



CHAIRMAN'S STATEMENT

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5. Construction of new vessels

After more than ten years of effort, China is expected to join the WTO in the near future and play an important role in it. After China's expected entry into the WTO, the volume of both import and export trades for China is expected to further increase, which in turn will bring favorable opportunities for the development of the Group. The Group has made preparations for China's entry into the WTO. The management of the Group has undertaken thorough investigation and research on the shipping market, and made some adjustments to the composition of its fleet by purchasing or constructing a number of vessels according to the anticipated market requirements in order to be ready for a more prosperous market.

Oil transportation is the Group's largest operating business sector, and it is of great importance to the long-term development of the Group. With the further improvement of both domestic and global economies, the market demand for crude oil is expected to increase steadily. The volume of both imported oil and ocean oil is expected to increase substantially. Due to market demand, the Group has entered into agreements with several domestic shipyards for the construction of 4 oil tankers to transport both crude oil and product oil with a single capacity of 40,000 DWT, which will come into operation between the years 2002 and 2003. The Group has also purchased a second-hand oil tanker with a capacity of 110,000 DWT, which has been in service since February, 2001. In addition, the Group will construct a number of oil tankers of other types according to the market requirements.

With the recovery of the global economy, the vessels of large tonnage are more favored by large cargo owners due to their large load and low average freight rate. In the domestic coastal coal transportation market and import and export transportation markets, the requirement for Panamax-typed vessels is increasing. This enabled the Group to improve its operational efficiency and decrease operating costs to implement large-scale adjustments to the composition of its tramp fleet and to construct some Panamax-typed vessels. The Group entered into agreements with one domestic shipyard for the construction of 4 Panamax-typed vessels with a capacity of 74,000 DWT, so as to increase the ratio of the vessels of large tonnage in the Group's fleet. These 4 vessels will come into operation during the period from January of 2002 to May of 2002.

In order to expand ocean container transportation, CS Container Lines has entered into agreements through financing or by time chartering for the construction of 38 container carriers which will come into operation during the period from late 2000 to 2003. As at the end of 2003, CS Container Lines is expected to operate container carriers with an aggregate shipping capacity of 250,000 TEUs. In December 2000, 2 new full container carriers with a combined capacity of 5500 TEUs came into operation. Presently, the 2 container vessels of 5500 TEUs are of the largest type in China.

6. Cooperation with large cargo owners and expansion of shipping market

From efforts over a number of years, the Group has established close relationships with large cargo owners. In order to maintain and improve its market share, the Group actively cooperates with large cargo owners, and constantly exchanges views with them, so as to establish strategic cooperative relationships and attain mutual benefits. The Group has entered into long-term transportation contracts with large domestic coastal cargo owners. The total volume has reached over two thirds of the total annual transportation volume. This has laid down good foundation for achieving our annual transportation target.

By the further implementation and deepening of the cooperation with large cargo owners and large companies, the Group expects to achieve continuous and further improvements in its operating results.

PROSPECTS

“Outline of the Adjustments to the Composition of China’s Water Transportation” issued recently by the Communication Department of the PRC indicates that the prospects for China’s water transportation industry are very optimistic, the shipping volume is expected to increase steadily, and the composition of transportation is expected to change greatly. In the next 5 years, the volume of water transportation is expected to increase by at least 3 per cent annually, and the shipping volume of domestic coastal transportation is expected to increase by 3.8 per cent annually. The shipping volume of foreign trade cargo is expected to increase faster as compared with the shipping volume of domestic cargo.

Entry into the WTO is an important step for China to further open up itself to the outside world. Following China’s accession to the WTO, the volume of further foreign trade between China and the other countries of the world is expected to increase. The Group, being one of the largest shipping companies engaging in domestic and global transportation, is expected to benefit from the increase in the volume of foreign trade.





CHAIRMAN'S STATEMENT

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The Group has formulated its first five-year plan for this new century, that is, focusing on maritime transportation, and developing related industries. In the next five years, the Group is expected to operate a large specialised fleet, and achieve continuous and better improvements in the operational target.

The existing domestic and global shipping markets are favorable to the Group's future development. The volume of domestic crude oil is increasing, and the shipping volume of domestic crude oil is expected to increase. On the other hand, the shipping volume of ocean oil in China and imported crude oil is expected to increase, and the shipping volume of product oil is expected to increase steadily.

With respect to dry bulk cargo transportation, the further increase in energy consumption is expected to increase the shipping volume of coal. The substantial increase in international oil prices is expected to cause an increase in the export volume of coal. The volume of grain and ores is also expected to increase.

With the further improvement of China's foreign trade, container transportation is expected to become the fastest area of growth in the transportation industry. Presently, approximately 80 per cent of cargo in the global trade are transported in containers, and approximately 70 per cent of export cargo of China are transported in containers. A large number of transportation carriers are still using bulk cargo transportation method. There is great potential for container transportation to further develop in China. However, merely 3-4 per cent of domestic cargo is transported in containers. In the coming years, container transportation in China is expected to maintain an annual growth rate of 15-20 per cent.



However, the global economy starts to show signs of slowing down, and the international crude oil prices remain high. This will have an adverse effect on the Group's development. In 2001, the Group will, according to the market changes, make adjustments to its operation and marketing strategies.

In 2001, the Group will focus on the following: (1) With respect to oil transportation, the Group will strengthen the expansion its shipping market, and cooperation with large cargo owners. In addition, the Group will explore the distant ocean oil transportation business so as to improve operating results; With respect to dry bulk cargo transportation, the Group will focus on domestic coastal transportation and strengthen cooperation with cargo owners, and will continuously make adjustments to shipping capacity and shipping routes for its long-term development; with respect to container transportation, CS Container Lines will establish a number of quality lines, strengthening the operation of its major services in the United States routes, European routes and Mediterranean routes, make adjustments to near ocean services and domestic feeder services, and continuously cooperate with other lines by slot exchanges, so as to improve its service quality. Following acquisition of the 19 oil tankers from its parent company in 1998, the Company increased its revenue derived from oil transportation significantly and achieved better operating results.

The domestic capital market of China is a new one in the world, and has made rapid progress in the past years. The new market assists large enterprises to raise necessary funds. The Company proposes to place A shares in China in 2001 to raise necessary funds for its further development. The anticipated placing of A shares is expected to further improve the operational capacity of the Company

Li Kelin

Chairman of the Board

Shanghai, the People's Republic of China,
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