

**中國註冊會計師
審計報告**

**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, 2005 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.

In our opinion, the audited financial statements present fairly, in all material aspects, the financial position as at Dec 31, 2005 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 28 2006

合并资产负债表

BALANCE SHEET

二零零五年十二月三十一日

31 December 2005

The financial statements prepared in accordance with the PRC Accounting Standards

Assets	Notes	2005.12.31		2004.12.31	
		Holding Company	Group	Holding Company	Group
		Rmb	Rmb	Rmb	Rmb
CURRENT ASSETS:					
Cash and cash equivalents	6.1	602,710,187.38	1,177,926,740.95	669,694,796.14	1,287,820,466.58
Short-term investment		-	-	-	-
Notes receivable	6.2	20,500,000.00	20,500,000.00	9,340,000.00	9,340,000.00
Dividends receivable				-	-
Interests receivable				-	-
Accounts receivable	6.3	185,453,883.80	202,472,064.96	150,244,867.84	159,131,237.99
Other receivable	6.4	1,224,708,008.11	42,308,093.42	1,559,851,607.49	46,503,166.65
Prepayments	6.5	118,889,872.94	128,853,057.34	193,796,115.32	202,813,723.62
Subsidies receivable				-	-
Inventory	6.6	257,505,760.46	266,701,401.91	141,210,333.23	143,777,728.76
Prepaid expense	6.7	-	40,636.23	241,585.36	274,031.77
Long-term debt investment due within 1 year				-	-
Other current assets				-	-
TOTAL CURRENT ASSETS		2,409,767,712.69	1,838,801,994.81	2,724,379,305.38	1,849,660,355.37
LONG-TERM INVESTMENTS:					
Long-term equity investment		865,411,542.96	3,674,410.00	462,071,473.67	100,743,669.07
Long-term debt investment				-	-
TOTAL LONG-TERM INVESTMENTS	6.8	865,411,542.96	3,674,410.00	462,071,473.67	100,743,669.07
Including:					
consolidated difference					-804,755.00
Including:					
equity investment difference					
FIXED ASSETS:					
Fixed assets-cost:	6.9	15,557,246,339.98	18,312,250,875.24	13,017,015,827.02	15,297,234,142.60
Less: Accumulated depreciation		6,629,504,117.60	7,814,284,893.53	6,024,454,585.12	7,044,039,639.96
Fixed assets-net value		8,927,742,222.38	10,497,965,981.71	6,992,561,241.90	8,253,194,502.64
Less: provision devaluation of fixed assets		936,268.00	936,268.00	936,268.00	936,268.00
Add: Leasing-holding improvement expenditure		39,235,411.50	39,235,411.50	21,551,460.00	21,551,460.00
Fixed assets net book value		8,966,041,365.88	10,536,265,125.21	7,013,176,433.90	8,273,809,694.64
Construction material					
Construction in progress	6.10	703,844,576.20	865,762,167.19	1,247,275,780.35	1,293,051,471.63
Disposal of fixed assets					
TOTAL OFFIXED ASSETS		9,669,885,942.08	11,402,027,292.40	8,260,452,214.25	9,566,861,166.27
INTANGIBLE ASSETS AND OTHER ASSETS:					
Intangible assets	6.11	7,089,775.50	7,089,775.50	5,337,434.97	5,337,434.97
Long-term deferred expenses		59,512.50	59,512.50	-	-
Other long-term assets					
TOTAL OF INTANGIBLE ASSETS AND OTHER ASSETS		7,149,288.00	7,149,288.00	5,337,434.97	5,337,434.97
DEFERRED TAX:					
Deferred tax debits					
TOTAL ASSETS		12,952,214,485.73	13,251,652,985.21	11,452,240,428.27	11,522,602,625.68

合并资产负债表 (續)

BALANCE SHEET (Continued)

二零零五年十二月三十一日

31 December 2005

The financial statements prepared in accordance with the PRC Accounting Standards

Assets	Notes	2005.12.31		2004.12.31	
		Holding Company	Group	Holding Company	Group
		Rmb	Rmb	Rmb	Rmb
LIABILITIES AND OWNER'S EQUITY					
CURRENT LIABILITIES:					
Short-term loans	6.12	-	-	-	30,000,000.00
Notes payable		-	-	-	-
Accounts payable	6.13	205,270,403.96	218,260,349.54	152,187,055.58	162,209,240.95
Advances from customers	6.14	29,917,065.42	34,265,736.42	43,941,573.69	56,243,046.22
Accrued payroll					
Accrued welfare		188,187,140.24	192,564,444.11	157,417,654.68	160,093,070.41
Dividends payable					
Taxes payable	6.15	57,935,790.16	61,635,531.88	59,223,807.01	59,759,619.23
Other taxes payable	6.16	510,177.45	1,282,828.51	446,180.15	566,257.30
Other payable	6.17	120,841,266.97	267,986,523.11	267,830,809.87	270,013,321.72
Accrued expenses	6.18	3,353,053.84	3,417,079.73	4,762,579.12	4,822,875.38
Accrued liabilities					
Long-term liabilities due within 1 year	6.19	265,355,852.92	270,355,852.92	338,109,149.74	338,109,149.74
Other currents liabilities					
TOTAL OF CURRENT LIABILITIES		871,370,750.96	1,049,768,346.22	1,023,918,809.84	1,081,816,580.95
LONG-TERM LIABILITIES:					
Long-term loans	6.20	1,336,745,000.00	1,346,745,000.00	1,827,867,300.00	1,827,867,300.00
Debentures payable					
Long-term payable	6.21	27,848,022.36	118,946,301.52	76,394,624.13	76,394,624.13
Other long-term loans					
TOTAL OF LONG TERM LIABILITIES		1,364,593,022.36	1,465,691,301.52	1,904,261,924.13	1,904,261,924.13
DEFERRED TAX:					
Deferred tax credits					
Deferred revenue				-	-
TOTAL LIABILITIES		2,235,963,773.32	2,515,459,647.74	2,928,180,733.97	2,986,078,505.08
MINORITY INTEREST					
			24,968,963.19		12,227,005.25
OWNER'S EQUITY:					
Share capital	6.22	3,326,000,000.00	3,326,000,000.00	3,326,000,000.00	3,326,000,000.00
Capital surplus	6.23	2,053,720,693.55	2,053,720,693.55	2,053,720,693.55	2,053,720,693.55
Reserved fund	6.24	1,358,838,575.27	1,393,992,249.67	820,620,371.65	833,297,281.39
Including: statutory public welfare reserve		613,707,408.18	626,125,701.99	344,598,306.37	348,889,622.91
Exchange fluctuation reserve		-	-2,858,605.09		-20,911.41
Retained earnings	6.25	3,977,691,443.59	3,940,370,036.15	2,323,718,629.10	2,311,300,051.82
Including: dividend's payable		997,800,000.00	997,800,000.00	498,900,000.00	498,900,000.00
TOTAL OWNER'S EQUITY		10,716,250,712.41	10,711,224,374.28	8,524,059,694.30	8,524,297,115.35
TOTAL LIABILITIES AND OWNER'S EQUITY		12,952,214,485.73	13,251,652,985.21	11,452,240,428.27	11,522,602,625.68

合并利润及利润分配表

INCOME STATEMENT

截止二零零五年十二月三十一日止年度

For the year ended 31 December 2005

The financial statements prepared in accordance with the PRC Accounting Standards

ITEM	Notes	2005		2004	
		Holding Company	Group	Holding Company	Group
		Rmb	Rmb	Rmb	Rmb
Sales	6.26	8,092,355,281.71	8,700,448,150.75	6,104,170,976.20	6,486,955,470.43
Less: sales allowance and discounts					
Net Sales		8,092,355,281.71	8,700,448,150.75	6,104,170,976.20	6,486,955,470.43
Less: Cost of sales		4,754,715,382.27	5,134,816,069.67	3,654,560,948.62	3,906,965,766.03
Sales Taxes	6.27	171,586,694.20	184,961,673.35	136,719,067.31	144,134,919.87
Gross profit		3,166,053,205.24	3,380,670,407.73	2,312,890,960.27	2,435,854,784.53
Add: Other operating income	6.28	29,971,936.56	44,199,895.41	9,189,586.90	21,630,691.37
Non-monetary transaction					
Less:					
Sales expense					
General and administration expense		222,743,496.75	241,515,217.11	208,059,734.91	218,769,236.78
Financial expense	6.29	130,222,225.67	121,332,327.69	106,951,148.07	103,382,778.75
Operating Profit		2,843,059,419.38	3,062,022,758.34	2,007,069,664.19	2,135,333,460.37
Add: Income on investment	6.30	190,613,439.39	1,888,335.10	153,060,473.58	21,631,289.88
Subsidies	6.31	-	6,386,300.00	-	3,831,000.00
Non-operating income	6.32	102,046,437.68	102,806,206.33	59,109,151.45	58,837,288.19
Less: Non-operating expense	6.33	3,564,932.57	3,565,614.93	18,508,259.05	18,513,259.05
Total Profit		3,132,154,363.88	3,169,537,984.84	2,200,731,030.17	2,201,119,779.39
Less: Income tax		441,063,345.77	452,573,431.01	304,352,583.29	307,955,672.93
Less: Minority interest		-	2,741,957.94		1,090,086.51
Add: Unrecognized investment loss					
Net Profit		2,691,091,018.11	2,714,222,595.89	1,896,378,446.88	1,892,074,019.95

合并利润及利润分配表 (續)

截止二零零五年十二月三十一日止年度

INCOME STATEMENT (Continued)

For the year ended 31 December 2005

The financial statements prepared in accordance with the PRC Accounting Standards

ITEM	Notes	2005		2004	
		Holding Company	Group	Holding Company	Group
		Rmb	Rmb	Rmb	Rmb
Add:retained earnings carried forward from last year		2,323,718,629.10	2,280,204,670.37	1,305,515,871.60	1,303,572,729.92
Other adjusting factors					
Less: decrease of retained earning caused by decrease of registered capital					
Transfer-in from surplus reserve					
Distributable profit		5,014,809,647.21	4,994,427,266.26	3,201,894,318.48	3,195,646,749.87
Deduct: transfer to statutory surplus reserve		269,109,101.81	280,223,331.46	189,637,844.69	193,751,850.47
transfer to statutory public welfare reserve		269,109,101.81	274,933,898.65	189,637,844.69	191,694,847.58
Distributable profit to shareholders		4,476,591,443.59	4,439,270,036.15	2,822,618,629.10	2,810,200,051.82
Deduct: dividends to preferred stock shareholders					
other general reserves		498,900,000.00	498,900,000.00	498,900,000.00	498,900,000.00
dividends to common stock shareholders					
Retained earnings at the end of accounting period		3,977,691,443.59	3,940,370,036.15	2,323,718,629.10	2,311,300,051.82

现金流量表

CASH FLOW STATEMENT

截止二零零五年十二月三十一日止年度

For the year ended 31 December 2005

The financial statements prepared in accordance with the PRC Accounting Standards

ITEM	2005	
	Holding Company	Group
	Rmb	Rmb
1. Cash Flows from Operating Activities		
Cash received from sales of goods or rendering of services	7,918,320,736.07	8,629,905,674.40
Refund of taxes and levy	—	5,042,697.96
Other cash received relating to operating activities	123,668,394.25	210,091,767.29
Sub-total of cash inflows	8,041,989,130.32	8,845,040,139.65
Cash paid for goods and services	2,906,484,054.76	3,564,252,638.64
Cash paid to and on behalf of employees	751,689,130.41	769,214,585.95
Tax paid	630,954,374.92	658,557,595.34
Other cash paid relating to operating activities	128,852,459.64	181,962,730.83
Sub-total of cash outflows	4,417,980,019.73	5,173,987,550.76
Net cash flows from operating activities	3,624,009,110.59	3,671,052,588.89
2. Cash Flows from Investing Activities		
Cash received from disposal of investments	—	—
Cash received from investment income	7,273,370.10	4,523,370.10
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	129,119,547.14	129,180,382.02
Other cash received relating to investing activities	—	—
Sub-total of cash inflows	136,392,917.24	133,703,752.12
Cash paid to acquire fixed assets, intangible assets and other long-term assets	2,370,737,890.49	2,584,727,362.59
Cash paid to acquire equity investment	—	—
Cash paid to acquire debt investment	—	—
Other cash paid relating to investing activities	—	—
Sub-total of cash outflows	2,590,737,890.49	2,649,727,362.59
Net cash flows from investing activities	-2,454,344,973.25	-2,516,023,610.47
3. Cash Flows from Financing Activities		
Proceeds from issuing shares	—	75,000,000.00
Proceeds from borrowings	980,250,000.00	1,070,250,000.00
Other proceeds relating to financing activities	2,483,801.28	2,483,801.28
Sub-total of cash inflows	982,733,801.28	1,147,733,801.28
Cash out for the payment of loans	1,578,338,989.80	1,745,338,989.80
Cash payments of expenses on any financing activities	—	—
Cash payments for distribution of dividends or profits	632,523,066.66	640,216,662.29
Other cash payments relating to financing activities	—	7,170,508.00
Sub-total of cash outflows	2,210,862,056.46	2,392,726,160.09
Net cash flows from financing activities	-1,228,128,255.18	-1,244,992,358.81

現金流量表(續)

CASH FLOW STATEMENT (Continued)

截止二零零五年十二月三十一日止年度

For the year ended 31 December 2005

The financial statements prepared in accordance with the PRC Accounting Standards

ITEM	2005	
	Holding Company	Group
	Rmb	Rmb
4. Effect of Foreign Exchange Rate Changes on Cash	-8,520,490.92	-19,930,345.24
5. Net Increase in Cash and Cash Equivalents	-66,984,608.76	-109,893,725.63
Supplemental Information		
1. Reconciliation of Net profit to Cash		
Flows from Operating Activities		
Net profit	2,691,091,018.11	2,714,222,595.89
Add: minority interest		2,741,957.94
Less: unrecognized investment loss		-
Add: net profit from merged entity		-
Add: provision for assets	2,009,808.97	2,324,143.06
Depreciation of fixed assets	788,728,229.86	911,752,658.06
Amortization of intangible assets	1,137,959.47	1,137,959.47
Amortization of long-term deferred expense	2,587.50	2,587.50
Amortization of deferred expense	241,585.36	233,395.54
Increase in accruals	-1,409,525.28	-1,405,795.65
Losses on disposal of fixed assets, intangible assets and other long-term assets (or deduct: gains)	-101,660,758.64	-102,390,459.93
Losses on scrapping of fixed assets	-	-
Financial expenses	138,634,476.22	155,266,157.86
Losses arising from investments (or deduct gains)	-190,613,439.39	-1,888,335.10
Deferred of tax credit (or deduct: debit)	-	-
Decrease in inventories (or deduct: increase)	-116,295,427.23	-122,923,673.15
Decrease in operating receivables (or deduct: increase)	302,588,087.94	33,546,135.08
Increase in operating payables (or deduct: decrease)	109,554,507.70	78,433,262.32
Others		
Net Cash flows from operating activities	3,624,009,110.59	3,671,052,588.89
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	602,710,187.38	1,177,926,740.95
Less: Cash at the beginning of the period	669,694,796.14	1,287,820,466.58
Plus: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
Net Increase in Cash and Cash Equivalents	-66,984,608.76	-109,893,725.63