

# 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 2003.

## 2. TURNOVER

During 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:

	<b>For the six months ended 30 June</b>			
	<b>2004</b>		2003	
	<b>(Unaudited)</b>		(Unaudited)	
By activity:	<b>Turnover</b>	<b>Contribution</b>	Turnover	Contribution
	<b>Rmb'000</b>	<b>Rmb'000</b>	Rmb'000	Rmb'000
Crude oil and refined oil shipments	<b>1,783,116</b>	<b>651,114</b>	1,579,787	507,387
Coal shipments	<b>796,230</b>	<b>283,258</b>	493,949	108,642
Dry bulk shipments	<b>375,817</b>	<b>216,236</b>	279,758	59,326
	<b><u>2,955,163</u></b>	<b><u>1,150,608</u></b>	<u>2,353,494</u>	675,355
Other revenue and gains		<b>47,753</b>		83,570
Administrative expenses		<b>(106,939)</b>		(113,570)
Other operating expenses		<b>(33,355)</b>		(65,380)
Profit from operating activities		<b><u>1,058,067</u></b>		<u>579,975</u>

# Notes to Condensed Consolidated Financial Statements

(continued)

## 2. TURNOVER (continued)

	<b>For the six months ended 30 June</b>			
	<b>2004</b>		2003	
	<b>(Unaudited)</b>		(Unaudited)	
By geographical area:	<b>Turnover</b>	<b>Contribution</b>	Turnover	Contribution
	<b>Rmb'000</b>	<b>Rmb'000</b>	Rmb'000	Rmb'000
Domestic	<b>1,850,658</b>	<b>706,719</b>	1,446,124	460,293
International	<b>1,104,505</b>	<b>443,889</b>	907,370	215,062
	<b><u>2,955,163</u></b>	<b><u>1,150,608</u></b>	<u>2,353,494</u>	<u>675,355</u>
Other revenue and gains		<b>47,753</b>		83,570
Administrative expenses		<b>(106,939)</b>		(113,570)
Other operating expenses		<b>(33,355)</b>		(65,380)
Profit from operating activities		<b><u>1,058,067</u></b>		<u>579,975</u>

## 3. OTHER REVENUE AND GAINS

	<b>For the six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>(Unaudited)</b>	(Unaudited)
	<b>Rmb'000</b>	Rmb'000
Gain/(loss) on disposal of fixed assets	<b>(6,956)</b>	11,921
Interest income	<b>3,587</b>	2,864
Rental income from leased vessels	<b>38,361</b>	55,497
Service income from vessel management	<b>7,752</b>	7,277
Others	<b>5,009</b>	6,011
Total	<b><u>47,753</u></b>	<u>83,570</u>

# Notes to Condensed Consolidated Financial Statements

(continued)

## 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>2004</b> <b>(Unaudited)</b> <b>Rmb'000</b>	2003 (Unaudited) Rmb'000
Cost of shipping services rendered:		
Bunker oil inventories consumed and port fees	<b>805,026</b>	742,237
Depreciation	<b>371,685</b>	373,403
Operating lease rentals:		
Land and buildings	<b>11,057</b>	12,858
Vessels	<b>55,405</b>	53,207
	<b>66,462</b>	66,065
Staff costs	<b>277,511</b>	266,549
Dry docking and repairs	<b>152,789</b>	132,181

## 5. FINANCE COSTS

	<b>For the six months ended 30 June</b>	
	<b>2004</b> <b>(Unaudited)</b> <b>Rmb'000</b>	2003 (Unaudited) Rmb'000
Total interest	<b>52,875</b>	55,172
Less: Interest capitalised	<b>(5,957)</b>	(9,226)
Interest expenses	<b>46,918</b>	45,946

# Notes to Condensed Consolidated Financial Statements

(continued)

## 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 2003: 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 2003: 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>2004</b> <b>(Unaudited)</b> <b>Rmb'000</b>	2003 (Unaudited) Rmb'000
Group:		
Hong Kong	-	-
PRC	<b>148,611</b>	79,867
	<b>148,611</b>	79,867
Share of tax attributable to:		
Jointly-controlled entities	<b>4,215</b>	963
Associate	-	-
Tax charge for the Period	<b>152,826</b>	80,830

A reconciliation of tax expense applicable to profit before tax using the statutory rates for the countries in which the Company, its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rates is as follows:

	<b>For the six months ended 30 June</b>	
	<b>2004</b> <b>(Unaudited)</b> <b>Rmb'000</b>	2003 (Unaudited) Rmb'000
Accounting profit before tax	<b>1,039,248</b>	541,075
Tax at the applicable tax rate of 15% (2003: 15%)	<b>155,887</b>	81,161
Tax effect of net income that is not taxable in determining taxable profit	<b>(3,061)</b>	(237)
Tax effect of different tax rate applicable to jointly-controlled entities	-	(94)
	<b>152,826</b>	80,830

## 7. DIVIDEND

The directors do not recommend the payment of interim dividend (six months ended 30 June 2003: Nil).

# Notes to Condensed Consolidated Financial Statements

(continued)

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the Period of Rmb885,851,000 (six months ended 30 June 2003: Rmb460,041,000) and the number of shares of 3,326,000,000 (six months ended 30 June 2003: 3,326,000,000) in issue during the Period.

Diluted earnings per share for the six-month periods ended 30 June 2003 and 2004 have not been presented as no diluting events existed during these periods.

## 9. FIXED ASSETS

During the Period, two oil tankers at a total cost of Rmb390,098,000 (six months ended 30 June 2003: two oil tankers at a total cost of Rmb456,441,000) were constructed and have been put into operation. A cargo vessel with net book value of Rmb17,364,000 was disposed to a third party during the Period. Three oil tankers with a total net book value of Rmb9,850,000 were disposed to a fellow subsidiary and a third party, respectively, during the six months ended 30 June 2003.

## 10. TRADE AND BILLS RECEIVABLES

	30 June 2004		31 December 2003	
	Balance (Unaudited) Rmb'000	Percentage (Unaudited)	Balance (Audited) Rmb'000	Percentage (Audited)
Within one year	280,514	90	220,736	88
One to two years	1,540	-	4,309	2
Beyond two years	29,856	10	25,547	10
	<b>311,910</b>	<b>100</b>	250,592	100
Provision for doubtful debts	(33,866)		(30,856)	
Trade and bills receivables, net	<b>278,044</b>		219,736	

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

## 11. TRADE PAYABLES

	30 June 2004		31 December 2003	
	Balance (Unaudited) Rmb'000	Percentage (Unaudited)	Balance (Audited) Rmb'000	Percentage (Audited)
Within one year	209,679	95	127,060	92
One to two years	2,628	1	1,587	1
Beyond two years	8,737	4	9,498	7
	<b>221,044</b>	<b>100</b>	138,145	100

# Notes to Condensed Consolidated Financial Statements

(continued)

## 12. CONTINGENT LIABILITIES

	<b>30 June 2004</b> <b>(Unaudited)</b> <b>Rmb'000</b>	31 December 2003 (Audited) Rmb'000
Guarantees given to banks in connection with facilities granted to a jointly-controlled entity	<b>42,000</b>	42,000

Save as disclosed above, there are no material changes in the Group's contingent liabilities since 31 December 2003.

## 13. 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 2004, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	<b>30 June 2004</b> <b>(Unaudited)</b> <b>Rmb'000</b>	31 December 2003 (Audited) Rmb'000
Within one year	<b>29,137</b>	124,232
In the second to fifth years, inclusive	<b>11,041</b>	1,556
After five years	<b>3,045</b>	-
	<b>43,223</b>	125,788

The total future minimum sublease payments expected to be received under non-cancellable sublease arrangements as at 30 June 2003 were Rmb94,998,000. Sublease payments recognised in the profit and loss account for the six months ended 30 June 2003 were Rmb13,902,000. There were no sublease arrangements during the Period.

### (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 five years.

As at 30 June 2004, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

# Notes to Condensed Consolidated Financial Statements

*(continued)*

## 13. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee (continued)

	<b>30 June 2004</b> <b>(Unaudited)</b> <b>Rmb'000</b>	31 December 2003 (Audited) Rmb'000
Within one year	<b>75,294</b>	106,698
In the second to fifth years, inclusive	<b>22,151</b>	11,575
	<b>97,445</b>	118,273

## 14. COMMITMENTS

In addition to the operating lease commitments detailed in note 13(b) above, the Group had the following capital commitments at the balance sheet date:

	<b>30 June 2004</b> <b>(Unaudited)</b> <b>Rmb'000</b>	31 December 2003 (Audited) Rmb'000
Contracted for	<b>3,408,371</b>	4,006,262

## 15. 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>2004</b> <b>(Unaudited)</b> <b>Rmb'000</b>	2003 (Unaudited) Rmb'000
Net profit attributable to shareholders prepared under HK GAAP	<b>885,851</b>	460,041
Adjustments for depreciation, gain on disposal of vessels and deferred staff expenditures, etc.	<b>9,877</b>	(1,952)
Net profit attributable to shareholders prepared under PRC accounting standards	<b>895,728</b>	458,089

# Notes to Condensed Consolidated Financial Statements

(continued)

## 15. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN HONG KONG (“HK GAAP”) AND PRC ACCOUNTING SANDARDS (continued)

	<b>30 June 2004 (Unaudited)</b>	31 December 2003 (Audited)
	<b>Rmb’000</b>	Rmb’000
Shareholders’ equity prepared under HK GAAP		
Adjustments for revaluation surplus, depreciation, gain on disposal of vessels and deferred staff expenditure, etc.	<b>7,700,362</b>	7,313,595
	<b>(172,460)</b>	(182,437)
Shareholders’ equity prepared under PRC accounting standards	<b>7,527,902</b>	7,131,158

## 16. ULTIMATE HOLDING COMPANY

In the opinion of the directors, the ultimate holding company of the Company is China Shipping (Group) Company ("China Shipping"), a state-owned enterprise established in the PRC.

## 17. 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 Period, 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 and a supplementary agreement entered into on 8 January 2004, China Shipping (or its subsidiaries and jointly- controlled entities) will provide to the Group the necessary supporting shipping materials and services for the ongoing 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 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.



# Notes to Condensed Consolidated Financial Statements

(continued)

## 17. RELATED PARTY TRANSACTIONS (continued)

Further details of the principal amounts paid by the Group to China Shipping, its subsidiaries or jointly-controlled entities in respect of the Services Agreement for the Period are set out as below:

		<b>For the six months ended 30 June</b>	
		<b>2004</b>	2003
<b>Pricing basis</b>		<b>Total value</b>	Total value
		<b>(Unaudited)</b>	(Unaudited)
		<b>Rmb'000</b>	Rmb'000
Dry-docking and repairs	State-fixed prices or market prices	<b>95,046</b>	88,228
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	<b>395,084</b>	361,996
White washing and oily water treatment for vessels	State-fixed prices or market prices	<b>3,537</b>	4,318
Installation, repairs and maintenance of telecommunication and navigational services	State-fixed prices	<b>4,983</b>	5,967
Hiring of sea crew	Market prices	<b>76,587</b>	74,181
Accommodation, lodging and transportation for employees	Market prices	<b>2,930</b>	3,013
Medical services (for existing employees)	State-fixed prices	<b>1,276</b>	1,181
Miscellaneous management services	Market prices	<b>16,053</b>	20,149
Agency commissions	Market prices	<b>11,296</b>	11,581

In connection with the above transactions and for other operating purposes, the Group made prepayments/advances to subsidiaries and jointly-controlled entities of China Shipping from time to time.

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

		<b>For the six months ended 30 June</b>	
		<b>2004</b>	2003
		<b>(Unaudited)</b>	(Unaudited)
		<b>Rmb'000</b>	Rmb'000
Vessel chartering charges paid	(a)	<b>44,347</b>	53,207
Agency commissions paid		<b>476</b>	473
Sale of vessels		-	(13,848)
Vessel chartering income received	(b)	<b>(47,985)</b>	(54,606)
Vessel management fees	(c)	<b>(5,721)</b>	(5,721)

# Notes to Condensed Consolidated Financial Statements

(continued)

## 17. RELATED PARTY TRANSACTIONS (continued)

- (a) The Group entered into a time charter party agreement on 28 December 2003 with a fellow subsidiary, namely China Shipping (Hong Kong) Holdings Co., Ltd., whereby the Group has agreed to lease from this fellow subsidiary a vessel for a term of one year commencing 1 January 2004. The charter payment for this vessel for the Period was Rmb20,495,000.

Besides, the Group entered into a time charter party agreement on 9 December 2002 with a fellow subsidiary, namely Shanghai Shipping Industrial Co., Ltd., whereby the Group has agreed to lease from this fellow subsidiary a vessel for a term of one year commencing 1 January 2003 with one year's automatic renewal option. The charter payment for this vessel for the Period was Rmb17,782,000.

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 Period was Rmb1,820,000.

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 Period was Rmb4,250,000.

- (b) The Group entered into various bare-boat charter party agreements on 28 December 2003 with a fellow subsidiary, namely China Shipping Container Liners Co., Ltd. ("CSC"), whereby the Group has agreed to lease to this fellow subsidiary 9 vessels for a term of one year commencing 1 January 2004. The chartering income for such vessels for the Period was Rmb21,260,000.

Besides, the Group entered into various bare-boat charter party agreements in year 1998 with the fellow subsidiary, namely CSC, whereby the Group has agreed to lease to this subsidiary 3 vessels for a term of 12 years commencing from 18 September 1998, 4 September 1998 and 23 September 1998 respectively with a total consideration of Rmb1,260,000.

In addition, the Group entered into various bare-boat charter party agreements with a fellow subsidiary, namely Southern Shipping Management Co., Ltd., whereby the Group has agreed to lease to this fellow subsidiary 4 vessels for terms ranging from 60 to 85 days. The chartering income for such vessels for the Period was Rmb10,905,000.

Apart from the above, the Group 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 a fellow subsidiary, namely Shanghai Puhai Marine Co., Ltd., in prior years, whereby the Group has agreed to lease to these related parties four vessels for terms ranging from one month to three years. The chartering income for such vessels for the Period was Rmb14,560,000.

# Notes to Condensed Consolidated Financial Statements

(continued)

## 17. RELATED PARTY TRANSACTIONS (continued)

(c) Management of cargo vessels

On 27 May 1998, the Company entered into two Cargo Vessels Management Agreements with Dalian Shipping (Group) Company ("Dalian Shipping") and Guangzhou Maritime Transport (Group) Company Limited ("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 Rmb4,680,000 for the management of its cargo vessels during the Period (six months ended 30 June 2003: Rmb4,680,000), while Dalian Shipping should pay Rmb1,041,000 for similar service in the same period (six months ended 30 June 2003: Rmb1,041,000).

(d) Guarantees are given by the Company to banks in connection with facilities granted to a jointly-controlled entity which amounted to Rmb42,000,000 (31 December 2003: Rmb42,000,000).

(e) Pursuant to two Bare-boat Charter-party Agreements ("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. 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 EURO 3.9 million.

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

## 18. APPROVAL OF INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved by the board of directors on 6 August 2004.