

## ***THE DIRECTORS' REPORT***

The board of directors of the Company (the "Board" or "Directors") hereby presents their report and the audited financial statements of the Company and the Group for the year ended 31 December 2008.

### **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 and vessel chartering. There have been no significant changes in the nature of the Group's principal activities during the year 2008.

### **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.

| Results  | Year ended 31 December |                 |                               |                               |                               |
|--|------------------------|-----------------|-------------------------------|-------------------------------|-------------------------------|
|  | 2008<br>RMB'000        | 2007<br>RMB'000 | 2006<br>RMB'000<br>(Restated) | 2005<br>RMB'000<br>(Restated) | 2004<br>RMB'000<br>(Restated) |
| Revenue  | 17,214,283             | 12,394,739      | 9,203,557                     | 8,114,333                     | 6,135,984                     |
| Operating costs                                    | (11,110,771)           | (7,329,308)     | (5,916,742)                   | (4,833,463)                   | (3,764,391)                   |
| Gross profit                                       | 6,103,512              | 5,065,431       | 3,286,815                     | 3,280,870                     | 2,371,593                     |
| Other income and gains                             | 460,900                | 542,947         | 311,251                       | 154,003                       | 118,791                       |
| Marketing expenses                                 | (37,907)               | (36,744)        | (32,933)                      | –                             | –                             |
| Administrative expenses                            | (256,883)              | (214,841)       | (196,458)                     | (240,823)                     | (226,830)                     |
| Other expenses                                     | (284,429)              | (21,374)        | (30,542)                      | (3,566)                       | (58,885)                      |
| Finance costs                                      | (84,074)               | (173,129)       | (120,490)                     | (116,398)                     | (100,533)                     |
| Share of profits of<br>jointly-controlled entities | 531,566                | 165,745         | 75,170                        | 60,926                        | 50,155                        |
| Profit before tax                                  | 6,432,685              | 5,328,035       | 3,292,813                     | 3,135,012                     | 2,154,291                     |
| Tax  | (1,056,690)            | (781,652)       | (531,339)                     | (441,134)                     | (308,674)                     |
| Profit for the year                                | 5,375,995              | 4,546,383       | 2,761,474                     | 2,693,878                     | 1,845,617                     |
| Attributable to:                                   |                        |                 |                               |                               |                               |
| Equity holders of the parent                       | 5,373,010              | 4,546,383       | 2,758,477                     | 2,691,199                     | 1,844,527                     |
| Minority interests                                 | 2,985                  | –               | 2,997                         | 2,679                         | 1,090                         |
|  | 5,375,995              | 4,546,383       | 2,761,474                     | 2,693,878                     | 1,845,617                     |
| Basic earnings per share                           | RMB158.64 cents        | RMB136.69 cents | RMB82.94 cents                | RMB80.91cents                 | RMB55.46cents                 |
| Diluted earnings per share                         | RMB158.64 cents        | RMB135.09 cents | RMB82.94 cents                | RMB80.91cents                 | RMB55.46cents                 |
| Assets, liabilities<br>and minority interests      |                        |                 |                               |                               |                               |
| Total assets                                       | 29,928,213             | 23,607,114      | 17,000,152                    | 14,216,547                    | 11,625,393                    |
| Total liabilities and<br>Minority interests        | (8,574,193)            | (7,535,599)     | (4,394,899)                   | (3,342,857)                   | (2,966,313)                   |
|  | 21,354,020             | 16,071,515      | 12,605,253                    | 10,873,690                    | 8,659,080                     |

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

**Notes:**

1. The consolidated results, total assets, total liabilities and minority interests of the Group for the four years ended 31 December 2007 are extracted from the Company's 2007 annual report dated 25 March 2008, while those for the year ended 31 December 2008 were prepared based on the consolidated income statement and consolidated balance sheet as set out on pages 36 and 37, respectively, of the financial statements.
2. The calculation of basic earnings per share for the year ended 31 December 2008 is based on the profit attributable to equity holders of the Company for the year ended 31 December 2008 of RMB5,373,010,000 and the weighted average number of 3,386,989,000 ordinary shares in issue during the year as adjusted to reflect the weighted average number of convertible bonds converted in 2008. Earnings per share for the year ended 31 December 2008 is RMB1.5864 and diluted earnings per share is RMB1.5864.

The calculation of basic earnings per share for the year ended 31 December 2007 was 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 3,326,000,000 ordinary shares in issue during the year. Earnings per share for the year ended 31 December 2007 was RMB1.3669.

The calculation of diluted earnings per share for the year ended 31 December 2007 was 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 assumption of the conversion of the convertible bonds issued in July 2007. Diluted earnings per share for the year ended 31 December 2007 was RMB1.3509.

**Results and dividends**

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 36 to 37.

The net profit of the Company for 2008, as determined in accordance with accounting principles generally accepted in the PRC ("PRC GAAP"), was RMB5,373,010,000, 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 RMB0.30 per share in respect of the year to shareholders on the register of members at the close of business on 31 December 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 33) 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.

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## Share capital

Details of movements in the Company's share capital during the year 2008 are set out in note 32 to the financial statements.

## Pre-emptive rights

According to the Articles, 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 2008.

## Reserves

Details of movements in the reserves of the Company and the Group during the year 2008 are set out in note 33 to the financial statements.

## Distributable reserves

As at 31 December 2008, 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 RMB9,257,304,000 before the proposed final dividend.

In addition, according to the PRC Company Law, an amount of approximately RMB3,947,490,000 standing to the credit of the Company's share premium account was available for distribution by way of future capitalization issues.

## Major customers

In the year under review, the five largest customers of the Group accounted for less than 30% (2007: 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 61% (2007: 41%) 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 33% (2007: 26%) of the Group's total purchases in that year. A subsidiary of China Shipping constituted one of the remaining four largest suppliers of the Group.

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 2008 were:

Executive Directors:

Mr. Li Shaode  
Mr. Ma Zehua  
Mr. Lin Jianqing  
Mr. Wang Daxiong  
Mr. Zhang Guofa  
Mr. Mao Shijia  
Mr. Wang Kunhe

Independent Non-executive Directors:

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

Supervisors:

Mr. Kou Laiqi  
Mr. Yan Zhichong  
Mr. Xu Hui  
Mr. Yu Shicheng  
Mr. Luo Yuming  
Ms. Chen Xiuling

Pursuant to the Articles, all the directors of the Company are appointed for a term of three years.

The Company has received annual confirmations of independence from Mr. Zhou Zhanqun, Mr. Hu Honggao, Mr. Xie Rong and Mr. Zhu Yongguang, as at the date of this report and 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 111 to 114 of this annual report.

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### Service contract of directors and supervisors

Each of the executive 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 (including directors proposed for re-election at the forth coming annual general meeting) 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 Chairman of the Remuneration Committee is Mr. Hu Honggao, an independent non-executive director of the Company. The other two members of the remuneration committee are Mr. Zhu Yongguang and Mr. Zhou Zhanqun, 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 41(1) to the financial statements, China Shipping provided miscellaneous management and other services to the Group during the year for a total fee of RMB26,065,000 (2007: RMB46,606,000).

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

As at 31 December 2008, 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 shares | Number of shares held | Percentage of the total number shares of the relevant class | Percentage of the total number of issued shares |
|---|-----------------|-----------------------|---|---|
| China Shipping (Group) Company                          | A               | 1,578,500,000 (long)  | 74.86%  | 46.36%  |
| Mondrian Investment Partners Ltd.                       | H               | 116,518,000 (long)    | 8.99%   | 3.42%   |
| Davis Selected Advisers, L.P.                           | H               | 103,718,000 (long)    | 8.00%   | 3.05%   |
| Cheah Capital Management Limited                        | H               | 80,004,000 (long)     | 6.17%   | 2.35%   |
| Cheah Company Limited                                   | H               | 80,004,000 (long)     | 6.17%   | 2.35%   |
| Hang Seng Bank Trustee International Limited            | H               | 80,004,000 (long)     | 6.17%   | 2.35%   |
| Value Partners Group Limited                            | H               | 80,004,000 (long)     | 6.17%   | 2.35%   |
| Value Partners Limited                                  | H               | 80,004,000 (long)     | 6.17%   | 2.35%   |
| To Hau Yin  | H               | 80,004,000 (long)     | 6.17%   | 2.35%   |
| Cheah Cheng Hye   | H               | 80,004,000 (long)     | 6.17%   | 2.35%   |
| JPMorgan Chase & Co.                                    | H               | 75,929,552 (long)     | 5.86%   | 2.23%   |
|   | H               | 3,159,000 (short)     | 0.24%   | 0.09%   |
|   | H               | 46,314,189 (pool)     | 3.57%   | 1.36%   |
| Morgan Stanley International Incorporated               | H               | 68,047,176 (long)     | 5.25%   | 2.00%   |
|   | H               | 499,400 (short)       | 0.04%   | 0.01%   |
| Morgan Stanley Asia Pacific (Holdings) Limited          | H               | 65,992,776 (long)     | 5.09%   | 1.94%   |
|   | H               | 424,000 (short)       | 0.03%   | 0.01%   |
| Morgan Stanley Asia Regional (Holdings) III LLC         | H               | 65,399,000 (long)     | 5.05%   | 1.92%   |
| Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd | H               | 65,399,000 (long)     | 5.05%   | 1.92%   |
| Morgan Stanley Investment Management Company            | H               | 65,399,000 (long)     | 5.05%   | 1.92%   |

Note:

A – A shares

H – H shares

Long – long position

Short – short position

Pool – lending pool

Save as disclosed above, as at 31 December 2008, 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 2008 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.

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

As at 31 December 2008, 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.

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### 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, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules. Further details of the transactions are set out in note 41 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 above and note 41 to the financial statements, and have confirmed that, during the year ended 31 December 2008, 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 2008, the Company had 3,961 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 maybe in different forms, such as seminars, site visits and study tours.

In 2008, the total staff costs was RMB1,299,082,000 (2007: RMB998,833,000)



### 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.

### 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 35 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 44 to the financial statements.

### Auditors

UHY VOCATION HK CPA LIMITED shall 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

17 March 2009