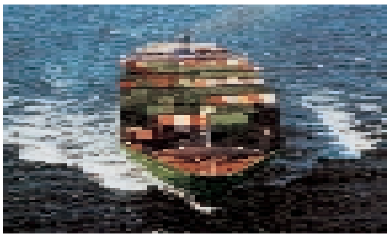
ii. CS Container Lines made an all-out effort to enhance cooperation with a number of liners.CS Container Lines operated the Australia Service jointly with Zim Israel Navigation Co. Ltd. ("ZIM") and Orient Overseas Container Lines Ltd. ("OOCL"). CS Container Lines cooperated with ZIM in Southeast Asia. CS Container Lines increased space swap with ZIM and CMA CGM on the American lines. In addition, CS Container Lines opened up the Southeast Asia/West Africa line jointly with ZIM and CMA CGM. In 2001, the volume of loaded containers carried by CS Container Lines on the cooperated services was 170,000 TEU, and the operating efficiency of shipping space was averaged at 94.8 %..

iii. The growth of the domestic economy promoted the development of the domestic container transportation. In view of such development, CS Container Lines deployed more vessels, especially large vessels, to the domestic shipping services. CS Container Lines opened up the green express services at sea from Hainan Island to the ports in northern China and strengthened the exploration of the reefer cargo resources. In addition, CS Container Lines expanded its domestic trade feeder service network along the Zhujiang Delta, Yangtze River region and Bohai Bay region, so as to improve its shipping efficiency. Following the adoption of these active measures, CS Container Lines has increased its operating profits to Rmb 0.13 billion on the domestic services.

iv. CS Container Lines made active readjustments to its fleet composition in 2001. As the new vessels came into services gradually, CS Container Lines lease out some of the available vessels of smaller capacity, which played an important role in reducing its operating costs and enhancing income.

In 2001, the volume of loaded containers carried by CS Container Lines was 1.737 million TEU, representing an increase of 21%. as compared with 2000. The volume of foreign trade cargo and domestic trade cargo were 1.279 million TEU and 458 thousand TEU respectively, representing increase of 22 %. and 11 %. as compared with 2000 respectively. The revenue derived from container transportation was Rmb7.78 billion, representing an increase of 11%. as compared with 2000. Despite the difficult market situation, CS Container Lines has established itself as one of the top 20 liners in the world and made further improvement in the container transportation business.



4. Achievement in controlling operating costs

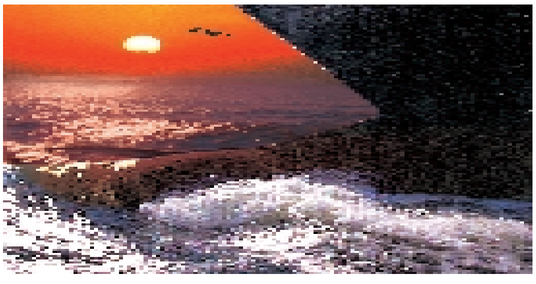
In 2001, the Group emphasised on controlling its operating costs, namely fuel costs, maintenance expenses, port charges and insurance expenses. Firstly, the Group strictly controlled the proportions of light oil, diesel oil and fuel oil used, and revised its fuel saving measures according to the different types of vessels, so as to effectively control the fuel costs. In 2001, the decrease in oil prices provided a favorable opportunity for the Group to control its fuel costs. Secondly, the Group strictly examined every payment in relation to maintenance of vessels, so as to effectively control the maintenance expenses. Thirdly, the Group actively communicated with ports to keep track of the port charges. Fourthly, due to the increase in insurance charges after the terrorist attack in America on 11 September 2001, the Group actively communicated with charterers to share the insurance expenses on war risks with them, so as to reduce the insurance expenses.

As at the end of 2000, the Group owned a fleet composed of 145 vessels of different types. After purchasing 21 vessels and disposing 6 vessels in 2001, the Group owned 160 vessels at the end of 2001. The aggregate operating costs of the Group for 2001 was Rmb2,915 billion, increasing by 13.3 %. as compared with 2000, which includes: an increase of 2%. in fuel costs, an increase of 22%. in maintenance expenses, and an increase of 35%. in port charges, and an increase of 33%. in insurance expenses. However, the revenue derived from the Group's operations increased by 22.1%., representing an increase in its operating efficiency as compared with the increase in its operating costs.

5. Promoting cooperation with large cargo owners

In 2001, the Group promoted its cooperation with large cargo owners. Following the establishment of Shanghai Baojiang Shipping Co. Ltd. ("Shanghai Baojiang"), an entity established with Shanghai Bao Steel Group and other major cargo owners in 2000, Shanghai Times Shipping Co. Ltd. ("Times Shipping"), a joint venture was established by the Group (through its acquisition of 95 %. share of Hainan Haixiang Shipping Co. Ltd.) and Huaneng Group in 2001. Zhuhai New Century Shipping Co. Ltd.("New Century Shipping"), a joint venture established by the Group and Shenhua Group, also started to operate in Zhuhai. In addition, the Group entered into a cooperation contract with Shanghai Electricity Power Co. Ltd. to establish a joint venture in Shanghai, Shanghai Friendship Shipping Co. Ltd. ("Friendship Shipping"). By cooperation with large cargo owners, the Group further improved its market share in the domestic shipping market. The details of the above joint ventures are as follows:

Company name	Major partner	Share held by the Group
Times Shipping	Huaneng Group	47.5%
New Century Shipping	Shenhua Group	50%
Friendship Shipping	Shanghai Electricity Power Co., Ltd	50%
Shanghai Baojiang	Shanghai Bao Steel Group	10%



The PRC Communication Department deregulated the domestic prices for the transportation of dry bulk cargo from 1 May 2001. The Group made great efforts to enter into long term contracts of shipment with cargo owners and strengthened its relationship with them, so as to ensure the shipping volume of cargo and to maintain the operating revenue and benefits. The Group has succeeded in entering into long term agreements with Shanghai Bao Steel Group, Yue Dian Capital operating Company, Zhujiang Electricity Plant, Zhejiang Electricity Plant, under which the shipping volume of cargo accounted for approximately 80%. of the domestic cargo shipped by the Group in the year.

6. Prospects

The shipping market became more complicated and competitive due to the unstable economic condition in the world. The Group faced tremendous challenges from uncertainties of the global economy and shipping market. The Board has made detailed analysis of the factors which might affect the operating results of the Group.

Firstly, Chinese economy made steady progress in 2001, and the growth rate of GDP was kept at 7.3%. In 2001, the PRC government has adopted a series of active fiscal policies to further stimulate the domestic demand and to speed up the opening of the western region of China. Meantime, the PRC government is making preparations for the 2008 Olympic Games. These are expected to ensure steady growth of the national economy in 2002. The majority of the Group's businesses are located in China, and the revenue derived from domestic shipping businesses accounted for over 70%. of the aggregate revenue of the Group. The steady growth of the domestic economy is expected to establish a solid foundation for the further improvement in the operating results of the Group.

Secondly, it is expected that the global economic recession will soon come to an end and the global economy will recover steadily. "Report for the World Economic Situation and Prospect for 2002" issued by the Executive Department of the United Nations forecasts that the world economy is expected to grow at the rate of 1.5%. in 2001, as compared with 1.3 %. in 2000. The economy in America, the leader of the world economy, has shown signs of recovery. China's entry into the WTO is of significance to the increase in import and export. In addition, the PRC government is taking active measures to further accelerate the increase in export. In 2001, export from China increased by 6.8%. as compared with 2000, and is expected to grow at the rate of 5 to 6%. in 2002. The growth rate of import is expected higher than that of export. The Group, being one of the largest shipping groups in China and the Far East, is expected to benefit from the increase in the foreign trade of China.

Thirdly, the People's Bank of China lowered the interest rate for deposit and loan in February 2002. This was the first time for the interest rate for deposit and loan to be lowered since June 1996. This is of significance for China to overcome the adverse affect of the slowing down of the world economy, and to ensure the national economy to continuously develop at steady and healthy pace. The lowering of the interest rate is favorable to the Group. Calculated according to the total liability in Rmb as at the end of 2001, the interest expenses for the loans of the Group will decrease by Rmb 6.5 million per year. As at the end of 2001, the gearing and the equity ratio of the Group were 41%. and 68%. respectively. The above-mentioned lowering of the interest rate is favorable for the Group to increase its financial gearing, so as to raise funds for further development of its businesses.

Fourthly, the Group has accomplished the acquisition of the 20 tankers in June 2001. In addition, the Group purchased 1 tanker of 110,000 tons in 2001. The shipping capacity of the Group increased by 42%. as compared with 2000, establishing a solid foundation for the Group to make further progress in oil transportation.

Fifthly, the Group further promoted its cooperation with large cargo owners. With the implementation of the joint ventures with its major customers, the Group's market share is expected to increase consistently.

Sixthly, the fuel costs of the Group originally accounting for about 30%. of the aggregate operating costs decrease in the world oil prices. It is expected that the average fuel prices will fall in the first half of 2002, and will rise in the second half of this year. The Group is determined to adopt active measures to lock up certain capital for fuel oil in the first half of this year, so as to control the fuel costs for 2002.

Seventhly, the main reasons for the loss in the operating results of CS Container Lines in 2001 were that the growth of the world trade slowed down and more shipping capacity was delivered into service. The excessive shipping capacity of container vessels caused the freight rate in the global container transportation dropped to its lowest level. At present, the large lines in the world started to cut down their excessive shipping capacity, and enhanced cooperation with others. With the recovery of the global economy, the level of freight rate is expected to rise gradually in 2002. CS Container Lines will take every possible measure to improve its operating results for this year.

Finally, the Company has submitted an application to the China Securities Regulatory Commission for the issue of 350 million A shares in the PRC. Once approval is obtained and the issue of A shares is successful, the capital of the Group will be strengthened, which will further promote the potential of the Group.

The Board believes that the Group will improve its business results in 2002 with the joint efforts of its management and staff despite difficulties and challenges on its road to success.

Li Kelin
Chairman of the Board

Shanghai, the People's Republic of China,
25th March 2002