



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

Interim Report 08

CONTENTS

- 2 Corporate Information
- 3 Interim Financial Information
- 21 Management Discussion and Analysis of Results of Operations and Financial Position
- 25 Interim Dividend
- 26 Other Information



CORPORATE INFORMATION

Directors

Executive Directors:

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

Non-executive Directors:

Mr. Zhao Huxiang (*Chairman*)
Mr. Pan Deyuan

Independent non-executive Directors:

Mr. Hu Hanxiang
Mr. Tsang Hing Lun
Mr. Lee Peter Yip Wah
Mr. Zhou Qifang

Registered Office

21 Floor
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

Company Secretary

Mr. Huen Po Wah, *ACIS ACS*

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

Auditors

PricewaterhouseCoopers
22/F Prince's Building
Central
Hong Kong

Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Bank of China (Hong Kong) Ltd., Harbour Road Branch
G/F., China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Industrial and Commercial Bank of China (Asia) Limited
ICBC Tower
122–126 Queen's Road Central
Hong Kong

The Hongkong and Shanghai Banking Corp. Ltd.,
Sun Hung Kai Centre Branch
115–117 & 127–133 Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

Compliance Adviser

BOCI Asia Limited
26th Floor, Bank of China Tower
1 Garden Road
Hong Kong

Legal Advisers to our Company

Sidley Austin
39 Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

INTERIM FINANCIAL INFORMATION

Unaudited Condensed Consolidated Income Statement

For the six months ended 30 June 2008

	Note	Six months ended 30 June	
		2008 US\$'000	2007 US\$'000
Revenues	3	234,412	130,626
Cost of operations		(88,424)	(67,723)
Gross profit		145,988	62,903
Selling, administrative and general expenses		(6,093)	(5,716)
Other operating income	4	14,826	244
Operating profit		154,721	57,431
Finance income	5	22,485	462
Finance costs	5	(5,852)	(2,859)
Share of profits of jointly controlled entities		19,628	2,704
Profit before income tax		190,982	57,738
Income tax expense	6	(165)	(142)
Profit for the period		190,817	57,596
Earnings per share			
— Basic and diluted	8	US4.8 cents	US2.2 cents
Dividends	9	51,274	2,301

INTERIM FINANCIAL INFORMATION (CONTINUED)

Unaudited Condensed Consolidated Balance Sheet

As at 30 June 2008

	Note	As at 30 June 2008 US\$'000	As at 31 December 2007 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	582,962	548,724
Interests in jointly controlled entities		50,082	30,454
Loan to a jointly controlled entity		43,385	4,140
		676,429	583,318
Current assets			
Inventories		1,289	2,931
Loan to a jointly controlled entity		3,692	2,080
Trade and other receivables	11	38,959	28,603
Cash and bank balances		1,335,679	1,372,033
		1,379,619	1,405,647
Asset classified as held for sale	12	20,414	—
		1,400,033	1,405,647
Total assets		2,076,462	1,988,965
EQUITY			
Capital and reserves			
Share capital	13	51,340	51,340
Reserves		1,846,052	1,655,203
		1,897,392	1,706,543
LIABILITIES			
Non-current liabilities			
Borrowings	14	117,076	167,026
Deferred tax liabilities		27	27
		117,103	167,053
Current liabilities			
Trade and other payables	15	41,860	42,468
Taxation payable		208	202
Borrowings	14	19,899	72,699
		61,967	115,369
Total liabilities		179,070	282,422
Total equity and liabilities		2,076,462	1,988,965
Net current assets		1,338,066	1,290,278
Total assets less current liabilities		2,014,495	1,873,596

INTERIM FINANCIAL INFORMATION (CONTINUED)

Unaudited Condensed Consolidated Statement Of Changes In Equity

For the six months ended 30 June 2008

	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 2008	51,340	1,826,869	(450,507)	228	278,613	1,706,543
Exchange differences	—	—	—	32	—	32
Profit for the period	—	—	—	—	190,817	190,817
At 30 June 2008	51,340	1,826,869	(450,507)	260	469,430	1,897,392
At 1 January 2007	33,333	420,366	(450,507)	109	406,507	409,808
Exchange differences	—	—	—	27	—	27
Profit for the period	—	—	—	—	57,596	57,596
Dividends paid	—	—	—	—	(2,301)	(2,301)
At 30 June 2007	33,333	420,366	(450,507)	136	461,802	465,130

INTERIM FINANCIAL INFORMATION (CONTINUED)

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

	Six months ended 30 June	
	2008 US\$'000	2007 US\$'000
Net cash from operating activities	161,165	62,394
Net cash used in investing activities	(720,238)	(60,785)
Net cash used in financing activities	(102,800)	(4,994)
Net decrease in cash and cash equivalents	(661,873)	(3,385)
Cash and cash equivalents at 1 January	1,370,421	19,237
Effect of foreign exchange rate changes	(121)	23
Cash and cash equivalents at 30 June	708,427	15,875
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	1,335,679	19,600
Less: Bank deposits with initial term of over three months	(627,252)	(3,725)
	708,427	15,875

INTERIM FINANCIAL INFORMATION (CONTINUED)

Notes to the Interim Financial Information

1 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/F, Great Eagle Centre, 23 Harbour Road, Wan Chai, Hong Kong. The Company and its subsidiaries (collectively the "Group") principally engage 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.

The ultimate holding company is China National Foreign Trade Transportation (Group) Corporation ("Sinotrans Group Company"), a state-owned enterprise established in the People's Republic of China (the "PRC").

The interim financial information was approved for issue by the Board of Directors on 28 July 2008.

2 Basis of preparation and accounting policies

The interim financial information for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

The interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The accounting policies adopted in the preparation of the interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2007.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2008 but relevant to the Group and have not been early adopted:

- (a) HKFRS 2 (Amendment), "Share-based Payment", effective for annual periods beginning on or after 1 January 2009. Management is assessing the impact of changes to this standard but yet in a position to comment the significance to its results of operation and financial position;
- (b) HKFRS 3 (Amendment), "Business Combinations" and consequential amendments to HKAS 27, "Consolidated and Separate Financial Statements", HKAS 28, "Investments in Associates" and HKAS 31, "Interests in Joint Ventures", effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and joint ventures of the Group;

INTERIM FINANCIAL INFORMATION (CONTINUED)

2 Basis of preparation and accounting policies (Continued)

- (c) HKFRS 8, "Operating Segments", effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, "Segment reporting", and requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail;
- (d) HKAS 1 (Amendment), "Presentation of Financial Statements", effective for annual periods beginning on or after 1 January 2009. This standard affects the presentation of owner change 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; and
- (e) HKAS 23 (Amendment), "Borrowing 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 on the revised accounting standard.

3 Revenues and segment information

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

	Six months ended 30 June	
	2008 US\$'000	2007 US\$'000
Turnover		
Charter-hire income		
— Dry bulk shipping	209,160	107,686
— Oil tanker shipping	17,166	17,425
— Container shipping	7,238	4,943
Others	848	572
	234,412	130,626

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

INTERIM FINANCIAL INFORMATION (CONTINUED)

3 Revenues and segment information (Continued)

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.

Six months ended 30 June 2008

	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	209,160	17,166	7,238	848	—	234,412
— Inter-segment	1,010	—	—	2,967	(3,977)	—
	210,170	17,166	7,238	3,815	(3,977)	234,412
Segment results	134,550	20,079	2,385	942	—	157,956
Unallocated expenses						(3,235)
Operating profit						154,721
Finance income						22,485
Finance costs						(5,852)
Share of profits of jointly controlled entities	2,238	17,390	—	—	—	19,628
Profit before income tax						190,982
Income tax expense						(165)
Profit for the period						190,817
Capital expenditure	41,136	—	46,878	18	—	88,032
Depreciation	10,391	1,273	1,371	54	—	13,089

INTERIM FINANCIAL INFORMATION (CONTINUED)

3 Revenues and segment information (Continued)

Six months ended 30 June 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	107,686	17,425	4,943	572	—	130,626
— Inter-segment	646	—	—	3,092	(3,738)	—
	108,332	17,425	4,943	3,664	(3,738)	130,626
Segment results	56,978	1,556	1,568	282	—	60,384
Unallocated expenses						(2,953)
Operating profit						57,431
Finance income						462
Finance costs						(2,859)
Share of profits of jointly controlled entities	1,240	1,464	—	—	—	2,704
Profit before income tax						57,738
Income tax expense						(142)
Profit for the period						57,596
Capital expenditure	58,950	—	2,867	8	—	61,825
Depreciation	10,208	5,176	857	78	—	16,319

INTERIM FINANCIAL INFORMATION (CONTINUED)

3 Revenues and segment information (Continued)

As at 30 June 2008

	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
Segment assets	537,165	27,004	91,237	6,593	(4,817)	657,182
Interests in jointly controlled entities	13,412	36,670	—	—	—	50,082
Loan to a jointly controlled entity	—	47,077	—	—	—	47,077
Unallocated assets						1,322,121
Total assets						2,076,462
Segment liabilities	33,662	1,891	1,784	5,249	(4,817)	37,769
Unallocated liabilities						141,301
Total liabilities						179,070

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
Segment assets	492,428	48,399	42,249	1,161	—	584,237
Interests in jointly controlled entities	11,174	19,280	—	—	—	30,454
Loan to a jointly controlled entity	—	6,220	—	—	—	6,220
Unallocated assets						1,368,054
Total assets						1,988,965
Segment liabilities	26,966	2,418	1,459	265	—	31,108
Unallocated liabilities						251,314
Total liabilities						282,422

INTERIM FINANCIAL INFORMATION (CONTINUED)

4 Other operating income

	Six months ended 30 June	
	2008 US\$'000	2007 US\$'000
Gain on sale of property, plant and equipment	14,009	—
Interest income from jointly controlled entities	817	244
	14,826	244

5 Finance income and costs

	Six months ended 30 June	
	2008 US\$'000	2007 US\$'000
Finance income		
Interest income on bank deposits	22,485	462
Finance costs		
Bank loans		
— wholly repayable within five years	(4,035)	—
Loans from the ultimate holding company		
— wholly repayable within five years	—	(2,816)
Foreign exchange loss on financing activities	(1,743)	—
Other bank charges	(74)	(43)
	(5,852)	(2,859)
Net finance income/(costs)	16,633	(2,397)

6 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Six months ended 30 June	
	2008 US\$'000	2007 US\$'000
Current income tax		
Hong Kong profits tax	15	73
Overseas taxation	150	75
Deferred income tax	—	(6)
	165	142

INTERIM FINANCIAL INFORMATION (CONTINUED)

7 Employee benefit expense

	Six months ended 30 June	
	2008 US\$'000	2007 US\$'000
Wages and salaries	2,048	2,541
Pension costs — defined contribution plans	51	39
	2,099	2,580

8 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 period. 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, the immediate holding company, pursuant to a reorganisation of Vessel Owning and Related Business of Sinotrans Group Company and its subsidiaries in preparation for the listing of shares of the Company on the Main Board of the Stock Exchange (the "Reorganisation") were deemed to be in issue since 1 January 2007.

	Six months ended 30 June	
	2008	2007
Profit attributable to equity holders of the Company (US\$'000)	190,817	57,596
Weighted average number of shares in issue (thousands)	4,000,000	2,600,000
Basic earnings per share (US cents per share)	4.8	2.2

As there were no diluted potential ordinary shares outstanding during the six months ended 30 June 2008 (six months ended 30 June 2007: Nil), the diluted earnings per share for the six months ended 30 June 2008 is equal to basic earnings per share.

9 Dividends

	Six months ended 30 June	
	2008 US\$'000	2007 US\$'000
The Company (note i)	51,274	—
Subsidiaries (note ii)	—	2,301
	51,274	2,301

Notes:

- (i) At a meeting held on 28 July 2008, the Board resolved to declare the payment of an interim dividend of HK10 cents (equivalent to US1.28 cents) per share, totalling US\$51,274,000 for the six months ended 30 June 2008 to shareholders. The interim dividend declared is not reflected as dividend payable in the interim financial information, but will be reflected as an appropriation of retained profits for the year ending 31 December 2008.
- (ii) Amounts represented dividends paid by the companies comprising the Group to the shareholders prior to the Reorganisation which was completed in 2007. The rates of dividend and the number of share ranking for dividends were not presented as such information was not considered meaningful for the purpose of the interim financial information.

INTERIM FINANCIAL INFORMATION (CONTINUED)

10 Property, plant and equipment

	2008 US\$'000	2007 US\$'000
Cost		
At 1 January	840,045	731,543
Exchange differences	(16)	57
Additions	88,032	61,825
Disposals and write-off	(42,200)	(3,682)
Classified as asset held for sale	(35,151)	—
At 30 June	850,710	789,743
Accumulated depreciation		
At 1 January	291,321	264,450
Exchange differences	(7)	35
Charge for the period	13,089	16,319
Disposals and write-off	(21,918)	(3,682)
Classified as asset held for sale	(14,737)	—
At 30 June	267,748	277,122
Net book value		
At 30 June	582,962	512,621

11 Trade and other receivables

	As at 30 June 2008 US\$'000	As at 31 December 2007 US\$'000
Trade receivables		
— fellow subsidiaries	4,940	3,120
— other state-owned enterprises	473	795
— third parties	6,989	7,223
	12,402	11,138
Prepayments, deposits and other receivables	25,048	16,386
Amounts due from related parties	1,509	1,079
Total	38,959	28,603

INTERIM FINANCIAL INFORMATION (CONTINUED)

11 Trade and other receivables (Continued)

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

	As at 30 June 2008 US\$'000	As at 31 December 2007 US\$'000
Within 6 months	10,755	9,827
7–12 months	1,550	1,248
1–2 years	34	63
2–3 years	63	—
Trade receivables	12,402	11,138

12 Asset classified as held for sale

The asset classified as held for sale represents a 1990-built single-hull very large crude oil carrier (the "VLCC") which the Group has been actively locating a buyer. Pursuant to a memorandum of agreement dated 16 July 2008, the Group agreed to dispose of the VLCC to an independent third party at a consideration of US\$36.8 million and the sale is expected to be completed on or before 15 August 2008.

13 Share capital

	Number of shares		Nominal value US\$'000
	Ordinary shares of HK\$1 each	Ordinary shares of HK\$0.1 each	
Authorised:			
At 1 January 2008 and 30 June 2008	—	50,000,000,000	641,026
At 1 January 2007 and 30 June 2007	20,000,000	—	2,564
Issued and fully paid:			
At 1 January 2008 and 30 June 2008	—	4,000,000,000	51,340
At 1 January 2007 and 30 June 2007	20,000,000	—	2,564

INTERIM FINANCIAL INFORMATION (CONTINUED)

14 Borrowings

	As at 30 June 2008 US\$'000	As at 31 December 2007 US\$'000
Non-current	117,076	167,026
Current	19,899	72,699
	136,975	239,725

Movement in borrowings is analysed as follows:

	2008 US\$'000	2007 US\$'000
Opening amount at 1 January	239,725	96,854
Repayment	(102,800)	(17,251)
Bank loan arrangement fee amortised	50	—
Closing amount at 30 June	136,975	79,603

15 Trade and other payables

	As at 30 June 2008 US\$'000	As at 31 December 2007 US\$'000
Trade payables		
— fellow subsidiaries	1,342	1,380
— other related companies	—	74
— other state-owned enterprises	10	7
— third parties	14,992	10,092
	16,344	11,553
Other payables and accruals	15,984	21,037
Amounts due to related parties	9,532	9,878
Total	41,860	42,468

INTERIM FINANCIAL INFORMATION (CONTINUED)

15 Trade and other payables (Continued)

Ageing analysis of trade payables at the respective balance sheet dates is as follows:

	As at 30 June 2008 US\$'000	As at 31 December 2007 US\$'000
Within 6 months	15,633	11,151
7–12 months	238	112
1–2 years	352	200
2–3 years	47	—
Over 3 years	74	90
Trade payables	16,344	11,553

16 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.

17 Commitments

(a) *Capital commitments in respect of vessels under construction*

	As at 30 June 2008 US\$'000	As at 31 December 2007 US\$'000
Contracted but not provided for		
— The Group	477,941	364,497
— Jointly controlled entity	—	47,400
	477,941	411,897

INTERIM FINANCIAL INFORMATION (CONTINUED)

17 Commitments (Continued)

(b) *Operating lease commitments — where the Group is the lessee*

At 30 June 2008, the Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	As at 30 June 2008 US\$'000	As at 31 December 2007 US\$'000
Office premises		
— No later than one year	263	299
— Later than one year and no later than five years	350	329
	613	628

Vessels		
— No later than one year	5,351	4,737
	5,964	5,365

(c) *Operating lease commitments — where the Group is the lessor*

At 30 June 2008, 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:

	As at 30 June 2008 US\$'000	As at 31 December 2007 US\$'000
Vessels		
— No later than one year	265,043	155,015
— Later than one year and no later than five years	75,165	39,508
	340,208	194,523

18 Related party transactions

Sinotrans Group Company, the ultimate holding 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.

INTERIM FINANCIAL INFORMATION (CONTINUED)

18 Related party transactions (Continued)

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 shown elsewhere in the interim financial information, the Group enters into various other related party transactions. Set out below is a summary of significant related party transactions and balances during the period.

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

	Six months ended 30 June	
	2008 US\$'000	2007 US\$'000
Charter-hire income from fellow subsidiaries	26,104	19,885
Commission expenses to fellow subsidiaries	981	848
Commercial management fee for oil tanker shipping to a fellow subsidiary	242	834
Expenses for hiring of crews and seafarers for fellow subsidiaries	1,661	673
Shipping agency fee to fellow subsidiaries	73	372
Interest expenses on loans from the ultimate holding company	—	2,816
Interest income from jointly controlled entities	817	244

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 terms of the underlying agreements.

- (b) Pursuant to an agreement dated 10 December 2007 entered into between the Group and Faship Maritime Carriers Inc. ("Faship Maritime"), a jointly controlled entity, the Group agreed to sell two Handysize vessels to Faship Maritime at a total consideration of US\$63,800,000. As at 30 June 2008, the two Handysize vessels were under construction and the sale is subject to the completion of construction which is expected to be delivered in June and October 2010 respectively.
- (c) During the period, the Group was allowed to use trademarks registered in the name of Sinotrans Group Company on a free-of-charge basis.

INTERIM FINANCIAL INFORMATION (CONTINUED)

18 Related party transactions (Continued)

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

	Six months ended 30 June	
	2008	2007
	US\$'000	US\$'000
Charter-hire income	993	5,664
Ocean freight income	4,136	—
Bank interest income	22,474	422
Bank loans interest expenses	4,035	—
Charter-hire expenses	4,634	4,153
Commission expenses	480	404
Expenses for hiring of crews and seafarers	116	407

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.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION

Review of Historical Operating Results

Revenues

With the sound conditions of the international shipping market, the year 2008 witnessed significant growth in the results of our Company. The Group recorded a growth rate of 79.5% in its revenues which amounted to US\$234.4 million (2007: US\$130.6 million) for the six months ended 30 June 2008. The increase was primarily attributable to the increase in the revenues from dry bulk shipping and container shipping.

We set forth below the revenue contribution from each business segment for the six months ended 30 June 2008:

	Six months ended 30 June		
	2008 US\$'000	2007 US\$'000	% Change
Revenues			
— Dry bulk shipping	209,160	107,686	94.2
— Oil tanker shipping	17,166	17,425	(1.5)
— Container shipping	7,238	4,943	46.4
Others	848	572	48.3
	234,412	130,626	79.5

We set forth below the average daily charter hire rate/time charter equivalent rate ("TCE") for each segment of our charter hire business for the six months ended 30 June 2008:

	Six months ended 30 June		
	2008 US\$	2007 US\$	% Change
Dry bulk vessel (Average daily charter hire rate)	37,409	20,142	85.7
Oil tanker ^(*) (Average daily TCE)	72,559	35,337	105.3
Container vessel (Average daily charter hire rate)	6,291	6,162	2.1

* 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 was US\$168.0 million (2007: US\$88.8 million), which represents an increase of 89.1%. The increase was primarily due to the increase in the charter hire rate for dry bulk shipping attributable to the strong demand for shipping of raw materials such as iron ore and coal. The average Baltic dry index was 8,557 for the first half of the year, representing an increase of 61.1% over the average of 5,310 for the corresponding period of last year. By optimising our effective operating strategy of combining long-term and short-term time chartering, better charter hire rate can be achieved. Our average daily charter hire rate increased from US\$20,142 to US\$37,409, which represents an increase of 85.7%.

Revenue from ocean freight income was US\$41.2 million (2007: US\$18.9 million), which represents an increase of 118.4%. The increase was primarily due to the increase in freight rates and the volume of cargo shipped. The volume of cargo shipped has increased from 406,348 tons to 452,303 tons, which represents an increase of 11.3%.

Oil tanker shipping

Revenue from oil tanker shipping services was US\$17.2 million (2007: US\$17.4 million), which represents a decrease of 1.5%. The decrease was primarily due to the decrease in tonnage as a result of disposal of a single-hull VLCC in the first half of 2008, which was partially offset by an increase in our daily TCE. Our average daily TCE from oil tanker shipping services has increased from US\$35,337 to US\$72,559.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION (CONTINUED)

Container shipping

Revenue from container shipping was US\$7.2 million (2007: US\$4.9 million), which represents an increase of 46.4%.

The increase was primarily due to the growth of tonnage as a result of the delivery and commencement of operations of three new container vessels, contributing to an additional capacity of 2,541 TEUs and further enhanced the operational scale and revenue of the Group's container shipping operations. Our expanded and upgraded fleet contributed to an increase of the average daily charter hire rate for our container shipping from US\$6,162 to US\$6,291.

Cost of operations

For the six months ended 30 June 2008, cost of operations was US\$88.4 million (2007: US\$67.7 million), which represents an increase of 30.6%. The increase in the cost of operations was primarily due to significant increase in operating lease expenses for charter-in vessels, inventories consumed, hiring of crews and seafarers, and partially offset by the decrease in depreciation expenses.

Operating lease expenses

Operating lease expenses for vessels was US\$29.0 million (2007: US\$14.1 million), which represents an increase of 105.5%. The increase was primarily due to an increase in the hire rates and the volume of cargo shipped of our Group's voyage business resulting from the improved market condition.

Inventories consumed

Inventories consumed, comprising both fuel oil and diesel oil were US\$10.2 million (2007: US\$9.1 million), which represents an increase of 11.4%. The increase was primarily due to an increase in the volume of cargo shipped and bunker price.

Expenses for hiring of crews and seafarers

Expenses for hiring of crews and seafarers were US\$9.0 million (2007: US\$8.0 million), which represents an increase of 12.4%. The increase was primarily due to the commencement of operations of three new container vessels and upward adjustment of the salary and wages of our crews and seafarers during the period.

Depreciation expenses

Depreciation expenses for vessels were US\$13.0 million (2007: US\$16.2 million), which represents a decrease of 19.8%. The decrease was due to the disposal of a single-hull VLCC and an increase of residual value of the vessels caused by the increase in scrap value of steel.

Other operating income

Other operating income was US\$14.8 million (2007: US\$0.2 million), which mainly represents the gain on disposal of a single-hull VLCC of US\$14.0 million.

Finance income

Finance income was US\$22.5 million (2007: US\$0.5 million), which mainly represents the interest income on bank deposits.

Finance costs

Finance costs were US\$5.9 million (2007: US\$2.9 million), which represents an increase of 104.7%. The increase was mainly due to an increase in loan interest incurred for new loans raised in the second half of 2007.

Share of profits of jointly controlled entities

Share of profits of jointly controlled entities, namely, M.S. Tanker Shipping Limited and Faship Maritime Carriers Inc., was US\$19.6 million (2007: US\$2.7 million). The significant increase was mainly due to the share of gain on sale of a single-hull VLCC of US\$10.8 million in June 2008, profit derived from the operation of a new double-hull VLCC and the increase in the ocean freight income during the period.

Income tax expense

Income tax was US\$165,000 (2007: US\$142,000), which represents an increase of 16.2%. The effective income tax rate was 0.09% (2007: 0.25%).

Liquidity and financial resources

Our principal uses of cash have been, for repayment of bank loans, payment for construction of new vessels, operation costs and working capital in the first half of 2008. We have financed our liquidity requirements primarily through internal generated cash and bank loan.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION (CONTINUED)

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

	As at 30 June 2008 US\$'000	As at 31 December 2007 US\$'000
Current assets	1,400,033	1,405,647
Current liabilities	61,967	115,369
Liquidity ratio ^(note)	22.6	12.2

Note: 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 30 June 2008 and 31 December 2007 were 22.6 and 12.2 respectively. The increase in liquidity ratio was primarily due to the repayment of bank borrowings during the period.

Borrowings

Our borrowings as at 30 June 2008 are as follows:

	As at 30 June 2008 US\$'000	As at 31 December 2007 US\$'000
Non-current		
Bank loans, secured	107,200	107,200
Bank loans, unsecured	9,876	59,826
	117,076	167,026
Current		
Bank loans, secured	—	52,800
Bank loans, unsecured	19,899	19,899
	19,899	72,699
Total borrowings	136,975	239,725

Our borrowings reduced from US\$239.7 million as at 31 December 2007 to US\$137.0 million as at 30 June 2008 due to the repayment of bank borrowings. As of 30 June

2008, the Group's borrowings bear interest at floating rates and were secured by certain property, plant and equipment with net book value of US\$138,799,000.

Gearing ratio is not presented as our Group recorded as net surplus as at 30 June 2008 and 31 December 2007.

Commitments

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

	As at 30 June 2008 US\$'000	As at 31 December 2007 US\$'000
Contracted but not provided for		
— Our Group	477,941	364,497
— Jointly controlled entity	—	47,400
	477,941	411,897

The capital commitment of our Group represented several new building contracts in 2008 for the construction of six capsized dry bulk vessels, four handysize dry bulk vessels and one container vessel to be delivered in subsequent periods.

Capital Expenditures

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

For the six months ended 30 June 2008, total capital expenditures were US\$88.0 million which was attributable to the capital expenditures for construction of container vessels and dry bulk vessels and conduction of dry dock repairs in the first half of the year.

Foreign Exchange Risks

We operate internationally and are exposed to foreign exchange risk from various currency exposures (such as Renminbi and Japanese Yen), primarily with respect to US\$.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION (CONTINUED)

Our 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. We currently do not have regular and established hedging policy in place. We are 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.

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.

Employees

As of 30 June 2008, our Group employed a total of 90 shore-based employees working in offices in Hong Kong, Canada and Singapore. Details of employees' remuneration, remuneration policies and staff development were substantially the same as those disclosed in the 2007 Annual Report and without significant changes.

Share Option

A share option scheme of our Company was adopted by the written resolutions of the sole shareholder on 31 October 2007. No share option was granted under our share option scheme as at 30 June 2008.

Outlook

In the second half of the year, against the backdrop of stable growth in the demand for ocean freight, in particular the robust demand in the PRC for imported iron ore, coal and crude oil, and the balanced supply and demand of dry bulk shipping, it is expected that the dry bulk shipping market will continue to remain relatively robust, and will have positive effects on the business of our Group.

With the constant efforts of our staff, clearly-defined development strategies, continuing enhancement of our fleet, and our extensive operating experience and in-depth understanding of the shipping market, we strongly believe that we will be in a position to leverage on the continuing growth of the economy of the PRC as well as international trade to enhance our Group's market competitiveness and further expand our business scale so as to generate better returns for our shareholders.

Audit Committee

The Audit Committee has reviewed the interim report of our Group for the six months ended 30 June 2008. In addition, our Company's independent auditor, PricewaterhouseCoopers, has performed a review of the interim financial information of the Group in accordance with the Hong Kong Standard on Review Engagements 2410 issued by the HKICPA.

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK10 cents (equivalent to US1.28 cents) per share for the six months ended 30 June 2008. It is expected that the interim dividend will be paid on or after 12 September 2008 to shareholders whose names appear on the register of members on 5 September 2008.

Closure of Register of Members

The register of members of the Company will be closed from 1 September 2008 to 5 September 2008 (both days inclusive), during which no transfers will be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with our Company's share registrar, Computershare Hong Kong Investor Services Limited of Rooms 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 29 August 2008 for registration.

OTHER INFORMATION

Directors' Interests in Shares

As at 30 June 2008, none of the directors and chief executive of the Company or their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to Section 352 of the SFO to be entered into the register kept by the Company, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in the Listing Rules.

Substantial Shareholders

As at 30 June 2008, the interests or short positions of the following persons (other than directors or chief executive 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 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	2,684,980,500	67.12%
Sinotrans Shipping (Holdings) Limited (Note 1)	Long Position	Beneficial owner	2,600,000,000	65%

Notes:

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.

Save as disclosed above, as at 30 June 2008, no other person (other directors or chief executive 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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2008.

Corporate Governance

Compliance with the Code on Corporate Governance Practices

The Company is committed to high standards of corporate governance and has adopted the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules as the code of corporate governance practices of the Company. The Company has complied with all the code provisions in effect as set out in the Code throughout the six months ended 30 June 2008.

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the directors.

Having made specific enquiry of all directors, all the directors confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2008.