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Company Profile

Our Group is one of China's largest shipping companies in terms of self-owned dry bulk fleet size. We own and operate a modern fleet of vessels which mainly engages in dry bulk vessel time chartering, container vessel time chartering, crude oil shipping services, vessel technical management and other shipping related business. As at 31 December 2009, we operated a fleet of 40 vessels with an aggregate capacity of 1.92 million DWT and an average age of approximately 9.8 years. Our Group's fleet comprises 29 dry bulk vessels with an aggregate capacity of approximately 1.51 million DWT, 1 oil tanker with capacity of approximately 310,000 DWT, and 10 container vessels with an aggregate capacity of 6,667 TEU.

Dry bulk vessel time chartering is the core business of our Group. We operate a fleet of 29 dry bulk vessels, including 2 multi-purpose vessels, 7 Handysize dry bulk vessels, 8 Handymax dry bulk vessels and 12 Panamax dry bulk vessels, mainly for transportation of dry bulk cargoes such as iron ore, coal, grains, steel and other commodities along major trading routes in the world.

Financial Highlights

| | 2009 US\$'000 | 2008 US\$'000 | % Change |
|--|-----------------------------|------------------|----------|
| Results | | | |
| Revenues | 229,106 | 455,972 | (49.8%) |
| Operating profit | 86,788 | 285,549 | (69.6%) |
| Profit attributable to equity holders of the Company | 106,394 | 347,134 | (69.4%) |
| Net profit margin | 46.4% | 76.1% | (39.0%) |
| Basic and diluted earnings per share | US2.7 cents | US8.7 cents | (69.0%) |
| Dividends | 35,891⁽¹⁾ | 112,763 | (68.2%) |
| Financial Position | | | |
| Total assets | 2,075,461 | 2,148,823 | (3.4%) |
| Total liabilities | 41,732 | 149,912 | (72.2%) |
| Shareholders' equity | 2,033,729 | 1,998,911 | 1.7% |
| Total cash and bank balances | 1,153,058 | 1,369,812 | (15.8%) |

(1) Including the proposed final dividend of HK5 cents per share and interim dividend of HK2 cents per share.

Chairman's Statement

Dear shareholders,

I hereby present the annual report of Sinotrans Shipping Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2009 to the shareholders for their review.

BUSINESS REVIEW

In 2009, the shipping market was confronted with both opportunities and challenges. Worsening of the international financial crisis brought global economy to its knee, resulted in a substantial decline in world trade volume and squeezing seaborne trade demand. The shipping industry, therefore, experienced an unprecedented impact. On the other hand, governments around the world took remedial measures promptly to revive weakening consumption and investment sentiment. In the second half of 2009, signs of global economic recovery emerged, and the shipping market gradually steered its way out from the market bottom subsequently.

The dry bulk shipping market showed an upward trend in general after reaching its low in early 2009. Opening at a low of 773 at the beginning of the year, the Baltic Dry Index ("BDI") experienced high volatility over the year and reached its high at 4,661

in mid-November. However, the average BDI for the year was only 2,617, which was the lowest level in recent years. The China factor was still the key driver for the dry bulk shipping market as its strong demand for raw materials such as iron ore and coal fostered the global seaborne dry bulk trade. At the same time, the lower-than-expected numbers of delivery of newbuildings together with the relatively high level of demolition of aged vessels relieved the supply pressure in the market to a certain extent. This was in contrast to the sluggish tanker shipping market with tanker freight rate remaining at low levels throughout the year. As the international financial crisis continued to play out, a decline was registered for the global seaborne oil demand. Meanwhile, newbuildings continued to boost the global tanker fleet at a steady rate, intensifying the oversupply problem faced by the market. The Baltic Dirty Tanker Index ("BDTI") reached its historic low at 453 in mid-April, and the average BDTI for the year was only 581, representing a decrease of 61.5% when compared with 1,510 in 2008.



Despite the volatile market situation, our Group still managed to produce revenues of US\$229,106,000 in 2009, whereas the operating profit was US\$86,788,000. Profit attributable to equity holders of the Company was US\$106,394,000 and earnings per share was US2.7 cents.

During the year, our Group took advantages of the favorable market condition to acquire 4 secondhand vessels, including 1 Panamax dry bulk vessel, 2 Handymax dry bulk vessels and 1 container vessel, with a view to optimising our fleet structure. As at 31 December 2009, our Group operated a self-owned fleet of 40 vessels* with an aggregate shipping capacity of 1.92 million DWT and an average age of approximately 9.8 years. Our Group also had a

total of 10 newbuildings, including 4 Capesize dry bulk vessels each of 180,000 DWT, 2 Capesize dry bulk vessels each of 176,000 DWT and 4 Handysize dry bulk vessels each of 32,000 DWT, which were expected to be delivered between 2010 and 2011.

Our fleet comprises 29 dry bulk vessels**, with an aggregate capacity of approximately 1.51 million DWT and total number of earning days of 9,316 days. Revenue from dry bulk shipping was US\$208,431,000. Our Group currently operates 1 jointly owned oil tanker with a capacity of approximately 310,000 DWT. Revenue from oil tanker shipping services was US\$10,253,000. We also operate 10 container vessels with an aggregate capacity of 6,667 TEU and total number of earning days of 3,355 days. Total revenue from container shipping reached US\$20,831,000.

* Including 1 jointly owned dry bulk vessel and 1 jointly owned oil tanker.

** Including 1 jointly owned dry bulk vessel.

With the gradual growth of our fleet size, our Group attaches high degree of importance to the management of vessels. We have been adhering to the strict industry standards to improve the technical management system of our vessels and working actively for compliance with the requirements of ISM Code, ISO 9001 and ISO14001. Smooth implementations of the technical management system and effective enhancement of the operations management level of our vessels have laid a solid foundation for us to achieve good economic results.

DIVIDEND

To reward our shareholders for their continuous support of our Group, and taken into consideration of the healthy financial position of the Company, the Board of Directors proposes a final dividend of HK5 cents per share, together with the interim dividend of HK2 cents per share, making a dividend payout ratio of 33.7% for the year.

OUTLOOK

The newbuilding dry bulk vessels ordered by our Group will be completed and delivered between 2010 and 2011. Our fleet will then comprise various types of dry bulk vessels ranging from Capesize to Handysize. With a more optimised fleet structure, our Group, as one of China's largest shipping companies, will see new development opportunities ahead.

For the year 2010, the international shipping market will still be under pressure from global newbuilding deliveries. But the supply pressure in the market will be relieved to a certain extent by positive factors such as the resilient shipping demand in line with the gradually improving world economy, especially the rapid growth of the Chinese economy, and also the cancellation and postponement of delivery of certain newbuilding orders. According to the data of authoritative shipping research institutions, demand for dry bulk shipping has started to turnaround, with global seaborne dry bulk trade resuming its growth in 2010 from earlier declines. Meanwhile, cancellation of newbuilding orders by shipowners and postponement of deliveries will continue,

thus easing some of the pressures brought by the newbuilding deliveries. It is expected that the dry bulk shipping market will remain volatile in 2010. For the global tanker shipping market, international authoritative energy organisations have adjusted upward the forecast for the world oil demand in 2010. However, as growth rate of the global oil tanker fleet will still outpace the reviving demand for oil tanker shipping, it is expected that the global tanker shipping market will continue to face great pressure in 2010.

The international shipping market experienced high volatility during last year, and there are still plenty of uncertainties and potential risks ahead. In face of the complicated market situation, our Group will continue to tackle the challenges by taking advantages of our solid financial position, low cost structure, and young and modernised fleet. We will strive to seize the market trend, uphold our moderate operations strategies, enhance operational flexibility and strengthen risk controls to achieve a stable and sustainable growth for our Group. Besides, we will keep optimising the structure of our fleet and increase our competitiveness, striving for better returns for our shareholders.

ACKNOWLEDGEMENT

The global shipping industry reached its bottom in 2009. Amidst such unfavorable market condition, our Group took steps to adjust our operations strategies in a timely manner in order to mitigate the adverse impact brought by the depressed and volatile market. I would like to thank all our shareholders, customers and the public for their full support and confidence to us, and also our employees for their efforts and contributions. Looking forward, our Group will devise comprehensive strategies to address the challenges composedly so as to strive for more stable development of our business.

Zhao Huxiang
Chairman

10 March 2010



Business Review and Outlook

Our Group is one of China's largest shipping companies in terms of self-owned dry bulk fleet size. We own and operate a modern fleet of vessels which mainly engages in dry bulk vessel time chartering, container vessel time chartering, crude oil shipping services, vessel technical management and other shipping related business.

MARINE TRANSPORTATION BUSINESS

Dry bulk vessel

Benefited from the introduction and implementation of economic stimulus programs by various governments, especially in China, the international dry bulk shipping market was the first to recover from the gloomy shipping market in 2009. The series of policies for stimulating domestic demand by the Chinese government since late 2008 boosted demand for raw materials, which resulted in a surge of China's iron ore and coal imports in

2009. This helped offsetting the decline in imports of raw materials in the developed countries. At the same time, only two-thirds of the scheduled dry bulk vessel deliveries took place as a result of the cancellation of newbuilding orders and postponement in deliveries. Demolition of aged vessels also reached a relatively high level. Therefore, although the global dry bulk fleet kept expanding markedly in 2009, the growth of the fleet still fell short of the former expectation of the market.

The international dry bulk shipping market showed an upward trend in general after reaching its low in early 2009. The BDI opened at a low of 773 at the beginning of the year and reached its highest level for the year in the fourth quarter. However, rebound of the BDI was only comparable to the market bottom in the fourth quarter of 2008. The average BDI still dropped by 59.0% to 2,617 in 2009, hitting the lowest record in recent years.

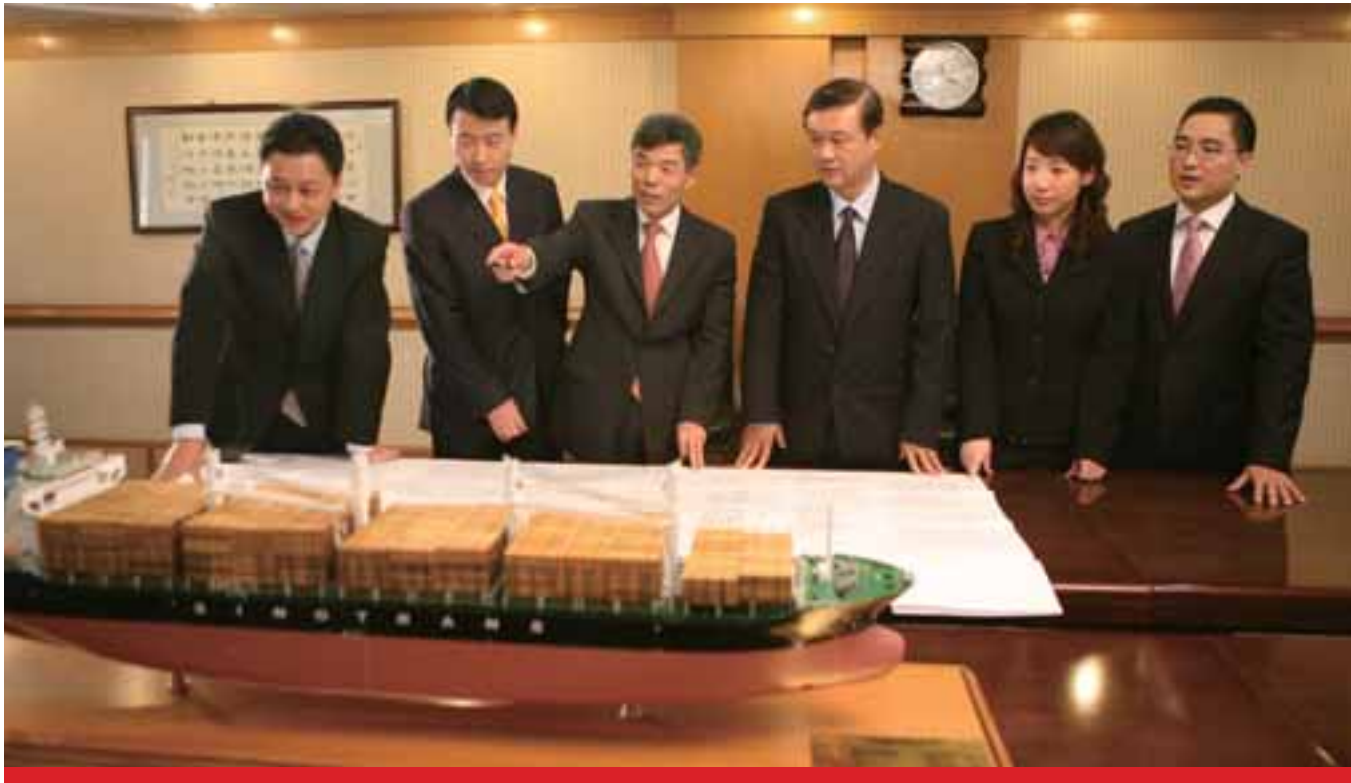
Adhering to the principle of solid and stable operation, our Group fixed our fleet on long-term and short-term chartering flexibly and diversely, which protected us from the impact of a depressed and volatile market. In 2009, we produced a revenue of US\$208,431,000 (2008: US\$424,008,000) for dry bulk shipping business. Our Group capitalized on the favorable timing of market rebound in 2009 to secure mid to long-term chartering contracts, so as to maximise our revenue when the market improved and stabilise our overall operating revenue. Meanwhile, our Group kept abreast of the market trend during the trough period to explore different kinds of opportunities. By implementing the flexible chartering strategies, we managed to position our fleet favorably and adjusted to market changes effectively.

The dry bulk shipping market was highly volatile during the past year. Vulnerable creditworthiness in the market posed new challenges to our Group's ability in risk control. To cope with this situation, our Group took proactive development strategies and tightened our risk control measures, providing reliable support and assurance for stable and healthy growth of our business. We will continue to capitalize on our competitive advantages of good reputation and low cost, endeavor to strengthen cooperation with charterers that are well established and highly recognized in the international shipping market for developing and maintaining long-term and stable relationship.

As at 31 December 2009, the number of operating days of dry bulk vessels was fixed at approximately 51.3% in 2010, approximately 45.7% for Handysize dry bulk vessels, approximately 51.0% for Handymax dry bulk vessels and approximately 55.7% for Panamax dry bulk vessels.

During the year, we acquired 3 secondhand vessels, including 1 Panamax dry bulk vessel and 2 Handymax dry bulk vessels, with a view to optimising our fleet structure. As at 31 December 2009, our Group's fleet comprised 29 dry bulk vessels*, including 2 multi-purpose vessels, 7 Handysize dry bulk vessels, 8 Handymax dry bulk vessels and 12 Panamax dry bulk vessels. We also had 10 newbuildings which were expected to be delivered and put into operation between 2010 and 2011. With the stable growth of our fleet, our overall strength will be further enhanced.

* Including 1 jointly owned dry bulk vessel.



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

| | 2009 | 2008 |
|---|--------------|-------|
| Number of vessels | 29 | 26 |
| Utilisation ⁽¹⁾ | | |
| Total number of operating days | 9,316 | 9,084 |
| Total number of off-hire days (other than because of repair and maintenance) | 70 | 128 |
| Total number of days that vessels are not utilised because of repair and maintenance | 326 | 304 |
| Fleet utilisation ⁽²⁾ | 96.0% | 95.5% |

Notes:

- (1) Refers to the aggregate of the total number of days on which each vessel is chartered out (including the operating days of the dry bulk vessel of the jointly controlled entity in which we have 50% equity interest: 365 days in 2009; 366 days in 2008).
- (2) Refers to the percentage of total number of operating days over the total number of days.

In 2009, the total number of operating days of our dry bulk vessels increased by 2.6% when compared with 2008, mainly because we took delivery of 3 secondhand dry bulk vessels in the second half of the year. In addition, total off-hire days due to repair and maintenance were 326 days, accounting for 82.3% of the off-hire percentage.

In addition to chartering of self-owned vessels, we also provide dry bulk shipping service, primarily in Canada through our wholly-owned subsidiaries Sinotrans Canada Inc. and Sinotrans (Bermuda) Ltd. In 2009, our revenue from ocean freight income of the main business of Sinotrans Canada Inc. and Sinotrans (Bermuda) Ltd. was US\$35,634,000 (2008: US\$78,959,000).

As the global economy recovers, especially with the rapid economic growth in developing countries, the world trade volume will increase in 2010. While China will remain as the key driver for the dry bulk shipping market, the trend of long-haul transportation of raw materials such as iron ore and coal will also help boosting the demand for dry bulk shipping. On the other hand, massive newbuilding orders accumulated in the past couple of years are going to be delivered in the coming two years. However, as the trend of postponement in deliveries and cancellation by shipowners continues, pressure brought by such new fleet will be mitigated to a certain extent. It is expected that the dry bulk shipping market will remain volatile in 2010.

Oil tanker

In 2009, global demand for oil, especially the demand from developed countries, declined significantly, while the growth rate of global oil tanker fleet accelerated as a result of plenty of newbuildings entering the market. Against the backdrop of declining demand and increasing supply, the international oil tanker shipping market remained sluggish in 2009. The average BDTI was only 581 for the year, representing a decrease of 61.5% when compared with 1,510 in 2008. The BDTI even reached its historic low at 453 in mid-April. With the gradual recovery of global economy, international authoritative energy organisations have adjusted upward the forecast for the world oil demand in 2010. However, growth rate of the global oil tanker fleet will still outpace the reviving demand of oil tanker shipping. It is expected that the demand and supply imbalance will still exist in the global oil tanker shipping market in 2010, bringing more pressure to the market.

We currently operate our VLCC fleet in the spot market under voyage charters for provision of crude oil shipping services, enabling us to deploy our vessel in a reasonable manner while avoiding market risks efficiently and flexibly. We will continue to strengthen our strategic cooperation with key charterers and endeavor to better adapt to the market and customers' needs.

Total volume of crude oil shipped by our oil tanker fleet was 2.32 million tons in 2009 (2008: 3.89 million tons). Our revenue from oil tanker shipping services was US\$10,253,000 (2008: US\$49,985,000). The decrease in revenue was mainly caused by the reduction in net tonnage as a result of disposal of single-hull VLCCs in our oil tanker fleet in 2008 and the market downturn.

Business Review and Outlook

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

| | 2009 | 2008 |
|---|------|-------|
| Number of vessels | 1 | 4 |
| Utilisation ⁽¹⁾ | | |
| Total number of operating days | 365 | 611 |
| Total number of off-hire days (other than because of repair and maintenance) | 0 | 83 |
| Total number of days that vessels are not utilised because of repair and maintenance | 0 | 47 |
| Fleet utilisation ⁽²⁾ | 100% | 82.5% |

Notes:

- (1) Refers to the aggregate of the total number of days on which each vessel is chartered out (including the operating days of the oil tanker of the jointly controlled entity in which we have 50% equity interest: 365 days in 2009; 443 days in 2008).
- (2) Refers to the percentage of total number of operating days over the total number of days.

Container vessel

Affected by the financial crisis, consumer spending in developed countries in Europe and the U.S. slumped, leading to the decline in world trade volume and significant contraction in global container shipping volume in 2009. At the same time, accelerated newbuilding deliveries brought huge pressure to the market. Due to significant imbalance in demand and supply, idle fleet surged and container shipping freight rate remained sluggish. It is expected that the demand for container shipping will resume in 2010 when the economies of Europe and the U.S. start to revive. However, as restrained by the accelerated growth rate of fleet, the demand and supply imbalance will still persist in the container shipping market.

Our chartered container vessels mainly operate along trade routes in the Asia Pacific Region. In 2009, our Group capitalized on the favorable timing to acquire 1 secondhand container vessel, which further enhanced the capacity and revenue of our container shipping business. As at the end of 2009, we had a total of 10 container vessels with an aggregate capacity of 6,667 TEU. Total revenue reached US\$20,831,000 in 2009 (2008: US\$18,030,000), representing a year-on-year increase of 15.5%.

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

| | 2009 | 2008 |
|---|--------------|-------|
| Number of vessels | 10 | 9 |
| Utilisation ⁽¹⁾ | | |
| Total number of operating days | 3,355 | 2,775 |
| Total number of off-hire days (other than because of repair and maintenance) | 4 | 0 |
| Total number of days that vessels are not utilised because of repair and maintenance | 76 | 28 |
| Fleet utilisation ⁽²⁾ | 97.7% | 99.0% |

Notes:

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

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

VESSEL TECHNICAL MANAGEMENT AND OTHER SHIPPING RELATED BUSINESS

The vessel technical management services provided by our Group include technical management undertaken for our own vessels, crew training and management, and arrangement of insurance. We strictly follow the Safety, Quality and Environmental Protection (SQE) management system and have passed the related audit of American Bureau of Shipping (ABS) to tally with the requirements of ISM Code, ISO 9001 and ISO14001.

We provide shipping agency and air freight agency services with a focus on Singapore through our wholly-owned subsidiary Sinotrans Agencies (S) Pte Ltd. Revenue of US\$1,089,000 was recorded in 2009 (2008: US\$1,605,000).

FLEET DEVELOPMENT

Our Group adjusted the shipping capacity in time according to market demand and characteristics of our own fleet so as to build up our competitiveness. In 2009, our Group capitalized on the favorable timing to acquire 4 secondhand vessels, including 1 Panamax dry bulk vessel, 2 Handymax dry bulk vessels and 1 container vessel, with a view to optimising our fleet structure. As at 31 December 2009, we had a total of 10 newbuilding vessels which were scheduled to be delivered and put into operation between 2010 and 2011. Looking forward, we will further expand our fleet with a more optimised structure so as to strengthen our overall competitiveness in the international market.

Business Review and Outlook

| Name of Vessel | DWT/TEU⁽¹⁾ | Year Built/Expected Delivery Time | Age |
|----------------------------------|------------------------------|--|------------|
| Multi-purpose vessel | | | |
| Great Blossom | 32,509 | September 1999 | 10.2 |
| Great Immensity | 32,485 | December 1999 | 10.0 |
| Handysize dry bulk vessel | | | |
| Trans Friendship ⁽²⁾ | 24,021 | February 1999 | 10.8 |
| Great Concord | 24,159 | March 1999 | 10.7 |
| Great Harmony | 24,159 | May 1999 | 10.6 |
| Great Creation | 27,383 | July 1998 | 11.4 |
| Great Motion | 27,338 | September 1998 | 11.2 |
| Great Success | 27,172 | October 1998 | 11.2 |
| Great Gain | 27,140 | November 1998 | 11.1 |
| HPS2282 ^{(3) (4)} | 32,000 | 2010 ⁽⁶⁾ | – |
| HPS2283 ^{(3) (4) (5)} | 32,000 | 2010 ⁽⁶⁾ | – |
| HPS2284 ^{(3) (4) (5)} | 32,000 | 2010 ⁽⁶⁾ | – |
| HPS2285 ^{(3) (4)} | 32,000 | 2010 ⁽⁶⁾ | – |
| Handymax dry bulk vessel | | | |
| Great Calm | 45,215 | August 1996 | 13.3 |
| Great Peace | 45,259 | March 1996 | 13.7 |
| Great Happy | 45,248 | March 1997 | 12.7 |
| Great Prestige | 46,193 | April 1998 | 11.6 |
| Great Majesty | 46,194 | February 1998 | 11.8 |
| Great Scenery | 47,760 | August 2002 | 7.3 |
| Great Praise ⁽⁷⁾ | 52,434 | May 2006 | 3.6 |
| Great Legend ⁽⁸⁾ | 52,385 | August 2006 | 3.3 |
| Panamax dry bulk vessel | | | |
| Great Luck | 71,399 | February 1998 | 11.8 |
| Great Bless | 73,251 | August 1997 | 12.3 |
| Great Jade | 73,192 | October 1997 | 12.2 |
| Great Bright | 73,242 | December 1997 | 12.0 |
| Great Glory | 73,274 | November 1997 | 12.1 |
| Great Ambition | 73,725 | August 1999 | 10.3 |
| Great Loyalty | 73,659 | September 1999 | 10.2 |
| Great Prosperity | 73,679 | July 1999 | 10.4 |
| Great Wisdom | 74,293 | March 2000 | 9.7 |
| Great Century | 73,747 | January 2000 | 9.9 |
| Great Intelligence | 74,293 | June 2000 | 9.5 |
| Great Talent ⁽⁹⁾ | 76,773 | January 2005 | 4.9 |
| Capesize dry bulk vessel | | | |
| BC1800-7 ^{(3) (4)} | 180,000 | 2010 ⁽⁶⁾ | – |
| BC1800-8 ^{(3) (4)} | 180,000 | 2010 ⁽⁶⁾ | – |
| BC1800-9 ^{(3) (4)} | 180,000 | 2011 ⁽⁶⁾ | – |
| BC1800-10 ^{(3) (4)} | 180,000 | 2011 ⁽⁶⁾ | – |
| J0013 ^{(3) (4)} | 176,000 | 2010 ⁽⁶⁾ | – |
| J0014 ^{(3) (4)} | 176,000 | 2010 ⁽⁶⁾ | – |

| Name of Vessel | DWT/TEU⁽¹⁾ | Year Built/Expected Delivery Time | Age |
|---------------------------------|------------------------------|--|------------|
| Oil tanker – VLCC | | | |
| Grand Sea ⁽²⁾ | 310,444 | March 2008 | 1.7 |
| Container vessel | | | |
| Jin Da | 338 | September 1994 | 15.2 |
| Jin Teng | 338 | June 1994 | 15.5 |
| Trade Worlder | 385 | April 1993 | 16.6 |
| Trade Hope | 385 | July 1993 | 16.4 |
| MSC Algeria | 784 | May 1992 | 17.6 |
| Sinotrans Beijing | 847 | February 2008 | 1.9 |
| Sinotrans Shenzhen | 847 | April 2008 | 1.7 |
| Sinotrans Ningbo | 847 | May 2008 | 1.6 |
| Sinotrans Xiamen | 847 | July 2008 | 1.4 |
| Sunrise Express ⁽¹⁰⁾ | 1,049 | May 2006 | 3.6 |

Notes:

- (1) Applies only to container vessels.
- (2) The vessel is jointly owned by us and Mitsui O.S.K. Lines, Ltd.
- (3) Construction has been commissioned.
- (4) Name of vessel not yet available.
- (5) The vessel will be jointly owned by us and Mitsui O.S.K. Lines, Ltd.
- (6) Latest expected delivery time.
- (7) Great Praise was acquired on 25 September 2009.
- (8) Great Legend was acquired on 5 November 2009.
- (9) Great Talent was acquired on 23 October 2009.
- (10) Sunrise Express was acquired on 3 August 2009.

EMPLOYEES

As at 31 December 2009, our Group had a total of 104 shore-based employees working in our member companies in Hong Kong, Canada and Singapore. Among them 42 had bachelor's degree or above, 42 possessed professional qualification in the areas of shipping, accounting and legal practices.

Remuneration of our employees include fixed basic salary (determined with reference to the market and the staff's ability), bonus (determined with reference to the Company's results and the staff's annual performance) and allowances. We ensure to attract, retain and incent talents with the principles of paying for the positions, performance and abilities. We provide our employees with ample and complete welfare benefits in accordance with applicable regulations and our internal policies, which include provident fund and mandatory fund retirement benefits, medical insurance scheme, annual physical examination, personal accident and life insurance scheme. We also arrange various travels, entertainment and birthday celebration activities in order to enhance the staff's cohesion and sense of identity.

We properly manage the performance of our employees through systematic and comprehensive performance managing tools. Meanwhile, we also invest in continuing education and training programmes for our employees with a view to upgrade their skills and knowledge. We believe our corporate culture characterised as prudence, devotion and commitment to creativity, standardisation and teamwork has provided our employees with a platform to develop their capabilities and to explore their potentials.

OUTLOOK

Looking forward, the international shipping market will still be under pressure from global newbuilding deliveries. But the supply pressure in the market will be relieved to a certain extent by positive factors such as the resilient shipping demand in line with the gradually improving world economy, especially the rapid growth of the Chinese economy, and also the cancellation and postponement of delivery of certain newbuilding orders. As there are still plenty of uncertainties and potential risks ahead, the market will remain volatile over the year. In face of the complicated market situation, our Group will continue to tackle the challenges by taking advantages of our solid financial position, low cost structure, and young and modernised fleet. We will strive to seize the market trend, uphold our moderate operations strategies, enhance operational flexibility and strengthen risk controls to achieve a stable and sustainable growth for our Group. Besides, we will keep optimising the structure of our fleet to increase our competitiveness.

Financial Review

REVIEW OF HISTORICAL OPERATING RESULTS

2009 saw a substantial decline in world trade volume and a falling shipping demand under the impact of financial crisis, while the supply of tonnage kept increasing. The drastic dip in charter hire and freight rate made a relatively significant impact on our Group's results of operations inevitably. Nevertheless, our Group produced operating profit of US\$86.8 million (2008: US\$285.5 million), whereas the profit attributable to equity holders of the Company was US\$106.4 million (2008: US\$347.1 million).

We set forth below the revenues contribution from each business segment for the year ended 31 December 2009:

| | 2009 US\$'000 | 2008 US\$'000 | % Change |
|--|--------------------------------|------------------|----------|
| Revenues | | | |
| – Dry bulk shipping(*) | 208,431 | 424,008 | (50.8%) |
| – Oil tanker shipping(*) | 10,253 | 49,985 | (79.5%) |
| – Container shipping | 20,831 | 18,030 | 15.5% |
| – Others | 1,120 | 1,679 | (33.3%) |
| | 240,635 | 493,702 | (51.3%) |
| Revenues derived by jointly controlled entities measured at proportionate consolidated basis | (11,529) | (37,730) | (69.4%) |
| Revenues per consolidated statement of comprehensive income | 229,106 | 455,972 | (49.8%) |

* Segment revenue includes the Group's jointly controlled entities on a proportionate consolidated basis.

We set forth below the average daily charter hire rate/time charter equivalent rate ("TCE") for each segment of our shipping business for the year ended 31 December 2009:

| | 2009 (US\$) | 2008 (US\$) | % Change |
|------------------------------------|------------------------------|----------------|----------|
| Dry bulk vessel (Self-owned) | 19,037 | 38,387 | (50.4%) |
| Oil tanker(**) (Average daily TCE) | 23,734 | 69,856 | (66.0%) |
| Container vessel | 6,210 | 6,498 | (4.4%) |

** 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.

With the introduction and implementation of economic stimulus programs imposed by various governments, in particular plans for stimulating domestic demand by the Chinese government gradually taking effect, which has driven the demand for raw materials particularly iron ore and coal in China, the international dry bulk shipping market was the first to recover from the gloomy shipping market and the BDI rebounded to the year high in the fourth quarter of 2009. However, rebound of the BDI was only comparable to the market bottom in the fourth quarter of 2008. The average BDI still dropped by 59.0% in 2009 as compared to 2008 and hit the lowest record in recent years. Our Group recorded an average charter hire rate of US\$19,037 (2008: US\$38,387) and made a revenue from charter hire income of US\$170.8 million (2008: US\$343.7 million).

Revenue from ocean freight income was US\$37.6 million (2008: US\$80.3 million) due to the decrease in freight rate.

Oil tanker shipping

Revenue from oil tanker shipping services for the year ended 31 December 2009 was US\$10.3 million (2008: US\$50.0 million), which was mainly caused by the reduction in net tonnage as a result of disposal of single-hull VLCCs in the oil tanker fleet in 2008 and the market downturn.

Container shipping

Our Group acquired one secondhand container vessel in the latter half of 2009 in addition to the delivery of four new container vessels in 2008. The growth of tonnage contributed to 627 additional operating days in 2009 as compared to 2008, which further enhanced the scale of our Group's container shipping business. Revenue from container shipping grew by 15.5% to US\$20.8 million (2008: US\$18.0 million).

Cost of operations

Cost of operations for the year ended 31 December 2009 decreased by 30.5% to US\$127.0 million (2008: US\$182.6 million) as a result of the decrease in operating lease expenses for charter-in vessels, port charges, brokerage and commission and, partially offset by the increasing expenses for hiring of crews and seafarers.

Operating lease expenses for charter-in vessels

Operating lease expenses for charter-in vessels dropped by 72.4% to US\$13.9 million (2008: US\$50.4 million). The decrease was primarily due to a drop in the hire rates of our Group's charter-in vessels for our voyage charter business resulting from the adverse market condition.

Port charges

Port charges reduced by 47.1% to US\$6.3 million for the year ended 31 December 2009 (2008: US\$11.9 million). Use of ports with lower charge rate and disposal of single-hull VLCCs led to the reduction of port charges in the year.

Brokerage and commission

Brokerage and commission substantially comprises address commission and broker commission, which are in line with revenue. The reduction of revenue from dry bulk shipping primarily led to a decrease of 50.7% to US\$9.1 million (2008: US\$18.4 million).

Expenses for hiring of crews and seafarers

As a result of the expansion of our fleet size and the upward adjustment of the salary and wages of our crews and seafarers, the expenses for hiring of crews and seafarers increased by 13.2% to US\$22.4 million (2008: US\$19.8 million).

Selling, administrative and general expenses

The selling, administrative and general expenses reduced by 12.7% to US\$16.6 million (2008: US\$19.0 million) owing to the implementation of the effective cost control measures.

Other operating income

Other operating income dropped by 96.0% to US\$1.2 million (2008: US\$31.2 million). In 2008, US\$29.8 million was derived from the gain on disposal of single-hull VLCCs. No such gain was recorded in 2009.

Finance income

Finance income mainly derived from the interest income from bank deposits. It reduced by 51.8% to US\$21.5 million (2008: US\$44.6 million) mainly as a result of the reduction in deposit interest rates.

Finance costs

The repayment of bank loans in 2009 resulted in a drop of finance costs by 92.5% to US\$0.5 million (2008: US\$6.3 million).

Share of losses/profits of jointly controlled entities

Share of losses of jointly controlled entities, namely M.S. Tanker Shipping Limited and Faship Maritime Carriers Inc., was US\$1.3 million (2008: share of profits of US\$23.6 million). In connection with the adverse market condition, the revenue of the jointly controlled entities declined. Besides, the share of gain on sale of a single-hull VLCC contributed from M.S. Tanker Shipping Limited amounted to US\$10.6 million in 2008 but there was no such a gain recorded in 2009.

Income tax expense

Income tax for the year ended 31 December 2009 was US\$0.2 million (2008: US\$0.3 million). Our effective income tax rate was 0.2% (2008: 0.1%).

Liquidity and financial resources

Our principal uses of cash have been, for repayment of bank borrowings, payment for construction of new vessels, acquisition of secondhand vessels, operation costs and working capital for the year ended 31 December 2009. 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.

| | 2009 (US\$'000) | 2008 (US\$'000) |
|--|----------------------------------|--------------------|
| Current assets | 784,044 | 1,406,685 |
| Current liabilities | 41,732 | 42,684 |
| Liquidity ratio ^(Note) | 18.8 | 33.0 |

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 ratio as at 31 December 2009 is 18.8 (2008: 33.0). The long-term bank deposits amounted to US\$400 million mainly led to the decrease in liquidity ratio.

Borrowings

Our borrowings as at 31 December 2009 are as follows:

| | As at 31 December 2009 (US\$'000) | As at 31 December 2008 (US\$'000) |
|---------------------|--|--|
| Non-current | | |
| Bank loans, secured | – | 107,200 |

Our borrowings was fully repaid in the year ended 31 December 2009.

Gearing ratio is not presented as our Group recorded as net surplus as at 31 December 2009 and 31 December 2008.

Commitments

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

| | 2009 (US\$'000) | 2008 (US\$'000) |
|-----------------------------------|----------------------------------|--------------------|
| Authorised but not contracted for | 671 | 623 |
| Contracted but not provided for | 322,780 | 388,240 |
| | 323,451 | 388,863 |

The capital commitment of our Group represented authorised drydocking for dry bulk vessels and several newbuilding contracts for the construction of six Capesize dry bulk vessels and four Handysize dry bulk vessels to be delivered subsequently.

Capital expenditures

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

For the year ended 31 December 2009, total capital expenditures were US\$185.4 million, which was mainly attributable to the capital expenditures for acquisition of four secondhand vessels, construction of dry bulk vessels and drydock maintenance for the year.

Foreign exchange risk

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

At 31 December 2009, our Group had Hong Kong dollar net monetary liabilities of US\$4.4 million (2008: net monetary assets of US\$39.6 million). Under the Linked Exchange Rate System in Hong Kong, Hong Kong dollar is pegged to the US dollar, management considers that there is no significant foreign exchange risk with respect to the Hong Kong dollar.

At 31 December 2009, our Group had Japanese Yen net monetary assets of US\$5.8 million (2008: US\$5.6 million). If US dollar had strengthened/weakened by 5% against Japanese Yen with all other variables unchanged, the Group's profit before taxation would have been US\$0.3 million (2008: US\$0.3 million) lower/higher.

Management considers that there is no significant foreign exchange risk with respect to Renminbi, as the net monetary amounts of this foreign currency is insignificant as at 31 December 2009.

Contingencies

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

Report on Corporate Governance

CONTINUOUS IMPROVEMENT IN CORPORATE GOVERNANCE PRACTICES

Our Company believes that the incessant enhancement of the standard of corporate governance is the underlying cornerstone for safeguarding the interests of investors and enhancing corporate value. Since the listing of our shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 23 November 2007 (the “Listing Date”), our Company has been striving to enhance its standard of corporate governance and has put in place corporate practices with reference to the Hong Kong Companies Ordinance, the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), the articles of association of our Company and other relevant laws and regulations as amended from time to time and taking into account the characteristics and requirements of our Company.

Our Company has adopted The Code on Corporate Governance Practices (the “CG Code”) issued by the Stock Exchange as set out in Appendix 14 of the Listing Rules as our code on corporate governance practices. Our Company has been in compliance with the provisions of the CG Code throughout the year of 2009.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by the directors of the Company.

After specific enquiry made by our Company, our Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year of 2009.

BOARD OF DIRECTORS

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

As at 31 December 2009, the Board comprised nine Directors, of which three were executive Directors, two were non-executive Directors and four were independent non-executive Directors, whose names were as follows:

Chairman: Mr. Zhao Huxiang;

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

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

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

The Board is responsible for determining operating plans and investment proposals of our Company, convening general meetings and executing the resolutions passed at general meetings, formulating our Company's profit distribution proposals and formulating and proposing any amendment to the Memorandum and Articles of Association of our Company.

The Board has approved the establishment of an executive committee of the Board (the "Executive Committee") on 12 March 2008 and the rules of proceedings and scope of authority of the Executive Committee. The Executive Committee comprises three members including:

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

The Board delegates its authority of the management of our Company's daily operation to the Executive Committee. The Executive Committee can make decision on matters specifically set out in its scope of authority.

Our Company provides sufficient information to our Directors in a timely manner to enable their understanding of our Company's state of affairs. Appropriate means have been adopted to maintain effective communications with our shareholders to ensure that their views are brought to the attention of the Board.

So far as our Company is aware, apart from being directors of the Company, there is no financial,

business, family or other material relationship among the members of the Board. Besides, there is also no similar relationship between chairman of the Board and the general manager of our Company.

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

During the year of 2009, six Board meetings were held. Apart from convening Board meetings, business of the Board was also transacted by convening Executive Committee meeting or by obtaining consent of the Board through the circulation of written resolutions. Our Company had prepared and properly kept detailed minutes for the matters discussed in the Board meetings, and such minutes were also open for our Directors' reference.

The Board has also established the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") in accordance with the CG Code.

Report on Corporate Governance

The table below sets out the attendance of each Director in meetings of the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee in 2009:

| | Attendance/No. of meetings held | | | |
|--|---------------------------------|-----------------|------------------------|----------------------|
| | Board | Audit Committee | Remuneration Committee | Nomination Committee |
| Executive Directors | | | | |
| Mr. Tian Zhongshan | 6/6 | | | |
| Mr. Li Hua | 6/6 | | | |
| Ms. Feng Guoying | 6/6 | | | |
| Non-executive Directors | | | | |
| Mr. Zhao Huxiang | 5/6* | | 1/1 | 1/1 |
| Mr. Pan Deyuan | 5/6* | 2/2 | | |
| Independent non-executive Directors | | | | |
| Mr. Hu Hanxiang | 6/6 | | 1/1 | 1/1 |
| Mr. Tsang Hing Lun | 6/6 | 2/2 | 1/1 | |
| Mr. Lee Peter Yip Wah | 6/6 | 2/2 | | 1/1 |
| Mr. Zhou Qifang | 6/6 | 2/2 | | 1/1 |

* These Directors abstained from voting to approve certain connected transaction entered into between the Company and Sinotrans Group Company as they were also directors of Sinotrans Group Company at the material time.

Our Directors are aware that they shall devote sufficient time and efforts to the business of our Company and that they shall abstain from voting on any board resolution in which they or any of their associates have any material interests.

APPOINTMENT OF DIRECTORS

Under the service contracts entered into between our Company and each of our executive Directors and non-executive Directors, each of our executive Directors and non-executive Directors is appointed for a term of three years with effect from the Listing Date. Under the letters of appointment entered into between our Company and each of our independent non-executive Directors, each independent non-executive Director is appointed for a term of one year with effect from the Listing Date. Each of our independent non-executive Directors was re-appointed for a term of one year with effect from November 2009 after their terms had expired. Each of our executive Directors, non-executive Directors and independent non-executive Directors shall be subject to retirement and re-election in accordance with the Articles of Association of our Company.

During the year of 2009, there was no change in the executive Directors, non-executive Directors and independent non-executive Directors of our Company.

CHAIRMAN AND GENERAL MANAGER

During the year of 2009, Mr. Zhao Huxiang was the Chairman of the Board and Mr. Tian Zhongshan was the general manager of our Company. The roles of chairman and general manager of the Company are segregated and not exercised by the same individual and each of them has different terms of reference. Our chairman is responsible for the management of the operation of the Board, while our general manager is responsible for the business management of our Company.

BOARD COMMITTEES

The Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee in accordance with the CG Code. Majority of the members of these committees are independent non-executive Directors.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing and supervising the financial reporting system and internal control procedure of our Company, monitoring the Board, ensuring that the Board is accountable to our Company and our shareholders and proposing and engaging external auditors.

The terms of reference of the Audit Committee are available on our Company's website.

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

The Audit Committee held two meetings in 2009. Details of the meetings are as follows:

1. The first meeting was convened on 9 March 2009. Auditors explained the audit issues to the Audit Committee. The Audit Committee discussed, among other things, the establishment of the internal audit department of our Company and resolved to approve, among other things, the engagement of the external auditors of the Company for 2009, as well as the submission of the financial statements for the year of 2008 to the Board for approval.
2. The second meeting was convened on 11 August 2009. Auditors explained the audit issues to the Audit Committee. The Audit Committee resolved to approve the submission of the unaudited condensed interim financial information for the first half of 2009 to the Board for approval.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for reviewing the remuneration policies of our Company, assessing the performance of our Directors and senior management and determining policies in respect to their remuneration packages. The terms of reference of the Remuneration Committee are available on our Company's website.

With the assistance of the Remuneration Committee, our Company has established a system to determine the remuneration policies of our staff, integrately taking into account the staff's performance, our Company's requirements and the external benchmarks with an aim of attracting, retaining and incenting the staff needed to run our Company successfully as well as the enhancement of personal value of our staff, corporate's value and shareholders' value.

The Remuneration Committee is chaired by Mr. Hu Hanxiang and its members include Mr. Zhao Huxiang and Mr. Tsang Hing Lun.

The Remuneration Committee held a meeting on 11 August 2009 and resolved to propose the directors' fees of our independent non-executive Directors for the term commencing from 23 November 2009 and ending on 22 November 2010 and submitted the same to the Board for approval.

NOMINATION COMMITTEE

The Nomination Committee is responsible for recommending candidates to fill vacancies in the Board based on their qualifications, abilities and potential contribution to our Company. The terms of reference of the Nomination Committee are available on our Company's website.

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

The Nomination Committee held a meeting on 11 August 2009 and resolved to propose the re-appointment of our four independent non-executive Directors for a term of one year from 23 November 2009 to 22 November 2010 and the letters of re-appointment and submitted the same to the Board for approval.

INTERNAL AUDIT

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

Our internal audit department directly reports to the Audit Committee and the management to execute the resolutions passed by the Audit Committee and play an advisory role in day-to-day operations. In 2009, the representative of internal audit department attended meetings of the Audit Committee and reported to the Committee on the work of internal audit.

In addition, the Company has carried out internal and external audit on the fleet operation to ensure that the fleet complies with the requirements of ISM Code, ISO9001 and ISO14001, strengthening the control of fleet operation.

EXTERNAL AUDITORS

PricewaterhouseCoopers was engaged as our Company's external auditors for the year ended 31 December 2009.

The fees for services provided by PricewaterhouseCoopers to us for the year ended 31 December 2009 were as follows:

| | US\$'000 |
|--|-------------|
| – Audit services | 461 |
| – Audit-related and non-audit services | 924 |
| | <hr/> 1,385 |

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

INTERNAL CONTROL

The Board is responsible for our Group's internal control system and for reviewing its effectiveness and reliability. The internal control system and the relevant policies are established by the Board with reference to the CG Code and the Internal Control and Risk Management Guidelines of Hong Kong Institute of Certified Public Accountants.

The Board is also responsible for ensuring that the organisational structure of our Company and the proper segregation of duties for every department are carried out so as to protect the investments of our shareholders and assets of our Company.

For the internal control over accounting and financial reporting functions, our Company establishes a reliable accounting system and employs staff with requisite knowledge and experiences. On-job training and training from professional institutions were provided to staff at the same time. Training budget is formulated by our Company every year.

Our Company has mapped out Employees' Code of Ethics to raise employees' awareness of occupational integrity and morality. The whistle blowing policy has also been set up. In addition, the established purchase requisition policy, payment system and operational system of every department are reviewed and updated timely as well, so as to enable the Company to respond to the risks in relation to market, customers' credit, sale and purchase and newbuilding of vessels in an effective and incessant way.

To maintain our focus on safety, quality and environmental protection, systems and rules are established and through internal audit and external assessment to ensure that our fleet complies with the requirements of ISM Code, ISO9001 and ISO14001. To set up higher objectives to the work of environmental protection continuously and set up measures in environmental protection to raise the awareness of employees both on board and ashore in environmental protection, occupational health and safety to enhance sustainable competitiveness.

During the year, the internal audit department had referred to the framework formulated by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the United States in 1992 for assessing the Company's internal control system in the areas including environmental control, risk assessment, control measures, information and communication and monitoring. The internal audit department had reviewed the financial reporting procedures, treasury management, borrowings, and credit guarantee procedures, budget management, etc. It had also assessed the degree of risk and proposed corrective and preventive measures to the management. The scope of audit also covered internal control system of overseas subsidiaries. In addition, it had assessed the risk of corrupt practices (fraud) to strengthen control measures against the possible causes and eliminate the opportunities of improper use of assets.

Concerted efforts were made by various departments to regularly monitor credit risk of our customers, to formulate strategies to enable maximum prevention of loss of income or minimum risk of bad debts for our Company due to the downturn of the economy.

CORPORATE GOVERNANCE RELATING TO THE DEED OF NON-COMPETITION

The Deed of Non-Competition entered into between the Company and Sinotrans Group Company in November 2007 ensures that Sinotrans Group Company will offer to our Company a right of first refusal in respect of the opportunity to participate or acquire in any interest in future projects or joint ventures which are offered to any company in Sinotrans Group which could or may compete with the Relevant Services of our Company and the right of first refusal in respect of the Chartering Opportunity (Please refer to the section headed "Relationship with Sinotrans Group Company – Deed of Non-Competition" of the Prospectus for further details about the Deed of Non-Competition).

Our independent non-executive Directors were informed by the executive Directors that Sinotrans Group Company was not aware that there existed any such Opportunity during the year of 2009. In respect of the Chartering Opportunity, our independent non-executive Directors had reviewed the monthly reports prepared by our Company's management team containing details of the latest position of the relevant Companies available vessels and the Group available vessels and the analysis done by our Company's management team highlighting the relevant Companies available vessels and the Group available vessels which were of the same type and considered that there was not or was not likely to be any competition between the vessels available for chartering from companies relating to Sinotrans Group Company and the vessels available for chartering from our Group in 2009.

As such, our independent non-executive Directors considered that the deed of non-competition had been complied with throughout the year of 2009.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Board acknowledges their responsibilities for preparing the financial statements of our Group in accordance with statutory requirements and applicable accounting standards. The Board also ensures that the financial statements of our Group are published in a timely manner.

The reporting responsibilities of our Company's external auditors on the financial statements of the Group are set out in the "Independent Auditor's Report" on page 46 of this annual report.

SHAREHOLDERS' MEETINGS

The annual general meeting held on 25 May 2009 was convened to review and approve the audited financial statements, the Report of Directors and the independent auditor's report for the year ended 31 December 2008; to consider the re-election of retiring Directors and determine their remuneration, to consider the re-appointment of auditor and determine its remuneration; to amend the Articles of Association of the Company; to renew the existing continuing connected transactions and to approve the resolutions on the general mandate to repurchase shares and the general mandate to issue shares. All resolutions for shareholders' approval had been duly passed.

Our Company places strong emphasis on general meetings and all shareholders are encouraged to attend. We will strive to make it an effective channel of communication through which the Board and the investors of the Company may engage in direct dialogue and foster positive relations.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

In respect of any discloseable and significant event, our Company will make accurate and complete disclosure in a timely manner in the newspapers

and websites as specified by the relevant regulatory authorities for information disclosure pursuant to the disclosure requirements under the Listing Rules. This is to safeguard the right to information and participation of the shareholders.

Our Company places strong emphasis on its communications with investors, and considers that maintaining ongoing and open communications with investors can promote investors' understanding of and confidence in our Company and enhance the standard of corporate governance. Our Company has set up an investor relations department. As at 31 December 2009, the representatives of our management participated in a number of meetings with investors through activities including company visits, conferences calls, luncheons, large investment conferences organized by investment banks and non-deal road show events. These various ways of communications have enabled the investors to have a better understanding of the Company's policy, operations and strategies of development, and thus enhanced transparency and investor's recognitions of the Company.

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

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Tian Zhongshan (田忠山), born in October 1968, has been our director since January 2003. Mr. Tian has been actively and extensively involved in the management and strategic development of our Company, and oversees the overall development of our Company. Mr. Tian graduated from the University of International Business and Economics in 1991 and obtained a master's degree at the University of South Australia in 2006. He joined Sinotrans Group in 1991 and has over 18 years of experience in the shipping industry. Mr. Tian served at China National Chartering Limited (中國租船有限公司 formerly known as 中國租船公司) from January 1991 up to March 2002. Between April 2002 and May 2003, he served as the deputy general manager of China Business Marine Co., Ltd. ("CBMC") (中國經貿船務有限公司 formerly known as 中國經貿船務公司). In May 2003, Mr. Tian worked as deputy general manager of our Company and was promoted as the general manager of our Company since March 2005. At the same time, he has been appointed as the legal representative of Sinotrans Shipping (Shenzhen) Limited (深圳市中外運航運有限公司), and the legal representative and general manager of CBMC. Mr. Tian has resigned from his positions in Sinotrans Shipping (Shenzhen) Limited, CBMC and Sinoecl Auto Liners Limited prior to listing or within one month after listing. Mr. Tian was elected as the executive committee members of The Hong Kong Shipowners' Association and International Association of Dry Cargo Shipowners in March 2005.

Mr. Li Hua (李樺), born in April 1966, has been the deputy general manager of our Company since February 2003. Mr. Li has been actively involved in the management and the decision-making process of our Company, in particular he is in charge of the

construction of new buildings, sale and purchase of vessels, and strategic planning of our Company. Mr. Li graduated from the University of International Business and Economics in 1989 and received a master's degree at Murdoch University in January 2002. Mr. Li has over 20 years of experience in the shipping industry. Mr. Li joined CBMC in July 1989. From November 1999, Mr. Li served as the assistant to general manager of Worlder Shipping Limited. Between 2001 and February 2003, Mr. Li served as the deputy general manager of Worlder Shipping Limited.

Ms. Feng Guoying (馮轎英), born in March 1964, has been the deputy general manager of our Company since September 2004. Ms. Feng is responsible for the management of oil tankers shipping business of our Company. She graduated from Renmin University of China in 1986 and received a master's degree at the Guanghua School of Management in Peking University in 2007. Ms. Feng has over 19 years of experience in the shipping industry. From December 1989 to March 1998, Ms. Feng served in various positions in Worlder Shipping Limited including the deputy manager of the business department. Between March 1998 and September 2001, she served as the manager of CBMC. From September 2001 to September 2004, Ms. Feng was appointed as the assistant general manager and since September 2004, she has been promoted to the position of the deputy general manager of CBMC. From January 2003, she served as the assistant to general manager of our Company and was promoted to the position of the deputy general manager of our Company in September 2004. Ms. Feng also serves as the director of Sinoecl Auto Liners Limited, Sinotrans-MOL Shipping Co., Ltd and Sinotrans Shipping (Shenzhen) Limited (深圳市中外運航運有限公司). Ms. Feng has resigned from her positions in CBMC, Sinoecl Auto Liners Limited, Sinotrans-MOL Shipping Co., Ltd. and Sinotrans Shipping (Shenzhen) Limited prior to the listing or within one month after listing.

Directors and Senior Management

Non-executive Directors

Mr. Zhao Huxiang (趙滙湘), born in November 1955, was appointed as our director and chairman in August 2007. Mr. Zhao graduated from Dalian Maritime University in 1980 and obtained a MBA degree at University of Louisville, USA, and carries the professional title of “Senior Engineer”. He has over 30 years of experience in the shipping industry. From January 1980 to September 1985, he worked as an officer in the Marine Shipping Bureau of the Ministry of Communications. From September 1985 to May 1997, Mr. Zhao served at Hoi Tung Marine Machinery Suppliers Limited where he held various positions including head of division, deputy general manager and general manager. From May 1997 to December 2005, he served as the assistant to chief executive, vice president and a director of China Merchants Group Limited and the general manager of China Merchants Holding (International) Co., Ltd. Mr. Zhao joined Sinotrans Group Company and serves as a director and president since December 2005. He now also serves as the chairman and executive director of Sinotrans Limited, a company whose shares are listed on the Main Board of the Hong Kong Stock Exchange, and the chairman of DHL-Sinotrans (中外運—敦豪國際航空快件有限公司). Mr. Zhao was elected as the chairman of China International Freight Forwarders Association in February 2007, and was appointed vice chairman of International Federation of Freight Forwarders Association (FIATA) in October 2007.

Mr. Pan Deyuan (潘德源), born in July 1949, was appointed as our director in August 2007. Mr. Pan graduated from Jilin Financial Institute in 1982.

From January 1984 to January 1990, Mr. Pan served as the deputy general manager of Huarun Longdi Company in Hong Kong. From January 1990 to April 1994, he served as the Head of Financial Department of Foreign Economy Trade Ministry. Mr. Pan served as the deputy general manager of China National Machinery & Equipment Import & Export Corporation from April 1994 to July 1997. Mr. Pan has over 10 years of experience in the shipping industry. From October 1997 to January 2003, Mr. Pan served as a director and vice president of Sinotrans Group Company. Mr. Pan served as the general manager of China National Native Produce and Animal By-Products Import & Export Corporation from January 2003 to February 2005 before he re-joined Sinotrans Group Company and served as a director of Sinotrans Group Company from February 2005 to October 2006. As from March 2005 up to now, Mr. Pan was appointed as the vice president of Sinotrans Group Company, overseeing Sinotrans Group’s finance and strategic research. He now also serves as the Directors of Taikang Life Insurance Company Limited, Sinotrans (NZ) Limited and Wenita Forest Products Company Limited. Taikang Life Insurance Company Limited was established in August 1996 and was approved by the People’s Bank of China to engage in life insurance business. Sinotrans Group Company is one of the promoters of Taikang Life Insurance Company Limited and holds a shareholding stake in it. Sinotrans (NZ) Limited is a holding company of Wenita Forest Products Company Limited, and it does not carry out any business itself. Wenita Forest Products Company Limited is engaged in the business of forest logging and timber processing, and Sinotrans Group Company holds a shareholding stake in it.

Independent Non-executive Directors

Mr. Hu Hanxiang (胡漢湘), born in February 1940, was appointed as our independent non-executive director in August 2007. Mr. Hu graduated from Dalian Maritime College (大連海運學院) in 1966. From 2000 up to the present, Mr. Hu serves as the president of Association for Shippings Across the Straits. From 2000, he serves as a member of the first and second sessions of the Specialist Committee of the Ministry of Communications of the PRC. In 2001, Mr. Hu was listed in the Chinese Experts Celebrity Dictionary. In 1972, Mr. Hu was appointed as the dispatcher of the Bureau of Marine Transportation of the Ministry of Communications and was promoted as the deputy director of the Bureau of Marine Transportation of the Ministry of Communications in 1982. From 1985 to 1994, Mr. Hu was appointed as the deputy head of the Marine Transportation Administration Bureau of the Ministry of Communications, deputy division head of Transportation Administration Division and director of the Marine transportation Centre of China, deputy division head of the Marine Transportation Division and director of the National Marine Chief Dispatching. From 1994 to 2000, Mr. Hu was appointed as division head of the Marine Transportation Division. From 1995 onwards, he was appointed for positions such as vice chairman of China Association of Fort-of-Entry, vice president of China Communications and Transportation Association, vice president of China Institute of Navigation, director of Association for Relations Across the Taiwan Straits, member of Coordinating Committee for Economic and Trading Affairs Across Taiwan Straits and the honorary vice-president of China Shipowners' Association. In March and December 2004, Mr. Hu was appointed as the independent non-executive director of China Shipping Container Lines Co., Ltd. and China Merchants Energy Shipping Co., Ltd., respectively. In April 2006, Mr. Hu was appointed as the independent non-executive director of Ningbo Marine Company Limited.

Mr. Tsang Hing Lun (曾慶麟), born in April 1949, was appointed as our independent non-executive director in August 2007. Mr. Tsang is also the Chief Executive Officer of Influential Consultants Ltd., a fellow member of the Hong Kong Institute of Directors, the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Tsang obtained his PhD Hon in 2006. He graduated from the Chinese University of Hong Kong with a Bachelor's Degree in Business Administration (1st Class Hons) in 1973. Mr. Tsang has served in a senior management capacity in several publicly listed companies operating in Hong Kong and Singapore. He joined Hang Seng Bank in 1973 and served for 17 years. Mr. Tsang acted as the assistant general manager of the planning and development division of Hang Seng Bank before joining the UOB Group in Singapore in 1990 as its head of International Branches Division and its first vice president. After working in the UOB Group, Mr. Tsang also acted as an executive director of the Hong Kong Stock Exchange in 1993 and an executive director of China Champ Group in 1994, as the alternate chief executive and deputy general manager of the China Construction Bank, Hong Kong Branch from 1995 to 1998. He is currently an independent non-executive director of Beijing Media Corporation Limited, First China Financial Holdings Ltd. (formerly known as International Financial Network Holdings Ltd.) as well as Sino-Ocean Land Holdings Ltd. and all these companies are listed on the Hong Kong Stock Exchange.

Mr. Lee Peter Yip Wah (李業華), born in April 1942, was appointed as our independent non-executive director in August 2007. Mr. Lee graduated from The University of Hong Kong with a Bachelor's Degree of Arts in 1965 and is a practising solicitor. Mr. Lee was the former senior partner of Messrs. Woo, Kwan, Lee & Lo. He was admitted as solicitors of Hong Kong, United Kingdom and Singapore in 1971, 1974 and 1995 respectively, and he was

appointed as a China-appointed Attesting Officer in 1993. Mr. Lee possesses about 35 years of experience in management and company secretarial works. He is currently the independent non-executive director of China Merchants Holdings (International) Company Limited and the non-executive Director of Xin Gung Investments Limited, all are companies listed on the Hong Kong Stock Exchange.

Mr. Zhou Qifang (周祺芳), born in December 1943, was appointed as the Company's independent non-executive director in October 2007. Mr. Zhou graduated from Dalian Maritime College in 1965. From September 1965 to June 1990, he served at Guangzhou Ocean Shipping Company (廣州遠洋運輸公司) where he held various positions including the head of the ship repairing factory. From June 1990 to July 1992, Mr. Zhou served as the general manager of the Nantong Ocean Shipping Enterprise of China Ocean Shipping Company (中國遠洋運輸總公司南通船務企業公司). China Ocean Shipping Company was restructured and renamed as China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司) in 1992. Between July 1992 and July 1997, Mr. Zhou was promoted to the position of vice president of China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司). Between July 1997 and April 2000, Mr. Zhou worked as the general manager of Shekou Industrial Zone Co., Ltd. (蛇口工業區有限公司). Since October 1997 up to April 2000, Mr. Zhou served as the director and vice president of China Merchants Group Limited (招商局集團有限公司), and remained as its director and vice president between April 2000 and March 2004. From March 2004 up to March 2007, he served as a director of China Merchants Group (Hong Kong) Limited (招商局集團(香港)有限公司) and the chairman of China LNG Shipping (Holdings) Limited (中國液化天然氣運輸(控股)有限公司). From December 2004 to March 2007, he was appointed as a director of China Merchants Energy Shipping Co. Ltd (招商局能源運輸股份有限公司) and since November 2008, he was appointed as an independent director of Shanghai International Port (Group) Co., Ltd., all of which are companies listed on the Shanghai Stock Exchange.

SENIOR MANAGEMENT

Mr. Xie Shaohua (謝少華), born in January 1971, is the chief financial controller of our Company since August 2007. Mr. Xie is responsible for overseeing all financial aspects of our Company's business. He graduated from Central University of Finance and Economics in 1993 and received master's degrees at the University of International Business and Economics and at The Chinese University of Hong Kong in 2003 and 2005, respectively. Mr. Xie has over ten years of experience in the shipping industry. From November 1998 to October 2002, he served in the finance department of Sinotrans Group Company. From November 2002 up to May 2007, he served as the deputy general manager of the finance department of Sinotrans Limited.

Mr. Lo Ting Ho (盧定灝), born in December 1950, is the assistant general manager of our Company since July 2004. Mr. Lo graduated from the Island Navigation Corp., HK. Pre-Sea Deck Cadet Training School in 1971. In 1996, Mr. Lo served as the Manager of the business department of Wah Tung Shipping Agency, responsible for technical management of fleet operation. Mr. Lo has over 39 years of experience in the shipping industry. From October 2000 to June 2004, he was the Manager of the operations department of Worlder Shipping Limited. From July 2004, Mr. Lo was appointed as the assistant general manager of our Company, in charge of the business department and machinery department, overseeing all marine technical and management matters.

Mr. Ng Kwun Wa (吳冠華), born in October 1977, is the qualified accountant of the Company. He has more than 8 years of experience in audit and financial management. He received an Honorary Bachelor's Degree in Business Administration from the Hong Kong Baptist University in 2001. Mr. Ng is a member of the Hong Kong Institute of Certified Public Accountants. Before joining the Company in February 2008, he worked for an international accounting firm.

COMPANY SECRETARY

Mr. Huen Po Wah (禰寶華), born in December 1948, was appointed as company secretary in October 2007. He is an associate of the Hong Kong Institute of Chartered Secretaries and also an associate of the Institute of Chartered Secretaries and Administrators. Mr. Huen is also a director of Fair Wind Secretarial Services Limited and he has over 28 years of experience in company management and secretarial fields. For many years, he has provided professional services to various listed companies.

Report of the Directors

The Board is pleased to present its report and the audited financial statements of our Group for the year ended 31 December 2009.

GROUP REORGANISATION

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

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

BUSINESS OPERATIONS OF THE GROUP

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

An analysis of our Group’s operating results for 2009 by business segments is set out in Note 6 to the financial statements.

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the subsidiaries and jointly controlled entities of our Company are set out in Note 30 to the financial statements.

FINANCIAL RESULTS

The results of our Group for the year ended 31 December 2009 are set out in the financial statements of this annual report on page 47.

DIVIDEND

The Board recommends the payment of a final dividend of HK\$0.05 per share for the year ended 31 December 2009. If the dividend distribution is approved by the shareholders at 2010 annual general meeting, the above-mentioned dividend is expected to be distributed no later than 10 June 2010 to shareholders whose names appear on the register of members on 25 May 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of our Company will be closed from Wednesday, 19 May 2010 to Tuesday, 25 May 2010 (both days are inclusive), during which no transfer of shares of our Company will be registered.

In order to qualify for the proposed final dividend and determine the identity of our shareholders who are entitled to attend and vote at the annual general meeting to be held on Tuesday, 25 May 2010, shareholders are required to deposit the transfer documents together with relevant share certificates to our Company’s share

registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 18 May 2010, for registration.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in Note 17 to the financial statements.

BANK LOANS

Details of the bank loans of the Company and the Group are set out in Note 23 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In 2009, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for 38.9% and 27.9% of the Group's turnover and purchases, respectively.




The revenue from our largest customer accounted for 9.2% of our total revenue, while purchase from our largest supplier accounted for 9.1% of our total purchases. During the year ended 31 December 2009, none of our Directors or any of their associates, or any of our shareholders who, to the knowledge of the Board, owned more than 5% of our shares and had any interest in any of our five largest customers (except for Sinotrans Group itself being our largest customer) or our five largest suppliers.

CONNECTED TRANSACTIONS

Details of the Group's material related party transactions for the year ended 31 December 2009 are set out in Note 29 to the financial statements, some of which also constituted connected transactions requiring disclosures under Chapter 14A of the Listing Rules, details of which are as follows:

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

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

Prior to the Listing Date, members of our Group have been using the SINOTRANS, , 中外運, 外運,  and  trademarks registered in the name of Sinotrans Group Company and/or its subsidiaries for its shipping business. On 9 November 2007, Sinotrans Group Company and our Company entered into the trademark licence agreement, which was renewed on 28 December 2009. The renewed trademark licence agreement is valid for three years, with a term commencing on 1 January 2010 and expiring on 31 December 2012.

2. Leasing of properties by Sinotrans Group to our Group

Prior to the Listing Date, members of Sinotrans Group have leased certain properties to our Group to be used as office and staff quarters in Hong Kong pursuant to two tenancy agreements. On 9 November 2007, Sinotrans Group Company and our Company entered into the master tenancy

agreement in respect of the leasing of the Properties, with a term commencing on 1 January 2008 and expiring on 31 December 2009. The master tenancy agreement was renewed on 8 April 2009, with a validity of three years, which commencing on 1 January 2010 and expiring on 31 December 2012.

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

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

Prior to the Listing Date, members of our Group have been providing and receiving general services to/from Sinotrans Group to promote the respective business of our Group or Sinotrans Group. Sinotrans Group and our Company entered into the master services agreement on 9 November 2007 with regard to the provision and receipt of general services by our Group to/from members of Sinotrans Group. The agreement was extended and revised on 8 April 2009 and was renewed with the similar terms and conditions of the master services agreement.

The renewed master services agreement is valid for three years, with a term commencing on 1 January 2010 and expiring on 31 December 2012. Provision of general services by our Group to Sinotrans Group pursuant to the renewed master services agreement include:

- (a) shipping agency services;
- (b) consultancy services;
- (c) ship management services;
- (d) air freight forwarding services; and
- (e) corporate administrative services.

Receipt of general services by our Group from Sinotrans Group pursuant to the renewed master services agreement include:

- (a) shipping agency services;
- (b) shipping broker services regarding oil tankers;
- (c) commercial management services regarding oil tankers;
- (d) construction of vessels;
- (e) supervisory services regarding construction of vessels;
- (f) crew management services; and
- (g) vessels inspection services.

Our Group will provide certain services to Sinotrans Group and receive the same type of services from Sinotrans Group at the same time. The reason is that our Group and Sinotrans Group will utilise the geographical advantages of each other to increase their respective competitiveness, which is reciprocal to each other.

For the year ended 31 December 2009, the transaction amount and the annual caps of the above continuing connected transactions were as follows:

| | Transaction amount (US\$'000) | Annual cap (US\$'000) |
|---|---|-------------------------------------|
| Provision of general services by the Group to Sinotrans Group | 273 | 820 |
| Receipt of general services by the Group from Sinotrans Group | 7,506 | 11,999 |

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

Chartering of vessels by our Group to Sinotrans Group

On 9 November 2007, our Company and Sinotrans Group Company entered into the master chartering agreement, which was extended and revised on 8 April 2009, and was renewed with the similar terms and conditions stipulated in the master chartering agreement. The renewed master chartering agreement is valid for three years, with a term commencing on 1 January 2010 and expiring on 31 December 2012. According to the renewed master chartering agreement, Sinotrans Group will charter vessels from our Group to provide services of cargo shipping as a carrier or to underlease the vessels to other shipping companies for cargo shipping.

For the year ended 31 December 2009, the transaction amount and the annual caps of the above continuing connected transactions were as follows:

| | Transaction amount (US\$'000) | Annual cap (US\$'000) |
|---|---|-------------------------------------|
| Chartering of vessels by the Group to Sinotrans Group | 17,556 | 107,870 |
| Chartering of vessels by the Group to Sinotrans Group – Address Commission | 111 | 3,618 |

The charter hire income of chartering vessels by our Group to Sinotrans Group and the annual amount of C/V/E fee in three years ended 31 December 2012, are expected not to exceed US\$145,080,000, US\$169,560,000 and US\$180,360,000 respectively. The annual amount of commissions of chartering vessels from our Group to Sinotrans Group in three years ended 31 December 2012 are expected not to exceed US\$6,998,000, US\$8,258,000 and US\$8,798,000 respectively.

Report of the Directors

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

For the purpose of Rule 14.38 of the Listing Rules, the Board engages the external auditor of our Company, PricewaterhouseCoopers, to perform certain agreed-upon procedures on the above continuing connected transactions (other than the continuing connected transactions exempted from compliance with independent shareholders' approval, reporting and announcement requirements under Rule 14A.33(3) of the Listing Rules) as identified by the management for the year ended 31 December 2009 (the Transactions) in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor, based on the agreed-upon procedures, reports that:

- (1) the Transactions have been approved by the Board;
- (2) the pricing of the Transactions (for the samples selected) is in accordance with the pricing policies of our Group;
- (3) the Transactions (for the samples selected) are in accordance with the terms of the relevant agreements governing the Transactions; and
- (4) the amounts of the Transactions have not exceeded the relevant caps.

DONATION

The Group did not made any charitable and other donations during the year.

RESERVES

Details of movements in reserves of our Group and our Company during the year are set out in Note 22 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of our Company as at 31 December 2009 amounted to approximately US\$71.3 million.

SHARE CAPITAL

Details of movements in the share capital of our Company are set out in Note 21 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the interests or short positions of the following persons (other than the Directors or chief executives of the Company) in the shares or underlying shares of the Company as recorded in the register kept by the Company pursuant to section 336 of the Securities and Futures Ordinance (“SFO”) were as follows:

| Name of Shareholders | Long Position/ Short Position | Capacity | Number of Shares Held | As a % of Total Issued Shares |
|---|--|--|----------------------------------|--|
| Sinotrans Group Company (Note 1) | Long position | Interest of controlled corporation | 2,718,520,000 | 68.10% |
| Sinotrans Shipping (Holdings) Limited (Note 1) | Long position | Beneficial owner | 2,600,000,000 | 65.13% |

Note:

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

Save as disclosed above, as at 31 December 2009, no other person (other than the Directors or chief executives of the Company) had an interest or short position in the shares or underlying shares of the Company which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2009, there was no purchase, sale or redemption of any of our shares by our Company or any of our subsidiaries.

SUMMARY OF FINANCIAL INFORMATION FOR THE LAST FIVE YEARS

The table below sets out a summary of the operating results, assets and liabilities of the Group for each of the five years ended 31 December 2009.

Consolidated statement of comprehensive income

| | Year ended 31 December | | | | |
|---|--------------------------------|------------------|------------------|------------------|------------------|
| | 2009 US\$'000 | 2008 US\$'000 | 2007 US\$'000 | 2006 US\$'000 | 2005 US\$'000 |
| Revenues | 229,106 | 455,972 | 302,217 | 247,515 | 304,581 |
| Cost of operations | (127,015) | (182,647) | (154,447) | (129,968) | (124,571) |
| Gross profit | 102,091 | 273,325 | 147,770 | 117,547 | 180,010 |
| Selling, administrative and general expenses | (16,550) | (18,961) | (13,945) | (10,490) | (10,178) |
| Other operating income | 1,247 | 31,185 | 685 | 11,779 | 3,355 |
| Operating profit | 86,788 | 285,549 | 134,510 | 118,836 | 173,187 |
| Finance income | 21,508 | 44,607 | 11,128 | 639 | 366 |
| Finance costs | (475) | (6,304) | (7,999) | (6,105) | (9,880) |
| Share of (losses)/profits of jointly controlled entities | (1,255) | 23,575 | 3,452 | 5,748 | 8,582 |
| Profit before income tax | 106,566 | 347,427 | 141,091 | 199,118 | 172,255 |
| Income tax expense | (172) | (293) | (202) | (166) | (207) |
| Profit attributable to equity holders of the Company | 106,394 | 347,134 | 140,889 | 118,952 | 172,048 |
| Other comprehensive income | | | | | |
| Exchange differences | 142 | (148) | 119 | 95 | (21) |
| Total comprehensive income for the year | 106,536 | 346,986 | 141,008 | 119,047 | 172,027 |
| Earnings per share | | | | | |
| – Basic and diluted | US2.7 cents | US8.7 cents | US5.1 cents | US4.6 cents | N/A |
| Dividends | 35,891 | 112,763 | 252,301 | 2,162 | 1,029 |

Consolidated Balance Sheet

| | 2009 US\$'000 | 2008 US\$'000 | 2007 US\$'000 | 2006 US\$'000 | 2005 US\$'000 |
|--|------------------|------------------|------------------|------------------|------------------|
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 815,796 | 661,570 | 548,724 | 467,093 | 504,592 |
| Interests in jointly controlled entities | 52,774 | 54,029 | 30,454 | 27,002 | 21,254 |
| Loan to a jointly controlled entity | 22,847 | 26,539 | 4,140 | 6,220 | 8,300 |
| Bank deposits | 400,000 | – | – | – | – |
| | 1,291,417 | 742,138 | 583,318 | 500,315 | 534,146 |
| Current assets | | | | | |
| Inventories | – | 703 | 2,931 | 1,490 | 1,474 |
| Loan to a jointly controlled entity | 3,692 | 3,692 | 2,080 | 2,080 | 2,080 |
| Trade and other receivables | 27,294 | 32,478 | 28,603 | 457,679 | 365,142 |
| Cash and bank balances | 753,058 | 1,369,812 | 1,372,033 | 23,841 | 20,973 |
| | 784,044 | 1,406,685 | 1,405,647 | 485,090 | 389,669 |
| Total assets | 2,075,461 | 2,148,823 | 1,988,965 | 985,405 | 923,815 |
| EQUITY | | | | | |
| Capital and reserves | | | | | |
| Share capital | 51,239 | 51,239 | 51,340 | 33,333 | 33,333 |
| Reserves | 1,982,490 | 1,947,672 | 1,655,203 | 376,475 | 259,590 |
| | 2,033,729 | 1,998,911 | 1,706,543 | 409,808 | 292,923 |
| LIABILITIES | | | | | |
| Non-current liabilities | | | | | |
| Borrowings | – | 107,200 | 167,026 | 62,354 | 129,481 |
| Deferred tax liabilities | – | 28 | 27 | 41 | 45 |
| | – | 107,228 | 167,053 | 62,395 | 129,526 |
| Current liabilities | | | | | |
| Trade and other payables | 41,434 | 42,396 | 42,468 | 478,559 | 463,720 |
| Taxation payable | 298 | 288 | 202 | 143 | 196 |
| Borrowings | – | – | 72,699 | 34,500 | 37,450 |
| | 41,732 | 42,684 | 115,369 | 513,202 | 501,366 |
| Total liabilities | 41,732 | 149,912 | 282,422 | 575,597 | 630,892 |
| Total equity and liabilities | 2,075,461 | 2,148,823 | 1,988,965 | 985,405 | 923,815 |
| Net current assets/(liabilities) | 742,312 | 1,364,001 | 1,290,278 | (28,112) | (111,697) |
| Total assets less current liabilities | 2,033,729 | 2,106,139 | 1,873,596 | 472,203 | 422,449 |

DIRECTORS

As at 31 December 2009, the composition of the Board was as follows:

Executive Directors:

Mr. Tian Zhongshan (*General Manager of the Company*)

Mr. Li Hua

Ms. Feng Guoying

Non-executive Directors:

Mr. Zhao Huxiang (*Chairman of the Board*)

Mr. Pan Deyuan

Independent non-executive Directors:

Mr. Hu Hanxiang

Mr. Tsang Hing Lun

Mr. Lee Peter Yip Wah

Mr. Zhou Qifang

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management are set out on pages 27 to 31 of this annual report.

DIRECTORS' SERVICE CONTRACTS AND REMUNERATION

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

Under the letter of appointment entered into between our Company and each of the independent non-executive Directors, each independent non-executive Director is appointed for a term of one year with effect from the Listing Date. Each of our independent non-executive Directors was re-appointed for a term of one year with effect from November 2009 after their initial terms had expired. For the twelve months ended November 2009 and the twelve months ended November 2010, each of the independent non-executive Directors is entitled to an annual fee of HK\$120,000.

No director proposed for re-election at annual general meeting has a service contract with our Company which is not determinable within one year without payment of compensation, other than statutory compensation.

The remuneration of the Directors and the details of the five highest-paid individuals of our Company are set out in Note 12 to the financial statements.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2009, none of the Directors or chief executives of our Company or their respective associates had any interest or short position in any shares, underlying shares or debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which were required pursuant to Section 352 of the SFO to be entered in the register kept by our Company, or which were required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 of the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

As at 31 December 2009 and at any time during the year, none of our Directors had any material interest, directly or indirectly, in any contract of significance to which our Company or any of our subsidiaries was a party.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2009, none of our Company, any of our subsidiaries, our ultimate holding company or any of our fellow subsidiaries was a party to any arrangement which would enable our Directors to acquire benefits by means of the acquisition of shares in or debentures of our Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 December 2009, none of our Directors had any interest in any business which competes or may compete with the business of our Group.

SHARE OPTIONS

On 31 October 2007, the sole shareholder of our Company passed the written resolutions for the conditional adoption of the Company's share option scheme (the "Share Option Scheme"). Pursuant to the Share Option Scheme, the Board may, at its discretion, offer to grant options to subscribe for shares of the Company based on the terms and conditions set out therein to (i) any Director of the Company (including executive or non-executive Directors but excluding independent non-executive Directors) or any of our subsidiaries; (ii) any member of senior management of our Group; (iii) any core member of the technical and management teams of our Group; and (iv) any employee of our Group who plays a key role in our Group's strategic development (the "Eligible Participants").

Details of the Share Option Scheme are as below:

(i) Purpose

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view of achieving the following objectives: (i) to motivate the Eligible Participants to optimise their performance efficiency for the benefit of our Group; and (ii) to attract and retain or otherwise maintain on-going relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

(ii) Maximum number of shares

(1) 10% limit

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of shares in issue immediately following completion of the Global Offering, being 400,000,000 shares, excluding for this purpose shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company).

(2) Renewal of the 10% limit

Subject to the issue of a circular by our Company, the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may renew this limit at any time to 10% of the shares in issue as at the date of the approval by the shareholders in general meeting.

(3) Beyond 10% limit

Subject to the issue of a circular by our Company, the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may grant options beyond the 10% limit to Eligible Participants specifically identified by the Board.

(4) Individual limit

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including options exercised and outstanding) to each Eligible Participant in any twelve month period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by our Company and the approval of our shareholders in general meeting with such Eligible Participants and their associates (as defined in the Listing Rules) abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time.

Any grant of options to a Director, chief executive or substantial shareholder of our Company or any of their respective associates is required to be approved by the independent non-executive Directors. If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates which will result in the number of shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the twelve-month period up to and including the date of such grant: (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the shares in issue; and (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the shares at the date of each grant, such further grant of options will be subject to the issue of a circular by our Company and the approval of our shareholders in general meeting at which all connected persons of our Company shall abstain from voting, and/or other requirements prescribed under the Listing Rules from time to time.

(5) Maximum limit of 30%

The shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of our Company at any time shall not exceed 30% of the shares in issue from time to time.

(iii) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 7 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 7 years after it has been granted. No option may be granted more than 7 years after the date of approval of the Share Option Scheme.

(iv) Amount payable upon acceptance of option

Upon acceptance of an option, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant.

(v) The exercise price

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of: (i) the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average of the official closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

(vi) The remaining life of the Share Option Scheme

Subject to earlier termination by our Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

(vii) Shares to be issued under the Share Option Scheme

As at the date of this report, the total number of shares to be issuable under the Share Option Scheme is 400,000,000 shares, representing 10% of the total number of shares in issue immediately following completion of the Global Offering.

No share option has been granted under the Share Option Scheme and no other share option scheme was adopted by the Company as at 31 December 2009.

MATERIAL CONTRACTS WITH SINOTRANS GROUP COMPANY

Sinotrans Group Company is the controlling shareholder of our Company, with which our Company has entered into various agreements for regulating the on-going business relationship between our Group and Sinotrans Group Company. These agreements are the master services agreement, master lease agreement, trademark licence agreement, master management agreement and master chartering agreement, details of which please refer to the section headed "Connected Transactions".

PENSION SCHEMES

Details of our Company's pension schemes for the year ended 31 December 2009 are set out in Note 3(n)(iii) and Note 11 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

Our Company has adopted the Model Code as the code of conduct regarding our Directors' securities transactions. Upon specific enquiry made by the Company, the Directors had confirmed that they had complied with the required standards set out in the Model Code throughout the year of 2009.

AUDIT COMMITTEE

Our Company has established an audit committee and prescribed its written terms of reference in accordance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The principal functions of the Audit Committee include the appointment of external auditors, review and supervision of the Group's financial reporting process and internal controls as well as the offer of advice and recommendations to the Board. The terms of reference of the Audit Committee are available on our Company's website. As of 31 December 2009, the Audit Committee was chaired by Mr. Tsang Hing Lun and its members were Mr. Pan Deyuan, Mr. Zhou Qifang and Mr. Lee Peter Yip Wah.

The Audit Committee has reviewed our Group's financial statements for the year ended 31 December 2009, including the accounting principles and practices adopted by our Group.

MATERIAL LITIGATION

As at 31 December 2009, our Group had legal claims arising in the ordinary course of business. The Directors consider these cases will not have significant financial or operational impact on our Group.

AUDITOR

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

By Order of the Board

Zhao Huxiang

Chairman

Hong Kong

10 March 2010

Independent Auditor's Report



羅兵咸永道會計師事務所

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

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

(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Sinotrans Shipping Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 47 to 92, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

| | Note | 2009 US\$'000 | 2008 US\$'000 |
|---|------|--------------------|------------------|
| Revenues | 6 | 229,106 | 455,972 |
| Cost of operations | 7 | (127,015) | (182,647) |
| Gross profit | | 102,091 | 273,325 |
| Selling, administrative and general expenses | 7 | (16,550) | (18,961) |
| Other operating income | 8 | 1,247 | 31,185 |
| Operating profit | | 86,788 | 285,549 |
| Finance income | 9 | 21,508 | 44,607 |
| Finance costs | 9 | (475) | (6,304) |
| Share of (losses)/profits of jointly controlled entities | | (1,255) | 23,575 |
| Profit before income tax | | 106,566 | 347,427 |
| Income tax expense | 10 | (172) | (293) |
| Profit attributable to equity holders of the Company | 13 | 106,394 | 347,134 |
| Other comprehensive income | | | |
| Exchange differences | | 142 | (148) |
| Total comprehensive income for the year | | 106,536 | 346,986 |
| Earnings per share | | | |
| – Basic and diluted | 14 | US2.7 cents | US8.7 cents |
| Dividends | 15 | 35,891 | 112,763 |

Consolidated Balance Sheet

As at 31 December 2009

| | Note | 2009 US\$'000 | 2008 US\$'000 |
|--|------|------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 17 | 815,796 | 661,570 |
| Interests in jointly controlled entities | 18 | 52,774 | 54,029 |
| Loan to a jointly controlled entity | 18 | 22,847 | 26,539 |
| Bank deposits | 20 | 400,000 | – |
| | | 1,291,417 | 742,138 |
| Current assets | | | |
| Inventories | | – | 703 |
| Loan to a jointly controlled entity | 18 | 3,692 | 3,692 |
| Trade and other receivables | 19 | 27,294 | 32,478 |
| Cash and bank balances | 20 | 753,058 | 1,369,812 |
| | | 784,044 | 1,406,685 |
| Total assets | | 2,075,461 | 2,148,823 |
| EQUITY | | | |
| Capital and reserves | | | |
| Share capital | 21 | 51,239 | 51,239 |
| Reserves | 22 | 1,982,490 | 1,947,672 |
| | | 2,033,729 | 1,998,911 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | 23 | – | 107,200 |
| Deferred tax liabilities | 24 | – | 28 |
| | | – | 107,228 |
| Current liabilities | | | |
| Trade and other payables | 25 | 41,434 | 42,396 |
| Taxation payable | | 298 | 288 |
| | | 41,732 | 42,684 |
| Total liabilities | | 41,732 | 149,912 |
| Total equity and liabilities | | 2,075,461 | 2,148,823 |
| Net current assets | | 742,312 | 1,364,001 |
| Total assets less current liabilities | | 2,033,729 | 2,106,139 |

Zhao Huxiang
Director

Tian Zhongshan
Director

Balance Sheet

As at 31 December 2009

| | Note | 2009 US\$'000 | 2008 US\$'000 |
|--|------|------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Subsidiaries | 16 | - | - |
| Property, plant and equipment | 17 | 394 | 206 |
| Bank deposits | 20 | 400,000 | - |
| | | <u>400,394</u> | 206 |
| Current assets | | | |
| Trade and other receivables | 19 | 969,408 | 1,000,257 |
| Cash and bank balances | 20 | 597,912 | 1,132,864 |
| | | <u>1,567,320</u> | 2,133,121 |
| Total assets | | <u>1,967,714</u> | 2,133,327 |
| EQUITY | | | |
| Capital and reserves | | | |
| Share capital | 21 | 51,239 | 51,239 |
| Reserves | 22 | 1,898,257 | 1,954,081 |
| | | <u>1,949,496</u> | 2,005,320 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | 23 | - | 107,200 |
| Deferred tax liabilities | 24 | - | 28 |
| | | <u>-</u> | 107,228 |
| Current liabilities | | | |
| Trade and other payables | 25 | 18,218 | 20,779 |
| Total liabilities | | <u>18,218</u> | 128,007 |
| Total equity and liabilities | | <u>1,967,714</u> | 2,133,327 |
| Net current assets | | <u>1,549,102</u> | 2,112,342 |
| Total assets less current liabilities | | <u>1,949,496</u> | 2,112,548 |

Zhao Huxiang
Director

Tian Zhongshan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

| | 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 2008 | 51,340 | 1,826,869 | (450,507) | - | 228 | 278,613 | 1,706,543 |
| Comprehensive income | | | | | | | |
| Profit for the year | - | - | - | - | - | 347,134 | 347,134 |
| Other comprehensive income | | | | | | | |
| Exchange differences | - | - | - | - | (148) | - | (148) |
| Total comprehensive income | - | - | - | - | (148) | 347,134 | 346,986 |
| Transaction with owners | | | | | | | |
| Repurchase of shares | (101) | - | - | 101 | - | (3,272) | (3,272) |
| 2008 interim dividend paid | - | - | - | - | - | (51,346) | (51,346) |
| Total transactions with owners | (101) | - | - | 101 | - | (54,618) | (54,618) |
| At 31 December 2008 | 51,239 | 1,826,869 | (450,507) | 101 | 80 | 571,129 | 1,998,911 |
| At 1 January 2009 | 51,239 | 1,826,869 | (450,507) | 101 | 80 | 571,129 | 1,998,911 |
| Comprehensive income | | | | | | | |
| Profit for the year | - | - | - | - | - | 106,394 | 106,394 |
| Other comprehensive income | | | | | | | |
| Exchange differences | - | - | - | - | 142 | - | 142 |
| Total comprehensive income | - | - | - | - | 142 | 106,394 | 106,536 |
| Transaction with owners | | | | | | | |
| 2008 final dividend paid | - | - | - | - | - | (61,417) | (61,417) |
| 2009 interim dividend paid | - | - | - | - | - | (10,301) | (10,301) |
| Total transactions with owners | - | - | - | - | - | (71,718) | (71,718) |
| At 31 December 2009 | 51,239 | 1,826,869 | (450,507) | 101 | 222 | 605,805 | 2,033,729 |

Consolidated Cash Flow Statement

For the year ended 31 December 2009

| | Note | 2009 US\$'000 | 2008 US\$'000 |
|---|-------|------------------|------------------|
| Cash flows from operating activities | | | |
| Net cash generated from operations | 26(a) | 114,606 | 280,242 |
| Interest paid | | (475) | (6,029) |
| Interest received | | 29,457 | 45,997 |
| Income tax paid | | (187) | (206) |
| Net cash from operating activities | | 143,401 | 320,004 |
| Cash flows from investing activities | | | |
| Purchases of property, plant and equipment | | (184,913) | (179,901) |
| Proceeds from sale of property, plant and equipment | | 13 | 70,401 |
| Repayment of loan to a jointly controlled entity | | 3,692 | 23,989 |
| Loan granted to a jointly controlled entity | | - | (48,000) |
| Decrease/(increase) in term deposits with initial term of over three months | | 194,652 | (1,107,717) |
| Net cash from/(used in) investing activities | | 13,444 | (1,241,228) |
| Cash flows from financing activities | | | |
| Repurchase of the Company's shares | | - | (3,272) |
| Repayment of borrowings | | (107,200) | (132,800) |
| Dividends paid | | (71,718) | (51,346) |
| Net cash used in financing activities | | (178,918) | (187,418) |
| Net decrease in cash and cash equivalents | | | |
| Cash and cash equivalents at beginning of year | | 260,483 | 1,370,421 |
| Effect of foreign exchange rate changes | | (29) | (1,296) |
| Cash and cash equivalents at end of year | 26(b) | 238,381 | 260,483 |

Notes to the Financial Statements

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”). The Company and its subsidiaries (collectively the “Group”) principally engages in dry bulk and container vessels owning (including dry bulk vessel time chartering and container vessel time chartering), oil tanker shipping, dry bulk cargo voyage charter and other shipping related businesses.

The parent company is 中國外運長航集團有限公司 (“Sinotrans Group Company”), a state-owned enterprise established in the People’s Republic of China (the “PRC”).

These financial statements were approved for issue by the Board of Directors on 10 March 2010.

2 BASIS OF PREPARATION

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

(ii) Standards, interpretations and amendments effective in 2009

The HKICPA has issued the following new or revised standards, interpretations and amendments to the standards issued by HKICPA which are relevant to its operations and mandatory for the year ended 31 December 2009:

| | |
|-----------------------------|--|
| HKAS 1 (Revised) | Presentation of Financial Statements |
| HKAS 23 (Revised) | Borrowing Costs |
| HKAS 1 Amendment | Presentation of Financial Statements |
| HKAS 16 Amendment | Property, Plant and Equipment |
| HKAS 23 Amendment | Borrowing Costs |
| HKAS 27 Amendment | Consolidated and Separate Financial Statements |
| HKAS 31 Amendment | Interests in Joint Ventures |
| HKAS 32 Amendment | Financial Instruments: Presentation |
| HKAS 36 Amendment | Impairment of Assets |
| HKAS 39 Amendment | Financial Instruments: Recognition and Measurement |
| HKFRS 7 Amendment | Financial Instruments: Disclosures |
| HKFRS 8 | Operating Segments |
| HK(IFRIC)-Interpretation 16 | Hedges of Net Investment in a Foreign Operation |

2 BASIS OF PREPARATION (CONTINUED)

(ii) Standards, interpretations and amendments effective in 2009 (Continued)

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

- (a) HKFRS 8, "Operating Segments". It replaces HKAS 14, "Segment reporting" and requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.
- (b) HKAS 1 (Revised), "Presentation of Financial Statements". The revised standard prohibits the presentation of items of income and expenses (relating to non-owner changes in equity) in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in the consolidated statement of comprehensive income.

(iii) Standards, interpretations and amendments which are not yet effective

The HKICPA has issued the following new or revised standards, interpretations and amendments to the standards which are not yet effective in 2009 but relevant to the Group and have not been early adopted:

Effective for the year ending 31 December 2010

| | |
|--------------------------------|--|
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKAS 39 Amendment | Eligible Hedge Items |
| HKFRS 1 and HKAS 27 Amendments | Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 3 (Revised) | Business Combinations |
| HK(IFRIC)-Interpretation 17 | Distribution of Non-cash Assets to Owners |
| HKFRS 2 Amendment | Group Cash-settled Share-based Payment Transaction |
| HKFRSs Amendments | Improvement to HKFRSs 2009 |

Effective for the year ending 31 December 2011

| | |
|-----------------------------|---|
| HKAS 24 (Revised) | Related Party Disclosures |
| HKAS 32 Amendment | Classification of Rights Issue |
| HK(IFRIC)-Interpretation 19 | Extinguishing Financial Liabilities with Equity Instruments |

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Consolidation (Continued)

(i) *Merger accounting for common control combinations (Continued)*

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

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

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

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

(ii) *Accounting for non-common control combinations*

Apart from the business combination under common control which has been accounted for using the principles of merger accounting prescribed in HKAG 5, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Subsidiaries

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

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

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (note 3(f)). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Jointly controlled entities

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

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

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

(d) Foreign currency transaction

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currency transaction (Continued)

(iii) *Group companies*

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

- (1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (3) all resulting exchange differences are recognised as a separate component of equity.

(e) Property, plant and equipment

(i) *Assets under construction*

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (Continued)

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of investments in subsidiaries, jointly controlled entities and non-financial assets

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

Impairment testing of the investments in subsidiaries or jointly controlled entities is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or jointly controlled entity in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(g) Leases

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

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

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

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

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

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

(h) Inventories

Inventories represent bunkers on board of vessels, which are stated at cost and net realisable value. Costs are calculated on first-in first-out basis. Net realisable value of bunkers is expected amount to be realised from use as estimated by the directors/management.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Trade and other receivables

Trade receivables are amounts due from customers for services rendered in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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

(j) Cash and cash equivalents

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

(k) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(l) Provisions

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

(n) Employee benefits

(i) *Employee leave entitlements*

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

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

(ii) *Bonus entitlements*

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

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

(iii) *Retirement benefits obligations*

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Contingent liabilities

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

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

(q) Revenue and income recognition

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

The Group recognises revenue on the following basis:

(i) *Revenue from charter hire*

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

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

(ii) *Revenue from shipping related businesses*

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

(iii) *Interest income*

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

(r) Dividend distribution

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Borrowing costs

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

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

(t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the directors of the Company that makes strategic decisions.

4 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) *Cash flow and fair value interest rate risk*

The Group's significant interest bearing assets comprise cash and bank balances, and loan to a jointly controlled entity. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The impact on the profit or loss of a 100 basis-point shift in interest rate would be a maximum increase or decrease of US\$1,528,000 (2008: US\$343,000).

(ii) *Credit risk*

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(ii) Credit risk (Continued)

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

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

Under the current circumstances of the global financial turmoil, the Group would tighten its credit control procedures and policies to minimise the credit exposure of the Group.

(iii) Liquidity risk

Cash flow forecasting is performed by the operating entities of the Group and aggregated by the Group Finance. The Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs and capital commitments at all times. Such forecasting takes into consideration of the Group's future business plans and strategy to monitor any debt financing requirement.

Surplus cash held by the operating entities over balance required for working capital management are managed centrally by the Group Finance and the surplus cash would be invested in interest bearing bank deposits with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. At 31 December 2009, the Group held cash and cash equivalents of US\$238,381,000 (2008: US\$260,483,000) that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(iii) *Liquidity risk (Continued)*

| | Carrying amount US\$'000 | Total contractual undiscounted cashflow US\$'000 | Less than one year US\$'000 | Between one and two years US\$'000 |
|----------------------------|---|---|--|---|
| At 31 December 2009 | | | | |
| Trade and other payables | 41,434 | 41,434 | 41,434 | – |
| At 31 December 2008 | | | | |
| Borrowings | 107,200 | 114,610 | – | 114,610 |
| Trade and other payables | 42,396 | 42,396 | 42,396 | – |

(iv) *Foreign exchange risk*

The 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. The Group's revenues, cost of operations and majority of financial assets and liabilities are principally denominated in US dollar. Accordingly, foreign exchange risk mainly arises from future commercial transactions, net investments in foreign operations and commitments arising from certain ship-building contracts. The Group currently does not have regular and established hedging policy in place. The Group is monitoring foreign exchange exposure and will consider hedging significant foreign currency exposure by using appropriate financial instruments, and adopting appropriate hedging policy to control the hedging risks, when need arises.

At 31 December 2009, the Group had Hong Kong dollar net monetary liabilities of US\$4,402,000 (2008: net monetary assets of US\$39,575,000). 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.

At 31 December 2009, the Group had Japanese Yen net monetary assets of US\$5,776,000 (2008: US\$5,639,000). If US dollar had strengthened/weakened by 5% against Japanese Yen with all other variables unchanged, the Group's profit before taxation would have been US\$289,000 (2008: US\$282,000) lower/higher.

Management considers that there is no significant foreign exchange risk with respect to Renminbi, as the net monetary amount of this foreign currency is insignificant as at 31 December 2009.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Fair value estimation

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

(c) Capital risk management

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

The Group monitors its capital on the basis of the gearing ratio, which represents ratio of comparing net debt to total equity. Net debts represent total borrowings less cash and bank balances. The Group's strategy was to maintain a gearing ratio below 50%.

| | 2009 | 2008 |
|------------------------------|--------------------|-------------|
| | US\$'000 | US\$'000 |
| Total borrowings | – | 107,200 |
| Less: Cash and bank balances | (1,153,058) | (1,369,812) |
| Net surplus | (1,153,058) | (1,262,612) |
| Total equity | 2,033,729 | 1,998,911 |

Gearing ratios is not presented as the Group recorded net surplus as at 31 December 2008 and 2009.

5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Impairment of vessels

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

Management reviews certain indicators of potential impairment, such as reported sale and purchase prices, market demand and general market conditions and performs impairment assessments on its vessels. Based on management's best estimates, the Group's vessels do not expose to significant risk of impairment and accordingly no impairment loss is recognised during the year.

(b) Useful lives of vessels

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

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

Were the useful lives to differ by 10% from management estimates, it is estimated that depreciation expense would increase by US\$3,465,000 (2008: US\$2,802,000) or decrease by US\$2,676,000 (2008: US\$2,156,000) in the future periods.

(c) Residual values of vessels

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

Were the residual value to differ by 10% from management estimates, it is estimated that depreciation expense would increase or decrease by US\$474,000 (2008: US\$764,000) in the future periods.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 REVENUES AND SEGMENT INFORMATION

(a) Revenues

Turnover represents revenues from operations of dry bulk shipping, oil tanker shipping and container shipping totalling US\$227,986,000 (2008: US\$454,293,000) and other shipping related businesses totalling US\$1,120,000 (2008: US\$1,679,000) 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 charter
- Oil tanker shipping-crude oil shipping services
- Container shipping-container vessel time chartering
- Others-shipping agency and ship management services

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.

| | Year ended 31 December 2009 | | | | |
|----------------------------------|----------------------------------|---------------------------------------|-----------------------------------|--------------------|-------------------|
| | Dry bulk shipping US\$'000 | Oil tanker shipping US\$'000 | Container shipping US\$'000 | Others US\$'000 | Total US\$'000 |
| Total revenues | 209,849 | 10,253 | 20,831 | 9,623 | 250,556 |
| Inter-segment revenues | (1,418) | – | – | (8,503) | (9,921) |
| Revenues from external customers | 208,431 | 10,253 | 20,831 | 1,120 | 240,635 |
| Segment results | 91,249 | (1,311) | 4,530 | 1,437 | 95,905 |
| Depreciation | 25,782 | – | 5,316 | 139 | 31,237 |
| Additions to non-current assets | 170,367 | – | 14,734 | 340 | 185,441 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

| | Year ended 31 December 2008 | | | | |
|----------------------------------|-------------------------------|---------------------------------------|-----------------------------------|--------------------|-------------------|
| | Dry bulk shipping US\$'000 | Oil tanker shipping US\$'000 | Container shipping US\$'000 | Others US\$'000 | Total US\$'000 |
| Total revenues | 425,901 | 49,985 | 18,030 | 11,609 | 505,525 |
| Inter-segment revenues | (1,893) | – | – | (9,930) | (11,823) |
| Revenues from external customers | 424,008 | 49,985 | 18,030 | 1,679 | 493,702 |
| Segment results | 261,354 | 53,489 | 5,356 | 1,758 | 321,957 |
| Depreciation | 21,310 | 1,379 | 3,566 | 124 | 26,379 |
| Additions to non-current assets | 120,734 | – | 58,873 | 294 | 179,901 |

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 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:

| | 2009 US\$'000 | 2008 US\$'000 |
|--|--------------------------------|------------------|
| Revenues from external customers for reportable segments | 240,635 | 493,702 |
| Revenues from external customers derived by jointly controlled entities measured at proportional basis | (11,529) | (37,730) |
| Total revenues per consolidated statement of comprehensive income | 229,106 | 455,972 |

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

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

| | 2009 | 2008 |
|---|-----------------|----------|
| | US\$'000 | US\$'000 |
| Segment results for reportable segments | 95,905 | 321,957 |
| Corporate expenses | (10,372) | (12,833) |
| Finance income | 21,508 | 44,607 |
| Finance costs | (475) | (6,304) |
| Profit before income tax | 106,566 | 347,427 |

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

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

| | As at 31 December 2008 | | | | |
|--|-------------------------------|----------------------------|---------------------------|-----------------|-----------------|
| | Dry bulk shipping | Oil tanker shipping | Container shipping | Others | Total |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Segment assets | 621,666 | 70,229 | 102,816 | 6,027 | 800,738 |
| Segment assets include: | | | | | |
| Interests in jointly controlled entities | 15,239 | 38,790 | – | – | 54,029 |
| Loan to a jointly controlled entity | – | 30,231 | – | – | 30,231 |
| Segment liabilities | 30,190 | 442 | 541 | 4,454 | 35,627 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

Reportable segment assets are reconciled to total assets as follows:

| | 2009 | 2008 |
|---|------------------|-----------|
| | US\$'000 | US\$'000 |
| Segment assets | 945,577 | 800,738 |
| Corporate assets | 1,129,884 | 1,348,085 |
| Total assets per the consolidated balance sheet | 2,075,461 | 2,148,823 |

Reportable segment liabilities are reconciled to total liabilities as follows:

| | 2009 | 2008 |
|--|-----------------|----------|
| | US\$'000 | US\$'000 |
| Segment liabilities | 36,426 | 35,627 |
| Corporate liabilities | 5,306 | 114,257 |
| Deferred tax liabilities | – | 28 |
| Total liabilities per the consolidated balance sheet | 41,732 | 149,912 |

7 Expenses by nature

| | 2009 | 2008 |
|---|-----------------|----------|
| | US\$'000 | US\$'000 |
| Auditor's remuneration | 574 | 581 |
| Brokerage and commission | 9,100 | 18,441 |
| Inventories consumed | 16,300 | 20,602 |
| Depreciation (note 17) | 31,237 | 26,379 |
| Employee benefit expense (note 11) | 6,529 | 7,251 |
| Hiring of crews and seafarers | 22,414 | 19,807 |
| Insurance premium | 5,459 | 6,754 |
| Loss on sale of property, plant and equipment | 9 | – |
| Net exchange loss | 429 | 618 |
| Operating lease expenses | | |
| – vessels | 13,937 | 50,407 |
| – office premises | 1,276 | 1,227 |
| Port charges | 6,311 | 11,919 |
| Repairs and maintenance expenses | 9,126 | 9,092 |
| Others | 20,864 | 28,530 |
| Total cost of operations and selling, administrative and general expenses | 143,565 | 201,608 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 OTHER OPERATING INCOME

| | 2009 US\$'000 | 2008 US\$'000 |
|--|------------------|------------------|
| Gain on sale of property, plant and equipment | – | 29,795 |
| Interest income from jointly controlled entities | 1,247 | 1,390 |
| | 1,247 | 31,185 |

9 FINANCE INCOME AND COSTS

| | 2009 US\$'000 | 2008 US\$'000 |
|---|------------------|------------------|
| Finance income | | |
| Interest income on bank deposits | 21,508 | 44,607 |
| Finance costs | | |
| Bank loans – wholly repayable within five years | 475 | 6,300 |
| Others | – | 4 |
| | 475 | 6,304 |
| Net finance income | 21,033 | 38,303 |

10 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

| | 2009 US\$'000 | 2008 US\$'000 |
|---|------------------|------------------|
| Current income tax | | |
| – Hong Kong profits tax | 177 | 60 |
| – Overseas taxation | 56 | 228 |
| – (Over)/under-provisions in prior years | (33) | 4 |
| Total current income tax | 200 | 292 |
| Deferred income tax (note 24) | | |
| Origination and reversal of temporary differences | (28) | 2 |
| Impact of change in Hong Kong profits tax rate | – | (1) |
| Total deferred income tax | (28) | 1 |
| Income tax expense | 172 | 293 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 INCOME TAX EXPENSE (CONTINUED)

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

| | 2009 | 2008 |
|--|-----------------|----------|
| | US\$'000 | US\$'000 |
| Profit before income tax | 106,566 | 347,427 |
| Tax calculated at 16.5% (2008: 16.5%) | 17,583 | 57,325 |
| Income not subject to tax | (38,286) | (91,366) |
| Expenses not deductible for tax purposes | 20,888 | 34,246 |
| Effect of differential tax rates of other countries | 20 | 85 |
| Remeasurement of deferred tax – change in Hong Kong tax rate | – | (1) |
| (Over)/under-provisions in prior years | (33) | 4 |
| Income tax expense | 172 | 293 |

11 EMPLOYEE BENEFIT EXPENSE

| | 2009 | 2008 |
|--|-----------------|----------|
| | US\$'000 | US\$'000 |
| Wages and salaries | 6,363 | 7,100 |
| Pension costs – defined contribution plans | 166 | 151 |
| | 6,529 | 7,251 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The remuneration of each director is set out below:

| Name of director | Fees US\$'000 | Salaries, allowances and benefits- in-kind US\$'000 | Contributions to pension plans US\$'000 | Total US\$'000 |
|--|------------------|---|--|-------------------|
| Year ended 31 December 2009 | | | | |
| <i>Executive directors</i> | | | | |
| Tian Zhongshan | – | 250 | 4 | 254 |
| Li Hua | – | 189 | 4 | 193 |
| Feng Guoying | – | 197 | 4 | 201 |
| | – | 636 | 12 | 648 |
| <i>Non-executive directors</i> | | | | |
| Zhao Huxiang | – | – | – | – |
| Pan Deyuan | – | – | – | – |
| | – | – | – | – |
| <i>Independent non-executive directors</i> | | | | |
| Hu Hanxiang | 15 | – | – | 15 |
| Tsang Hing Lun | 15 | – | – | 15 |
| Lee Peter Yip Wah | 15 | – | – | 15 |
| Zhou Qifang | 15 | – | – | 15 |
| | 60 | – | – | 60 |
| | 60 | 636 | 12 | 708 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Directors' emoluments (Continued)

| Name of director | Fees US\$'000 | Salaries, allowances and benefits- in-kind US\$'000 | Contributions to pension plans US\$'000 | Total US\$'000 |
|--|------------------|---|--|-------------------|
| Year ended 31 December 2008 | | | | |
| <i>Executive directors</i> | | | | |
| Tian Zhongshan | – | 314 | 3 | 317 |
| Li Hua | – | 248 | 3 | 251 |
| Feng Guoying | – | 219 | 2 | 221 |
| | – | 781 | 8 | 789 |
| <i>Non-executive directors</i> | | | | |
| Zhao Huxiang | – | – | – | – |
| Pan Deyuan | – | – | – | – |
| | – | – | – | – |
| <i>Independent non-executive directors</i> | | | | |
| Hu Hanxiang | 16 | – | – | 16 |
| Tsang Hing Lun | 16 | – | – | 16 |
| Lee Peter Yip Wah | 16 | – | – | 16 |
| Zhou Qifang | 16 | – | – | 16 |
| | 64 | – | – | 64 |
| | 64 | 781 | 8 | 853 |

No director received any emoluments from Sinotrans Group Company in 2009. In 2008, other than the directors' emoluments disclosed above, Feng Guoying and Li Hua received emoluments from Sinotrans Group Company, amounting to approximately US\$6,000 and US\$2,000 respectively, part of which was in respect of their services to the Group. No apportionment had been made as the Directors considered that it was impracticable to apportion this amount between their services to the Group and their services to subsidiaries of the Sinotrans Group Company.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include three (2008: three) directors of the Company whose emoluments as disclosed in note 12(a). The emoluments paid or payable to the remaining non-director individuals for the year ended 31 December 2009 are as follows:

| | 2009 | 2008 |
|---|-----------------|----------|
| | US\$'000 | US\$'000 |
| Salaries, allowances and benefits-in-kind | 337 | 409 |
| Contributions to pension plans | 8 | 7 |
| | 345 | 416 |

The emoluments fell within the following bands:

| | Number of individuals | |
|---|------------------------------|------|
| | 2009 | 2008 |
| Emolument bands | | |
| US\$128,205 (HK\$1,000,001)-US\$192,308 (HK\$1,500,000) | 2 | – |
| US\$192,308 (HK\$1,500,001)-US\$256,410 (HK\$2,000,000) | – | 2 |

13 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of US\$15,894,000 (2008: US\$176,354,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 EARNINGS PER SHARE

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

| | 2009 | 2008 |
|---|------------------|-----------|
| Profit attributable to equity holders of the Company (US\$'000) | 106,394 | 347,134 |
| Weighted average number of shares in issue (thousands) | 3,992,100 | 3,997,128 |
| Basic earnings per share (US cents per share) | 2.7 | 8.7 |

As there were no diluted potential ordinary shares outstanding during the year (2008: Nil), the diluted earnings per share for the year ended 31 December 2009 is equal to basic earnings per share.

15 DIVIDENDS

| | 2009 US\$'000 | 2008 US\$'000 |
|---|------------------|------------------|
| Interim, paid of US0.26 cents (2008: US1.28 cents) per ordinary share | 10,301 | 51,346 |
| Final, proposed of US0.64 cents (2008: US1.54 cents) per ordinary share | 25,590 | 61,417 |
| | 35,891 | 112,763 |

On 10 March 2010, the Board proposed a final dividend of HK5 cents (equivalent to US0.64 cents) per share, totalling US\$25,590,000 for the year ended 31 December 2009. The proposed dividend is not reflected as dividend payable in the financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2010.

16 SUBSIDIARIES

| | Company 2009 | 2008 |
|--------------------------|-----------------|-------|
| Unlisted shares, at cost | US\$6 | US\$6 |

Particulars of the subsidiaries are set out in note 30(i).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 PROPERTY, PLANT AND EQUIPMENT

| | Group | | | | Company | |
|---------------------------------|---------------------|---|---|--------------------|-------------------|--------------------|
| | Vessels US\$'000 | Assets under construction US\$'000 | Freehold land and buildings US\$'000 | Others US\$'000 | Total US\$'000 | Others US\$'000 |
| Cost | | | | | | |
| At 1 January 2008 | 723,720 | 114,923 | 404 | 998 | 840,045 | 587 |
| Exchange differences | – | – | (79) | (61) | (140) | – |
| Additions | 5,110 | 174,496 | – | 295 | 179,901 | 117 |
| Disposals and write-off | (78,865) | – | – | (179) | (79,044) | (15) |
| Transfer | 79,610 | (79,610) | – | – | – | – |
| At 31 December 2008 | 729,575 | 209,809 | 325 | 1,053 | 940,762 | 689 |
| Exchange differences | – | – | 54 | 45 | 99 | – |
| Additions | 118,243 | 66,858 | – | 340 | 185,441 | 332 |
| Disposals and write-off | (5,616) | – | – | (225) | (5,841) | (197) |
| At 31 December 2009 | 842,202 | 276,667 | 379 | 1,213 | 1,120,461 | 824 |
| Accumulated depreciation | | | | | | |
| At 1 January 2008 | 290,412 | – | 206 | 703 | 291,321 | 389 |
| Exchange differences | – | – | (41) | (29) | (70) | – |
| Charge for the year | 26,214 | – | 4 | 161 | 26,379 | 109 |
| Disposals and write-off | (38,274) | – | – | (164) | (38,438) | (15) |
| At 31 December 2008 | 278,352 | – | 169 | 671 | 279,192 | 483 |
| Exchange differences | – | – | 29 | 26 | 55 | – |
| Charge for the year | 31,052 | – | 3 | 182 | 31,237 | 127 |
| Disposals and write-off | (5,616) | – | – | (203) | (5,819) | (180) |
| At 31 December 2009 | 303,788 | – | 201 | 676 | 304,665 | 430 |
| Net book value | | | | | | |
| At 31 December 2009 | 538,414 | 276,667 | 178 | 537 | 815,796 | 394 |
| At 31 December 2008 | 451,223 | 209,809 | 156 | 382 | 661,570 | 206 |

Notes:

- (a) As at 31 December 2008, the Group's borrowings were secured by certain property, plant and equipment with net book value of US\$135,706,000. The borrowings were fully repaid in 2009 and all the pledges were then released (note 23).
- (b) The freehold land is located outside Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | Group | |
|--|----------|----------|
| | 2009 | 2008 |
| | US\$'000 | US\$'000 |
| Share of net assets | 52,774 | 54,029 |
| Loan to a jointly controlled entity (note a) | 26,539 | 30,231 |
| Current portion of loan to a jointly controlled entity | (3,692) | (3,692) |
| | 22,847 | 26,539 |
| Unlisted investments, at cost | 128 | 128 |

Notes:

- (a) Loan to a jointly controlled entity is unsecured and bears interest at 0.6% (2008: 0.6%) over London Interbank Offered Rate ("LIBOR") per annum. It is repayable by 48 installments until 2021 (2008: repayable by 52 installments until 2021). Effective interest rate as at 31 December 2009 was 0.87% (2008: 2.07%).
- (b) The aggregate amounts of assets, liabilities, income and expenses attributable to the Group's interests in the jointly controlled entities are summarised as follows:

| | 2009 | 2008 |
|-------------------------|----------|----------|
| | US\$'000 | US\$'000 |
| Assets | | |
| Non-current assets | 60,189 | 63,088 |
| Current assets | 22,307 | 23,682 |
| Total assets | 82,496 | 86,770 |
| Liabilities | | |
| Non-current liabilities | 22,847 | 26,539 |
| Current liabilities | 6,875 | 6,202 |
| Total liabilities | 29,722 | 32,741 |
| Net assets | 52,774 | 54,029 |
| | | |
| | 2009 | 2008 |
| | US\$'000 | US\$'000 |
| Income | 11,542 | 48,533 |
| Expenses | 12,797 | 24,958 |

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

Particulars of the Group's jointly controlled entities are set out in note 30(ii).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2009 US\$'000 | 2008 US\$'000 | 2009 US\$'000 | 2008 US\$'000 |
| Trade receivables (note a) | | | | |
| – fellow subsidiaries | 7,497 | 8,218 | – | – |
| – other state-owned enterprises | 523 | 1,520 | – | – |
| – third parties | 2,351 | 2,492 | – | – |
| | 10,371 | 12,230 | – | – |
| Prepayments, deposits and other receivables | 16,507 | 19,080 | 1,901 | 8,778 |
| Amounts due from related parties (note b) | | | | |
| – subsidiaries | – | – | 967,506 | 991,474 |
| – fellow subsidiaries | 264 | 798 | – | 5 |
| – jointly controlled entities | 138 | 25 | – | – |
| – other related companies | 14 | 345 | 1 | – |
| | 416 | 1,168 | 967,507 | 991,479 |
| Total | 27,294 | 32,478 | 969,408 | 1,000,257 |

Notes:

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

| | Group | | Company | |
|--------------------------|------------------|------------------|------------------|------------------|
| | 2009 US\$'000 | 2008 US\$'000 | 2009 US\$'000 | 2008 US\$'000 |
| Within 6 months | 8,241 | 11,136 | – | – |
| 7-12 months | 1,286 | 527 | – | – |
| 1-2 years | 770 | 559 | – | – |
| 2-3 years | 74 | 8 | – | – |
| Trade receivables, gross | 10,371 | 12,230 | – | – |

Trade receivables are past due but not considered to be impaired. These trade receivables relate to a number of independent customers for whom there is no recent history of default.

- (b) 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.
- (c) The fair values of trade and other receivables approximate to the carrying amounts. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 CASH AND BANK BALANCES

| | Group | | Company | |
|--------------------------|------------------|------------------|------------------|------------------|
| | 2009 US\$'000 | 2008 US\$'000 | 2009 US\$'000 | 2008 US\$'000 |
| Non-current | | | | |
| Long-term bank deposits | 400,000 | – | 400,000 | – |
| Current | | | | |
| Cash at bank and in hand | 238,381 | 260,483 | 169,698 | 177,252 |
| Short-term bank deposits | 514,677 | 1,109,329 | 428,214 | 955,612 |
| | 753,058 | 1,369,812 | 597,912 | 1,132,864 |
| Cash and bank balances | 1,153,058 | 1,369,812 | 997,912 | 1,132,864 |

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

| | Group | | Company | |
|------------------------|------------------|------------------|------------------|------------------|
| | 2009 US\$'000 | 2008 US\$'000 | 2009 US\$'000 | 2008 US\$'000 |
| US Dollar | 1,149,225 | 1,321,761 | 997,275 | 1,087,340 |
| Hong Kong Dollar | 936 | 45,209 | 531 | 44,638 |
| Japanese Yen | 2,235 | 2,332 | 65 | 806 |
| Others | 662 | 510 | 41 | 80 |
| Cash and bank balances | 1,153,058 | 1,369,812 | 997,912 | 1,132,864 |

21 SHARE CAPITAL

| | Number of shares Ordinary shares of HK\$0.1 each | Nominal value US\$'000 |
|---|--|---------------------------|
| Authorised: | | |
| At 1 January, 31 December 2008 and 2009 | 50,000,000,000 | 641,026 |
| Issued and fully paid: | | |
| At 1 January 2008 | 4,000,000,000 | 51,340 |
| Repurchase of shares (note a) | (7,900,000) | (101) |
| At 31 December 2008 and 2009 | 3,992,100,000 | 51,239 |

Notes:

- (a) In 2008, the Company repurchased 7,900,000 of its own shares on the Stock Exchange at prices ranging from HK\$3.18 to HK\$3.27 per share for an aggregate consideration before expenses of HK\$25,388,000 (equivalent to approximately US\$3,255,000). The repurchased shares were then cancelled.
- (b) The Company adopted a share option scheme on 31 October 2007. Under the terms of the share option scheme, the Directors may, at their discretion, grant an option to eligible participants to subscribe for the Company's shares at the subscription price which will not be less than the highest of (i) the closing price of the Company's shares at the Stock Exchange daily quotation sheets on the date of grant; (ii) the average of the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share. No share options were granted during the year ended 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 RESERVES

Group

| | Share premium US\$'000 | Merger reserve US\$'000 | Capital redemption reserve US\$'000 | Exchange reserve US\$'000 | Retained earnings US\$'000 | Total US\$'000 |
|--------------------------------------|------------------------------|-------------------------------|--|---------------------------------|----------------------------------|-------------------|
| At 1 January 2008 | 1,826,869 | (450,507) | – | 228 | 278,613 | 1,655,203 |
| Profit for the year | – | – | – | – | 347,134 | 347,134 |
| Exchange differences | – | – | – | (148) | – | (148) |
| Repurchase of shares (note 21(a)) | – | – | 101 | – | (3,272) | (3,171) |
| 2008 interim dividend paid (note 15) | – | – | – | – | (51,346) | (51,346) |
| At 31 December 2008 | 1,826,869 | (450,507) | 101 | 80 | 571,129 | 1,947,672 |
| Profit for the year | – | – | – | – | 106,394 | 106,394 |
| Exchange differences | – | – | – | 142 | – | 142 |
| 2008 final dividend paid (note 15) | – | – | – | – | (61,417) | (61,417) |
| 2009 interim dividend paid (note 15) | – | – | – | – | (10,301) | (10,301) |
| At 31 December 2009 | 1,826,869 | (450,507) | 101 | 222 | 605,805 | 1,982,490 |

Company

| | Share premium US\$'000 | Capital redemption reserve US\$'000 | Retained earnings US\$'000 | Total US\$'000 |
|--------------------------------------|------------------------------|--|----------------------------------|-------------------|
| At 1 January 2008 | 1,826,869 | – | 5,374 | 1,832,243 |
| Profit for the year | – | – | 176,355 | 176,355 |
| Repurchase of shares (note 21(a)) | – | 101 | (3,272) | (3,171) |
| 2008 interim dividend paid (note 15) | – | – | (51,346) | (51,346) |
| At 31 December 2008 | 1,826,869 | 101 | 127,111 | 1,954,081 |
| Profit for the year | – | – | 15,894 | 15,894 |
| 2008 final dividend paid (note 15) | – | – | (61,417) | (61,417) |
| 2009 interim dividend paid (note 15) | – | – | (10,301) | (10,301) |
| At 31 December 2009 | 1,826,869 | 101 | 71,287 | 1,898,257 |

23 BORROWINGS

| | Group and Company | |
|---------------------|-------------------|----------|
| | 2009 | 2008 |
| | US\$'000 | US\$'000 |
| Bank loans, secured | – | 107,200 |

At 31 December 2008, the borrowings bore interest at floating rates and the effective interest rates (per annum) was 3.97%. All bank loans were fully repaid in 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 DEFERRED INCOME TAX

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

| | Group and Company | |
|--|--------------------------|----------|
| | 2009 | 2008 |
| | US\$'000 | US\$'000 |
| At beginning of year | (28) | (27) |
| Credited/(charged) to income statement (note 10) | 28 | (1) |
| At end of year | - | (28) |

25 TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---------------------------------|-----------------|----------|-----------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Trade payables (note a) | | | | |
| – fellow subsidiaries | 213 | 741 | - | 12 |
| – other state-owned enterprises | 2,080 | 364 | - | - |
| – third parties | 10,081 | 12,006 | 58 | 115 |
| | 12,374 | 13,111 | 58 | 127 |
| Other payables and accruals | 20,150 | 19,235 | 4,509 | 7,003 |
| Amounts due to related parties | | | | |
| – subsidiaries | - | - | 13,649 | 13,649 |
| – fellow subsidiaries | 14 | 365 | 2 | - |
| – jointly controlled entity | 8,896 | 9,685 | - | - |
| | 8,910 | 10,050 | 13,651 | 13,649 |
| Total | 41,434 | 42,396 | 18,218 | 20,779 |

Notes:

(a) Ageing analysis of trade payables at 31 December 2009 is as follows:

| | Group | | Company | |
|-----------------|-----------------|----------|-----------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Within 6 months | 11,956 | 12,722 | 58 | 115 |
| 7-12 months | 140 | 146 | - | 12 |
| 1-2 years | 100 | 47 | - | - |
| 2-3 years | 23 | 102 | - | - |
| Over 3 years | 155 | 94 | - | - |
| | 12,374 | 13,111 | 58 | 127 |

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 NET CASH GENERATED FROM OPERATIONS

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

| | 2009 US\$'000 | 2008 US\$'000 |
|--|------------------|------------------|
| Profit before income tax | 106,566 | 347,427 |
| Adjustments for: | | |
| Depreciation | 31,237 | 26,379 |
| Loss/(gain) on sale of property, plant and equipment | 9 | (29,795) |
| Share of losses/(profits) of jointly controlled entities | 1,255 | (23,575) |
| Interest income | (22,755) | (45,997) |
| Finance costs | 475 | 6,304 |
| Changes in working capital: | | |
| Inventories | 703 | 2,228 |
| Trade and other receivables (excluding amounts due from related parties) | (3,077) | (3,786) |
| Amounts due to related parties, net | 419 | 83 |
| Trade and other payables (excluding amounts due to related parties) | (226) | 974 |
| Net cash generated from operations | 114,606 | 280,242 |

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

| | 2009 US\$'000 | 2008 US\$'000 |
|--|------------------|------------------|
| Net book amount (note 17) | 22 | 40,606 |
| (Loss)/gain on sale of property, plant and equipment | (9) | 29,795 |
| Proceeds from sale of property, plant and equipment | 13 | 70,401 |

(b) Analysis of balances of cash and cash equivalents

| | 2009 US\$'000 | 2008 US\$'000 |
|--|------------------|------------------|
| Cash and bank balances (note 20) | 1,153,058 | 1,369,812 |
| Less: Term deposits with initial term of over three months | (914,677) | (1,109,329) |
| Cash and cash equivalents | 238,381 | 260,483 |

27 CONTINGENT LIABILITIES

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 COMMITMENTS

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

| | 2009 | 2008 |
|-----------------------------------|-----------------|----------|
| | US\$'000 | US\$'000 |
| Authorised but not contracted for | 671 | 623 |
| Contracted but not provided for | 322,780 | 388,240 |
| | 323,451 | 388,863 |

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

At 31 December 2009, the Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

| | 2009 | 2008 |
|--|-----------------|----------|
| | US\$'000 | US\$'000 |
| Office premises | | |
| – No later than one year | 184 | 1,060 |
| – Later than one year and no later than five years | 174 | 213 |
| | 358 | 1,273 |
| Vessels | | |
| – No later than one year | 2,171 | 424 |
| | 2,529 | 1,697 |

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

At 31 December 2009, 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 29 months:

| | 2009 | 2008 |
|--|-----------------|----------|
| | US\$'000 | US\$'000 |
| Vessels | | |
| – No later than one year | 97,991 | 124,153 |
| – Later than one year and no later than five years | 13,364 | 25,528 |
| | 111,355 | 149,681 |

29 RELATED PARTY TRANSACTIONS

Sinotrans Group Company, the parent company of the Company, is controlled by the PRC Government. The PRC Government is the Company's ultimate controlling party. In accordance with HKAS 24, "Related Party Disclosures" issued by the HKICPA, enterprises directly or indirectly controlled by PRC Government ("state-owned enterprises") and their subsidiaries, together with the Sinotrans Group Company, are all related parties of the Group.

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

Set out below is a summary of significant related party transactions and balances during the year.

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

| | 2009 | 2008 |
|--|-----------------|----------|
| | US\$'000 | US\$'000 |
| Charter-hire income from fellow subsidiaries | 17,468 | 59,204 |
| Commission expenses to fellow subsidiaries | 111 | 2,052 |
| Commercial management fee for oil tanker shipping to a fellow subsidiary | 200 | 692 |
| Rental expenses to fellow subsidiaries | 750 | 750 |
| Expenses for hiring of crews and seafarers for fellow subsidiaries | 6,681 | 4,952 |
| Shipping agency fee to fellow subsidiaries | 139 | 213 |
| Interest income on loan to a jointly controlled entity | 1,247 | 1,390 |

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 year, the Group was allowed to use trademarks registered in the name of Sinotrans Group Company on a free-of-charge basis.
- (c) Year end balances arising from sales, purchases and other transactions with related parties were disclosed in notes 19 and 25.
- (d) Pursuant to an agreement dated 10 December 2007 entered into between the Group and Faship Maritime Carriers Inc. ("Faship Maritime"), a jointly controlled entity, the Group agreed to sell two Handysize vessels to Faship Maritime at a total consideration of US\$63,800,000. As at 31 December 2009, two Handysize vessels were under construction and the sale is subject to the completion of construction which is expected to be delivered in June and October 2010 respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 RELATED PARTY TRANSACTIONS (CONTINUED)

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

| | 2009 | 2008 |
|--|-----------------|----------|
| | US\$'000 | US\$'000 |
| Charter-hire income | 10,970 | 37,798 |
| Ocean freight income | – | 4,628 |
| Bank interest income | 21,479 | 44,592 |
| Bank loans interest expenses | 474 | 6,300 |
| Charter-hire expenses | 3,973 | 9,785 |
| Commission expenses | 611 | 2,393 |
| Expenses for hiring of crews and seafarers | 3 | 168 |
| Freight forwarding expenses | 314 | 749 |

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

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

| | 2009 | 2008 |
|--------------|------------------|-----------|
| | US\$'000 | US\$'000 |
| Cash at bank | 1,148,810 | 1,365,892 |
| Bank loans | – | 107,200 |

Movement of bank loans during the year is as follows:

| | 2009 | 2008 |
|--------------------------------|------------------|-----------|
| | US\$'000 | US\$'000 |
| At beginning of year | 107,200 | 239,725 |
| Loan repayment during the year | (107,200) | (132,800) |
| Bank loan arrangement fees | – | 275 |
| At end of year | – | 107,200 |

(g) Key management compensation

| | 2009 | 2008 |
|--|-----------------|----------|
| | US\$'000 | US\$'000 |
| Salaries, allowances, and benefits-in-kind | 636 | 781 |
| Contributions to pension plans | 12 | 8 |
| | 648 | 789 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

At 31 December 2009, the Company has interests in the following principal subsidiaries and jointly controlled entities:

(i) List of principal subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

(i) List of principal subsidiaries (Continued)

| Name | Country/place of operation | Issued and fully paid share capital | Attributable equity interest held by the Group | Principal activities |
|----------------------------------|-----------------------------------|--|---|---------------------------------|
| Great Immensity Shipping Limited | Hong Kong | 2 shares of HK\$1 each | 100% | Owning and chartering of vessel |
| Great Intelligence Shipping S.A. | Panama | 10,000 shares of US\$1 each | 100% | Owning and chartering of vessel |
| Great Jade Shipping Limited | Hong Kong | 2 shares of HK\$1 each | 100% | Owning and chartering of vessel |
| Great Legend Shipping Limited | Hong Kong | 1 share of HK\$1 | 100% | Owning and chartering of vessel |
| Great Loyalty Shipping Limited | Hong Kong | 2 shares of HK\$1 each | 100% | Owning and chartering of vessel |
| Great Luck Maritime Limited | Hong Kong | 2 shares of HK\$1 each | 100% | Owning and chartering of vessel |
| Great Majesty Shipping S.A. | Panama | 10,000 shares of US\$1 each | 100% | Owning and chartering of vessel |
| Great Motion Shipping Limited | Hong Kong | 2 shares of HK\$1 each | 100% | Owning and chartering of vessel |
| Great Peace Shipping Limited | Hong Kong | 2 shares of HK\$1 each | 100% | Owning and chartering of vessel |
| Great Praise Shipping Limited | Hong Kong | 1 share of HK\$1 | 100% | Owning and chartering of vessel |
| Great Prestige Shipping S.A. | Panama | 10,000 shares of US\$1 each | 100% | Owning and chartering of vessel |
| Great Prosperity Shipping Inc. | Panama | 2 shares of US\$1 each | 100% | Owning and chartering of vessel |
| Great Scenery Shipping Limited | Hong Kong | 3 shares of HK\$1 each | 100% | Owning and chartering of vessel |
| Great Talent Shipping Limited | Hong Kong | 1 share of HK\$1 | 100% | Owning and chartering of vessel |
| Great Wisdom Shipping S.A. | Panama | 10,000 shares of US\$1 each | 100% | Owning and chartering of vessel |
| Jin Da Maritime Limited | Hong Kong | 1 share of HK\$1 | 100% | Owning and chartering of vessel |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

(i) List of principal subsidiaries (Continued)

| Name | Country/place of operation | Issued and fully paid share capital | Attributable equity interest held by the Group | Principal activities |
|-------------------------------------|----------------------------|--|--|--|
| Jin Teng Maritime Limited | Hong Kong | 1 share of HK\$1 | 100% | Owning and chartering of vessel |
| # Joy Top International Limited | British Virgin Islands | 2 shares of US\$1 each | 100% | Investment holding |
| Marine Harvest Shipping Limited | Hong Kong | 2 shares of HK\$1 each | 100% | Inactive |
| Marine Peace Shipowning Limited | British Virgin Islands | 1 share of US\$1 | 100% | Investment holding |
| Marine Peace Shipping Limited | Hong Kong | 2 shares of HK\$1 each | 100% | Inactive |
| Rich Target Shipping Limited | Hong Kong | 2 shares of HK\$1 each | 100% | Owning and chartering of vessel |
| Sinotrans (Bermuda) Ltd | Bermuda | 12,000 shares of US\$1 each | 100% | Chartering of vessels |
| Sinotrans Agencies (S) Pte Limited | Singapore | 700,000 shares of S\$1 each | 100% | Provision for agency services for shipping forwarding and aircargo |
| Sinotrans Canada Inc. | Canada | 1,000 common shares of US\$1 each, 1,500 Series 1 preference shares at US\$100 per share | 100% | Provision of shipping agency services |
| # Sinotrans Ship Management Limited | Hong Kong | 2 shares of HK\$1 each | 100% | Provision of ship management services |
| # Sinotrans Ship Trading Limited | British Virgin Islands | 1 share of US\$1 | 100% | Ship building and trading of vessels |
| # Sinotrans Shipowning Limited | British Virgin Islands | 1 share of US\$1 | 100% | Investment holding |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

(i) List of principal subsidiaries (Continued)

| Name | Country/place of operation | Issued and fully paid share capital | Attributable equity interest held by the Group | Principal activities |
|----------------------------------|-----------------------------------|--|---|---------------------------------|
| Trade Elegancy Shipping Limited | Hong Kong | 1 share of HK\$1 | 100% | Owning and chartering of vessel |
| Trade Endeavor Shipping Limited | Hong Kong | 1 share of HK\$1 | 100% | Owning and chartering of vessel |
| Trade Fast Shipping Limited | Hong Kong | 1 share of HK\$1 | 100% | Owning and chartering of vessel |
| Trade Hope Maritime Limited | Hong Kong | 2 shares of HK\$1 each | 100% | Owning and chartering of vessel |
| Trade Integrity Shipping Limited | Hong Kong | 1 share of HK\$1 | 100% | Owning and chartering of vessel |
| Trade Sincerity Shipping Limited | Hong Kong | 1 share of HK\$1 | 100% | Owning and chartering of vessel |
| Trade Worlder Maritime Limited | Hong Kong | 2 shares of HK\$1 each | 100% | Owning and chartering of vessel |
| Trade Worlder Shipowning Limited | British Virgin Islands | 1 share of US\$1 | 100% | Investment holding |

Directly held by the Company

(ii) List of jointly controlled entities

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

Definitions

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

| | |
|------------------------------------|---|
| “Board” | the board of Directors of our Company |
| “Chartering Opportunity” | a business opportunity to charter out dry bulk vessels to a potential customer |
| “Company” or “our Company” | Sinotrans Shipping Limited (中外運航運有限公司), a company incorporated on 13 January 2003 with limited liability under the laws of Hong Kong |
| “Deed of Non-Competition” | the deed of non-competition entered into by and between Sinotrans Group Company and our Company on 8 November 2007 in respect of the main businesses conducted by our Group |
| “Director(s)” or “our Director(s)” | the Director(s) of our Company |
| “Global Offering” | the Hong Kong Public Offering and the International Offering |
| “Group” or “our Group” | our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company or the businesses operated by the present subsidiaries of our Company or (as the case may be) its predecessor |
| “Prospectus” | the Company’s prospectus dated 12 November 2007 |
| “Relevant Services” | self-owned dry bulk vessels time chartering, self-owned container vessels time chartering, and crude oil shipping |
| “Sinotrans Group” | Sinotrans Group Company and its subsidiaries (but excluding our Group) |
| “Sinotrans Group Company” | 中國外運長航集團有限公司, formerly known as 中國對外貿易運輸(集團)總公司, is a PRC state-owned enterprise formed in 1950, and the ultimate controlling shareholder of our Company. It was renamed as the present name in March 2009. |
| “we,” “us” or “our” | our Company or our Group (as the case may require) |

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

Glossary

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

| | |
|---------------------------------------|---|
| “Baltic Dry Index” or “BDI” | the BDI is published every London working day by the Baltic Exchange, which collates information for Handysize, Supramax, Panamax and Capesize vessels to create this leading freight market indicator |
| “Baltic Dirty Tanker Index” or “BDTI” | the BDTI is published every London working day by the Baltic Exchange, which collates information for crude oil tankers to create this leading freight market indicator |
| “Capesize” | a dry bulk vessel with a capacity of over 100,000 DWT |
| “charterer” | a person, firm or company hiring a vessel for the carriage of goods or other purposes |
| “classification societies” | independent societies which certify that a vessel has been built and is maintained in accordance with the rules of such society and in compliance with the applicable rules and regulations of the vessel’s Flag State and the international conventions of which that Flag State is a signatory |
| “Daily TCE” | daily time charter equivalent rate, the basis on which we measure our charter rate level. It is determined by dividing total voyage revenue (net of voyage expenses) by total voyage days for the relevant time period. Voyage expenses primarily consist of port charges and fuel costs that are unique to a particular voyage, which would otherwise be paid by the charterer under a time charter contract, as well as commissions. Daily TCE is a standard shipping industry performance measure used primarily to compare period-to-period changes in a shipping company’s performance despite changes in the mix of charter types under which the vessels may be employed between the periods |
| “dry bulk” | unpacked goods such as coal, metallic minerals, iron, building materials, cement, timber, salt, grains and similar materials |
| “drydocking” | the removal of a vessel from the water for inspection, maintenance and/or repair |
| “DWT” | the deadweight of a ship expressed in tonnes. This measurement is the total weight of cargo, fuel, fresh water, stores and crew which the ship can carry |

| | |
|------------------------|--|
| “FFA” | Forward Freight Agreement, a kind of forward freight rate agreement concluded between the buyer and seller, specifying the courses, prices, quantities, etc. The two parties agree to take or pay the difference between BDI and the transaction price in a certain period of time |
| “Handymax” | a dry bulk vessel with a capacity of between 40,000 DWT and 59,999 DWT |
| “Handysize” | a dry bulk vessel with a capacity of between 10,000 DWT and 39,999 DWT |
| “hire” | a sum of money to be paid to the shipowner by a charterer under a time charter for the use of a vessel |
| “ISM Code” | the International Management Code for the Safe Operation of Ships and for Pollution Prevention |
| “off-hire” | the situation applying to a ship on time charter when hire temporarily ceases to be paid by the charterer, or the time gap between two charters |
| “operating costs” | the costs of operating a ship which primarily consists of the costs of lubricants, spare parts, repairs and maintenance, crewing costs and insurance costs (but excluding capital expenditure, drydocking costs and voyage costs) |
| “Panamax” | a dry bulk vessel with a capacity of between 60,000 and 99,999 DWT |
| “P&I Association” | a mutual association providing P&I insurance coverage |
| “P&I insurance” | protection and indemnity insurance, obtained through a mutual association formed by shipowners to provide liability indemnification protection from various liabilities to which they are exposed in the course of their business, and which spreads the liability costs of each member by requiring contribution by all members in the event of a loss |
| “port charges” | a general term which includes charges and dues of every nature assessed against a vessel, cargo and passengers in a port. Such charges can be classified into three categories: (i) charges in relation to the vessel such as vessel tonnage tax, vessel port dues, pilot fee and towage, (ii) charges in relation to the cargoes such as cargo port duties, loading and discharge fees and cargo handling fees and (iii) other expenses such as ship repairing costs and advances by the crew |
| “technical management” | management of those aspects of ship owning and operation that relate to the physical operation of a vessel, including the provision of crew, routine maintenance, repairs, drydocking and supplies of stores and spares |

Glossary

| | |
|------------------|--|
| “TEU” | twenty-foot equivalent unit, a standard unit of measurement of the volume of a container with a length of 20 feet, height of 8 feet and 6 inches and width of 8 feet |
| “time charter” | contract under which the shipowner hires out a ship for a specified period of time. The shipowner is responsible for providing the crew and paying the operating costs while the charterer is responsible for paying the voyage costs. The shipowner is paid charter hire on a per day basis |
| “VLCC” | very large crude oil carrier, a vessel designed for the carriage of crude oil with a capacity of between 200,000 to 319,999 DWT |
| “voyage charter” | contract under which a shipowner hires out a ship for a specific voyage between the loading port and the discharging port. The shipowner is responsible for paying both the operating costs and the voyage costs. The shipowner is paid freight on the basis of cargo movement between ports |

Corporate Information

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COMPANY SECRETARY

Mr. Huen Po Wah, *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

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