

# OPERATIONAL REVIEW

## GLOBAL ECONOMIC REVIEW AND OUTLOOK

2008 will be remembered for turbulence in the global economy. The global financial tsunami, caused by the US sub-prime crisis, impacted both the European and US economies and signs of negative effects on China's export sectors started to emerge in the fourth quarter of 2008. The global economy is anticipated to slow down further in 2009, due to the recession in Europe and the United States. This will result in a plunge in global trade volumes which will inevitably affect the shipping industry and foreign trade-related sectors globally.

### FINANCIAL TSUNAMI HITS GLOBAL ECONOMY

The world's major economies were hit by the financial tsunami in 2008 and moved into a recession in the second half of the year. This led to an abrupt slowdown in the global GDP and trade volume in the fourth quarter. According to the International Monetary Fund, the global economy recorded a 3.4% growth in 2008 (2007: +5.2%), 1.8 percentage points less than that for 2007. The US and Euro area economies grew by only 1.1% and 1.0%, respectively, 0.9 and 1.6 percentage points less than those for 2007. The economy of developing countries in Asia grew by 7.8% only, 2.8 percentage points less than 2007.

### NEGATIVE IMPACTS ON CHINA ECONOMY

China's economy recorded steady growth in the first three quarters of 2008 at 10.6%, 10.1% and 9.0%, respectively. However, as the "factory of the world", China was unavoidably dealt a heavy blow by the weak global economy in the last quarter of 2008 and recorded a growth rate of just 6.8%, the slowest in seven years. Impacts on China's imports and exports also became obvious in the fourth quarter when the total value of China's exports and imports recorded negative growth in November and December 2008, with a drop of 2.2% and 17.9% in November and 2.8% and 21.3% in December. As a result, China's aggregate exports and imports for 2008 rose by only 17.2% (2007: +25.7%) and 18.5% (2007: +20.8%), respectively.

### IMPACTS ON THE SHIPPING INDUSTRY

According to estimates by London-based maritime adviser Drewry Shipping Consultants Limited, the global container traffic in 2008 rose to 153 million TEUs, representing a year on year increase of 7.2%, 4.8 percentage points slower than the growth in 2007. The growth of shipping volume from Asia to North Europe slowed down to 1.9% in 2008 from 16.6% in 2007. Shipping volume for transpacific routes also weakened considerably. The growth of container shipping volume from Asia to North America dropped from 1.6% in 2007 to a negative growth of 5.7% in 2008. Due to the plunge in demand for container shipping, shipping companies have cut their shipping capacities to save on operational costs in the fourth quarter, in particular for those routes that are already suffering from excess capacities.

### OUTLOOK

Looking ahead, global economic and trade volume growths are expected to slow down further in 2009 amid recessions in Europe and the United States. The International Monetary Fund expects the global economy to contract by 0.5% to 1.0%, the first decline in 60 years. The economies of the U.S. and the Euro area are expected to contract by 2.6% and 3.2% respectively, the sharpest declines since World War II. Growth of emerging economies will slow down further to between 1.5% to 2.5%. Growth in international trade volume (including goods and services) is also expected to slide from 4.1% in 2008 to a negative growth of 2.8% in 2009.

The growth of global container traffic is expected to slow down tremendously as a result. According to Drewry Shipping Consultants Limited, growth in global container traffic will drop to 2.8% in 2009, from 7.2% in 2008. Global shipping and foreign trade-related businesses will be impacted directly. Business for the Group on all fronts will be facing a difficult and challenging operating environment.