party agreements on 9 December 2002 with two fellow subsidiaries, namely China Shipping (Hong Kong) Holdings Co., Ltd. and Shanghai Shipping Industrial Co., Ltd., whereby the Group has agreed to lease from these fellow subsidiaries two vessels for a term of one year commencing 1 January 2003 with a total consideration of Rmb76,764,000.

In addition, the Group entered into a time charter party agreement with a jointly-controlled entity, namely Zhuhai New Century Marine Co., Ltd., whereby the Group has agreed to lease from this company a vessel for a term of three years commencing 31 December 2001. The charter payment for this vessel for the year ended 31 December 2003 was Rmb3,650,000.

Apart from the above, the Group also entered into a time charter party agreement with a fellow subsidiary, namely Zhuhai Shipping Enterprise Co., Ltd., in prior year, whereby the Group has agreed to lease from this fellow subsidiary a vessel for a term commencing 1 January 2002 and ending on the scrap date of the vessel. The charter payment for this vessel for the year ended 31 December 2003 was Rmb6,103,000.

- (c) The Group entered into various bare-boat charter party agreements on 9 December 2002 with two fellow subsidiaries, namely China Shipping Container Lines Co., Ltd. ("CSC") and Southern Shipping Management Co., Ltd., whereby the Group has agreed to lease to these fellow subsidiaries 13 vessels for a term of one year commencing 1 January 2003 with a total consideration of Rmb91,486,000.

Apart from the above, the Group has also entered into bare-boat charter party agreements with two jointly-controlled entities, namely Shanghai Friendship Marine Co., Ltd. and Shanghai Times Shipping Co., Ltd. , and one fellow subsidiary, namely Shanghai Puhai Marine Co., Ltd., in prior years, whereby the Group has agreed to lease to these related parties 8 vessels for terms ranging from two to five years. The chartering income for such vessels for the year ended 31 December 2003 was Rmb18,770,000.

- (d) The Group and a fellow subsidiary, namely Digang Dili Material Recovery Company, entered into sale and purchase agreements on 22 April 2003, whereby the Group has agreed to sell and the fellow subsidiary has agreed to purchase two oil tankers, and thereafter to dismantle them and to sell them as scrap metal. The total consideration for the sale of these vessels were Rmb 12,842,000.

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(e) 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 6 March 2002, 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 Rmb10,759,000 (2002: Rmb9,199,000) for the management of its cargo vessels during the year ended 31 December 2003, while Dalian Shipping should pay Rmb2,083,000 (2002: Rmb2,083,000) for similar services in the same year.

Other than the above-mentioned, the Company received vessel management fees of Rmb2,701,000 from three jointly-controlled entities during the year ended 31 December 2002.

(f) Guarantees are given by the Company to banks in connection with facilities granted to a jointly-controlled entity which amounted to Rmb42,000,000 (2002: Rmb42,000,000 and Rmb4,600,000 to a jointly-controlled entity and a related company, respectively).

- (g) 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. The principal amounts to be paid each year until 2007 amount to approximately DM7.6 million. With the currency reform in Europe starting from 1 January 2002, the principal amounts re-denominated to Euro are approximately EURO3.9 million.
- (h) Pursuant to the share transfer agreement entered into between the Company and China Shipping on 9 September 2002, the Company transferred its 25% equity interests in CSC to China Shipping at a consideration of Rmb1. The Company is entitled to an option to buy back from China Shipping all or part of the disposed interests in CSC at terms and consideration to be agreed between the two parties ("the Option").

41. POST BALANCE SHEET EVENTS

It was resolved in a board meeting of the Company on 8 January 2004 that the Company will not exercise the Option (note 40(h)) within three years from the date when CSC was converted into a joint stock limited company, which was on 3 March 2004.

42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 March 2004.