

## NOTES TO FINANCIAL STATEMENTS

(continued)

31 December 2004

### 11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHARE - HOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company is Rmb1,718,442,000 (2003: Rmb1,005,329,000) (note 32).

### 12. DIVIDEND

	<b>2004</b>	2003
	<b>Rmb'000</b>	Rmb'000
Proposed final - Rmb0.15(2003: Rmb0.15) per ordinary share	<b>498,900</b>	4989600

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

### 13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of Rmb1,844,527,000 (2003: Rmb1,023,640,000) and 3,326,000,000 (2003: 3,326,000,000) shares in issue during the year.

Diluted earnings per share for the years ended 31 December 2003 and 2004 have not been presented as no diluting events existed during these years.

## 14. FIXED ASSETS

	<b>Group</b>						
	Leasehold improvements	Vessels	Machinery and equipment	Motor vehicles	Buildings	Construction in progress	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
<b>Cost or valuation</b>							
At beginning of year	26,662	12,753,553	36,408	9,809	6,725	774,180	13,607,337
Transfers	-	1,997,915	6,177	-	-	(2,004,092)	-
Additions	-	-	1,084	1,252	321	2,533,520	2,536,177
Disposals	-	(138,154)	(639)	-	-	(10,200)	(148,993)
At 31 December 2004	26,662	14,613,314	43,030	11,061	7,046	1,293,408	15,994,521
<b>Accumulated depreciation</b>							
At beginning of year	2,444	5,833,472	20,993	4,626	780	-	5,862,315
Provided during the year	2,666	741,598	6,441	1,768	297	-	752,770
Disposals	-	(96,689)	(544)	-	-	-	(97,233)
At 31 December 2004	5,110	6,478,381	26,890	6,394	1,077	-	6,517,852
<b>Impairment loss</b>							
At 31 December 2004	-	-	-	936	-	-	936
At 31 December 2003	-	-	-	936	-	-	936
<b>Net book value</b>							
At 31 December 2004	21,552	8,134,933	16,140	3,731	5,969	1,293,408	9,475,733
At 31 December 2003	24,218	6,920,081	15,415	4,247	5,945	774,180	7,744,086

## NOTES TO FINANCIAL STATEMENTS

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31 December 2004

### 14. FIXED ASSETS(continued)

	Company							Total
	Leasehold improvements	Vessels	Machinery and equipment	Motor vehicles	Buildings	Construction in progress		
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	
<b>Cost or valuation</b>								
At beginning of year	26,662	10,919,980	36,396	9,809	6,725	774,180	11,773,752	
Transfers	-	1,997,915	6,177	-	-	(2,004,092)	-	
Additions	-	-	1,084	1,252	321	2,487,388	2,490,045	
Disposals	-	(237,870)	(639)	-	-	(10,200)	(248,709)	
At 31 December 2004	26,662	12,680,025	43,018	11,061	7,046	1,247,276	14,015,088	
<b>Accumulated depreciation</b>								
At beginning of year	2,444	5,088,243	20,992	4,626	780	-	5,117,085	
Provided during the year	2,666	666,550	6,437	1,768	297	-	677,718	
Disposals	-	(126,105)	(544)	-	-	-	(126,649)	
At 31 December 2004	5,110	5,628,688	26,885	6,394	1,077	-	5,668,154	
<b>Impairment loss</b>								
At 31 December 2004	-	-	-	936	-	-	936	
At 31 December 2003	-	-	-	936	-	-	936	
<b>Net book value</b>								
At 31 December 2004	21,552	7,051,337	16,133	3,731	5,969	1,247,276	8,345,998	
At 31 December 2003	24,218	5,831,737	15,404	4,247	5,945	774,180	6,655,731	

#### 14. FIXED ASSETS *(continued)*

The net book value of the Group's vessels held under finance leases included in the total amount of fixed assets at 31 December 2004 amounted to Rmb285,970,000 (2003: Rmb306,920,000). The depreciation charge for the year in respect of such assets amounted to Rmb20,950,000 (2003: Rmb20,950,000).

Certain of the Group's and the Company's fixed assets are leased to other parties under operating leases. Further details of the assets under operating lease arrangements are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Rmb'000</b>	Rmb'000	<b>Rmb'000</b>	Rmb'000
Vessels				
Cost at 31 December	<b>981,776</b>	2,049,253	<b>532,016</b>	790,083
Accumulated depreciation at 31 December	<b>501,418</b>	920,724	<b>303,571</b>	413,852

Certain of the Group's vessels existing as at 31 August 1994 were revalued at that date by Colliers Jardine Appraisals Limited, independent professionally qualified valuers, on an open market existing use basis.

The Group has adopted the transitional relief provided by paragraph 80 of Hong Kong Statements of Standard Practice ("HKSSAP") 17 "Property, plant and equipment" issued by the HKICPA for the requirement to make revaluations on a regular basis of the vessels and accordingly, no further revaluation of these vessels has been carried out since then. Had the vessels of the Group been carried at historical cost less accumulated depreciation, (i.e., the effect of this revaluation was excluded), the total historical carrying values of all vessels would have been approximately Rmb 7,954,838,000(2003: Rmb 6,735,961,000).

## NOTES TO FINANCIAL STATEMENTS

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31 December 2004

### 14. FIXED ASSETS(continued)

Details of the cost and/or valuation of fixed assets as at 31 December 2004 were as follows:

	<b>Group</b>		
	Cost	Valuation	Total
	Rmb'000	Rmb'000	Rmb'000
Vessels	10,832,062	3,781,252	14,613,314
Machinery and equipment	43,030	-	43,030
Leasehold improvements	26,662	-	26,662
Motor vehicles	11,061	-	11,061
Buildings	7,046	-	7,046
	<u>10,919,861</u>	<u>3,781,252</u>	<u>14,701,113</u>
	<b>Company</b>		
	Cost	Valuation	Total
	Rmb'000	Rmb'000	Rmb'000
Vessels	9,050,529	3,629,496	12,680,025
Machinery and equipment	43,018	-	43,018
Leasehold improvements	26,662	-	26,662
Motor vehicles	11,061	-	11,061
Buildings	7,046	-	7,046
	<u>9,138,316</u>	<u>3,629,496</u>	<u>12,767,812</u>

Prior to its transfer to vessels during the year, the carrying amount of construction in progress included capitalised interest of Rmb15,618,000 (2003: Rmb48,602,000). The amounts of interest capitalised were calculated with reference to the respective interest rates of bank borrowings at a rate of 5.184%, 5.76%, 5.508% or 6.12% per annum.

## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	Rmb'000	Rmb'000
Unlisted shares, at cost	196,009	101,009
Due from subsidiaries	<u>1,519,628</u>	<u>1,549,058</u>
	<u>1,715,637</u>	<u>1,650,067</u>

Particulars of the Group's principal subsidiaries as at 31 December 2004 were as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Class of shares in issue	Percentage of equity attributable to the Company		Principal activities
				直接Direct	間接Indirect	
China Shipping Development (Hong Kong) Marine Co., Limited	HongKong	500,000 元 US\$500,000	Ordinary	100%	-	Investment holding
Hainan Haixiang Investment Co., Ltd.	People's Republic of China	201,000,000 元 Rmb201,000,000	Ordinary	95%	-	Investment holding

\* Hainan Haixiang Investment Co., Ltd. is not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## NOTES TO FINANCIAL STATEMENTS

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### 16. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Unlisted shares, at cost	-	-	70,000	55,000
Share of the net assets other than goodwill	241,946	138,902	-	-
	<u>241,946</u>	<u>138,902</u>	<u>70,000</u>	<u>55,000</u>

Particulars of the jointly-controlled entities as at 31 December 2004 were as follows:

Directly held by the Company:

Name	Business Structure	Place of incorporation/ registration and operations	Percentage of ownership interest, voting power and profit sharing attributable to the Company	Principal activities
Shanghai Friendship Marine Co., Ltd.	Corporate	People's Republic of China	50%	Provision of shipping services
Zhuhai New Century Marine Co., Ltd.	Corporate	People's Republic of China	50%	Provision of shipping services

Indirectly held by the Company:

Name	Business Structure	Place of incorporation registration and operations	Percentage of ownership interest, voting power and profit sharing attributable to the Group	Principal activities
Shanghai Times Shipping Co., Ltd.	Corporate	People's Republic of China	47.5%	Provision of shipping services

The above jointly-controlled entities are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The financial statements of the above jointly-controlled entities are coterminous with those of the Group. The consolidated financial statements have been adjusted for material transactions between the jointly-controlled entities and the Group companies.



## NOTES TO FINANCIAL STATEMENTS

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31 December 2004

### 17. LONG TERM INVESTMENT

	Group and Company	
	2004	2003
	Rmb'000	Rmb'000
Unlisted equity investment	<u>4,000</u>	<u>4,000</u>

### 18. DEFERRED STAFF EXPENDITURE

	Group and Company
	Rmb'000
Cost	
At beginning of year and 31 December 2004	<u>127,845</u>
Accumulated amortisation	
At beginning of year	44,159
Amortisation provided during the year	<u>12,785</u>
At 31 December 2004	<u>56,944</u>
Net book value	
At 31 December 2004	<u>70,901</u>
At 31 December 2003	<u>83,686</u>

## 19. NEGATIVE GOODWILL

The amount of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of a subsidiary, is as follows:

		<b>Group</b>
		<b>Rmb'000</b>
Cost		
At beginning of year and 31 December 2004		1,980
Accumulated amortisation		
At beginning of year		396
Amortisation provided during the year		198
At 31 December 2004		594
Net book value		
At 31 December 2004		<u>1,386</u>
At 31 December 2003		<u>1,584</u>

## 20. TRADE AND BILLS RECEIVABLES

	Notes	<b>Group</b>		<b>Company</b>	
		<b>2004</b>	2003	<b>2004</b>	2003
		<b>Rmb'000</b>	Rmb'000	<b>Rmb'000</b>	Rmb'000
Trade and bills receivables		<b>169,365</b>	248,127	<b>168,553</b>	244,107
Due from fellow subsidiaries	27	<b>2,465</b>	2,465	<b>2,465</b>	2,465
Provision for doubtful debts		<b>(28,314)</b>	(30,856)	<b>(28,314)</b>	(30,856)
Trade and bills receivables, net		<u><b>143,516</b></u>	<u>219,736</u>	<u><b>142,704</b></u>	<u>215,716</u>

An aged analysis of trade and bills receivables of the Group and the Company as at the balance sheet date are as follows:

## NOTES TO FINANCIAL STATEMENTS

(continued)

31 December 2004

### 20. TRADE AND BILLS RECEIVABLES(continued)

	Group			
	2004		2003	
	Balance	Percentage	Balance	Percentage
	Rmb'000	%	Rmb'000	%
Within one year	145,365	85	220,736	88
One to two years	-	-	4,309	2
Beyond two years	26,465	15	25,547	10
	<b>171,830</b>	<b>100</b>	250,592	100
Provision for doubtful debts	<b>(28,314)</b>		(30,856)	
Trade and bills receivables, net	<b>143,516</b>		219,736	

	Company			
	2004		2003	
	Balance	Percentage	Balance	Percentage
	Rmb'000	%	Rmb'000	%
Within one year	144,553	85	216,716	88
One to two years	-	-	4,309	2
Beyond two years	26,465	15	25,547	10
	<b>171,018</b>	<b>100</b>	246,572	100
Provision for doubtful debts	<b>(28,314)</b>		(30,856)	
Trade and bills receivables, net	<b>142,704</b>		215,716	

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

## 21. OTHER RECEIVABLES

	Notes	Group		Company	
		2004	2003	2004	2003
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Prepayments		-	345	-	345
Deposits and other debtors		<b>33,061</b>	19,428	<b>29,607</b>	19,079
Due from jointly-controlled entities	27	-	3,650	-	3,650
Due from fellow subsidiaries	27	<b>220,347</b>	256,695	<b>220,347</b>	256,695
Provision for doubtful debts		<b>(417)</b>	-	<b>(417)</b>	-
		<b>252,991</b>	280,118	<b>249,537</b>	279,769

## 22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Cash and bank balances	<b>695,077</b>	462,242	<b>578,653</b>	452,694
Time deposits	<b>580,545</b>	664,942	<b>91,042</b>	161,396
Cash and cash equivalents	<b>1,275,622</b>	1,127,184	<b>669,695</b>	614,090

## NOTES TO FINANCIAL STATEMENTS

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31 December 2004

### 23. TRADE PAYABLES

	Note	Group		Company	
		2004	2003	2004	2003
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade payables		<b>150,906</b>	110,473	<b>146,918</b>	110,473
Due to fellow subsidiaries	27	<b>5,335</b>	27,672	<b>5,335</b>	27,672
		<b>156,241</b>	138,145	<b>152,253</b>	138,145

The aged analysis of trade payables as at the balance sheet date is as follows:

	Group			
	2004		2003	
	Balance	Percentage	Balance	Percentage
	Rmb'000	%	Rmb'000	%
Within one year	<b>148,030</b>	<b>95</b>	127,060	92
One to two years	<b>332</b>	-	1,587	1
Beyond two years	<b>7,879</b>	<b>5</b>	9,498	7
	<b>156,241</b>	<b>100</b>	138,145	100

	Company			
	2004		2003	
	Balance	Percentage	Balance	Percentage
	Rmb'000	%	Rmb'000	%
Within one year	<b>144,042</b>	<b>95</b>	127,060	92
One to two years	<b>332</b>	-	1,587	1
Beyond two years	<b>7,879</b>	<b>5</b>	9,498	7
	<b>152,253</b>	<b>100</b>	138,145	100

## 24. OTHER PAYABLES AND ACCRUALS

	Notes	Group		Company	
		2004	2003	2004	2003
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Accruals		<b>170,725</b>	147,439	<b>170,575</b>	147,429
Other liabilities		<b>316,676</b>	144,478	<b>311,082</b>	143,970
Due to fellow subsidiaries	27	-	3,386	-	3,386
Deferred income - current portion	30	<b>8,619</b>	705	-	-
		<b><u>496,020</u></b>	<u>296,008</u>	<b><u>481,657</u></b>	<u>294,785</u>

## 25. CURRENT PORTION OF INTEREST-BEARING BANK AND OTHER BORROWINGS, AND FINANCE LEASE PAYABLES

	Notes	Group and Company	
		2004	2003
		Rmb'000	Rmb'000
Current portion of bank and other borrowings	26	<b>294,455</b>	228,075
Current portion of finance lease payables	28	<b>43,654</b>	40,071
		<b><u>338,109</u></b>	<u>268,146</u>

## NOTES TO FINANCIAL STATEMENTS

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31 December 2004

### 26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group and Company	
	2004	2003
	Rmb'000	Rmb'000
Bank loans:		
Secured	1,708,422	1,660,757
Unsecured	413,900	139,220
	<u>2,122,322</u>	<u>1,799,977</u>
Bank loans repayable:		
Within one year	294,455	228,075
In the second year	388,095	266,975
In the third to fifth years, inclusive	920,722	788,342
Beyond five years	519,050	516,585
	<u>2,122,322</u>	<u>1,799,977</u>
Portion classified as current liabilities		
—note 25	(294,455)	(228,075)
Long term portion	<u>1,827,867</u>	<u>1,571,902</u>

Bank loans of Rmb627,495,000 (2003: Rmb 1,008,160,000) are secured by guarantees from China Shipping. Bank loans of Rmb1,080,927,000 (2003: Rmb652,597,000) are secured by pledges on 36 vessels (2003: 33 vessels) with an aggregate net book value at 31 December 2004 of Rmb2,692,262,000 (2003: Rmb2,046,789,000) and bear interest at a rate of 5.184%, 5.76%, 5.508% or 6.12% per annum (2003: 5.184% or 5.76% per annum).

## 27. BALANCES WITH SUBSIDIARIES, FELLOW SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES, AND RELATED COMPANIES

The balances are unsecured, interest-free and have no fixed terms of repayments.

## 28. FINANCE LEASE PAYABLES

As at 31 December 2004, the Group and the Company had non-cancellable finance leases for the purchase of vessels. The terms of such leases are for 11 years commencing from the respective dates of delivery of the vessels. The Company has the option to purchase the leased vessels at the end of the lease term. Such leases bear interest at the rate of 3.25% per annum. At 31 December 2004, the total future minimum lease payments under finance leases and their present values were as follows:

	<b>Company and Group</b>			
	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Amounts payable				
Within one year	47,201	44,629	43,654	40,071
In the second year	45,782	43,327	43,654	40,071
In the third to fifth years, inclusive	33,450	72,545	32,741	69,940
Total minimum finance lease payments	<b>126,433</b>	160,501	<b>120,049</b>	<b>150,082</b>
Future finance charges	<b>(6,384)</b>	(10,419)		
Total net finance lease payables	<b>120,049</b>	150,082		
Portion classified as current liabilities - note 26	<b>(43,654)</b>	(40,071)		
Long term portion	<b>76,395</b>	110,011		



## NOTES TO FINANCIAL STATEMENTS

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### 29. DEFERRED TAX

Deferred tax assets

	<b>Group</b>			
	<b>Deductible tax depreciation</b>			
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>
At 1 January	-	17,451	17,451	-
Deferred tax credited to the income statement during the year	3,165	244	3,409	17,451
Gross deferred tax assets at 31 December	<u>3,165</u>	<u>17,695</u>	<u>20,860</u>	<u>17,451</u>

	<b>Company</b>	
	<b>Deductible tax depreciation</b>	
	<b>2004</b>	<b>2003</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>
At 1 January	15,773	-
Deferred tax credited to the income statement during the year	(1,454)	15,773
Gross deferred tax assets at 31 December	<u>14,319</u>	<u>15,773</u>

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and jointly-controlled entities as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividend by the Company to its shareholders.

### **30. DEFERRED INCOME**

This represents the deferred portion of the gain on the disposal of two vessels to two jointly-controlled entities respectively (the portion of the gain deferred represents the equity interests in the jointly-controlled entity held by the Group) which will be recognised over the remaining depreciation period of the vessels sold.

## NOTES TO FINANCIAL STATEMENTS

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31 December 2004

### 31. ISSUED CAPITAL

	Group and Company			
	2004	2004	2003	2003
	Number of shares	Rmb'000	Number of shares	Rmb'000
Registered, issued and fully paid State-owned legal person shares of Rmb1.00 each	1,680,000,000	1,680,000	1,680,000,000	1,680,000
"H" shares of Rmb 1.00 each	1,296,000,000	1,296,000	1,296,000,000	1,296,000
"A" shares of Rmb 1.00 each	350,000,000	350,000	350,000,000	350,000
	<u>3,326,000,000</u>	<u>3,326,000</u>	<u>3,326,000</u>	<u>3,326,000</u>

The State-owned legal person shares are not currently listed on any stock exchange.

The H shares in issue comprise 1,080,000,000 shares which were listed on the Hong Kong Stock Exchange on 11 November 1994, and an additional 216,000,000 shares which were listed on the Stock Exchange on 2 April 1998.

The A shares in issue comprise 350,000,000 shares which were listed on the Shanghai Stock Exchange on 17 May 2002.

## 32. RESERVES

	<b>Group</b>							
	Share premium account	Revaluation reserve	Statutory surplus reserve	Statutory public welfare fund	General surplus reserve	Exchange fluctuation reserve	Retained profits	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2003	2,037,884	185,453	186,995	93,054	93,158	(11)	367,360	2,963,893
Net profit for the year	-	-	-	-	-	-	1,023,640	1,023,640
Transfers from/(to) reserves	-	-	100,800	99,436	-	-	(200,236)	-
Exchange realignment	-	-	-	-	-	62	-	62
Release on disposal of fixed assets	-	(1,333)	-	-	-	-	1,333	-
Proposed final dividend - note 12	-	-	-	-	-	-	(498,900)	(498,900)
<b>At 31 December 2003</b>	<b>2,037,884</b>	<b>184,120</b>	<b>287,795</b>	<b>192,490</b>	<b>93,158</b>	<b>51</b>	<b>693,197</b>	<b>3,488,695</b>
and beginning of year	2,037,884	184,120	287,795	192,490	93,158	51	693,197	3,488,695
Net profit for the year	-	-	-	-	-	-	1,844,527	1,844,527
Transfers from/(to) reserves	-	-	195,846	192,980	-	-	(388,826)	-
Exchange realignment	-	-	-	-	-	(142)	-	(142)
Release on disposal of fixed assets	-	(4,024)	-	-	-	-	4,024	-
Proposed final dividend - note 12	-	-	-	-	-	-	(498,900)	(498,900)
<b>At 31 December 2004</b>	<b>2,037,884</b>	<b>180,096</b>	<b>483,641</b>	<b>385,470</b>	<b>93,158</b>	<b>(91)</b>	<b>1,654,022</b>	<b>4,834,180</b>
Reserves retained by:								
Company and subsidiaries	2,037,884	180,096	477,094	381,824	93,158	(91)	1,596,952	4,766,917
Jointly-controlled entities	-	-	6,547	3,646	-	-	57,070	67,263
<b>At 31 December 2004</b>	<b>2,037,884</b>	<b>180,096</b>	<b>483,641</b>	<b>385,470</b>	<b>93,158</b>	<b>(91)</b>	<b>1,654,022</b>	<b>4,834,180</b>
Company and subsidiaries	2,037,884	184,120	285,385	191,150	93,158	51	666,654	3,458,402
Jointly-controlled entities	-	-	2,410	1,340	-	-	26,543	30,293
<b>At 31 December 2003</b>	<b>2,037,884</b>	<b>184,120</b>	<b>287,795</b>	<b>192,490</b>	<b>93,158</b>	<b>51</b>	<b>693,197</b>	<b>3,488,695</b>

## NOTES TO FINANCIAL STATEMENTS

(continued)

31 December 2004

### 32. RESERVES(continued)

	Company						
	Share premium account	Revaluation reserve	Statutory surplus reserve	Statutory public welfare fund	General surplus reserve	Retained profits	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2003	2,037,884	182,289	185,429	92,271	93,158	362,438	2,953,469
Net profit for the year	-	-	-	-	-	1,005,329	1,005,329
Transfers from/(to) reserves	-	-	97,800	97,800	-	(195,600)	-
Release on disposal of fixed assets	-	(1,333)	-	-	-	1,333	-
Proposed final dividend - note 12	-	-	-	-	-	(498,900)	(498,900)
At 31 December 2003 and beginning of year	2,037,884	180,956	283,229	190,071	93,158	674,600	3,459,898
Net profit for the year	-	-	-	-	-	1,718,442	1,718,442
Transfers from/(to) reserves	-	-	189,638	189,638	-	(379,276)	-
Release on disposal of fixed assets	-	(4,024)	-	-	-	4,024	-
Proposed final dividend - note 12	-	-	-	-	-	(498,900)	(498,900)
At 31 December 2004	<u>2,037,884</u>	<u>176,932</u>	<u>472,867</u>	<u>379,709</u>	<u>93,158</u>	<u>1,518,890</u>	<u>4,679,440</u>

### **32. RESERVES (continued)**

In accordance with the Company Law of the PRC and the Company's articles of association, the Company is required to allocate 10% of its profit after tax, as determined in accordance with PRC GAAP and regulations applicable to the Company, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the Company. Subject to certain restrictions set out in the Company Law of the PRC and the Company's articles of association, part of the SSR may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

In accordance with the Company Law of the PRC, the Company is required to transfer 5% to 10% of its profit after tax, as determined in accordance with PRC GAAP and regulations applicable to the Company, to its statutory public welfare fund (the "PWF") which is a non-distributable reserve other than in the event of the liquidation of the Company. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain as property of the Company unless subsequently transferred or disposed of.

When the PWF is utilised, an amount equal to the lower of either the cost of the assets or the balance of the PWF is transferred from the PWF to the general surplus reserve. This reserve is non-distributable other than in liquidation. The original transfers from the PWF are reversed upon disposal of the relevant assets and satisfying other relevant requirements. During the year, there was no transfer from the PWF to the general surplus reserve (2003: Nil).

## NOTES TO FINANCIAL STATEMENTS

*(continued)*

31 December 2004

### **32. RESERVES (continued)**

The directors have proposed to transfer Rmb189,638,000 (2003: Rmb97,800,000) to each of the SSR and the PWF, respectively. Each transfer represents 10% (2003: 10%) of the Company's profit after tax of Rmb1,896,378,000 (2003: Rmb977,999,000), determined in accordance with PRC GAAP. The transfers to the SSR and the PWF are subject to shareholders' approval at the forthcoming annual general meeting.

According to the relevant regulations in the PRC, the reserve available for distribution is the lower of the amount determined under PRC GAAP and the amount determined under HK GAAP. On this basis, as at 31 December 2004, before the proposed final dividend, the Company had a reserve of Rmb2,017,790,000 (2003: Rmb1,173,500,000) available for distribution as dividends.

In addition, in accordance with the Company Law of the PRC, an amount of approximately Rmb2,037,884,000 (2003: 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.