

**THE FINANCIAL STATEMENTS  
IN ACCORDANCE WITH CHINESE  
ACCOUNTING STANDARDS**

**To the shareholders of  
China Shipping Development Company Limited:**

We have audited the accompanying balance sheet of China Shipping Development Company Limited ("The Company") as at Dec 31, 2004 and the related statement of income and cash flows for the period then ended. The Company's directors are responsible for the preparation of financial statements, which give a true and fair view. In preparing financial statements, which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

We conducted our audit in accordance with the Independent Audit Standards of China. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**THE FINANCIAL STATEMENTS  
IN ACCORDANCE WITH CHINESE  
ACCOUNTING STANDARDS** *(Continued)*

In our opinion, the audited financial statements present fairly, in all material aspects, the financial position as at Dec 31, 2004 of the Company and the results of its operations and the cash flows for the year then ended, and are in conformity with Accounting Standards of the People's Republic of China.

BDO Shanghai Zhonghua

Shanghai,  
March 1 2005

# BALANCE SHEET

31 December 2004

The financial statements prepared in accordance with the PRC Accounting Standards

Assets	Notes	2004.12.31		2003.12.31	
		Holding Company	Group	Holding Company	Group
		Rmb	Rmb	Rmb	Rmb
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	6.1	669,694,796.14	1,287,820,466.58	614,090,338.19 <sup>7</sup>	1,138,449,556.86
Short-term investment		-	-	-	-
Notes receivable	6.2	9,340,000.00	9,340,000.00	23,298,242.05	23,298,242.05
Dividends receivable			-		-
Interests receivable			-		-
Accounts receivable	6.3	150,244,867.84	159,131,237.99	194,497,787.50	207,042,778.17
Other receivable	6.4	1,559,851,607.49	46,503,166.65	1,634,238,910.14	36,437,493.87
Prepayments	6.5	193,796,115.32	202,813,723.62	234,764,311.99	238,445,595.87
Subsidies receivable					
Inventory	6.6	141,210,333.23	143,777,728.76	112,710,901.74	115,820,335.89
Prepaid expense	6.7	241,585.36	274,031.77	283,213.92	283,672.04
Long-term debt investment due within 1 year		-	-	-	-
Other current assets		-	-	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>2,724,379,305.38</b>	<b>1,849,660,355.37</b>	<b>2,813,863,705.53</b>	<b>1,759,777,674.75</b>
<b>LONG-TERM INVESTMENTS:</b>					
Long-term equity investment		462,071,473.67	100,743,669.07	203,818,778.77	68,920,157.87
Long-term debt investment		-	-	-	-
<b>TOTAL LONG-TERM INVESTMENTS</b>	6.8	<b>462,071,473.67</b>	<b>100,743,669.07</b>	<b>203,818,778.77</b>	<b>68,920,157.87</b>
Including:			-804,755.00		-919,720.00
consolidated difference					
Including:					
equity investment difference					
<b>FIXED ASSETS:</b>					
Fixed assets-cost:	6.9	13,017,015,827.02	15,297,234,142.60	11,272,087,486.44	13,344,845,320.25
Less: Accumulated depreciation		6,024,454,585.12	7,044,039,639.96	5,498,022,473.26	6,391,881,715.35
Fixed assets-net value		6,992,561,241.90	8,253,194,502.64	5,774,065,013.18	6,952,963,604.90
Less: provision devaluation of fixed assets		936,268.00	936,268.00	936,268.00	936,268.00
Fixed assets net book value		6,991,624,973.90	8,252,258,234.64	5,773,128,745.18	6,952,027,336.90
Construction material					
Construction in progress	6.10	1,247,275,780.35	1,293,051,471.63	774,149,750.69	774,149,750.69
Disposal of fixed assets					
<b>TOTAL OF FIXED ASSETS</b>		<b>8,238,900,754.25</b>	<b>9,545,309,706.27</b>	<b>6,547,278,495.87</b>	<b>7,726,177,087.59</b>
<b>INTANGIBLE ASSETS AND OTHER ASSETS:</b>					
Intangible assets	6.11	5,337,434.97	5,337,434.97	5,453,465.91	5,453,465.91
Long-term deferred expenses	6.12	21,551,460.00	21,551,460.00	24,217,620.00	24,217,620.00
Other long-term assets					
<b>TOTAL OF INTANGIBLE ASSETS AND OTHER ASSETS</b>		<b>26,888,894.97</b>	<b>26,888,894.97</b>	<b>29,671,085.91</b>	<b>29,671,085.91</b>
<b>DEFERRED TAX:</b>					
Deferred tax debits					
<b>TOTAL ASSETS</b>		<b>11,452,240,428.27</b>	<b>11,522,602,625.68</b>	<b>9,594,632,066.08</b>	<b>9,584,546,006.12</b>

## BALANCE SHEET (Continued)

31 December 2004

The financial statements prepared in accordance with the PRC Accounting Standards

Assets	Notes	2004.12.31		2003.12.31	
		Holding Company	Group	Holding Company	Group
		Rmb	Rmb	Rmb	Rmb
<b>LIABILITIES AND OWNER'S EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Short-term loans	6.13	-	30,000,000.00	-	3,000,000.00
Notes payable		-	-	-	-
Accounts payable	6.14	152,187,055.58	162,209,240.95	140,716,782.46	152,157,503.69
Advances from customers	6.15	43,941,573.69	56,243,046.22	16,109,782.38	21,134,782.38
Accrued payroll					
Accrued welfare		157,417,654.68	160,093,070.41	133,686,887.41	135,553,566.64
Dividends payable					
Taxes payable	6.16	59,223,807.01	59,759,619.23	30,890,021.98	32,586,615.73
Other taxes payable	6.17	446,180.15	566,257.30	412,917.68	583,146.30
Other payable	6.18	267,830,809.87	270,013,321.72	187,468,863.03	143,459,559.66
Accrued expenses	6.19	4,762,579.12	4,822,875.38	4,959,391.83	4,970,048.83
Accrued liabilities					
Long-term liabilities due within 1 year	6.20	338,109,149.74	338,109,149.74	268,146,250.80	268,146,250.80
Other currents liabilities					
<b>TOTAL OF CURRENT LIABILITIES</b>		<b>1,023,918,809.84</b>	<b>1,081,816,580.95</b>	<b>782,390,897.57</b>	<b>761,591,474.03</b>
<b>LONG-TERM LIABILITIES:</b>					
Long-term loans	6.21	1,827,867,300.00	1,827,867,300.00	1,571,902,300.00	1,571,902,300.00
Debentures payable					
Long-term payable	6.22	76,394,624.13	76,394,624.13	110,195,553.56	110,195,553.56
Other long-term loans					
<b>TOTAL OF LONG TERM LIABILITIES</b>		<b>1,904,261,924.13</b>	<b>1,904,261,924.13</b>	<b>1,682,097,853.56</b>	<b>1,682,097,853.56</b>
<b>DEFERRED TAX:</b>					
Deferred tax credits					
Deferred revenue	6.23	-	-	3,562,067.53	3,562,067.53
<b>TOTAL LIABILITIES</b>		<b>2,928,180,733.97</b>	<b>2,986,078,505.08</b>	<b>2,468,050,818.66</b>	<b>2,447,251,395.12</b>
<b>MINORITY INTEREST</b>					
			12,227,005.25		6,136,918.74
<b>OWNER'S EQUITY:</b>					
Share capital	6.24	3,326,000,000.00	3,326,000,000.00	3,326,000,000.00	3,326,000,000.00
Capital surplus	6.25	2,053,720,693.55	2,053,720,693.55	2,053,720,693.55	2,053,720,693.55
Reserved fund	6.26	820,620,371.65	833,297,281.39	441,344,682.27	447,850,583.34
Including: statutory public welfare reserve		344,598,306.37	348,889,622.91	155,660,827.33	157,194,775.33
			-20,911.41		13,685.45
Retained earnings	6.27	2,323,718,629.10	2,311,300,051.82	1,305,515,871.60	1,303,572,729.92
Including: dividend's payable		498,900,000.00	498,900,000.00	498,900,000.00	498,900,000.00
<b>TOTAL OWNER'S EQUITY</b>		<b>8,524,059,694.30</b>	<b>8,524,297,115.35</b>	<b>7,126,581,247.42</b>	<b>7,131,157,692.26</b>
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>		<b>11,452,240,428.27</b>	<b>11,522,602,625.68</b>	<b>9,594,632,066.08</b>	<b>9,584,546,006.12</b>

## INCOME STATEMENT

For the year ended 31 December 2004

The financial statements prepared in accordance with the PRC Accounting Standards

ITEM	2004				2003	
	Notes	Holding Company		Group		
		Rmb	Rmb	Rmb	Rmb	
<b>Sales</b>	6.28	<b>6,104,170,976.20</b>	<b>6,486,955,470.43</b>	4,998,121,486.90	5,176,639,213.06	
Less: sales allowance and discounts						
Net Sales		<b>6,104,170,976.20</b>	<b>6,486,955,470.43</b>	4,998,121,486.90	5,176,639,213.06	
Less: Cost of sales		<b>3,654,560,948.62</b>	<b>3,906,965,766.03</b>	3,457,486,269.09	3,603,867,298.87	
Sales Taxes	6.29	<b>136,719,067.31</b>	<b>144,134,919.87</b>	112,626,095.77	118,511,549.46	
<b>Gross profit</b>		<b>2,312,890,960.27</b>	<b>2,435,854,784.53</b>	1,428,009,122.04	1,454,260,364.73	
Add: Other operating income	6.30	<b>9,189,586.90</b>	<b>21,630,691.37</b>	16,299,215.80	23,677,075.23	
Non-monetary transaction						
Less:						
Sales expense						
General and administration expense		<b>208,059,734.91</b>	<b>218,769,236.78</b>	219,258,166.71	225,709,941.89	
Financial expense	6.31	<b>106,951,148.07</b>	<b>103,382,778.75</b>	119,072,917.33	117,923,754.95	
<b>Operating Profit</b>		<b>2,007,069,664.19</b>	<b>2,135,333,460.37</b>	1,105,977,258.80	1,134,303,743.12	
Add: Income on investment	6.32	<b>153,060,473.58</b>	<b>21,631,289.88</b>	32,664,505.15	5,329,981.48	
Subsidies	6.33	-	<b>3,831,000.00</b>	-	4,161,500.00	
Non-operating income	6.34	<b>59,109,151.45</b>	<b>58,837,288.19</b>	14,383,991.13	11,999,178.28	
Less: Non-operating expense	6.35	<b>18,508,259.05</b>	<b>18,513,259.05</b>	5,939,245.66	1,539,434.34	
<b>Total Profit</b>		<b>2,200,731,030.17</b>	<b>2,201,119,779.39</b>	1,147,086,504.42	1,154,254,968.54	
Less: Income tax		<b>304,352,583.29</b>	<b>307,955,672.93</b>	169,087,287.68	171,543,523.55	
Less: Minority interest			<b>1,090,086.51</b>		662,652.48	
Add: Unrecognized investment loss						
<b>Net Profit</b>		<b>1,896,378,446.88</b>	<b>1,892,074,019.95</b>	977,999,216.74	982,048,792.51	

## INCOME STATEMENT (Continued)

For the year ended 31 December 2004

The financial statements prepared in accordance with the PRC Accounting Standards

ITEM	Notes	2004		2003	
		Holding Company	Group	Holding Company	Group
		Rmb	Rmb	Rmb	Rmb
Add: retained earnings carried forward from last year		1,305,515,871.60	1,303,572,729.92	855,716,498.20	853,467,538.79
<b>Distributable profit</b>		<b>3,201,894,318.48</b>	<b>3,195,646,749.87</b>	1,833,715,714.94	1,835,516,331.30
Deduct: transfer to statutory surplus reserve		189,637,844.69	193,751,850.47	97,799,921.67	100,230,080.40
transfer to statutory public welfare reserve		189,637,844.69	191,694,847.58	97,799,921.67	99,113,520.98
<b>Distributable profit to shareholders</b>		<b>2,822,618,629.10</b>	<b>2,810,200,051.82</b>	1,638,115,871.60	1,636,172,729.92
Deduct: dividends to preferred stock shareholders					
other general reserves		498,900,000.00	498,900,000.00	332,600,000.00	332,600,000.00
dividends to common stock shareholders					
<b>Retained earnings at the end of accounting period</b>		<b>2,323,718,629.10</b>	<b>2,311,300,051.82</b>	1,305,515,871.60	1,303,572,729.92

## CASH FLOW STATEMENT

For the year ended 31 December 2004

The financial statements prepared in accordance with the PRC Accounting Standards

ITEM	2004	
	Holding Company	Group
	Rmb	Rmb
<b>1. Cash Flows from Operating Activities</b>		
Cash received from sales of goods or rendering of services	5,824,304,556.80	6,247,315,751.27
Refund of taxes and levy	–	2,903,500.00
Other cash received relating to operating activities	103,835,937.51	138,883,562.12
<b>Sub-total of cash inflows</b>	<b>5,928,140,494.31</b>	<b>6,389,102,813.39</b>
Cash paid for goods and services	1,997,906,495.53	2,317,098,427.82
Cash paid to and on behalf of employees	686,432,723.23	696,183,053.52
Tax paid	424,425,974.23	439,041,372.39
Other cash paid relating to operating activities	172,979,480.53	174,097,246.15
<b>Sub-total of cash outflows</b>	<b>3,281,744,673.52</b>	<b>3,626,420,099.88</b>
<b>Net cash flows from operating activities</b>	<b>2,646,395,820.79</b>	<b>2,762,682,713.51</b>
<b>2. Cash Flows from Investing Activities</b>		–
Cash received from disposal of investments	–	–
Cash received from investment income	4,807,778.68	4,807,778.68
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	97,636,508.50	97,827,423.50
Other cash received relating to investing activities	–	–
<b>Sub-total of cash inflows</b>	<b>102,444,287.18</b>	<b>102,635,202.18</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	2,261,609,130.53	2,409,388,037.44
Cash paid to acquire equity investment	110,000,000.00	15,000,000.00
Cash paid to acquire debt investment	–	–
Other cash paid relating to investing activities	–	–
<b>Sub-total of cash outflows</b>	<b>2,371,609,130.53</b>	<b>2,424,388,037.44</b>
<b>Net cash flows from investing activities</b>	<b>-2,269,164,843.35</b>	<b>-2,321,752,835.26</b>
<b>3. Cash Flows from Financing Activities</b>		–
Proceeds from issuing shares	–	5,000,000.00
Proceeds from borrowings	550,420,000.00	640,420,000.00
Other proceeds relating to financing activities	–	–
<b>Sub-total of cash inflows</b>	<b>550,420,000.00</b>	<b>645,420,000.00</b>
Cash out for the payment of loans	268,385,330.52	331,385,330.52
Cash payments of expenses on any financing activities	–	–
Cash payments for distribution of dividends or profits	601,502,162.88	603,396,633.63
Other cash payments relating to financing activities	901,409.25	901,409.25
<b>Sub-total of cash outflows</b>	<b>870,788,902.65</b>	<b>935,683,373.40</b>
<b>Net cash flows from financing activities</b>	<b>-320,368,902.65</b>	<b>-290,263,373.40</b>

## CASH FLOW STATEMENT (Continued)

For the year ended 31 December 2003

The financial statements prepared in accordance with the PRC Accounting Standards

ITEM	2004	
	Holding Company	Group
	Rmb	Rmb
4. Effect of Foreign Exchange Rate Changes on Cash	-1,257,616.84	-1,295,595.13
5. Net Increase in Cash and Cash Equivalents	55,604,457.95	149,370,909.72
<b>Supplemental Information</b>		
1. Reconciliation of Net profit to Cash		
Flows from Operating Activities		
Net profit	1,896,378,446.88	1,892,074,019.95
Add: minority interest		1,090,086.51
Less: unrecognized investment loss		
Add: net profit from merged entity		
Add: provision for assets	1,185,809.31	1,103,703.43
Depreciation of fixed assets	653,432,376.34	747,011,755.61
Amortization of intangible assets	437,440.94	437,440.94
Amortization of long-term deferred expense	2,666,160.00	2,666,160.00
Amortization of deferred expense	21,628.56	-9,640.27
Increase in accruals	-	-49,639.26
Losses on disposal of fixed assets, intangible assets and other long-term assets (or deduct: gains)	-40,479,839.26	-40,096,544.26
Losses on scrapping of fixed assets	30,343.36	56,088.38
Financial expenses	100,533,067.85	102,466,130.60
Losses arising from investments (or deduct gains)	-152,980,949.49	-21,631,289.88
Deferred of tax credit (or deduct: debit)		
Decrease in inventories (or deduct: increase)	-28,499,431.49	-27,957,392.87
Decrease in operating receivables (or deduct: increase)	187,194,841.26	23,544,752.33
Increase in operating payables (or deduct: decrease)	26,475,926.53	81,977,082.30
Others		
<b>Net Cash flows from operating activities</b>	<b>2,646,395,820.79</b>	<b>2,762,682,713.51</b>
2. Investing and financing activities that do not involving cash receipts and payments		
Conversion of debt into capital		
Reclassify convertible bonds to be expired within one year as current liability		
Fixed assets financed by finance leases		
3. Net Increase in Cash and Cash Equivalents		
Cash at the end of the period	669,694,796.14	1,237,820,466.58
Less: Cash at the beginning of the period	614,090,338.19	1,138,449,556.86
Plus: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
<b>Net Increase in Cash and Cash Equivalents</b>	<b>55,604,457.95</b>	<b>149,370,909.72</b>

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **1. Corporate Information**

China Shipping Development Company Limited (the Group) was reformed from Shanghai Shipping (Group) Company in May 1994 and the former name of the Group was Shanghai Haixing Shipping Company Limited. The Group was listed on the Hong Kong Stock Exchange in Nov. 1994. In 1997, Shanghai Shipping (Group) Company transferred its ownership of Shanghai Haixing Shipping Company Limited to China Shipping (Group) Company, thus Shanghai Haixing Shipping Company Limited was renamed China Shipping Development Company Limited. At the end of June 1998, the Group issued 496 million new shares to its shareholders, and total shares value of the Group increased to RMB 2,976 million. In May 2002, the Group issued 350 million A shares to Chinese mainland investors and the paid-in capital was increased to RMB 3,326 million. The business scope involves oil and cargo shipment (along the sea, ocean, the Chang'jiang River), passenger shipping, ship leasing and service of cargo agency.

### **2. Basis of Accounting**

#### 2.1 Accounting policies

The financial statements are prepared in accordance with Chinese Accounting Standards and the financial statements of subsidiaries, namely China Shipping Development (Hong Kong) Marine Co., Ltd., and associates, namely Shanghai Friendship Shipping Co., Ltd., are prepared in accordance with the respective accounting system. In the consolidated financial statements, the necessary adjustments have been made in accordance with Chinese Accounting Standards.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(continued)*

### 2.2 Accounting period

The accounting period is calendar year, ie: from January to December.

### 2.3 Function currency

The function currency is RMB.

### 2.4 Accounting principles and basis of valuation

The accounting principles are the accrue basis. The basis of valuation is historical cost except special explanation.

### 2.5 Foreign currency transactions

Foreign currency transactions during the accounting period are translated into RMB at the exchange rates for the occurred date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the market rates of exchange ruling at that date. The exchange difference due to the fixed assets are considered as the cost of fixed assets before the fixed assets are put into use, other exchange differences are dealt with in the income statement.

## 2.6 Recognition criteria for cash and cash equivalents

All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents including the short-term debt investment whose maturity date is within 3 months.

## 2.7 Provision for bad debts

Based on the analysis of collectible possibility, special provision for bad debts is provided on the specific items of accounts receivable without considering the aging. Then a general provision is provided upon the aging analysis of the outstanding balances, and the details of rate of provision are as follows:

Aging	Rates
< 1 Year	3%
1-2 Years	10%
2-3 Years	25%
> 3 Years	50%

The provision of other receivables is calculated on 1% of the ending balances.

Recognition criteria for bad debts:

- ① The debtors are bankruptcy or dead and the legacy can't pay off.
- ② The debtors haven't fulfilled the obligation and the aging of the accounts receivables is over 3 years.

Based on the above two criteria, balances of accounts receivables would be considered as the bad debts subject to the approval of Board of Directors.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(continued)*

### 2.8 Inventories

Inventories are mainly consists of bunker oil.

Inventories are initially recorded at acquisition costs. Cost of inventories is determined on the weighted average basis. The acquisition costs of low value spare parts are charged to the costs when the low value spare parts are put into use. The stocktaking method uses the perpetual inventory system.

At the end of accounting period, inventories are stated at the lower of cost and net realizable value. The provision of devaluation inventory is made on the individual item.

### 2.9 Short-term investment

Short-term investments are initially recorded at the actual cost (including taxes, handling charges and other additional fees) . It is not consists of cash dividends which have been declared but unpaid (or the due bond interest that unpaid). The difference between disposal of income and the carrying amount is recognized as investment income/loss for current accounting period. Short-term investment is stated at the lower of cost and market value and the difference between the carrying amount and the lower of cost and market value is recognized as impairment.

## 2.10 Long-term investment

### (1) Long-term debt investments

Premium or discount on investment in bonds is amortized using straight-line method over the period between the acquisition date and the maturity date in which the relevant bond interest is recognized. Interest receivables from investment in bonds are computed periodically. The computed interest revenue from investments in bonds, after adjustments for the amortization of premium or discounts on investment in bonds, is recognized as investment income in the current period.

### (2) Long-term equity investment

The long-term equity investment consists of stock investment and equity investment. Long-term equity investment is initially recorded at the actual payment.

### (3) A long-term equity investment is accounted for using the costs method or the equity method as appropriate to the circumstances.

The long-term equity investment consists stock investment and equity investment. The cost of long-term investment is stated at the actual payment of the investment.

The equity method is used to account for long-term equity investments when the Company can control, joint control or has significant influence over the invested enterprise.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(continued)*

- (4) Cost method is used to account for a long-term equity investment when the Company doesn't have control, joint control or significant influence over the invested enterprise. When a long-term equity investment is accounted for using the equity method, the difference between the investment cost and the Company's share of owners' equity of the invested enterprise is amortized over the remaining business years of the invested enterprise, otherwise is amortized over 10 years.
- (5) The Group reviews the carrying amount of long-term investments on individual item basis at the end of accounting period. If the recoverable amount of any investment is lower than the carrying amount of that investment as a result of a continuing decline in market value or change in operating conditions of the invested enterprise, the difference between the recoverable amount and the carrying amount of the investment will be initially offset against any capital surplus reserve relating to that investment and then go to the profit and loss account.

## 2.11 Fixed assets and depreciation

### (1) Recognition criteria for fixed assets

The fixed assets include buildings, vessels, vehicles with useful life exceed 1 year and other equipments or tools related to operation with unit price over RMB 2000 and useful life exceed 2 years.

### (2) Pricing and depreciation method for fixed assets

The fixed assets are stated at the acquisition cost and depreciation is applied so as to write off the cost of the assets less their estimated residual value in equal annual installments over the estimated useful life.

The useful life and annual depreciated rate on fixed assets is listed as following:

	Useful life	Annual depreciated rate
Vessels	17~22 years	4%
Buildings	30 years	4.6%
Vehicles	5~8 years	4%
Other equipments	5~8 years	4%

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(continued)*

### (3) Impairment of fixed assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any fixed assets. If the recoverable amount of any fixed assets is lower than the book value of that fixed assets as a result of a continuing decline in market value or technology lagged and other circumstances, the differences between the recoverable amount and the book value of that fixed assets will be considered as the impairment of fixed assets.

### 2.12 Construction in progress

Construction in progress is stated at actual cost that includes the construction cost and related interest of loans before it put into use.

All the costs of construction in progress are transferred to the cost of fixed assets when the project is put into use.

The Group makes a full examination of the construction in progress at the ending of accounting period. If evidence exists showing the cost of project devalued, a provision for the impairment should be made. At the same time, if the following evidence exists, a provision also should be made:

- ① the construction ceased for a long time and is estimated not to be constructed in the next three years;
- ② the construction is out of time either of capability or of technology and it is quite uncertain that the construction can bring economic benefit to the Company;
- ③ other circumstance sufficiently indicate that the provision of impairment should be made.

### 2.13 Intangible assets

Intangible assets are stated at actual cost, and amortized over the beneficial period.

At the ending of the accounting period, the Group makes sure that the intangible assets can bring the economic benefit to the Group. If the recoverable value is under the book value, a provision should be made for the impairment.

If any or several of the following circumstance are discovered, the Company writes off the carrying amount:

- ① the intangible asset is replaced by other new technologies so that it is worthless for using and dealing;
- ② the intangible asset is no longer protected by law and is not able to generate economic benefit;
- ③ other circumstance sufficiently indicate that the intangible asset is worthless for using and dealing.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(continued)*

At the ending of accounting period, if any one or several of the following circumstance is discovered, the Company estimates the recoverable amount of the asset and recognizes the excess of the carrying amount of the asset over its recoverable amount as provision for impairment:

- ① the intangible asset is replaced by other new technologies that adversely affect its ability to generate economic benefit;
- ② the market value of the intangible asset decreased rapidly in current period and it can't get back in the left period;
- ③ the intangible asset is no longer protected by law but it still worth using;
- ④ other circumstance sufficiently indicate that the intangible asset has the impairment.

### 2.14 Deferred expense

Deferred expense is stated at actual cost and amortized over the beneficial period.

## 2.15 Borrowing costs

The principle of capitalization of borrowing costs:

The capitalization of interest incurred in connection with the specific borrowings, and amortization of discounts or premium relating to and exchange difference arising from those specific borrowings, should commence when the following conditions are fulfilled: expenditure for the assets are being incurred; borrowing costs are being incurred; and activity that are necessary to prepare the asset for intended use have been commenced.

Capitalization of borrowing costs should be suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally, and the interruption period is more than 3 months. Those costs should be recognized as expense for the current period until the acquisition or construction is resumed. However, capitalization of borrowing costs should continue when the interruption is a necessary part of the process of preparing that asset to its expected usable condition.

### (2) Determination of the capitalization period

The amount of the capitalized interest is computed by every quarter.

### (3) Determination of the capitalization amount

In each capitalization period, the amount of interest costs to be capitalized should be determined in accordance with the following formula:

The capitalization amount of interest for each accounting period = the weighted average amount of accumulated expenditure incurred for the acquisition or construction of a fixed asset up to the end of the current period  
× the capitalization rate

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(continued)*

### 2.16 Revenue recognition

Revenue is recognized 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 operation, 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) other revenue are recognized until three criteria are met: the ownership of goods are transferred to customers, and the relative risk/rewards on goods are also transferred to customers, the Company has the rights to collect the sales revenue.

### 2.17 Cost and expense recognition

The relevant cargo costs are recognized when the revenue recognized. The G&A expense and financial expense occurred during the accounting period are charged to profit and loss of current period.

### 2.18 Income tax

According to the regulation of Ministry Finance, the accounting treatment of income tax is payable method.

## 2.19 Consolidated financial statements

According to the regulation (1995) 11 of Ministry of Finance, the financial statements of the subsidiaries should be consolidated if the Group takes over 50% of the subsidiaries' owners' equity. The internal transactions have been eliminated in the consolidated financial statements. Concerning to the consolidated affiliation, the consolidated financial statements adopts proportion method for consolidation.

### 3. Tax rates

The rate of business tax is 3% or 5%.

The rate of income tax is 15%.

Pursuant to a directive 1998 (250) jointly issued by Shanghai Tax Bureau and Shanghai Bureau of Finance on 8 October 1998, the Company, registered in Shanghai Pudong New Area, is entitled to a preferential income tax rate of 15% effective. ZhuHai New Century Co., Ltd., the subsidiary company registered in Zhuhai Economy Zone, is entitled to a preferential income tax rate of 15% effective. Shanghai Friendship Shipping Co., Ltd., the subsidiary company registered in Shanghai free-trade zone, is entitled to a preferential income tax rate of 15% effective. Hai'nan Hai'xiang investment Co., Ltd., the subsidiary company registered in Hai'nan Economy Zone, is entitled to a preferential income tax of 15% effective; the subsidiary company China Shipping Development (Hong Kong) Marine Co., Ltd. registered in the Hongkong special district is entitled to a income tax rate of 17.5%.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Tax of city construction: 7%;

Education affixation: 3%;

Maintenance for river way: 1%;

According to the tax regulations of PRC, other taxes are provided periodically.

### 4. Subsidiaries and Associated Companies

#### 4.1 Subsidiaries and Associated Companies

Company name	Registered capital(0'000)	Engaged business	% of registered capital
Hai'nan Hai'xiang Investment Co., Ltd.	20100	Project investment and management	95
Zhu'hai New Century Shipping Co., Ltd. (Note 2)	9000	Cargo shipment	50
Shanghai Friendship Shipping Co., Ltd. (Note 2)	5000	Shipment, business in free-trade zone	50
China Shipping Development (Hong Kong) Marine Co., Ltd. (Note 1)	USD50	Cargo shipment	99

Note 1: On 31 December 2001, the Company entered an agreement with China Shipping (Hong Kong) Holding Co., Ltd. In that agreement, China Shipping (Hong Kong) Holding Co., Ltd. entrusted 1% ownership of China Shipping Development (Hong Kong) Marine Co., Ltd to the Company, so the Company in reality owns 100% ownership of that company.

Note 2: The total assets, revenue and net profit in the financial statements of Zhu'hai New Century Shipping Co., Ltd. and Shanghai Friendship Shipping Co., Ltd. is less than 10% of the relevant amount in the consolidation financial statements, so the financial statements of those two companies haven't been consolidated.

The financial positions of the companies that haven't been consolidated are as follows:

Name of enterprise	Total assets	Revenue	Net profit
Zhu'hai New Century Shipping Co., Ltd.	254,814,519.36	150,979,209.75	32,604,527.10
Shanghai Friendship Shipping Co., Ltd.	74,524,174.08	76,023,950.90	9,573,208.39

4.2 The consolidated companies are described as follows:

The financial statements of China Shipping Development (Hong Kong) Marine Co., Ltd., Hai'nan Hai'xiang Investment Co., Ltd. have been consolidated. The investment on China Shipping development(Hong Kong) Marine Co., Ltd. is USD 0.5 million. The investment on Hai'nan Hai'xiang Investment Co., Ltd. is RMB 191.87 million.