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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)

2012 INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

Financial Highlights

- Turnover decreased by 8.6% to approximately RMB5,615 million
- Operating cost increased by 11.2% to approximately RMB5,851 million
- Loss for the period attributable to owners of the Company is approximately RMB495 million
- Basic loss per share was RMB0.1455

The board of directors (the “**Board**”) of China Shipping Development Company Limited (the “**Company**”) is pleased to announce the interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2012 (the “**Reporting Period**”), together with the comparative figures for the six months ended 30 June 2011. The Group’s interim results have not been audited but have been reviewed by the Company’s international auditor, Baker Tilly Hong Kong Limited (Certified Public Accountants in Hong Kong).

I. MAJOR FINANCIAL DATA

The interim results of the Group for the Reporting Period have been reviewed by Baker Tilly Hong Kong Limited in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and set out as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Note	RMB'000	RMB'000
Revenue			
Turnover	3	5,614,970	6,141,412
Operating costs		<u>(5,851,041)</u>	<u>(5,260,272)</u>
Gross (loss)/profit		(236,071)	881,140
Other income and gains	4	119,437	140,653
Marketing expenses		(26,731)	(23,183)
Administrative expenses		(166,656)	(135,262)
Other expenses		(22,905)	(14,993)
Share of profits of jointly-controlled entities		152,125	164,224
Finance costs	5	<u>(280,185)</u>	<u>(181,894)</u>
(LOSS)/PROFIT BEFORE TAX	6	(460,986)	830,685
Tax	7	<u>(169)</u>	<u>(129,483)</u>
(LOSS)/PROFIT FOR THE PERIOD		<u>(461,155)</u>	<u>701,202</u>
OTHER COMPREHENSIVE INCOME/(EXPENSES)			
Exchange realignment		65,311	(137,830)
Net profit/(loss) on cash flow hedges		<u>880</u>	<u>(2,179)</u>
Other comprehensive income/(expenses) for the period		<u>66,191</u>	<u>(140,009)</u>
Total comprehensive (expenses)/income for the period		<u><u>(394,964)</u></u>	<u><u>561,193</u></u>

		For the six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Note	RMB'000	RMB'000
(Loss)/profit for the period attributable to:			
Owners of the Company		(495,377)	684,406
Non-controlling interests		<u>34,222</u>	<u>16,796</u>
		<u>(461,155)</u>	<u>701,202</u>
Total comprehensive (expenses)/income for the period attributable to:			
Owners of the Company		(429,539)	544,874
Non-controlling interests		<u>34,575</u>	<u>16,319</u>
		<u>(394,964)</u>	<u>561,193</u>
(Loss)/earnings per share			
	8		
- Basic		<u>(14.55 cents)</u>	<u>20.10 cents</u>
- Diluted		<u>(14.55 cents)</u>	<u>20.10 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2012	31 December 2011
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Investment properties	10	233,214	236,198
Property, plant and equipment	10	44,712,549	41,875,122
Investments in associates		—	—
Investments in jointly-controlled entities		4,094,394	3,562,519
Loan receivables		63,997	49,747
Available-for-sale investments		<u>4,300</u>	<u>4,300</u>
Total non-current assets		<u>49,108,454</u>	<u>45,727,886</u>
CURRENT ASSETS			
Bunker oil inventories		908,123	823,961
Trade and bills receivables	11	1,512,414	1,127,945
Prepayments, deposits and other receivables		823,203	483,330
Loan to a shareholder of a subsidiary		49,000	49,000
Cash and cash equivalents		<u>2,774,479</u>	<u>3,376,692</u>
Total current assets		<u>6,067,219</u>	<u>5,860,928</u>
CURRENT LIABILITIES			
Trade and bills payables	12	1,135,315	1,073,161
Other payables and accruals		1,283,079	828,385
Dividend payable		157,850	—
Tax payable		1,284	4,463
Current portion of notes, interest-bearing bank and other borrowings		<u>6,579,674</u>	<u>4,573,454</u>
Total current liabilities		<u>9,157,202</u>	<u>6,479,463</u>
NET CURRENT LIABILITIES		<u>(3,089,983)</u>	<u>(618,535)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>46,018,471</u></u>	<u><u>45,109,351</u></u>

		30 June 2012	31 December 2011
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
EQUITY			
Equity attributable to owners of the company			
Issued capital		3,404,553	3,404,552
Reserves		19,464,272	19,893,810
Proposed interim/final dividend		<u>—</u>	<u>340,455</u>
		22,868,825	23,638,817
Non-controlling interests		<u>725,259</u>	<u>702,791</u>
Total equity		<u>23,594,084</u>	<u>24,341,608</u>
NON-CURRENT LIABILITIES			
Other loans		519,627	515,603
Derivative financial instruments	13	14,819	15,645
Notes, interest-bearing bank and other borrowings		18,323,080	16,754,515
Convertible bonds		3,198,000	3,110,598
Deferred tax liabilities		<u>368,861</u>	<u>371,382</u>
Total non-current liabilities		<u>22,424,387</u>	<u>20,767,743</u>
TOTAL EQUITY AND NON-CURRENT LIABILITIES			
		<u>46,018,471</u>	<u>45,109,351</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	<u>(221,855)</u>	<u>1,148,240</u>
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	125,689	138,303
Purchases of property, plant and equipment	(3,146,293)	(3,827,964)
Dividends received from jointly-controlled entities	11,250	8,470
Dividends received from available-for-sale investments	2,239	—
Interest received	1,572	—
Investments in jointly-controlled entities	(441,000)	(245,000)
Loans to associates	<u>(14,426)</u>	<u>—</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<u>(3,460,969)</u>	<u>(3,926,191)</u>
FINANCING ACTIVITIES		
Contribution from non-controlling shareholders of subsidiaries	—	150,288
Net cash inflow from notes, bank and other borrowings	3,599,926	4,146,151
Dividend paid	(194,712)	(578,774)
Interest paid	(293,463)	(190,712)
Other financing cash outflow, net	<u>(689)</u>	<u>(3,780)</u>
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>3,111,062</u>	<u>3,523,173</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(571,762)	745,222
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	3,376,692	1,061,735
Effect of foreign exchange rate changes, net	<u>(30,451)</u>	<u>(13,187)</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>2,774,479</u></u>	<u><u>1,793,770</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u><u>2,774,479</u></u>	<u><u>1,793,770</u></u>

NOTES TO THE INTERIM FINANCIAL INFORMATION

Period ended 30 June 2012

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

1.1 Basis of preparation

The interim financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities (the “HK Listing Rules”) on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The interim financial information does not include all the information and disclosures required in an annual report, and should be read in conjunction with the Company’s consolidated financial statements for the year ended 31 December 2011 set out in the Company’s 2011 Annual Report.

1.2 Significant accounting policies

The interim financial information has been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

A number of new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) are effective for the financial year beginning on 1 January 2012. Except as described below (Note 1.3) and the changes in estimates that are required in determining the useful life and residual value of vessels, the same accounting policies, presentation and methods of computation have been followed in this interim financial information for the six months ended 30 June 2012 as were applied in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2011.

1.3 Impact of new and revised HKFRSs and changes in accounting policies

Impact of new and revised HKFRSs

In the current period, the Group has adopted the following new and revised standards, amendments and interpretations (hereinafter collectively referred to as “new and revised HKFRSs”) issued by the HKICPA that are effective and relevant to the Group’s financial year beginning 1 January 2012. The adoption of the new and revised HKFRSs has had no material effect on the interim financial information of the Group for the current and previous accounting periods.

HKFRS 7

Disclosures — Transfers of financial assets

HKAS 12 (Amendments)

Income taxes — Deferred tax: Recovery of underlying assets

Impact of HKFRSs issued but not yet effective

Improvements to HKFRSs	Annual improvements to HKFRSs 2009 — 2011 cycle ²
HKFRS 7 (Amendments)	Disclosures — Offsetting financial assets and financial liabilities ²
	Disclosures — Mandatory effective date of HKFRS 9 and transition disclosures ⁴
HKFRS 9	Financial instruments ⁴
HKFRS 10	Consolidated financial statements ²
HKFRS 11	Joint arrangements ²
HKFRS 12	Disclosure of interests in other entities ²
HKFRS 13	Fair value measurement ²
HKAS 1 (Amendments)	Presentation of financial statements — Presentation of items of other comprehensive income ¹
HKAS 19 (2011)	Employee benefits ²
HKAS 27 (2011)	Separate financial statements ²
HKAS 28 (2011)	Investments in associates and joint ventures ²
HKAS 32 (Amendments)	Presentation offsetting financial assets and financial liabilities ³

¹ Effective for annual periods beginning on or after 1 July 2012.

² Effective for annual periods beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 January 2014.

⁴ Effective for annual periods beginning on or after 1 January 2015.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial positions.

2. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011, with the exception of changes in estimates that are required in determining the useful life of vessels and residual values (Note 10).

3. REVENUE AND SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. The Group's business segments are categorised as follows:

- (a) oil shipment; and
- (b) dry bulk shipment
 - coal shipment
 - iron ore shipment
 - other dry bulk shipment

Business segments

There is seasonality for the Group's turnover but the effect is small. An analysis of the Group's turnover and contribution to the (loss)/profit from operating activities by principal activity and geographical area of operations for the period is set out as follows:

	For the six months ended 30 June			
	2012		2011	
	(Unaudited)		(Unaudited)	
	Turnover RMB'000	Contribution RMB'000	Turnover RMB'000	Contribution RMB'000
By principal activity:				
Oil shipment	2,832,421	(131,927)	3,293,958	384,369
Dry bulk shipment				
- Coal shipment	1,381,043	(129,103)	1,864,170	391,654
- Iron ore shipment	1,056,551	106,420	662,649	79,620
- Other dry bulk shipment	344,955	(81,461)	320,635	25,497
	<u>2,782,549</u>	<u>(104,144)</u>	<u>2,847,454</u>	<u>496,771</u>
	<u>5,614,970</u>	(236,071)	<u>6,141,412</u>	881,140
Other income and gains		119,437		140,653
Marketing expenses		(26,731)		(23,183)
Administrative expenses		(166,656)		(135,262)
Other expenses		(22,905)		(14,993)
Share of profits of jointly-controlled entities		152,125		164,224
Finance costs		<u>(280,185)</u>		<u>(181,894)</u>
(Loss)/profit before tax		<u>(460,986)</u>		<u>830,685</u>
Total segment assets				
Oil shipment		25,554,619		21,940,184
Dry bulk shipment		24,651,085		20,039,016
Unallocated corporate assets		<u>4,969,969</u>		<u>3,924,944</u>
		<u>55,175,673</u>		<u>45,904,144</u>
Total segment liabilities				
Oil shipment		16,569,375		12,880,393
Dry bulk shipment		14,615,657		9,416,496
Unallocated corporate liabilities		<u>396,557</u>		<u>383,087</u>
		<u>31,581,589</u>		<u>22,679,976</u>

Segment contribution represent the profit or loss earned by each segment without allocation of central administration costs (including directors' remuneration), marketing expenses, other expenses, share of profits of jointly-controlled entities, other income and gains and finance costs. This is the measure reported to chief operating decision makers for the purposes of resource allocation and performance assessment.

The carrying value of tankers and dry bulk vessels at 30 June 2012 amounted to approximately RMB20,141,137,000 and approximately RMB18,299,776,000 respectively (31 December 2011: approximately RMB16,439,710,000 and approximately RMB16,514,887,000 respectively).

Geographical segments

	For the six months ended 30 June			
	2012		2011	
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
	Turnover	Contribution	Turnover	Contribution
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
By geographical area:				
Domestic	2,409,410	(77,760)	3,976,224	999,836
International	<u>3,205,560</u>	<u>(158,311)</u>	<u>2,165,188</u>	<u>(118,696)</u>
	<u>5,614,970</u>	(236,071)	<u>6,141,412</u>	881,140
Other income and gains		119,437		140,653
Marketing expenses		(26,731)		(23,183)
Administrative expenses		(166,656)		(135,262)
Other expenses		(22,905)		(14,993)
Share of profits of jointly-controlled entities		152,125		164,224
Finance costs		<u>(280,185)</u>		<u>(181,894)</u>
(Loss)/profit before tax		<u>(460,986)</u>		<u>830,685</u>
Turnover				
Total segment turnover		5,614,970		6,141,412
Less: inter-company transactions		<u>—</u>		<u>—</u>
Total consolidated turnover		<u>5,614,970</u>		<u>6,141,412</u>

Other information

	For the six months ended 30 June 2012			
	Oil	Dry bulk	Others	Total
	shipment	shipment		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Additions to segment				
non-current assets	948,648	3,132,126	3,030	4,083,804
Depreciation	356,635	353,424	4,597	714,656
Gain on disposal of property, plant and equipment	1,528	6,444	7,221	15,193
Interest income	<u>4,518</u>	<u>6,035</u>	<u>17,339</u>	<u>27,892</u>

	For the six months ended 30 June 2011			
	Oil	Dry bulk	Others	Total
	shipment	shipment		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Additions to segment				
non-current assets	1,753,124	2,986,788	7,019	4,746,931
Depreciation	365,426	479,960	3,829	849,215
(Loss)/gain on disposal of property, plant and equipment	(39)	115,168	—	115,129
Interest income	<u>2,469</u>	<u>3,064</u>	<u>1,371</u>	<u>6,904</u>

The principal assets employed by the Group are located in the PRC, and accordingly, no segment analysis of assets and expenditure has been prepared.

4. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Other income		
Bank interest income	25,514	6,904
Commission income	5,861	—
Government subsidies (note)	67,933	25,211
Interest income from loan receivables	2,378	—
Rental income from investment properties	6,164	—
Others	<u>2,096</u>	<u>3,664</u>
	<u>109,946</u>	<u>35,779</u>
Other gains/(losses)		
Gain on disposal of property, plant and equipment, net	15,193	115,129
Exchange losses, net	(8,687)	(10,882)
Dividends from available for-sale investments	2,239	—
Others	<u>746</u>	<u>627</u>
	<u>9,491</u>	<u>104,874</u>
Other income and gains	<u><u>119,437</u></u>	<u><u>140,653</u></u>

Note: The Group received government subsidies for business development purpose. There were no unfulfilled conditions or contingencies relating to these subsidies.

5. FINANCE COSTS

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Total finance costs		
Interest expenses in:		
- Bank loans and other borrowings repayable within five years	154,121	141,366
- Bank loans and other borrowings repayable over five years	169,711	27,807
- Notes	101,370	101,301
- Hedge loan	3,940	5,498
- Convertible bonds	87,405	—
Other loan or borrowings costs and charges	<u>—</u>	<u>22,371</u>
	516,547	298,343
Less: Interest capitalised	<u>(236,362)</u>	<u>(116,449)</u>
Finance costs	<u><u>280,185</u></u>	<u><u>181,894</u></u>

6. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2012	2011
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of shipping services rendered:		
Bunker oil inventories consumed and port fees	3,283,883	2,781,465
Others (Including vessel depreciation and crew expenses)	2,567,158	2,478,807
Depreciation	714,656	849,215
Operating lease rentals:		
Land and buildings	23,319	17,096
Vessels	<u>326,825</u>	<u>257,614</u>
Total operating lease rentals	<u>350,144</u>	<u>274,710</u>
Staff costs (including directors' remuneration wages, salaries, pension and crew expenses)	843,819	842,831
Gain on disposal of property, plant and equipment, net	(15,193)	(115,129)
Provision for bad and doubtful debts	—	300
Government subsidies	(67,933)	(25,211)
Dry-docking and repairs	<u>259,679</u>	<u>273,011</u>

7. TAX

(i) Hong Kong Profits Tax

Hong Kong profits tax was not provided for in the interim financial information as the Group did not have any assessable profits arising in Hong Kong during the six months period ended 30 June 2012 and 2011.

(ii) PRC Corporate Income Tax

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law"). The Company is entitled to a preferential income tax rate of 18%-24% effective from 1 January 2008. The existing preferential tax rate currently enjoyed by the Company is gradually transited to the new standard rate of 25% over a five-year transitional period. Accordingly, PRC corporate income tax of the Company has been provided at the rate of 25% (2011: 24%) on the estimated assessable profits for the period.

Non-resident enterprises without an establishment or a place of business in the PRC or which have an establishment or a place of business in the PRC but which relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources within the PRC (the "New Tax Law"). The Group has already assessed the impact of the New Tax Law regarding this withholding tax and considered the New Tax Law would not have a significant impact on the results of operations and financial position of the Group.

	For the six months ended 30 June	
	2012	2011
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Group:		
Hong Kong	—	—
PRC		
- Charge for the period	1,721	151,712
- Under/(over) provision in prior years	969	(425)
Deferred tax	<u>(2,521)</u>	<u>(21,804)</u>
Total tax charge for the period	<u>169</u>	<u>129,483</u>

8. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	For the six months ended 30 June	
	2012	2011
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
(Loss)/profit attributable to owners of the Company (RMB'000)	(495,377)	684,406
Weighted average number of ordinary shares in issue (thousands)	3,404,553	3,404,552
Basic (loss)/earnings per share (RMB cents per share)	<u>(14.55)</u>	<u>20.10</u>

(b) Diluted (loss)/earnings per share

As the Company does not have any potential dilutive ordinary shares during the period ended 30 June 2012 (six months ended 30 June 2011: RMB Nil), diluted loss per share is the same as basic loss per share.

9. DIVIDEND

The directors do not recommend the payment of an interim dividend (six months ended 30 June 2011: RMB Nil).

10. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, addition to construction in progress amounting to approximately RMB3,902,779,000 (six months ended 30 June 2011: approximately RMB4,738,136,000).

During the period, the construction of three tankers at cost of approximately RMB1,028,189,000 and ten dry bulk vessels at cost of approximately RMB5,189,772,000 (six months ended 30 June 2011: One tanker at cost of approximately RMB895,530,000 and ten dry bulk vessels at cost of approximately RMB3,353,591,000) were completed and were transferred from construction in progress to vessels. Two tankers with net carrying amount of approximately RMB71,461,000 (six months ended 30 June 2011: Three tankers with net carrying amount of approximately RMB121,209,000) completed repairs, and have been put into operation. Meanwhile, no used vessel was acquired during these periods.

During the period, four dry bulk vessels and one tanker with net carrying amount of approximately RMB77,176,000 and approximately RMB28,815,000 respectively (six months ended 30 June 2011: six dry bulk vessels with net carrying amount of approximately RMB23,000,000) were disposed.

During the period, the Group adjusted the estimated useful life of vessels from the range of 17 to 25 years to 25 years. Residual values of vessels were adjusted from USD180 (approximately RMB1,350) per light displacement ton to USD470 (approximately RMB2,960) per light displacement ton. As a result of these changes in accounting estimates, the depreciation decreased by approximately RMB300,897,000 for the period and will also decrease by approximately RMB601,794,000 for year ended 31 December 2012.

During the period, investment properties with carrying amount of approximately RMB233,214,000 (six months ended 30 June 2011: approximately RMB189,610,000) were leased.

The investment properties comprise of commercial buildings located at 670 Dong Da Ming Road, Shanghai, the PRC, held under medium term lease.

Investment properties are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided to write off the cost of investment properties over their estimated useful lives using the straight line method.

11. TRADE AND BILLS RECEIVABLES

The carrying amounts of trade and bills receivables approximate their fair values.

An aged analysis of the trade and bills receivables is as follows:

	30 June 2012		31 December 2011	
	<i>(Unaudited)</i>		<i>(Audited)</i>	
	Balance	Percentage	Balance	Percentage
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
1 - 3 months	1,315,876	88	1,110,985	98
4 - 6 months	187,054	12	12,604	1
7 - 9 months	3,178	—	4,047	1
10 - 12 months	3,187	—	309	—
1 - 2 years	<u>3,119</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u><u>1,512,414</u></u>	<u><u>100</u></u>	<u><u>1,127,945</u></u>	<u><u>100</u></u>

The Group normally allows an average credit period of 30 days to its major customers. In view of the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

12. TRADE AND BILLS PAYABLES

The carrying amounts of trade and bills payables approximate their fair values.

Ageing analysis of trade and bills payables is as follows:

	30 June 2012		31 December 2011	
	<i>(Unaudited)</i>		<i>(Audited)</i>	
	Balance	Percentage	Balance	Percentage
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
1 - 3 months	921,223	81	611,989	57
4 - 6 months	139,498	12	363,898	34
7 - 9 months	17,922	2	61,871	6
10 - 12 months	39,112	3	25,986	2
1 - 2 years	15,402	2	8,049	1
Over 2 years	<u>2,158</u>	<u>—</u>	<u>1,368</u>	<u>—</u>
	<u><u>1,135,315</u></u>	<u><u>100</u></u>	<u><u>1,073,161</u></u>	<u><u>100</u></u>

The trade payables are non-interest-bearing and are normally settled in 1-3 months.

13. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2012	31 December 2011
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Carried at fair value		
Cash flow hedges:		
- Interest rate swap agreements	<u>14,819</u>	<u>15,645</u>

As at 30 June 2012, the Group held two interest rate swap agreements, the total notional principal amount of the two interest rate swap agreements was USD114,093,333 (approximately RMB721,611,000). The interest rate swap agreements, with maturity in January and September 2016 are designated as cash flow hedges in respect of the bank borrowings with floating interest rates.

During the current period, the floating interest rates of the bank loans were LIBOR + 0.42% or 0.45% (31 December 2011: LIBOR + 0.42% or 0.45%). The gains and losses for the interest rate swap agreements during the period are as follows:

	For the six months ended 30 June 2012	2011
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Total fair value gain/(loss) included in the hedging reserve	880	(2,179)
Hedge loan interest included in finance costs	<u>(3,940)</u>	<u>(5,498)</u>
Total losses on cash flow hedges of interest rate swap agreements for the current period	<u>(3,060)</u>	<u>(7,677)</u>

II. MANAGEMENT DISCUSSION AND ANALYSIS

1. Analysis of International and Domestic Shipping Markets 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 and iron ore), both domestically along the coastal regions of the PRC, and internationally. Currently, the Group is also developing Liquefied Natural Gas (“LNG”) transportation business.

In the first half of 2012, the growth of the global economy slowed down, the global shipping market continued its downturn since 2011, and every market segments experienced a sustained turndown. However, with the continuous increase of the operating costs, the global shipping industry is in an uncommon situation with operational difficulties.

International bulk shipment had been affected by the serious imbalance between the supply and demand of shipping capacity, and therefore the international dry bulk shipping market experienced a sustained turndown. In the first half of 2012, the Baltic Dry Bulk Freight Rate Index (the “BDI”) averaged at 943 points, representing a drop of 31.3% as compared with the same period last year.

As for domestic coastal bulk shipment, it has been adversely affected by several factors such as sluggish demand for coal, increase of hydropower, increase of imported coal, relative high level of coal inventory and high rates of growth in new shipping capacity, hence the domestic coastal bulk shipment market experienced a sustained downturn in the first half of 2012. The Coastal Bulk Freight Index (“CBFI”) averaged at 1,133 points, representing a drop of 21.5% as compared with the same period last year, and the spot rates of the two important coal shipment routes, namely the one from North China to South China and the other one from North China to East China, both decreased over 30% as compared with the same period last year.

As for international oil shipment, affected by factors such as the slowdown of the Chinese economy, the European debt crisis and geopolitics, the global demand for crude oil slowed down and the international oil prices continued to fluctuate at high levels. On the other hand, the international oil shipment market experienced a sustained downturn as a result of increasing excess of international tanker capacity. The Baltic Dirty Tanker Index (“BDTI”) averaged at 775 points, down 4.3% compared with the same period last year. TheWorld

Scale Index (“WS”) for the shipping route from the Middle East to Japan, being one of the freight rate indicators for VLCC, daily average was at 55 points for the first half of 2012, sustaining the similar level as compared with the same period last year.

For domestic coastal oil shipment, the onshore crude oil shipping volume, offshore oil shipping volume and the demand of imported crude oil trans-shipment decreased, and the competition of China coastal refined oil shipment intensified.

2. Discussion and Analysis of Operations of the Group during the Reporting Period

In the first half of 2012, faced with a severe downturn of the market environment, the Group actively developed market sales and enhanced safety management, made great efforts to further decrease operating costs, improve operating efficiency and adjust the fleet composition. As a result, the Group’s operating system worked normally and smoothly, maintaining an overall sound and steady development.

In the first half of 2012, the shipping volume achieved by the Group was 186.2 billion tonne-nautical miles, representing an increase of approximately 12.9% as compared with the same period last year, and the total turnover derived from shipment (after business tax and surplus, the same below) was approximately RMB5,615 million, representing a decrease of approximately 8.6% as compared with the same period last year. Cost of operations was approximately RMB5,851 million, representing an increase of approximately 11.2% as compared with the same period last year. Loss attributable to owners of the Company was approximately RMB495 million, representing a decrease of approximately 172.4% as compared with the same period last year, and basic loss per share was approximately RMB0.1455.

An analysis of the principal operations in terms of products transported is as follows:

Sub-business or sub-product	Operating Turnover (RMB'000)	Costs (RMB'000)	Gross profit margin (%)	Increase/decrease in turnover as compared with the same period in 2011 (%)	Increase/decrease in operating costs as compared with the same period in 2011 (%)	Increase/decrease in operating profit as compared with the same period in 2011 (%)
Oil transportation	2,832,421	2,964,348	-4.7%	-14.0%	1.9%	-16.3%
Coal transportation	1,381,043	1,510,146	-9.3%	-25.9%	2.6%	-30.3%
Iron ore transportation	1,056,551	950,131	10.1%	59.4%	63.0%	-1.9%
Other dry bulk cargoes transportation	<u>344,955</u>	<u>426,416</u>	-23.6%	7.6%	44.5%	-31.6%
Total	<u>5,614,970</u>	<u>5,851,041</u>	-4.2%	-8.6%	11.2%	-18.6%

An analysis of the principal operations in terms of geographical regions is as follows:

Regions	Increase/decrease in turnover as compared with the same period in 2011	
	Turnover (RMB'000)	2011 (%)
Domestic transportation	2,409,410	-39.4%
International transportation	<u>3,205,560</u>	<u>48.0%</u>

(1) *Shipping business - Oil shipments*

In the first half of 2012, the international oil shipping market continued to experience a downturn and competition in the domestic oil shipping market became more intense. Under these circumstances, the Group:

- A. persisted to implement the “major clients and great co-operation” strategy, consistently implemented the co-operation strategy with major clients such as PetroChina, CNOOC and Sinopec. In the first half of 2012, the shipping volume and the revenue from cargo shipment of the three oil companies amounted approximately 70% of the oil shipping volume and revenue from oil shipment of the Group;
- B. enhanced the marketing exploration striving to consolidate its existing market. In the first half of 2012, the market share taken by the Group in domestic crude oil market and offshore crude oil market decreased slightly, while the operating efficiency in international oil shipping market was better than our expectation in early 2012.

In the first half of 2012, the Group achieved a shipping volume of approximately 99.52 billion tonne-nautical miles of oil shipment, representing an increase of approximately 7.8% as compared with the same period in 2011, and turnover achieved was approximately RMB2,832 million, representing a decrease of approximately 14.0% as compared with the same period in 2011. An analysis of the transportation volume and turnover in terms of cargo specie is as follows:

Transportation volume by specie

	In the first half of 2012 <i>(billion tonne nautical miles)</i>	In the first half of 2011 <i>(billion tonne nautical miles)</i>	Increase/ decrease <i>(%)</i>
Domestic	8.35	15.59	-46.4%
Crude oil transportation	6.54	11.29	-42.1%
Refined oil transportation	1.81	4.30	-57.9%
International	91.17	76.75	18.8%
Crude oil transportation	78.77	64.77	21.6%
Refined oil transportation	<u>12.40</u>	<u>11.98</u>	3.5%
Total	<u>99.52</u>	<u>92.34</u>	7.8%

Turnover by cargo specie

	In the first half of 2012 (RMB million)	In the first half of 2011 (RMB million)	Increase/ decrease (%)
Domestic	1,030	1,987	-48.2 %
Crude oil transportation	800	1,618	-50.6%
Refined oil transportation	230	369	-37.7%
International	1,802	1,307	37.9 %
Crude oil transportation	1,262	834	51.3%
Refined oil transportation	<u>540</u>	<u>473</u>	14.2%
Total	<u>2,832</u>	<u>3,294</u>	-14.0 %

(2) *Shipping business - Dry bulk shipments*

A. *Coal shipment*

The Group insisted to focus on thermal coal contracts of affreightment (“COA contracts”) and actively expanded its customer base. The Group has signed domestic thermal coal contract of 43.65 million tons and international coal contract of 7.54 million tons for 2012. The COA rates was obviously higher than the spot market rates, though the total COA contract volume and benchmark rates both decreased as compare with those in 2011. In the first half of 2012, the market share of the Group (including its associated companies) in domestic coal shipping market reached 27.4%, representing an increase of 1.4% as compared with the same period last year.

B. *Iron ore shipping business*

Along with the very large iron ore carriers (“VLOCs”) being delivered successively, the Group currently owns a large ore shipment fleet with 8 VLOCs of 230,000 deadweight tons and 4 VLOCs of 300,000 deadweight tons. In the first half of 2012, the Group achieved a remarkable improvement in both the shipping scale and operating results of import iron ore. In the first half of 2012, 12 VLOCs achieved a turnover of approximately RMB638 million, with an operating gross margin of 30.1%, and became a growth highlight of the Group’s dry bulk operating activities.

In the first half of 2012, the Group achieved a shipping volume of approximately 86.72 billion tonne-nautical miles of dry bulk cargoes, representing an increase of approximately 19.3% as compared with the same period in 2011, and a turnover of approximately RMB2,782 million was achieved, representing a decrease of approximately 2.3% as compared with the same period in 2011. An analysis of the transportation volume and turnover in terms of cargo specie is as follows:

Transportation volume by specie

	In the first half of 2012 <i>(billion tonne nautical miles)</i>	In the first half of 2011 <i>(billion tonne nautical miles)</i>	Increase/ decrease <i>(%)</i>
Domestic	29.42	30.59	-3.8%
Coal transportation	23.89	24.70	-3.3%
Iron ore transportation	3.17	3.69	-14.1%
Other dry bulk cargoes transportation	2.36	2.20	7.3%
International	57.30	42.10	36.1%
Coal transportation	8.47	4.86	74.3%
Iron ore transportation	31.26	23.82	31.2%
Other dry bulk cargoes transportation <i>(Note)</i>	<u>17.57</u>	<u>13.42</u>	30.9%
Total	<u>86.72</u>	<u>72.69</u>	19.3%

Turnover by cargo specie

	In the first half of 2012 (RMB million)	In the first half of 2011 (RMB million)	Increase/ decrease (%)
Domestic	1,379	1,989	-30.7%
Coal transportation	1,095	1,704	-35.7%
Iron ore transportation	140	164	-14.6%
Other dry bulk cargoes transportation <i>(Note)</i>	144	121	19.0%
International	1,403	858	63.5%
Coal transportation	286	160	78.8%
Iron ore transportation	917	498	84.1%
Other dry bulk cargoes transportation	<u>200</u>	<u>200</u>	0.0%
Total	<u>2,782</u>	<u>2,847</u>	-2.3%

Note: Other dry bulk cargoes include metal ore, non-metallic ore, steel, cement, timber, grain, insecticide, fertilizer and so on except for coal and iron ore.

(3) Cost analysis

In the first half of this year, the Group steadily promoted comprehensive budget management. By adhering to the development approach of “Green, Low Carbon”, the Group thoroughly implemented energy conservation and discharge reduction, and increased incomes and decreased expenditures through different ways:

- A. established a fuel management team, strengthened the centralized procurement of fuel and timely purchased fuel oil at locking prices;
- B. vigorously implemented the policy of economic speed, appropriate arrangement for repairing vessels and fuel supply;
- C. controlled the salaries and costs of crew members, and adjusted the teams of crew and their allowances;
- D. disposed the old vessels and single hull tankers ahead of time for their expiry so as to decrease the operating losses therefrom; and
- E. strictly implemented comprehensive budget management requirements so as to effectively control port cost, finance cost and administration cost.

In the first half of 2012, the total operating costs incurred by the Group was RMB5,851 million, representing an increase of 11.2% as compared with the same period in 2011. The composition of the main operating costs are analysed as follows:

Item	In the first half of 2012 (RMB million)	In the first half of 2011 (RMB million)	Increase/ Decrease (%)	Composition Ratio in 2012 (%)
Fuel cost	2,812	2,376	18.4%	48.0%
Port cost	574	489	17.4%	9.8%
Labor cost	758	645	17.5%	12.9%
Lubricants expenses	132	132	0.0%	2.2%
Depreciation	695	838	-17.1%	11.9%
Insurance expenses	126	118	6.8%	2.2%
Repair expenses	261	266	-1.9%	4.5%
Charter cost	327	264	23.9%	5.6%
Others	<u>166</u>	<u>132</u>	26.0%	2.9%
Total	<u>5,851</u>	<u>5,260</u>	11.2%	100.0%

The fuel cost incurred by the Group in the first half of 2012 was approximately RMB2,812 million, representing an increase of 18.4% as compared with the same period in 2011, accounting for 48.0% of the total operating cost. Such change was due to the significant increase of international oil prices as compared with the first half of 2011. The average price of Singapore 380CST fuel in the first half of 2012 increased by 10.6% as compared with the same period in 2011. The Group further enhanced its fuel saving, and in light of the total shipping turnover volume increased by 12.9% compared with the same period in 2011, the total fuel consumption of the Group amounted to 589,800 tons, representing an increase of 4.1% as compared with the same period in 2011. The fuel consumption per thousand nautical miles was 3.17 kg, representing a decrease of 7.8% as compared with that of the same period in 2011.

The Group's depreciation expenses incurred in the first half year of 2012 amounted to approximately RMB695 million, representing a decrease of 17.1% as compared with that of the same period in 2011, accounting for 11.9% of the total operating costs. The Group has adopted the revised estimated useful life of vessels and the residual values of vessels effective from 1 January 2012, which resulted in a decrease of approximately RMB301 million of depreciation of the Group in the first half of this year.

The charter cost incurred by the Group in the first half of 2012 was approximately RMB327 million, representing an increase of 23.9% as compared with the same period in 2011, accounting for 5.6% of the total operating cost. As at 30 June 2012, the Group chartered in 10 vessels with a total capacity of 1,040,000 deadweight tonnes, including 4 tankers with a capacity of 750,000 deadweight tonnes and 6 bulk vessels with a capacity of 290,000 deadweight tonnes.

(4) *Interests in the jointly-controlled entities' results*

In the first half of 2012, relying on the solid cargo resources of the counter investors, the jointly-controlled entities' operating results were relatively stable. The Group has recognised its profits in its jointly-controlled entities of approximately RMB152 million, representing a decrease of 7.4% as compared with the same period in 2011. The main reason for such change was due to the sustained downturn of the domestic dry bulk shipping market in the first half of 2012. The jointly-controlled entities of the Group are mainly engaged in domestic coal transportation, and thus their operating results were adversely affected to a certain degree. In the first half of 2012, the 5 jointly-controlled shipping companies achieved a shipping volume of 61 billion tonne-nautical miles, representing an increase of 31.3% as compared with the same period in 2011. The turnover achieved by the 5 jointly-controlled shipping companies in the first half of 2012 was approximately RMB3,179 million, with a net profit of approximately RMB281 million, representing a decrease of 14.2% and 9.1% respectively as compared with the same period in 2011.

As at 30 June 2012, the 5 jointly-controlled shipping companies owned 50 bulk vessels with a total capacity of 2,560,000 deadweight tonnes and 51 vessels under construction with the capacity of 2,320,000 deadweight tonnes.

The operating results achieved by the 5 jointly-controlled shipping companies in the first half of 2012 are as follows:

Company name	Interest held by the Company	Shipping volume (billion tone nautical miles)	Operating revenue (RMB'000)	Net profit/(loss) (RMB'000)
Shenhua Zhonghai Marine Co., Limited	49%	39.7	2,150,768	280,898
Shanghai Times Shipping Co., Limited	50%	15.97	707,180	547
Guangzhou Development Shipping Co., Limited	50%	3.76	186,468	4,780
Shanghai Friendship Marine Co., Limited	50%	0.68	57,292	-12,510
Huahai Petrol Transportation & Trading Co., Limited	50%	0.89	77,553	6,922

In the first half of 2012, the net profit achieved by China Shipping Finance Co., Limited, a non-shipping jointly-controlled entity, with 25% interest held by the Company, was RMB76,630,000.

3. Financial analysis

(1) Net cash outflow/inflow

The net cash outflow/inflow from operating activities of the Group is RMB221,855,000 and RMB1,148,240,000 for the six months ended 30 June 2012 and 2011 respectively.

(2) Capital commitments

The Group had the following capital commitments at 30 June 2012 of which RMB5,664,987,000 (31 December 2011: RMB6,514,365,000) will be due within one year.

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Authorised and contracted for:		
Construction and purchases of vessels (<i>Note 1</i>)	9,302,727	11,299,626
Equity investments (<i>Note 2</i>)	<u>1,045,796</u>	<u>1,486,735</u>
Total	<u>10,348,523</u>	<u>12,786,361</u>

In addition to the above, the Group's share of the capital commitments of its associate which are contracted for but not provided amounted to RMB1,453,868,000 (31 December 2011: RMB1,589,308,000). The Group's share of the capital commitments of its jointly-controlled entity, which are contracted for but not provided amounted to RMB3,437,626,000 (31 December 2011: RMB2,176,696,000); which are authorised but not contracted for amounted to RMB1,204,779,000 (31 December 2011: RMB2,100,538,000).

Note:

- (1) According to the construction and purchase agreements entered into by the Group from 2007 to June 2012, these capital commitments will fall due as from 2012 to 2013 respectively.
- (2) Included capital commitments in respect of equity investments is the commitment to invest in a jointly-controlled entity, Shenhua Zhonghai, of RMB1,029,668,000 (31 December 2011: RMB1,470,668,000).

(3) Capital structure

As at 30 June 2012, the equity attributable to the owners of the Company and net debts (as total debt (which includes interest-bearing bank borrowings, notes, other loan and convertible bonds) less cash and cash equivalents) amounted to approximately RMB22,868,825,000 and approximately RMB25,845,902,000 respectively and the debt-to-equity ratio was 113% (31 December 2011: 89%).

(4) Notes, interest-bearing bank and other borrowings

(a) The Group's notes, interest-bearing bank and other borrowings are analysed as follows:

	Annual effective Interest (%)	Maturity	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Current liabilities				
(i) Bank loans				
Secured	5% to 10% discount to the People's Bank of China ("PBC") Benchmark interest rate, Libor + 0.35% to 3.00%	2013	1,081,851	922,423
Unsecured	Libor + 0.35% to 4.00%	2013	<u>992,985</u>	<u>686,993</u>
			<u>2,074,836</u>	<u>1,609,416</u>
(ii) Notes				
Unsecured	4.18%	2012	<u>1,999,108</u>	<u>1,998,038</u>

	Annual effective Interest (%)	Maturity	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
(iii) Other borrowings				
Secured	5% discount to the PBC Benchmark interest rate	2013	500	—
Unsecured	10% discount to the PBC Benchmark interest rate, 3.50% to 5.85%	2013	<u>2,505,230</u>	<u>966,000</u>
			<u>2,505,730</u>	<u>966,000</u>
Notes, interest-bearing bank and other borrowings — current portion			<u>6,579,674</u>	<u>4,573,454</u>
Non-current liabilities				
(i) Bank loans				
Secured	5% to 10% discount to the PBC Benchmark interest rate, Libor + 0.38% to 1.60%	2014-2023	8,199,183	7,185,601
Unsecured	Libor + 1.35% to 1.70%, 6.80% to 7.05%	2014-2024	<u>1,105,626</u>	<u>1,231,826</u>
			<u>9,304,809</u>	<u>8,417,427</u>
(ii) Notes				
Unsecured	3.90%	2014	<u>2,996,360</u>	<u>2,995,537</u>

			30 June 2012	31 December 2011
	Annual effective Interest	Maturity	(Unaudited)	(Audited)
	<i>(%)</i>		<i>RMB'000</i>	<i>RMB'000</i>
(iii) Other borrowings				
Secured	5% discount to the PBC Benchmark interest rate	2014-2023	53,100	—
Unsecured	10% discount to the PBC Benchmark interest rate, 4.72% to 6.51%	2014-2018	<u>5,968,811</u>	<u>5,341,551</u>
			<u>6,021,911</u>	<u>5,341,551</u>
Notes, interest-bearing bank and other borrowings — non-current portion			<u>18,323,080</u>	<u>16,754,515</u>

- (b) As at 30 June 2012, the Group's notes, interest-bearing bank and other borrowings were repayable as follows:

	30 June 2012 <i>(Unaudited)</i> <i>RMB'000</i>	31 December 2011 <i>(Audited)</i> <i>RMB'000</i>
Analysed into:		
(i) Bank loans:		
Within one year or on demand	2,074,836	1,609,416
In the second year	1,075,327	1,389,529
In the third to fifth year (both years inclusive)	3,391,644	3,028,983
Over five years	<u>4,837,838</u>	<u>3,998,915</u>
	<u>11,379,645</u>	<u>10,026,843</u>
(ii) Notes:		
Within one year or on demand	1,999,108	1,998,038
In the second year	—	—
In the third to fifth year (both years inclusive)	<u>2,996,360</u>	<u>2,995,537</u>
	<u>4,995,468</u>	<u>4,993,575</u>
(iii) Other borrowings:		
Within one year or on demand	2,505,730	966,000
In the second year	274,540	1,500,000
In the third to fifth year (both years inclusive)	2,705,771	841,551
Over five years	<u>3,041,600</u>	<u>3,000,000</u>
	<u>8,527,641</u>	<u>6,307,551</u>
	<u>24,902,754</u>	<u>21,327,969</u>

The Group's bank loans are secured by pledges or mortgages of the Group's 3 vessels under construction (31 December 2011: 9 vessels under construction) and 30 vessels (31 December 2011: 22 vessels) with total net carrying amount of RMB15,131,592,000 (31 December 2011: RMB13,044,293,000) at 30 June 2012.

The carrying amounts of the Group's notes, interest-bearing bank and other borrowings approximate their fair values.

Except for secured bank loans of RMB8,702,587,000 (31 December 2011: RMB7,788,252,000), unsecured bank loans of RMB1,957,508,000 (31 December 2011: RMB1,861,916,000) and unsecured other borrowings of RMB632,490,000 (31 December 2011: RMB Nil) which are denominated in USD, all other borrowings are denominated in RMB.

(5) Risk on foreign currency

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD and Hong Kong Dollar ("HKD") against RMB. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities.

As at 30 June 2012, the Group's foreign exchange liabilities mainly comprised secured bank loans equivalent to approximately RMB8,702,587,000 (31 December 2011: RMB7,788,252,000), unsecured bank loans equivalent to approximately RMB1,957,508,000 (31 December 2011: RMB1,861,916,000) and unsecured other borrowings equivalent to approximately RMB632,490,000 (31 December 2011: RMB Nil). In addition, the Company would pay dividend for H shares in HKD.

The Group does not have significant exposure to foreign exchange risk.

Given the increasing significance of the Group's international shipping business, changes in exchange rates will have certain impact 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. Firstly, the Group will strive to break even USD for its operations. Secondly, the Group will conscientiously analyze 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.

(6) Contingent liabilities

- (i) In August 2011, one of the Group's cargo vessels "Bihuashan" collided with "Li Peng 1", which sunk "Li Peng 1" afterwards. The Group is in the progress of setting up a Limitation of Liability for Maritime Claims Fund amounting to RMB22,250,000. Since the Group had been insured, all compensations will be borne by the insurance company. As at 30 June 2012, the Group is still in the process of settling all the issues concerned.
- (ii) In January 2012, fuel leakage occurred in one of the Group's tanker "Daiqing 75" during its voyage in Bohai Sea of the PRC. On 30 June 2012, claims on damage caused by the fuel leakage amounted to RMB21,810,000. Since the Company had been insured with PICC Property and Casualty Company Limited and West of England Insurance Services (Luxembourg) S.A., all compensations will be borne by the insurance companies. As at 30 June 2012, the Group was still in the process of settling all the issues concerned.
- (iii) East China LNG Shipping Investment Co. Ltd., a non wholly-owned subsidiary of the Company, holds 30% equity interests in each of Aquarius LNG Shipping Limited ("Aquarius LNG") and Gemini LNG Shipping Limited ("Gemini LNG"), and North China LNG Shipping Investment Co. Ltd., a non wholly-owned subsidiary of the Company, holds 30% equity interests in each of Capricorn LNG Shipping Limited ("Capricorn LNG") and Aries LNG Shipping Limited ("Aries LNG"). Each of these four companies entered into Ship Building Contracts for the construction of one LNG vessel each. After the completion of the LNG vessels, these four companies would, in accordance with time charters to be signed, lease the LNG vessels to the following Charterers:

Company name	Charterer
Aquarius LNG	Papua New Guinea Liquefied Natural Gas Global Company LDC
Gemini LNG	Papua New Guinea Liquefied Natural Gas Global Company LDC
Aries LNG	Mobil Australia Resources Company Pty Ltd.
Capricorn LNG	Mobil Australia Resources Company Pty Ltd.

On 15 July 2011, the Company entered into four guaranteed leases (“the lease guarantees”). According to the lease guarantees, the Company irrevocably and unconditionally provided the charterers, successors and transferees of the four companies listed above with guarantee (1) for the four companies to fulfil their respective obligations under the lease term, and (2) to secure 30% of amounts payable to charterers under lease term.

According to the term of lease guarantees and taking into account of the possible increase in the value of the lease commitments and the percentage of shareholdings by the Company in the above four companies, the amount of lease guaranteed by the Company is limited to USD8.2 million (approximately RMB52 million).

The guarantee period is limited to the lease period, which is 20 years.

(7) Events after the Reporting Period

- (i) According to the twelfth Board meeting of the Company held on 20 July 2012, the Board approved a resolution whereby China Shipping Development (Hong Kong) Marine Co., Limited (“CSHK Development”), a wholly owned subsidiary of the Company, shall form a new company to be named China Shipping (Singapore) Petroleum Co. Ltd. (“CSSP”), with China Shipping Container Lines (Hong Kong) Co., Ltd and China Shipping Regional Holdings Sdn Bhd. The registered capital of CSSP is USD5,000,000, CSHK Development will contribute USD250,000 (approximately RMB1,600,000), representing 5% of the registered capital of CSSP.
- (ii) The issuance of corporate bonds with an aggregate nominal value of RMB5 billion for the Company was approved by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2012] No. 924). This issuance will be carried out in phases. In 2012 (the first phase), nominal value of corporate bonds to be issued amounting to RMB2.5 billion, totalling 25,000,000 bonds at nominal value RMB100 each (“A-Share corporate bonds”). The corporate bonds would be allotted to both the public through the Shanghai Stock Exchange trading system and institutional investors.

The A-Share corporate bonds were issued by the Company on 7 August 2012 and have been listed in Shanghai Stock Exchange since 21 August 2012 comprising 2 types of bonds. The 2 types are RMB1 billion with a term of 3 years and interest bearing at 4.2% per annum, having bond code “122171” and RMB1.5 billion with a term of 10 years and interest bearing at 5.00% per annum, having bond code “122172” respectively.

4. Others

(1) Fleet expansion projects

2 new tankers with a total capacity of 120,000 deadweight tonnes and 10 new bulk vessels with a total capacity of 1,830,000 deadweight tonnes have been delivered for use in the first half of 2012. In addition, the Group disposed of 5 old vessels of 220,000 deadweight tonnes. Following the readjustment to the fleet composition, the current fleet composition of the Group was further optimized, the average single vessel capacity kept on rising and the average age decreased year by year.

As at 30 June 2012, the Group owned 195 vessels with a total capacity of 14,980,000 deadweight tonnes. The composition of the Group’s fleet is as follows:

	Number of vessels	Deadweight tonnes (‘000)	Average age (years)
Tankers	73	6,910	8.8
Dry bulk vessels	<u>122</u>	<u>8,070</u>	14.1
Total	<u>195</u>	<u>14,980</u>	11.5

As at 30 June 2012, the fleet controlled by the Group comprised 255 vessels with a total capacity of 18,589,000 deadweight tonnes (including the ones chartered in by the Group and those operated by the jointly-controlled entities).

5. Outlook and highlights for the second half of 2012

In the second half of 2012, the growth of global economy will face a more complicated environment, as the European debt crisis is not expected to be solved promptly, and the international oil price is likely to rebound as a result of geopolitical situation in the Middle East. Meanwhile, PRC economic growth will slow down, and demand growth for oil and dry bulk shipment will also slow down. However, there are still a large number of orders for all types of vessels in the shipping market, and the relationship between market demand and supply is not expected to materially improve in the short term. As a result, it is estimated that the shipment market will continue to fluctuate at low levels.

As for oil shipment, the imbalance between market demand and capacity supply in the tanker market is expected to continue in the second half of 2012, and the slow down of tanker shipment will not turnaround again in the short term. For dry bulk shipment, since over one-third of the coastal shipment capacity operates both domestic coastal and international bulk shipment, the relationship between coastal market and international market is getting closer. It is expected that the coastal dry bulk market will follow the international bulk shipment market trend of different types of vessels and will maintain the situation of fluctuations at the lower end of the market.

The Directors believe that, during the second half of 2012, the prospects of the domestic and overseas shipping market in the PRC will remain grim and as such, it is expected that the Group will make a loss for the 9 month period ending 30 September 2012.

To cope with the current market situation, the Group will focus on the following works in the second half of 2012:

- (1) Deepening the management and operating system reform, which is mainly shown as follows:
 - A. In the first half of 2012, the Company reorganised its dry bulk business and established China Shipping Bulk Carrier Co. Ltd, and China Shipping Bulk Carrier (Shanghai) Co., Ltd. As a result, an intensive and professional management platform has been set up, and the transfer of related assets, liabilities, personnel, business and management has also been completed. In the second half of 2012, the share transfer of each jointly-controlled entity, associate and investee company will be completed when conditions are met, and great efforts will be made in centralising the operations of the dry bulk vessels so as to build-up the “China Shipping Dry Bulk” brand.

- B. In respect of the level of each of the professional companies, in order to further strengthen the marketing function, the marketing team and its ability will be fully consolidated, the marketing campaign will be strengthened and a marketing team with ability to breakthrough during the adverse condition will be established.
 - C. Human resource system reform, strengthen personnel cultivation and all staff performance evaluation mechanism. The Group will strive to explore “Three Paths”, namely the path to cultivate ship and onshore personnel exchange, international operating management personnel cultivation path and young cadres career development path, in order to further enhance the standard of management of the Company. At the same time, the Group will intensify the performance evaluation mechanism and enhance its incentive system, with a view to train up the innovative sense, opportunity sense and crisis sense of the staff, as well as stimulate the enthusiasm of the staff to work hard.
- (2) Continue to strengthen strategic cooperation with freight customers, consolidate and expand the Company’s transportation market shares for domestic and foreign trade, and reduce operation risks arising from freight rate fluctuations.

In recent years, the Company has actively and consistently implemented strategies of cooperation with major customers, established stable freight sources and achieved expansion in markets, seeking for transformation in its development approach. The Company will create strategic alliance between freight customers and ship owners actively through various means including increasing the formation of joint ventures continuously, entering into long-term COA contracts and increasing the utilization of dedicated berths, in order to maximize economies of scale in shipping capacity and increase the operation efficiency of vessels. For bulk shipments, the Company will continue to strengthen strategic cooperation with major customers such as Shenhua, Huaneng Power, Baosteel, Shougang, China Resources, Shenergy, Shanghai Electric Power and Guangzhou Holdings, and expand the size of shipping capacity within control through joint ventures and other means in order to increase the Group’s capability of control over the coastal electricity and coal transportation markets. For oil shipments, the Company will endeavor to consolidate its presence in coastal markets and strengthen its cooperation with large domestic and foreign petroleum companies to stabilize the basic freight sources, nurture a team of ocean shipping operation talents and enhance the overall efficiencies.

- (3) Further strengthen its cost control system and enhancing cost effectiveness. In the second half of the year, the Group will continue strengthening its control over fuel costs, management and other fees, in order to prevent their rebound. Fuel costs are one of the Group's major costs. The Group will continue to strengthen the management of energy-saving and the use of energy-saving technologies, implement the policy of economic speed and strive to control fuel costs.
- (4) Strengthen the competitiveness of the fleet structure. With the expectation of the shipment market with continue to slow down, the Group will further eliminate the outdated and old vessels, on the basis of the disposal of 5 outdated vessels and old vessels in the first half of the year, we expected that 15 vessels will be eliminated in the second half of the year. The Group will adjust the fleet structure scientifically and reasonably to avoid expanding the fleet structure unreasonably and enhance the core competitiveness in the market.
- (5) Actively progress in the LNG shipment business. Based on the basis of existing projects, The Group will persist to explore LNG shipment projects by capturing the long term co-operation relationship between the Group, PetroChina and Sinopec.
- (6) Expand its financing sources to secure development funds for the Company. According to the Group's shipbuilding plans, the capital expenditure of the Group from 2012 to 2014 is RMB9.39 billion, RMB3.18 billion and RMB0.8 billion respectively. Meanwhile, the associated and joint venture companies of the Group have a strong demand for capital increases. In this connection, the Company will further strengthen co-operation with banks to maintain smooth financing channels. As at the date of this announcement, RMB2.5 billion of the RMB5 billion corporate bonds of the Company has been successfully issued.
- (7) Continue to strengthen safety and security. We will work hard to avoid possibilities of ship collision, carry out anti-piracy, fire prevention and anti-pollution measures, and improve the building and operating of comprehensive security system.

III. OTHER MATTERS

1. Compliance with the Corporate Governance Code

The Board is committed to the principles of corporate governance for a transparent, responsible and value-driven management that is focused on enhancing shareholders' value. In order to reinforce independence, accountability and responsibility, the posts of Chairman of the Board and the CEO are assumed by different individuals so as to maintain independence and balanced judgment and views.

During the Reporting Period, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices set out in the former Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) effective prior to 1 April 2012, and the new Corporate Governance Code set out in the revised Appendix 14 to the Listing Rules, effective since 1 April 2012 throughout the corresponding effective periods. The Company has established four professional committees under the Board, including an audit committee (“**Audit Committee**”), a remuneration and appraisal committee, a strategy committee and a nomination committee with defined terms of reference.

2. Purchase, sale or redemption of the Company's listed securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its listed securities during the Reporting Period.

3. Audit Committee

The Board has established an Audit Committee to review the financial reporting procedures and internal control of the Group and to provide guidance thereto. The Audit Committee comprises all four independent non-executive Directors of the Company.

The Audit Committee has reviewed the interim results of the Company for the Reporting Period.

4. Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding Director’s securities transactions.

Following specific enquiries made with the Directors, supervisors and chief executives of the Company, the Directors have confirmed to the Company that each of them has complied with the Model Code during the six months ended 30 June 2012.

5. Employees

The adjustments of employee remuneration is 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 Company. Under this mechanism, management of employees’ remuneration will be more efficient while employees will be motivated to work hard to bring encouraging results for the Company. Save for the remuneration policy disclosed above, the Company does not maintain any share option scheme for its employees and the employees do not receive any bonus. The Company regularly provides its administrative personnel with training on various subjects, including operation management, foreign languages, computer skills, industry know-how and policies and laws. Such training may be in different forms, such as seminars, site visits and study tours.

As at 30 June 2012, the Company had 6,493 employees. During the Reporting Period, the total staff cost was approximately RMB843.8 million (The same period in 2011: approximately RMB842.8 million).

6. 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, telephone conference, a corporate website, investors’ visits to the Company and answering

the investors' enquires, the Company's management strengthened close communications and relationship with the investors and analysts, thereby enhancing investors' recognition of the Company.

The Company has maintained investor relations section at its website at www.cnshippingdev.com to disseminate information to its investors and its shareholders on a timely basis.

7. Supplementary information to be published on the websites of the Stock Exchange and the Company

All details on the financial and related information of the Company containing all information as required by the Listing Rules to be set out in this announcement is published on the website of the Stock Exchange (www.hkex.com.hk) and the Company (www.cnshippingdev.com).

The financial information set out above does not constitute the Company's statutory financial statements for the six months ended 30 June 2011 and 2012, but is derived from the condensed consolidated financial statements prepared in accordance with the applicable disclosure requirements to the Listing Rules and HKAS 34 "Interim Financial Reporting". The condensed consolidated financial statements for the six months ended 30 June 2012 will be included in the interim report of the Company for the six months ended 30 June 2012 and delivered to the Company's shareholders as well as made available on the Company's and the Stock Exchange's website.

By order of the Board
China Shipping Development Company Limited
Li Shaode
Chairman

Shanghai, the PRC
21 August 2012

As at the date of this announcement, the Board of the Company comprises Mr. Li Shaode, Mr. Xu Lirong, Mr. Zhang Guofa, Mr. Wang Daxiong, Mr. Yan Zhichong and Mr. Qiu Guoxuan as executive directors, Mr. Zhu Yongguang, Mr. Zhang Jun, Mr. Lu Wenbin and Mr. Wang Wusheng as independent non-executive directors.