

16. OPERATING LEASE ARRANGEMENT

(a) As lessor

The Group leases certain of its vessels under operating lease arrangements, with leases negotiated for terms ranging from one to twelve years.

As at 30 June 2008, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2008	31 December 2007
	(Unaudited)	(Audited)
	Rmb'000	Rmb'000
Within one year	206,464	442,735
In the second to fifth year, inclusive	-	57,704
After five years	-	1,353
	<u>206,464</u>	<u>501,792</u>

(b) As lessee

The Group entered into non-cancellable operating lease arrangements on certain of its vessels, vehicles and buildings with leases negotiated for terms ranging from six months to five years.

As at 30 June 2008, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows :

	30 June 2008	31 December 2007
	(Unaudited)	(Audited)
	Rmb'000	Rmb'000
Within one year	1,178,308	1,545,747
In the second to fifth year, inclusive	188,995	212,500
	<u>1,367,303</u>	<u>1,758,247</u>

17. CONTINGENT LIABILITIES

On 28 December 2005, one of the Company's oil tankers "Daiqing 91" leaked fuel during its voyage. After the investigation done by the Maritime Safety Administration, the leakage polluted the sea. Hence, there was a settlement agreement among Ministry of Communication, the Company and local authorities such as Maritime Safety Administration of Shandong Province, the Company would assume responsibility of the accident. As the Company had been insured with an insurance company in the United Kingdom, the provision of its liability is limited to Rmb36 million. The Company had made provision for its estimated loss. Up to 30 June 2008, the Company is still in the process of settlement, litigation and claiming compensation from the insurance company.

In December 2007, "Fuzhou" collided with "Chongcheong 118", which sunk afterwards. According to the judgement made by the Maritime Law Court at Shanghai on 12 June 2008, Shanghai Boshan Steel had lost its claim. Shanghai Boshan Steel is preparing to make an appeal. Up to 30 June 2008, the case is still in progress. The Company has made provision for the estimated loss. Appropriate insurance has been taken up by the Company on the vessel. Up to 30 June 2008, the Company is still in the process of settling all the issues concerned.

In December 2007, one of the Company's cargo vessels "Zhenfen 10" collided with "Mowushunfeng 276", which sunk afterwards. The case is still under investigation up to 30 June 2008 and the Company has made provision for the estimated loss. Appropriate insurance has been taken up by the Company on the cargo vessel. On 3 January 2008, the Company signed an agreement with the owners and agreed to pay all the salvage expenses and, to settle the dispute, by agreeing to pay Rmb3,000,000 as compensation and waiving the amount of Rmb50,000 due from the owner. Up to 30 June 2008, the Company is still in the process of claiming compensation from the insurance company.

In December 2007, one of the Company's cargo vessels, "Cheungshun" collided with "Changming 6" resulting in damages of its bow. The investigation was still in progress. The Company has made provision for the estimated loss from the claims, taking into consideration the amount that could be compensated by the insurance company. By 30 June 2008, the claiming of insurance is still in progress.

In May 2008, one of the Company's cargo vessels "Ningon 11" collided with the pier at Shanghai resulting in damages to the pier and the door. The case is still under investigation up to 30 June 2008. The Company has made provision for the estimated loss. Appropriate insurance has been taken up by the Company for the estimated loss from the claims. The Company is still in the process of claiming compensation from the insurance company at 30 June 2008.

18. COMMITMENTS

The followings were the details of the Company's capital commitments as at 30 June 2008:

	30 June 2008 (Unaudited) Rmb'000	31 December 2007 (Audited) Rmb'000
Authorized and contracted for:		
Construction and purchases of vessels (Note)	22,678,832	23,436,298
Capital payable to subsidiaries and jointly-controlled entities	94,450	163,377
	<u>22,773,282</u>	<u>23,599,675</u>

Note: According to the construction purchase agreements entered into by the Group from 2006 to 2008, these capital commitments will fall due as from 2008 to 2012.

Capital commitments signed and executed include the following:

308,000 tonnes of 4 Oil Tankers (Contract date: 28 October 2006)

The Company, the China State Shipbuilding Corporation and CSSC Guangzhou Longxue Shipbuilding Co., Ltd. entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company for the Company's 4 oil tankers at a consideration of USD114,260,000 per vessel, making a total consideration of USD457,040,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD182,816,000 had been paid. The remaining outstanding will be settled when the vessels are ready to be delivered. It is estimated that the Company will settle all the outstanding by the end of October 2009.

76,000 tonnes of 1 Oil Tanker (Contract date: 2 March 2007)

The Company, the China Shipping Building International Trading Co., Ltd. and Dalian Shipbuilding Industry Company Limited entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company for the Company an oil tankers at a consideration of USD51,260,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD20,504,000 had been paid. The remaining outstanding will be settled when the vessel is ready to be delivered. It is estimated that the Company will settle all the outstanding by the end of September 2010.

76,000 tonnes of 5 Oil Tankers (Contract date: 2 March 2007)

The Company, the China Shipbuilding & Offshore International Co., Ltd. and Dalian Shipbuilding Industry Company Limited entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company 5 oil tankers at a consideration of USD51,260,000 per vessel, making a total consideration of USD256,300,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD61,512,000 had been paid. The remaining outstanding will be settled when the vessels are ready to be delivered. It is estimated that the Company will settle all the outstanding by the end of September 2010.

57,300 tonnes of 5 Bulk Cargo Carriers (Contract date: 29 March 2007)

The Company and the China Shipping Industry Co., Ltd. and China Shipping Industry (Jiangsu) Co., Ltd. entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company 5 bulk cargo carriers at a consideration of Rmb272,850,000 per vessel, making a total consideration of Rmb1,364,250,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of Rmb545,700,000 had been paid. The remaining outstanding will be settled when the vessels are ready to be delivered. It is estimated that the Company will settle all the outstanding by the end of December in 2010.

57,300 tonnes of 7 Bulk Cargo Carriers (Contract date: 29 March 2007)

The Company and the China Shipping Industrial Co., Ltd. and China Shipping Industry (Jiangsu) Co., Ltd. entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company 7 bulk cargo carriers at a consideration of Rmb272,850,000 per vessel, making a total consideration of Rmb1,909,950,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of Rmb381,990,000 had been paid. The remaining outstanding will be settled when the vessels are ready to be delivered. It is estimated that the Company will settle all the outstanding by the end of December in 2011.

57,300 tonnes of 6 Bulk Cargo Carriers (Contract date: 29 March 2007)

The Company and the China Shipping Industrial Co., Ltd. and China Shipping Industry (Jiangsu) Co., Ltd. entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company 6 bulk cargo carriers at a consideration of Rmb1,637,100,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of Rmb327,420,000 had been paid. The remaining outstanding will be settled when the vessels are ready to be delivered. It is estimated that the Company will settle all the outstanding by the end of December in 2011.

40,000 tonnes of 1 Oil Tanker (Contract date: 31 March 2006)

The Company, the China State Shipbuilding Corporation and Guangzhou Shipyard International Company Limited entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company an oil tanker at a consideration of USD37,000,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD22,200,000 had been paid. The remaining outstanding will be settled when the vessels are ready to be delivered. It is estimated that the Company will settle all the outstanding by the end of December in 2008.

76,000 tonnes of 8 Bulk Cargo Carriers (Contract date: 10 June 2008)

The Company, the China State Shipbuilding Corporation and Jiangnan Construction Group Limited entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company 8 bulk cargo carriers at a consideration set at USD53,500,000 per vessel, making a total consideration of USD428,000,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD85,600,000 had been paid. The remaining outstanding will be settled when the vessels are ready to be delivered. It is estimated that the Company will settle all the outstanding by the end of May in 2012.

46,000 tonnes of 1 Oil Tanker (Contract date: 16 February 2007)

The Company's subsidiary - China Shipping Development (Hong Kong) Marine Co., Ltd., the China Shipping Industry Co., Ltd. and China Shipping Industrial (Jiangsu) Co., Ltd. entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company's subsidiary an oil tanker at a consideration of USD43,500,000. The consideration will be settled in two instalments. Up to 30 June 2008, a total of USD26,100,000 had been paid. The remaining outstanding will be settled when the vessels are ready to be delivered. It is estimated that the Company's subsidiary will settle all the outstanding by the end of August in 2008.

46,500 tonnes of 1 Oil Tanker (Contract date: 12 April 2007)

The Company's subsidiary - China Shipping Development (Hong Kong) Marine Co., Ltd., the China Shipping Industrial Co., Ltd. and China Shipping Industry (Jiangsu) Co., Ltd. entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company's subsidiary an oil tanker at a consideration of USD46,200,000. The consideration will be settled in three instalments. Up to 30 June 2008, a total of USD27,720,000 had been paid. The remaining outstanding will be settled when the vessels are ready to be delivered. It is estimated that the Company's subsidiary will settle all the outstanding by the end of October in 2008.

46,500 tonnes of 1 Oil Tanker (Contract date: 12 April 2007)

The Company's subsidiary - China Shipping Development (Hong Kong) Marine Co., Ltd., the Industrial Co., Ltd. and China Shipping Industry (Jiangsu) Co., Ltd. entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company's subsidiary an oil tanker at a consideration of USD46,200,000. The consideration will be settled in four instalments. Up to 30 June 2008, a total of USD27,720,000 had been paid. The remaining outstanding will be settled when the vessels are ready to be delivered. It is estimated that the Company's subsidiary will settle all the outstanding by the end of January in 2009.

298,000 tonnes of 1 Oil Tanker (Contract date: 31 March 2006)

The Company's subsidiary - China Shipping Development (Hong Kong) Marine Co., Ltd., the China Shipbuilding International Trading Co., Ltd. and Dalian Shipbuilding Industry Company Limited entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company's subsidiary an oil tankers at a consideration of USD99,890,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD59,934,000 had been paid. The remaining outstanding will be settled when the vessels are ready to be delivered. It is estimated that the Company's subsidiary will settle all the outstanding by the end of September in 2009.

298,000 tonnes of 1 Oil Tanker (Contract date: 31 March 2006)

The Company's subsidiary - China Shipping Development (Hong Kong) Marine Co., Ltd., the China Shipbuilding International Trading Co., Ltd. and Dalian Shipbuilding Industry Company Limited entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company's subsidiary an oil tanker with at a consideration of USD99,890,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD39,956,000 had been paid. The remaining outstanding will be settled when the vessels are ready to be delivered. It is estimated that the Company's subsidiary will settle all the outstanding by the end of September in 2009.

298,000 tonnes of 1 Oil Tanker (Contract date: 31 March 2006)

The Company's subsidiary - China Shipping Development (Hong Kong) Marine Co., Ltd., the China Shipbuilding International Trading Co., Ltd. and Dalian Shipbuilding Industry Company Limited entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company's subsidiary an oil tanker with at a consideration of USD104,490,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD41,796,000 had been paid. The remaining outstanding will be settled when the vessels are ready to be delivered. It is estimated that the Company's subsidiary will settle all the outstanding by the end of December in 2009.

298,000 tonnes of 1 Oil Tanker (Contract date: 31 March 2006)

The Company's subsidiary - China Shipping Development (Hong Kong) Marine Co., Ltd., the China Shipbuilding International Trading Co., Ltd. and Dalian Shipbuilding Industry Company Limited entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company's subsidiary an oil tanker at a consideration of USD104,490,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD20,898,000 had been paid. The remaining outstanding will be settled when the vessels are ready to be delivered. It is estimated that the Company's subsidiary will settle all the outstanding by the end of December in 2009.

40,000 tonnes of 2 Oil Tankers (Contract date: 31 March 2007)

The Company's subsidiary - China Shipping Development (Hong Kong) Marine Co., Ltd., the China Shipbuilding Trading Company Limited and Guangzhou Shipyard International Co., Ltd. entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company's subsidiary 2 oil tankers at a consideration of USD36,500,000 per vessel, making a total consideration of USD73,000,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD14,600,000 had been paid. The remaining outstanding will be settled when the vessels are ready to be delivered. It is estimated that the Company's subsidiary will settle all the outstanding by the end of November in 2009.

300,000 tonnes of 4 Very Large Iron Ores Carriers (Contract date: 22 October 2007)

The Company's subsidiary - China Shipping Development (Hong Kong) Marine Co., Ltd., the China Shipbuilding & Offshore International Company Limited and Dalian Shipbuilding Industry Company Limited entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company's subsidiary 4 very large iron ores carriers at a consideration of USD113,800,000 per vessel, making a total consideration of USD455,200,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD91,040,000 had been paid. The remaining outstanding balances will be settled when the vessels are ready to be delivered. It is expected that the Company's subsidiary will settle all the outstanding balances by the end of March in 2012.

230,000 tonnes of 3 Very Large Iron Ores Carriers (Contract date: 2 February 2007)

The Company's subsidiary - China Shipping Development (Hong Kong) Marine Co., Ltd., the China Shipbuilding Trading Company Limited and CSSC Guangzhou Longxue Shipbuilding Company Limited entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company's subsidiary 3 very large iron ores carriers at a consideration of USD80,800,000 per vessel, making a total consideration of USD242,400,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD48,480,000 had been paid. The remaining outstanding balances will be settled when the vessels are ready to be delivered. It is expected that the Company's subsidiary will settle all the outstanding balances by the end of December in 2010.

230,000 tonnes of 1 Very Large Iron Ores Carrier (Contract date: 2 February 2007)

The Company's subsidiary - China Shipping Development (Hong Kong) Marine Co., Ltd., the China Shipbuilding Trading Company Limited and CSSC Guangzhou Longxue Shipbuilding Company Limited entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company's subsidiary a very large iron ores carrier at a consideration of USD80,800,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD32,320,000 had been paid. The remaining outstanding balances will be settled when the vessel is ready to be delivered. It is expected that the Company's subsidiary will settle all the outstanding balances by the end of December in 2010.

230,000 tonnes of 4 Very Large Iron Ores Carriers (Contract date: 27 October 2007)

The Company's subsidiary - China Shipping Development (Hong Kong) Marine Co., Ltd., the China Shipbuilding Trading Company Limited and CSSC Guangzhou Longxue Shipbuilding Company Limited entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company's subsidiary 4 very large iron ores carriers at a consideration of USD90,160,000 per vessel, making a total consideration of USD360,640,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD72,128,000 had been paid. The remaining outstanding balances will be settled when the vessels are ready to be delivered. It is expected that the Company's subsidiary will settle all the outstanding balances by the end of December in 2011.

57,000 tonnes of 4 Bulk Cargo Carriers (Contract date: 28 November 2007)

The Company's subsidiary - China Shipping Development (Hong Kong) Marine Co., Ltd., the China Shipping Industry Co., Ltd. and China Shipping Industry (Jiangsu) Co., Ltd. entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company's subsidiary 4 bulk cargo carriers for the transportation of coal and other bulk cargo at a consideration of Rmb300,220,000 per vessel, making a total consideration of Rmb1,200,880,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD240,176,000 had been paid. The remaining outstanding balances will be settled when the vessels are ready to be delivered. It is expected that the Company's subsidiary will settle all the outstanding balances by the end of June in 2012.

300,000 tonnes of 4 Very Large Iron Ores Carriers (Contract date: 29 December 2007)

The Company's subsidiary - China Shipping Development (Hong Kong) Marine Co., Ltd., the China Shipbuilding & Offshore International Company Limited and Dalian Shipbuilding Industry Company Limited entered into an agreement whereby the latter companies agreed to procure the construction and delivery to the Company's subsidiary 4 very large iron ores carriers at a consideration of USD116,800,000 per vessel, making a total consideration of USD467,200,000. The consideration will be settled in five instalments. Up to 30 June 2008, a total of USD93,440,000 had been paid. The remaining outstanding balances will be settled when the vessels are ready to be delivered. It is expected that the Company's subsidiary will settle all the outstanding balances by the end of June in 2012.

Capital commitments to Shanghai Yinhua Shipping Company Limited

The Company entered into an agreement with Jiangyin Sulong Power Generation Company Limited (later known as Jiangyin Xinlongyun Investment Company Limited) regarding the formation of Shanghai Yinhua Shipping Company Limited with a registered capital of HK\$200,000,000. The Company will inject its share of capital contribution in two instalments. The first instalment HK\$22,623,500 has already been paid and the second instalment of HK\$79,376,500 will be paid before September 2009.

Signed capital commitments

On 10 March 2008, the board of directors of the Company amended the resolution regarding the formation of a joint venture shipping company by the Company's subsidiary China Shipping Development (Hong Kong) Marine Co., Ltd. with Shanghai Puyuan Shipping Co., Ltd. at the sixth board meeting of 2008. Upon negotiations by the Group with Shanghai Puyuan Shipping Co., Ltd., both parties agreed to jointly contribute and form a joint venture shipping company. The joint venture shipping company will be incorporated in Hong Kong with a registered capital of US\$19,000,000. China Shipping Development (Hong Kong) Marine Co., Ltd. will contribute US\$9,690,000 (Rmb70,780,000), representing 51% equity interest in the joint venture company; Shanghai Puyuan Shipping Co., Ltd. will contribute US\$9,310,000, representing 49% equity interest in the joint venture company. The joint venture will start with a construction of a 230,000 tonnes very large iron ores container, any further investments will depend on the future financial position of the joint venture.

On 21 February 2008, the board of directors of the Company passed a resolution regarding the formation of a joint venture shipping company with Baosteel Resources Co., Ltd. (formerly known as Baosteel Trading Co., Ltd.), at the fourth board meeting of 2008. Upon negotiations by the Company with Baosteel Resources Co., Ltd. both parties agreed to jointly contribute and form a joint venture shipping company to operate large bulk cargo ocean shipping business. The joint venture shipping company was incorporated in Hong Kong with a registered capital of US\$8,000,000. The Company will contribute US\$4,080,000, representing 51% equity interest in the joint venture company whereas Baosteel Resources Co., Ltd will contribute US\$3,920,000, representing 49% equity interest in the joint venture company.

19. THE ULTIMATE HOLDING COMPANY

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

20. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these condensed consolidated interim financial statements, business transactions between the Group and its holding company, fellow subsidiaries, jointly-controlled entities as well as related parties for the Period are set out as below:

- (1) Further details of the principal amounts paid by the Group to China Shipping, its subsidiaries or jointly-controlled entities in respect of the services agreement for the Period ended 30 June 2008 are set out below :

	Pricing basis	For the six months ended 30	
		June	
		2008 (Unaudited) Rmb'000	2007 (Unaudited) Rmb'000 (Restated)
Dry-docking and repairs	State-fixed prices or market prices	245,276	103,939
Supply of lubricating oil, fresh water supplies, raw materials, bunker oil, mechanical and electrical engineering, ship stores and repairs and maintenance services for life boats	Market prices	1,432,240	1,003,268
White washing and oily water treatment for vessels	State-fixed prices or market prices	-	5,758
Installation, repairs and maintenance of telecommunication and navigational services	State-fixed prices	18,414	12,571
Hiring of sea crew	Market prices	33,144	141,202
Accommodation, lodging and transportation for employees	Market prices	724	287
Medical services (for existing employees)	State-fixed prices	6	121
Miscellaneous management services	Market prices	11,997	18,036
Agency commissions	Market prices	62,998	39,282
Services fees on sale and purchase of vessels, accessories and other equipment	Market prices	<u>8,251</u>	<u>4,491</u>

In connection with the above transactions and for other operating purposes, the Group made prepayments/ advances to subsidiaries and jointly-controlled entities of China Shipping from time to time.

- (2) Save for the connected transactions outlined above, details of other connected transactions with the holding company, fellow subsidiaries, jointly-controlled entities and related companies are as follows:

	For the six months ended 30 June	
	2008 (Unaudited) Rmb'000	2007 (Unaudited) Rmb'000 (Restated)
Vessel chartering charges paid	34,926	48,677
Vessel chartering income received	13,383	43,517
Sale of vessels	274,450	99,944

Note :

The Group has entered into the following agreements :

A services agreement was signed in October 2006 between the Company and China Shipping which became effective subsequent to the approval by the independent shareholders at an extraordinary general meeting held on 28 December 2006. Pursuant to the services agreement and a supplementary agreement entered into in 2006, China Shipping, its subsidiaries or jointly-controlled entities will provide to the Group the necessary supporting shipping materials and services for the ongoing operating of the Group, including the provision of dry-docking and repairs services, lubricating oil, fresh water supplies, raw materials and bunker oil, as well as other services. The services agreement has been updated by a new agreement between China Shipping (and its subsidiaries and jointly-controlled entities) and is effective for 3 years from 1 January 2007 to 31 December 2009. The fees for the agreed supplies and services payable to China Shipping were determined with reference to, depending on applicability and availability, any one among the state price, market price or cost.

In accordance with the record of Hong Kong Marine Department, the Company's subsidiary, China Shipping Marine (Hong Kong) Company Limited had sold its four cargo vessels to the Company at a selling price of Rmb351,065,000.

On 27 December 2007, the Company entered an agreement with China Shipping Haisheng Company Limited to sell an oil tanker named "Jianchi". "Jianchi" was delivered to China Shipping Haisheng Company Limited on 30 January 2008. The consideration of vessels was Rmb23,889,000. The selling price was fixed by reference to the valuation report.

On 27 June 2008, the Company's subsidiary, China Shipping Marine (Hong Kong) Company Limited had signed five agreements for the sale of five cargo vessels to Shanghai Puhai Shipping (Hong Kong) Company Limited. The consideration of the vessels was Rmb250,561,000. The selling price was fixed by reference to the valuation report.

21. APPROVAL OF INTERIM FINANCIAL REPORT

These interim condensed consolidated financial statements were approved and authorized for issue by the board of directors on 12 August 2008.