I. Corporate Information

China Shipping Development Company Limited (the Group) was incorporated on 3 May 1994, formerly known as Shanghai Haixing Shipping Company Limited, reformed from the restructure of Shanghai Shipping (Group) Company in May 1994. It is the second group of companies assigned to be listed outside the state by the order of committee of China Securities Regulatory Commission. On 18 June 1994, the committee of China Securities Regulatory Commission had issued the circular (94)13 to approve Shanghai Haixing Shipping Company Limited for the issue of 1,080 million H shares and on 11 November of the same year, it was listed on the Main Board of the Hong Kong Stock Exchange. In December 1997, Shanghai Shipping (Group) Company had transferred all of its shareholding of Shanghai Haixing Shipping Company Limited to China Shipping (Group) Company ("CSC") and Shanghai Haixing Shipping Company Limited had renamed as China Shipping Development Company Limited (the Group). In June 1998, the Group issued 496 million of new shares to its shareholders. In May 2002, the Group issued another 350 million of new A shares to the public investors. In December 2005, the State Share Reform Proposal of China Shipping Development Company Limited was adopted and the total share capital had changed to 3,326 million. Percentage of shares held by CSC had dropped from 1,680 million to 1,578.5 million, changing from 50.51% to 47.46%, became the shares traded with conditions. A share with no restrictive condition to trade amounted to 451, 5 million and H share amounted to 129.6 million. With the approval granted by the China Securities Regulatory Commission, circular [2007] no.150, the Group had issued convertible shares valued RMB 20 million with the face value of RMB 100, amounted to RMB 200 million.

The business registered license No. is 310000400151546 and registered address is No. 168, Yuanshen Road, Shanghai. The Group has engaged in the activities which include oil and cargo shipment along the PRC coast and international shipment. The Company's ultimate holding company is China Shipping (Group) Company, a state-owned enterprise established in the PRC.

II. Basis of Preparation and Impact of new and Revised China Accounting Standards

This report had been prepared in accordance with the new and revised Accounting standards and its application released in 2006 by Ministry of Finance, PRC.

Starting from 1 January 2007, the financial statements are prepared in accordance with the China Accounting Standard No. 1 ¨C Inventory etc. altogether 38 standards with notifications and [2006] No.3 Financial Accounting Standards etc, the Accounting Standards for Business Enterprises issued by the Ministry of Finance in 2006. In accordance with the release of Accounting Standard for Business Enterprise No. 38 by Ministry of Finance ¨C First time of adopting the Accounting Standard for Business Enterprise and Questions and Answers No. 7 on information disclosure for shares public issuing company ¨Caccounting information comparation prepare and disclosure in interim period issued by China Securities Regulatory Commission (Zhengjian kuaijizi[2007]No. 10), the Company had restated its balances and any accounting transactions caused by the change of accounting policies. Please refer to note III-24 on the impact on the financial statements.

The Company had been listed in the Hong Kong Stock Exchange on 11 November 1994 and had prepared its financial statements in accordance with the accounting principles general accepted in Hong Kong. To comply with the Accounting Standard no. 1 set by the Ministry of Finance, the Company had restated its balances and any accounting transactions caused by the change of accounting policies on the basis of the note III.

These financial statements comply with the requirement of the Accounting Standard and give a true and fair view of the state of the Company's affairs, and of its profit and cash flows for the year then ended.

The report was prepared on the going concern basis.
The following are the specific accounting policies that are necessary for a proper understanding the finanical statements.

III. Significant of Accounting Policies

The financial information disclosed in the financial statement are prepared in accordance with such significant accounting policies and estimation below.

1. Accounting fiscal year

The Company prepares its account annually starting from 1 January and ending on 31 December.

2. Reporting currency

Renminbi is the Company's reporting currency.

Subsidiaries of the Company, jointly controlled entities and jointly operated entities would choose reporting currency taking into consideration of the economic environment. Once the accounts are closed, accounts should be converted to Renminbi for the purpose of accounts consolidation.

3. The statements with measurement attributes changes in the project and the measurement attributes adopted in this project

This company usually uses the historical cost in measuring the accounting statements. As soon as that the amount of identified elements can be measured reliably is guaranteed, according to the specific regulations of the company, the replacement cost, net realizable value, present value, fair value measurement will be adopted.

4. Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant and risk of changes in value.

5 .Foreign currency translation

(1) Transactions and balances

The Company translated foreign currency transactions into the functional currency and reported into the accounts.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(2) Translation for foreign operations

For the foreign operations, the Company translated all items into reporting currency- Renminb "RMB". 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 the period. The equity accounts except for the "undistributed profit" are translated into RMB at the exchange rate on the date of occurrence. Income and expenses for each income statement are translated at average exchange rates. The translation difference between the assets, liabilities and equity is listed as separate item behind the "undistributed profit". Foreign exchange gains and losses resulting from the settlement of transactions and from the monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

6. Inventories

(1) Classes of inventories

Inventories are assets in the form of materials to supplies to be consumed in the production process or in the rendering services. This would include consumable stores and fuel which include inventories held by warehouses or vessels such as fuel, raw materials, lubricants, packing materials, spare parts and low cost consumables etc.

(2) Cost of inventories

Cost of inventories is calculated using the weighted average method of costing.

(3) Low cost consumables and packing materials

Low cost consumables and packing materials are charged to amortization once are bought.

(4) Policies on inventory kept

The Company adopts continuous keeping method

(5) Provision methods for decline in value of inventory items and the determined basis on net realizable value

At the date of balance sheet, the company counts on the basis of cost and net realizable value. on a lower measurement, and if the inventory costs is higher than its net realizable value, provision for decline in value of inventories is to be included in current profit and loss. Net realizable value is defined in the day-to-day activities, which is counted in this way: the estimated selling price minus will be the costs during the estimated time to completion, the estimated cost of sales, as well as the relevant tax rates of ship fuel to the net realizable value and determined amount of cash expected to be in actual use. Provision for decline in value of inventories in preparation is done by individual inventory item provision.

7. Calculation method of the financial assets and liabilities

(1) Classification, acknowledgement and measurement of financial assets

The financial assets in our company are classified into the following four categories in the initial acknowledgement: The financial assets measured with the fair values and whose alterations are counted into the profit & loss in the current period, the investments held until the expiration, accounts receivable, and financial assets salable.

① The financial assets measured with the fair values and whose alterations are counted into the profit & loss in the current period mainly mean the stocks, bonds, funds held to be sold by our company in the near future as well as the derivative instruments not as the valid hedging instruments, including the transactional financial assets and those designated to be measured with the fair value and whose alterations are countered into the profit & loss in the current period. This type of assets use the fair value obtained in the initial measurement as the initial acknowledgement amount, and the related transaction expenses are counted into the profit & loss in the current period when incurred. The expense terms include the announced but un-issued cash share interest or the bond interest due to pay but have not been claimed, which is individually confirmed as a claim term. The interest and cash share interest is to be confirmed as investment revenue. On the balance sheet date, this company will measure financial assets of this type by fare value and the flowing part will be counted into the profit and loss of the project. When the financial assets of this type is to be dealt with, the fair value minus the face value is confirmed as investment revenue and at the same time, the profit and loss due to the change of fair value will be adjusted.

If a contract contains one or more embedded derivative tools, the whole mixed tools can be designated as at fair value and changes in its profit or loss to be included in the current financial assets or financial liabilities, unless the embedded derivative tools will not bring big change to the cash flow of the mixed tools or the derivative tools embedded obviously can’t be departed from the related mixed tools.

Financial assets and debts can only be calculated during the initial calculation using fair value and allowed to contribute to the balance amount when any of the following conditions are met:

a) The item is specified as being able to eliminate or significantly reduce inconsistencies in the calculation or confirmation of related loss and profit caused by the calculation basis of financial assets and debts;

b) The formal document of risk management or investment strategies specifically listed that the financial asset combination, or financial debt combination, or the combination of financial asset and debt shall be managed, evaluated and reported by using fair value;

c) The financial asset or debt contains embedded derivatives that need separating

② Held-to-maturity investments mainly refer to the company acquired rate-fixed treasury bonds, floating-rate cooperate bonds with fixed maturity, the amount of recovery can be identified or fixed and the company has explicit intent and ability to held it to maturity. Such financial assets are taken as the initial confirmation amount according to their fair value and the amount of the related transaction costs during acquirement. The bond interests included in the payment amount which is on the payment date but has not been paid, should be recognized as a separate receivable item. During the holding period of the held-maturity investments, the interest income should be calculated and confirmed in accordance with amortized cost and actual rates, and should be included in the investment income. In disposal of held-to-maturity investments, the difference between the receivable amount and the investment book value should be included in investment income.

③ Account receivables: Mainly refers to the account receivables from goods distributing and service providing. The initial recognized amount should be affirmed as the receivable contract from supplier or agreed price. When receiving or disposal, the difference between the received amount and the book value of account receivable records to the current profit and loss.

④ Financial asset available to sell: mainly refers to the financial asset which has not been measured at the fair value and the changes are included in the current profit and loss, and the financial asset of the investment, loan and shall be claimed terms to be held till the due time. The financial asset available for sale will definite the initial identified amount by adding the fair value to obtain the financial asset to the relative trading fees. The expense terms include the bond interest due to pay but have not been claimed or the announced but un-issued cash share interest, which is individually confirmed as a claim term. The interest and cash share interest of the financial asset in the holding time is to be confirmed as investment revenue. On the balance sheet date, the financial asset is to be measured at its fair value and its change will be counted into accumulation fund. When disposing the financial assets, the claimed financial terms minus the face value of the financial asset will be counted as the investment revenue. Meanwhile, the amount of the disposal part corresponding to the fair value changes accumulated amount which has been directly counted into of the proprietor's rights and interests at the initial time is to be included in the investment revenue.

(2) The classification, confirmation and measurement of financial liabilities

The Company's financial liabilities are classified as followed on the initial recognition: fair value and the changes are included in its profit or loss of the current financial liabilities and other financial liabilities.

① The financial liability to be counted into the current profit and loss at the fair value measurement plus the changes.

The financial liability to be counted into the current profit and loss at the fair value measurement plus its changes includes the trading liabilities and the financial liabilities to be counted into the current profit and loss at the fair value measurement and its changes, which has been identified at the initial time. As regard to the financial liabilities of this type, the relative trading fees are to be included into the current profit and loss, which is to be measured then at the fair value to realize that all the realized and unrealized profit and loss are counted in to the current profit and loss.

② Other financial liabilities

As regard to financial liabilities of this type, the fair value plus the relative trading fee equals the initially identified amount. Adopt the real rate law; it is to be measured according to the rule of the divide of the net profit.

(3) The confirmation basis and measurement methods of the move of the financial assets

① This company exterminates the confirmation of the financial asset whose risk and revenue incurred in the ownership have been transferred to other parties.

As to the financial assets whose whole transfer process is satisfactory, the company will include the following two balances into the current profit and loss:

a) Face value of the transferred financial assets

b) The price obtained from the transfer plus the accumulated fair value which has been directly included into the rights and interests of the owners at the initial time.

as to the financial asset whose part transfer process is conditionally satisfactory, the face value of the whole transferred financial asset, between the finally exterminating to confirm part and the not exterminating to confirm part, is to be divided according to respective relative fair value, and the margin of the following two amounts will be included into the current profit and loss:

a) The face value of the finally confirmed part;

b) The confirmation price of the exterminating to confirm part plus the corresponding amount in the accumulated fair value which has been directly counted into the rights and interests of the owners at the initial time.

② As regard to the financial asset transfer which do not meet the requirements of the exterminating to confirm, the financial asset continues to be confirmed and the confirmation price is to be identified as a financial liability.

③ As regard to the financial asset which adopts the "continue to go", the company will identify a financial asset and a financial liability according to the extent of the financial asset on the way of "continue to go".

(4) The confirmation methods of the fair value of the financial assets and financial liability

As to the financial assets or the financial liabilities in the active market, the fair value is to be identified according to the quotation in the active market. As to the financial tools which do not exist in the active market, the company will identify the fair value by adopting the estimation technique. The estimation technique includes referring to the former cases and the current market price on a voluntary basis, the current fair value of other financial tools with the same essence, the discount methods of cash flow and the option pricing models, and so on.

(5) Exchange rate of the financial tools

The financial tool of the company has committed the exchange rate risk (that is the risk of change of the fair value of the financial tools or the future cash flow due to the exchange rate change) includes: the financial asset for sale.

(6) Impairment of the financial assets

The company will inspect the book value of the financial asset on the financial balance sheet date, and if there are impersonal evidences suggest that the financial asset will impair, the devalued provisions will be prepared. The impersonal evidences indicating that the financial assets is devalued refer to the financial assets which have been initially confirmed and have incurred influence to the future estimated cash flow of the financial assets, which can be measured realizably. The detailed terms include as follows:

① the issue party or the debtor has a severe financial problem;

② the debtor violates the contract terms, such as the breach or delay in paying the interest or the principal;

③ the debated comes to terms to the financially trapped debtor in the respect of the economy or law, and so on;

④ the debtor is likely to go bankrupt or conduct financial restructure;

⑤ the financial assets can not continue trade in the active market due to the reason that the issue party incurs a severe financial problem;

⑥ it is hard to identify whether the cash flow of certain asset of the whole financial asset reduce or not, but is found that the future estimated cash flow of the initially identified financial asset has reduced and can be measured out after a integral appraisal according to the public data;

⑦ the investor of rights and interests tools cannot reclaim the investment cost due to the technique, market, economy, or law of the debtor has incurred adverse changes;

⑧ the fair value of the rights and interests tools drops severely or temporarily;

⑨ other impersonal evidence indicating that the financial assets devalue.

The company will conduct the disappreciation test for each kind of the financial assets by different methods and prepare the disappreciation provision.

① The financial asset to be counted into the current profit and loss at the fair value measurement and its changes, will be displayed at the fair value on the financial balance date, and the change of the fair value will be counted into the current profit and loss.

② Receivable terms (shall be claimed terms)

If there are impersonal evidences indicating that the receivable terms disappreciate, the book value will be reduced to the present value of the future estimated cahs flow(not include the not-incurring future credit loss), and the reduced present value is to be identified as the asset disappreciation loss and counted into the current profit and loss. The present value of the future estimated cash flow is to be identified according to the former real rate discount and give consideration to the price of the guaranteed commodities(minus the estimated disposal fee)

There will be a disappreciation test for the large sum receivable terms and if there are impersonal evidences indicating its disappreciation, confirm the disappreciation loss according to the margin between the future estimated cahs flow and the face value, and count it into the current profit and loss. As to the individual large sum term, after the respective disappreciation test, those that prove do no tincur disappreciation will be classified into several porfolios with the similar credit risk features and then on the basis of another disappreciation test of these portfolios, identify the disappreciation loss and count it into the current profit and loss. The terms prove to incur disappreciation will not be included in the portfolios with similar credit features to have disappreciation test again.

After the company identifies the disappreciation loss of the receivable terms, if there are impersonal evidences indicating the disappreciation has returned to normal level and it is really connected to the terms that occur after the loss being confirmed, the identified disappreciation loss will be reclaimed and counted into the current profit and loss. However, the face value of reclaiming value should not surpass the divide cost in the reclaim day in the case that the disappreciation measurement provision is not measured.

③ Investments to be held until the due time

On the financial balance date, as to the investment to be held until the due time, this company will identify the disappreciation loss according to the difference between the face value and the future estimated cash flow. Disappreciation loss of the investment to be held until the due time should be handled according to the measure of the diappreciation loss of the receivable terms.

④ The financial assets available for sale

On the financial balance date, the company will analyze and determine the impairment situation of financial assets for sale whether the fair value of the financial asset continues to reduce or not. In general case, if the fair value of the financial asset for sale incurs heavy decline or after taking various factors into consideration, the trend of decline is identified to be non-transporatory, then the financial asset can be identified as incurring impairment, and the disvalued loss should be identified. When the disvalued loss of the financial asset for sale has been confirmed, the accumulated loss incurred from the reduction of the fair value which has been directly counted into the rights and interests of the owners should be transferred and counted into the disvalued loss. The transferred accumulated loss equals the balance by the initially obtained cost of the financial assets minus the received cost and the divided amount, the current fair value and the disvalued value which has been counted into the profit and loss.

As to the liability tools for sale which have been identified as having disvalued loss, if in the consecutive accountant period, the fair value increase and has real connection with the terms which occur after the disvalued loss confirmed, the identified disvalued loss shall be transferred back and counted into the current profit and loss. The disvalued loss of the investment on the rights and interests tools can not be reclaimed through profit and loss.

8. Real estate for investment

The investment real estate of the company refers to the real estate for the rental fee or the capital appreciation or both, mainly including:

(1) The use right of the rental land;

(2) The land use right held and to be transferred after being appreciated.

(3) The rental buildings

The investment real estate of the company adopts the cost model measurement.

The company will estimate the accumulated disappreciated cost of the investment real estate and its net leftover in the straight-line method, discount them according the life span, and count it into the current profit and loss.

The company, on the financial balance date, will price according to the lower one between the cost of the investment real estate and the receivable amount; if the receivable amount is lower than the cost, the disvalued measurement provision will be prepared according to the difference of the two.

9. Long-term equity investment

(1) Initial measurement

The company takes respective methods to conduct the initial measurement of the long-term equity investment:

① As to the long-term equity investment through merge, its initial investment cost should be identified according to the following regulations:

a) In the merge under the same control, if the merge parties pay cash, transfer non-cash assets or debt as a way of the merger in realizing compensation price, on the merging day, the merging parties shall identify the share according to the book value of owners' rights and interests of the merge party, which has been obtained, as the initial investment cost of the long-term equity investment. The initial investment cost of long-term equity investment minus the cash payment, transferred non-cash assets and the book value of the assumed debt, and the result is to adjust capital reserve; if capital reserve is not enough to offset, it is to adjust retained earnings.

b) The merging parties make the merger compensation price by issuing equity securities, and on the merging day, identify the share according to the book value of the merged party's owners' rights and interests as the initial investment cost of the long-term equity investment. According to the nominal value of the total issued shares of equity, the difference between long-term equity investment initial investment cost and the total nominal value of the shares issued is to adjust capital reserve; if the capital reserve is not enough to offset, it is to adjust retained earnings.

c) In the corporate merge not under the same control, the buyer shall on the buying day, identify the merging cost as the initial investment cost of the long-term equity investment according to Accounting Standards for Business Enterprises No. 20 - Corporate merger.

② In addition to long-term equity investment incurred from the corporate merge, the initial investment cost of the long-term equity investments by other means shall be identified in accordance with the following provisions:

a) As to the long-term equity investment by cash payments, make the actual payment of the purchase price as the initial cost of the investment. Initial investment cost includes costs directly related long-term equity investments, taxes and other necessary expenses, but cash dividends included in the actual price, which has been declared but not yet received, shall be a separate project of the accounts receivable.

b) As to the long-term equity investment through issuing equity securities, the initial investment cost is to be identified in accordance with fair value of the equity security.

c) As to the long-term equity investment through the investors, the initial investment cost is to be identified in accordance with the agreed value, except the value of the contract or agreement without a fair value.

d) As to the long-term equity investment through the exchange of non-monetary assets, the initial investment cost is to be identified in accordance with "Accounting Standards for Business Enterprises No. 7 - the exchange of non-monetary assets".

e) As to long-term equity investment through the debt restructuring, the initial investment cost is to be identified in accordance with "Accounting Standards for Business Enterprises No. 12 - Debt Restructuring".

(2) Follow-up measures

As to the long-term equity investment whose invested units the company is able to control and the long-term equity investment whose investments units the company does not have joint control or significant influence, and the long-term equity investment that has no price in the active market and its fair value can not be reliably measured, the cost method is to be adopted.

The company will measure the long-term equity investment by the equity method if it has joint control or significant influence to the invested units.

In using the equity method, if the initial investment cost of the long-term equity investment is more than identifiable net share of the fair value of assets of the invested units to be enjoyed, it will be counted into the initial investment cost of long-term equity investment; if the initial investment cost of long-term equity investment is less than fair value of identifiable net assets share of the invested units, its difference is to be included into the current loss, meanwhile adjust the long-term equity investment cost.

(3) Revenue recognition method

In using the cost method, cash dividends or profits declared to be distributed by investment units, are to be recognized as the current investment income. Recognized investment income is limited to the sub-quota of the cumulative net profit generated from investment of the investment units, and the part of the profit or cash dividends in excess of this amount is to be recovered as the initial investment cost.

In using the equity method, after receiving the long-term equity investment, according to the share of the net profit or loss entitled to the investment units, it should identify the long-term investment profit or loss and adjust the face value of long-term equity investment. According the profits or cash dividends declared to be distributed by the investment, the face value of the long-term equity investment should be correspondingly reduced.

In identifying the loss of the invested units to be born by the company under the law, it shall be processed in accordance with the following order: First of all, reduce the face value of long-term equity investments. Secondly, if face value of the long-term equity investments is not enough, continue to identify the investment loss at the limit of the face value of the net long-term equity investment of the invested units of the same essence and reduce the face value of the long-term receivables. Finally, after the above treatment, in accordance with the additional obligations agreed in the investment contracts or agreements that enterprises still bear, the expected liabilities assumed by expected obligations is to be recognized and included in the current investment loss. As to the profit recognized by the investment units in the later period, taking into account the share of the losses recognized, process in accordance with the above-mentioned reverse order to reduce the face value of the confirmed expected liability, recover the long-term rights and interests of the net investment of the investment units and the face value of the long-term equity investment and confirm the investment revenue as well.

As to the changes of the rights and investments of the owners except the net profit an loss of the investment units, the company counts the part to be enjoyed or born to the rate of the holding share supposed the rate of holding share does not change, and adjusts the face value of the long-term equity investment, which is to be counted into the rights and interests of the owners and proportionally transfer the disposed investment into the current profit and loss.

In dealing with the long-term equity investment, the difference between the book value and the actual pricing is to be included in the current profit and loss.

(4) The evidence for the joint control and significant influence of the investment units

According to the contract agreement, a joint control of a certain economic activity exists only in the important finance and operation decisions related to the economic activity, the investment units agree to share the control right and in this situation, the activity is viewed to adopt a joint control of the investment units; if one party has the right to take part in the enterprise financial and operational decisions but has no right to control or control jointly with other parties the stipulation of the decisions, it is views as that the investment unit has significant influence on the invested units.

10. Fixed assets

(1) The confirmation conditions of the fixed assets

The fixed assets of the company include the tangible assets which are held by the company due to the need of the production, serving, lease or other operation management and its use span is more than an accounting year. The fixed asset is to be confirmed if it satisfies the following conditions:

① the economic interest related to the fixed asset is likely to flow into the corporation;

② the cost of the fixed asset can be reliably measured.

The followed expense related to the fixed asset, if meeting the requirements, is to be included into the cost of the fixed assets.

(2) Classification of the fixed assets

Classification of the fixed asset is as follows: house buildings, marine vessels, equipment for transportation and other equipments, applicants and tools related to the operation activity.

(3) Initial measurement of the fixed assets

The fixed asset is to be measured by the cost when it is obtained.

The cost for introducing the fixed assets from outside includes the purchasing price, relative taxes, and the freight, loading fee, installment fee and professional service cost which incur from the process to make the fixed assets to the expected level of use.

As to the purchasing price of the fixed assets paid after the regulated time, if it is in essence of the financing, the cost of the fixed asset is to be confirmed on the basis of the present value of the purchasing terms.

The cost of the fixed assets construction by the company constitutes the necessary expenses before the assets achieve the use level.

Non-monetary assets swaps, debt restructuring, the cost of the fixed assets incurring in the corporate merger and lease financing are to be identified in accordance with the "Enterprise Accounting Standards No. 7 - the exchange of non-monetary assets," and "Accounting Standards for Business Enterprises No. 12 - Debt Restructuring, "and" Accounting Standards for Business Enterprises No. 20 - a merger "and" Accounting Standards for Business Enterprises No. 21 - leasing ".

(4) Provision of the discount measurements for the fixed assets

In addition to fixed assets being fully depreciated but continue to be used and separately recorded land, fixed assets of the company is on a straight-line depreciation measurement provision. Without taking into account the devaluation preparation, in accordance with the fixed assets category, estimated economic life, the estimated net residuals (transport ship disposal is expected to be identified with regard to the price of steel scrap, and other equipment residuals rate is 4 per cent), depreciable life is to be decided respectively as follows:

	使用壽命 Life span	估計净殘值 estimated net residual value	年折舊率 annual discount rate
Houses and buildings	30 years	actual value*4%	3.20%
Shipping vessels (note)	17-22 years	tons*estimated scrap steel price	
Transportation equipments	5-10 years	actual value*4%	19.20–9.60%
Office and other equipments	5 years	actual value*4%	19.20%

Note: The depreciable life the second-hand ship is determined according to the remaining useful life.

The company will check the life span, estimated net residual value and the discount method of the fixed assets at the end of the accounting year. If the life span is different from the estimated figure, the use life span of the fixed assets will be adjusted and the same is the estimated net residual value.

(5) The confirmation basis, valuation methods, depreciation methods for leasing

The lease of the fixed assets will be identified as a financial lease if the company has substantially transferred the rewards connected with all the risks of the capital.

The cost of the fixed assets of the company through leasing financing is to be confirmed according to the lower side of the fair value of the leasing assets from the lease day and the present value of the minimum lease payments.

All fixed assets of the Company financed by leasing are to adopt the discount policies in line with its own discount assets. The leased assets have a reasonable certainty to obtain the ownership at the expiry, can be measured in the remaining life span for depreciation; the leased assets that can not be reasonably assured to obtain the ownership at the expiry of the lessee are to be measured according to the shorter one of the lease period and the remaining life span of the leased assets.

11. Construction in process

Construction in process in the necessary expenditures acquired to enable fixed assets to achieve at its intended use, including the direct materials, direct workers' salary, costs in the installation of equipments, engineering and construction, the cost of project management and net capital gains and losses of commissioning work and borrowing costs allowed to be capitalized. The company mainly refers the under-construction projects such as ship building, housing under construction and equipments to be installed.

The construction in process will be diverted to projects in fixed assets when the installation or construction completes and achieves at the intended use. The completed fixed assets which have reached the intended use, but not been for the accounts, should be recognized as fixed assets in accordance with the estimated value, be depreciated and measured; after the completion of the final formalities, the company will adjust the original provisional valuation to the actual cost without need to adjust the original provisional depreciation amount.

12.Intangible assets

(1) Valuation methods of intangible assets

The intangible assets of the company are to be initially measured by the cost.

Costs of purchasing intangible assets, including the purchase price, the relevant tax and other expenditures are directly attributable to the intended use of the assets.

If the price for purchasing intangible assets, more than normal credit terms to be deferred in payments, and in essence, is the nature of the financing, the cost of intangible assets is to be determined based on the present value of the purchase price.

(2) Life and amortization of intangible assets

The life of the intangible assets with limited life is as follows

	Life span
House use rights	10years
Land use rights	50years
Computer software	5years

In its life, intangible assets with limited life use the straight-line method for amortization. The company will review, if necessary, adjust the life of the intangible asset with limited life and the amortization method at least once at the end of year. The review of the use life of intangible assets at the end of year and amortization method shows no different from the previous estimation.

If the period when the intangible assets will bring benefit for the company is unpredictable, the assets will be identified as intangible assets with uncertain life. At the end of each year, the company will review the life of the intangible assets with uncertain life. This year, the company has no intangible assets with uncertain life.

(3) Research & Development expenditures

The Company will divide expenditures on house research and development projects into research expenditure and development expenditure.

The research expenditure is to be included in the current profit and loss when it occurs.

Development expenditure can be capitalized only when the following conditions are met, namely: in the completion of the intangible assets to enable it to the use or sale, the technical is exposed to feasibility; have the intent to complete this intangible asset and use or sell it; the ways to enable intangible assets to have economic interests, including that the intangible assets can prove that the products produced using the intangible assets have market or there is market among the intangible market, that is, the products can be used in its internal environment, prove its usefulness; have sufficient technique, finance and other resources to support the completion of the development of the intangible assets, and have the ability to use or sell the intangible asset; the expenditure attributable to the intangible assets development phase can be measured reliably. The development expenditure that does not meet the above conditions is to be included into the current profits and losses.