MANAGEMENT DISCUSSION AND ANALYSIS

The information given below does not form part of the financial statements audited by Ernst & Young, international auditors of the Group, which are set out on page 40 to page 105 of the annual report of the Company.

Business Result Review

In 2001, the shipping industry worldwide was on the decline, as a result of the slowing down of the global economic growth. The Group developed new markets, strictly controlled its costs and strengthened its management. As a result, the Group expanded steadily and its business increased on a constant basis.

For the year ended 31 December 2001, the volume of cargo carried by the Group increased from 75.4 billion ton-nautical miles in 2000 to 80.2 billion ton-nautical miles, representing an increase of 6.4%. The Group's turnover in 2001 was Rmb 3.90 billion, representing an increase of 22.1% from Rmb 3.19 billion in 2000. Profit before tax and attributable to shareholders, were Rmb 438,313,000 and Rmb 325,258,000 respectively, representing increases of 34.9 % and 15.4% respectively over that in 2000.

Crude oil and refined oil transportation are the key businesses of the Group. In 2001, the international oil transportation market faced much fluctuation. The Group organized its transportation strategies according to market demand and, hence, was able to gained business growth. The aggregate transportation volume of crude oil and refined oil handled by the Group increased by 21.5% from 33.9 billion ton-nautical miles in 2000 to 41.2 billion ton-nautical miles in 2001. The turnover from oil transportation increased by 35.4% from Rmb 1.92 billion in 2000 to Rmb 2.60 billion in 2001. Such turnover of oil transportation accounted for 67% of the Group's turnover, representing an increase of 7% over the same in 2000. The domestic oil transportation volume increased by 18.9% from 14.8 billion ton-nautical miles in 2000 to 17.6 billion ton-nautical miles in 2001, whereas the volume of oil transportation on international routes, however, increased by 23.6% from 19.1 billion ton-nautical miles in 2000 to 23.6 billion ton-nautical miles in 2001.

In 2001, demand for international bulk cargo transportation continued to decrease, while the domestic market remained almost unchanged. The total volume of the Group's domestic coal shipping in 2001 was 25.1 billion ton-nautical miles, representing an increase of 2.9% from 24.4 billion ton-nautical miles in 2000. The total volume of international coal transportation decreased from 2.4 billion ton-nautical miles in 2000 to 1.2 billion ton-nautical miles in 2001. The total volume of the Group's domestic and international coal shipping in 2001 was 26.3 billion ton-nautical miles, representing an decrease of 1.9% from 26.8 billion ton-nautical miles in 2000. The turnover from coal transportation increased by 1.7% to Rmb 997 million in 2001.

In 2001, the total volume of general cargo shipping was 12.7 billion ton-nautical miles, decreased by 13.6% from that of 2000. The domestic and the international general cargo shipping volume were 3.4 billion ton-nautical miles and 9.3 billion ton-nautical miles respectively, representing increases of 17.2% and decreases of 21.2% over 2000. The turnover from general cargo shipment increased from Rmb 373 million in 2000 to Rmb 396 million in 2001, representing an increase of 6.2%.

China Shipping Container Lines Company Limited, in which the Group has a 25% interest, experienced difficult market conditions in 2001. In 2001, the container shipping volume increased from 1,440,000TEU in 2000 to 1,737,000TEU, representing an increase of 21%.

Cost Analysis

The Group strengthened its cost management on a constant basis. For the year ended 31 December 2001, the Group's operating costs increased from Rmb 2.572 billion in 2000 to Rmb 2.915 billion. The total cost of the Group increased by 13.3%. The items that increased much were port charges, repair and maintenance expenditure and insurance cost.

Although the domestic and international fuel prices decreased in 2001, the fuel costs of the Group for 2001 were Rmb 829 million, (equivalent to 28% of the total costs), representing an increase of 2% over the Rmb 811 million (equivalent to 32% of the total costs) in 2000. It was a result of the purchase of 21 oil tankers by the Group. Following the implementation of new energy-saving strategy and technology to decrease the consumption of fuel, the increase of the fuel costs was lower than that of the oil consumption.

The port charges increased from Rmb 226 million (equivalent to 9% of the total costs) in 2000 to Rmb 306 million (equivalent to 10 % of the total costs) in 2001, representing an increase of 35%, following the increase in international transportation business of the Group, which was a result of adjustment of transportation structure and the increase of the rate of domestic port charges due to a shortage of port resources available.

In order to meet the higher standard of vessels' condition inspection and to maintain the technical condition of old oil tankers, the repair and maintenance expenditure for 2001 was Rmb 302 million (equivalent to 10.4% of the total costs), representing an increase of 22%, as compared with that of Rmb 247 million (equivalent to 9.6% of the total costs) for 2000. In addition, the increase in the number of vessels partly accounted for the increase in maintenance expenditure.

The rate of vessel insurance increased as a result of the terrotist attack on 11 September 2001 in America. The insurance cost increased from Rmb 54.09 million to Rmb 71.95 million, representing an increase of 33%.

Financial Analysis

Capital structure: As at 31 December 2001, the shareholders' equity, bank and other interest-bearing loans, and finance lease payable amounted to Rmb 5,354,804,000, Rmb2,543,087,000 and Rmb487,674,000 respectively. The debt-to-equity ratio, being the total liabilities has divided by shareholders' equity was 68% for 2001 (2000:62%).

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

Cash: For the year ended 31 December 2001, the Group's cash and cash equivalents to was Rmb 422 million. Such adequate cash ensured that the Group was able to adjust its structure of fleet and to expand its investment.

Receivables: As at 31 December 2001, due to the successful implementation of a more efficient method of collecting debt payments, the Group's outstanding debts (before provision for bad and doubtful debts which amounted to Rmb 34.25 million) amounted to Rmb 236 million, representing an increase of 3% as compared with that Rmb229 million for 2000. For the year ended 31 December 2001, the average collection period for receivables was 28 days, which is 13 days shorter than that in 2000. The timely turnover of capital has improved significantly, attaining the best record in the Group's history.

Provision for bad and doubtful debts: For the year ended 31 December 2001, the provision for bad and doubtful debts of the Group was Rmb34.25 million, representing a sharp decrease as compared with that of Rmb109 million in 2000. The sharp decrease was ascribed to the reduction of receivables through verifying and writing off bad debts.

Foreign Exchange: For the year ended 31 December 2001, as a result of reduction in devaluation in the exchange rate of the German currency, Deutschmark, the Group gained a profit of Rmb 2.52 million, representing a decrease of Rmb11.22 million from that of Rmb13.74 million in 2000.

The Group's income from international shipping is denominated in and translated to US dollars. At present, the exchange rate for Rmb is steady. The Board does not expect that the Group would be subject to any significant foreign exchange exposure. However, it cannot be guaranteed that foreign exchange exposures will not have any effect on the operating results of the Group in future.

Borrowings: As at 31 December 2001, the Group's total borrowing (excluding finance leases payable) was Rmb2,543,087,000. Of which, bank borrowings amounted to Rmb 828,016,000. Apart from the borrowings denominated in USD which were equivalent to Rmb153,664,000, other borrowings were denominated in Rmb. Borrowings repayable within one year amounted to Rmb346,175,000. Among the bank borrowings, Rmb354,410,000 were guaranteed by China Shipping (Group) Company, the controlling shareholder of the Company. Other bank loans were pledged by 36 vessels owned by the Company. As at 31 December 2001, the total net book value of such vessels were Rmb2,377,415,000. Interests of the loans were calculated on 1% above LIBOR or 6.21% p.a.

Other borrowings were loans advanced by China Shipping (Group) Company for the settlement of part of the consideration on the acquisition of 20 oil tankers during 2001. The loan was unsecured and interests were calculated in accordance with the 6-month short term lending rate as published by the People's Bank of China.