MANAGEMENT DISCUSSION AND ANALYSIS

1. Analysis of International and Domestic Shipping Markets 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) domestically along the coastal region of the PRC and internationally.

In the first half of 2008, despite a slowdown in the speed of the world economic growth, the PRC economy sustained a steady and rapid growth. The demand for energy resources in China kept a steady growth. Shipping industry continued to flourish, with sub-markets developing in different trends.

In the first half of 2008, with the rapid increase in the demands for bulk cargoes (such as iron ore and coal), demand in the international dry bulk cargo shipping market continued to be strong, and the freight rates showed significant fluctuation with an overall upward trend. The daily average of the Baltic Dry Bulk Freight Rate Index (the "BDI") was 8,617 points, representing an increase of 62.1% as compared with the same period in 2007. At the same time, due to the strong demand for thermal coal along the domestic coast of China, coastal shipment of coal was growing rapidly, and the daily average of China Coastal Bulk Freight Index (the"CCBFI") increased by 68.2% as compared with the same period in 2007. The all-year base freight rate in respect of bulk cargoes for the contract of affreightment with the major customers increased by 40% as compared with 2007.

In the first half year of 2008, with the growing demand for crude oil in the emerging market countries and increasing restrictions on the operations of single hull tankers, the overall international oil shipping market maintained solid growth and the situation is much better than the estimation in early 2008. In the first half year of 2008, the daily average of the Baltic Dirty Tanker Freight Index (the "BDTI") was 1,538 points, representing an increase of 32.4% as compared with the same period in 2007. 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 149.8 points, representing an increase of 111% as compared with the same period in 2007. Oil shipment market in domestic trade remained stable.

2. Discussion and Analysis of Operations of the Group during the Reporting Period

In the first half year of 2008, the Group kept its focus on the domestic coastal coal shipping and oil shipping business as its core business, and made efforts to enhance various cost control measures. Benefiting from the uprising in the freight rate of domestic coastal bulk in the PRC, the profits of the Company recorded a historic high in the first half in 2008. During the Reporting Period, the shipping volume achieved by the Group was 113.7 billion tonne-nautical miles and the total revenue derived from shipment was approximately RMB9,114 million, representing an increase of 2.7% and 64.9% as compared with the first half in 2007 respectively. Cost of operations was approximately RMB5,381 million, an increase of 75.1% as compared with the same period in 2007. Net profit was approximately RMB3,185 million, representing an increase of 44% as compared with the same period in 2007, and earnings per share was approximately RMB0.9452.

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

	Revenue	Operating costs	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 (%)
Coal transportation	3,850,343	1,705,139	55.7	56.9	40.9
Oil transportation	2,930,489	1,981,936	32.4	24.7	28.1
Other bulk transportation	1,244,349	573,771	53.9	72.0	81.1
Chartering of vessels	1,088,411	1,120,634	(3.0)	-	-
Total	9,113,592	5,381,480	41.0	64.9	75.1

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

Regions	Revenue	Increase/(decrease) in revenue as compared with the same period last year (%)
Domestic transportation	5,159,887	46.3
International transportation	3,953,705	97.7
Total	9,113,592	64.9

(1) Dry bulk cargo shipping

In the first half of 2008, benefiting from the increase of 40% of the all-year base freight rate in respect of bulk cargoes for the contract of affreightment along the coastal region, the Group's revenue derived from the dry bulk cargo shipping increased significantly. In the first half of 2008, the Group achieved a shipping volume of approximately 63.63 billion tonne-nautical miles of dry bulk cargoes, and revenue of approximately RMB5,094 million was derived, increasing by 3.3% and 60.3% as compared with the same period in 2007 respectively, and recorded a profit of RMB2,816 million. An analysis of the transportation volume and revenue in terms of cargo specie is as follows:

Transportation volume by specie

	In the first half of 2008 (billion tonne nautical miles)	In the first half of 2007 (billion tonne nautical miles)	Increase/ (decrease)(%)
Domestic			
Coal transportation	39.28	36.00	9.1
Other bulk cargoes transportation	4.48	3.68	21.7
International			
Coal transportation	2.46	4.13	(40.4)
Other bulk transportation	17.41	17.73	(1.8)
Total	63.63	61.54	3.4

Revenue by cargo specie

	In the first half of 2008 (Rmb million)	In the first half of 2007 (Rmb million)	Increase/ (decrease)(%)
Domestic			
Coal transportation	3,725	2,254	65.3
Other bulk cargoes transportation	353	211	67.3
International			
Coal transportation	125	200	(37.5)
Other bulk transportation	891	512	74.0
Total	5,094	3,177	60.3

Note: Other bulk cargoes include metallic ore, non-metallic ore, steel, cement, timber, grain, insecticide, fertilizer and so on except for coal.

(2) Oil shipment

In the first half of 2008, domestic oil shipping market remained steady, and the international oil shipping market had been better than expected. The Group seized favorable market opportunities, carefully organised the shipment and production, and made efforts in conducting safety management and cost control. In the first half year, the Group achieved a shipping volume of approximately 50.09 billion tonne-nautical miles of oil shipment, representing an increase of 1.9% as compared with the same period in 2007, and revenue achieved was approximately RMB2,930 million, representing an increase of 24.7% as compared with the same period in 2007. An analysis of the transportation volume and revenue in terms of cargo specie is as follows:

Transportation volume and revenue in terms of cargo specie

	In the first half of 2008 (billion tonne nautical miles)	In the first half of 2007 (billion tonne nautical miles)	Increase/ (decrease)(%)
Domestic			
Crude oil transportation	8.16	7.40	10.3
Refined oil transportation	0.95	1.11	(14.4)
International			
Crude oil transportation	23.83	22.56	5.6
Refined oil transportation	17.15	18.09	(5.2)
Total	50.09	49.16	1.9

Revenue by product specie

	In the first half of 2008 (Rmb million)	In the first half of 2007 (Rmb million)	Increase/ (decrease)(%)
Domestic			
Crude oil transportation	982	947	3.7
Refined oil transportation	100	116	(13.8)
International			
Crude oil transportation	825	422	95.5
Refined oil transportation	1,024	865	18.4
Total	2,931	2,350	24.7

(3) Vessel chartering

In the first half of 2008, the Group further strengthened its vessel chartering, and has chartered 15 bulk vessels with total capacity of 1.12 million dead weight for a term exceeding one year. In the first half year of 2008, the Group has achieved a revenue of RMB1,088 million from vessel chartering.

3. Cost Analysis

In the first half of 2008, 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 and repair expenses through advanced control and management in various aspects.

In the first half of 2008, under the impact of factors such as devaluation of US dollar, demands and supplies and local politics, prices of international crude oil increased rapidly and broke its historic record high repeatedly. As a result, the shipping industry 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 the first half of 2008 was RMB5,381 million, an increase of 75.1% as compared with the same period in 2007, of which the transportation cost incurred was RMB4,261 million, an increase of 38.6% as compared with the same period of 2007, lower than the growth of 45.2% in the revenue generated from shipping activities. The transportation cost compositions are specifically analysed as follows:

(1) Fuel cost: the Group's fuel expenses incurred in the first half of 2008 was approximately RMB1,985 million, an increase of 41.1% compared with the same period in 2007, representing 46.6% of the total transportation cost. In the first half of 2008, the Group further enhanced its fuel saving, and with a growth of 2.7% in its shipping volume as compared with the same period in 2007, there was only a growth of 0.2% in fuel consumption, representing a reduction of 3.6% in fuel consumption per thousand nautical miles as compared with the same period last year.

(2) Port charges: port charges incurred in the first half of 2008 was approximately RMB411 million, an increase of 22.7% compared with the same period in 2007, representing 9.6% of the total transportation cost.

(3) Labor cost: the Group's total labor cost incurred in the first half of 2008 was approximately RMB436 million, an increase of 36.4% compared with the same period in 2007, representing 10.2% of the total transportation cost. Such change was due to: the salary level of crew members of the Group has increased by approximately 24% since the second half of 2007; and the change in the accounting treatment of welfare funds of employees due to the implementation of the new enterprise accounting standards.

(4) Depreciation: the Group's depreciation expenses incurred in the first half of 2008 amounted to approximately RMB523 million, an increase of 19.4% compared with the same period in 2007, representing 12.3% of the total transportation cost. Such change was due to the readjustments to the differences in the depreciation of vessels and the change of number of vessels.

(5) Lubricants expenses: the Group's lubricants expenses incurred in the first half year of 2008 was RMB103 million, an increase of 11.0% as compared with the same period in 2007, representing 2.4% of the total transportation cost.

(6) Insurance expenses: the Group's insurance expenses incurred in the first half year was RMB117 million, an increase of 30.5% compared with the same period in 2007, representing 2.7% of the total transportation cost.

(7) Repair expenses: the Group's repair expenses incurred in the first half of 2008 amounted to approximately RMB239 million, an increase of 21.7% compared with the same period in 2007, representing 5.6% of the total transportation cost.

4. Financial analysis

(1) Net cash inflow

During the Reporting Period, the net cash inflow from operating activities of the Group increased from approximately RMB2,750,907,000 for the corresponding period in the previous year to approximately RMB3,168,603,000, representing an increase of 15.18%.

(2) Commitments on capital expenditures

As at 30 June 2008, the commitments on capital expenditures for the Group amounted to approximately RMB22,773,282,000 (31 December 2007: approximately RMB23,599,675,000). The source of funding was mainly financed by the Company's working capital and bank loans.

(3) Capital structure

As at 30 June 2008, the equity attributable to equity holders of the Company, bank loans and other interest-bearing borrowings amounted to approximately RMB19,180,913,000 and approximately RMB6,149,258,000 respectively. The debt-to-equity ratio was 42.60% (31 December 2007: 46.00%).

(4) Borrowings

As at 30 June 2008, the Group's total borrowing was approximately RMB6,149,258,000. Borrowings repayable within one year amounted to approximately RMB2,045,219,000. Interests of the above loans were calculated at the annual rate from 5.913% to 6.804% or libor+0.25% to 1.00% or floating interest rates. There is no seasonality in the Group's borrowing requirements.

The Group's bank loans are secured by pledges or mortgages of the Group's 5 vessels under construction with net carrying amount of Rmb1,532,123,000 and other 4 vessels with net carrying amount of Rmb1,314,598,000 at 30 June 2008. Apart from the above mentioned 9 vessels, there is no charge on Group's assets.

The Group's debt ratio was 29.87%, calculated by dividing total liabilities over total assets of the Group.

(5) Risk on foreign currency

As at 30 June 2008, the Group's foreign exchange liabilities mainly comprised of bank loans payable in USD equivalent to approximately RMB3,701,567,000.

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 USD indebtedness increased from 51.3% at the beginning of the year to about 60.2% as at 30 June 2008. 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 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.

(6) Interests in the jointly-controlled entities' results

In the first half of 2008, the Group has recognized its interests in the jointly-controlled entities' profits of RMB302, 447,000, compared with RMB93,036,000 in the same period of 2007, representing a significant increase of 225.09% as compared with the same period of 2007. Such change was due to the significant increases in the fleet scale and the operating results achieved by the three jointly-controlled entities of the Group, namely Shanghai Times Shipping Co., Ltd., Zhuhai New Century Marine Co., Ltd. and Shanghai Friendship Marine Co., Ltd.. In the first half of 2008, the three jointly-controlled entities achieved a revenue of RMB1,676 million, with a net profit of RMB605 million. As at 30 June 2008, the three jointly-controlled entities owned 28 bulk vessels with total capacity of 1.22 million deadweight. In addition, 14 bulk vessels were under construction, with total capacity of 0.85 million deadweight.

5. Material asset disposals

In the first half of 2008, the Group continued to speed up adjustments to fleet structure, and disposed of 14 old vessels of 176,000 DWT, including 5 tankers of 61,000 DWT, 4 bulk vessels of 81,000 DWT and 5 container vessels of 34,000 DWT. The details of disposal of old vessels are as follows:

(Unit: Rmb'000)

Assets sold	Price of Disposal (RMB'000)	Profit arising from disposal of assets (RMB'000)	Connected transaction (Yes/No)	Pricing Policy
Jian Chi	23,889	17,948	Yes	Market price
Changhui	29,319	27,029	No	Market price
Chang Yang	24,098	22,617	No	Market price
Xu Zhou	33,523	31,650	No	Market price
Jian She7/8	17,000	15,323	No	Market price
Jian She 31/32	125,768	81,814	No	Market price
Chang Ning	32,320	31,350	No	Market price
Xing Xing/ Xiang Wang/ Xiang Xiu/ Xiang Da/ Xiang Wang	250,561	91,098	Yes	Market price

6. Outlook and Focus in the Second Half of 2008

In the second half of 2008, due to the global financial turmoil and rising prices of large bulk commodity such as energy, raw materials and food triggered by the problem of sub-prime mortgage in the US, global inflation pressure is expected to continue its increase, and the speed of economic growth is expected to undergo a further drop. At the same time, under the further impact of the macro control of the PRC government, it is expected that there will be a slight retraction in the domestic economy. However, the steady growth in the PRC economy will still be a driving force to the shipping demands for large bulk cargoes such as iron ore, coal and oil, which will allow the Group to capitalize on its advantages in both domestic and overseas trades, and providing favorable conditions for maintaining its healthy development.

In respect of international oil shipping, it is anticipated that in the second half year, the international market will basically maintain its favorable trend of the first half year. However, under the impact of unfavorable factors such as high standing oil prices which curbs the growth in the global demand for oil, substantial increase in the investments for new vessels, the market will in the overall still risks drastic fluctuations and downward pressures.

In respect of international dry bulk cargo shipping, assuming global marine shipping demands remaining stable, it is anticipated that fluctuations in the level of activities in the international dry bulk cargo shipping market will remain high.

To cope with the current market situation, the Group will continue to carry out the following in the second half of 2008:

(1) Continue to enhance strategic cooperation with major customers, maintaining long-term stable strategic cooperation relationship, so as to further consolidate and expand the Company's share in the domestic and overseas shipping markets, and reduce operating risks brought about by fluctuation in shipping tariffs. In the first half of 2008, the Board approved the establishment of joint ventures by the Company with Shanghai Puyuan Shipping Company Limited and with Baosteel Resources Co., Ltd. to expand the Group's iron ore shipping market. In respect of oil shipping, the Group will continue to enhance its strategic cooperation with major customers such as PetroChina, Sinopec and CNOOC, and to further sort out the pricing mechanism for coastal oil shipping. In addition, the Group will continue to enhance strategic cooperation with major customers, and negotiate with coal, power and steel enterprises for joint ventures, so as to promote the sustained and steady development of the Group's business.

(2) Continue to enhance adjustments to fleet structure, and further optimize fleet structure, so as to enhance shipping efficiency of vessels. In the first half of 2008, the Group had disposed of 14 old vessels of 176,000 DWT, and plans to dispose of 4 old vessels of 86,300 DWT in the second half year. In order to compensate for shortage in coal shipping capacity, the Group had completed renovation to 1 oil tanker and 4 container vessels, and increased dry bulk cargo shipping capacity of 182,900 DWT in the first half year. In the first half year, one 46,000 DWT oil tanker had been delivered for use, and five new vessels with a total tonnage of 490,000 DWT are scheduled for delivery in the second half year. As at 30 June 2008, the Group had a total of 172 vessels with 7,702,600 DWT. The composition of the Group's fleet is as follows:

	Number of vessels	Deadweight	Average age
Tankers	56	3,579,600	9.6
Bulk vessels	116	4,122,900	20.4
Total	172	7,702,500	16.9

At the same time, the Group has further enhanced its efforts in the supervision of building new vessels, so as to ensure timely delivery of new vessels. In the first half of 2008, the Group has entered into contracts for the construction of 8 bulk cargo vessels with a tonnage of 76,000 DWT for each. Currently, the Group has a total of 66 vessels with 9.254 million DWT under construction, which are all scheduled for delivery by the end of 2012. Total capital expenditure between 2008 and 2012 is expected to be approximately RMB26.5 billion and the capital will be financed by the Company's internal cash flow and bank loans.

Given the Group's existing scope and structure of dry bulk cargo fleet, currently the Group (including its associated companies) has a market share of approximately 27.5% in the domestic coastal coal shipping market in the PRC. This market share is expected to drop further in the coming years. The Group will further enhance its strategic cooperation relationship with the major customers, and renew and enhance its shipping capacity through various ways, and make efforts to enhance its market share in coastal coal shipping.

(3) 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.

(4) Continue to strengthen vessel chartering, and enhance the efficiency of vessel chartering. In the first half of 2008, the Group continued to increase its efforts in vessel chartering in the foreign trade market, and chartered 1 tanker of 47,000 DWT, 15 dry bulk cargo vessels of 1,120,000 DWT, with chartered shipping capacity representing approximately 15% of the self-owned shipping capacity. Under the current environment where the shipping market is operating at high costs with significant fluctuations, the operation and risk control of chartered vessels have greater difficulty. In the second half year, the Group will further strengthen tracking and studies on the international vessel chartering markets, and adopt measures to enhance the efficiency in vessel chartering and make efforts to avoid market risks.