



# 董事會報告書

## REPORT OF THE DIRECTORS



*Mr. Li shaode, Chairman*

The board of directors (the "Board") of the Company hereby presents their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

### **Principal activities**

The Company's principal activities consist of investment holding, shipment of oil and cargoes along the coast of the People's Republic of China (the "PRC") and internationally.

The principal activities of the Company's principal subsidiaries and jointly-controlled entities are oil and cargo shipment. There have been no significant changes in the nature of the Group's principal activities during the year.

### **Segment information**

The Group's segment information prepared under the accounting principles generally accepted in Hong Kong ("HK GAAP") are presented in note 4 to the financial statements.

## Summary financial information

A summary of the consolidated results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

Results	Year ended 31 December				
	2004	2003	2002	2001	2000
	<b>Rmb'000</b>	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Turnover	<b>6,135,984</b>	4,885,495	4,096,018	3,894,926	3,190,847
Operating costs	<b>(3,764,391)</b>	(3,423,495)	(3,010,519)	(2,915,404)	(2,572,089)
Gross profit	<b>2,371,593</b>	1,462,000	1,085,499	979,522	618,758
Other revenue and gains	<b>118,791</b>	130,600	161,783	199,740	190,498
Administrative expenses	<b>(226,830)</b>	(231,818)	(201,406)	(164,595)	(162,364)
Other operating expenses	<b>(58,885)</b>	(107,012)	(125,468)	(116,511)	(110,896)
Profit from operating activities	<b>2,204,669</b>	1,253,770	920,408	898,156	535,996
Finance costs	<b>(100,533)</b>	(95,689)	(132,022)	(179,057)	(213,742)
Share of the profit of jointly-controlled entities	<b>50,155</b>	20,751	14,495	-	-
Share of the profit/ (loss) of an associate	-	-	(100,101)	(280,786)	2,760
Profit before tax	<b>2,154,291</b>	1,178,832	702,780	438,313	325,014
Tax	<b>(308,674)</b>	(154,529)	(111,249)	(113,055)	(43,047)
Profit before minority interests	<b>1,845,617</b>	1,024,303	591,531	325,258	281,967
Minority interests	<b>(1,090)</b>	(663)	(335)	-	-
Net profit attributable to shareholders	<b>1,844,527</b>	1,023,640	591,196	325,258	281,967
Earnings per share	<b>Cents55.46</b>	<b>Cents30.78</b>	<b>Cents18.51</b>	<b>Cents10.93</b>	<b>Cents9.47</b>
Assets liabilities and minority interests	31 December 2004	31 December 2003	31 December 2003	31 December 2001	31 December 2000
	<b>Rmb' 000</b>	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Total assets	<b>11,625,393</b>	9,726,290	9,068,757	9,007,693	8,379,691
Total liabilities and minority interests	<b>(2,966,313)</b>	(2,412,695)	(2,446,264)	(3,652,889)	(3,201,332)
Net assets	<b>8,659,080</b>	7,313,595	6,622,493	5,354,804	5,178,359

This summary does not form part of the audited financial statements.



## 董事會報告書 (續)

### REPORT OF THE DIRECTORS

(Continued)

#### Notes:

1. The consolidated results, total assets, total liabilities and minority interests of the Group for the four years ended 31 December 2003 are extracted from the Company's 2003 annual report dated 12 March 2004, while those of the year ended 31 December 2004 were prepared based on the consolidated income statement and consolidated balance sheet as set out on pages 10 and 11, respectively, of the financial statements.
2. The earnings per share for the year ended 31 December 2004 is calculated based on the net profit attributable to shareholders for the year ended 31 December 2004 of Rmb1,844,527,000 (2003: Rmb1,023,640,000) and the number of shares of 3,326,000,000 (2003: the number of shares of 3,326,000,000) in issue during the year.

#### Results and dividends

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 50 to 117.

The net profit of the Company for 2004 was Rmb 1,896,378,000 which is determined based on accounting principles generally accepted in the PRC ("PRC GAAP") of which 10% will be transferred to the statutory surplus reserve, and another 10% will be transferred to the statutory public welfare fund. According to the relevant laws and regulations, the Company's reserves available for distribution are determined based on the lower of the amount determined under PRC GAAP and the amount determined under HK GAAP.

The directors recommend the payment of a final dividend of Rmb0.15 per share in respect of the year to shareholders on the register of members at the close of business on 29 April 2005. There was no arrangement under which a shareholder of the Company has waived or agreed to waive any dividends. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within the capital and reserves section of the balance sheet.

### **Fixed assets**

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

### **Share capital**

There have been no movements in the Company's issued share capital during the year.

### **Pre-emptive rights**

According to the articles of association of the Company, the existing shareholders have pre-emptive rights to purchase shares in any new issue of shares of the Company in proportion to their shareholdings.

### **Purchase, redemption or sale of listed securities of the Company**

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.





## 董事會報告書 (續)

### REPORT OF THE DIRECTORS

*(Continued)*

#### **Reserves**

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

#### **Distributable reserves**

As at 31 December 2004, the Company's reserves available for distribution, as determined based on the lower of the amount determined under the PRC GAAP and the amount determined under HK GAAP, amounted to Rmb2,017,790,000 before the proposed final dividend.

In addition, according to the PRC Company Law, an amount of approximately Rmb2,037,884,000 standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

#### **Major customers**

In the year under review, the five largest customers of the Group accounted for less than 30% (2003: less than 30%) of the Group's total turnover. As far as the directors are aware, none of the directors, supervisors, their associates, nor any shareholders, which, to the best knowledge of the directors and supervisors, owns 5% or more of the Company's shares, had any beneficial interests in the five largest customers of the Group.

#### **Major suppliers**

In the year under review, the five largest suppliers of materials and services to the Group accounted for 51% (2003: 49%) of the Group's total purchases. The largest supplier is a jointly-controlled entity of China Shipping, and accounted for 31% (2003: 30%) of the Group's total purchases in that year. Another four subsidiaries of China Shipping constituted the remaining four largest suppliers.

Except as mentioned above, as at 31 December 2004, none of the directors, supervisors, their associates nor any shareholders, which, to the best knowledge of the directors and supervisors, owned 5% or more of the Company's shares, had any beneficial interests in the five largest suppliers of the Group.

### **Directors**

The directors of the Company during the year were:

Executive directors:

Mr. Li Shaode (Appointed on 28 May 2003)

Mr. Wang Daxiong (Appointed on 28 May 2003)

Mr. Yao Zuozhi (Appointed on 28 May 2003)

Mr. Sun Zhitang (Appointed on 10 June 2004)

Mr. Wang Kunhe (Appointed on 17 August 2004)

Mr. Li Kelin (Resigned on 12 March 2004)

Mr. Xu Zuyuan (Resigned on 18 June 2004)

Mr. Yan Mingyi (Resigned on 29 November 2004)

Independent non-executive directors:

Mr. Zhou Zhanqun (Appointed on 28 May 2003)

Mr. Hu Honggao (Appointed on 28 May 2003)

Mr. Xie Rong (Appointed on 28 May 2003)

Pursuant to the Company's articles of association, all the directors of the Company are appointed for a term of three years.

### **Directors' and senior management's biographies**

Biographical details of the directors of the Company and the senior management of the Group are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this 2004 annual report .

### **Service contracts of directors and supervisors**

Each of the executive directors and supervisors has entered into a service contract with the Company, which will expire on 27 May 2006 and is subject to termination by either party giving not less than three months' written notice.

## 董事會報告書 (續)

### REPORT OF THE DIRECTORS

(Continued)

The Company has not entered into any service agreement with the non-executive directors.

No director or supervisor has a service contract with the Company which is not terminable by the Company within one year without payment of material compensation other than statutory compensation.

#### **Directors' remuneration**

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company board of directors with redereence to directors' duties, responsibilities and performance and the results of the Group.

#### **Management contracts**

Pursuant to the Services Agreement as described in note 40(1) to the financial statements, China Shipping provided miscellaneous management and other services to the Group during the year for a total fee of Rmb38,960,000 (2003: Rmb45,141,000).

#### **Contracts of significance**

The Company has entered into the services agreement with China Shipping pursuant to which China Shipping (or its subsidiaries) provides to the Group the necessary supporting shipping materials and services for the ongoing operations of the Group's vessels. Further details of the transactions undertaken in connection therewith during the year are included in note 40 to the financial statements.

### **Substantial shareholders' interests in shares and underlying shares**

As at 31 December 2004, the following shareholders held 5% or more of the nominal value of any class of share capital of the Company, carrying rights to vote in all circumstances at any shareholders' general meeting of the Company, according to the register of interests in shares required to be kept by the Company pursuant to section 336 of the Securities and Futures Ordinance (the "SFO"):

Name of substantial shareholders	Class of share	Number of shares	Percentage of total number of the relevant class shares	Percentage of the total number of issued shares
China Shipping (Group) Company	State-owned shares	1,680,000,000 (Long position)	82.76%	50.51%
HSBC Asset Management (Hong Kong) Limited	H shares	122,496,000 (Long position)	9.45%	3.68%

Save as disclosed above, as at 31 December 2004, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

### **Directors' and supervisors' interests in contracts**

As at 31 December 2004, none of the directors nor supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

### **Directors', supervisors', and chief executive interests and short positions in shares and underlying shares of the Company**

As at 31 December 2004, none of the directors, supervisors, Senior management or their associates had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.



## 董事會報告書 (續)

### REPORT OF THE DIRECTORS

(Continued)

#### **Directors', supervisors' and chief executive rights to acquire shares or debentures**

At no time during the Reporting Period was the Company or any of its subsidiaries, fellow subsidiaries, jointly-controlled entities or its holding company a party to any arrangement to enable the directors, supervisors, chief executive, their respective spouses or minor children to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate. No rights to subscribe for shares in or debentures of the Company have been granted by the Company to, nor have any such rights been exercised by, any of the above persons during the Reporting Period and up to the date of this report.

#### **Connected transactions**

The Group had connected transactions during the year with its holding company, fellow subsidiaries, jointly-controlled entities as well as related companies, further details of which are set out in note 40 to the financial statements.

The Stock Exchange has granted the Company a waiver from compliance with Chapter 14 of the Listing Rules for the ongoing connected transactions till 31 December 2006, as set out in note 40(1) to the financial statements, pursuant to its letter of 30 March 2004.

Details of non-exempt connected transactions are presented in note 40 to the financial statements.

The executive directors and independent non-executive directors have reviewed the ongoing connected transactions and confirmed that, during the year ended 31 December 2004, such transactions were:

- (1) conducted in the ordinary course of business of the Group, and those transactions based on market prices or stated fixed prices were on terms no less favourable to the Company than normal commercial terms;
- (2) entered into in accordance with the terms of any agreements governing such transactions;
- (3) fair and reasonable so far as the shareholders of the Company were concerned; and
- (4) within the relevant monetary caps as agreed with the Stock Exchange or approved by the shareholders of the Company.

### **Employee housing**

According to the relevant local laws and regulations, the Group and its employees are required to contribute their respective contributions to an accommodation fund according to a certain percentage of the salaries and wages of the employees. There are no other significant contributive obligations beyond the contributions to the said fund.

The Company provided staff quarters to selected employees and, according to a housing reform scheme in Shanghai, the People's Republic of China ("PRC"), arrangements were made to transfer the staff quarters to employees who agreed to remain in service for the Company for a period of 10 years. As of the date of this annual report, nearly all of the staff quarters have been transferred to employees on the above basis. The net book value of staff quarters has been reclassified as deferred staff expenditure and is amortised on the straight-line basis over 10 years, which approximates the expected service period of the relevant employees.

## 董事會報告書 (續)

### REPORT OF THE DIRECTORS

(Continued)

#### **Medical insurance scheme**

As required by regulations of the local government effective 1 July 2001, the Company participates in a defined contribution medical insurance scheme organised by local social security authorities. Under the scheme, the Company is required to make monthly contributions at the rate of 12% of the total salaries of the employees, after certain adjustments on individual employee's salary in accordance with applicable regulations. In addition, pursuant to the aforementioned regulations, the contributions are charged to staff welfare payable accrued by the Company. The Company has no obligation for the payment of medical benefits beyond such contributions to the registered insurance companies.

#### **Pension scheme**

Details of the pension scheme of the Company are set out in note 34 to the financial statements.

#### **Compliance with the Code of Best Practice**

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report.

#### **Public float**

As at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules and as agreed with the Stock Exchange, based on the information that is publicly available to the Company and within the knowledge of the directors of the Company.

**Audit committee**

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

**Code for securities transactions by directors**

The Company has not adopted a code for securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Following specific enquiry made with the Directors, the Company has confirmed that each of the Directors complied with the required standard set out in the Model Code regarding securities transactions by the Directors.

**Auditors**

Ernst & Young retire and a resolution for their reappointment as international auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Li Shaode**

*Chairman*

Shanghai, People's Republic of China

1 March 2005