

# Notes to condensed 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, including 1,680 million state shares, 1.296 million shares H stock and 0.35 million A stock.

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, would offer 2.9 shares to each A shareholder for every 10 tradable A shares. CSC would offer 101,500,000 shares in total to all holders of tradable A shares of the Company. The date of listing for consideration shares was 30 December 2005. After the implementation of the shares consideration, the shares number of CSC decreased to 1,578,500,000 from 1,680,000,000 and the percentage of registered capital decreased to 47.46% from 50.51%.

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 (Hong Kong) Marine Co., Ltd., Han'nai Hai'xiang Shipping Industry Co., Ltd. and associates, namely Zhu'hai New Century Shipping Co., Ltd., Shanghai Friendship Shipping Co., Ltd., are prepared in accordance with the respective industry accounting 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 accrual basis. The basis of valuation is historical cost except special explanation.

# Notes to condensed consolidated financial statements

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### 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 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 either bankrupt or dead and the legacy is not sufficient to pay off.
- ② The debtors have not 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.

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.

# Notes to condensed consolidated financial statements

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### 2.9 Short-term investment

Short-term investments are initially recorded at the actual cost (including taxes, handling charges) . It does not consist of cash dividends which have been declared but unpaid (or the bond interest due but 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

#### 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.

#### 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 investee enterprise is amortized over the remaining business years of the investee enterprise, otherwise is amortized over 10 years.

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 investee 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.

# Notes to condensed consolidated financial statements

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## 2.11 Fixed assets and depreciation

The fixed assets include buildings, ships, vehicles with useful life over 1 year and other equipments or tools related to operation with unit price over RMB 2000 and useful life over 2 years. 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 useful life and annual depreciation rate on fixed assets is listed as following:

	Before change	
	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%

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 lag 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.

# Notes to condensed consolidated financial statements

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### 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

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.

# Notes to condensed consolidated financial statements

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### 2.15 Borrowing costs (Continued)

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.

#### 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

### 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.

# Notes to condensed consolidated financial statements

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### 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 the market rates of exchange prevailing at the end of that period.

### 2.20 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

- 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%;

# Notes to condensed consolidated financial statements

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## 4. Subsidiaries and Associated Companies

### 4.1 Subsidiaries and Associated Companies

Company name	Registered capital	Engaged business	% of registered capital
Hai'nan Hai'xiang Investment Co., Ltd.	RMB 401 million	Project in vestment and management	95
Zhu'hai New Century Shipping Co., Ltd.	RMB 290 million	Cargo shipment	50
Shanghai Friendship Shipping Co., Ltd.	RMB 50 million	Shipment, business in free-trade zone	50
China Shipping Development (Hong Kong) Marine Co., Ltd. (Note 1)	USD 500,000	Cargo shipment	99

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

### 4.2 The consolidated companies are described as follows:

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. 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 14.5 million. The investment of Shanghai Friendship Shipping Co., Ltd is RMB 25 million.

## 5. Sub-Organizations

The Company has three sub-organizations, namely Tanker Company, Cargo Company and Tanker Company Guangzhou Branch.



# Notes to condensed consolidated financial statements

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## 6. Notes to financial statements (Expressed in RMB)

### 6.1 Cash and cash equivalents

Item	<b>2006.06.30</b>	2005.12.31
Cash on hand	<b>1,422,422.37</b>	1,062,493.06
Cash in bank	<b>431,950,995.16</b>	1,167,723,385.85
Cash equivalent	<b>11,700,433.18</b>	9,140,862.04
Total	<b><u>445,073,850.71</u></b>	<u>1,177,926,740.95</u>

Including:

CURRENCY	ORIGINAL AMT.	EXCHANGERATE	CNY AMT.
USD	8,237,945.60	7.9956	65,867,317.84
HKD	362,059.17	1.0294	372,703.71
EUR	49,488.91	10.1313	501,386.99
JPY	122,581.00	0.0695	8,519.38
GBP	7,200.00	14.6332	105,359.04

As at Jun. 30<sup>th</sup>, 2006 there is 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	<b>2006.06.30</b>	2005.12.31
Bank draft	<b><u>18,032,926.78</u></b>	<u>20,500,000.00</u>

There're no material pledged and impawned notes receivable that required to be disclosed in the financial statement up to the report date.

# Notes to condensed consolidated financial statements (continued)

## 6.3 Accounts Receivable

Aging	2006.06.30	%	Provision for bad debts	2005.12.31	%	Provision for bad debts
< 1 year	347,513,501.39	95.09	10,425,405.04	208,734,087.59	92.05	6,262,022.63
>3 years	17,945,079.08	4.91	17,945,079.08	18,025,079.08	7.95	18,025,079.08
Total	<u>365,458,580.47</u>	<u>100.00</u>	<u>28,370,484.12</u>	<u>226,759,166.67</u>	<u>100.00</u>	<u>24,287,101.71</u>

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

The top five customers of accounts receivable:

Customer name	Amount	Description	Aging
China Petroleum & Chemical Corporation			
Shanghai Gaoqiao Branch	11,723,000.00	Freight	<1 year
China Petroleum & Chemical Corporation Jlinling Branch	11,103,000.00	Freight	<1 year
Fa Yuan Steel Furnace Material Trading Company Ltd.			
Trade Tree Zone, Zhang Jia Gang City	10,976,382.20	Freight	<1 year
Marubeni Petroleum Co., Ltd.	10,481,000.00	Freight	<1 year
Hannan Tongli Shipping Company	9,581,000.00	Freight	<1 year

## 6.4 Other Receivables

Aging	2006.06.30	%	Provision for bad debts	2005.12.31	%	Provision for bad debts
< 1 year	68,242,981.08	94.55	682,429.81	34,811,438.42	81.46	348,114.38
1-2 years	523,010.24	0.72	5,230.10	1,665,312.65	3.90	16,653.12
2-3 years	118,716.35	0.16	1,187.17	4,213,827.17	9.86	42,138.27
>3 years	3,294,403.00	4.57	32,944.03	2,044,869.65	4.78	20,448.70
Total	<u>72,179,110.67</u>	<u>100.00</u>	<u>721,791.11</u>	<u>42,735,447.89</u>	<u>100.00</u>	<u>427,354.47</u>

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

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

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

The top five items of other receivables:

Customer name	Amount	Description	Aging
PICC	26,817,546.76	Accident compensation	< 1 year
Ship deposit	10,814,938.07	Deposit	< 1 year
Bunker oil for leased vessels	7,591,376.23	Bunker oil	< 1 year
CPIC	6,791,991.41	Accident compensation	< 1 year
Petty cash of foreign currency	2,629,815.04	Deposit	<1 year

The total amount of top five items is 54.65million, 75.70% of the balance as at 2006.6.30.

# Notes to condensed consolidated financial statements

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### 6.5 Advance to suppliers

Aging	2006.06.30	%	2005.12.31	%
< 1 year	<b>189,896,339.65</b>	<b>97.40</b>	128,571,919.88	99.78
1-2 years	<b>5,034,536.84</b>	<b>2.58</b>	281,137.46	0.22
2-3 years	<b>37,393.74</b>	<b>0.02</b>	-	-
Total	<b><u>194,968,270.23</u></b>	<b><u>100.00</u></b>	<u>128,853,057.34</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	Amounts	Description	Aging
SUPERDRAGONLTD.	118,347,221.23	Deposit	<1 year
JADE QUEEN NAIGATION INC.	24,042,321.42	Deposit	< 1 year
China Shipping International Shipping Management Co., Ltd	21,826,761.23	Lease fees of seaman	< 1 year
China Shipping Agency Co., Ltd.	9,107,578.15	Deposit, port charge	< 1 year
Jiangdu Jiantao Shipping Co., Ltd.	5,047,523.86	Ship rental	< 1 year

### 6.6 Inventories

Item	2006.06.30	2005.12.31
Bunker oil	<b><u>306,123,341.59</u></b>	<u>266,701,401.91</u>

### 6.7 Prepaid expense

Item	Beginning bal	Increasing	Decreasing	Ending bal.
Insurance fee	14,597.32	23,190.45	22,343.81	15,443.96
Others	26,038.91	405,953.13	384,530.79	47,461.25
Total	<u>40,636.23</u>	<u>429,143.58</u>	<u>406,874.60</u>	<u>62,905.21</u>

### 6.8 Long-term investments

Item	2005.12.31		Additions	Disposals	2006.06.30	
	Amount	Impairment	Amount	Amount	Amount	Impairment
Long-term equity investment	<u>3,674,410.00</u>	<u>-</u>	<u>57,482.50</u>	<u>-</u>	<b><u>3,731,892.50</u></b>	<b><u>-</u></b>

# Notes to condensed consolidated financial statements (continued)

## 6.8 Long-term investments (Continued)

### (1) Long-term equity investment

#### a. Stock investment

Investee enterprise	Nature of stock	Stock Quantity	% of investee's registered capital	Amount of investment
Shanghai Yuan'shui Company	Non-public	101,200	< 5%	364,200.00

#### b. Other long-term equity investment

Investee	Term of investment	Ownership %	Cost of investment	Beginning balance	Other decreasing	Accumulated profit/loss	Ending balance
Shanghai Bao'jiang Shipping Co., Ltd.	Long-term	10%	4,000,000.00	4,000,000.00	-	4,000,000.00	4,000,000.00
<b>Total</b>	<b>Long-term</b>		<b>4,000,000.00</b>	<b>4,000,000.00</b>	<b>-</b>	<b>4,000,000.00</b>	<b>4,000,000.00</b>

#### c. Equity investment difference

Name of company	Beginning balance	Addition	Ending balance
Hai'nan Hai'xiang Investment Co., Ltd.	-689,790.00	-57,482.50	-632,307.50

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.

## 6.9 Fixed Assets and Accumulated depreciation

Initial costs	Beginning Balance	Additions	Disposals	<b>Ending Balance</b>
Buildings	14,137,571.05	10,350.00	-	<b>14,147,921.05</b>
Vessels	18,233,170,497.51	1,673,315,256.16	104,576,561.20	<b>19,801,909,192.47</b>
Vehicles	15,410,018.60	1,909,101.96	830,959.00	<b>16,488,161.56</b>
Others	49,532,788.08	2,113,895.76	754,542.44	<b>50,892,141.40</b>
<b>Total</b>	<b>18,312,250,875.24</b>	<b>1,677,348,603.88</b>	<b>106,162,062.64</b>	<b>19,883,437,416.48</b>

# Notes to condensed consolidated financial statements (continued)

## 6.9 Fixed Assets and Accumulated depreciation (Continued)

Accumulated depreciation	Beginning Balance	Additions	Disposals	Ending Balance
Buildings	1,059,751.46	176,578.98	-	<b>1,236,330.44</b>
Vessels	7,766,601,748.24	489,487,339.66	100,393,498.75	<b>8,155,695,589.15</b>
Vehicles	8,196,641.34	817,705.17	717,538.50	<b>8,296,808.01</b>
Others	38,426,752.49	3,862,092.36	602,538.82	<b>41,686,306.03</b>
Total	<u>7,814,284,893.53</u>	<u>494,343,716.17</u>	<u>101,713,576.07</u>	<u><b>8,206,915,033.63</b></u>
Impairment of fixed assets	936,268.00	-	-	<b>936,268.00</b>
Leasehold improvements	39,235,411.50	-	4,310,028.00	<b>34,925,383.50</b>
Net value	<u>10,536,265,125.21</u>			<u><b>11,710,511,498.35</b></u>

There were 17 vessels which the net value of these vessels was RMB 1,890.53 million mortgaged to get the bank loan RMB 1,315.54 million, including the 3 vessels with net value of RMB 100.41 million from associated company which got the loans RMB 60 million.

### 6.9.1 Leasehold improvements

Item	Cost of Fixed Assets	Beginning Balance	Additions	Disposals	Ending Balance
Special painting of "Da Qing 88"	13,669,240.00	10,582,637.39	-	2,645,682.00	7,936,955.39
Special painting of "Sun River" ballast tank	9,933,024.61	9,767,474.11	-	331,266.00	9,436,208.11
Special painting of "Song Lin Wan"	26,661,600.00	18,885,300.00	-	1,333,080.00	17,552,220.00
Total	<u>50,263,864.61</u>	<u>39,235,411.50</u>	<u>-</u>	<u>4,310,028.00</u>	<u>34,925,383.50</u>

## 6.10 Construction in progress

Name of construction	Budget RMB Million	Beginning Balance	Additions	Transferred to fixed assets	Ending Balance	Completion Percentage	Fund
Vessels purchase	7,869.75	865,698,218.19	1,443,451,480.08	777,180,214.01	1,531,969,484.26	10-40%	Self-financing
Including: Capitalization of borrowing cost	-	-	6,691,891.71	-	6,691,891.71	-	-
Improvement of vessels	30	-	41,800,000.00	41,800,000.00	-	-	-
Others	-	63,949.00	1,104,030.00	1,016,729.00	151,250.00	90%	Self-financing
Total		<u>865,762,167.19</u>	<u>1,486,355,510.08</u>	<u>819,996,943.01</u>	<u>1,532,120,734.26</u>		

## 6.11 Intangible Assets

Item	Costs	Beginning Balance	Additions	Amortization this year	Accumulated Amortization	Ending Balance	Period left
Housing use right	2,302,464.00	959,442.31	-	115,123.20	1,458,144.89	<b>844,319.11</b>	4 years
Land use right	4,145,716.00	3,537,677.45	-	41,457.18	649,495.73	<b>3,496,220.27</b>	42 years
Software	3,599,625.00	2,592,655.74	15,000.00	371,277.02	1,363,246.28	<b>2,236,378.72</b>	1-4.5 years
Total	<u>10,047,805.00</u>	<u>7,089,775.50</u>	<u>15,000.00</u>	<u>527,857.40</u>	<u>3,470,886.90</u>	<u><b>6,576,918.10</b></u>	

# Notes to condensed consolidated financial statements (continued)

## 6.12 Short-term Loans

Bank	2006.6.30 (RMB)	2005.12.31 (RMB)	Maturity	Rate	Notes
China Merchant bank	105,000,000.00	-	2006.9-11	4.860%	Credit
Bank of China	112,500,000.00	-	2006.10-11	4.860%	Credit
DNBNORBANKASA, SINGAPORE BRANCH	684,419,566.21	-	2006.7	Libor+0.4%	Credit
Shenzhen Development Bank	15,000,000.00	-	2007.2	5.022%	Vessels pledge
Industrial and Commercial Bank of China	100,000,000.00	-	2006.9	4.860%	Credit
China Minsheng banking Corp., Ltd.	20,000,000.00	-	2006.11	4.860%	Credit
<b>Total</b>	<b>1,036,919,566.21</b>	<b>-</b>			

The aboved loan is composed by USD loan 85.60 million and RMB loan 352.50 million, among which RMB loan 15 million is pledged by the company's vessels.

## 6.13 Account Payable

	2006.06.30	2005.12.31
Fuel and ports charges	<b>344,923,751.73</b>	218,260,349.54

There are no payables due to the shareholders who have the ownership over 5%.

The aging of ending balances:

Aging	2006.06.30	2005.12.31
< 1 year	342,662,101.53	216,100,991.72
1-2 years	125,201.40	-
2-3 years	-	22,909.02
> 3 years	2,136,448.80	2,136,448.80
<b>Total</b>	<b>344,923,751.73</b>	218,260,349.54

## 6.14 Advance from customers

Aging	2006.06.30	2005.12.31
< 1 year	37,710,151.44	31,876,002.46
1-2 years	171,282.74	358,662.09
2-3 years	297,742.06	50,000.00
> 3 years	2,031,071.87	1,981,071.87
<b>Total</b>	<b>40,210,248.11</b>	34,265,736.42

There are no payables due to the shareholders who have the ownership over 5%.

# Notes to condensed consolidated financial statements

(continued)

## 6.15 Taxes payable

Item	2006.06.30	2005.12.31
Income Tax	38,392,458.27	41,574,341.94
Sales Tax	14,806,794.01	14,586,198.46
Tax of city construction	1,025,064.27	1,009,368.93
Value Added Tax	5,087.57	-
Individual Income Tax	3,210,657.02	4,465,622.55
Vehicle & Vessel Tax	51,200.00	-
<b>Total</b>	<b>57,491,261.14</b>	<b>61,635,531.88</b>

## 6.16 Other tax payable

Item	2006.06.30	2005.12.31
Education affixation	444,356.38	437,585.89
Maintenance for river way	153,288.03	150,421.87
Stamp tax	580,243.34	210,664.26
Vehicle & Vessel tax affixation	798,998.90	484,156.49
<b>Total</b>	<b>1,976,886.65</b>	<b>1,282,828.51</b>

## 6.17 Other payables

Aging	2006.06.30	2005.12.31
< 1 year	166,153,665.81	226,093,747.84
1-2 years	481,730.36	923,853.09
2-3 years	435,372.53	265,539.13
> 3 years	5,092,720.40	5,287,246.10
<b>Total</b>	<b>172,163,489.10</b>	<b>232,570,386.16</b>

The main items of ending balance is listed as following:

Description	2006.06.30	2005.12.31
Staff benefit etc.	58,064,775.39	79,186,515.07
Foreign currency deposit of ship	5,039,933.83	3,192,353.13
The remaining payables for construction	68,766,321.60	134,611,457.75

The amount of the main items mentioned above is 131.87 million, 76.60% of the balance of other payable as at 2006.6.30.

# Notes to condensed consolidated financial statements (continued)

## 6.18 Accrued expenses

Item	2006.06.30	2005.12.31
Loan interest	9,040,966.32	3,353,053.84
Repair Fee	27,715,176.41	-
Insurance Fee	586,592.52	-
Bunker Lube	6,846,272.21	-
Materials	951,369.47	-
Others	225,581.58	64,025.89
<b>Total</b>	<b>45,365,958.51</b>	<b>3,417,079.73</b>

## 6.19 Long-term liabilities due within 1 year

Loan sort	2006.06.30	2005.12.31	Aging	Interest Rate	Notes
Bank loans	198,182,600.11	233,225,000.00	< 1 year	5.508%-6.39%	pledge/ Gurantee
Non-bank institution loans	53,706,843.41	37,130,852.92	< 1 year	3.25%	
<b>Total</b>	<b>251,889,443.52</b>	<b>270,355,852.92</b>			

Including the mortgaged loan RMB 143.55 million, USD 2.67 million.

## 6.20 Long-term loans

Bank	2006.06.30 (Equivalent RMB)	2005.12.31 (Equivalent RMB)	Maturity	Interstrate	Notes
ICBC	476,749,000.00	848,045,000.00	2007-2014	5.508-6.39%	Vesselspledge/Gurantee
Bank of China	439,830,000.00	488,700,000.00	2007-2015	5.508%	Vesselspledge
China Merchant bank	10,000,000.00	10,000,000.00	2008	5.56%	Vesselspledge
Citibank	394,447,295.25	-	2016	Libor+0.45%	Vesselspledge
<b>Total</b>	<b>1,321,026,295.25</b>	<b>1,346,745,000.00</b>			

Including the mortgaged loan RMB 741.22 million, USD 49.33 million.

The aging of long-term loans:

Aging	RMB loans
1-2 years	121,760,600.11
2-3 years	172,296,600.11
3-5 years	287,593,200.22
> 5 years	739,375,894.81
<b>Total</b>	<b>1,321,026,295.25</b>



## 6.21 Long-term payables

Item	Beginning Balance		Ending Balance	
	Original amount	RMB	Original amount	RMB
Finance Lease Payables	EUR2,906,982.72	27,848,022.36	EUR 968,992.19	9,817,150.57
Finance Lease Payables	USD 14,172,538.78	114,375,222.46	USD 11,267,734.26	90,092,296.05
Unrecognized financing expenses	-USD2,877,071.05	-23,276,943.30	USD-2,682,405.64	-21,447,442.53
<b>Total</b>		<b>118,946,301.52</b>		<b>78,462,004.09</b>

### 6.21.1 Finance Lease Payables

Enterprise	Term	Original amount	Interstrate	2006.06.30	2005.12.31
China Import & Export Bank	1995.5.23-2007.5.23	41,694,300(DEM)	3.25%		EUR968,992.20
China Import & Export Bank	1995.10.5-2007.10.5	41,694,300(DEM)	3.25%	<b>EUR 968,992.19</b>	EUR1,937,990.52
Foreview(HongKong)Ltd.	2005.10.22-2013.5.22	15,434,318.25(USD)		<b>USD 11,267,734.26</b>	USD14,172,538.78
<b>Total</b>				<b>RMB99,909,446.62</b>	<b>RMB142,223,244.82</b>

### 6.21.2 Unrecognized Financing Expenses

Original amount	Beginning Balance	Additions	Disposals	Ending Balance
-23,886,597.69	-23,276,943.30	-	-1,829,500.77	-21,447,442.53

## 6.22 Share capital

	Beginning Balance	Quantity: 10 thousand		Par Value: 1	Ending Balance
		Increase	Decrease		
1, Non-trading shares					
Including : State-shares	157,850	-	-		<b>157,850</b>
2. Tradable shares					
H shares	129,600	-	-		<b>129,600</b>
A shares	45,150	-	-		<b>45,150</b>
3. Total	332,600	-	-		<b>332,600</b>

# Notes to condensed consolidated financial statements (continued)

## 6.23 Capital surplus

Item	Beginning Balance	Increase	Decrease	Ending Balance
Share premium	2,023,877,878.95	-	-	<b>2,023,877,878.95</b>
Other	29,842,814.60	-	-	<b>29,842,814.60</b>
<b>Total</b>	<b>2,053,720,693.55</b>	<b>-</b>	<b>-</b>	<b>2,053,720,693.55</b>

## 6.24 General reserves

Item	Beginning Balance	Increase	Decrease	Ending Balance
Statutory surplus Reserve	764,710,818.90	626,125,701.99	-	<b>1,390,836,520.89</b>
Statutory public welfare reserve	626,125,701.99	-	626,125,701.99	-
Discretionary reserve	3,155,728.78	-	-	<b>3,155,728.78</b>
<b>Total</b>	<b>1,393,992,249.67</b>	<b>626,125,701.99</b>	<b>626,125,701.99</b>	<b>1,393,992,249.67</b>

According to the regulation(2006) 67 of Ministry of Finance ,The company transferred the Statutory public welfare reserve to the Statutory surplus Reserve since Jan 1st. 2006.

## 6.25 Retained earnings

	Amount
Retain earnings as at 2005.12.31	3,940,370,036.15
Net profit for the period	<u>1,298,616,631.83</u>
Distributable profit	5,238,986,667.98
Transfer to Statutory surplus reserve	-
Transfer to Statutory public welfare reserve	-
Distribute Dividends of 2005	<u>-997,800,000.00</u>
Retain earnings as at 2006.06.30	<u><b>4,241,186,667.98</b></u>

According to the resolution of Shareholder's Meeting, the dividend distribution for 2005 was RMB 0.30 (including taxes) per share. The total distribution of dividends was RMB 997,800,000.00 for 3,326 million shares as total share capital.