IV. Information of directors, supervisors and senior management

1. During the Reporting Period, none of the above directors, supervisors or senior management holds shares of the Company.

2. Changes in directors, supervisors and senior management of the Company during the Reporting Period

   a. The Company held its second meeting of the 2004 board of directors on 12 March 2004, where the resignation of Mr. Li Kelin as the chairman and an executive director of the Company and the appointment of Mr. Sun Zhitang as an executive director of the Company were approved.

   b. The Company held its third meeting of the 2004 board of directors on 13 April 2004, where Mr. Li Shaode was elected as chairman of the board of directors of the Company.

   c. The Company held its 2003 annual general meeting on 10 June 2004, where the appointment of Mr. Sun Zhitang as an executive director of the Company was approved.

   d. The Company held its fifth meeting of the 2004 board of directors on 18 June 2004, where the resignation of Mr. Xu Zuyuan as an executive director of the Company and the appointment of Mr. Wang Kunhe as an executive director of the Company were approved.

V. Management discussion and analysis

1. Scope of the principal businesses of the Group and its operating conditions

   The principal activities of the Group include cargo shipping. Cargo shipping mainly consists of the shipment of oil and dry bulk cargoes (primarily coal) along the coast of the PRC.

   During the six months ended 30 June 2004, the PRC domestic economy sustained a steady and quick improvement. The GDP growth rate was 9.7% as compared with the same period of 2003. The demand for oil and coal shipping in the domestic shipping market was strong, and the shipping capacity was short in supply. On the other hand, with the further recovery of the world economy and active international trade, combination of such factors enhanced the improvement of the international shipping market. The Group took advantage of the favourable opportunity of the steady improvement in both international and domestic shipping markets. By making readjustment to its operation strategies and shipping capacity, and by spending much efforts in controlling its operating costs, the Group made further improvement in its operating profit and fulfilled the target set by the board of directors for the first half year of 2004. The growth of the operating results of the Group continued to be strong. During the first half of 2004, the volume of cargo undertaken by the Group was 57.03 million tons, and the shipping volume was 58.917 billion tonne-nautical miles, increasing by 11.1% and 18.7% respectively as compared with the same period of 2003. The total revenue derived from shipment was RMB2.955 billion (after operation tax and supplementary duty), and the net profit was RMB886 million, increasing by 25.6% and 92.6% respectively as compared with the same period of 2003.

2. Analysis of the principal operations

An analysis of the principal operations in terms of products transported (Unit: RMB'000):

Description	Revenue from main operating activities	Cost of main operating activities	Gross profit margin (%)	Increase/ (decrease) in revenue from main operating activities as compared with the same period of last year (%)	Increase/ (decrease) in cost of main operating activities as compared with the same period of last year (%)	Increase/ (decrease) in gross profit margin as compared with the same period of last year (%)
Oil transportation	1,783,116	1,132,002	36.5	12.9	5.6	13.7
Coal transportation	796,230	512,972	35.6	61.2	33.1	61.8
Others	375,817	159,581	57.5	34.3	(27.6)	171.2

An analysis of the principal operations in terms of geographical regions (RMB'000):

Regions	Revenue from main operating activities	Increase/(decrease) in revenue form main operating activities as compared with the same period of last year (%)
Domestic transportation	1,850,658	28.0
International transportation	1,104,505	21.7

Oil Transportation

Oil transportation has been one of the Company's core businesses and will be the focus for further development. During the first half of 2004, the overall oil shipping market was favourable to the operation of the Group. The significant increase in the imported crude oil drove upward the transshipment of imported crude oil along the domestic coast in the PRC. The shipping volume of offshore crude oil in the PRC remained stable. The trading volume of oil in the international market increased, and the freight rates for the international oil shipment kept at the high level. However, during the first half of this year, the Ningbo-Shanghai-Nanjing crude oil pipeline was put into use, and the shipping volume of pipeline oil from inland oil fields in northern China decreased dramatically, both of which had some adverse impact on the domestic oil shipment business of the Group. During the first six months of 2004, the volume of oil shipped by the Group was 26.4 billion tonne-nautical miles, and the revenue derived from oil shipment was RMB 1.783 billion, both increasing by 12.9 per cent respectively as compared with the same period of 2003.

For shipping oil products in the PRC, the Company made use of increasing opportunities arising from transshipment of imported oil. By fully leveraging on the advantages of cross-shipment within and outside the PRC, the Company arranged various foreign trade vessels to serve in the PRC during different assignment intervals to enhance oil transportation capacity. The Company also made much efforts to smooth away the port congestion so as to improve the shipping efficiency. For the six months of 2004, the shipping volume of transshipped crude oil carried by the Company was 2.705 billion tonne-nautical miles, and the shipping volume was RMB 476 million, increasing by 45 per cent and 48 per cent respectively as compared with the same period of 2003. Meanwhile, the Company kept on enhancing communication with China National Offshore Oil Corp ("CNOOC") and making full use of its superiority on shipping capacity, so as to stabilize its share in the offshore crude oil shipping market. For the first half of 2004, the Group achieved a shipping volume of 7.11 million tonnes of offshore oil, and also achieved a revenue of RMB395 million derived from such shipping business, increasing by 4.1 per cent and 8.4 per cent respectively as compared with the same period of 2003. In order to minimise the adverse impact of the forthcoming opening of the domestic crude oil shipping market and the commencement of Ningbo-Shanghai-Nanjing oil pipeline, the Company focused on expanding its business through signing long term shipping contracts with oil refinery plants along the Yangtze River in May 2004.

The Group's revenue from the shipment of foreign trade oil increased due to improved market analysis and corresponding measures taken by the Group. During the first half of 2004, the oil supply was sufficient and the freight rates remained at high level. The Group took advantage of such favourable opportunity, and actively explored the foreign trade oil shipping market. In the first half of 2004, with the two new oil tankers with each capacity of 42,000 deadweight ("DWT") for shipment of both crude oil and refined oil coming into operation, the Group focused on preparation of the shipping routes for the two new oil tankers. By making active exploration of the market of import and export oil shipment and third country shipment, the Group improved its operating efficiency. For the first half of 2004, the Group achieved a shipping volume of 17.882 billion tonne-nautical miles, and also achieved a revenue of RMB782 million, increasing by 23.1 per cent and 17.2 per cent respectively as compared with the same period of 2003.

Dry Bulk Cargo Transportation

The dry bulk cargoes shipped by the Group mainly consist of coal, as well as ores, fertilisers, grain and other large volume bulk cargoes. During the first half of 2004, due to the low storage of thermal coal in power plants along the domestic coast, the demand for shipment of thermal coal kept on increasing significantly. The Group made active adjustment on the allocation of its shipping capacity according to the cargoes supply, and raised the freight rate of coal along the domestic coast. For the first half of 2004, the Group achieved a total shipping volume of coal of 21.705 billion tonne-nautical miles, and achieved a revenue of RMB 796 million derived from dry bulk cargo transportation, increasing by 37.1 per cent and 61.2 per cent respectively as compared with the same period of 2003, of which the volume of coal shipped by the Group along the domestic coast was 18.104 billion tonne-nautical miles, and the shipping revenue was RMB740 million derived from transportation of coals, increasing by 43.5 per cent and 66.1 per cent respectively as compared with the same period in 2003.

During the Reporting Period, both domestic and international bulk shipping market kept on improving. Both the Baltic Drybulk freight index and the PRC coastal bulk freight index remained at high level. Due to the increasing demand for shipment of thermal coal, the Group transferred some shipping capacity used for shipment of dry bulk cargoes to shipment of thermal coal. During the Reporting Period, the Group achieved a total turnover of dry bulk cargo of 10.802 billion tonne nautical miles. The Group achieved good operating results in dry bulk shipment due to the increase in freight rate. During the first half of 2004, the Group achieved a total revenue of RMB376 million from such dry bulk shipment, representing an increase of 34.3 per cent as compared with the same period of 2003.

3. Financial analysis

During the first half of 2004, the Group made some effective measures to increase its major operating revenue; on the other hand, the Group continued to implement its overall control on the operating costs. During the first half of 2004, the total operating costs of the Group was RMB1.8 billion, representing an increase of 7.5 per cent as compared with the same period of 2003, far lower than the growth rate of operating revenue of 25.6 per cent.

Since the beginning of 2004, with the recovery of the world economy, the demand for oil further increased. Meanwhile, the unstable situation in the Middle East, and the decision made by Organization of the Petroleum Exporting Countries to decrease oil output, led to the high level in international crude oil price.

As part of the countermeasures against the significant increase in fuel prices, the Group strengthened its evaluation of the vessels in respect of their full-saving performance. On the other hand, more efforts were put into the renovation and application of energy-saving technologies to its vessels. The Group also carefully increased the proportion of fuel oil used, and would choose ports with lower fuel prices for filling (as appropriate) based on the routes of the vessels. For the first half of 2004, the fuel cost of the Group was RMB 594 million, representing an increase of 9.5 per cent as compared with the same period of 2003, and accounting for 33 per cent of the total operating costs of the Group. In addition, the Group also made effective measures to successfully controlled the increase rate of port charges, maintenance costs and other major operating costs. The ratio between the operating costs and the operating revenue remained at the same level as compared with the same period of 2003.

During the Reporting Period, there were no material acquisitions and disposals of the Company's subsidiaries or associated companies.

a. Net cash inflow

During the Reporting Period, the net cash inflow from operating activities of the Group increased from RMB757,157,000 for the corresponding period in the previous year to RMB1,163,383,000, representing an increase of 53.7%. The increase of net cash inflows was mainly due to the increase in principal operations and favourable condition in respect of recovery of funds.

b. Commitments on capital expenditures

As at 30 June 2004, the commitments on capital expenditures for the Group amounted to RMB3,408,371,000 (31 December 2003: RMB4,006,262,000). The source of funding was mainly financed by the Company's working capital and bank loans.

c. Capital structure

As at 30 June 2004, the shareholders' equity, bank loans, other interest-bearing borrowings and finance leases payable amounted to RMB7,700,362,000, RMB2,053,962,000 and RMB126,899,000 respectively. The debt-to-equity ratio was 36% (31 December 2003: 33%).

d. Borrowings

As at 30 June 2004, the Group's total borrowing (excluding finance leases payable) was RMB2,053,962,000. Borrowings repayable within one year amounted to RMB231,455,000. Among the borrowings, RMB1,213,515,000 were guaranteed by China Shipping (Group) Company, the controlling shareholder of the Company. Other bank loans amounting to RMB507,997,000 were pledged by 32 vessels owned by the Company. As at 30 June 2004, the total net book value of such vessels were RMB1,939,130,000. The remaining bank borrowings repayable amounted to RMB332,450,000, and were secured by ships under construction. Interests of the above loans were calculated at the annual rate of 5.76% or 5.184%. The Group's gearing ratio was 26.5%, calculated by dividing total liabilities over total assets of the Group. The Group did not have any significant contingent liabilities.

e. Risk on foreign currency

As at 30 June 2004, the Group's foreign exchange liabilities mainly comprised of finance lease rental payable in EURO dollars equivalent to approximately RMB126.899 million. In addition, the Company would pay dividend of H shares in Hong Kong dollars.

The Group's revenue from foreign shipment is denominated and translated into US dollars. Currently, the exchange rate of RMB remains stable. The Group expected that there is no significant exposure on foreign currency, but it cannot be assured operating results in future will not be affected.

4. Investment and investment income

During the Reporting Period, a total of RMB1,177,540,000 has been paid for the construction of vessels. Amongst these vessels, two tankers each having capacity of 42,000 DWT were delivered for operation during the Reporting Period, and achieved a shipping profit of RMB7.319 million.

During the Reporting Period, new contracts for construction of two 42,000 DWT tankers for transportation of crude oil and refined oil were entered into by China Shipping Development (Hong Kong) Marine Company Limited, with a total investment of RMB460,179,000. The construction of the two new 42,000 DWT tankers was in accordance with the overall strategy of the Group to expand its oil transportation capacity. The funding for the construction of the two tankers were partly by the Group's working capital and partly by borrowings from banks.

During the Reporting Period, the Company increased its capital contribution to Shanghai Friendship Marine Company Limited, a jointly controlled entity of the Company, from RMB10,000,000 to RMB25,000,000.

During the first half of 2004, three jointly controlled entities of the Company namely Shanghai Friendship Marine Co., Ltd, Zhuhai New Century Marine Co., Ltd. and Shanghai Times Shipping Co., Ltd. took advantage of the favourable shipping market opportunity, and made significant improvement in operating results. The three jointly controlled entities achieved a total shipping volume of thermal coal of 5.62 billion tonne-nautical miles, and achieved a total shipping revenue of RMB339 million, increasing by 30 per cent and 50.1 per cent respectively as compared with the same period of 2003. As a result, the investment income derived from the three jointly controlled entities totaled RMB28.099 million, increasing by 298.8 per cent as compared with the same period of 2003.

5. Purchase, sale or disposal of major assets

a. Acquisition of assets (Unit: RMB’000)

Parties and required assets	Date of acquisition	Consideration	Net profit contribution for the Company from purchase date to 30 June 2004	Connected transaction (Yes/No)	Pricing policy
Construction of two 42,000 tonnes oil vessels	18 May 2004 (date of conract)	460,179	N/A	No	Market price

5. Purchase, sale or disposal of major assets (continued)

b. Disposal of assets (Unit: RMB'000)

Assets sold	Time of disposal	Proceed	Constribution for the Company from 1 January 2004 to disposal date	Gain arising from disposal of assets	Connected transaction (Yes/No)	Pricing policy
You Yi 22	12 January 2004 (date of contract)	10,450	(220.5)	(6,914)	No	Market price

6. Business prospects

Following the improvement in the macroeconomic environment in the PRC, the domestic cargo transportation by sea is expected to continue to sustain a fast growth. During the second half of 2004, there is expected to be a high demand for shipment of oil and coal, and domestic shipping market is expected to remain stable with potential for growth. Sources of cargo for sea transportation is expected to remain sufficient. These should provide a favorable environment for the Group to realise its operating target for the year.

The steady high-speed growth of the economy of the PRC over the years has significantly stimulated growth in crude oil imports into the country. The Chinese government has officially commenced construction of the first group of oil reserve bases. In addition, the Chinese government has started to place greater importance on the issue of expanding the share of Chinese shipping enterprises in imported oil transportation and ensuring security in oil transportation. All these would provide broader scope for the further development of Chinese shipping enterprises. Oil transportation has always been a key development focus of the Group. Revenue from oil transportation has accounted for 60.3 per cent of the total revenue of the Group. As at 30 June 2004, the Group is the owner of 83 oil tankers with a total capacity of 2,290,000 DWT. The Group has entered into contracts to construct 13 oil tankers with a total capacity of 1,390,000 DWT, all of which are expected to be put into use before the end of 2006. During the second half of 2004, 2 tankers with shipping capacity of 110,000 DWT for each and 1 very large crude oil carrier (the "VLCC") with shipping capacity of 300,000 DWT are expected to come into operation. Meanwhile, the Group has been closely following the strategic plans of certain countries in respect of oil security systems, and will take full advantage of the major opportunities brought by the renewed rapid development of the Chinese oil shipping industry. In addition, the Company will make much efforts to enhance cooperation with major customers, so as to increase its market share for the imported crude oil transportation.

6. Business prospects (continued)

In terms of dry bulk cargo transportation, the Group will continue to focus on the domestic coastal coal transportation, and make full use of the allocation of its shipping capacity for international and domestic shipment. In addition, the Group will increase its market share and operating efficiency by carrying out different ways of cooperation with its major customers. The Group will, by taking advantage of the favorable opportunity brought by the reform on the domestic power system, make proper allocation of shipping capacity so as to improve operating efficiency and economic results. In accordance with the "Power projects bulletin" issued by the State Development and Reform Commission of PRC on 19 February 2004, the State would approve to add a capacity of 40 million kilowatts of power stations in 2004, of which 9.90 million kilowatts will be installed in East China and 5.40 million kilowatts will be installed in South China. Pursuant to this plan, when these generating units commence operation, the additional annual coal consumption in East China and South China is expected to exceed 30 million tons. As at the end of June 2004, the Company owned 68 bulk carriers, with a total shipping capacity of 2.21 million DWT. The Group has also entered into contracts to construct 8 bulk carriers with capacity of 57,300 DWT for each, of which 3 are expected to be put into use in the second half of 2004, and the other 5 are expected to be put into operation in 2005.

Due to both international and domestic economic situation and the further improvement in the shipping capacity of the Company, the total shipping volume and operating revenue are expected to sustain steady growth. Meanwhile, the Company will also make much effort to control operating costs, so as to fulfil the annual operating target set by the board of the Company.

7. Alert on significant change in net profit

It is expected that the accumulated net profit of the Group for January to September 2004 will increase substantially by over 50 per cent as compared with the same period of 2003. The increase was primarily attributable to the following:

a. the domestic cargo transportation continued to grow rapidly, whilst the international shipping market also improved. Both developments will be favourable to the overall operation of the Group;

b. efforts were devoted to increase the revenue and tighten the expenditure for the Group, which have obtained significant achievements; and

c. more shipping capacity is put into use as compared with the same period of 2003.