董事會報告書

REPORT OF THE DIRECTORS

The board of directors (the “Board”) of the Company hereby presents their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

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 internationally.

The principal activities of the Company's principal subsidiaries and jointly-controlled entities are oil and cargo shipment. There have been no significant changes in the nature of the Group's principal activities during the year.

Business review

In 2003, the global economy went through a trend of slow recovery. The international shipping market showed a basic balance between supply and demand in the first half of 2003, with the demand gradually outweighing supply in the second half. The international dry bulk freight index kept on rising steadily and reached the peak for the last ten years. China's national economy maintained a high-speed growth even under the SARS attack. Its GDP grew by 9.1% over the year, marking the largest annual growth since 1997. The power, metallurgy, building material, petrochemical, and other industries presented rapid development. As the economy grew, the domestic demand for petroleum, coal and other energy goods constantly increased, driving upward the shipping demand in domestic and foreign trade.

In 2003, the Group made active readjustment to its shipping operation and capacity composition, according to the changes in the shipping market conditions. Meanwhile, as new ships were put into operation, the Group was able to adjust its fleet structure with the aim to achieve "professionalism, large scale expansion and standardization" and to continue the growing operating results. In 2003, the Group generated a transportation revenue of RMB 4.998 billion (before operation tax and supplementary duty, below is the same), increasing by 19% over that of the same period of last year, and a transportation profit of RMB 1.462 billion, increasing by 34.7% over last year.

In respect of oil transportation, in 2003, due to the substantial increase of the imported crude oil, the oil transshipment demand greatly increased. By enhancing its effort to capture transaction opportunities and improving shipping arrangement for transshipment oil, the Group achieved a shipping volume of 18.03 million tons for the year, increasing by 49.2% over the last year, and realized a revenue of RMB 761 million, increasing by 60.9% over the last year. Meanwhile, the foreign trade shipping market gradually recovered, characterized by active market transactions, sufficient goods supply, and bouncing back of the foreign trade oil shipping index. As its newly-built tanker was put into operation and a 110,000 tons tanker was leased, the Group realized a historical breakthrough of the foreign trade oil transportation, with a shipping volume of 18.29 million tons, rising 30.8% over last year, and a revenue of RMB1.372 billion, an increase of 45.7% comparing with last year. Due to changes in the goods supply and adjustment made to the allocation of the Group's shipping capacity, domestic pipe oil, ocean oil and product oil shipped by the Group decreased during 2003, resulting in a drop of shipping volume. The annual shipping volume of the Group for 2003 was 49.84 billion ton nautical miles, representing an increase of 14.2% when compared with the corresponding period of last year, and the revenue from oil shipping was RMB3.302 billion, an increase of 18.9% over last year.

In respect of dry bulk shipping, as affected by the growth of national economy, the power consumption increased dramatically and the coal shipping market demand was strong. By focusing on coastal coal for electricity transportation business, the Group achieved a coal shipping volume of 34.97 million tons, and a shipping mileage of 32.065 billion ton nautical miles, realizing a shipping revenue of RMB 1.12 billion. Since the beginning of 2003, the international dry bulk cargos freight index continued to climb up, national economy continued to grow, and the demand for ore, steel, and other goods were driven upward. The Group expanded its dry bulk shipping business and obtained remarkable results. In terms of operational strategy, the Group carried out scientific assessment on its shipping lines, optimized its line structures, benefited from the advantageous integration of shipping sectors and combination of shipping lines. In respect of client relationship management, the Group attached importance to long-tem cooperation in terms of operation and shipping capacity in various forms and provided extensive additional services to clients, and used best efforts to solicit contracts of affreightment with large clients. In 2003, the shipping volume of the Group's other dry bulk cargoes was 20.745 billion ton nautical miles, representing an increase of 38.3% over last year, and the revenue from other dry bulk cargoes was RMB584 million, representing an increase of 48.4%, as compared with 2002 respectively. The shipping revenue for foreign trade general cargoes reached RMB 423 million, increasing by 60.1% over last year, marking another notable growth area in the Group's foreign trade shipping business.

Segment information

The detailed information of operation by business segments and geographical segments in accordance with the PRC GAAP for the year ended 31 December 2003 are listed as follows:

Geographical area of operations	Segments	Turnover	Operating costs	Gross profit margin	Increase/ (decrease) in turnover	Increase/ (decrease) in operating costs	Increase/ (decrease) in gross profit margin
		Rmb'000	Rmb'000	%	%	%	%
Domestic	Coal Shipment	1,209,059	993,411	14.5	8.9	21.0	-36.2
	Oil Shipment	1,932,320	1,125,516	38.4	5.1	4.6	0.9
	Others	161,013	138,558	10.6	24.4	19.6	46.0
	Sub-total	3,310,036	2,257,485	28.5	7.6	12.2	-8.9
International	Coal Shipment	71,145	43,243	38.6	93.9	22.7	1359.4
	Oil Shipment	1,379,831	995,934	27.2	45.7	21.0	116.8
	Others	423,271	307,205	27.4	60.1	34.8	98.3
	Sub-total	1,866,603	1,346,382	27.4	49.5	24.0	118.6
	Total	5,176,639	3,603,867	28.1	19.7	16.3	8.6

The Group's segment information prepared under the accounting principles generally accepted in Hong Kong ("HK GAAP") are presented in note 4 to the financial statements.

Operation of the jointly-controlled and invested entities

The jointly-controlled entities established by the Company and its major customers have played an active role in stabilizing and enhancing the Company's market share. By taking advantage of its close affiliation with the Company's major customers, the Company's shipping capacity has improved. Through co-operation with large cargo owners, the Company further established and improved its market share in the shipping market. Particulars of the jointly-controlled entities as at 31 December 2003 are set out in note 16 to the financial statements.

Name	Percentage of equity attributable to the Company(%)	Registered capital	Principal activities	Net profit /(loss) for year 2003
China Shipping Development (Hong Kong) Marine Co., Limited	100	USD500,000	International ocean cargo transportation, ship leasing, ship repair, shipping agency, cargo forwarding, supply of ship spare parts, supply of bunker, materials and food, trade.	Rmb14,744,000
Hainan Haixiang Investment Co., Ltd.	95	Rmb101,000,000	Coastal and middle and lower reaches of Yangtze River cargo transportation, refined oil transportation, ship repair and leasing.	Rmb15,709,000

Name	Percentage of equity attributable to the Company (%)	Registered capital	Principal activities	Net profit / (loss) for year 2003
Zhuhai New Century Marine Co., Ltd.	50	Rmb90,000,000	Coastal and middle and lower reaches of Yangtze River cargo transportation, domestic trade (excluding the goods controlled by the state).	Rmb3,395,000
Shanghai Friendship Marine Co., Ltd.	50	Rmb20,000,000	Coastal and middle and lower reaches of Yangtze River cargo transportation, foreign trade, entrepot trade.	Rmb5,425,000
Shanghai Times Shipping Co., Ltd.	47.5 indirect	Rmb100,000,000	Coastal and middle and lower reaches of Yangtze River cargo transportation, waterway cargo forwarding, ship agency, ship repair, trade.	Rmb26,038,000
Shanghai Bao Jiang Shipping Co., Ltd.	10	Rmb40,000,000	Coastal and middle and lower reaches of Yangtze River cargo transportation, waterway cargo forwarding, sale of electricity machinery and equipment, chemical equipment, metal materials, chemical raw materials and product, and building materials.	Rmb5,268,000

The net profit/(loss) for year 2003 of the abovementioned companies are prepared under the PRC GAAP.

Major customers

In the year under review, the five largest customers of the Group accounted for less than 30% (2002: less than 30%) of the Group's total turnover. As far as the directors are aware, none of the directors, supervisors, their associates, nor any shareholders, which to the best knowledge of the directors and supervisors, 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 49% (2002: 53%) 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 30% (2002: 31%) 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 2003, none of the directors, supervisors, their associates nor any shareholders, which to the best knowledge of the directors and supervisors owned 5% or more of the Company's shares, had any beneficial interests in the five largest suppliers of the Group.

Summary financial information

1. Operating results and cash flow prepared in accordance with the PRC GAAP:

Items	**2003**	2002	
	人民幣千元	人民幣千元	增加比率
	Rmb'000	Rmb'000	Increase(%)
Turnover	**5,176,639**	4,325,796	19.7
Gross Profit	**1,454,260**	1,118,684	30.0
Net profit	**982,049**	571,919	71.7
Net increase (decrease) in cash and cash equivalents	**421,872**	272,812	54.6

In 2003, the Group, focusing on its operating activities of oil shipment, made active readjustment to shipping capacity composition and made great efforts to increase its market share. As a result, the Company's turnover increased steadily as compared with the same period of 2002. In 2003, the Company adopted active measures to increase revenue and reduce its main operating costs, such as fuel costs, port charges, maintenance expenses. With the increase in number of the Company's vessels, the increase in revenue derived from the Company's operations overweighed the increase in its operating costs. As a result, the Company recorded a satisfactory growth in its operating profit as compared with the same period of 2002.

In 2003, the net profit of the Company increased significantly as a result of the increase in turnover from operating activities and the increase in investment.

The main reason for the increase in cash and cash equivalent of the Company in 2003 was the combined effect of the increase in operating revenue and improvement in trade debt collection.

2. Total assets and shareholders' equity in accordance with the PRC GAAP:

Items

	31 December 2003	31 ecember 2002	Increase (%)
	人民幣千元	人民幣千元	
	Rmb'000	Rmb'000	
Total assets	**9,584,546**	9,002,401	6.5
Shareholders' equity	**7,131,158**	6,481,694	10.0

As at the end of the reporting period, the debt to assets ratio of the Group was 25.5%, approximately 2.4 per cent lower as compared with the beginning of the year.

As at the end of the reporting period, the foreign currency liabilities of the Group primarily include the price for financing lease payable in Euro in an equivalent amount of RMB150,082,000. In addition, the Company must pay dividends for H shares in HKD.

The international shipping revenue of the Group is denominated in USD. At present, the exchange rate of RMB remains stable. The Group does not foresee any substantial risk at present, although it does not rule out the possibility of future impact on the operating results.

3. Discussion on the adjustment of depreciation of vessels under PRC GAAP

The board of the Company adopted a resolution at its eighth meeting on 12 August 2003, which approved the adjustment to the estimated useful life and the residue value of the vessels of the Company from 1 January 2003:

(1) Oil tankers: 17-22 years; cargo ships: 22 years; and the remaining useful life of second-hand vessels at the time of purchase shall be determined in the same manner.

(2) The rate of residue value shall be 4%.

Due to the foregoing changes in accounting estimates, the accumulated depreciation during the Period was reduced by RMB87,318,447.92, and the net profit during the Period was increased by RMB76,906,151.21.

A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements, which is in accordance with the accounting principles generally accepted in Hong Kong is set out below.

Results	Year ended 31 December 2003	2002	2001	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Turnover	**4,885,495**	4,096,018	3,894,926	3,190,847	3,110,238
Operating costs	**(3,423,495)**	(3,010,519)	(2,915,404)	(2,572,089)	(2,561,877)
Gross profit	**1,462,000**	1,085,499	979,522	618,758	548,361
Other revenue and gains	**130,600**	161,783	199,740	190,498	208,073
Administrative expenses	**(231,818)**	(201,406)	(164,595)	(162,364)	(203,397)
Other operating expenses	**(107,012)**	(125,468)	(116,511)	(110,896)	(86,724)
Profit from operating activities	**1,253,770**	920,408	898,156	535,996	466,313
Finance costs	**(95,689)**	(132,022)	(179,057)	(213,742)	(278,967)
Share of the profit of jointly-controlled entities	**20,751**	14,495	-	-	-
Share of the profit/ (loss) of an associate	**-**	(100,101)	(280,786)	2,760	(27,537)
Profit before tax	**1,178,832**	702,780	438,313	325,014	159,809
Tax	**(154,529)**	(111,249)	(113,055)	(43,047)	(33,298)
Profit before minority interests	**1,024,303**	591,531	325,258	281,967	126,511
Minority interests	**(663)**	(335)	–	-	362
Net profit attributable to shareholders	**1,023,640**	591,196	325,258	281,967	126,873
Earnings per share	**30.78**	18.51	10.93	9.47	4.26

Assets liabilities and minority interests	31 December 2003	31 December 2002	31 December 2001	31 December 2000	31 December 1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Total assets	**9,726,290**	9,068,757	9,007,693	8,379,691	9,002,804
Total liabilities and minority interests	**(2,412,695)**	(2,446,264)	(3,652,889)	(3,201,332)	(4,106,412)
Net assets	**7,313,595**	6,622,493	5,354,804	5,178,359	4,896,392

This summary does not form part of the audited financial statements.

Notes:

1. The consolidated results, total assets, total liabilities and minority interests of the Group for the four years ended 31 December 2002 are extracted from the Company's 2002 annual report dated 25 March 2003, while those of the year ended 31 December 2003 were prepared based on the consolidated income statement and consolidated balance sheet as set out on pages 65 and 66, respectively, of the financial statements.

2. The earnings per share for the year ended 31 December 2003 is calculated based on the net profit attributable to shareholders for the year ended 31 December 2003 of Rmb1,023,640,000(2002: Rmb591,196,000) and the number of shares of 3,326,000,000 (2002: weighted average number of shares of 3,194,630,000) in issue during the year.

Capital structure

As at 31 December 2003, the shareholders' equity, bank and other interest-bearing loans, and finance leases payable amounted to RMB7,313,595,000, RMB1,799,977,000 and RMB150,082,000 respectively. The debt-to-equity ratio was 33% (2002: 37%).

The Board considers that the Group's debt-to-equity ratio is maintained at a reasonable level. There is still room for debt financing with regard to the Group's further development in the future.

Analysis of effect for material changes in operating conditions, strategic policies, laws and relevant regulations incurred in the Group's financial situations and operating results

Following the further opening of domestic coastal shipping market, the Group considered that shipping companies with international shipping capacity will enter into the PRC domestic shipping market and hence competition in the domestic coastal shipping market is expected to become intense.

The changes in the global economic conditions greatly affect the demand for and supply of oil. Since June 2002, the price of fuel oil has increased. The Group is fully aware of the price movement of fuel oil and will take the necessary measures to control the cost of fuel oil.

Prospect

In 2004, it is expected that the sign of recovery will emerge in the global economy, and the international shipping market will keep on growing. China's domestic economy will continue to grow at a high speed, and the demand for oil, coal, ore, other energy goods and dry bulk cargoes will be strong. Thus, the domestic and foreign trade shipping volume will be increasing steadily. Especially, the coastal market demand for coal will exceed supply, with the shipping capacity falling short. This in turn will create favourable conditions for the Company in maintaining its advantages in terms of coastal transportation and a healthy development of the Company. However, following the increasing market competition of domestic coastal shipping, the Company will have to monitor closely the changes in the shipping market, the macro policies and the relevant PRC laws and regulations.

The domestic demand for oil has increased significantly due to the continuous improvement in the PRC economy. It is estimated that the annual volume of imported crude oil will keep on growing and the transshipment oil supply will further increase. The ocean oil output will be stable with room for further improvement, thereby creating conditions for the Company to further expand its ocean oil market. However, the volume of ocean transportation of northern pipe oil will further decrease, and part of the transshipment oil will be delivered by the newly commenced Yong-Hu-Ning Pipeline. The two 110,000 tons tankers, two 42,000 tons oil tankers and a 300,000 tons VLCC for the transportation of refined oil and crude oil, which the Company contracted for the construction in 2002, will be delivered into operation in 2004. It is estimated that the Company will increase its tanker shipping capacity by 600,000 dead weight tons. The Company will continue to take advantage of its scaled economy, further enhance its cooperation with major goods owners, stablize domestic trade supply and freight rate, explore foreign trade shipping, make use of the favorable conditions brought about by the commencement of operations of five new tankers during the year, and further stablize and expand its market share in terms of Far-east imported crude oil, product oil, and third country shipping market.

With the rapid growth of the PRC economy, demand for oil in the PRC is increasing year by year. In view of the increasing reliance on exported oil, the PRC Government commenced the construction of the fist group of oil reserve bases in 2003. It has provided tremendous opportunities for the Company's fleet of tankers.

The rapid growth of the PRC economy has driven up the market demand for dry bulk shipping. The international dry bulk market has been growing strongly since 2003. Currently, the International Dry Bulk Composite Shipping Price Index BDI operates at a level of nearly 5,000 point. The current market condition provides a good environment for the Company to achieve its efficiency targets for 2004. In 2004, in the coal and other dry bulk shipping market, the Group will continue to focus on the shipping of domestically coastal coal, fully utilize the regulating effect of domestic and foreign trade shipping capacity, make scientific review of shipping lines, accelerate the circulation of ships, actively explore different forms of cooperation, and make much efforts to further stabilise and enhance its market share. During 2002, the Company contracted for the construction of eight 57,000 tons bulk ships, three of which will be delivered into operation in 2004. It is expected that the bulk shipping capacity will increase by 170,000 tons for 2004.

In 2004, the Group will insist on the operating strategy of "focusing on coastal shipment and expanding ocean transportation". The Group will, through the execution of contracts of affreightment with its major customers, make best efforts to further stabilize and enhance its market share. It will keep close attention to the variation of fuel price, and adopt various measures such as control over fuel prices and energy saving of vessels in order to control cost. In addition, the Group will take various active measures to decrease its operating costs, such as maintenance costs, management expenses and port charges, so as to fulfil the target for 2004 as set by the board of directors.

Daily work of the Board

1. Board meetings and resolutions during the reporting period

(1) The Company held the first Board meeting of 2003 on 22 January 2003, and adopted the following resolution:

Review of the appointment of Mr. Li Yiwen as the vice general manager of China Shipping Development Co., Ltd. Tramp Co.

(2) The Company held the second Board meeting of 2003 on 20 March 2003, and adopted the following resolution:

(i) Authorising the Stock Exchange to automatically submit the documents provided by the Company concerning the offering and operation of the stocks so as to satisfy the requirements of the Securities and Futures Commission of Hong Kong;

(ii) Authorising Mr. Li Kelin, chairman of the Company to sign the foregoing letter of authorisation.

(3) The Company held the third Board meeting of 2003 on 25 March 2003, and adopted the following resolution:

Adopting the proposal of the Board report of the Company of 2002;

Adopting the proposal of the financial report of the Company of 2002;

Adopting the proposal of the profit distribution plan of the Company of 2002;

Adopting the report and summary of the Company of 2002;

Adopting the proposal of remuneration to the directors and supervisors of the Company in 2003;

Adopting the proposal of subsidy to the independent directors of the Company in 2003;

Adopting the proposal of new Board elections;

Adopting the proposal of adjusting the management of the Company;

Adopting the proposal of replacing the Board secretary of the Company;

Adopting the proposal of amendment to the articles of association of the Company;

Adopting the proposal of renewing the appointment of the auditor of the Company;

Adopting the proposal of holding the Company's annual shareholders' meeting of 2002.

(4) The Company held the fourth Board meeting of 2003 on 22 April 2003, and adopted the following resolution:

Adopting the proposal of building an additional four 57,300 tons bulk goods vessels;

Adopting the proposal of financing for the building of four additional 57,300 tons bulk goods vessels;

Adopting the proposal of disposing of the vessels "Daqing 47" and "Daqing 48".

(5) The Company held the fifth Board meeting of 2003 on 29 April 2003, and adopted the following resolution:

Adopting the first quarterly report of 2003 of China Shipping Development Co., Ltd.

(6) The Company held the sixth Board meeting of 2003 on 15 May 2003, and adopted the following resolution:

Adopting the proposal of building a new 298,000 tons tanker;

Adopting the proposal of financing for the building of a new 298,000 tons tanker.

(7) The Company held the fourth Board meeting (by way of communication) of 2003 on 11 June 2003, and adopted the following resolution:

Adopting the proposal of approving the appointment of Mr. Li Kelin as the chairman of the fourth Board of the Company;

Adopting the proposal of approving the appointment of Mr. Li Shaode as the vice chairman of the fourth Board of the Company.

(8) The Company held the eighth Board meeting of 2003 on 12 August 2003, and adopted the following resolution:

Adopting the proposal of building another 298,000 tons VLCC tanker;

Adopting the proposal of increasing investment in Zhuhai New Century Marine Co., Ltd.;

Adopting the proposal of forming a joint venture shipping company with Guangzhou Development Industry (Holdings) Co., Ltd.;

Adopting the proposal of adjusting the depreciation period of the Company's vessels.

(9) The Company held the ninth Board meeting of 2003 on 25 August 2003, and adopted the following resolution:

Adopting the proposal of the Company's interim report and summary of 2003;

Adopting the proposal of the Company's interim financial report of 2003.

(10) The Company held the tenth Board meeting of 2003 on 29 September 2003, and adopted the following resolution:

Adopting the proposal of building two new 70,000 tons crude oil tankers;

Adopting the proposal of building another two 42,000 tons refined/crude oil tankers;

Adopting the proposal of replacing the Company's securities representative.

(11) The Company held the eleventh Board meeting of 2003 on 21 October 2003, and adopted the following resolution:

Adopting the proposal of the Company's third quarterly report of 2003.

(12) The Company held the twelfth Board meeting of 2003 on 23 December 2003, and adopted the following resolution:

Adopting the proposal of renewing the contract for the lease of "Xiangli" and other three vessels;

Adopting the proposal of renewing the contract for the lease of the vessel "Xiangzhu";

Adopting the proposal of renewing the contract for the lease of the vessel "Daqing 88";

Adopting the proposal of renewing the contract for the lease of the vessel "Song Lin Wan";

Adopting the proposal of building two new 70,000 tons crude oil tankers;

Adopting the proposal of providing guarantee for the current capital loan of Zhuhai New Century Shipping Co., Ltd.;

Adopting the proposal of applying to the Citibank for the overall credit limit.

2. The execution of the resolutions passed at the 2002 AGM

The 2002 AGM held on 28 May 2003 by the Company approved the resolution regarding 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 dividend has been distributed to holders of H shares, A shares and domestic corporate shares of the Company on 25 June 2003 whose names appeared on the register of members of the Company at the close of business on 17 June 2003.

Distributable reserves

As at 31 December 2003, the Company's reserves available for distribution, as determined based on the lower of the amount determined under the PRC GAAP and the amount determined under HK GAAP, amounted to Rmb 1,173,500,000 before the proposed final dividend.

In addition, according to the PRC Company Law, an amount of approximately Rmb2,037,884,000 standing to the credit of the Company's share premium amount was available for distribution by way of future capitalisation issues.

Results and dividends

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 65 to 126.

The net profit of the Company for 2003 was Rmb977,999,000 which is determined based on PRC GAAP of which 10% will be transferred to the statutory surplus reserve, and another 10% will be transferred to the statutory public welfare fund. Including the undistributed profit of Rmb523,116,000 as at 1 January 2003, the distributable reserves are Rmb1,305,516,000 as at 31 December 2003 as determined based on the PRC GAAP. According to the relevant laws and regulations, the Company's reserves available for distribution are determined based on the lower of the amount determined under the PRC GAAP and the amount determined under HK GAAP.

The directors recommend the payment of a final dividend of Rmb0.15 per share in respect of the year to shareholders on the register of members at the close of business on 17 April 2004. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within the capital and reserves section of the balance sheet. Further details of this accounting treatment are set out in note 12 to the 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.

Share capital

There have been no movements in the Company's issued share capital during the year.

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.

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. Wang Kangtian	(Resigned on 28 May 2003)
Mr. Xue Qingxiang	(Resigned on 28 May 2003)
Mr. Yan Zhichong	(Resigned on 28 May 2003)
Mr. Yao Zuozhi	(Appointed on 28 May 2003)

Independent non-executive directors:

Mr. Shen Kangchen	(Resigned on 28 May 2003)
Mr. Zhang Qi	(Resigned on 28 May 2003)
Mr. Zhou Zhanqun	(Appointed on 28 May 2003)
Mr. Hu Honggao	(Appointed on 28 May 2003)
Mr. Xie Rong	(Appointed on 28 May 2003)

Pursuant to the Company's articles of association, all the directors of the Company are appointed for a term of three years.

Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out in the 2003 annual report of the Company.

Service contracts of directors and supervisors

Each of the executive directors and supervisors has entered into a service contract with the Company, which will expire on 27 May 2006.

The Company has not entered into any service agreement with the non-executive directors.

No director or supervisor has a service contract with the Company which is not terminable by the Company within one year without payment of material compensation other than statutory compensation.

Management contracts

Pursuant to the Services Agreement as described in note 40(1) to the financial statements, China shipping provided miscellaneous management and other services to the Company during the year for a total fee of Rmb 45,141,000 (2002:Rmb43,724,000).

Contracts of significance

The Company has the Services Agreement with China Shipping pursuant to which China Shipping (or its subsidiaries) provides to the Group the necessary supporting shipping materials and services for the on-going operations of the Group's vessels. Further details of the transactions undertaken in connection therewith during the year are included in note 40 to the financial statements.

Substantial shareholders' interests in shares and underlying shares

As at 31 December 2003, the following shareholders held 5% or more of the nominal value of any class of share capital of the Company, carrying rights to vote in all circumstances at any shareholders' general meeting of the company, according to the register of interests in shares required to be kept by the Company pursusnt to Section 336 of the Securities and Futures Ordinance (the "SFO"):

Name of substantial shareholders	Class of share	Number of shares	Percentage of total number of the relevant class shares	Percentage of the total number of issued shares
China Shipping (Group) Company	State-owned shares	1,680,000,000(L)	100%	50.51%
J.P.Morgan Chase & Co.	H shares	194,781,690(L) 90,266,690(P)	15.03% 6.97%	5.86% 2.72%
J.P.Morgan Chase & Co.	H shares	183,337,934(L) 60,807,934(P)	14.15% 4.69%	5.51% 1.83%
J.P.Morgan Chase & Co.	H shares	155,753,000(L) 46,521,000(P)	12.02% 3.59%	4.68% 1.40%
J.P.Morgan Chase & Co.	H shares	90,903,000(L) 39,071,000(P)	7.01% 3.01%	2.73% 1.17%
Morgan Stanley	H shares	100,341,637(L) 60,198,544(S)	7.74% 4.64%	3.02% 1.81%
Morgan Stanley International Incorporated	H shares	68,047,176(L) 499,400(P)	5.25% 0.04%	2.05% 0.02%
Morgan Stanley Asia Pacific (Holdings) Limited	H shares	65,992,776(L) 424,000(S)	5.09% 0.03%	1.98% 0.01%
Morgan Stanley Asia Regional (Holdings) III LLC	H shares	65,399,000(L)	5.05%	1.97%
Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.	H shares	65,399,000(L)	5.05%	1.97%
Morgan Stanley Investment Management Company	H shares	65,399,000(L)	5.05%	1.97%

Note: "L" means long position.
"S " means short position.
"P" means interest in a lending pool.

Save as disclosed above, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Directors' and supervisors' interests in contracts

As at 31 December 2003 or during the year, none of the directors nor supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

Directors' ,supervisors' and chief executive's interests and short positions in shares and underlying shares of the Company

None of the directors, supervisors, chief excecutive and their associates had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Directors' , supervisors' and chief executive's rights to subscribe for shares or debentures

At no time during the year was the Company or any of its subsidiaries, fellow subsidiaries, jointly-controlled entities or its holding company a party to any arrangement enabling any directors, supervisors, chief executive, their spouses or minor children to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate. No rights to subscribe for shares in or debentures of the Company have been granted by the Company to, nor have any such rights been exercised by, any person during the year and up to the date of this report.

Connected transactions

The Group had connected transactions during the year with its holding company, fellow subsidiaries, jointly-controlled entities, as well as related companies, further details of which are set out in note 40 to the financial statements.

The Stock Exchange has granted the Company a waiver from compliance with Chapter 14 of the Listing Rules in respect of the on-going connected transactions, as set out in paragraph (1) of note 40 to the financial statements, pursuant to its letter of 23 April 2001. An application has been made by the Company to the Stock Exchange on 30 December 2003 for the renewal of such waiver. For details, please refer to the relevant announcement of the Company dated 8 January 2004.

The executive directors and independent non-executive directors have reviewed the on going connected transactions and confirmed that, during the year ended 31 December 2003, such transactions were:

(1) conducted in the ordinary course of business of the Group, and those transactions based on market prices, cost or stated fixed prices were on terms no less favorable to the Company than normal commercial terms;

(2) entered into in accordance with the terms of any agreements governing such transactions;

(3) fair and reasonable so far as the shareholders of the Company were concerned; and

(4) within the relevant monetary caps as agreed with the Stock Exchange or approved by the shareholders of the Company.

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 contributive 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, the PRC, arrangements were made to transfer the staff quarters to employees who agreed to remain in service for the Company for a period of 10 years. As of the date of this report, 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.

Medical insurance scheme

As required by regulations of the local government effective 1 July 2001, the Company participates in a defined contribution medical insurance scheme organised by local social security authorities. Under the scheme, the Company is required to make monthly contributions at the rate of 12% of the total salaries of the employees, after certain adjustments on individual employee's salary in accordance with applicable regulations. In addition, pursuant to the aforementioned regulations, the contributions are charged to staff welfare payable accrued by the Company. The Company has no obligation for the payment of medical benefits beyond such contributions to the registered insurance companies.

Pension scheme

Details of the pension scheme of the Company are set out in note 34 to the financial statements.

Compliance with the Code of Best Practice

The Company has not established an audit committee during the year 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 Listing Rules (the "Code of Best Practice"). However, the Company's organisational structure has, in lieu, a supervisory committee ("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, none of the directors has knowledge of any information indicating the Company, either presently or at any time during the year, was/is not in compliance with the Code of Best Practice.

Post balance sheet events

Details of the significant post balance sheet events of the Group are disclosed in note 41 to the financial statements.

Auditors

Ernst & Young retire and a resolution for their reappointment as international auditors of the Company will be proposed at the forthcoming annual general meeting for consideration.

On behalf of the Board

Li Kelin
Chairman

Shanghai, the People's Republic of China
12 March 2004