

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2004	2003
	Rmb'000	Rmb'000
Profit before tax	2,154,291	1,178,832
Adjustments for:		
Share of profits of jointly-controlled entities	(50,155)	(20,751)
Interest income	(9,027)	(13,330)
Depreciation	752,770	750,091
Amortisation of deferred staff expenditure	12,785	12,785
Amortisation of negative goodwill	(198)	(198)
Provision/(write-back of provision) for bad debts	(2,125)	2,654
Impairment loss for fixed assets	-	936
Gain on disposal of fixed assets	(55,786)	(7,483)
Income deferred on disposal of a vessel	22,422	-
Amortisation of deferred income	(2,024)	(705)
Write-off of construction in progress	10,200	5,296
Write-off of leasehold assets improvements	-	5,000
Operating profit before working capital changes	2,833,153	1,913,127
Decrease in trade and bills receivables	78,762	21,249
Increase in bunker oil inventories	(28,499)	(626)
Decrease in prepayments	345	41,902
(Increase)/decrease in deposits and other debtors	(13,633)	84
Decrease in amounts due from fellow subsidiaries	36,348	5,654
Decrease in amounts due from jointly-controlled entities	3,650	17,150
Increase/(decrease) in trade payables	40,433	(39,864)
Increase in accruals	23,253	19,915
Increase/(decrease) in other liabilities	23,989	(20,634)
Decrease in amounts due to fellow subsidiaries	(25,723)	(12,813)
Cash generated from operations	2,972,078	1,945,144
Finance costs	100,533	95,689
Income tax paid	(279,728)	(159,893)
Net cash inflow from operating activities	2,792,883	1,880,940

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(b) Significant non-cash transactions

The Group incurred payables of Rmb189,971,000 (2003: Rmb41,762,000) to shipyards for vessels under construction as at 31 December 2004.

34. PENSION SCHEME

The Company is required to contribute to a pension scheme (the "Scheme") for the eligible employees. Under the Scheme, the Company's retirement benefit obligations to its existing and future retiring employees is limited to its annual contributions equivalent to 22.5% (2003: 22.5%) 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 2004 amounted to Rmb64,935,000 (2003: Rmb60,223,000).

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

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

	Group and company	
	2004	2003
	Rmb'000	Rmb'000
Guarantees given to banks in connection with facilities granted to:		
A jointly-controlled entity	-	42,000

(b) The Company transported crude oil for a Korean company and unloaded the goods based on a guarantee letter issued by this Korean company. However, the Korean company did not redeem the bills of lading from the issuing banks of the relevant letters of credit. In September 2004, the Company was sued by three Korean banks, claiming WON11,974,643,000 (equivalent to RMB81,689,000) in compensation for their losses arising from the letters of credit issued in connection with a shipment of crude oil by the Company from the PRC to Korea. It is expected that the loss from this claim would be covered by disposing the relevant oil of 64,100 tons under the custody of the court.

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 twelve years.

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As at 31 December 2004, the Group had total future minimum lease rental receivables under non-cancelable operating leases falling due as follows:

	Group		Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Within one year	71,856	124,232	39,412	44,446
In the second to fifth years, inclusive	145,538	1,556	80,649	1,556
After five years	1,890	-	1,890	-
	<u>219,284</u>	<u>125,788</u>	<u>121,951</u>	<u>46,002</u>

(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 2004, the Group and the Company had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Within one year	139,269	106,698	205,665	144,587
In the second to fifth years, inclusive	185,981	11,575	185,981	11,575
	<u>325,250</u>	<u>118,273</u>	<u>391,646</u>	<u>156,162</u>

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		Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Contracted, but not provided for:				
Construction of vessels	4,306,768	4,006,262	3,892,370	4,006,262
Renovation of vessels	37,454	-	37,454	-
	4,344,222	4,006,262	3,929,824	4,006,262
Authorised, but not contracted for:				
Renovation of vessels	37,000	-	37,000	-
	37,000	-	37,000	-
	4,381,222	4,006,262	3,966,824	4,006,262

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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 2004 in accordance with PRC GAAP. The major differences between the financial statements prepared under PRC GAAP and HK GAAP are set out as follows:

	2004	2003
	Rmb'000	Rmb'000
Net profit attributable to shareholders for the year prepared under HK GAAP	1,844,527	1,023,640
Adjustments for depreciation, gain on disposal of vessels and deferred staff expenditure, etc.	47,547	(41,591)
Net profit attributable to shareholders for the year prepared under PRC GAAP	<u>1,892,074</u>	<u>982,049</u>
Shareholders' equity prepared under HK GAAP	8,659,080	7,313,595
Adjustments for revaluation surplus, depreciation, gain on disposal of vessels and deferred staff expenditure, etc.	(134,783)	(182,437)
Shareholders' equity prepared under PRC GAAP (restated)	<u>8,524,297</u>	<u>7,131,158</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 2004, 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 Group and China Shipping (the "Service Agreement") 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 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 or market price.

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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 year ended 31 December 2004 are set out as below:

		2004	2003
		Total value	Total value
	Pricing basis	Rmb'000	Rmb'000
Dry-docking and repairs	State-fixed prices or market prices	340,560	222,751
Supply of lubricating oil, fresh water supplies, raw materials, bunker oil, mechanical and electrical engineering, ship stores and repairs and maintenance services for lifeboats	Market prices	907,948	756,024
Whitewashing and water treatment for vessels	State-fixed prices or market prices	10,748	9,272
Installation, repairs and maintenance of telecommunication and navigational services	State-fixed prices	15,251	13,072
Hiring of sea crew	Market prices	161,859	156,473
Accommodation, lodging and transportation for employees	Market prices	6,275	6,232
Medical services (for existing employees)	State-fixed prices	2,593	1,763
Miscellaneous management services	Market prices	38,960	45,141
Agency commissions	Market prices	28,878	24,997
Service fees on sale and purchases of vessels, accessories and other equipment	Market prices	927	-

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:

		2004	2003
		Rmb'000	Rmb'000
Vessel chartering charges paid	(a)	8,634	86,517
Agency commissions paid		910	966
Vessel chartering income received	(b)	(84,755)	(110,256)
Sale of vessels	(c)	(88,847)	(13,848)
Vessel management fees	(d)	(11,282)	(12,842)
Guarantees provided	(e)	-	42,000

- (a) The Group entered into a time charter party agreements on 28 December 2003 with one of its fellow subsidiaries, 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 with a total consideration of Rmb41,214,000.

Besides, the Group entered into a time charter party agreement on 9 December 2002 with another 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 year ended 31 December 2004 was Rmb35,760,000.

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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 entity a vessel for a term of three years commencing 31 December 2001. The charter payment for this vessel for the year ended 31 December 2004 was Rmb3,660,000.

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 the 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 2004 was Rmb8,000,000.

- (b) The Group entered into various bare-boat charter party agreements on 28 December 2003 with a fellow subsidiary, namely China Shipping Container Lines 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 with a total consideration of Rmb43,583,000.

Besides, the Group entered into various bare-boat charter party agreements in year 1998 with CSC, whereby the Group has agreed to lease to this fellow 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 Rmb2,520,000 during the year ended 31 December 2004.

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 year ended 31 December 2004 was Rmb10,919,000.

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 5 vessels for terms ranging from one month to the scrap date of the vessel. The chartering income for such vessels for the year ended 31 December 2004 was Rmb27,733,000.

- (c) The Group and a fellow subsidiary, namely, Yuzhou Ship Dismantling Company Limited, entered into a sales and purchase agreement on 20 September 2004, whereby the Group has agreed to sell and the fellow subsidiary has agreed to purchase an oil tanker, and thereafter to dismantle it for scrap metal. The consideration for the sale of this vessel was Rmb14,327,000 as determined based on the current market price of scrap metal.

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In addition, the Group and a fellow subsidiary, namely, China Shipping Industry Company Limited ("CS Industry"), entered into a sale and purchase agreement on 7 October 2004, whereby the Group has agreed to sell and the fellow subsidiary has agreed to purchase an oil tanker for a consideration of Rmb24,840,000, being the valuation amount appraised by an independent professionally qualified valuer. CS Industry had also undertaken to the Group that it should not employ the oil tanker in a business which competed with the Group.

Apart from the above, the Group and a jointly-controlled entity, namely, Shanghai Friendship Marine Co., Ltd., entered into a sale and purchase agreement on 18 October 2004, whereby the Group has agreed to sell and the jointly-controlled entity has agreed to purchase a cargo vessel. The consideration for the sale of this vessel was Rmb49,680,000 as determined based on negotiations with reference to the market price.

(d) 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 30 July 2004 and 22 June 2004, 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 Rmb9,199,000 (2003: Rmb10,759,000) for the management of its cargo vessels during the year ended 31 December 2004, while Dalian Shipping should pay Rmb2,083,000 (2003: Rmb2,083,000) for similar services in the same year.

- (e) Guarantees were given by the Company to banks in connection with facilities granted to a jointly-controlled entity which amounted to Rmb42,000,000 as of 31 December 2003.
- (f) Pursuant to two bare-boat charter-party agreements both dated 20 October 1994, Shanghai Shipping (Group) Company ("Shanghai Shipping", formerly the Company's 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 EURO3.9 million.

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- (g) 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.

41. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 1 March 2005.