中外運航運有限公司

SINOTRANS SHIPPING LTD.

(Incorporated in Hong Kong with limited liability)

Stock Code : 368

2012 INTERIM REPORT

Contents

Corporate Information

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
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Wanchai
Hong Kong

PRINCIPAL BANKERS

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G/F., China Resources Building
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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.,
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PricewaterhouseCoopers
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LEGAL ADVISERS TO OUR COMPANY

Sidley Austin
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8 Finance Street
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Hong Kong

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Note	Six months ended 30 June 2012 US$'000	2011 US$'000
Revenues	4	107,214	134,408
Cost of operations		(94,416)	(82,953)
Gross profit		12,798	51,455
Selling, administrative and general expenses		(8,750)	(7,497)
Other operating income/gain, net	5	2,878	947
Operating profit		6,926	44,905
Finance income, net	6	13,120	9,039
Share of profits of jointly controlled entities		535	1,408
Profit before income tax		20,581	55,352
Income tax expense	7	(478)	(136)
Profit attributable to owners of the Company		20,103	55,216
Other comprehensive income			
Translation differences		25	90
Total comprehensive income for the period		20,128	55,306
Earnings per share			
– Basic and diluted	8	US0.50 cents	US1.38 cents
Dividend	9	–	10,236

Unaudited Condensed Consolidated Balance Sheet

As at 30 June 2012

	Note	As at 30 June 2012 US$'000	As at 31 December 2011 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	1,087,898	1,099,092
Interests in jointly controlled entities		21,085	20,550
Loans to jointly controlled entities	17(b)	11,250	12,000
Finance lease receivable from a fellow subsidiary		91,420	93,295
Held-to-maturity investment	17(f)	44,270	44,438
		1,255,923	1,269,375
Current assets			
Inventories		4,365	1,650
Loans to jointly controlled entities	17(b)	1,500	1,500
Trade and other receivables	12	57,071	47,684
Finance lease receivable from a fellow subsidiary		3,770	3,684
Cash and bank balances			
– Cash and cash equivalents		67,630	63,775
– Short-term bank deposits		810,017	820,862
– Restricted cash		7,500	7,500
		951,853	946,655
Total assets		2,207,776	2,216,030
EQUITY			
Capital and reserves			
Share capital	13	51,239	51,239
Reserves		2,124,544	2,124,968
		2,175,783	2,176,207
LIABILITIES			
Current liabilities			
Trade and other payables	14	30,422	38,730
Taxation payable		1,571	1,093
		31,993	39,823
Total equity and liabilities		2,207,776	2,216,030
Net current assets		919,860	906,832
Total assets less current liabilities		2,175,783	2,176,207

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	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 2011	51,239	1,826,869	(450,507)	101	356	697,485	2,125,543
Comprehensive income							
Profit for the period	–	–	–	–	–	55,216	55,216
Other comprehensive income							
Translation differences	–	–	–	–	90	–	90
Total comprehensive income	–	–	–	–	90	55,216	55,306
Transaction with owners							
Dividend paid	–	–	–	–	–	(30,774)	(30,774)
At 30 June 2011	51,239	1,826,869	(450,507)	101	446	721,927	2,150,075
At 1 January 2012	51,239	1,826,869	(450,507)	101	315	748,190	2,176,207
Comprehensive income							
Profit for the period	–	–	–	–	–	20,103	20,103
Other comprehensive income							
Translation differences	–	–	–	–	25	–	25
Total comprehensive income	–	–	–	–	25	20,103	20,128
Transaction with owners							
Dividend paid	–	–	–	–	–	(20,552)	(20,552)
At 30 June 2012	51,239	1,826,869	(450,507)	101	340	747,741	2,175,783

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2012

	Six months ended 30 June 2012 US$'000	2011 US$'000
Net cash from operating activities	25,885	64,993
Net cash used in investing activities	(1,244)	(33,784)
Net cash used in financing activities	(20,552)	(30,774)
Net increase in cash and cash equivalents	4,089	435
Cash and cash equivalents at 1 January	63,775	146,182
Effect of foreign exchange rate changes	(234)	83
Cash and cash equivalents at 30 June	67,630	146,700

Notes to the 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") principally engages in dry bulk vessel time chartering and dry bulk cargo voyage chartering, container vessel time chartering, shipping agency, ship management services and vessel chartering under finance lease.

The parent company is SINOTRANS & CSC Holdings Co., Ltd. ("Sinotrans & CSC Group Company"), a state-owned enterprise established in the People's Republic of China (the "PRC").

This interim financial information was approved for issue by the Board of Directors on 22 August 2012.

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 2012 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").

The interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, 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 2011 except that the Group has adopted the following amendments to standards issued by the HKICPA which are relevant to its operations and mandatory for the financial year beginning 1 January 2012.

HKFRS 7 Amendment	Disclosures – Transfers of Financial Assets
HKAS 12 Amendment	Deferred Tax: Recovery of Underlying Assets

The adoption of the above amendments did not have significant effect on the condensed consolidated financial information or result in any significant changes in the Group's significant accounting policies.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

The HKICPA has issued the following new standards and amendments to standards which are not effective for accounting period beginning 1 January 2012 but relevant to the Group and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Presentation of Financial Statements	1 July 2012
HKAS 19 (Amendment)	Employee Benefits	1 January 2013
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKFRS 9	Financial Instruments	1 January 2015
HKFRS 10	Consolidated Financial Statements	1 January 2013
HKFRS 11	Joint Arrangements	1 January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1 January 2013
HKFRS 13	Fair Value Measurement	1 January 2013
HKFRS Amendments	Fourth 2011 Annual Improvements	1 January 2013

The Group has already commenced an assessment of the related impact of these new standards and amendments on the Group. However, the Group is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted.

The preparation of the interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011.

3 FINANCIAL RISK MANAGEMENT

All aspects of the Group's financial risk management objectives and practices are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2011.

4 REVENUES AND SEGMENT INFORMATION

(a) Revenues

Turnover represents revenues from operations of dry bulk shipping, oil tanker shipping and container shipping totalling US$106,546,000 (six months ended 30 June 2011: US$133,623,000) and other shipping related businesses totalling US$668,000 (six months ended 30 June 2011: US$785,000) 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 (note 17(e))
- Container shipping – container vessel time chartering
- Others – shipping agency, ship management services and vessel chartering under finance lease

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 2012				
	Dry bulk shipping US$'000	Oil tanker shipping US$'000	Container shipping US$'000	Others US$'000	Total US$'000
Total revenues	96,884	–	11,094	4,758	112,736
Inter-segment revenues	(340)	–	–	(4,090)	(4,430)
Revenues from external customers	96,544	–	11,094	668	108,306
Segment results	6,241	–	2,663	3,164	12,068
Depreciation	25,634	–	2,418	110	28,162
Additions to non-current assets	18,574	–	233	63	18,870

4 REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

	Six months ended 30 June 2011				
	Dry bulk shipping US$'000	Oil tanker shipping US$'000	Container shipping US$'000	Others US$'000	Total US$'000
Total revenues	125,662	3,634	11,128	4,822	145,246
Inter-segment revenues	(450)	–	–	(4,037)	(4,487)
Revenues from external customers	125,212	3,634	11,128	785	140,759
Segment results	46,095	312	2,605	992	50,004
Depreciation	22,514	–	2,622	83	25,219
Additions to non-current assets	74,249	–	687	100,048	174,984

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	
	2012 US$'000	2011 US$'000
Revenues from external customers for reportable segments	108,306	140,759
Revenues from external customers derived by jointly controlled entities measured at proportionate consolidated basis	(1,092)	(6,351)
Total revenues per the condensed consolidated statement of comprehensive income	107,214	134,408

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 and net finance income are not included in the segment results.

4 REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

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

	Six months ended 30 June 2012 US$'000	2011 US$'000
Segment results for reportable segments	12,068	50,004
Corporate expenses	(4,607)	(3,691)
Finance income, net	13,120	9,039
Profit before income tax	20,581	55,352

Segment assets and liabilities exclude corporate assets and liabilities (including corporate cash), 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 2012				
	Dry bulk shipping US$'000	Oil tanker shipping US$'000	Container shipping US$'000	Others US$'000	Total US$'000
Segment assets	1,081,547	–	93,806	104,669	1,280,022
Segment assets include:					
Interests in jointly controlled entities	18,088	–	–	2,997	21,085
Loans to jointly controlled entities	12,750	–	–	–	12,750
Segment liabilities	22,468	–	817	4,789	28,074

	As at 31 December 2011				
	Dry bulk shipping US$'000	Oil tanker shipping US$'000	Container shipping US$'000	Others US$'000	Total US$'000
Segment assets	1,088,459	3,270	96,112	103,413	1,291,254
Segment assets include:					
Interests in jointly controlled entities	17,547	3,003	–	–	20,550
Loans to jointly controlled entities	13,500	–	–	–	13,500
Segment liabilities	29,426	15	1,204	4,624	35,269

Notes to the Interim Financial Information

4 REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

Reportable segment assets are reconciled to total assets as follows:

	As at 30 June 2012 US$'000	As at 31 December 2011 US$'000
Segment assets	1,280,022	1,291,254
Corporate assets	927,754	924,776
Total assets per the condensed consolidated balance sheet	2,207,776	2,216,030

Reportable segment liabilities are reconciled to total liabilities as follows:

	As at 30 June 2012 US$'000	As at 31 December 2011 US$'000
Segment liabilities	28,074	35,269
Corporate liabilities	3,919	4,554
Total liabilities per the condensed consolidated balance sheet	31,993	39,823

5 OTHER OPERATING INCOME/GAIN, NET

	Six months ended 30 June	
	2012 US$'000	2011 US$'000
Finance lease income from a fellow subsidiary	2,907	687
Gain on disposal of property, plant and equipment	378	–
Interest income from jointly controlled entities	100	175
Interest income from a fellow subsidiary (note 15)	45	45
Exchange (loss)/gain	(552)	40
	2,878	947

6 FINANCE INCOME, NET

	Six months ended 30 June	
	2012 US$'000	2011 US$'000
Interest income on bank deposits	12,558	9,039
Interest income on held-to-maturity investment	730	–
Exchange loss on held-to-maturity investment	(168)	–
	13,120	9,039

7 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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	
	2012	2011
	US$'000	US$'000
Current income tax		
– Hong Kong profits tax	513	157
– Overseas taxation	(35)	(21)
Income tax expense	478	136

8 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2012	2011
Profit attributable to owners of the Company (US$'000)	20,103	55,216
Weighted average number of shares in issue (thousands)	3,992,100	3,992,100
Basic earnings per share (US cents per share)	0.50	1.38

As there were no diluted potential ordinary shares outstanding during the six months ended 30 June 2012 (six months ended 30 June 2011: Nil), the diluted earnings per share is equal to basic earnings per share.

9 DIVIDEND

	Six months ended 30 June	
	2012	2011
	US$'000	US$'000
Interim dividend, Nil (2011: HK2 cents per share)	–	10,236

On 22 August 2012, the Board of Directors resolved not to declare an interim dividend for the six months ended 30 June 2012 (2011: HK2 cents, equivalent to US0.26 cents per share, totalling US$10,236,000).

Notes to the Interim Financial Information

10 EMPLOYEE BENEFIT EXPENSE

	Six months ended 30 June 2012 US$'000	2011 US$'000
Wages and salaries	3,054	2,679
Pension costs – defined contribution plans	118	106
	3,172	2,785

11 PROPERTY, PLANT AND EQUIPMENT

	2012 US$'000	2011 US$'000
Cost		
At 1 January	1,476,971	1,359,580
Translation differences	3	27
Additions	18,870	174,984
Derecognition under finance lease	–	(100,000)
Disposals and write-off	(19,750)	(3,885)
At 30 June	1,476,094	1,430,706
Accumulated depreciation		
At 1 January	(377,879)	(330,560)
Translation differences	(2)	(18)
Charge for the period	(28,162)	(25,219)
Disposals and write-off	17,847	3,885
At 30 June	(388,196)	(351,912)
Net book value		
At 30 June	1,087,898	1,078,794

12 TRADE AND OTHER RECEIVABLES

	As at 30 June 2012 US$'000	As at 31 December 2011 US$'000
Trade receivables, net of provision		
– fellow subsidiaries	8,779	3,768
– third parties	6,834	5,832
	15,613	9,600
Prepayments, deposits and other receivables	39,817	35,165
Amounts due from related parties	1,641	2,919
Total	57,071	47,684

12 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	As at 30 June 2012 US$'000	As at 31 December 2011 US$'000
Within 6 months	12,181	7,132
7-12 months	1,577	1,736
1-2 years	1,855	212
2-3 years	–	520
Trade receivables, net of provision	15,613	9,600

13 SHARE CAPITAL

	Number of shares Ordinary shares of HK$0.1 each	Nominal value US$'000
Authorised:		
At 1 January and 30 June 2011 and 2012	50,000,000,000	641,026
Issued and fully paid:		
At 1 January and 30 June 2011 and 2012	3,992,100,000	51,239

14 TRADE AND OTHER PAYABLES

	As at 30 June 2012 US$'000	As at 31 December 2011 US$'000
Trade payables		
– fellow subsidiaries	534	1,519
– third parties	5,549	7,342
– a jointly controlled entity	–	70
	6,083	8,931
Other payables and accruals	24,315	29,304
Amounts due to related parties	24	495
Total	30,422	38,730

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

	As at 30 June 2012 US$'000	As at 31 December 2011 US$'000
Within 6 months	5,521	8,454
7-12 months	241	157
1-2 years	124	116
2-3 years	35	62
Over 3 years	162	142
Trade payables	6,083	8,931

15 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.

15 CONTINGENT LIABILITIES (CONTINUED)

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 (the "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 approximately US$6,826,000 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, cost, 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.

Pursuant to a settlement agreement dated 19 July 2012 (the "Settlement Agreement") signed between Sinotrans (Germany) and the Third Party, Sinotrans (Germany) paid the agreed compensation to the Third Party on 3 August 2012 and the Third Party has agreed to release the Letter of Undertaking. Up to the date of approval of this interim financial information, the administrative process for releasing the Bank Guarantee is in progress.

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.

16 COMMITMENTS

(a) Capital commitments in respect of property, plant and equipment

	As at 30 June 2012 US$'000	As at 31 December 2011 US$'000
Authorised but not contracted for	–	713
Contracted but not provided for	–	12,520
	–	13,233

16 COMMITMENTS (CONTINUED)

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

At 30 June 2012, the Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	As at 30 June 2012 US$'000	As at 31 December 2011 US$'000
Office premises		
– no later than one year	918	293
– later than one year and no later than five years	484	46
– over five years	17	–
	1,419	339
Vessels		
– no later than one year	1,938	5,754
	3,357	6,093

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

At 30 June 2012, 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 2012 US$'000	As at 31 December 2011 US$'000
Vessels		
– no later than one year	96,357	131,203
– later than one year and no later than five years	16,181	31,973
	112,538	163,176

17 RELATED PARTY TRANSACTIONS

SINOTRANS & CSC Group Company, the parent company, is controlled by the PRC Government. The PRC Government is the Company's ultimate controlling party. In accordance with HKAS 24 (Revised), "Related Party Disclosures" issued by the HKICPA, enterprises directly or indirectly controlled, jointly controlled or significant influenced by the PRC Government ("state-owned enterprises"), together with SINOTRANS & CSC Group Company and its group companies are all related parties of the Group.

The Group has certain transactions with other state-owned enterprises including but are not limited to the charterhire income and expenses and bank interest income. In the ordinary course of the Group's business, transactions occur with state-owned enterprises are based on the terms and prices agreed by both parties.

Apart from the above-mentioned transactions with the state-owned enterprises, the following 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	
	2012	2011
	US$'000	US$'000
Charterhire income from fellow subsidiaries	27,960	25,957
Charterhire expenses paid to a jointly controlled entity	(2,121)	(2,719)
Commission expenses to fellow subsidiaries	(882)	(713)
Expenses for hiring of crews and seafarers to a fellow subsidiary	(5,724)	(4,756)
Finance lease income from a fellow subsidiary	2,907	687
Interest income from jointly controlled entities	100	175
Interest income on held-to-maturity investment issued by a fellow subsidiary	730	–
Rental expenses to fellow subsidiaries	(581)	(577)
Service fee paid to a related company	(350)	(333)

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) At 30 June 2012, loans to jointly controlled entities are secured by the vessels of the jointly controlled entities and bear interest at 1% (31 December 2011: 1%) over London Interbank Offered Rate per annum. The loans are repayable by installments and are wholly repayable on or before 2020.

(c) Period ended balances arising from sales, purchases and other transactions with related parties were disclosed in notes 12 and 14.

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

17 RELATED PARTY TRANSACTIONS (CONTINUED)

(e) On 4 January 2011, the Group entered into the charter agreement with Ji Sheng Marine Limited, a fellow subsidiary (the "Charterer"), pursuant to which the Charterer agreed to hire an oil tanker from the Group for a term of five years at a daily rate of US$25,800 by monthly installments and to purchase the oil tanker at a consideration of US$80,000,000 upon expiry of the charter agreement. The oil tanker was delivered to the Charterer in May 2011. The Group has accounted for this transaction as finance lease.

(f) On 3 October 2011, the Group paid RMB280,000,000 for the subscription of a Renminbi-denominated guaranteed bond issued by a fellow subsidiary at par value. The bond is for a three-year period with maturity date of 11 October 2014, and bears interest at a fixed rate of 3.3% per annum. The bond is guaranteed by Sinotrans Shipping (Holdings) Limited, the immediate holding company of the Company, and has been listed on the interbank bond market in Singapore.

(g) Key management compensation

	Six months ended 30 June	
	2012	2011
	US$'000	US$'000
Salaries, allowances, and benefits-in-kind	234	270
Contributions to pension plans	9	8
	243	278

Management Discussion and Analysis of Results of Operations and Financial Position

REVIEW OF HISTORICAL OPERATING RESULTS

In the first half of 2012, the global economy saw a weakened pace of recovery. The supply glut of the shipping market was aggravated by the lackluster international trade and seaborne trade demand coupled with the persistent influx of new tonnage. As a result, the global shipping market was dragged into a prolonged period of gloom and the dry bulk shipping market even hit rock bottom again after the financial crisis in 2008. While ocean freight rates remained low, pressure of operating costs kept elevating, resulting in generally dire performance of shipping companies worldwide. In the face of such severe market situation, our Group relied on our sound management to respond proactively and take various measures to mitigate adverse impact of the depressed market on our Group. For the six months ended 30 June 2012, our Group produced an operating profit of US$6.93 million (2011: US$44.91 million). Profit attributable to owners of the Company amounted to US$20.10 million (2011: US$55.22 million).

Revenues

For the six months ended 30 June 2012, revenues of our Group were US$107.21 million (2011: US$134.41 million). We set forth below the revenues contribution from each business segment for the six months ended 30 June 2012:

	Six months ended 30 June		
	2012	**2011**	
	US$'000	**US$'000**	**% Change**
Revenues from:			
– Dry bulk shipping*	96,544	125,212	(22.9%)
– Oil tanker shipping*	–	3,634	N/A
– Container shipping	11,094	11,128	(0.3%)
– Others	668	785	(14.9%)
	108,306	140,759	(23.1%)
Revenues derived from jointly controlled entities measured at proportionate consolidated basis*	(1,092)	(6,351)	(82.8%)
Revenues per the condensed consolidated statement of comprehensive income	107,214	134,408	(20.2%)

* Segment revenue includes revenues derived from jointly controlled entities measured at proportionate consolidated basis. Segment revenue subtracted the revenues derived from jointly controlled entities measured at proportionate consolidated basis to arrive at revenues per the condensed consolidated statement of comprehensive income.

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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 2012:

	Six months ended 30 June		
	2012	2011	
	US$	US$	% Change
Dry bulk vessel (Self-owned)	11,827	16,540	(28.5%)
Oil tanker** (Average daily TCE)	N/A	14,218	N/A
Container vessel	6,427	6,355	1.1%

** 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

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

In the first half of 2012, the weakening global economic recovery restricted the growth of global seaborne trade of major bulk commodities such as iron ore, coal and grain while historical high delivery of newbuilding vessels added to shipping woes. Charter hire and freight rate were capped in the context of austere imbalance in supply and demand of the shipping market. The Baltic Dry Index ("BDI") has been crawling low since the beginning of 2012 and hit a record low for over two decades at 647 points at the beginning of February. BDI for the first half of this year averaged 943, a dramatic fall of 31.3% from the corresponding period in 2011.

Although the charter hire in the market remained low, our Group still generated US$81.98 million in revenue from charter hire income for the six months ended 30 June 2012 (2011: US$110.46 million), which partly offset the adverse effect of the market downturn on our Group. This was mainly attributable to our Group's close monitoring of market trend and application of flexible business strategy of long-term and short-term chartering in response to market changes proactively. Besides, our newbuilding vessels came on stream successively and broadened our sources of income.

Our revenue from ocean freight shipping remained stable and amounted to US$14.56 million (2011: US$14.75 million).

Oil tanker shipping

For the six months ended 30 June 2012, revenue from oil tanker shipping service for our Group was nil. This was because our Group conducted a bareboat chartering arrangement for our very large crude oil carrier ("VLCC") since mid-May in 2011 and the charter hire revenue from this VLCC was accounted as finance lease income of our Group instead of revenue from the oil tanker shipping service.

Container shipping

Although the global seaborne demand for container shipping remained stable since 2012, the supply-demand balance of the container shipping market was still bleak due to the massive delivery of newbuilding vessels. By virtue of our accurate grasp of the market trend, our Group managed to secure a stable container shipping revenue of US$11.09 million for the six months ended 30 June 2012 (2011: US$11.13 million).

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Cost of operations

With the enlarged fleet size and the growth in business, the cost of operations, primarily the expenses for hiring of crews and seafarers, and bunker consumed increased. For the six months ended 30 June 2012, cost of operations was US$94.42 million (2011: US$82.95 million), which represented an increase of 13.8%.

Expenses for hiring of crews and seafarers

Expenses for hiring of crews and seafarers increased to US$19.95 million (2011: US$16.37 million), reflecting the increasing number of crews and seafarers recruited to support the need of our fleet development and the upward adjustment of salary and wages according to the market level.

Bunker consumed

The bunker consumption rose from US$5.82 million to US$11.62 million principally as a result of the growth of voyage charter shipping in cargo volume and the rise in bunker price.

Selling, administrative and general expenses

The selling, administrative and general expenses, mainly comprised staff costs, travelling expenses and office rental, amounted to US$8.75 million (2011: US$7.50 million). The increase was due to the expansion of our fleet size.

Other operating income, net

The net amount of the other operating income amounted US$2.88 million (2011: US$0.95 million) was principally resulted from the finance lease income generated from the finance lease arrangement of a vessel of US$2.91 million (2011: US$0.69 million), partly offset by the exchange loss.

Finance income, net

Under effective fund management, the interest income derived from bank deposits rose by 38.9% to US$12.56 million. As a result, the net amount of finance income increased to US$13.12 million (2011: US$9.04 million).

Share of profits of jointly controlled entities

After termination of the oil tanker business by a jointly controlled entity in mid-May of 2011, the share of profits of jointly controlled entities were solely contributed by dry bulk shipping. The share of profits of jointly controlled entities reduced to US$0.54 million (2011: US$1.41 million).

Income tax expense

Income tax was US$478,000 (2011: US$136,000). The effective income tax rate was 2.3% (2011: 0.25%).

Liquidity and financial resources

Our cash has been principally used for payment for construction of new dry bulk vessels, operation costs and working capital in the first half of 2012. We have financed our liquidity requirements primarily through internal generated cash.

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

	As at 30 June 2012 US$'000	As at 31 December 2011 US$'000
Current assets	951,853	946,655
Current liabilities	31,993	39,823
Liquidity ratio (Note)	29.75	23.77

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 2012 and 31 December 2011 were 29.75 and 23.77 respectively.

Gearing ratio

Gearing ratio is not presented as our Group had net cash (in excess of debt) as at 30 June 2012 and 31 December 2011.

Capital commitment

The following table sets out our capital commitment in respect of property, plant and equipment as at the balance sheet date indicated.

	As at 30 June 2012 US$'000	As at 31 December 2011 US$'000
Authorised but not contracted for	–	713
Contracted but not provided for	–	12,520
	–	13,233

Capital expenditures

Capital expenditures principally comprise expenditures for additions to property, plant and equipment, including primarily vessels. For the six months ended 30 June 2012, total capital expenditures were US$18.87 million (2011: US$174.98 million) which was attributable to the capital expenditures for construction of dry bulk vessels and dry docking 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 and net investments in foreign operations. 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.

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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 2012, 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$179,000 (31 December 2011: US$238,000) lower/higher. As at 30 June 2012, if US dollar had strengthened/weakened by 5% against Renminbi with all other variables unchanged, our Group's profit before income tax would have been US$4.31 million (31 December 2011: US$3.93 million) lower/higher.

Contingencies

The contingencies of our Group were set out in note 15 of the notes to the interim financial information.

Employees

As at 30 June 2012, our Group had a total of 122 shore-based employees working in our offices in Hong Kong, Canada and Singapore. Details of the remuneration, remuneration policies and development of our employees are generally the same as those disclosed in our 2011 Annual Report, with no material changes.

Fleet development

During the first half of 2012, our Group took delivery of 2 dry bulk newbuilding vessels and judiciously sold 1 aged container vessel to optimize our fleet structure. As at 30 June 2012, our Group owned 52 vessels with an aggregate capacity of 3.34 million DWT and an average age of approximately 9.2 years.

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 2012.

OUTLOOK

Heading into the second half of 2012, with the European debt crisis remaining unresolved, US economy struggling to recover from the recession and the growth of emerging economies decelerating, the global economy will still face major uncertainties in its course of revival. Meanwhile, with the peak of newbuilding vessel delivery lasting through 2012, the supply glut will not be materially improved in a short time, and the market will still be exposed to relatively large pressure. It is expected that the global shipping market will continue to fluctuate at a low level in the second half of 2012, though there might be seasonal rebounds, and the whole year is expected to be less promising than 2011. In the face of such a challenging environment, our Group will adhere to our philosophy of sound management by comprehensive control over costs and risk and proactive response to market changes. We will also aim at enhancing our competitive edge by further optimizing our fleet structure and improving our management expertise. We believe that, with the support of our staff and shareholders, together with our competitive advantages of solid financial position, low-cost structure and young and modern fleet, we will be heading towards a bright future while doing our best as always for the maximization of our shareholders' interests.

AUDIT COMMITTEE

The audit committee of our Company has reviewed the interim financial information of our Group for the six months ended 30 June 2012. In addition, the Company's independent auditor, PricewaterhouseCoopers, has performed a review of the 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 not to declare any interim dividend for the six months ended 30 June 2012.

Other Information

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2012, 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 Issuers (the "Model Code") as set out in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, 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 Group Company (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 Group Company is the beneficial owner of all the issued shares in Sinotrans Shipping (Holdings) Limited, and therefore, Sinotrans & CSC 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 2012, 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 2012.

Other Information

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 (effective until 31 March 2012) and the Corporate Governance Code (recently effective from 1 April 2012) (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 2012.

Compliance with the Model Code

The Company has adopted 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 2012.