管理層討論與分析

Management Discussion and Analysis

(1) Analysis of Shipping Market During the Reporting Period

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.

In 2006, the world economy sustained a steady improvement and the scale of the world's shipping industry kept expanding. The PRC domestic economy also sustained a steady improvement and the gross domestic product ("GDP") growth rate was 10.7%, as compared with 2005.

In 2006, the shipping market for the foreign trade oil fluctuated significantly, and the shipping rates for the foreign trade oil decreased due to the further expansion of the international tanker fleet capacity. In 2006, 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"), averaged at 98 points, decreased by 7 points as compared with 2005. In 2006, the domestic market for coastal shipment of oil remained stable.

The international dry bulk cargo transportation market was expanding in the upward trend in 2006. The all-year average of the Baltic Dry Bulk Freight Rate Index (the "BDI") was 3,180 points, representing a decrease of 5.7% as compared with 2005. In 2006, the domestic market for coastal shipment of coal remained stable, and the all-year average of the China Coastal Bulk Freight Index (the "CCBFI") was 1,545 points, representing an increase of 0.3% as compared with 2005.

In 2006, the oil prices in the world remained at a high level, which brought about high costs of the shipping enterprises. In light of such market conditions, the Group kept its core focus on oil shipment and domestic coastal thermal coal shipment, actively enhanced its cooperation with its major customers, and made adjustments to its operation strategies according to market circumstances. In addition, the Group continued to enhance overall control on various operational costs and maintained its operational efficiency.

(2) Analysis of the Principal Operations of the Group

During the Reporting Period, the Group's shipping volume increased steadily, and the shipping volume achieved by the Group was 177.58 billion tonne-nautical miles, increasing by 11.5% as compared with 2005. The total revenue derived from shipment was RMB9.575 billion (after business tax), increasing by 12.4% as compared with 2005. The gross operating profit achieved by the Group was RMB3.381 billion, increasing by 0.6% as compared with 2005.The average gross margin rate of the Group was 35.3%, down 4.2 percentage points as compared with 2005. The net profit was RMB2.759 billion and the earnings per share was RMB0.8286, representing an increase of 2.4% as compared with 2005.

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

Segments	Revenue Rmb'000	Operating costs Rmb'000	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 Shipment	5,280,260	3,512,510	33.48%	14.68%	22.06%	(4.02%)
Coal Shipment	3,414,539	2,219,673	34.99%	14.11%	19.72%	(3.05%)
Other dry bulk shipment	880,113	461,496	47.56%	(4.18%)	8.95%	(6.32%)

An analysis of the principal operations in terms of geographical regions (RMB'000) is set out as follows:

Segments	Revenue Rmb'000	Increase/ (decrease) in revenue as compared with the same period last year(%)
Domestic transportation	5,608,341	9.38%
International transportation	3,966,571	17.09%

1. Oil Transportation

Oil transportation has been one of the Group's core businesses. In 2006, facing with the changes in both international and domestic oil shipping market, the Group proactively made adjustments to its operational structure. The Group focused on the foreign trade oil transportatioan, and made great efforts to strengthen its domestic oil shipment market to maintain favorable economic efficiency. The annual shipping volume of oil carried by the Group was 91.51 billion tonne-nautical miles, and the revenue derived from oil shipment was RMB 5.28 billion, increasing by 14.4% and 14.7% respectively as compared with 2005.

For coastal oil shipment in the PRC, under the influence of the crude oil pipeline along the Yangtze River, the Group's import 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 coastal product oil shipment, so as to sustain its leading position in the domestic oil shipping market. In 2006, the Group achieved a shipping volume of 19.52 billion tonne-nautical miles of the shipping volume of domestic oil, and also achieved a revenue of RMB2.182 billion, representing a decrease of 0.2% and an increase of 4.2% respectively as compared with 2005. The Group achieved a shipping volume of 4.07 billion tonne-nautical miles of the shipping volume of transshipped crude oil, and also achieved a revenue of RMB631 million, representing a decrease of 6.6% and 5.8% respectively as compared with 2005. The Group achieved a shipping volume of 10.34 billion tonne-nautical miles of offshore oil, and also achieved a revenue of RMB1,038 million derived from such shipping business, representing a decrease of 4.3% and an increase of 1.5%, respectively, as compared with 2005. The Group achieved a shipping volume of 4.82 billion tonne-nautical miles of domestic product oil, and also achieved a revenue of RMB 451 million derived from such shipping business, increasing by 11.6% and 14.5% respectively as compared with 2005.

For shipment of foreign trade oil, in spite of the significant fluctuations in the shipping market, the Group's revenue from such shipping business increased due to improved market research and further enhancing communications and cooperations with the Group's major customers. In 2006, the Group achieved a shipping volume of 71.99 billion tonne-nautical miles of international oil shipping business, and also achieved a revenue of RMB3.1 billion from such shipment, increasing by 19.1% and 23.5%, respectively, as compared with 2005.

In 2006, the revenue derived from domestic and international oil shipment of the Group accounted for 41.3% and 58.7% of the total revenue from oil shipment business respectively.

2. Coal and other dry bulk cargo transportation

During the first half of 2006, the overall demand in domestic coal transportation remained stable due to the impact of the macro control policy adopted by the PRC and the increase in the supply of hydro power consumption. During the second half of 2006, high quality coal was in short supply, and the ports were very congested with traffic. Facing with such market changes, 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 and late fee structure. In 2006, the Group achieved a total shipping volume of coal of 59.08 billion tonne-nautical miles, and achieved a revenue of RMB3.414 billion derived from coal transportation, increasing by 4.8% and 14.1% respectively as compared with 2005. In 2006, the Group achieved a total shipping volume of other dry bulk cargoes of 26.99 billion tonne nautical miles, and a total revenue of RMB880 million from shipment business, representing an increase of 18.3% and a decrease of 4.1% respectively as compared with 2005.

(3) Operating costs analysis

In 2006, the total operating costs of the Group were RMB6.194 billion, representing an increase of 20.16% as compared with 2005, higher than the growth rate of operating revenue of 12.4%.

The analysis of the principal operating costs is as follows:

a. Fuel costs

The high fuel prices led to a high operating cost of the Group. In 2006, the total fuel costs of the Group were RMB 2.589 billion, representing an increase of 33.38% as compared with 2005, accounting for 41.8% of the total operating costs of the Group, an increase of 4.2 percentage points as compared with 2005. The increase of the fuel oil prices led to an increase of fuel cost of RMB462 million. With the phasing out of the old vessels, and the replacement of the large new vessels, the fuel efficiency of the Group further improved. In 2006, the fuel consumption increased by 6.6%, lower than an increase of 11.5% of the shipping volume of cargo carried by the Group. The unit fuel consumption per thousand tonne kilometer fell by 4.4% as compared with 2005.

b. Port costs

In 2006, the shipping voyages of large vessels increased, and the domestic trade port fee also increased. The total port costs of the Group were RMB 586 million, representing an increase of 21.33% as compared with 2005, and accounting for 9.5% of the total operating costs of the Group.

c. Labour costs

In 2006, the total labour costs of the Group were RMB 502 million, representing a decrease of 9.2% and accounting for 8.1% of the total operating costs of the Group. Such decrease is mainly due to the further adjustment to the fleet composition of the Group, and the phasing out of the old and small tankers. In 2006, the Group disposed of 17 old vessels. Further, commencing in 2006, employee benefits were recorded on the basis of actual spending rather than a fix provision of 14% of the employee’s salary.

d. Depreciation expenses

With new vessels being launched into operation successively, depreciation expenses of the Group slightly increased. In 2006, the total depreciation expenses were RMB 950 million, representing an increase of 7.83% as compared with 2005, and accounting for 15.34% of the total operating costs of the Group.

e. Repair and maintenance expenses

In 2006, the total repair and maintenance expenses were RMB 413 million, representing a decrease of 5.5% as compared with 2005, and accounting for 6.7% 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 decreased from RMB 3, 677,542,000 in 2005 to RMB 3,366,584,000, representing a decrease of 8.46%.

b. Commitments on capital expenditures

As at 31 December 2006, the commitments on capital expenditures for the Group amounted to RMB8,864,108, 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 31 December 2006, the shareholders' equity, bank loans and interest-bearing borrowings, and finance leases payable amounted to RMB12,596,924,000, RMB3,299,169,000 and RMB95,462,000 respectively. As at 31 December 2006, the debt-to-equity ratio was 37% (31 December 2005: 23%).

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 2006, the Group's total borrowing (excluding finance leases payable) was RMB3,299,169,000, all of which was bank loans. Bank loan amounting to RMB3,299,169,000 were pledged by 8 vessels owned by the Group and one of the Group's jointly-controlled entities. As at 31 December 2006, the total net book value of such vessels was RMB2,267,948,000. Interests of the above loans were calculated at the annual rate from 5.022% to 6.84% or Libor + 0.42% to 0.85%. The Group's gearing ratio was 26.86%, calculated by dividing total liabilities over total assets of the Group.

e. Risk on foreign currency

As at 31 December 2006, the Group's foreign exchange liabilities mainly comprised of finance lease rental payable in EURO dollars equivalent to approximately RMB29,845,000. 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 enhance the study of the impact of exchange rate mechanism on shipping enterprises. It will also implement effective measures proactively to minimise exchange risks.

f. Administrative expenses

In 2006, the total administrative expenses of the Group were RMB224 million, decreasing by 11.46% as compared with 2005.

g. Finance expenses

In 2006, the total finance expenses of the Group were RMB 129 million, decreasing by 5.15% as compared with 2005.

(5) Disposal of assets

(Unit: Rmb'000)

被出售資產 Assets sold	出售時間 Time of disposal	出售價格 Sales Price	出售產生的損益 Profit/(loss) arising from disposal of assets	是否為關聯交易 Connected transaction (Yes/No)	定價原則 Pricing policy
Daqing 85	22 December 2005 (date of contract)	15,388	13,648	Yes	Market price
Daqing 232	21 April 2006 (date of contract)	10,245	9,097	Yes	Market price
Daqing 31	30 May 2006 (date of contract)	11,665	10,043	No	Market price
Daqing 240	30 May 2006 (date of contract)	17,384	15,754	No	Market price
Daqing 215	30 June 2006 (date of contract)	5,740	5,100	No	Market price
Jianshe 1	30 June 2006 (date of contract)	9,000	8,717	No	Market price
Jianshe 2, 3 and 21	30 June 2006 (date of contract)	27,000	22,241	No	Market price
Daqing 241	22 August 2006 (date of contract)	17,595	15,969	No	Market price
Daqing 46	21 September 2006 (date of contract)	11,621	9,475	No	Market price
Jinzhou	24 November 2006 (date of contract)	18,206	17,440	No	Market price
Jianshe 33, 34,35 and 36	11 December 2006 (date of contract)	240,800	29,926	Yes	Market price
Daqing 42	28 December 2006 (date of contract)	17,287	14,382	Yes	Market price

(6) Prospects

It is estimated that the world economy will remain prosperous in 2007. The International Monetary Fund estimated that the growth rate of the world economy will reach approximately 4.9% as compared with 2006, and the world trade volume will increase by approximately 7.6% accordingly. On the other hand, the continuous development of the PRC economy will push the demand for energy resources such as oil, coal and iron ores.

In terms of oil transportation, after the international crude oil transportation market reached its historical high in November 2004, the supply of shipping capacity of the tankers increased rapidly and surpassed the rate of increase in the correponding demand, resulting in the downward trend of shipping rates in the past two years. The International Energy and Source Organization estimated that the world average daily demand of crude oil would increase by approximately 1.7% in 2007 as compared with 2006, which will stimulate an increase of 3% in the oil shipping demand throughout the world. However, the growth of the capacity of the tanker fleet will sustain an increase of 9%, in accordance with Clarkson Research, one of the world's biggest shipbrokers. As a result, the shipping rates for the international oil transportation are estimated to sustain the downward trend, which will ease off in 2008. On the other hand, the domestic oil transportation market is expected to be stable in 2007.

In 2006, the Group made further adjustment to its fleet composition in accordance with its overall strategy. The Group disposed 14 small tankers totaling 184,470 DWT, and ordered 13 new tankers with total capacity of 2,873, 000 DWT in 2006. As at 31 December 2006, the Group owned 69 tankers with total capacity of 3,405,000 DWT. In 2007, 6 new tankers with total capacity of 542,000 DWT are scheduled to come into operation. 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.

In 2007, the global bulk shipping market will remain stable. The BDI index is expected to remain at a high level due to the high demand for iron ore, coal, steel and cement. The Group will continue to explore the imported coal and iron ore shipment market. The Group will also improve its management performance for its international bulk shipping business at the same time, so as to prepare for its expanding cargo carrier fleet in such market.

In terms of coastal coal transportation, the annual shipment volume is estimated to increase by 30 million tons by the year 2010 in accordance with the market research made by the Company. The Group will further strengthen communications with major clients and expand fleet appropriately so as to increase the market share. At present, the Group has entered into all the contracts for shipment of thermal coal for 2007, and the average shipping rates increased as compared with 2006. In February 2007, China Shipping, the controlling shareholder the Company, signed a strategic cooperation agreement with Shenhua Group Corporation Limited. Under the agreement, the Group will support Zhuhai New Century Shipping Co. Ltd ("Zhuhai New Century"), a joint venture between the Company and China Shenhua Energy Company Limited, to increase its tonnage through, among other things, building and purchasing new vessels so as to try to attain a tonnage of 1,000,000 DWT by 2010 such that Zhuhai New Century will become the main supplier of coastal coal transportation services to power plants within Shenhua Group.

As at 31 December 2006, the Group owned 100 bulk carriers with total capacity of 3,552,000 DWT. The 42 bulk carriers which were acquired from China Shipping and its subsidiaries in 2006 have commenced operation in early 2007. In addition, the Company increased its investment in Shanghai Times Shipping Co. Ltd ("Times Shipping"), a joint venture between the Company and Huaneng Group in 2006, and supported Times Shipping to acquire 9 second hand bulk carriers totaling 500,000 DWT, all of which were delivered into operation in the first quarter of 2007. Furthermore, 2 new bulk carriers with capacity of 152,000 DWT will be put into use ordered by Times Shipping.

It is the consistent strategic policy to develop the long term cooperation relationship with its major customers. In July 2006, the Group has signed a long-term contract of affreightment with China Petroleum & Chemical Corporation, which will protect the Group against risks associated with market freight fluctuation and secure a steady supply of crude oil shipment on a long term basis and signifies the Group's plan to establish a world class fleet of oil tankers. The Group will further enhance its long term strategic cooperation with its major customers so as to increase its market share in terms of both domestic oil shipment and the imported oil shipment. In addition, the Group has entered into long-term contracts of affreightment for shipping of imported iron ore with China Shougang International Trade & Engineering Corp. in October 2006 and Bao Steel Company Limited in January 2007, which signifies that the Group's plan to enter into the imported iron ore shipping market.

The current international crude oil price is lower than the average price in the second half of 2006. However, the international crude oil price is estimated to remain at a high level due to further increase of the demand for oil throughout the world, along with the global economic and political circumstances. The Group has to face with the challenges from the high fuel costs. The Group will make much effort in strengthening its management of fuel purchase and hedge against the rises in fuel prices by purchasing fuel at proper time. The Group will further implement and improve its provisions for 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, controls on port charges and maintenance fees so as to keep its cost increases as low as possible.