(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 2007, the world economy sustained a steady improvement, and international trade kept a steady growth. Under the impact of the macro control policy adopted by the PRC, the PRC domestic economy sustained a steady improvement for continuing five years. The demand for iron ore, oil and coal in China kept a rapid growth. The demand in the global shipping market kept improving, and shipping industry continued to flourish, with sub-markets developing in different trends.

In 2007, with the rapid increase in the demand for bulk cargoes (such as iron ore, coal etc), demand in the international dry bulk cargo shipping market continued to be strong. The shortage of shipping capacities has led freight rates to remain high. The average of the Baltic Dry Bulk Freight Rate Index (the "BDI") was 7,069 points, representing a significant increase of 122% as compared with 2006. At the same time, due to the sustained growth in the economy of the PRC, coastal shipment of coal was growing rapidly, and the coastal bulk freight index increased by 25.8% as compared with 2006. The Group's all-year base freight rate in respect of thermal coal for the contract of affreightment with the major customers increased by 14.1% as compared with 2006.

In 2007, under the impact of high crude oil price and production reduction by OPEC, overall demand in international oil market was inadequate. At the same time, surplus of new shipping capacities launched, which exceeded demands, has caused the freight rates to move downwards. In 2007, the international crude oil composite freight rate indicator averaged at 1,124 points, representing a decrease of 13% as compared with 2006. Of these, 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 79 points, a decrease of 19. 4% as compared with 2006. Oil shipment market in domestic trade remained stable.

(2) Analysis of the Principal Operations of the Group

In 2007, the Group persisted in taking domestic coastal coal shipping and oil shipping business as its core business, making full use of the superiority that the shipping capacity of bulk vessels increased significantly, and made efforts to enhance various cost control measures, with operating results reaching the historic record high of the Group. Benefiting from the successful acquisition of the 42 dry bulk cargo vessels from China Shipping (Group) Company, the Company's controlling shareholder, and its subsidiaries, and the uprising in the international dry bulk cargo and coastal coal freight rate in the PRC, the profits of the Company increased significantly as compared with 2006. During the Reporting Period, the shipping volume achieved by the Group was 216.4 billion tonne-nautical miles, and the total revenue derived from shipment was approximately RMB12.395 billion (after business tax and surplus), representing an increase of 22.1% and 34.7% as compared with 2006 respectively. Cost of operations was approximately RMB7,329 million, an increase of 23.9% as compared with 2006. Net profit recorded was approximately RMB4546 million, and earnings per share was approximately RMB1.3669, representing an increase of 64.8% as compared with 2006.

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

Description	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	4,924,349	3,531,661	28.28%	(8.07%)	(2.50%)	(4.10%)
Coal Shipment	5,324,189	2,842,078	46.62%	89.74%	69.37%	6.42%
Other dry bulk shipment	2,146,201	955,569	55.48%	106.18%	55.00%	14.70%

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	7,312,282	46.65
International transportation	5,082,457	20.51

Dry bulk cargo shipping

In light of the favorable market opportunities and benefiting from the acquisition of the 42 dry bulk cargo vessels at the end of 2006 which have all been put into operation at the beginning of 2007, the Group's revenue derived from the dry bulk cargo shipping in 2007 increased significantly. In 2007, the Group has achieved a shipping volume of approximately 216.4 billion tonne-nautical miles of dry bulk cargo, and derived a revenue of approximately RMB12.39 billion, representing increases of 22.1% and 34.7% as compared with 2006 respectively. Of these, the shipping capacity of the 42 dry bulk cargo vessels acquired amounted to 1,406,000 DWT, representing 34.9% of the Company's existing shipping capacity of dry bulk cargo. Shipping volume achieved by the 42 vessels in 2007 was approximately 38.7 billion tonne-nautical miles, revenue generated was approximately RMB2330 million, and the gross profit achieved was approximately RMB1150 million, with gross profit margin of 49.3%.

For shipment of coal, the Group, with domestic coastal thermal coal shipping business as its core business, has been making its utmost effort to guarantee the thermal coal shipping for its large clients. In 2007, the Group has achieved a total shipping volume of 81.3 billion tonne-nautical miles, and generated revenue of approximately RMB5,324 million, representing an increase of 37.5% and 89.7% as compared with 2006 respectively. Of these, domestic trade coal shipment was 73.6 billion tonne-nautical miles, and revenue achieved was approximately RMB4,804 million, representing increases of 45.5% and 86.6% as compared with 2006 respectively. International trade coal shipment was 7.7 billion tonne-nautical miles, representing a decrease of 9.8% as compared with 2006, and revenue achieved was approximately RMB520 million, representing an increase of 124.5% as compared with 2006.

For shipment of other dry bulk cargoes, the Group has achieved a total shipping volume of approximately 37.9 billion tonne-nautical miles in 2007, and achieved a shipping revenue of approximately RMB2146 million, representing increases of 43.1% and 106.2% as compared with 2006 respectively. Of these, international trade shipping volume achieved was 29.91 billion tonne-nautical miles, and revenue achieved was approximately RMB1642 million, representing increases of 33.0% and 107.9% as compared with 2006 respectively. Domestic trade shipping volume achieved was 8.0 billion tonne-nautical miles, and revenue achieved was approximately RMB500 million, representing increases of 99.8% and 100.9% as compared with 2006 respectively.

Oil shipment

In 2007, the domestic oil shipping market remained stable, and the international oil shipping market kept depressed movement. Facing with the different situation in the international and domestic oil shipping markets, the Group carefully organised the shipment and production, and made efforts in conducting safety management and cost control. In 2007, the Group achieved a shipping volume of approximately 97.2 billion tonne-nautical miles of oil shipment, representing an increase of 6.2% as compared with 2006, and revenue achieved was approximately RMB4,924 million, representing a decrease of 8.1% as compared with 2006.

For shipment of domestic trade oil, the Group continued to put efforts in the disposal of old tankers, and as a result the shipping capacity of tankers reduced by 15% in 2007. During the Reporting Period, the Group has achieved a shipping volume of approximately 16.5 billion tonne-nautical miles of domestic trade oil shipment and revenue achieved was approximately RMB2,000 million, representing decreases of 15.6% and 7.3% as compared with 2006 respectively. The operating results of the domestic trade oil shipment in segments are different. The Group achieved a shipping volume of approximately 9.6 billion tonne-nautical miles of offshore oil shipping, representing a decrease of 7.4% as compared with 2006, and achieved a shipping revenue of approximately RMB1,050 million, representing an increase of 2.2% as compared with 2006. The Group achieved a shipping volume of approximately 4.30 billion tonne-nautical miles of transhipment of imported crude oil, and revenue of approximately RMB6,600 million, representing increases of 6.4% and 5.2% as compared with 2006 respectively. In 2007, the Group has achieved a shipping volume of 1.9 billion tonne-nautical miles of domestic trade refined oil shipment, and revenue generated was approximately RMB180 million, representing decreases of 61.3% and 61.0% as compared with 2006 respectively.

In the international trade oil shipping market, to cope with the overall market depression, the Group puts emphasis in market research, and focused on cargo soliciting on key VLCC, Aframax and Handy-size tankers, and made efforts in market expansion. In 2007, with delivery of new tankers, the Group has got 11% increase in shipping capacity of its tanker fleet. During the Reporting Period, the Group has achieved a shipping volume of approximately 80.7 billion tonne-nautical miles of international trade oil, representing an increase of 12.1% as compared with 2006, and revenue achieved was approximately RMB2,920 million, representing a decrease of 8.6% as compared with 2006. Of these, the shipping volume of international crude oil was approximately 42.0 billion tonne-nautical miles, representing an increase of 11.7% as compared with 2006, and revenue achieved was approximately RMB890 million, representing a decrease of 16.7% as compared with 2006. The shipping volume of international refined oil was approximately 38.8 billion tonne-nautical miles, representing an increase of 12.6% as compared with 2006, and revenue achieved was approximately RMB2,030 million, representing a decrease of 4.6% as compared with 2006.

(3) Operating costs analysis

In 2007, 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 various costs control and management measures.

Since June 2007, under the impact of factors such as local politics and production reduction by OPEC, prices of international crude oil increased rapidly and broke its historic record high repeatedly. As a result, the shipping enterprises faced increasing cost pressure. In order to control the crude oil cost effectively, the Group is closely following the international market trend of crude oil, making bulk purchases when appropriate to lock in prices, and speeding up the organizational restructure of its fleet with a view to reducing fuel consumption and reasonably improving the utilization ratio of low grade crude oil.

The total operating cost incurred in 2007 was RMB7,330 million, an increase of 23.9% as compared with 2006, lower than the growth of 34.7% in the revenue generated form operating activities. The cost compositions are specifically analysed as follows:

a. Fuel cost: the Group's fuel expenses in 2007 was approximately RMB2,960 million, an increase of 19.6% as compared with 2006, representing 40.3% of the total operating cost. In 2007, the Group further enhanced its fuel saving, and with a growth of 22.1% in its shipping volume as compared with 2006, there was only a growth of 13% in the fuel consumption, representing a reduction of 7.4% in fuel consumption per thousand nautical miles as compared with 2006.

b. Port cost: port expenses incurred in 2007 was approximately RMB680 million, an increase of 17.4% as compared with 2006, representing 9.3% of the total operating cost.

c. Labor cost: the Group's total labor cost in 2007 was approximately RMB610 million, an increase of 8.9% as compared with 2006, representing 8.4% of the total operating cost.

d. Depreciation: the Group's depreciation expenses incurred in 2007 amounted to approximately RMB1,000 million, an increase of 2.4% as compared with 2006, representing 13.6% of the total operating cost. Such change was due to: (1) successful acquisition of the 42 dry bulk cargo vessels from China Shipping (Group) Company, the Company's controlling shareholder, and its subsidiaries at the end of 2006; and (2) on 29 March 2007, the board of Directors agreed to change the accounting estimation of the residual value of vessels from the present 4% of the cost of vessels to the disposal price of scrap steel vessels.

e. Repair expenses: the Group's repair expenses incurred 2007 amounted to approximately RMB460 million, an increase of 13.5% as compared with 2006, representing 6.2% of the total operating cost.

(4) Financial analysis

a. Net cash inflow

During the Reporting Period, the net cash inflow from operating activities of the Group increased from RMB 3,171,218,000 in 2006 to RMB 5,602,060,000, representing an increase of 76.7%.

b. *Commitments on capital expenditures*

As at 31 December 2007, the commitments on capital expenditures for the Group amounted to RMB23, 599,675,000 (31 December 2006: RMB7,633,629,000). The source of funding was mainly financed by the Company's working capital and bank loans.

c. *Capital structure*

As at 31 December 2007, the shareholders' equity, bank loans and interest-bearing borrowings, and finance leases payable amounted to RMB16,071,515,000 and RMB4,276,666,000 (including RMB2,080, 940,000 and USD300,596,000,which equivalent to RMB 2,195,726,000) respectively. As at 31 December 2007, the debt-to-equity ratio was 46.00% (31 December 2006: 34.87%).

d. *Borrowings*

As at 31 December 2007, the Group's total borrowing was RMB4,276,666,000, of which RMB721,825,000 is to be payable within one year. Bank loan amounting to RMB1,910,506,000 were pledged by 6 vessels owned by the Group and under construction. As at 31 December 2007, the total net book value of such vessels was RMB1,473,601,000. Interests of the above loans were calculated at the annual rate from 5. 67% to 6.724% or Libor + 0.38% to 0.45%. There is no seasonality in the Group's borrowing requirements. The Group's gearing ratio was 31.51%, calculated by dividing total liabilities over total assets of the Group.

Apart from the above mentioned 6 vessels, there is no charges on Group assets.

e. *Risk on foreign currency*

As at 31 December 2007, the Group's foreign exchange liabilities mainly comprised of finance payable in US dollars equivalent to approximately RMB2,195,734,000. In addition, the Company would pay dividend of H shares in Hong Kong dollars.

In order to avoid the risk of RMB appreciation, the Group actively made adjustments to its debt structure, and the proportion of US dollar indebtedness increased from 34.27% at the beginning of the year to about 51.34% as at 31 December 2007. During the Reporting Period, foreign exchange income and expenses basically broke even.

The Group is currently not using any financial instruments for hedging purposes.

Given the increasing significance of the Group's international shipping business, changes in exchange rates will have certain impacts on the Group's profitability. Therefore, the Group will further strengthen its efforts in monitoring and studying exchange rate fluctuations, and will actively implement effective measures to strive to avoid exchange rate fluctuation risks. Firstly, the Group will strive to break even USD for its operations. Secondly, the Group will appropriately increase its USD loans. Thirdly, the Group will conscientiously analyse and compare available financial instruments for averting exchange rate risks, so as to hedge and lock in financial costs, and to effectively protect against risks caused by exchange rate fluctuations.

(5) Outlook and highlights for 2008

According to the forecast of International Monetary Fund, due to the impacts of a weak economy of the United States and the turmoil in the global financial market, it is anticipated that the growth rate of the global economy will slow down in 2008. Meanwhile, under the macro-economic control policy, the growth rate of the national economy of the PRC will also slow down. It is anticipated that the GDP growth in 2008 will be limited to 8%, and the growth rate of import and export trade will also drop. However, the steady growth of the PRC's economy will still be driving the demand for the transportation of bulk cargo such as coal, ores and oil. This provides favourable conditions for the Group to leverage on its advantage in both domestic and foreign shipping operations and to maintain a healthy development. Therefore, in the coming year, challenges and opportunities will co-exist in the domestic and overseas shipping markets and uncertainties will increase.

In respect of international oil transportation, new transportation capacities are continuously increasing, and high oil prices will curb the growth in the global demand for oil. However, with increasing restrictions on the operations of single hull tankers, the Company is cautiously optimistic about the international tanker transportation market in 2008. As for international dry bulk cargo transportation, since the major factors leading to the exponential growth of the BDI Index in 2007, namely insufficient transportation capacity, increase voyage distance and port congestion, still exist, it is anticipated that the BDI Index will still continue to show a high-level fluctuating trend in 2008. The base freight rate for domestic coastal bulk cargo contracts of affreightment for 2008 entered into between the Company and its customers has increased by 40% over last year, and at the same time, the Company has further upgraded the terms for fuel surcharge and the demurrage terms. Domestic coastal oil transportation is expected to remain basically stable.

According to the forecast of International Energy Agency, a global oil supply shortage crisis is expected to occur in the next five years, leading to soaring oil prices. Since June 2007, international crude oil prices have risen significantly, and repeatedly hit historical records. As fuel costs account for more than 40% of the Group's transportation costs, the Group will face increasing pressure from controlling fuel costs.

In order to cope with the current market situation, the Group will focus on the following aspects in 2008:

a. Continue to strengthen strategic cooperation with major customers, and maintain long-term stable strategic cooperation, so as to further consolidate and expand the Company's share in the domestic and foreign transportation markets, and reduce operating risks caused by fluctuations in freight rate. In respect of coal transportation, the Group will continue to focus on transportation of power coal, and further strengthen strategic cooperation with major customers, enhance the transporation capacities of power coal for major customers, and at the same time, expand the scale and strength of its associated companies in power coal transportation, explore new markets, so as to further expand market coverage. As for oil transportation, the Group will continue to enhance strategic cooperation with major customers such as PetroChina Company Limited, China Petroleum & Chemical Corporation (Sinopec) and China CNOOC Limited, while further rationalising the freight rate mechanism for coastal oil transportation. It will build on the long-term transportation agreement entered into with Sinopec to explore strategic cooperation with major international oil companies, to establish a long-term stable freight rate mechanism and reduce the risks associated with cargo sources and freight rate fluctuations. As for the transportation of imported iron ores, the Company has since October 2006 entered into long-term contracts of affreightment for iron ores with large domestic iron and steel enterprises such as China Shougang International Trade & Engineering Corp., Bao Steel Company Limited and Wugang Iron and Steel Group, and has established a mechanism linking freight rate, oil price and vessel price, thereby ensuring the stability of cargo sources. This is a significant breakthrough in the operation of very-large ore vessels by the Company.

b. Continue to speed up adjustments to vessel structure, further optimize fleet structure, and enhance the shipping efficiency of vessels. The Group has disposed of 22 old vessels of 408,000 DWT in 2007, and plans to dispose of 13 old vessels of 210,000 DWT in 2008. At the same time, the Group has further enhanced its efforts in building new vessels and supervising vessel building, so as to ensure timely delivery of new vessels. In 2007, the Group has entered into contracts for the construction of 10 tankers and 38 bulk cargo vessels with a total tonnage of 6.14 million DWT. Currently, the Group has a total of 59 vessels with 8.69 million DWT under construction, which are all scheduled for delivery by the end of 2012. Total capital expenditure in the next five years is expected to be approximately RMB23.4 billion.

c. Continue to implement various measures for reducing expenses, and focus on controlling fuel costs. The Group will continue to strengthen market analysis, adopt effective measures such as strengthening management and control of fuel purchase and supply, lock in certain fuel prices, reduce unit consumption of fuel and further improve the surcharge terms for domestic coastal power coal and crude oil transportation. The Group will devote full efforts to controlling fuel and other costs, so as to strive to minimize the increase in costs.

d. Further strengthen vessel chartering and increase the percentage of shipping capacity by chartered vessels. In 2007, the Company has set up two specialized chartering companies in Hong Kong with a view to adopting vessel chartering as a conventional model to increase shipping capacities. This is an important means to compliment the Group's strategic plan to implement a "World Class Fleet". The Group targets to increase the chartered capacity to 30% of the Group's transportation capacity by 2010.

Based on its view of the domestic and overseas shipping markets in 2008, and taken into consideration of the delivery of new vessels, the Group anticipates that its shipping capacity will grow slightly in 2008, with a shipping volume of approximately 235.1 billion tonne nautical miles, a turnover of approximately RMB17.9 billion and operating cost of approximately RMB9.8 billion, representing a growth of 5.8%, 41.1% and 33.5% respectively.

(6) Disposal of assets

(Unit: Rmb'000)

Assets sold	Sales Price	Profit/(loss) arising from disposal of assets	Connected transaction (Yes/No)	Pricing policy
Jinquan	12,200	5,283	No	Market price
Haitang	7,600	(726)	No	Market price
Yongan 4	173,829	55,060	No	Market price
Jianshe 5	8,600	7,740	No	Market price
Jianshe 6	8,800	7,934	No	Market price
Jianshe 22	9,500	5,834	No	Market price
Daqing 44	18,262	16,292	No	Market price

(6) Disposal of assets (Continued)

(Unit: Rmb'000)

Assets sold	Sales Price	Profit/(loss) arising from disposal of assets	Connected transaction (Yes/No)	Pricing policy
Bei Ji Xing	99,654	16,712	No	Market price
Jianshe 4	7,000	6,764	No	Market price
Daqing 51	22,162	19,614	No	Market price
Daqing 61	26,426	18,345	No	Market price
Huaxi	29,015	26,864	No	Market price
Jianshe 11/12	26,016	13,342	No	Market price
Dianchi	35,278	31,659	No	Market price
Xiangdan/Xianglian/Xiangyin	28,000	21,751	Yes	Market price
Huazhi	42,223	38,425	No	Market price
Daqing 254	49,111	45,472	No	Market price
Daqing 244/Yongchi	45,749	40,243	Yes	Market price