
CORPORATE GOVERNANCE REPORT

The Company has placed much emphasis on corporate governance and accountability. Good corporate governance will be able to maintain and balance the interests of stakeholders, to improve the capacity of the Company in the scientific decision and the guard against risks, to ensure the normal operations effectively, and to promote sustainable development of the Company. The board of directors of the Company (the "Board" or "Directors") believes that shareholders can derive the greatest benefits from good corporate governance.

I Improvement of Corporate Governance

The Company has duly complied with the regulatory provisions of the domestic and overseas jurisdiction in which its shares are listed. As a listed company in Hong Kong and Shanghai, the Company has been able to comply with the legal, regulatory and procedural requirements as required by the respective jurisdictions of listing. The Company has gradually improved the work systems and processes laid down by the directions under the articles of association of the Company ("Articles"). Checks and balances were achieved through the coordination among the shareholders at the general meeting, the Board and its related special board committees, the supervisory committee of the Company ("Supervisory Committee") and the management headed by the president of the Company ("President"). With the implementation of the effective internal control and management systems, the Company's internal management and operations are further standardized and the corporate governance of the Company is further enhanced.

II Improvement of Internal Control System

The Company places great emphasis on internal control and risk management. The Company's management is mainly responsible for the design, implementation and improvement of the internal control system. The Board and the audit committee of the Company ("Audit Committee") are responsible for supervising the activities of the management and monitoring the effectiveness of the existing internal control system.

Since its establishment, the Company has been committed to building a sound internal control system and its perfection, strictly implementing the various rules and systems that include internal control regulations. In its ordinary course of operation and management, the Company places great emphasis on the supervision and management of authorizations at different levels, the link between responsibilities and rights. It also emphasizes the supervision and examination in respect of the implementation of internal control systems and regularly assesses the system implementation status and its effectiveness and continually revises and improves the system according to the development of the Company to ensure the effectiveness of the Company's internal control system.

In 28 June 2008, five ministries and commissions, namely the Ministry of Finance, the China Securities Regulatory Commission, the National Audit Office, the China Banking Regulatory Commission and the China Insurance Regulatory Commission, jointly published the "Basic Regulations of Internal Control of Enterprises", which is required to be implemented by listed companies in the PRC from 2009.

To reinforce and regulate internal control of enterprises, upgrade operating and management standards and risk prevention ability, and in accordance with the "Basic Regulations of Internal Control of Enterprises", the Board has approved the full amendment of the "Regulations of Internal Accounting Control for China Shipping Development Company Limited". At the 15th board meeting held on 12 August 2008, "Resolution related to the amendment of 'Regulations of Internal Accounting Control for China Shipping Development Company Limited'" was considered and approved by the Board. This system has been implemented in all subsidiaries and joint venture companies under the Company following approval by the Board.

The amended "Regulations of Internal Accounting Control for China Shipping Development Company Limited" covers key control aspects of internal control of enterprises such as currency capital, purchase and payment, external investment, construction projects, sales and payment collection, costs and charges, fund raising guarantee, preparation financial reports, budget management, taxation management, computer information system, etc. It is more systematic and can provide stronger guidance.

In January 2009, the Company conducted assessment tests on its internal control regulations. The main tasks included: (i) combine total risk management with the overall assessment; (ii) organize and assess important processes; (iii) test the existing system. None of the results of assessment show any significant violation of internal control regulations.

The Audit Committee is responsible for considering assessment and comments on the effectiveness of the internal control systems of the Company and report their opinion to the Board on a yearly basis. The Audit Committee is of the opinion that the Company is effectively implementing a sound internal control system, which has enhanced the management standards of the Company.

Looking into 2009, the focus of internal control of the Company will be centered on whether it has established an effective internal control system, to strengthen control and supervisory measures and to make further improvements in internal control in accordance with practical circumstances and regulatory requirements.

III Independence of the Company from the Controlling Shareholder

The Company is independent from its controlling shareholder, China Shipping Group Company ("CSGC"), in respect of business, personnel, asset, organizational structure and finance. The Company has independent and comprehensive business operations and management capabilities.

IV Corporate Governance Report

1. Compliance with Code on Corporate Governance Practices

The Company is dedicated to enhancing the levels of its corporate governance. Throughout the year of 2008, the Company has been in strict compliance with the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. General Meeting

General meeting is the highest authority of the Company. It provides a good opportunity for direct communications and builds a sound relationship between the Board and the shareholders of the Company. In order to ensure that all shareholders of the Company enjoy equal status and are able to exercise their rights effectively, the Company holds shareholders' meetings every year in strict compliance with the requirements for notices and convening procedures laid down by the relevant laws, regulations and the Articles. At the annual general meeting for 2007 held on 6 June 2008, six resolutions were passed, among which the Report of Directors for 2007, the Report of Supervisory Committee for 2007, the profit distribution plan for 2007, and the remuneration proposal of the Directors and supervisors of the Company ("Supervisors") for 2008 were adopted.

3. The Board

(1) The Responsibility of the Board

The Company's directors are elected at an general meeting's election, and are responsible for the shareholders of the Company. The Board carries out actions in relation to corporate governance in a conscientious and responsible manner. The Company elects its directors in strict compliance with the procedures for election of directors as set out in the Articles. Each director shall act in the interests of shareholders, and shall use its best endeavors to perform his/her duties and obligations as a director in accordance with all the applicable laws and regulations. Duties of the Board include: decision of the Company's investment scheme and business plan, preparation of the Company's profit distribution and loss recovery proposals, formulation of the Company's capital operation proposal, and implementation of resolutions approved at general meetings.

The Board is responsible for leading and controlling the Company as well as supervising the operations, strategic policy and performance of the Group. The Board also delegates its power and responsibilities to the management for the management of the Group. In addition, the Board delegates responsibilities to committees under the Board. Details of those committees are set out in this report.

(2) Composition of the Board

Executive directors ("Executive Directors"):

Mr. Li Shaode (Chairman)
Mr. Ma Zehua (Vice Chairman)
Mr. Lin Jianqing (Vice Chairman)
Mr. Wang Daxiong
Mr. Zhang Guofa
Mr. Mao Shijia (Chief Executive Officer)
Mr. Wang Kunhe

Independent non-executive directors ("Independent Non-executive Directors"):

Mr. Xie Rong
Mr. Hu Honggao
Mr. Zhu Yongguang (appointed on 18 January 2008)
Mr. Zhou Zhanqun
Mr. Ma Xun (resigned on 18 July 2008)

Pursuant to the Company's Articles, all Directors including non-executive Directors, are appointed for a term of three years.

Members of the Board, including the chairman of the Company ("Chairman") and the chief executive officer (the "CEO"), do not have any financial, business, family or other major/related relationship with one another. Such a balanced structure ensures the solid independence of the entire Board. Its composition has complied with the requirement under the Listing Rule that at least one third of the members of the Board shall be independent non-executive directors. The biographies of all Directors are set out in the 2008 annual report from page 111 to Page 114 and contain details on the diversified skills, expertise, experience and qualifications of all Directors. The Board regularly reviews its structure, size and composition.

The Company follows a formal, considered and transparent procedure for the appointment of new directors to the Board. The appointment of a new director is a collective decision of the Board, taking into consideration the expertise, experience, integrity and commitment of that appointee to the relevant principal division, the Company and the Group.

(3) The Responsibility of Directors

The Board ensures that each newly appointed Director has proper understanding of the operations and businesses of the Group and is fully aware of his/her responsibilities under the relevant rules and regulations and the common law, the Listing Rules, applicable statutory requirements and other regulatory requirements and the business and governance policy of the Company. Directors should closely follow the changes in legislations and compliance, operations and markets as well as the strategic development of the Group and be continuously updated about the relevant knowledge so as to perform their duties. Independent non-executive directors play an active role in board meetings and can make contribution to the formulation of strategies and policies and make reliable judgments on strategy, policy, performance, accountability, resources, major appointment and code of conduct. They also serve as members of various board committees to monitor the overall performance of the Group in achieving predetermined corporate objectives and benchmarks and making reports for such performance.

4. Performance of Independent Non-executive Directors' Duties

The Company currently has four independent non-executive Directors, exceeding one-third of the total number of the Directors and in compliance with the minimum number of independent non-executive directors required under the Listing Rules. The four independent non-executive Directors of the Company are professionals with extensive experience in the fields of accounting, law, shipping and ship building respectively. Pursuant to the Articles, the Directors (including the independent non-executive Directors) are appointed for a term of three years. Each of the independent non-executive Directors has entered into a service contract with the Company, which will expire on 25 May 2009.

In 2008, the independent non-executive directors of the Company earnestly and diligently performed their duties in accordance with the relevant laws and regulations and the Articles. Independent non-executive Directors actively attended Board meetings during the Reporting Period and reviewed the documents presented by the Company. They also provided professional and constructive advice on the Company's major decisions and worked with dedication to safeguard the legal interests of the Company and all its shareholders as a whole.

The Company has received confirmation from each of the independent non-executive Directors about their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that the four independent non-executive Directors are completely independent of the Company, its major shareholders and its affiliates and comply fully with the requirements concerning the independent non-executive directors under the Listing Rules.

During the Reporting Period, the independent non-executive Directors did not object to the motions, resolutions and other matters discussed at the meetings of the Board.

5. Securities Transactions by Directors

The Company has adopted the code of conduct regarding directors' securities transactions in accordance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules. Having made specific enquiries of all Directors, all Directors have confirmed that they have complied with the required standard as set out in the Model Code.

6. Board Meetings

In 2008, the Board convened a total of 19 meetings and considered and passed 47 resolutions so as to review the financial and operating performance of the Group. The following table shows attendances of the Directors at Board meetings.

Executive Directors	Rate of Attendance
Mr. Li Shaode	19/19
Mr. Ma Zehua	16/19
Mr. Lin Jianqing	17/19
Mr. Wang Daxiong	19/19
Mr. Zhang Guofa	19/19
Mr. Mao Shijia	18/19
Mr. Wang Kunhe	19/19
Independent Non-executive Directors	
Mr. Xie Rong	19/19
Mr. Hu Honggao	17/19
Mr. Zhu Yongguang	16/17
Mr. Zhou Zhanqun	19/19
Mr. Ma Xun	12/12

Minutes of all meetings are recorded by a designated officer of the Company, and all proposals and resolutions reviewed and approved in each meeting are filed in accordance with relevant laws, regulations and the Articles.

7. Chairman and Chief Executive Officer

The posts of Chairman and CEO are assumed by different individuals so as to maintain independence and balanced judgment views. The Board has appointed Mr. Li Shaode as the Chairman who is responsible for execution and leading the Board so that the Board can operate and perform its duties effectively and handle all important and proper issues in a timely manner. The CEO, Mr. Mao Shijia, is an executive Director and is responsible for executing business policies and decisions on management and operations of the Group.

8. The Professional Committees of the Board

In compliance with the code provisions set out in the Code in Appendix 14 of the Listing Rules, the Company has established four professional committees under the Board, including: the Audit Committee, a remuneration committee ("Remuneration Committee"), a strategy committee ("Strategy Committee") and a nomination committee ("Nomination Committee").

(1) Audit Committee

The Audit Committee comprises four independent non-executive Directors, namely Mr. Xie Rong, Mr. Hu Honggao, Mr. Zhu Yongguang and Mr. Zhou Zhanqun, in which Mr. Xie Rong is the Chairman of the Audit Committee. The duties of the Audit Committee mainly include: the review of the Company's financial reports, consideration of the appointment of independent domestic and international auditors, approval of audit-related services, supervision over the Company's internal financial reporting procedures and management policies. At least two meetings of the Audit Committee are convened annually to review the accounting policies and internal control system adopted by the Company and the relevant financial issues, so as to ensure the completeness, fairness and accuracy of the Company's financial statements and other relevant information.

In 2008, the Audit Committee held three meetings. In the meetings, the Audit Committee reviewed the Company's annual and interim financial statements and submitted its audit reports and related advice to the Board. Minutes of the meetings are recorded by a designated officer of the Company, and the proposals approved in each meeting are filed in accordance with relevant regulations, Articles and terms of reference. The following table shows attendances at the meetings.

Independent Non-executive Directors	Rate of Attendance
Mr. Xie Rong	3/3
Mr. Hu Honggao	1/3
Mr. Zhu Yongguang (appointed on 18 January 2008)	1/3
Mr. Zhou Zhanqun	3/3
Mr. Ma Xun(resigned on 18 July 2008)	1/1

The Audit Committee holds at least one meeting with the external auditor each year to discuss any issues in the course of the auditing and the management is not allowed to attend the meeting. The Audit Committee will first review the quarterly results, interim and annual reports before submitting the results to the Board. When reviewing the quarterly results, interim and annual reports, the Audit Committee will not only pay attention to changes in the accounting policy and practice but also comply with the relevant requirements under accounting policies, the Listing Rules and laws. There was no disagreement between the Board and Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors.

(2) Remuneration Committee

The Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Hu Honggao, Mr. Zhu Yongguang and Mr. Zhou Zhanqun, in which Mr. Hu Honggao is the Chairman of the Remuneration Committee. The Remuneration Committee has adopted terms of reference which are in line with the Code ("Terms of Reference"). The Remuneration Committee's main responsibilities are to:

- (a) make recommendations on the remuneration of Executive Directors and senior management of the Company to seek approval from the Board;
- (b) consider the remuneration package of Directors and senior management and make recommendations on salaries and bonuses, including incentives; and
- (c) manage and determine the share option scheme of the Company.

In 2008, the Remuneration Committee held one meeting. All three Independent Non-executive Directors attended the meeting. In that meeting, the Remuneration Committee reviewed the current emoluments of directors and senior management, and assessed their performance and approved the terms of their service contracts, and determined the Group's remuneration policy. The Group's remuneration policy is based on the market practice, the qualification, duties and responsibilities of the Directors and employees.

(3) Strategy Committee

The duties of the Strategy Committee include reviewing and evaluating of the Company's long-term development strategy, significant investment projects, financial budget and strategic plan of investment returns. The committee comprises of seven executive directors and one Independent Non-executive Director, and Mr. Li Shaode is the Chairman of the strategy committee.

During 2008, the Strategy Committee held three meetings, advising on the fleet restructuring plan through building and purchasing vessels, selling and phrasing old ships.

(4) Nomination Committee

Pursuant to the Articles, election and replacement of directors shall be proposed to the shareholders' general meeting for approval. Shareholders whose shareholding represents 5% or more of the voting shares of the Company are entitled to make such proposal and request the Board to authorize the Chairman to consolidate a list of the director candidates nominated by the shareholders who are entitled to make a proposal. As authorized by the Board, the chairman shall consolidate a list of director candidates and order the Secretariat of the Board together with the relevant departments to prepare the relevant procedural documents. Pursuant to the Company's Articles, the Company is required to give notice of the shareholders' meeting to shareholders in writing 45 days in advance and dispatch a circular to shareholders. Pursuant to Rule 13.51(2) of the Listing Rules, the list, resume and emoluments of the candidates for directorship must be set out in the circular to shareholders to facilitate voting by shareholders. The new directors must be approved by more than half of the total voting shares held by the shareholders present in person or by proxy in the shareholders' general meeting.

At the extra ordinary general meeting held on 28 December 2006, the establishment of the nomination committee of the Company was approved by the shareholders. As at the end of the Reporting Period, the Nomination Committee has not commenced its operation.

9. The Establishment and Implementation of the Staff Salary System, Performance Appraisal and Incentive Mechanism

The Board has implemented the annual salary system and formulated requirements for annual salary system assessment for the senior operating management of its cargo vessel sub-company, oil tanker sub-company, subsidiaries and the headquarters.

In terms of the staff salary system, the Company has established post wages and effectiveness wages together with years of service wages, performance wages and complementary wages. Among them, post wages reflect the responsibility difference in different posts. Years of service wages reflect the difference in labour accumulation. Performance wages reflect the difference in labour contribution. Complementary wages reflect the state's special treatment.

The Company wishes to adopt more effective measures in the future to continuously improve its internal management system so as to bring the incentive and restriction functions of the distribution system into full play.

10. Accountability and Audit

The management provides relevant explanations and information to the Board so that the Board can make informed assessments on the financial and other information submitted to it for approval.

The Board has confirmed its responsibility for preparing financial reports that can reflect the financial position of the Group in a true and fair way for each financial year. When submitting quarterly results, interim and annual financial statements and announcement to shareholders, directors shall strive to submit a balanced and easily comprehensible assessment on the present conditions and prospects of the Group.

The Board is not aware of any material uncertainties on events or conditions which cast significant doubt on the sustained operating capability of the Group. Therefore, the Board will continue to adopt the sustained operating basis in preparation of the accounts.

The Board has confirmed its responsibility for providing balanced, clear and easily comprehensible assessments in the Company's annual reports and interim reports, other price-sensitive announcements and other financial disclosures required by the Listing Rules and reporting to the regulatory bodies.

All Directors acknowledge their responsibility for preparing the accounts for the year ended 31 December 2008.

As approved in the extraordinary general meeting held on February 29, 2008, the Company no longer appoints Shanghai Zhonghua Huyin Certified Public Accountant as the Company's domestic auditor for its 2007 financial report. Instead, the Company appointed Vocation International Certified Public Accountants Co., Ltd. as the Company's domestic auditor for its 2007 financial report. The Company no longer appoints Ernst & Young as the Company's international auditor for its 2007 financial report. Instead, the Company appointed UHY VOCATION HK CPA LIMITED as the Company's international auditor for its 2007 financial report.

Vocation International Certified Public Accountants Co., Ltd. and UHY VOCATION HK CPA LIMITED, the domestic and international auditors of the Company, acknowledge reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2008.

In 2008, the Group paid an audit fee of RMB1,220,000 to Vocation International Certified Public Accountants Co., Ltd and RMB1,620,000 to UHY VOCATION HK CPA LIMITED respectively.

11. Internal Control

Through the internal audit group of the Company, the Directors reviewed the effectiveness of internal control covering all significant control of the Company and its subsidiaries, including finance, operation and compliance control and risk management functions. The report prepared by the internal audit group and its findings will be submitted to the Audit Committee for circulation and to the external auditor for reference. If necessary, the internal audit group will seek approval from the Audit Committee of the findings and forward-looking audit plan submitted at the meeting of the Audit Committee.

The Board monitors its internal control system through the internal audit procedure. The internal audit group reports to the Chairman of the Audit Committee.

The CEO submits updated long-term strategies and objectives at Board meetings regularly. This aims to ensure all Directors are aware of the objectives pursued by the Group.

The CEO submits quarterly results to the Board. At the meeting, the CEO explains the analysis of the difference between actual performance and intended objectives. This helps the Board in monitoring the business operations of the Group and amending the targets when necessary.

12. Delegation by the Board of Directors

The management is authorized to carry out daily management of the Company. Department heads are responsible for various aspects of the operations.

The major corporate matters delegated by the Board to the management include the preparation of quarterly results, interim and annual reports and announcements (for approval by the Board before publication), the execution of business strategies and measures adopted by the Board, the implementation of the internal control system and risk management procedure and compliance with relevant statutory requirements, rules and regulations.

13. Supervisory Committee

The Supervisory Committee of the Company consists of six members, namely Mr. Kou Laiqi, Mr. Yan Zhichong, Mr. Xu Hui, Mr. Yu Shicheng, Mr. Luo Yuming and Ms. Chen Xiuling, of which Mr. Kou Laiqi is the chairman of the Supervisory Committee, Mr. Luo Yuming and Ms. Chen Xiuling are staff representatives. The Supervisory Committee is responsible for the supervision over the Board and its members and senior management, so as to prevent them from abusing their authorities and violating the legal interests of shareholders, the Company and its staff. In 2008, the Supervisory Committee convened 8 meetings, at which the Company's financial position, the significant investment projects and legal compliance of cooperate operations as well as performance of the senior management were reviewed. In 2008, the Supervisory Committee has complied with the principle of creditability to proactively perform their functions.

14. Investor Relations

The Company has actively and faithfully performed its duties regarding the disclosure of information and the work on investor relations. The Company has strictly abided by the principles of regulation, accuracy, completeness, and timely disclosure of information. The Company has established a designated department for investor relations, which is responsible for the matters concerning investor relations and has formulated the "Investor Relations Management Measures" to regulate the relations with the investors. Through various approaches and channels such as organizing results presentation, roadshow and telephone conference, a corporate website, investors' visits to the Company, and answering the investors' enquires, the Company's management strengthens close communications and relationship with the investors and analysts, thereby enhancing investors' recognition of the Company.