

董事會報告書

REPORT OF THE DIRECTORS

The board of directors (the “Board”) of the Company hereby presents their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

Principal activities

The Company’s principal activities consist of investment holding, and the shipment of oil and cargoes along the coast of the People’s Republic of China (the “PRC”) and internationally.

The principal activities of the Company’s principal subsidiaries and jointly-controlled entities are oil and cargo shipment. There have been no significant changes in the nature of the Group’s principal activities during the year.

Segment information

The Group’s segment information prepared under the accounting principles generally accepted in Hong Kong (“HK GAAP”) are presented in note 4 to the financial statements.

Summary financial information

A summary of the consolidated results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out below. The amounts for each year in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policy affecting Interests In Joint Ventures as detailed in note 2.2(c) to the financial statements.

Results	Year ended 31 December				
	2005	2004	2003	2002	2001
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
		(Restated)	(Restated)	(Restated)	(Restated)
Revenue	8,515,191	6,452,479	5,119,214	4,269,266	3,947,294
Operating costs	(5,155,273)	(4,017,284)	(3,622,106)	(3,168,486)	(2,964,568)
Gross profit	3,359,918	2,435,195	1,497,108	1,100,780	982,726
Other revenue and gains	266,186	212,944	165,662	202,344	201,643
Administrative expenses	(253,295)	(237,654)	(241,219)	(207,585)	(168,448)
Other expenses	(90,699)	(150,182)	(143,974)	(159,362)	(117,765)
Finance costs	(135,593)	(106,012)	(98,745)	(133,296)	(179,057)
Share of the profit of jointly-controlled entities	-	-	-	(100,101)	(280,786)
Profit before tax	3,146,517	2,154,291	1,178,832	702,780	438,313
Tax	(452,639)	(308,674)	(154,529)	(111,249)	(113,055)
Profit for the year	<u>2,693,878</u>	<u>1,845,617</u>	<u>1,024,303</u>	<u>591,531</u>	<u>325,258</u>
Attributable to:					
Equity holders of the parent	2,691,200	1,844,527	1,023,640	591,196	325,258
Minority interests	2,678	1,090	663	335	-
	<u>2,693,878</u>	<u>1,845,617</u>	<u>1,024,303</u>	<u>591,531</u>	<u>325,258</u>
Earnings per share	<u>80.91 cents</u>	<u>55.46 cents</u>	<u>30.78 cents</u>	<u>18.51 cents</u>	<u>10.93 cents</u>

	31 December 2005	31 December 2004	31 December 2003	31 December 2002	31 December 2001
Assets liabilities and minority interests	Rmb' 000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
		(Restated)	(Restated)	(Restated)	(Restated)
Total assets	13,387,357	11,718,604	9,844,253	9,161,231	9,034,022
Total liabilities	(2,513,667)	(3,047,233)	(2,524,457)	(2,533,200)	(3,676,515)
Minority interests	(24,969)	(12,291)	(6,201)	(5,538)	(2,703)
	<u>10,848,721</u>	<u>8,659,080</u>	<u>7,313,595</u>	<u>6,622,493</u>	<u>5,354,804</u>

This summary does not form part of the audited financial statements.

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Notes:

1. The consolidated results, total assets, total liabilities and minority interests of the Group for the four years ended 31 December 2004 are extracted from the Company's 2004 annual report dated 1 March 2005 and restated as appropriate, while those of the year ended 31 December 2005 were prepared based on the consolidated income statement and consolidated balance sheet as set out on pages 52 and 53, respectively, of the financial statements.
2. The earnings per share for the year ended 31 December 2005 is calculated based on the net profit attributable to equity holders of the parent for the year ended 31 December 2005 of Rmb2,691,200,000 (2004: Rmb1,844,527,000) and 3,326,000,000 (2004: 3,326,000,000) shares in issue during the year.

Results and dividends

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 52 to 136.

The net profit of the Company for 2005, as determined in accordance with accounting principles generally accepted in the PRC ("PRC GAAP"), was Rmb2,691,090,000, of which 10% will be transferred to the statutory surplus reserve, and another 10% will be transferred to the statutory public welfare fund. According to the relevant laws and regulations, the Company's reserves available for distribution are determined based on the lower of the amount determined under PRC GAAP and the amount determined under HK GAAP.

The directors recommend the payment of a final dividend of Rmb0.30 per share in respect of the year to shareholders on the register of members at the close of business on 26 April 2006. There was no arrangement under which a shareholder of the Company has waived or agreed to waive any dividends. This recommendation has been incorporated in the financial statements as an allocation of retained profits (note 31) within the equity section of the balance sheet.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

Share capital

Details of movements in the Company's share capital during the year are set out in note 30 to the financial statements.

Pre-emptive rights

According to the articles of association of the Company, the existing shareholders have pre-emptive rights to purchase shares in any new issue of shares of the Company in proportion to their shareholdings.

Purchase, redemption or sale of listed securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

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Distributable reserves

As at 31 December 2005, the Company's reserves available for distribution, as determined based on the lower of the amount determined under PRC GAAP and the amount determined under HK GAAP, amounted to Rmb3,461,051,000 before the proposed final dividend.

In addition, according to the PRC Company Law, an amount of approximately Rmb2,037,884,000 standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

Major customers

In the year under review, the five largest customers of the Group accounted for less than 30% (2004: less than 30%) of the Group's total revenue. None of the directors, supervisors, their associates, or any shareholders, which, to the best knowledge of the directors and supervisors, owns 5% or more of the Company's issued share capital, had any beneficial interest in the five largest customers of the Group.

Major suppliers

In the year under review, the five largest suppliers of materials and services to the Group accounted for 49% (2004: 51%) of the Group's total purchases. The largest supplier is a jointly-controlled entity of China Shipping (Group) Company ("China Shipping", the Company's holding company), and accounted for 34% (2004: 31%) of the Group's total purchases in that year. Four other subsidiaries of China Shipping constituted the remaining four largest suppliers of the Group.

Except as mentioned above, none of the directors, supervisors, their associates or any shareholders, which, to the best knowledge of the directors and supervisors, owned 5% or more of the Company's issued share capital, had any beneficial interests in the five largest suppliers of the Group.

Directors

The directors of the Company during the year were:

Executive directors:

Mr. Li Shaode

Mr. Wang Daxiong

Mr. Yao Zuozhi

Mr. Wang Kunhe

Mr. Mao Shijia (Appointed on 1 March 2005)

Mr. Sun Zhitang (Resigned on 10 August 2005)

Independent non-executive directors:

Mr. Zhou Zhanqun

Mr. Hu Honggao

Mr. Xie Rong

Pursuant to the Company's articles of association, all the directors of the Company are appointed for a term of three years.

The Company has received annual confirmations of independence from Messrs. Zhou Zhanqun, Hu Honggao and Xie Rong, and as at the date of this report still considers them to be independent.

Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out pages 203 to 206 of the annual report.

Service contracts of directors and supervisors

Each of the executive directors and supervisors has entered into a service contract with the Company, which will expire on 27 May 2006 and is subject to termination by either party giving not less than three months' written notice.

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The Company has entered into a service agreement of a term of three years with the non-executive directors.

No director or supervisor has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

Remuneration committee

The remuneration committee is headed by Mr. Wang Daxiong, an executive director of the Company. The other two members of the remuneration committee are Mr. Xie Rong and Mr. Hu Honggao, both being independent non-executive directors of the Company. The remuneration committee of the Company has adopted terms of reference which are in line with the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

Management contracts

Pursuant to the Services Agreement as described in note 39(1) to the financial statements, China Shipping provided miscellaneous management and other services to the Group during the year for a total fee of Rmb41,789,000 (2004: Rmb38,960,000).

Contracts of significance

The Company has entered into the Services Agreement with China Shipping pursuant to which China Shipping (or its subsidiaries) provides to the Group the necessary supporting shipping materials and services for the ongoing operations of the Group's vessels. Further details of the transactions undertaken in connection therewith during the year are included in note 39 (1) to the financial statements.

Substantial shareholders' interests in shares and underlying shares

As at 31 December 2005, the following shareholders held 5% or more of the nominal value of any class of share capital of the Company, carrying rights to vote in all circumstances at any shareholders' general meeting of the Company, according to the register of interests in shares required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (the "SFO"):

Name of substantial shareholders	Class of share	Number of shares	Percentage of the total number of the relevant class shares	Percentage of the total number of issued shares
China Shipping (Group) Company	A shares	1,578,500,000 (Long position)	77.76%	47.46%
HSBC Halbis Partners (Hong Kong) Limited	H shares	98,404,000 (Long position)	7.59%	2.96%
JP Morgan Chase & Co	H shares	68,685,000 (Pool)	5.30%	2.07%
			2.56%	1.00%
	H shares	33,197,000 (Pool)	5.02%	1.96%
UBS AG	H shares	65,110,110 (Long position)	0.03%	0.01%
	H shares	354,000 (Short position)		

Note: "Long" means long position;
"Short" means short position;
"Pool" Means lending pool.

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Save as disclosed above, as at 31 December 2005, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Directors' and supervisors' interests in contracts

As at 31 December 2005 or during the year, none of the directors or supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

Directors' and supervisors' interests and short positions in shares and underlying shares of the Company

As at 31 December 2005, none of the directors, supervisors, chief executive or their associates had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' and supervisors' rights to acquire shares or debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or supervisor or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or supervisors to acquire such rights in any other body corporate.

Connected transactions

The Group had connected transactions during the year with its holding company, fellow subsidiaries, jointly-controlled entities as of the holding company well as related companies, further details of which are set out in note 39 to the financial statements.

The Stock Exchange has granted the Company a waiver from compliance with Chapter 14A of the Listing Rules for the ongoing connected transactions till 31 December 2006, as set out in note 39(1) to the financial statements, pursuant to its letter of 30 March 2004.

Details of non-exempt connected transactions are presented in note 39(2) to the financial statements.

The independent non-executive directors have reviewed the continuing connected transactions set out in note 39(1) to the financial statements and have confirmed that, during the year ended 31 December 2005, such transactions were entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties;
- (3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (4) within the relevant monetary caps as agreed with the Stock Exchange or approved by the shareholders of the Company.

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Employee housing

According to the relevant local laws and regulations, the Group and its employees are required to contribute their respective contributions to an accommodation fund according to a certain percentage of the salaries and wages of the employees. There are no other significant contributory obligations beyond the contributions to the said fund.

The Company provided staff quarters to selected employees and, according to a housing reform scheme in Shanghai, the People's Republic of China (the "PRC"), arrangements were made to transfer the staff quarters to employees who agreed to remain in service for the Company for a period of 10 years. As of the date of this report, nearly all of the staff quarters have been transferred to employees on the above basis. The net book value of staff quarters has been reclassified as deferred staff expenditure and is amortised on the straight-line basis over 10 years, which approximates the expected service period of the relevant employees.

Medical insurance scheme

As required by regulations of the local government effective 1 July 2001, the Company participates in a defined contribution medical insurance scheme organised by local social security authorities. Under the scheme, the Company is required to make monthly contributions at the rate of 12% of the total salaries of the employees, after certain adjustments on individual employee's salary in accordance with applicable regulations. In addition, pursuant to the aforementioned regulations, the contributions are charged to staff welfare payable accrued by the Company. The Company has no obligation for the payment of medical benefits beyond such contributions to the registered insurance companies.

Pension scheme

Details of the pension scheme of the Company are set out in note 33 to the financial statements.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Auditors

Ernst & Young retire and a resolution for their reappointment as international auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Li Shaode

Chairman

Shanghai, People's Republic of China

28 March 2006