中外運航運有限公司
SINOTRANS SHIPPING LTD.

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

2016
Interim Report

Contents

Corporate Information

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

EXECUTIVE DIRECTORS
Mr. Li Hua *(Chief Executive)*
Ms. Feng Guoying

NON-EXECUTIVE DIRECTORS
Mr. Li Zhen *(Chairman)*
Mr. Tian Zhongshan

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Tsang Hing Lun
Mr. Lee Peter Yip Wah
Mr. Zhou Qifang
Mr. Xu Zhengjun

COMPANY SECRETARY
Mr. Huen Po Wah, *ACIS ACS*

AUTHORISED REPRESENTATIVES
Mr. Li Hua
Ms. Feng Guoying

AUDIT COMMITTEE
Mr. Tsang Hing Lun *(Chairman)*
Mr. Zhou Qifang
Mr. Lee Peter Yip Wah

REMUNERATION COMMITTEE
Mr. Zhou Qifang *(Chairman)*
Mr. Li Zhen
Mr. Tsang Hing Lun

NOMINATION COMMITTEE
Mr. Li Zhen *(Chairman)*
Mr. Lee Peter Yip Wah
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
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

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 2016

	Note	Unaudited Six months ended 30 June 2016 US$'000	 2015 US$'000
Revenues	4	**385,804**	485,125
Cost of operations		**(413,705)**	(505,140)
Gross loss		**(27,901)**	(20,015)
Selling, administrative and general expenses		**(16,164)**	(16,081)
Other (losses)/gains, net	5	**(2,314)**	5,190
Operating loss		**(46,379)**	(30,906)
Finance income	6	**5,090**	10,144
Finance expenses	6	**(3,156)**	(3,317)
Share of profits of joint ventures		**98**	252
Loss before income tax		**(44,347)**	(23,827)
Income tax credit/(expense)	7	**93**	(199)
Loss for the period		**(44,254)**	(24,026)
Loss attributable to:			
– Owners of the Company		**(40,230)**	(18,277)
– Non-controlling interests		**(4,024)**	(5,749)
		(44,254)	(24,026)
Other comprehensive loss for the period			
Items that may be reclassified to profit or loss:			
Currency translation differences		**(5,043)**	(65)
Fair value changes of available-for-sale financial assets		**–**	(4)
Total comprehensive loss for the period		**(49,297)**	(24,095)
Total comprehensive loss for the period attributable to:			
– Owners of the Company		**(44,816)**	(18,374)
– Non-controlling interests		**(4,481)**	(5,721)
		(49,297)	(24,095)
Loss per share attributable to owners of the Company			
– Basic and diluted	9	**US(1.01) cents**	US(0.46) cents
Dividend	10	**–**	–

Unaudited Condensed Consolidated Balance Sheet

As at 30 June 2016

	Note	Unaudited As at 30 June 2016 US$'000	Audited As at 31 December 2015 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	1,264,220	1,291,976
Intangible asset	12	1,983	1,349
Investments in joint ventures		77,105	60,769
Loans to joint ventures		4,667	5,333
Loans to related companies	13	15,550	16,069
Bank deposit		–	121,714
Available-for-sale financial assets		3,783	3,863
Deferred income tax assets		484	339
		1,367,792	1,501,412
Current assets			
Inventories		14,601	16,240
Loans to joint ventures		1,333	1,333
Trade and other receivables	13	315,858	300,778
Available-for-sale financial assets		15,711	25,074
Cash and bank balances			
– Cash and cash equivalents		209,621	154,978
– Short-term bank deposits		356,483	353,302
– Restricted cash		113	108
		913,720	851,813
Total assets		2,281,512	2,353,225

Unaudited Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2016

	Note	Unaudited As at 30 June 2016 US$'000	Audited As at 31 December 2015 US$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	1,878,209	1,878,209
Other reserves		112,355	157,171
		1,990,564	2,035,380
Non-controlling interests		17,133	21,614
Total equity		2,007,697	2,056,994
LIABILITIES			
Non-current liability			
Borrowings	17	66,885	70,833
		66,885	70,833
Current liabilities			
Trade and other payables	15	195,290	213,748
Provision for other liabilities	16	2,962	3,176
Taxation payable		777	690
Borrowings	17	7,901	7,784
		206,930	225,398
Total liabilities		273,815	296,231
Total equity and liabilities		2,281,512	2,353,225

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Attributable to owners of the Company									
	Share capital US$'000	Merger reserve US$'000	Statutory reserve US$'000	Other reserve US$'000	Available-for-sale reserve US$'000	Exchange reserve US$'000	Retained earnings US$'000	Subtotal US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2015	1,878,209	(448,132)	2,995	51,941	–	11,409	655,125	2,151,547	38,726	2,190,273
Comprehensive loss										
Loss for the period	–	–	–	–	–	–	(18,277)	(18,277)	(5,749)	(24,026)
Other comprehensive loss										
Currency translation differences	–	–	–	–	–	(95)	–	(95)	30	(65)
Fair value changes of available-for-sale financial assets	–	–	–	–	(2)	–	–	(2)	(2)	(4)
Total comprehensive loss	–	–	–	–	(2)	(95)	(18,277)	(18,374)	(5,721)	(24,095)
Transactions with owners										
Dividend paid related to 2014	–	–	–	–	–	–	(41,104)	(41,104)	–	(41,104)
Total transactions with owners	–	–	–	–	–	–	(41,104)	(41,104)	–	(41,104)
At 30 June 2015	1,878,209	(448,132)	2,995	51,941	(2)	11,314	595,744	2,092,069	33,005	2,125,074

Unaudited Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2016

	Attributable to owners of the Company									
	Share capital US$'000	Merger reserve US$'000	Statutory reserve US$'000	Other reserve US$'000	Available-for-sale reserve US$'000	Exchange reserve US$'000	Retained earnings US$'000	Subtotal US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2016	1,878,209	(448,132)	2,995	51,941	(3)	2,683	547,687	2,035,380	21,614	2,056,994
Comprehensive loss										
Loss for the period	–	–	–	–	–	–	(40,230)	(40,230)	(4,024)	(44,254)
Other comprehensive loss										
Currency translation differences	–	–	–	–	–	(4,586)	–	(4,586)	(457)	(5,043)
Total comprehensive loss	–	–	–	–	–	(4,586)	(40,230)	(44,816)	(4,481)	(49,297)
At 30 June 2016	1,878,209	(448,132)	2,995	51,941	(3)	(1,903)	507,457	1,990,564	17,133	2,007,697

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2016

	Note	Six months ended 30 June 2016 US$'000	2015 US$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	18	(6,191)	11,533
Interest received		9,842	10,807
Income tax paid		–	(79)
Net cash generated from operating activities		3,651	22,261
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible asset		(60,936)	(55,352)
Proceeds from disposals of property, plant and equipment		7,967	26,946
Proceeds from disposals of assets held for sales		–	61,805
Loans repayments received from a fellow subsidiary		–	2,000
Repayment of loans to joint ventures		666	667
Investment in joint ventures		(16,238)	–
Repayment of loan to related companies		719	1,417
Proceeds from disposal of available-for-sale financial assets		31,020	8,158
Interest income from available-for-sale financial assets		211	68
Interest income from loan to related companies		122	137
Purchase of available-for-sale financial assets		(22,168)	(40,464)
Decrease in bank deposits		118,533	23,305
Increase in restricted cash		(5)	–
Net cash generated from investing activities		59,891	28,687
Cash flows from financing activities			
Dividend paid		–	(41,104)
Interest expenses on bank borrowings		(536)	(630)
Interest expense on finance lease obligations		(2,620)	(2,701)
Repayment of finance lease obligations		(697)	(612)
Repayment of bank borrowings		(3,121)	(3,154)
Net cash used in financing activities		(6,974)	(48,201)
Net increase in cash and cash equivalents		56,568	2,747
Cash and cash equivalents at 1 January		154,978	201,618
Effect of foreign exchange rate changes		(1,925)	(61)
Cash and cash equivalents at 30 June		209,621	204,304

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 shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 23 November 2007. The Company and its subsidiaries (collectively the "Group") principally engages in dry bulk shipping business, container shipping business, shipping agency and ship management.

The ultimate holding company is SINOTRANS & CSC Holdings Co., Ltd., a stated – owned enterprise established in the People's Republic of China (the "PRC").

In December 2015, the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") approved the strategic reorganisation between SINOTRANS & CSC Holdings Co., Ltd. and China Merchants Group Limited. According to the approval, SINOTRANS & CSC Holdings Co., Ltd. will be administratively allocated (for no consideration) into, and become a wholly-owned subsidiary of, China Merchants Group Limited. As of the reporting date, the relevant legal procedures of the above strategic reorganisation has not been completed.

The interim financial information is presented in US dollars, unless otherwise stated.

The financial information relating to the year ended 31 December 2015 that is included in interim financial information for the six months ended 30 June 2016 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

The interim financial information has been approved for issue by the Board of Directors on 15 August 2016.

Notes to the Interim Financial Information

2 Basis of preparation and accounting policies

The interim financial information for the six months ended 30 June 2016 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 2015 which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total current earnings.

The accounting policies applied in the preparation of the interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2015 except that the Group has adopted the following amendments to existing standards issued by the HKICPA which are relevant to its operations and mandatory for the financial year beginning on or after 1 January 2016.

Amendments to HKAS 1	Presentation of Financial Statements: Disclosure Initiative
Amendments to HKAS 27 (2011)	Separate Financial Statement: Equity Method
Amendments to HKFRS 10, HKFRS 12, and HKAS 28	Investment Entities: Applying the Consolidation Exception
HKFRS Amendments	Annual improvement to HKFRSs 2012–2014 Cycle
Amendments to HKFRS 11	Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation

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

Notes to the Interim Financial Information

2 Basis of preparation and accounting policies (Continued)

The HKICPA has issued the following new standards and amendments to existing standards which are not effective for accounting period beginning on 1 January 2016 and have not been early adopted:

Amendments to HKAS 7 [(1)]	Statement of Cash Flows
Amendments to HKAS 12 [(1)]	Income Taxes
HKFRS 15 [(2)]	Revenue of Contracts from Customers
HKFRS 9 [(2)]	Financial Instruments
HKFRS 16 [(3)]	Leases
Amendments to HKFRS 10 and HKAS 28 [(4)]	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

(1) Effective for annual periods beginning 1 January 2017
(2) Effective for annual periods beginning 1 January 2018
(3) Effective for annual periods beginning 1 January 2019
(4) Effective date to be determined

The Group has already commenced an assessment of the related impact of these new and amended standards 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 interim 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 consistent with those that applied to the annual financial statements for the year ended 31 December 2015.

3 Financial risk management and financial instruments

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including market freight rate risk, bunker price risk, cash flow and fair value interest rate risk and foreign exchange risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

There have been no changes in the risk management policies since year end.

3 Financial risk management and financial instruments (Continued)

(b) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Available-for-sale financial assets		
Level 1:		
Equity securities	**173**	173
Level 2:		
Debt securities	**15,538**	24,901
Level 3:		
Equity securities	**3,783**	3,863
	19,494	28,937

3 Financial risk management and financial instruments (Continued)

(b) Fair value estimation (Continued)

The following table presents the changes in level 3 instruments.

	Equity securities	
	2016	2015
	US$'000	US$'000
Opening balance at 1 January	**3,863**	4,108
Other comprehensive loss		
– Fair value changes of available-for-sale financial assets	**–**	(4)
– Currency translation differences	**(80)**	2
Closing balance at 30 June	**3,783**	4,106
Total losses for the period recognised in statement of comprehensive income and presented in fair value changes of available-for-sale financial assets	**(80)**	(2)
Total losses for the period recognised in profit or loss related to assets held at the end of the period and presented in other (losses)/gains, net	**–**	–

There were no changes in valuation techniques during the period.

The fair value of this available-for-sale financial assets (level 3) was based on the estimated future cash flow. There is no transfer into or out of level 3 during the period.

Specific valuation techniques used to value financial instruments include:

- Discounted cash flow analysis, are used to determine fair value for the remaining financial instruments

4 Revenues and segment information

(a) Revenues

Revenues recognised during the periods from operations of dry bulk shipping, container shipping, others including shipping agency and ship management are as follows:

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Dry bulk shipping (note)	**161,957**	246,922
Container shipping (note)	**223,274**	236,663
Others	**573**	1,540
	385,804	485,125

Note: Revenue from dry bulk shipping and container shipping under time charter hire agreements were US$35,439,000 and US$nil respectively for the period ended 30 June 2016 (2015: US$52,627,000 and US$4,425,000 respectively).

(b) Segment information

Operating segments

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.

– Container shipping – container vessel time chartering, container liner services, freight forwarding and other related business.

– Others – shipping agency, ship management and liquefied natural gas ("LNG") shipping business.

Notes to the Interim Financial Information

4 Revenues and segment information (Continued)

(b) Segment information (Continued)

Operating segments (Continued)

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment liabilities are those operating liabilities that result from the operating activities of a segment.

	Six months ended 30 June 2016			
	Dry bulk shipping US$'000	Container shipping US$'000	Others US$'000	Total US$'000
Total revenues	163,263	223,274	2,637	389,174
Inter-segment revenues	(489)	–	(2,064)	(2,553)
Revenues from external customers	162,774	223,274	573	386,621
Segment results	(40,031)	10,413	(294)	(29,912)
Depreciation	26,379	3,382	315	30,076
Provision for impairment of trade receivables	580	–	–	580
Additions to property, plant and equipment	51,695	5,513	2,659	59,867

	Six months ended 30 June 2015			
	Dry bulk shipping US$'000	Container shipping US$'000	Others US$'000	Total US$'000
Total revenues	248,419	236,663	4,632	489,714
Inter-segment revenues	(592)	–	(3,092)	(3,684)
Revenues from external customers	247,827	236,663	1,540	486,030
Segment results	(25,576)	9,847	525	(15,204)
Depreciation	28,891	3,334	191	32,416
Provision for impairment of trade receivables	645	–	–	645
Additions to property, plant and equipment	48,025	–	6,729	54,754

4 Revenues and segment information (Continued)

(b) Segment information (Continued)

Operating segments (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 joint ventures are measured at proportionate consolidated basis in the segment information.

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

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Revenues from external customers for reportable segments	**386,621**	486,030
Revenues from external customers derived by joint ventures measured at proportionate consolidated basis	**(817)**	(905)
Total revenues per the condensed consolidated statement of comprehensive income	**385,804**	485,125

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 joint ventures on a proportionate consolidated basis. Corporate expenses, depreciation and amortisation of corporate assets, finance income and finance expenses are not included in the segment results.

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

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Segment results for reportable segments	**(29,912)**	(15,204)
Corporate expenses	**(15,921)**	(15,115)
Depreciation and amortisation	**(448)**	(335)
Finance income	**5,090**	10,144
Finance expenses	**(3,156)**	(3,317)
Loss before income tax	**(44,347)**	(23,827)

Notes to the Interim Financial Information

4 Revenues and segment information (Continued)

(b) Segment information (Continued)

Operating segments (Continued)

For the period ended 30 June 2016, the Group has one (2015: one) customer with revenue exceeding 10% of the Group's total revenue. Revenue from this customer amounting to US$50,461,000 (2015: US$69,873,000) is attributable to the container shipping segment (2015: container shipping segment).

Segment assets and liabilities exclude corporate assets and liabilities (including corporate cash, and available-for-sale financial assets), 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 2016			
	Dry bulk shipping US$'000	Container shipping US$'000	Others US$'000	Total US$'000
Segment assets	1,293,249	272,929	84,704	1,650,882
Segment assets include:				
Interests in joint ventures	20,267	–	56,838	77,105
Loans to joint ventures	6,000	–	–	6,000
Segment liabilities	109,836	151,978	7,782	269,596

	As at 31 December 2015			
	Dry bulk shipping US$'000	Container shipping US$'000	Others US$'000	Total US$'000
Segment assets	1,323,430	275,876	106,733	1,706,039
Segment assets include:				
Interests in joint ventures	20,123	–	40,646	60,769
Loans to joint ventures	6,666	–	–	6,666
Segment liabilities	122,852	159,864	8,895	291,611

4 Revenues and segment information (Continued)

(b) Segment information (Continued)

Operating segments (Continued)

Reportable segment assets are reconciled to total assets as follows:

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Segment assets	**1,650,882**	1,706,039
Corporate assets	**630,630**	647,186
Total assets per the condensed consolidated balance sheet	**2,281,512**	2,353,225

Reportable segment liabilities are reconciled to total liabilities as follows:

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Segment liabilities	**269,596**	291,611
Corporate liabilities	**4,219**	4,620
Total liabilities per the condensed consolidated balance sheet	**273,815**	296,231

Geographical information

Revenues

The Group's businesses are managed on a worldwide basis.

The revenues generated from the world's major trade lanes for container shipping business mainly include Asia and Australia.

The revenues generated from provision of dry bulk shipping business, which is carried out internationally, and the way in which costs are allocated, preclude a meaningful presentation of geographical information.

Notes to the Interim Financial Information

4 Revenues and segment information (Continued)

(b) Segment information (Continued)

Geographical information (Continued)

Shipping agency and ship management were unallocated revenue and included in others.

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Container shipping		
– Asia	**204,698**	216,300
– Australia	**18,576**	20,363
	223,274	236,663
Dry bulk shipping	**162,774**	247,827
Others	**573**	1,540
	386,621	486,030

5 Other (losses)/gains, net

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Loss on disposals of property, plant and equipment, net (note)	**(49,563)**	(108,566)
Provision for impairment of trade receivables	**(580)**	(645)
Exchange losses	**(500)**	(348)
Government subsidy (note)	**48,645**	115,050
Provision for claims under pending litigations	**(368)**	(301)
Others	**52**	–
	(2,314)	5,190

5 Other (losses)/gains, net (Continued)

Note:

Included in government subsidy is an approximate US$48,645,000 (2015: US$114,466,000) subsidy in relation to the demolition of vessels. During the period, the Group, through China Merchants Group Limited, submitted an application of government subsidy of RMB318,612,000 (approximately US$48,645,000) in respect of demolition of five vessels. In prior period, the application of government subsidy in respect of demolition of fifteen vessels amounted to RMB702,240,000 (approximately US$114,466,000) was submitted by SINOTRANS & CSC Holdings Co., Ltd. The government subsidy is applied in accordance with "Implementation Plan for Early Retirement and Replacement of Obsolete and Worn-out Transportation Vessels And Single-hull Oil Tankers"《老舊運輸船舶和單殼油輪提前報廢更新實施方案》and "Administrative Measure For The Special Subsidies Given By The Central Finance To Encourage Retirement And Replacement Of Obsolete and Worn-out Transportation Vessels And Single-hull Oil Tankers"《老舊運輸船舶和單殼油輪報廢更新中央財政補助專項資金管理辦法》jointly promulgated by the Ministry of Finance, the Ministry of Transport, the Development and Reform Commission, and the Ministry of Industry and Information Technology of China ("Vessel Demolition Subsidy"). Management is of the view that the Group has fulfilled all the requirements as stipulated in the above laws and notices and is qualified for the subsidy. Management considers the receipt of the subsidy is probable and accordingly such subsidy is recognised in the unaudited condensed consolidated statement of comprehensive income for the period ended 30 June 2016. After taken into account of the subsidy compensation, the net loss of demolition of the five (2015: fifteen) vessels was approximately US$919,000 (2015: net gain of approximately US$5,897,000).

6 Finance income and expenses

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Interest expenses:		
– Bank borrowings	**(536)**	(616)
– Finance lease obligations	**(2,620)**	(2,701)
Finance expenses	**(3,156)**	(3,317)
Interest income		
– Cash and bank balance	**4,328**	8,584
– Amounts due from joint ventures	**51**	49
– Amounts due from fellow subsidiaries	**165**	345
– Loans to related companies	**335**	505
– Available-for-sale financial assets – debt securities	**211**	661
Finance income	**5,090**	10,144
Finance income, net	**1,934**	6,827

7 Income tax credit/(expense)

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2015: 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. These rates range from 17% to 26% during the period (2015: 17% to 26%).

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Current income tax		
Hong Kong profits tax	**(8)**	(8)
Overseas taxation	**(51)**	(153)
	(59)	(161)
Deferred income tax	**152**	(38)
	93	(199)

8 Employee benefit expense

The employee benefit expenses, including director's and key management's emoluments, are set out as below:

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Wages and salaries	**12,897**	12,665
Pension costs – defined contribution plans	**1,033**	982
	13,930	13,647

9 Loss per share

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

	Six months ended 30 June	
	2016	2015
Loss attributable to owners of the Company (US$'000)	**40,230**	18,277
Weighted average number of shares in issue (thousands)	**3,992,100**	3,992,100
Basic loss per share (US cents per share)	**1.01**	0.46

As there were no diluted potential ordinary shares outstanding during the six months ended 30 June 2016 (six months ended 30 June 2015: Nil), the diluted loss per share for the period is equal to basic loss per share.

10 Dividend

The Board of Directors has resolved not to declare an interim dividend for the six months ended 30 June 2016 and 2015.

11 Property, plant and equipment

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Cost		
At 1 January	**1,589,251**	1,836,180
Currency translation differences	**(213)**	(28)
Additions	**60,101**	54,789
Disposals and write-offs	**(140,456)**	(369,772)
At 30 June	**1,508,683**	1,521,169
Accumulated depreciation and impairment		
At 1 January	**297,275**	495,749
Currency translation differences	**(209)**	(17)
Charge for the period	**30,323**	32,659
Disposals and write-offs	**(82,926)**	(234,250)
At 30 June	**244,463**	294,141
Net book value		
At 30 June	**1,264,220**	1,227,028

Notes to the Interim Financial Information

12 Intangible asset

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
At 1 January		
Cost	**1,592**	669
Accumulated amortisation	**(243)**	(11)
Net book amount	**1,349**	658
Six months ended		
Opening net book amount	**1,349**	658
Additions	**835**	675
Amortisation charge	**(201)**	(92)
Closing net book amount	**1,983**	1,241
At 30 June		
Cost	**2,427**	1,344
Accumulated amortisation	**(444)**	(103)
	1,983	1,241

Amortisation of US$201,000 (2015: US$92,000) is included in the "selling, administrative and general expenses" in the condensed consolidated statement of comprehensive income.

Notes to the Interim Financial Information

13 Trade and other receivables

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Trade receivables, net of provision (note a)		
– fellow subsidiaries	**8,519**	7,261
– third parties	**89,050**	103,270
	97,569	110,531
Prepayments, deposits and other receivables, net of provision (note b)	**207,789**	176,435
Loans to related companies (note c)	**16,582**	17,088
Amounts due from related parties (note d)		
– fellow subsidiaries	**2,080**	1,987
– joint ventures	**174**	3,439
– ultimate holding company	**7,214**	7,367
	9,468	12,793
	331,408	316,847
Less: non-current portion – loans to related companies	**(15,550)**	(16,069)
Current portion	**315,858**	300,778

13 Trade and other receivables (Continued)

Notes:

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

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Within 6 months	95,599	107,590
7-12 months	455	1,629
1-2 years	207	2,301
2-3 years	3,318	1,754
Over 3 years	1,760	473
Trade receivables	101,339	113,747
Less: impairment provision		
Within 6 months	–	–
7-12 months	–	(165)
1-2 years	(38)	(1,029)
2-3 years	(2,104)	(1,549)
Over 3 years	(1,628)	(473)
Provision for impairment of trade receivables	(3,770)	(3,216)
Trade receivables, net of provision	97,569	110,531

(b) As at 30 June 2016, other receivables include government subsidy in relation to the demolition of vessels amounted to US$169,057,000 (31 December 2015: US$123,574,000). Details of the government subsidy are set out in note 5 to the interim financial information.

As at 30 June 2016, other receivables of US$1,792,000 (31 December 2015: US$1,792,000) were considered as impaired by management and were provided for.

(c) Loans to related companies are denominated in US$ and bear floating interest rates. The effective interest rate as at 30 June 2016 was 3.78% to 3.96% (2015: 3.74% to 3.93%). The interest rate are based on 3-month LIBOR plus a margin of 0.7% (2015: 0.7%) per annum. The maturity dates of the loan range from 2020 to 2021. These loans are secured by the vessels of these related companies.

(d) Amounts due from related parties are unsecured, interest free and repayable on demand. These balances are neither past due nor impaired and there is no history of default.

As at 30 June 2016 and as at 31 December 2015, the fair value of the Group's trade and other receivables are approximately the same as their carrying amounts.

Notes to the Interim Financial Information

14 Share capital

	As at 30 June 2016		As at 31 December 2015	
	Number of shares	Nominal value US$'000	Number of shares	Nominal value US$'000
Ordinary shares				
Issued and fully paid	3,992,100,000	1,878,209	3,992,100,000	1,878,209

15 Trade and other payables

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Trade payables (note a)		
– fellow subsidiaries	14,640	13,277
– third parties	137,557	156,975
	152,197	170,252
Other payables and accruals	38,824	38,428
Amounts due to related parties (note b)		
– fellow subsidiaries	3,908	4,939
– joint ventures	361	129
	4,269	5,068
	195,290	213,748

15 Trade and other payables (Continued)

Note:

(a) Ageing analysis of trade payables (including amounts due to related parties of trading in nature) at the respective balance sheet dates are as follows:

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Within 6 months	129,083	148,534
7–12 months	7,696	3,999
1–2 years	4,357	6,215
2–3 years	1,353	2,000
Over 3 years	9,708	9,504
Trade payables	152,197	170,252

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

As at 30 June 2016 and as at 31 December 2015, the fair value of the Group's trade and other payables are approximately the same as their carrying amounts.

16 Provision for other liabilities

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Provision for onerous contract – current portion	2,962	3,176

The movement in the provision for onerous contracts is as follows:

	Six months ended 30 June 2016 US$'000	2015 US$'000
At 1 January	3,176	9,484
Provision during the period	1,996	2,480
Utilised during the period	(2,210)	(6,655)
At 30 June	2,962	5,309

17 Borrowings

The present value of finance lease obligation and the bank borrowings were repayable as follows:

	Bank borrowings		Finance lease obligation		Total	
	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Within 1 year	6,346	6,346	1,555	1,438	7,901	7,784
Between 1 and 2 years	6,346	6,346	1,709	1,607	8,055	7,953
Between 2 and 5 years	19,039	19,039	6,624	6,227	25,663	25,266
Over 5 years	1,061	4,182	32,106	33,432	33,167	37,614
	32,792	35,913	41,994	42,704	74,786	78,617
Less: current portion	(6,346)	(6,346)	(1,555)	(1,438)	(7,901)	(7,784)
Non-current portion	26,446	29,567	40,439	41,266	66,885	70,833

Notes:

(a) As 30 June 2016, bank borrowings of US$8,984,000 and US$23,808,000 (2015: US$9,791,000 and US$26,122,000) bear floating interest rate at LIBOR plus a margin of 1.4% (2015:1.4%) per annum and at fixed rate of 3.5% (2015: 3.5%) per annum respectively. The effective interest rate of bank borrowing is 3.1% as at 30 June 2016 (2015: 3.0%).

(b) As at 30 June 2016, the Group's bank borrowings of US$32,792,000 (31 December 2015: US$35,913,000), were secured by its vessels with aggregate carrying amount of US$68,297,000 (31 December 2015: US$69,657,000).

(c) The exposure of the group's total borrowings to interest rate changes and the contractual repricing dates at end of the balance sheet dates are follows:

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
6 months or less	8,984	9,791

The fair value of current borrowings equals to their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 3.1% (2015: 3.0%) and are within level 2 of the fair value hierarchy.

The group's borrowings are denominated in US$.

Notes to the Interim Financial Information

17 Borrowings (Continued)

Notes: (Continued)

(d) On 2014, the Group entered into a finance lease arrangement with a third party, pursuant to which the Group hire a dry bulk vessel by monthly instalments and has an option to purchase the vessel at a consideration prior to the expiry of the lease. The Group has accounted for this transaction as a finance lease payable. The finance lease is repayable in various instalments up to 2026.

The Group's finance lease payable is repayable as follows:

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Finance lease payable – minimum lease payments		
– within one year	**6,643**	6,661
– in the second year	**6,643**	6,643
– in the third to fifth year	**19,947**	19,947
– after the fifth year	**47,344**	50,656
	80,577	83,907
Future finance charges on finance lease	**(38,583)**	(41,203)
Present value of finance lease payable	**41,994**	42,704

18 Note to unaudited condensed consolidated cash flow statement

Reconciliation of loss before income tax to cash (used in)/generated from operations:

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Loss before income tax	**(44,347)**	(23,827)
Adjustments for:		
Depreciation and amortisation	**30,524**	32,751
Provision for impairment of trade receivables	**580**	645
Loss on disposals of property, plant and equipment, net	**49,563**	108,566
Share of profits of joint ventures	**(98)**	(252)
Finance income,net	**(1,934)**	(6,827)
Reversal of provision of onerous contracts, net	**(214)**	(4,175)
Government subsidy	**(48,645)**	(115,050)
Exchange losses	**500**	348
Changes in working capital:		
Inventories	**1,639**	4,607
Trade and other receivables (excluding amounts due from related companies)	**21,374**	35,822
Amounts due from related companies	**2,373**	1,386
Amount due from/(to) an ultimate holding company	**153**	(7)
Trade and other payables (excluding amounts due to related companies)	**(17,659)**	(22,454)
Cash (used in)/generated from operations	**(6,191)**	11,533

Notes to the Interim Financial Information

19 Contingent liabilities

Sinochart as both defendant and plaintiff

In 2007, a chartered-in vessel of Sinochart grounded off and sank when unloading in Japan. The chartered-in shipowner subsequently brought a claim against Sinochart, alleging the port was unsafe and thus holding Sinochart liable for all the losses and costs incurred in the sum of US$190,000,000. Sinochart thus brought a claim against the sub-charterer in a back-to-back position. To protect the interest of Sinochart, Sinochart obtained an irrevocable stand-by letter from Sumitomo Mitsui Banking Corporation in the amount of US$190,000,000.

In July 2013, the High Court in London ruled that Sinochart was liable for the incident and should compensate the shipowner for an amount of approximately US$166,627,000. At the same time, Sinochart obtained judgement against the sub-charterer in the same sum.

In October 2013, the sub-charterer appealed against the judgement and Sinochart therefore also lodged an appeal for the judgement against it.

In January 2015, the Court of Appeal in the UK reversed the judgment of the first instance and judged that Sinochart was not liable to undertake the compensation liability against the shipowner while the sub-charterer was not liable to undertake any responsibility against Sinochart.

In May 2015, the case continued to appeal to the Supreme Court in the UK by the shipowner.

Based on latest status of the legal proceedings and by reference to the advice from legal counsel, directors of the Company expected to settle this potential claim at approximately US$198,700,000. Accordingly, a provision for the case amounted to US$8,700,000 has been made as at 30 June 2016 (31 December 2015: US$8,700,000).

In addition to the above, as at 30 June 2016, Sinochart was also involved in 7 (31 December 2015: 6) other pending lawsuits amounted to approximately US$2,107,000 (31 December 2015: US$2,024,000). Taking into account the latest status of legal proceedings and the progress of settlement negotiations, the provisions for those cases is in the sum of US$650,000 as at 30 June 2016 (31 December 2015: US$610,000).

Save as disclosed above, the Group was involved in a number of claims and lawsuits currently under way. These claims and lawsuits are incidental to the Group's business operation, including but not limited to, the claims and lawsuits arising from damage to vessels during transportation, damage to goods, delay in delivery, collision of vessels and early termination of vessel chartering contracts. As at 30 June 2016 and 31 December 2015, the Group is unable to ascertain the likelihood and amounts of these respective claims, other than those provided for. However, based on the information available to the Group, the Directors are of the opinion that these cases will not have the significant financial or operational impact to the Group.

20 Commitments

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

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Contracted but not provided for	223,539	277,900

(b) Capital commitments in respect of investment in joint ventures

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Capital commitment in respect of the vessels under construction	348,175	364,368

21 Related party transactions

SINOTRANS & CSC Holdings Co., Ltd., 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 Holdings Co., Ltd. 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 charter hire 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 during the period.

21 Related party transactions (Continued)

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

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Charter hire income from fellow subsidiaries	**90,976**	132,168
Charter hire expenses paid to a joint venture	**1,638**	1,810
Charter hire expenses paid to fellow subsidiaries	**1,498**	–
Commission expenses to fellow subsidiaries	**36**	74
Commission management fee to a fellow subsidiary	**–**	30
Expenses for hiring of crews and seafarers to a fellow subsidiary	**5,389**	4,987
Interest income from joint ventures	**51**	49
Interest income from a fellow subsidiary	**165**	345
Interest income from loan to related companies	**335**	505
Rental expenses to fellow subsidiaries	**641**	751
Service fee paid to fellows subsidiaries	**56,278**	77,917
Service fee income from fellow subsidiaries	**233**	64
Service fee paid to a related company	**180**	400
Agency income from fellow subsidiaries	**14,900**	14,681
Vessel and container leasing cost paid	**8,045**	12,207
Commercial management fee from joint ventures	**–**	78

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

(c) Period ended balances arising from sales, purchases and other transactions with related parties were disclosed in notes 13 and 15.

(d) Key management compensation

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Salaries, allowances, and benefits-in-kind	**259**	181
Contributions to pension plans	**16**	15
	275	196

Management Discussion and Analysis of Results of Operations and Financial Position

Review of historical operating results

In the first half of 2016, the global economy dragged forward in uncertainty and instability. The balance between supply and demand kept tilting under the context of sluggish world trade growth caused by depressed overall demand on one side and increasing fleet capacities on the other side. The international shipping market has been further depressed compared to 2015, evidenced by the unprecedented historical low market index of dry bulk shipping market and container shipping market.

Building on our current achievements and looking into the future, the Group made response to such severe market condition by strengthening its low-cost fleet advantage through measures such as continuously optimizing the fleet structure, reducing ship management cost, as well as enhancing the management capability. In the meantime, we adopted effective business strategies for our customers and sources of cargoes, expanding the proportion of basic sources of cargoes and providing better customer services. In addition, the Group actively explored new businesses highlighted by LNG carriers, diversified our business structures, searched for projects with long-term and stable revenue and strived to enhance the Group's comprehensive competitiveness.

However, influenced by the tough market environment, our Group recorded a loss attributable to owners of the Company of US$40.23 million (2015: US$18.28 million) as at 30 June 2016.

Revenues

For the six months ended 30 June 2016, revenues of our Group were US$385.80 million (2015: US$485.13 million).

We set forth below the revenues contribution from each business segment:

	Six months ended 30 June		
	2016	2015	
	US$'000	US$'000	% Change
Revenues from:			
– Dry bulk shipping[1]	**162,774**	247,827	(34.3%)
– Container shipping	**223,274**	236,663	(5.7%)
– Others	**573**	1,540	(62.8%)
	386,621	486,030	(20.5%)
Revenues derived from joint ventures measured at proportionate consolidated basis[1]	**(817)**	(905)	(9.7%)
Revenues per the consolidated statement of comprehensive income	**385,804**	485,125	(20.5%)

(1) Segment revenue includes revenue derived from joint ventures measured at proportionate consolidated basis. Segment revenue subtracted the revenues derived from joint ventures measured at proportionate consolidated basis to arrive at total revenues per the consolidated statement of comprehensive income.

Management Discussion and Analysis of Results of Operations and Financial Position

Dry bulk shipping

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

The overall dry bulk market remained weak in the first half of 2016. Despite a rebound in prices of major commodities in the second quarter of the year, it was still trading low, and the global trade continued to be stagnated. The increase in Chinese imports of major commodities in the first half year provided support for the dry bulk shipping market to some extent. However, the imbalance of supply-and-demand aggravated by the continued slouching overall global seaborne demand and increasing fleet capacities has pushed the dry bulk shipping market index further to its historical low, while the index has been at its low level in recent years. The average Baltic Dry Index (BDI), which reflects the situation of dry bulk shipping market, hit a historical low of 290 points in February 2016. Meanwhile, the average BDI merely recorded 486 point in the first half of 2016, representing a year-on-year decrease of 22%, which was another historical low. More dry bulk shipping enterprises were forced to restructure their debts, sell assets and even go bankrupt, which evidenced how depressed the market was.

In face of such severe operating environment, the Group responded actively to market changes. We focused on customers' demand and developed synergy to reinforce cargo canvassing by taking advantage of our global network and strengthening direct business cooperations with cargo owners. In the meantime, we took measures such as optimizing the existing business models, proposing marketing ideas continuously, maintaining our market shares and increasing our operating efficiency.

In the first half of 2016, revenue of our Group from dry bulk shipping was US$162.77 million (2015: US$247.83 million), among which ocean freight income recorded US$126.52 million (2015: US$194.30 million), and charter hire income recorded US$36.25 million (2015: US$53.53 million). The shipping volume was 20.47 million tons during the first half year (2015: 20.97 million tons). The average daily charter hire rate/time charter equivalent (TCE) rate of dry bulk vessels was US$4,947 (2015: US$8,122). Our average charter rate level in general was higher than the average charter rate level of BDI in the spot market in the first half of 2016.

Container shipping

The container shipping business of the Group generates revenue mainly from the container liner service, freight forwarding and other businesses in Intra-Asia area.

In the first half of 2016, the overall demand of container shipping market remained weak as influenced by factors such as slowdown in global economic growth and sluggish trade demand. Although the capacity has recorded a dramatic year-on-year decrease, there was no fundamental change in excessive capacity and freight rates fluctuated downwards. The average China Containerized Freight Index (CCFI) Composite Index for the first half of the year was 696 points, representing a year-on-year decline of 29% and a historical record low. Nevertheless, the supply-and-demand in Intra-Asia market maintained relatively stable. The drop of freight rates was smaller than those of the major routes such as the European and the American. In particular, freight rates of the China-Japan route only decreased 5.9% year-on-year, which was far less than that of the drop of CCFI Composite Index.

In addition, benefiting from the decrease in vessel rental rates and persistent low bunker prices, the operating costs of container lines were reduced, which mitigated operating pressure to some extent.

Management Discussion and Analysis of Results of Operations and Financial Position

Amid the overall sluggish market condition, our Group persistently held its position as the liner carrier in Intra-Asia area. Based on the principle of improving existing liner services, we strengthened customer marketing, reinforced the competitive edges of our China-Japan and China-Taiwan routes, and strictly controlled operating costs. Eventually, we generated operating profits despite the adverse situation. As at 30 June 2016, revenue of our Group from container shipping was US$223.27 million (2015: US$236.66 million), among which income from liner service recorded US$205.55 million (2015: US$218.22 million), income from freight forwarding as well as other related business recorded US$17.72 million (2015: US$18.44 million). The container shipping volume of the Group for the first half of 2016 was 406,476 TEU (2015: 422,875 TEU). The average income per TEU was US$396 (2015: US$419).

Cost of operations

The cost of operations decreased to US$413.71 million (2015: US$505.14 million) for the six months ended 30 June 2016. The principal cost of operations includes voyage costs, cargo transportation costs, operating lease rentals and vessel costs.

We set forth below the cost of operations by business segments:

	Six months ended 30 June		
	2016	2015	
	US$'000	US$'000	% Changes
Dry Bulk Shipping			
Voyage costs	**58,470**	85,564	(31.7%)
Cargo transportation costs	**29,627**	62,705	(52.8%)
Operating lease rentals	**54,763**	55,445	(1.2%)
Vessel costs	**54,499**	69,872	(22.0%)
Others	**2,605**	4,302	(39.4%)
	199,964	277,888	(28.0%)
Container Shipping			
Voyage costs	**27,512**	38,927	(29.3%)
Cargo transportation costs	**109,925**	105,601	4.1%
Operating lease rentals	**65,101**	71,780	(9.3%)
Vessel costs	**10,923**	10,225	6.8%
Others	**6**	9	(33.3%)
	213,467	226,542	(5.8%)
Segment – Others	**274**	710	(61.4%)
Total cost of operations	**413,705**	505,140	(18.1%)

Management Discussion and Analysis of Results of Operations and Financial Position

The operating costs of dry bulk shipping amounted to US$199.96 million (2015: US$277.89 million). The decline of the operating costs in 2016 is caused by the drop of cargo transportation costs by 52.8% due to the decrease in shipping volume, the fall of voyage costs by 31.7% due to the decrease in bunker price, and the drop of vessel costs by 22% due to the decrease in the number of self-owned fleet.

The operating costs of container shipping amounted to US$213.47 million (2015: US$226.54 million). The decline of the operating costs in 2016 is a result of the drop of voyage costs by 29.3% due to the decrease in bunker price and shipping volume, and the fall of operating lease rentals by 9.3% due to the decrease in charter hire rate.

Selling, administrative and general expenses

The selling, administrative and general expenses mainly comprised of staff costs and office cost, amounting to US$16.16 million (2015: US$16.08 million).

Other (losses)/gains, net

The net amount of the other losses amounted to US$2.31 million (2015: other gains, net of US$5.19 million) which mainly represented the net loss of demolition of 5 aged vessels and provision for impairment of trade receivables.

Finance income and expenses

The finance income and expenses were US$5.09 million (2015: US$10.14 million) and US$3.16 million (2015: US$3.32 million) respectively. The decrease in finance income was attributable to the drop of interest rate and bank balances.

Share of profits of joint ventures

The share of profits of joint ventures, substantially contributed by dry bulk shipping, was US$0.10 million (2015: US$0.25 million).

Income tax credit/(expense)

Income tax credit for the period ended 30 June 2016 was US$0.09 million (2015: an expense of US$0.20 million).

Management Discussion and Analysis of Results of Operations and Financial Position

Liquidity and financial resources

Our cash has been principally used for payment for construction of vessels, operating costs and working capital in the first half of 2016. 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 2016 US$'000	As at 31 December 2015 US$'000
Current assets	**913,720**	851,813
Current liabilities	**206,930**	225,398
Liquidity ratio (note)	**4.42**	3.78

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 2016 and 31 December 2015 were 4.42 and 3.78 respectively.

Borrowings

The present value of finance lease obligation and the bank borrowings were repayable as follows:

	Bank borrowings		**Finance lease obligation**		**Total**	
	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000	**As at 30 June 2016 US$'000**	As at 31 December 2015 US$'000	**As at 30 June 2016 US$'000**	As at 31 December 2015 US$'000
Within 1 year	**6,346**	6,346	**1,555**	1,438	**7,901**	7,784
Between 1 and 2 years	**6,346**	6,346	**1,709**	1,607	**8,055**	7,953
Between 2 and 5 years	**19,039**	19,039	**6,624**	6,227	**25,663**	25,266
Over 5 years	**1,061**	4,182	**32,106**	33,432	**33,167**	37,614
	32,792	35,913	**41,994**	42,704	**74,786**	78,617
Less: current portion	**(6,346)**	(6,346)	**(1,555)**	(1,438)	**(7,901)**	(7,784)
Non-current portion	**26,446**	29,567	**40,439**	41,266	**66,885**	70,833

Gearing ratio

Gearing ratio is not presented as our Group had net cash (in excess of debt) as at 30 June 2016 and 31 December 2015.

Management Discussion and Analysis of Results of Operations and Financial Position

Commitments

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

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Contracted but not provided for	223,539	277,900

(b) *Capital commitments in respect of investment in joint ventures*

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Capital commitment in respect of the vessels under construction	348,175	364,368

Capital expenditures

For the six months ended 30 June 2016, total capital expenditures were US$77.18 million (2015: US$55.46 million) which was mainly attributable to the capital expenditures for construction of dry bulk vessels, investment in LNG shipping, dry docking and intangible asset in the first half of the year.

Foreign exchange risk

Our Group operates internationally and is exposed to foreign exchange risk arising from various non-functional currencies. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

The foreign exchange risk is faced by our Group therefore primarily with respect to non-functional currency bank balances, receivable and payable balances and bank borrowings (collectively "Non-Functional Currency Items"). Our Group currently does not have regular and established hedging policy in place. Management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure by using appropriate financial instruments and adopting appropriate hedging policy to control the risks, when need arises.

Contingent liabilities

The contingencies of our Group were set out in Note 19 to the interim financial information.

Management Discussion and Analysis of Results of Operations and Financial Position

LNG shipping

In cooperation with its partners, the Group successfully won the bidding of Russian Yamal ice-class LNG carriers project in 2015, and then jointly invested in five new-built LNG carriers, and engaged in the LNG shipping business of Arctic route. Joint ventures were established and commenced operation currently. Some of the new carriers are being built. The Group will monitor closely the shipbuilding progress to ensure ship manufacturing quality and smooth delivery.

Fleet development

In the first half of 2016, the Group continued to optimize the fleet structure and accelerated fleet upgrade. We scrapped 5 aged vessels, and received 3 Handymax eco-vessels.

Currently, the Group has an orderbook of 11 vessels, of which 1 Handymax vessel is expected to be delivered in the second half of the year, 6 Handysize bulk vessels and 4 container vessels are expected to be delivered from 2017. In addition, the 5 ice-class LNG carriers owned by the Group through joint ventures are expected to be delivered from 2017.

In the past two years of sluggish market environment, through extensive replacement and upgrading of vessels, the Group substantially optimized the fleet structure, which brought a significant decrease in fleet cost and a notable increase in comprehensive competitiveness. As at 30 June 2016, the average age of our own vessels was 6 years old, a decrease by 1.9 years as compared to the corresponding period of last year. Details of the fleet are as follows:

	Owned vessels (unit)	Chartered-in vessels (unit)	Controlled vessels (unit)	Orderbook (unit)
Capesize	9	2	11	–
Panamax	11	31	42	–
Handymax	12	8	20	1
Handysize	4[(1)]	–	4	6
Total for bulk vessels	36	41	77	7
Total for bulk vessels (kt)	3,354kt	3,250kt	6,604kt	297kt
Container vessels	11	15	26	4
Container vessels (TEU)	9,537 TEU	22,491 TEU	32,028 TEU	7,600 TEU
Ice-class LNG carriers	–	–	–	5[(2)]
Ice-class LNG carriers (thousand cubic meters)	–	–	–	860
Total vessels	47	56	103	16

(1) 2 of the Handysize vessels are collectively owned by the Group and Mitsui O.S.K. Lines, Ltd.

(2) 5 ice-class LNG carriers are collectively owned by the Group and its partners.

Employees

As at 30 June 2016, our Group had a total of 755 shore-based employees working in our offices in Hong Kong, Mainland China, Canada, Singapore and other regions. The remuneration policies and development of our employees were substantially the same as those disclosed in the 2015 annual report with no material change.

Management Discussion and Analysis of Results of Operations and Financial Position

Outlook

The gradual implementation of “the Belt and Road” initiative of China brings new impetus to the growth of the demand of shipping from the countries alongside the Belt and Road. Yet, the road to world economy recovery remained difficult due to a number of instabilities and uncertainties in the global economic development in the second half of the year. The slow growth of shipping demand has become a normal trend, while the situation of excessive capacity is unlikely to change substantially in the near term. It is anticipated that the market will recover slowly in the future. Overall, opportunities and challenges coexist.

In the dry bulk shipping market, the main emerging economies, as the major support for the international shipping market, show sluggish growth of economy. Many peers have exited the dry bulk shipping sector due to the harsh operating environment and there was a significant decrease in new orders. Accordingly, the supply of shipping capacity in the future will substantially decline and the gap between supply and demand will gradually narrow. It is expected that the market is likely to improve. As compared to the global containers shipping market, the shipping volume in Intra-Asia area is relatively stable. The competition landscape and freight rates of container liners will remain steady.

Facing the everchanging business environment, the Group will take “the Belt and Road” initiative as an opportunity to enhance its comprehensive competitiveness by exploring potential demand, promoting strategic cooperation with major clients, striving to improve market share and service quality, continuously enhancing operational efficiency and cost control, and adjusting fleet structure.

When stabilizing the current business development, the Group is continuously exploring diversified development of businesses to contribute long-term stable returns and further facilitate the growth of the business. The Group believes that with the above measures, coupled with its brand advantage, professional management team, solid financial condition and modern fleet, the Group will be able to resist the trough of the shipping market, and get ready for market recovery in the future. The Group will constantly strive for achieving the goal of maximizing the shareholders’ benefits.

Audit committee

The audit committee of our Company has reviewed the interim financial information of our Group for the six months ended 30 June 2016. 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

Dividend

Our Board has resolved not to declare any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

Other Information

Directors' interests in shares

As at 30 June 2016, 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 2016, 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	2,720,520,000	68.15
Sinomarine Limited (Note 2)	Long Position	Interest of controlled corporation	2,600,000,000	65.13
Sinotrans Shipping (Holdings) Limited (Note 1)	Long Position	Beneficial owner	2,600,000,000	65.13

Note:

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

2. Sinomarine Limited was formerly known as China Business Marine Co., Ltd.

Save as disclosed above, as at 30 June 2016, 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

During the six months ended 30 June 2016, neither our Company nor any of our subsidiaries had purchased, sold or redeemed any of our Company's shares.

Other Information

Compliance with the corporate governance code

Except that the Chairman of the Company was unable to attend and preside over the annual general meeting of the Company held on 29 June 2016 due to other business commitments, our Group has complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2016.

Compliance with the model code for securities transactions by directors of listed issuers

We have 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 our Directors.

Our Board confirms that, having made specific enquiry of all Directors, all our Directors have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2016.

Changes in Director's information

Since the date of the Company's 2015 Annual Report, changes in Director's information are set out as follows:

Mr. Tsang Hing Lun was appointed as an independent non-executive director of China Shipping Container Lines Co., Ltd in July 2016.