1. CORPORATE INFORMATION

The registered office of China Shipping Development Company Limited is located at 168 Yuan Shen Road, Shanghai, The peoples Republic of China (the "PRC"). During the year, the Company and its subsidiaries (the "Group") were involved in the following principal activities:

(a) investment holding; and

(b) oil and cargo shipment along the PRC coast and international shipment.

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

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs have been adopted for the first time in the preparation of the current year's financial statements:

SSAP 1 (Revised): "Presentation of financial statements"
SSAP 11 (Revised): "Foreign currency translation"
SSAP 15 (Revised): "Cash flow statements"
SSAP 33: "Discontinuing operations"
SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in the financial statements of these SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 65 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions in the financial statements. The principal impact of the revision of this SSAP is that the income statements of overseas subsidiaries are translated at the weighted average exchange rate for the year, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. Further details about the impact of this SSAP are described in the accounting policy for foreign currencies as set out in note 3 to the financial statements.

SSAP 15 (Revised) prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the cash flow statement set out on pages 66 and 67 of the financial statements and the notes thereto have been revised in accordance with the new requirements. The cash flows of the Company's overseas subsidiaries are now translated using the exchange rates at the dates of the cash flows or, if applicable, at the weighted average exchange rates, whereas before, they were translated at the applicable rates of exchange ruling at the balance sheet date. Further details about the impact of this change are described in the accounting policy for foreign currencies as set out in note 3 to the financial statements.

SSAP 33 prescribes the basis for reporting information about discontinuing/ discontinued operations. The adoption of the SSAP has had no impact on the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the measurement of certain fixed assets and unlisted equity investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in an associate is treated as a long term asset and is stated at cost less any impairment losses.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated income statement when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated income statement is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated income statement and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or to exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price, costs transferred from construction in progress, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, as well as interest charges relating to funds borrowed during the periods of construction, installation and testing. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation of fixed assets is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Vessels	5% to 12.5%
Machinery and equipment	6.67% to 20%
Motor vehicles	10% to 12.5%
Buildings	3.33%

Depreciation of fixed assets acquired from Shanghai Shipping (Group) Company ("Shanghai Shipping", the former holding company and currently a fellow subsidiary), pursuant to the Company's reorganisation prior to its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), is calculated on the straight-line basis to write off the cost of such assets over their estimated remaining useful lives.

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress mainly represents costs incurred in the construction/ renovation of vessels. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the periods of construction, installation and testing. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use are completed. No provision for depreciation is made on construction in progress until such time when the relevant assets are completed and put into use. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Deferred staff expenditure

In the prior year, according to a housing reform scheme in Shanghai, the PRC, arrangements were made to transfer staff quarters to employees who agreed to remain in service for a period of 10 years. The net book value of the related staff quarters is recorded as deferred staff expenditure and is amortised on a straight-line basis to the income statement over the estimated beneficial period of 10 years.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis and are stated at their estimated fair values on an individual basis. The estimated fair values are determined by the directors having regard to the lower liquidity of the unlisted investments.

Gains or losses arising from changes in the fair values are dealt with as movements in the long term investment revaluation reserve, until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired, when the cumulative gain or loss derived from the investment recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement for the period in which the impairment arises.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from shipping operations, when a voyage is completed;

(b) from vessel chartering, in the period in which the vessels are let out and on the straight-line basis over the lease terms;

(c) from vessel management, in the period in which the vessels are managed in accordance with the respective agreements;

(d) interest income, on the time proportion basis taking into account the principal outstanding and effective interest rate applicable; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Bunker oil inventories and ship stores and spare parts

Bunker oil inventories are stated at cost less any provisions considered necessary by the directors. Cost is determined on the weighted average cost basis.

Ship stores and spare parts are charged as operating expenses when purchased.

Dry-docking and survey repairing

Expenditure for dry-docking and survey repairing is charged to the income statement as incurred.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset which takes a substantial period of time to get ready for its intended use are capitalised until the construction or production of the relevant asset is completed, and are included in the carrying value of the asset. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

Tax

PRC income tax is provided at applicable rates based on the income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, and based on existing PRC income tax legislation, practices and interpretations thereof.

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

The Company's financial records are maintained and the financial statements are stated in Renminbi ("Rmb").

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries denominated in foreign currencies are translated into Renminbi for inclusion in the Group's financial statements using the net investment method. Income statements of overseas subsidiaries are translated into Renminbi at the weighted average rates for the year. The balance sheets of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are restricted as to use.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of other business segments. The Group's business segments are categorised as follows:

(a) crude oil and refined oil shipment;

(b) coal shipment; and

(c) dry bulk shipment.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on domestic shipment and international shipment.

Business segments

The following table presents revenue information for the Group's business segments.

	Notes	Crude oil and refined oil shipment		Coal shipment		Dry bulk shipment		Consolidated	
		2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
		Rmb'000	Rmb'000	**Rmb'000**	Rmb'000	**Rmb'000**	Rmb'000	**Rmb'000**	Rmb'000
Segment revenue:									
Turnover		**2,717,862**	2,540,349	**988,462**	963,871	**389,694**	390,706	**4,096,018**	3,894,926
Segment results		**840,576**	763,205	**213,342**	181,276	**31,581**	35,041	**1,085,499**	979,522
Unallocated revenue:									
Other revenue and gains	5	**-**	-	**-**	-	**-**	-	**161,783**	199,740
Unallocated operating expenses:									
Administrative expenses		**-**	-	**-**	-	**-**	-	**(201,406)**	(164,595)
Other operating expenses		**-**	-	**-**	-	**-**	-	**(125,468)**	(116,511)
Profit from operating activities		**-**	-	**-**	-	**-**	-	**920,408**	898,156
Finance costs	7	**-**	-	**-**	-	**-**	-	**(132,022)**	(179,057)
Share of profits of jointly-controlled entities		**-**	-	**-**	-	**-**	-	**14,495**	-
Share of loss of an associate		**-**	-	**-**	-	**-**	-	**(100,101)**	(280,786)
Profit before tax		**-**	-	**-**	-	**-**	-	**702,780**	438,313
Tax	10	**-**	-	**-**	-	**-**	-	**(111,249)**	(113,055)
Profit before minority interests		**-**	-	**-**	-	**-**	-	**591,531**	325,258
Minority interests								**(335)**	-
Net profit from ordinary activities attributable to shareholders		**-**	-	**-**	-	**-**	-	**591,196**	325,258

The net book values of oil vessels as and cargo vessels at 31 December 2002 amounted to Rmb3,568,596,000 and Rmb3,176,378,000, respectively. Since the Group's assets and liabilities (other than the vessels) are not directly employed according to its business segments, nor could they be allocated to these segments on a reasonable basis, business segment information relating to segment assets and liabilities is not presented.

Geographical segments

The following table presents turnover and segment results from operating activities by geographical area of operations.

	Year ended 31 December 2002		Year ended 31 December 2001	
	Turnover	**Contribution**	Turnover	Contribution
	Rmb'000	**Rmb'000**	Rmb'000	Rmb'000
Domestic	**2,853,317**	**931,627**	2,649,628	754,314
International	**1,242,701**	**153,872**	1,245,298	225,208
	4,096,018	**1,085,499**	3,894,926	979,522
Other revenue and gains		**161,783**		199,740
Administrative expenses		**(201,406)**		(164,595)
Other operating expenses		**(125,468)**		(116,511)
Profit from operating activities		**920,408**		898,156

The principal assets employed by the Group are located in the PRC, and accordingly, no segment analysis of assets and expenditure has been prepared for the year.

5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents gross revenue arising from shipping operations, net of business taxes. Pursuant to various tax rules and regulations in the PRC, revenues derived from sea freighting attributable to voyages departing from ports in the PRC and vessel chartering services are subject to business taxes at 3% and 5%, respectively. Since March 2002, the tax rate for vessel chartering services is reduced to 3%, which is the same as that for sea freighting services. Business taxes charged to the income statement for the year amounted to Rmb104,471,000(2001:Rmb98,008,000).

An analysis of turnover, other revenue and gains is as follows:

	Group	
	2002	2001
	Rmb'000	Rmb'000
Turnover		
Crude oil and refined oil shipments	**2,717,862**	2,540,349
Coal shipments	**988,462**	963,871
Dry bulk shipments	**389,694**	390,706
	4,096,018	3,894,926
Other revenue		
Interest income	**6,627**	7,237
Rental income from leased vessels	**132,548**	136,720
Service income from vessel management	**14,078**	17,614
Others	**11,069**	2,590
	164,322	164,161
Gains		
Gains on disposal of fixed assets,net	**27,123**	33,061
Exchange gains/(losses), net	**(30,110)**	2,518
Negative goodwill recognised	**198**	-
Other	**250**	-
	(2,539)	35,579
Other revenue and gains	**161,783**	199,740

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Group 2002	2001
	Rmb'000	Rmb'000
Cost of shipping services rendered:		
Bunker oil inventories consumed and port fees	**1,166,123**	1,134,902
Others	**1,844,396**	1,780,502
Depreciation	**848,660**	784,286
Operating lease rentals:		
Land and buildings	**30,849**	26,502
Vessels	**66,112**	47,118
	96,961	73,620
Auditors' remuneration	**2,699**	2,314
Staff costs (including directors' remuneration (note 8)):		
Wages, salaries and hiring of sea crew	**434,132**	395,250
Pension contributions	**54,161**	52,790
	488,293	448,040
Dry -docking and repairs	**258,726**	302,419

7. FINANCE COSTS

	Group 2002	2001
	Rmb'000	Rmb'000
Interest on bank loans and other loans wholly repayable within five years	**130,181**	146,110
Interest on finance leases	**27,049**	47,344
Total interest	**157,230**	193,454
Less: Interest capitalised	**(25,208)**	(14,397)
	132,022	179,057

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2002	2001
	Rmb'000	Rmb'000
Fees	-	-
Other emoluments:		
Salaries, allowances and benefits in kind	**1,646**	1,435
Pension scheme contributions	**78**	72
	1,724	1,507

Two of the Company's directors are non-executive directors. During the year, the non-executive directors did not receive any remuneration (2001: Nil) for their services rendered to the Company.

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil to HK$1,000,000	**11**	11

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include four (2001: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2001: two) non-director, highest paid employees are as follows:

	Group	
	2002	2001
	Rmb'000	Rmb'000
Salaries, allowances and benefits in kind	**298**	435
Pension scheme contributions	**10**	18
	308	453

The number of the non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2002	2001
Nil to HK$1,000,000	**1**	2

10. TAX

Pursuant to a directive 1998 (250) jointly issued by the Shanghai State Tax Bureau and the 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 tax of the Company has been provided at the rate of 15% (2001: 15%) on the estimated assessable profits for the year.

No Hong Kong profits tax has been provided as no assessable profits were earned in or derived from Hong Kong during the year (2001: Nil). 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.

	本集團 Group	
	2002	2001
	Rmb'000	Rmb'000
Group:		
Hong Kong	**-**	-
PRC	**118,905**	113,055
Overprovision in prior year	**(8,433)**	-
Share of tax attributable to:	**777**	-
Jointly-controlled entities	**-**	-
Associate		
Tax charge for the year	**111,249**	113,055

There was no material amount of unprovided deferred tax in respect of the year (2001: Nil).

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is Rmb240,768,000 (2001: Rmb602,980,000).

12. DIVIDEND

	2002	2001
	人民幣千元	人民幣千元
	Rmb'000	Rmb'000
Proposed final - Rmb0.10(2001: Rmb0.05) per ordinary share	**332,600**	148,800

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of Rmb591,196,000 (2001: Rmb325,258,000), and the weighted average number of 3,194,630,000 (2001: 2,976,000,000) shares in issue during the year.

Diluted earnings per share accounts for the years ended 31 December 2001 and 2002 have not been presented as no diluting events existed during these years.