In 2000, the shipping volume of oil from the north of China decreased, the Group strengthened its cooperation with customers, and signed agreements for shipment of oil with customers in the coastal provinces. In addition, the Group actively developed feeder transportation and barging services of imported crude oil. As a result, the Group maintained its market share of barging service of domestic oil and the shipment of ocean oil. Despite the fact that the domestic shipping volume of crude oil decreased by approximately 2 million tons, the Group achieved its targets for shipment of domestic crude oil and product oil set at the beginning of 2000.

With the recovery of the global economy, the consumption demand for crude oil increased, and the demand for international oil transportation increased significantly in 2000. The Company took advantage of favorable opportunities in international oil shipping market, adjusted shipping capacity according to the changes of oil consumption and expanded overseas oil transportation. The overseas shipping volume of oil for 2000 was 19.12 billion tonne-nautical miles and the revenue derived from it was RMB635.34 million, representing increases of 26.5 per cent and 35.7 per cent as compared with the same period of 1999 respectively. The ratio of the revenue derived from overseas oil shipment to the total revenue derived from oil transportation increased from 27% in 1999 to 33% in 2000 by 6 per cent as compared with 1999.

2. Increase in dry bulk cargo transportation

In 2000, the demand for coal in the international market increased due to the rise in the fuel prices. The Group took advantage of favorable market opportunities and made careful arrangement of dry bulk cargo transportation according to the seasonal changes of cargo resources, so as to achieve better operating profit. The Group, focusing on establishing stable cooperation relationships with major customers, entered into annual shipment contracts for the transportation of coal with them. In 2000, the Group signed contracts with a total shipping volume of 32 million tons, and fulfilled 114 per cent of contracts entered into with the major cargo owners. On the other hand, the Group adopted active competitive strategies to stabilize the coal transportation business of Zhangzhou Houshi Electricity Plant, the machine group of phase II of Yangzhou Electrivity Plant and Zhuhai Electricity Plant. The Group has also made great efforts to regain the business of Ligang Power Plant, Xiagang Power Plant and Yaogang Power Plant, and to gain the new business of phase VI and VIII projects of Shanghai Wujing Power Plant. The shipping volume of coal carried by the Group along the domestic coastal regions increased by 3 million tons. The volume of coal shipped by the Group at the five ports in the north of China-Qinhuangdao, Tianjin, Rizhao, Qingdao and Lianyungang, ac-

counted for approximately 54 per cent of the total volume of coal shipped at the above ports, increasing by approximately 4 per cent over 1999 which in turn increase 14 per cent over 1998. In addition, the Group cooperated with the Port Authority of Nanjin, Huainan Coal Mine and Huaibei Coal Mine, so as to commence modern logistical services. To improve its influence over the shipping market and make up for its insufficient shipping capacity, the Group actively leased vessels from other ship owners. Presently, with East China as the focus, the Group has extended its coal transportation business to Fujian and Shandong provinces, and established a market network covering Northeast China, East China and South China. The total volume of coal carried by the Group for 2000 was 26.8 billion tonne-nautical miles, and the revenue derived from coal transportation was RMB980.3 million, increasing by 12.6 per cent and 9.7 per cent over 1999 respectively. Dry bulk cargo transportation of the Group began to increase its profits in 2000, and the gross profit for the year ended 31st December 2000 was approximately RMB15.54 million.

3. Rapid progress in container transportation

China Shipping Container Lines Co. Ltd. ("CS Container Lines"), an associate of the Company(with 25% of its shares owned by the Company), made further rapid development in 2000. For the year ended 31st December, 2000, the revenue derived from container transportation was RMB7.04 billion and the volume of loaded container cargo shipped by CS Container Lines was 1,440,000 TEUs, as increased from RMB0.98 billion and 249,000 TEUs respectively during the same period of 1998. As at the end of 2000, CS Container Lines operated over 100 container carriers with an aggregate shipping capacity of 120,000 TEUs, as increased from 10 container carriers with 4,600 TEUs in 1998. CS Container Lines is presently operating several super-panamax container carriers of 5500 TEUs, as increased from the average capacity of hundreds of TEUs in 1998. CS Container Lines is now operating more than 40 shipping routes, covering the main trade regions of the Far East, Europe, Australia, Mediterranean and America. CS Container Lines is listed as one of the top carriers worldwide, a successful transformation from its origins as a carrier operating 6 coastal feeder routes. In 2000, following cooperation with CMA CGM and ZIM, CS Container Lines commenced container liner services between the Far East and America, so as to increase the coverage and scope of its services in America, Europe and Mediterranean. On the other hand, CS Container Lines made adjustments to the near-ocean routes, and commenced services from Dalian and Tianjin to Korea, and from Qingdao and Lianyuangang to Korea. CS Container Lines also made adjustments to the shipping capacity put into the routes from the major ports in Northern of China to Japan, and put larger container carriers into these services, so as to improve the structure of its southeast Asia services. Presently, CS Container Lines has established a service network covering the domestic coastal and nearby areas, Australia, Europe, and west and east coasts of North America. CS Container Lines is now calling at 63 different ports in 20 countries and regions, calling at 20 major ports of the PRC. More particularly, the trans-Pacific services are composed of 5 west coast of America routes and 1 east coast of America routes, calling at 8 domestic ports and 17 overseas ports respectively. The volume of container cargo carried by CS Container Lines for 2000 and the revenue derived from container transportation increased by 85 per cent and 142 per cent as compared with 1999 respectively. Despite the substantial increase in fuel prices and in the operating costs arising from the newly-added vessels and services, CS Container Lines achieved improved operating results as compared with 1999.

4. Achievements in controlling operating costs

In the past two years, as a result of the continuous increase in international oil prices, prices for bunker oil increased substially, which had an adverse effect on the operation of shipping companies. In 2000, the bunker oil price in domestic market has increased on 8 occassions. The average oil price in 2000 reached RMB1,940 per tonne, being higher than that in 1999 by 45%. As a result, fuel costs accounted for approximately 31 per cent of the operating costs in 2000, as compared with 24 per cent in 1999, which adversely affected the Group's operational efficiency.

In 2000, the Group organised a steering group in charge of controlling operating costs, focusing on the pre-controlling of the operating costs, so as to gain the initiative in operating cost control.

The operations department of the Group rationalised the scheduling of vessels according to the cargo resources. The Group also made adjustments to the vessels used and shipping routes so as to shorten empty-load distances of vessels. Second, the Group revised the rated load of vessels according to the depth of water courses, so as to increase the capacity of vessels but keeping the safety of vessels as a prerequisite. Thirdly, the Group adjusted the quota of time allowed for vessels of different types to load and unload in the past, thereby improving the handling speed of vessels and maximising the use of fuel.

The technical department of the Group took effective measures to reduce fuel oil consumption. First, through restructuring the fleet, the Group disposed of certain aged vessels with high fuel consumption. Second, the Group strengthened the analysis of the fuel consumption of its fleet and strictly controlled the proportions of light oil, diesel oil and fuel oil. Third, the Group strictly controlled expenditure on fuel oil according to the changing market prices. The Group also fixed the suitable speeds of different vessels according to the specific operation. The unit volume of fuel consumption per thousand tonne nautical miles for 2000 dropped by 4 per cent as compared with 1999.

The accounting department adopted a series of effective measures to strengthen the management control of the Group's divisions and every vessel and to reduce its operating costs. These measures include examining strictling every payment for an item of expense, follow-up tracing of the same, so as to achieve the relevant objective.

As a result of the above-mentioned measures, despite the fact that fuel costs increased by 31.7 per cent as compared with 1999, the operating costs of the Group increased by merely 0.4 per cent, which includes: a decrease of 24.4 per cent in port charges, a decrease of 12.6 per cent in maintenance expenses, a decrease of 19.8 per cent in insurance expenses, a decrease of 6.6 per cent in depreciation charges for self-operating vessels, and a decrease of 20.2 per cent in management charges.

In addition, the Group actively reported to the relevant PRC authorities regarding the adverse impact of the increase in fuel prices on our operations. The relevant PRC authorities have given the approval for the freight rate of coastal oil and crude oil shipped by the Group on the Yangtze River to be raised by 35 per cent and 5.32 per cent respectively since 1st July, 2000, and have also indicated that the increased freight rates may be raised by another 20 per cent and 10 per cent respectively. The increased revenue has partly counteracted the adverse influence of the increases in oil price on the Group's operations.