

# **2009-2020 Business Development Plan for the Logistics Branch**

## **1. Present Situation of Business**

The Branch incorporated and set up the “XXXX International Transportation Tianjin Co., Ltd.” in the Tianjin Economic & Technological Development Zone in 1999, and this company obtained the Certificate for International Cargo First-class Agent issued by the former Ministry of Foreign Trade and Economic Cooperation, mainly undertaking the import & export business related to oil equipment. From 2001, serving as the Transportation Insurance Department of xxxx (XXXX), it gradually transferred the focus of work to the Company’s cargo transport business. By the end of 2008, the Branch had exported over a hundred sets of drilling machines and over ten thousand tons of tubular goods to Europe, America, the Central Asia, Afro-Asian regions etc. After many years’ efforts, the Branch has preliminarily built its logistics operating mode, commanded multiple transportation resources including ocean, land and air transport, and formed a series of business operation specifications. Now the Branch has become a key department assuring the successful achievement of the Company’s export business.

### **(1) Development Status**

#### **i. Development and evolution**

The Branch incorporated and set up the “XXXX International Transportation Tianjin Co., Ltd.” in the Tianjin Economic & Technological Development Zone in 1999, and from 2001, serving as the Transportation Insurance Department, this company was responsible for developing XXXX’s internal and external transportation insurance business. From 2001 to 2002, it focused on the external business, and undertook the import and export business of China Petrochemical Group Great Wall, CPMEC, CNODC, and other companies. Since 2003, with the increase of the Company’s internal business volume, the export has increased from US\$277.33 million in 2003 to today’s US\$2,362.8615 million. The Branch also changed its name from the Transportation Insurance Department in 2008 to the Logistics Branch in 2008.

#### **ii. Division of business:**

At present the Branch has 39 employees, 5 of which have master's degrees (one majoring in Russian Language, and two majoring in French Language), and 21 of which have bachelor's degrees (one majoring in Spanish Language, and two majoring in French Language). The Branch’s staff include old-, middle-, and young-age ones, of which 10 persons have obtained the certificate for international cargo agency business, and the middle- and young-age staff account for 80% of all the staff, and have become the main force for the Branch’s business.

#### **iii. Financial conditions**

(i) Growth trend of financial indicators since 2002

<b>Balance Sheet</b>					<b>Unit: RMB 10,000</b>		
<b>Items</b>	<b>Year 2002</b>	<b>Year 2003</b>	<b>Year 2004</b>	<b>Year 2005</b>	<b>Year 2006</b>	<b>Year 2007</b>	<b>Year 2008</b>
<b>Current assets</b>							
<b>Inc.: Accounts receivable</b>							
<b>Advances to suppliers</b>							
<b>Other receivables</b>							
<b>Fixed Assets-Cost</b>							
<b>Total assets</b>							
<b>Current liabilities:</b>							
<b>Inc.: Accounts payable</b>							
<b>Advances from customers</b>							
<b>Long-term liabilities</b>							
<b>Total liabilities</b>							
<b>Owner's Equity</b>							

The assets had increased from RMB13.55 million in 2001 to RMB278.29 million in 2008, growing by 1,950.80%.

The owner's equity had increased from RMB5.68 million in 2001 to RMB22.42 million in 2008, growing by 74.67%.

<b>Income Statement</b>					<b>Unit: RMB10,000</b>		
<b>Items</b>	<b>Year 2002</b>	<b>Year 2003</b>	<b>Year 2004</b>	<b>Year 2005</b>	<b>Year 2006</b>	<b>Year 2007</b>	<b>Year 2008</b>
<b>Sales revenue</b>							
<b>Cost of goods sold</b>							

**Gross profit**

**Business tax**

**Sales expenses**

**Administrative expenses**

**Financial expenses**

**Total Profit**

**Income tax**

**Net profit**

The sales revenue had increased from RMB42.94 million in 2001 to RMB2,225.69 million in 2008, growing by 5,083.26%.

The total profit had increased from RMB0.52 million in 2001 to RMB22.69 million in 2008, growing by 4,263.46%.

(ii) Financial indicators in recent three years

**Balance Sheet**

Unit: RMB10,000

Items	Year 2006	Year 2007	Year 2008
Current assets			
Inc.: Accounts receivable			
Advances to suppliers			
Other receivables			
Fixed Assets-Cost			
<b>Total assets</b>			
Current liabilities:			
Inc.: Accounts payable			
Advances from customers			
Long-term liabilities			
<b>Total liabilities</b>			
<b>Owner's Equity</b>			

**Income Statement**

Unit: ¥ 10,000

Items	Year 2006	Year 2007	Year 2008
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<b>Sales revenue</b>			
Cost of goods sold			
Gross profit			
Business tax			
Sales expenses			
Administrative expenses			
Financial expenses			
Total Profit			
Income tax			
<b>Net profit</b>			

#### iv Business Conditions

---Statistics of shipments in absolute value, growth rate, and value per capita etc.

##### (i) Growth trend of shipments since 2001

Unit: US\$10,000

		Year 2008	Year 2007	Year 2006	Year 2005	Year 2004	Year 2003	Year 2002
<b>XXXX</b>								
<b>External</b>	<b>export</b>							
	<b>Import</b>							
	<b>Sub-total</b>							
<b>Total</b>								

The contract value of shipments amounted to US\$2,783.1664 million in 2008, growing by 95.25%, 228.59%, 349.62%, and 452.05% compared with the years 2007, 2006, 2005 and 2004, respectively.

The contract value of shipments amounted to US\$619.00 million in 2005, growing by 22.78%, 51.03%, and 159.14% compared with the years 2004, 2003, and 2002, respectively.

## (2) Contracts in recent three years

### ---Regional shipments

The shipment was 350,929.72 measurement tons in 2006, 571,810.33 measurement tons in 2007, and 1,751,497.47 measurement tons in 2008, growing by 206.31%, and 399.10% compared with the years 2007, and 2006, respectively.

The main projects implemented include:

In 2006, Algeria ADRAR Product Oil Transportation Project, and Niger Desert Transportation Project;

In 2007, Kazakhstan Compressor Transportation Project, and Afro-Asian Algeria Anti-corrosion Pipe Project;

In 2008, actively participating in and satisfactorily completing Venezuelan PDVSA's first batch of 13 drilling machines, China-Kazakhstan Oil Piping Phase II (393km, and 3,800 trains), Algerian Gas Piping Project (2,288km, and 98,927 tons), Indian Hydrogenation Reactor Transport Operation, Central Asian Natural Gas Pipe (1,809km, and 23,000 trains), Niger Agadem Oilfield Building Materials Relocation (4 ships dispatched in total, 1,607 trains, and 114,000 freight tons), and Right Bank of Amu Darya Gas Field Development Project.

---Means of transportation (railway, ocean and air transport, and international inter-modal transport)

The Branch engages in international inter-modal transport covering ocean, inland, and air transport etc., an absolute majority of which are ocean and railway transport.

### **Indian Hydrogenation Reactor Transport Operation:**

Niger Agadem Oilfield Building Materials Relocation:

#### **1. Route Selection**

In 2006, we selected the transportation route: first going to the Port of Cotonou, Benin by ocean transport, and then transiting to AGADEZ by inland transport. This year we reexamined the transportation route, and found that in recent years the Port of Cotonou had been crowded with many ships carrying grains, which had to wait for a long time to berth alongside the port, and sometimes had to wait for over ten days at the anchor ground. Since the port was extremely busy, it did not have adequate storage yards and warehouses to store large quantities of goods. The Port of Lome, about 130km to the Port of Cotonou, possessed a low bulk/general cargo throughput, and had some advantages over the Port of Cotonou in hoisting equipment, storage yards etc., therefore we finally determined the transportation route of first going to the

Port of Lome, Togo by ocean transport, and then transiting to Diffa by inland transport. The inland transport passed through Togo and Benin, with a total mileage of about 2,500km.

## **2. Transportation Execution**

Since there involved various kinds of goods, we set strict packaging requirements for each kind of goods, and went to each entity to examine the transportation package. Especially for those kinds of drilling mud materials and cement in ton-bags which suffered serious cargo damages or losses in 2006, we requested to package valuable drilling mud materials in containers, and use high-quality ton-bags to package other materials, and if the goods transported by the manufacturer to the port of shipment had been damaged, we should request the manufacture to replace it, and also set specific operating requirements for loading and unloading at the port of shipment and the port of destination. The 5,105 ton-bags of goods transported this time only suffered a damage or loss of 85 ton-bags, with a damage/loss ratio of 1.67%. The domestic transport statistics showed that the damage/loss ratio of ton-bag cargo during loading or unloading in domestic transport was 1-2%. And this transport had undergone at least three times of loading or unloading from the port of shipment to the final destination.

The customs clearance modes consist of general trade, project contracting etc., and project contracting involves temporary and permanent exports. Before shipment of goods, we would arrange specially assigned persons, local customs clearance agents and government agencies to conduct the survey and communication work step by step, and assure the smooth completion of the customs clearance work by our practical and diligent efforts.

The relocation entity had strict requirements for the priority of transportation of its materials, so we not only requested the consigner to spray different color codes on the shipping mark so as to differentiate the emergency of inland transport, but also requested it to store goods at different yards according to color codes at the time of unloading at the port of destination so as to assure the shipment of goods according to priority.

Smooth communication and 24-hour strict armed escort. Being under police escort in the whole course of Togo and Benin sections, and under the Diffa Army's escort from Maradi to the destination in Niger. The captain of the fleet would report the trip positions and vehicle conditions each day.

Logistics for machinestop trucks and tankers. There were 3 tankers directly refueling the vehicles at the port. The fleet had one machinestop truck equipped with 4 repair persons and tools/drugs, which would handle sudden events on the way, and conduct examinations, maintenances, and urgent repairs on the vehicles.

## **3. Difficulties and countermeasures in the course of transportation**

1, The complicated road conditions, long carrying distance, and status of transnational transport, local governments and transportation companies had brought many difficulties to our transportation work.

This relocation project involved transnational transport with a whole course of 2,500km, and the transportation vehicles of Niger were in poor conditions, but according to provisions of the local transport association, two thirds of transportation vehicles should use vehicles of Niger, and the other one third might use vehicles of Togo and Benin. The first ship of goods commenced its inland transport at the end of rainy season, and the muddy road brought great risks to travel of vehicles.

#### Countermeasures:

- Try utmost to choose vehicles in good conditions, and supervise the port and drivers in strictly conducting the examination of vehicles (on vehicle conditions) and the examination on distribution of goods and reasonability of banding/fastening.
- Pay high attention to disabled vehicles in each group. We would remind and request the carrier to repair them as soon as possible according to daily information.

2, At the commencement of project, the trunk drivers went on strike for the problems of distribution of vehicles and arrears of wages etc.

We immediately coordinated with the agency company to make appearance and give an explanation and promise to drivers so as to evacuate the throng of people at the fastest speed, lessen the negative effect, and assure each group should fulfill the transportation task as planned.

3, Since Niger was rather laggard, and local drivers had extremely poor literacy levels, they inevitably failed to pay due attention to, or even turn a deaf ear to various requirements and cautions repeatedly emphasized by us.

#### Countermeasures:

- Before shipment of goods, making strict examinations on cargo banding/fastening, setting up the daily examination system on vehicle conditions and banding/fastening in the process of grouping and traveling, timely detecting potential safety hazards, and adopting corresponding measures.
- Requesting the leader of group and the security personnel to pay high attention to the physical conditions and mental state of drivers,, and prohibiting them from driving for over 8 hours every day.

4, Since there were large quantities and complex varieties of relocated materials, there

involved heavy dispatching work at the port and check-and-delivery work at the border and destination in tough conditions.

There involved heavy loading work at the Port of Lome, so members of the Port of Lome Workgroup had to check goods at the port, supervise loading, examine banding/fastening, and spend much time doing the site work.

The Border Workgroup helped supervise customs transferring at the border, and continually traveling across the border between Benin and Niger.

Members of the Diffa Workgroup insisted on the site work every day, made examinations and remarks of vehicles and goods one by one or piece by piece with site representatives from CNPC NIGER, China Petrochemical Group Great Wall, Well Logging etc., photographed each vehicle and each piece of goods for reservation, and issued the delivery receipt for each vehicle, and according to different characteristics of cargo check and delivery, members of the Project Team would make plans in advance, make communications and reach agreements with the person in charge of the buyer's warehouse before cargo delivery so as to actively coordinate with the buyer in arranging persons, yards and equipment in advance, and assure the prompt completion of the unloading/delivering work on the premise of safety and accuracy.