# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. Analysis of the International and Domestic Shipping Market during the Reporting Period

The Group is principally engaged in the cargo shipping business which mainly consists of the shipment of oil and dry bulk cargoes (primarily coal) along the coastal region of the PRC and internationally.

In 2008, the American subprime lending crisis rapidly evolved into a global financial crisis and speedily impacting on the shipping industry through international trading and financial markets. This resulted in significant slowdown of the shipping demand and varied the performances of the global shipping market in the first and second half of the year.

In terms of dry bulk cargo shipping market, affected by the global demand and the speculation of financial derivatives, the Baltic Dry Bulk Freight Rate Index (the "BDI") closed at 774 points at the end of 2008 after a continuous decrease from the record high of 11,793 points in May 2008, representing a decrease of 93%. The annual average level of BDI was 6,407 points, representing a decrease of 9.7% as compared with that of the same period in 2007.

The domestic coastal bulk shipment market also showed a relatively higher point in the first half of 2008 and a relatively lower point in the second half of 2008. In the first half of 2008, the demand for coastal shipping was vigorous. However, in the second half of the year, as the Chinese domestic economic growth was reduced which resulted in the decrease in shipping demands from power plants and steel plants, the China Coastal Bulk Freight Index (the "CCBFI") closed at 1277 points at the end of 2008, representing a decrease of 55% from the highest point of 2,887 points in 2008. The annual average level of CCBFI was 2,092 points, representing an increase of 7.6% as compared with that of the same period in 2007.

In 2008, the overall demand in the international oil transportation market remained strong and the freight rate remained at a high level. The Baltic Dirty Oil Tanker Freight Rate Index (the"BDTI") averaged at 1,510 points, representing an increase of 34.4% as compared with that of the same period in 2007. 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 133 points, an increase of 69.9% as compared with that of the same period in 2007. Oil shipment market in the Chinese domestic trade remained stable and the freight rate also remained stable.

## 2. Analysis of the Principal Operations of the Group

In 2008, facing with the dramatic changes in shipping market, the Group persisted in taking domestic coastal coal shipping and oil shipping business as its core business, strengthened the strategic cooperation with its major customers and made efforts to promote meticulous management and enhance various cost control, energy saving and emission reduction measures. Benefiting from the rising coastal coal freight rate in the PRC and the international oil freight rate, and with the joint efforts of all staff, the Group recorded a historic high in its operating results for the year ended 31 December 2008 ("Reporting Period").

During the Reporting Period, the shipping volume achieved by the Group was 229.34 billion tonne–nautical miles, and the total revenue derived from shipment was approximately RMB17.214 billion (after business tax and surplus, the same below), representing an increase of 6.0% and 38.9% as compared with those of the same period in 2007 respectively. Cost of operations was approximately RMB11.111 billion, an increase of 51.6% as compared with that of the same period in 2007. Net profit recorded was approximately RMB5.373 billion, representing an increase of 18.2% as compared with that of the same period in 2007. Earnings per share was approximately RMB1.5864.

An analysis of the principal operations in terms of products transported is set out as follows:

Principal Operations by Products Transported

| Industry or Product Description | Revenue | Operating costs | Gross profit margin | Increase in revenue as compared with 2007 | Increase in operating costs as compared with 2007 | Increase/(decrease) in gross profit margin as compared with 2007 |
|---|---|---|---|---|---|---|
| | (RMB'000) | (RMB'000) | (%) | (%) | (%) | (%) |
| Coal shipments | 6,872,280 | 3,435,679 | 50.0 | 29.1 | 20.9 | Up 3.4 percentage points |
| Oil shipments | 5,994,525 | 4,198,877 | 30.0 | 21.7 | 18.9 | Up 1.7 percentage points |
| Other bulk shipments | 2,487,621 | 1,516,666 | 39.0 | 15.9 | 58.7 | Down 16.4 percentage points |
| Rental income from vessel chartering | 1,859,857 | 1,959,549 | (5.4) | – | – | – |
| Total | 17,214,283 | 11,110,771 | 35.5 | 38.9 | 51.6 | Down 5.4 percentage points |

An analysis of the principal operations in terms of geographical regions is set out as follows:

Principal Operations by Geographical Regions

| Regions | Revenue (RMB'000) | Increase/ (decrease) in revenue as compared with 2007 (%) |
|---|---|---|
| Domestic shipment | 9,417,115 | 28.8 |
| International shipment | 7,797,168 | 53.4 |

(1) Shipping business — Dry bulk shipments

In 2008, as the Group seized the opportunity of strong market demand in the beginning of the year to increase the coastal contracts of affreightment ("COA contracts") freight rate in time and adjusted the fuel surcharge, the Group maintained stable operational efficiency despite the rising trend of oil price in the market. In the second half of 2008, with the decrease in the demands for coal and iron ore shipping in the China domestic coast region, the Group actively researched corresponding measures and adjusted shipping capacity to cater for the rapidly shrinking market. The profits of the Group resulting from dry bulk cargo transportation recorded a historic high in 2008. The Group achieved a shipping volume of approximately 125.33 billion tonne–nautical miles of dry bulk cargo, and derived a revenue of approximately RMB9.36 billion, representing increases of 5.2% and 25.3% as compared with those of the same period in 2007 respectively.

An analysis of the transportation volume and revenue in terms of product types is as follows:

Transportation Volume by Types

| | In 2008 (billion tonne nautical miles) | In 2007 (billion tonne nautical miles) | Increase/ (decrease) (%) |
|---|---|---|---|
| Domestic Shipment | 78.94 | 81.56 | (3.2) |
| Coal | 71.27 | 73.57 | (3.1) |
| Other bulk | 7.67 | 7.99 | (4.1) |
| International Shipment | 46.39 | 37.61 | 23.3 |
| Coal | 3.72 | 7.70 | (51.7) |
| Other bulk | 42.67 | 29.91 | 42.7 |
| Total | 125.33 | 119.17 | 5.2 |

Revenue by Product Types

| | In 2008 (RMB million) | In 2007 (RMB million) | Increase/ (decrease) (%) |
|---|---|---|---|
| Domestic Shipment | 7,261 | 5,308 | 36.8 |
| Coal | 6,689 | 4,804 | 39.2 |
| Other bulk | 572 | 504 | 13.5 |
| International Shipment | 2,099 | 2,162 | (2.9) |
| Coal | 183 | 520 | (64.8) |
| Other bulk | 1,916 | 1,642 | 16.7 |
| Total | 9,360 | 7,470 | 25.3 |

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

(2) Shipping business — Oil shipments

Since the fourth quarter of 2008, the effect of global financial crisis on oil shipping business has gradually manifested. As such, the demand in the domestic trading market has experienced a slowdown since the third quarter, while the decrease in the freight rate in foreign trade market has intensified since the fourth quarter of 2008. The Group fully understood the difficulties in the market's adjustment and has adopted corresponding measures early by strengthening its cooperation with its major clients, increasing its proportion of long and stable demand sources, improving its shipping performance and enhancing the efficiency of its vessels.

In 2008, the Group achieved a shipping volume of approximately 104.01 billion tonne-nautical miles of oil shipment, representing an increase of 7.0% as compared with that of the same period in 2007, and the revenue achieved was approximately RMB5.994 billion, representing an increase of approximately 21.7% as compared with that of the same period in 2007. In 2008, the market share of the Group in domestic crude oil shipping market exceeded 60% of this market.

An analysis of the transportation volume and revenue in terms of products types is as follows:

Transportation Volume and Revenue in terms of Products Types

| | In 2008 (billion tonne nautical miles) | In 2007 (billion tonne nautical miles) | Increase/(decrease) (%) |
|---|---|---|---|
| Domestic Shipment | 18.09 | 16.48 | 9.8 |
| Crude oil | 15.34 | 14.60 | 5.1 |
| Refined oil | 2.75 | 1.88 | 46.3 |
| International Shipment | 85.92 | 80.73 | 6.4 |
| Crude oil | 48.41 | 41.97 | 15.3 |
| Refined oil | 37.51 | 38.76 | (3.2) |
| Total | 104.01 | 97.21 | 7.0 |

Revenue by Product Types

| | In 2008 (RMB million) | In 2007 (RMBmillion) | Increase/(decrease) (%) |
|---|---|---|---|
| Domestic Shipment | 2,156 | 2,004 | 7.6 |
| Crude oil | 1,892 | 1,828 | 3.5 |
| Refined oil | 264 | 176 | 50.0 |
| International Shipment | 3,838 | 2,920 | 31.4 |
| Crude oil | 1,490 | 891 | 67.2 |
| Refined oil | 2,348 | 2,029 | 15.7 |
| Total | 5,994 | 4,924 | 21.7 |

(3) Vessel chartering business

In 2008, the Group developed its vessel chartering business and chartered 15 bulk vessels with a total capacity of 1.12 million deadweight tonnes for international dry bulk cargo for a term exceeding one year in the first half of 2008, with most of them operated in subleasing manner. However, in the second half of 2008, the international vessel chartering market experienced a sharp fall. In order to control the risk of vessel chartering, the Group successively terminated the charter parties in 13 bulk vessels. As at the end of 2008, the Group chartered 2 bulk vessels with total capacity of 123,000 deadweight tonnes.

In 2008, the Group had rental income of RMB 1.86 billion from vessel chartering and incurred relevant costs of RMB 1.96 billion, with a gross profit margin of −5.36%. The loss was mainly due to the relatively higher chartering costs of the vessels and the limited earnings from subleasing, together with the rental revenue which was further reduced by the plummeting of the BDI in the second half of 2008.

(4) Transportation costs analysis

In 2008, while adopting effective measures to increase revenue from its principal operations, the Group continued to enhance overall control on various major costs and improve energy saving and emission reduction. The Group has effectively controlled major transportation costs in fuel expenses, port expenses and repair expenses through advanced control and management in various aspects.

In the first half of 2008, the prices of international energy and bulk cargoes experienced steady upsurge. The international oil price increased month by month within the first three quarters and hit new historic highs. However, since October 2008, the international oil price, suffered from the impact of the international financial crisis, fell rapidly with its fluctuation spread and rate of decrease beyond expectation. This brought unprecedented challenge for shipping enterprises to control their fuel costs. In order to control the fuel cost effectively, the Group adopted measures such as 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 2008 was RMB11.111 billion, an increase of 51.6% as compared with 2007, of which the transportation cost incurred was RMB9.151 billion (after deduction of vessel chartering cost), an increase of 25.2% as compared with that of the same period in 2007. The transportation cost compositions are specifically analyzed as follows:

(a) Fuel cost: the Group's fuel consumption in 2008 was approximately 906,100 tonnes, and the fuel cost incurred was approximately RMB3.972 billion, an increase of 0.8% and 34.4% as compared with 2007, representing 43.4% of the total transportation cost. In 2008, the Group further enhanced its fuel saving, and as a result the fuel consumption per thousand nautical miles decreased by 4.9% as compared with that of the same period in 2007.

(b) Port cost: the Group's port expenses incurred in 2008 was approximately RMB866 million, an increase of 27.5% as compared with that of the same period in 2007, representing 9.5% of the total transportation cost. Such change was due to the increased voyages of international transportation and the port rates.

(c) Labor cost: the Group's total labor cost incurred in 2008 was approximately RMB1,161 million, an increase of 30.1% as compared with that of the same period in 2007, representing 12.7% of the total transportation cost. Such change was due to: (1) the increase in salary level of crew members of the Group by approximately 24% since the second half of 2007; and (2) the change in the accounting treatment of employees' salary due to the implementation of the new enterprise accounting standards.

(d) Depreciation: the Group's depreciation expenses incurred in 2008 amounted to approximately RMB1,017 million, an increase of 11.8% as compared with that of the same period in 2007, representing 11.1% of the total transportation cost. Such change was due to the change in number of vessels owned by the Group.

(e) Lubricants expenses: the Group's lubricants expenses incurred in 2008 was RMB 227 million, an increase of 26.7% as compared with that of the same period in 2007, representing 2.5% of the total transportation cost of the Group.

(f) Insurance expenses: the Group's insurance expenses incurred in 2008 was RMB 240 million, an increase of 30.7% as compared with that of the same period in 2007, representing 2.6% of the total transportation cost.

(g) Repair expenses: the Group's repair expenses incurred in 2008 amounted to approximately RMB527 million, an increase of 15.4% as compared with that of the same period in 2007, representing 5.8% of the total transportation cost.

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

In 2008, the Group has recognized its interests in the jointly-controlled entities' profits of RMB532 million, representing an increase of 221% as compared with that of the same period in 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 2008, the shipping volume achieved by the three jointly-controlled entities was 36.50 million tonnes in aggregate, an increase of 2.6% as compared with that of the same period in 2007; the total revenue derived from such shipment was approximately RMB3.161 billion, with a net profit of approximately RMB1.06 billion, representing an increase of 51% and 221% respectively as compared to those of the same period in 2007. As at 31 December 2008, the three jointly-controlled entities together owned 28 bulk vessels with total capacity of 1.22 million deadweight tonnes. In addition, 13 bulk vessels are under construction, with total capacity of 0.85 million deadweight tonnes.

The details of the three jointly-controlled entities are as follows:

| Company name | Core business | Registered capital (RMB'000) | Interest held by the Company (RMB'000) | Total assets (RMB'000) | Total liabilities (RMB'000) | Net profit (RMB'000) |
|---|---|---|---|---|---|---|
| Shanghai Times Shipping Co., Ltd. | Coastal coal shipment | 1,200,000 | 50% | 4,253,383 | 2,045,379 | 823,078 |
| Zhuhai New Century Marine Co., Ltd. | Coastal coal shipment | 682,000 | 50% | 970,646 | 14,757 | 195,235 |
| Shanghai Friendship Marine Co., Ltd. | Coastal coal shipment | 50,000 | 50% | 155,939 | 7,955 | 44,818 |

## 3. Financial analysis

(1) Net cash inflow

The net cash inflow from operating activities of the Group increased from approximately RMB5,602,060,000 for the year ended 31 December 2007 to approximately RMB6,048,669,000 for the year ended 31 December 2008, representing an increase of 8.0%.

(2) Commitments on capital expenditures

As at 31 December 2008, the commitments on capital expenditures for the Group amounted to approximately RMB21,110,745,000 (31 December 2007: RMB23,599,675,000). The source of funding was mainly financed by the Company's working capital, bank loans and other financing.

(3) Capital structure

As at 31 December 2008, the shareholders' equity, bank loans and interest-bearing borrowings amounted to approximately RMB21,354,020,000 and approximately RMB6,449,759,000 respectively. As at 31 December 2008, the debt-to-equity ratio was 39.2% (31 December 2007: 46.0%).

(4) Borrowings

As at 31 December 2008, the Group's total borrowing was approximately RMB6,449,759,000, of which approximately RMB920,948,000 is to be payable within one year. Interests of the above loans were calculated at the annual rate ranging from approximately 4.78% to approximately 6.80% or Libor + 0.38% to 0.45% or floating interest rates. The Group has no seasonal borrowing.

The Group's bank loans are secured by pledges or mortgages on the Group's 7 vessels under construction and 4 other vessels.

As at 31 December 2008, the total net carrying amounts of the 7 vessels under construction and the other 4 vessels were approximately RMB2,664,661,000 and RMB1,284,056,000 respectively. Apart from the above mentioned 11 vessels, there is no charge on the Group's assets.

The Group's gearing ratio was 28.0% as at 31 December 2008, calculated by dividing total liabilities over total assets of the Group.

(5) Risk on foreign currency

As at 31 December 2008, the Group's foreign exchange liabilities mainly comprised of finance payable in US Dollars ("USD") equivalent to approximately RMB3,402,068,000. In addition, the Company would pay dividend of H shares in Hong Kong Dollars ("HKD").

In order to avoid the risk resulting from exchange rate fluctuations, the Group actively adjusts its debt structure, and the proportion of USD indebtedness increased from 51.3% at the beginning of 2008 to about 52.7% as at 31 December 2008. During the Reporting Period, foreign exchange income and expenses broke even.

Given the increasing significance of the Group's international shipping business, changes in exchange rates will have certain impact 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 conscientiously analyze 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.

## 4. Investment

In 2008, the Group entered into contracts for the construction of 12 vessels with a total tonnage of 912,000 deadweight tonnes; in addition, two new oil tankers with a total capacity of 88,000 deadweight tonnes have been delivered for use. The total capital expenditure of approximately RMB6,888,230,000 has been paid for the construction of vessels during the year.

## 5. Material asset disposals

In 2008, the Group continued to speed up adjustments to its fleet structure, and disposed of 18 old vessels with a total tonnage of 268,000 deadweight tonnes, including 5 tankers with a total tonnage of 61,000 deadweight tonnes, 8 bulk vessels with a total tonnage of 173,000 deadweight tonnes and 5 container vessels with a total tonnage of 34,000 deadweight tonnes. The details of such disposals are as follows:

| 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 |
| Chang Hui | 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 She 7,8 | 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 |
| Xiang Xing/ Xiang Zhu/ Xiang Xiu/ Xiang Da/ Xiang Wang | 253,724 | 91,098 | Yes | Market price |
| Chang Hong | 25,032 | 24,281 | No | Market price |
| Fei Xiashan | 38,393 | 26,820 | No | Market price |
| Chang Le | 9,094 | 8,320 | No | Market price |
| Shen Zhou | 12,216 | 11,213 | No | Market price |
| Total | 624,376 | 389,463 | | |

## 6. Outlook and highlights for 2009

### (1) Prediction and Analysis of International and Domestic Shipping Markets

The financial crisis which started in 2008 around the world is continuing. Although active dialogue and cooperation have been carried out and measures have been adopted internationally to jointly tackle the difficulties and resolve such financial crisis, up till now, the financial crisis does not seem to have bottomed out and the international financial crisis is expected to further affect the economy. On 28 January 2009, the International Monetary Fund published its prediction and lowered the global economic growth rate of 2009 from 2.2% to 0.5%.

Adversely affected by the international macroeconomic environment, the booming trend of the shipping industry which has lasted for several years ended and the shipping industry rapidly entered into an adjustment period. With the large number of new vessels ordered several years ago to be delivered for use in the next two years, the recovery of the shipping market remain to be seen.

In 2009, the slowdown of China's economic growth will result in weakened demand in the global dry bulk shipping market, and on the other hand, the newly added shipping capacity to be put into operation will increase significantly. According to the statistics from Clarksons (a company registered in England which principal business activities are ship broking services and research activities), as at the end of 2008, the total shipping capacity of the global dry bulk cargo vessels each with capacity over ten thousand tonnes was 6,978 vessels with an aggregate of 418 million deadweight tonnes. 3,404 such vessels with total capacity of 295 million deadweight tonnes have been ordered representing 70.6% of the existing dry bulk vessel fleets' capacity, and among them, the shipping capacity of the dry bulk cargo vessels to be delivered for use in 2009 will be approximately 71.3 million deadweight tonnes. Although some new ship manufacturing orders are withdrawn, the completion level of the vessels proposed to be put into operation in 2009 is high, resulting in a lower proportion of withdrawals. Even though the number of disposals of old vessels increases, the shipping capacity will still experience a higher growth, which will further intensify the situation of supply exceeding demand. It is therefore expected that the BDI will remain low.

The direct and indirect effect of international financial crisis on China's economy is obvious and the economy of China suffered a great impact. Thermal power generation continues its four month negative growth since October 2008. In addition, the domestic coastal coal shipping market faces a smaller demand such that results in a situation of supply of shipping capacity exceeding its demand. As at 10 March 2009, a majority of domestic coastal dry bulk COA Contracts of the Group for 2009 have been signed, with the freight rate lowered by 39.2% as compared to that of 2008.

The impact of international financial crisis on international oil shipping market has emerged since the fourth quarter of 2008, which has weakened the price of crude oil significantly and made the decline of oil shipping demand inevitable. The international energy institutions predict that the daily global demand of crude oil will be 84,700,000 barrels, representing a decrease of 1,000,000 barrels as compared with that of 2008. The international oil shipping market also faces shipping capacity supply exceeding demand. In relation to very large crude oil carriers, there are 70 new vessels to be delivered for use in 2009, increased by approximately 8%. Thus, it is expected that the international tanker shipping market will face downward pressure in 2009.

(2) Operational target for 2009

In 2009, 19 new vessels of the Group with a total tonnage of 2.72 million deadweight tonnes are scheduled to be delivered for use, including 14 tankers with a total tonnage of 2.26 million deadweight tonnes and 5 bulk vessels with a total tonnage of 0.46 million deadweight tonnes. As a result, the total shipping capacity of the Group which could be used in the Group's operations in 2009 is expected to be 8.4 million deadweight tonnes, representing an increase of 10.8% as compared with that of the same period in 2008. Based on its view of the domestic and overseas shipping markets in 2009, and taking into account the delivery of new vessels, the Group's operating targets are as follows: shipping volume of approximately 253.2 billion tonne nautical miles, an increase of approximately 10.4% as compared with 2008; turnover of approximately RMB9.83 billion, a decrease of approximately 44%; operating costs of approximately RMB6.81 billion, a decrease of approximately 38.7% as compared with 2008.

(3) Corresponding Measures

To cope with the current market situation, the Group will continue to carry out the following in 2009:

(a) Continue to enhance strategic cooperation with major customers and 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. As for transportation of dry bulk cargoes, in the first half of 2008, the Board approved the establishment of joint ventures by the Company with Shanghai Puyuan Shipping Company Limited and 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 establish a better and more diversified cooperation mechanism.

(b) Continue to enhance adjustments to vessel structure and further optimize fleet structure so as to achieve development in an adverse environment. As at 31 December 2008, the Group had a total of 167 vessels with 7,603,000 deadweight tonnes. The composition of the Group's fleet is as follows:

| | Number of vessels | Deadweight tonnes | Average age |
|---|---|---|---|
| Tankers | 57 | 3,622,400 | 9.96 |
| Bulk vessels | 110 | 3,980,600 | 20.39 |
| Total | 167 | 7,603,000 | 16.83 |

In 2009, 11 old vessels of 309,000 deadweight tonnes are scheduled to be scrapped in accordance with old vessels disposal plans. Currently, the Group has a total of 69 vessels with 9.52 million deadweight tonnes under construction, which are all scheduled for delivery by the end of 2012. Total capital expenditure between 2009 and 2012 is expected to be approximately RMB21.1 billion.

Since the next three years will be the Group's concentrated period for taking delivery of large vessels, the Group will further improve its supervision strength against the vessels being manufactured. In addition, the Group will focus on training large vessels' crews and taking delivery of large vessels so as to better allocate crews according to the vessels' delivery progress and realize harmonious development of fleets and crew teams.

Given the Group's existing scope and structure of dry bulk cargo fleet, currently the Group has a market share of approximately 26.8% in the domestic coastal coal shipping market in the PRC, representing a further decline. Based on current circumstances, this year will be the steep adjustment period for dry bulk cargo shipping market, and will bring new development opportunity for the enterprises that have stable development and cautious development plans. The Group as a large shipping enterprise under the control of the state of the PRC ultimately has to bear the social responsibility of ensuring the economic development of the country. In this adjustment period and in order to seize relevant opportunities, the Group will take an active role in planning, strengthening its collection and analysis of market information, updating and enhancing its shipping capacity through various ways and make efforts to enhance its market share in coastal coal shipping.

(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 control fuel and other costs, so as to strive to minimize the increase in costs.

(d) Expand financing channel to ensure the capital required in the enterprise's development. The Group will further strengthen its cooperation relationships with banks, maintain smooth financing channels and establish emergency financing preparation plan. In the first half of 2009, the Company will endeavor to complete the issue of RMB5 billion middle–term note.

(e) Strengthen risk precaution and internal control and establish risk dynamic management mechanism. The Group will be closely monitoring the risks generated from the new operational environment, strengthen the research and analysis of market and business risks, reinforce the management and control over significant events as well as critical steps and actively promote the establishment of a general risk management system so as to provide reliable support and protection for the stable and healthy development of the enterprise.