

REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

Principal activities

The Company's principal activities consist of investment holding, the shipment of oil and cargoes along the coast of the People's Republic of China (the "PRC") and international shipment.

The principal activities of the Company's subsidiaries, jointly-controlled entities and associate oil and cargo shipment and international container shipment. There were no significant changes in the nature of the Group's principal activities during the year.

Segment information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

Results and dividends

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 105.

The directors recommend the payment of a final dividend of Rmb0.05 per share in respect of the year to shareholders on the register of members at the close of business on 26 April 2002. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 12 to the financial statements.

Summary financial information

A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. The amounts for each year in the five year summary have been adjusted for the effects of the retrospective changes in accounting policy affecting dividends as detailed in note 2 to the financial statements.

	Year ended 31 December				
	2001	2000	1999	1998	1997
Results	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Turnover	3,894,926	3,190,847	3,110,238	3,257,117	3,252,736
Operating costs	(2,915,404)	(2,572,089)	(2,561,877)	(2,720,624)	(2,954,563)
Gross profit	979,522	618,758	548,361	536,493	298,173
Other revenue and gains	199,740	190,498	208,073	77,282	326,186
Administrative expenses	(164,595)	(162,364)	(203,397)	(154,289)	(146,000)
Other operating expenses	(116,511)	(110,896)	(86,724)	(25,268)	(639)
Profit from operating activities	898,156	535,996	466,313	434,218	477,720
Finance costs	(179,057)	(213,742)	(278,967)	(392,923)	(530,819)
Share of the profit/(loss) of an associate	(280,786)	2,760	(27,537)	(19,788)	(16,488)
Profit/(loss) before tax	438,313	325,014	159,809	21,507	(69,587)
Tax	(113,055)	(43,047)	(33,298)	(12,196)	(3,235)
Profit/(loss) before minority interests	325,258	281,967	126,511	9,311	(72,822)
Minority interests	-	-	362	1,321	(1,765)
Net profit/(loss) attributable to shareholders	325,258	281,967	126,873	10,632	(74,587)
Earnings/(losses) per share	10.93 cents	9.47 cents	4.26 cents	0.38 cents	(3.01 cents)

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	31 December 2001	31 December 2000	31 December 1999	31 December 1998	31 December 1997
Assets and liabilities	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Total assets	9,007,693	8,379,691	9,002,804	9,803,208	9,251,753
Total liabilities and minority interests	3,652,889	3,201,332	4,106,412	5,033,689	5,407,106
Net assets	<u>5,354,804</u>	<u>5,178,359</u>	<u>4,896,392</u>	<u>4,769,519</u>	<u>3,844,647</u>

Notes:

1. The consolidated results of the Group for the four years ended 31 December 2000 are extracted from the Company's 2000 annual report dated 29 March 2001, while those of the year ended 31 December 2001 were prepared based on the consolidated profit and loss account as set out on page 42 of the financial statements.

2. The earnings per share for the year ended 31 December 2001 is calculated based on the net profit attributable to shareholders for the year ended 31 December 2001 of Rmb325,258,000 (2000: Rmb281,967,000) and 2,976,000,000 shares (2000: 2,976,000,000 shares) in issue during the year.

This summary is not part of the audited financial statements.

Fixed assets

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

Capital commitments

Details of the capital commitments of the Company and the Group as at 31 December 2001 are set out in note 38 to the financial statements.

Trust deposits

As at 31 December 2001, the Group did not have any trust deposits with any financial institutions in the PRC, nor any time deposits which could not be collected upon maturity. Nearly all of the Group's deposits have been placed with commercial banks in the PRC and the Group has not encountered any difficulty in the withdrawal of funds.

Pre-emptive rights

According to the articles of association of the Company, the existing shareholders have pre-emptive rights to purchase shares in any new issue of shares of the Company in proportion to their shareholdings.

Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

Distributable reserves

As at 31 December 2001, before the proposed final dividend the Company's reserves available for distribution, as determined based on the lower of the amount determined under PRC accounting standards and the amount determined under generally accepted accounting principles in Hong Kong, amounted to Rmb547,232,000. In addition, according to the Company Law of the PRC, an amount of approximately Rmb1,562,588,000 standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

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Major customers

In the year under review, the five largest customers of the Group accounted for less than 30% (2000: less than 30%) of the Group's total turnover. As far as the directors are aware, none of the directors, their associates, nor any shareholders, which to the best knowledge of the directors owns 5% or more of the Company's shares, had any beneficial interests in the five largest customers of the Group.

Major suppliers

In the year under review, the five largest suppliers of materials and services to the Group accounted for 47% (2000: 49%) of the Group's total purchases. The largest supplier is a subsidiary of China Shipping (Group) Company ("China Shipping", the Company's holding company), and accounted for 24% (2000: 29%) of the Group's total purchases in that year.

Another three subsidiaries of China Shipping constituted three of the remaining four largest suppliers. Except as mentioned above, as at 31 December 2001, none of the directors, their associates nor any shareholders, which to the best knowledge of the directors owned 5% or more of the Company's shares, had any beneficial interests in the five largest suppliers of the Group.

Directors

The directors of the Company during the year were:

Executive directors:

Mr. Li Kelin

Mr. Li Shaode

Mr. Wang Daxiong

Mr. Xu Zuyuan

Mr. Yan Mingyi

Mr. Zhang Denghui

Mr. Yu Zenggang (resigned on 29 March 2001)

Mr. Wang Kangtian

Mr. Xue Qingxiang (appointed on 29 March 2001)