31 December 2000

1. CORPORATE INFORMATION

The registered office of China Shipping Development Company Limited is located at 168 Yuan Shen Road, Shanghai, the PRC. During the year, the Company and its subsidiaries (the "Group") were involved in the following principal activities:

(a) investment holding; and

(b) oil, and cargo shipment along the PRC coast and international shipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("HKSSAP"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the measurement of certain fixed assets and unlisted equity investments as further explained below.

Change in accounting policy

Effective from 1 January 2000, the Group adopts the weighted average costing method ("WAC") to determine the cost of its bunker oil inventories in preparing these financial statements. Previously, cost was determined on the first-in, first-out ("FIFO") basis. WAC has been in use since the Company's incorporation for statutory reporting purposes, and such change results in the same accounting policy being adopted in costing inventories for Hong Kong reporting purposes. The directors estimate that the change in accounting policy has an immaterial impact on the Group's bunker oil inventories as at 31 December 2000, and each of the financial year ends since the Company's incorporation and, as such, a prior year adjustment as required by HKSSAP 2 has not been incorporated in these financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter company transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated in the Company's balance sheet at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Associates

An associate is an enterprise, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for permanent diminutions in values other than temporary in nature deemed necessary by the directors.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for permanent diminutions in values other than those considered temporary in nature deemed necessary by the directors.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price, costs transferred from construction in progress, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, as well as interest charges relating to funds borrowed during the periods of construction, installation and testing. Expenditure incurred after the tangible fixed assets have been put into operations, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the tangible fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation of fixed assets is calculated on the straight-line basis to write off the cost or revalued amount of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Vessels	5% to 12.5%
Machinery and equipment	6.67% to 20%
Vehicles	10% to 12.5%
Buildings	3.33%
Leasehold improvements	Over the lease terms

Depreciation of fixed assets acquired from Shanghai Shipping (Group) Company ("Shanghai Shipping", former holding company and now a fellow subsidiary), pursuant to the Company's reorganisation prior to its listing on the Stock Exchange of Hong Kong Limited, is calculated on the straight-line basis to write off the cost of such assets over their estimated remaining useful lives.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress mainly represents costs incurred in the construction/renovation of vessels. Cost comprises direct costs of construction as well as interest charges on related borrowed funds during the periods of construction, installation and testing. Capitalisation of interest charges ceases when substantially all the activities necessary to prepare the asset for its intended use are completed. No provision for depreciation is made on construction in progress until such time when the relevant assets are completed and put into use.

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account, except to the extent that they reverse previous revaluation surpluses in respect of the same items, when they are charged to the revaluation reserve.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments represent unlisted equity investments intended to be held on a long term basis and are stated at their estimated fair values on an individual basis. Fair values are determined by the directors having regard to the lower liquidity of the unlisted investments.

The gains or losses arising from changes in the fair values are dealt with as movements in the long term investment revaluation reserve, until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired, when the cumulative gain or loss derived from the investment recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

Deferred staff expenditure

During the year, according to a housing reform scheme in Shanghai, arrangements were made to transfer staff quarters to employees who agreed to remain in service for a period of 10 years. The net book value of the related staff quarters previously recorded as fixed assets has been transferred to deferred staff expenditure. It is amortised on a straight-line basis to the profit and loss account over the estimated beneficial period of 10 years.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) shipping operations, when a voyage is completed;

(b) vessel chartering, in the period in which the vessels are let out and on the straight-line basis over the lease terms; and