

## **REPORT OF THE INTERNATIONAL AUDITORS**

To the members

China Shipping Development Company Limited

(Established in the People's Republic of China as a joint stock company with limited liability)

We have audited the financial statements on pages 52 to 117 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

**REPORT OF THE INTERNATIONAL  
AUDITORS**

*(Continued)*

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young  
Certified Public Accountants  
Hong Kong

1 March 2005

## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2004

		2004	2003
	Notes	Rmb'000	Rmb'000
TURNOVER	5	<b>6,135,984</b>	4,885,495
Operating costs		<b>(3,764,391)</b>	(3,423,495)
Gross profit		<b>2,371,593</b>	1,462,000
Other revenue and gains	5	<b>118,791</b>	130,600
Administrative expenses		<b>(226,830)</b>	(231,818)
Other operating expenses		<b>(58,885)</b>	(107,012)
PROFIT FROM OPERATING ACTIVITIES	6	<b>2,204,669</b>	1,253,770
Finance costs	7	<b>(100,533)</b>	(95,689)
Share of profits of jointly-controlled entities		<b>50,155</b>	20,751
PROFIT BEFORE TAX		<b>2,154,291</b>	1,178,832
Tax	10	<b>(308,674)</b>	(154,529)
PROFIT BEFORE MINORITY INTERESTS		<b>1,845,617</b>	1,024,303
Minority interests		<b>(1,090)</b>	(663)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	<b>1,844,527</b>	1,023,640
DIVIDEND			
Proposed final	12	<b>498,900</b>	498,900
EARNINGS PER SHARE	13	<b>55.46cents</b>	30.78cents

The accompanying notes from pages 58 to 117 form an integral part of the financial statements.

## CONSOLIDATED BALANCE SHEET

31 December 2004

		2004	2003
	Notes	Rmb'000	Rmb'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	9,475,733	7,744,086
Interests in jointly-controlled entities	16	241,946	138,902
Long term investment	17	4,000	4,000
Deferred staff expenditure	18	70,901	83,686
Deferred tax assets	29	20,860	17,451
Negative goodwill	19	(1,386)	(1,584)
		<b>9,812,054</b>	7,986,541
<b>CURRENT ASSETS</b>			
Bunker oil inventories		141,210	112,711
Trade and bills receivables	20	143,516	219,736
Other receivables	21	252,991	280,118
Cash and cash equivalents	22	1,275,622	1,127,184
		<b>1,813,339</b>	1,739,749
<b>CURRENT LIABILITIES</b>			
Trade payables	23	156,241	138,145
Tax payable		43,380	18,756
Other payables and accruals	24	496,020	296,008
Current portion of interest-bearing bank and other borrowings, and finance lease payables	25	338,109	268,146
		<b>1,033,750</b>	721,055
<b>NET CURRENT ASSETS</b>		<b>779,589</b>	1,018,694
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>10,591,643</b>	9,005,235
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	26	1,827,867	1,571,902
Finance lease payables	28	76,395	110,011
Deferred income	30	16,010	3,526
		<b>1,920,272</b>	1,685,439
Minority interests		12,291	6,201
		<b>8,659,080</b>	7,313,595
<b>CAPITAL AND RESERVES</b>			
Issued capital	31	3,326,000	3,326,000
Reserves	32	4,834,180	3,488,695
Proposed final dividend	12	498,900	498,900
		<b>8,659,080</b>	7,313,595
Li Shaode	Wang Daxiong		
Director	Director		

The accompanying notes from pages 58 to 117 form an integral part of the financial statements.

**CONSOLIDATED SUMMARY STATEMENT  
OF CHANGES IN EQUITY**

Year ended 31 December 2004

		<b>2004</b>	2003
	Note	<b>Rmb'000</b>	Rmb'000
<b>TOTAL EQUITY</b>			
At beginning of year		<b>7,313,595</b>	6,622,493
Net profit from ordinary activities attributable to shareholders		<b>1,844,527</b>	1,023,640
Change in exchange fluctuation reserve and net gains and losses not recognised in the income statement	32	<b>(142)</b>	62
Dividend paid on ordinary shares		<b>(498,900)</b>	(332,600)
At end of year		<b><u>8,659,080</u></b>	<u>7,313,595</u>

The accompanying notes from pages 58 to 117 form an integral part of the financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2004

		2004	2003
	Notes	Rmb'000	Rmb'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	33(a)	<b>2,792,883</b>	1,880,940
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		<b>9,027</b>	13,330
Payments for construction in progress		<b>(2,371,023)</b>	(1,001,295)
Purchases of fixed assets		<b>(2,657)</b>	(2,573)
Proceeds from disposal of fixed assets		<b>97,346</b>	18,439
Investments in jointly-controlled entities		<b>(65,000)</b>	(15,000)
Investment returns from jointly-controlled entities		<b>4,380</b>	665
Net cash outflow from investing activities		<b>(2,327,927)</b>	(986,434)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		<b>(114,788)</b>	(110,843)
Dividend paid on ordinary shares		<b>(498,900)</b>	(332,600)
New bank loans		<b>550,420</b>	269,860
Repayment of bank loans		<b>(228,075)</b>	(243,385)
Capital element of finance lease rental payments		<b>(30,033)</b>	(57,678)
Minority share of increase in capital of a subsidiary		<b>5,000</b>	-
Net cash outflow from financing activities		<b>(316,376)</b>	(474,646)

The accompanying notes from pages 58 to 117 form an integral part of the financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

(Continued)

Year ended 31 December 2004

	2004	2003
	Notes	
	Rmb'000	Rmb'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	<b>148,580</b>	419,860
Cash and cash equivalents at beginning of year	<b>1,127,184</b>	707,262
Effect of foreign exchange rate changes, net	<b>(142)</b>	62
CASH AND CASHEQUIVALENTS AT END OF YEAR	<b><u>1,275,622</u></b>	<u>1,127,184</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>695,077</b>	462,242
Time deposits with original maturity of less than three months when acquired	<b>580,545</b>	664,942
	<b><u>1,275,622</u></b>	<u>1,127,184</u>

The accompanying notes from pages 58 to 117 form an integral part of the financial statements.

## BALANCE SHEET

31 December 2004

		2004	2003
	Notes	Rmb'000	Rmb'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	<b>8,345,998</b>	6,655,731
Interests in subsidiaries	15	<b>1,715,637</b>	1,650,067
Investments in jointly-controlled entities	16	<b>70,000</b>	55,000
Long term investment	17	<b>4,000</b>	4,000
Deferred staff expenditure	18	<b>70,901</b>	83,686
Deferred tax assets	29	<b>14,319</b>	15,773
		<b>10,220,855</b>	8,464,257
<b>CURRENT ASSETS</b>			
Bunker oil inventories		<b>141,210</b>	112,711
Trade and bills receivables	20	<b>142,704</b>	215,716
Other receivables	21	<b>249,537</b>	279,769
Cash and cash equivalents	22	<b>669,695</b>	614,090
		<b>1,203,146</b>	1,222,286
<b>CURRENT LIABILITIES</b>			
Trade payables	23	<b>152,253</b>	138,145
Tax payable		<b>43,380</b>	18,756
Other payables and accruals	24	<b>481,657</b>	294,785
Current portion of interest-bearing bank and other borrowings, and finance lease payables	25	<b>338,109</b>	268,146
		<b>1,015,399</b>	719,832
<b>NET CURRENT ASSETS</b>		<b>187,747</b>	502,454
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>10,408,602</b>	8,966,711
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	26	<b>1,827,867</b>	1,571,902
Finance lease payables	28	<b>76,395</b>	110,011
		<b>1,904,262</b>	1,681,913
<b>NET ASSETS</b>		<b>8,504,340</b>	7,284,798
<b>CAPITAL AND RESERVES</b>			
Issued capital	31	<b>3,326,000</b>	3,326,000
Reserves	32	<b>4,679,440</b>	3,459,898
Proposed final dividend	12	<b>498,900</b>	498,900
		<b>8,504,340</b>	7,284,798

Li Shaode

Director

Wang Daxiong

Director

The accompanying notes from pages 58 to 117 form an integral part of the financial statements.