

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

6.23 Deferred revenue

	2003.12.31	2004.12.31
	3,562,067.53	-

In the year 2001, the Company dealt the lease back transaction with Zhu'hai New Century Shipping Co., Ltd. The outstanding amount was due to that transaction. The company has amortized by the installment of rent payment since 2002.

6.24 Share capital

	2003.12.31	Quantity: 10 thousand			Par Value:1 2004.12.31
1. Non-trading shares					
Including : State-owned legal			Addition	Others	Sub-total
person shares	168,000	-	-	-	-
2. Trading shares					
H shares	129,600	-	-	-	-
A shares	35,000	-	-	-	-
3. Total	332,600	-	-	-	-

6.25 Capital surplus

Item	2003.12.31	Increase	Decrease	2004.12.31
Share premium	2,023,877,878.95	-	-	2,023,877,878.95
Provided from equity investment	-	-	-	-
Other	29,842,814.60	-	-	29,842,814.60
Total	2,053,720,693.55	-	-	2,053,720,693.55

6.26 General reserves

Item	2004.01.01	Increase	Decrease	2004.12.31
Statutory surplus Reserve	287,500,079.23	193,751,850.47	–	481,251,929.70
Statutory public welfare reserve	157,194,775.33	191,694,847.58	–	348,889,622.91
Other reserve	3,155,728.78	–	–	3,155,728.78
Total	447,850,583.34	385,446,698.05	–	833,287,281.39

6.27 Retained Earnings

	Amount
2003.12.31	1,303,572,729.92
Net profit for the period	1,892,074,019.95
Distributable profit	3,195,646,749.87
Transfer to Statutory surplus reserve	-193,751,850.47
Transfer to Statutory public welfare reserve	-191,694,847.58
Distribute Dividends	-498,900,000.00
2004.12.31	<u>2,311,300,051.82</u>

According to the resolution of General Meeting, the proposed dividend distribution for 2003 is RMB 0.15 (include taxes) per share. The total distribution of dividends is RMB 498.90 millions for 3,326 million shares as total share capital.

6.28 Revenue

Item	2004年	2003年
Coal shipment	1,987,365,465.28	1,280,374,126.84
Oil shipment	3,748,574,285.62	3,311,981,668.55
Dry bulk shipment	751,015,719.53	584,283,417.67
Total	6,486,955,470.43	5,176,639,213.06

The sales of top five client are 1,104.84 million, which account for the 17.03% of total revenue.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

6.29 Sales tax and surtax

Item	2004年	2003年
Sales tax	129,912,015.07	106,767,161.68
Tax of city construction	9,093,841.05	7,473,701.32
Education affixation	3,897,360.45	3,203,014.85
Maintenance for river way	1,231,703.30	1,067,671.61
Total	144,134,919.87	118,511,549.46

6.30 Other operating income

Item	2004年			2003年		
	Income	Cost	Profit	Income	Cost	Profit
Lease of vessels	66,101,978.49	50,336,645.90	15,765,332.59	107,632,254.65	100,154,296.06	7,477,958.59
Manage for vessels	12,109,680.00	10,809,711.00	1,299,969.00	13,172,192.38	-	13,172,192.38
Agency commission	640,599.49	38,661.51	601,937.98	22,934,807.68	20,572,058.85	2,362,748.83
Sales of coals	83,731,987.42	82,144,202.09	1,587,785.33	19,609,458.86	19,457,451.71	152,007.15
Others	3,531,232.19	1,155,565.72	2,375,666.47	1,842,306.47	1,330,138.19	512,168.28
Total	166,115,477.59	144,484,786.22	21,630,691.37	165,191,020.04	141,513,944.81	23,677,075.23

6.31 Finance expense

Item	2004	2003
Interest expense	102,466,130.60	95,887,264.50
Less: Interest income	9,200,225.97	7,684,156.20
Exchange gain and loss	9,780,898.80	28,674,448.43
Other	335,975.32	1,046,198.22
Total	103,382,778.75	117,923,754.95

6.32 Investment income

Item	2004	2003
Amortization of the investment premium	114,965.00	114,965.00
Investment income from associated subsidiaries	21,088,867.75	4,487,613.97
Dividend	427,457.13	602,402.51
Debt investment income	—	125,000.00
Total	21,631,289.88	5,329,981.48

6.33 Subsidy Income

Item	2004	2003
Government Subsidiary	3,831,000.00	4,161,500.00

6.34 Non-operating income

Item	2004	2003
Sales of vessels	58,457,631.45	10,903,983.47
Sales of other assets	86,431.74	—
Other	293,225.00	1,095,194.81
Total	58,837,288.19	11,999,178.28

6.35 Non-operating expense

Item	2004	2003
Sales of vessels	18,361,087.19	—
Sales of other assets	30,343.36	337,792.94
Penalty expense	57,000.00	112,116.40
Impairment of fixed assets	—	936,268.00
Other	64,828.50	153,257.00
Total	18,513,259.05	1,539,434.34

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

6.36 Nonrecurring Gain or Loss

Item	2004	2003
Gains on disposal of fixed assets/(losses)	34,129,737.74	10,566,190.53
Government subsidiary	3,256,350.00	4,161,500.00
Short-term investment income	-	125,000.00
Other	145,687.03	-106,446.59
Total	<u>37,531,774.77</u>	<u>14,746,243.94</u>

7. Notes to Financial Statements of Holding Company

7.1 Long-term investment

Item	Beginning Balance	Addition	Decrease	Ending Balance
Long-term equity investment	203,818,778.77	- 262,633,016.45	4,380,321.55	462,071,473.67
Long-term debt investment	-	-	-	-
Total	<u>203,818,778.77</u>	<u>- 262,633,016.45</u>	<u>4,380,321.55</u>	<u>462,071,473.67</u>

(1). Stock investment

Investee

	Nature of stock	Stock Quantity	% of investee's paid-in capital	Amount of investment
Shanghai Yuanshui Company	Non-public	101,200	< 5%	364,200.00

(2). Other equity investment

Investee	Term of investment	Ownership	Cost of investment	Beginning balance	Addition of investment	Profit/loss of current period	Profit/loss of current period	Accumulated profit/loss	Ending balance
Shanghai Baojiang Shipping Co., Ltd.	Long-term	10%	4,000,000.00	4,000,000.00	-	-	-	-	4,000,000.00
Zhu'hai New Century Shipping Co., Ltd.	Long-term	50%	45,000,000.00	46,624,415.08	-	16,302,263.55	1,360,321.55	16,546,357.08	61,546,357.08
China Shipping Development (Hongkong) Marine Co., Ltd.	Long-term	100%	4,140,000.00	18,297,164.61	-	110,717,540.06		124,822,770.24	129,014,704.87
Hai'nan Haixiang Investment Co., Ltd.	Long-term	95%	199,018,350.00	118,601,456.09	95,000,000.00	20,711,643.64		39,294,749.73	232,313,099.73
Equity investment difference			-1,149,650.00	-919,720.00		114,965.00		-	-804,755.00
Shanghai Friendship Shipping Co., Ltd.	Long-term	50%	25,000,000.00	18,851,262.79	15,000,000.00	4,786,604.20	3,000,000.00	10,637,866.99	35,637,866.99
Total			270,008,700.00	203,454,578.77	110,000,000.00	152,633,016.45	4,360,321.55	191,301,744.04	461,707,273.67

Note 1: On 31 December 2001, the Company purchased 95% equity of Hai'nan Hai'xiang Investment Co., Ltd. (old name Hai'nan Hai'xiang Shipping Industry Co., Ltd.) from Shanghai Shipping (Group) Company paying RMB 49,368,700.00. At the end of 31 December 2001, the equity of Hai'nan Hai'xiang Shipping Industry Co., Ltd. was RMB 53,177,210.53; so the short-fall of the equity investment difference was RMB 1,149,650.00 and the amortization period was 10 years.

7.2 Fixed Assets and Accumulated depreciation

(1) Costs

	2004.01.01	Additions	Disposal	2004.12.31
Buildings	2,156,021.80			2,156,021.80
Vessels	11,217,800,608.23	1,997,914,540.58	260,860,896.85	12,954,854,251.96
Vehicles	10,956,811.72	1,252,243.70		12,209,055.42
Others	41,174,044.69	7,235,782.69	613,329.54	47,796,497.84
Total	11,272,087,486.44	2,006,402,566.97	261,474,226.39	13,017,015,827.02

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

(2) Depreciation:

	Beginning Balance	Increase	Decrease	Closing Balance
Buildings	298,218.00	68,568.00	—	366,786.00
Vessels	5,466,288,533.16	645,157,045.91	126,456,868.70	5,984,988,710.37
Vehicles	4,844,055.62	1,731,042.62	—	6,575,098.24
Others	26,591,666.48	6,475,719.81	543,395.78	32,523,990.51
Total	5,498,022,473.26	653,432,376.34	127,000,264.48	6,024,454,585.12

(3) provision:

	Beginning Balance	Increase	Decrease	Closing Balance
	936,268.00	—	—	936,268.00
Net value	5,773,128,745.18			6,991,624,973.90

There were 36 vessels net value RMB 2,604.41 million mortgaged as at 2004.12.31 for the bank loan amounted RMB 1080.93million.

7.3 Revenue

Item	2004年	2003年
Coal shipment	1,604,580,971.05	1,101,856,400.68
Oil shipment	3,748,574,285.62	3,311,981,668.55
Dry bulk shipment	751,015,719.53	584,283,417.67
Total	6,104,170,976.20	4,998,121,486.90

The sales of top five clients are 1104.84 million, which account for the 18.10% of total revenue

7.4 Investment income

Item	2004	2003
Other Equity investment income	114,965.00	114,965.00
Income from associated subsidiaries	152,518,015.45	31,822,137.64
Dividend	427,457.13	602,402.51
Debt investment income	–	125,000.00
Total	<u>153,060,437.58</u>	<u>32,664,505.15</u>

8. Segment Information (Unit:RMB '000)

Industry	Revenue		Cost		Taxes		Profit	
	2004	2003	2004	2003	2004	2003	2004	2003
Cargo shipment	6,486,955	5,176,639	3,906,966	3,603,867	144,135	118,512	2,435,855	1,454,280

9. The Difference between Chinese Accounting Standards and HK GAAP (Unit:RMB'000)

	2004 年	2003 年
Net profit under Chinese Accounting Standards	1,892,074	982,049
The difference between Chinese Accounting Standards and HKGAAP		
Including Difference of depreciation of vessels	-13,342	30,372
The deferred profit of sales ships to the related parties	-23,960	
Difference of house funding	-12,574	-12,574
The deferred tax at HKGAAP	3,409	17,451
other	-1,080	6,342
Net profit under HKGAAP	1,844,527	1,023,640
Owners' equity under Chinese Accounting Standards	8,524,297	7,131,158
2004.1-12 house founding amortizing	74,816	87,390
Adjustments for revaluation surplus, exchange gain or loss, depreciation, income of vessels sales and others	59,967	95,047
Owners' equity under HKGAAP	8,659,080	7,313,595

The international audit report of the company for 2004 is prepared by Ernst & Young.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

10. Related Party Transactions and Balances

10.1 The related parties that the Group controls

Name of related party	Registered address	Business Scope	Relationship	Economic type	Corporate delegate
China Shipping (Group) Company	700 Dong'da'ming Road, Shanghai	Cargo shipment along sea, ocean, domestic transportation for goods	Holding company	State owned	Li Keling

10.2 The change in registered capital of the Holding Company (unit: RMB '000)

Name of related party	Beginning balance	Addition	Decrease	Ending balance
China Shipping (Group) Company	6,611,950	-	-	6,611,950

10.3 The change in ownership of the Holding Company (unit: RMB'000)

Name of related party	Beginning balance		Addition		Decrease		Ending balance	
	Amount	%	Amount	%	Amount	%	Amount	%
China Shipping (Group) Company	1,680,000.00	50.51	-	-	-	-	1,680,000.00	50.51

10.4 The nature of the related parties that the Group has no control

Name of related party	Relationship
China Shipping Container Lines Co., Ltd.	be controlled by the same holding company
China Shipping Industry Co., Ltd.	be controlled by the same holding company
China Shipping Agency Co., Ltd.	be controlled by the same holding company
China Shipping International Trading Co., Ltd.	be controlled by the same holding company
China shipping & sinopec Suppliers Co., LTD.	be controlled by the same holding company
Shanghai Shipping (Group) Company	be controlled by the same holding company
Guangzhou Maritime (Group) Co., Ltd.	be controlled by the same holding company
Da'lian Shipping (Group) Co., Ltd.	be controlled by the same holding company
China Shipping Tele-communication Co., Ltd.	be controlled by the same holding company
China Shipping (Hong Kong) holding Co., Ltd.	be controlled by the same holding company
JADE QUEEN NAVIGATION INC.	be controlled by the same holding company
SUPER DRAGON LTD.	be controlled by the same holding company
China Shipping Hai'sheng Co., Ltd.	be controlled by the same holding company
Zhu'hai New Century Shipping Co., Ltd.	Associated Company
Shanghai Friendship Shipping Co., Ltd.	Associated Company