管理層討論與分析

Management Discussion and Analysis

Review of Operations for 2005

The Company's principal activities consist of investment holding, and the shipment of oil, coal and other dry bulk cargoes along the coast of the People's Republic of China (the "PRC") and internationally.

(1) Analysis of Shipping Market During the Reporting Period

The economy of the world sustained a steady improvement in 2005. The trades of international shipping transportation remained flourish, whereas the shipping rate fluctuated significantly. The PRC domestic economy sustained a steady improvement due to the macro-economic control measures adopted by the central government. The GDP growth rate was 9.9% in 2005.

According to the statistic of the International Energy Association, the global oil demand increased by 1.3% as compared with 2004. On the other hand, the growth rate of the international tanker fleet capacity was 6.9%. The Baltic Dirty Tanker Freight Rate Index ("BDTI") declined 15.9%, as compared with 2004, and the World Scale Index ("WS") for the shipping route from the Middle East to Japan, being one of the freight rate indicators for very large crude oil carriers ("VLCC"), also declined 30.2%.

The international dry bulk cargo transportation market fluctuated significantly in 2005. The all-year average of the Baltic Dry Bulk Freight Rate Index (the "BDI") was 3371 points, representing a decrease of 25.3% as compared with 2004. With the effect of the macro-economic control measures adopted by the central PRC government, the growth rate of the coal demand decreased and some capacity was shifted from international bulk shipping market to domestic coal shipment. As a result, the spot rates for domestic coastal bulk cargo transportation began to fall.

In 2005, due to the devaluation of the US dollar and the unstable political situation in the Middle East, the oil prices in the world remained at a high level, which brought about high costs of the shipping enterprises.

Facing with such changes in both domestic and international shipping market, the Group kept its core focus on oil shipment and domestic coastal thermal coal shipment, readjusted its operation strategies, and made active arrangement for the shipping routes of the newly added vessels. In 2005, the Group achieved a record high in its operating results.

(2) Analysis of the Principal Operations of the Group

The operations of the Group sustained a steady improvement in 2005. The shipping volume of cargo undertaken by the Group was 159.24 billion tonne-nautical miles, representing an increase of 33.2 per cent, as compared with 2004. The total revenue derived from shipment was RMB8.515 billion (after operation tax and supplementary duty), and gross profit was RMB3.360 billion, increasing by 31.96 per cent and 37.97 per cent respectively as compared with 2004. The average gross margin rate was 39.46 per cent, up 1.72 points as compared with 2004. The profit for the year was RMB2.694 billion and the earnings per share was RMB0.8091, representing an increase of 45.89 per cent as compared with 2004.

An analysis of the principal operations in terms of products transported (Unit: RMB'000) is set out as follows:

Segments	Turnover	Operating costs	Gross profit margin	Increase/ (decrease) in turnover	Increase/ (decrease) in operating costs	Increase/ (decrease) in gross profit margin
	Rmb'000	Rmb'000	%	%	%	%
Oil Shipment	4,604,473	2,877,578	37.50	25.33	23.87	1.98
Coal Shipment	2,992,241	1,854,124	38.04	46.91	36.28	14.58
Other dry bulk shipment	918,477	423,571	53.88	23.79	26.94	(2.09)

Segments	Turnover	Proportion of turnover from principal operations	Profit	Proportion of turnover from principal operations
	Rmb'000		Rmb'000	
Domestic transportation	5,127,511	60.2%	1,845,934	54.9%
International transportation	3,387,680	39.8%	1,513,983	45.1%

1. Oil Transportation

Oil transportation has been one of the Group's core businesses and will be the focus for further development. In 2005, facing with the changes in both international and domestic oil shipping market, the Group proactively made adjustments to its transportation structure, increased its efforts in market exploration, and made efforts in overcoming the difficulties arising from the diversion by the commencement of Ningbo-Shanghai-Nanjing pipeline and fluctuations in the rates in the international shipping market. In 2005, the Group achieved favorable economic efficiency. The shipping volume of oil carried by the Group was 80 billion tonne-nautical miles, and the revenue derived from oil shipment was RMB 4,604 million, increasing by 51 per cent and 25.3 per cent respectively as compared with 2004.

For coastal oil shipment in the PRC, the Group, making full use of the increasing opportunities arising from the offshore oil and its superiority on shipping capacity, kept on enhancing communication with China National Offshore Oil Corp ("CNOOC"), so as to stabilise its share in the offshore crude oil shipping market. In 2005, the Group achieved a shipping volume of 10.8 billion tonne-nautical miles of offshore oil, and also achieved a revenue of RMB1,023 million derived from such shipping business, increasing by 11.8 per cent and 12.9 per cent, respectively, as compared with 2004. The Group minimized the adverse impact led by the commencement of Ningbo-Shanghai-Nanjing pipeline. The shipping volume of transshipped crude oil carried by the Group was 4.36 billion tonne-nautical miles, remaining the same level of 2004, and the revenue arising from such shipment was RMB 670 million, declining 12.9 per cent as compared with 2004. The Company also made use of the increasing opportunities arising from demand for domestic product oil, and raised both shipping capacity and shipping rates for such shipment. The Group achieved a shipping volume of 4.32 billion tonne-nautical miles of domestic product oil, and also achieved a revenue of RMB 394 million derived from such shipping business, increasing by 48.4 per cent and 55.5 per cent respectively as compared with 2004.

For shipment of foreign trade oil, facing with the market characteristics of relatively stable shipping rates of medium and small size tankers and significant fluctuations in VLCC shipping rates, the Group's revenue from the shipment of foreign trade oil increased due to improved market research and corresponding measures taken by the Group. In 2005, the revenue derived from international oil shipment of the Group accounted for 54.5 per cent of the total revenue from oil transportation. During the Reporting Period, the Group made substantial efforts to arrange the shipping routes of the seven 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. In 2005, the Group achieved a shipping volume of 60.47 billion tonne-nautical miles of international oil shipping business, and also achieved a revenue of RMB2,510 million from such shipment, increasing by 69.5 per cent and 36.5 per cent, respectively, as compared with 2004. The two newly added VLCC resulted in a revenue of RMB321 million, with gross margin of RMB160 million.

2. Coal transportation

In 2005, the domestic coal shipping market was characterized with seasonal changes and a downward movement, due to the impact of the macro control policy and the increase in hydro power consumption arising from rainfall abundance. The Group made active adjustment to the allocation of its shipping capacity according to the cargo supply, and passed on bunker surcharge to its customers for some shipping routes. In 2005, the economic efficiency of the Group sustained a steady improvement in its domestic coal shipment. The Group achieved a total shipping volume of coal of 56.4 billion tonne-nautical miles, and achieved a revenue of RMB2,992 million derived from coal transportation, increasing by 15.2 per cent and 46.9 per cent respectively as compared with 2004.

3. Other dry bulk cargo transportation

In 2005, the international bulk transportation market was characterized with downward movement. Nevertheless, as the rental charges were relatively high for the shipment contracts signed by the Company, the revenue from bulk cargo shipment still achieved growth. During the Reporting Period, the Group achieved a total shipping volume of dry bulk cargo of 22.82 billion tonne nautical miles, and a total revenue of RMB918 million from such dry bulk shipment, representing an increase of 15.8 per cent and 23.8 per cent as compared with 2004.

(3) Operating costs analysis

The revenue of the Group significantly increased in 2005. On the other hand, as part of the countermeasures against the significant increase in fuel prices, the Group continued to implement its overall control on the operating costs. The total operating costs of the Group were RMB5,155 million, representing an increase of 28. 3 per cent as compared with 2004, lower than the growth rate of operating revenue of 32.0 per cent.

The analysis of the principal operating costs are as follows:

a. Fuel costs

The high fuel prices led to a high operating cost of the Group. In 2005, the total fuel costs were RMB 1.941 billion, representing an increase of 47.1 per cent as compared with 2004, accounting for 37.6 per cent of the total operating costs of the Group, an increase of 4.8 points as compared with 2004. With the phasing out of the old vessels, and the replacement of the large new vessels, the fuel efficiency further improved. In 2005, the fuel consumption increased by 16.5 per cent, lower than an increase of 30.9 per cent of the shipping volume of cargo carried by the Group. The unit fuel consumption per thousand tonne kilometer fell by 10.8 per cent as compared with 2004.

b. Port costs

The Group had a higher domestic trade port fee ratio after the domestic port has implemented the price adjustment plan from August 2005. In 2005, the total port costs of the Group were RMB 483 million, representing an increase of 7.5 per cent as compared with 2004, and accounting for 9.4 per cent of the total operating costs of the Group.

c. Labour costs

In 2005, the total labour costs of the Group were RMB 553 million, representing an increase of 17.0 per cent and accounting for 10.7 per cent of the total operating costs of the Group.

d. Depreciation expenses

In 2005, 13 new vessels were delivered into operation in succession. The total depreciation expenses were RMB 881 million, representing an increase of 21.9 per cent as compared with 2004, and accounting for 17.1 per cent of the total operating costs of the Group.

e. Repair and maintenance expenses

In 2005, the total repair and maintenance expenses were RMB 437 million, representing an increase of 24.7 per cent as compared with 2004, and accounting for 8.5 per cent of the total operating costs of the Group.

(4) Financial analysis

a. Net cash inflow

During the Reporting Period, the net cash inflow from operating activities of the Group increased from RMB2, 851,188,000 in 2004 to RMB3,677,542,000, representing an increase of 29%. 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 31 December 2005, the commitments on capital expenditures for the Group amounted to RMB1,982,864, 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 31 December 2005, the shareholders' equity, bank loans and interest-bearing borrowings, and finance leases payable amounted to RMB10,873,690,000, RMB1,579,970,000 and RMB156,077,000 respectively. As at 31 December 2005, the debt-to-equity ratio was 23% (31 December 2004: 35%).

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

d. Borrowings

As at 31 December 2005, the Group's total borrowing (excluding finance leases payable) was RMB1,579,970, 000, all of which was bank loans. Borrowings repayable within one year amounted to RMB233,225,000. Bank loans amounting to RMB1,579,970,000 were pledged by 19 vessels owned by the Company. As at 31 December 2005, the total net book value of such vessels was RMB2,249,791,000. Interests of the above loans were calculated at the annual rate from 5.184% to 6.12%. The Group's gearing ratio was 18.8%, calculated by dividing total liabilities over total assets of the Group.

e. Risk on foreign currency

As at 31 December 2005, the Group's foreign exchange liabilities mainly comprised of finance lease rental payable in EURO dollars equivalent to approximately RMB64,979,000. 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. 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. Administrative expenses

In 2005, the total administrative expenses of the Group were RMB253 million, increasing by 6.6 per cent as compared with 2004.

g. Finance expenses

In 2005, the total finance expenses of the Group were RMB 136 million, increasing by 27.9 per cent as compared with 2004.

(5) Disposal of assets

Unit: Rmb'000

Assets sold	Time of disposal	Sales Price	Profit/(loss) arising from disposal of assets	Connected transaction (Yes/No)	Pricing policy
Daqing 218	26 February 2005 (date of contract)	14,000	5,855	No	Market price
Daqing 242	22 December 2004 (date of contract)	24,840	9,179	Yes	Market price
Ninghe	22 December 2004 (date of contract)	57,131	51,462	Yes	Market price
Daqing 231	27 June 2005 (date of contract)	15,925	14,004	Yes	Market price
Daqing 249	29 July 2005 (date of contract)	13,360	12,052	Yes	Market price
Daqing 50	9 September 2005 (date of contract)	12,207	10,757	Yes	Market price

(6) Information of employees

As at 31 December 2005,the number of employees of the Company was 5179, of which 4658 were operating employees. The number of employees who have various technical titles was 1077, and 112 of them have senior technical titles. The number of employees graduated from colleges or universities was 1713, accounting for approximately 33 per cent of the staff. The total number of employees retiring and being laid-off during the Reporting Period was 378 whose expenses were by the Company.

During the Reporting Period, the remuneration paid to employees of the Company was presented in note 6 to the financial statements.

(7) Prospects

It is estimated that the world economy will sustain a steady improvement in 2006, Chinese economy will also maintain progressive growth and the shipping market demand will remain at a high level maintaining its momentum in 2005.

In terms of oil transportation, the International Energy and Source Organization estimated that the world average daily demand of crude oil would increase by 2.2 per cent in 2006 as compared with 2005, which will stimulate an increase of 3 per cent in the oil shipping demand throughout the world. However, the growth of the capacity of the tanker fleet will sustain an increase of 5 per cent. On the other hand, the domestic petroleum consumption in the PRC will sustain a steady improvement. As a result, the volume of imported crude oil and the output of the offshore oil in the PRC will keep on growing. In general, the demand and supply of capacity of the tanker fleet in the PRC is balanced, and it is possible that the shipping capacity of the tankers is short of supply in peak seasons.

The seven new tankers with total capacity of 686,000 tons came into operation in 2005, and another three new tankers totaling 192,000 tons will be delivered in operation in 2006, which will further upgrade the scale benefit of the Group¡¯s tanker fleet. The adjustment to the Group¡¯s fleet composition has turned out to be initially effective. According to the news released by the National Development and Reform Commission of the PRC, the four crude oil storage bases will be completed in succession from 2006. The Group will pay special attention to the oil reserve strategy of the PRC, and expand its oil tanker fleet by various means and channels at proper time. The Group expects to become one of the top shipping companies with 10 to 12 VLCC by 2010. On the other hand, the Company will make efforts in enhancing long-standing cooperation with its major customers, so as to stabilize and increase its market share in both the domestic oil shipping market and the imported crude oil shipping market.

In 2006, the shipping capacity of dry bulk carriers is estimated to increase by 7.5 per cent as compared with present. It is expected that the international dry bulk transportation market will become reasonable, due to the quick growth of shipping capacity, the declining support of the economic growth of the PRC and other uncertainties in the international shipping market. The Group will keep focusing on the domestic thermal coal shipment, thereby further enhancing its market share. At present, the Group has entered into all the contracts for shipment of thermal coal for 2006, and the average shipping rates decreased by about 3.35 per cent as compared with 2005.

It is estimated that the oil price will remain at a high level, which will add to the fuel costs of the Group. The Group will make much effort in strengthening the management of fuel purchase, purchasing some fuel as a hedge against the rises in fuel prices at proper time, and enhancing the management and monitoring over the fuel quality. The Group will further implement and improve the bunker surcharge mechanism related to the COA contracts with its customers, so as to reduce the adverse effect arising from the rising oil prices. In addition, the Group will proactively take effective measures to control other operating costs so as to fulfill the profit target for 2006 set by the Board.