Company

	Share premium account	Revaluation reserve	Statutory surplus reserve	Statutory public welfare fund	General surplus reserve	Retained profits	Total
	人民幣千元 Rmb'000	人民幣千元 Rmb'000	人民幣千元 Rmb'000	人民幣千元 Rmb'000	人民幣千元 Rmb'000	人民幣千元 Rmb'000	人民幣千元 Rmb'000
At 1 January 2001	1,562,588	190,456	93,158	-	93,158	176,465	2,115,825
Net profit for the year	-	-	-	-	-	602,980	602,980
Transfers from/(to) reserves	-	-	35,110	35,110	-	(70,220)	-
Release on disposal of fixed assets	-	(4,470)	-	-	-	4,470	-
Proposed final dividend - note 12	-	-	-	-	-	(148,800)	(148,800)
At 31 December 2001 and beginning of year							
Share premium on issuanceof	1,562,588	185,986	128,268	35,110	93,158	564,895	2,570,005
"A" shares	475,296	-	-	-	-	-	475,296
Net profit for the year	-	-	-	-	-	240,768	240,768
Transfers from/(to) reserves	-	-	57,161	57,161	-	(114,322)	-
Release on disposal of fixed assets	-	(3,697)	-	-	-	3,697	-
Proposed final dividend - note 12	-	-	-	-	-	(332,600)	(332,600)
At 31 December 2002	2,037,884	182,289	185,429	92,271	93,158	362,438	2,953,469

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 accounting standards and regulations applicable to the Company, to the statutory surplus reserve ("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 accounting standards and regulations applicable to the Company, to its statutory public welfare fund ("PWF") which is a non-distributable reserve other than in the event of the liquida tion 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 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 PWF to general surplus reserve (2001: Nil).

The directors have proposed to transfer Rmb57,161,000 (2001: Rmb35,110,000) to each of the SSR and the PWF, respectively. Each transfer represents 10% (2001: 10%) of the Company's profit after tax of Rmb571,605,000 (2001: Rmb351,100,000), determined in accordance with PRC accounting standards. The transfers to SSR and 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 accounting standards and the amount determined under generally accepted accounting principles in Hong Kong ("HK GAAP"). On this basis, as at 31 December 2002, before the proposed final dividend the Company had a reserve of Rmb695,038,000 (2001: Rmb574,232,000) available for distribution as dividends.

In addition, in accordance with the Company Law of the PRC, an amount of approximately Rmb2,037,884,000 (2001: Rmb1,562,588,000) standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002	2001
	Rmb'000	Rmb'000
		(Restated)
Profit before tax	**702,780**	438,313
Share of profits of jointly-controlled entities	**(14,495)**	-
Share of losses of an associate	**100,101**	280,786
Interest income	**(6,627)**	(7,237)
Depreciation	**848,660**	784,286
Amortisation of deferred staff expenditure	**12,784**	12,786
Amortisation of negative goodwill	**(198)**	-
Provision for bad debts	**955**	-
Loss on disposal of fixed assets	**7,328**	(33,061)
Deferred income on disposal of vessels	**(34,451)**	-
Loss on winding-up of subsidiaries	**1,245**	-
Write-off of construction in progress	**-**	5,200
Write-off of leasehold improvements	**-**	1,678
Operating profit before working capital changes	**1,618,082**	1,482,751
Decrease/(increase) in trade and bills receivables	**(31,309)**	11,574
Increase in bunker oil inventories	**(4,521)**	(13,064)
Decrease/(increase) in prepayments	**128,013**	(72,641)
Decrease/(increase) in deposits and other debtors	**(11,083)**	70,437
Decrease/(increase) in amounts due from fellow subsidiaries	**129,789**	(60,546)
Decrease/(increase) in amounts due from related companies	**6,500**	(900)
Decrease/(increase) in amount due from an associate	**26,122**	(12,923)
Increase in amounts due from jointly-controlled entities	**(431)**	(669)
Increase/(decrease) in trade payables	**(48,952)**	48,387
Increase in accruals	**12,917**	19,382
Decrease in other liabilities	**(30,690)**	(31,159)
Increase/(decrease) in amounts due to fellow subsidiaries	**(21,255)**	2,470
Cash generated from operations	**1,773,182**	1,443,099
Finance costs	**132,022**	179,057
Income tax paid	**(117,939)**	(97,282)
Net cash inflow from operating activities	**1,787,265**	1,524,874

(b) Winding-up of subsidiaries

	2002	2001
	Rmb'000	Rmb'000
Net assets disposed:		
Cash and bank balances	224	-
Other debtors	1,195	-
Trade payables	(174)	-
Loss on winding-up of subsidiaries	1,245	-

As detailed in note 15 to the financial statements, the Group's subsidiaries Shanghai Haixing Shipping (Hong Kong) Co., Ltd., Herman International S.A. and Marisburg S.A. were liquidated during the year, giving rise to the cash outflow of Rmb224,000 during the year.

(c) Acquisition of a subsidiary

	2002	2001
	Rmb'000	Rmb'000
Net assets acquied		
Interest in a jointly-controlled entity	-	28,069
Cash and bank balances	-	5,995
Other receivables	-	20,000
Other payables	-	(12)
Minority interests	-	(2,703)
	-	51,349
Negative goodwill on acquisition	-	(1,980)
	-	49,369
Satisfied by:		
Cash	-	49,369

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary is as follows:

	2002	2001
	Rmb'000	Rmb'000
Cash consideration	-	(49,369)
Cash and bank balances acquired	-	5,995
Intercompany balance eliminated on consolidation	-	20,000
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary	-	(23,374)

On 30 December 2001, the Group acquired 95% interest in Hainan Haixiang Shipping Co., Ltd. ("Haixiang") from a fellow subsidiary of the Company. Haixiang is an investment holding company. Further details of the transaction are included in note 40 to the financial statements. The purchase consideration of Rmb49,369,000 for the acquisition was in the form of cash, which was fully paid on 30 December 2001.

34. PENSION SCHEME

The Company is required to contribute to a pension scheme (the "Scheme") for eligible employees. Under this Scheme, the Company's retirement benefit obligations to its existing and future retiring employees is limited to its annual contributions equivalent to 20% (2001: 20%) of the basic salaries of the Company's employees for the current year, excluding medical expenses of the retired staff. Contributions by the Company to the Scheme for the year ended 31 December 2002 amounted to Rmb54,161,000 (2001: Rmb52,790,000).

35. PLEDGE OF ASSETS

Details of the Group's bank loans secured by assets of the Group are included in note 27 to the financial statements.

36. CONTINGENT LIABILITIES

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

	Group		Company	
	2002	2001	**2002**	2001
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Guarantees given to banks in connection with facilities granted to:				
A jointly-controlled entity	**42,000**	27,000	**42,000**	27,000
A related company	**4,600**	2,000	**4,600**	2,000
	46,600	29,000	**46,600**	29,000

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 five years.

As at 31 December 2002, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follow:

	Group		Company	
	2002	2001	**2002**	2001
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Within one year	**103,931**	169,158	**49,531**	169,158
In the second to fifth years, inclusive	**1,155**	94,127	**1,155**	94,127
Beyond five years	**-**	6,247	**-**	6,247
	105,086	269,532	**50,686**	269,532

(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 2002, the Group and the Company had total future minimum lease rentals payable under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002	2001	**2002**	2001
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Within one year	**102,132**	65,772	**122,883**	65,772
In the second to fifth years, inclusive	**53,537**	180,957	**53,537**	180,957
Beyond five years	**-**	15,340	**-**	15,340
	155,669	262,069	**176,420**	262,069

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 and Company	
	2002	2001
	Rmb'000	Rmb'000
Contracted for	**2,076,237**	1,107,871

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 2002 in accordance with PRC accounting standards. The major differences between the financial statements prepared under PRC accounting standards and accounting principles generally accepted in Hong Kong ("HK GAAP") are set out as follows:

	2002	2001
	Rmb'000	Rmb'000
Net profit attributable to shareholders for the year prepared under HK GAAP	**591,196**	325,258
Adjustments for depreciation, gain on disposal of vessels, and deferred staff expenditure, etc.	**(19,277)**	26,039
Net profit attributable to shareholders for the year prepared under PRC accounting standards	**571,919**	351,297
Shareholders' equity prepared under HK GAAP	**6,622,493**	5,354,804
Adjustments for revaluation surplus, depreciation, gain on disposal of vessels, and deferred staff expenditure, etc.	**(140,799)**	(121,523)
Adjustment for proposed final dividend	**(332,600)**	(148,800)
Shareholders' equity prepared under PRC accounting standards	**6,149,094**	5,084,481

40. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, business transactions between the Company and its related parties for the year ended 31 December 2002, 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 Company and China Shipping 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, China Shipping (or its subsidiaries) will provide to the Company the necessary supporting shipping materials and services for the ongoing operations of the Company, including the provision of dry-docking and repairs services, lubricating oil, fresh water supplies, raw materials, 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, market price or cost.

Further details of the principal amounts paid by the Company to China Shipping and its subsidiaries in respect of the Services Agreement for the year ended 31 December 2002 are set out as below:

	Pricing basis	2002 Total value	2001 Total value
		Rmb'000	Rmb'000
Dry-docking and repairs	State-fixed prices or market prices	**241,275**	245,420
Supply of lubricating oil, fresh water supplies, raw materials, bunker oil, mechanical and electrical engineering, ship stores and repairs and maintenance services for life boats	Market prices	**603,808**	517,853
Whitewashing and oily water treament for vessels	State-fixed prices or market prices	**7,940**	6,603
Installation, repairs and maintenance of telecommunication and navigational services	State-fixed prices	**10,383**	14,822
Hiring of sea crew	Market prices	**141,011**	97,583
Accommodation, lodging and transportation for employees	Market prices	**6,929**	5,440
Medical services (for existing employees)	State-fixed prices	**522**	4,736
Miscellaneous management services	Market prices or actual cost	**43,724**	43,374
Agency commissions	Market prices	**20,695**	23,325
Service fees on sales and purchases of vessels, accessories and other equipment	Actual cost	**254**	2,819

In connection with the above transactions and for other operating purposes, the Company made prepayments/ advances to subsidiaries 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, an associate and related companies are as follows:

		2002	2001
		Rmb'000	Rmb'000
Interest paid	(a)	**18,627**	36,086
Purchase of vessels	(a)	**-**	1,035,020
Vessel chartering charges paid		**62,617**	47,118
Agency commissions paid		**3,728**	3,863
Vessel chartering income received	(b)	**(131,633)**	(136,720)
Sale of vessels	(c)	**(5,262)**	(36,567)
Acquisition of a subidiary		**-**	49,369
Vessel management fees	(d)	**(13,983)**	(17,275)

(a) On 19 March 1998, the Company entered into two acquisition agreements (the "Acquisition Agreements") with Guangzhou Maritime Transport (Group) Company Limited ("Guangzhou Maritime") and Dalian Shipping (Group) Company ("Dalian Shipping") for the acquisition of 15 and 4 oil vessels, respectively, with an aggregate consideration of approximately Rmb1,431,770,000. Part of the consideration was satisfied by an interest-bearing loan of Rmb516 million from the holding company which was repaid during the year ended 31 December 2001.

On 3 April 2001, the Company entered into another acquisition agreement with Guangzhou Maritime for the acquisition of its remaining 20 oil vessels at a consideration of approximately Rmb1,035,020,000. The consideration was satisfied by cash of Rmb103,502,000 and an interest-bearing loan of Rmb931,518,000 from the holding company, which had been repaid by 31 December 2002.

(b) The Group entered into various bare-boat charter-party agreements with two jointly-controlled entities and two fellow subsidiaries. The amount represents vessel-chartering income as determined according to the charter-party agreements.

(c) During the year, the Group sold a vessel to a fellow subsidiary (2001: four vessels to a jointly-controlled entity and a fellow subsidiary).

(d) Management of cargo vessels

On 27 May 1998, the Company entered into two Cargo Vessels Management Agreements with Dalian Shipping and 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 6 March 2002, 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 (2001: Rmb9,459,000) for the management of its cargo vessels during the year ended 31 December 2002, while Dalian Shipping should pay Rmb2,083,000 (2001: Rmb2,083,000) for similar service in the same year.

In addition, the Company received vessel management fees of Rmb2,701,000 from three jointly-controlled entities (2001: Rmb663,000 from a fellow subsidiary) during the year ended 31 December 2002.

Management of oil vessels

On 9 February 1998, the Company entered into two Oil Vessels Management Agreements with Dalian Shipping and Guangzhou Maritime for the management of their 4 and 39 oil vessels (the "Oil Vessels"), respectively. Each of the Oil Vessels Management Agreements contains an option exercisable by the Company at any time prior to expiration thereof to acquire any of the Oil Vessels, and under which the Company has a right of first re fusal in respect of any proposed sale of the Oil Vessels. In the event that Dalian Shipping or Guangzhou Maritime ceases to own any of the Oil Vessels, the management fees shall be reduced accordingly by the percentage represented by the tonnage of the disposed vessels to total tonnage of the Oil Vessels.

Following the acquisitions of the Oil Vessels in 1998 and 2001, the Oil Vessels Management Agreements with Dalian Shipping and Guangzhou Maritime ceased to be effective in 1998 and 2001, respectively. The actual amount of management fees of oil vessels paid by Guangzhou Maritime for the year 2001 was Rmb5,070,000.

(e) Pursuant to two bare-boat charter-party agreements both dated 20 October 1994, Shanghai Shipping 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.

(f) Guarantees are given by the Company to banks in connection with facilities granted to a jointly-controlled entity and a related company with amounts of Rmb42,000,000 and Rmb4,600,000 (2001: Rmb27,000,000 and Rmb2,000,000), respectively.

(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.

41. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2003.