

# 董事會報告書

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## 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 2007.

### **Principal activities**

The Company's principal activities consist of investment holding, and the shipment of oil and cargoes along the coast of 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.

### **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.

截至十二月三十一日止年度  
Year ended 31 December

Results	2007	2006	2005	2004	2003
	人民币千元 Rmb'000	人民币千元 Rmb'000	人民币千元 Rmb'000	人民币千元 Rmb'000	人民币千元 Rmb'000
		(重列) (Restated)	(重列) (Restated)	(重列) (Restated)	(重列) (Restated)
Revenue	12,394,739	9,203,557	8,114,333	6,135,984	5,119,214
Operating costs	(7,329,308)	(5,916,742)	(4,833,463)	(3,764,391)	(3,622,106)
Gross profit	5,065,431	3,286,815	3,280,870	2,371,593	1,497,108
Other revenue and gains	542,947	311,251	154,003	118,791	165,662
Selling and distribution costs	(36,744)	(32,933)	-	-	-
Administrative expenses	(214,841)	(196,458)	(240,823)	(226,830)	(241,219)
Other expenses	(21,374)	(30,542)	(3,566)	(58,885)	(143,974)
Finance costs	(173,129)	(120,490)	(116,398)	(100,533)	(95,689)
Share of profits of jointly-controlled entities	165,745	75,170	60,926	50,155	20,751
Profit before tax	5,328,035	3,292,813	3,135,012	2,154,291	1,202,639
Tax	(781,652)	(531,339)	(441,134)	(308,674)	(154,529)
Profit for the year	4,546,383	2,761,474	2,693,878	1,845,617	1,048,110
Attributable to:					
Equity holders of the parent	4,546,383	2,758,477	2,691,199	1,844,527	1,023,640
Minority interests	-	2,997	2,679	1,090	663
	<u>4,546,383</u>	<u>2,761,474</u>	<u>2,693,878</u>	<u>1,845,617</u>	<u>1,024,303</u>
Basic earnings per share	<u>RMB136.69cents</u>	<u>RMB82.94cents</u>	<u>RMB80.91cents</u>	<u>RMB55.46cents</u>	<u>RMB30.78cents</u>
Diluted earnings per share	<u>RMB135.09cents</u>	<u>RMB82.94cents</u>	<u>RMB80.91cents</u>	<u>RMB55.46cents</u>	<u>RMB30.78cents</u>
Assets, liabilities and minority interests					
Total assets	23,607,114	17,000,152	14,216,547	11,625,393	9,726,290
Total liabilities and Minority interests	(7,535,599)	(4,394,899)	(3,342,857)	(2,966,313)	(2,412,695)
	<u>16,071,515</u>	<u>12,605,253</u>	<u>10,873,690</u>	<u>8,659,080</u>	<u>7,313,595</u>

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

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## REPORT OF THE DIRECTORS

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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 2006 are extracted from the Company's 2006 annual report dated 29 March 2007 and have been adjusted for the retrospective changes in accounting policy affecting Interests In Joint Ventures, while those for the year ended 31 December 2007 were prepared based on the consolidated income statement and consolidated balance sheet as set out on pages 59 to 61, respectively, of the financial statements.
2. The calculation of basic earnings per share for the share ended 31 December 2007 is based on the profit attributable to equity holders of the Company for the year ended 31 December 2007 of RMB4,546,383,000 and the weighted average number of 3,365,510,075 ordinary shares in issue during the year as adjusted to reflect the weighted average number of convertible shares issued in July 2007. Earnings per share for the year ended 31 December 2007 is RMB 1.3669 and diluted earnings per share is RMB 1.3509.

The calculation of basic earnings per share for the year ended 31 December 2006 was based on the profit attributable to equity holders of the Company for the year ended 31 December 2006 of 2,758,477,000 and 3,326,000,000 shares in issue during the year. Earnings per share for the year ended 31 December 2006 was RMB 0.8294 and diluted earnings per share is RMB 0.8294.

### Results and dividends

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 59 to 170.

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The net profit of the Company for 2007, as determined in accordance with accounting principles generally accepted in the PRC ("PRC GAAP"), was Rmb 4,596,050,000, 10% of which will be transferred to the statutory surplus reserve. 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 Rmb 0.50 per share in respect of the year to shareholders on the register of members at the close of business on 5 May 2008. 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 shareholding.

### **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.

### **Distributable reserves**

As at 31 December 2007, 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 RMB7,191,774,000 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% (2006: 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 41% (2006: 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 the purchases from it accounted for 26% (2006: 36%) of the Group's total purchases in that year. Two other subsidiaries of China Shipping constituted two of the remaining four largest suppliers of the Group.

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

#### Directors and supervisors

The directors and supervisors of the Company during the year were:

##### *Executive directors:*

Mr. Li Shaode

Mr. Ma Zehua

(appointed on 30 April 2007)

Mr. Wang Daxiong

Mr. Wang Kunhe

Mr. Mao Shijia

Mr. Zhang Guofa

Mr. Lin Jianqing

##### *Non-executive director:*

Mr. Yao Zuozhi

(resigned on 29 March 2007)

##### *Independent non-executive directors:*

Mr. Zhou Zhanqun

Mr. Hu Honggao

Mr. Xie Rong

Mr. Ma Xun

##### *Supervisors:*

Mr. Kou Laiqi

Mr. Yan Zhichong

(effective from 22 October 2007)

Mr. Xu Hui

Mr. Luo Yuming

(appointed on 22 October 2007)

Ms. Chen Xiuling

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, Xie Rong and Ma Xun, and as at the date of this report still considers them to be independent.

**Directors', Supervisors' and senior management's biographies**

Biographical details of the directors and supervisors of the Company and the senior management of the Group are set out pages 292 to 300 of the annual report.

**Service contract of directors and supervisors**

Each of the directors and supervisors has entered into a service contract with the Company, which will expire on 25 May 2009 and is subject to termination by either party giving not less than three months' written notice.

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.

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#### **Remuneration committee**

The remuneration committee is headed by Mr. Wang Daxiong, and executive director of the Company. The other two members of the remuneration committee are Messrs. Xie Rong and 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 RMB46,606,000 (2006: RMB48,804,000).

#### **Substantial shareholders' and other pensions' interests in shares and underlying shares**

As at 31 December 2007, 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"):



主要股東名稱	股份性質	所持有股份數目	持股量相對相同性質股份的概約百分比	持股量相對本公司已發行股本總額的概約百分比
Name of substantial shareholders	Class of shares	Number of shares held	Percentage of the total number shares of the relevant class	Percentage of the total number of issued shares
中國海運(集團)總公司 China shipping (Group) Company	A	1,578,500,000 (long)	77.76%	47.46%
Davis Selected Advisers, L.P.	H	93,256,000 (long)	7.20%	2.80%
Morgan Stanley International Incorporated	H	68,047,176 (long)	5.25%	2.05%
	H	499,400 (short)	0.04%	0.02%
Morgan Stanley Asia Pacific (Holdings) Limited	H	65,992,776 (long)	5.09%	1.98%
	H	424,000 (short)	0.03%	0.01%
Morgan Stanley Asia Regional (Holdings) III LLC	H	65,399,000 (long)	5.05%	1.97%
Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd	H	65,399,000 (long)	5.05%	1.97%
Morgan Stanley Investment Management Company	H	65,399,000 (long)	5.05%	1.97%

Note: A - A shares  
H - H shares  
Long- represents long position  
Short-means short position  
Pool-denotes lending pool

Save as disclosed above, as at 31 December 2007, 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 2007 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, subsidiaries or fellow subsidiaries was a party.

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

As at 31 December 2007, 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, 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 and continuing connected transactions**

During the year, the Company and the Group had connected transactions and continuing connected transactions, details of which have been disclosed in compliance with the requirements of Chapter 14A of the Listing Rules. Further details of the transactions are set out in note 39 to the financial statements.

The EGM held on 28th December 2006 has approved the continuing connected transactions for term of three years commenced from 1 January 2007.

The independent non-executive directors of the Company have reviewed the connected transactions and continuing connected transactions set out in note 39 to the financial statements, and have confirmed that, during the year ended 31 December 2007, 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; and
- (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.

Each of the independent non-executive directors has further confirmed that, the values of all connected transactions and continuing connected transactions between the Group and its connected persons which are subject to annual caps have not exceeded their respective annual caps.

### **Employees**

As at the end of 2007, the Company had approximately 3,320 employees. Adjustment of employee remuneration are calculated in accordance with the Company's turnover and profitability and is determined by assessing the correlation between the total salary paid and the economic efficiency of the enterprise. Under this mechanism, management of employees remuneration will be more efficient while employees will be motivated to work hard to bring encouraging results of the Company. Save for the remuneration disclosed above, the Company does not maintain any share option scheme for its employees and the employees do not enjoy any bonus. The Company regularly provides for its administrative personnel training on various subjects, including operation management, foreign languages, computer skills, industry knowhow and policies and laws. These training may be in different forms, such as seminars, site visits and study tours.

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In 2007, the total staff costs was Rmb703,902,000(2006: Rmb575,280,000).

#### **Employee housing**

According to the relevant local laws and regulations in the People's Republic of China (the "PRC"), both the Group and its employees in PRC are required to contribute 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 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. In view of this deferred staff expenditure shall not bring any economic benefit into the Company, the Company had decided to charge the remaining balance of RMB49,968,000 to the income statement in 2007.

**Medical insurance scheme**

As required by the regulations of the local government in PRC effective from 1 July 2001, the Company participates in a defined contribution medical insurance scheme organized 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 the applicable regulations, In addition, pursuant to the aforementioned regulations, the contributions are accounted for as staff welfare payables 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.

**Post balance sheet events**

Details of a significant post balance sheet event of the Group are set out in note 41 to the financial statements.

**Auditors**

Vocation HK CPA retire and the resolution regarding the appointment of both international and domestic 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

25 March 2008