III. Information of directors, supervisors and senior management

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

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

   a. The Company held its first extraordinary general meeting of 2005 on 1 March 2005, where the appointment of Mr. Mao Shijia as an executive director of the Company and the appointment of the Mr. Yan Mingyi as a supervisor of the Company were approved.

IV. Management discussion and analysis

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

   The Group is principally engaged in the cargo shipping. Cargo shipping mainly consists of the shipment of oil and dry bulk cargoes (primarily coal) along the coastal region of the PRC and internationally.

   During the six months ended 30 June 2005, the PRC domestic economy sustained a steady improvement due to the macro-economic control measures adopted by the central PRC government. The GDP growth rate was 9.5%, as compared with the same period of 2004. The demand for crude oil shipping in the domestic shipping market was strong, and the cargo resources of crude oil and product oil were sufficient; the cargo resources in the international oil shipping market were also sufficient, whereas the shipping rate fluctuated significantly. On the other hand, the severe situation of the domestic coastal coal shipment eased off, but the shipping capacity remained short of supply, and the demand for coal shipment remained strong; the international dry bulk cargo shipping market fell due to the decrease of the energy products of China, and the Baltic dry bulk shipping rate index (the "BDI") fell from over 6,200 points at the end of 2004 to 2,521 points at the end of June 2005. Facing with such changes in both domestic and international shipping market, the Group focused on the thermal coal shipping and oil shipping. By making readjustment to its operation strategies, and by spending substantial 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 2005. The growth of the operating results of the Group continued to be strong. During the first half of 2005, the volume of cargo undertaken by the Group was 65.68 million tons, and the shipping volume was 74.91 billion tonne-nautical miles, increasing by 6.4% and 21.3%, respectively, as compared with the same period of 2004. The total revenue derived from shipment was RMB4,201 million (after operation tax and supplementary duty), and the net profit was RMB1,606 million, increasing by 34.9% and 81.2%, respectively, as compared with the same period of 2004.

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	2,204,690	1,265,925	42.6	23.64	11.83	6.1
Coal transportation	1,534,276	834,504	45.6	60.71	31.10	12.3
Others	461,812	181,225	60.8	22.88	13.56	3.3

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	2,581,320	28.48
International transportation	1,619,458	46.62

a. Oil Transportation

Oil transportation has been one of the Group's core businesses and will be the focus for further development. During the first half of 2005, facing with the changes in the oil transportation in domestic and foreign trades, the Company proactively made adjustments to its transportation structure, increased its efforts in market exploration, at the same time, made efforts in overcoming the difficulties in the diversification in the Ningbo-Shanghai-Nanjing piping, transhipment of oil imports and fluctuations in the transportation prices in foreign trades, and obtained favorable economic efficiency. During the first six months of 2005, the volume of oil shipped by the Group was 35.823 billion tonne-nautical miles, and the revenue derived from oil shipment was RMB 2,205 million, increasing by 35.7 per cent and 23.64 per cent respectively as compared with the same period of 2004.

a. Oil Transportation (continued)

For shipping oil products in the PRC, the Company made use of the increasing opportunities arising from the offshore oil, 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 2005, the Group achieved a shipping volume of 5.54 billion tonne-nautical miles of offshore oil, and also achieved a revenue of RMB514 million derived from such shipping business, increasing by 32.3 per cent and 30.3 per cent, respectively, as compared with the same period of 2004. The Company also made use of the increasing opportunities arising from demand for domestic product oil and offshore oil, and raised both shipping capacity and shipping rates for such shipment. For the first half of 2005, the Group achieved a shipping volume of 2.24 billion tonne-nautical miles of domestic product oil, and also achieved a revenue of RMB208 million derived from such shipping business, increasing by 68.0 per cent and 84.6 per cent, respectively, as compared with the same period of 2004.

For shipment of foreign trade oil, facing with the market characteristics of relatively stable shipment prices of medium and small size tankers and significant fluctuations in VLCC transportation prices, the Group's revenue from the shipment of foreign trade oil increased due to improved market research and corresponding measures taken by the Group, thus allowing the foreign trade oil business to further expand. During the Reporting Period, the Group made substantial efforts to arrange for the shipping routes of the three newly added oil tankers, and actively expanded the import and export oil shipment and the oil shipment between third countries, and achieved good operating results in international oil shipment. For the first half of 2005, the Group achieved a shipping volume of 25.76 billion tonne-nautical miles, and also achieved a revenue of RMB1,139 million, increasing by 44.1 per cent and 45.7 per cent, respectively, as compared with the same period of 2004.

b. Dry Bulk Cargo Transportation

The dry bulk cargo shipped by the Group mainly consists of coal, as well as ores, fertilisers, grain and other large volume bulk cargo. During the first half of 2005, the overall demands in domestic coal transportation still maintained its strong position despite the impact of the macro control of the Group, which slowed down the speed of economic growth, and increase in hydro power consumption. The Group has made active adjustment to the allocation of its shipping capacity according to the cargo supply, and raised the freight rate of coal along the domestic coast of the PRC, thus bringing about substantial growth to economic benefits. In the beginning of 2005, the Group has finalized the signing of the shipment contracts and freight rate agreement with its major customers, which account for over 90 per cent of the target shipping volume of the Group. For the first half of 2005, the Group achieved a total shipping volume of coal of 28.053 billion tonne-nautical miles, and achieved a revenue of RMB 1,534 million derived from coal transportation, increasing by 14.4 per cent and 61.5 per cent respectively as compared with the same period of 2004, of which the volume of coal shipped by the Group along the domestic coast was 24.805 billion tonne-nautical miles, and the shipping revenue was RMB1,415 million derived from transportation of coals, increasing by 18.6 per cent and 56.8 per cent, respectively, as compared with the same period in 2004.

b. Dry Bulk Cargo Transportation (continued)

For other dry bulk cargo transportation, BDI for the first half of the year continued to fall. At the same time, the demand for thermal coal in coastal regions increased. The Company correspondingly reduced input in other dry bulk cargo transportation capacity. Nevertheless, as the rental charges were relatively high for the shipment contracts signed by the Company, the income from bulk cargo still achieved growth. During the Reporting Period, the Group achieved a total turnover of dry bulk cargo of 11.03 billion tonne nautical miles, and a total revenue of RMB462 million from such dry bulk shipment, representing an increase of 21 per cent as compared with the same period of 2004.

3. Financial analysis

During the first half of 2005, 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 2005, the total operating costs of the Group were RMB2,282 million, representing an increase of 18.3 per cent, as compared with the same period of 2004, far lower than the growth rate of operating revenue of 34.9 per cent.

Since the beginning of 2005, the further increase of the demand for oil throughout the world, led to the high level in international crude oil price. As part of the counter-measures 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. By adopting these measures, the fuel cost of the Group was effectively controlled. During the Reporting Period, the shipping volume of the Group increased by 21.3 per cent. as compared with the same period of 2004, whereas the oil consumption volume of the Group increased only by 12.3 per cent. as compared with the same period of 2004. For the first half of 2005, the fuel cost of the Group was RMB 818 million, representing an increase of 30.8 per cent as compared with the same period of 2004, and accounting for 35.9 per cent of the total operating costs of the Group. In addition, the Group also made effective measures to successfully control the increased 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 2004.

During the Reporting Period, there are 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 RMB1,201,656,000 (restated) for the corresponding period in the previous year to RMB1,938, 973,000, representing an increase of 61.4%. 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 2005, the commitments on capital expenditures for the Group amounted to RMB2,996, 273,000 (31 December 2004: RMB4,381,222,000). The source of funding was mainly financed by the Company's working capital and bank loans.

c. Capital structure

As at 30 June 2005, the shareholders' equity, bank loans, other interest-bearing borrowings and finance leases payable amounted to RMB9,766,315,000, RMB2,412,142,000 and RMB86,870,000 respectively. The debt-to-equity ratio was 33% (31 December 2004: 35%).

d. Borrowings

As at 30 June 2005, the Group's (excluding jointly-controlled entities') total borrowing (excluding finance leases payable) was RMB2,324,642,000. Borrowings repayable within one year amounted to RMB450,455,000. Among the borrowings, RMB596,015,000 were guaranteed by China Shipping (Group) Company, the controlling shareholder of the Company. Other bank loans amounting to RMB1,039,927,000 were pledged by 40 vessels owned by the Company. As at 30 June 2005, the total net book value of such vessels were RMB3,078,378,000. The remaining bank borrowings repayable amounted to RMB688,700,000, and were neither secured nor guaranteed. Interests of the above loans were calculated at the annual rate from 4.698% to 6.12%. The Group's gearing ratio was 25%, calculated by dividing total liabilities over total assets of the Group.

e. Risk on foreign currency

As at 30 June 2005, the Group's foreign exchange liabilities mainly comprised of finance lease rental payable in EURO dollars equivalent to approximately RMB86,870,000. In addition, the Company would pay dividend of H shares in Hong Kong dollars.

Given the increasing significance of the Group's international shipping business, changes in exchange rate would have certain impacts on the Group's profitability. Therefore, in respect of the changes in exchange rate, the Group will study the impact of exchange rate mechanism on shipping enterprises. It will also implement effective measures proactively to minimise exchange risks.

f. Contingent liabilities

(i) In September 2004, the Company was sued by three Korean banks, claiming WON11,974,643, 000 (equivalent to RMB81,689,000) in compensation for their losses arising from the letters of credit issued in connection with a shipment of crude oil by the Company from the PRC to Korea. It is expected that the loss from this claim would be covered by disposing of the relevant oil of 64,100 tons, which is now under the custody of the court.

(ii) In March 2005, one of the Company's cargo vessels "Hualing" collided with a vessel of a German company. In June 2005, the Company was sued by the German company, claiming USD10 million (equivalent to approximately RMB83 million) in compensation for the losses arising from the accident. The litigation is still in progress and it is not certain that which party should be responsible for the accident. However, it is expected that the vessel losses can be fully covered by the insurance contracts.

4. Disposal of assets (Unit: Rmb'000)

Assets sold	Time of disposal	Proceed	Gain arising from disposal of assets	Connected transaction (Yes/No)	Pricing policy
M/V "Daqing 218"	26 February 2005 (date of contract)	14,000	5,855	No	Market price
M/V "Daqing 242"	22 December 2004 (date of contract)	24,840	9,179	Yes	Market price
M/V "Ninghe"	22 December 2004 (date of contract)	57,131	51,462	Yes	Market price
M/V "Daqing 231"	27 June 2005 (date of contract)	15,925	14,004	Yes	Market price

5. Business prospects

In the second half of 2005, the growth in the world economy will further stimulate the further demand for the energy. Following the increase in the demands for petroleum, coal and grain and the traditional transportation of ores for winter reserves, BDI transportation price index will fluctuate to a certain extent. Following the improvement in the macroeconomic environment in the PRC, sources of cargo for sea transportation is expected to remain sufficient which should provide a favorable environment for the Group to realise its operating target for the year.

The high-speed growth of the economy of the PRC over the years has significantly stimulated growth in crude oil imports into the country. Ensuring security in oil transportation 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 52.5 per cent of the total revenue of the Group. As at 30 June 2005, the Group is the owner of 77 oil tankers with a total capacity of 2,910,000 DWT. The Group has entered into contracts to construct 12 oil tankers with a total capacity of 932,000 DWT, all of which are expected to be put into use before the end of 2008. During the second half of 2005, 4 tankers with total shipping capacity of 234,000 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 of the Group for the imported crude oil transportation.

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. As at the end of June 2005, the Group and the Company's 3 jointly-controlled entities owned 89 bulk carriers, with a total shipping capacity of 2,950,000 DWT (including the 11 bulk carriers owned by three jointly-controlled entities, with shipping capacity of 300,000 DWT). In the second half of 2005, 2 bulk carriers with total capacity of 114,600 DWT ordered in 2003 are expected to be put into use.

5. Business prospects (continued)

Due to both international and domestic economic situation and the further improvement in the shipping capacity of the Group in 2005, the total shipping volume and operating revenue are expected to sustain steady growth. Meanwhile, the Group will keep an eye out for the fluctuation of fuel prices and also make much effort to control operating costs, so as to fulfil the annual operating target set by the Board.

6. Alert on significant change in net profit

It is expected that the accumulated net profit of the Group from January to September 2005 will increase substantially by over 50 per cent as compared with the same period of 2004. The increase was primarily attributable to the following:

a. the domestic cargo transportation continued to grow constantly, which 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 2004.

V. Significant events

(1) Purchase, sale or redemption of the Company's listed securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its listed securities during Reporting Period.

(2) Compliance with the Code of Corporate Governance Practices

The Company has complied throughout the half-year ended 30 June 2005 with the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not ,or was not for any part of the Reporting Period, in compliance with the code provisions of the Code.

(3) Audit Committee

In compliance with Rule 3.21 of the Listing Rules, the Company has established an audit committee to review the financial reporting procedures and internal control and provides guidance thereto. The audit committee of the Company comprises 3 independent non-executive Directors. The Audit Committee has reviewed the interim results of the Company during the Reporting Period.

(4) Remuneration Committee

The remuneration Committee is headed by Mr. Wang Daxiong, an executive director of the Company. The other two members of the remuneration committee are Mr. Xie Rong and Mr. Hu Honggao, both being independent non-executive directors of the Company. The remuneration committee of the Company has adopted terms of reference which are in line with the Code on Corporate Governance practices contained in Appendix 14 of the Listing Rules.