

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. The enroll address is No.168,yuanshen road,Shanghai. At the end of June 1998, the Group issued 496 million new shares to its shareholders. 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, including churchyard state corporation stock is 1,680 million, outside come into the market foreign capital stock (Hongkong stock) is 1296 million, community public stock (A stock) is 3500 million.

The State Share Reform Proposal of China Shipping Development Company Limited was adopted by the relevant shareholder's meeting for the state share reform on 8 December 2005. Based on the consideration proposal for the state share reform, China Shipping (Group) Company ("CSC"), the sole shareholder of non-tradable shares of the Company, will offer 2.9 shares to each A shareholder for every 10 A tradable shares. CSC offers 101,500,000 shares in total to the holders of tradable A shares in the Company. The date of listing for consideration shares was 30 December 2005. After the consideration shares implemented, the shares number of CSC decreased to 1,578,500,000 from 1,680,000,000 and percentage of registered capital decreased to 47.46% from 50.51%.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 is prepared in accordance with the respective system. In the consolidated financial statements, the necessary adjustments have been made in accordance with Chinese Accounting Standards.

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.

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 stock taking method used 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 equity investment and debt investment. Long-term equity investment is initially at the actual payment.

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

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 investee enterprise.

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 investee 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 investee enterprise, otherwise is amortized over 10 years.

(continued)

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) 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) 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 lives.

The company has changed useful life and scalp rate on Vessels, seeing details in 2.20. The contrast sheet of 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	5~8 years	4%
Other equipments			4%

(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. 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 end 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.

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

- (1) 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 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. Subsidiary expense and exchange difference is allowed to directly capitalized when accrued.

2.16 Revenue recognition

Revenue is recognized when it is probable 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 Translation from Measurement Currency Financial statements to Presentation Currency

For the subsidiaries registered abroad which the financial statements presented with foreign currency, the holding company should translated all the items in the financial statements to the presentation currency according to the following principal, then consolidated the financial statements.

- (1) All the assets and liabilities accounts at the balance sheet date are translated into RMB at the market rates of exchange prevailing at the end of that period.
- (2) The equity accounts except for the "undistributed profit" are translated into RMB at exchange rate for the occurred date.
- (3) Undistributed profit is stated following the translation of profit and loss statement.
- (4) The translation difference between the assets, liabilities and equity is listed as separate item behind the "undistributed profit".

- (5) The opening balances are based on the last year's translation balance sheet.
- (6) All the items in the profit and loss statement are translated into RMB at the average exchange rate during the period.

2.20 Consolidated financial statements

According to the regulation 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(Expenses)

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

3.2 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 Shipping Industry Co., Ltd., the subsidiary company registered in Hai'an Economy Zone, is entitled to a preferential income tax of 15% effective. China Shipping Development (Hong Kong) Marine Co., Ltd., the subsidiary company registered in Hong Kong, is entitled to a preferential income tax of 17.5% effective.

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

Tax of city construction: 7%.

Education affixation:3%.

Maintenance for river way:1%.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.	40100	Project investment and management	95
Zhu'hai New Century Shipping Co., Ltd. (Note 2)	15000	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.

4.2 The consolidated companies and the alteration of consolidation

The financial statements of its joint venture Zhu'hai New Century Co., Ltd, Shanghai Friendship Shipping Co., Ltd and its subsidiary company China Shipping Development (Hong Kong) Marine Co., Ltd., Hai'nan Hai'xiang Investment Co., Ltd. have been consolidated.

As the total assets, revenue and net profit of its joint venture Zhu'hai New Century Shipping Co., Ltd, Shanghai Friendship Shipping Co., Ltd are less than 10% of the consolidated financial statement, according to the Chinese "Accounting Standards of Enterprise", they are not consolidated before. In 2005 the above subsidiaries were included in the consolidation financial statement in accordance with Accounting Standards of Hongkong due to the changes of Accounting Standards of Hongkong. For keeping conformability of consolidation, the above subsidiaries are included in the consolidation statements which adopted proportion method.

5. Sub-Organizations

The Company has sub-organizations, namely Tanker Company and Cargo Company, Tanker Company Guangzhou Branch. Collected by HQ, the individual reports are constituted to parent company's.

The unite bound of all organizations' actual investments are as followings:

The investment of China Shipping development(Hong Kong) Marine Co., Ltd. is USD 0.5 million. The investment of Hai'nan Hai'xiang Investment Co., Ltd. is RMB 381.87 million. The investment of Zhu'hai New Century Co., Ltd is RMB 75 million. The investment of Shanghai Friendship Shipping Co., Ltd is RMB 25 million.

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6. Notes to financial statements

(Expressed in RMB)

6.1 Cash and cash equivalents

Item	2005.12.31	2004.12.31
Cash on hand	1,062,493.06	2,045,455.12
Cash in bank	1,167,723,385.85	1,285,624,084.95
Cash equivalents	9,140,862.04	150,926.51
Total	1,177,926,740.95	1,287,820,466.58

Including the foreign currency:

Foreign currency	Original amounts	Exchange rate	Equivalent RMB
USD	60,540,468.87	8.0702	488,573,691.87
HKD	980,325.42	1.0403	1,019,832.53
EUR	46,080.08	9.5797	441,433.34
JPY	122,581.00	0.0687	8,421.31
GBP	9,200.00	13.8896	127,784.32

As at Dec. 31th, 2005 there are no material pledged, frozen, deposited abroad and limited convertibility cash that required to be disclosed in the financial statement.

6.2 Notes Receivable

Category of notes	2005.12.31	2004.12.31
Bank draft	20,500,000.00	9,340,000.00

No material pledged and impawned notes receivable that required to be disclosed in the financial statement up to the report date.

6.3 Accounts Receivable

Aging	2005.12.31	%	Provision for bad debts	2004.12.31	%	Provision for bad debts
< 1 year	208,734,087.59	92.05	6,262,022.63	164,002,417.43	86.08	4,920,072.52
1-2 years	-	-	-	54,325.64	0.03	5,432.56
>3 years	18,025,079.08	7.95	18,025,079.08	26,464,864.08	13.89	26,464,864.08
Total	226,759,166.67	100.00	24,287,101.71	190,521,607.15	100.00	31,390,369.16

The closing balance of accounts receivable aging over 3 years decrease 8,439,785.00 compared with the relevant amount in 2004 because the account receivables were recognized as bad debts.

There are no receivables due from the shareholders who have the ownership over 5%.

The top five customers of accounts receivable:

Customer name	2005.12.31	Description	Aging
Itochu Petroleum Company Limited.	12,274,000.00	Freight	<1 year
China Petroleum & Chemical Corporation Shanghai Gaoqiao Branch	11,723,000.00	Freight	<1 year
China National Offshore Oil Company	11,705,000.00	Freight	<1 year
China Petroleum & Chemical Corporation Jinling Branch	11,103,000.00	Freight	<1 year
Baosteel	10,524,803.10	Freight	<1 year

The total amount of top five is 57.33 million, 25% of the ending balance of accounts receivable as at 2005.12.31.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6.4 Other Receivables

Aging	2005.12.31	%	Provision for bad debts	2004.12.31	%	Provision for bad debts
< 1 year	34,811,438.42	81.46	348,114.38	36,877,131.98	78.51	368,771.32
1-2 years	1,665,312.65	3.90	16,653.12	7,537,419.69	16.05	75,374.20
2-3 years	4,213,827.17	9.86	42,138.27	232,500.00	0.49	2,325.00
>3 years	2,044,869.65	4.78	20,448.70	2,325,843.94	4.95	23,258.44
Total	<u>42,735,447.89</u>	<u>100.00</u>	<u>427,354.47</u>	<u>46,972,895.61</u>	<u>100.00</u>	<u>469,728.96</u>

There are no receivables due from the shareholders who have the ownership over 5%.

The amount aging over 3 years are long-term petty cash.

The top five items of other receivables:

Customer name	2005.12.31	Description	Aging
PICC	12,260,502.15	Accident Compensation	<1 year
Petty cash of foreign currency	5,284,472.58	Deposit	<1 year
Bunker oil for leased vessels	4,946,363.60	Bunker Oil	<1 year
CPIC	2,294,192.51	Accident Compensation	<1 year
Maritime Court	755,319.50	Deposit	<1 year

The total amount of top five items is 25.54million, 60% of the ending balance of other receivables as at 2005.12.31.

6.5 Advance to suppliers

Aging	2005.12.31	%	2004.12.31	%
< 1 year	128,571,919.88	99.78	199,943,319.88	98.58
1-2 years	281,137.46	0.22	31,912.44	0.02
2-3 years	-	-	350,000.00	0.17
>3 years	-	-	2,488,491.30	1.23
Total	<u>128,853,057.34</u>	<u>100.00</u>	<u>202,813,723.62</u>	<u>100.00</u>

There are no receivables due from the shareholders who have the ownership over 5%.

The top five customers of prepayments:

Customer name	2005.12.31	内容 Description	時間 Aging
SUPERDRAGONLTD.	71,532,893.91	Deposit	<1 year
JADEQUEEN NAIGATION INC.	25,937,450.58	Deposit	<1 year
China Shipping Agency Co., Ltd.	7,667,648.77	Deposit, port charge	<1 year
Jiangdu Jiantao Shipping Co., Ltd.	6,000,000.00	Ship rental	<1 year
China Shipping International Shipping Management Co., Ltd	5,401,795.39	Lease fee of seaman	<1 year

The total amount of top five items is 116.54million, 90.44% of the ending balance of the other receivables as at 2005.12.31.

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6.6 Inventories

Item	2005.12.31	2004.12.31
Bunker oil	266,701,401.91	143,777,728.76

6.7 Prepaid Expense

	2004.12.31	Adjustment for consolidation scope	Additions	Disposal	2005.12.31
Vehicle insurance	163,951.77	-	32,102.59	181,457.04	14,597.32
Road maintain fee	109,000.00	-	-	109,000.00	-
Others	1,080.00	36,577.50	390,026.65	401,645.24	26,038.91
Total	274,031.77	36,577.50	422,129.24	692,102.28	40,636.23

6.8 Long-term investments

Item	2004.12.31		Additions	Disposals	2005.12.31	
	Amount	Impairment			Amount	Impairment
Long-term equity investments	100,743,669.07	-	114,965.00	97,184,224.07	3,674,410.00	-

6.8.1 Stock investment

Name of stock	Nature of stock	Stock Quantity	% of investee's paid-in capital	2005.12.31
Yuan'shui Stock	Non-public	101,200	<5%	364,200.00

6.8.2 Other long-term equity investment

Investee	Term of investment	Ownership %	2004.12.31		2005.12.31	
			Beginning balance	Accumulated profit/loss	Beginning balance	Accumulated profit/loss
Shanghai Baojiang Shipping Co., Ltd.	Long-term	10%	4,000,000.00	4,000,000.00	-	4,000,000.00
Zhu'hai New Century Shipping Co., Ltd.	Long-term	50%	75,000,000.00	61,546,357.08	61,546,357.08	-
Shanghai Friendship Shipping Co., Ltd.	Long-term	50%	25,000,000.00	35,637,866.99	35,637,866.99	-
Total			104,000,000.00	101,184,224.07	97,184,224.07	4,000,000.00

Zhu'hai New Century Shipping Co., Ltd. and Shanghai Friendship Shipping Co., Ltd., are included in the consolidation scope in 2005, which caused the sharply decreased of ending balance.

6.8.3 Equity investment difference

Name of company	Beginning balance	Addition	Ending balance
Hai'nan Hai'xiang Investment Co., Ltd.	-804,755.00	114,965.00	-689,790.00

On 31 December 2001, the Company purchased 95% equity of Hai'nan Hai'xiang Investment Co., Ltd. from Shanghai Shipping (Group) Company paying RMB 49,368,700.00. At the end of 31 December 2001, the equity of Hai'nan Hai'xiang Investment Co., Ltd. was RMB 53,177,210.53; so the short-fall of the equity investment difference was RMB 1,149,650.00 and the amortization period was 10 years.