III. Information of directors, supervisors and senior management

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

   The Company held its 2005 Annual General Meeting on 26 May 2006, where the appointment of the Board of Directors of the Company for the fifth term of service and the appointment of the Supervisory Committee of the Company for the fifth term of service were approved.

   As at the end of the Reporting Period, the Board comprised Mr. Li Shaode, Mr. Wang Daxiong, Mr. Zhang Guofa, Mr. Mao Shijia, and Mr. Wang Kunhe as executive directors, Mr. Yao Zuozhi as non-executive director, Mr. Xie Rong, Mr. Hu Honggao and Mr. Zhou Zhanqun as independent non-executive directors.

   As at the end of the Reporting Period, the Supervisor Committee of the Company comprised Mr. Kou Laiqi, Mr. Xu Hui and Ms. Chen Xiuling.

   During the Reporting Period, none of senior management of the Company has changed.

2. During the Reporting Period, none of the above directors, supervisors or senior management held any shares of the company.

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 business. 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 2006, the world economy sustained steady improvement and the scale of the world's shipping industry kept expanding. The PRC domestic economy also sustained steady improvement and the gross domestic product ("GDP") growth rate was 10.9%, as compared with the same period in 2005. In the first half of this year, the domestic shipment of oil remained stable while the shipment for the foreign trade oil fluctuated. In the meanwhile, international shipment of dry bulk cargoes remained steady, but the freight rate decreased as compared with the same period of last year whereas the demand for coastal coal shipment remained at the same level. In the first half of this year, due to the world's political and economic circumstances, the world oil prices remained at a high level, which brought about high costs for shipping enterprises.

   In the first half of this year, the Group kept its focus on the oil shipping and the domestic thermal coal shipping. By making adjustments to its operation strategies according to market circumstances, the Group sustained a steady improvement in its operation. However, due to the high oil prices, the profit deceased slightly as compared with the same period of last year. During the Reporting Period, the shipping volume achieved by the Group was 89.89 billion tonne-nautical miles, increasing by 20.0% as compared with the same period in 2005. The total revenue derived from shipment was Rmb4,593 million (after business tax), increasing by 9.3% as compared with the same period in 2005. Influenced by the high prices of fuel oil, the total operating costs of the Group were Rmb3,002 million, increasing by 31.6% as compared with the same period in 2005. The average gross margin rate of the Group was 34.6%, down 11.1 points as compared with the same period in 2005. The net profit was Rmb1,295 million and the earnings per share was Rmb0.389, representing a decrease of 19.4 per sent as compared with the same period in 2005.

2. Analysis of the principal operations

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

Description	Revenue	Operating cost	Gross profit margin (%)	Increase/(decrease) in revenue as compared with the same period of last year (%)	Increase/(decrease) in operating costs 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	2,569,063	1,666,111	35.1	16.5	31.6	(17.6)
Coal transportation	1,577,451	1,070,815	32.1	2.8	28.3	(29.6)
Others	446,128	265,218	40.6	(3.4)	46.3	(33.2)

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

Regions	Revenue	Increase/(decrease) in turnover as compared with the same period last year
Domestic transportation	2,677,770	3.7
International transportation	1,914,872	18.2

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 2006, facing changes in the domestic and foreign trading oil transportation market, the Group proactively made adjustments to its transportation strategies, so as to sustain a steady improvement in its operating efficiency.

During the first six months of 2006, the shipping volume of oil carried by the Group was 45.45 billion tonne-nautical miles, and the revenue derived from oil shipment was Rmb2,569 million, increasing by 26.9 per cent and 16.5 per cent respectively as compared with the same period in 2005.

a. Oil Transportation (continued)

For shipping oil products in the PRC, under the influence of Ningbo-Shanghai-Nanjing crude oil pipeline, the shipping volume of transshipped crude oil declined slightly, but the Group made great effort to explore the market of offshore oil shipment and strengthen the management of domestic product oil shipment, so as to sustain its leading position in the domestic oil shipping market. In the first half of 2006, the Group achieved a shipping volume of 10.39 billion tonne-nautical miles of domestic oil shipping business, and also achieved a revenue of Rmb1,081 million derived from such shipping businesses, increasing by 3.3 per cent and 1.5 per cent respectively, as compared with the same period of 2005, of which, the shipping volume and revenue from the transshipment of crude oil was 2.11 billion tonne-nautical miles and Rmb338 million, decreasing by 5.9 per cent and 0.5 per cent respectively, as compared with the same period in 2005. The shipping volume and revenue from the offshore oil business was 5.34 billion tonne-nautical miles and Rmb484 million, decreasing by 3.7 per cent and 5.9 per cent respectively, as compared with the same period in 2005. The shipping volume and revenue from the coastal product oil business was 2.91 billion tonne-nautical miles and Rmb248 million, increasing by 29.9 per cent and 19.1 per cent respectively, as compared with the same period in 2005.

For shipment of foreign trade oil, facing with the fluctuated market, the Group improved its market research and focused on the arrangement of large oil tankers. In the first half of 2006, the shipping volume of foreign trade oil carried by the Group was 35.06 billion tonne-nautical miles, and the revenue derived from such oil shipment was Rmb1,488 million, increasing by 36.1 per cent and 30.6 per cent respectively as compared with the same period in 2005, of which, the shipping volume and revenue from the foreign trade crude oil business was 18.13 billion tonne-nautical miles and Rmb510 million, increasing by 77.3 per cent and 75.1 per cent respectively, as compared with the same period in 2005 and the shipping volume and revenue from the foreign trade product oil business was 16.92 billion tonne-nautical miles and Rmb978 million, increasing by 9.0 per cent and 15.4 per cent respectively, as compared with the same period in 2005.

In the first half of 2006, the revenue derived from the shipment of foreign trade oil of the Group accounted for 57.9 per cent of the total revenue derived from oil transportation, which indicates the focus in the international market has got progress.

b. Dry Bulk Cargo Transportation

The dry bulk cargoes shipped by the Group mainly consists of coal, as well as ores, fertilizers, grain and other large volume bulk cargoes. During the first half of 2006, the overall demand in domestic coal transportation remained at the same level due to the impact of the macro control of the PRC and the increase in the supply of hydro power consumption. The Group has made active adjustment to the allocation of its shipping capacity according to the cargo supply, and achieved favorable economic efficiency by improving the bunker surcharge mechanism. For the first half of 2006, the Group achieved a total shipping volume of coal of 29.06 billion tonne-nautical miles, and revenue of Rmb1,577 million derived from coal transportation, increasing by 3.6 per cent and 2.8 per cent respectively as compared with the same period in 2005.

b. Dry Bulk Cargo Transportation (continued)

The demand for other dry bulk cargo transportation is not so high and the average BDI index has fallen about 39.1 per cent as compared with the same period of last year. In the first half of 2006 the Group achieved a total shipping volume of dry bulk cargo of 15.39 billion tonne nautical miles, and a total revenue of Rmb446 million from such dry bulk shipment, representing an increase of 39.5 per cent and a decrease of 3.4 per cent as compared with the same period in 2005.

3. Cost analysis

In the first half of 2006, while adopting effective measures to increase revenue from principal operations, the Group continued to enhance overall control on various major costs, and has effectively controlled the major costs in fuel expenses, port expenses, repair expenses through advanced control and management in various aspects, which are specifically analysed as follows:

a. Fuel cost: during the first half of 2006, the prices of different fuel oil remained at a high level, with an increase of about 40% as compared with the same period in 2005. The Group's fuel expenses in the first half year amounted to Rmb1,264 million, a growth of 54.5% compared with the same period last year, representing 42.1% of the total cost, and an increase of 6.2 percentage points over the corresponding period last year. However, at the same time, the Group further enhanced its fuel saving, and with a growth of 20.0% in its shipping volume compared with the same period last year, there was only a growth of 12.3% in the Company's fuel consumption, representing a reduction of 6.4% in fuel consumption per thousand nautical miles compared with the same period last year.

b. Port cost: port expenses incurred in the first half year amounted to Rmb280 million, an increase of 12.6% compared with the same period last year, representing 9.3% of the total cost.

c. Labor cost: the Group's total labor cost in the first half year amounted to Rmb362 million, an increase of 18.7% compared with the same period last year, representing 12.0% of the total cost.

d. Depreciation: with new vessels being launched into operation successively, depreciation expenses incurred in the first half year amounted to Rmb505 million, an increase of 16.5% compared with the same period last year, representing 16.8% of the total cost.

e. Repair expenses: with new vessels operating and old vessels retiring, repair expenses incurred in the first half year amounted to Rmb187 million, a reduction of 6.6% compared with the same period last year, representing 6.2% of the total cost.

4. Financial analysis

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 decreased from Rmb1,938,973,000 for the corresponding period in the previous year to Rmb1,681,588,000, representing a decrease of 13.3%.

b. Commitments on capital expenditures

As at 30 June 2006, the commitments on capital expenditures for the Group (excluding jointly-controlled entities') amounted to Rmb5,049,830,000(31 December 2005: Rmb1,982,864,000). The source of funding was mainly financed by the Company's working capital and bank loans.

c. Capital structure

As at 30 June 2006, the equity attributable to equity holders of the Company, bank loans, other interest-bearing borrowings and finance leases payable amounted to Rmb11,121,749,000, Rmb2, 555,108,000 and Rmb131,939,000 respectively. The debt-to-equity ratio was 32.3% (31 December 2005:23.2%).

As at 30 June 2006, the Group's gearing ratio was 20.2%, calculated on the basis of the Group's net borrowing (after deducting cash and cash equivalent) over shareholders' equity.

d. Borrowings

As at 30 June 2006, the Group's (excluding jointly-controlled entities') total borrowing (excluding finance leases payable) was Rmb2,487,609,000. Borrowings repayable within one year amounted to Rmb1,183,097,000. Bank loans amounting to Rmb1,285,153,000 were pledged by 14 vessels owned by the Company. As at 30 June 2006, the total net book value of such vessels were Rmb1,893,275,000. Interests of the above loans were calculated at the annual rate from 5.508% to 6.39%. The Group's debt ratio was 24.4%, calculated by dividing total liabilities over total assets of the Group.

e. Risk on foreign currency

As at 30 June 2006, the Group's (excluding jointly-controlled entities') foreign exchange liabilities mainly comprised of bank loans payable in US Dollars equivalent to approximately Rmb1,099,169, 000 and finance lease rental payable in EURO dollars equivalent to approximately Rmb49,086,000.

In addition, the Company would pay dividend of H shares in Hong Kong dollars.

In order to avoid the risk of Renminbi appreciation, the Group actively made adjustments to its debt structure, and the ratio in US dollar indebtedness increased from almost zero at the beginning of the year to about 34%. Majority of US dollar income was used for overseas payments, and during the Reporting Period, foreign exchange income and expenses were basically equal.

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 minimize 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. The Company has made provision for the estimated loss from this claim taking into consideration the proceeds of WON5,150,000,000 (equivalent to Rmb40,000,000) from the disposal of the relevant oil in March 2005, which could be used to offset part of the loss.

(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 US$10 million (equivalent to approximately Rmb80 million) in compensation for the losses arising from the accident. The Company has made provision for the estimated loss from the claim taking into consideration the amount that could be compensated by the insurance company.

5. Purchase or disposal of assets

Purchase of assets (Unit: US$'000)

Assets sold	Time of disposal	Proceed	Connected transaction (Yes/No)	Pricing policy
M/V "Xin Ping Yang"	21 April 2006 (date of contract)	107,000 (price of contract)	No	Market price
M/V "Peng Hua"	20 January 2006 (date of contract)	16,850 (price of contract)	No	Market price

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 85"	22 December 2005 (date of contract)	14,803	13,669	Yes	Market price
M/V "Daqing 232 "	21 April 2006 (date of contract)	9,412	9,097	Yes	Market price
M/V "Daqing 31"	30 May 2006 (date of contract)	10,796	10,043	No	Market price
M/V "Daqing 240"	30 May2006 (date of contract)	16,844	16,358	No	Market price
M/V "Daqing 215"	30 June 2006 (date of contract)	5,144	4,879	No	Market price

6. Business prospects

It is estimated that the world economy will sustain steady improvement in the second half of 2006. Due to the increased demands for petroleum, steel and cement, the global shipping business will keep a steady growth in the second half of 2006. The continuous development of China's economy will push the demand for energy resources such as oil and coal.

For the shipping of oil, although the price of crude oil has reached historical high, the demand for oil kept growing steadily despite such high price, and the PRC and the United States of America will lead this trend further. The scheduled 3 tankers with total capacity of 192,000 DWT have all been put into use in the first half of this year, and the second hand VLCC purchased by the Group has also been put into use in May. At the same time, following the phase out of the small, old oil tankers, the fleet structure of the Group will be further improved and will benefit from economy of scale. The group has signed a long-term contract of affreightment with China Petroleum & Chemical Corporation in July, which will protect the Group against risks associated with market freight fluctuation and secure a steady supply of crude oil cargo shipment on a long term basis and signifies the Group's plan to establish a world class fleet of oil tankers.

6. Business prospects (continued)

In 2006, the global bulk shipping market is expected to remain stable, and due to high demand for steel and cement, the average freight rate for bulk cargoes in the second half of this year is expected to be higher than the first half. In terms of coastal coal transportation, the Group will further strengthen communications with major clients and expand its fleet appropriately so as to raise its market share. On the other hand, the Group will improve the management for international bulk shipping market at the same time, so as to prepare for expanding its fleet in such market.

The further increase of the demand for oil throughout the world, along with the global economic and political circumstances, has led the international crude oil price to a higher level. The Group has taken measures, including strengthening the management on fuel purchase and enhancing the management and monitoring of fuel quality, but the total fuel cost still substantially increased. The Group will continue to try its best to take all kinds of measures to control the fuel cost and other operating costs so as to keep the increase of cost as low as possible.

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 Practice

The Company has complied throughout the half-year ended 30 June 2006 with the Code Provisions set out in the Code on Corporate Governance Practice contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

(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 to provide 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.