IV. Information of directors, supervisors and senior management

1. During the Reporting Period, none of the above directors, supervisors or senior management holds shares of the Company.

2. Changes in directors, supervisors and senior management of the Company during the Reporting Period

   a. The Company held its third meeting of the 2003 board of directors on 25 March 2003, where the resignation of Mr. Xu Zuyuan as the general manager of the Company, the appointment of Mr. Yan Mingyi as the general manager of the Company and Mr. Wang Kunhe as the deputy general manager of the Company were approved. The resignation of Mr.Ye Yumang and the appointment of Ms. Yao Qiaohong as the company secretary of the Company were approved.

   b. The Company held its 2002 annual general meeting on 28 May 2003, where the fourth session of board of directors and supervisory Committee of the Company was elected. The new board was comprised of Mr. Li Kelin, Mr. Li Shaode, Mr. Xu Zuyuan, Mr. Wang Daxiong, Mr. Yan Mingyi, Mr.Yao Zuozhi, Mr. Hu Honggao, Mr. Xie Rong and Mr. Zhou Zhanqun, amongst whom, Mr. Hu Honggao, Mr. Xie Rong and Mr. Zhou Zhanqun were elected as independent non-executive directors of the Company. Mr. Li Kelin and Mr. Li Shaode were elected as Chairman and Deputy Chairman of the board of directors of the Company at the board meeting held on 11 June 2003, respectively. The fourth session of the supervisory committee of the Company was comprised of Mr. Kou Laiqi, Mr. Wang Xiangyun and Mr. Zhang Yunbiao. Mr. Kou Laiqi was elected as Chairman of the supervisory committee at the committee meeting held on 10 June 2003. The former directors, Mr. Wang Kangtian, Mr. Yan Zhichong, Mr. Xue Qingxiang, Mr. Shen Kangcheng and Mr. Zhangqi and the former Chairman of the supervisory committee, Mr. Dai Jinxiang resigned from their post on 28 May 2003.

V. Management discussion and analysis

1. Scope of the principal businesses of the Group and its operating conditions

   The principal activities of the Group include cargo shipping, which mainly consists of the shipment of oil and dry bulk cargoes (primarily coal) along the coast of the PRC, and international shipment. During the six months ended 30 June 2003, despite the temporary adverse effect of the outburst of the Severely Acute Respiratory Syndrome ("SARS") on the domestic economic growth, the Group took advantage of the favourable opportunity of the steady improvement in PRC domestic economy. By making readjustment to its operating strategies and shipping capacity, and by spending much efforts in controlling its operating costs, the Group made further improvement in its operating profit and fulfilled the target set by the board of directors for the first half year of 2003. The growth of the operating results of the Group continued to be strong.

2. Analysis of the principal operations

A. Prepared under the PRC Accounting Standards

An analysis of the principal operations in terms of products transported (Unit: RMB'000):

Description	Revenue from main operating activities	Cost of main operating activities	Gross profit margin (%)	Increase/(decrease) in revenue from main operating activities as compared with the same period of last year (%)	Increase/(decrease) in cost of main operating activities 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 transportation	1,615,072	1,049,507	32.8	16.8	17.2	-
Coal transportation	593,935	471,500	17.5	3.6	10.6	(21.4)
Others	282,772	232,166	16.8	48.7	34.5	99.6

An analysis of the principal operations in terms of geographical regions (RMB'000):

Regions	Revenue from main operating activities	Increase/(decrease) in revenue form main operating activities as compared with the same period of last year (%)
Domestic transportation	1,580,112	2.8
International transportation	911,667	49.9

B. Prepared under HKGAAP

An analysis of the principal operations in terms of products transported (Unit: RMB'000):

Description	Turnover	Operating costs	Gross profit margin (%)	Increase/(decrease) in turnover 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 transportation	1,579,787	1,072,400	32.1	17.1	18.5	(2.6)
Coal transportation	493,949	385,307	22.0	0.1	2.3	(6.9)
Others	279,758	220,432	21.2	48.3	27.0	165.3

B. Prepared under HKGAAP *(continued)*

An analysis of the principal operations in terms of geographical regions (RMB'000):

Regions	Turnover	Increase/(decrease) in turnover as compared with the same period of 2002(%)
Domestic transportation	1,446,124	1.5
International transportation	907,370	49.6

Oil Transportation

Oil transportation has been one of the Company's core businesses and will be the focus for further development. During the first half of 2003, there has been intensive competition for its oil transportation business in the PRC. The price on shipping of foreign trade oil fluctuated greatly due to the effect of the war in Iraq and SARS. The Group carefully organised its shipping and production capacity based on the market conditions.

For shipping oil products in the PRC, first, the Company expanded its business through obtaining more contracts and improved coordination in transportation activities so as to reduce loss in time as a result of waiting for loading and unloading. Second, the Company made use of increasing opportunities arising from transshipment of import oil and technology enhancement, and modified domestic refined oil tankers to become crude oil tankers. In addition, by fully leveraging on the advantages of cross-shipment within and outside the PRC, various foreign trade vessels are arranged to serve in the PRC during different assignment intervals to enhance oil transportation capacity. Third, the Company communicated with oil refinery plants along the Yangtze River to improve harbour traffic so as to improve costly crude oil river transportation. For the first half of the year, the Group achieved a shipping volume of 18,930,200 tonnes of domestic trade oil during the first half of 2003, representing an increase of 8.8 per cent over the same period of 2002. The Group also achieved shipping revenue of RMB913 million, representing an increase of 2.3 per cent as compared with the same period of 2002.

The Group's revenue from the shipping of foreign trade oil increased steadily due to improved market information analysis and corresponding measures taken by the Group. During the first half of 2003, the trade volume of crude and refined oil in the Far East increased, and the Group promptly adjusted its shipping capacity and actively explored the market of import and export oil shipping and third country shipping. At the same time, the Group has properly scheduled its vessels to minimise war risks. These efforts achieved better return for the Group. During the first half of 2003, the Group achieved a total shipping volume of foreign trade oil of 8,978,000 tonnes, representing an increase of 40.8 per cent over the same period of 2002. The Group's shipping revenue derived from foreign trade oil was RMB667 million, representing an increase of 45.7 per cent as compared with the same period of 2002.

Dry Bulk Cargo Transportation

The dry bulk cargoes shipped by the Group mainly consists of coal, as well as ores, fertilisers, grain and other large volume bulk cargoes. Since the beginning of 2003, the PRC economy continued to grow healthily and rapidly, and the coastal bulk cargo shipping market has been in comparatively high demand. The foreign trade transportation market has been growing steadily. The Group took the opportunity and adjusted its operating strategies in order to explore the dry bulk cargo transportation market.

In respect of market strategies, the Group continued to adhere to its policy of "focusing on coastal transportation and expanding ocean transportation", and firmly focused on its core business, power coal transportation, as well as the three other major business areas, namely, ocean transportation, ore transportation and large-volume bulk cargo transportation. With a view to develop long term cooperation and stabilise its market share, the Group worked actively to enter into contracts of affreightment ("COAs") with major customers. During 2003, the total volume of COAs accounted for 87.8 per cent of the total annual shipping volume. In order to expand its market share, the Group made great efforts in securing mid-term or long-term cooperation contracts with major cargo owners.

During the first half of 2003, the international trade of dry bulk cargo was comparatively active, and the international dry bulk cargo transportation market continued to grow, as demonstrated by the BDI index which climbed steadily from 1,700 points at the beginning of the year to 2,100 points by the end of June. Based on the changes in the domestic and foreign trade markets and the periodic fluctuation of the domestic trade market, the operating department arranged the composition of the shipping capacity in a scientific manner, with a view to achieve the highest efficiency of the shipping capacity. During the Reporting Period, the Group achieved a revenue of RMB241 million from the shipping of foreign trade dry bulk cargoes, representing an increase of 61.5 per cent as compared with the same period of 2002.

During the Reporting Period, the Group achieved a total volume of dry bulk cargo shipping of 26.28 billion tonne nautical miles, representing an increase of 17.5 per cent as compared with the same period of 2002. The Group achieved total revenue of RMB774 million, representing an increase of 13.5 per cent as compared with the same period of 2002.

3. Analysis of changes in profit composition and profitability of operating activities (Prepared under the PRC Accounting Standards)

Item	January to June 2003 RMB'000	Percentage against revenue from main operating activities (%)	January to June 2002 RMB'000	Percentage against revenue from main operating activities (%)
Revenue from main operating activities	2,491,779	100.0	2,145,988	100.0
Cost of main operating activities	1,753,173	70.4	1,494,341	69.6
Overheads	170,609	6.9	184,305	8.6
Total profit	539,126	21.6	306,987	14.3

During the first quarter of 2003, the price index of international fuel oil continued to rise due to the impact of the war in Iraq. Although the price index dropped during the second quarter, the price of fuel consumption during the first half of 2003 was still higher by 37 per cent as compared with that of the same period of 2002. The rise of oil prices resulted in the increase of costs by RMB150 million, which was a heavy cost burden for the Group. As part of the countermeasures against the significant increase in fuel prices, the Group strengthened its evaluation of the vessels in respect of their fuel-saving performance. On the other hand, more efforts were put into the renovation and application of energy-saving technologies to its vessels. The Group also carefully restricted the amount of fuel oil used, and would choose ports with lower fuel prices for filling (as appropriate) based on the routes of the vessels. In the mean time, the Group successfully controlled the maintenance costs at a reasonable level through restructuring of the fleet and successive replacement of old vessels. As a result of its continuing efforts in increasing revenue while controlling costs, the Group successfully kept the percentage of the operating costs against the operating revenue during the first half of 2003 at basically the same level as compared with the same period of 2002.

During the Reporting Period, the percentage of overheads against the operating revenue decreased, which is mainly attributable to the reduction of interest payment as a result of early repayment of debt by the Company.

During the Reporting Period, both the revenue and profit from main operating activities of the Group witnessed substantial increase over the same period of 2002, as a result of the joint efforts by all the employees. In addition, the transfer of its shares in China Shipping Container Lines Company Limited in September 2002 reduced the Group's losses accordingly. Therefore, the Group's total profit grew significantly as compared with the same period of 2002, and the percentage of the total profit against the operating revenue was also correspondingly higher.

As at 30 June 2003, the debt equity ratio of the Group was 27 per cent, lower by 4.7 percentage points than that at 1 January 2003.

4. Financial analysis (Prepared under the HKGAAP)

a. Net cash inflow

During the Reporting Period, the net cash inflow from operating activities of the Group was RMB757,157,000 (six months ended 30 June 2002: RMB804,185,000).

b. Commitments on capital expenditures

As at 30 June 2003, the commitments on capital expenditures for the Group amounted to RMB2,723,902,000 (31 December 2002: RMB2,076,237,000).

c. Capital structure

As at 30 June 2003, the shareholders' equity, bank loans, other interest-bearing borrowings and finance leases payable amounted to RMB6,749,934,000, RMB1,758,277,000 and RMB167,364,000 respectively. The debt-to-equity ratio was 35.6% as at 30 June 2003 (31 December 2002: 36.9%).

d. Borrowings

As at 30 June 2003, the Group's total borrowing (excluding finance leases payable) was RMB1,758,277,000. Borrowings repayable within one year amounted to RMB58,590,000. Among the borrowings, RMB942,840,000 were guaranteed by China Shipping (Group) Company, the controlling shareholder of the Company. Other bank loans amounting RMB800,997,000 were pledged by 33 vessels owned by the Company. As at 30 June 2003, the total net book value of such vessels were RMB2,146,091,000. The remaining bank borrowings amounted to RMB14,440,000, and were secured by ships under construction. Interests of the above loans were calculated at the annual rate of 5.76% or 5.184%.

e. Foreign exchange exposures

As at 30 June 2003, the Group's foreign exchange liabilities mainly comprised of finance lease rental payable in US dollars with equivalent amount of RMB 11,450,000 and in DEM with equivalent amount of RMB 155,910,000. In addition, the Company shall pay dividend of H shares in Hong Kong dollars. The Group's revenue from international shipment is denominated and translated into US dollars. Currently, the currency level of Renminbi remains stable. The Group expected that there is no significant exposure on foreign currency, but it cannot be assured operating results in future will not be materially affected.

5. Business prospects

Following improvement in the macroeconomic environment in the PRC, a number of government policies are expected to be issued, which will gradually remove the temporary adverse effect brought about by SARS. The domestic cargo transportation by sea is expected to continue to sustain a fast growth momentum. During the second half of 2003, there is expected to be a high demand for oil, and the coal transportation market is expected to remain stable with possible growth, and sources of cargo for sea transportation is expected to remain sufficient. These should provide a favourable environment for the Group to realise its operating target for the year.

In particular, the steady high-speed growth of the economy of the PRC over the years has significantly stimulated growth in crude oil imports into the country. The Chinese government has officially commenced construction of the first group of oil reserve bases and 90 per cent of the imported oil in the PRC is transported by ocean shipping. However, Chinese shipping enterprises only account for approximately 10 per cent of the shipping volume of imported crude oil. The Chinese government has started to place greater importance on the issue of expanding the share of Chinese shipping enterprises in imported oil transportation and ensuring security in oil transportation. All these would provide broader scope for the further development of Chinese shipping enterprises. Oil transportation has always been a key development focus of the Group. Revenue from oil transportation accounts has accounted for 67.1 per cent of the total shipping revenue of the Group. As at 30 June 2003, the Group is the owner of 79 oil tankers with a total capacity of 2,120,000 tonnes. The Group has entered into and will enter into contracts to construct 9 oil tankers with a total capacity of 1,100,000 tonnes. The Group is closely following the strategic plans of certain countries in respect of oil security systems, and will take full advantage of the major opportunities brought by the renewed rapid development of the Chinese oil shipping industry. In addition, the Group plans to build a world-class fleet of oil tankers in the coming years.

6. Investment

   a. Use of proceeds from issuance

   During the Reporting Period, the Company has not made any issuance or used any proceeds from previous issuance.

   b. Other investment

   During the Reporting Period, a total of RMB480 million has been paid for the construction of vessels based on the construction progress. Amongst these vessels, two 42,000 tonnes tanks were delivered for use during the Reporting Period, and achieved a shipping profit of RMB15,750,000.

   During the Reporting Period, new contracts have been signed for the acquisition and construction of vessels, including four 57,300 tonnes cargo vessel and one 298,000 tonnes oil tanker, with a total investment of RMB1,130 million.

7. Significant change in net profit

   It is expected that the accumulated net profit of the Group for January to September 2003 will increase substantially by over 50 per cent as compared with the same period of 2002. The increase was primarily attributable to the following:

   a. the domestic cargo transportation continued to grow rapidly, whilst the international shipping market also improved. Both of which will be favourable to the overall operation of the Group;

   b. efforts were devoted to increase the revenue and tighten the expenditure for the Group, which have obtained significant achievements;

   c. factors attributable to losses from container transportation were eliminated; and

   d. policies on the depreciation of vessel had undergone readjustment, which became effective on 1 January 2003, so as to conform with international standards. Under the new policies, the depreciation period is longer and the depreciation expenses are reduced correspondingly.

VI. Significant events

1. Corporate governance

   The Company has been actively improving the governance of the Company pursuant to the requirements as set out in the PRC Company Law, the PRC Securities Law and Governance Rules of Listing Companies and other relevant regulations. It established and improved the check and balance governance system comprised of shareholders' meeting, board of directors, supervisory committee and senior management of the Company. The Company also made much efforts to standardise its operation, enhance information disclosure and investors relationship management.

   Three independent directors were elected at the 2002 annual general meeting held on 28 May 2003. As a result, the Board currently has three independent directors, accounting for one-third of the total number of directors of the Company.