NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

China Shipping Development Company Limited (the “Group”) was reformed from Shanghai Shipping (Group) Company in May 1994 and the former name of the Group was Shanghai Haixing Shipping Company Limited. The Group was listed on the Hong Kong Stock Exchange in November 1994. In 1997, Shanghai Shipping (Group) Company transferred its ownership of Shanghai Haixing Shipping Company Limited to China Shipping (Group) Company, thus Shanghai Haixing Shipping Company Limited was renamed China Shipping Development Company Limited. At the end of June 1998, the Group issued 496 million new shares to its shareholders, and total shares value of the Group increased to RMB 2,976 million. In May 2002, the Group issued 350 million A shares to Chinese mainland investors and the paid-in capital was increased to RMB 3,326 million. The business scope involves oil and cargo shipment (along the sea, ocean, the Chang'jiang River), passenger shipping, ship leasing and service of cargo agency.

2. Basis of Accounting

2.1 Accounting policies

The financial statements are prepared in accordance with Chinese Accounting Standards and the financial statements of subsidiaries, namely China Shipping (Hong Kong) Marine Co., Ltd., Hainan Haixiang Shipping Industry Co., Ltd and affiliates, namely China Shipping Container Lines Co., Ltd. ("CSCL") are prepared in accordance with the respective industry accounting system. In the consolidated financial statements, the necessary adjustments have been made in accordance with Chinese Accounting Standards.

2.2 Accounting period

The accounting period is calendar year, ie from 1 January to 31 December.

2.3 Function currency

The function currency is RMB.

2.4 Accounting principles and basis of valuation

The accounting principles are the accrue basis. The basis of valuation is historical cost except special explanation.

2.5 Foreign currency transactions

Foreign currency transactions during the account ing period are translated into RMB at the exchange rates for the occurred date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the market rates of exchange ruling at that date. The exchange difference due to the fixed assets are considered as the cost of fixed assets before the fixed assets are put into use, other exchange differences are dealt with in the income statement.

2.6 Cash and cash equivalents

All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents including the short-term debt investment whose maturity date is within 3 months

2.7 Provision for bad debts

Based on the analysis of collectible possibility, special provision for bad debts is provided on the specific items of accounts receivable without considering the aging. Then a general provision is provided upon the aging analysis of the outstanding balances, and the details of rate of provision are as follows:

Aging	Rates
< 1 Year	3%
1-2 Years	10%
2-3 Years	25%
> 3 Years	50%

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

Recognition criteria for bad debts

① The debtors are bankruptcy or dead and the legacy can't pay off.

② The debtors have not fulfilled their obligation and the aging of the accounts receivables is over 3 years.

Based on the above two criteria, balances of accounts receivables would be considered as the bad debts subject to the approval of Board of Directors.

2.8 Inventories

Inventories are mainly consists of bunker oil.

Inventories are initially recorded at acquisition costs. Cost of inventories is determined on the weighted average basis. The acquisition costs of low value spare parts are charged to the costs when the low value spare parts are put into use.

At the end of accounting period, inventories are stated at the lower of cost and net realizable value. The provision of devaluation inventory is made on the individual item.

2.9 Short-term investment

Short-term investments are initially recorded at the actual cost (including taxes, handling charges) . It is not consists of cash dividends which have been declared but unpaid (or the due bond interest that unpaid). The difference between disposal of income and the carrying amount is recognized as investment income/loss for current accounting period. Short-term investment is stated at the lower of cost and market value and the difference between the carrying amount and the lower of cost and market value is recognized as impairment.

2.10 Long-term investment

(1) Long-term debt investments

Premium or discount on investment in bonds is amortized using straight-line method over the period between the acquisition date and the maturity date in which the relevant bond interest is recognized. Interest receivables from investment in bonds are computed periodically. The computed interest revenue from investments in bonds, after adjustments for the amortization of premium or discounts on investment in bonds, is recognized as investment income in the current period.

(2) Premium or discount on investment in bonds should be amortised over the period between the acquisition date and the maturity date in which the relevant bond interest is recognised. The amortisation method used should be the straight line method.

Long-term equity investment

The long-term equity investment consists of stock investment and equity investment. Long-term equity investment is initially at the actual payment.

A long-term equity investment is accounted for using the costs method or the equity method as appropriate to the circumstances.The equity method is used to account for long-term equity investments when the Company can control, joint control or has significant influence over the investee enterprise. Cost method is used to account for a long-term equity investment when the Company doesn't have control, joint control or significant influence over the investee enterprise.

When a long-term equity investment is accounted for using the equity method, the difference between the investment cost and the Company's share of owners' equity of the investee enterprise is amortized over the remaining business years of the investee enterprise, otherwise is amortized over 10 years.

The Group reviews the carrying amount of long-term investments on individual item basis at the end of accounting period. If the recoverable amount of any investment is lower than the carrying amount of that investment as a result of a continuing decline in market value or change in operating conditions of the investee enterprise, the difference between the recoverable amount and the carrying amount of the investment will be initially offset against any capital surplus reserve relating to that investment and then go to the profit and loss account.

2.11 Fixed assets and depreciation

The fixed assets include buildings, ships, vehicles and other equipments or tools related to operation with unit price over RMB 2000 and useful life exceed 2 years. The fixed assets are stated at the acquisition cost and depreciation is applied so as to write off the cost of the assets less their estimated residual value in equal annual installments over the estimated useful lives as follows:

	Useful life	Annual depreciated rate
Ships	8~19 years	5.01%~12%
Buildings	30 years	3.18%
Vehicles	5~8 years	12%~19.2%
Other equipments	5~8 years	12%~19.2%

An assessment is made at each balance sheet date of whether there is any indication of impairment of any fixed assets. If the recoverable amount of any fixed assets is lower than the book value of that fixed assets as a result of a continuing decline in market value or technology lagged and other circumstances, the differences between the recoverable amount and the book value of that fixed assets will be considered as the impairment of fixed assets.

2.12 Construction in progress

Construction in progress is stated at actual cost that includes the construction cost and related interest of loans before it put into use. The costs of construction in progress are transferred to the cost of fixed assets when the project is put into use.

The Group makes a full examination of the construction in progress at the end of accounting period. If evidence exists showing the cost of project devalued, a provision for the impairment should be made. At the same time, if the following evidence exits, a provision also should be made:

① the construction ceased for a long time and is estimated not to be constructed in the next three years;

② the construction is out of time either of capability or of technology and it is quite uncertain that the construction can bring economic benefit to the Company;

③ other circumstance sufficiently indicate that the provision of impairment should be made.

2.13 Intangible assets

Intangible assets are stated at actual cost, and amortized over the beneficial period.

At the ending of the accounting period, the Group makes sure that the intangible assets can bring the economic benefit to the Group. If the recoverable value is under the book value, a provision should be made for the impairment.

If any or several of the following circumstance are discovered, the Company writes off the carrying amount:

① the intangible asset is replaced by other new technologies so that it is worthless for using and dealing;

② the intangible asset is no longer protected by law and is not able to generate economic benefit;

③ other circumstance sufficiently indicate that the intangible asset is worthless for using and dealing.

At the ending of accounting period, if any one or several of the following circumstance is discovered, the Company estimates the recoverable amount of the asset and recognizes the excess of the carrying amount of the asset over its recoverable amount as provision for impairment:

① the intangible asset is replaced by other new technologies that adversely affect its ability to generate economic benefit;

② the market value of the intangible asset decreased rapidly in current period and it can't get back in the left period;

③ the intangible asset is no longer protected by law but it still worth using;

④ other circumstance sufficiently indicate that the intangible asset has the impairment.

2.14 Deferred expense

Deferred expense is stated at actual cost and amortized over the beneficial period.

2.15 Borrowing costs

The principle of capitalization of borrowing costs:

The capitalization of interest incurred in connection with the specific borrowings, and amortization of discounts or premium relating to and exchange difference arising from those specific borrowings, should commence when the following conditions are fulfilled: expenditure for the assets are being incurred; borrowing costs are being incurred; and activity that are necessary to prepare the asset for intended use have been commenced.

Capitalization of borrowing costs should be suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally, and the interruption period is more than 3 months. Those costs should be recognized as expense for the current period until the acquisition or construction is resumed. However, capitalization of borrowing costs should continue when the interruption is a necessary part of the process of preparing that asset to its expected usable condition.

Determination of the capitalization amount

In each capitalization period, the amount of interest costs to be capitalized should be determined in accordance with the following formula:

The capitalization amount of interest for each accounting period = the weighted average amount of accumulated expenditure incurred for the acquisition or construction of a fixed asset up to the end of the current period × the capitalization rate

2.16 Revenue recognition

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

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

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

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

(d) other revenue are recognized until three criteria are met: the ownership of goods are transferred to customers, and the relative risk/rewards on goods are also transferred to customers, the Company has the rights to collect the sales revenue.

2.17 Cost and expense recognition

The relevant cargo costs are recognized when the revenue recognized. The G&A expense and financial expense occurred during the accounting period are charged to profit and loss of current period.

2.18 Income tax

According to the regulation of Ministry Finance, the accounting treatment of income tax is payable method.

2.19 Consolidated financial statements

According to the regulation (1995) 11 of Ministry of Finance, the financial statements of the subsidiaries should be consolidated if the Group takes over 50% of the subsidiaries' owners' equity. The internal transactions have been eliminated in the consolidated financial statements. Concerning to the consolidated affiliation, the consolidated financial statements adopts proportion method for consolidation.

3. Tax rates

The rate of business tax is 3%-5%.

Pursuant to a directive 1998 (250) jointly issued by Shanghai Tax Bureau and Shanghai Bureau of Finance on 8 October 1998, the Company is entitled to a preferential income tax rate of 15% effective.

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

4. Subsidiaries and Associated Companies

4.1 Subsidiaries and Associated Companies

Company name	Registered capital(0'000)	Engaged business	% of registered capital
Hai'nan Hai'xiang Shipping Industry Co., Ltd.	10100	Oil and cargo shipment	95
Zhu'hai New Century Shipping Co., Ltd. (Note 2)	6000	Cargo shipment	50
Shanghai Friendship Shipping Co., Ltd. (Note 2)	2000	Shipment, business in free-trade zone	50
China Shipping (Hong Kong) Marine Co., Ltd. (Note 1)	USD50	Cargo shipment	100
China Shipping Container Lines Co. Ltd.(note 3)	180,105	Transportation of containers	25

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 (Hong Kong) Marine Co., Ltd to the Company, so the Company in reality owns 100% ownership of that company.

Note 2: As the financial statements of Zhu'hai New Century Shipping Co., Ltd. and Shanghai Friendship Shipping Co., Ltd. have immaterial influence on the consolidated financial statements, so the financial statements of those two companies haven't been consolidated.

The financial positions of the companies that haven't been consolidated are as follows:

Name of enterprise	Total assets	Equity	Net profit
Shanghai Friendship Shipping Co., Ltd.	176,984,900.82	61,565,152.60	1,596,575.63
Zhu'hai New Century Shipping Co., Ltd.	34,307,004.15	32,439,829.77	12,439,829.77

Notes 3: Pursuant to the "The contract of transfering the equity of China Shipping Container Lines Co. Ltd" signed by the China Shipping Group Company and the Group, the Group agreed to transfer the 25% equity of China Shipping Container Lines Co. Ltd to China Shipping Group Company. (detail attached notes 6.8)

4.2 The consolidated companies are described as follows:

The financial statements of China Shipping (Hong Kong) Marine Co., Ltd., Hai'nan Hai'xiang Shipping Industry Co., Ltd. have been consolidated.