中外運航運有限公司

Sinotrans Shipping Limited

(incorporated in Hong Kong with limited liability)

Stock code: 368

Efficiency | Productivity | Diversity

Annual Report

2007

Company Profile

Our Group is one of China's largest shipping companies in terms of self-owned dry bulk fleet size. It owns and operates a modern fleet of vessels which mainly engages in dry bulk vessel time chartering, container vessel time chartering, crude oil shipping services, vessel technique management and other shipping related business. It operates a fleet of 34 vessels with an aggregate capacity of 2,200,000 DWT and an average age of approximately 10.5 years, which is below the global average rate. The Group's fleet comprises 26 bulk vessels with an aggregate capacity of 1,300,000 DWT; three oil tankers with an aggregate capacity of 832,000 DWT; and five container vessels with an aggregate capacity of 2,230 TEUs.

Dry bulk vessel time chartering is the core business of the Group. It operates a fleet of 26 dry bulk vessels, including two multipurpose vessels, 13 Handysize/Handymax vessels and 11 Panamax vessels, mainly for transportation of dry bulk cargoes such as iron ore, coal, cereals, steel and other commodities along major trading routes in the world.

Contents

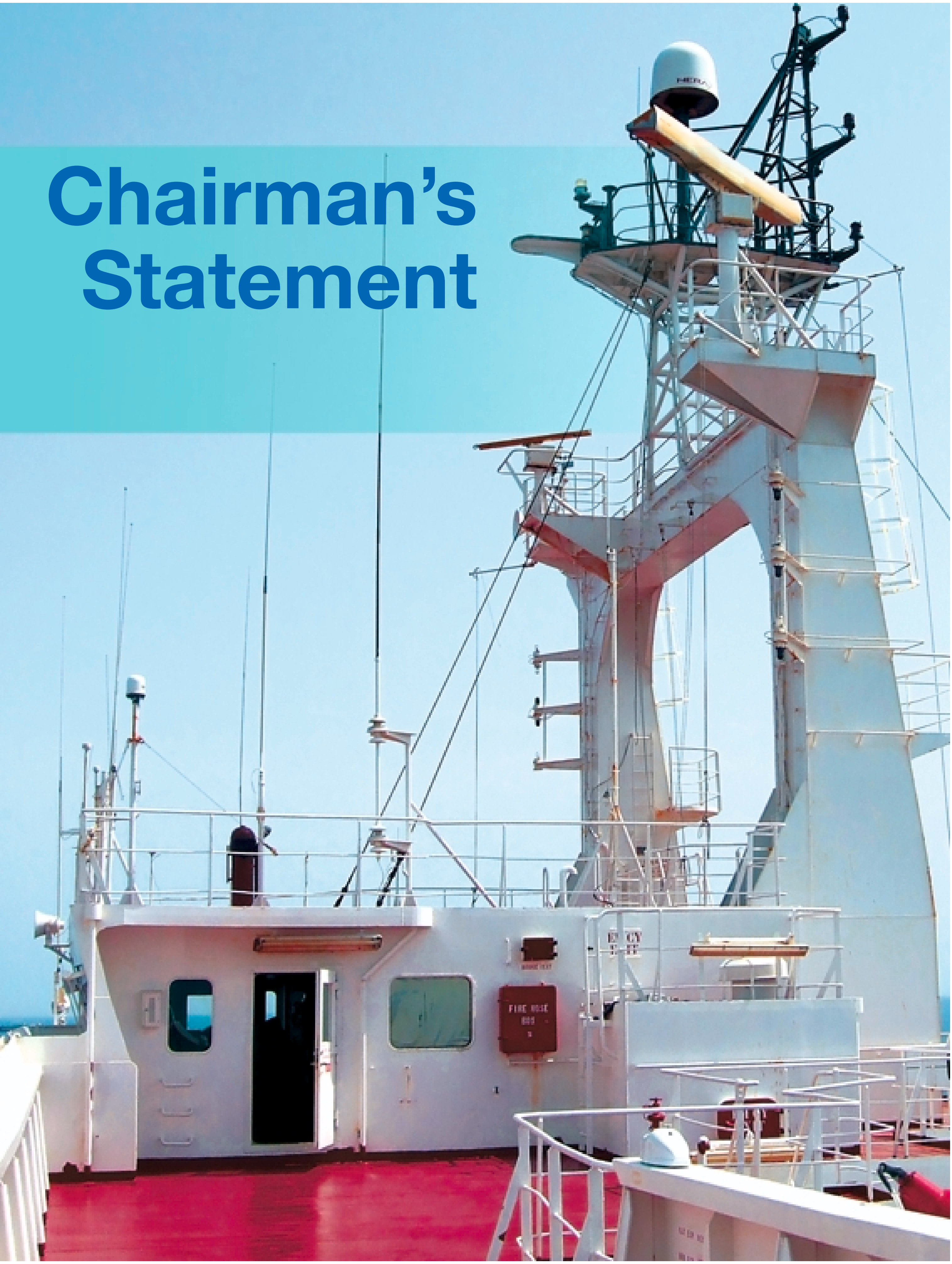
Financial Highlights

	2007 US$'000	2006 US$'000	% Change
Results			
Revenues	**302,217**	247,515	22.1%
Operating profit	**134,510**	118,836	13.2%
Profit for the year	**140,889**	118,952	18.4%
Net profit margin	**46.6%**	48.1%	(3.1%)
Basic and diluted earnings per share	**US5.1cents**	US4.6cents	—
Dividends(*)	**252,301**	2,162	11,569.8%

	As at 31 December 2007	As at 31 December 2006	
Financial Position			
Total assets	**1,988,965**	985,405	101.8%
Total liabilities	**282,422**	575,597	(50.9%)
Shareholders' equity	**1,706,543**	409,808	316.4%
Cash and bank balances	**1,372,033**	23,841	5,654.9%

* The dividends are pre-listing dividends only.

Chairman's Statement



Chairman's Statement

Dear Shareholders,

I am pleased to present the annual report of Sinotrans Shipping Limited (the "Company") and its subsidiaries (together the "Group") for the financial year ended 31 December 2007 to the shareholders for their review.

BUSINESS REVIEW

Global economy kept growing steadily in 2007, leading to increasing market demand for shipping business. In China, GDP increased by 11.4% compared with last year, representing an increase of over 10% for the fifth consecutive year; meanwhile, domestic investment in fixed assets increased by 24.8% compared with last year, and total imports and exports increased by 23.5% compared with last year. Rapid economic growth in China has stimulated huge demand for energy sources and raw materials such as iron ore, coal and petroleum. Robust global demand for resources such as iron ore and coal created new height in Baltic Dry Index ("BDI"), topping a historical 11,000 in the fourth quarter, and dry bulk shipping market recorded an ascending trend over the whole year. Owing to continuous oil price hike and the impact of supply and demand, the tanker market was lukewarm in the year, and Worldscale freight rate (WS rate) lingered between 50 and 70. However, the demand rebounded with extensive shrinkage of crude oil stock in the United States and robust consumption caused by cold weather, leading to rocketing tanker freight rate at the end of the year and increased average WS rate to 80.5.

Our Company got listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 23 November 2007 ("Listing Date"), raising a proceed of approximately HK$11 billion. As one of the shipping leaders in China having a fleet of young and modern vessels, our Group seeks to achieve efficient management and reduce operating cost, thereby creating value for the Company's shareholders. As at 31 December 2007, the turnover of our Group was US$302 million, representing an increase of 22% compared with last year, operating profit was US$135 million, representing an increase of 13% over last year.

As at 31 December 2007, our Group and its jointly controlled entities operated a self-owned fleet of 34 vessels* with an aggregate capacity of 2,200,000 DWT and with a weighted average age of approximately 10.5 years. Meanwhile, our Group has also ordered 12 newbuildings, including four 180,000 DWT Capesize dry bulk vessels, four 32,000 DWT Handysize dry bulk carriers and four 847 TEU container vessels. Eight dry bulk vessels are expected to be delivered to our Group between 2009 and 2011, and four container vessels are expected to be delivered in 2008. In addition, the jointly controlled entities of our Group have ordered a 310,000 DWT double-hull VLCC, which is expected to be delivered in 2008. Our self-owned fleet comprises 26 dry bulk vessels with an aggregate capacity of approximately 1.3 million DWT with total earning days of 9,056 days. The revenue from dry bulk shipping was US$259 million. Our Group operated three oil tankers with an aggregate capacity of approximately 832,000 DWT. The revenue from oil tanker shipping services for self-owned vessels was US$31 million. Our Group also operated five container vessels with an aggregate capacity of 2,230 TEU, total number of earning days of 1,772 and total revenue of US$11 million.

* Including one jointly owned dry bulk vessel and one jointly owned oil tanker.

The Group have set up a vessel maintenance and materials and spares parts purchase system to effectuate cost-effective and efficient vessel management, keeping vessels in the best technical condition while extensively cutting down vessel operating cost.

To ensure the safe operation of our ships, we strictly follow the Safety, Quality and Environmental Protection (SQE) guideline of American Bureau of Shipping (ABS) and have passed SQE inspection. The guideline embodies the specifications of ISM Code, ISO 9000:2000 and ISO14001:2004. Safe operation of the fleet lays a solid foundation for us to achieve good economic results.

DIVIDEND

In view of the completion of our initial public offering on 23 November 2007 and as set out in the Prospectus dated 12 November 2007, we currently plan to pay annual dividends of approximately 30% of our consolidated after-tax profit in each financial year starting from the financial year ending 31 December 2008.

Accordingly, the Board of Directors proposes not to pay the final dividend of 2007.

OUTLOOK

In 2008, with the delivery of four container vessels and one VLCC, our fleet will grow even stronger.

Looking forward, global economy in 2008 will continue to grow, while the sustained rapid economic growth in China will conduce to the business development of our Group. The worldwide dry bulk shipping market will remain robust, and the tanker and container shipping markets will keep growing steadily.

According to the data of authoritative research institution of world marine transportation, seaborne trade of iron ore, thermal coal and coking coal are estimated to be 839 million tons, 581 million tons and 213 million tons respectively, increasing by 7%, 3% and 6% respectively. The global dry bulk fleet capacity in 2008 is expected to grow by 7% as compared with 2007, the scrapping of a large amount of aged dry bulk vessels which has led to a balanced or somewhat lopsided supply and demand of dry bulk vessels, and the increase in the distance that cargoes are transported which stimulates the demand for dry bulk shipping market.

Chairman's Statement

On the other hand, there are potential risks from the global economy, including the sub-prime crisis of the United States of America, highly fluctuating oil price, and austerity measures in China, which may have impact on the shipping industry.

Nevertheless, we are confident in the coming year. In 2008, our Group will continue to implement prudent business policies and intensify operations and management, so as to keep our fleet competitive and maximise the returns for shareholders.

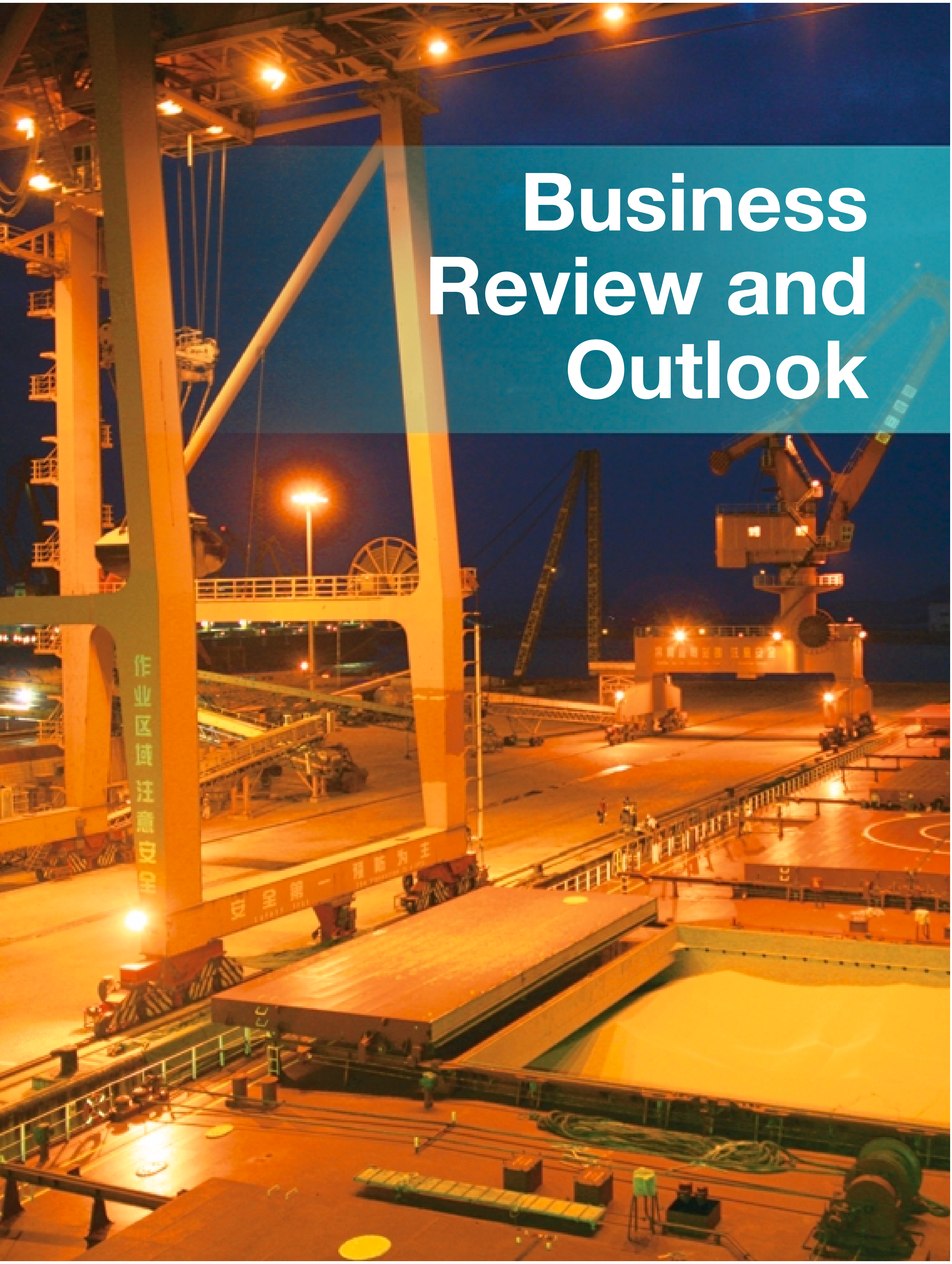
ACKNOWLEDGEMENT

Despite numerous challenges on the global market, it is encouraging that our Group still keeps growing. I would like to take this opportunity to extend sincere thanks to all our shareholders, customers and the public for their unfailing trust in and support for our Group. I would also thank all our Directors and employees for their contributions to our Group in the past year. Looking forward, we will putting our biggest efforts and strive to bring our business to a higher level.

Zhao Huxiang
Chairman

13 March 2008

Business Review and Outlook



Business Review and Outlook

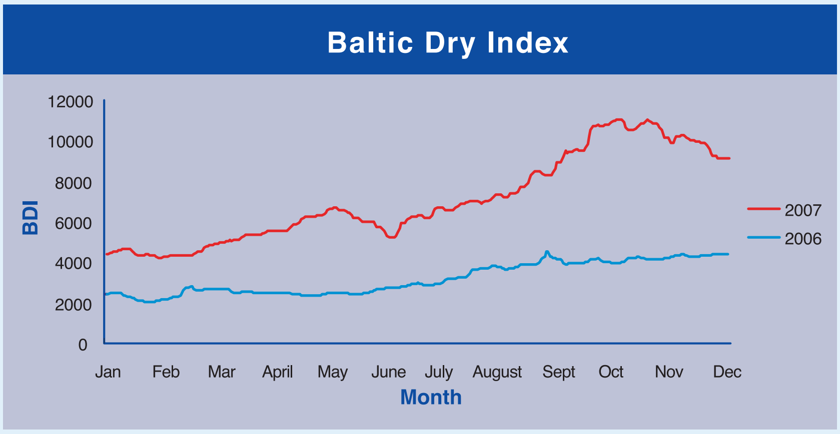
We are one of the largest shipping companies in China in terms of self-owned dry bulk fleet size. In addition, we also own a fleet of oil tankers and container vessels. Our primary focus and core business is dry bulk vessel time chartering, which involves the chartering of self-owned vessels for the transportation of dry bulk cargo, such as iron ore, coal, grain and steel products, along major global trade routes. In addition, we provide crude oil shipping services through our VLCCs, along routes mainly from the Middle East to the Asia Pacific region, especially in China. We also charter self-owned container vessels to other shipping companies. At the same time also provide technical management service for most self-owned vessels to ensure our modern fleet can provide customers with quality transportation service.

MARINE TRANSPORTATION BUSINESS

Dry bulk vessel

Major factors contributing to soaring market for dry bulk vessels in 2007 were expanding demand for dry bulk vessels brought about by economic development, relatively low level of newbuilding deliveries increased shipping distance resulting from trade restructuring, and fluctuations on the market for Forward Freight Agreements (FFA). The BDI increased from 4,421 at the beginning of the year to the record high of 11,033 in October, averaging 7,071 over the whole year.

Most iron and steel producing countries except the United States, recorded satisfactory growth in 2007, which laid a solid foundation for the robust growth of dry bulk trade covering iron ore, coking coal, steel and other mineral products. With 50% growth of global trade contributed by China in particular, the Chinese factor has become an important sustaining force for international shipping. According to statistics issued by General Administration of Customs of the PRC, iron ore and its metal concentrates imported by China in 2007 reached 383 million tons, representing an increase of 17.4% compared with last year.



Global aggregate capacity of dry bulk vessels was 398 million DWT in 2007, representing an increase of 6% compared with 2006. This figure is expected to reach 426 million DWT in 2008, representing an increase of 7% compared with 2007. For this reason, coupled with the scrapping of a large amount of aged dry bulk vessels, dry bulk vessel supply and demand will be balanced or somewhat lopsided while the market situation will remain satisfactory.

As global economy is expected to keep growing steadily in 2008, however, there will be market fluctuations and adjustments from time to time due to some uncertainties and bargaining between ship owners, operators, shippers and charterers.

As at the end of December 2007, we had a fleet* of 26 dry bulk vessels, which consisted of two multipurpose vessels, 13 Handysize/Handymax vessels and 11 Panamax vessels.

We adopt a policy balancing long-term and short-term chartering, chartering out some vessels for long terms to ensure stable revenue and chartering some vessels for short terms to seek higher returns from the boost market. We manage the terms of time charters based on market situation, market risks, liquidity and other factors. Therefore, an accurate understanding of market trends is crucial to increasing revenues. We operate our dry bulk vessels by way of time chartering to avoid most of the risks arising from highly fluctuating oil price, bad weather conditions, port congestion, delayed cargo delivery, etc. We select customers that are highly recognised in the international shipping market, financially strong and creditable. We endeavor to maintain long-term partnership with our customers while assuring the interests of the Company.

For the years ended 31 December 2006 and 2007, our revenues from dry bulk time chartering were US$155 million and US$207 million respectively.

* Including one jointly owned dry bulk vessel.

Our two Handysize vessels have been operating in the IHC Pool since 2003. In a move to orient our business policy to our development, we decided to withdraw the said vessels from IHC Pool. The two vessels were returned to the Group in August 2007 and January 2008 respectively.

In addition to chartering of self-owned vessels, we provide dry bulk shipping service, primarily in Canada, through our wholly-owned subsidiaries Sinotrans Canada Inc. and Sinotrans (Bermuda) Ltd. In 2007, the revenue from ocean freight income of Sinotrans Canada Inc. and Sinotrans (Bermuda) Ltd from main businesses was approximately US$52.7 million, representing an increase of approximately 49% compared with US$35.4 million in 2006.

As at 31 December 2007, the number of operating days of dry bulk vessels was fixed at 65% in 2008, specifically 76% for Handysize vessels, 52% for Handymax vessels and 60% for Panamax vessels.

The following table sets out the utilisation information for our dry bulk vessels for the periods indicated.

	2007	2006
Number of vessels	26	26
Utilisation (1)		
Total number of operating days	9,056	9,426
Total number of off-hire days (other than because of repair and maintenance)	9	3
Total number of days that vessels are not utilised because of repair and maintenance	425	262
Fleet utilisation (2)	95.4%	97.3%

Notes:

(1) Refers to the aggregate of the total number of days on which each vessel is hired out (including the operating days of the joint venture companies in which we have 50% equity interest: 365 days in 2007; 365 days in 2006).

(2) Refers to the percentage of total number of operating days over the total number of days.

In 2007, the total number of operating days of our dry bulk vessels dropped by 3.9% compared with 2006, including a total of 425 off-hire days due to repair and maintenance, accounting for 97.9% of the off-hire percentage. As a result, the total number of days that vessels are not utilised because of the routine repair and maintenance fluctuates mainly due to bad weather conditions, which in turn affects the total number of operating days of our vessels.

We will adhere to the principle of constant improvement of our fleet. In 2007, we ordered four 32,000 DWT Handysize vessels and four 180,000 DWT Capesize vessels, which are scheduled to be successively put into operation between 2009 and 2011. While increasing the fleet size, we also endeavor to maintain a relatively young fleet and improve fleet structure to ensure sustainable, rapid and sound development of the Company.

Oil tanker

The oil tanker market remained gloomy throughout the year, with the WS rate plunged to the lowest 45 in summer. However, owing to increasing demand, extensive shrinkage of crude oil stock in the United States and robust consumption caused by cold weather, WS rate rocketed at the end of 2007 and topped 200 in a short time. The average WS rate in 2007 was 80.5, which was relatively lower than 87 in 2006.

Trading area for single-hull tankers will become more limited towards 2010 and basically only double-hull tankers are allowed to trade by east of Suez. With the gradual decrease in delivery of newbuildings and phasing out of more aged single-hull tankers, it is estimated the growth rate of VLCC will drop from 4.0% in 2008 and 5.8% in 2009 to 2.7% in 2010; the growth rate of global tanker fleet will drop to 1.7% per annum in 2011 and 2012.

The daily global demand for crude oil was 13.8 million barrels in 2007, increasing by 5% compared with 13.2 million barrels in 2006; the daily global demand for crude oil is estimated to be 14 million barrels in 2008, increasing by 2% as compared with 2007. China's crude oil import is estimated to be 165 million tons in 2008, basically the same as in 2007. Meanwhile, owing to increased oil production of OPEC and comparatively low level of Suzemax tanker deliveries, the VLCC market is estimated to remain basically the same in 2008 as in 2007.

We currently operate all our oil tankers in the spot market under voyage charters in order to provide crude oil transportation service and we strive for higher rate along with the rise of the WS rate. While maintaining our good relationship with Chinese charterers, we strive to reach into the international market, and have entered into partnership with some charterers in Southeast Asia and the Far East.

The total volume of crude oil shipped by our three oil tankers was 5.37 million tons in 2007, which was slightly higher than 5.22 million tons shipped in 2006. Owing to gloomy oil tanker market and continual price hikes of crude oil and fuel oil in 2007, the daily charter rate was US$25,295 in 2007, somewhat lower than US$42,451 in 2006, representing a decrease of approximately 40%, which was primarily ascribable to comparatively low freight rate. Our revenue from oil tanker shipping services was US$31.2 million, representing a decrease of 29.6% compared with US$44.4 million in 2006.

The following table sets out information of operating rates for our oil tankers for the periods indicated.

	2007	2006
Number of vessels	3	3
Utilisation (1)		
Total number of operating days	1,017	1,035
Total number of off-hire days (other than because of repair and maintenance)	0	0
Total number of days that vessels are not utilised because of repair and maintenance	80	60
Fleet utilisation (2)	92.7%	94.5%

Notes:

(1) Refers to the aggregate of the total number of days on which each vessel is hired out (including the operating days of our jointly controlled entity oil tanker in which we have 50% equity interest: 346 days in 2007; 316 days in 2006).

(2) Refers to the percentage of total number of operating days over the total number of days

We will endeavour to improve the fleet structure based on the market situation in 2008. A 310,000 DWT double-hull VLCC ordered by the jointly controlled entity whose 50% equity was held by us and has delivered and put into operation in March 2008.

Container vessel

The increase of global container shipping volume lingered between 10% and 11% in 2007, in particular, the volume of cargo transported along Asia-Europe routes increased by 20% on average, while the shipping volumes along the transpacific and transatlantic routes remained the same.

Our chartered container vessels mainly operate along trade routes in the Asia Pacific Region. As at the end of 2007, we had five container vessels with an aggregate capacity of 2,230 TEUs. Total revenue reached US$10.64 million in 2007, representing a decrease of 9.38%. Four 847 TEU container vessels we ordered from Japan will be delivered in 2008 and are expected to further enlarge our fleet size and enhance our earnings.

The following table sets out information of operating rates for our container vessels for the periods indicated.

	2007	2006
Number of vessels	5	5
Utilisation (1)		
Total number of operating days	1,772	1,774
Total number of off-hire days (other than because of repair and maintenance)	0	0
Total number of days that vessels are not utilised because of repair and maintenance	53	51
Fleet utilisation (2)	97.10%	97.20%

Notes:

(1) Refers to the aggregate of the total number of days on which each vessel is hired out.

(2) Refers to the percentage of total number of operating days over the total number of days.

VESSEL MANAGEMENT AND OTHER SHIPPING RELATED SERVICES

We undertake ship technical management for most of our self-owned vessels. The technical management is basically the SQE management system which is carried out through daily operation, repair and maintenance, crew training and management, and arrangement of insurance as well, and constitutes an indispensable part of our business. Furthermore, we provide shipping agency services to ship owners and ship operators with a focus on Singapore through our wholly-owned subsidiary Sinotrans Agencies (S) Pte. Inc.. Our revenue from ship technical management and shipping agency business was US$1.18 million in 2007, representing an increase of 9.3% compared with US$1.08 million in 2006.

FLEET DEVELOPMENT

To improve fleet structure and maintain a young fleet, we will adjust shipping capacity based on market conditions. We maintain close partnership with leading shipbuilders and other ship owners in the world. We plan to purchase more cargo vessels to increase our aggregate capacity to approximately 5 to 7 million DWT. In 2007, we ordered four handysize dry bulk vessels, and four Capesize dry bulk vessels. In addition, four container vessels and one 310,000 DWT double-hull VLCC ordered by the jointly controlled entity whose 50% equity was held by the Group have delivered in March 2008.

* Including one jointly owned dry bulk vessel and one jointly owned oil tanker.

Name of Vessel	DWT/TEU[1]	Year Built/ Expected Delivery Time	Age
Multi-purpose vessel			
Great Blossom	32,509	September 1999	8.2
Great Immensity	32,485	December 1999	8.0
Handysize dry bulk vessel			
Trans Friendship [2]	24,021	February 1999	8.8
Great Concord	24,159	March 1999	8.7
Great Harmony	24,159	May 1999	8.6
Great Creation	27,383	July 1998	9.4
Great Motion	27,338	September 1998	9.2
Great Success	27,172	October 1998	9.2
Great Gain	27,140	November 1998	9.1
Handysize vessel [3] [4]	32,000	March 2010 [6]	—
Handysize vessel [3][4][5]	32,000	June 2010 [6]	—
Handysize vessel [3][4][5]	32,000	October 2010 [6]	—
Handysize vessel [3][4]	32,000	December 2010 [6]	—
Handymax dry bulk vessel			
Great Calm	45,215	August 1996	11.3
Great Peace	45,259	March 1996	11.7
Great Happy	45,248	March 1997	10.7
Great Prestige	46,193	April 1998	9.6
Great Majesty	46,194	February 1998	9.8
Great Scenery	47,760	August 2002	5.3
Panamax dry bulk vessel			
Great Luck	71,399	February 1998	9.8
Great Bless	73,251	August 1997	10.3
Great Jade	73,192	October 1997	10.2
Great Bright	73,242	December 1997	10
Great Glory	73,274	November 1997	10.1
Great Ambition	73,725	August 1999	8.3
Great Loyalty	73,659	September 1999	8.2
Great Prosperity	73,679	July 1999	8.4
Great Wisdom	74,293	March 2000	7.7
Great Century	73,747	January 2000	7.9
Great Intelligence	74,293	June 2000	7.5
Capesize dry bulk vessel			
BC1800 - 7 [3]	180,000	December 2009 [6]	—
BC1800 - 8 [3]	180,000	October 2010 [6]	—
BC1800 - 9 [3]	180,000	December 2010 [6]	—
BC1800 -10 [3]	180,000	March 2011 [6]	—

Name of Vessel	DWT/TEU[1]	Year Built/ Expected Delivery Time	Age
Oil tanker – VLCC			
Grand King	285,690	August 1990 [7]	17.3
Grand Explorer	285,768	July 1990 [8]	17.4
Grand Mountain [2]	260,995	December 1993 [9]	14
Grand Sea [3] [5]	310,000	March 2008 [6]	—
Container vessel			
Jin Da	338	September 1994	13.2
Jin Teng	338	June 1994	13.4
Trade Worlder	385	April 1993	14.6
Trade Hope	385	July 1993	14.4
MSC Algerie	784	May 1992	15.6
Sinotrans Beijing [10]	847	February 2008	—
Sinotrans Shenzhen [3] [11]	847	April 2008 [6]	—
Sinotrans Ningbo [3] [12]	847	May 2008 [6]	—
Sinotrans Xiamen [3] [13]	847	July 2008 [6]	—

Notes:

(1) Applies to only container vessels.

(2) The vessel is jointly owned by us and Mitsui O.S.K. Lines, Ltd.

(3) Construction has been commissioned.

(4) Name of vessel not yet available.

(5) The vessel will be jointly owned by us and Mitsui O.S.K. Lines, Ltd.

(6) Expected delivery date

(7) Grand King was acquired as a second-hand vessel on 23 June 2004.

(8) Grand Explorer was acquired as a second-hand vessel on 8 June 2004.

(9) Grand Mountain was acquired as a second-hand vessel on 9 June 2004.

(10) The name of the vessel has been changed from Trade Integrity to Sinotrans Beijing.

(11) The name of the vessel has been changed from Trade Sincerity to Sinotrans Shenzhen.

(12) The name of the vessel has been changed from Trade Elegancy to Sinotrans Ningbo.

(13) The name of the vessel has been changed from Trade Endeavor to Sinotrans Xiamen.

EMPLOYEES

As at 31 December 2007, our Group had a total of 82 shore-based employees working in the office of Hong Kong, Canada and Singapore. 25 have bachelor degrees or master degrees, 30 possess professional qualification in the areas of shipping, accounting and legal practices.

Remunerations of our employees include fixed basic salary, bonus and allowances. We provide our employees with welfare benefits such as medical care and retirement benefits in accordance with applicable regulations and our internal policies.

We aim to motivate our employees by associating the interest of our Group with the interest of the employees through proper management of the performance of our employees and awarding competitive benefits. Meanwhile, we also invest in continuing education and training programmes for our employees with a view to upgrading their skills and knowledge. We believe our corporate culture characterised with our commitment to creativity and teamwork has provided our employees with a platform to explore their potentials.

OUTLOOK

Despite the pressure on our Group caused by uncertainties such as rising oil price and foreign exchange fluctuations, we are confident in our future based on our improving fleet and constant efforts of our staff. We expect better market prospect in 2008 than in 2007 due to sustained growth in global economy, intensifying economic restructuring in China, robust demand in the countries for imported iron ore, coal and imported crude oil, and comparatively low level of newbuilding deliveries. We will carefully size up the shipping market, avoid risks and improve earnings, with an aim to achieving sound and balanced business development.

Revenues

Our total revenues for the year ended 31 December 2007 was US$302.2 million (2006: US$247.5 million), which represents an increase of 22.1%. The increase in the total revenue was mainly attributable to an increase in the revenue from dry bulk shipping, which was partially offset by a decrease in revenue from oil tanker shipping and container shipping. The results of dry bulk operations benefited from our effective operating strategy of combining long-term and short-term time chartering to maximise and stabilise our revenue by taking into account market conditions, market risks and the Group's liquidity position, etc.

We set forth below the revenue contribution from each business segments for the year ended 31 December 2007:

	2007 US$'000	2006 US$'000	% Change
Charter hire income			
— Dry bulk shipping	**259,181**	190,330	36.2%
— Oil tanker shipping	**31,218**	44,365	(29.6%)
— Container shipping	**10,637**	11,739	(9.4%)
Others	**1,181**	1,081	9.3%
	302,217	247,515	22.1%

We set forth below the total tonnage of our fleet and the average daily Time Charter Equivalent rate ("TCE") (calculated by taking the average of the daily TCE of the vessels in each of the following vessel categories) for each segment of our charter hire business for the year ended 31 December 2007:

	2007 average daily TCE (US$)	2006 average daily TCE (US$)	% Change of average TCE
Dry bulk vessel (self-owned)	**23,151**	16,528	40.1%
Oil tanker(*)	**25,295**	45,486	(44.4%)
Container vessel	**6,227**	6,559	(5.1%)

* Average Daily TCE of oil tanker is determined by dividing total voyage revenue (net of voyage expenses) by total voyage days for the relevant time period. Voyage expenses primarily consist of port charges and fuel costs.

Dry bulk shipping

Our revenue from dry bulk shipping primarily consists of charter hire income and ocean freight income.

Revenue from charter hire income for self-owned vessels in 2007 was US$206.5 million (2006: US$154.9 million), which represents an increase of 33.3%. The increase was primarily due to an increase in the charter hire rate resulting from improved market conditions in 2007. The dry bulk market started to pick up in the last quarter of 2006 and has continued on an upward trend in 2007. Record-high levels of output in China's steel production boosted the iron ore and coking coal trades, leading to an increase in the charter hire rate for dry bulk shipping. As a result of the improved market conditions, our average charter hire rate has increased, as demonstrated by an increase of our average daily TCE from US$16,528 in 2006 to US$23,151 in 2007, which represents an increase of 40.1%.

Revenue from ocean freight income in 2007 was US$52.7 million (2006: US$35.4 million), which represents an increase of 49.0%. The increase was primarily due to the increase in freight rates and the volume of voyage resulting from improved market condition. The volume of cargo shipped has increased from 862,993 tons in 2006 to 967,375 tons in 2007, which represents an increase of 12.1%.

Oil tanker shipping

Our revenue from oil tanker shipping services in 2007 was US$31.2 million (2006: US$44.4 million), which represents a decrease of 29.6%. The decrease was primarily due to a decrease in freight rate in the weak market of oil tanker. Our average daily TCE from oil tanker shipping services has decreased from US$45,486 in 2006 to US$25,295 in 2007, which represents a decrease of 44.4%.

Container shipping

Our revenue from container shipping in 2007 was US$10.6 million (2006: US$11.7 million), which represents a decrease of 9.4%. The decrease was primarily due to a decrease in the average charter hire rate in the market of container shipping. Average daily TCE for our container shipping has decreased from US$6,559 in 2006 to US$6,227 in 2007, which represents a decrease of 5.1%, leading to a decrease in our revenue for container shipping in 2007.

Cost of operations

Our cost of operations in 2007 was US$154.4 million (2006: US$130.0 million), which represents an increase of 18.8%. The increase in the cost of operations was primarily due to significant increase in operating lease expenses for charter-in vessels, inventories consumed for oil tankers, hiring of crews and seafarers, and partially offset by the decrease in depreciation expenses.

Operating lease expenses

Operating lease expenses for vessels in 2007 was US$40.0 million (2006: US$22.1 million), which represents an increase of 80.8%. The increase was primarily due to an increase in charter hire rates of charter-in vessels resulting from improved market condition.

Inventories consumed

Inventories consumed, comprising both fuel oil and diesel oil primarily used by our oil tankers, in 2007 were US$20.8 million (2006: US$18.6 million), which represents an increase of 12.0%. The increase was primarily due to an increase in bunker price in 2007.

Expenses for hiring of crews and seafarers

Expenses for hiring of crews and seafarers in 2007 were US$16.6 million (2006: US$15.1 million), which represents an increase of 9.7%. The increase was primarily due to an upward adjustment of the salary and wages of our crews and seafarers during the year.

Depreciation expenses

Depreciation expenses for vessels in 2007 were US$32.3 million (2006: US$34.5 million), which represents a decrease of 6.3%. The decrease was primarily due to an increase of residual value of the vessels caused by the increase in scrap value of steel in 2007.

Selling, administrative and general expenses

Our selling, administrative and general expenses in 2007 were US$13.9 million (2006: US$10.5 million), which represents an increase of 32.9%. The increase was primarily due to the increase in exchange loss which is resulted from the retranslation of our listing proceeds denominated in HK dollar.

Other operating income

Our other operating income in 2007 was US$0.7 million (2006: US$11.8 million), which represents a decrease of 94.2%. Last year amount composed of a gain on disposal of vessels of US$11.2 million while there was no disposal of vessel in 2007.

Finance income

Our finance income in 2007 was US$11.1 million (2006: US$0.6 million), which represents an increase of 1,641.5%. The increase was mainly due to an increase in the interest income on bank deposits as a result of an increase in cash balance obtained from the Company's IPO in November 2007.

Finance costs

Finance costs in 2007 were US$8.0 million (2006: US$6.1 million), which represents an increase of 31.0%. The increase was mainly due to an increase in loan interest incurred for new loans raised in 2007.

Share of profits of jointly controlled entities

Our share of profits of jointly controlled entities, namely, M.S. Tanker Shipping Limited and Faship Maritime Carriers Inc., was US$3.5 million for 2007 (2006: US$5.7 million), which represents a decrease of 39.9%. The decrease was mainly due to the decrease in the charter hire income generated from M.S. Tanker Shipping Limited in 2007.

Income tax expense

Income tax for 2007 was US$202,000 (2006: US$166,000), which represents an increase of 21.7%. Our effective income tax rate for both 2006 and 2007 was 0.14%.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal uses of cash have been, for repayment of loans, operation costs and working capital in 2007. In the past, we have financed our liquidity requirements primarily through internal cash and borrowings, including borrowings from Sinotrans Group, as part of the intra-group financing arrangements. The net amounts due to and loans from Sinotrans Group have been fully settled by 28 September 2007 pursuant to the reorganisation. After completion of the reorganisation, we have financed our liquidity requirements primarily through internal generated cash, listing proceeds and bank loans.

The following table sets out the liquidity ratio as at the balance sheet date indicted.

	2007 (US$'000)	2006 (US$'000)
Current assets	**1,405,647**	485,090
Current liabilities	**115,369**	513,202
Liquidity ratio (1)	**12.18**	0.95

Note:

(1) The liquidity ratio is equal to the total current assets over the total current liabilities of our Group as at the balance sheet date indicated.

Our liquidity ratios as at 31 December 2006 and 2007 are 0.95 and 12.18 respectively. The increase in current assets was primarily due to increase in cash balance arise from the Company's listing proceeds.

Borrowings

Our borrowings as at 31 December 2007 are as follows:

	2007 (US$'000)	2006 (US$'000)
Non-current		
Bank loans	**167,026**	—
Loans from Sinotrans Group Company	**—**	62,354
	167,026	62,354
Current		
Bank loans	**72,699**	—
Loans from Sinotrans Group Company	**—**	34,500
	72,699	34,500
Total borrowings	**239,725**	96,854

The entire balance of the loans from Sinotrans Group Company was fully repaid on 28 September 2007. As at 31 December 2007, we did not have any outstanding loans from Sinotrans Group Company.

The following table sets out the gearing ratio as at 31 December 2007.

	2007 (US$'000)	2006 (US$'000)
Total borrowings	**239,725**	96,854
Amounts due to related parties	**9,878**	462,332
Less: Amounts due from related parties	**(1,079)**	(412,278)
	248,524	146,908
Less: Cash and bank balances	**(1,372,033)**	(23,841)
Net (surplus)/debt	**(1,123,509)**	123,067
Total equity	**1,706,543**	409,808
Gearing ratio [1]	**N/A**	23%

Note:

(1) Gearing ratio as at 31 December 2007 is not presented as the Group recorded a net surplus as at 31 December 2007 which resulted from inflow of cash proceeds from the listing of the Company's shares in November 2007.

Commitments

The following table sets out our capital commitment in respect of vessels under construction as at the date indicated.

	2007 (US$'000)	2006 (US$'000)
Contracted but not provided for		
— Our Group	**364,497**	63,038
— Jointly controlled entity	**47,400**	53,325
	411,897	116,363

As at 31 December 2007, our Group's capital commitment amounted to US$411.9 million and it is estimated that US$115.7 million, US$74.7 million, US$207.8 million and US$13.7 million will be paid in 2008, 2009, 2010 and 2011 respectively. The capital commitment of our Group has increased from US$116.4 million as at 31 December 2006 to US$411.9 million as at 31 December 2007 because we have entered into several new building contracts in 2007 for the construction of four capesize dry bulk and four handysize vessels to be delivered in subsequent periods.

Contingencies

We have contingent liabilities in respect of legal claims arising in the ordinary course of business. Our Directors consider that these claims will not have a significant impact on the financial position or the operations of our Group.

Capital expenditures

Our capital expenditures principally comprise expenditures for additions to property, plant and equipment, including primarily vessels.

The total capital expenditures in 2007 were US$114.0 million, which represents an increase of US$111.3 million from US$2.7 million in 2006. The increase was primarily due to an increase in the capital expenditures for dry bulk vessels and container vessels.

The capital expenditures for dry bulk vessels and container vessels in 2007 were US$100.1 million and US$13.8 million respectively.

Foreign exchange risks

The Group operates internationally and is exposed to foreign exchange risk from various currency exposures (such as Renminbi and Japanese Yen), primarily with respect to US$. The Group's revenues, cost of operations and majority of financial assets and liabilities are principally denominated in US$. Accordingly, foreign exchange risk mainly arises from future commercial transactions, net investments in foreign operations and commitments arising from certain ship-building contracts. The Group currently does not have regular and established hedging policy in place. The Group is monitoring foreign exchange exposure and will consider hedging significant foreign currency exposure by using appropriate financial instruments, and adopting appropriate hedging policy to control the hedging risks, when need arises.

Report on Corporate Governance

Our Company believes that the incessant enhancement of the standard of corporate governance is the underlying cornerstone for safeguarding the interests of investors and enhancing corporate value. Since the listing of our shares on the Stock Exchange on 23 November 2007 (the "Listing Date"), our Company has been striving to enhance its standard of corporate governance with reference to the Hong Kong Companies Ordinance, the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, the Articles of Association of our Company and other relevant laws and regulations amended from time to time and taking into considerations its own characteristics and requirements.

CONTINUOUS IMPROVEMENT IN CORPORATE GOVERNANCE PRACTICES

Our Company has adopted The Code on Corporate Governance Practices (the "CG Code") issued by the Stock Exchange as our code on corporate governance practices. The Company has been in compliance with applicable provisions of the CG Code since its listing on the Stock Exchange.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") contained in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by the Company's Directors.

The Directors have confirmed, after specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the period from the Listing Date to 31 December 2007.

BOARD OF DIRECTORS

Our Board of Directors is accountable to the general meetings under its commitment to pursue the best interests of the Company. Our board members collectively and individually accept responsibility for the management and control of our Company in the interests of shareholders and spared no efforts in the performance of their duties as a Director. Our Company's independent Directors have extensive expertise and experience in accounting, legal or financial management and other professional areas. All of them act diligently to uphold the interests of the Company and the shareholders by maintaining the independence of their opinions given with respect to their review of our Company's connected transactions and significant events, and by providing professional advice on the stable and disciplined operation and long-term development of our Company.

As at 31 December 2007, our Board of Directors comprised nine Directors, of which three were executive Directors, two were non-executive Directors and four were independent non-executive Directors, whose names are as follows:

Chairman: Mr. Zhao Huxiang;

Executive Directors: Mr. Tian Zhongshan, Mr. Li Hua and Ms. Feng Guoying;

Non-executive Directors: Mr. Zhao Huxiang and Mr. Pan Deyuan;

Independent non-executive Directors: Mr. Hu Hanxiang, Mr. Tsang Hing Lun, Mr. Lee Peter Yip Wah and Mr. Zhou Qifang.

The main duties of our Board of Directors include determining the operating plans and investment proposals of our Company, convening general meetings and executing the resolutions passed at general meetings, formulating our Company's profit distribution proposals and formulating and proposing any amendments to the Memorandum and Articles of Association of our Company.

Our Board of Directors has approved the establishment of an executive committee of the Board of Directors on 12 March 2008 and the rules of procedure and scope of authority of such committee of the Board of Directors. The executive committee of the Board of Directors comprises:

Mr. Tian Zhongshan, Mr. Li Hua and Ms. Feng Guoying.

Our Board of Directors delegates the authority of the management of our Company's daily operation to the executive committee of the Board of Directors. The executive committee of the Board of Directors can make decision on matters set out specifically in the scope of authority.

So far as is known to our Company, there is no financial, business, family or other material relationship among the members of our Board of Directors. Besides, there is also no relationship between chairman of the Board of Directors and general manager of our Company.

Our Company has received, from each of the independent non-executive Directors, a written confirmation of his/her independence to our Company pursuant to the requirements of the Listing Rules. Our Company considers that all of the independent non-executive Directors are independent of our Company.

No board meeting was convened by our Company during the period from the Listing Date to 31 December 2007.

Our Board of Directors are reminded that they shall devote sufficient time and effort to the business of our Company and that they shall abstain from voting for the approval of any proposals in which they are materially interested.

APPOINTMENT OF DIRECTORS

Under the service contracts entered into between our Company and each of our executive Directors and non-executive Directors, each of our executive Directors and non-executive Directors is appointed for a term of three years with effect from the Listing Date. Under the letters of appointment entered into between our Company and each of our independent non-executive Directors, each independent non-executive director is appointed for a term of one year with effect from the Listing Date. Each of our executive Directors, non-executive Directors and independent non-executive Directors shall retire in accordance with the Articles of Association of our Company and, being eligible, offer himself/herself for re-election.

During the period from the Listing Date to 31 December 2007, there was no change in the executive Directors, non-executive Directors and independent non-executive Directors of our Company.

CHAIRMAN AND GENERAL MANAGER

During the reporting period, Mr. Zhao Huxiang was the Chairman of our Board of Directors and Mr. Tian Zhongshan was the general manager of our Company. The roles of chairman and general manager are performed by different individuals and each of them has different terms of reference. Our chairman is responsible for the management of the operation of our Board of Directors, while our general manager is responsible for the business management of our Company.

COMMITTEES

Our Board of Directors has established an Audit Committee, a Remuneration Committee and a Nomination Committee in accordance with its CG Code. The majority of these committees are independent non-executive Directors.

AUDIT COMMITTEE

The principal terms of reference of our Audit Committee include reviewing and supervising the financial reporting system and internal control mechanism of our Company, effectively monitoring and managing our Board of Directors, ensuring that our Board of Directors is to be held accountable to our Company and our shareholders and proposing and engaging external auditors. The terms of reference of our Audit Committee are available on our Company's website.

Our Audit Committee is chaired by Mr. Tsang Hing Lun and its members are Mr. Pan Deyuan, Mr. Zhou Qifang and Mr. Lee Peter Yip Wah. Most of the members possess professional qualifications and experience in finance. All members of our Audit Committee are independent non-executive Directors, except Mr. Pan Deyuan who is a non-executive director.

During the period from the Listing Date to 31 December 2007, no meeting was convened by our Audit Committee.

REMUNERATION COMMITTEE

Our Remuneration Committee is responsible for reviewing the remuneration policies of our Company, assessing the performance of the Directors and senior management of our Company and determining policies in respect to their remuneration packages, so as to ensure that none of the Directors can determine his/her own remuneration packages. The terms of reference of our Remuneration Committee are available on our Company's website.

Our Company has established a set of standardised job evaluation system, performance-based management system and compensation and benefit system. Through the implementation of the compensation and benefit strategy, a set of compensation and benefit system was built which balances external competition and internal fairness while matching the development of our Company. Such compensation and benefit system is based on the foundation of a position appreciation system through introducing a competition for promotion mechanism which enables flexible adjustment to staff incomes according to their positions. Our Company has established an effective incentive and control system on the basis of a standardised performance-based management system. Through the active cultivation of a performance-based remuneration culture, our Company achieves the purpose of attracting, retaining and providing incentive to talents as well as the enhancement of personal value, corporate value and shareholders' value.

Our Remuneration Committee is chaired by Mr. Hu Hanxiang and its member are Mr. Zhao Huxiang and Mr. Tsang Hing Lun.

During the period from the Listing Date to 31 December 2007, no meeting was convened by our Remuneration Committee.

NOMINATION COMMITTEE

Our Nomination Committee is responsible for recommending candidates to fill vacancies in the Board of Director. Qualification, ability and potential contribution of individual candidates would be considered. The terms of reference of our Nomination Committee are available on our Company's website.

Our Nomination Committee is chaired by Mr. Zhao Huxiang and its members are Mr. Lee Peter Yip Wah, Mr. Hu Hanxiang and Mr. Zhou Qifang.

During the period from the Listing Date to 31 December 2007, no meeting was convened by our Nomination Committee.

INTERNAL AUDIT

Our internal audit department is established for the monitoring and assessment of the suitability, compliance and effectiveness of our Company's operating activities and internal control system by independent, objective and systematic professional approaches.

Our internal audit department reports directly to the top management of our Company and attends all meetings of our Audit Committee.

EXTERNAL AUDITORS

PricewaterhouseCoopers was engaged as our Company's auditors for the year ended 31 December 2007.

The fees for services provided by PricewaterhouseCoopers to the Group for the year ended 31 December 2007 are analysis as follows:

	US$'000
– Audit services	513
– Audit-related and non-audit services (substantially for the preparation for initially public offering)	2,251
	2,764

There has been no change in the auditors of our Company for the past three financial years.

INTERNAL CONTROL

In preparation for our initial public offering in 2007, we engaged a consulting firm to conduct internal control assessment, which covers, among other things, financial, operational and compliance controls functions. Based on the report provided by the consulting firm, our Board of Directors has reviewed the effectiveness of the internal control system of our Group.

Through the customised internal control system, our Board of Directors oversees the Company's overall financial and operation conditions and legal compliance and manages the risks to avoid any substantial losses due to failure in internal control.

Our Board of Directors has introduced various measures to ensure effective internal control:

- We have clearly defined the organisational structure of our Company and the duties and responsibilities for every department;
- We have established a series of policies, constitutions and workflow in relation to our financial management, operation and legal compliance which are to be perfected through daily supervision and persistent improvement;
- We have a well-organised accounting management system, which provides accurate and sufficient financial information and indicators to the management for assessing our Company's financial position and operating performance as well as discloseable financial information;
- We have an internal audit department, which is responsible for independent examination and assessment of our internal control mechanism and providing recommendations for further improvement so as to ensure the effective implementation of the approaches and standards formulated by our Board of Directors and the management. The scope of an internal audit covers the examination of financial, operation, compliance and risk management issues of our Company the results of which will be reported to the Audit Committee and top management of our Company;
- We have carried out internal audit and external assessment on the suitability, completeness and effectiveness of its quality management system based on the ISO9001:2000 standard. The audit procedures include monitoring major projects such as financial, operation and compliance affairs based on their respective procedural documents and cover all aspects of the quality management system.
- In addition, by enhancing the training for internal control, we have provided its management and staff with a better understanding of and knowledge on risk management and the internal control system, thus further enhancing our internal control system.

CORPORATE GOVERNANCE RELATING TO THE DEED OF NON-COMPETITION

A deed of non-competition was entered into by our Company and Sinotrans Group Company on 8 November 2007 in respect of the main businesses conducted by our Group. Details of the deed of non-competition has already been disclosed in the Prospectus of the Company with the section headed "Relationship with Sinotrans Group Company".

In respect of such opportunity (the opportunity to participate or acquire any interest in future projects or joint ventures which are offered to any company in Sinotrans Group (excluding Sinotrans Limited and its subsidiaries) which could or may compete with the Relevant Services), the independent non-executive Directors were informed by the executive Directors of our Company that Sinotrans Group Company is not aware that there exists any such opportunity during the period from the Listing Date to 31 December 2007. As regards Chartering Opportunity (a business opportunity to charter out dry bulk vessels to a potential customer), our independent non-executive Directors have reviewed the report (For details please see the section headed "Relationship with Sinotrans Group Company — Deed of Non-Competition of the Prospectus") and most of them consider that there is not or is not likely to be any competitions between the vessels available for chartering from companies relating to Sinotrans Group Company and the vessels available for chartering from our Group during the above mentioned period.

Given the above, our independent non-executives Directors consider that the deed of non-competition has been complied with from the listing date to 31 December 2007.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

Our Board of Directors acknowledges its responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. Our Board of Directors also ensures that the financial statements of the Group are published in a timely manner.

The reporting responsibilities of our Company's external auditor on the financial statements of the Group are set out in the "Independent Auditor's Report" on page 51 of this annual report.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

In respect of any discloseable and significant event, our Company will make accurate and complete disclosure in a timely manner in the newspapers and websites as specified by the relevant supervisory authorities for information disclosure pursuant to the disclosure requirements under the Listing Rules. This is to safeguard the right to information and participation of the shareholders.

Our Company places strong emphasis on its communications with investors, and considers that maintaining an ongoing and open communications with investors can promote investors' understanding of and confidence in our Company and enhance the standard of corporate governance. Our Company has set up an investor relations department, which is responsible for investor relations. Management of our Company maintains close communications with investors by means of road shows, conferences and one-on-one meetings to enable them to have a better understanding of our Company's management rationale, operating environment and development strategies, thus enhancing the degree of transparency and investors' understanding of our Company.

Our Company's website, www.sinotranship.com, provides information of our Company such as investor relations, corporate governance and other latest information regarding our Company in a timely manner and is updated regularly.

DIRECTORS

Executive Directors

Mr. Tian Zhongshan (田忠山), aged 39, has been our director since January 2003. Mr. Tian has been actively and extensively involved in the management and strategic development of our Company, and oversees the overall development of our Company. Mr. Tian graduated from the University of International Business and Economics in 1991 and obtained a master's degree at the University of South Australia in 2006. He joined Sinotrans Group (which refers to China National Foreign Trade Transportation (Group) Corporation and its subsidiaries, excluding the Group) in 1991 and has over 16 years of experience in the shipping industry. Mr. Tian served at China National Chartering Corp. from 1991 up to March 2002. Between April 2002 and May 2003, he served as the deputy general manager of China Business Marine Co., Ltd. ("CBMC"). In May 2003, Mr. Tian worked as deputy general manager of our Company and was promoted as the general manager of our Company since March 2005. At the same time, he has been appointed as the legal representative of Sinotrans Shipping (Shenzhen) Limited (深圳市中外運航運有限公司), and the legal representative and general manager of CBMC. Mr. Tian has resigned from his positions in Sinotrans Shipping (Shenzhen) Limited, CBMC and Sinoecl Auto Liners, Limited prior to listing or within one month after listing and will not hold any executive/management positions within Sinotrans Group subsequently.

Mr. Li Hua (李樺), aged 41, has been the deputy general manager of our Company since February 2003. Mr. Li has been actively involved in the management and the decision-making process of our Company, in particular he is in charge of the construction of new buildings, sale and purchase of vessels, and strategic planning of our Company. Mr. Li graduated from the University of International Business and Economics in 1989 and received a master's degree at Murdoch University in January 2002. Mr. Li has over 18 years of experience in the shipping industry. Mr. Li joined CBMC in July 1989. From November 1999, Mr. Li served as the assistant to general manager of Worlder Shipping Limited. Between 2001 and February 2003, Mr. Li served as the deputy general manager of Worlder Shipping Limited.

Directors and Senior Management

Ms. Feng Guoying (馮幗英), aged 43, has been the deputy general manager of our Company since September 2004. Ms. Feng is responsible for the management of oil tankers shipping business of our Company. She graduated from Renmin University of China in 1986 and received a master's degree at the Guanghua School of Management in Peking University in 2007. Ms. Feng has over 17 years of experience in the shipping industry. From December 1989 to March 1998, Ms. Feng served in various positions in Worlder Shipping Limited including the deputy manager of the business department. Between March 1998 and September 2001, she served as the manager of CBMC. From September 2001 to September 2004, Ms. Feng was appointed as the assistant general manager and since September 2004, she has been promoted to the position of the deputy general manager of CBMC. From January 2003, she served as the assistant to general manager of our Company and was promoted to the position of the deputy general manager of our Company in September 2004. Ms. Feng also serves as the director of Sinoecl Auto Liners, Limited, Sinotrans-MOL Shipping Co., Ltd and Sinotrans Shipping (Shenzhen) Limited (深圳市中外運航運有限公司). Ms. Feng has resigned from her positions in CBMC, Sinoecl Auto Liners, Limited, Sinotrans-MOL Shipping Co., Ltd and Sinotrans Shipping (Shenzhen) Limited prior to the listing or within one month after listing and will not hold any executive/management positions within Sinotrans Group subsequently.

Non-executive Directors

Mr. Zhao Huxiang (趙滬湘), aged 52, was appointed as our director and chairman in August 2007. Mr. Zhao graduated from Dalian Maritime University in 1980 and has over 28 years of experience in the shipping industry. From January 1980 to September 1985, he worked as an officer in the Marine Shipping Bureau of the Ministry of Communications. From September 1985 to May 1997, Mr. Zhao served at Hoi Tung Marine Machinery Suppliers Limited where he held various positions including head of division, deputy general manager and general manager. From May 1997 to December 2005, he served as the assistant to chief executive, vice president and a director of China Merchants Group Limited and the general manager of China Merchants Holding (International) Co., Ltd. Mr. Zhao joined China National Foreign Trade Transportation (Group) Corporation ("Sinotrans Group Company") and serves as a director and president since December 2005. He now also serves as the chairman and executive director of Sinotrans Limited, a company whose shares are listed on the main board of the Hong Kong Stock Exchange, and the chairman of DHL-Sinotrans (中外運－敦豪國際航空快件有限公司). Mr. Zhao was elected as the chairman of China International Freight Forwarders Association in February 2007, and was appointed vice chairman of International Federation of Freight Forwarders Association (FIATA) in October 2007.

Mr. Pan Deyuan (潘德源), aged 58, was appointed as our director in August 2007. Mr. Pan graduated from Jilin Financial Institute in 1982. From January 1984 to January 1990, Mr. Pan served as the deputy general manager of Huarun Rongdi Company in Hong Kong. From January 1990 to April 1994, he served as the Head of Financial Department of Foreign Economy Trade Ministry. Mr. Pan served as the deputy general manager of China National Machinery & Equipment Import & Export Corporation from April 1994 to July 1997. Mr. Pan has over eight years of experience in the shipping industry. From October 1997 to January 2003, Mr. Pan served as a director and vice president of Sinotrans Group Company. Mr. Pan served as the general manager of China National Native Produce and Animal By-Products Import & Export Corporation from January 2003 to February 2005 before he re-joined Sinotrans Group Company and served as a director of Sinotrans Group Company from February 2005 to October 2006. As from March 2005 up to now, Mr. Pan was appointed as the vice president of Sinotrans Group Company, overseeing Sinotrans Group's finance and strategic research. He now also serves as the Directors of Taikang Life Insurance Company Limited, Sinotrans (NZ) Limited and Wenita Forest Products Company Limited. Taikang Life Insurance Company Limited was established in August 1996 and was approved by the People's Bank of China to engage in life insurance business. Sinotrans Group Company is one of the promoters of Taikang Life Insurance Company Limited and holds a shareholding stake of 5.87% in it. Sinotrans (NZ) Limited is a holding company of Wenita Forest Products Company Limited, and it does not carry out any business itself. Wenita Forest Products Company Limited is engaged in the business of forest logging and timber processing, and is owned as to 62% by Sinotrans Group Company.

Independent Non-executive Directors

Mr. Hu Hanxiang (胡漢湘), aged 68, was appointed as our independent non-executive director in August 2007. Mr. Hu graduated from Dalian Maritime College (大連海運學院) in 1966. From 2000 up to the present, Mr. Hu serves as the president of Association for Shippings Across the Straits. From 2000, he serves as a member of the first and second sessions of the Specialist Committee of the Ministry of Communications of the PRC. In 2001, Mr. Hu was listed in the Chinese Experts Celebrity Dictionary. In 1972, Mr. Hu was appointed as the dispatcher of the Bureau of Marine Transportation of the Ministry of Communications and was promoted as the deputy director of the Bureau of Marine Transportation of the Ministry of Communications in 1982. From 1985 to 1994, Mr. Hu was appointed as the deputy head of the Marine Transportation Administration

Bureau of the Ministry of Communications, deputy division head of Transportation Administration Division and director of the Marine transportation Centre of China, division head of the Bureau of Marine Transportation and director of the National Marine Chief Dispatching. From 1994 to 2000, Mr. Hu was appointed as division head of the Marine Transportation Division. From 1995 onwards, he was appointed for positions such as vice chairman of China Association of Fort-of-Entry, vice president of China Communications and Transportation Association, vice president of China Institute of Navigation, director of Association for Relations Across the Taiwan Straits, member of Coordinating Committee for Economic and Trading Affairs Across Taiwan Straits and the honorary vice-president of China Shipowners' Association. In March and December 2004, Mr. Hu was appointed as the independent non-executive director of China Shipping Container Lines Co., Ltd. and China Merchants Energy Shipping Co., Ltd., respectively. In April 2006, Mr. Hu was appointed as the independent non-executive director of Ningbo Marine Company Limited.

Dr. Tsang Hing Lun (曾慶麟), aged 58, was appointed as our independent non-executive director in August 2007. Dr. Tsang is also the Chief Executive Officer of Influential Consultants Ltd, a fellow member of the Hong Kong Institute of Directors, the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Dr. Tsang obtained his PhD Hon from the University of National Union, Europe in 2006. He graduated from the Chinese University of Hong Kong with a Bachelor's Degree in Business Administration (1st Class Hons) in 1973. Dr. Tsang has served in a senior management capacity in several publicly listed companies operating in Hong Kong and Singapore. He joined Hang Seng Bank in 1973 and served for 17 years. Dr. Tsang acted as the assistant general manager of the planning and development division of Hang Seng Bank before joining the UOB Group in Singapore in 1990 as its head of International Branches Division and its first vice president. After working in the UOB Group, Dr. Tsang also acted as an executive director of the Hong Kong Stock Exchange in 1993 and an executive director of China Champ Group in 1994, as the alternate chief executive and deputy general manager of the China Construction Bank, Hong Kong Branch from 1995 to 1998. He is currently an independent non-executive director of Beijing Media Corporation Limited, International Financial Network Holdings Ltd. as well as Sino-Ocean Land Holdings Ltd. and all these companies are listed on the Hong Kong Stock Exchange.

Mr. Lee Peter Yip Wah (李業華), aged 65, was appointed as our independent non-executive director in August 2007. Mr. Lee graduated from The University of Hong Kong with a Bachelor's Degree of Arts in 1965 and is a practising solicitor. Mr. Lee was the former senior partner of Messrs. Woo, Kwan, Lee & Lo and is presently a consultant at Messrs. Woo, Kwan, Lee & Lo. He was admitted as solicitors of Hong Kong, United Kingdom and Singapore in 1971, 1974 and 1995 respectively, and he was appointed as a China-appointed Attesting Officer in 1993. Mr. Lee possesses about 35 years of experience in management and company secretarial works. He is currently the independent non-executive director of China Merchants Holdings (International) Company Limited and the non-executive Directors of Shenzhen Investment Limited and Yu Ming Investments Limited, all are companies listed on the Hong Kong Stock Exchange. He was a non-executive director of Elec & Eltek International Holdings Limited since September 2004. Elec & Eltek International Holdings Limited was withdrawn from listing on the Hong Kong Stock Exchange in March 2005. Mr. Lee is also the company secretaries of about 20 Hong Kong-listed companies, including China Resources Enterprise, Limited and Hopewell Holdings Limited.

Mr. Zhou Qifang (周祺芳), aged 64, was appointed as the Company's independent non-executive director in October 2007. Mr. Zhou graduated from Dalian Maritime College in 1965. Mr. Zhou has over 42 years of experience in the shipping industry. From September 1965 to June 1990, he served at Guangzhou Ocean Shipping Company (廣州遠洋運輸公司) where he held various positions including the head of the ship repairing factory. From June 1990 to July 1992, Mr. Zhou served as the general manager of the Nantong Ocean Shipping Enterprise of China Ocean Shipping Company (中國遠洋運輸總公司南通船務企業公司). China Ocean Shipping Company was restructured and renamed as China Ocean Shipping (Group) Company (中國遠洋運輸（集團）總公司) in 1992. Between July 1992 and July 1997, Mr. Zhou was promoted to the position of vice president of China Ocean Shipping (Group) Company (中國遠洋運輸（集團）總公司). Between July 1997 and April 2000, Mr. Zhou worked as the general manager of Shekou Industrial Zone Co., Ltd. (蛇口工業區有限公司). Since October 1997 up to April 2000, Mr. Zhou served as the managing director and vice president of China Merchants Group Limited (招商局集團有限公司), and remained as its director and vice president between April 2000 and March 2004. From March 2004 up to March 2007, he served as a director of China Merchants Group (Hong Kong) Limited (招商局集團（香港）有限公司) and the chairman of China LNG Shipping (Holdings) Limited (中國液化天然氣運輸（控股）有限公司). Since December 2004 up to March 2007, he was appointed as a director of China Merchants Energy Shipping Co. Ltd (招商局能源運輸股份有限公司), a company listed on the Shanghai Stock Exchange.

SENIOR MANAGEMENT

Mr. Xie Shaohua (謝少華), aged 37, is the chief financial controller of our Company since August 2007. Mr. Xie is responsible for overseeing all financial aspects of our Company's business. He graduated from Central University of Finance and Economics in 1993 and received master's degrees at the University of International Business and Economics and at The Chinese University of Hong Kong in 2003 and 2005, respectively. Mr. Xie has over eight years of experience in the shipping industry. From November 1998 to October 2002, he served in the finance department of Sinotrans Group Company. From November 2002 up to May 2007, he served as the deputy general manager of the finance department of Sinotrans Limited.

Mr. Lo Ting Ho (盧定灝), aged 57, is the assistant general manager of our Company since July 2004. Mr. Lo graduated from the Island Navigation Corp., HK. Pre-Sea Deck Cadet Training School in 1971. In 1996, Mr. Lo served as the Manager of the business department of Wah Tung Shipping Agency, responsible for technical management of fleet operation. Mr. Lo has over 37 years of experience in the shipping industry. From October 2000 to June 2004, he was the Manager of the operations department of Worlder Shipping Limited. From July 2004, Mr. Lo was appointed as the assistant general manager of our Company, in charge of the business department, machinery department and the legal department, overseeing all marine technical and management matters.

Mr. Ng Kwun Wa (吳冠華), aged 30, is the qualified accountant of the Company. He has more than 6 years of experience in audit and financial management. He received an Honorary Bachelor's Degree in Business Administration from the Hong Kong Baptist University in 2001. Mr. Ng is a member of the Hong Kong Institute of Certified Public Accountants. Before joining the Company in February 2008, he worked for an international accounting firm.

COMPANY SECRETARY

Mr. Huen Po Wah (禤寶華), aged 59, was appointed as company secretary in October 2007. He is an associate of the Hong Kong Institute of Chartered Secretaries and also an associate of the Institute of Chartered Secretaries and Administrators. Mr. Huen is also a director of Fair Wind Secretarial Services Limited and he has over 26 years of experience in company management and secretarial fields. He is currently the company secretary of Suga International Holdings Limited, Country Garden Holdings Company Limited and Wing Shan International Limited, all of which are companies listed on the Hong Kong Stock Exchange. Suga International Holdings Limited is an investment holding company, whose principal subsidiaries are engaged in the research and development, manufacture and sale of electronic products. Country Garden Holdings Company Limited and its subsidiaries are engaged in the business of property development, construction and decoration, property management and hotel operation. Wing Shan International Limited is an investment holding company and the principal activities of its subsidiaries are the production and sale of Chinese medicine and pharmaceutical products in the PRC.

The Board of Directors is pleased to present its report and the audited financial statements of our Group for the year ended 31 December 2007.

GROUP REORGANISATION

Our Company was incorporated in Hong Kong under the Companies Ordinance on 13 January 2003.

Details of the reorganisation are set out in the section headed "Our History and reorganisation – Our reorganisation" of the Company's Prospectus. On 23 November 2007, the shares of our Company were listed on the Main Board of The Stock Exchange.

BUSINESS OPERATIONS OF THE GROUP

The principal activities of our Group are dry bulk vessel time chartering, container vessel time chartering, crude oil shipping services, technical management of vessels and other shipping related businesses. There were no material changes in the nature of the principal activities of our Group during the year.

An analysis of our Group's operating results for the year by business segments is set out in Note 5 to the financial statements.

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the subsidiaries and jointly controlled entities of the Company are set out in Note 29 to the financial statements.

FINANCIAL RESULTS

The results of our Group for the year ended 31 December 2007 are set out in the financial statements of this annual report on page 52.

DIVIDEND

Our Board of Directors does not recommend the payment of a dividend for the year ended 31 December 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of our Company will be closed from Tuesday, 20 May 2008 to Friday, 23 May 2008 (both days inclusive), during which no transfers will be registered.

In order to determine the identity of our shareholders who are entitled to attend and vote at the annual general meeting (the "Annual General Meeting") to be held on 23 May 2008, shareholders are requested to deposit the transfer documents together with relevant share certificates to our Company's Share Registrar Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 19 May 2008, for registration.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out on Note 16 to the financial statements.

BANK LOANS

Details of the bank loans of the Company and the Group are set out in Note 22 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In 2007, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for 36.27 % and 24.67% of the Group's turnover and purchases respectively.

The revenue from our largest customer accounted for approximately 11.44% of our total revenue, while purchase from our largest supplier accounted for 5.61% of our total purchase. During the year ended 31 December 2007, none of the Company's Directors or any of their associates, or any of our shareholder who, to the knowledge of the Board of Directors, owns more than 5% of our Shares, had any interest in any of our five largest customers (except for Sinotrans Group itself being our largest customer) or our five largest suppliers.

CONNECTED TRANSACTIONS

Details of the Group's material related party transactions for the year ended 31 December 2007 are set out in Note 28 to the financial statements.

Certain transactions in the above related party transactions also constituted connected transactions requiring disclosures under Chapter 14A of the Listing Rules, details of which are as follows:

A. Continuing connected transactions exempted from compliance with independent shareholders approval, reporting and announcement requirements under Rule 14A.33(3) of the Listing Rules

1. Licensing of trademarks by Sinotrans Group Company to Our Company

   Prior to the Listing Date, members of our Group have been using the SINOTRANS, , 中外運 , 外運 , and trademarks registered in the name of Sinotrans Group Company and/or its subsidiaries (the "Trademarks") for its shipping business. On 9 November 2007, Sinotrans Group Company and our Company entered into the Trademark Licence Agreement, pursuant to which Sinotrans Group Company has granted our Group non-exclusive right of using the Trademarks. The right to use the Trademarks is granted on a free-of-charge basis.

2. Leasing of properties by Sinotrans Group to our Group

Prior to the Listing Date, members of Sinotrans Group have leased certain properties (the "Properties") to our Group to be used as office and staff quarters in Hong Kong pursuant to two Tenancy Agreements. On 9 November 2007, Sinotrans Group Company and our Company entered into the Master Tenancy Agreement in respect of the leasing of the Properties, with the term commencing on 1 January 2008 and expiring on 31 December 2009.

3. Provision of management services by Parakou Shipping Ltd.

Prior to the Listing Date, certain members of the Group entered into four management agreements with Parakou Shipping Limited on 24 May 2002 in relation to the provision of the management services by Parakou Shipping Limited, a company which is controlled by a director of certain subsidiaries of the Group, namely Mr. Liu Cheng Chan, and he is the Director of certain subsidiaries of the Group in relation to four vessels of the Group. Such four management agreements were terminated on the Listing Date. On 9 November 2007, our Company and Parakou Shipping Limited entered into the Master Management Agreement for the provision of management services by Parakou Shipping Limited to the Group in relation to such four vessels.

B. Continuing connected transactions exempted from compliance with independent shareholders approval, but subject to reporting and announcement requirements under Rule 14A.34 of the Listing Rules

1. Provision and receipt of general services by our Group to/from Sinotrans Group

On 9 November 2007, our Company and Sinotrans Group Company entered into the Master Services Agreement for the provision and receipt of the following general services by our Group to/from members of Sinotrans Group:

(A) Provision of general services by our Group to Sinotrans Group

(a) shipping agency services including:

(i) attending to formalities of a vessel's entry into or departure from ports;

(ii) arranging pilotage, berthing, loading and discharging of vessels; and

(iii) arranging crew replacement;

(b) consultancy services including:

(i) the advisory works in relation to the ship operation and/or technical assistance, if needed; and

(ii) payment of fees and expenses to the suppliers and service providers offshore on behalf of Sinotrans Group;

(c) ship management services including:

(i) maintenance, repairs and docking of vessels;

(ii) insurance and claim arrangements relating to the vessels;

(iii) operation of vessels, including maintaining the vessels' valid trading certificates;

(iv) crew management; and

(v) supply of provisions for the vessels and the supply of lubricating oil and bunker fuel if requested by the owners;

(d) air freight forwarding services including:

(i) attending to customs clearance;

(ii) arranging documentation and cargo collection;

(iii) collecting freight and settling payments on behalf of the carriers; and

(e) corporate administrative services.

(B) Receipt of general services by our Group from Sinotrans Group

(a) shipping agency services including:

(i) attending to formalities of a vessel's entry into or departure from ports;

(ii) arranging pilotage, berthing, loading and discharging of vessels; and

(iii) arranging crew replacement;

(b) shipping broker services regarding oil tankers;

(c) commercial management services regarding oil tankers including:

(i) analysing the market trends, locating the suitable charterers and negotiating the terms of the voyage charters and time charters for the oil tankers; and

(ii) giving instructions to the captains, liaising with charterers, brokers, agents, carriers, ship manager in the performance of the charters, calculating income and port charges and making arrangements for vessels' port operations;

(d) supervisory services regarding construction of vessels including:

(i) negotiation in respect of the design and specification of vessels and all technical aspects of the ship building, specifications and plans approval;

(ii) supervision during the construction of the vessels;

(iii) sea trials; and

(iv) delivery and acceptance of the vessels;

(e) crew management services; and

(f) vessels inspection services.

Our Group will provide certain services to Sinotrans Group and receive the same type of services from Sinotrans Group at the same time. The reason is that our Group and Sinotrans Group will utilize the geographical advantages of each other to increase their respective competitiveness. For example, our Group will provide shipping agency services for vessels chartered in by Sinotrans Group which arrive at the ports in Singapore. Likewise, Sinotrans Group will provide shipping agency services for our vessels arriving at the PRC ports. This reduces the costs for setting up shipping agency services networks at places where the other party has presence and is mutually beneficial to each other.

For the year ended 31 December 2007, the transaction amount and the annual cap of the above continuing connected transactions are as follows:

	Transaction amount (US$'000)	Annual cap (US$'000)
Provision of general service by the Group to Sinotrans Group	582	597
Receipt of general services by the Group from Sinotrans Group	4,054	5,970

C. Non-exempted continuing connected transactions which are subject to independent shareholders approval, reporting and announcement requirements under Rule 14A.35 of the Listing Rules

Chartering of vessels by our Group to Sinotrans Group

On 9 November 2007, our Company and Sinotrans Group Company entered into the Master Chartering Agreement, under which our Group chartered out vessels to Sinotrans Group for a term commencing from the Listing Date and ending on 31 December 2009. Our Company has an option to renew the Chartering Agreement according to the Master Chartering Agreement.

For the year ended 31 December 2007, the transaction amount and the annual cap of the above continuing connected transactions are as follows:

	Transaction amount (US$'000)	Annual cap (US$'000)
Chartering of vessels by the Group to Sinotrans Group	41,629	50,547
Chartering of vessels by the Group to Sinotrans Group-Address Commission	1,829	1,887

Our Board of Directors (including our independent non-executive Directors) considers that the continuing connected transactions have been entered into in the ordinary and usual course of business of our Group, on normal commercial terms, and are fair and reasonable and in the interests of the shareholders of our Company as a whole.

For the purpose of Rule 14.38 of the Listing Rules, our Board of Directors engaged the auditor of our Company, PricewaterhouseCoopers, to perform certain agreed-upon procedures on the above continuing connected transactions (other than continuing connected transactions exempted from compliance with independent shareholders approval, reporting and announcement requirements under Rule 14A.33(3) of the Listing Rules) as identified by the management for the year ended 31 December 2007 (the "Transactions") in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor based on the agreed-upon procedures, reported that:

(1) the Transactions have been approved by our Board of Directors:

(2) in relation to those Transactions involving provisions of goods and services by the Group (for the samples selected), their pricing was in accordance with the pricing policies of the Group as disclosed in the financial statements;

(3) the pricing of the Transactions (for the samples selected) was in accordance with the terms of the relevant agreements governing the Transactions; and

(4) the amounts of the Transactions have not exceeded the relevant annual caps.

DONATION

Charitable and other donations made by the Group during the year amounted to US$128,000.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in Note 21 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2007 amounted to approximately US$5.4 million (2006: US$1.1 million).

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 20 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the interests or short positions of the following persons (other than Directors or chief executives of the Company) in the shares of the Company which were recorded in the register kept by the Company pursuant to section 336 of the Securities and Futures Ordinance ("SFO") were as follows:

Name of Shareholders	Long Position/ Short Position	Capacity	Number of Shares Held	As a % of Total Issued Shares
Sinotrans Group Company (Note 1)	Long position	Interest of controlled corporation	2,565,749,500	65.22%
		Other interests	43,130,500 (Note 2)	
Sinotrans Shipping (Holdings) Limited (Note 1)	Long position	Beneficial owner	2,556,869,500	65.00%
		Other interests	43,130,500 (Note 2)	

Note:

1. Sinotrans Group Company is the beneficial owner of all the issued shares in Sinotrans Shipping (Holdings) Limited, and therefore, Sinotrans Group Company is deemed, or taken to be, interested in the Shares owned by Sinotrans Shipping (Holdings) Limited for the purposes of the SFO.

2. These shares are shares lent under a Stock Borrowing Agreement. These shares have been returned after the year end.

Save as disclosed above, as at 31 December 2007, no other person (other than Directors or chief executives of the Company) had an interest or short position in the Shares or underlying Shares of the Company which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

As at 31 December 2007, there was no purchase, sale or redemption of any shares of our Company by our Company or our subsidiaries.

SUMMARY OF FINANCIAL INFORMATION FOR THE LAST FOUR YEARS

The table below sets out a summary of the operating results, assets and liabilities of the Group for each of the years in the four years ended 31 December 2007.

Income Statement

	Year ended 31 December			
	2007 US$'000	2006 US$'000	2005 US$'000	2004 US$'000
Revenues	**302,217**	247,515	304,581	284,648
Cost of operations	**(154,447)**	(129,968)	(124,571)	(101,281)
Gross profit	**147,770**	117,547	180,010	183,367
Selling, administrative and general expenses	**(13,945)**	(10,490)	(10,178)	(9,395)
Other operating income	**685**	11,779	3,355	188
Operating profit	**134,510**	118,836	173,187	174,160
Finance income	**11,128**	639	366	278
Finance costs	**(7,999)**	(6,105)	(9,880)	(9,445)
Share of profits of jointly controlled entities	**3,452**	5,748	8,582	9,234
Profit before income tax	**141,091**	199,118	172,255	174,227
Income tax expense	**(202)**	(166)	(207)	(118)
Profit for the year	**140,889**	118,952	172,048	174,109
Earnings per share — Basic and diluted	**US5.1 cents**	US4.6 cents	N/A	N/A
Dividends	**252,301**	2,162	1,029	621

Balance Sheets

	2007 US$'000	2006 US$'000	2005 US$'000	2004 US$'000
ASSETS				
Non-current assets				
Property, plant and equipment	**548,724**	467,093	504,592	532,276
Interests in jointly controlled entities	**34,594**	33,222	29,554	24,052
	583,318	500,315	534,146	556,328
Current assets				
Inventories	**2,931**	1,490	1,474	969
Loan to a jointly controlled entity	**2,080**	2,080	2,080	2,080
Trade and other receivables	**28,603**	457,679	365,142	317,502
Cash and bank balances	**1,372,033**	23,841	20,973	21,922
	1,405,647	485,090	389,669	342,473
Total assets	**1,988,965**	985,405	923,815	898,801

	2007 US$'000	2006 US$'000	2005 US$'000	2004 US$'000
EQUITY				
Capital and reserves				
Share capital	51,340	33,333	33,333	33,333
Reserves	1,655,203	376,475	259,590	88,592
	1,706,543	409,808	292,923	121,925
LIABILITIES				
Non-current liabilities				
Borrowings	167,026	62,354	129,481	285,943
Deferred tax liabilities	27	41	45	48
	167,053	62,395	129,526	285,991
Current liabilities				
Trade and other payables	42,468	478,559	463,720	416,276
Taxation payable	202	143	196	128
Borrowings	72,699	34,500	37,450	74,481
	115,369	513,202	501,366	490,885
Total liabilities	282,422	575,597	630,892	776,876
Total equity and liabilities	1,988,965	985,405	923,815	898,801
Net current assets/(liabilities)	1,290,278	(28,112)	(111,697)	(148,412)
Total assets less current liabilities	1,873,596	472,203	422,449	407,916

DIRECTORS

As at 31 December 2007, the composition of our Board of Directors is as follows:

Executive Directors:

Mr. Tian Zhongshan	(appointed on 13 January 2003)
Mr. Li Hua	(appointed on 13 January 2003 and resigned on 10 August 2007, and reappointed on 31 October 2007)
Ms. Feng Guoying	(appointed on 13 January 2003 and resigned on 10 August 2007, and reappointed on 31 October 2007)

Non-executive Directors:

Mr. Zhao Huxiang	(appointed on 10 August 2007)
Mr. Pan Deyuan	(appointed on 10 August 2007)

Independent non-executive Directors:

Mr. Hu Hanxiang	(appointed on 10 August 2007)
Mr. Tsang Hing Lun	(appointed on 10 August 2007)
Mr. Lee Peter Yip Wah	(appointed on 10 August 2007)
Mr. Zhou Qifang	(appointed on 31 October 2007)

In accordance with Articles 95 and 104(A) of the Company's Articles of Association, Mr. Tian Zhongshan, Mr. Li Hua, Ms. Feng Guoying, Mr. Zhao Huxiang, Mr. Pan Deyuan, Mr. Hu Hanxiang, Dr. Tsang Hing Lun, Mr. Lee Peter Yip Wah and Mr. Zhou Qifang will retire and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

We has received, from each of our independent non-executive Directors, a written confirmation of his/her independence to our Company. Our Company considers that all of our independent non-executive Directors are independent of our Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of our Board of Directors and senior management are set out on pages 31 to 36 of this annual report.

DIRECTORS' SERVICE CONTRACTS AND REMUNERATION

Each of our executive Directors and non-executive Directors has entered into a service contract with our Company for a term of three years with effect from the Listing Date.

Under the letter of appointment entered into between our Company and each of the independent non-executive Directors, each independent non-executive director is appointed for a term of one year with effect from the Listing Date. Each of the independent non-executive Directors is entitled to an annual fee of HK$100,000.

No director proposed for re-election at the forthcoming Annual General Meeting has a service contract with our Company which is not determinable within one year without payment of compensation, other than statutory compensation.

The remuneration of the Directors and the details of the five highest-paid individuals of our Company are set out in Note 11 to the financial statements.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2007, none of the Directors or chief executives of our Company or their respective associates had any interest or short position in any Shares, underlying shares or debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which were required pursuant to Section 352 of the SFO to be entered in the register kept by our Company, or which were required to be notified to our Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

As at 31 December 2007 and at any time during the year, none of our Directors had any material interest, directly or indirectly, in any contract of our Company to which our Company, our subsidiaries, our ultimate holding company or our fellow subsidiaries was a party.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2007, none of our Company, our subsidiaries, our ultimate holding company or our fellow subsidiaries was a party to any arrangement which would enable our Company's Directors to acquire benefits by means of the acquisition of shares in or debentures of our Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 December 2007, none of our Directors had any interest in any business which competes or may compete with the business of our Group.

SHARE OPTIONS

The Company's share option scheme was adopted by the written resolutions of the sole shareholder on 31 October 2007. Details of the share option scheme are set out in the section headed "Statutory and General Information – E. Share Option Scheme" in Appendix VII to the Prospectus.

No share option has been granted under our share option scheme as at 31 December 2007.

MATERIAL CONTRACTS WITH SINOTRANS GROUP COMPANY

Sinotrans Group Company is the controlling shareholder of the Company, with which the Company entered into various agreements, so as to regulate the on-going business relationship between the Group and Sinotrans Group Company. These agreements are the Master Services Agreement, Master Lease Agreement, Trademarks Licence Agreement, Master Management Agreement and Master Chartering Agreement, details of which please refer to the section headed "Connected Transactions".

PENSION SCHEMES

Details of our Company's pension schemes for the year ended 31 December 2007 are set out in Note 2m (iii) and Note 10 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, our Directors acknowledge that, based on publicly available information and to the knowledge of our Directors, our Company had sufficient public float as required under the Listing Rules.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by our Company are set out in the Corporate Governance Report of this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing Rules as the code of conduct regarding our Directors' securities transactions. Upon specific enquiry by the Company, all Directors of our Company have confirmed that they have complied with the required standards set out in the Model Code during the period from the Listing Date to 31 December 2007.

AUDIT COMMITTEE

Our Company has established an audit committee and prescribed its written terms of reference in accordance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The principal functions of the audit committee include the appointment of external auditors, the review and supervision of the Group's financial reporting process and internal controls as well as the offer of advice and recommendations to our Board of Directors. As of 31 December 2007, our Audit Committee is chaired by Mr. Tsang Hing Lun and its members are Mr. Pan Deyuan, Mr. Zhou Qifang and Mr. Lee Peter Yip Wah.

Our Audit Committee has reviewed our Group's financial statements for the year ended 31 December 2007, including the accounting principles and practices adopted by our Group.

MATERIAL LITIGATION

As at 31 December 2007, the Group has legal claims arising in the ordinary course of business. The Directors of the Company consider these cases will not have significant financial or operational impact to the Group.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board
Zhao Huxiang
Chairman

Hong Kong
13 March 2008

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central, Hong Kong

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF SINOTRANS SHIPPING LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Sinotrans Shipping Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 52 to 95, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 13 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 US$'000	2006 US$'000
Revenues	5	302,217	247,515
Cost of operations	6	(154,447)	(129,968)
Gross profit		147,770	117,547
Selling, administrative and general expenses	6	(13,945)	(10,490)
Other operating income	7	685	11,779
Operating profit		134,510	118,836
Finance income	8	11,128	639
Finance costs	8	(7,999)	(6,105)
Share of profits of jointly controlled entities	17	3,452	5,748
Profit before income tax		141,091	119,118
Income tax expense	9	(202)	(166)
Profit for the year	12	140,889	118,952
Earnings per share	13		
– Basic and diluted		US5.1 cents	US4.6 cents
Dividends	14(a)	252,301	2,162

As at 31 December 2007

	Note	2007 US$'000	2006 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**548,724**	467,093
Interests in jointly controlled entities	17	**34,594**	33,222
		583,318	500,315
Current assets			
Inventories		**2,931**	1,490
Loan to a jointly controlled entity	17	**2,080**	2,080
Trade and other receivables	18	**28,603**	457,679
Cash and bank balances	19	**1,372,033**	23,841
		1,405,647	485,090
Total assets		**1,988,965**	985,405
EQUITY			
Capital and reserves			
Share capital	20	**51,340**	33,333
Reserves	21	**1,655,203**	376,475
		1,706,543	409,808
LIABILITIES			
Non-current liabilities			
Borrowings	22	**167,026**	62,354
Deferred tax liabilities	23	**27**	41
		167,053	62,395
Current liabilities			
Trade and other payables	24	**42,468**	478,559
Taxation payable		**202**	143
Borrowings	22	**72,699**	34,500
		115,369	513,202
Total liabilities		**282,422**	575,597
Total equity and liabilities		**1,988,965**	985,405
Net current assets/(liabilities)		**1,290,278**	(28,112)
Total assets less current liabilities		**1,873,596**	472,203

Zhao Huxiang
Director

Tian Zhongshan
Director

Balance Sheet

As at 31 December 2007

	Note	2007 US$'000	2006 US$'000
ASSETS			
Non-current assets			
Subsidiaries	15	—	—
Property, plant and equipment	16	198	297
		198	297
Current assets			
Trade and other receivables	18	1,998,298	9,296
Cash and bank balances	19	385,946	3,471
		2,384,244	12,767
Total assets		2,384,442	13,064
EQUITY			
Capital and reserves			
Share capital	20	51,340	2,564
Reserves	21	1,832,243	1,121
		1,883,583	3,685
LIABILITIES			
Non-current liabilities			
Borrowings	22	107,200	—
Deferred tax liabilities	23	27	41
		107,227	41
Current liabilities			
Trade and other payables	24	340,832	9,301
Borrowings	22	52,800	—
Taxation payable		—	37
		393,632	9,338
Total liabilities		500,859	9,379
Total equity and liabilities		2,384,442	13,064
Net current assets		1,990,612	3,429
Total assets less current liabilities		1,990,810	3,726

Zhao Huxiang
Director

Tian Zhongshan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Exchange reserve US$'000	Retained earnings US$'000	Total equity US$'000
At 1 January 2006	33,333	420,366	(450,507)	14	289,717	292,923
Exchange differences	—	—	—	95	—	95
Profit for the year	—	—	—	—	118,952	118,952
Dividends paid	—	—	—	—	(2,162)	(2,162)
At 31 December 2006	33,333	420,366	(450,507)	109	406,507	409,808
At 1 January 2007	33,333	420,366	(450,507)	109	406,507	409,808
Exchange differences	—	—	—	119	—	119
Profit for the year	—	—	—	—	140,889	140,889
Issue of new shares	18,007	1,454,938	—	—	—	1,472,945
Share issue expenses	—	(48,435)	—	—	—	(48,435)
Deemed distribution	—	—	—	—	(16,482)	(16,482)
Dividends paid	—	—	—	—	(252,301)	(252,301)
At 31 December 2007	51,340	1,826,869	(450,507)	228	278,613	1,706,543

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 US$'000	2006 US$'000
Cash flows from operating activities			
Net cash generated from operations	25(a)	**199,298**	118,031
Interest paid		**(7,694)**	(6,105)
Interest received		**11,811**	1,238
Income tax paid		**(157)**	(223)
Net cash from operating activities		**203,258**	112,941
Cash flows from investing activities			
Purchases of property, plant and equipment		**(114,049)**	(2,658)
Proceeds from sale of property, plant and equipment		**10**	16,702
Repayment of loan to a jointly controlled entity		**2,080**	2,080
Decrease in term deposits with initial term of over three months		**2,992**	1,342
Net cash (used in)/from investing activities		**(108,967)**	17,466
Cash flows from financing activities			
Issuance of shares		**1,472,945**	—
Share issue expenses		**(48,435)**	—
Drawdown of new bank borrowings		**380,000**	—
Repayment of borrowings		**(140,000)**	—
Payment of bank loan arrangement fees		**(580)**	—
Repayment of loans from the Ultimate Holding Company		**(96,854)**	(70,077)
Amounts due to related parties, net		**(57,797)**	(53,980)
Distribution of Excluded Companies		**(7)**	—
Dividends paid		**(252,301)**	(2,162)
Net cash from/(used in) financing activities		**1,256,971**	(126,219)
Net increase in cash and cash equivalents		**1,351,262**	4,188
Cash and cash equivalents at beginning of the year		**19,237**	15,027
Effect of foreign exchange rate changes		**(78)**	22
Cash and cash equivalents at end of the year	25(c)	**1,370,421**	19,237

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PREPARATION

(a) General information

Sinotrans Shipping Limited (the "Company") was incorporated in Hong Kong on 13 January 2003 with limited liability under the Hong Kong Companies Ordinance. The address of its registered office is 21 Floor, Great Eagle Centre, 23 Harbour Road, Wan Chai, Hong Kong. The Company and its subsidiaries (collectively the "Group") principally engages in dry bulk and container vessels owning (including dry bulk vessel time chartering and container vessel time chartering), oil tanker shipping, dry bulk cargo voyage charter and other shipping related businesses (the "Vessel Owning and Related Business").

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 23 November 2007.

These financial statements were approved for issue by the Board of Directors on 13 March 2008.

(b) Reorganisation

Pursuant to a reorganisation (the "Reorganisation") of the Vessel Owning and Related Business of China National Foreign Trade Transportation (Group) Corporation (hereinafter referred to as "Sinotrans Group Company" or "Ultimate Holding Company"), a state-owned enterprise established in the People's Republic of China (the "PRC") and its subsidiaries (collectively, the "Sinotrans Group") in preparation for the listing of shares of the Company on the Main Board of the Stock Exchange, the Company issued 2,400,000,000 ordinary shares of HK$0.1 each to Sinotrans Shipping (Holdings) Limited, a wholly-owned subsidiary of Sinotrans Group Company and consequently became the holding company of the Vessel Owning and Related Business previously owned by the Sinotrans Group, including the Company and certain other subsidiaries of Sinotrans Group Company. The principal reorganising transactions include:

(i) On 13 September 2007, the Sinotrans Group transferred its shareholding interests in certain subsidiaries and jointly controlled entities that engage in Vessel Owning and Related Business to the Group for a total consideration of US$480,506,000;

(ii) On 13 September 2007, the Group transferred its shareholding interests in certain subsidiaries that do not engage in Vessel Owning and Related Business to Grand Explorer Shipping Limited, a fellow subsidiary of the Group for a total consideration of US$29,371,000; and

(iii) On 31 October 2007, the net consideration of US$451,135,000 payable to Sinotrans Group Company was settled by allotting and issuing 2,400,000,000 ordinary shares in the Company of HK$0.10 each to Sinotrans Shipping (Holdings) Limited.

The consideration for the transfer of the companies comprising the Group was based on the net asset value of the relevant companies.

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PREPARATION (Cont'd)

(c) Basis of preparation

(i) The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (which include Hong Kong Accounting Standards ("HKAS") and Interpretations). The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

(ii) Application of merger accounting

These consolidated financial statements have been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" (the "HKAG5") issued by the HKICPA.

The consolidated financial statements include the financial position, results and cash flows of the companies comprising the Group as if the current group structure had been in existence throughout the year, or since their respective dates of incorporation / establishment. For companies acquired from (or disposed to) a third party during the period, they would be included in (excluded from) the consolidated financial statements of the Group from the date of that acquisition (disposal). Comparative figures for the year ended 31 December 2006 have been presented on the same basis.

In addition to the Vessel Owning and Related Business, the financial statements also include the assets, liabilities and results of operation of certain wholly-owned subsidiaries of Sinotrans Group Company ("Excluded Companies") which were involved in Vessel Owning and Related Business and were under common control and management with the other companies comprising the Group prior to the Reorganisation. However these Excluded Companies were not included in the Group after the Reorganisation as the related vessels had been disposed of prior to the Reorganisation and these Excluded Companies became inactive thereafter.

As a result of separation of Excluded Companies from the Group, the net assets of the Excluded Companies amounted to US$16,482,000 were reflected as a deemed distribution to Sinotrans Group Company on 13 September 2007.

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PREPARATION (Cont'd)

(c) Basis of preparation (Cont'd)

(ii) Application of merger accounting (Cont'd)

The following is a reconciliation of the effect arising from the common control combination on the consolidated balance sheets.

The consolidated balance sheet as at 31 December 2007:

	The Company US$'000	Subsidiaries and Excluded Companies US$'000	Adjustments US$'000	Notes	Consolidated US$'000
Investments in subsidiaries	—	440,754	(440,754)	(i)	—
Other assets/(liabilities) - net	1,883,583	(150,177)	(26,863)	(i), (iii)	1,706,543
Net assets	1,883,583	290,577	(467,617)		1,706,543
Share capital	51,340	620	(620)	(i)	51,340
Share premium	1,826,869	8	(8)	(i)	1,826,869
Merger reserve	—	—	(450,507)	(i)	(450,507)
Retained earnings and other reserves	5,374	289,949	(16,482)	(iii)	278,841
	1,883,583	290,577	(467,617)		1,706,543

The consolidated balance sheet as at 31 December 2006:

	The Company US$'000	Subsidiaries and Excluded Companies US$'000	Adjustments US$'000	Notes	Consolidated US$'000
Investments in subsidiaries	—	440,754	(440,754)	(i)	—
Other assets/(liabilities) - net	3,685	(34,631)	440,754	(i), (ii)	409,808
Net assets	3,685	406,123	—		409,808
Share capital	2,564	620	30,149	(i), (ii)	33,333
Share premium	—	8	420,358	(i)	420,366
Merger reserve	—	—	(450,507)	(i)	(450,507)
Retained earnings and other reserves	1,121	405,495	—		406,616
	3,685	406,123	—		409,808

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PREPARATION (Cont'd)

(c) Basis of preparation (Cont'd)

(ii) Application of merger accounting (Cont'd)

Note: The above adjustments represent (i) an adjustment to eliminate the share capital of the combining entities against the investment cost. The difference of US$450,507,000 has been made to the merger reserve in the consolidated financial statements; (ii) share capital of the Company of US$30,769,000 (representing 2,600,000,000 shares of HK$0.1 each issued upon Reorganisation) deemed to have been in issue in 2006; and (iii) deemed distribution of the net assets of the Excluded Companies of US$16,482,000 to the Sinotrans Group Company.

No other significant adjustments were made to the net assets and net profit or loss of any entities or businesses as a result of the common control combination to achieve consistency of accounting policies.

(iii) Standards, amendments and interpretations effective in 2007

In 2007, the Group adopted the following new standard, amendment and interpretations:

(i) HKFRS 7 "Financial Instruments: Disclosures", and the complementary amendment to HKAS 1, "Presentation of financial statements - Capital disclosures" introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments;

(ii) HK(IFRIC) - Int 8 "Scope of HKFRS 2" requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This interpretation does not have any impact on the Group's financial statements; and

(iii) HK(IFRIC) - Int 10 "Interim Financial Reporting and Impairment" prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any impact on the Group's financial statements.

(iv) Standards and interpretations issued but not effective in 2007

The following new and revised standards and interpretations have been issued which are not yet effective in 2007 but relevant to the Group and have not been early adopted:

(i) HKFRS 8 "Operating Segments", effective for annual periods beginning on or after 1 January 2009. The Group is assessing the impact of this accounting standard but yet in a position to comment the significance to its results of operation and financial position.

(ii) HKAS 1 (Revised) "Presentation of Financial Statements", effective for annual periods beginning on or after 1 January 2009. This standard affects the presentation of owner changes in equity and of comprehensive income and does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRS;

(iii) HKAS 23 (Revised) "Borrowings Costs", effective for annual periods beginning on or after 1 January 2009. Management does not expect the revised standard to have significant impact to the Group's results of operation and financial position as the current accounting policy of the Group are consistent with requirement of the revised accounting standard.

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PREPARATION (Cont'd)

(c) Basis of preparation (Cont'd)

(iv) Standards and interpretations issued but not effective in 2007 (Cont'd)

(iv) HK(IFRIC) - Int 11 "HKFRS 2 - Group and Treasury Share Transactions" provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. Management does not expect this interpretation to have an impact on the Group's financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

(a) Consolidation

(i) Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(a) Consolidation (Cont'd)

(ii) Accounting for non-common control combination

Apart from the business combination under common control including the Reorganisation referred in note 1(b) above which has been accounted for using the principles of merger accounting prescribed in HKAG5, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(b) Subsidiaries

Subsidiaries are those entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (note 2(f)). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Jointly controlled entities

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the ventures have their respective interests and establish a contractual arrangement among them to define joint control over the economic activity of the entity.

Investment in a jointly controlled entity is accounted for using the equity method from the date on which it becomes a jointly controlled entity.

The consolidated income statement includes the Group's share of the results of jointly controlled entities, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Foreign currency transaction

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in the United States dollar ("US$" or US Dollar), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement unless they are capitalised as part of the borrowing costs.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity.

(e) Property, plant and equipment

(i) Assets under construction

Assets under construction represent primarily vessels under construction, are stated at cost less accumulated impairment losses. Cost includes all direct costs relating to the construction of the assets and acquisition.

No depreciation is provided for assets under construction until such time as the relevant assets are completed and available for intended use. Assets under construction are transferred to relevant categories of property, plant and equipment upon the completion of their respective construction.

2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(e) Property, plant and equipment (Cont'd)

(ii) Vessels, buildings and other property, plant and equipment

Vessels, buildings and other property, plant and equipment are stated at cost less accumulated depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance, including vessel repairs and surveys, are expensed in the income statement during the financial period in which they are incurred.

For vessels, an element of the cost of an acquired vessel is attributed at acquisition to its service potential reflecting its maintenance condition. This cost is depreciated over the period to the next dry docking. Costs incurred on subsequent dry docking of vessel are capitalised as part of the cost of vessel and depreciated on a straight-line basis over the estimated period until the next dry docking.

Freehold land is not subject to amortisation. Depreciation of vessels, buildings and other property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Vessels	
Dry bulk and container vessels	25 years
Oil tankers	6 to 25 years
Buildings on freehold land	20 years
Others (including leasehold improvements, furniture, fixtures and equipments, motor vehicles)	5 years

The residual values of vessels, buildings and other property, plant and equipment and their useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(iii) The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(f) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(g) Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Leases that substantially transfer to the leasees all the risks and rewards of ownership of assets are accounted for as finance leases.

(i) Where the Group is the lessee (operating leases)

Payments made under operating leases (net of any incentives received from the leasing company) are expensed in the income statement on a straight-line basis over the lease periods.

(ii) Where the Group is the lessor (operating leases)

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease income is recognised over the term of the lease on a straight-line basis.

(h) Inventories

Inventories, represent bunkers on board of vessels, are stated at cost. Costs are calculated on first-in first-out basis. Bunkers will be used for the operation of the vessels, therefore the bunkers are not written down to net realisable value when the market price falls below cost if the overall shipping activity is expected to be profitable.

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement within selling, administrative and general expenses.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks.

2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

(m) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(iii) Retirement benefits obligations

The Group participates in various retirement schemes which are defined contribution in nature and are available to qualified employees. Monthly contribution made by the Group is calculated based on certain percentages of the applicable payroll costs. The Group's contributions to these schemes are expensed as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(n) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(o) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability or an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(p) Revenue and income recognition

Revenue and income comprises the fair value of the consideration received or receivable for the chartering of vessels and provision of services in the ordinary course of the Group's activities. Revenue is shown after eliminating sales within the Group.

The Group recognises revenue on the following basis:

(i) Revenue from charter hire

Income from time charter, which is of operating lease in nature, is recognised on a straight-line basis over the period of each charter.

Income from voyage charter is recognised on a percentage-of-completion basis, which is determined on the time proportion method of each individual voyage.

(ii) Revenue from shipping related businesses

Revenue from provision of ship management and shipping agency services is recognised when the services are rendered.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(q) Dividend distribution

Dividend distribution to the shareholders of the Company is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the shareholders of the Company.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

(s) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format and geographical as the secondary reporting format.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to interest rate risk, credit risk, liquidity risk and foreign exchange risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Cash flow and fair value interest rate risk

As the Group has no significant interest bearing assets, other than bank deposits and cash equivalents, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk.

The impact on the profit or loss of a 100 basis-point shift in interest rate would be a maximum increase or decrease of US$690,000 for the year ended 31 December 2007 (2006: US$1,439,000).

(ii) Credit risk

The extent of credit exposure of the Group are aggregate carrying value of cash and bank balances, trade and other receivables (including amounts advanced to related entities) and loans to jointly controlled entities. The Group's credit risk is considered minimal as it is normal shipping practice that substantial part of the time charter income needed to be prepaid by customers. Under time charters, charter hire is normally paid every 15 days in advance. Under voyage charters for oil tankers, freight is normally paid within three to five working days after the end of a voyage, while under voyage charters for dry bulk vessels, 80-95% of freight is normally paid within three to seven working days of the completion of loading, with the balance paid within a month of the completion of discharge.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(a) Financial risk factors (Cont'd)

(ii) Credit risk (Cont'd)

The Group also has policies in place to assess the credit worthiness of customers to ensure vessels are chartered to customers with an appropriate credit history. Besides, management of the Group monitors its credit risk on an ongoing basis by reviewing the debtors' aging to minimise its exposure to credit risk.

Cash and bank balances are deposits in banks with sound credit ratings. Given their high credit ratings, the Group does not expect to have high credit risk in this aspect. Also, management regularly assesses credit risk for loans and amounts advanced to related companies and jointly controlled entities by preparing aging analysis and reviewing financial information of related companies and jointly controlled entities on a regular basis to minimise credit risk.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. During the year, as part of internal funding arrangement, surplus cash generated from operations was transferred to fellow subsidiaries while short-term advances were obtained from these fellow subsidiaries for working capital and/or capital expenditures as and when necessary. After listing, the Group maintains its own treasury function to monitor the current and expected liquidity requirements and aims to maintain flexibility by keeping sufficient cash and cash equivalents generated from operations and will consider to finance major capital investment, such as construction of vessels through bank credit lines.

Management monitors rolling forecasts of the Group's liquidity reserve comprising undrawn borrowing facilities and cash and cash equivalents on the basis of expected cash flow.

(iv) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk from various currency exposures (such as Renminbi and Japanese Yen), primarily with respect to US$. The Group's revenues, cost of operations and majority of financial assets and liabilities are principally denominated in US$. Accordingly, foreign exchange risk mainly arises from future commercial transactions, net investments in foreign operations and commitments arising from certain ship-building contracts. The Group currently does not have regular and established hedging policy in place. The Group is monitoring foreign exchange exposure and will consider hedging significant foreign currency exposure by using appropriate financial instruments, and adopting appropriate hedging policy to control the hedging risks, when need arises.

(b) Fair value estimation

The carrying values less impairment provision (as applicable) of trade receivables and payables, loans to a jointly controlled entity and long-term borrowings are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at current market interest rate that is available to the Group for similar financial instruments.

(c) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group will consider macro economic conditions, prevailing borrowing rate in the market and adequacy of cash flows generating from operations and may raise funding through capital market or bank borrowings as necessary.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(c) Capital risk management (Cont'd)

The Group monitors its capital on the basis of the gearing ratio. The gearing ratios are as follows:

	2007 US$'000	2006 US$'000
Total borrowings	**239,725**	96,854
Amounts due to related companies	**9,878**	462,332
Less: Amounts due from related companies	**(1,079)**	(412,278)
	248,524	146,908
Less: Cash and bank balances	**(1,372,033)**	(23,841)
Net (surplus)/debt	**(1,123,509)**	123,067
Total equity	**1,706,543**	409,808
Gearing ratio	**N/A**	23%

The Group's strategy was to maintain a gearing ratio below 50%. Gearing ratio as at 31 December 2007 is not presented as the Group recorded a net surplus as at 31 December 2007 which resulted from inflow of cash proceeds from the listing of the Company's shares on the Stock Exchange in November 2007.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of vessels

The operation of shipping industry is subject to cyclical fluctuations, which in turn affects the results of operations. Management performs review for impairment of the vessels whenever events or changes in circumstances indicate that the carrying amounts of the vessels may not be recoverable.

Management reviews certain indicators of potential impairment, such as reported sale and purchase prices, market demand and general market conditions. Based on management's best estimates, there is no indication of potential impairment of the vessels and no impairment loss for vessels is recognised during the year.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (Cont'd)

(b) Useful lives of vessels

Management determines the estimated useful lives and related depreciation expenses for the vessels. Management estimates useful life of its vessels by reference to expected usage of the vessels, expected repair and maintenance, and technical or commercial obsolescence arising from changes or improvements in the vessel market. Useful lives of vessels could change significantly as a result of the changes in these factors.

Management will revise the depreciation charge where useful life is different from previously estimated life.

Were the useful lives to differ by 10% from management estimates, it is estimated that depreciation expense would increase by US$3,259,000 (2006: US$3,766,000) or decrease by US$2,525,000 (2006: US$2,883,000) in the future periods.

(c) Residual values of vessels

The Group's management determines the residual values for its vessels. This estimate is based on the current scrap values of steels in an active market at each measurement date since management decides to dispose of the fully depreciated vessels as scrap steels. Depreciation expense would increase where the residual values are less than previously estimated values.

Were the residual value to differ by 10% from management estimates, it is estimated that depreciation expense would increase or decrease by US$1,485,000 (2006: US$1,070,000) in the future periods.

5 REVENUES AND SEGMENT INFORMATION

Revenues represent charter hire income from dry bulk shipping, oil shipping and containers shipping as well as other related business.

	2007 US$'000	2006 US$'000
Turnover		
Charter-hire income		
– Dry bulk shipping	259,181	190,330
– Oil tanker shipping	31,218	44,365
– Container shipping	10,637	11,739
Others	1,181	1,081
	302,217	247,515

The Group has determined that business segments are presented as the primary reporting format and geographical as the secondary reporting format.

The Group is organised on a worldwide basis into the following segments:

— Dry bulk shipping - dry bulk vessel time chartering and dry bulk cargo voyage charter

— Oil tanker shipping - crude oil shipping services

— Container shipping - container vessel time chartering

— Others - shipping agency and ship management services

5 REVENUES AND SEGMENT INFORMATION (Cont'd)

The Group's total assets are primarily dominated by its vessels. The Directors of the Company consider that the nature of the provision of ship owning and chartering services, which is carried out internationally, and the way in which costs are allocated, preclude a meaningful allocation of segment results, vessels and their related expenditure to specific geographical segments. Accordingly, geographical segment information is not presented.

Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and mainly exclude corporate assets. Segment liabilities comprise operating liabilities and mainly exclude items such as current and deferred tax liabilities, and corporate liabilities. Capital expenditure comprises additions to property, plant and equipment.

	Year ended and as at 31 December 2007					
	Dry bulk shipping US$'000	Oil tanker shipping US$'000	Container shipping US$'000	Others US$'000	Inter-segment elimination US$'000	Total US$'000
Revenues						
– External	259,181	31,218	10,637	1,181	—	302,217
– Inter-segment	1,457	—	—	5,477	(6,934)	—
	260,638	31,218	10,637	6,658	(6,934)	302,217
Segment results	138,976	(1,522)	4,084	692	—	142,230
Unallocated expenses						(7,720)
Operating profit						134,510
Finance income						11,128
Finance costs						(7,999)
Share of profits of jointly controlled entities	2,441	1,011	—	—	—	3,452
Profit before income tax						141,091
Income tax expense						(202)
Profit for the year						140,889
Segment assets	517,428	83,400	54,609	1,161	(72,361)	584,237
Interests in jointly controlled entities	11,174	23,420	—	—	—	34,594
Loan to a jointly controlled entity	—	2,080	—	—	—	2,080
Unallocated assets						1,368,054
Total assets						1,988,965
Segment liabilities	74,327	27,418	1,459	265	(72,361)	31,108
Unallocated liabilities						251,314
Total liabilities						282,422
Capital expenditure	100,123	—	13,849	77	—	114,049
Depreciation	20,783	9,910	1,631	134	—	32,458

5 REVENUES AND SEGMENT INFORMATION (Cont'd)

	Year ended and as at 31 December 2006					
	Dry bulk shipping US$'000	Oil tanker shipping US$'000	Container shipping US$'000	Others US$'000	Inter-segment elimination US$'000	Total US$'000
Revenues						
– External	190,330	44,365	11,739	1,081	—	247,515
– Inter-segment	1,096	—	—	5,179	(6,275)	—
	191,426	44,365	11,739	6,260	(6,275)	247,515
Segment results	108,367	9,291	5,369	789	—	123,816
Unallocated expenses						(4,980)
Operating profit						118,836
Finance income						639
Finance costs						(6,105)
Share of profits of jointly controlled entities	1,799	3,949	—	—	—	5,748
Profit before income tax						119,118
Income tax expense						(166)
Profit for the year						118,952
Segment assets	835,756	81,711	56,293	2,336	(38,642)	937,454
Interests in jointly controlled entities	8,733	24,489	—	—	—	33,222
Loan to a jointly controlled entity	—	2,080	—	—	—	2,080
Unallocated assets						12,649
Total assets						985,405
Segment liabilities	356,417	82,896	59,399	1,223	(38,642)	461,293
Unallocated liabilities						114,304
Total liabilities						575,597
Capital expenditure	1,858	—	723	77	—	2,658
Depreciation	21,401	11,577	1,532	125	—	34,635

6 EXPENSES BY NATURE

	2007 US$'000	2006 US$'000
Auditor's remuneration	513	144
Brokerage and commission	12,769	11,129
Inventories consumed	20,791	18,568
Depreciation (note 16)	32,458	34,635
Employee benefit expense (note 10)	4,643	4,678
Hiring of crews and seafarers	16,603	15,139
Insurance premium	5,485	5,272
Operating lease expenses		
– vessels	40,023	22,135
– office premises	793	720
Port charges	5,792	6,798
Repairs and maintenance expenses	9,397	7,556
Net exchange loss	2,534	312
Others	16,591	13,372
Total cost of operations and selling, administrative and general expenses	168,392	140,458

7 OTHER OPERATING INCOME

	2007 US$'000	2006 US$'000
Gain on sale of property, plant and equipment	2	11,180
Interest income on a loan to a jointly controlled entity	683	599
	685	11,779

8 FINANCE INCOME AND COSTS

	2007 US$'000	2006 US$'000
Finance income		
Interest income on bank deposits	11,128	639
Finance costs		
Bank loans		
– wholly repayable within five years	6,213	—
Loans from the Ultimate Holding Company		
– wholly repayable within five years	1,640	5,988
Other bank charges	146	117
	7,999	6,105
Net finance income/(costs)	3,129	(5,466)

9 INCOME TAX EXPENSE

Hong Kong profits tax has been provided on the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2007 US$'000	2006 US$'000
Current income tax		
Hong Kong profits tax	57	80
Overseas taxation	159	90
Deferred income tax (note 23)	(14)	(4)
	202	166

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate applicable to profits of the consolidated entities as follows:

	2007 US$'000	2006 US$'000
Profit before income tax	141,091	119,118
Tax calculated at 17.5%	24,691	20,846
Income not subject to tax	(57,215)	(44,802)
Expenses not deductible for tax purposes	32,664	24,088
Effect of differential tax rates of other countries	62	29
Others	—	5
Income tax expense	202	166

10 EMPLOYEE BENEFIT EXPENSE

	2007 US$'000	2006 US$'000
Wages and salaries	4,544	4,560
Pension costs - defined contribution plans	99	118
	4,643	4,678

11 DIRECTORS EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The remuneration of each director is set out below:

Name of director	Salaries, allowances and benefits-in-kind US$'000	Contributions to pension plans US$'000	Total US$'000
Year ended 31 December 2007			
Executive Directors			
Tian Zhongshan	288	3	291
Li Hua (notes (i) and (iii))	—	—	—
Zhang Shaojun (note (i))	14	2	16
Feng Guoying (notes (i) and (iii))	—	—	—
Li Zhen (note (iv))	—	—	—
	302	5	307
Non-executive Directors			
Zhao Huxiang (note (ii))	—	—	—
Pan Deyuan (note (ii))	—	—	—
Li Xiaoying (notes (ii) and (iv))	—	—	—
Yang Yuntao (notes (ii) and (iv))	—	—	—
	—	—	—
Independent non-executive Directors			
Hu Hanxiang (note (ii))	2	—	2
Tsang Hing Lun (note (ii))	2	—	2
Lee Peter Yip Wah (note (ii))	2	—	2
Zhou Qifang (note (iii))	2	—	2
	8	—	8
	310	5	315
Year ended 31 December 2006			
Executive Directors			
Tian Zhongshan	275	2	277
Li Hua	225	2	227
Zhang Shaojun	230	2	232
Feng Guoying	—	—	—
Li Zhen	—	—	—
	730	6	736

11 DIRECTORS EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Cont'd)

(a) Directors' emoluments (Cont'd)

Notes:

(i) Resigned on 10 August 2007

(ii) Appointed on 10 August 2007

(iii) Appointed on 31 October 2007

(iv) Resigned on 31 October 2007

Other than the Directors' emoluments disclosed above, Feng Guoying and Li Hua received emoluments from Sinotrans Group Company, amounting to approximately US$173,000 (2006: US$140,000), part of which is in respect of their services to the Group. No apportionment has been made as the Directors of the Company consider that it is impracticable to apportion this amount between their services to the Group and their services to subsidiaries of the Ultimate Holding Company.

No director waived or agreed to waive any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any Directors of the Company during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one (2006: three) Directors of the Company whose emoluments as disclosed in Note 11(a). The emoluments paid or payable to the remaining non-director individuals for the year ended 31 December 2007 and 2006 are as follows:

	2007 US$'000	2006 US$'000
Salaries, allowances and benefits-in-kind	641	296
Contributions to pension plans	11	5
	652	301

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands		
US$128,205 (HK$1,000,001) – US$192,308 (HK$1,500,000)	4	2

12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of US$254,253,000 (2006: US$386,000).

13 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue, a total of 2,400,000,000 ordinary shares allotted and issued to Sinotrans Shipping (Holdings) Limited pursuant to the Reorganisation were deemed to be in issue since 1 January 2006 (note 1(b)).

	2007	2006
Profit attributable to equity holders of the Company (US$'000)	**140,889**	118,952
Weighted average number of shares in issue (thousands)	**2,745,589**	2,600,000
Basic earnings per share (US cents per share)	**5.1**	4.6

As there were no diluted potential ordinary shares outstanding during the year (2006: Nil), the diluted earnings per share for the year ended 31 December 2007 is equal to basic earnings per share.

14 DIVIDENDS AND DISTRIBUTIONS

(a) Dividends

	2007 US$'000	2006 US$'000
The Company (note i)	**250,000**	—
Subsidiaries (note ii)	**2,301**	2,162
	252,301	2,162

Notes:

(i) Pursuant to the resolution of a shareholders' meeting dated 14 September 2007, the shareholder of the Company has resolved to make a special dividend of US$12.5 per share totalling US$250,000,000 to Sinotrans Shipping (Holdings) Limited.

(ii) Amounts represent dividends paid by the companies comprising the Group to the shareholders prior to the Reorganisation. The rates of dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of these financial statements.

(b) Distributions

On 13 September 2007, net assets of Excluded Companies amounting to US$16,482,000 were distributed to Sinotrans Group Company. The Group has not included the operating results and financial position of Excluded Companies in its financial statements since 13 September 2007 (note 1(c)(ii)).

15 SUBSIDIARIES

	2007	2006
Unlisted shares, at cost	**US$6**	—

Particulars of the subsidiaries are set out in note 29(i).

16 PROPERTY, PLANT AND EQUIPMENT

	Group					Company
	Vessels	Assets under construction	Freehold land and buildings	Others	Total	Others
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Cost						
At 1 January 2006	744,340	8,193	343	841	753,717	502
Exchange differences	—	—	(1)	8	7	—
Additions	2,481	100	—	77	2,658	68
Disposals and write-off	(24,837)	—	—	(2)	(24,839)	—
At 31 December 2006	721,984	8,293	342	924	731,543	570
Exchange differences	—	—	62	51	113	—
Additions	7,342	106,630	—	77	114,049	17
Disposals and write-off	(5,606)	—	—	(54)	(5,660)	—
At 31 December 2007	723,720	114,923	404	998	840,045	587
Accumulated depreciation						
At 1 January 2006	248,555	—	165	405	249,125	165
Exchange differences	—	—	—	7	7	—
Charge for the year	34,481	—	9	145	34,635	108
Disposals and write-off	(19,316)	—	—	(1)	(19,317)	—
At 31 December 2006	263,720	—	174	556	264,450	273
Exchange differences	—	—	28	37	65	—
Charge for the year	32,298	—	4	156	32,458	116
Disposals and write-off	(5,606)	—	—	(46)	(5,652)	—
At 31 December 2007	290,412	—	206	703	291,321	389
Net book value						
At 31 December 2007	433,308	114,923	198	295	548,724	198
At 31 December 2006	458,264	8,293	168	368	467,093	297

Notes:

(a) As of 31 December 2007, the Group's borrowings were secured by certain property, plant and equipment with net book value of US$141,326,000 (2006: US$299,293,000) (note 22(e)).

(b) The freehold land is located outside Hong Kong.

17 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group 2007 US$'000	Group 2006 US$'000
Share of net assets	30,454	27,002
Loan to a jointly controlled entity (note a)	6,220	8,300
	36,674	35,302
Current portion of loan to a jointly controlled entity	(2,080)	(2,080)
	34,594	33,222
Unlisted investments, at cost	1	1

Notes:

(a) Loan to a jointly controlled entity is unsecured and bears interest at 0.8% over London Interbank Offered Rate ("LIBOR") per annum. It is repayable by 12 installments until 2010. Effective interest rate as at 31 December 2007 was 5.95% (2006: 6.17%).

(b) The aggregate amounts of assets, liabilities, revenues, expenses and capital commitments attributable to the Group's interests in the jointly controlled entities are summarised as follows:

	2007 US$'000	2006 US$'000
Assets		
Non-current assets	27,206	22,872
Current assets	14,864	16,640
Total assets	42,070	39,512
Liabilities		
Non-current liabilities	4,140	6,220
Current liabilities	7,476	6,290
Total liabilities	11,616	12,510
Net assets	30,454	27,002
Capital commitments	47,400	53,325

	2007 US$'000	2006 US$'000
Revenues	27,778	28,669
Expenses	24,326	22,921

There are no contingent liabilities relating to the Group's interests in jointly controlled entities and no contingent liabilities of the jointly controlled entities themselves.

Particulars of the Group's jointly controlled entities are set out in note 29(ii).

18 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007 US$'000	2006 US$'000	**2007 US$'000**	2006 US$'000
Trade receivables (note a)				
– fellow subsidiaries	**3,120**	34,149	**—**	—
– other state-owned enterprises	**795**	41	**—**	—
– third parties	**7,223**	4,589	**—**	—
	11,138	38,779	**—**	—
Prepayments, deposits and other receivables	**16,386**	6,622	**2,733**	93
Amounts due from related parties (note b)				
– subsidiaries	**—**	—	**1,994,899**	1,663
– fellow subsidiaries	**492**	402,156	**209**	24
– Ultimate Holding Company	**—**	9,653	**—**	7,406
– jointly controlled entities	**447**	49	**419**	10
– immediate holding company	**8**	—	**8**	—
– other related companies	**132**	420	**30**	100
	1,079	412,278	**1,995,565**	9,203
Total	**28,603**	457,679	**1,998,298**	9,296

The fair values of trade and other receivables, approximates to the carrying amounts.

Notes:

(a) The Group does not grant any credit term to its customers. Ageing analysis of gross trade receivables at the respective balance sheet dates are as follows:

	Group		Company	
	2007 US$'000	2006 US$'000	**2007 US$'000**	2006 US$'000
Within 6 months	**9,827**	19,692	**—**	—
7-12 months	**1,248**	14,625	**—**	—
1-2 years	**63**	4,123	**—**	—
2-3 years	**—**	446	**—**	—
Trade receivables, gross	**11,138**	38,886	**—**	—
Less: Provision for impairment of trade receivables	**—**	(107)	**—**	—
	11,138	38,779	**—**	—

Trade receivables are past due but not considered to be impaired. These relate to a number of independent customers for whom there is no recent history of default. At 31 December 2006, trade receivable of the Group of US$107,000 was impaired and was written off during 2007.

18 TRADE AND OTHER RECEIVABLES (Cont'd)

(b) Amounts due from related parties are unsecured, interest free and repayable on demand. Also, these balances are neither past due nor impaired and there is no history of default. Amounts due from related parties as at 31 December 2006 were repaid in October 2007.

(c) The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

19 CASH AND BANK BALANCES

	Group		Company	
	2007 US$'000	2006 US$'000	**2007 US$'000**	2006 US$'000
Cash at bank and in hand	**1,370,421**	19,237	**385,946**	3,471
Short-term bank deposits (note a)	**1,612**	4,604	**—**	—
Cash and bank balances	**1,372,033**	23,841	**385,946**	3,471

Notes:

(a) As at 31 December 2007, the weighted average effective interest rate on short-term bank deposits of the Group was 5.06% (2006: 4.69%) per annum and these deposits have an average maturity of 132 days (2006: 239 days).

(b) The cash and bank balances of the Group and the Company are denominated in the following currencies.

	Group		Company	
	2007 US$'000	2006 US$'000	**2007 US$'000**	2006 US$'000
US Dollar	**800,562**	23,168	**236,086**	3,123
Hong Kong Dollar	**568,700**	192	**147,338**	189
Japanese Yen	**2,439**	39	**2,439**	39
Others	**332**	442	**83**	120
Cash and bank balances	**1,372,033**	23,841	**385,946**	3,471

20 SHARE CAPITAL

	Number of shares		
	Ordinary shares of HK$1 each	Ordinary shares of HK$0.1 each	Nominal value
			US$'000
Authorised:			
At 1 January 2006 and 2007	20,000,000	—	2,564
Subdivision of shares (note a)	(20,000,000)	200,000,000	—
Increase in authorised share capital (note a)	—	49,800,000,000	638,462
At 31 December 2007	—	50,000,000,000	641,026
Issued and fully paid:			
At 1 January 2006 and 2007	20,000,000	—	2,564
Subdivision of shares	(20,000,000)	200,000,000	—
Issue of shares upon Reorganisation (note a)	—	2,400,000,000	30,769
Issue of shares upon listing (note b)	—	1,400,000,000	18,007
At 31 December 2007	—	4,000,000,000	51,340

Notes:

(a) Pursuant to the shareholder resolutions passed on 31 October 2007, the issued ordinary shares of the Company of HK$1 each were subdivided into 10 ordinary share of HK$0.1 each and the authorised share capital of the Company was increased from HK$20,000,000 to HK$5,000,000,000 by the creation of an additional 49,800,000,000 ordinary shares of HK$0.1 each. On the same date, 2,400,000,000 ordinary shares of HK$0.1 each were allotted and issued to Sinotrans Shipping (Holdings) Limited to settle a payable to Sinotrans Group Company of US$451,135,000 (note 1(b)(iii)).

(b) 1,400,000,000 shares with a nominal value of HK$0.1 each were issued by way of international offering and public offering at HK$8.18 (equivalent to approximately US$1.04) each.

The Company raised proceeds of approximately HK$11,452,000,000 (US$1,472,945,000) from the issuance of 1,400,000,000 new shares, of which paid-up share capital was approximately US$18,007,000 and share premium was approximately US$1,454,938,000.

(c) The share capital of US$33,333,000 shown in the consolidated balance sheet as at 31 December 2006 represented (i) 200,000,000 shares of HK$0.1 each (equivalent to US$2,564,000) in issue prior the Reorganisation; and (ii) 2,400,000,000 shares of HK$0.1 each (equivalent to US$30,769,000) deemed to have been in issue upon completion of the Reorganisation.

(d) The Company adopted a share option scheme on 31 October 2007. Under the terms of the share option scheme, the Directors of the Company may, at their discretion, grant an option to eligible participants to subscribe for the Company's shares at the subscription price which will not be less than the highest of (i) the closing price of the Company's shares at the Stock Exchange daily quotation sheets on the date of grant; (ii) the average of the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for 5 business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share. No share options were granted during the year ended 31 December 2007.

21 RESERVES

Group

	Share premium US$'000	Merger reserve (note) US$'000	Exchange reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2006	420,366	(450,507)	14	289,717	259,590
Exchange differences	—	—	95	—	95
Profit for the year	—	—	—	118,952	118,952
Dividend paid	—	—	—	(2,162)	(2,162)
At 31 December 2006	420,366	(450,507)	109	406,507	376,475
Exchange differences	—	—	119	—	119
Profit for the year	—	—	—	140,889	140,889
Issue of new shares upon listing	1,454,938	—	—	—	1,454,938
Share issue expenses	(48,435)	—	—	—	(48,435)
Deemed distribution (note 1(c)(ii))	—	—	—	(16,482)	(16,482)
Dividends paid (note 14)	—	—	—	(252,301)	(252,301)
At 31 December 2007	1,826,869	(450,507)	228	278,613	1,655,203

Company

	Share premium US$'000	Exchange reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2006	—	—	735	735
Profit for the year	—	—	386	386
At 31 December 2006	—	—	1,121	1,121
Profit for the year	—	—	254,253	254,253
Issue of new shares upon Reorganisation	420,366	—	—	420,366
Issue of new shares upon listing	1,454,938	—	—	1,454,938
Share issue expenses	(48,435)	—	—	(48,435)
Dividend paid (note 14)	—	—	(250,000)	(250,000)
At 31 December 2007	1,826,869	—	5,374	1,832,243

Note:

The merger reserve of the Group represents the differences between the nominal value of the share capital of the subsidiaries acquired pursuant to the Reorganisation and the nominal value of the share capital of the Company issued in exchange therefor.

22 BORROWINGS

	Group		Company	
	2007 US$'000	2006 US$'000	**2007 US$'000**	2006 US$'000
Non-current				
Bank loans, secured (note e)	**107,200**	–	**107,200**	–
Bank loans, unsecured	**59,826**	–	**–**	–
Loans from the Ultimate Holding Company, secured (note f)	**–**	62,354	**–**	–
	167,026	62,354	**107,200**	–
Current				
Bank loans, secured (note e)	**52,800**	–	**52,800**	–
Bank loans, unsecured	**19,899**	–	**–**	–
Loans from the Ultimate Holding Company, secured (note f)	**–**	34,500	**–**	–
	72,699	34,500	**52,800**	–
Total borrowings	**239,725**	96,854	**160,000**	–

(a) At 31 December 2007, the borrowings were repayable as below:

	Group		Company	
	2007 US$'000	2006 US$'000	**2007 US$'000**	2006 US$'000
Bank loans				
– Within one year	**72,699**	–	**52,800**	–
– In the second year	**19,899**	–	**–**	–
– In the third to fifth year	**147,127**	–	**107,200**	–
	239,725	–	**160,000**	–
Loans from the Ultimate Holding Company				
– Within one year	**–**	34,500	**–**	–
– In the second year	**–**	36,660	**–**	–
– In the third to fifth year	**–**	25,694	**–**	–
– After the fifth year	**–**	–	**–**	–
	–	96,854	**–**	–
	239,725	96,854	**160,000**	–

22 BORROWINGS (Cont'd)

(b) The effective interest rates (per annum) of the long-term borrowings at the respective balance sheet dates are as follows:

	Group		Company	
	2007 %	2006 %	2007 %	2006 %
Bank loans	5.71	—	5.92	—
Loans from the Ultimate Holding Company	—	6.02	—	6.02

(c) The exposure of the long-term borrowings to interest rate changes and the contractual repricing dates are within 6 months.

(d) The long-term borrowings bear interest at floating rates. The fair values of the long-term borrowings approximate their carrying amounts.

(e) As at 31 December 2007, property, plant and equipment of the Group with aggregate net book value of approximately US$141,326,000 have been pledged to banks to secure the Group's banking facilities.

(f) Sinotrans Group Company borrowed certain loans from a bank and on-lent to certain subsidiaries of the Group for their respective acquisitions of vessels which are repayable by installments up to 2011. As such, the interest and repayment terms of the loans from Sinotrans Group Company had been determined based on the same terms of those bank loans. Securities had also been provided by those subsidiaries to the bank directly. The loans from the Ultimate Holding Company were fully repaid in September 2007. As at 31 December 2006, the loans from the Ultimate Holding Company were secured, inter alia, by the following:

(i) First legal mortgage over the vessels purchased with such loans; and

(ii) Assignment of the charter and earnings, requisition compensation and insurance relating to those vessels.

All the pledges for the loans from the Ultimate Holding Company were released in September 2007.

23 DEFERRED INCOME TAX

The movements on the deferred tax liabilities account are as follows:

	Group and Company	
	2007 US$'000	2006 US$'000
At beginning of the year	(41)	(45)
Credited to income statement (note 9)	14	4
At end of the year	(27)	(41)

Deferred tax liabilities represented deferred taxation relating to accelerated depreciation allowances and are to be settled after more than twelve months.

24 TRADE AND OTHER PAYABLES

	Group		Company	
	2007 US$'000	2006 US$'000	**2007 US$'000**	2006 US$'000
Trade payables (note a)				
– fellow subsidiaries	**1,380**	476	**59**	29
– other related companies	**74**	139	**—**	—
– other state-owned enterprises	**7**	439	**—**	—
– third parties	**10,092**	6,361	**2,123**	1,092
	11,553	7,415	**2,182**	1,121
Other payables and accruals	**21,037**	8,812	**8,157**	311
Amounts due to related parties				
– subsidiaries	**—**	—	**330,479**	794
– fellow subsidiaries	**24**	425,640	**14**	7,075
– Ultimate Holding Company	**—**	36,692	**—**	—
– jointly controlled entity	**9,536**	—	**—**	—
– other related companies	**318**	—	**—**	—
	9,878	462,332	**330,493**	7,869
Total	**42,468**	478,559	**340,832**	9,301

Notes:

(a) Ageing analysis of trade payables at 31 December 2007 is as follows:

	Group		Company	
	2007 US$'000	2006 US$'000	**2007 US$'000**	2006 US$'000
Within 6 months	**11,151**	7,134	**2,167**	1,115
7 - 12 months	**112**	128	**15**	6
1 - 2 years	**200**	55	**—**	—
2 - 3 years	**—**	83	**—**	—
Over 3 years	**90**	15	**—**	—
	11,553	7,415	**2,182**	1,121

(b) Amounts due to related parties are unsecured, interest free and repayable on demand.

25 NET CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to net cash generated from operations

	2007 US$'000	2006 US$'000
Profit before income tax	141,091	119,118
Adjustments for:		
Depreciation	32,458	34,635
Gain on sale of property, plant and equipment	(2)	(11,180)
Share of profits of jointly controlled entities	(3,452)	(5,748)
Interest income	(11,811)	(1,238)
Finance costs	7,999	6,105
Changes in working capital:		
Inventories	(1,441)	(16)
Trade and other receivables (excluding amounts due from related parties)	17,863	(17,957)
Trade and other payables (excluding amounts due to related parties)	16,593	(5,688)
Net cash generated from operations	199,298	118,031

In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2007 US$'000	2006 US$'000
Net book amount (note 16)	8	5,522
Gain on sale of property, plant and equipment	2	11,180
Proceeds from sale of property, plant and equipment	10	16,702

(b) Distribution of Excluded Companies

In connection with the Reorganisation, net assets of Excluded Companies as at 13 September 2007 amounting to US$16,482,000 were distributed to Sinotrans Group Company (note 1(c)(ii)).

	2007 US$'000
Trade and other receivables	14
Amounts due from related companies	67,083
Cash and bank balances	7
Trade and other payables	(81)
Amounts due to related companies	(50,541)
Net assets	16,482

25 NET CASH GENERATED FROM OPERATIONS (Cont'd)

(c) Analysis of balances of cash and equivalents

	2007 US$'000	2006 US$'000
Cash and bank balances	1,372,033	23,841
Less: Term deposits with initial term of over three months	(1,612)	(4,604)
	1,370,421	19,237

(d) Major non-cash transaction

On 31 October 2007, the net payable of US$451,135,000 to Sinotrans Group Company pursuant to Reorganisation was settled by allotting and issuing 2,400,000,000 ordinary shares in the Company of HK$0.10 each to Sinotrans Shipping (Holdings) Limited (note 1(b)(iii)).

26 CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. The Directors of the Company consider these cases will not have significant financial or operational impact to the Group.

27 COMMITMENTS

(a) Capital commitments in respect of vessels under construction

	2007 US$'000	2006 US$'000
Contracted but not provided for		
– The Group	364,497	63,038
– Jointly controlled entities	47,400	53,325
	411,897	116,363

(b) Operating lease commitments - where the Group is the lessee

At 31 December 2007, the Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	2007 US$'000	2006 US$'000
Office premises		
– No later than one year	299	175
– Later than one year and no later than five years	329	14
	628	189
Vessels		
– No later than one year	4,737	420
	5,365	609

27 COMMITMENTS (Cont'd)

(c) Operating lease commitments - where the Group is the lessor

At 31 December 2007, the Group has the following future minimum lease receipts under non-cancellable operating leases in relation to chartering of vessels. These vessels chartering agreements have varying terms ranging from 3 to 24 months:

	2007 US$'000	2006 US$'000
Vessels		
– No later than one year	155,015	108,215
– Later than one year and no later than five years	39,508	17,447
	194,523	125,662

28 RELATED PARTY TRANSACTIONS

Sinotrans Group Company, the Ultimate Holding Company of the Company, is controlled by the PRC Government. The PRC Government is the Company's ultimate controlling party. In accordance with HKAS 24, "Related Party Disclosures" issued by the HKICPA, enterprises directly or indirectly controlled by PRC Government ("state-owned enterprises") and their subsidiaries, together with the Sinotrans Group Company, are all related parties of the Group. Neither the Sinotrans Group Company nor the PRC Government publishes financial statements available for public use.

The Group has extensive transactions with the Sinotrans Group Company and other state-owned enterprises. For the purpose of disclosures of related party transactions, to the extent practicable, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structures and the ownership structures change over time as a result of transfers or privatisation programs. However, management believes that all material related party transactions and balances, of which it is aware, have been adequately disclosed.

In addition to the related party transactions undertaken in connection with the Reorganisation described in note 1(b) above, the Group enters into various other related party transactions. Set out below is a summary of significant related party transactions and balances during the year.

(a) The following significant transactions were carried out with related parties:

	2007 US$'000	2006 US$'000
Charter-hire income from fellow subsidiaries	41,391	36,531
Commission expenses to fellow subsidiaries	1,829	1,540
Commercial management fee for oil tanker shipping to a fellow subsidiary	1,111	1,127
Expenses for hiring of crews and seafarers for fellow subsidiaries	–	1,183
Shipping agency fee to fellow subsidiaries	–	1,112
Interest expenses on loans from the Ultimate Holding Company	1,640	5,988
Interest income on loans to jointly controlled entities	683	599

In the opinion of the Directors of the Company, the above related party transactions were carried out in the ordinary course of business and in accordance with the term of the underlying agreements.

28 RELATED PARTY TRANSACTIONS (Cont'd)

(b) During the year, the Group was allowed to use trademarks registered in the name of Sinotrans Group Company on a free-of-charge basis.

(c) Year ended balances arising from sales, purchases, services and other transactions with related parties were disclosed in notes 18 and 24.

(d) Pursuant to certain agreements dated 10 December 2007, the Group agreed to sell to Faship Maritime Carriers Inc, a jointly controlled entity, two vessels under construction at an aggregate consideration of US$63,800,000. The transaction is expected to be completed upon delivery of vessels in 2010.

(e) The following significant transactions were carried out with other state-owned enterprises:

	2007 US$'000	2006 US$'000
Charter-hire income	11,294	15,223
Ocean freight income	1,763	6,432
Bank interest income	11,046	549
Bank loans interest expenses	6,213	—
Charter-hire expenses	9,440	5,601
Commission expenses	932	1,029
Expenses for hiring of crews and seafarers	604	655

The transactions of revenues and expenses in nature with the other state-owned enterprises were conducted based on the terms and prices agreed by both parties.

(f) Year ended balances with other state-owned enterprises were as follows:

	2007 US$'000	2006 US$'000
Cash at bank	1,367,461	12,241
Bank loans	239,725	—

Movement of bank loans during the year is as follows:

	2007 US$'000	2006 US$'000
Beginning of year	—	—
Loan drawdown during the year	380,000	—
Loan repayment during the year	(140,000)	—
Bank loan arrangement fees	(275)	—
End of year	239,725	—

28 RELATED PARTY TRANSACTIONS (Cont'd)

(g) Key management compensation

	2007 US$'000	2006 US$'000
Salaries, allowances, and benefits-in-kind	310	730
Contributions to pension plans	5	6
	315	736

29 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

At 31 December 2007, the Company has interests in the following principal subsidiaries and jointly controlled entities:

(i) List of principal subsidiaries

Name	Country/place of operation	Issued and fully paid share capital	Attributable equity interest held by the Group	Principal activities
Double Strong International Limited	British Virgin Islands	1 share of US$1	100%	Investment holding
Earning Top Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Grand Explorer Shipping Limited	British Virgin Islands	2 shares of US$1 each	100%	Investment holding
Great Ambition Shipping Inc.	Panama	2 shares of US$1 each	100%	Owning and chartering of vessel
Great Bless Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Great Blossom Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Great Bright Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Great Calm Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Great Century Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Great Concord Shipping S.A.	Panama	2 shares of US$1 each	100%	Owning and chartering of vessel

29 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES (Cont'd)

(i) List of principal subsidiaries (Cont'd)

Name	Country/place of operation	Issued and fully paid share capital	Attributable equity interest held by the Group	Principal activities
Great Creation Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Great Gain Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Great Glory Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Great Happy Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Great Harmony Shipping S.A.	Panama	2 shares of US$1 each	100%	Owning and chartering of vessel
Great Immensity Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Great Intelligence Shipping S.A.	Panama	10,000 shares of US$1 each	100%	Owning and chartering of vessel
Great Jade Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Great Loyalty Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Great Luck Maritime Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Great Majesty Shipping S.A.	Panama	10,000 shares of US$1 each	100%	Owning and chartering of vessel
Great Motion Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Great Peace Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
Great Prestige Shipping S.A.	Panama	10,000 shares of US$1 each	100%	Owning and chartering of vessel

29 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES (Cont'd)

(i) List of principal subsidiaries (Cont'd)

	Name	Country/place of operation	Issued and fully paid share capital	Attributable equity interest held by the Group	Principal activities
	Great Prosperity Shipping Inc.	Panama	2 shares of US$1 each	100%	Owning and chartering of vessel
	Great Scenery Shipping Limited	Hong Kong	3 shares of HK$1 each	100%	Owning and chartering of vessel
	Great Wisdom Shipping S.A.	Panama	10,000 shares of US$1 each	100%	Owning and chartering of vessel
	Jin Da Maritime Limited	Hong Kong	1 share of HK$1	100%	Owning and chartering of vessel
	Jin Teng Maritime Limited	Hong Kong	1 share of HK$1	100%	Owning and chartering of vessel
#	Sinotrans Ship Management Limited	Hong Kong	2 shares of HK$100 each	100%	Dormant
#	Joy Top International Limited	British Virgin Islands	2 shares of US$1 each	100%	Investment holding
	Marine Harvest Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning of oil tanker and shipment of oil
	Marine Peace Shipowning Limited	British Virgin Islands	1 share of US$1	100%	Investment holding
	Marine Peace Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning of oil tanker and shipment of oil
	Rich Target Shipping Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
	Sinotrans (Bermuda) Ltd (formerly known as "China Overseas Trade Shipping Ltd")	Bermuda	12,000 shares of US$1 each	100%	Provision for agency services for shipping forwarding and aircargo

29 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES (Cont'd)

(i) List of principal subsidiaries (Cont'd)

	Name	Country/place of operation	Issued and fully paid share capital	Attributable equity interest held by the Group	Principal activities
	Sinotrans Agencies (S) Pte Limited (formerly known as "Sino Marine Shipping Agency (S) Pte Ltd")	Singapore	700,000 shares of S$1 each	100%	Provision for agency services for shipping forwarding and aircargo
	Sinotrans Canada Inc. (formerly known as "China Overseas Trade Shipping (Canada) Inc.")	Canada	1,000 common shares, 1,500 Series 1 preference shares at US$100 per share	100%	Provision of shipping agency services
#	Sinotrans Ship Trading Limited	British Virgin Islands	1 share of US$1	100%	Ship building and trading of vessels
#	Sinotrans Shipowning Limited	British Virgin Islands	1 share of US$1	100%	Investment holding
	Trade Fast Shipping Limited	Hong Kong	1 share of HK$1	100%	Owning and chartering of vessel
	Trade Hope Maritime Limited	Hong Kong	2 shares of HK$1 each	100%	Owning and chartering of vessel
	Trade Worlder Maritime Limited	Hong Kong	2 shares of HK$1each	100%	Owning and chartering of vessel
	Trade Worlder Shipowning Limited	British Virgin Islands	1 share of US$1	100%	Investment holding

Directly held by the Company.

(ii) List of jointly controlled entities

Name	Country/place of operation	Issued and fully paid share capital	Attributable equity interest indirectly held by the Group	Principal activities
M.S. Tanker Shipping Limited	Hong Kong	2,000,000 shares of HK$1 each	50%	Owning of oil tanker and shipment of oil
Faship Maritime Carriers Inc	Panama	1,200 shares of US$1 each	50%	Owning and chartering of vessel

Definitions

In this annual report, the following expressions shall have the meaning set out below unless the context otherwise requires. Certain technical terms are explained in the section headed "Glossary of Technical Terms" in this annual report.

"Board of Directors"	the board of Directors of our Company
"CBMC"	中國經貿船務公司 (China Business Marine Co., Ltd.), a company incorporated in the PRC on 24 December 1984, and a direct wholly owned subsidiary of our controlling shareholder Sinotrans Group Company
"Company" or "our Company"	Sinotrans Shipping Limited（中外運航運有限公司）, a company incorporated on 13 January 2003 with limited liability under the laws of Hong Kong
"Deed of Non-Competition"	the deed of non-competition entered into by and between Sinotrans Group Company and our Company on 8 November 2007 in respect of the main businesses conducted by our Group
"Group" or "our Group"	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company or the businesses operated by the present subsidiaries of our Company or (as the case may be) its predecessor
"Master Management Agreement"	an agreement dated 9 November 2007 which was entered between our Company and Parakou Shipping Limited for the provision of the management services by Parakou Shipping Limited to our Group in relation to four vessels of our Group.
"Master Tenancy Agreement"	an agreement which was entered between our Company and Sinotrans Group Company on 9 November 2007 in respect of the leasing of the Properties, the term of which shall commence on 1 January 2008 and continue until 31 December 2009
"Master Services Agreement"	an agreement dated 9 November 2007 which was entered between our Company and Sinotrans Group Company for the provision and receipt of the general services by our Group to/from members of Sinotrans Group
"M.S. Tanker"	M.S. Tanker Shipping Limited, a company incorporated in Hong Kong on 7 April 2004, which is owned as to 50% by Marine Peace Shipowning Limited (an indirect wholly-owned subsidiary of our Company) and 50% by Mitsui O.S.K. Lines, Ltd.
"Prospectus"	The Company's prospectus dated 12 November 2007

"Sinotrans Group"	Sinotrans Group Company and its subsidiaries (but excluding our Group)
"Sinotrans Group Company"	中國對外貿易運輸（集團）總公司 (China National Foreign Trade Transportation (Group) Corporation or sometimes known as "China National Foreign Trade Transportation Group (Sinotrans Group)"), a PRC state-owned enterprise formed in 1950, being the ultimate controlling shareholder of our Company
"Tenancy Agreements"	two tenancy agreements in relation to the leased properties for our Group to be used as office and staff quarters in Hong Kong, the details of which are set out in the Prospectus under the section headed "Connected Transactions — Connected Transactions — A. 2. Leasing of properties by Sinotrans Group to our Group".
"Trademark Licence Agreement"	the trademark licence agreement dated 9 November 2007 entered between Sinotrans Group Company and our Company, pursuant to which Sinotrans Group Company has granted a non-exclusive licence to our Group the right of using the Trademarks
"we," "us" or "our"	our Company or our Group (as the case may require)

In this annual report, Terms like "associate", "connected party", "connected party transaction", "controlling shareholder", "subsidiary", and "substantial shareholder" shall have the meaning ascribed to them in the Listing Rules.

Glossary

This glossary contains certain definitions of technical terms used in this annual report in connection with our Company and our business. As such, some terms and definitions may not correspond to standard industry definitions or usage of these terms.

"ABS"	the American Bureau of Shipping, a classification society established in 1862, being one of the largest classification societies in the world with a classed fleet of over 10,000 commercial vessels and offshore facilities. ABS is a member of IACS and is recognised by the Hong Kong government
"FFA"	Forward Freight Agreement, a kind of forward freight rate agreement concluded between the buyer and seller, specifying the courses, prices, quantities, etc. The two parties agree to take or pay the difference between BDI and the transaction price in a certain
"Daily TCE"	daily time charter equivalent rate, the basis on which we measure our charter rate level. It is determined by dividing total voyage revenue (net of voyage expenses) by total voyage days for the relevant time period. Voyage expenses primarily consist of port charges and fuel costs that are unique to a particular voyage, which would otherwise be paid by the charterer under a time charter contract, as well as commissions. Daily TCE is a standard shipping industry performance measure used primarily to compare period-to-period changes in a shipping company's performance despite changes in the mix of charter types under which the vessels may be employed between the periods
"dry bulk"	unpacked goods such as coal, metallic minerals, iron, building materials, cement, timber, salt, grains and similar materials
"drydocking"	the removal of a vessel from the water for inspection, maintenance and/or repair
"DWT"	the deadweight of a ship expressed in tonnes. This measurement is the total weight of cargo, fuel, fresh water, stores and crew which the ship is carry
"Handymax"	a dry bulk vessel with a capacity of between 40,000 DWT and 59,999 DWT
"Handysize"	a dry bulk vessel with a capacity of between 10,000 DWT and 39,999 DWT
"Panamax"	a dry bulk vessel with a capacity of between 60,000 and 99,999 DWT
"Capesize"	a dry bulk vessel with a capacity of over 100,000 DWT
"VLCC"	very large crude oil carrier, a vessel designed for the carriage of crude oil with a capacity of between 200,000 to 319,999 DWT
"hire"	a sum of money to be paid to the shipowner by a charterer under a time charter for the use of a vessel
"IHC pool"	a commercial pool of Handysize tonnage managed by International Handybulk Carriers Limited

"ISM Code"	the International Management Code for the Safe Operation of Ships and for Pollution Prevention
"off-hire"	the situation applying to a ship on time charter when hire temporarily ceases to be paid by the charterer, or the time gap between two charters
"operating costs"	the costs of operating a ship which primarily consists of the costs of lubricants, spare parts, repairs and maintenance, crewing costs and insurance costs (but excluding capital expenditure, drydocking costs and voyage costs)
"P&I insurance"	protection and indemnity insurance, obtained through a mutual association formed by shipowners to provide liability indemnification protection from various liabilities to which they are exposed in the course of their business, and which spreads the liability costs of each member by requiring contribution by all members in the event of a loss
"P&I Association"	a mutual association providing P&I insurance coverage
"port charges"	a general term which includes charges and dues of every nature assessed against a vessel, cargo and passengers in a port. Such charges can be classified into three categories: (i) charges in relation to the vessel such as vessel tonnage tax, vessel port dues, pilot fee and towage, (ii) charges in relation to the cargoes such as cargo port duties, loading and discharge fees and cargo handling fees and (iii) other expenses such as ship repairing costs and advances by the crew
"technical management"	management of those aspects of ship owning and operation that relate to the physical operation of a vessel, including the provision of crew, routine maintenance, repairs, drydocking and supplies of stores and spares
"TEU"	twenty-foot equivalent unit, a standard unit of measurement of the volume of a container with a length of 20 feet, height of 8 feet and 6 inches and width of 8 feet
"time charter"	contract under which the shipowner hires out a ship for a specified period of time. The shipowner is responsible for providing the crew and paying the operating costs while the charterer is responsible for paying the voyage costs. The shipowner is paid charter hire on a per day basis
"voyage charter"	contract under which a shipowner hires out a ship for a specific voyage between the loading port and the discharging port. The shipowner is responsible for paying both the operating costs and the voyage costs. The shipowner is paid freight on the basis of cargo movement between ports

Corporate Information

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COMPANY SECRETARY

Mr. Huen Po Wah, *ACS ACIS*

QUALIFIED ACCOUNTANT

Mr. Ng Kwun Wa, *CPA*

AUTHORISED REPRESENTATIVES

Mr. Tian Zhongshan
Mr. Li Hua

AUDIT COMMITTEE

Mr. Tsang Hing Lun *(Chairman)*
Mr. Pan Deyuan
Mr. Zhou Qifang
Mr. Lee Peter Yip Wah

REMUNERATION COMMITTEE

Mr. Hu Hanxiang *(Chairman)*
Mr. Zhao Huxiang
Mr. Tsang Hing Lun

NOMINATION COMMITTEE

Mr. Zhao Huxiang *(Chairman)*
Mr. Lee Peter Yip Wah
Mr. Hu Hanxiang
Mr. Zhou Qifang

SHARE REGISTRAR

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Industrial and Commercial Bank of China (Asia) Limited
ICBC Tower
122-126 Queen's Road Central
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The Hongkong and Shanghai Banking Corp. Ltd.,
Sun Hung Kai Centre Branch
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LEGAL ADVISERS TO OUR COMPANY

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SINOTRANS

中外運航運有限公司

Sinotrans Shipping Limited

(incorporated in Hong Kong with limited liability)

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