1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting". The accounting policies and basis of preparation used in the preparation of these interim financial statements are similar to those used in the annual financial statements for the year ended 31 December 2002 except in relation to SSAP12 (revised) and SSAP 35, which have been adopted for the first time in the preparation of these interim financial statements, and the change in accounting estimate on depreciation lives and residual values of vessels.

SSAP 12 (revised): Income Taxes

The revised SSAP 12 "Income Taxes" prescribes the accounting treatment for income taxes to account for the current and future tax consequences of the future recovery and settlement of the carrying amount of assets and liabilities in the Group's balance sheet and transactions during the current period that should be recognized in the Group's financial statements. The principal impact of the revision of this SSAP on this report is presented in note 6 which is now more extensive than previously required and include a reconciliation between the accounting profit and the tax expense for the six months ended 30 June 2003 (the "Period").

SSAP 35: Accounting for Government Grants and Disclosure of Government Assistance

SSAP 35 prescribes the accounting treatment of government grants and assistance, together with the required disclosures in respect thereof. The adoption of this SSAP has had no impact on the financial statements.

Depreciation of vessels

With effect from 1 January 2003, depreciation of vessels is calculated to write off their cost or revalued amount less the Directors' estimate of their residual values (4% of cost or revalued amount) on a straight-line basis over their estimated useful lives as set out below.

Oil tankers	17-22 years
Cargo vessels	22 years
Second-hand vessels	Remaining estimated useful lives upon acquisition

In prior years, depreciation of vessels was calculated to write off their cost or revalued amount on a straight-line basis over their estimated useful lives of 8 to 20 years. This represents a change in accounting estimate and is accounted for prospectively in the Period. The consolidated net book value of fixed assets as at 30 June 2003 and the consolidated profit before taxation for the Period have been increased by approximately Rmb41,593,000 in the form of reduction in depreciation charge for the Period as a result of this change.

2. TURNOVER

During the Period, the Group were involved in the following principal activities:

(a) investment holding; and

(b) oil and cargo shipment along the PRC coast and international shipment.

There is no major seasonality for the Group's turnover. An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of operations for the Period is as follows:

	For the six months ended 30 June			
	2003 (Unaudited)		**2002 (Unaudited)**	
	Turnover	**Contribution**	Turnover	Contribution
By activity:	**Rmb'000**	**Rmb'000**	Rmb'000	Rmb'000
Crude oil and refined oil shipments	**1,579,787**	**507,387**	1,349,648	444,632
Coal shipments	**493,949**	**108,642**	493,218	116,572
Dry bulk shipments	**279,758**	**59,326**	188,646	15,079
	2,353,494	**675,355**	2,031,512	576,283
Other revenue		**83,570**		90,465
Administrative expenses		**(113,570)**		(98,889)
Other operating expenses		**(65,380)**		(80,790)
Profit from operating activities		**579,975**		487,069

	For the six months ended 30 June			
	2003 (Unaudited)		**2002 (Unaudited)**	
	Turnover	**Contribution**	Turnover	Contribution
By geographical area:	**Rmb'000**	**Rmb'000**	Rmb'000	Rmb'000
Domestic	**1,446,124**	**460,293**	1,425,028	477,060
International	**907,370**	**215,062**	606,484	99,223
	2,353,494	**675,355**	2,031,512	576,283
Other revenue		**83,570**		90,465
Administrative expenses		**(113,570)**		(98,889)
Other operating expenses		**(65,380)**		(80,790)
Profit from operating activities		**579,975**		487,069

3. OTHER REVENUE AND GAINS

	For the six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	Rmb'000	Rmb'000
Gain on disposal of fixed assets	**11,921**	5,445
Interest income	**2,864**	3,236
Rental income from leased vessels	**55,497**	72,505
Service income from vessel management	**7,277**	7,122
Others	**6,011**	2,157
Total	**83,570**	90,465

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging

	For the six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	Rmb'000	Rmb'000
Cost of shipping services rendered:		
Bunker oil inventories consumed and port fees	**742,237**	528,191
Depreciation	**373,403**	433,747
Operating lease rentals:		
Land and buildings	**12,858**	13,537
Vessels	**53,207**	29,757
	66,065	43,294
Staff costs	**266,549**	249,484
Dry docking and repairs	**132,181**	139,745

5. FINANCE COSTS

	For the six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	Rmb'000	Rmb'000
Total interest	**55,172**	87,056
Less: Interest capitalised	**(9,226)**	(11,505)
Interest expenses	**45,946**	75,551

6. TAX

Pursuant to a directive 1998 (250) jointly issued by the Shanghai State Tax Bureau and Shanghai Bureau of Finance on 8 October 1998, the Company is entitled to a preferential income tax rate of 15% effective from 1 January 1998. Accordingly, PRC income tax of the Company has been provided at the rate of 15% (six months ended 30 June 2002: 15%) on the estimated assessable profits for the Period.

No Hong Kong profits tax has been provided as no assessable profits were earned in or derived from Hong Kong during the Period (six months ended 30 June 2002: No assessable profits were earned). Taxes on profits assessable elsewhere, if applicable, have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
Group:	**Rmb'000**	Rmb'000
Hong Kong	**-**	-
PRC	**79,867**	56,037
	79,867	56,037
Share of tax attributable to:		
Jointly-controlled entities	**963**	956
Associate	**-**	-
Tax charge for the Period	**80,830**	56,993
Accounting profit before tax	**541,075**	319,431
Tax at the applicable tax rate of 15% (2002: 15%)	**81,161**	47,915
Tax effect of net (income)/expenses that is not (taxable)/deductible in determining taxable profit	**(237)**	(5,691)
Tax effect of different tax rate applicable to jointly-controlled entities	**(94)**	(246)
Tax effect of share of loss of an associate that is not deductible in determining taxable profit	**-**	15,015
	80,830	56,993

There was no material amount of un-provided deferred tax in respect of the Period (six months ended 30 June 2002:Nil).

7. DIVIDEND

The directors do not recommend the payment of interim dividend (six months ended 30 June 2002: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the Period of RMB460,041,000 (six months ended 30 June 2002: RMB262,218,000) and the number of shares of 3,326,000,000 (six months ended 30 June 2002: weight average number of shares of 3,061,083,000) in issue during the Period.

Diluted earnings per share for the six-month periods ended 30 June 2002 and 2003 have not been presented as no diluting events existed during these periods.

9. FIXED ASSETS

During the Period, two oil tankers at a total cost of Rmb456,441,000 (six months ended 30 June 2002: two cargo vessels at a total cost of Rmb341,917,000) were constructed and have been put into operation. Three oil tankers with a total net book value of Rmb9,850,000 were disposed to a fellow subsidiary and a third party, respectively, during the Period (six months ended 30 June 2002: Nil).

10. TRADE AND BILLS RECEIVABLES

	30 June 2003		31 December 2002	
	Balance (Unaudited) Rmb'000	**Percentage (Unaudited)**	Balance (Audited) Rmb'000	Percentage (Audited)
Within one year	**274,721**	**89**	257,995	91
One to two years	**1,000**	**-**	-	-
Beyond two years	**31,988**	**11**	26,697	9
	307,709	**100**	284,692	100
Provision for doubtful debts	**(34,196)**		(28,202)	
Trade and bills receivables, net	**273,513**		256,490	

The Group normally allows a credit period of 30 days to its major customers.

11. TRADE PAYABLES

	30 June 2003		31 December 2002	
	Balance (Unaudited) Rmb'000	**Percentage (Unaudited)**	Balance (Audited) Rmb'000	Percentage (Audited)
Within one year	**162,159**	**88**	159,171	87
One to two years	**11,635**	**6**	8,667	5
Beyond two years	**11,318**	**6**	14,325	8
	185,112	**100**	182,163	100

12. CONTINGENT LIABILITIES

	30 June 2003 (Unaudited) Rmb'000	31 December 2002 (Audited) Rmb'000
Guarantees given to banks in connection with facilities granted to:		
A jointly-controlled entity	**42,000**	42,000
A related company	**3,400**	4,600
	45,400	46,600

Save as disclosed above, there are no material changes in the Group's contingent liabilities since 31 December 2002.

13. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its vessels under operating lease arrangements, with leases negotiated for terms ranging from one to five years.

As at 30 June 2003, the Group had total future minimum lease rentals receivable under non-cancellable operating leases falling due as follows:

	30 June 2003 (Unaudited) Rmb'000	31 December 2002 (Audited) Rmb'000
Within one year	**60,856**	103,931
In the second to fifth years, inclusive	**2,476**	1,155
	63,332	105,086

The total future minimum sublease payments expected to be received under non-cancellable sublease arrangements as at 30 June 2002 were Rmb94,998,000. Sublease payments recognised in the profit and loss account for the six months ended 30 June 2002 were Rmb13,902,000. There were no sublease arrangements during the Period.

(b) As lessee

The Group entered into non-cancellable operating lease arrangements on vessels, vehicles and buildings. The leases are negotiated for terms ranging from one to five years.

As at 30 June 2003, the Group had total future minimum lease rentals payable under non-cancellable operating leases falling due as follows:

13. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee (continued)

	30 June 2003 (Unaudited) Rmb'000	31 December 2002 (Audited) Rmb'000
Within one year	**84,275**	102,132
In the second to fifth years, inclusive	**57,395**	53,537
	141,670	155,669

14. COMMITMENTS

In addition to the operating lease commitments detailed in note 13(b) above, the Group had the following capital commitments at the balance sheet date:

	30 June 2003 (Unaudited) Rmb'000	31 December 2002 (Audited) Rmb'000
Contracted for	**2,723,902**	2,076,237

15. POST BALANCE SHEET DATE EVENTS

The following resolutions were passed at a board meeting of the Company held on 11 August 2003:

(a) It was resolved that the Company would enter into a contract to build a VLCC oil tanker at a contract sum of USD65,580,000. The construction work of this vessel is expected to be completed in year 2005.

(b) It was resolved that the Company would approve the increase in the registered capital of its 50% owned jointly-controlled entity, Zhuhai New Century Marine Co., Ltd. ("New Century"), from Rmb60 million to Rmb90 million, for the purpose of further expanding its shipping capacity. The Company is required to increase its capital contribution to New Century in proportion to its interest therein from Rmb30 million to Rmb45 million.

(c) It was resolved that the Company would form a joint venture enterprise (the "JV") with an independent third party, Guangzhou Development Industry (Holdings) Co., Ltd., with a registered capital of Rmb50 million. The principal activity of the JV would be provision of shipping services. It was proposed that the JV would have a tenure of 20 years, with each party holding 50% of the equity interest therein.

(d) It was resolved that the Group would revise its depreciation policy of vessels with effect from 1 January 2003 (note 1).

16. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN HONG KONG ("HK GAAP") AND PRC ACCOUNTING STANDARDS

The Group has prepared a separate set of financial statements for the Period in accordance with PRC accounting standards. The major differences between the financial statements prepared under PRC accounting standards and HK GAAP are set out as follows:

	For the six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	Rmb'000	Rmb'000
Net profit attributable to shareholders prepared under HK GAAP	**460,041**	262,218
Adjustments for depreciation, gain on disposal of vessels and deferred staff expenditures, etc.	**(1,952)**	(11,976)
Net profit attributable to shareholders prepared under PRC accounting standards	**458,089**	250,242

	30 June	31 December
	2003	2002
	(Unaudited)	(Audited)
	Rmb'000	Rmb'000
Shareholders' equity prepared under HK GAAP	**6,749,934**	6,622,493
Adjustments for revaluation surplus, depreciation, gain on disposal of vessels and deferred staff expenditure, etc.	**(142,756)**	(140,799)
Adjustment for proposed final dividend	**-**	(332,600)
Shareholders' equity prepared under PRC accounting standards	**6,607,178**	6,149,094

17. ULTIMATE HOLDING COMPANY

In the opinion of the directors, the ultimate holding company of the Company is China Shipping (Group) Company ("China Shipping"), a state-owned enterprise established in the PRC.

18. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, business transactions between the Company and its related parties for the Period are set out as below:

(1) A Services Agretment dated 3 April 2001 between the Company and China Shipping 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, China Shipping (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 dry-docking and 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 ten years. The service fees under the Services Agreement should be determined (after arm's length negotiations) with reference to, depending on applicability and availability, either state-fixed price, market price or cost.

18. RELATED PARTY TRANSACTIONS *(continued)*

Further details of the principal amounts paid by the Company to China Shipping and its subsidiaries in respect of the Services Agreement for the Period are set out as below:

		For the six months ended 30 June	
	Pricing basis	**2003 Total value (Unaudited) Rmb'000**	2002 Total value (Unaudited) Rmb'000
Dry-docking and repairs	State-fixed prices or market prices	**88,228**	85,280
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	**361,996**	265,164
Whitewashing and oily water treatment for vessels	State-fixed prices or market prices	**4,318**	3,429
Installation, repairs and maintenance of telecommunication and navigational services	State-fixed prices	**5,967**	6,616
Hiring of sea crew	Market prices	**74,181**	65,600
Accommodation, lodging and transportation for employees	Market prices	**3,013**	2,720
Medical services (for existing employees)	State-fixed prices	**1,181**	-
Miscellaneous management services	Market prices or actual costs	**20,149**	23,526
Agency commissions	Market prices	**11,581**	21,784

In connection with the above transactions and for other operating purposes, the Company made prepayments/advances to subsidiaries of China Shipping from time to time.

(2) Save for the connected transactions outlined above, details of other connected transactions with the holding company, fellow subsidiaries, jointly-controlled entities, an associate and related companies are as follows:

		For the six months ended 30 June	
		2003 (Unaudited) Rmb'000	2002 (Unaudited) Rmb'000
Interest paid	(a)	**-**	18,627
Vessel chartering charges paid		**53,207**	15,274
Sale of vessels	(b)	**(13,848)**	-
Vessel chartering income received	(c)	**(54,606)**	(71,956)
Vessel management fees	(d)	**(5,721)**	(7,122)

18. RELATED PARTY TRANSACTIONS *(continued)*

(a) On 3 April 2001, the Company entered into an acquisition agreement (the "Acquisition Agreement") with Guangzhou Maritime Transport (Group) Company Limited ("Guangzhou Maritime") for the acquisition of its remaining 20 oil vessels at a consideration of approximately Rmb1,035,020,000. The consideration was satisfied by cash of Rmb103,502,000 and an interest-bearing loan of Rmb931,518,000 from the holding company. The loan was fully settled in May 2002.

(b) During the Period, the Group sold two vessels to a fellow subsidiary at Rmb13,848,000 with a disposal gain of Rmb9,250,000.

(c) The Group entered into various bare-boat charter-party agreements with two jointly-controlled entities and three fellow subsidiaries. The amount represents vessel-chartering income as determined according to the charter-party agreements.

(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 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 Period (six months ended 30 June 2002: Rmb4,730,000), while Dalian Shipping should pay Rmb1,041,000 for similar service in the same period (six months ended 30 June 2002: Rmb1,041,000).

(e) Pursuant to two Bare-boat Charter-party Agreements both dated 20 October 1994, Shanghai Shipping (Group) Company ("Shanghai Shipping", the former holding company and now a fellow subsidiary) agreed to charter two vessels to the Company from their respective dates of delivery to the Company until full repayment of the principal and interest of the related loans borrowed by Shanghai Shipping to purchase the vessels and under which, on due completion of the charters, the vessels will become the Company's property. The vessels were delivered to the Company on 1 January 1996. The principal amounts to be paid each year until 2007 amount to approximately DM7.6 million. With the currency reform in Europe starting from 1 January 2002, the principal amounts re-denominated to EURO are approximately EURO 3.9 million.

(f) Guarantees are given by the Company to banks in connection with facilities granted to a jointly-controlled entity and a related company with amounts of Rmb42,000,000 and Rmb3,400,000, respectively.

19. APPROVAL OF INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved by the board of directors on 25 August 2003.