

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.

The Company held its second meeting of the 2004 board of directors on 12 March 2004, where the following resolutions were considered and duly passed: the motion regarding the establishment of the audit committee of the Company; the motion regarding the formulation of the implementation rules for the audit committee of the Company; the motion regarding the establishment of the strategy committee of the Company; the motion regarding the formulation of the implementation rules for the strategy committee of the Company; the motion regarding the formulation of the management system for investors' relationships of the Company. The Company held its 2003 annual general meeting on 10 June 2004, where the establishment of the audit committee of the Board of Directors of the Company and the establishment of the strategy committee of the Board of Directors of the Company were approved.

The Company held its third meeting of the 2004 board of directors on 13 April 2004, where the amendments to the Articles of Association of the Company were in order to reflect (i) the relevant provisions of Appendix 3 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited which came into effect on 31 March 2004; and (ii) the requirements stipulated by, Article 31 of the "Guidelines for Corporate Governance of Listed Companies" and the "Circular on Certain Issues regarding Regulation of Capital Transfer between Listed Companies and their Connected Parties and Provision of Guarantee by Listed Companies to Outside Parties". The Company held its 2003 annual general meeting on 10 June 2004, where the above-said amendments were approved.

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2. Implementation of profit distribution plan

The Company held its 2003 annual general meeting on 10 June 2004, where the proposed profit distributions plan of the Company for 2003 was approved. The dividend was proposed to be distributed at RMB0.15 per share on the basis of the share capital of 3,326,000,000 shares as at 31 December 2003 and the aggregate amount of dividend to be distributed was RMB 498.9 million. The above said dividend has been distributed to holders of H shares, state legal person shares and A shares of the Company whose names appeared on the register of members of the Company at the close of business on 18 April 2004.

3. Material litigation or arbitration

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

4. Guarantees

| Debtor | Time of signature | Guarantee RMB'000 | Term for deed of security | Completion (Yes/No) |
|--|-------------------|----------------------|------------------------------|------------------------|
| Zhuhai New Century Shipping Company Limited | December 2003 | 42,000 | 2 years | No |
| Total amount of the guarantee | | 42,000 | | |
| Outstanding amount of the guarantee | | 42,000 | | |

5. Major Connected transactions

The Group had connected transactions during the Reporting Period with the holding company, fellow subsidiaries, jointly-controlled entities, affiliated companies as well as related companies. The detailed information of the significant connected transactions has been set out in note 17 to the financial statements prepared under HKGAAP in Appendix II to this interim report.

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6. 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.

7. Compliance with the code of best practice

The directors have 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 (the "Code of Best Practice") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Audit Committee comprises three independent non-executive directors. To the best knowledge of the Board, it was considered that the Company had fully complied with the requirements of the Code of Best Practice.

8. Shareholdings of Substantial Shareholders

As at 30 June 2004, the following persons, other than the directors, supervisors or senior management of the Company, held 5 per cent or more interests in the relevant class of shares of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance ("SFO"):

| Name of shareholders | Class of shares | Number of shares | Percentage of total Number of the relevant class shares | Percentage of total number of issued shares |
|--|--------------------|--|---|---|
| China Shipping (Group) Company | State-owned shares | 1,680,000,000 | 100% | 50.51% |
| Morgan Stanley | H shares | 78,506,315(long position) 76,970,000(short position) | 6.06% 5.94% | 2.36% 2.31% |
| J.P. Morgan Chase & Co. | H shares | 132,027,844(long position) 17,076,000(short position) | 10.19% 1.32% | 3.97% 0.51% |
| | | 54,171,181 (lending pool) | 4.18% | 1.63% |
| Morgan Stanley International Incorporated | H shares | 68,047,176(long position) 499,400(short position) | 5.25% 0.04% | 2.05% 0.015% |
| Morgan Stanley Asia Pacific (Holdings) Limited | H shares | 65,992,776(long position) 424,000(short position) | 5.09% 0.03% | 1.98% 0.013% |
| Morgan Stanley Asia Regional (Holdings) III LLC | H shares | 65,399,000(long position) | 5.09% | 1.97% |
| Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd. | H shares | 65,399,000(long position) | 5.09% | 1.97% |
| Morgan Stanley Investment Management Company | H shares | 65,399,000(long position) | 5.09% | 1.97% |

Save as disclosed above, the register required to be kept under Section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares or underlying shares of the Company as at 30 June 2004.

9. Interests of directors and supervisors in the share capital of the Company

During the Reporting Period, none of the directors, supervisors, chief executives of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Section XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies. None of directors, supervisors, chief executives of the Company or their associates had been granted or had exercised any such rights during the six months ended 30 June 2004.

10. Designated Deposit and Due Fixed Deposit

As at 30 June 2004, the Group had no designated deposits that are placed with financial institutions in the PRC. All of the Group's cash deposits are placed with commercial banks in the PRC and are in compliance with relevant laws and regulations. The Group had not experienced any incidents of not being able to withdraw bank deposits when due.

11. Employees

As at 30 June 2004, the Company had 7,897 employees. Adjustment of employee remuneration are calculated in accordance with the Company's turnover and profitability and is determined by assessing the correlation between the total salary paid and the economic efficiency of the enterprise. Under this mechanism, management of employees remuneration will be more efficient while employees will be motivated to work hard to bring encouraging results of the Company. Save from the remuneration disclosed above, the Company does not maintain any share option scheme for its employees and the employees do not enjoy any bonus. The Company regularly provides for its administrative personnel training on various subjects, including operation management, foreign languages, computer skills, industry know-how and policies and laws, in different forms, such as seminars, site visits and study tours.

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 selective 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. At the year end of 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. 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.

14. 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.