1. CORPORATE INFORMATION

The registered office of China Shipping Development Company Limited is located at 168 Yuan Shen Road, Shanghai, 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 Company's ultimate holding company is China Shipping (Group) Company ("China Shipping"), a state-owned enterprise established in the PRC.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The following HKFRSs are effective for the first time for the current year's financial statements:

- HKFRS 1 "First-time Adoption of Hong Kong Financial Reporting Standards"
- SSAP 36 "Agriculture"
- Interpretation 22 "The Appropriate Policies for Infrastructure Facilities"

The above recently issued HKFRSs have no material impact on the Group's financial statements for the year ended 31 December 2004.

In addition, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with HKFRSs (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong (collectively referred to as "HK GAAP") 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 2004. 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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 results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests 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 income statement 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 income statement 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.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries 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 income statement 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 income statement 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 jointly-controlled entities, any negative goodwill not yet recognised in the consolidated income statement is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries 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 income statement and any relevant reserves as appropriate.

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 income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expen diture 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 vessels is calculated to write off their cost or revalued amount less directors' estimate of their residual values (4% of cost or revalued amount) on a straight-line basis over their estimated useful lives. The principal annual rates used for this purpose are as follows:

Vessels	4.36% to 19.2%
Machinery and equipment	6.67% to 20%
Motor vehicles	10% to 12.5%
Buildings	3.33%
Leasehold improvements	10%

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

Construction in progress mainly represents the construction or renovation of vessels, which is stated at cost less any impairment losses, and is not depreciated. 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 and 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 income statement 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 for the asset in prior years.

A reversal of an impairment loss is credited to the income statement 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 income statement 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 income statement 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 income statement on the straight-line basis over the lease terms.

Deferred staff expenditure

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 the straight-line basis to the income statement 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 income statement for the period in which the impairment arises.

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, on a straight-line basis over the lease terms;

(c) from vessel management, in the period in which the vessels are managed in accordance with the respective 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 and spare parts

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 income statement 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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

▪except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

▪in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in jointly-controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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 exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries denominated in foreign currencies are translated into Renminbi for inclusion in the Group's financial statements using the net investment method. Income statements of overseas subsidiaries are translated to Renminbi at the weighted average rates for the year. Balance sheets of overseas subsidiaries are translated to Renminbi at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of the subsidiary in Hong Kong are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of this subsidiary which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the capital and reserves section of 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 and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

4. SEGMENT INFORMATION

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 the 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 the other business segments. The Group's business segments are categorised as follows:

(a) crude oil and refined oil shipment;

(b) coal shipment; and

(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 and results information for the Group's business segments.

		Crude oil and refined oil shipment		Coal shipment		Dry bulk shipment		Consolidated	
		2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	Notes	**Rmb'000**	Rmb'000	**Rmb'000**	Rmb'000	**Rmb'000**	Rmb'000	**Rmb'000**	Rmb'000
Segment revenue:									
Turnover		**3,673,786**	3,239,613	**1,720,253**	1,067,073	**741,945**	578,809	**6,135,984**	4,885,495
Segment results		**1,350,747**	1,061,117	**612,589**	241,915	**408,257**	158,968	**2,371,593**	1,462,000
Unallocated revenue:									
Other revenue and gains	5	**-**	-	**-**	-	**-**	-	**118,791**	130,600
Unallocated operating expenses:									
Administrative expenses		**-**	-	**-**	-	**-**	-	**(226,830)**	(231,818)
Other operating expenses		**-**	-	**-**	-	**-**	-	**(58,885)**	(107,012)
Profit from operating activities		**-**	-	**-**	-	**-**	-	**2,204,669**	1,253,770
Finance costs	7	**-**	-	**-**	-	**-**	-	**(100,533)**	(95,689)
Share of profits of jointly-controlled entities		**-**	-	**-**	-	**-**	-	**50,155**	20,751
Profit before tax		**-**	-	**-**	-	**-**	-	**2,154,291**	1,178,832
Tax		**-**	-	**-**	-	**-**	-	**(308,674)**	(154,529)
Profit before minority interests	10	**-**	-	**-**	-	**-**	-	**1,845,617**	1,024,303
Minority interests								**(1,090)**	(663)
Net profit from ordinary activities attributable to shareholders		**-**	-	**-**	-	**-**	-	**1,844,527**	1,023,640

The net book values of oil vessels and cargo vessels at 31 December 2004 amounted to Rmb5,119,933,000 (2003: Rmb3,964,442,000) and Rmb3,015,000,000 (2003: Rmb2,955,639,000), respectively. Since the Group's assets and liabilities (other than the vessels) are not directly employed according to its business segments, nor could they be allocated to these segments on a reasonable basis, business segment information relating to segment assets and liabilities is not presented.

Geographical segments

The following table presents turnover and segment results from operating activities by geographical area of operations.

	Year ended 31 December 2004		Year ended 31 December 2003	
	Turnover	**Contribution**	Turnover	Contribution
	Rmb'000	**Rmb'000**	Rmb'000	Rmb'000
Domestic	**3,733,349**	**1,389,895**	3,020,077	949,586
International	**2,402,635**	**981,698**	1,865,418	512,414
	6,135,984	**2,371,593**	4,885,495	1,462,000
Other revenue and gains		**118,791**		130,600
Administrative expenses		**(226,830)**		(231,818)
Other operating expenses		**(58,885)**		(107,012)
Profit from operating activities		**2,204,669**		1,253,770

The principal assets employed by the Group are located in the PRC, and accordingly, no segment analysis of assets and expenditure has been prepared for the year.

5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents gross revenue arising from shipping operations, net of business taxes. Pursuant to various tax rules and regulations in the PRC, revenues derived from sea freighting attributable to voyages departing from ports in the PRC and from vessel chartering services are both subject to business tax at 3%. Business taxes charged to the income statement for the year amounted to Rmb136,719,000 (2003: Rmb112,626,000).

An analysis of turnover, other revenue and gains is as follows:

	Group	
	2004	2003
	Rmb'000	Rmb'000
Turnover		
Crude oil and refined oil shipments	**3,673,786**	3,239,613
Coal shipments	**1,720,253**	1,067,073
Dry bulk shipments	**741,945**	578,809
	6,135,984	4,885,495
Other revenue		
Interest income	**9,027**	13,330
Rental income from leased vessels	**66,244**	111,871
Service income from vessel management	**13,701**	14,894
Others	**3,532**	9,618
	92,504	149,713
Gains		
Gains on disposal of fixed assets,net	**35,388**	8,188
Exchange losses, net	**(9,995)**	(28,594)
Negative goodwill recognised	**198**	198
Other	**696**	1,095
	26,287	(19,113)
Other revenue and gains	**118,791**	130,600

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Group 2004	2003
	Rmb'000	Rmb'000
Cost of shipping services rendered:		
Bunker oil inventories consumed and port fees	1,689,854	1,472,062
Others	2,074,537	1,951,433
Depreciation	752,770	750,091
Operating lease rentals:		
Land and buildings	22,536	26,978
Vessels	106,049	108,695
	128,585	135,673
Auditors' remuneration	2,900	2,719
Staff costs (including directors' remuneration (note 8)):		
Wages, salaries and hiring of sea crew	561,316	496,115
Pension contributions	64,935	60,223
	626,251	556,338
Provision/(write-back of provision) for bad and doubtful debts	(2,125)	2,654
Write-off of construction in progress	10,200	5,296
Dry -docking and repairs	340,136	323,961

7. FINANCE COSTS

	Group 2004	2003
	Rmb'000	Rmb'000
Interest on bank loans and other loans wholly repayable within five years	**109,848**	102,996
Interest on finance leases	**4,973**	8,041
Total interest	**114,821**	111,037
Less: Interest capitalised	**(14,288)**	(15,348)
	100,533	95,689

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group 2004	2003
	Rmb'000	Rmb'000
Fees	-	-
Other emoluments:		
Salaries, allowances and benefits in kind	**3,577**	2,776
Pension scheme contributions	**86**	77
	3,663	2,853

8. DIRECTORS' REMUNERATION

Three of the Company's directors are independent non-executive directors. During the year, the independent non-executive directors received remuneration which amounted to RMB 150,000 (2003: RMB75,000) for their services rendered to the Company.

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil to HK$1,000,000	**11**	14

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

All of the five highest paid employees during the year are directors (2003: five), details of whose remuneration are set out in note 8 above.

10. TAX

Pursuant to a directive 1998 (250) jointly issued by the Shanghai State Tax Bureau and the Shanghai Bureau of Finance on 8 October 1998, the Company is entitled to a preferential income tax rate of 15% effective from 1 January 1998. Accordingly, PRC income tax of the Company has been provided at the rate of 15% (2003: 15%) on the estimated assessable profits for the year.

No Hong Kong profits tax has been provided as no assessable profits were earned in or derived from Hong Kong during the year (2003: Nil). Taxes on profits assessable elsewhere, if applicable, have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2004	2003
	Rmb'000	Rmb'000
Group:		
Current-Hong Kong	**-**	-
Current-PRC	**306,939**	169,009
Over provision in prior years	**(2,587)**	-
Deferred (note 29)	**(3,409)**	(17,451)
	300,943	151,558
Share of tax attributable to:		
Jointly-controlled entities	**7,731**	2,971
Total tax charge for the year	**308,674**	154,529

10. TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the country in which the Company, its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, is as follows:

	PRC			
	2004		2003	
	Rmb'000	**%**	Rmb'000	%
Profit before tax	**2,154,291**		1,178,832	
Tax at the suatutory tax rate	**323,144**	**15.0**	176,825	15.0
Lower tax rate for jointly -controlled entities	**-**	**-**	(226)	-
Adjustment in respect to current tax of previous periods	**(2,587)**	**(0.1)**	-	-
Expenses not deductible for tax	**3,483**	**0.1**	-	-
Income not subject to tax	**(15,366)**	**(0.7)**	(4,619)	(0.4)
Deferred tax	**-**	**-**	(17,451)	(1.5)
Tax charge at the Group's effective rate	**308,674**	**14.3**	154,529	13.1