Mr. Li Kelin, Chairman

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

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 international shipment.

The principal activities of the Company's principal subsidiaries and jointly-controlled entities are oil and cargo shipment. Other than the termination of international container shipment due to the disposal of its interest in an associate, there were no significant changes in the nature of the Group's principal activities during the year.

Business review

In 2002, in spite of fluctuations in the world economic due to some uncertainties in the global economy, there were indications that the world economy began to recover. The international shipping market remained sluggish for the first half of 2002, but began to recover in the second half. On the other hand, with the rapid growth in the domestic economy and foreign trade in the PRC, the domestic shipping market has been improved steadily. The balance between the supply and demand for shipping capacity sustains itself and in the PRC the domestic shipping market and the freight price keep stable.

In 2002, according to the changes in the shipping market, the Group made active readjustment to its shipping capacity composition, accelerated its shipment turnover, and improved its operating efficiency. As a consequence, the Group has enjoyed continuous progress in its operating results for many years.

REPORT OF THE DIRECTORS

(Continued)

The Company grasped the chance of Shangdong Shengli Oilfield's resumption of transportation of oil by sea, and took over all contracts concerning the delivery of oil from Qingdao to southern China. Therefore, the shipping volume of oil transported by pipeline was 4.934 million tonnes, representing an increase of 42.4% compared with the same period of last year. On the other hand, the Company also focused on the transshipment of imported oil. In 2002, the transshipping volume of oil was 4.65 million tonne nautical miles, an increase of 62.6% from last year. The shipping volume of oil carried by the Company was 43.66 billion tonne nautical miles, representing an increase of approximately 15.9% as compared with the same period in 2001. The revenue arising from oil transportation was Rmb2,717,862,000, representing an increase of approximately 7.0% as compared with the same period in 2001, which was the highest record achieved by the Company.

In 2002, the Company concentrated on coastal transportation of coal for electricity in the PRC, and made great effort to explore new revenues in the shipping market. The shipping volume of coal and ores carried by the Company increased in 2002. Meanwhile, the Company has acquired the shipment of eucalyptus wood chips from southern China to northern China. In 2002, the Company made improvement in stabilizing and increasing its market share steadily in the domestic shipping market in the PRC. In respect of operating strategy, the Company continued to expand overseas transportation and vessel chartering as accommodation to supplement to its business. At the same time, through executing mid-term or long-term contracts of affreightment ("COA") with its major customers and personalising its customer service, the Company devoted much effort to enhance its co-operation with its major customers. In 2002, the volume of coal carried by the Company's vessels was 30.54 billion tonne nautical miles, representing an increase of approximately 15.9% as compared with the same period in 2001. The revenue from coal transportation was Rmb988,462,000, representing an increase of approximately 2.6%, as compared with the same period in 2001. The shipping volume of other dry bulk cargoes was 15.01 billion tonne nautical miles, representing an increase of approximately 18.2%, and the revenue from other dry bulk cargoes was Rmb389,694,000, representing a slight decrease of 0.3%, as compared with the same period in 2001.

Segment information

The detailed information of operation by business segments and geographical segments in accordance with the PRC accounting standards for the year ended 31 December 2002 and their fluctuation as compared with year 2001 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`million	Rmb`million	%	%	%	%
Domestic	Coal Shipment	1,110.44	820.79	22.8	13.8	(6.9)	26.6
	Oil Shipment	1,837.71	1,075.60	38.1	12.6	5.4	11.9
	Others	129.42	115.89	7.3	(11.5)	(3.2)	(50.5)
	Sub-total	3,077.57	2,012.28	34.6	11.7	5.5	14.4
International	Coal Shipment	36.70	35.23	2.6	77.0	125.5	(88.4)
	Oil Shipment	947.13	823.12	12.6	(5.8)	6.9	(45.4)
	Others	264.40	227.88	13.8	5.8	(4.5)	220.6
	Sub-total	1,248.23	1,086.23	13.0	(2.1)	6.0	(35.2)
	Total	4,325.80	3,098.51	28.4	7.3	5.7	4.3

REPORT OF THE DIRECTORS

(Continued)

The Group's segment information prepared under the accounting principles generally accepted in Hong Kong 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 2002 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 2002
China Shipping Development (Hong Kong) Marine Co., Limited	100	USD500,000	International transportation, ship leasing, ship repair, shipping agency, cargo forwarding, supply of ship spare parts, supply of bunker, materials and food, trade.	(Rmb587,000)
Hainan Haixiang Shipping Co., Ltd.	95	Rmb101,000,000	Coastal and middle and lower reaches of Yangtze River cargo transportation, refined oil transportation, ship repair and leasing.	Rmb6,308,000

Name	Percentage of equity attributable to the Company(%)	Registered capital	Principal activities	Net profit /(loss) for year 2002
	50	Rmb60,000,000		Rmb1,597,000
Zhuhai New Century Marine Co., Ltd.			Coastal and middle and lower reaches of Yangtze River cargo transportation, domestic trade (excluding the goods controlled by the state).	
	50	Rmb20,000,000		Rmb14,528,000
Shanghai Friendship Marine Co., Ltd.			Coastal and middle and lower reaches of Yangtze River cargo transportation, foreign trade, entrepot trade.	
	47.5 (間接)	Rmb100,000,000		Rmb13,980,000
Shanghai Times Shipping Co., Ltd.			Coastal and middle and lower reaches of Yangtze River cargo transportation, cargo forwarding, ship repair, trade.	
	10	Rmb40,000,000		Rmb3,490,000
Shanghai Bao Jiang Shipping Co., Ltd.			Coastal and middle and lower reaches of Yangtze River cargo transportation, cargo forwarding, sale and purchase of electricity machinery and equipment, chemical equipment, metal materials, chemical raw materials and product, and building materials.	

The net profit/(loss) for year 2002 of the abovementioned companies are prepared under the PRC accounting standards.

REPORT OF THE DIRECTORS

(Continued)

Major customers

In the year under review, the five largest customers of the Group accounted for less than 30% (2001: less than 30%) of the Group's total turnover. As far as the directors are aware, none of the directors, their associates, nor any shareholders, which to the best knowledge of the directors, own 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 53% (2001: 47%) 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 31% (2001: 24%) of the Group's total purchases in that year.

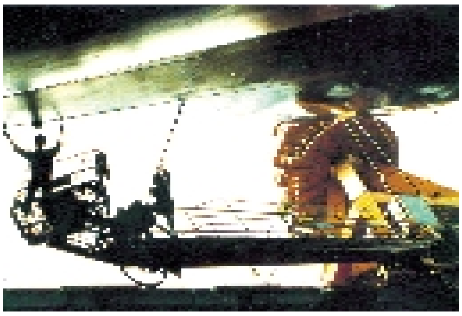
Another three subsidiaries of China Shipping constituted three of the remaining four largest suppliers. Except as mentioned above, as at 31 December 2002, none of the directors, their associates, nor any shareholders, which to the best knowledge of the directors own 5% or more of the Company's shares, had any beneficial interests in the five largest suppliers of the Group.

Summary financial information

Operating results prepared in accordance with the PRC accounting standards:

Items	2002	2001	
	Rmb'000	Rmb'000	Increase(%)
Turnover	**4,325,796**	4,029,977	7.3
Gross Profit	**1,118,684**	999,430	11.9
Net profit from ordinary activities attributable to shareholders	**571,919**	351,297	62.8
Net increase (decrease) in cash and cash equivalents	**272,812**	(188,117)	Not applicable

In 2002, the Group, focusing on its operating activities of oil shipment and dry bulk cargo 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 2001. In 2002, 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 outweigh 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 2001.



China Shipping Container Lines Co., Ltd. ("CSC"), a former associate of the Company, suffered significant losses. In 2001, the Company shared a loss of approximately Rmb281 million from CSC. With the transfer of the Company's interest in CSC to China Shipping on 9 September 2002, the Company 's share of loss from CSC decreased to Rmb126 million for the relevant period of 2002.

In 2002, the net profit of the Company increased significantly as a result of the increase in turnover from operating activities and the decrease in investment loss.

The main reason for the increase in cash and cash equivalent of the Company in 2002 was a result of the combined effect of the increase in operating revenue, improvement in trade debt collection and the fact that the Company made a partial payment in 2001 for the acquisition of the 20 oil tankers from a fellow subsidiary.

Total assets and shareholders' equity prepared in accordance with the PRC accounting standards:

Items	**31 December 2002**	31 December 2001	Increase (%)
	Rmb'000	Rmb'000	
Total assets	**9,002,401**	8,836,432	1.9
Shareholders' equity	**6,149,094**	5,084,481	20.9

There is no material fluctuation in the total assets as at 31 December 2002 as compared with 31 December 2001.

The shareholders' equity increased by approximately 21% during the year of 2002 due to the issue of A shares in the PRC and the Company's better operating results.

As at 31 December 2002, the debt equity ratio of the Group was 31.6%, representing a decrease of approximately 10.8% as compared with that of 1 January 2002.

As at 31 December 2002, the Group's foreign currency borrowings mainly included the finance lease payables denominated in US Dollar and Euro which were equivalent to Rmb41,540,000 and Rmb158,997,000, respectively. In addition, dividends are distributed in HK Dollars.

The Group's income from international shipping is denominated and settled in US Dollar. At present, the exchange rate for Renminbi is steady. The Group does not expect to be exposed to significant foreign exchange risk. However, there is no assurance that such exposure will not have any effect on the Group's operating results in future.

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.

	Year ended 31 December				
Results	**2002**	2001	2000	1999	1998
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Turnover	**4,096,018**	3,894,926	3,190,847	3,110,238	3,257,117
Operating costs	**(3,010,519)**	(2,915,404)	(2,572,089)	(2,561,877)	(2,720,624)
Gross profit	**1,085,499**	979,522	618,758	548,361	536,493
Other revenue and gains	**161,783**	199,740	190,498	208,073	77,282
Administrative expenses	**(201,406)**	(164,595)	(162,364)	(203,397)	(154,289)
Other operating expenses	**(125,468)**	(116,511)	(110,896)	(86,724)	(25,268)
Profit from operating activities	**920,408**	898,156	535,996	466,313	434,218
Finance costs	**(132,022)**	(179,057)	(213,742)	(278,967)	(392,923)
Share of the profit of jointly-controlled entities	**14,495**	-	-	-	-
Share of the profit/ (loss) of an associate	**(100,101)**	(280,786)	2,760	(27,537)	(19,788)
Profit before tax	**702,780**	438,313	325,014	159,809	21,507
Tax	**(111,249)**	(113,055)	(43,047)	(33,298)	(12,196)
Profit before minority interests	**591,531**	325,258	281,967	126,511	9,311
Minority interests	**(335)**	-	-	362	1,321
Net profit attributable to shareholders	**591,196**	325,258	281,967	126,873	10,632
Earnings per share	**18.51**	10.93	9.47	4.26	0.38

Assets, liabilties and minority interests	**31 December 2002**	31 December 2001	31 December 2000	31 December 1999	31 December 1998
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Total assets	**9,068,757**	9,007,693	8,379,691	9,002,804	9,803,208
Total liabilities and minority interests	**(2,446,264)**	(3,652,889)	(3,201,332)	(4,106,412)	(5,033,689)
Net assets	**6,622,493**	5,354,804	5,178,359	4,896,392	4,769,519

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 2001 are extracted from the Company's 2001 annual report dated 25 March 2002, while those of the year ended 31 December 2002 were prepared based on the consolidated income statement and consolidated balance sheet as set out on page 63 and 64 of the financial statements.

2. The earnings per share for the year ended 31 December 2002 is calculated based on the net profit attributable to shareholders for the year ended 31 December 2002 of Rmb591,196,000 (2001: Rmb325,258,000) and the weighted average number of shares of 3,194,630,000 (2001: 2,976,000,000 shares) in issue during the year.

Use of proceeds from the Company's issue of "A" shares

The proceeds from the Company's issue of "A" shares in May 2002, after deduction of related issuance expenses, amounted to approximately Rmb825,296,000. These proceeds were fully applied during the year ended 31 December 2002 to the repayment of borrowings in relation to the acquisition in 2001 of 20 oil tankers from Guangzhou Maritime Transport (Group) Company Limited, a subsidiary of China Shipping, in accordance with one of the proposed applications set out in the Company's prospectus for the "A" shares.

The effect of changes in operating environment, strategic policies and laws and regulations

Following the further opening of domestic coastal shipping market, some PRC domestic shipping companies may transfer part of their shiping vessels from global to the domestic shipping market and hence competition in the domestic coastal shipping market is expected to become fierce.

The changes in the world's situation greatly affect the demand for and supply of oil. Since June 2002, the price of fuel has increased. We are highly aware of the price fluctuation of fuel and will take various measures to control the cost of fuel.

Business plan for 2003

In 2003, it is expected that there remain some uncertainties in the global economy. The economic development of the United States, being the leader of the global economy, remains unclear. This undoubtedly will have some impact on the international shipping market. On the other hand, with the steady increase in the volume of domestic and foreign trade of the PRC, the demand for shipment of coal, ores and oil will increase accordingly. This in turn will create favourable conditions for the Company to maintain its advantages in terms of coastal transportation as well as a healthy development. However, the Company will closely monitor the changes in the shipping market, governmental strategic policies, relevant laws and regulations of the PRC, and their impact on the Company.

The domestic demand for oil increased significantly due to the continuous improvement in the economy of the PRC. It is estimated that the annual volume of imported crude oil will remain at 70 million tonnes, the annual volume of imported product oil will reach 18 million tonnes, and the annual volume of imported crude oil will reach 130 million tonnes by 2010. The Company is making much effort to build new vessels to increase its oil shipping capacity with a view to meet the increasing demand for the crude oil shipment. The Company entered into a contract in December 2000 for the construction of four 42,000-tonne oil tankers for transportation of crude and refined oil. In addition, the Company entered into other contracts for the construction of three 110,000-tonne tankers and two 42,000-tonne oil tankers for the transportation of refined oil and crude oil in 2002, of which a 110,000-tonne tanker is expected to be put into operation in 2005. The remaining four are expected to be put into operation in 2004. At the beginning of 2003, the Company chartered a 110,000-tonne tanker from China Shipping. As a result, a total of 10 oil tankers with capacity of 692,000 tonnes deadweight will be added to the Company's oil tanker fleet. In addition, the Company is considering to build four dry bulk cargo vessels with a total capacity of 228,000 tonnes.

The directors are fully aware of the price fluctuation of fuel oil and will take the necessary measures to control the cost of fuel oil. Since 2002, the Company has entered into contracts with its major customers, under which the freight rate of oil are connected with the fuel prices. This will mitigate the impact of the high oil prices on the Company's operating profit.

In 2003, the Group will insist on the operating strategy of "focusing on coastal shipment and expanding ocean transportation". The Group will put every effort to reform and standardise its operations, and improve its operating efficiency. Meanwhile, the Group will, through the establishment of joint ventures, execution of contracts of af-freightment with its major customers and chartered shipping agreements with shipowners, make much effort to further secure and enhance its market share. In addition, the Group will take active measures to control its operating costs, such as fuel costs, maintenance costs, management expenses and port charges, so as to meet the target for 2003 as set out by the Board.

Daily work of the board of directors (the "Board")

1. Board meetings and resolutions passed

a. The Company held the first meeting of the Board for the year on 25 March 2002, and major resolutions included:

   i. the 2001 audited financial statements of the Company were approved;

   ii. the proposed profit distribution plan of the Company for 2001 was approved;

   iii. the 2001 report of the Board was approved;

   iv. the remuneration of the directors and supervisors of the Company for 2002 was determined;

   v. the reappointment of Shanghai Zhonghua Huyin C.P.A. and Ernst & Young as the domestic and international auditors of the Company for 2002 respectively was approved, and the Board was authorised to determine their remuneration;

   vi. the resignation of Zhang Denghui as a director of the Company, and the appointment of Yan Zhichong as a director of the Company (with effect immediately after the AGM) was approved, whereby Mr. Yan's term of office shall be the same as the term of office of directors of the current Board;

vii. the proposal in respect of opening a foreign currency account with CITIC Bank was approved;

viii. the proposal in respect of the order in which the proceeds from issuance of A share will be used was approved;

ix. the proposal to grant to the directors of the Company a general unconditional mandate to allot, issue and deal with additional H shares of Rmb1.00 each in the capital of the Company ("H Shares"), not exceeding 20% of the aggregate nominal amount of the H Shares was approved; and

x. the proposal in respect of the convening of the Annual General Meeting 2002 was approved.

b. The Company held its second meeting of the Board for the year on 8 April 2002, at which the board approved the proposal of the Company's profit forecast for 2002.

c. The Company held the third meeting of the Board for the year on 10 June 2002, and major resolutions included:

i. the proposal relating to the report on the Examination of the Company on the Establishment of Modern Enterprise System was approved;

ii. the proposal in respect to the disposal of the vessel "Daqing 212" was approved;

iii. the proposal to pay in advance the two banking loans for the vessel "Daqing 92" and other three vessels was approved;

iv. the proposal regarding construction of two 110,000 ton vessels for the transportation of refined and crude oil was approved; and

v. the resolution regarding application for a long-term loan to be made to the bank was approved.

d. The Company held the fourth meeting of the Board for the year on 26 June 2002, and major resolutions included:

i. the proposal regarding construction of two 110,000 ton vessels for the transportation of refined and crude oil was passed; and

ii. the proposal regarding an application for a long-term loan facility to be made to the Bank of China (Shanghai branch), which would be secured by vessels as mortgage, was approved.

e. The Company held the fifth meeting of the Board for the year on 10 July 2002, and major resolutions included:

i. the resolution regarding the renewal of the bareboat charterparties for six dry bulk cargo vessels, namely "Yong An 1", "Yong An 2", "Yong An 3", "Yong An 4", "An Ping 3" and "An Ping 6" was approved;

ii. the resolution regarding the renewal of the bareboat charterparty for the oil tanker, "Daqing 88" was approved; and

iii. the resolution regarding the reduction in the charter payments for five container vessels, namely "Xiangda" , "Xiangxiu", "Xiangwang", "Xiangzhu" and "Xiangxing" was approved.

f. The Company held the sixth meeting of the Board for the year on 2 August 2002, and major resolutions included:

i. the proposal regarding further investment in Hainan Haixiang Shipping Company Limited was approved;

ii. the proposal regarding the construction of two 42,000 ton vessels for the transportation of refined and crude oil was approved; and

iii. the proposal regarding an application for a long-term loan facility to of Rmb 299,398,000 be made to the Industrial and Commercial Bank of China (Guangzhou branch), which would be secured by the two vessels, was approved.

g. The Company held the seventh meeting of the Board for the year on 19 August 2002, and major resolutions included:

i. the interim financial statements of the Company for 2002 were approved;

ii. the proposed profit distribution plan of the Company for the first half of 2002 was approved;

iii. the interim report of the Company for 2002 was approved; and

iv. the interim report of the Company (excerpt) for 2002 was approved.

h. The Company held the eighth meeting of the Board for the year on 7 September 2002, and major resolutions included:

i. the proposal regarding the transfer of the interests of the Company in CSC to China Shipping was approved; and

ii. the proposal regarding the construction of one 110,000 ton vessels for the transportation of refined and crude oil was approved.

i. The Company held the ninth meeting of the Board for the year on 23 October 2002, and major resolutions included:

  i. the financial report of the Company for the third quarter of 2002 was approved; and

  ii. the report of the Company for the third quarter of 2002 was approved.

j. The Company held the tenth meeting of the Board for the year on 9 December 2002, and major resolutions included:

  i. the proposal regarding the disposal of the vessel "Daqing 30" was approved;

  ii. the proposal regarding the renewal of the bareboat for the oil tanker, "Daqing 88" was approved;

  iii. the proposal regarding the renewal of the bareboat for seven container vessels, namely "Xiang Wang" and six other vessels was approved; and

  iv. the proposal in respect of providing guarantee to New Century Shipping Company Limited for its bank loan was approved.

k. The Company held the eleventh meeting of the Board for the year on 16 December 2002, at which the board passed the proposal regarding the construction of four 57,300 tonnes vessels.

l. The Company held the twelfth meeting of the Board for the year on 27 December 2002, at which the following resolutions were passed:

  i. the proposal regarding the time charterparty of the vessels "Song Lin Wan" was approved; and

ii. the proposal regarding the disposal of the vessel "Daqing 216" was approved.

2. The execution of the resolutions passed at the annual general meeting

   The annual general meeting held on 28 May 2002 by the Company approved the resolution regarding the proposed profit distributions plan of the Company for 2001. The dividend was proposed to be distributed at Rmb0.05 per share on the basis of the share capital of 2,976,000,000 shares as at 31 December 2001, and the aggregate amount of dividend to be distributed was Rmb148.8 million. The above dividend has been distributed to holders of H shares and domestic corporate shares of the Company whose names appeared on the register of members of the Company at the close of business on 26 April 2002.

Distributable reserves

As at 31 December 2002, before the proposed final dividend the Company's reserves available for distribution, as determined based on the lower of the amount determined under the PRC accounting standards and the amount determined under generally accepted accounting principles in Hong Kong, amounted to Rmb695,038,000. In addition, according to the Company Law of the PRC, an amount of approximately Rmb2,037,884,000 standing to the credit of the Company's share premium account is available for distribution by way of future capitalisation issues.

Results and dividends

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 63 to 126.

The net profit of the Company for 2002 was Rmb571,605,000 which is determined based on the PRC accounting standards, 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 non-distributed profit of Rmb398,432,000 as at 1 January 2002, the distributable reserve is Rmb855,716,000 as at 31 December 2002 as determined based on the PRC accounting standards. According to the relevant laws and regulations, the Company's reverses available for distribution are determined based on the lower of the amount determined under the PRC accounting standards and the amount determined under generally accepted accounting principles in Hong Kong.

The Company has no plan to transfer the share premium to increase share capital in 2002.

The directors recommend the payment of a final dividend of Rmb0.1 per share in respect of the year to shareholders on the register of members at the close of business on 28 April 2003. 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

Details of movements in the Company's share capital, together with the reasons therefor, are set out in note 31 to the financial statements.

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
Mr. Xue Qingxiang
Mr. Zhang Denghui (resigned on 28 May 2002)
Mr. Yan Zhichong (appointed on 28 May 2002)

Non-executive directors:
Mr. Shen Kangchen
Mr. Zhang Qi

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 Annual Report.

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 17 August 2003.

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 determinable 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 Rmb43,724,000 (2001: Rmb43,374,000).

Contracts of significance

During the year, the Company did not have any trusts, contracts or lease with other entities or those which occurred in the previous years but were postponed to this year.

As at 31 December 2002, the aggregate amount of credit guarantees of the Company was Rmb46,600,000, which were provided to a jointly-controlled entity and a related company of the Company in respect of loans from financial institutions. The details are set out in the note 36 to the financial statements.

The Company did not have any trust arrangement with any security companies during the year.

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

Pursuant to the share transfer agreement entered into between the Company and China Shipping on 9 September 2002, the Company transferred its 25% equity interests in CSC to China Shipping at a consideration of Rmb1. The Company is entitled to an option to buy back from China Shipping all or part of the disposed interests in CSC at terms and consideration to be agreed between the two parties.

Substantial shareholders

As at 31 December 2002, the following shareholders held 10% or more of the share capital of the Company according to the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"):

	Number of shares	Percentage of the Company's issued capital
China Shipping (Group) Company	1,680,000,000	50.51%
HKSCC Nominees Limited	1,247,776,298	37.52%

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

Directors' and supervisors' interests in contracts

As at 31 December 2002, none of the directors nor supervisors had a material interest 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 during the year.

Directors' and supervisors' interests in shares

As at 31 December 2002, none of the directors, supervisors, or their associates had any personal, family, corporate or other interests in any equity or debt securities of the Company or any associated corporations (as defined in the SDI Ordinance) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Companies.

Directors' and supervisors' rights to subscribe for shares or debentures

At no time during the year was the Company or any of its subsidiaries, fellow subsidiaries, or its holding company a party to any arrangement enabling any directors or supervisors or their spouses or children under the age of 18 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, associate, as well as related companies, further details of which are set out in note 40 to the financial statements.

The executive directors and non-executive directors have reviewed the connected transactions and confirmed that, during the year ended 31 December 2002, such transactions were:

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

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

(iii) fair and reasonable so far as the shareholders of the Company were concerned.

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, the PRC, arrangements were made to transfer the staff quarters to employees who agreed to remain in service for a period of 10 years. As at 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 from 1 July 2001, the Company participates in a defined contribution medical insurance scheme organised by the 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 preceding month. 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.

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 accounting period covered by the Annual Report.

REPORT OF THE DIRECTORS

(Continued)

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.

ON BEHALF OF THE BOARD

Li Kelin
Chairman

Shanghai, the People's Republic of China
25 March 2003