

## 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.

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## 2. Implementation of profit distribution plan

The Company held the 2002 AGM on 28 May 2003. The AGM approved the resolution of the Company: the proposed profit distributions plan of the Company for 2002. The dividend was proposed to be distributed at RMB0.10 per share on the basis of the share capital of 3,326,000,000 shares as at 31 December 2002 and the aggregate amount of dividend to be distributed was RMB332.6 million. The above said dividend has been distributed to holders of H shares whose names appeared on the register of members of the Company at the close of business on 24 April 2003, and to holders of domestic corporate shares and A shares of the Company whose names appeared on the register of members of the Company at the close of business on 17 June 2003.

## 3. Material litigation or arbitration

The Company was not involved in any material litigation or arbitration during the Reporting Period.

## 4. Purchase, sale or disposal of major assets

### a. Acquisition of assets (Unit: RMB'000)

Parties and required assets	Date of acquisition	Consideration	Net profit contribution for the Company from purchase date to 30 June 2003	Connected transaction (Yes/No)	Pricing policy
Construction of two 42,000 tonnes oil vessels	6 December 2000	435,197	15,750 (gross profit)	No	Market price

### b. Disposal of assets (continued) (Unit: RMB'000)

Assets sold	Time of disposal	Proceed	Contribution for the Company from 1 January 2003 to disposal date	Gain arising from disposal of assets	Connected transaction (Yes/No)	Pricing policy
M/V Daqing 47	April 2003	6,924	2,017	6,717	Yes	Market price
M/V Daqing 48	April 2003	6,924	862	2,533	Yes	Market price
M/V Daqing 216	January 2003	6,650	1,277	784	No	Market price

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## 5. Major Connected transactions (Prepared under PRC Accounting Standards)

The related parties of the Company are the Group Company and its subsidiaries. Business transactions between the Company and its related parties for the six months ended 30 June 2003:

- (1) A services agreement (the “Services Agreement”) dated 3 April 2001 between the Company and the Group Company became effective subsequent to an approval by the independent shareholders at an extraordinary general meeting held on 22 May 2001. Pursuant to the Services Agreement, the Group Company (or its subsidiaries) will provide to the Company the necessary supporting shipping materials and services for the ongoing operations of the Company, including the provision of repairs services, lubricating oil, fresh water supplies, raw materials, bunker oil, as well as other services. The Services Agreement is effective for a period of 10 years. The service fees under the Services Agreement were determined (after arm’s length negotiations) with reference to, depending on applicability and availability, either State-fixed price, market price or cost.

Further details of the principal amounts paid by the Company to the Group Company and its subsidiaries in respect of the Services Agreement for the six months ended 30 June 2003 are set out as below:

Description	Pricing basis	Total value Rmb’000
Dry-docking and repairs	State-fixed prices or market prices	89,156
Supply of lubricating oil, fresh water supplies, raw materials, bunker oil, mechanical and electrical engineering, ship stores and repairs and maintenance services for life boats	Market prices	362,855
Whitewashing and oily water treatment for vessels	State-fixed prices	4,318
Installation, repairs and maintenance of telecommunication and navigational services	or market prices	5,968
Hiring of sea crew	State-fixed prices	76,797
Accommodation, lodging and transportation for employees	Market prices	3,013
Market prices		
Medical services (for existing employees)	State-fixed prices	1,181
Miscellaneous management services	Market prices or actual costs	20,984
Agency commissions	Market prices	12,055

In connection with the above transactions and for other operating purposes, the Company made prepayments and other payments to subsidiaries of the Group Company from time to time.

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(2) Save for the connected transactions outlined above, details of other connected transactions with

		Unit: RMB'000
Vessel chartering charges paid	(a)	73,808
Vessel chartering income received	(b)	49,786
Sale of vessels	(c)	13,848
Vessel management fees	(d)	5,721

Notes:

- (a) The Group entered into various bare-boat charter-party agreements with three fellow subsidiaries. The amount represents vessel-chartering charges as determined according to the charter-party agreements.
- (b) The Group entered into various bare-boat charter-party agreements with two fellow subsidiaries. The amount represents vessel-chartering income as determined according to the charter-party agreements.
- (c) During the first half of 2003, the Group sold two vessels to a fellow subsidiary.
- (d) Management of cargo vessels

On 27 May 1998, the Company entered into two Cargo Vessels Management Agreements with Dalian Shipping Group Company (“Dalian Shipping”) and Guangzhou Maritime Transport (Group) Company Limited (“Guangzhou Maritime”) for the management of their 15 and 57 cargo vessels (the “Cargo Vessels”), respectively. Each of the Cargo Vessels Management Agreements contains an option exercisable by the Company at any time prior to the expiration thereof to acquire any of the Cargo Vessels, and under which the Company has a right of first refusal in respect of any proposed sale of the Cargo Vessels. In the event that Dalian Shipping or Guangzhou Maritime ceases to own any of the Cargo Vessels, the management fees shall be reduced accordingly by the percentage represented by the tonnage of the disposed vessels to total tonnage of the Cargo Vessels.

On 6 March 2002, the Company entered into two supplementary agreements with Guangzhou Maritime and Dalian Shipping, respectively. According to these agreements, Guangzhou Maritime should pay to the Company RMB4,680,000 for the management of its cargo vessels during the six months ended 30 June 2003, while Dalian Shipping should pay RMB1,041,000 for similar service during the same period.

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- (3) Credits/debts with connected parties are a result of the current account balances in respect of the connected transactions listed above.

(Unit: RMB'000)

Name of company	Debit					
	Accounts Receivable		Other Receivables		Other	
	Balance	Amount Incurred	Balance	Amount Incurred	Balance	Amount Incurred
Shanghai Shipping (Group) Company	2,465	-	9,244	-	22,641	666
Guangzhou Maritime	-	-	13,008	34,945	-	44,553
China Shipping Supplies Company Limited	-	-	-	-	1,004	1,004
Super Gragon	-	-	-	-	262,713	358
Other related companies	3,393	-	25,863	63,079	30,637	11,584

Name of company	Credit					
	Accounts Payable		Other payables		Other	
	Balance	Amount Incurred	Balance	Amount Incurred	Balance	Amount Incurred
Shanghai Shipping (Group) Company	-	17,321	-	18,261	-	-
Guangzhou Maritime	107	6,679	5,802	32,120	-	-
China Shipping Supplies Company Limited	31,453	372,068	-	141	-	-
Other related companies	7,441	65,661	1,889	42,458	-	-

## 6. Material contracts and the implementation of the contracts

- (1) Save for the lease of vessels as disclosed in the condensed consolidated financial statements or notes thereof, the Company did not have any trusts, material contracts or lease with other entities during the Reporting Period or those which occurred in the previous years but were postponed to the Reporting Period.
- (2) Save as disclosed in the condensed consolidated financial statements, the Company did not enter into any material guarantee contract during the Reporting Period or from the previous periods subsisting in the Reporting Period.
- (3) During the Reporting Period, the Company has no significant entrusted financial matters.

## 7. Undertakings involving the Company or any of its shareholders owning 5 per cent or more of the share capital of the Company during the Reporting Period or those which occurred in the previous years but subsisting during the Reporting Period, that may have material effect on the operating results or financial conditions of the Company during the Reporting Period

The Group Company made the following non-competition undertaking to the Company on 23 May 2001:

a. not to carry out competitive business with the Company; and

b. not to support the jointly-controlled companies to initiate any business that will compete with the Company.

The Group Company has not breached any of the above commitment during the Reporting Period.

## 8. Interim dividends

The Board does not propose to distribute interim dividends in respect of the results achieved during the Reporting Period.

## 9. 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 Reporting Period.

## 10. Compliance with the code of best practice

The directors have not established an audit committee (the "Audit Committee") to review and supervise the Company's financial reporting process and internal controls pursuant to paragraph 14 of the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Code of Best Practice"). However, the Company's organisational structure has, in lieu, a supervisory committee (the "Supervisory Committee") which carries out functions similar to that of an Audit Committee, the differences being that the Company's Supervisory Committee comprises three representatives (one of which shall be an employee of the Company) who are elected and removed in the general meeting of shareholders, and report to the general meeting of shareholders instead of to the board of directors, whereas an Audit Committee is appointed amongst the non-executive directors of a company. Except for the above, in the opinion of the directors, the Company complied with the Code of Best Practice throughout the Reporting Period.

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## 11. Interests of directors and supervisors in the share capital of the Company

During the Reporting Period, none of the directors, supervisors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company as defined in the Securities and Futures Ordinance, that is required to be registered pursuant to Part XV of the Securities and Futures Ordinance.

## 12. Employee housing

According to the relevant local laws and regulations, the Group and its employees are required to contribute their respective contributions to an accommodation fund according to a certain percentage of the salaries and wages of the employees. There are no other significant obligations beyond the contributions to the said fund. The Company provided staff quarters to selected employees and according to a housing reform scheme in Shanghai, arrangements were made to transfer the staff quarters to employees who agreed to remain in service for a period of 10 years. For year 2002, nearly all of the staff quarters have been transferred to employees on the above basis. The net book value of staff quarters has been reclassified as deferred staff expenditure and is amortised on a straight-line basis over 10 years, which approximates the expected service period of the relevant employees.

## 13. Other significant events

During the Reporting Period, neither the Company nor its board of directors nor any of the directors had been subject to investigations, administrative sanctions or circulated notice of criticism by the CSRC, or sanctions by other administrative authorities, or public censure by the Stock Exchange.

## **VII. Interim financial report (unaudited)**

Appendix I. Interim financial report prepared under PRC Accounting Standards

Appendix II. Interim financial report prepared under HKGAAP

## **VIII. Documents for inspection**

- (1) the original interim report for the first half of 2003 signed by hand by the chairman;
- (2) the original interim financial statements for the first half of 2003 signed and sealed by the Company's legal representative, chief accountant and head of the accounting department;
- (3) all copies of the documents which have been disclosed in "China Securities Journal" and "Shanghai Securities News" in the PRC, and "Hong Kong Economic Times" and "The Standard" in Hong Kong; and
- (4) the article of association of the Company.

By order of the Board  
China Shipping Development Company Limited  
**Li Kelin**  
Chairman  
Shanghai, the PRC  
25 August 2003