

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts - Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC) - INT 4	Determining whether an Arrangement contains a Lease
HK(IFRIC) - INT 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) - INT 6	Liabilities arising from Participating in a Specific Market -- Waste Electrical and Electronic Equipment

The adoption of these new and revised HKFRSs, HKASs and Interpretations has had no material impact on the Group’s results of operations or financial position.

2. REVENUE

During the Period, the Group was involved in the following principal activities:

- (a) investment holding; and
- (b) oil and cargo shipment along the PRC coast and international shipment.

Notes to The Interim Condensed Consolidated Financial Statements

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2. REVENUE (continued)

There is no major seasonality for the Group's turnover. An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of operations for the Period is as follows:

	For the six months ended 30 June			
	2006		2005	
	(Unaudited)		(Unaudited)	
By activity:	Revenue Rmb'000	Contribution Rmb'000	Revenue Rmb'000	Contribution Rmb'000
Oil shipment				
Coal shipment	2,569,063	902,952	2,204,690	938,765
Other dry bulk shipment	1,577,451	506,636	1,534,276	699,772
	446,128	180,910	461,812	280,587
	4,592,642	1,590,498	4,200,778	1,919,124
Other income and gains		151,671		195,499
Administrative expenses		(110,022)		(114,436)
Other expenses		(71,106)		(64,713)
Finance costs		(52,051)		(65,789)
Profit before tax		1,508,990		1,869,685

	For the six months ended 30 June			
	2006		2005	
	(Unaudited)		(Unaudited)	
By geographical area:	Revenue Rmb'000	Contribution Rmb'000	Revenue Rmb'000	Contribution Rmb'000
Domestic	2,677,770	782,061	2,581,320	1,072,498
International	1,914,872	808,437	1,619,458	846,626
	4,592,642	1,590,498	4,200,778	1,919,124
Other income and gains		151,671		195,499
Administrative expenses		(110,022)		(114,436)
Other expenses		(71,106)		(64,713)
Finance costs		(52,051)		(65,789)
Profit before tax		1,508,990		1,869,685

Notes to The Interim Condensed Consolidated Financial Statements

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3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2006 (Unaudited) Rmb'000	2005 (Unaudited) Rmb'000
Gain on disposal of property, plant and equipment	54,046	80,500
Interest income	12,906	10,097
Rental income from leased vessels	37,517	39,045
Service income from vessel management	7,860	7,661
Sales of coal	26,876	37,009
Others	12,466	21,187
	151,671	195,499

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	For the six months ended 30 June	
	2006 (Unaudited) Rmb'000	2005 (Unaudited) Rmb'000
Cost of shipping services rendered:		
Bunker oil inventories consumed and port fees	1,544,092	1,040,109
Depreciation	505,283	433,761
Operating lease rentals:		
Land and buildings	11,147	11,248
Vessels	161,038	97,341
	172,185	108,589
Staff costs	361,840	304,816

5. FINANCE COSTS

	For the six months ended 30 June	
	2006 (Unaudited) Rmb'000	2005 (Unaudited) Rmb'000
Total interest	52,051	72,181
Less: Interest capitalised	-	(6,392)
Interest expenses	52,051	65,789

Notes to The Interim Condensed Consolidated Financial Statements

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6. TAX

Pursuant to a directive 1998 (250) jointly issued by the Shanghai State Tax Bureau and Shanghai Bureau of Finance on 8 October 1998, the Company is entitled to a preferential income tax rate of 15% effective from 1 January 1998. Accordingly, PRC income has been provided at the rate of 15% (six months ended 30 June 2005: 15%) on the estimated assessable profits for the Period.

No Hong Kong profits tax has been provided as no assessable profit was earned in or derived from Hong Kong during the Period (six months ended 30 June 2005: No assessable profit was earned). Taxes on profits assessable elsewhere, if applicable, have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	Rmb'000	Rmb'000
Group:		
Hong Kong	-	-
PRC	213,575	263,232
	213,575	263,232
Tax charge for the Period	213,575	263,232

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company, its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rates is as follows:

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	Rmb'000	Rmb'000
Accounting profit before tax	1,508,990	1,869,685
Tax at the applicable tax rate of 15% (2005: 15%)	226,349	280,453
Tax effect of net income that is not taxable in determining taxable profit	(12,774)	(17,221)
	213,575	263,232
Tax charge at the Group's effective rate	213,575	263,232

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent for the Period of Rmb1,293,741,000 (six months ended 30 June 2005: Rmb1,604,549,000) and the number of shares of 3,326,000,000 (six months ended 30 June 2005: 3,326,000,000) in issue during the Period.

Diluted earnings per share for the six-month periods ended 30 June 2005 and 2006 have not been presented as no diluting events existed during these periods.

Notes to The Interim Condensed Consolidated Financial Statements (continued)

8. DIVIDEND PER SHARE

The directors do not recommend the payment of interim dividend (six months ended 30 June 2005: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the Period, the construction of three oil tankers at a total cost of Rmb691,603,000 (six months ended 30 June 2005: three oil tankers at a total cost of Rmb1,088,943,000 and four cargo vessels at a total cost of Rmb579,790,000) was completed and these vessels have been put into operation. Meanwhile, a second-hand oil tanker at a cost of Rmb859,342,000 and a second-hand cargo vessel at a cost of Rmb174,950,000 were purchased from third parties (six months ended 30 June 2005: Nil).

Two oil tankers with net book value of Rmb1,353,000 in aggregate and a cargo vessel with net book value of Rmb753,000 were disposed of to two third parties, and two oil tankers with net book value of Rmb1,450,000 in aggregate were disposed of to two fellow subsidiaries. (A cargo vessel with net book value of Rmb7,255,000 was disposed of to a third party, and three oil tankers with net book value of Rmb17,063,000 in aggregate were disposed of to two fellow subsidiaries; in addition, a cargo vessel with net book value of nil was scrapped during the six months ended 30 June 2005.)

10. TRADE AND BILLS RECEIVABLES

	<u>30 June 2006</u>		<u>31 December 2005</u>	
	Balance (Unaudited) Rmb'000	Percentage (Unaudited)	Balance (Audited) Rmb'000	Percentage (Audited)
Within one year	353,411	95	231,038	93
One to two years	-	-	-	-
Beyond two years	16,995	5	16,995	7
	370,406	100	248,033	100
Provision for doubtful debts	(20,107)		(20,120)	
Trade and bills receivables, net	350,299		227,913	

The Group normally allows a credit period of 30 days to its major customers.

Notes to The Interim Condensed Consolidated Financial Statements (continued)

11. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2006	
	Contract/ notional amount Rmb'000	Fair Values Liabilities Rmb'000
Cross currency swap agreements	935,715	20,237

The carrying amounts of forward currency contracts are the same as their fair values.

Cash flow hedges

As at 30 June 2006, the Group held two cross currency swap agreements designated as hedges in respect of expected future JPY bank loans which the Group has firm commitments.

The terms of the cross currency swap agreements have been negotiated to match the terms of the commitments. The cash flow hedges of the expected future JPY bank loans were assessed to be highly effective.

12. TRADE PAYABLES

	30 June 2006		31 December 2005	
	Balance (Unaudited) Rmb'000	Percentage (Unaudited)	Balance (Audited) Rmb'000	Percentage (Audited)
Within one year	338,620	99	214,449	99
One to two years	278	-	302	-
Beyond two years	2,137	1	2,137	1
	341,035	100	216,888	100

13. CONTINGENT LIABILITIES

- (i) In September 2004, the Company was sued by three Korean banks, claiming WON11,974,643,000 (equivalent to Rmb81,689,000) in compensation for their losses arising from the letters of credit issued in connection with a shipment of crude oil by the Company from the PRC to Korea. The Company has made provision for the estimated loss from this claim taking into consideration the proceeds of WON5,150,000,000 (equivalent to Rmb40,000,000) from the disposal of the relevant oil in March 2005, which could be used to offset part of the loss.
- (ii) In March 2005, one of the Company's cargo vessels "Hualing" collided with a vessel of a German company. In June 2005, the Company was sued by the German company, claiming US\$10 million (equivalent to approximately Rmb80 million) in compensation for the losses arising from the accident. The Company has made provision for the estimated loss from the claim taking into consideration the amount that could be compensated by the insurance company.

Notes to The Interim Condensed Consolidated Financial Statements (continued)

14. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its vessels under operating lease arrangements, with leases negotiated for terms ranging from one to twelve years.

As at 30 June 2006, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2006 (Unaudited) Rmb'000	31 December 2005 (Audited) Rmb'000
Within one year	69,037	75,283
In the second to fifth years, inclusive	40,466	78,875
After five years	-	-
	<u>109,503</u>	<u>154,158</u>

(b) As lessee

The Group entered into non-cancellable operating lease arrangements on vessels, vehicles and buildings. The leases are negotiated for terms ranging from six months to five years.

As at 30 June 2006, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2006 (Unaudited) Rmb'000	31 December 2005 (Audited) Rmb'000
Within one year	126,449	221,680
In the second to fifth years, inclusive	42,277	120,909
	<u>168,726</u>	<u>342,589</u>

In addition, the Group's share of the jointly-controlled entities' total future minimum lease payments under non-cancellable operating leases is as follows:

	30 June 2006 (Unaudited) Rmb'000	31 December 2005 (Audited) Rmb'000
Within one year	62,987	56,165
In the second to fifth years, inclusive	30,758	23,754
	<u>93,745</u>	<u>79,919</u>

Notes to The Interim Condensed Consolidated Financial Statements

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15. COMMITMENTS

In addition to the operating lease commitments detailed in note 14(b) above, the Group had the following capital commitments at the balance sheet date:

	30 June 2006 (Unaudited) Rmb'000	31 December 2005 (Audited) Rmb'000
Contracted, but not provided for:		
Construction of vessels	5,040,330	1,881,664
Renovation of vessels	9,500	-
	5,049,830	1,881,664
Authorized, but not contracted for:		
Renovation of vessels	-	31,200
Capital contributions payable to jointly-controlled entities	-	70,000
	5,049,830	1,982,864

In addition, the Group's share of the jointly-controlled entities' capital commitments at the balance sheet date is as follows:

	30 June 2006 (Unaudited) Rmb'000	31 December 2005 (Audited) Rmb'000
Contracted, but not provided for:		
Construction of vessels	1,170,556	189,246
Purchase of vessels	-	67,991
Renovation of vessels	-	15,365
Total	1,170,556	272,602

16. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN HONG KONG ("HK GAAP") AND PRC ACCOUNTING STANDARDS

The Group has prepared a separate set of financial statements for the Period in accordance with PRC accounting standards. The major differences between the financial statements prepared under PRC accounting standards and HK GAAP are set out as follows:

	For the six months ended 30 June	
	2006 (Unaudited) Rmb'000	2005 (Unaudited) Rmb'000
Net profit attributable to equity holders of the parent prepared under HK GAAP	1,293,741	1,604,549
Adjustments for depreciation, gain on disposal of vessels and deferred staff expenditures, etc.	4,876	3,008
Net profit attributable to equity holders of the parent prepared under PRC accounting standards	1,298,617	1,607,557

Notes to The Interim Condensed Consolidated Financial Statements

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16. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN HONG KONG (“HK GAAP”) AND PRC ACCOUNTING STANDARDS (continued)

	30 June 2006 (Unaudited)	31 December 2005 (Audited)
	Rmb'000	Rmb'000
Equity attributable to equity holder of the parent prepared under HK GAAP	11,121,749	10,848,721
Adjustments for revaluation surplus, depreciation, gain on disposal of vessels and deferred staff expenditure, etc.	(112,269)	(137,497)
Equity attributable to equity holder of the parent prepared under PRC accounting standards	11,009,480	10,711,224

17. THE ULTIMATE HOLDING COMPANY

In the opinion of the directors, the ultimate holding company of the Company is China Shipping (Group) Company (“China Shipping”), a state-owned enterprise established in the PRC.

18. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, business transactions between the Group and its holding company, fellow subsidiaries, jointly-controlled entities as well as related parties for the Period, which are also considered by the directors as connected transactions, are set out as below:

- (1) A Services Agreement dated 3 April 2001 between the Company and China Shipping became effective subsequent to an approval by the independent shareholders at an extraordinary general meeting held on 22 May 2001. Pursuant to the Services Agreement and a supplementary agreement entered into on 8 January 2004, China Shipping (or its subsidiaries and jointly-controlled entities) will provide to the Group the necessary supporting shipping materials and services for the ongoing operations of the Group, including the provision of dry-docking and repairs services, lubricating oil, fresh water supplies, raw materials and bunker oil, as well as other services. The Services Agreement is effective for a period of ten years. The service fees under the Services Agreement should be determined (after arm’s length negotiations) with reference to, depending on applicability and availability, either State-fixed price, market price or cost.

Notes to The Interim Condensed Consolidated Financial Statements

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18. RELATED PARTY TRANSACTIONS (continued)

Further details of the principal amounts paid by the Group to China Shipping, its subsidiaries or jointly-controlled entities in respect of the Services Agreement for the Period are set out as below:

		For the six months ended 30 June	
		2006	2005
Pricing basis		Total value	Total value
		(Unaudited)	(Unaudited)
		Rmb'000	Rmb'000
Dry-docking and repairs	State-fixed prices or market prices	131,064	175,848
Supply of lubricating oil, fresh water supplies, raw materials, bunker oil, mechanical and electrical engineering, ship stores and repairs and maintenance services for life boats	Market prices	803,127	556,601
White washing and oily water treatment for vessels	State-fixed prices or market prices	5,122	4,247
Installation, repairs and maintenance of telecommunication and navigational services	State-fixed prices	11,565	11,764
Hiring of sea crew	Market prices	97,245	88,953
Accommodation, lodging and transportation for employees	Market prices	414	2,966
Medical services (for existing employees)	State-fixed prices	651	595
Miscellaneous management services	Market prices	20,828	18,136
Agency commissions	Market prices	31,500	30,224
Service fees on sale and purchase of vessels, accessories and other equipment	Market prices	1,640	2,763

In connection with the above transactions and for other operating purposes, the Group made prepayments/advances to subsidiaries and jointly-controlled entities of China Shipping from time to time.

Notes to The Interim Condensed Consolidated Financial Statements (continued)

18. RELATED PARTY TRANSACTIONS (continued)

- (2) Save for the connected transactions outlined above, details of other connected transactions with the holding company, fellow subsidiaries, jointly-controlled entities and related companies are as follows:

		For the six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited)
Notes		Rmb'000	Rmb'000
Vessel chartering charges paid	(a)	45,674	50,432
Agency commissions paid		431	405
Sale of vessels	(b)	(25,633)	(97,896)
Vessel chartering income received	(c)	(54,102)	(50,394)
Vessel management fees	(d)	(5,641)	(5,641)

Notes:

- (a) The Group has entered into the following agreements:

- a time charter party agreement on 22 December 2004 with one of its fellow subsidiaries, namely China Shipping (Hong Kong) Holdings Co., Ltd., whereby the Company has agreed to lease from this fellow subsidiary a vessel for a term of three years commencing 1 January 2005. The charter payment for this vessel for the Period was Rmb27,753,000.
- a time charter party agreement on 22 December 2004 with one of its fellow subsidiaries, namely Shanghai Shipping Industrial Co., Ltd., whereby the Company has agreed to lease from this fellow subsidiary a vessel for a term of three years commencing 1 January 2005. The charter payment for this vessel for the Period was Rmb13,921,000.
- a time charter party agreement with one of its fellow subsidiaries, namely Zhuhai Shipping Enterprise Co., Ltd., in prior year, whereby the Company has agreed to lease from this fellow subsidiary a vessel for a term commencing 1 January 2002 and ending on the scrap date of the vessel. The charter payment for this vessel for the Period was Rmb4,000,000.

- (b) The Company and one of its fellow subsidiaries, namely Yuzhou Ship Dismantling Company Limited, entered into a sale and purchase agreement on 21 April 2006, whereby the Company has agreed to sell and the fellow subsidiary has agreed to purchase an oil tanker, and thereafter to dismantle it for scrap metal. The consideration for the sale of this vessel was Rmb10,245,000 as determined based on the market price of scrap metal.

In addition, the Company and one of its fellow subsidiaries, namely Digang Dili Material Recovery Company ("Dili Recovery Company"), entered into a sale and purchase agreement on 22 December 2005, whereby the Company has agreed to sell and Dili Recovery Company has agreed to purchase an oil tanker, and thereafter to dismantle it for scrap metal. The consideration for the sale of the vessel was Rmb15,388,000 as determined based on the market price of scrap metal.

Notes to The Interim Condensed Consolidated Financial Statements

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18. RELATED PARTY TRANSACTIONS (continued)

(c) The Company has entered into the following agreements:

- together with one of its subsidiaries, namely China Shipping Development (Hong Kong) Marine Co., Limited (“China Shipping Hong Kong”), various bare-boat charter party agreements on 22 December 2004 with one of their fellow subsidiaries, namely China Shipping Container Liners Co., Ltd. (“CSC”), whereby the Company and China Shipping Hong Kong have agreed to lease to this fellow subsidiary four and five vessels for a term of three years commencing 1 January 2005, respectively. The chartering income for these vessels for the Period was Rmb31,970,000.
- various bare-boat charter party agreements in year 1998 with one of its fellow subsidiaries, namely CSC, whereby the Company has agreed to lease to this fellow subsidiary three vessels for a term of 12 years commencing 4 September 1998, 18 September 1998 and 23 September 1998, respectively, with a total consideration of Rmb1,260,000.
- a time charter party agreement with one of its jointly-controlled entities, namely Shanghai Times Shipping Co., Ltd. (“Times Shipping”), whereby Times Shipping has agreed to lease from the Company a vessel for a term of one year commencing 1 January 2006. The charter payment for this vessel for the Period was Rmb15,774,000.
- a bare-boat charter party agreement with one of its jointly-controlled entities, namely Shanghai Friendship Marine Co., Ltd. (“Friendship”), whereby Friendship has agreed to lease from the Company a vessel for a term of two years commencing 21 December 2005. The charter payment for this vessel for the Period was Rmb2,500,000.
- a bare-boat charter party agreement in year 2005 with one of its fellow subsidiaries, namely Shanghai Puhai Marine Co., Ltd., whereby the Company has agreed to lease to this fellow subsidiary a vessel for a term of one year. The chartering income for this vessel for the Period was Rmb600,000.
- certain voyage charter party agreements with New Century, whereby New Century has agreed to engage the Company voyage charter services in the Period. The chartering income for these voyage charter services for the Period was Rmb1,998,000.

(d) Management of cargo vessels

On 27 May 1998, the Company entered into two Cargo Vessels Management Agreements with Dalian Shipping (Group) Company (“Dalian Shipping”) and Guangzhou Maritime Transport (Group) Company Limited (“Guangzhou Maritime”) for the management of their 15 and 57 cargo vessels (the “Cargo Vessels”), respectively. Each of the Cargo Vessels Management Agreements contains an option exercisable by the Company at any time prior to the expiration thereof to acquire any of the Cargo Vessels, and under which the Company has a right of first refusal in respect of any proposed sale of the Cargo Vessels. In the event that Dalian Shipping or Guangzhou Maritime ceases to own any of the Cargo Vessels, the management fees shall be reduced accordingly by the percentage represented by the tonnage of the disposed vessels to total tonnage of the Cargo Vessels.

On 22 June 2005, the Company entered into two supplementary agreements with Guangzhou Maritime and Dalian Shipping, respectively. According to these agreements, Guangzhou Maritime should pay the Company Rmb4,600,000 for the management of its cargo vessels during the Period, while Dalian Shipping should pay Rmb1,041,000 for similar service in the same period.

Notes to The Interim Condensed Consolidated Financial Statements

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18. RELATED PARTY TRANSACTIONS (continued)

- (e) Pursuant to two bare-boat charter-party agreements both dated 20 October 1994, Shanghai Shipping (Group) Company (“Shanghai Shipping”, the former holding company and now a fellow subsidiary) agreed to charter two vessels to the Company from their respective dates of delivery to the Company, until full repayment of the principal and interest of the related loans borrowed by Shanghai Shipping to purchase the vessels, and under which, on due completion of the charters, the vessels will become the Company’s property. The vessels were delivered to the Company on 1 January 1996. The principal amounts to be paid each year until 2007 amount to approximately DM7.6 million. With the currency reform in Europe starting from 1 January 2002, the principal amounts re-denominated to EURO are approximately EURO 3.9 million.

- (f) Pursuant to the share transfer agreement entered into between the Company and China Shipping on 9 September 2002, the Company transferred its 25% equity interests in CSC to China Shipping at a consideration of Rmb1. The Company is entitled to an option to buy back from China Shipping all or part of the disposed interests in CSC at terms and consideration to be agreed between the two parties (“the Option”). It was resolved in a board meeting of the Company on 8 January 2004 that the Company will not exercise the Option within three years from the date when CSC was converted into a joint stock limited company, which was on 3 March 2004.

19. APPROVAL OF INTERIM FINANCIAL REPORT

These interim condensed consolidated financial statements were approved and authorized for issue by the board of directors on 22 August 2006.