

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'nan 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. Shanghai Time Shipping Co., Ltd., the subsidiary company registered in Pu Dong New District, is entitled to a preferential income tax rate of 15%.

3.3 Tax of city construction: 7%.

3.4 Education affixation:3%.

3.5 Maintenance for river way:1%.

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

會計報表附注(續)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

4. Subsidiaries and Associated Companies

4.1 Subsidiaries and Associated Companies

Company name	註冊資本 (萬元) Registered capital(0'000)	經營範圍 Engaged business	占註冊資 本比例 % % of registered capital
Hai'nan Hai'xiang Investment Co., Ltd. (Note 2)	40,100	Project investment and management	95
Shanghai Time Shipping Co., Ltd. (Note 2)	120,000	Cargo shipment,	50
Zhu'hai New Century Shipping Co., Ltd.	29,000	Cargo shipment	50
Shanghai Friendship Shipping Co., Ltd.	5,000	Shipment, business in free-trade zone	50
China Shipping Development (Hong Kong) Marine Co., Ltd. (Note 1)	USD50	Cargo shipment	99

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

Note 2: Hai'nan Hai'xiang Investment Co., Ltd., the subsidiary company, transferred its equity capital of 50% of Shanghai Time Shipping Co., Ltd. to China Shipping Development Co., Ltd., then it came into liquidation procedure on 20 November, 2006.

4.2 The consolidated companies and the alteration of consolidation

Hai'nan Hai'xiang Investment Co., Ltd., the subsidiary company, transferred its 50% of equity capital of Shanghai Time Shipping Co., Ltd. to China Shipping Development Co., Ltd., then it came into liquidation procedure on 20 November, 2006, so it's not included in the consolidated scope. As Shanghai Time Shipping Co., Ltd. has been consolidated in 2006.

China Shipping Development (Hong Kong) Marine Co., Ltd., the subsidiary company, has been consolidated. The financial statements of its joint venture Zhu'hai New Century Co., Ltd, Shanghai Friendship Shipping Co., Ltd and Shanghai Time Shipping Co., Ltd. have been consolidated with proration method.

The effective investment of the companies above-mentioned in the consolidated scope is as follows:

會計報表附注(續)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

China Shipping Development (Hong Kong) Marine Co., Ltd. was invested USD 0.5 million, Shanghai Time Shipping Co., Ltd. was invested RMB 692.1323 million, Zhu'hai New Century Shipping Co., Ltd. was invested RMB 145 million, Shanghai Friendship Shipping Co., Ltd. was invested RMB 25 million.

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.

6. Notes to financial statements

(Expressed in RMB)

6.1 Cash and cash equivalents

Item	2006.12.31	2005.12.31
Cash on hand	1,049,111.87	1,062,493.06
Cash in bank	662,641,949.50	1,167,723,385.85
Cash equivalents	86,582.78	9,140,862.04
Total	663,777,644.15	1,177,926,740.95

Including the foreign currency:

Foreign currency	原幣金額 Original amounts	匯率 Exchange rate	折合人民幣 Equivalent RMB
USD	23,267,277.48	7.8087	181,687,189.66
HKD	166,595.97	1.0047	167,378.97
EUR	54,212.34	10.2665	556,570.99
GBP	9,200.00	15.3232	140,973.44
JPY	122,581.00	0.0656	8,041.31

As at Dec. 31st, 2006 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	2006.12.31	2005.12.31
Bank draft	21,448,931.79	20,500,000.00

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	2006.12.31	占 %	壞帳準備 Provision for bad debts	2005.12.31	占 %	壞帳準備 Provision for bad debts
< 1 year	409,783,877.26	97.77	12,293,516.32	208,734,087.59	92.05	6,262,022.63
1-2 years	27,809,10	0.01	2,780.91	-	-	-
2-3 years	-	-	-	-	-	-
>3 years	9,339,513.47	2.23	9,339,513.47	18,025,079.08	7.95	18,025,079.08
Total	419,151,199.83	100.00	21,635,810.70	226,759,166.67	100.00	24,287,101.71

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

會計報表附注(續)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The top five customers of accounts receivable:

Customer name	2006.12.31	欠款內容 Description	欠款時間 Aging
Yangzhou the second Dynamoelectric Co., Ltd.	16,306,370.20	運費 Freight	一年以內 <1 year
Shanghai Guilong Shipping Development Co., Ltd.	15,005,000.00	運費 Freight	一年以內 <1 year
Shanghai Electric Power Co., Ltd.	11,827,325.40	運費 Freight	一年以內 <1 year
Ningbo China Offshore Oil Shipping Co., Ltd.	10,342,000.00	運費 Freight	一年以內 <1 year
Huaneng International Power Co., Ltd. Dalian Branch.	9,841,071.26	運費 Freight	一年以內 <1 year

The total amount of top five is RMB 63.32 million, presented 15% of the balance as at 2006.12.31.

6.4 Other Receivables

Aging	2006.12.31	占% %Provision for	壞帳準備 bad debts	2005.12.31	占% %Provision for	壞帳準備 bad debts
< 1 year	332,243,049.05	99.18	3,322,430.49	34,811,438.42	81.46	348,114.38
1-2 years	2,305,550.30	0.69	23,055.50	1,665,312.65	3.90	16,653.12
2-3 years	-	-	-	4,213,827.17	9.86	42,138.27
>3 years	438,716.35	0.13	4,387.17	2,044,869.65	4.78	20,448.70
Total	<u>334,987,315.70</u>	<u>100.00</u>	<u>3,349,873.16</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 amount aging over 3 years are long-term petty cash.

The closing balance is 7.8 times to the closing balance of 2005, because it exists other receivables of selling ship which named JianShe #33~#36 of RMB 231.45 million, the contract of selling ship was effected on 30 December, 2006. The amount of other receivables received on 20 March, 2007.

The top five items of other receivables:

Customer name	2006.12.31	内容 Description	時間 Aging
China Shipping Hai'sheng Co., Ltd.	231,445,682.49	售船款 Selling shipping	一年以内 <1 year
PICC	35,735,207.59	未結案事故費 Accident compensation	一年以内 <1 year
Sailor Board Wages	6,506,293.91	備用金 Deposit	一年以内 <1 year
Petty cash of foreign currency	3,836,635.64	備用金 Deposit	一年以内 <1 year
CPIC	2,257,441.59	未結案事故費 Accident compensation	一年以内 <1 year

The total amount of top five items is 279.78million, 83.50% of the balance of other receivables as at 2006.12.31.

6.5 Advance to suppliers

Aging	2006.12.31	占 % %	2005.12.31	占 % %
< 1 year	816,367,816.20	99.98	128,571,919.88	99.78
1-2 years	176,641.82	0.02	281,137.46	0.22
Total	<u>816,544,458.02</u>	<u>100.00</u>	<u>128,853,057.34</u>	<u>100.00</u>

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

會計報表附注(續)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The top five customers of prepayments:

Customer name	2006.12.31	內容 Description	時間 Aging
Guangzhou Maritime (Group) Co., Ltd.	411,802,838.40	收購船款 Purchase cargo	一年以內 <1 year
SUPER DRAGON LTD.	153,007,856.38	備用金 Deposit	一年以內 <1 year
Dalian Shipping (Group) Co., Ltd.	115,545,331.50	收購船款 Purchase cargo	一年以內 <1 year
China Shipping International Shipping Management Co., Ltd.	83,358,517.23	船員租金 Ship rental	一年以內 <1 year
JADE QUEEN NAVIGATION INC.	31,654,306.32	備用金 Deposit	一年以內 <1 year

The total amount of top five items is 795.37million, 97.41% of the balance of the other receivables as at 2006.12.31.

6.6 Inventories

Item	2006.12.31	2005.12.31
Bunker oil	203,212,387.51	266,701,401.91

6.7 Prepaid Expense

	2005.12.31	本期增加 Increasing	本期攤銷 Decreasing	2006.12.31
Vehicle insurance	14,597.32	60,559.19	45,836.54	29,319.97
Vessel insurance	17,638.91	1,330,420.67	614,330.74	733,728.84
Others	8,400.00	1,207,876.80	1,194,610.13	21,666.67
Total	40,636.23	2,598,856.66	1,854,777.41	784,715.48

6.8 Long-term investments

Item	2005.12.31		本期增加	本期减少	2006.12.31	
	金額	減值準備	Additions	Disposals	金額	減值準備
	Amount	Impairment			Amount	Impairment
Long-term equity investments	3,674,410.00	—	77,868,774.35	-689,790.00	82,232,974.35	—

6.8.1 Stock investment

Name of stock	股份性質 Nature of stock	股票數量 Stock Quantity	占被投資公司 註冊資本比例	2006.12.31
			% of investee's paid-in capital	
Yuan'shui Stock	Corporation share 法人股	101,200	5% 以下 <5%	364,200.00
China Merchants Energy Shipping Co., Ltd	limited tradable share 限售流通 A 股	20,000,000	5% 以下 <5%	74,200,000.00
Total				74,564,200.00

6.8.2 Other long-term equity investment

Investee	投資期限	母公司持 股比例	投資成本	2005.12.31	增加 投資額	本期損 益調整	本期股 利分配	其他因 素減少	2006.12.31
	Term of investment	Ownership %	Cost of investment						
Shanghai Baojiang Shipping Co., Ltd.	長期 Long-term	10%	4,000,000.00	4,000,000.00	—	—	—	—	4,000,000.00

會計報表附注(續)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

6.8.3 Equity investment difference

Name of company	2005.12.31 Beginning balance	本期增加 Addition	本期減少 Disposals	2006.12.31 Ending balance
Hai'nan hai'xiang Investment Co., Ltd.(note 1)	-689,790.00	-	-689,790.00	-
Shanghai Time Shipping Co., Ltd.(note 2)	-	3,668,774.35	-	3,668,774.35
Total	<u>-689,790.00</u>	<u>3,668,774.35</u>	<u>-689,790.00</u>	<u>3,668,774.35</u>

Note 1: Hai'nan Hai'xiang Investment Co., Ltd., the subsidiary company, came into the liquidation procedure on 20 November, 2006. The book value of investment was written off.

Note 2: The difference was caused because China Shipping Development Co., Ltd. acquired 50% equity of Shanghai Time Shipping Co., Ltd. (see the notes 7.1.2)

6.9 Fixed Assets and Accumulated depreciation

(1) Costs

	期初余額 2005.12.31	本期增加 Additions	本期減少 Disposal	期末余額 2006.12.31
Buildings	14,137,571.05	413,893.95	-	14,551,465.00
Vessels	18,233,166,238.01	2,467,888,474.97	792,790,200.81	19,908,264,512.17
Vehicles	15,410,018.60	2,946,425.67	830,959.00	17,525,485.27
Others	49,537,047.58	3,754,681.85	2,343,830.54	50,947,898.89
Total	18,312,250,875.24	2,475,003,476.44	795,964,990.35	19,991,289,361.33

(2) Accumulated depreciation

	期初余额 2005.12.31	本期增加 Additions	本期减少 Disposal	期末余额 2006.12.31
Buildings	1,059,751.46	361,371.75	–	1,421,123.21
Vessels	7,766,601,748.24	958,012,521.78	578,663,347.24	8,145,950,922.78
Vehicles	8,196,641.34	1,216,936.22	717,538.50	8,696,039.06
Others	38,426,752.49	5,768,354.39	1,840,801.78	42,354,305.10
Total	7,814,284,893.53	965,359,184.14	581,221,687.52	8,198,422,390.15
Impairment of fixed assets	936,268.00	–	–	936,268.00
Leasehold improvements	39,235,411.50	–	8,620,056.00	30,615,355.50
Net value	10,536,265,125.21			11,822,546,058.68

There were 8 vessels which the net value of these vessels was RMB 2,267.99 million mortgaged to get the bank loan RMB 1789.24 million, including the 1 vessel with net value of RMB 114.16 million from associated company which got the loans RMB 69.65 million.

6.9.1 Leasehold improvements

Item	初始原值 Cost of fixed Assets	期初数 2005.12.31	本期增加 Additions	本期摊销 Disposals	期末数 2006.12.31
Special painting of “daqin 88”	13,669,240.00	10,582,637.39	–	5,291,364.00	5,291,273.39
Special painting of “yanghe” welhouse	9,933,024.61	9,767,474.11	–	662,532.00	9,104,942.11
Special painting of “songlinwan”	26,661,600.00	18,885,300.00	–	2,666,160.00	16,219,140.00
Total	50,263,864.61	39,235,411.50	–	8,620,056.00	30,615,355.50

會計報表附注(續)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

6.10 Construction in progress

Name of construction	預算金額		本期增加	本期轉入固定資產	本期轉至成本	2006.12.31	完工進度	資金來源
	Budget	2005.12.31	Additions	Transferred to fixed assets	Transferred to cost		Completion percentage	Source of funds
	RMB Million							
Vessels purchase	1,146,402萬元	865,688,218.19	2,692,092,803.97	891,994,746.77	261,768.33	2,665,534,507.06	10%-90%	自籌/貸款
	11,464.02 Million							Self-financing /loans
Including:								
Capitalization of borrowing cost	-	-	24,367,573.06	-	-	24,367,573.06	-	
Improvement of vessels	7.023萬元	-	63,063,431.74	63,063,431.74	-	-	100%	自籌
	70.23 Million							Self-financing
Others	207萬元	63,949.00	2,002,153.00	1,764,204.00	-	301,900.00	85%	自籌
	2.07 Million							Self-financing
Total	1,153,632萬元	865,762,167.19	2,757,158,390.71	956,822,382.51	261,768.33	2,665,836,407.06		
	11,536.32 Million							

6.11 Intangible Assets

Item	原始價值	2005.12.31	本期增加	本期攤銷	累計攤銷	2006.12.31	尚余攤銷年限
	Costs		Additions	Amortization this year	Accumulated amortization		Period left
House use right	2,302,464.00	959,442.31	-	223,579.65	1,566,601.34	735,862.66	3.5 years
Land use right	4,145,716.00	3,537,677.45	-	82,914.36	690,952.91	3,454,763.09	41 years
Software	3,599,625.00	2,592,655.74	15,000.00	742,804.04	1,734,773.30	1,864,851.70	3.5 years
Total	10,047,805.00	7,089,775.50	15,000.00	1,049,298.05	3,992,327.55	6,055,477.45	

6.12 Short-term Loans

Bank			到期日	年利率
	2006.12.31	2005.12.31	Maturity	Rate
	(RMB)	(RMB)		
Credit Loan	300,000,000.00	-	2007-1-19	5.022%
Credit Loan	200,000,000.00	-	2007-1-19	5.022%
Total	500,000,000.00	-		

6.13 Accounts Payable

Aging	2006.12.31	2005.12.31
< 1 year	227,118,421.34	216,100,991.72
1-2 years	180,819.29	-
2-3 years	-	22,909.02
>3 years	-	2,136,448.80
Total	227,299,240.63	218,260,349.54

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

6.14 Advance from customers

Aging	2006.12.31	2005.12.31
< 1 year	64,757,816.79	31,876,002.46
1-2 years	6,426.50	358,662.09
2-3 years	-	50,000.00
>3 years	-	1,981,071.87
Total	64,764,243.29	34,265,736.42

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

6.15 Taxes payable

	2006.12.31	2005.12.31
Income Tax	56,158,319.15	41,574,341.94
Sales Tax	24,354,563.94	14,586,198.46
Tax of city construction	518,301.85	1,009,368.93
Value Added Tax	-55,218.89	-
Individual Income Tax	3,210,903.30	4,465,622.55
Stamp Tax	1,639,366.61	-
Total	85,826,235.96	61,635,531.88

會計報表附注(續)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6.16 Other tax payable

	2006.12.31	2005.12.31
Education affixation	228,115.34	437,585.89
Maintenance for river way	72,508.32	150,421.87
Stamp tax	39,170.02	210,664.26
Vehicle & Vessel tax affixation	391,372.21	484,156.49
Prevent flood maintenance fee	188,230.75	-
Total	<u>919,396.64</u>	<u>1,282,828.51</u>

6.17 Other payables

	2006.12.31	2005.12.31
Aging		
< 1 year	570,100,264.38	226,093,747.84
1-2 years	670,484.79	923,853.09
2-3 years	31,812.53	265,539.13
> 3 years	310,449.15	5,287,246.10
Total	<u>571,113,010.85</u>	<u>232,570,386.16</u>

The main items of ending balance are listed as follows:

Description	2006.12.31	2005.12.31
Staff welfare and benefit	38,824,305.98	79,186,515.07
Pretty cash of foreign currency	4,156,656.19	3,192,353.13
The payables for purchase vessels	498,520,936.89	134,611,457.75
Shipping fee of commission	15,897,705.07	-

The amount of the main items mentioned above is 557.40 million, 97.60% of the balance of other payable as at 2006.12.31.

The closing balance of this year is 1.45 times to the year of 2005 mainly because the company purchased vessels from Guangzhou Maritime (Group) Co., Ltd.

6.18 Accrued expenses

	2006.12.31	2005.12.31
Loan interest	7,336,102.52	3,353,053.84
Others	-	64,025.89
Total	7,336,102.52	3,417,079.73

6.19 Long-term liabilities due within 1 year

Loan sort	2006.12.31	2005.12.31	借款期限 Aging	年利率 Interest rate	備注 Notes
Bank loans	967,009,088.84	233,225,000.00	一年以内 < 1 year	5.508%-6.84%	抵押/擔保/信用 Vessels pledge/ cautioner/credit
Non-bank institution loans	29,844,537.79	37,130,852.92	一年以内 < 1 year	3.25%	
Total	996,853,626.63	270,355,852.92			

Including the mortgaged loan RMB 90.67 million, USD 15.38 million.

The Long-term liabilities due within one year is 2.69 times to the year of 2005, because it increased bridge loan of RMB 720 million.(see notes 12.2).

6.20 Long-term loans

Bank	2006.12.31	2005.12.31	到期日 Maturity	年利率 Interest rate	備注 Notes
ICBC	437,986,124.99	848,045,000.00	2012-2014	5.508%-6.84%	船舶抵押 擔保 Vessels pledge/cautioner
Bank of China	419,982,335.00	488,700,000.00	2012-2015	6.156%-6.22%	船舶抵押 Vessels pledge
China Merchant bank	-	10,000,000.00	2008	5.5575%	船舶抵押 Vessels pledge
Citi bank	343,584,090.64	-	2016	Libor+0.45%	船舶抵押 Vessels pledge
DNBNor Bank ASA	601,584,508.35	-	2016	Libor+0.42%	船舶抵押 Vessels pledge
Royal Bank of Scotland	29,022,335.00	-	2012	Libor+0.85%	船舶抵押 Vessels pledge
Total	1,832,159,393.99	1,346,745,000.00			

Including the mortgaged loan RMB 575.26 million, USD 128.473 million.

會計報表附注(續)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

歸還期限	The aging of long-term loans	人民幣借款 RMB loans
1 ~ 2 年	1-2 years	247,009,088.84
2 ~ 3 年	2-3 years	247,009,088.84
3 ~ 5 年	3-5 years	494,018,177.68
5 年以上	> 5 years	844,123,038.63
合計	Total	1,832,159,393.99

6.21 Long-term payables

Item	2006.12.31 原幣數	2006.12.31 折 RMB	2005.12.31 原幣數	2005.12.31 折 RMB
Finance Lease Payables	-	-	EUR2,906,982.72	27,848,022.36
Finance Lease Payables	USD 10,890,917.38	85,043,906.59	USD14,172,538.78	114,375,222.46
Unrecognized financing expenses		-19,426,017.13		-23,276,943.30
Total		65,617,889.46		118,946,301.52

6.21.1 Finance Lease Payables

Enterprise	期限 Term	初始金額 Original amount	利率 Interest rate	2006.12.31	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%	-	EUR1,937,990.52
Foreview (HongKong) Ltd.	2006.10.22- 2013.5.22	15,434,318.25 (USD)		USD10,890,917.38	USD14,172,538.78
Total				折RMB85,043,906.59	折RMB142,223,244.82

Notes: The loan of China import&export bank will be expired in 2007, it has been transferred into Long-term liabilities due within one year.

6.21.2 Unrecognized Financing Expenses

原始金額 Original Amount	2005.12.31	本期增加 Additions	本期攤銷 Disposals	2006.12.31
-23,886,597.69	-23,276,943.30	-	-3,850,926.17	-19,426,017.13

6.22 Share capital

	2005.12.31	數量單位: 萬股 Quantity: 10 thousand				其他 Others	每股面值: 1元 Par Value: RMB	小計 Sub-total	2006.12.31
		Increase		Decrease					
		配股	送股	公積金轉股	增發				
1. Non-trading shares									
Including : State-owned legal person shares	157,850	-	-	-	-	-	-	157,850	
2. Trading shares									
Hshares	129,600	-	-	-	-	-	-	129,600	
Ashares	45,150	-	-	-	-	-	-	45,150	
3. Total	332,600	-	-	-	-	-	-	332,600	

6.23 Capital surplus

Item	2006.12.31	2005.12.31
Share premium	2,023,877,878.95	2,023,877,878.95
Other	29,842,814.60	29,842,814.60
Total	2,053,720,693.55	2,053,720,693.55

6.24 General reserves

Item	2005.12.31	合并範圍調整 Adjustment for consolidation scope	本期計提 Increase	本期調整 Decrease	2006.12.31
Statutory surplus Reserve	764,710,818.90	-13,504,900.89	280,315,018.92	626,125,701.99	1,657,646,638.92
Statutory public welfare reserve	626,125,701.99	-	-	-626,125,701.99	-
Other reserve	3,155,728.78	-	-	-	3,155,728.78
Total	1,393,992,249.67	-13,504,900.89	280,315,018.92	-	1,660,802,367.70

會計報表附注(續)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

According to the rules of Treasury Department,(2006) No.67,the company transferred the amount of statutory public welfare reserve into statutory surplus reserve from 1 Jan,2006.

6.25 Retained Earnings

	金額 Amount
Retain earnings as at 2005.12.31	3,940,370,036.15
Opening balance adjustment (Note 1)	13,504,900.89
	3,953,874,937.04
Add: Net profit in 2006	2,760,792,868.50
Distributable profit	6,714,667,805.54
Less: Transfer to Statutory surplus reserve	280,315,018.92
Distribute Dividends of 2005	997,800,000.00
Retain earnings as at 2006.12.31	<u>5,436,552,786.62</u>

Note 1: The adjustment is due to the changes of consolidation scope.

According to the resolution of Shareholder's Meeting, the proposed 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.

6.26 Revenue

Item	2006 年	2005 年
Coal shipment	3,512,977,974.51	3,095,566,772.53
Oil shipment	5,368,893,656.22	4,681,938,267.86
Other	890,520,435.86	922,943,110.36
Total	<u>9,772,392,066.59</u>	<u>8,700,448,150.75</u>

The revenue from top five main clients is 1,998.92 million, 20.45% of total income during this period.

6.27 Sales tax and surtax

Item	2006 年	2005 年
Sales tax	178,270,623.63	166,838,189.00
Tax of city construction	10,173,940.48	11,561,420.31
Education affixation	4,427,858.42	5,005,145.15
Maintenance for river way	1,341,167.68	1,556,918.89
Total	194,213,590.21	184,961,673.35

6.28 Other operating income

Item	2006 年			2005 年		
	收入 Income	支出 Cost	利潤 Profit	收入 Income	支出 Cost	利潤 Profit
Lease of vessels	71,714,771.89	45,110,298.22	26,604,473.67	73,263,603.40	43,891,708.04	29,371,895.36
Manage for vessels	13,656,000.00	807,192.51	12,848,807.49	13,302,320.00	844,584.51	12,457,735.49
Agency commission	111,981.27	6,196.58	105,784.69	248,669.88	16,877.01	231,792.87
Sales of coals	51,019,119.25	49,674,422.70	1,344,696.55	37,008,984.56	36,625,247.11	383,737.45
Others	1,317,162.65	1,086,936.42	230,226.23	5,035,854.64	3,281,120.40	1,754,734.24
Total	137,819,035.06	96,685,046.43	41,133,988.63	128,859,432.48	84,659,537.07	44,199,895.41

6.29 Finance expense

Item	2006 年	2005 年
Interest expense	124,864,051.21	135,592,996.18
Less: Interest income	24,665,939.98	24,361,964.44
Exchange gain and loss	41,479,078.30	8,069,019.74
Other	5,180,943.00	2,032,276.21
Total	146,858,132.53	121,332,327.69

會計報表附注(續)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

6.30 Investment income

Item	2006 年	2005 年
Equity investment difference amortization	–	114,965.00
Profit and loss for investment disposal	-12,895,658.64	–
Dividends income	1,452,741.22	1,773,370.10
Profit of stock investment	1,461,173.72	–
Total	<u>-9,981,743.70</u>	<u>1,888,335.10</u>

6.31 Subsidy Income

Item	2006 年	2005 年
Government Subsidiary	5,027,950.00	6,386,300.00

6.32 Non-operating income

Item	2006 年	2005 年
Sales of vessels	164,840,149.51	102,006,543.46
Sales of other assets	1,747.00	730,368.65
Other	3,795,525.13	69,294.22
Total	<u>168,637,421.64</u>	<u>102,806,206.33</u>

6.33 Non-operating expense

Item	2006 年	2005 年
Sales of vessels	–	137,731.27
Sales of other assets	1,534,399.64	208,720.91
Penalty expense	195,479.18	3,105,158.69
Other	625,673.14	114,004.06
Total	<u>2,355,551.96</u>	<u>3,565,614.93</u>

6.34 Nonrecurring Gain or Loss

Item	2006年	2005年
Gains on disposal of fixed assets/(losses)	138,811,372.34	87,031,890.94
Government subsidiary	4,273,757.50	5,428,355.00
Profit and loss of Long-term investment disposal	-12,895,658.64	-
Profit and loss of Short-term investment	1,461,173.72	-
Other	2,528,216.89	-2,677,388.25
Total	134,178,861.81	89,782,857.69

7. Notes to Financial Statements of Holding Company

7.1 Long-term investment

Item	2005.12.31		本期增加	本期减少	2006.12.31	
	金額	減值準備	Addition 金額	Decrease 金額	金額	減值準備
Long-term equity investment	865,411,542.96	-	1,050,579,899.27	523,030,631.07	1,392,960,811.16	-

7.1.1 Stock investment

Investee	股份性質	股票數量	占被投資公司 註冊資本比例	2006.12.31
	Nature of stock	Stock Quantity	% of investee's paid-in capital	Amount of investment
Yuanshui Stock	法人股 Corporation share	101,200	5%以下 < 5%	364,200.00
China Merchants Energy Shipping Co., Ltd	限售流通A股 Limited tradable share	20,000,000	5%以下 < 5%	74,200,000.00
Total				74,564,200.00

會計報表附注(續)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

7.1.2 Other equity investment

Investee	投資 期限	Term of investment	母公司 持股比例 Ownership	投資成本 Cost of investment	期初數 Beginning balance	增加投資額 Addition of investment	本期處置 Disposal of current period	本期損益調整 Profit/loss of current period	本期股利分配 Dividends distribution	累計損益調整 Accumulated profit/loss	期末余額 Ending balance
Shanghai Baojiang Shipping Co., Ltd.	長期	Long-term	10%	4,000,000.00	4,000,000.00	-	-	-	-	-	4,000,000.00
Zuhai New Century Shipping Co., Ltd.	長期	Long-term	50%	145,000,000.00	100,842,309.10	70,000,000.00	-	13,965,555.49	5,250,000	34,557,864.59	179,557,864.59
China Shipping Development (Hongkong) Marine Co., Ltd.	長期	Long-term	100%	4,140,000.00	245,480,927.68	-	-	156,432,760.04	-	357,773,687.72	401,913,687.72
Hai'nan Haixiang Investment Co., Ltd.	長期	Long-term	95%	383,018,350.00	474,410,300.64	-	518,412,938.57	44,002,697.94	-	-	-
Equity investment difference(note1)				-1,149,650.00	-689,790.00	-	-632,307.50	57,482.50	-	-	-
Shanghai Time Shipping Co., Ltd.	長期	Long-term	50%	668,463,513.04	-	668,463,513.04	-	-	-	-	668,463,513.04
Equity investment difference(notes 2)				3,668,774.35	-	3,668,774.35	-	-	-	-	3,668,774.35
Shanghai Friendship Shipping Co., Ltd.	長期	Long-term	50%	25,000,000.00	41,003,595.54	-	-	-210,824.09	-	15,792,771.46	40,792,771.46
Total				1,252,140,967.39	865,047,342.96	762,132,267.39	517,780,631.07	214,247,611.68	5,250,000	448,124,323.77	1,318,396,611.16

Notes 1: Hai'nan Hai'xiang Investment Co., Ltd., the subsidiary company, came into liquidation procedure on 20 November, 2006. The related log-on procedure of taxation and business was not finished until 31 December, 2006.

Notes 2: The company acquired the 50% (RMB 338.4635 million) of Shanghai Time Shipping Co., Ltd. which was held by Hai'nan Hai'xiang Investment Co., Ltd., the purchase price was based on appraisal price(RMB 411.8390 million), which caused equity investment difference of RMB 73.3755 million. As the company hold the 95% equity of Hai'nan Hai'xiang Investment Co., Ltd., when offset the profit of internal transaction RMB 60.7067 million, up to 2006.12.31, the equity investment difference of Shanghai Time Shipping Co., Ltd. in Long-term investment is RMB 3.6688 million.

7.2 Fixed Assets and Accumulated depreciation

(1) Costs

	2005.12.31	本期增加 Increase	本期减少 Decrease	2006.12.31
Buildings	2,156,021.80	—	—	2,156,021.80
Vessels	15,494,252,965.07	944,485,641.44	719,914,506.34	15,718,824,100.17
Vehicles	13,210,723.86	2,324,695.67	830,959.00	14,704,460.53
Others	47,626,629.25	3,551,598.52	2,774,552.34	48,403,675.43
Total	15,557,246,339.98	950,361,935.63	723,520,017.68	15,784,088,257.93

(2) Accumulated Depreciation:

	2005.12.31	本期增加 Increase	本期减少 Decrease	2006.12.31
Buildings	435,354.00	68,568.00	—	503,922.00
Vessels	6,584,393,827.22	1,069,600,398.56	571,597,768.66	7,082,396,457.12
Vehicles	7,070,022.94	815,275.40	717,538.50	7,167,759.84
Others	37,604,913.44	5,439,171.10	2,153,571.41	40,890,513.13
Total	6,629,504,117.60	1,075,923,413.06	574,468,878.57	7,130,958,652.09

(3) Provision:

	936,268.00	—	—	936,268.00
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(4) Leasehold improvements

	39,235,411.50	—	8,620,056.00	30,615,355.50
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(5) Net value

	8,966,041,365.88	—	—	8,682,808,693.34
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There were 4 vessels which the net value of these vessels was RMB 924.48 million mortgaged to get the bank loan RMB 665.93 million.

會計報表附注(續)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

7.2.1 Leasehold improvements

	初始原值 Costs of Fixed Assets	2005.12.31	本期增加 Additions	本期攤銷 Disposals	2006.12.31
Special painting of “Da Qin 88”	13,669,240.00	10,582,637.39	-	5,291,364.00	5,291,273.39
Special painting of “Yang He” welhouse	9,933,024.61	9,767,474.11	-	662,532.00	9,104,942.11
Special painting of “Song Lin Wan”	26,661,600.00	18,885,300.00	-	2,666,160.00	16,219,140.00
Total	50,263,864.61	39,235,411.50	-	8,620,056.00	30,615,355.50

7.3 Revenue

Item	2006 年	2005 年
Coal shipment	2,925,144,939.37	2,676,479,184.26
Oil shipment	5,368,893,656.23	4,681,938,267.86
Other	741,966,675.62	733,937,829.59
Total	9,036,005,271.22	8,092,355,281.71

The revenue from top five main clients is 1,998.92 million, 22.12% of total revenue during this period.

7.4 Investment income

Item	2006 年	2005 年
Profits and loss of equity investment	214,190,129.38	188,725,104.29
Dividends income	1,452,741.22	1,773,370.10
Profit of stock investment	1,461,173.72	-
Equity investment difference amortization	57,482.50	114,965.00
Total	217,161,526.82	190,613,439.39

8. The Difference between Chinese Accounting Standards and HK GAAP
(Unit:RMB'000)

	2006.12.31	2005.12.31
Net profit under Chinese Accounting Standards	2,760,793	2,714,223
The difference between Chinese Accounting Standards and HK GAAP		
Including: Difference of depreciation of vessels	-4,283	-9,275
Difference of deferred income from related companies	3,131	4,013
Difference of housing funds	-12,574	-12,574
Deferred tax adjustment	-80,571	-725
Financial asset at fair value through profit and loss	84,800	-
Others	4,554	-4,462
Net profit under HK GAAP	2,755,850	2,691,200
Owners' equity under Chinese Accounting Standards	12,465,896	10,711,224
2006.1-12 house founding amortizing	49,668	62,242
Financial asset at fair value through profit and loss	84,800	-
Derivative financial instruments	1,044	-
Deferred Tax	-59,992	20,795
Adjustments for revaluation surplus, exchange gain or loss, depreciation, income of vessels sales and others	55,509	54,460
Owners' equity under HK GAAP	12,596,924	10,848,721

The international audit report of the company as at Dec 31,2006 was prepared by Ernst & Young CPAs.

9. Related Party Transactions and Balances

9.1 The related parties that the Group controls

企業名稱 Name of related party	注册地址 Registered address	主營業務 Business Scope	與本企業關係 Relationship	經濟性質或類型 Economic type	法人代表 Corporate delegate
中國海運(集團)總公司	中國上海市	沿海遠洋、國內貨物運輸、集裝箱運輸及攬貨訂艙	母公司	國有	李紹德
China Shipping (Group) Company	Shanghai China	Cargo shipment along sea, ocean, domestic transportation for goods	Holding company	State owned	Li Keling
中海發展(香港)航運有限公司	中國香港 HongKongChina	海上貨物運輸、船舶租賃、修船、船舶代理、船舶備件、燃料及食品供應	子公司 Subsidiary	有限責任 State owned	吳中校 Wu Zhongxiao
China Shipping Development (Hongkong) Marine Co., ltd.		Bale transport at sea, shipping leasehold, lay-up, shipping deputize, shipping spare part, elding and food-stuff purvey	company		

會計報表附注(續)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

9.2 The change in registered capital of the Holding Company (unit: RMB '000)

Name of related party	2005.12.31 Beginning balance	本年增加 Addition	本年減少 Decrease	2006.12.31 Ending balance
China Shipping (Group) Company	6,620,227	-	-	6,620,227
China Shipping Development (Hongkong) Marine Co.,ltd.	4,140	-	-	4,140

9.3 The change in ownership of the Holding Company (unit: RMB'000)

Name of related party	2005.12.31 Beginning balance		本期增加數 Addition		本期減少數 Decrease		2006.12.31 Ending balance	
	金額 Amount	%	金額 Amount	%	金額 Amount	%	金額 Amount	%
China Shipping (Group) Company	1,578,500	47.46	-	-	-	-	1,578,500	47.46
China Shipping Development (Hongkong) Marine Co.,ltd.	4,140	100.00	-	-	-	-	4,140	100.00