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.

In the opinion of the directors, the ultimate holding company is China Shipping (Group) Company, a state-owned enterprise established in the PRC.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

* SSAP 9 (Revised) Events after the balance sheet date
* SSAP 14 (Revised) Leases
* SSAP 18 (Revised) Revenue
* SSAP 26 Segment reporting
* SSAP 28 Provisions, contingent liabilities and contingent assets
* SSAP 29 Intangible assets
* SSAP 30 Business combinations
* SSAP 31 Impairment of assets
* SSAP 32 Consolidated financial statements and accounting for investments in subsidiaries
* Interpretation 12 Business combinations - subsequent adjustment of fair values and goodwill initially reported
* Interpretation 13 Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves

These SSAPs and Interpretations prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of this new SSAP is detailed in note 12 to the financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 29 and 37 to the financial statements, respectively.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The adoption of the revised SSAP has had no material impact on these financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The principal impact of this SSAP on these financial statements is the requirement to discount the amounts of provisions to their present value at the balance sheet date, where the effect of discounting is material. However, these amendments have not had material impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. This SSAP has had no major impact on these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill on future acquisitions in the non-current assets section of the balance sheet, and that such goodwill is amortised to the profit and loss account over its estimated useful life. Negative goodwill is recognised in the profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill in note 3 to the financial statements. The principal impact of the SSAP is the inclusion of goodwill as a non-current asset which is included in note 20 to these financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets, together with disclosure requirements. This SSAP has had no material impact on these financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to the following SSAPs are effective for the first time for the current year's financial statements:

* SSAP 10 Accounting for investments in associates
* SSAP 17 Property, plant and equipment

* SSAP 21 Accounting for interests in joint ventures

There are no significant effect of these revisions on these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("HKSSAPs"), 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. 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 intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, 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 impairment losses.

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 investment in an associate is treated as a long term asset and is stated at cost less any impairment losses.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or to exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. 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 fixed assets have been put into operation, 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 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 valuation 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%
Motor 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", the 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 (the "Stock Exchange"), 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 and capitalised borrowing costs on related borrowed funds during the periods of construction, installation and testing. Capitalisation of borrowing costs 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. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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 leased 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. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Deferred staff expenditure

In the prior year, according to a housing reform scheme in Shanghai, the PRC, 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 is recorded as deferred staff expenditure and is amortised on a straight-line basis to the profit and loss account over the estimated beneficial period of 10 years.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis and are stated at their estimated fair values on an individual basis. The estimated 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.

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) from shipping operations, when a voyage is completed;

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

(c) from vessel management, in the period in which the vessels are managed in accordance with the management agreements;

(d) interest income, on the time proportion basis taking into account the principal outstanding and effective interest rate applicable; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Bunker oil inventories and ship stores

Bunker oil inventories are stated at cost less any provisions considered necessary by the directors. Cost is determined on the weighted average cost method basis.

Ship stores and spare parts are charged as operating expenses when purchased.

Dry-docking and survey repairing

Expenditure for dry-docking and survey repairing is charged to the profit and loss account as incurred.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset which takes a substantial period of time to get ready for its intended use are capitalised until the construction or production of the relevant asset is completed, and are included in the carrying value of the asset. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

Tax

PRC income tax is provided at applicable rates based on the income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, and based on existing PRC income tax legislation, practices and interpretations thereof.

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

The Company's financial records are maintained and the financial statements are stated in Renminbi ("Rmb").
Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries denominated in foreign currencies are translated into Rmb for inclusion in the Group's financial statements using the closing rate method. The resulting translation differences are included in the exchange fluctuation reserve.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings with capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of other business segments. The Group's business segments are categorised as follows:

(a) crude oil and refined oil shipment
(b) coal shipment
(c) dry bulk shipment

In determining the Group's geographical segments, revenues and results are attributed to the segments based on domestic shipment and international shipment.

Business segments

The following table presents revenue information for the Group's business segments.

		Crude oil and refined oil shipment		Coal shipment		Dry bulk shipment		Consolidated	
		2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	Notes	**Rmb'000**	Rmb'000	**Rmb'000**	Rmb'000	**Rmb'000**	Rmb'000	**Rmb'000**	Rmb'000
Segment revenue:									
Turnover		**2,540,349**	1,874,859	**963,871**	947,449	**390,706**	368,539	**3,894,926**	3,190,847
Segment results		**763,205**	458,353	**181,276**	144,868	**35,041**	15,537	**979,522**	618,758
Unallocated revenue:									
Other revenue and gains	5	-	-	-	-	-	-	**199,740**	190,498
Unallocated operating expenses:									
Administrative expenses		-	-	-	-	-	-	**(164,595)**	(162,364)
Other operating expenses		-	-	-	-	-	-	**(116,511)**	(110,896)
Profit from operating activities		-	-	-	-	-	-	**898,156**	535,996
Finance costs	7	-	-	-	-	-	-	**(179,057)**	(213,742)
Share of profits and losses of an associate		-	-	-	-	-	-	**(280,786)**	2,760
Profit before tax		-	-	-	-	-	-	**438,313**	325,014
Tax	10	-	-	-	-	-	-	**(113,055)**	(43,047)
Profit before minority interests		-	-	-	-	-	-	**325,258**	281,967
Minority interests		-	-	-	-	-	-	**-**	-
Net profit from ordinary activities attributable to shareholders		-	-	-	-	-	-	**325,258**	281,967

Since the Group's assets and liabilities are not directly employed according to its business segments, nor could they be allocated to these segments on a reasonable basis, business segment information referring to segment assets and liabilities is not presented.