**CHINA SHIPPING DEVELOPMENT COMPANY LIMITED**
**中 海 發 展 股 份 有 限 公 司**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 1138)**

# ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

**Financial Highlights**

- Revenue increased by 35% to approximately RMB12.4 billion
- Profit attributable to equity holders of the parent increased by 65% to approximately RMB4.5 billion
- Earnings per share increased by 65% to RMB1.3669
- A final dividend of RMB0.50 per share is recommended by the Board

The board (the "**Board**") of directors (the "**Directors**") of China Shipping Development Company Limited (the "**Company**") is pleased to announce the annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2007 (the "**Reporting Period**"), together with the comparative figures for the year ended 31 December 2006. The Group's annual results have been audited by the Company's international auditors, UHY Vocation HK CPA Limited (certified public accountants in Hong Kong).

## 1. PRINCIPAL FINANCIAL DATA AND STATISTICS HIGHLIGHTS

The annual results of the Group for the Reporting Period have been audited by UHY Vocation HK CPA Limited, and compared with those for the year ended 31 December 2006, are as follows:

### CONSOLIDATED INCOME STATEMENT

| Items | For the year ended 31 December 2007 *Rmb'000* | 2006 *(Restated)* *Rmb'000* |
|---|---|---|
| Revenue | 12,394,739 | 9,203,557 |
| Operating costs | (7,329,308) | (5,916,742) |
| Gross profit | 5,065,431 | 3,286,815 |
| Other income and gains | 542,947 | 311,251 |
| Selling and distribution costs | (36,744) | (32,933) |
| Administrative expenses | (214,841) | (196,458) |
| Other expenses | (21,374) | (30,542) |
| Share of profits of jointly-controlled entities | 165,745 | 75,170 |
| Finance costs | (173,129) | (120,490) |
| PROFIT BEFORE TAX | 5,328,035 | 3,292,813 |
| Tax | (781,652) | (531,339) |
| PROFIT FOR THE YEAR | 4,546,383 | 2,761,474 |
| Attributable to: | | |
| Equity holders of the parent | 4,546,383 | 2,758,477 |
| Minority Interests | — | 2,997 |
| | 4,546,383 | 2,761,474 |
| DIVIDENDS | | |
| Proposed final | 1,702,510 | 997,800 |
| Earnings per share attributable to ordinary equity holders of the parent | | |
| Basic earnings per share (RMB) | 136.69 cents | 82.94 cents |
| Diluted earnings per share (RMB) | 135.09 cents | 82.94 cents |

## CONSOLIDATED BALANCE SHEET

| | As of 31 December | |
|---|---|---|
| | **2007** | **2006** |
| | | *(Restated)* |
| | *Rmb'000* | *Rmb'000* |
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment | 20,002,142 | 13,725,146 |
| Available-for-sale equity investment | 4,300 | 4,578 |
| Interest in jointly-controlled entities | 1,162,971 | 892,226 |
| Deferred staff expenditure | — | 45,333 |
| Deferred tax assets | — | 20,090 |
| Total non-current assets | 21,169,413 | 14,687,373 |
| **CURRENT ASSETS** | | |
| Bunker oil inventories | 285,606 | 192,573 |
| Trade and bills receivables | 559,437 | 400,327 |
| Prepayments, deposits and other receivables | 237,880 | 1,084,572 |
| Equity investments at fair value through profit or loss | 257,400 | 159,000 |
| Derivative financial instruments | 17,610 | 1,044 |
| Cash and cash equivalents | 1,079,768 | 475,263 |
| Total current assets | 2,437,701 | 2,312,779 |
| **CURRENT LIABILITIES** | | |
| Trade payables | 462,146 | 216,192 |
| Tax payable | 50,514 | 52,450 |
| Other payables and accruals | 531,733 | 909,322 |
| Current portion of interest-bearing bank and other borrowings, and finance lease payables | 721,825 | 1,475,487 |
| | 1,766,218 | 2,653,451 |
| Total current liabilities | | |
| NET CURRENT ASSETS /(LIABILITIES) | 671,483 | (340,672) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 21,840,896 | 14,346,701 |

| | As of 31 December | |
|---|---|---|
| | **2007** | **2006** |
| | | *(Restated)* |
| | *Rmb'000* | *Rmb'000* |
| **NON-CURRENT LIABILITIES** | | |
| Deferred tax liabilities | 245,102 | 80,082 |
| Convertible bonds | 1,871,438 | — |
| Interest-bearing bank and other borrowings, and finance lease payables | 3,554,841 | 1,661,366 |
| Total non-current liabilities | 5,671,381 | 1,741,448 |
| Net assets | 16,169,515 | 12,605,253 |
| **EQUITY** | | |
| Equity attributable to equity holders of the parent | | |
| Issued capital | 3,326,000 | 3,326,000 |
| Reserves | 11,043,005 | 8,281,453 |
| Proposed final dividend | 1,702,510 | 997,800 |
| Minority interests | 98,000 | — |
| Total equity | 16,169,515 | 12,605,253 |

**Differences in financial statements prepared under HK GAAP and PRC GAAP**

The Group has prepared a separate set of financial statements for the year ended 31 December 2007 in accordance with accounting principles generally accepted in the PRC ("**PRC GAAP**"). The major differences between the financial statements prepared under PRC GAAP and those under accounting principles generally accepted in Hong Kong ("**HK GAAP**") are as follows:

| | **2007** | **2006** |
|---|---|---|
| | | *(Restated)* |
| | *Rmb'000* | *Rmb'000* |
| Profit attributable to equity holders of the parent under HK GAAP | 4,546,383 | 2,758,477 |
| Adjustments for depreciation, gain on disposal of vessels and deferred staff expenditure, etc. | 49,668 | 12,784 |
| Profit attributable to equity holders of the parent under PRC GAAP | 4,596,051 | 2,771,261 |
| Equity attributable to equity holders of the parent under HK GAAP | 16,169,515 | 12,605,253 |
| Adjustments for revaluation surplus, depreciation, gain on disposal of vessels and deferred staff expenditure, etc. | — | (49,668) |
| Equity attributable to equity holders of the parent under PRC GAAP | 16,169,515 | 12,555,585 |

*Notes:*

## 1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also complied with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. These financial statements are presented in Renminbi ("Rmb") and all values are rounded to the nearest thousand except when otherwise indicated.

With effect from 1 January 2007, the Group has determined to follow the "China Accounting Standards for Business Enterprises" issued by the Ministry of Finance, People's Republic of China and at the same time to be in compliance with the Hong Kong Accounting Standard ("HKAS") 31 - Interest in Joint Venture and the Hong Kong Financial Reporting Standards 3 ("HKFRSs" which also include HKASs and Interpretations), the Group decided to change the accounting policy for investments in jointly-controlled entities from the proportionate consolidation method to equity method. Such change in accounting policy was accounted for retrospectively. However, such treatment had no impact on the Group's net profit for the year and the net assets as of 31 December 2007, but the figures for 2006 were restated according.

## 1.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2007. For the entities under common control, the Company would adopt the method of equity accounting when preparing the consolidated financial statements. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

## 2. REVENUE, OTHER INCOME AND GAINS

Revenue represents gross revenue arising from shipping operations, net of business taxes. Pursuant to various tax rules and regulations in the PRC, revenue derived from sea freighting attributable to voyages departing from ports in the PRC and from vessel chartering services are both subject to business tax at a rate of 3%. Business taxes charged to the income statement for the Reporting Period amounted to Rmb247,370,892 (2006 (restated): Rmb177,984,265).

An analysis of revenue, other income and gains is as follows:

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | | *(Restated)* |
| | *Rmb'000* | *Rmb'000* |
| **Revenue** | | |
| Oil shipments | 4,924,349 | 5,356,583 |
| Coal shipments | 5,324,189 | 2,806,027 |
| Other dry bulk shipments | 2,146,201 | 1,040,947 |
| | 12,394,739 | 9,203,557 |
| **Other income** | 34,513 | 24,148 |
| Interest income | 39,125 | 43,562 |
| Rental income from bare-boat chartering | 5,731 | 16,084 |
| Others | 79,369 | 83,884 |
| **Gains** | | |
| Gain on disposal of items of property, plant and equipment, net | 421,073 | 177,989 |
| Exchange losses, net | (55,895) | (38,972) |
| Fair value gains on equity investments at fair value through profit or loss | 98,400 | 84,800 |
| Others | — | 3,550 |
| | 463,578 | 227,367 |
| Other income and gains | 542,947 | 311,251 |

## 3. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Group 2007 *Rmb'000* | 2006 *(Restated)* *Rmb'000* |
|---|---|---|
| Cost of shipping services rendered: | | |
| Bunker oil inventories consumed and port fees | 3,588,437 | 2,934,471 |
| Others | 3,740,871 | 2,982,271 |
| Depreciation | 1,000,854 | 977,001 |
| Operating lease rentals: | | |
| Land and buildings | 24,900 | 22,290 |
| Vessels | 75,194 | 83,742 |
| | 100,094 | 106,032 |
| Auditors' remuneration | 3,512 | 3,030 |
| Staff costs (including directors' remuneration): | | |
| Wages, salaries and hiring of sea crew | 617,951 | 495,409 |
| Pension scheme contributions | 85,951 | 79,871 |
| | 703,902 | 575,280 |
| Provision for bad and doubtful debts /(written back) | 9,334 | (9,423) |
| Write-off of construction in progress | — | 2,875 |
| Amortisation of deferred staff expenditure | 49,668 | 12,784 |
| Loss on liquidation of a subsidiary | — | 17,254 |
| Dry-docking and repairs | 456,415 | 401,970 |

## 4. FINANCE COSTS

| | Group 2007 | 2006 |
|---|---|---|
| | | *(Restated)* |
| | *Rmb'000* | *Rmb'000* |
| Interest on bank loans and other borrowings wholly repayable within five years | 262,549 | 141,347 |
| Interest on finance leases | 649 | 3,511 |
| Total interest | 263,198 | 144,858 |
| Less: Interest capitalised | (90,069) | (24,368) |
| | 173,129 | 120,490 |

## 5. TAX

Pursuant to the directive 1998 (250) jointly issued by the Shanghai State Tax Bureau and the Shanghai Bureau of Finance on 8 October 1998, the Company is entitled to a preferential income tax rate of 15% effective from 1 January 1998. Accordingly, PRC income tax of the Company has been provided at the rate of 15% (2006: 15%) on the estimated assessable profits for the year.

No Hong Kong profits tax has been provided as no assessable profits were earned in or derived from Hong Kong during the year (2006: Nil). Taxes on profits assessable elsewhere, if applicable, have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | Group 2007 | 2006 |
|---|---|---|
| | | *(Restated)* |
| | *Rmb'000* | *Rmb'000* |
| Group: | | |
| Current - Hong Kong | — | — |
| Current - PRC | 636,722 | 453,178 |
| Charge for the year | (20,090) | (1,706) |
| Deferred | 165,020 | 79,867 |
| Total tax charge for the year | 781,652 | 531,339 |

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the country in which the Company, its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, is as follows:

| | **2007** | | **2006** | |
|---|---|---|---|---|
| | | | *(Restated)* | |
| | *Rmb'000* | *%* | *Rmb'000* | *%* |
| Profit before tax | 5,328,034 | | 3,290,026 | |
| Tax at the statutory tax rate | 799,203 | 15.0 | 493,504 | 15.0 |
| Higher tax rate for specific provinces | 11,896 | 0.2 | 42,836 | 1.3 |
| Adjustments in respect of current tax of previous periods | (20,090) | (0.3) | (1,706) | (0.5) |
| Expenses not deductible for tax | 13,267 | 0.2 | 1,872 | 0.6 |
| Income not subject to tax | (22,624) | (0.4) | (5,167) | (0.2) |
| Tax charge at the Group's effective rate | 781,652 | 14.7 | 531,339 | 16.2 |

## 6. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of Rmb4,546,383,000 (2006 (restated): Rmb2,758,477,000) which has been dealt with in the financial statements of the Company.

## 7. DIVIDEND

| | **2007** | **2006** |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Proposed final - Rmb0.50 (2006: Rmb0.30) per ordinary share | 1,702,510 | 997,800 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share for the year 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 3,365,510,275 ordinary shares in issue during the year as adjusted to reflect the weighted average number of convertible shares issued in July, 2007. Basic earnings per share: Rmb136.69 cents; Diluted earnings per share: Rmb135.09 cents.

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 Rmb2,758,477,000 and 3,326,000,000 shares in issue during the year. Basic earnings per share: Rmb82.94 cents); Diluted earnings per share Rmb82.94 cents

## 2. MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION

### (1) Analysis of Shipping Market During the Reporting Period

The Group is principally engaged in the cargo shipping business. Cargo shipping mainly consists of the shipment of oil and dry bulk cargoes (primarily coal) along the coastal region of the PRC and internationally.

In 2007, the world economy sustained a steady improvement, and international trade kept a steady growth. Under the impact of the macro control policy adopted by the PRC, the PRC domestic economy sustained a steady improvement for continuing five years. The demand for iron ore, oil and coal in China kept a rapid growth. The demand in the global shipping market kept improving, and shipping industry continued to flourish, with sub-markets developing in different trends.

In 2007, with the rapid increase in the demands for bulk cargoes (such as iron ore, coal etc), demand in the international dry bulk cargo shipping market continued to be strong. The shortage of shipping capacities has led freight rates to remain high. The average of the Baltic Dry Bulk Freight Rate Index (the "**BDI**") was 7,069 points, representing a significant increase of 122% as compared with 2006. At the same time, due to the sustained growth in the economy of the PRC, coastal shipment of coal was growing rapidly, and the coastal bulk freight index increased by 25.8% as compared with 2006. The Group's all-year base freight rate in respect of thermal coal for the contract of affreightment with the major customers increased by 14.1% as compared with 2006.

In 2007, under the impact of high crude oil price and production reduction by OPEC, overall demand in international oil market was inadequate. At the same time, surplus of new shipping capacities launched, which exceeded demands, has caused the freight rates to move downwards. In 2007, the international crude oil composite freight rate indicator averaged at 1,124 points, representing a decrease of 13% as compared with 2006. Of these, the World Scale Index ("**WS**") for the shipping route from the Middle East to Japan, being one of the freight rate indicators for very large crude oil carriers ("**VLCC**") averaged at 79 points, a decrease of 19.4% as compared with 2006. Oil shipment market in domestic trade remained stable.

(2) **Analysis of the Principal Operations of the Group**

In 2007, the Group persisted in taking domestic coastal coal shipping and oil shipping business as its core business, making full use of the superiority that the shipping capacity of bulk vessels increased significantly, and made efforts to enhance various cost control measures, with operating results reaching the historic record high of the Group. Benefiting from the successful acquisition of the 42 dry bulk cargo vessels from China Shipping (Group) Company, the Company's controlling shareholder, and its subsidiaries, and the uprising in the international dry bulk cargo and coastal coal freight rate in the PRC, the profits of the Company increased significantly as compared with 2006. During the Reporting Period, the shipping volume achieved by the Group was 216.4 billion tonne-nautical miles, and the total revenue derived from shipment was approximately RMB12,395 million (after business tax and surplus), representing an increase of 22.1% and 34.7% as compared with 2006 respectively. Cost of operations was approximately RMB7,329 million, an increase of 23.9% as compared with 2006. Net profit recorded was approximately RMB4546 million, and earnings per share was approximately RMB1.3669, representing an increase of 64.8% as compared with 2006.

An analysis of the principal operations in terms of products transported (Unit: RMB'000) is set out as follows:

| **Description** | **Revenue** | **Operating costs** | **Gross profit margin** *(%)* | **Increase/ (decrease) in revenue as compared with the same period of last year** *(%)* | **Increase/ (decrease) in operating costs as compared with the same period of last year** *(%)* | **Increase/ (decrease) in gross profit margin as compared with the same period of last year** *(%)* |
|---|---|---|---|---|---|---|
| Oil shipment | 4,924,349 | 3,531,661 | 28.28% | (8.07%) | (2.50%) | (4.10%) |
| Coal shipment | 5,324,189 | 2,842,078 | 46.62% | 89.74% | 69.37% | 6.42% |
| Other dry bulk shipment | 2,146,201 | 955,569 | 55.48% | 106.18% | 55.00% | 14.70% |

An analysis of the principal operations in terms of geographical regions (RMB'000) is set out as follows:

| **Regions** | **Revenue** | **Increase/ (decrease) in revenue as compared with the same period last year** |
|---|---|---|
| | | *(%)* |
| Domestic transportation | 7,312,282 | 46.65 |
| International transportation | 5,082,457 | 20.51 |

**Dry bulk cargo shipping**

In light of the favorable market opportunities and benefiting from the acquisition of the 42 dry bulk cargo vessels at the end of 2006 which have all been put into operation at the beginning of 2007, the Group's revenue derived from the dry bulk cargo shipping in 2007 increased significantly. In 2007, the Group has achieved a shipping volume of approximately 216.4 billion tonne-nautical miles of dry bulk cargo, and derived a revenue of approximately RMB12.39 billion, representing increases of 22.1% and 34.7% as compared with 2006 respectively. Of these, the shipping capacity of the 42 dry bulk cargo vessels acquired amounted to 1,406,000 DWT, representing 34.9% of the Company's existing shipping capacity of dry bulk cargo. Shipping volume achieved by the 42 vessels in 2007 was approximately 38.7 billion tonne-nautical miles, revenue generated was approximately RMB2330 million, and the gross profit achieved was approximately RMB1150 million, with gross profit margin of 49.3%.

For shipment of coal, the Group, with domestic coastal thermal coal shipping business as its core business, has been making its utmost effort to guarantee the thermal coal shipping for its large clients. In 2007, the Group has achieved a total shipping volume of 81.3 billion tonne-nautical miles, and generated revenue of approximately RMB5,324 million, representing an increase of 37.5% and 89.7% as compared with 2006 respectively. Of these, domestic trade coal shipment was 73.6 billion tonne-nautical miles, and revenue achieved was approximately RMB4,804 million, representing increases of 45.5% and 86.6% as compared with 2006 respectively. International trade coal shipment was 7.7 billion tonne-nautical miles, representing a decrease of 9.8% as compared with 2006, and revenue achieved was approximately RMB520 million, representing an increase of 124.5% as compared with 2006.

For shipment of other dry bulk cargoes, the Group has achieved a total shipping volume of approximately 37.9 billion tonne-nautical miles in 2007, and achieved a shipping revenue of approximately RMB2146 million, representing increases of 43.1% and 106.2% as compared with 2006 respectively. Of these, international trade shipping volume achieved was 29.91 billion tonne-nautical miles, and revenue achieved was approximately RMB1642 million, representing increases of 33.0% and 107.9% as compared with 2006 respectively. Domestic trade shipping volume achieved was 8.0 billion tonne-nautical miles, and revenue achieved was approximately RMB500 million, representing increases of 99.8% and 100.9% as compared with 2006 respectively.

**Oil shipment**

In 2007, the domestic oil shipping market remained stable, and the international oil shipping market kept depressed movement. Facing with the different situation in the international and domestic oil shipping markets, the Group carefully organised the shipment and production, and made efforts in conducting safety management and cost control. In 2007, the Group achieved a shipping volume of approximately 97.2 billion tonne-nautical miles of oil shipment, representing an increase of 6.2% as compared with 2006, and revenue achieved was approximately RMB4,924 million, representing a decrease of 8.1% as compared with 2006.

For shipment of domestic trade oil, the Group continued to put efforts in the disposal of old tankers, and as a result the shipping capacity of tankers reduced by 15% in 2007. During the Reporting Period, the Group has achieved a shipping volume of approximately 16.5 billion tonne-nautical miles of domestic trade oil shipment and revenue achieved was approximately RMB2,000 million, representing decreases of 15.6% and 7.3% as compared with 2006 respectively. The operating results of the domestic trade oil shipment in segments are different. The Group achieved a shipping volume of approximately 9.6 billion tonne-nautical miles of offshore oil shipping, representing a decrease of 7.4% as compared with 2006, and achieved a shipping revenue of approximately RMB1,050 million, representing an increase of 2.2% as compared with 2006. The Group achieved a shipping volume of approximately 4.30 billion tonne-nautical miles of transhipment of imported crude oil, and revenue of approximately RMB6,600 million, representing increases of 6.4% and 5.2% as compared with 2006 respectively. In 2007, the Group has achieved a shipping volume of 1.9 billion tonne-nautical miles of domestic trade refined oil shipment, and revenue generated was approximately RMB180 million, representing decreases of 61.3% and 61.0% as compared with 2006 respectively.

In the international trade oil shipping market, to cope with the overall market depression, the Group puts emphasis in market research, and focused on cargo soliciting on key VLCC, Aframax and Handy-size tankers, and made efforts in market expansion. In 2007, with delivery of new tankers, the Group has got 11% increase in shipping capacity of its tanker fleet. During the Reporting Period, the Group has achieved a shipping volume of approximately 80.7 billion tonne-nautical miles of international trade oil, representing an increase of 12.1% as compared with 2006, and revenue achieved was approximately RMB2,920 million, representing a decrease of 8.6% as compared with 2006. Of these, the shipping volume of international crude oil was approximately 42.0 billion tonne-nautical miles, representing an increase of 11.7% as compared with 2006, and revenue achieved was approximately RMB890 million, representing a decrease of 16.7% as compared with 2006. The shipping volume of international refined oil was approximately 38.8 billion tonne-nautical miles, representing an increase of 12.6% as compared with 2006, and revenue achieved was approximately RMB2,030 million, representing a decrease of 4.6% as compared with 2006.

(3) **Operating costs analysis**

In 2007, while adopting effective measures to increase revenue from principal operations, the Group continued to enhance overall control on various major costs, and has effectively controlled the major costs in fuel expenses, port expenses, repair expenses through various costs control and management measures.

Since June 2007, under the impact of factors such as local politics and production reduction by OPEC, prices of international crude oil increased rapidly and broke its historic record high repeatedly. As a result, the shipping enterprises faced increasing cost pressure. In order to control the crude oil cost effectively, the Group is closely following the international market trend of crude oil, making bulk purchases when appropriate to lock in prices, and speeding up the organizational restructure of its fleet with a view to reducing fuel consumption and reasonably improving the utilization ratio of low grade crude oil.

The total operating cost incurred in 2007 was RMB7,330 million, an increase of 23.9% as compared with 2006, lower than the growth of 32.6% in the revenue generated form operating activities. The cost compositions are specifically analysed as follows:

a. Fuel cost: the Group's fuel expenses in 2007 was approximately RMB2,960 million, an increase of 19.6% as compared with 2006, representing 40.3% of the total operating cost. In 2007, the Group further enhanced its fuel saving, and with a growth of 22.1% in its shipping volume as compared with 2006, there was only a growth of 13% in the fuel consumption, representing a reduction of 7.4% in fuel consumption per thousand nautical miles as compared with 2006.

b. Port cost: port expenses incurred in 2007 was approximately RMB680 million, an increase of 17.4% as compared with 2006, representing 9.3% of the total operating cost.

c. Labor cost: the Group's total labor cost in 2007 was approximately RMB610 million, an increase of 8.9% as compared with 2006, representing 8.4% of the total operating cost.

d. Depreciation: the Group's depreciation expenses incurred in 2007 amounted to approximately RMB1,000 million, an increase of 2.4% as compared with 2006, representing 13.6% of the total operating cost. Such change was due to: (1) successful acquisition of the 42 dry bulk cargo vessels from China Shipping (Group) Company, the Company's controlling shareholder, and its subsidiaries at the end of 2006; and (2) on 29 March 2007, the board of Directors agreed to change the accounting estimation of the residual value of vessels from the present 4% of the cost of vessels to the disposal price of scrap steel vessels.

e. Repair expenses: the Group's repair expenses incurred 2007 amounted to approximately RMB460 million, an increase of 13.5% as compared with 2006, representing 6.2% of the total operating cost.

(4) **Financial analysis**

a. *Net cash inflow*

During the Reporting Period, the net cash inflow from operating activities of the Group increased from RMB 3,171,218,000 in 2006 to RMB 5,602,060,000, representing an increase of 76.7%.

b. *Commitments on capital expenditures*

As at 31 December 2007, the commitments on capital expenditures for the Group amounted to RMB23,599,675,000 (31 December 2006: RMB7,633,629,000). The source of funding was mainly financed by the Company's working capital and bank loans.

c. *Capital structure*

As at 31 December 2007, the shareholders' equity, bank loans and interest-bearing borrowings, and finance leases payable amounted to RMB16,071,515,000 and RMB4,276,666,000 respectively. As at 31 December 2007, the debt-to-equity ratio was 46.00% (31 December 2006: 34.87%).

d. *Borrowings*

As at 31 December 2007, the Group's total borrowing was RMB4,276,666,000, of which RMB721,825,000 is to be payable within one year. Bank loan amounting to RMB1,910,506,000 were pledged by 6 vessels owned by the Group and under construction. As at 31 December 2007, the total net book value of such vessels was RMB1,473,601,000. Interests of the above loans were calculated at the annual rate from 5.67% to 6.724% or Libor + 0.38% to 0.45%. The Group's gearing ratio was 31.51%, calculated by dividing total liabilities over total assets of the Group.

e. *Risk on foreign currency*

As at 31 December 2007, the Group's foreign exchange liabilities mainly comprised of finance payable in US dollars equivalent to approximately RMB2,195,734,000. In addition, the Company would pay dividend of H shares in Hong Kong dollars.

In order to avoid the risk of RMB appreciation, the Group actively made adjustments to its debt structure, and the proportion of US dollar indebtedness increased from 34.27% at the beginning of the year to about 51.34% as at 31 December 2007. During the Reporting Period, foreign exchange income and expenses basically broke even.

Given the increasing significance of the Group's international shipping business, changes in exchange rates will have certain impacts on the Group's profitability. Therefore, the Group will further strengthen its efforts in monitoring and studying exchange rate fluctuations, and will actively implement effective measures to strive to avoid exchange rate fluctuation risks. First, the Group will strive to break even USD for its operations. Second, the Group will appropriately increase its USD loans. Third, the Group will conscientiously analyse and compare available financial instruments for averting exchange rate risks, so as to hedge and lock in financial costs, and to effectively protect against risks caused by exchange rate fluctuations.

## 3. OUTLOOK AND HIGHLIGHTS FOR 2008

According to the forecast of International Monetary Fund, due to the impacts of a weak economy of the United States and the turmoil in the global financial market, it is anticipated that the growth rate of the global economy will slow down in 2008. Meanwhile, under the macro-economic control policy, the growth rate of the national economy of the PRC will also slow down. It is anticipated that the GDP growth in 2008 will be limited to 8%, and the growth rate of import and export trade will also drop. However, the steady growth of the PRC's economy will still be driving the demand for the transportation of bulk cargo such as coal, ores and oil. This provides favourable conditions for the Group to leverage on its advantage in both domestic and foreign shipping operations and to maintain a healthy development. Therefore, in the coming year, challenges and opportunities will co-exist in the domestic and overseas shipping markets and uncertainties will increase.

In respect of international oil transportation, new transportation capacities are continuously increasing, and high oil prices will curb the growth in the global demand for oil. However, with increasing restrictions on the operations of single hull tankers, the Company is cautiously optimistic about the international tanker transportation market in 2008. As for international dry bulk cargo transportation, since the major factors leading to the exponential growth of the BDI Index in 2007, namely insufficient transportation capacity, increase voyage distance and port congestion, still exist, it is anticipated that the BDI Index will still continue to show a high-level fluctuating trend in 2008. The base freight rate for domestic coastal bulk cargo contracts of affreightment for 2008 entered into between the Company and its customers has increased by 40% over last year, and at the same time, the Company has further upgraded the terms for fuel surcharge and the demurrage terms. Domestic coastal oil transportation is expected to remain basically stable.

According to the forecast of International Energy Agency, a global oil supply shortage crisis is expected to occur in the next five years, leading to soaring oil prices. Since June 2007, international crude oil prices have risen significantly, and repeatedly hit historical records. As fuel costs account for more than 40% of the Group's transportation costs, the Group will face increasing pressure from controlling fuel costs.

In order to cope with the current market situation, the Group will focus on the following aspects in 2008:

a. Continue to strengthen strategic cooperation with major customers, and maintain long-term stable strategic cooperation, so as to further consolidate and expand the Company's share in the domestic and foreign transportation markets, and reduce operating risks caused by fluctuations in freight rate. In respect of coal transportation, the Group will continue to focus on transportation of power coal, and further strengthen strategic cooperation with major customers, enhance the transporation capacities of power coal for major customers, and at the same time, expand the scale and strength of its associated companies in power coal transportation, explore new markets, so as to further expand market coverage. As for oil transportation, the Group will continue to enhance strategic cooperation with major customers such as PetroChina Company Limited, China Petroleum & Chemical Corporation (Sinopec) and China CNOOC Limited, while further rationalising the freight rate mechanism for coastal oil transportation. It will build on the long-term transportation agreement entered into with Sinopec to explore strategic cooperation with major international oil companies, to establish a long-term stable freight rate mechanism and reduce the risks associated with cargo sources and freight rate fluctuations. As for the transportation of imported iron ores, the Company has since October 2006 entered into long-term contracts of affreightment for iron ores with large domestic iron and steel enterprises such as China Shougang International Trade & Engineering Corp., Bao Steel Company Limited and Wugang Iron and Steel Group, and has established a mechanism linking freight rate, oil price and vessel price, thereby ensuring the stability of cargo sources. This is a significant breakthrough in the operation of very-large ore vessels by the Company.

b. Continue to speed up adjustments to vessel structure, further optimize fleet structure, and enhance the shipping efficiency of vessels. The Group has disposed of 22 old vessels of 408,000 DWT in 2007, and plans to dispose of 13 old vessels of 210,000 DWT in 2008. At the same time, the Group has further enhanced its efforts in building new vessels and supervising vessel building, so as to ensure timely delivery of new vessels. In 2007, the Group has entered into contracts for the construction of 10 tankers and 38 bulk cargo vessels with a total tonnage of 6.14 million DWT. Currently, the Group has a total of 59 vessels with 8.69 million DWT under construction, which are all scheduled for delivery by the end of 2012. Total capital expenditure in the next five years is expected to be approximately RMB23.4 billion.

c. Continue to implement various measures for reducing expenses, and focus on controlling fuel costs. The Group will continue to strengthen market analysis, adopt effective measures such as strengthening management and control of fuel purchase and supply, lock in certain fuel prices, reduce unit consumption of fuel and further improve the surcharge terms for domestic coastal power coal and crude oil transportation. The Group will devote full efforts to controlling fuel and other costs, so as to strive to minimize the increase in costs.

d. Further strengthen vessel chartering and increase the percentage of shipping capacity by chartered vessels. In 2007, the Company has set up two specialized chartering companies in Hong Kong with a view to adopting vessel chartering as a conventional model to increase shipping capacities. This is an important means to compliment the Group's strategic plan to implementat of "World Class Fleet". The Group targets to increase the chartered capacity to 30% of the Group's transportation capacity by 2010.

Based on its view of the domestic and overseas shipping markets in 2008, and taken into consideration of the delivery of new vessels, the Group anticipates that its shipping capacity will grow slightly in 2008, with a shipping volume of approximately 235.1 billion tonne nautical miles, a turnover of approximately RMB17.9 billion and operating cost of approximately RMB9.8 billion, representing a growth of 5.8%, 41.1% and 33.5% respectively.

## 4. OTHER SIGNIFICANT EVENTS

**Disposal of assets (Unit: Rmb'000)**

| Assets sold | Price of Disposal | Profit/(loss) arising from disposal of assets | Connected transaction (Yes/No) | Pricing Policy |
|---|---|---|---|---|
| Jinquan | 12,200 | 5,283 | No | Market price |
| Haitang | 7,600 | (726) | No | Market price |
| Yongan 4 | 173,829 | 55,060 | No | Market price |
| Jianshe 5 | 8,600 | 7,740 | No | Market price |
| Jianshe 6 | 8,800 | 7,934 | No | Market price |
| Jianshe 22 | 9,500 | 5,834 | No | Market price |
| Daqing 44 | 18,262 | 16,292 | No | Market price |
| Bei Ji Xing | 99,654 | 16,712 | No | Market price |
| Jianshe 4 | 7,000 | 6,764 | No | Market price |
| Daqing 51 | 22,162 | 19,614 | No | Market price |
| Daqing 61 | 26,426 | 18,345 | No | Market price |
| Huaxi | 29,015 | 26,864 | No | Market price |
| Jianshe 11/12 | 26,016 | 13,342 | No | Market price |
| Dianchi | 35,278 | 31,659 | No | Market price |
| Xiangdan/Xiang lian/Xiangyin | 28,000 | 21,751 | Yes | Market price |
| Huazhi | 42,223 | 38,425 | No | Market price |
| Daqing 254 | 49,111 | 45,472 | No | Market price |
| Daqing 244/Yongchi | 45,749 | 40,243 | Yes | Market price |

**Results, dividends and closure of the H Share register**

The net profit of the Company for 2007, as determined in accordance with PRC GAAP, was approximately Rmb4,596,050,561.15, 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 Rmb0.50 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 within the equity section of the balance sheet.

**Substantial shareholders' and other persons' 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"):

| Name of substantial shareholder | Class of shares | Number of shares held | Percentage of the total number of the relevant class shares | Percentage of the total number of issued shares |
|---|---|---|---|---|
| China Shipping (Group) Company | A shares | 1,578,500,000 (long) | 77.76% | 47.46% |
| Davis Selected Advisers, L. P. (d/b/a: Davis Advisors) | H shares | 93,256,000 (long) | 7.20% | 2.80% |
| Morgan Stanley International Incorporated | H shares | 68,047,176 (long) | 5.25% | 2.05% |
| | H Shares | 499,400 (short) | 0.04% | 0.02% |
| Morgan Stanley Asia Pacific (Holdings) Limited | H Shares | 65,992,776 (long) | 5.09% | 1.98% |
| | H Shares | 424,000 (short) | 0.03% | 0.01% |
| Morgan Stanley Asia Regional (Holdings) III LLC | H Shares | 65,399,000 (long) | 5.05% | 1.97% |
| Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd | H Shares | 65,399,000 (long) | 5.05% | 1.97% |
| Morgan Stanley Investment Management Company | H Shares | 65,399,000 (long) | 5.05% | 1.97% |

*Note: "long" represents long position; "short" represents short position.*

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.

**Medical insurance scheme**

As required by the regulations of the local government effective from 1 July 2001, the Company participates in a defined contribution medical insurance scheme organised by local social security authorities. Under the scheme, the Company is required to make monthly contributions at the rate of 12% of the total salaries of the employees, after certain adjustments on individual employee's salary in accordance with 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**

The Group is required to contribute to a pension scheme (the "**Scheme**") for the eligible employees. Under the Scheme, the Group's retirement benefit obligations to its existing and future retiring employees is limited to its annual contributions equivalent to 22.5% (2006: 22.5%) of the basic salaries of the Group's employees, after certain adjustments on individual employees' salaries in accordance with applicable regulations. Contributions by the Group to the Scheme for the year ended 31 December 2007 amounted to Rmb85,950,771 (2006: Rmb79,591,000).

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

During the Reporting Period, none of the Directors, chief executives and supervisors, nor their associates, had any interest and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange and would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 and the Stock Exchange under the provisions of Divisions 7 and 8 of Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein.

**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 Reporting Period.

**Compliance with the Code of Corporate Governance Practice**

During the Reporting Period, the Company has complied with the Code Provisions set out in the Code on Corporate Governance Practice contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

**Audit Committee**

In compliance with Rule 3.21 of the Listing Rules, the Company has established an audit committee to review the financial reporting procedures and internal control and to provide guidance thereto. The audit committee of the Company comprises 3 independent non-executive Directors. During the Reporting Period, the Committee convened three meetings.

The Audit Committee has reviewed the annual results of the Group during the Reporting Period.

**Compliance with the model code for securities transactions by Directors and Staff ( the "Model Code") as set out in appendix 10 to the Listing Rules**

On the Second Board Meeting of 2006 held on 28 March 2006, the Board of Directors decided to adopt the "Model Code" as the standard for securities transactions by Directors and Staff.

Following specific enquiry made with the Directors, Supervisors and chief executive of the Company, the Company has confirmed that each of them has complied with the Model Code during the Reporting Period.

**Other matters**

Pursuant to the board resolution dated 29 March 2007, the board of Directors agreed to change the accounting estimation of the residual value of vessels from the present 4% of the cost of vessels to the disposal price of scrap steel vessels. In 2001, the Group had adopted the policies set by the Ministry of Finance of the PRC, charging the employee housing as expenses in 2001, and the H shares had treated such expenses as deferred expenditure which should be amortized for 10 years. As such expenditure would not bring any economical benefit to the Group, the Group had decided to make a one-time charge of the remaining balance of RMB 49,668,000 in 2007. This resulted in the net profit for H shares being lower than that for A shares by a sum of RMB49,668,000, representing 1% of the net profit for the period.

## PUBLICATION OF ANNUAL RESULTS ON THE INTERNET WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

An annual report of the Company containing all the financial and relevant information required by paragraphs 7 to 34A of Appendix 16 to the Listing Rules will be posted on the website of the Hong Kong Stock Exchange in due course.

The financial information set out above does not constitute the Company's statutory financial statements for the years ended 31 December, 2006 and 2007, but is derived from the consolidated financial statements prepared in accordance with accounting principles generally accepted in Hong Kong and complies with accounting standards issued by the HKICPA. Those consolidated financial statements for the year ended 31 December, 2007, which will contain an unqualified auditors' report, will be delivered to the Registrar of Companies, and delivered to shareholders as well as made available on the Company's website at http://www.cnshippingdev.com.

By order of the Board
**Li Shaode**
*Chairman*

25 March 2008
Shanghai, the PRC

* *As at the date of this announcement, the Board of Directors of the Company is comprised of Mr. Li Shaode, Mr. Ma Zehua, Mr. Lin Jianqing, Mr. Wang Daxiong, Mr. Zhang Guofa, Mr. Mao Shijia and Mr. Wang Kunhe as executive directors, Mr. Ma Xun, Mr. Xie Rong, Mr. Hu Hongga, Mr. Zhu Yongguang and Mr. Zhou Zhanqun as independent non-executive directors.*