中外運航運有限公司
SINOTRANS SHIPPING LTD.

(Incorporated in Hong Kong with limited liability)
Stock Code : 368

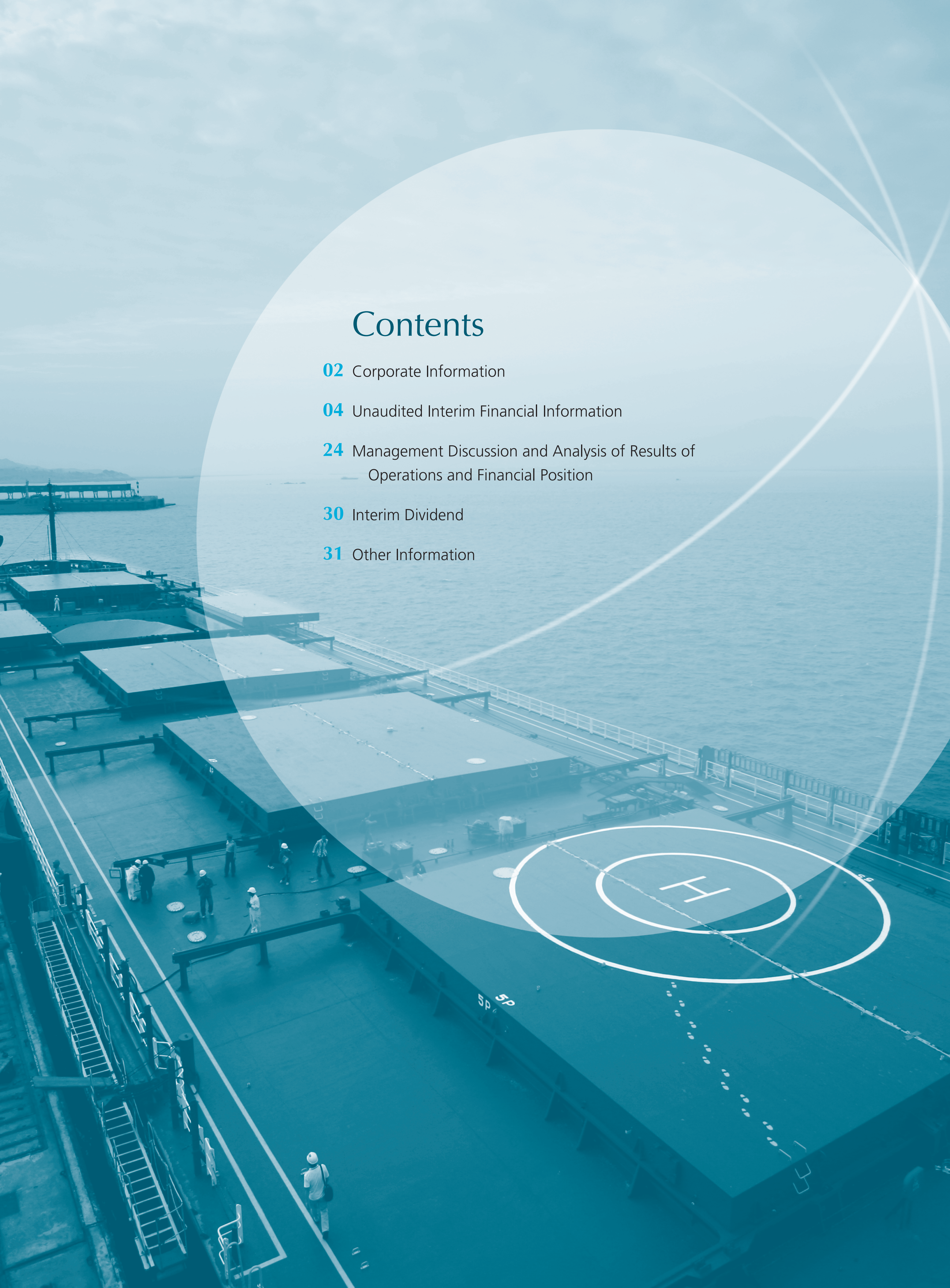
2010
Interim Report

This interim report, in both English and Chinese versions, is available on the Company's website at *www.sinotranship.com* (the "Company Website").

Shareholders who have chosen to receive the corporate communications of the Company (the "Corporate Communications") via the Company Website and who for any reason have difficulty in receiving or gaining access to the interim report posted on the Company Website will promptly upon request be sent the interim report in printed form free of charge.

Shareholders may at any time change their choice of the means of receipt (either in printed form or via the Company Website) and/or language(s) (either English only or Chinese only or both languages) of Corporate Communications.

Shareholders may send their request to receive the interim report in printed form, and/or to change their choice of the means of receipt and/or language(s) of Corporate Communications by notice in writing to the Hong Kong Share Registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or by sending an email to the Hong Kong Share Registrar of the Company at sinotransshipping.ecom@computershare.com.hk.



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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

21st Floor
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

Company Secretary

Mr. Huen Po Wah, *ACIS ACS*

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

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
Ground Floor, 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

Auditor

PricewaterhouseCoopers
22nd Floor Prince's Building
Central
Hong Kong

Legal Advisers to our Company

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

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	Note	Six months ended 30 June 2010 US$'000	2009 US$'000
Revenues	3	**133,714**	119,497
Cost of operations		**(77,048)**	(62,275)
Gross profit		**56,666**	57,222
Selling, administrative and general expenses		**(6,005)**	(7,341)
Other operating income	4	**235**	1,003
Operating profit		**50,896**	50,884
Finance income	5	**4,957**	14,615
Finance costs	5	**—**	(475)
Share of profits/(losses) of jointly controlled entities		**2,825**	(726)
Profit before income tax		**58,678**	64,298
Income tax expense	6	**(201)**	(236)
Profit attributable to equity holders of the Company		**58,477**	64,062
Other comprehensive income			
Exchange differences		**(44)**	90
Total comprehensive income for the period		**58,433**	64,152
Earnings per share			
— Basic and diluted	8	**US1.46 cents**	US1.60 cents
Dividends	9	**10,236**	10,236

Unaudited Condensed Consolidated Balance Sheet

As at 30 June 2010

	Note	As at 30 June 2010 US$'000	As at 31 December 2009 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**960,784**	815,796
Interests in jointly controlled entities		**58,025**	52,774
Loan to a jointly controlled entity		**21,001**	22,847
Bank deposits		**—**	400,000
		1,039,810	1,291,417
Current assets			
Loan to a jointly controlled entity		**3,692**	3,692
Trade and other receivables	11	**31,912**	27,294
Cash and bank balances			
Restricted		**7,500**	—
Unrestricted		**1,024,703**	753,058
		1,067,807	784,044
Total assets		**2,107,617**	2,075,461
EQUITY			
Capital and reserves			
Share capital	12	**51,239**	51,239
Reserves		**2,015,340**	1,982,490
		2,066,579	2,033,729
LIABILITIES			
Current liabilities			
Trade and other payables	13	**40,801**	41,434
Taxation payable		**237**	298
		41,038	41,732
Total equity and liabilities		**2,107,617**	2,075,461
Net current assets		**1,026,769**	742,312
Total assets less current liabilities		**2,066,579**	2,033,729

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Capital redemption reserve US$'000	Exchange reserve US$'000	Retained earnings US$'000	Total equity US$'000
At 1 January 2010	51,239	1,826,869	(450,507)	101	222	605,805	2,033,729
Comprehensive income							
Profit for the period	—	—	—	—	—	58,477	58,477
Other comprehensive income							
Exchange differences	—	—	—	—	(44)	—	(44)
Total comprehensive income	—	—	—	—	(44)	58,477	58,433
Transaction with owners							
Dividend paid	—	—	—	—	—	(25,583)	(25,583)
At 30 June 2010	51,239	1,826,869	(450,507)	101	178	638,699	2,066,579
At 1 January 2009	51,239	1,826,869	(450,507)	101	80	571,129	1,998,911
Comprehensive income							
Profit for the period	—	—	—	—	—	64,062	64,062
Other comprehensive income							
Exchange differences	—	—	—	—	90	—	90
Total comprehensive income	—	—	—	—	90	64,062	64,152
Transaction with owners							
Dividend paid	—	—	—	—	—	(61,417)	(61,417)
At 30 June 2009	51,239	1,826,869	(450,507)	101	170	573,774	2,001,646

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Net cash from operating activities	**69,073**	74,992
Net cash used in investing activities	**(135,421)**	(51,342)
Net cash used in financing activities	**(25,583)**	(168,617)
Net decrease in cash and cash equivalents	**(91,931)**	(144,967)
Cash and cash equivalents at 1 January	**238,381**	260,483
Effect of foreign exchange rate changes	**104**	(124)
Cash and cash equivalents at 30 June	**146,554**	115,392
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	**1,032,203**	1,267,687
Less: Bank deposits with initial term of over three months	**(878,149)**	(1,152,295)
Restricted bank balance (note 14)	**(7,500)**	—
Cash and cash equivalents	**146,554**	115,392

Notes to the Unaudited Interim Financial Information

1. General Information

Sinotrans Shipping Limited (the "Company") was incorporated in Hong Kong and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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") are principally engaged 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 parent company is SINOTRANS & CSC Holdings Co., Ltd. ("SINOTRANS & CSC Holdings"), 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 9 August 2010.

This interim financial information has not been audited.

2. Basis of Preparation and Accounting Policies

The interim financial information for the six months ended 30 June 2010 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 on the Stock Exchange (the "Listing Rules").

The interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, 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 2009 except that the Group has adopted the following new or revised standards, interpretations and amendments to standards issued by the HKICPA which are relevant to its operations and mandatory for the financial year ending 31 December 2010.

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 Amendment	Eligible Hedge Items
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Interpretation 17	Distribution of Non-cash Assets to Owners
HKFRS 2 Amendment	Group Cash-settled Share-based Payment Transaction
HKFRSs Amendments	Improvement to HKFRSs 2009

2. Basis of Preparation and Accounting Policies (Continued)

The adoption of the above new or revised standards, interpretations and amendments did not have significant effect on the unaudited condensed consolidated financial statements or result in any significant changes in the Group's significant accounting policies except as described below.

(a) HKFRS 3 (Revised), "Business Combination". The revised standard continues to apply the acquisition method to business combinations but with some significant changes. For example, all acquisition-related costs should be expensed. The cost of acquisition includes the fair value at the acquisition date of any contingent purchase consideration. In a business combination undertaken in phases/stages, the previously held equity interest in the acquiree is remeasured at fair value and the difference between its fair value and carrying amount is recognised in the income statement. There is a choice, on the basis of each acquisition, to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

(b) HKAS 27 (Revised), "Consolidated and Separate Financial Statements". HKAS 27 (Revised) provides that the transactions undertaken with non-controlling interest that do not result in the loss of control are accounted for as equity transactions and these transactions will no longer result in goodwill or gains and losses. When control is lost, any remaining interest in the entity is remeasured to fair value and the difference between the fair value and the carrying amount is recognised in the income statement.

The HKICPA has issued a number of new standards, interpretations and amendments to standards which are not effective for accounting period beginning 1 January 2010. The Group has not early adopted these new and revised HKFRS.

3. Revenues and Segment Information

(a) Revenues

Turnover represents revenues from operations of dry bulk shipping, oil tanker shipping and container shipping totalling US$133,056,000 (six months ended 30 June 2009: US$119,079,000) and other shipping related businesses totalling US$658,000 (six months ended 30 June 2009: US$418,000) respectively.

(b) Segment information

The chief operating decision makers have been identified as the directors of the Company (the "Directors"). The Directors review the Group's internal reporting in order to assess performance and allocate resources. Management determined the operating segments based on these reports.

Management assesses the performance based on the nature of the Group's business which is organised on a worldwide basis. The Group's business comprises:

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

— Oil tanker shipping — crude oil shipping services

— Container shipping — container vessel time chartering

— Others — shipping agency and ship management services

3. Revenues and Segment Information (Continued)

(b) Segment information (Continued)

Management considers 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 presentation of geographical information.

	Six months ended 30 June 2010				
	Dry bulk shipping US$'000	Oil tanker shipping US$'000	Container shipping US$'000	Others US$'000	Total US$'000
Total revenues	125,246	8,611	9,755	4,144	147,756
Inter-segment revenues	(1,141)	—	—	(3,486)	(4,627)
Revenues from external customers	124,105	8,611	9,755	658	143,129
Segment results	52,748	2,317	1,427	293	56,785
Depreciation	16,898	—	2,783	45	19,726
Additions to non-current assets	164,646	—	37	37	164,720

	Six months ended 30 June 2009				
	Dry bulk shipping US$'000	Oil tanker shipping US$'000	Container shipping US$'000	Others US$'000	Total US$'000
Total revenues	109,584	5,051	10,755	4,164	129,554
Inter-segment revenues	(772)	—	—	(3,746)	(4,518)
Revenues from external customers	108,812	5,051	10,755	418	125,036
Segment results	51,030	(414)	2,983	1,138	54,737
Depreciation	12,472	—	2,574	71	15,117
Additions to non-current assets	9,544	—	426	264	10,234

3. Revenues and Segment Information (Continued)

(b) Segment information (Continued)

Revenues between segments are carried out on terms with reference to the market practice. Revenues from external customers reported to the Directors are measured in a manner consistent with that in the condensed consolidated statement of comprehensive income, except that revenues from the Group's jointly controlled entities are measured in a proportionate consolidated basis in the segment information.

Reportable revenues from external customers are reconciled to total revenues as follows:

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Revenues from external customers for reportable segments	**143,129**	125,036
Revenues from external customers derived by jointly controlled entities measured at proportional basis	**(9,415)**	(5,539)
Total revenues per condensed consolidated statement of comprehensive income	**133,714**	119,497

The Directors assess the performance of the operating segments based on a measure of operating results from each reportable segment. This measurement includes the results from the Group's jointly controlled entities on a proportionate consolidated basis. Corporate expenses, finance income and finance costs are not included in the segment results.

A reconciliation of segment results to profit before income tax is provided as follows:

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Segment results for reportable segments	**56,785**	54,737
Corporate expenses	**(3,064)**	(4,579)
Finance income	**4,957**	14,615
Finance costs	**—**	(475)
Profit before income tax	**58,678**	64,298

3. Revenues and Segment Information (Continued)

(b) Segment information (Continued)

Segment assets and liabilities exclude corporate assets and liabilities (including corporate cash and borrowings), and deferred tax, which are managed on a central basis. These are part of the reconciliation to total consolidated assets and liabilities. Segment assets and liabilities reported to the Directors are measured in a manner consistent with that in the condensed consolidated balance sheet.

	As at 30 June 2010				
	Dry bulk shipping US$'000	Oil tanker shipping US$'000	Container shipping US$'000	Others US$'000	Total US$'000
Segment assets	920,535	65,732	106,852	4,703	1,097,822
Segment assets include:					
Interests in jointly controlled entities	17,648	40,377	—	—	58,025
Loan to a jointly controlled entity	—	24,693	—	—	24,693
Segment liabilities	32,533	56	535	3,150	36,274

	As at 31 December 2009				
	Dry bulk shipping US$'000	Oil tanker shipping US$'000	Container shipping US$'000	Others US$'000	Total US$'000
Segment assets	761,433	65,377	112,525	6,242	945,577
Segment assets include:					
Interests in jointly controlled entities	14,864	37,910	—	—	52,774
Loan to a jointly controlled entity	—	26,539	—	—	26,539
Segment liabilities	31,187	172	854	4,213	36,426

3. Revenues and Segment Information (Continued)

(b) Segment information (Continued)

Reportable segment assets are reconciled to total assets as follows:

	As at 30 June 2010 US$'000	As at 31 December 2009 US$'000
Segment assets	1,097,822	945,577
Corporate assets	1,009,795	1,129,884
Total assets per the condensed consolidated balance sheet	2,107,617	2,075,461

Reportable segment liabilities are reconciled to total liabilities as follows:

	As at 30 June 2010 US$'000	As at 31 December 2009 US$'000
Segment liabilities	36,274	36,426
Corporate liabilities	4,764	5,306
Total liabilities per the condensed consolidated balance sheet	41,038	41,732

4. Other Operating Income

	Six months ended 30 June	
	2010 US$'000	2009 US$'000
Loss on sale of property, plant and equipment	—	(5)
Interest income from jointly controlled entities	232	1,008
Interest income from a fellow subsidiary (note 14)	3	—
	235	1,003

5. Finance Income and Costs

	Six months ended 30 June 2010 US$'000	2009 US$'000
Finance income		
Interest income on bank deposits	**4,957**	14,615
Finance costs		
Bank loans — wholly repayable within five years	**—**	(475)
Net finance income	**4,957**	14,140

6. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) 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 2010 US$'000	2009 US$'000
Current income tax		
Hong Kong profits tax	**52**	139
Overseas taxation	**149**	97
	201	236

7. Employee Benefit Expense

	Six months ended 30 June 2010 US$'000	2009 US$'000
Wages and salaries	**2,628**	2,237
Pension costs — defined contribution plans	**88**	58
	2,716	2,295

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.

	Six months ended 30 June	
	2010	2009
Profit attributable to equity holders of the Company (US$'000)	**58,477**	64,062
Weighted average number of shares in issue (thousands)	**3,992,100**	3,992,100
Basic earnings per share (US cents per share)	**1.46**	1.60

As there were no diluted potential ordinary shares outstanding during the six months ended 30 June 2010 (six months ended 30 June 2009: Nil), the diluted earnings per share for the six months ended 30 June 2010 is equal to basic earnings per share.

9. Dividends

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Interim dividend, proposed of HK2 cents (2009: HK2 cents) per share	**10,236**	10,236

On 9 August 2010, the Board of Directors resolved to declare the payment of an interim dividend of HK2 cents (2009: HK2 cents) (equivalent to US0.26 cents (2009: US0.26 cents)) per share, totalling US$10,236,000 (2009: US$10,236,000) for the six months ended 30 June 2010. 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 2010.

10. Property, Plant and Equipment

	2010 US$'000	2009 US$'000
Cost		
At 1 January	1,120,461	940,762
Exchange differences	(6)	34
Additions	164,720	10,234
Disposals and write-off	(3,086)	(2,411)
At 30 June	1,282,089	948,619
Accumulated depreciation		
At 1 January	304,665	279,192
Exchange differences	(4)	(30)
Charge for the period	19,725	15,117
Disposals and write-off	(3,081)	(2,394)
At 30 June	321,305	291,885
Net book value		
At 30 June	960,784	656,734

11. Trade and Other Receivables

	As at 30 June 2010 US$'000	As at 31 December 2009 US$'000
Trade receivables		
— fellow subsidiaries	5,796	7,497
— other state-owned enterprises	542	523
— third parties	2,458	2,351
	8,796	10,371
Prepayments, deposits and other receivables	22,412	16,507
Amounts due from related parties	704	416
Total	31,912	27,294

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 2010 US$'000	As at 31 December 2009 US$'000
Within 6 months	7,272	8,241
7–12 months	242	1,286
1–2 years	1,179	770
2–3 years	103	74
Trade receivables, gross	8,796	10,371

12. Share Capital

	Number of shares Ordinary shares of HK$0.1 each	Nominal value US$'000
Authorised:		
At 1 January and 30 June 2009 and 2010	50,000,000,000	641,026
Issued and fully paid:		
At 1 January and 30 June 2009 and 2010	3,992,100,000	51,239

13. Trade and Other Payables

	As at 30 June 2010 US$'000	As at 31 December 2009 US$'000
Trade payables		
— fellow subsidiaries	274	213
— other state-owned enterprises	1,174	2,080
— third parties	10,025	10,081
	11,473	12,374
Other payables and accruals	20,458	20,150
Amounts due to related parties	8,870	8,910
Total	40,801	41,434

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

	As at 30 June 2010 US$'000	As at 31 December 2009 US$'000
Within 6 months	11,198	11,956
7–12 months	48	140
1–2 years	73	100
2–3 years	71	23
Over 3 years	83	155
	11,473	12,374

14. Contingent Liabilities

A vessel chartered by Sinotrans (Germany) GmbH ("Sinotrans (Germany)"), a fellow subsidiary, from an independent third party (the "Third Party") was hijacked by pirates in November 2009 and was released in December 2009.

The Third Party requested Sinotrans (Germany) to provide security for losses and expenses incurred by the Third Party in connection with the hijack, and subsequently initiated legal proceedings in South Africa and detained a dry-bulk vessel of the Group (the "Vessel") as security for enforcement of judgement. The Vessel was chartered by the Group to another independent third party immediately prior to the detention.

In order to minimise losses suffered by the Group as a result of the detention of the Vessel and to secure the release of the Vessel, the Group placed a bank deposit of US$7,500,000 (the "Payment") as a security to Bank of China (Hong Kong) Limited (the "Bank") to issue a bank guarantee to the Protection and Indemnity Club of the Group (the "P&I Club") for the issuance of a letter of undertaking (the "Letter of Undertaking") to the Third Party for a sum of US$6,825,848.94 as a condition for the Vessel to be released and the fees to be charged by P&I Club in connection with the Letter of Undertaking. On 11 June 2010, the P&I Club issued the Letter of Undertaking to the Third Party and the Vessel was released at the same date.

Pursuant to a deed of undertaking dated 18 June 2010 (the "Deed of Undertaking"), Sinotrans (Germany) undertook to indemnify and reimburse the Group (the "Indemnity") in respect of the following amounts:

(i) the full amount of US$7,500,000 or such lesser amount enforced by the P&I Club together with interest accrued on such amount from 18 June 2010 up to and including the date on which the Group receives the full amount of US$7,500,000 from Sinotrans (Germany) or the Bank calculated based on an interest rate of 1.18% per annum; and

(ii) any other payments, costs, expenses, losses or liabilities incurred or suffered by the Group arising out of or in connection with the Payment and/or detention of the Vessel.

Taking into account the Indemnity given by Sinotrans (Germany), the Directors are of the opinion that the matter will not have significant financial impact to the Group.

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

15. Commitments

(a) Capital commitments in respect of vessels under construction and dry docking for the Group

	As at 30 June 2010 US$'000	As at 31 December 2009 US$'000
Authorised but not contracted for	—	671
Contracted but not provided for	285,330	322,780
	285,330	323,451

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

At 30 June 2010, the Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	As at 30 June 2010 US$'000	As at 31 December 2009 US$'000
Office premises		
— No later than one year	579	184
— Later than one year and no later than five years	124	174
	703	358
Vessels		
— No later than one year	3,098	2,171
	3,801	2,529

15. Commitments (Continued)

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

At 30 June 2010, 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 1 to 33 months:

	As at 30 June 2010 US$'000	As at 31 December 2009 US$'000
Vessels		
— No later than one year	123,973	97,991
— Later than one year and no later than five years	20,133	13,364
	144,106	111,355

16. Related Party Transactions

SINOTRANS & CSC Holdings, the parent 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 & CSC Holdings, are all related parties of the Group.

The Group has extensive transactions with the SINOTRANS & CSC Holdings 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.

16. Related Party Transactions (Continued)

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	
	2010	2009
	US$'000	US$'000
Charterhire income from fellow subsidiaries	**10,773**	10,111
Commission expenses to fellow subsidiaries	**(118)**	(111)
Commercial management fee for oil tanker shipping to a fellow subsidiary	**—**	(100)
Rental expenses to fellow subsidiaries	**383**	375
Expenses for hiring of crews and seafarers for fellow subsidiaries	**(3,890)**	(3,267)
Shipping agency fee to fellow subsidiaries	**(72)**	(70)
Interest income from jointly controlled entities	**235**	1,008

In the opinion of the Directors, 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) Period ended balances arising from sales, purchases and other transactions with related parties were disclosed in notes 11 and 13.

(c) During the period, the Group was allowed to use trademarks registered in the name of SINOTRANS & CSC Holdings on a free-of-charge basis.

(d) 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 2010, the two Handysize vessels were under construction and the sale is subject to the completion of construction which is expected to be delivered in August and November 2010 respectively.

16. Related Party Transactions (Continued)

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

	Six months ended 30 June 2010 US$'000	Six months ended 30 June 2009 US$'000
Charterhire income	**8,955**	4,031
Bank interest income	**4,956**	14,567
Bank loans interest expenses	**—**	(475)
Charterhire expenses	**(3,780)**	(1,764)
Commission expenses	**(375)**	(294)
Expenses for hiring of crews and seafarers	**—**	(3)
Freight forwarding expenses	**(172)**	(71)

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) Balances with other state-owned enterprises were as follows:

	As at 30 June 2010 US$'000	As at 31 December 2009 US$'000
Cash at bank	**1,028,658**	1,148,810

(g) Key management compensation

	Six months ended 30 June 2010 US$'000	Six months ended 30 June 2009 US$'000
Salaries, allowances, and benefits-in-kind	**195**	184
Contributions to pension plans	**5**	5
	200	189

Review of Historical Operating Results

With the global economic recovery under way in the first half of 2010, demand for shipping was lifted and the international shipping market has seen positive turnaround. However, as the foundation of recovery for charter hire and freight rate is not solid enough, the shipping market still remained volatile on the whole. For the six months ended 30 June 2010, our Group produced operating profit of US$50.90 million (2009: US$50.88 million). The profit attributable to equity holders of the Company was US$58.48 million (2009: US$64.06 million), which was mainly due to the decrease in interest income during the first half of this year.

Revenues

For the six months ended 30 June 2010, revenues of our Group were US$133.71 million (2009: US$119.50 million) mainly due to the increase in revenues from dry bulk shipping.

We set forth below the revenue contribution from each business segment for the six months ended 30 June 2010:

	Six months ended 30 June		
	2010	2009	
	US$'000	US$'000	% Change
Revenues from:			
— Dry bulk shipping*	**124,105**	108,812	14.1%
— Oil tanker shipping*	**8,611**	5,051	70.5%
— Container shipping	**9,755**	10,755	(9.3%)
— Others	**658**	418	57.4%
	143,129	125,036	14.5%
Revenues derived from jointly controlled entities measured at proportionate consolidated basis*	**(9,415)**	(5,539)	70.0%
Total revenues per condensed consolidated statement of comprehensive income	**133,714**	119,497	11.9%

* *Segment revenue includes revenues derived from jointly controlled entities measured at proportionate consolidated basis. Segment revenue substracted the revenues derived from jointly controlled entities measured at proportionate consolidated basis to arrive at total revenue.*

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 2010:

	Six months ended 30 June		
	2010	2009	
	US$	US$	% Change
Dry bulk vessel (Self-owned)	**19,140**	20,065	(4.6%)
Oil tanker** (Average daily TCE)	**53,890**	27,306	97.4%
Container vessel	**5,399**	6,730	(19.8%)

** *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.

Increasing demand for dry bulk shipping stemmed from the gradual stabilisation of the world economy and the support of seasonal factors contributed to an improving dry bulk shipping market in the first half of this year. The average Baltic Dry Index ("BDI") recorded in the first half of this year rose almost 50% compared with the same period of last year. However, under pressures such as the iron ore price negotiations and the acceleration of newbuilding deliveries, the BDI remained volatile while the ground of market recovery was still shaky.

In the first half of 2010, our moderate operation strategies of long and short-term chartering helped reducing the impact of the market fluctuation on our Group. With the newbuilding dry bulk vessels gradually put into operation, our revenue from charter hire income increased by 12.7% to US$101.43 million (2009: US$89.98 million).

Revenue from ocean freight income climbed 20.4% to US$22.68 million (2009: US$18.83 million) due to the increase in freight rate.

Oil tanker shipping

Revenue from oil tanker shipping services for the period ended 30 June 2010 hiked 70.5% to US$8.61 million (2009: US$5.05 million), which was mainly attributable to the realisation of higher revenue through cashing in on the rising market by our Group.

Container shipping

The market of container shipping is still recovering in 2010 and our revenue from container shipping remains stable. Revenue from container shipping for the period ended 30 June 2010 was US$9.76 million (2009: US$10.76 million).

Cost of operations

With the expansion of our fleet size, the overall cost of operations increased. For the six months ended 30 June 2010, cost of operations was US$77.05 million (2009: US$62.28 million), which represents an increase of 23.7%. The increase in the cost of operations was primarily due to increase in operating lease expenses for charter-in vessels, depreciation expenses and expenses for hiring of crews and seafarers.

Operating lease expenses

Operating lease expenses for vessels was US$14.28 million (2009: US$7.63 million), which represents an increase of 87.2%. The increase was primarily due to an increase in the charter hire rates of our Group's voyage business.

Depreciation expenses

As a result of the expansion of our fleet size, the depreciation expenses for vessels increased by 30.7% to US$19.64 million (2009: US$15.03 million).

Expenses for hiring of crews and seafarers

In addition to the expansion of our fleet size, the upward adjustment of salary and wages of our crews and seafarers also led to an increase of the expenses for hiring of crews and seafarers by 20.8% to US$13.34 million (2009: US$11.04 million).

Selling, administrative and general expenses

The selling, administrative and general expenses reduced by 18.2% to US$6.01 million (2009: US$7.34 million) owing to the implementation of the continuous effective cost control measures.

Other operating income

Other operating income amounted to US$235,000 (2009: US$1,003,000) mainly represents the interest income from jointly controlled entities. It reduced by 76.6% due to the reduction in interest rate and loan repayment made by the jointly controlled entities.

Finance income

Finance income mainly derived from the interest income from bank deposits. It reduced by 66.1% to US$4.96 million (2009: US$14.62 million) mainly as a result of the decrease in deposit interest rates and reduction of bank deposits.

Share of profits/losses of jointly controlled entities

Benefited from the rebound of the shipping market in the first half of 2010, the profits derived from the oil tanker shipping and dry bulk shipping business increased. Share of profits of jointly controlled entities amounted to US$2,825,000 (2009: share of losses of US$726,000).

Income tax expense

Income tax was US$201,000 (2009: US$236,000). The effective income tax rate was 0.34% (2009: 0.37%).

Liquidity and financial resources

Our principal uses of cash have been, for payment for construction and acquisition of new vessels, operation costs and working capital in the first half of 2010. We have financed our liquidity requirements primarily through internal generated cash.

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

	As at 30 June 2010 US$'000	As at 31 December 2009 US$'000
Current assets	1,067,807	784,044
Current liabilities	41,038	41,732
Liquidity ratio(note)	26.02	18.80

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 2010 and 31 December 2009 were 26.02 and 18.80 respectively. The increase in liquidity ratio was primarily due to the long-term bank deposits amounted to US$400 million as at 31 December 2009 will be matured before April 2011 and thus reclassified as current asset in the current period.

Borrowings

Gearing ratio is not presented as our Group did not have borrowings as at 30 June 2010 and 31 December 2009.

Commitments

The following table sets out our capital commitment in respect of new ship building contracts for the construction of dry bulk vessels as at the balance sheet date indicated.

	As at 30 June 2010 US$'000	As at 31 December 2009 US$'000
Authorised but not contracted for	—	671
Contracted but not provided for	285,330	322,780
	285,330	323,451

Capital Expenditures

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

For the six months ended 30 June 2010, total capital expenditures were US$164.72 million which was attributable to the capital expenditures for construction of dry bulk vessels and conduction of dry dock maintenance in the first half of the year.

Foreign Exchange Risks

Our Group operates internationally and is exposed to foreign exchange risk from various currency exposures primarily with respect to Hong Kong dollar, Japanese Yen and Renminbi. Our Group's revenues, cost of operations and majority of financial assets and liabilities are principally denominated in US dollar. Accordingly, foreign exchange risk mainly arises from future commercial transactions, net investments in foreign operations and commitments arising from certain ship-building contracts. Our Group currently does not have regular and established hedging policy in place. Our 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.

As at 30 June 2010, our Group had Hong Kong dollar net monetary liabilities of US$3.17 million (31 December 2009: US$4.40 million). Under the Linked Exchange Rate System in Hong Kong, Hong Kong dollar is pegged to the US dollar, management considers that there is no significant foreign exchange risk with respect to the Hong Kong dollar.

As at 30 June 2010, our Group had Japanese Yen net monetary assets of US$5.69 million (31 December 2009: US$5.78 million). If US dollar had strengthened/weakened by 5% against Japanese Yen with all other variables unchanged, our Group's profit before income tax would have been US$0.28 million (31 December 2009: US$0.29 million) lower/higher.

Management considers that there is no significant foreign exchange risk with respect to Renminbi, as the net monetary amounts of this foreign currency is insignificant as at 30 June 2010.

Contingencies

The contingencies of the Company were set out in note 14 of the unaudited interim financial information.

Employees

As at 30 June 2010, our Group had a total of 111 shore-based employees working in our offices in Hong Kong, Canada and Singapore. Details of our employees' remuneration, our remuneration policy and staff development were substantially the same as those disclosed in our 2009 Annual Report without significant changes.

Fleet development

In the first half of 2010, our Group took delivery of 3 dry bulk vessels with additional capacity of approximately 380,000 DWT and ordered 4 Panamax dry bulk vessels in order to enhance our competitiveness. As at 30 June 2010, we operated a fleet of 43 vessels with an aggregate capacity of 2.31 million DWT, and a total of 11 newbuilding vessels with approximately 1.12 million DWT, which were scheduled to be delivered to our Group between the second half of 2010 and 2011.

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 2010.

Outlook

Looking ahead into the second half of the year, as the global economy gradually recovers from the depression, the shipping market will improve to a certain extent. The global shipping demand will maintain its growth momentum as the rapid development of the PRC economy will provide strong support to the shipping market while emerging countries are expected to carry further weight in the shipping market. However, the market will still face pressure on the recovery of charter hire and freight rate with the accelerated delivery of newbuilding vessels into the market. Moreover, the orientation of the PRC government's macroeconomic policies, the prospect of economic recovery in Europe and the U.S. and price negotiations of bulk commodities such as iron ore will intensify market fluctuation and the shipping market is expected to remain volatile over the year. In the face of such complicated market environments, our Group will strive to keep up with market development, adhere to moderate operation approach, keep a tight cost control and strengthen our risk control measures for ensuring a stable development of our business. Meanwhile, we will also take the initiatives in optimising the structure of our fleet for enhancing the competitiveness of our Company and delivering better returns for our shareholders.

Audit Committee

The audit committee of our Company has reviewed the unaudited interim financial information of our Group for the six months ended 30 June 2010. In addition, the Company's independent auditor, PricewaterhouseCoopers, has performed a review of the unaudited interim financial information of our Group in accordance with the Hong Kong Standard on Review Engagements 2410 issued by the HKICPA.

Interim Dividend

Our Board has resolved to declare the payment of an interim dividend of HK2 cents (equivalent to US0.26 cents) per share for the six months ended 30 June 2010. It is expected that the interim dividend will be paid on or after 10 September 2010 to our shareholders whose names appear on the register of members on 3 September 2010.

Closure of Register of Members

The register of members of our Company will be closed from 30 August 2010 to 3 September 2010 (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 27 August 2010 for registration.

Directors' Interests in Shares

As at 30 June 2010, 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 Appendix 10 of the Listing Rules.

Substantial Shareholders

As at 30 June 2010, 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 & CSC Holdings Co., Ltd. *(Note 1)*	Long Position	Interest of controlled corporation	2,718,520,000	68.10%
Sinotrans Shipping (Holdings) Limited *(Note 1)*	Long Position	Beneficial owner	2,600,000,000	65.13%

Notes:

1. *SINOTRANS & CSC Holdings Co., Ltd. (formerly known as Sinotrans Group Company) is the beneficial owner of all the issued shares in Sinotrans Shipping (Holdings) Limited, and therefore, SINOTRANS & CSC Holdings Co., Ltd. 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 2010, no other person (other than 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 2010.

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 2010.

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 2010.

DISCLOSURE OF CHANGE OF INFORMATION ON DIRECTORS

Changes of directors' information since the issue date of the 2009 Annual Report are as follows:

As at the date of this report, Mr. Pan Deyuan resigned as vice president of SINOTRANS & CSC Holdings Co., Ltd., the controlling shareholder of the Company, due to retirement. Besides, Mr. Pan Deyuan also resigned as directors of Sinotrans (NZ) Limited and Wenita Forest Products Company Limited both effective 10 February 2010.