

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in the Company, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or the transferee.

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SINOTRANS SHIPPING LIMITED

中外運航運有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 368)

(1) VERY SUBSTANTIAL ACQUISITION
(2) CONNECTED TRANSACTIONS
(3) CONTINUING CONNECTED TRANSACTIONS
AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**



PLATINUM
Securities

A letter from the Board is set out on pages 15 to 82 of this circular.

A notice convening the Extraordinary General Meeting to be held at Nathan Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 16 May 2014 at 10:00 a.m. is set out on pages EGM-1 to EGM-5 of this circular. Whether or not you are able to attend the Extraordinary General Meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registered office of the Company, as soon as possible and in any event not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting thereof (as the case may be) should you so wish.

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DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“2012 Announcement”	the announcement of the Company dated 26 March 2012 in relation to the Renewed Continuing Connected Transaction Agreements
“Accounts Date”	30 June 2013
“Acquisition”	the acquisition of the Sale Shares and Interests and the Shareholders Loans pursuant to the terms and conditions under the Acquisition Agreements and the transactions contemplated thereunder
“Acquisition Agreements”	the HK Acquisition Agreement, the Panama Acquisition Agreement, the Sinochart Acquisition Agreement, the Sinotrans Tianze Acquisition Agreement, and the SNL 49% Acquisition Agreement
“Announcement”	the announcement of the Company dated 25 March 2014 in relation to, among others, (i) the Acquisition Agreements, (ii) the Supplemental Parent Master Services Agreement, (iii) the CCT JV Master Services Agreements; (iv) the Supplemental Parent Master Chartering Agreement; and (v) the CCT JV Master Chartering Agreements
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audited Accounts”	the audited financial statements of the relevant Target Group Companies for the six months ended 30 June 2013 prepared in accordance with the PRC GAAP
“Audited Completion Audit Accounts”	the audited accounts of the relevant Target Group Company dated as of the Completion Date prepared in accordance with the PRC GAAP and adopted the accounting policies and methods consistent with the latest audited accounts of the relevant Target Group Companies, issued by an auditor appointed by the relevant Purchaser and agreed by the relevant Vendor in the event of disagreement between the relevant Purchaser and the relevant Vendor on the NAV or the Shareholders Loans (as the case may be) in relation to the relevant Target Group Company
“Bank of UFJ”	The Bank of Tokyo-Mitsubishi UFJ, Ltd., Hong Kong Branch
“Board”	the board of Directors

DEFINITIONS

“Business Day”	any day (other than a Saturday, Sunday and a public holiday) on which commercial banks in Hong Kong and PRC (as the case may be) are open for business
“BVI”	British Virgin Islands
“CBRC”	China Banking Regulatory Commission
“CCT JV Master Agreements”	comprising the CCT JV Master Services Agreements and the CCT JV Master Chartering Agreements
“CCT JV Master Chartering Agreements”	comprising the Sinochart Master Chartering Agreement and SNL Master Chartering Agreement
“CCT JV Master Services Agreements”	comprising the Sinochart Master Services Agreement and SNL Master Services Agreement
“CCT Master Agreements”	comprising the Supplemental Renewed Master Tenancy and Property Management Agreement, the Supplemental Parent Master Services Agreement, the Supplemental Parent Master Chartering Agreement and the Financial Services Framework Agreement
“Chengxi Shipyard”	Chengxi Shipyard Co., Ltd. (中船澄西船舶修造有限公司), which is an Independent Third Party
“Combined Group”	the Group and the Target Group (excluding Sinochart Group and Sinotrans Container Lines Group)
“Company”	Sinotrans Shipping Limited (中外運航運有限公司), a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Stock Exchange
“Completion Accounts”	unaudited management accounts of the relevant Target Group Companies dated as of the Completion Date prepared in accordance with the PRC GAAP within 20 Business Days after the Completion Date, and adopted the accounting policies and methods consistent with the latest audited accounts of the relevant Target Group Companies
“Completion Date”	being the last calendar day of the month in which the last of the conditions as set out in the “Conditions Precedent” in the Acquisition Agreements have been satisfied or waived (as the case may be)

DEFINITIONS

“connected person”	has the meaning given that term in the Listing Rules
“CSTC”	China Shipbuilding Trading Company Limited (中國船舶工業貿易公司), a subsidiary of China State Shipping Corporation (中國船舶工業集團公司), a State-owned enterprise established in the PRC, which is an Independent Third Party
“Debt Waiver Agreement”	the debt waiver agreement dated 28 October 2013 entered into between Sinotrans and Sinotrans Container Lines, pursuant to which Sinotrans has agreed to waive the amount of approximately US\$106,421,000 owed by Sinotrans Container Lines to Sinotrans as at 30 June 2013 upon the SNL Acquisition Completion
“Director(s)”	the directors of the Company
“Double Strong”	Double Strong International Ltd., a company incorporated in the BVI with limited liability and is an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date
“DWT”	means deadweight of a ship expressed in tonnes. This measurement is the total weight of cargo, fuel, fresh water, stores and crew which a ship can carry
“ECTEC”	means The Foreign Economic & Technical Cooperation Co. of China Changjiang National Shipping Group, a company established in the PRC, which is indirectly owned by the Parent Company
“EGM”	an extraordinary general meeting of the Company to be held to consider and, if thought fit, approve, among other things, (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreement, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder
“Enlarged Group”	comprising the Group and the Target Group

DEFINITIONS

“Finance Company”	Sinotrans & CSC Finance Co., Ltd. (中外運長航財務有限公司), a limited liability company established in the PRC and is a non-wholly owned subsidiary of the Parent Company as at the Latest Practicable Date
“General Pricing Principles”	the agreed principles for determining pricing: <ul style="list-style-type: none">(i) according to the relevant market prices (being the prices at which comparable services are provided from or to (as appropriate) Independent Third Parties in the same geographical location in the ordinary course of business; and(ii) where there is no relevant market price, then according to the relevant historical prices provided by the relevant party or comparable market suppliers providing similar services in the past year, or according to the cost incurred plus an appropriate margin with reference to the average profit margin of similar services in the market at a rate no more than 5% (as applicable)
“Group”	the Company and its subsidiaries as at the Latest Practicable Date
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HK Acquisition Agreement”	the share transfer agreement dated 25 March 2014 entered into between Trade Worlder as purchaser and Sinotrans (HK) Logistics as vendor, pursuant to which Trade Worlder has conditionally agreed to acquire the Target HK Sale Shares and the Sinotrans (HK) Logistics Shareholders Loan and the Sinotrans (HK) Shipping Loan from Sinotrans (HK) Logistics
“HKFRSs”	Hong Kong Financial Reporting Standards issued by the HKICPA
“HKICPA”	the Hong Kong Institute of Certified Public Accountants
“HK Target Group”	comprising Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping

DEFINITIONS

“Independent Board Committee”	an independent committee of the board of the Company comprising all the independent non-executive directors established for the purpose of advising the Independent Shareholders on (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreement, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder
“Independent Financial Adviser”	Platinum Securities Company Limited, a licensed corporation licensed under the Securities and Futures Ordinance to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, and the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreement, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder
“Independent Shareholders”	in respect of the Shareholders other than the Parent Company and its associates
“Independent Third Party(ies)”	individual(s) or company(ies) not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“Jiangnan Shipyard”	means Jiangnan Shipyard (Group) Co., Ltd., which is an Independent Third Party
“Jinling Shipyard”	means China Chang Jiang National Shipping Group Corporation Jinling Shipyard, a wholly-owned subsidiary of the Parent Company, a State-owned enterprise established in the PRC
“JV Agreements”	comprising the Sinochart JV Agreement and the SNL JV Agreement

DEFINITIONS

“JV Articles of Association”	comprising the Sinochart JV Articles of Association and the SNL JV Articles of Association
“JV Group”	comprising Sinochart and Sinotrans Container Lines
“Latest Practicable Date”	15 April 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information for the purpose of inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Marine Harvest”	Marine Harvest Shipping Limited, a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Marine Peace”	Marine Peace Shipping Limited, a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date
“MOFCOM”	Ministry of Commerce of the PRC
“NAV”	net asset value as at the relevant date in the relevant account
“NAV Decrease”	the difference between the NAV of the relevant Target Group Companies as at the Accounts Date in the Audited Accounts minus the NAV of the relevant Target Group Companies as at the Completion Date in the Completion Accounts or Audited Completion Audit Accounts
“NAV Increase”	the difference between the NAV of the relevant Target Group Companies as at the Completion Date in the Completion Accounts or the Audited Completion Audit Accounts minus the NAV of the relevant Target Group Companies as at the Accounts Date in the Audited Accounts

DEFINITIONS

“New Properties”	comprising (i) Rm818, Sinotrans Plaza A, A43 Xizhimen Beidajie Beijing 100044, the PRC, which is of 1,526.83 square metres; (ii) 12/F–13/F, Fujian Waiyun Building, No. 79 East Lake Road, Fuzhou, which are of 520 square metres in total; (iii) 24/F, Building A, No.1032–1034 Shahe Road, Si Ming District, Xiamen, which is of 544.275 square metres; (iv) 1A/F, 20/F, 21/F, 23/F–25/F, No. 188 Fujian Middle Road, Shanghai, which are of 3,507.26 square metres in total; and (v) a floor of 1,600 square metres in Kai Yuan International Square, which is located at the north axis of Beijing, south district of Olympic Park, middle of north third ring road and north fourth ring road
“Panama Acquisition Agreement”	the share transfer agreement dated 25 March 2014 entered into between Double Strong as purchaser and the Parent Company as vendor, pursuant to which Double Strong shall acquire (i) the Target Panama Sale Shares from the Parent Company, and (ii) the Panama Loan from the Parent Company
“Panama Loan”	US\$20,436,000, being the aggregate amount of loans, advances, interests (if any) and other sums and indebtedness due, owing, outstanding or payable to the Parent Company by the Panama Target Group as at 31 December 2013
“Panama Target Group”	comprising Skyroyal and Skyglory
“Parent Company”	中國外運長航集團有限公司 (Sinotrans & CSC Holdings Corporation Limited*), a PRC state-owned enterprise which indirectly owns approximately 68.1% of the Company as at the Latest Practicable Date
“Parent Group”	the Parent Company, its subsidiaries and associates (but excluding the Group)
“PBOC”	the People’s Bank of China
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“PRC GAAP”	the Accounting Standards for Business Enterprises (企業會計準則) promulgated by the Ministry of Finance of the PRC, as amended from time to time

DEFINITIONS

“Properties”	comprising (i) the property rented by the Company for commercial use, located at 21st Floor, Great Eagle Centre, No. 23, Harbour Road, Wanchai, Hong Kong, which is of 10,652 square feet; and (ii) the property rented by the Company for residential use, located at Flat F, 13th Floor of Block 4, Tanner Garden, No. 18 Tanner Road, North Point, Hong Kong, which is of 641 square feet
“Purchasers”	Double Strong, Trade Worlder, Marine Peace and Marine Harvest
“Renewed Continuing Connected Transactions Agreements”	refers to (i) the Renewed Master Services Agreement; and (ii) the Renewed Master Chartering Agreement
“Renewed Master Chartering Agreement”	a vessels chartering agreement dated 26 March 2012 entered into between the Company and the Parent Company
“Renewed Master Services Agreement”	a services agreement dated 26 March 2012 entered into between the Company and the Parent Company
“RMB”	Renminbi, the lawful currency of the PRC
“SAIC”	the State Administration for Industry and Commerce of the PRC
“Sale Shares and Interests”	the Target Sinochart Equity Interests, the Target Sinotrans Tianze Equity Interests, the Target SNL 49% Equity Interests, the Target HK Sale Shares and the Target Panama Sale Shares
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)
“Shareholders”	holders of the issued Shares
“Shareholders Loans”	comprising the Sinotrans (HK) Logistics Shareholders Loan, Sinotrans (HK) Shipping Loan, the Panama Loan and the SNL 49% Loan
“Shares”	ordinary share(s) of the Company

DEFINITIONS

“Sinochart”	中國租船有限公司 (China National Chartering Co., Ltd.*), a limited liability company established in the PRC and is a direct wholly-owned subsidiary of the Parent Company as at the Latest Practicable Date
“Sinochart Acquisition Agreement”	the equity transfer agreement dated 25 March 2014 entered into between Marine Peace as purchaser and the Parent Company as vendor, pursuant to which Marine Peace has conditionally agreed to acquire in the Target Sinochart Equity Interests from the Parent Company
“Sinochart Acquisition Completion”	completion of the Sinochart Acquisition Agreement and the transactions contemplated thereunder
“Sinochart Acquisition Consideration”	the consideration for the sale and purchase of the Target Sinochart Equity Interests in an aggregate amount of RMB434,000,000
“Sinochart Group”	Sinochart and its subsidiary
“Sinochart JV Agreement”	the joint venture agreement dated 25 March 2014 entered into between the Parent Company and Marine Peace in relation to, among other matters, the rights and obligations of the joint venture parties of Sinochart after the Sinochart Acquisition Completion
“Sinochart JV Articles of Association”	the new articles of association to be adopted by Sinochart after being converted into a sino-foreign joint venture
“Sinochart Master Chartering Agreement”	a master chartering agreement dated 25 March 2014 entered into between the Company and Sinochart, details of which are set out in the section headed “Continuing Connected Transactions” of this circular
“Sinochart Master Services Agreement”	a master services agreement dated 25 March 2014 entered into between the Company and Sinochart, details of which are set out in the section headed “Continuing Connected Transactions” of this circular
“Sinotrans”	中國外運股份有限公司 (Sinotrans Limited*), a 57.93%-owned subsidiary of the Parent Company established in the PRC with limited liability and the H shares of which are listed on the Stock Exchange (Stock code: 598) as at the Latest Practicable Date
“Sinotrans Container Lines”	中外運集裝箱運輸有限公司 (Sinotrans Container Lines Co., Ltd.*), a limited liability company established in the PRC and is a wholly-owned subsidiary of Sinotrans as at the Latest Practicable Date

DEFINITIONS

“Sinotrans Container Lines Group”	Sinotrans Container Lines and its subsidiary
“Sinotrans Group”	Sinotrans and its subsidiaries
“Sinotrans (HK) Logistics”	中國外運(香港)物流有限公司 (Sinotrans (HK) Logistics Limited), a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of Sinotrans as at the Latest Practicable Date
“Sinotrans (HK) Logistics Shareholders Loan”	US\$15,565,149.59, being the entire amount of loans, advances, interests (if any) and other sums and indebtedness due, owing, outstanding or payable to Sinotrans (HK) Logistics by the HK Target Group as at 31 December 2013
“Sinotrans (HK) Shipping”	中國外運(香港)船務有限公司 (Sinotrans (HK) Shipping Limited), a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of Sinotrans (HK) Logistics as at the Latest Practicable Date
“Sinotrans (HK) Shipping Loan”	US\$8,037,500, being the entire amount of loans, advances, interests (if any) and other sums and indebtedness due, owing, outstanding or payable to Sinotrans (HK) Shipping by the HK Target Group as at 31 December 2013
“Sinotrans Shareholders”	holders of the issued Sinotrans Shares
“Sinotrans Shares”	ordinary share(s) of RMB1.00 each in the share capital of Sinotrans
“Sinotrans Tianze”	中外運天澤輪船有限公司 (Sinotrans Navigation Ltd*), a limited liability company established in the PRC and is a wholly-owned subsidiary of the Parent Company as at the Latest Practicable Date
“Sinotrans Tianze Acquisition Agreement”	the equity transfer agreement dated 25 March 2014 entered into between Marine Peace as purchaser and the Parent Company as vendor, pursuant to which Marine Peace has conditionally agreed to acquire the Target Sinotrans Tianze Equity Interests from the Parent Company
“Sinotrans Tianze Business”	comprising Sinotrans Tianze and the Panama Target Group which are managed as a single business

DEFINITIONS

“Skyglory”	Skyglory Shipping S.A. (天榮海運有限公司), a company domiciled in the Republic of Panama and is a wholly-owned subsidiary of the Parent Company as at the Latest Practicable Date
“Skyroyal”	Skyroyal Shipping S.A. (天盛海運有限公司), a company domiciled in the Republic of Panama and is a wholly-owned subsidiary of the Parent Company as at the Latest Practicable Date
“SNL 49% Acquisition Agreement”	the equity transfer agreement dated 25 March 2014 entered into between Marine Harvest as purchaser and Sinotrans as vendor, pursuant to which Marine Harvest agreed to acquire the Target SNL 49% Equity Interests and the SNL 49% Loan from Sinotrans
“SNL 49% Loan”	RMB23,158,084.72, being 49% of the aggregate amount of loans, advances, interests (if any) and other sums and indebtedness due, owing, outstanding or payable to Sinotrans by Sinotrans Container Lines as at 31 December 2013
“SNL 51% Acquisition Agreement”	the equity transfer agreement dated 25 March 2014 entered into between the Parent Company as purchaser and Sinotrans as vendor, pursuant to which the Parent Company has conditionally agreed to acquire the Target SNL 51% Equity Interests and the SNL 51% Loan from Sinotrans
“SNL 51% Loan”	RMB24,103,312.67, being 51% of the aggregate amount of loans, advances, interests (if any) and other sums and indebtedness due, owing, outstanding or payable to Sinotrans by Sinotrans Container Lines as at 31 December 2013
“SNL Acquisition”	acquisition of the Target SNL 49% Equity Interests by Marine Harvest from Sinotrans and the Target SNL 51% Equity Interests by the Parent Company from Sinotrans
“SNL Acquisition Agreements”	comprising the SNL 49% Acquisition Agreement and SNL 51% Acquisition Agreement
“SNL Acquisition Completion”	completion of the SNL Acquisition

DEFINITIONS

“SNL JV Agreement”	the joint venture agreement dated 25 March 2014 entered into between the Parent Company and Marine Harvest in relation to, among other matters, the rights and obligations of the joint venture parties of Sinotrans Container Lines after the SNL Acquisition Completion
“SNL JV Articles of Association”	the new articles of association to be adopted by Sinotrans Container Lines after being converted into a sino-foreign joint venture
“SNL Master Chartering Agreement”	a master chartering agreement dated 25 March 2014 entered into between the Company and Sinotrans Container Lines, details of which are set out in the section headed “Continuing Connected Transactions” of this circular
“SNL Master Services Agreement”	a master services agreement dated 25 March 2014 entered into between the Company and Sinotrans Container Lines, details of which are set out in the section headed “Continuing Connected Transactions” of this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	shall have the meaning ascribed to that term in the Listing Rules
“Supplemental Parent Master Chartering Agreement”	a supplemental master vessels chartering agreement dated 25 March 2014 entered into between the Company and the Parent Company, details of which are set out under the section headed “Continuing Connected Transactions” of this circular
“Supplemental Parent Master Services Agreement”	a supplemental master services agreement dated 25 March 2014 entered into between the Company and the Parent Company, details of which are set out under the section headed “Continuing Connected Transactions” of this circular
“Target Group”	comprising the Target Group Companies
“Target Group Companies”	comprising Skyglory, Skyroyal, Yunrong Shipping, Yunhua Shipping, Yunfu Shipping, Yungui Shipping, Sinochart, Sinotrans Container Lines and Sinotrans Tianze (each, the “ Target Group Company ”)
“Target HK Sale Shares”	100% of the entire issued share capital of each of Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping

DEFINITIONS

“Target Panama Sale Shares”	100% of the entire issued share capital of each of Skyroyal and Skyglory
“Target Sinochart Equity Interests”	49% equity interests in Sinochart
“Target Sinotrans Tianze Equity Interests”	100% of the equity interests in Sinotrans Tianze
“Target SNL 49% Equity Interests”	49% of the equity interests in Sinotrans Container Lines
“Target SNL 51% Equity Interests”	51% of the equity interests in Sinotrans Container Lines
“TEU”	twenty-foot equivalent unit, a standard unit of measurement of the volume of a container with a length of 20 feet, height of eight feet six inches and width of eight feet
“Trade Worldeer”	Trade Worldeer Shipowning Ltd, a company incorporated in the BVI with limited liability and is an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date
“UFJ Facility Agreement”	the executed facility agreement dated 23 April 2012 (as supplemented by the supplemental agreement dated 31 May 2013, together with all further amendments, modifications, supplements and addenda thereto from time to time) entered into between, among others, the HK Target Group as borrowers and the Bank of UFJ as arranger and agent in respect of a term loan in the amount of US\$52,500,000 and the related share charge agreements and finance documents
“US\$”	United States dollars, the lawful currency of the United States
“Vendors”	the Parent Company, Sinotrans and Sinotrans (HK) Logistics
“Yunfu Shipping”	運富船務有限公司 (Yunfu Shipping Company Limited), a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of Sinotrans (HK) Logistics as at the Latest Practicable Date
“Yungui Shipping”	運貴船務有限公司 (Yungui Shipping Company Limited), a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of Sinotrans (HK) Logistics as at the Latest Practicable Date

DEFINITIONS

“Yunhua Shipping”	運華船務有限公司 (Yunhua Shipping Company Limited), a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of Sinotrans (HK) Logistics as at the Latest Practicable Date
“Yunrong Shipping”	運榮船務有限公司 (Yunrong Shipping Company Limited), a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of Sinotrans (HK) Logistics as at the Latest Practicable Date
“%”	per cent.

In this circular, unless otherwise indicated, amounts in RMB have been converted into HK\$ at the rate of HK\$1 = RMB0.7895 for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be converted.

LETTER FROM THE BOARD



SINOTRANS SHIPPING LIMITED

中外運航運有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 368)

Executive Directors:

Mr. Li Hua

Ms. Feng Guoying

Non-Executive Directors:

Mr. Li Zhen (*Chairman*)

Mr. Tian Zhongshan

Independent Non-executive Directors:

Mr. Hu Hanxiang

Mr. Tsang Hing Lun

Mr. Lee Yip Wah, Peter

Mr. Zhou Qifang

Registered office:

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

22 April 2014

To the Shareholders

Dear Sir/Madam,

**(1) VERY SUBSTANTIAL ACQUISITION
(2) CONNECTED TRANSACTIONS
AND
(3) CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

Reference is made to the Announcement.

THE ACQUISITION

On 25 March 2014 after trading hours, the Purchasers entered into the Acquisition Agreements with the Vendors, pursuant to which the Purchasers have conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares and Interests in an aggregate consideration of approximately RMB549,140,002 (equivalent to approximately HK\$695,541,000) and assign the Shareholders Loan at an aggregate consideration of approximately RMB23,158,084.72 and US\$44,038,650 (equivalent to approximately

LETTER FROM THE BOARD

HK\$372,833,000). Upon completion of the Acquisition, the Target Group Companies will become subsidiaries of the Company and they will be consolidated into the accounts of the Group. The principal terms of the Acquisition Agreements are set out below:

(A) THE HK ACQUISITION AGREEMENT

Date

25 March 2014

Parties

Vendor : Sinotrans (HK) Logistics

Purchaser : Trade Worlder

Subject Matter and Assets to be Acquired

The HK Acquisition Agreement, which was entered into after arm's length negotiations between the parties, set out the terms and conditions upon which Trade Worlder has conditionally agreed to acquire the Target HK Sale Shares and the Sinotrans (HK) Logistics Shareholders Loan and the Sinotrans (HK) Shipping Loan from Sinotrans (HK) Logistics.

Consideration

Under the HK Acquisition Agreement, the initial consideration for the acquisition of the Target HK Sale Shares is RMB1,650,002 (equivalent to approximately HK\$2,090,000) and the initial consideration for the acquisition of the Sinotrans (HK) Logistics Shareholders Loan and the Sinotrans (HK) Shipping Loan is US\$23,602,649.59 (equivalent to approximately HK\$184,101,000). The acquisition of the Target HK Sale Shares will proceed on an "all or nothing" basis. The initial consideration of the acquisition of the Target HK Sale Shares shall be payable in cash within 5 Business Days after completion of the acquisition of the Target HK Sale Shares, which was determined at arm's length negotiations between Trade Worlder and Sinotrans (HK) Logistics after taking into account various relevant factors including (1) the combined NAV of the HK Target Group as at 30 June 2013, (2) the historical financial information of the HK Target Group since their commencement of business in the second half of 2013, (3) the strategic rationales behind the transactions contemplated such as reorganization and increasing the relative competitiveness of the Sinotrans Group and the Enlarged Group in the shipping market, (4) the future prospects of the shipping industry including a modest recovery in the shipping market in the coming years and the anticipated increase in vessels price and market growth in demand for quality vessels like the four vessels owned by the HK Target Group, the acquisition of which will optimize the fleet structure of the Group and enhance its competitiveness in the market, (5) the perceived value of the HK Target Group to Trade Worlder which has already had a transportation fleet, and (6) from the perspective of Trade Worlder, the acquisition of the four vessels owned by the HK Target Group will strengthen its fleet size.

LETTER FROM THE BOARD

The initial consideration for the acquisition of the Target HK Sale Shares will be subject to adjustment by adding any NAV Increase and deducting any NAV Decrease of an aggregate amount not more than RMB48,000,000 taking into account of the financial performance of the HK Target Group since their commencement of business in the second half of 2013 and factors that may potentially affect the combined NAV of the HK Target Group including any uncertainty of the shipping market, provided, however, that within 60 calendar days after the relevant Completion Date (i) if the adjusted consideration is higher than the amount already paid by Trade Worlder to Sinotrans (HK) Logistic, Trade Worlder shall pay such shortfall in immediately available funds to the bank account designated by Sinotrans (HK) Logistic, or (ii) if the adjusted consideration is lower than the amount already paid by Trade Worlder to Sinotrans (HK) Logistic, Sinotrans (HK) Logistic shall pay such excess in immediately available funds to the bank account designated by Trade Worlder and such payment must be set off against any amount payable by Trade Worlder to Sinotrans (HK) Logistic, including without limitation the consideration for the Sinotrans (HK) Logistics Shareholders Loan.

The initial consideration for the acquisition of the Sinotrans (HK) Logistics Shareholders Loan and the Sinotrans (HK) Shipping Loan is US\$23,602,649.59 (equivalent to approximately HK\$184,101,000). An amount of US\$15,565,149.59 (equivalent to approximately HK\$121,408,000) will be payable by Trade Worlder within 60 calendar days after completion of the acquisition of the rights, title, benefits and interests in the Sinotrans (HK) Logistics Shareholders Loan, determined with reference to the Completion Accounts and the disagreement to such amount shall be subject to adjustment of no more than an aggregate amount of RMB20,000,000 taking into account the estimated demand in working capital for the HK Target Group based on the corresponding actual figure stated in the Audited Completion Audit Accounts; and an amount of US\$8,037,500 (equivalent to approximately HK\$62,693,000) will be payable by Trade Worlder within 60 calendar days after completion of the acquisition of the rights, title, benefits and interests in the Sinotrans (HK) Shipping Loan, determined with reference to the Completion Accounts and the disagreement to such amount shall be based on the corresponding actual figure stated in the Audited Completion Audit Accounts.

Conditions Precedent

The completion of the HK Acquisition Agreement is subject to the fulfillment of the following conditions precedent pursuant to the HK Acquisition Agreement:

- (a) the approval by the Independent Shareholders at the EGM of the entering into of the HK Acquisition Agreement and all transactions contemplated thereunder in accordance and compliance with the Listing Rules, having been obtained;
- (b) the approval by the Sinotrans' shareholders (other than the Parent Company and its associates) at a general meeting of Sinotrans of the entering into of the HK Acquisition Agreement and all transactions contemplated thereunder in accordance and compliance with the Listing Rules, having been obtained;

LETTER FROM THE BOARD

- (c) all conditions precedent to completion under the SNL 49% Acquisition Agreement (except for such condition that requires the fulfillment of the conditions precedent of the HK Acquisition Agreement) having been fulfilled or waived (as the case may be), including without limitation, the SNL 49% Acquisition Agreement and the transactions contemplated thereunder having been approved by or filed with the relevant authorities with competent jurisdiction in the PRC (including the SASAC and the MOFCOM) unconditionally and irrevocably pursuant to the applicable laws;
- (d) all necessary approvals, consents, filings and waivers (if any) required to be obtained by the HK Target Group, Trade Worlder, the Company or Sinotrans (HK) Logistics from any authorities or third parties in respect of the HK Acquisition Agreement and/or the transactions contemplated thereunder having been obtained unconditionally and irrevocably, including but not limited to the consent letter from the Bank of UFJ, a creditor of the HK Target Group pursuant to a requirement of seeking the creditor's consent in case of any share transfer of the HK Target Group in the UFJ Facility Agreement, agreeing to the transactions contemplated under the HK Acquisition Agreement having been obtained; and
- (e) the warranties under the HK Acquisition Agreement remaining true, accurate and not misleading in all respects as of the Completion Date by reference to the facts and circumstances subsisting as at the Completion Date.

If any of the above conditions precedent (other than condition (e) above) have not been satisfied on or before 31 December 2014 (or any such other date as may be agreed by the parties) and condition (e) has not been fulfilled at the time when the other conditions precedent are satisfied. The acquisition of the HK Target Group will proceed on an "all or nothing" basis. If the condition precedents for one of the Hong Kong Target Group companies are not fulfilled, the acquisition of the other Hong Kong Target Group companies will not take place. Trade Worlder shall have the right to postpone such date or terminate the HK Acquisition Agreement.

The Company does not anticipate any material amendments to the HK Acquisition Agreement. If there are any material amendments to the HK Acquisition Agreement (including any adjustments to the consideration amounts which are not disclosed herein), the Company will comply with all relevant Listing Rules requirements (including Shareholders' approval requirements). The Company will issue an announcement to disclose the finalized considerations of the Target Group Companies after the completion of the Acquisition.

Completion

Subject to the satisfaction or waiver (as the case may be) of all the conditions precedent as set out in the paragraph headed "Conditions Precedent" above, completion of the HK Acquisition Agreement will take place on the Completion Date unless otherwise specified therein. Completion of the HK Acquisition Agreement is inter-conditional upon completion of the SNL 49% Acquisition Agreement.

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(B) THE PANAMA ACQUISITION AGREEMENT

Date

25 March 2014

Parties

Vendor : The Parent Company

Purchaser : Double Strong

Subject Matter and Assets to be Acquired

The Panama Acquisition Agreement, which was entered into after arm's length negotiations between the parties, set out the terms and conditions upon which Double Strong has conditionally agreed to acquire the Target Panama Sale Shares from the Parent Company and the Panama Loan from the Parent Company.

Consideration

Under the Panama Acquisition Agreement, the aggregate consideration for the acquisition of the Target Panama Sale Shares is RMB12,000,000 (equivalent to approximately HK\$15,199,000) and the acquisition of the Panama Loan is US\$20,436,000 (equivalent to approximately HK\$159,401,000). The respective consideration for the acquisition of each of Skyroyal, Skyglory and the Panama Loan shall be payable by Double Strong to the Parent Company in accordance with the following schedule:

- (a) RMB6,500,000 (equivalent to approximately HK\$8,233,000) within 5 Business Days after completion of the acquisition of 100% of the entire issued share capital of Skyroyal, determined at after arm's length negotiations between Double Strong and the Parent Company after taking into account various relevant factors including (1) the NAV of Skyroyal as at 30 June 2013, the difference of which has taken into account the sustainable and stable income received by Skyroyal from chartering the vessel of Skyroyal to a subsidiary of Sinotrans for a term of 5 years from 2010 to 2015, with an approximate amount of RMB63,804,300 (equivalent to HK\$80,815,000) of charter hire fee received by Skyroyal from 2010 to March 2014, and the development potential of Skyroyal together with Skyglory and Sinotrans Tianze to run as a single business given Sinotrans Tianze will continue to manage the vessel of Skyroyal after the acquisitions, (2) the historical financial information of Skyroyal for the two financial years ended 31 December 2012 and the ten months ended 31 October 2013, (3) the strategic rationales behind the transactions contemplated such as reorganization and increasing the relative competitiveness of the Parent Group and the Enlarged Group in the shipping market, (4) comparable companies of similar size with Skyroyal engaging in similar businesses in the shipping industry, and (5) the future

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prospects of the shipping industry including general economic trends and market growth, and subject to adjustment by adding any NAV Increase and deducting any NAV Decrease, provided, however, that within 60 calendar days after the relevant Completion Date (i) if the adjusted consideration is higher than the amount already paid by Double Strong to the Parent Company, Double Strong shall pay such shortfall in immediately available funds to the bank account designated by the Parent Company, or (ii) if the adjusted consideration is lower than the amount already paid by Double Strong to the Parent Company, the Company shall pay such excess in immediately available funds to the bank account designated by Double Strong and such payment must be set off against any amount payable by Double Strong to the Parent Company, including without limitation the consideration for the Panama Loan;

- (b) RMB5,500,000 (equivalent to approximately HK\$6,966,000) within 5 Business Days after completion of the acquisition of 100% of the entire issued share capital of Skyglory, determined at after arm's length negotiations between Double Strong and the Parent Company after taking into account various relevant factors including (1) the NAV of Skyglory as at 30 June 2013, the difference of which has taken into account the sustainable and stable income received by Skyglory from chartering the vessel of Skyglory to a subsidiary of Sinotrans for a term of 5 years from 2010 to 2015, with an approximate amount of RMB62,139,000 (equivalent to HK\$78,705,000) of charter hire fee received by Skyglory from 2010 to March 2014, and the development potential of Skyglory together with Skyroyal and Sinotrans Tianze to run as a single business given Sinotrans Tianze will continue to manage the vessel of Skyglory after the acquisitions, (2) the historical financial information of Skyglory for the two financial years ended 31 December 2012 and the ten months ended 31 October 2013, (3) the strategic rationales behind the transactions contemplated such as reorganization and increasing the relative competitiveness of the Parent Group and the Enlarged Group in the shipping market, (4) comparable companies of similar size with Skyglory engaging in similar businesses in the shipping industry, and (5) the future prospects of the shipping industry including general economic trends and market growth, and subject to adjustment by adding any NAV Increase and deducting any NAV Decrease, provided, however, that within 60 calendar days after the relevant Completion Date (i) if the adjusted consideration is higher than the amount already paid by Double Strong to the Parent Company, Double Strong shall pay such shortfall in immediately available funds to the bank account designated by the Parent Company, or (ii) if the adjusted consideration is lower than the amount already paid by Double Strong to the Parent Company, the Company shall pay such excess in immediately available funds to the bank account designated by Double Strong and such payment must be set off against any amount payable by Double Strong to the Parent Company, including without limitation the consideration for the Panama Loan; and
- (c) US\$20,436,000 (equivalent to approximately HK\$159,401,000) within 60 calendar days after completion of the acquisition of the rights, title, benefits and interests in the Panama Loan, determined with reference to the Completion

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Accounts and the disagreement to such amount shall be subject to adjustment based on the corresponding actual figure stated in the Audited Completion Audit Accounts.

Conditions Precedent

The completion of the Panama Acquisition Agreement is subject to the fulfillment of the following conditions precedent pursuant to the Panama Acquisition Agreement:

- (a) the approval by the Independent Shareholders at the EGM of the entering into of the Panama Acquisition Agreement and all transactions contemplated thereunder in accordance and compliance with the Listing Rules, having been obtained;
- (b) the entering into of and all the transactions contemplated under the Panama Acquisition Agreement having been approved by the board of directors of the Parent Company as required by its constitutional documents;
- (c) all conditions precedent to completion under the Sinotrans Tianze Acquisition Agreement (except for such condition that requires the fulfillment of the conditions precedent of the Panama Acquisition Agreement) having been fulfilled or waived (if applicable), including without limitation, the Sinotrans Tianze Acquisition Agreement and the transactions contemplated thereunder having been approved by or filed with the relevant authorities with competent jurisdiction in the PRC (including the SASAC and the MOFCOM) unconditionally and irrevocably pursuant to the applicable laws;
- (d) all necessary approvals, consents, filings and waivers (if any) required to be obtained by the Panama Target Group, Double Strong, the Company or the Parent Company from any authorities or third party in respect of the Panama Acquisition Agreement and/or the transactions contemplated thereunder having been obtained unconditionally and irrevocably; and
- (e) the warranties under the Panama Acquisition Agreement remaining true, accurate and not misleading in all respects as of the Completion Date by reference to the facts and circumstances subsisting as at the Completion Date.

If any of the above conditions (other than condition (e) above) have not been satisfied on or before 31 December 2014 and condition (e) above is not satisfied on the completion date of the Panama Acquisition Agreement, the Panama Acquisition Agreement shall lapse.

The Company does not anticipate any material amendments to the Panama Acquisition Agreement. If there are any material amendments to the Panama Acquisition Agreement (including any adjustments to the consideration amounts which are not disclosed herein), the Company will comply with all relevant Listing Rules requirements (including Shareholders' approval requirements). The Company will issue an announcement to disclose the finalized considerations of the Target Group Companies after the completion of the Acquisition.

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Completion

Subject to satisfaction of all the conditions precedent as set out in the paragraph headed “Conditions Precedent” of the above paragraph have been fulfilled or waived (as the case may be), completion of the Panama Acquisition Agreement will take place on the Completion Date unless otherwise specified therein. Completion of the Panama Acquisition Agreement is inter-conditional upon completion of the Sinotrans Tianze Acquisition Agreement.

(C) THE SINOTRANS TIANZE ACQUISITION AGREEMENT

Date

25 March 2014

Parties

Vendor : The Parent Company

Purchaser : Marine Peace

Subject Matter and Assets to be Acquired

The Sinotrans Tianze Acquisition Agreement, which was entered into after arm’s length negotiations between the parties, set out the terms and conditions upon which Marine Peace has conditionally agreed to acquire the Target Sinotrans Tianze Equity Interests from the Parent Company.

Consideration

The consideration under the Sinotrans Tianze Acquisition Agreement in the amount of RMB101,000,000 (equivalent to approximately HK\$127,927,000) is payable by Marine Peace to the Parent Company in RMB cash, determined at after arms’ length negotiations between Marine Peace and the Parent Company and as approved by SASAC pursuant to the applicable local requirement taking into account various factors including but not limited to (1) the NAV of Sinotrans Tianze as at 30 June 2013, the difference of which has taken into account Sinotrans Tianze’s expertise in ship management, conveying business and its niche market in the multi-purpose vessels shipping industry, as well as the potential that the Company will be able to expand into such market, (2) the strategic rationales behind the transactions contemplated such as reorganization and increasing the relative competitiveness of the Parent Group and the Enlarged Group in the shipping market, (3) comparable companies of similar size with Sinotrans Tianze engaging in similar businesses in the shipping industry, and (4) the prospect of shipping industry. The payment of the consideration under the Sinotrans Tianze Acquisition Agreement will be made in accordance with the following schedule:

- (a) a sum of RMB60,600,000 (equivalent to approximately HK\$76,756,000), representing 60% of the consideration, will be payable by Marine Peace to the

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designated bank account of the Parent Company within 5 Business Days after the completion of the acquisition of the rights, title, benefits and interests in the Target Sinotrans Tianze Equity Interests; and

- (b) the remaining balance of the consideration in the amount of RMB40,400,000 (equivalent to approximately HK\$51,171,000), representing 40% of the consideration, will be payable by Marine Peace to the designated bank account of the Parent Company within 60 days, subject to adjustment by adding any NAV Increase of no more than RMB1,000,000 and deducting any NAV Decrease of no more than RMB900,000 taking into account of the financial performance or Sinotrans Tianze during the period from 1 July 2013 to 30 June 2014 and factors that may potentially affect the NAV of Sinotrans Tianze including any uncertainty of the shipping market.

Conditions Precedent

The completion of the Sinotrans Tianze Acquisition Agreement is subject to the fulfillment or waiver of the following conditions precedent pursuant to the Sinotrans Tianze Acquisition Agreement:

- (a) the approval from the board of directors of the Parent Company in respect of the entering into of the Sinotrans Tianze Acquisition Agreement and the transactions contemplated thereunder having been obtained in accordance with the articles of association of the Parent Company;
- (b) the approval by the Independent Shareholders at the EGM of the entering into of the Sinotrans Tianze Acquisition Agreement and all transactions contemplated thereunder in accordance and compliance with the Listing Rules, having been obtained;
- (c) all conditions precedent to completion under the Panama Acquisition Agreement (except for such condition that requires the fulfillment of the conditions precedent of the Sinotrans Tianze Acquisition Agreement) having been fulfilled or waived (if applicable);
- (d) all necessary approvals, filings, authorizations, waivers (if applicable) and consents from any authorities or third party including the SASAC and MOFCOM in accordance with the applicable laws having been obtained; and
- (e) the relevant new business licence from the competent SAIC having been obtained by Sinotrans Tianze.

The Sinotrans Tianze Acquisition Agreement may be amended or terminated upon the occurrence of certain events by the parties thereto in writing, including but not limited to a party to the Sinotrans Tianze Acquisition Agreement is in material breach of its obligations thereunder and any of the conditions precedent as set out above has not been fulfilled or waived (as the case may be) on or before 31 December 2014.

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The Company does not anticipate any material amendments to the Sinotrans Tianze Acquisition Agreement. If there are any material amendments to the Sinotrans Tianze Acquisition Agreement (including any adjustments to the consideration amounts which are not disclosed herein), the Company will comply with all relevant Listing Rules requirements (including Shareholders' approval requirements). The Company will issue an announcement to disclose the finalized considerations of the Target Group Companies after the completion of the Acquisition.

Completion

Subject to satisfaction of all the conditions precedent as set out in the paragraph headed "Conditions Precedent" of the above paragraph have been fulfilled or waived (as the case may be), completion of the Sinotrans Tianze Acquisition Agreement will take place on the Completion Date unless otherwise specified therein. Completion of the Sinotrans Tianze Acquisition Agreement is inter-conditional upon completion of the Panama Acquisition Agreement.

(D) THE SINOCHART ACQUISITION AGREEMENT

Date

25 March 2014

Parties

Vendor : The Parent Company

Purchaser : Marine Peace

Subject Matter and Assets to be Acquired

The Sinochart Acquisition Agreement, which was entered into after arm's length negotiations between the parties, set out the terms and conditions upon which Marine Peace has conditionally agreed to acquire the Target Sinochart Equity Interests from the Parent Company. As at the date of the Sinochart Acquisition Agreement, the Target Sinochart Equity Interests comprise 49% of the equity interests in the Sinochart Group. Marine Peace can only purchase 49% of the equity interests in Sinochart because the local rules and regulations (i.e. Regulations of the PRC on International Maritime Transportation (《中華人民共和國國際海運條例》), Rules for the Administration of Foreign-Funded International Marine Transportation (《外商投資國際海運業管理規定》) and Catalogue for the Guidance of Foreign Investment Industries (Revised in 2011) (《外商投資產業指導目錄》(2011年修訂)) that restrict foreign investment in PRC companies engaging in certain businesses and industries (such as the international cargo voyage transportation services which Sinochart intends to cover) and only permit the majority interest in such companies to be held by Chinese local partner(s).

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Consideration

The Sinochart Acquisition Consideration in the amount of RMB434,000,000 (equivalent to approximately HK\$549,704,000) is payable by Marine Peace to the Parent Company in RMB cash, determined at after arms' length negotiations between Marine Peace and the Parent Company and as approved by SASAC pursuant to the applicable local regulatory requirement taking into account various factors including but not limited to (1) the NAV of Sinochart as at 30 June 2013, the difference of which has taken into account Sinochart's asset quality given its deposit with the Finance Company of more than RMB450,000,000 since 2011 and similar price-to-book value with comparable companies in the shipping industry which is about 1.25x in average, (2) the strategic rationales behind the transactions contemplated such as reorganization and increasing the relative competitiveness of the Parent Group and the Enlarged Group in the shipping market, (3) comparable companies of similar size with Sinochart engaging in similar businesses in the shipping industry, (4) the prospect of shipping industry. The payment of the consideration under the Sinochart Acquisition Agreement will be made in accordance with the following schedule:

- (a) a sum of RMB260,400,000 (equivalent to approximately HK\$329,823,000), representing 60% of the consideration, will be payable by Marine Peace to the designated bank account of the Parent Company within 5 Business Days after the completion of the acquisition of the rights, title, benefits and interests in the Target Sinochart Equity Interests; and
- (b) the remaining balance of the consideration in the amount of RMB173,600,000 (equivalent to approximately HK\$219,882,000), representing 40% of the consideration, will be payable by Marine Peace to the designated bank account of the Parent Company within 60 days, subject to adjustment by adding any NAV Increase and deducting any NAV Decrease within the range of RMB50,000,000 taking into account of the financial performance of Sinochart during the period from 1 July 2013 to 30 June 2014 and factors that may potentially affect the NAV of Sinochart including any uncertainty of the shipping market.

Conditions Precedent

The completion of the Sinochart Acquisition Agreement is subject to the fulfillment or waiver of the following conditions precedent pursuant to the Sinochart Acquisition Agreement:

- (a) the approval from the board of directors of the Parent Company in respect of the entering into of the Sinochart Acquisition Agreement and the transactions contemplated thereunder having been obtained in accordance with the articles of association of the Parent Company;
- (b) the approval by the Independent Shareholders at the EGM of the entering into of the Sinochart Acquisition Agreement and all transactions contemplated thereunder in accordance and compliance with the Listing Rules, having been obtained;

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- (c) all necessary approvals, filings, authorizations and consents from any authorities or third parties including the SASAC and the MOFCOM in accordance with the applicable laws having been obtained; and
- (d) the relevant new business licence from the competent SAIC having been obtained by Sinochart.

The Sinochart Acquisition Agreement may be amended or terminated upon the occurrence of certain events by the parties thereto in writing, including but not limited to a party to the Sinochart Acquisition Agreement is in material breach of its obligations thereunder and any of the conditions precedent as set out above has not been fulfilled or waived (as the case may be) on or before 31 December 2014.

The Company does not anticipate any material amendments to the Sinochart Acquisition Agreement. If there are any material amendments to the Sinochart Acquisition Agreement (including any adjustments to the consideration amounts which are not disclosed herein), the Company will comply with all relevant Listing Rules requirements (including Shareholders' approval requirements). The Company will issue an announcement to disclose the finalized considerations of the Target Group Companies after the completion of the Acquisition.

Sinochart Acquisition Completion

Subject to the satisfaction or waiver (as the case may be) of all the conditions precedent as set out in the paragraph headed "Conditions Precedent" above, completion of the Sinochart Acquisition Agreement will take place on the Completion Date unless otherwise specified therein.

(E) THE SNL 49% ACQUISITION AGREEMENT

Date

25 March 2014

Parties

Vendor : Sinotrans

Purchaser : Marine Harvest

Subject Matter and Assets to be Acquired

The SNL 49% Acquisition Agreement, which was entered into after arm's length negotiations between the parties, set out the terms and conditions upon which Marine Harvest has conditionally agreed to acquire the Target SNL 49% Equity Interests and the SNL 49% Loan from Sinotrans. Marine Harvest can only purchase 49% of the equity interests in Sinotrans Container Lines because the local rules and regulations (i.e.

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Regulations of the PRC on International Maritime Transportation (《中華人民共和國國際海運條例》), Rules for the Administration of Foreign-Funded International Marine Transportation (《外商投資國際海運業管理規定》) and Catalogue for the Guidance of Foreign Investment Industries (Revised in 2011) (《外商投資產業指導目錄》(2011年修訂)) that restrict foreign investment in PRC companies engaging in certain businesses and industries (such as the international container transportation services which Sinotrans Container Lines principally covers) and only permit the majority interest in succompanies to be held by Chinese local partner(s).

Consideration

The aggregate consideration under the SNL 49% Acquisition Agreement is RMB23,648,084.72 (equivalent to approximately HK\$29,953,000), representing RMB490,000 (equivalent to approximately HK\$621,000) for the acquisition of the Target SNL 49% Equity Interests determined at after arms' length negotiations between Marine Harvest and Sinotrans and as approved by SASAC pursuant to the applicable local regulatory requirement taking into account various factors including but not limited to (1) the NAV of the Target SNL 49% Equity Interests as at 30 June 2013, the difference of which has taken into account the businesses of both Sinotrans Container Lines and the Group which will be complementary to each other as Sinotrans Container Lines can charter vessels from the Company and the Company can penetrate into the container transportation business, and the low acquisition cost of Sinotrans Container Lines, (2) the strategic rationales such as reorganization and increasing the relative competitiveness of the Sinotrans Group and the Enlarged Group in the shipping market behind the transactions contemplated, (3) comparable companies of similar size with Sinotrans Container Lines engaging in similar businesses in the shipping industry, (4) the prospect of shipping industry, and RMB23,158,084.72 (equivalent to approximately HK\$29,332,000) for the acquisition of the SNL 49% Loan. The considerations for the acquisition of the Target SNL 49% Equity Interests and the SNL 49% Loan shall be payable by Marine Harvest to Sinotrans in RMB cash in accordance with the following schedule:

- (a) a sum of RMB294,000 (equivalent to approximately HK\$372,000), representing 60% of the consideration, will be payable by Marine Harvest to the designated bank account of Sinotrans within 5 Business Days after the completion of the acquisition of the rights, title, benefits and interests in the Target SNL 49% Equity Interests; and
- (b) the remaining balance of the consideration in the amount of RMB196,000 (equivalent to approximately HK\$248,000), representing 40% of the consideration, will be payable by Marine Harvest to the designated bank account of Sinotrans within 60 days, subject to adjustment by adding any NAV Increase and deducting any NAV Decrease within the range of RMB100,000,000 taking into account of the financial performance of Sinotrans Container Lines over the past three years and factors that may potentially affect the NAV of Sinotrans Container Lines including any uncertainty of the shipping market; and
- (c) RMB23,158,084.72 (equivalent to approximately HK\$29,332,000) to be payable by Marine Harvest to Sinotrans for the SNL 49% Loan within 60

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calendar days after completion of the acquisition of the rights, title, benefits and interests in the Target SNL 49% Equity Interests, subject to an increase of approximately RMB24,500,000 or decrease of approximately RMB23,030,000 taking into account the estimated demand in working capital by Sinotrans Container Lines and the disagreement to such amount shall be subject to adjustment based on the corresponding actual figure stated in the Audited Completion Audit Accounts.

Conditions Precedent

The completion of the SNL 49% Acquisition Agreement is subject to the fulfillment or waiver of the following conditions precedent pursuant to the SNL 49% Acquisition Agreement:

- (a) the approval by the Sinotrans' shareholders (other than the Parent Company and its associates) at a general meeting of Sinotrans of the entering into of the SNL 49% Acquisition Agreement and all transactions contemplated thereunder in accordance and compliance with the Listing Rules and its articles of association, having been obtained;
- (b) the approval by the Independent Shareholders at the EGM of the entering into of the SNL 49% Acquisition Agreement and all transactions contemplated thereunder in accordance and compliance with the Listing Rules, having been obtained;
- (c) all conditions precedent to completion under the HK Acquisition Agreement (except for such condition that requires the fulfillment of the conditions precedent of the SNL 49% Acquisition Agreement) having been fulfilled or waived (if applicable);
- (d) all necessary approvals, filings, authorizations and consents from any authorities or third parties including the SASAC and the MOFCOM in accordance with the applicable laws having been obtained; and
- (e) the relevant new business licence from the SAIC having been obtained by Sinotrans Container Lines.

The SNL 49% Acquisition Agreement may be amended or terminated upon the occurrence of certain events by the parties thereto in writing, including but not limited to a party to the SNL 49% Acquisition Agreement is in material breach of its obligations thereunder and any of the conditions precedent as set out above has not been fulfilled or waived (as the case may be) on or before 31 December 2014.

The Company does not anticipate any material amendments to the SNL 49% Acquisition Agreement. If there are any material amendments to the SNL 49% Acquisition Agreement (including any adjustments to the consideration amounts which are not disclosed herein), the Company will comply with all relevant Listing Rules requirements (including Shareholders' approval requirements). The Company will issue an announcement to disclose the finalized considerations of the Target Group Companies after the completion of the Acquisition.

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Completion

Subject to the satisfaction or waiver (as the case may be) of all the conditions precedent as set out in the paragraph headed “Conditions Precedent” above, completion of the SNL 49% Acquisition Agreement will take place on the Completion Date unless otherwise specified therein. In the event that the approval of Sinotrans’ Shareholders (other than the Parent Company and its associates) at the general meeting of Sinotrans having been obtained and Marine Harvest cannot fulfill any obligations under the SNL 49% Acquisition Agreements on the relevant Completion Date and Trade Worlder cannot fulfill any obligations under the HK Acquisition Agreement on the relevant Completion Date, the Parent Company undertakes to acquire the Target SNL 49% Equity Interests and the SNL 49% Loan from Sinotrans as well as the Target HK Sale Shares and the Sinotrans (HK) Logistics Shareholders Loan and the Sinotrans (HK) Shipping Loan from Sinotrans (HK) Logistics, respectively, on same terms. The rationale for such an undertaking from the Parent Company is that Sinotrans Container Lines will become its wholly-owned subsidiary if Marine Harvest cannot fulfill any obligations under the SNL 49% Acquisition Agreement and Trade Worlder cannot fulfill any obligations under the HK Acquisition Agreement. From a commercial perspective, the completion of the acquisition for Sinotrans Container Lines is necessary and inter-conditional upon the completion of the acquisition for the HK Target Group for maintaining a stable operation for Sinotrans Container Lines as the HK Target Group has been chartering four new vessels to Sinotrans Container Lines since the second half of 2013, details of which are stated in the paragraph headed “Reasons for and Benefits of the Acquisition” of this circular.

To contemplate there would be a potential disposal of Sinotrans Container Lines, it was the commercial decision that Sinotrans and Sinotrans Container Lines entered into the Debt Waiver Agreement, pursuant to which Sinotrans has agreed to waive the amount of approximately US\$106,421,000 owed by Sinotrans Container Lines to Sinotrans as at 30 June 2013 upon the SNL Acquisition Completion or the completion as contemplated under the circumstance that the Parent Company will acquire the Target SNL 49% Equity Interests and the SNL 49% Loan from Sinotrans as well as the Target HK Sales Shares and the Sinotrans (HK) Logistics Shareholders Loan and the Sinotrans (HK) Shipping Loan from Sinotrans (HK) Logistics. If the SNL Acquisition Completion does not occur before 30 June 2014, the Debt Waiver Agreement will terminate and the amount owed by Sinotrans Container Lines to Sinotrans as at 30 June 2013 shall continue to be outstanding and payable.

JOINT VENTURE AGREEMENTS

Upon completion of the Acquisition, Sinochart and Sinotrans Container Lines will be converted into sino-foreign joint ventures. The Sinochart JV Agreement sets out the rights and obligations of the joint venture partners in Sinochart following the Sinochart Acquisition Completion; and the SNL JV Agreement sets out the rights and obligations of the joint venture partners in Sinotrans Container Lines following the SNL Acquisition Completion. The JV Agreements will be effective upon the approval by the MOFCOM.

LETTER FROM THE BOARD

(A) THE SINOCHART JV AGREEMENT

Date

25 March 2014

Parties

- (1) The Parent Company
- (2) Marine Peace

In order to regulate the business and management of, as well as the respective rights and obligations of the owners of the equity interests in Sinochart in future, the Parent Company and Marine Peace entered into the Sinochart JV Agreement and the Sinochart JV Articles of Association. The principal terms of the Sinochart JV Agreement and the Sinochart JV Articles of Association are as follows:

Principal business of Sinochart

In accordance with the terms of the Sinochart JV Agreement, Sinochart's business includes vessel voyage chartering and time chartering in dry bulk vessel, cargo transportation, international cargo voyage transportation, sale and purchase of vessels, leasing of vessel, shipping maintenance and repair, ship operation and management, and provision of technical inquiries and consultation services, etc.

Operative term

The Sinochart JV Agreement (including the Sinochart JV Articles of Association) shall become effective upon the approval of the MOFCOM. The operative term of Sinochart will be 30 years commencing from the issue date of the new business licence from the SAIC to Sinochart, and such term shall be extended upon agreement by the Parent Company and Marine Peace. Any amendment of the Sinochart JV Articles of Association shall only be made upon agreement between the Company and the Parent Company and the approval from the MOFCOM.

Board composition

Pursuant to the Sinochart JV Articles of Association, the board of directors of Sinochart shall consist of three directors and each director's term of office is three years. The Parent Company has the right to appoint and remove up to one director, and Marine Peace has the right to appoint and remove up to two directors of Sinochart, respectively. The chairman of the board of directors of Sinochart shall be appointed by Marine Peace. A director can be reappointed and continued to hold office when his/her term of office is expired.

LETTER FROM THE BOARD

The board meeting of Sinochart shall be convened at least once a year. The meeting shall be called and presided over by the chairman of the board with the presence of at least two directors. Should the chairman be unable to call the meeting, he shall authorize a director to call and preside over the meeting. The chairman may convene an interim meeting upon a proposal made by more than one-third of the total number of directors. A board meeting requires a quorum of two-thirds of the directors.

The board of directors of Sinochart shall be the highest authority of Sinochart, which shall decide all major issues concerning the joint venture including making decision on the management plans and investment solutions, the annual financial budgets and final accounts, the profit distribution plans and indemnity measures, the internal management organization, the appointment or dismissal of the general manager, the vice general manager and chief financial officer and related remuneration issue, and formulating the basic management framework.

The following matters shall only be resolved with the unanimous consent of the directors present at the board meeting:

- (a) Amendment to the Articles of association of the joint venture;
- (b) Suspension or dissolution of the joint venture;
- (c) Increase in or reduction of the registered capital of the joint venture; and
- (d) Merger or division of the joint venture.

Marine Peace has the right to appoint one supervisor of Sinochart.

Profit distribution

Any distribution of the distributable net profit of Sinochart will be determined by the board of directors of Sinochart and will be made to the equity holders of Sinochart in accordance with their respective equity interests therein.

Transfer of equity interests

The Parent Company and Marine Peace can transfer all or part of its equity interests in Sinochart to each other. Any transfer of equity interest in Sinochart by a party to the Sinochart JV Agreement to a third party shall obtain prior approval from the other party, as well as the prior consent from the relevant authorities. A joint venture party shall not offer more favourable terms to a third party for any equity transfer.

LETTER FROM THE BOARD

(B) THE SNL JV AGREEMENT

Date

25 March 2014

Parties

- (1) The Parent Company
- (2) Marine Harvest

In order to regulate the business and management of, as well as the respective rights and obligations of the owners of the equity interests in Sinotrans Container Lines in future, the Parent Company and Marine Harvest entered into the SNL JV Agreement and the SNL JV Articles of Association. The principal terms of the SNL JV Agreement and the SNL JV Articles of Association are as follows:

Principal business of Sinotrans Container Lines

In accordance with the terms of the SNL JV Agreement, Sinotrans Container Lines' business encompasses international container transportation services for export and import goods, including cargo transportation, shipping agency, freight forwarding, container depot and storage services (except dangerous goods), international multi-transportation, insurance, provision of technical inquiries and consultation services, import and export trading of merchandise and technique, vessels inspection services, vessels maintenance and repairing services and marine management, etc.

Operative term

The SNL JV Agreement (including the SNL JV Articles of Association) shall become effective upon completion of the SNL Acquisition Completion. The operative term of Sinotrans Container Lines will be 30 years commencing from the issue date of the new business licence from the SAIC to Sinotrans Container Lines, and such term shall be extended upon agreement by the Parent Company and Marine Harvest. Any amendment of the SNL JV Articles of Association shall only be made upon agreement between the Company and the Parent Company and the approval from the MOFCOM.

Board composition

The board of directors of Sinotrans Container Lines shall consist of three directors and each director's term of office is three years. The Parent Company has the right to appoint and remove up to one director, and Marine Harvest has the right to appoint and remove up to two directors of Sinotrans Container Lines, respectively. The chairman of the board of directors of Sinotrans Container Lines shall be appointed by Marine Harvest. A director can be reappointed and continued to hold office when his/her term of office is expired.

LETTER FROM THE BOARD

The board meeting of Sinotrans Container Lines shall be convened at least once a year. The meeting shall be called and presided over by the chairman of the board with the presence of at least two directors. Should the chairman be unable to call the meeting, he shall authorize a director to call and preside over the meeting. The chairman may convene an interim meeting upon a proposal made by more than one-third of the total number of directors. A board meeting requires a quorum of two-thirds of the directors.

The board of directors of Sinotrans Container Lines shall be the highest authority of Sinotrans Container Lines, which shall decide all major issues concerning the joint venture including making decision on the management plans and investment solutions, the annual financial budgets and final accounts, the profit distribution plans and indemnity measures, the internal management organization, the appointment or dismissal of the general manager, the vice general manager and chief financial officer and related remuneration issue, and formulating the basic management framework.

The following matters shall only be resolved with the unanimous comment of the directors present at the board meeting:

- (a) Amendment to the Articles of association of the joint venture;
- (b) Suspension or dissolution of the joint venture;
- (c) Increase in or reduction of the registered capital of the joint venture; and
- (d) Merger or division of the joint venture.

Transfer of equity interests

The Parent Company and Marine Harvest can transfer all or part of its equity interests in Sinotrans Container Lines to each other. Any transfer of equity interest in Sinotrans Container Lines by a party to the SNL JV Agreement to a third party shall obtain prior approval from the other party, as well as the prior consent from the relevant authorities. A joint venture party shall not offer more favourable terms to a third party for any equity transfer.

Profit distribution

Any distribution of the distributable net profit of Sinotrans Container Lines will be determined by the board of directors of Sinotrans Container Lines and will be made to the equity holders of Sinotrans Container Lines in accordance with their respective equity interests therein.

LETTER FROM THE BOARD

INFORMATION ON THE COMPANY AND THE PURCHASERS

Business of the Company

The Company was incorporated in Hong Kong and the Shares are listed on the Main Board of the Stock Exchange. The Company is one of the largest shipping companies in the PRC in terms of self-owned dry bulk fleet size. In addition, the Group also owns one oil tanker and a fleet of container vessels. Apart from provision of chartering service, it provides technical management service for most self-owned vessels to ensure its modern fleet can provide customers with quality transportation service. The primary focus and core business of the Group is dry bulk vessel chartering, which involves the chartering of self-owned vessels for the transportation of dry bulk cargo, such as iron ore, coal, grain and steel products, along major global trade routes. In addition, the Group also charters self-owned container vessels to other shipping companies. As at 31 October 2013, the Group owned a fleet of 52 vessels.

Business of the Purchasers

Double Strong, Trade Worlder, Marine Peace and Marine Harvest are investment holding companies which are indirect wholly-owned subsidiaries of the Company.

INFORMATION ON THE VENDORS

Business of the Parent Company

The Parent Company was established in the PRC in 1950. Since its establishment, the Parent Company has had control over one of the largest fleets of ocean-going vessels in the PRC. The shipping business of the Parent Company has benefited from the overall development in the world economy and the integration of international trade over the past years. The Parent Company is one of the largest state-owned transportation and logistics services companies in the PRC and is directly owned by the SASAC. The Parent Company is the largest integrated logistics services supplier in the PRC and its principal business consists of the provision of logistics services and shipping business and its subsidiary business consists of the construction of ships.

Business of Sinotrans

Sinotrans is a leading logistics service provider in the PRC with its core businesses in freight forwarding and shipping agency and supporting businesses in storage and terminal services, marine transportation and other services such as trucking transportation and express services.

Business of Sinotrans (HK) Logistics

Sinotrans (HK) Logistics is principally engaged in international cargo forwarding, integrated logistics services and marine transportation along the global trade routes.

LETTER FROM THE BOARD

INFORMATION ON THE TARGET GROUP

Business of the Target Group

Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping

Each of Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping is principally engaged in ship owning and chartering business.

Sinotrans Container Lines Group

Sinotrans Container Lines is an international container transportation services provider. Sinotrans Container Lines Group is principally engaged in centralized operation of the international container transportation, and its services cover almost all the main cities and ports of the PRC to the overseas, including Japan, Korea, Hong Kong, Taiwan, Australia, Philippines, Singapore, Vietnam and Indonesia. It also operates branches in Beijing, Dalian, Fuzhou, Nanjing, Ningbo, Qingdao, Shenzhen, Tianjin and Xiamen in the PRC.

Skyglory and Skyroyal

Each of Skyglory and Skyroyal owns one vessel and is principally engaged in ship owning and chartering business. On 27 December 2012, each of Skyglory and Skyroyal entered into a ship management agreement with Sinotrans Tianze in respect of technical management including the safety, quality and environmental protection management, daily operational management, maintenance and repair, crew training and management, refueling services, arrangement of insurance, and contingency plan management of its self-owned vessels, etc.

Sinotrans Tianze

Sinotrans Tianze is principally engaged in ship management and conveying business. Sinotrans Tianze primarily manages the vessels of Skyglory and Skyroyal. Therefore, Sinotrans Tianze, Skyglory and Skyroyal are considered to be a single business. Sinotrans Tianze Business covers routes such as the Black Sea, Indian Ocean, Mediterranean, Pacific region, Persian Gulf, Somali waters, Strait of Malacca, South America and West Africa. As specialized in general cargo business, its major customers include the Chinese contractors who ship equipments to African work fields through break-bulk cargo vessels.

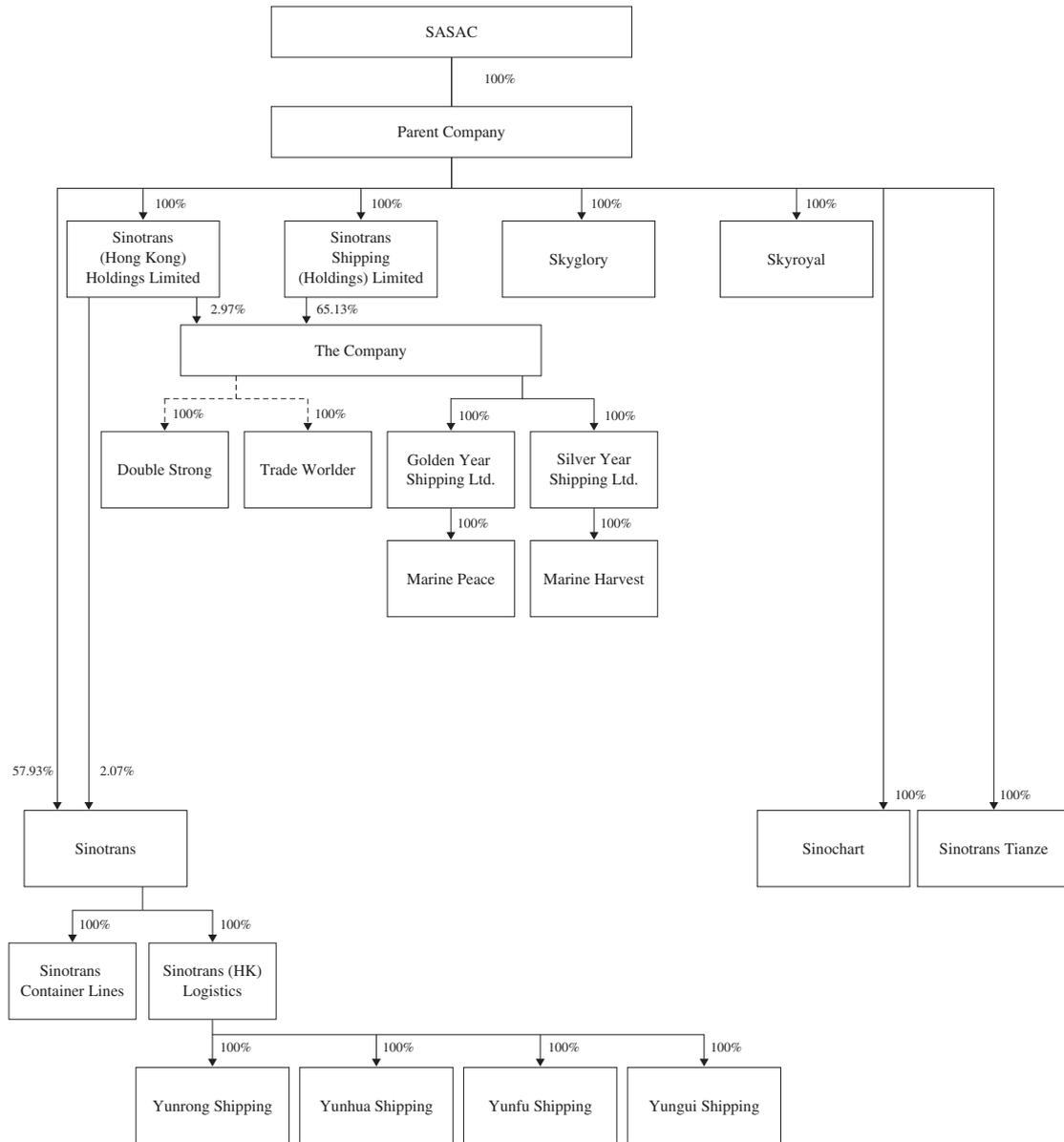
Sinochart Group

Sinochart Group is principally engaged in dry bulk vessel time chartering and dry bulk cargo voyage chartering. Sinochart Group has access to a broad consigner network.

LETTER FROM THE BOARD

Shareholding structure of the Target Group

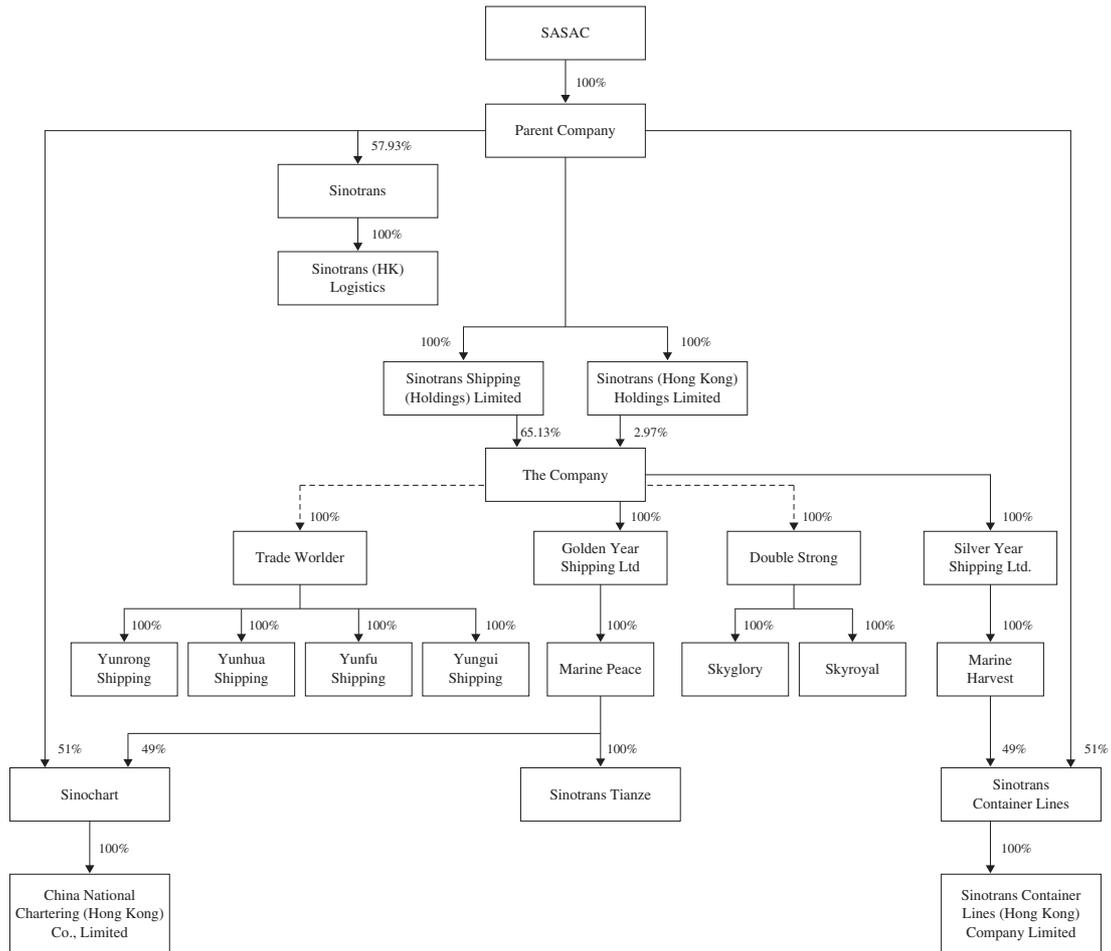
(a) Shareholding structure of the Target Group as at the Latest Practicable Date:



Note: Unless otherwise specified, all dotted lines indicate indirect shareholding.

LETTER FROM THE BOARD

Group structure of the Company and the Target Group upon completion of the Acquisition:



Note: Unless otherwise specified, all solid lines indicate direct shareholding and dotted lines indicate indirect shareholding.

LETTER FROM THE BOARD

Financial information of the Target Group Companies

The book value of the total assets and the net assets of the Target Group Companies as extracted from their respective unaudited consolidated/combined accounts prepared in accordance with HKFRSs as at 31 October 2013 are as follows:

	As at 30 June 2013		As at 31 October 2013	
	Total assets	Net assets	Total assets	Net assets
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
Yunrong Shipping	13,354	(1)	18,717	58
Yunhua Shipping	13,235	(1)	18,523	10
Yunfu Shipping	14,052	(1)	20,437	44
Yungui Shipping	11,035	(1)	19,588	18
Sinotrans Container Lines Group (Note 2)	136,786	(115,149) <i>(Note 4)</i>	136,257	(116,240) <i>(Note 4)</i>
Sinotrans Tianze	15,882	15,817	16,042	15,946
Skyroyal	9,373	(1,447)	9,335	(1,456)
Skyglory	9,434	(1,158)	9,149	(1,560)
Less: Elimination of inter-company balances within the Sinotrans Tianze Business	<u>(353)</u>	<u>–</u>	<u>(395)</u>	<u>–</u>
Sinotrans Tianze Business (Note 3)	34,336	13,212	34,131	12,930
Sinochart Group (Note 2)	226,143	111,666	181,963	120,396

Note 1: The figures with brackets above signify negative figures.

Note 2: The information is extracted from the unaudited consolidated accounts.

Note 3: The information is extracted from the unaudited combined accounts.

Note 4: These figures have not taken into account the effect of the Debt Waiver Agreement. After taking into account the amount of debt as of 30 June 2013 (being approximately US\$106,421,000) waived pursuant to the Debt Waiver Agreement, the unaudited net liabilities of Sinotrans Container Lines as at 30 June 2013 and 31 October 2013 would have been US\$8,728,000 and US\$9,819,000, respectively. Under HKFRS, since the debt waiver contemplated under the Debt Waiver Agreement could be reversed if the transaction does not proceed, unaudited consolidated net liabilities stated above have not taken into account the effect of the Debt Waiver Agreement.

LETTER FROM THE BOARD

The revenue and net profits/(loss) (before and after tax) of the Target Group Companies as extracted from their respective unaudited consolidated/combined accounts for each of the two financial years ended 31 December 2011 and 2012 and the ten months ended 31 October 2013 prepared in accordance with HKFRSs are as follows:

	For the year ended 31 December 2011 (US\$'000)	For the year ended 31 December 2012 (US\$'000)	For the ten months ended 31 October 2013 (US\$'000)
Yunrong Shipping			
Revenue	nil	nil	434
Unaudited profit before tax	–	–	57
Unaudited profit after tax	–	–	57
Yunhua Shipping			
Revenue	nil	nil	284
Unaudited profit before tax	–	–	9
Unaudited profit after tax	–	–	9
Yunfu Shipping			
Revenue	nil	nil	450
Unaudited profit before tax	–	–	43
Unaudited profit after tax	–	–	43
Yungui Shipping			
Revenue	nil	nil	52
Unaudited profit before tax	–	–	17
Unaudited profit after tax	–	–	17
Sinotrans Container Lines Group (Note 2)			
Revenue	589,972	620,516	476,408
Unaudited loss before tax	(13,729)	(18,722)	(2,519)
Unaudited loss after tax	(13,729)	(18,722)	(2,519)
Sinotrans Tianze Business (Note 3)			
Revenue (Note 4)	5,685	6,612	4,873
Unaudited loss before tax (Note 5)	(861)	(383)	(536)
Unaudited loss after tax (Note 6)	(962)	(546)	(578)
Sinochart Group (Note 2)			
Revenue	808,126	696,100	470,141
Unaudited (loss)/profit before tax	(1,281)	(3,853)	9,432
Unaudited (loss)/profit after tax	(1,171)	(2,975)	7,246

LETTER FROM THE BOARD

Note 1: The figures with brackets above signify negative figures.

Note 2: The information is extracted from the unaudited consolidated accounts.

Note 3: The information is extracted from the unaudited combined accounts.

	For the year ended 31 December 2011 (US\$'000)	For the year ended 31 December 2012 (US\$'000)	For the ten months ended 31 October 2013 (US\$'000)
<i>Note 4:</i>			
Revenue			
Sinotrans Tianze	1,114	1,587	966
Skyroyal	2,834	3,031	2,430
Skyglory	2,851	3,138	2,443
Less: Elimination of inter company transactions within the Sinotrans Tianze Business	<u>(1,114)</u>	<u>(1,144)</u>	<u>(966)</u>
 Sinotrans Tianze Business	 <u>5,685</u>	 <u>6,612</u>	 <u>4,873</u>

Note 5:

Unaudited loss before tax			
Sinotrans Tianze	310	537	108
Skyroyal	(562)	(501)	(253)
Skyglory	<u>(609)</u>	<u>(419)</u>	<u>(391)</u>
 Sinotrans Tianze Business	 <u>(861)</u>	 <u>(383)</u>	 <u>(536)</u>

Note 6:

Unaudited loss after tax			
Sinotrans Tianze	209	374	66
Skyroyal	(562)	(501)	(253)
Skyglory	<u>(609)</u>	<u>(419)</u>	<u>(391)</u>
 Sinotrans Tianze Business	 <u>(962)</u>	 <u>(546)</u>	 <u>(578)</u>

The Audited Accounts are prepared in accordance with PRC GAAP for the purposes of submission to SASAC. Other than the difference of the net assets of Sinotrans Container Lines Group amounted to US\$106,421,000, there is no difference between HKFRSs financial information and the financial information included in the Audited Accounts. The Audited Accounts of Sinotrans Container Lines Group has taken into account of the Debt Waiver Agreement, which the total debts of approximately US\$106,421,000 due to Sinotrans will be waived upon the SNL Acquisition Completion. Accordingly, the net asset value of Sinotrans Container Lines Group as at 30 June 2013 was approximately -US\$8,728,000 in the Audited Accounts of Sinotrans Container Lines Group.

LETTER FROM THE BOARD

Based on the audited consolidated financial statements of the Group for the year ended 31 December 2013, the total revenue of the Group for the year was approximately US\$195.0 million. If the Acquisition is completed on or before 1 January 2013, the estimated consolidated revenue of the Enlarged Group for the year ended 31 December 2013 will amount to approximately US\$1,492.4 million.

Based on the audited consolidated financial statements of the Group for the year ended 31 December 2013, the profit attributable to the shareholders of the Company for the year was approximately US\$4.3 million. If the Acquisition is completed on or before 1 January 2013, the estimated consolidated net loss attributable to shareholders of the Company for the year ended 31 December 2013 will amount to approximately US\$9.4 million.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group has been endeavored to become a nationally leading and internationally well-known shipping enterprise. Dry bulk shipping business is our top tier business, followed by container shipping business and other businesses. Acquisition of relevant business assets of high quality in appropriate times will benefit the Group in expanding the scope and scale of business. It will also help to create a high quality comprehensive international shipping platform for dry bulk, container and multi-functional shipping, enhance the competitiveness of the Company and consolidate the market position of the Company. As a result of the assets injection, the Company can further expand the fleet scale of shipping industry of the Company, strengthen the national shipping network and enrich and optimize the ship model structure. The full advantages of network, resources, brand and comprehensive services of the Company can be leveraged on. It can also enlarge the business scale and enhance synergistic effect, optimize the reasonable deployment and allocation of resources, increase sources of revenue and uplift the long-term profitability of the Group. It provides a strong support for the core competitiveness of the Company and thus maximize the investment value of such a red chip listed company.

Acquisition in the lower stream of the shipping industry is expected to bring a relatively sustainable revenue to the Company

According to the forecasts of the International Monetary Fund and Clarksons, which is the world's leading shipping services provider, the global economic recovery will begin to synchronize in 2014. It is expected that there would be an economic growth of 3.7%. It is estimated that the demand of dry bulk market will grow 3%. The demand of container market will also return to a positive level. The price of newbuilding vessels also starts to bottom out. The overall "supply exceeds demand" situation in the shipping market will be significantly improved. The industry generally believed that the shipping market will record an upward development in 2014. Sinochart, Sinotrans Container Lines and Sinotrans Tianze have relatively positive market images in the industry. They control the business resources of higher quality and with excellent operation management teams. It is believed that with market upturns, these three Target Group Companies can bring relatively sustainable revenue to the Group.

LETTER FROM THE BOARD

The current market situation will help the Company expand at a low cost

The Company had committed to the public upon its listing in 2007 that it would carry out a consolidation with the relevant shipping assets of the Parent Company to enlarge the scale of resources of the Group and enhance its market leading position. The international shipping market has been hovered at low point since 2009. After years of fluctuation, the market has already reached the bottom level. In the short run, it is highly possible for the market to revive in a volatile pattern. Under the current market situation, the Acquisition is acceptable from the Company's perspective having considered factors such as the asset qualities of the Target Group Companies, their expertise in the relevant businesses and the market demand in the relevant businesses in the coming years. It is the most advantageous time for the Company to enlarge its scale at a low-cost. The Target Group Companies are shipping assets of high quality within the Parent Group. Each of them is in a highly competitive position in its respective market segment, resulting in a stronger profitability once the market recovered.

Extend the Company's value chain and improve our services and competitiveness

Prior to the Acquisition, the Company, with abundant shipping resources, is primarily engaged in vessel time chartering business. However, interaction between the Company and the ultimate shipping customers is infrequent. Sinochart, with professional carrier business operation experience, is primarily engaged in vessel time chartering and cargo voyage chartering. Sinochart has also developed an extensive customer network based on its long-term stable business cooperation with major customers including state-owned enterprises. After the integration, the Company will be able to extend its value chain, reduce the intermediate levels, avoid internal competition and achieve synergy by leveraging on the Company's shipping resources and Sinochart's customer network to the fullest extent, with a goal to offer better and more comprehensive services to our customers and enhance our competitiveness.

With respect to our container vessel business, the acquisition of Sinotrans Container Lines will allow the Company, building up on our existing container vessel time chartering business, to make a foray into the international near-sea container shipping industry, which would extend our value chain and improve the standard of our comprehensive services. The acquisition of Sinotrans Container Lines will also expose the Company to Sinotrans Container Lines' comprehensive service network that covers a large number of major ports in China, Japan, Korea, Hong Kong, Taiwan, Australia, the Philippines, Vietnam and Indonesia. Among all the shipping routes, the Taiwan shipping route stays at the top of the list, with the Japan shipping route following behind and the other shipping routes capturing considerable portions of market shares. As a catalyst for the cross-sale among dry bulk shipping, container shipping and break-bulk shipping sectors and the services integration, the well-established network of Sinotrans Container Lines will be beneficial to the enhancement of the global operation efficiency and service standard of our fleet.

After the acquisition of Sinotrans Tianze, the Company will be able to extend its business to the multi-purpose vessels shipping industry, which, according to the past records, has represented a sustainable and stable source of income given the relatively milder volatility in that sector. As the management and operation requirements of multi-purpose vessels are similar to those of dry bulk vessels, the Company will be able to enrich its comprehensive services and secure a stable source of income by leveraging on its inherent advantage in ocean-going vessel management.

LETTER FROM THE BOARD

Sinotrans Container Lines has involved in providing advice on the construction of the four new vessels owned by Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping with a capacity of 1,100 cargos each. These vessels are crucial assets comprising their shipping lines. Subsequent to the SNL Acquisition, the Company will provide support for the shipping business of Sinotrans Container Lines. The acquisitions of the HK Target Group together with these four vessels are therefore beneficial for maintaining a stable operation for Sinotrans Container Lines so as to continue the chartering arrangement of these four vessels by the HK Target Group to Sinotrans Container Lines. From the perspective of the Company, taking into account that these four relatively new vessels will be the pillars of the fleet of container vessels, the inclusion of these highly competitive vessels into our fleet would be beneficial for the expansion of a large container vessel fleet, which is crucial to the optimization of our fleet and the enhancement of our fleet's competitiveness.

Two multi-purpose vessels with a capacity of 22 thousand tons are owned by Skyglory and Skyroyal and managed by Sinotrans Tianze. In order to maintain the operation of Sinotrans Tianze, it is reasonable to acquire Skyglory and Skyroyal together with these two multipurpose vessels after the acquisition of Sinotrans Tianze by the Company. Those two multi-purpose vessels are the types of vessels which the Group does not have. They will become great complements to our existing fleet, contributing to the optimisation of our fleet structure and balancing our exposure to market risks.

The acquisition of the six vessels mentioned above at the current market price would lower the overall costs of our fleet and lay a sturdy foundation for the Enlarged Group's future operation.

Enrich the Company's principal business portfolio, balance our market risks and maintain stable operation

Currently, ocean-going dry bulk vessel operation is the Company's core principal business and has a generally undiversified business structure. Following the Acquisition, along with a continuous focus on ocean-going dry bulk shipping, the Company will also be able to build up a diversified and balanced business structure with near-sea container shipping line operation and international multi-purpose vessel operation set as the two main business streams. As each of these three separate shipping sectors has its own development cycle and is subject to the influence of different factors, the Acquisition will, to a certain degree, balance the risk exposure among different business segments and our market risks and hence allow us to maintain a stable operation.

Improve our results by increasing revenue and profit and strengthen our market-leading position

Shipping business is the Group's core business. In 2012, each of Sinochart Group, Sinotrans Container Lines Group and Sinotrans Tianze Business recorded a revenue of approximately US\$696.1 million, US\$620.5 million and US\$6.6 million, respectively. After the Acquisition, the capacity of the fleet for the Enlarged Group will reach 4.48 million DWT, with the Enlarged Group's revenue significantly increase, posing the Enlarged Group in a position to exert greater influence in the market. In addition, following the Acquisition, given the thorough integration of relevant business segments and management procedures in accordance with the internationalization standard of such a listed company and the principle of unified platform, network and service standard, along with the optimization of resource allocation and the

LETTER FROM THE BOARD

improvement of operation management and service quality as well as the reduction in costs and expenses, the Enlarged Group's profitability will experience a significant improvement and its revenue, net of impairment, will be increased accordingly.

Attract professional talents with extensive experience in the industry

Each of the Target Group Companies is supported by a professional team of management personnel, 59% of whom possess over 10 years of experience in the shipping industry. As a valuable complement to our management team, those professional talents will enhance the Company's core competitiveness.

With similar operational objectives, the long-term cooperation with the Target Group Companies will mitigate the integration-related risk arising from the Acquisition

Given that the Target Group Companies and the Group are under the Parent Company and they share similar corporate culture and operational objectives, the long-term business cooperation and knowledge about each other's business procedures, coupled with the prior cooperation experience among some of the management persons who served as senior management in some of those companies, would lead to a smoother integration and contribute to the achievement of synergy after the Acquisition.

The Company is positive about the Target Group Companies and regards the Acquisition is fair and reasonable and in the interests of the Company and its Shareholders as a whole

Sinotrans Container Lines

(1) Situation of operating loss reversed

Sinotrans Container Lines continued to gain profits since its establishment in 1998 to 2005. Given the demand in the development of shipping business under the sound market conditions at that time and subject to its limited shipping capacity, Sinotrans Container Lines has chartered several ships since the second half of 2005 with long chartering terms for 5-6 years and at high prices. However, the shipping market slumped after the peak in 2006 and remained weak. The delivery price dropped significantly and the cost continuously went up, resulting in consecutive years of losses for Sinotrans Container Lines.

As the market began to slowly recover since the second half of 2013, the imbalance of supply and demand in the container market, in particular for Asia, has improved and shown a trend of gradual recovery. Sinotrans Container Lines gradually narrow down its losses in recent years through cost reduction and efficiency improvement. Currently, all high-priced chartering contracts expired, and the business of Sinotrans Container Lines is expected to improve in 2014.

(2) Valuable licences

It is highly difficult for an operator to gain access to the Taiwan route in the container market as an operator is required to obtain an operator licence for the Taiwan route in the container market, which requires approvals from the relevant transportation authorities in the PRC and Taiwan. Currently, Sinotrans Container Lines ranks no.1 in having the largest market share of the

LETTER FROM THE BOARD

Taiwan route in the container market. In addition, Sinotrans Container Lines has a number of other licences such as domestic water transportation licences which are also difficult to obtain.

(3) *Sound deployment of network*

The business of Sinotrans Container Lines currently covers more than a dozen main ports of the PRC with around 60 container shipment routes, which has formed a relatively complete container operation network system. All the network development and expansion require significant time and replacement cost of building a similar network is significantly high. It is a good time for the Company to expand into the container operation system at a low-cost and develop operating container regional routes in the future.

(4) *Considerable intangible assets value*

Since its establishment in 1998, Sinotrans Container Lines has accumulated a well-known brand image highly recognized by the PRC and overseas customers, and is highly recognized by the PRC and overseas customers. Compared with other shipping markets, the customer groups of the container market are relatively scattered. Therefore, brand awareness is exceptionally important, and the brand value of Sinotrans Container Lines is rather valuable.

In addition, Sinotrans Container Lines has a group of high quality professional talents in shipping. At present, Sinotrans Container Lines has employees of over 500, around 58% of those are talents with freight experience of 10 years, up to 31% of those have experience over 20 years. The management in general is highly experienced in the industry for over 20 years. The input of these talents would definitely make a contribution to the Company.

Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping

(1) *Complementary to the Group's business*

Despite the HK Target Group having a limited track record, the acquisition of the HK Target Group will add synergy effects to the business of the Group as a whole. As explained above, the acquisitions of the HK Target Group together with their four vessels are beneficial for maintaining a stable operation for Sinotrans Container Lines and the inclusion of the four quality vessels will strengthen the fleet size and competitiveness of the Group.

(2) *Gradual recovery of the vessel price*

At present, the price of the vessels for containers of 1,000-1,100TEU has shown an obvious bouncing trend. In particular, the price of second-handed vessels has increased by approximately 12% to US\$2 million/vessel from the middle of the year 2013. The price of newly-built vessels has increased over 8%. The management of the Company anticipates that the price of newly-built vessels will continue to increase in the coming years and therefore regards the Acquisition took place at a good timing in order to bring in the four relatively new quality vessels owned by the HK Target Group into the Group to optimize its fleet structure.

LETTER FROM THE BOARD

Sinochart

(1) The general market trend in the past years being the main reason for the loss

The losses in 2011 to 2012 were mainly due to the market volatility across the shipping industry and the prolonged high chartering fees paid to the other charterers during that period. The other shipping conglomerates across the globe also experienced significant losses or even went into liquidation during that period.

At present, the foundation of the shipping market has been established and it is picking up gradually. The Baltic Dry Index in the first quarter of 2014 has increased approximately 72% compared to its historical low at 796 points for the same period last year. The vessels chartered by Sinochart have gained popularity in the market. Sinochart has successfully realized a gain in the first 10 months in the year 2013. Under the backdrop of the favourable market conditions, the management of the Company is positive about the ongoing business development of Sinochart.

(2) Sinochart's business is complementary to the Group's business

Upon the acquisition of Sinochart, additional vessels will be chartered from the Combined Group to Sinochart, and there will be provision of certain general shipping services from and to the Combined Group and Sinochart. In addition, the Company can access to the extensive consigner network of Sinochart.

(3) Promising intangible asset values

Established in 1955, Sinochart has an operating history of nearly 60 years. It has built an excellent branding image in the shipping industry, coupled with experienced operating and management teams. It should be noted that Sinochart has obtained high-quality customers in China, among which Baosteel Group, Wuhan Iron and Steel Group and COFCO Limited are resourceful large scale state-owned enterprises. Sinochart has been devoted to developing, establishing and maintaining its customers' relationship as well as the stable partnership over a long period of time. All of the above are valuable and promising to the Group.

Sinotrans Tianze, Skyroyal and Skyglory

(1) Expansion into multi-purpose vessels business

The business of the Company is going to expand further to the sector of multi-purpose vessels through the acquisitions of Sinotrans Tianze, Skyroyal and Skyglory. As the management and operation requirements of multi-purpose vessels are similar to those of dry bulk vessels, the Company will be able to leverage on its inherent advantages in vessel management and operation and enrich our comprehensive services into the multi-purpose vessels business and provide customers with all-rounded shipping services.

(2) Stable income

Historical records show that the market of multi-purpose vessels is less volatile. Despite the unaudited losses incurred by Sinotrans Tianze Business over last two financial years ended 31 December 2011 and 2012 and the ten months ended 31 October 2013. The management of the Company is expected to generate a sustainable and stable income from such market to the Company and balance its exposures in the other shipping sectors.

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(3) Outstanding talents and teams

Nearly 39% of the employees in Sinotrans Tianze have over 10 years of experience in the shipping industry, whereas its management staff have over 26 years of extensive experience in the industry in general.

DISADVANTAGES AND RISK FACTORS IN THE ACQUISITION

Potential risks in the Acquisition

The global economic and trading environment remains uncertain while the situation of supply/demand imbalance in the shipping market may continue to exist in the coming years. The development of the container lines and dry bulk shipping businesses may not be as positive as what the Company anticipates. If the global economy slows down and the overall shipping market becomes gloomy, the business and financial performances of the Target Group Companies may be affected, which will in turn cause a negative impact to the business and financial performances of the Enlarged Group.

Potential competition from market players

Given the restrictive entry barriers, high investment cost and time in building up the network and branding to gain access to the container line business, the Company believes that it may not be easy for competitors to step into such business, especially in some of the routes such as Taiwan. Nonetheless, if the competition gets intensified with more incoming market players, the business and financial performances of the Target Group Companies may not improve as what the Company expects.

CONTINUING CONNECTED TRANSACTIONS

Background

References are made to the 2012 Announcement and the circular of the Company dated 16 April 2012 in relation to the Renewed Continuing Connected Transactions Agreements. The Company entered into the Renewed Continuing Connected Transactions Agreements with the Parent Company, in relation to, among others, the provision and receipt of general services by the Group to or from Parent Group, and the chartering of vessels by the Group to members of Parent Group.

Any transactions between the members of the Enlarged Group and the Parent Group will constitute continuing connected transactions of the Group upon completion of the Acquisition. On 25 March 2014, the following agreements have been entered into and the transactions contemplated thereunder will constitute continuing connected transactions of the Group upon completion of the Acquisition.

(1) Supplemental Parent Master Services Agreement

According to the Renewed Master Services Agreement, members of the Group have provided and received general services to or from members of the Parent Group to facilitate the businesses between the Group or Parent Group, the term of which will expire on 31 December 2015.

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It is expected that the existing crew management services provided by members of the Parent Group to members of the Target Group will continue following the Acquisition, which will result in an increase in the annual cap for the category of crew management services provided by members of the Parent Group to members of the Target Group. In addition, certain existing services currently provided by members of the Parent Group to members of the Target Group (including the freight forwarding services, containers chartering and container depot) will continue following the Acquisition. On 25 March 2014, the Company terminated the Renewed Master Services Agreement and replaced it with the Supplemental Parent Master Services Agreement which was entered into between the Company and the Parent Company. The purpose of entering into the Supplemental Parent Master Services Agreement is to facilitate the cooperation between the Parent Group and the Enlarged Group and better utilize their internal resources to increase competitiveness, which is mutually beneficial to each other.

General Principles and Terms

The Supplemental Parent Master Services Agreement is valid for a term of three years commencing from 1 January 2014 and expiring on 31 December 2016. The general services provided by the Enlarged Group to the Parent Group under the Supplemental Parent Master Services Agreement include (a) ship management services; (b) commercial management services; (c) consultancy services; (d) shipping broker services; (e) corporate administrative services; (f) shipping agency services; and (g) freight forwarding services; and the general services provided by the Parent Group to the Enlarged Group under the Supplemental Parent Master Services Agreement include (a) vessel management services; (b) commercial management services; (c) consultancy services; (d) shipping broker services; (e) shipping agency services; (f) maintenance and repairing services; (g) supervisory services regarding construction of vessels; (h) crew agency services (including crew management services); (i) insurance broker services; (j) refuelling services; (k) vessels inspection services; (l) freight forwarding services; (m) containers chartering services; and (n) container depot services.

The Supplemental Parent Master Services Agreement requires, in general terms, that the prices of the services to be provided must be fair and reasonable, and (i) the terms and conditions in relation to the general services to be provided by the Enlarged Group to the Parent Group should not be more favourable to the Parent Group than those available to independent third parties from the Enlarged Group; and (ii) the terms and conditions in relation to the general services to be provided by the Parent Group to the Enlarged Group should be no less favorable than those available to independent third parties from the Parent Group.

The General Pricing Principles applicable to the determination of service fees payable under the Supplemental Parent Master Services Agreement

The pricing principles of the Supplemental Parent Master Services Agreement are determined (i) at market prices depending on the supply and demand for the relevant service and benchmarking against similar service offered by other comparable suppliers of similar operational size and scale in the market; and (ii) on terms no less favourable than those offered by and no more favourable than those offered to Independent Third Parties for the relevant transactions contemplated under the relevant agreements.

To ensure that the actual prices charged are on normal commercial terms, the Company will conduct checks as to pricing and payment terms prior to the entering into any new transaction to review and assess whether the services provided/received are in accordance with the terms of the relevant agreement and is no less favourable to the Enlarged Group than those available to Independent Third Parties. In addition, the Company will engage the auditors of the Company to conduct an annual review of the continuing connected transactions of the Company to assess

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whether such transactions have been carried out in accordance with the relevant terms of the agreement entered into by the Company.

There is no pricing policy or guideline published or adopted for the relevant services under the Supplemental Parent Master Services Agreement within the market. The services team of the Company, having market intelligence regarding pricing of different types of services in the shipping market, is responsible for reviewing and approving the pricing prior to entering into any new agreement. As there are alternative sources of supplies of all types of services with comparable pricing and quality offered to / by the Enlarged Group and the Parent Group, both the Enlarged Group and the Parent Group will reference to the price of similar services offered from Independent Third Parties for comparison purpose prior to the entering into any new agreement.

For the provision of general services by the Group to the Parent Group, the Enlarged Group must offer the terms of the supply of general services contracts to the Parent Group no more favourable than, i.e. at price higher or equal to the market price of similar services that the Enlarged Group will offer, to Independent Third Parties. The market price will be referenced to public resources available in the market on the date of entering into any new agreement, for instance: (i) ship management services, commercial management services and corporate administrative services will make reference to the price of similar services depending on the vessel and crew size offered by other ship management companies such as V.Ships, Anglo Eastern, Wallem or Univan, etc.; (ii) consultancy services will make reference to the average price of similar services in respect of ship construction and installation advice, ship health and safety consultancy, specialist manning and project consultancy offered by other independent marine consultancy companies in the market to other Independent Third Parties; (iii) ship broking services will make reference to the average price of similar broking services in respect of dry cargo broking, tanker broking or container broking offered by other ship broking market leaders such as Clarksons, Simpson, Spence & Young, Arrow, Braemar Shipping Services, etc.; (iv) shipping agency services will make reference to the price information published by the Ministry of Transportation in the PRC and crew agency services will make reference to the minimum crew wages scale from the Hong Kong Seafarer Mutual Assistance Fund; and (v) freight forwarding services will make reference to the contract price of similar services offered by other freight forwarders in the market. Where there is no relevant market price, then the relevant price will be determined according to the historical price of the Group providing similar series or comparable market suppliers of similar size providing similar services in the past year, and in particular for the freight forwarding services, according to the cost incurred plus an appropriate margin with reference to the average profit margin of similar freight forwarding services in the market depending on the type, weight and size of goods carried at a rate of no more than 5%. The other types of services will not apply the cost plus margin pricing method.

For the provision of general services by the Parent Group to the Enlarged Group, the services team of the Enlarged Group must obtain at least two fee quotes from Independent Third Parties of similar scale offering similar services to determine if the price and terms offered by the Parent Group are fair and reasonable and around the ranges of those quotes offered by the Independent Third Parties and approved by the management of the Company prior to entering into any new agreement. The Enlarged Group will also take into consideration such source of independent market data for similar services to ensure that the pricing of these services will be at market prices depending on the supply and demand for the relevant service and benchmarking against similar service offered by other comparable suppliers in the market and on normal commercial terms. If the terms of provision of general services offered by the Parent Group to the Enlarged Group are no less than favourable than those offered by Independent Third Parties, the quality of service and long-term business relationship and cooperation between the Parent Group and the Enlarged Group will be considered, and the Enlarged Group will select the Parent Group as the general services provider.

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Cap Amounts

Historical transaction values

For each of the four years ended 31 December 2013, the services fees charged by or to be charged by:

- (a) the Enlarged Group in relation to the provision of the general services to the Parent Group amounted to approximately US\$408,000, US\$468,000, US\$482,000 and US\$497,000, respectively; and
- (b) the Parent Group in relation to the provision of the general services to the Enlarged Group amounted to approximately US\$459,679,000, US\$602,173,000, US\$560,944,000 and US\$442,619,000, respectively. Details of which are set out as follows:

A) Provision of general services by the Enlarged Group to the Parent Group

Historical figures				
For the year ended 31 December				
	2010	2011	2012	2013
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
				<i>(Note 1)</i>
(a) ship management services	nil <i>(Note 2)</i>	nil <i>(Note 2)</i>	nil	nil
(b) commercial management services	nil <i>(Note 3)</i>	nil <i>(Note 3)</i>	nil	nil
(c) consultancy services	nil	nil	nil	nil
(d) shipping broker services	nil <i>(Note 3)</i>	nil <i>(Note 3)</i>	nil	nil
(e) corporate administrative services	0.769 <i>(Note 2)</i>	0.769 <i>(Note 2)</i>	0.769	0.769
(f) shipping agency services	149 <i>(Note 4)</i>	281 <i>(Note 4)</i>	362 <i>(Note 5)</i>	4 <i>(Note 5)</i>
(g) freight forwarding services	258 <i>(Note 2)</i>	187 <i>(Note 2)</i>	120	492
Total:	408	468	482	497

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Notes:

1. Audited figures for the year ending 31 December 2013 are not yet available. The Company expects that the actual transaction amount of the year ending 31 December 2013 will not exceed the approved annual caps for the relevant year.
2. Historical figure extracted from the 2012 Announcement.
3. New services proposed to be included in the Supplemental Parent Master Services Agreement (“**New Services**”). No historical figures are available for commercial management services and shipping broker services, as there have been no such services.
4. This figure is based on the historical figure extracted from the 2012 Announcement minus the historical figure for the provision of services by the Group to Sinochart and Sinotrans Container Lines as they will be covered in separate agreements (i.e. Sinochart Master Services Agreement and SNL Master Services Agreement).
5. This figure is based on the historical figure for shipping agency services provided by the Enlarged Group to the Parent Group minus the historical figure for the provision of shipping agency services by the Group to Sinochart and Sinotrans Container Lines as they will be covered in separate agreements (i.e. Sinochart Master Services Agreement and SNL Master Services Agreement).

B) Receipt of general services by the Enlarged Group from the Parent Group

		Historical figures			
		For the year ended 31 December			
		2010	2011	2012	2013
		<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
				<i>(Note 2)</i>	<i>(Note 1)</i>
(a)	vessel management services	nil <i>(Note 2)</i>	nil <i>(Note 2)</i>	nil	nil
(b)	commercial management services	nil <i>(Note 3)</i>	200 <i>(Note 3)</i>	240	646
(c)	consultancy services	nil <i>(Note 2)</i>	nil <i>(Note 2)</i>	nil	nil
(d)	shipping broker services	400 <i>(Note 4)</i>	nil <i>(Note 4)</i>	nil	562
(e)	shipping agency services	417,096 <i>(Note 5)</i>	535,675 <i>(Note 5)</i>	507,197	384,599
(f)	construction of vessels <i>(Note 6)</i>	nil <i>(Note 8)</i>	nil <i>(Note 8)</i>	nil	nil
(g)	maintenance and repairing services	nil <i>(Note 8)</i>	nil <i>(Note 8)</i>	nil	nil

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		Historical figures			
		For the year ended 31 December			
		2010	2011	2012	2013
		<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
				<i>(Note 2)</i>	<i>(Note 1)</i>
(h)	supervisory services regarding construction of vessels	1,514 <i>(Note 8)</i>	983 <i>(Note 8)</i>	350	32 <i>(Note 9)</i>
(i)	crew agency services (including crew management services)	7,974 <i>(Note 7)</i>	10,131 <i>(Note 7)</i>	11,969	11,823
(j)	insurance broker services	nil <i>(Note 8)</i>	nil <i>(Note 8)</i>	nil	nil
(k)	refuelling services	nil <i>(Note 8)</i>	nil <i>(Note 8)</i>	nil	nil
(l)	vessels inspection services	nil <i>(Note 8)</i>	nil <i>(Note 8)</i>	nil	nil
(m)	freight forwarding services	23,730 <i>(Note 2)</i>	36,692 <i>(Note 2)</i>	26,277	31,013
(n)	containers chartering services	8,786 <i>(Note 2)</i>	18,262 <i>(Note 2)</i>	14,651	13,399
(o)	container depot services	179 <i>(Note 2)</i>	230 <i>(Note 2)</i>	260	545
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total:		<u>459,679</u>	<u>602,173</u>	<u>560,944</u>	<u>442,619</u>

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Notes:

1. Audited figures for the year ending 31 December 2013 are not yet available. The Company expects that the actual transaction amount of the year ending 31 December 2013 will not exceed the approved annual caps for the relevant year.
2. New services proposed to be included in the Supplemental Parent Master Services Agreement (“**New Services**”). No historical figures are available for vessel management services, as there have been no such services. Historical figures for services (m) to (o) above are extracted from historical figures for services (m) to (o) provided by the Parent Group to Sinotrans Container Lines.
3. This figure comprises the historical transaction value for “commercial management services regarding oil tankers and dry bulk vessels” in the 2012 Announcement.
4. This figure comprises the historical transaction value for “shipping broker services regarding oil tankers” in the 2012 Announcement.
5. This figure comprises the historical transaction value for “shipping agency services” in the 2012 Announcement and the large historical transaction amount for “shipping agency services” provided by members of the Parent Group to members of the JV Group deriving from the receipt of ocean freight fee and the payment of terminal handling charges.
6. The “Construction of vessels” service includes the acquisition of vessel(s) to be constructed, which is regarded as a type of capital investment instead of a type of services and therefore will not constitute a continuing connected transaction in future.
7. This figure comprises the historical transaction value for “crew management services” in the 2012 Announcement and the historical transaction value for “crew management services” provided by the Parent Group to the Target Group.
8. Historical figure extracted from the 2012 Announcement.
9. A tremendous decrease in the transaction amount from 2012 because there was a significant decrease in the number of order for construction of vessels in the year 2013. Thus, the requirement for supervisory services has decreased accordingly.

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Proposed Annual Caps

It is expected that the annual amount of the service fees charged by the Enlarged Group in relation to the provision of the general services to the Parent Group will not exceed US\$7,300,000, US\$7,520,000 and approximately US\$7,750,000 for the three years ending 31 December 2016, respectively; and the annual amount of the service fees charged by the Parent Group in relation to the provision of the general services to the Enlarged Group will not exceed approximately US\$735,823,000, US\$787,766,000 and US\$879,261,000 for the three years ending 31 December 2016, respectively. Details of which are as follows:

A) Provision of general services by the Enlarged Group to the Parent Group

	Proposed annual caps			Basis of determination for the proposed annual caps
	For the year ending 31 December			
	2014	2015	2016	
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	
(a) ship management services	2,400	2,400	2,400	Based on the estimated increase in the ship management services (especially the technical management and support) to be provided by the Enlarged Group to the Parent Group following the Acquisition. The proposed caps as disclosed in the 2012 Announcement were 960 for the three years ending 31 December 2015. However, the Group has not provided the ship management services to the Parent Group so far and the proposed caps as disclosed in the 2012 Announcement covered the estimated caps for the provision of vessel management services provided by the Group to Sinochart (which are now covered in Sinochart Master Services Agreement).
(b) commercial management services	200	200	200	Taking into account the expanding fleet size and the anticipated demand of such general commercial management services in connection with the fleet in the coming years.
(c) consultancy services	100	100	100	Based on the historical amounts and the expected increase in the demand consultancy services. The proposed caps for the consultancy services were disclosed in the 2012 Announcement. However, the Group has not provided such services to the Parent Group.
(d) shipping broker services	200	200	200	Based on the estimated demand of broking services.

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	Proposed annual caps			Basis of determination for the proposed annual caps
	For the year ending 31 December			
	2014	2015	2016	
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	
(e) corporate administrative services	10	10	10	Based on the historical amounts and the expected increase in the demand of administrative services as a result of the expanding fleet size. The proposed caps for the corporate administrative services were disclosed in the 2012 Announcement. However, the Group has not provided such services to the Parent Group.
(f) shipping agency services	215	226	237	Based on the historical transaction amounts and the continuing demand of shipping agency services from the Parent Group. The proposed caps have been lowered given the exclusion of provision of shipping agency services from the Group to Sinochart and Sinotrans Container Lines, which are now covered in separate agreements.
(g) freight forwarding services	4,175	4,384	4,603	Based on the historical transaction amounts, prospect in the freight forwarding market, the continuing increase in demand of freight forwarding services from the Parent Group. In particular, there is a growing demand of the Parent Group from a potential project in Singapore from 2013 to 2014. The Parent Group will require significantly more freight forwarding services from the Enlarged Group if the project in Singapore is bid successfully.
Total:	<u>7,300</u>	<u>7,520</u>	<u>7,750</u>	

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B) Receipt of general services by the Enlarged Group from the Parent Group

	Proposed annual caps			Basis of determination for the proposed annual caps
	For the year ending 31 December			
	2014	2015	2016	
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	
(a) vessel management services <i>(Note 1)</i>	240	240	240	Based on the demand for vessel management services by the Combined Group and the expected expansion in fleet size of the Combined Group after the Acquisition.
(b) commercial management services	1,176	1,646	2,300	Based on the historical transaction values, the expected increase in demand of the general commercial management services in connection with the expanded fleet size upon completion of the Acquisition. With a bigger fleet size following the Acquisition, there will be more requests for the general commercial management services to manage and support the bigger fleet size, resulting in a significant increase in the annual caps in the coming years.
(c) consultancy services	100	100	100	Based on the estimated demand of such consultancy services upon completion of the Acquisition.

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	Proposed annual caps			Basis of determination for the proposed annual caps
	For the year ending 31 December			
	2014	2015	2016	
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	
(d) shipping broker services	1,495	1,831	16,900	Based on the historical transaction values and the estimated increase in demand of such broking services upon completion of the Acquisition. It is anticipated that there will be a closer business cooperation between the Parent Group and the Enlarged Group following the Acquisition and the number of voyage charters to be entered into by the Enlarged Group will be increased, resulting in a significant increase in the demand for shipping broker services and higher annual caps in the coming years compared with previous years. With the expected upward development of the shipping market in the years of 2015 to 2016, the Enlarged Group may plan for an increase the number of voyage charters and thus anticipate a higher demand and proposed cap for shipping broker services in the year of 2016.
(e) shipping agency services	559,097	578,509	599,418	Based on the historical transaction values, strengthened business cooperation between the Combined Group and the Parent Group after the Acquisition, the expected expansion in fleet size of the Combined Group, and the continuation of the current large volumes of transactions in relation to the provision of shipping agency services from the Parent Group to the JV Group after the Acquisition.
(f) maintenance and repairing services	9,000	10,000	24,000	Based on the estimated continuing demand for such services after the expanded fleet size.

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	Proposed annual caps			Basis of determination for the proposed annual caps
	For the year ending 31 December			
	2014	2015	2016	
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	
(g) supervisory services regarding construction of vessels	3,200	3,200	3,200	Based on the historical transaction values, the anticipated increase in the number of vessels constructed by the Combined Group following the Acquisition, resulting in an increase in the demand for supervisory services from the Parent Group.
(h) crew agency services (including crew management services)	68,586	93,306	127,362	Based on the market rate, the expected increase in the wages level for the crew and the number of new vessels to be delivered to the Combined Group and managed by the Parent Group following the Acquisition. Compared with the historical amounts, the increase in the proposed annual caps in these services are mainly due to the increase in wages level and the expanded crew size as a result of the expanded fleet size following the Acquisition.
(i) insurance broker services	2,680	3,486	4,535	Based on the estimated demand for such services after the Acquisition. The proposed caps were disclosed in the 2012 Announcement. However, the Parent Group has not provided such services to the Group.
(j) refuelling services	28,000	32,000	36,500	Based on the estimated demand for such services following the Acquisition and the anticipated increase in the fuel charged.
(k) vessels inspection services	21	26	32	Based on the strengthened business cooperation, the increasing demand for such services after the Acquisition.

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	Proposed annual caps			Basis of determination for the proposed annual caps
	For the year ending 31 December			
	2014	2015	2016	
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	
(l) freight forwarding services <i>(Note 1)</i>	47,275	48,462	49,706	This is a new service to be provided by the Parent Group to the Combined Group (in particular, the JV Group) based on the continuing demand. The proposed caps are determined based on the historical transaction amounts and the market charging rate for such services. Compared with the historical amounts, the business volume of the Enlarged Group will increase after the expanded structure following the Acquisition. With the strengthened business cooperation between the Enlarged Group and the Parent Group, there will be a growing demand for freight forwarding services and therefore higher proposed annual caps in the coming years.
(m) containers chartering <i>(Note 1)</i>	14,680	14,680	14,680	This is a new service to be provided by the Parent Group to the Combined Group (in particular, to Sinotrans Container Lines) based on the continuing demand from Sinotrans Container Lines. The proposed caps are determined based on the transaction amounts and the market charging rate of the container chartering services depend on the number of container boxes being chartered.

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	Proposed annual caps			Basis of determination for the proposed annual caps
	For the year ending 31 December			
	2014	2015	2016	
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	
(n) container depot (<i>Note 1</i>)	273	280	288	This is a new service to be provided by the Parent Group to the Combined Group (in particular, to Sinotrans Container Lines) based on the continuing demand from Sinotrans Container Lines. The proposed caps are determined based on the historical transaction amounts and the market charging rate for container depot services in accordance with the quantity of the containers being loaded to the depot)
Total:	<u>735,823</u>	<u>787,766</u>	<u>879,261</u>	

Note:

1. New services proposed to be included in the Supplemental Parent Master Services Agreement (“**New Services**”).

Apart from the above, the proposed annual caps for the three years ending 31 December 2016 have been determined with reference to (i) receipt of New Services from Parent Group following the Acquisition; (ii) the continuing business cooperation between the Combined Group and the Parent Group following the Acquisition; and (iii) the respective historical amounts for each of the four years ended 31 December 2013 between members of the Parent Group and members of the Enlarged Group; (iv) continuation of certain services and working relationship between members of the Enlarged Group and the members of Parent Group after the Acquisition.

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(2) *Sinchart Master Services Agreement*

General Principles and Terms

Following the Acquisition, members of the Combined Group provide general services to Sinchart including (a) vessel management services; (b) commercial management services; (c) consultancy services; (d) shipping broker services; and continue to provide (e) shipping agency services. Sinchart will provide the general services to members of the Combined Group including (a) commercial management services; (b) consultancy services; and (c) shipping broker services. On 25 March 2014, the Company entered into the Sinchart Master Services Agreement with Sinchart, which is valid for a term of three years commencing from 1 January 2014 and expiring on 31 December 2016. The purpose of entering into the Sinchart Master Services Agreement between members of the Combined Group and Sinchart is to leverage their internal resources and services arrangement to increase the competitiveness.

The General Pricing Principles applicable to the determination of services fees payable under the Sinchart Master Services Agreement

The pricing principles of the Sinchart Master Services Agreement are determined (i) at market prices depending on the supply and demand for the relevant service and benchmarking against similar service offered by other comparable suppliers of similar operational size and scale in the market; and (ii) on terms no less favorable than those offered to Independent Third Parties for the relevant transactions contemplated under the relevant agreements.

To ensure that the actual prices charged are on normal commercial terms, the Company will conduct checks as to pricing and payment terms prior to the entering into any new transaction to review and assess whether the services provided/received are in accordance with the terms of the relevant agreement and is no less favourable to the Combined Group/Sinchart than those available to Independent Third Parties. In addition, the Company will engage the auditors of the Company to conduct an annual review of the continuing connected transactions of the Company to assess whether such transactions have been carried out in accordance with the relevant terms of the agreement entered into by the Company.

There is no pricing policy or guideline published or adopted for the relevant services under the Sinchart Master Services Agreement within the market. The services team of the Company, having market intelligence regarding pricing of different types of services in the shipping market, is responsible for reviewing and approving the pricing prior to entering into any new agreement. As there are alternative sources of supplies of relevant services with comparable pricing and quality for comparison purpose, the Combined Group and Sinchart will reference to the price of similar services offered from Independent Third Parties for comparison purpose prior to the entering into any new agreement.

For the provision of general services by the Combined Group to Sinchart, the Combined Group must offer the terms of the supply of general services contracts to Sinchart no more favourable than to Independent Third Parties. The market price will be referenced to public resources available in the market on the date of entering into any new agreement, for instance: (i) vessel management services and commercial management services depending on the vessel and

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crew size will make reference to the price of similar services offered by other ship management companies such as V.Ships, Anglo Eastern, Wallem or Univan, etc.; (ii) consultancy services will make reference to the price of similar services in respect of ship construction and installation advice, ship health and safety consultancy, specialist manning and project consultancy offered by other marine consultancy companies offered by other independent marine consultancy companies in the market to other Independent Third Parties; (iii) shipping broking services will make reference to the price of similar broking services in respect of dry cargo broking, tanker broking or container broking offered by other ship broking market leaders such as Clarksons, Simpson, Spence & Young, Arrow, Braemar Shipping Services, etc.; and (iv) shipping agency services will make reference to the price information published by the Ministry of Transportation in the PRC and crew agency services will make reference to the minimum crew wages scale from the Hong Kong Seafarer Mutual Assistance Fund. Where there is no relevant market price, then the relevant price will be determined according to the historical price of the Combined Group providing such services or comparable market suppliers of similar size providing similar services in the past year.

For the provision of general services by Sinochart to the Combined Group, the services team of the Combined Group must obtain at least two fee quotes from Independent Third Parties of similar scale offering similar services to determine if the price and terms offered by Sinochart are fair and reasonable and around the ranges of those quotes offered by the Independent Third Parties and approved by the management of the Company prior to entering into any new agreement. In determining the pricing for such services, the Combined Group will take into consideration such source of independent market data for similar services to ensure that the pricing of these services will be at market prices depending on the supply and demand for the relevant service and benchmarking against similar service offered by other comparable suppliers in the market and on normal commercial terms. If the terms of provision of general services offered by Sinochart to the Combined Group are no less favourable than those offered by Independent Third Parties to the Combined Group, the quality of service and long-term business relationship and cooperation between Sinochart and the Combined Group will be considered and the Combined Group will select Sinochart as the general services provider.

Cap Amounts

Historical transaction values

There have been no historical transaction values for each of the four years ended 31 December 2013 for the provision of general services, including (a) vessel management services; (b) commercial management services; (c) consultancy services; and (d) shipping broker services, from members of the Group to Sinochart; and the provision of (a) commercial management services; (b) consultancy services; and (c) shipping broker services, from Sinochart to members of

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the Group because these services are the proposed new services to be conducted after the Acquisition. There have been historical transaction values for the shipping agency services, which are set out as follows:

A) Provision of general services by the Combined Group to Sinochart

	Historical figures			
	For the year ended 31 December			
	2010 <i>(US\$'000)</i>	2011 <i>(US\$'000)</i>	2012 <i>(US\$'000)</i>	2013 <i>(US\$'000)</i> <i>(Note 1)</i>
(a) Shipping agency services	62	58	67	60
Total:	62	58	67	60

Note:

1. Audited figures for the year ending 31 December 2013 are not yet available. The Company expects that the actual transaction amount of the year ending 31 December 2013 will not exceed the approved annual caps for the relevant year.

Proposed Annual Caps

It is expected that the annual amount of the service fees charged by members of the Combined Group in relation to the provision of the general services to Sinochart will not exceed US\$1,752,000, US\$1,773,000 and US\$1,796,000 for the three years ending 31 December 2016, respectively; and the annual amount of the service fees charged by Sinochart in relation to the provision of general services to members of the Combined Group will not exceed US\$600,000, US\$600,000 and US\$600,000 for the three years ending 31 December 2016, respectively. Details of which are as follows:

A) Provision of general services by the Combined Group to Sinochart

	Proposed annual caps		
	For the year ending 31 December		
	2014 <i>(US\$'000)</i>	2015 <i>(US\$'000)</i>	2016 <i>(US\$'000)</i>
(a) vessel management services	720	720	720
(b) commercial management services	250	250	250
(c) consultancy services	100	100	100
(d) shipping broker services	250	250	250
(e) shipping agency services	432	453	476
Total:	1,752	1,773	1,796

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B) Receipt of general services by the Combined Group from Sinochart

	Proposed annual caps		
	For the year ending 31 December		
	2014	2015	2016
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
(a) commercial management services	250	250	250
(b) consultancy services	100	100	100
(c) shipping broker services	250	250	250
Total:	600	600	600

Apart from the above, the proposed annual caps for the three years ending 31 December 2016 have been determined with reference to (i) the estimated supply and receipt of such services to and from the Combined Group and Sinochart following the Acquisition; (ii) better utilization of internal resources and arrangements between the Combined Group and Sinochart; and (iii) the recent fee quotes on new shipping projects which will generate large demands in shipping services if such projects are materialised.

(3) SNL Master Services Agreement

Following the Acquisition, members of the Combined Group provide general services to Sinotrans Container Lines including (a) vessel management services; (b) commercial management services; (c) consultancy services; (d) shipping broker services; and continue to provide (e) shipping agency services. Sinotrans Container Lines will provide general services including (a) commercial management services; (b) consultancy services; and (c) shipping broker services to members of the Combined Group. On 25 March 2014, the Company entered into the SNL Master Services Agreement with Sinotrans Container Lines, which is valid for a term of three years commencing from 1 January 2014 and expiring on 31 December 2016. The purpose of entering into the SNL Master Services Agreement between members of the Combined Group and Sinotrans Container Lines is to leverage their internal resources and services arrangement to increase the competitiveness.

The General Pricing Principles applicable to the determination of services fees payable under the SNL Master Services Agreement

The pricing principles of the SNL Master Services Agreement are determined (i) at market prices depending on the supply and demand for the relevant service and benchmarking against similar service offered by other comparable suppliers of similar operational size and scale in the market; and (ii) on terms no less favorable than those offered to Independent Third Parties for the relevant transactions contemplated under the relevant agreements.

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To ensure that the actual prices charged are on normal commercial terms, the Company will conduct checks as to pricing and payment terms prior to the entering into any new transaction to review and assess whether the services provided/received are in accordance with the terms of the relevant agreement and is no less favourable to the Combined Group/Sinotrans Container Lines than those available to Independent Third Parties. In addition, the Company will engage the auditors of the Company to conduct an annual review of the continuing connected transactions of the Company to assess whether such transactions have been carried out in accordance with the relevant terms of the agreement entered into by the Company.

There is no pricing policy or guideline published or adopted for the relevant services under the SNL Master Services Agreement within the market. The services team of the Company, having market intelligence regarding pricing of different types of services in the shipping market, is responsible for reviewing and approving the pricing prior to entering into any new agreement. As there are alternative sources of supplies of relevant services with comparable pricing and quality, the Combined Group and Sinotrans Container Lines will reference to the price of similar services offered from Independent Third Parties for comparison purpose prior to the entering into any new agreement.

For the provision of general services by the Combined Group to Sinotrans Container Lines, the Combined Group must offer the terms of the supply of general services contracts to Sinotrans Container Lines no more favourable than to Independent Third Parties. The market price will be referenced to public resources available in the market on the date of entering into any new agreement, for instance: (i) vessel management services and commercial management services depending on the vessel and crew size will make reference to the price of similar services offered by other ship management companies such as V.Ships, Anglo Eastern, Wallem or Univan, etc.; (ii) consultancy services will make reference to the price of similar services in respect of ship construction and installation advice, ship health and safety consultancy, specialist manning and project consultancy offered by other marine consultancy companies offered by other independent marine consultancy companies in the market to other Independent Third Parties; (iii) shipping broking services will make reference to the price of similar broking services in respect of dry cargo broking, tanker broking or container broking offered by other ship broking market leaders such as Clarksons, Simpson, Spence & Young, Arrow, Braemar Shipping Services, etc.; and (iv) shipping agency services will make reference to the price information published by the Ministry of Transportation in the PRC and crew agency services will make reference to the minimum crew wages scale from the Hong Kong Seafarer Mutual Assistance Fund. Where there is no relevant market price, then the relevant price will be determined according to the historical price of the Combined Group providing such services or comparable market suppliers of similar size providing similar services in the past year.

For the provision of general services by Sinotrans Container Lines to the Combined Group, the services team of the Combined Group must obtain at least two fee quotes from Independent Third Parties of similar scale offering similar services to determine if the price and terms offered by Sinotrans Container Lines are fair and reasonable and around the ranges of those quotes offered by the Independent Third Parties and approved by the management of the Company prior to entering into any new agreement. In determining the pricing for such services, the Combined Group will take into consideration such source of independent market data for similar services to ensure that the pricing of these services will be at market prices depending on the supply and demand for the relevant service and benchmarking against similar service offered by other

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comparable suppliers in the market and on normal commercial terms. If the terms of provision of general service offered by Sinotrans Container Lines to the Combined Group are no less favourable than those offered by Independent Third Parties to the Combined Group, the quality of service and long-term business relationship and cooperation between Sinotrans Container Lines and the Combined Group will be considered and the Combined Group will select Sinotrans Container Lines as the general services provider.

Cap Amounts

Historical transaction values

There have been no historical transaction values for each of the four years ended 31 December 2013 for the provision of general services including (a) vessel management services; (b) commercial management services; (c) consultancy services; (d) shipping broker services from members of the Group to Sinotrans Container Lines; and the provision of (a) commercial management services; (b) consultancy services; and (c) shipping broker services from Sinotrans Container Lines to members of the Group because these services are the proposed new services to be conducted after the Acquisition. There have been historical transaction values for the shipping agency services, which are set out as follows:

A) Provision of general services by the Combined Group to Sinotrans Container Lines

		Historical figures			
		For the year ended 31 December			
		2010	2011	2012	2013
		<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
	(a) Shipping agency services	8	17	9	9
	Total:	8	17	9	9

Proposed Annual Caps

It is expected that the annual amount of the service fees charged by members of the Combined Group in relation to the provision of general services to Sinotrans Container Lines will not exceed US\$1,294,000, US\$1,305,000 and US\$1,316,000 for the three years ending 31 December 2016, respectively; and the annual amount of the service fees charged by Sinotrans

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Container Lines in relation to the provision of general services to members of the Combined Group will not exceed US\$600,000, US\$600,000 and US\$600,000 for the three years ending 31 December 2016, respectively. Details of which are as follows:

A) Provision of services by the Combined Group to Sinotrans Container Lines

	Proposed annual caps		
	For the year ending 31 December		
	2014	2015	2016
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
(a) vessel management services	480	480	480
(b) commercial management services	250	250	250
(c) consultancy services	100	100	100
(d) shipping broker services	250	250	250
(e) shipping agency services	214	225	236
	<hr/>	<hr/>	<hr/>
Total:	1,294	1,305	1,316
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

B) Receipt of general services by the Combined Group from Sinotrans Container Lines

	Proposed annual caps		
	For the year ending 31 December		
	2014	2015	2016
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
(a) commercial management services	250	250	250
(b) consultancy services	100	100	100
(c) shipping broker services	250	250	250
	<hr/>	<hr/>	<hr/>
Total:	600	600	600
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Apart from the above, the proposed annual caps for the three years ending 31 December 2016 have been determined with reference to (i) the estimated supply and receipt of such services to and from the Combined Group and Sinotrans Container Lines following the Acquisition; (ii) better utilization of internal resources and arrangements between the Combined Group and Sinotrans Container Lines; and (iii) the recent fee quotes on new shipping projects which will generate large demands in shipping services if such projects are materialised.

(4) Supplemental Parent Master Chartering Agreement

According to the Renewed Master Chartering Agreement, members of the Group have chartered the dry bulk vessels of the Group to members of the Parent Group, and members of the Parent Group have also chartered vessels to members of the Group. The term of the Renewed Master Chartering Agreement will expire on 31 December 2015.

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On 25 March 2014, the Board terminated the Renewed Master Chartering Agreement and replaced it with the Supplemental Parent Master Chartering Agreement entered into between the Company and the Parent Company. The Supplemental Parent Master Chartering Agreement is valid for a term of three years commencing from 1 January 2014 and expiring on 31 December 2016, and of similar terms to the Renewed Master Chartering Agreement apart from the revision of the annual caps following the Acquisition.

The General Pricing Principles applicable to the determination of the Charter Hire and C/V/E Fee and Address Commission payable under the Supplemental Parent Master Chartering Agreement

The pricing principles of the Supplemental Parent Master Chartering Agreement are determined (i) at market prices depending on the supply and demand for vessel chartering services and benchmarking against similar chartering services in respect of similar vessel models, carriage capacities, shipping routes or periods of charter offered by other comparable charterers in the market; and (ii) on terms no less favorable than those offered by and no more favourable than those offered to Independent Third Parties for the relevant transactions contemplated under the relevant agreements.

There is no pricing policy or guideline published or adopted for the relevant chartering services under the Supplemental Parent Master Chartering Agreement within the market. The services team of the Company, having market intelligence regarding pricing of chartering fees in the shipping market and receives daily report from the public shipbroker, is responsible for reviewing and approving the pricing prior to entering into any new agreement. As there are alternative sources of supplies of chartering of vessels with comparable pricing and quality offered to / by the Enlarged Group and the Parent Group, both the Enlarged Group and the Parent Group will reference to the fees of similar chartering services quoted from Independent Third Parties for comparison purpose prior to the entering into any new agreement.

For the chartering of vessels by the Group to the Parent Group, the Group must offer the terms of the chartering contracts to the Parent Group no more favourable than Independent Third Parties. The market price of chartering will be referenced to Baltic Dry Index or the average chartering fees in respect of similar vessel sizes, speed, consumptions, carrying capacities, shipping routes or periods of charter according to the transactions conducted in the recent week as disclosed in the public shipbroker reports. Where there is no relevant market price, then the relevant price will be determined with reference to the market report of the freight forward agreements provided by sizable shipping brokers, such as Simpson, Spence & Young and Freight Investor Services.

For the chartering of vessels by the Parent Group to the Group, the Enlarged Group must obtain at least two quotes from Independent Third Parties with similar scale offering similar chartering services in respect of similar vessel sizes, speed, consumptions, carrying capacities, shipping routes or periods of charter to determine if the pricing offered by the Parent Group is fair and reasonable and within the ranges of those quotes offered by the Independent Third Parties prior to entering into any new agreement. The Enlarged Group will also take into consideration the source of independent market data such as the Baltic Dry Index, the constant business cooperation between the Enlarged Group and the Parent Group, and will ensure that the pricing of these chartering services will be at market prices and on normal commercial terms.

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Cap Amounts

Historical transaction values

A) Chartering of vessels by the Enlarged Group to the Parent Group

		Historical figures			
		For the year ended 31 December			
		2010	2011	2012	2013
		<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
		<i>(Note 1)</i>			
(a)	Charter Hire and C/V/E Fee	6,840 <i>(Note 2)</i>	8,349 <i>(Note 2)</i>	13,950	9,281 <i>(Note 4)</i>
(b)	Address Commission	53 <i>(Note 3)</i>	287 <i>(Note 3)</i>	498	nil <i>(Note 4)</i>

Notes:

1. Audited figures for the year ending 31 December 2013 are not yet available. The Company expects that the actual transaction amount of the year ending 31 December 2013 will not exceed the approved annual caps for the relevant year.
2. This figure comprises the historical figure extracted from the 2012 Announcement and the historical figure of vessels chartering services provided by members of the Enlarged Group to members of the Parent Group minus the historical figure of vessels chartering services provided by the Company to members of the JV Group.
3. Historical figure extracted from the 2012 Announcement minus the address commissions received by members of the JV Group from the Company, which are covered in the Sinochart Master Chartering Agreement and the SNL Master Chartering Agreement.
4. Compared to the historical figure in 2012, the decrease was due to the fact that there was no chartering service provided by the Group to the Parent Group (excluding the JV Group) in 2013, but there was chartering service provided by members of the Enlarged Group to members of the Parent Group (excluding the JV Group). However, no address commissions were received by such members of the Parent Group (excluding the JV Group) as at 31 December 2013.

B) Chartering of vessels by the Parent Group to the Enlarged Group

		Historical figures			
		For the year ended 31 December			
		2010	2011	2012	2013
		<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
		<i>(Note 1)</i>			
(a)	Charter Hire and C/V/E Fee	nil <i>(Note 2)</i>	nil <i>(Note 2)</i>	7,931 <i>(Note 2)</i>	4,637 <i>(Note 2)</i>
(b)	Address Commission	nil	nil	nil	nil

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Notes:

1. Audited figures for the year ending 31 December 2013 are not yet available.
2. This figure comprises the historical transaction values of vessels chartering services provided by members of the Parent Group to the JV Group. There have been no historical figures in relation to vessels chartering services provided by the Parent Group to the Group.

Proposed Annual Caps

A) Chartering of vessels by the Enlarged Group to the Parent Group

	Proposed annual caps			Basis of determination for the proposed annual caps
	For the year ending 31 December			
	2014	2015	2016	
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	
(a) Charter Hire and C/V/E Fee	22,679	22,679	22,679	<p>Based on the historical transaction values, and the increase in the demand for vessels chartering from the Parent Group, and the possible adjustments taking into account of the exchange rate fluctuation and the market rate. The proposed annual caps for the three years ending 31 December 2016 will be significantly higher compared with the historical amounts as there will be a growing need expressed by the Parent Group for vessels chartering (the additional four vessels on top of the existing three vessels) and an interest in continuing business relationship with the Enlarged Group.</p> <p>There will be a total of seven vessels chartered to the Parent Group for the three years ending 31 December 2016. The management of the Company estimates that the charter hire fee for a related vessel will be approximately US\$3,100,000 annually with reference to daily charter hire fee of vessels of similar size and carrying capacity.</p>
(b) Address Commission	850	850	850	<p>There will be Address Commission, which is an expense item in the cost of operation, is the discount given by a ship owner (i.e. the Enlarged Group) to a charterer (i.e. the Parent Group) based on a certain percentage on the Charter Hire, which is calculated at a rate of 3.75% for all vessels according to the industry practice.</p>

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B) Chartering of vessels by the Parent Group to the Enlarged Group

	Proposed annual caps			Basis of determination for the proposed annual caps
	For the year ending 31 December			
	2014	2015	2016	
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	
(a) Charter Hire and C/V/E Fee	16,000	16,000	16,000	<p>Based on the possible demand for vessels chartering services by the Enlarged Group from the Parent Group following the Acquisition, and the possible adjustments taking into account of the exchange rate fluctuation and the market rate. The proposed annual caps for the three years ending 31 December 2016 will be significantly higher compared with the historical amounts as there will be a growing need expressed by the Enlarged Group for vessels chartering (the additional two vessels on top of the existing five vessels) and an interest in continuing business relationship with the Enlarged Group.</p> <p>There will be a total of seven vessels chartered to the Parent Group for the three years ending 31 December 2016. The management of the Company estimates that the charter hire fee for a related vessel will be approximately US\$3,100,000 annually.</p>
(b) Address Commission	600	600	600	<p>There will be Address Commission, which is an expense item in the cost of operation, is the discount given by a ship owner (i.e. the Parent Group) to a charterer (i.e. the Enlarged Group) based on a certain percentage on the Charter Hire, which is calculated at a rate of 3.75% for all vessels.</p>

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Apart from the above, the proposed annual caps of the Charter Hire, the C/V/E Fee and the Address Commission charged by the Parent Group to the Enlarged Group and the proposed annual caps of the Charter Hire, the C/V/E Fee and the Address Commission charged by the Enlarged Group to the Parent Group in relation to the chartering of the vessels for the three years ending 31 December 2016 have been determined with reference to (i) the expected growing need for vessels chartering services between the Parent Group and the Enlarged Group; (ii) the interest in developing further business relationship and cooperation between the Parent Group and the Enlarged Group; (iii) the prevailing market rate of time charter of vessel of a similar class; and (iv) the average rate of the Address Commission charged by third parties.

(5) *Sinochart Master Chartering Agreement*

Following the Acquisition, members of the Combined Group will continue to provide vessels chartering services to Sinochart. On 25 March 2014, the Company entered into the Sinochart Master Chartering Agreement with Sinochart, which is valid for a term of three years commencing from 1 January 2014 and expiring on 31 December 2016. The purpose of entering into the Sinochart Master Chartering Agreement is to offer chartering services provided by members of the Combined Group to Sinochart and to maintain a steady flow of income into the Combined Group.

The General Pricing Principles applicable to the determination of the Charter Hire and C/V/E Fee and Address Commission payable under the Sinochart Master Chartering Agreement

The pricing principles of the Sinochart Master Chartering Agreement are determined (i) at market prices depending on the supply and demand for vessel chartering services and benchmarking against similar chartering services in respect of similar vessel models, carriage capacities, shipping routes or periods of charter offered by other comparable charterers in the market; and (ii) on terms no less favorable than those offered to Independent Third Parties for the relevant transactions contemplated under the relevant agreements.

There is no pricing policy or guideline published or adopted for the relevant services under the Sinochart Master Chartering Agreement within the market. The services team of the Company, having market intelligence regarding pricing of chartering fees in the shipping market and receives daily report from the public shipbroker, is responsible for reviewing and approving the pricing prior to entering into any new agreement. As there are alternative sources of supplies of chartering services with comparable pricing and quality, the Combined Group and Sinochart will reference to the fees of similar chartering services in respect of similar vessel models, carriage capacities, shipping routes or periods of charter quoted from Independent Third Parties based on the available public information including the Baltic Dry Index or the daily reports on chartering transactions from shipbrokers for comparison purpose prior to the entering into any new agreement. In determining the pricing for such services, the Combined Group will take into consideration at least two quotations for similar chartering services in respect of similar vessel sizes, speed, consumptions, carrying capacities, shipping routes or periods of charter to Independent Third Parties based on the available public information including the Baltic Dry Index or the daily reports on chartering transactions from shipbrokers to ensure that the pricing of the chartering services will be at market prices and on normal commercial terms. The market price of chartering will be referenced to Baltic Dry Index or the average chartering fees in respect of similar vessel sizes, speed, consumptions, carrying capacities, shipping routes or periods of charter according to

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the transactions conducted in the recent week as disclosed in the public shipbroker reports. Where there is no relevant market price, then the relevant price will be determined with reference to the market report of the freight forward agreements provided by sizable shipping brokers, such as Simpson, Spence & Young and Freight Investor Services.

Cap Amount

Historical transaction values

Chartering of vessels by the Group to Sinochart

		Historical figures			
		For the year ended 31 December			
		2010	2011	2012	2013
		<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
		<i>(Note 1)</i>			
(a)	Charter Hire and C/V/E Fee	11,133 <i>(Note 2)</i>	33,260 <i>(Note 2, 3)</i>	29,555 <i>(Note 2)</i>	24,703 <i>(Note 2)</i>
(b)	Address Commission	415	1,267 <i>(Note 3)</i>	1,187	991

Notes:

1. Audited figures for the year ending 31 December 2013 are not yet available.
2. This figure is based on the transactional value in relation to the vessels chartering services provided by the Group to Sinochart. There was a decrease in the transactional value in 2012 compared to 2011 because Sinochart stopped chartering one sizeable vessel from the Group in 2012.
3. In 2011, three more vessels were chartered by the Group to Sinochart Group and therefore the Charter Hire and C/V/E Fee and Address Commission increased by 199% compared to 2010.

Proposed Annual Caps

It is expected that the annual amount of the Charter Hire and the C/V/E Fee charged by the Combined Group in relation to the chartering of the vessels to Sinochart will not exceed US\$25,842,000, US\$25,842,000 and US\$25,842,000 for the three years ending 31 December 2016, respectively, and the annual amount of the Address Commission charged by Sinochart from the Combined Group will not exceed approximately US\$969,000, US\$969,000 and US\$969,000 for the three years ending 31 December 2016, respectively. Sinochart will continue chartering three vessels from the Group for the three years ending 31 December 2016. The management of the Company estimates that the charter hire fee for a vessel will be approximately US\$8,614,000 annually with reference to daily charter hire fee of vessels of similar size and carrying capacity.

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The proposed annual caps of the Charter Hire, the C/V/E Fee and the Address Commission charged by the Combined Group in relation to the chartering of the vessels to Sinochart for the three years ending 31 December 2016 have been determined with reference to (i) the continuing need expressed by Sinochart to the Combined Group for vessels chartering; (ii) the interest in developing further business relationship between the Combined Group and Sinochart; (iii) the prevailing market rate of time charter of a vessel of a similar class; (iv) the average rate of the Address Commission charged by third parties, which is calculated at a rate of 3.75% of the Charter Hire and C/V/E Fee; and (v) mutual agreement between Sinochart and the Combined Group.

(6) SNL Master Chartering Agreement

Following the Acquisition, members of the Combined Group will continue to provide vessels chartering services to Sinotrans Container Lines. On 25 March 2014, the Company entered into the SNL Master Chartering Agreement with Sinotrans Container Lines, which is valid for a term of three years commencing from 1 January 2014 and expiring on 31 December 2016. The purpose of entering into the SNL Master Chartering Agreement is to offer chartering services provided by members of the Combined Group to Sinotrans Container Lines and to maintain a steady flow of income into the Combined Group.

The General Pricing Principles apply to the determination of the Charter Hire and C/V/E Fee and Address Commission payable under the SNL Master Chartering Agreement

The pricing principles of the SNL Master Chartering Agreement are determined (i) at market prices depending on the supply and demand for vessel chartering services and benchmarking against similar chartering services in respect of similar vessel models, carriage capacities, shipping routes or periods of charter offered by other comparable charterers in the market; and (ii) on terms no less favorable than those offered to Independent Third Parties for the relevant transactions contemplated under the relevant agreements.

There is no pricing policy or guideline published or adopted for the relevant services under the SNL Master Chartering Agreement within the market. The services team of the Company, having market intelligence regarding pricing of chartering fees in the shipping market and receives daily report from the public shipbroker, is responsible for reviewing and approving the pricing prior to entering into any new agreement. As there are alternative sources of supplies of chartering services with comparable pricing and quality, the Combined Group and Sinotrans Container Lines will reference to the fees of similar chartering services in respect of similar vessel sizes, speed, consumptions, carrying capacities, shipping routes or periods of charter quoted from Independent Third Parties for comparison purpose prior to the entering into any new agreement. In determining the pricing for such services, the Combined Group will take into consideration at least two quotations for similar chartering services in respect of similar vessel models, carriage capacities, shipping routes or periods of charter to Independent Third Parties to ensure that the pricing of the chartering services will be at market prices and on normal commercial terms. The market price of chartering will be referenced to the average chartering fees in respect of similar vessel sizes, speed, consumptions, carrying capacities, shipping routes or periods of charter according to the transactions conducted in the recent week as disclosed in the public shipbroker reports. Where there is no relevant market price, then according to other charterers of similar size providing similar services in the past week.

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Cap Amounts

Historical transaction values

Chartering of vessels by the Group to Sinotrans Container Lines

		Historical figures			
		For the year ended 31 December			
		2010	2011	2012	2013
		<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
		<i>(Note 1)</i>			
(a)	Charter Hire and C/V/E Fee	16,049	18,262	18,372	18,164
		<i>(Note 2)</i>	<i>(Note 2)</i>	<i>(Note 2)</i>	<i>(Note 2)</i>
(b)	Address Commission	5	4	4	31

Notes:

1. Audited figures for the year ending 31 December 2013 are not yet available.
2. This figure is based on the transactional value in relation to the vessels chartering services provided by the Group to Sinotrans Container Lines.

Proposed Annual Caps

It is expected that the annual amount of the Charter Hire and the C/V/E Fee charged by the Combined Group in relation to the chartering of the vessels to Sinotrans Container Lines will not exceed approximately US\$31,911,000, US\$40,489,000 and US\$49,249,000 for the three years ending 31 December 2016, respectively, and the annual amount of the Address Commission charged by the Sinotrans Container Lines from the Combined Group will not exceed US\$1,197,000, US\$1,518,000 and US\$1,847,000 for the three years ending 31 December 2016, respectively. After the Acquisition, Sinotrans Container Lines will charter four vessels from Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping. Excluding these four vessels, Sinotrans Container Lines will also charter eight vessels, eleven vessels and fourteen vessels from the Combined Group for FY2014, FY2015 and FY2016, respectively. The management of the Company estimated the annual charter hire fee for the four vessels of Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping will be approximately US\$2,000,000 each with reference to daily charter hire fee of vessels of similar size and carrying capacity. For the other vessels to be chartered by Sinotrans Container Lines from the Combined Group, the average annual charter hire fee for each vessel will be approximately US\$3,000,000 with reference to daily charter hire fee of vessels of similar size and carrying capacity.

LETTER FROM THE BOARD

The proposed annual caps of the Charter Hire, the C/V/E Fee and the Address Commission charged by the Combined Group in relation to the chartering of the vessels to Sinotrans Container Lines for the three years ending 31 December 2016 have been determined with reference to (i) the continuing need expressed by Sinotrans Container Lines to the Combined Group for vessels chartering; (ii) the interest in developing further business relationship between the Combined Group and Sinotrans Container Lines; (iii) the prevailing market rate of time charter of a vessel of a similar class; and (iv) the average rate of the Address Commission charged by third parties, which is calculated at a rate of 3.75% of the Charter Hire and C/V/E Fee.

The Directors (including the independent non-executive Directors who have expressed their view after receiving advice from the Independent Financial Adviser) are of the view that the terms of the Supplemental Parent Master Services Agreement, CCT JV Master Services Agreements, Supplemental Parent Master Chartering Agreement, Sinochart Master Chartering Agreement, SNL Master Chartering Agreement and the transactions contemplated thereunder are entered into on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In addition, the proposed annual caps contemplated under the Supplemental Parent Master Services Agreement, CCT JV Master Services Agreements, Supplemental Parent Master Chartering Agreement, CCT JV Master Chartering Agreements are determined by the Directors after due and careful consideration and on a fair and reasonable basis. The Directors (including the independent non-executive Directors who have expressed their view after receiving advice from the Independent Financial Adviser) are of the view that the pricing principles and procedures used in determining the services fees under the Supplemental Parent Master Services Agreement and CCT JV Master Services Agreements and the chartering fees under Supplemental Parent Master Chartering Agreement, Sinochart Master Chartering Agreement and SNL Master Chartering Agreement will ensure the transactions contemplated thereunder will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders on the basis that: (i) the provision of services from the Enlarged Group/Combined Group to its connected persons is at a price higher or equal to the market price of similar services than those offered to Independent Third Parties; (ii) the receipt of services by the Enlarged Group/Combined Group from its connected persons is with more favourable terms and at a price less or equal to the market price of similar services provided by Independent Third Parties; (iii) there will be checks and balances against the prevailing market prices based on the public available sources or prices offered from Independent Third Parties of similar size offering similar services in the shipping market prior to entering into any new agreement.

The Shareholders Loans are financial assistances provided by members of the Parent Group, being connected persons of the Company, for the benefit of the Company on normal commercial terms where no security over the assets of the Company is granted in respect of such financial assistances, are therefore exempt from reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules. Accordingly, the Directors (including the non-executive Directors) are of the view that such financial assistance arrangements are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM THE BOARD

FUND-RAISING ACTIVITIES DURING THE PAST TWELVE MONTHS

The Company has not engaged in or initiated any equity fund raising exercise during the past 12 months immediately before the Latest Practicable Date or any rights issue exercise prior to such 12-month period.

IMPLICATIONS UNDER THE LISTING RULES

As one of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules when aggregated under Rule 14.22 of the Listing Rules in respect of the Acquisition exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. The Parent Company is the ultimate controlling shareholder interested in approximately 68.10% of all the entire issued share capital of the Company as at the Latest Practicable Date and is therefore a connected person of the Company for the purpose of the Listing Rules. Sinotrans is an associate of the Parent Company under the Listing Rules, and Sinotrans (HK) Logistics is a wholly-owned subsidiary of Sinotrans. The Vendors are therefore connected persons of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Acquisition constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Parent Company and its associates are required to abstain from voting for the resolution approving the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association. Save as above, to the best of the knowledge of the Directors, information and belief having made all reasonable enquiries, no other Shareholder has a material interest in the Acquisition. Accordingly, save for the Parent Company and its associates, no other Shareholder is required to abstain from voting for the resolution to approve the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association.

Continuing Connected Transactions

The Parent Company is a connected person under the Listing Rules. Therefore, the transactions with the Parent Company will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Upon completion of the Acquisition, Sinochart and Sinotrans Container Lines will be non wholly-owned subsidiaries of the Company given that Marine Peace and Marine Harvest will have appointment and removal right for a majority of the board of directors of Sinochart and Sinotrans Container Lines. The Parent Company will be a joint venture party to and holds 51% equity interest of each of Sinochart and Sinotrans Container Lines. Accordingly, Sinochart and Sinotrans Container Lines are deemed to be connected persons of the Company for the purpose of Rule 14A.11(5) of the Listing Rules and the transactions with Sinochart and Sinotrans Container Lines will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

In relation to the Supplemental Parent Master Services Agreement and the CCT JV Master Services Agreements, given that some of the applicable percentage ratios for the transactions contemplated thereunder on an annual basis, when aggregated under Rule 14A.26 of the Listing Rules are expected to be more than 5%, such transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Rules 14A.45 to 14A.54 of the Listing Rules.

In relation to the Supplemental Parent Master Chartering Agreement and the CCT JV Master Chartering Agreements, given that some of the applicable percentage ratios for the transactions contemplated thereunder on an annual basis are expected to be more than 5%, such transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Rules 14A.45 to 14A.54 of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on, among others, (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreement, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to, among others, (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreement, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder, in accordance with the Listing Rules. Such appointment has been approved by the Independent Board Committee. Your attention is drawn to their letter of advice set out on pages 83 to 84 of this circular.

Save for Mr. Li Zhen (who is the Assistant to General Manager of the Parent Company), none of the Directors has a material interest in (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreement, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder. Pursuant to the articles of association of the Company, the Directors (excluding all the Executive Directors and Non-executive Directors) are required to abstain from voting on the relevant Board resolutions to approve the above-mentioned agreements.

LETTER FROM THE BOARD

The Directors wish to emphasize that the completion of the Acquisition is subject to the fulfillment or waiver (as the case may be) of a number of conditions precedent, the Acquisition and the transactions contemplated thereunder may or may not proceed. The Shareholders and potential investors should exercise caution when dealing in the Shares.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon completion of the Acquisition, the Target Group Companies will become subsidiaries of the Company and the financial information of those companies will be consolidated into the consolidated financial statements of the Company. The unaudited pro forma financial information of the Enlarged Group before and after Completion as if the Acquisition had been completed on 31 December 2013 and 1 January 2013, respectively, prepared on the bases set out on page IV-1 of this circular and details of which are set out in Appendix IV to this circular.

Based on the annual report of the Group for the year ended 31 December 2013, as at 31 December 2013, the Group had total assets, total liabilities and net assets of approximately US\$2,215,907,000, US\$40,962,000 and US\$2,174,945,000 respectively and was in a net cash (in excess of debt) position. Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group (assuming the Acquisition had been completed on 31 December 2013) as set out in Appendix IV to this circular, the Enlarged Group would have an increase in total assets of approximately US\$283,617,000 to approximately US\$2,499,524,000, an increase in total liabilities of approximately US\$251,505,000 to approximately US\$292,467,000, an increase in net assets of approximately US\$75,394,000 to approximately US\$2,250,339,000. The Enlarged Group will continue to be in a net cash (in excess of debt) position.

The Group recorded an audited consolidated net profit attributable to Shareholders of approximately US\$4,317,000 for the year ended 31 December 2013. Based on the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group set out in Appendix IV to this circular (assuming the Acquisition had been completed on 1 January 2013) the unaudited pro forma consolidated profit attributable to shareholders of the Enlarged Group would be decreased by approximately US\$24.7 million to a loss of approximately US\$20.4 million for the year ended 31 December 2013. For further details, please refer to Appendix IV to this circular.

For details of the unaudited pro forma financial information on the Enlarged Group and its basis of preparation, please refer to Appendix IV to this circular.

LETTER FROM THE BOARD

GENERAL

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on, among others, (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreement, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard. The Parent Company and its associates will abstain from voting at the EGM.

The Directors (including the independent non-executive Directors who have expressed their view after receiving advice from the Independent Financial Adviser) are of the view that the terms of (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreement, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder are entered into on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at Nathan Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 16 May 2014 at 10:00 a.m. is set out on pages EGM-1 to EGM-5 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolutions as set out therein. Voting at the Extraordinary General Meeting will be by poll.

A form of proxy for use by the Shareholders at the EGM is enclosed herewith. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit at the registered office of the Company at 21st Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish.

LETTER FROM THE BOARD

The Parent Company and its associates are required to abstain from voting for the resolution approving (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreement, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder. Save as disclosed above, to the best of the knowledge of the Directors, information and belief having made all reasonable enquiries, no other Shareholders has a material interest in the Acquisition. Accordingly, save for the Parent Company and its associates, no other Shareholder is required to abstain from voting for the resolution to approve (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreement, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder.

CLOSURE OF REGISTER OF MEMBERS OF THE COMPANY

Shareholders whose names appear on the register of members of the Company on Friday, 16 May 2014 will be entitled to attend and vote at the EGM. The register of members of the Company will be closed from Monday, 12 May 2014 to Friday, 16 May 2014 (both days inclusive), during which period no transfer of Shares will be registered.

In order to be entitled to attend and vote at the EGM, all share certificates with completed transfer forms must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 9 May 2014.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 83 to 84 of this circular which contains its recommendations to the Independent Shareholders on (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreement, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder. Your attention is also drawn to the letter of advice from the Independent Financial Adviser which contains, amongst other matters, its advice to the Independent Board Committee and the Independent Shareholders in relation to (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreement, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder as set out from pages 85 to 160 of this circular.

LETTER FROM THE BOARD

The Directors consider that (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association, although are not entered into in the ordinary and usual course of business of the Group, fall squarely in line with the long-term business strategy of the Group, are on normal commercial terms and the terms of respective agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the Supplemental Parent Master Services Agreements, the CCT JV Master Services Agreements, the Supplemental Parent Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder, are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM.

Your attention is also drawn to the additional information set out in the appendices of this circular.

By Order of the Board
Sinotrans Shipping Limited
LI HUA
Executive Director



SINOTRANS SHIPPING LIMITED

中外運航運有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 368)

22 April 2014

To the Independent Shareholders

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITION
(2) CONNECTED TRANSACTIONS
AND
(3) CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company to the Shareholders dated 22 April 2014 (the “**Circular**”), in which this letter forms a part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings given to them in the section headed “Definitions” of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreement, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder, are entered into on normal commercial terms, are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and in the interests of the Shareholders as a whole.

We wish to draw your attention to the letter of advice from Platinum Securities Company Limited (the “**Independent Financial Adviser**”). The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreement, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Chartering Master Agreements and the transactions contemplated thereunder, as set out on pages 85 to 160 of the Circular and the letter from the Board set out on pages 15 to 82 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered, among other matters, the terms of the Acquisition Agreements, the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice, we consider that (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association, although are not entered into in the ordinary and usual course of business of the Group, fall squarely in line with the long-term business strategy of the Group, are on normal commercial terms and the terms of respective agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the Supplemental Parent Master Services Agreements, the CCT JV Master Services Agreements, the Supplemental Parent Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder, are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreement, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder, to be proposed at the EGM.

Yours faithfully

**The Independent Board Committee of
Sinotrans Shipping Limited**

Mr. Hu Hanxiang

Mr. Tsang Hing Lun,

Mr. Lee Yip Wah, Peter

Mr. Zhou Qifang

Independent non-executive Directors

LETTER FROM PLATINUM SECURITIES COMPANY LIMITED

The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.



PLATINUM Securities Company Limited

21/F LHT Tower
31 Queen's Road Central
Hong Kong

Telephone (852) 2841 7000

Facsimile (852) 2522 2700

Website www.platinum-asia.com

22 April 2014

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITION
(2) CONNECTED TRANSACTIONS
AND
(3) CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to, among others, (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreements, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder. Details are contained in the circular of the Company dated 22 April 2014 (the "Circular"). Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders as to whether (i) the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association; and (ii) the Supplemental Parent Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Services Agreements, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and to give independent advice to the Independent Board Committee and the Independent Shareholders.

LETTER FROM PLATINUM SECURITIES COMPANY LIMITED

In formulating our opinion, we have relied on the information and facts supplied to us by the Directors and/or management of the Company. We have reviewed, among other things: (I) the Acquisition Agreements; (II) the JV Agreements and the JV Articles of Association; (III) the Supplemental Parent Master Services Agreements; (IV) the Supplemental Parent Master Chartering Agreement; (V) the CCT JV Master Services Agreements; (VI) the CCT JV Master Chartering Agreements; (VII) the announcement of the Company dated 25 March 2014; (VIII) the unaudited pro forma financial information of the Enlarged Group; (IX) the audited 2012 annual report of the Company (the “2012 Annual Report”); (X) the audited financial information of the Group for the year ended 31 December 2013 disclosed in the annual results announcement of the Company dated 10 March 2014 (the “2013 Final Results”); (XI) the Accountant’s Reports of the Target Group Companies.

We have assumed that all information, facts, opinions and representations contained in the Circular are true, complete and accurate in all material respects and we have relied on the same. The Directors have confirmed that they take full responsibility for the contents of the Circular and have made all reasonable inquiries that no material facts have been omitted from the information supplied to us.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Circular and of the information and representations provided to us by the Directors and/or management of the Company. Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Directors and/or management of the Company which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Acquisition.

We are independent from, and are not associated with the Company or any other party to the Acquisition, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the Acquisition. We will receive a fee from the Company for our role as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Acquisition or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

The Independent Board Committee, comprising Mr. Hu Hanxiang, Mr. Tsang Hing Lun, Mr. Lee Yip Wah, Peter and Mr. Zhou Qifang, has been established to advise the Independent Shareholders as to whether the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association, although are not entered into in the ordinary and usual course of business of the Group, they fall squarely in line with the long-term business strategy of the Group, are on normal commercial terms and the terms of respective agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Furthermore, to advise the Independent Shareholders as to whether the Supplemental Parent Master Services Agreements, the CCT JV Master Services

LETTER FROM PLATINUM SECURITIES COMPANY LIMITED

Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder, are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

I. THE ACQUISITION

Principal Factors and Reasons Considered

In formulating and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors:

1. *Background of the Acquisition*

Reference is made to the announcement of the Company dated 25 March 2014 in relation to (i) Trade Worlder shall acquire the Target HK Sale Shares and the Sinotrans (HK) Logistics Shareholders Loan and the Sinotrans (HK) Shipping Loan from Sinotrans (HK) Logistics; (ii) Double Strong shall acquire the Target Panama Sale Shares and the Panama Loan from the Parent Company; (iii) Marine Peace shall acquire the Target Sinotrans Tianze Equity Interests from the Parent Company; (iv) Marine Peace shall acquire the Target Sinochart Equity Interests from the Parent Company; (v) Marine Harvest shall acquire the Target SNL 49% Equity Interests and the SNL 49% Loan from Sinotrans. On 25 March 2014, after trading hours, the Purchasers entered into the Acquisition Agreements with the Vendors, pursuant to which the Purchasers have conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares and Interests in an aggregate consideration of approximately RMB549,140,002 (equivalent to approximately HK\$695,541,000) and assign the Shareholders Loans at an aggregate consideration of approximately RMB23,158,084.72 and US\$44,038,650 (equivalent to approximately HK\$372,833,000).

The Company was incorporated in Hong Kong and the Shares are listed on the Main Board of the Stock Exchange. The Company is one of the largest shipping companies in the PRC in terms of self-owned dry bulk fleet size. In addition, the Group also owns one oil tanker and a fleet of container vessels. Apart from provision of chartering service, it provides technical management service for most self-owned vessels to ensure its modern fleet can provide customers with quality transportation service. The primary focus and core business of the Group is dry bulk vessel chartering, which involves the chartering of self-owned vessels for the transportation of dry bulk cargo, such as iron ore, coal, grain and steel products, along major global trade routes. In addition, the Group also charters self-owned container vessels to other shipping companies. As at 31 October 2013, the Group owned a fleet of 52 vessels.

2. *Information on the Target Group*

Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping

Each of Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping is principally engaged in ship owning and chartering business.

Sinotrans Container Lines Group

Sinotrans Container Lines is an international container transportation services provider. Sinotrans Container Lines Group is principally engaged in centralised operation of the international container transportation, and its services cover almost all the main cities and ports of the PRC to the overseas, including Japan, Korea, Hong Kong, Taiwan, Australia, Philippines, Singapore, Vietnam and Indonesia. It also operates branches in Beijing, Dalian, Fuzhou, Nanjing, Ningbo, Qingdao, Shenzhen, Tianjin and Xiamen in the PRC.

Skyglory and Skyroyal

Each of Skyglory and Skyroyal owns one vessel and is principally engaged in ship owning and chartering business. On 27 December 2012, each of Skyglory and Skyroyal entered into a ship management agreement with Sinotrans Tianze in respect of technical management including the safety, quality and environmental protection management, daily operational management, maintenance and repair, crew training and management, refueling services, arrangement of insurance, and contingency plan management of its self-owned vessels, etc.

Sinotrans Tianze

Sinotrans Tianze is principally engaged in ship management and conveying business. Sinotrans Tianze primarily manages the vessels of Skyglory and Skyroyal. Therefore, Sinotrans Tianze, Skyglory and Skyroyal are considered to be a single business. Sinotrans Tianze Business covers routes such as the Black Sea, Indian Ocean, Mediterranean, Pacific region, Persian Gulf, Somali waters, Strait of Malacca, South America and West Africa. As specialised in general cargo business, its major customers include the Chinese contractors who ship equipments to African work fields through break-bulk cargo vessels.

Sinochart Group

Sinochart Group is principally engaged in dry bulk vessel time chartering and dry bulk cargo voyage chartering. Sinochart Group has access to a broad consigner network.

3. *Industry overview*

The Target Group's business can mainly be divided into three industry segments:

(1) Container shipping

We understand that the container shipping sector is mainly driven by the freight rates and global container throughput. Regarding the freight rate in the PRC, we have reviewed the China (Export) Containerized Freight Index ("CCFI"), which was sponsored by the Ministry of Transport of the PRC. CCFI serves as a container transport market indicator and provides a reference base linking PRC's shipping

LETTER FROM PLATINUM SECURITIES COMPANY LIMITED

market to the world. CCFI has remained relatively stable in the year of 2013 (ranging from approximately 950 to 1,150 points). Recently, due to strong performance of China-Mediterranean routes and China-Europe routes, CCFI rose for approximately 75 points from October 2013 to March 2014. Based on our discussion with the management of the Company and our review of CCFI, we are of the view that the container shipping market is picking up gradually.

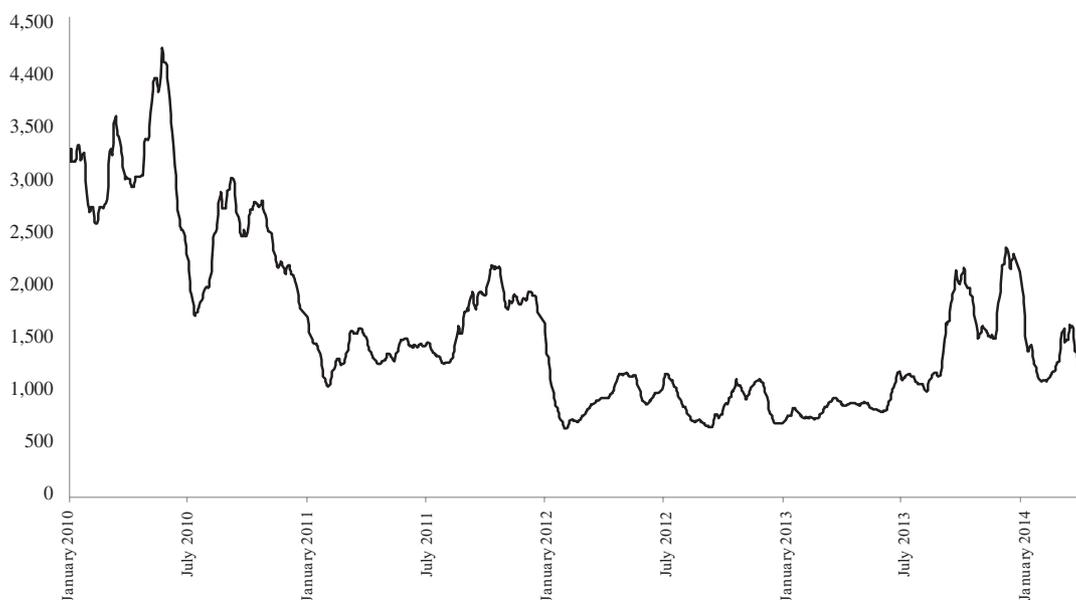
Another driving factor of the container shipping business is global container throughput. We understand that the over-supply problem will be greatly improved because the accelerated scrapping or idling of vessels help to mitigate the supply growth. According to Containerisation International and Drewry, the traffic of Transpacific, Asia/Europe and Intra Asia routes will bounce back to positive growth in 2014. At the same time, the growth in container fleet capacity will decelerate. The total container fleet is expected to grow at 7.6% in 2013 and 5.2% in 2014. Combining the factor of positive growth in demand and slowdown of growth in supply, after discussion with the management of the Company, we are of the view that the excess supply situation will rationalise from 2014 onwards.

(2) Dry bulk shipping

We understand that the dry bulk shipping sector involves transportation of major dry bulk commodities such as iron ore, coal, food supplies, bauxite and phosphate rock. We consider that the demand for dry bulk cargo shipping is mainly subject to global economy, especially international trade. According to the forecast by World Trade Organization (WTO), world trade will grow by 4.5% in 2014, higher than the growth of 2.5% in 2013.

We consider the demand for transportation of major bulk commodities an important factor driving the development of dry bulk cargo shipping. The growth in the development of economy and trade in PRC has gradually become one of the major driving forces for dry bulk cargoes shipping. According to IHS (a leading provider of diverse global market and economic information) latest statistics, China's GDP growth is estimated to be around 8.0% in 2014, slightly higher than 7.8% in 2013.

We have searched through Bloomberg in relation to the freight rates indices created by the Baltic Exchange, an independent organisation which provides daily independent shipping market information and has created freight rates indices to reflect the average freight rates. Set out below is the historical trend of the Baltic Dry Index ("BDI"), a common measure of the level of dry bulk freight rates used in the worldwide dry bulk cargo shipping industry from January 2010 to the Latest Practicable Date (the "Review Period") which shows a rebound of the dry bulk freight rates since July 2013.



Source: Bloomberg

BDI started picking up in July 2013 and reached above 2,300 points in December 2013, up by more than 1,500 points since the beginning of 2013. Although the BDI dropped to a level of about 1,000 points subsequently on the Latest Practicable Date, it still represents an increase of approximately 300 points when comparing to BDI as at the beginning of 2013 and we are of the view that this was only a temporary adjustment. The BDI increase was mainly due to increasing steel output and the acceleration of China industrial production growth (9.7% year-on-year growth in December 2013 versus 8.9% year-on-year growth in June 2013). We agree with the management of the Company that BDI has already hit the bottom and been picking up recently, which indicates improvement in dry bulk shipping market condition. Besides, according to Clarksons, which is the world's leading provider of integrated shipping services, the demand for dry bulk shipping is accelerating, while the growth in vessel supply capacity is slowing down. As such, after discussion with the management of the Company, we concur with the view that management is prudently optimistic towards the dry bulk shipping market and expects supply-demand balance will improve in future.

(3) *General cargo shipping*

General cargo vessels cover different types of ship designs that do not fit into other more specialised cargo ship types, and they have flexibility to carry any of dry bulks, containers or heavy-lift cargo. Based on our discussion with the management of the Company, we understand that the general cargo market is new and niche, with limited market participants and relatively high growth. The management of the Company told us that historically the general cargo shipping market usually was not as volatile as dry bulk shipping and container shipping market. Besides, its profit margin is usually higher than that of dry bulk and container shipping.

As such, we are of the view that the participation in general cargo shipping market after the Acquisition will help the Company minimise the effect of volatility in dry bulk and container shipping market. Profitability of the Company may also be improved if it can well-position itself in this high growth market in the future.

In conclusion, we are of the view that the macro environment is favorable for the Acquisition as (i) the macro economy improves in the PRC; (ii) the shipping demand, mainly from commodity, is expected to demonstrate strong growth; (iii) the oversupply of shipping capacity will be mitigated; and (iv) an opportune time for the Acquisition at the turning point of the shipping industry.

4. Reasons for and benefits of the Acquisition

The Group has been endeavoured to become a nationally leading and internationally well-known shipping enterprise. Dry bulk shipping business is its top tier business, followed by container shipping business and other businesses. Acquisition of relevant business assets of high quality in appropriate times will benefit the Group in expanding the scope and scale of business. It will also help to create a high quality comprehensive international shipping platform for dry bulk, container and multi-functional shipping, enhance the competitiveness of the Company and consolidate the market position of the Company. As a result of the assets injection, the Company can further expand the fleet scale of shipping industry of the Company, strengthen the national shipping network and enrich and optimise the ship model structure. The full advantages of network, resources, brand and comprehensive services of the Company can be leveraged on. It can also enlarge the business scale and enhance synergistic effect, optimise the reasonable deployment and allocation of resources, increase sources of revenue and uplift the long-term profitability of the Group. It provides a strong support for the core competitiveness of the Company and thus maximise the investment value of such a red chip listed company.

Based on the latest statistics, as of 31 December 2013, the Group owned 52 vessels with an aggregate owned capacity of 3.72 million DWT. After the Acquisition, combining with the Sinotrans Tianze Business's fleet, vessels of Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping and Sinotrans Container Lines' fleet, the Enlarged Group will own 60 vessels and aggregate owned capacity will increase to 3.83 million DWT. Sinochart, as one of the major players in chartering business of the industry, will enable the Group to extend its value chain with access to end customers and the Company's service network will also be expanded after the acquisition of Sinotrans Container Lines (more details will be discussed in the section headed "Extend the Company's value chain and improve the Company's services and competitiveness" below). In conclusion, we are of the view that the Acquisition will strengthen the fleet scale of the Group, strengthen its national shipping network and enrich and optimise the ship model structure.

Acquisition in the lower stream of the shipping industry is expected to bring a relatively sustainable revenue to the Company

According to the forecasts of the International Monetary Fund and Clarksons, which is the world's leading shipping services provider, the global economic recovery will begin to synchronise in 2014. It is expected that there would be an economic growth of 3.7%. It is estimated that the demand of dry bulk market will grow 3%. The demand of container market will also return to a positive level. The price of newbuilding vessels also starts to bottom out. The overall "supply exceeds demand"

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situation in the shipping market will be significantly improved. The industry generally believed that the shipping market will record an upward development in 2014. Sinochart, Sinotrans Container Lines and Sinotrans Tianze have relatively positive market images in the industry. They control the business resources of higher quality and with excellent operation management teams. It is believed that with market upturns, these three Target Group Companies can bring relatively sustainable revenue to the Group.

As mentioned above in the section headed “Industry overview”, we have done a detailed analysis on the three industry segments (including container shipping, dry bulk shipping and general cargo shipping). We are of the view that the shipping market has already hit the bottom and may have market upturns. Besides, the new and niche market in general cargo shipping shared by Sinotrans Tianze Business will improve profitability of the Group. Therefore, we concur with the view of the management of the Company that the Acquisition can bring sustainable revenue to the Group.

The current market condition will help the Company expand at a low cost

The Company had committed to the public upon its listing in 2007 that it would carry out a consolidation with the relevant shipping assets of the Parent Company to enlarge the scale of resources of the Group and enhance its market leading position. The international shipping market has been hovered at low point since 2009. After years of fluctuation, the market has already reached the bottom level. In the short run, it is highly possible for the market to revive in a volatile pattern. Under the current market condition, the Acquisition is acceptable from the Company’s perspective having considered factors such as the asset qualities of the Target Group Companies, their expertise in the relevant businesses and the market demand in the relevant businesses in the coming years. It is the most advantageous time for the Company to enlarge its scale at a low-cost. The Target Group Companies are shipping assets of high quality within the Parent Group. Each of them is in a highly competitive position in its respective market segment, resulting in a stronger profitability once the market recovered.

Based on our analysis below in the section headed “Principal factors considered regarding the Acquisition Agreements”, after considering the price-to-book ratio (“P/B”) of Comparable Companies and Comparable Transactions, we are of the view that the aggregate consideration for the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. The aggregate consideration was determined based on arm’s length negotiation between the Purchasers and the Vendors after taking into account various factors, including but not limited to (1) the NAV of Target Group Companies as of 30 June 2013, the difference of which has taken into account other factors such as asset quality, expected carriage capacity, historical sustainable and stable income, the Target Group Companies’ expertise etc., (2) the historical financial information of the Target Group Companies, (3) the strategic rationales, (4) comparable companies of similar size and engaging in similar businesses in the shipping industry, and (5) the future prospects of the shipping industry.

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We noted that as of 30 June 2013, Sinotrans Container Lines Group was in net liabilities of US\$115,149,000. After taking into account (1) both the businesses of Sinotrans Container Lines and the Group will be complementary to each other as Sinotrans Container Lines can charter vessels from the Company and the Company can penetrate into the container transportation business with a low acquisition cost, (2) strategic rationales such as reorganisation and increasing the relative competitiveness of the Sinotrans Group and the Enlarged Group in the shipping market behind the transactions contemplated, (3) comparable companies of similar size with Sinotrans Container Lines engaging in similar businesses in the shipping industry, and (4) the prospect of shipping industry, we are of the view that the consideration of RMB490,000 to acquire the Target SNL 49% Equity Interests is fair and reasonable even though Sinotrans Container Lines Group was in net liabilities as of 30 June 2013. Furthermore, we have reviewed the list of comparable companies of similar size with Sinotrans Container Lines engaging in similar businesses that were used to determine the consideration, the comparable companies are the same to those we used in the analysis in the section headed “Comparable Companies” below.

We also noted that for the ten months ended 31 October 2013, both Sinotrans Container Lines Group and Sinotrans Tianze Business were in net loss position. We consider such historical losses were only temporary and the financial performance of Sinotrans Container Lines Group and Sinotrans Tianze Business will improve after the Acquisition, mainly because of the synergies that will be created and improvement of macro environment of the shipping industry.

We also understand that the Acquisition will bring qualitative benefits to the Group, such as the strong asset quality of the Target Group, potential expansion of its regional liner business and strengthened fleet scale of the Enlarged Group. In conclusion, we believe that the Acquisition may help the Group to enlarge its scale at a low-cost and result in a stronger profitability once the market recovered.

Extend the Company's value chain and improve the Company's services and competitiveness

Prior to the Acquisition, the Company, with abundant shipping resources, is primarily engaged in vessel time chartering business. However, interaction between the Company and the ultimate shipping customers is infrequent. Sinochart, with professional carrier business operation experience, is primarily engaged in vessel time chartering and cargo voyage chartering. Sinochart has also developed an extensive customer network based on its long-term stable business cooperation with major customers including state-owned enterprises. After the integration, the Company will be able to extend its value chain, reduce the intermediate levels, avoid internal competition and achieve synergy by leveraging on the Company's shipping resources and Sinochart's customer network to the fullest extent, with a goal to offer better and more comprehensive services to customers and enhance its competitiveness.

Based on discussions with the management of the Company, we concur with the view that the Group had limited access to the consigners (end customers) before as a ship owner. The Group could only operate dry bulk vessel time-chartering, which has a lower profit margin. The acquisition of Sinochart will enable the Group to access to a boarder consigner network (major end customers like COFCO, Baosteel

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and CBH Group etc.) and operate voyage chartering. Based on our industry knowledge, we understand that dry bulk vessel voyage chartering is usually operated with higher profitability than time-chartering. Therefore, we are of the view that the Group can offer better and more comprehensive services to customers, enhance its competitiveness and profitability.

With respect to the container shipping business, the acquisition of Sinotrans Container Lines will allow the Company, building up on existing container vessel time chartering business, to make a foray into the international near-sea container shipping industry, which would extend the Company's value chain and improve the standard of the Company's comprehensive services. The acquisition of Sinotrans Container Lines will also expose the Company to Sinotrans Container Lines' comprehensive service network that covers a large number of major ports in China, Japan, Korea, Hong Kong, Taiwan, Australia, the Philippines, Vietnam and Indonesia. Among all the shipping routes, the Taiwan shipping route stays at the top of the list, with the Japan shipping route following behind and the other shipping routes capturing considerable portions of market shares. As a catalyst for the cross-sale among dry bulk shipping, container shipping and break-bulk shipping sectors and the services integration, the well-established network of Sinotrans Container Lines will be beneficial to the enhancement of the global operation efficiency and service standard of the Company's fleet.

Based on our review of the supporting documents provided by the Company, after acquiring Sinotrans Container Lines, the container fleet (including self-owned and charter-in vessels) will increase from 5 vessels to 32 vessels and its capacity will increase from 4,437 TEUs to 35,299 TEUs. Besides, we have checked market data from Clarksons that, based on market share and transportation volume, Sinotrans Container Lines is ranked as number one in China-Taiwan route and also number two in China-Japan route. Therefore, we are of the view that the Acquisition will help the Enlarged Group to expand its service network coverage and further diversify its revenue into container shipping, thus reducing its reliance on dry bulk shipping business.

After the acquisition of Sinotrans Tianze, the Company will be able to extend its business to the multi-purpose vessels shipping sector, which, according to the past records, has represented a sustainable and stable source of income given the relatively milder volatility in that sector. As the management and operation requirements of multi-purpose vessels are similar to those of dry bulk vessels, the Company will be able to enrich its comprehensive services and secure a stable source of income by leveraging on its inherent advantage in ocean-going vessel management. We agree, based on the benefits to enter general cargo shipping business discussed above, the acquisition of Sinotrans Tianze Business will benefit the Company and the Shareholders as a whole.

Sinotrans Container Lines has involved in providing advice on the construction of the four new vessels owned by Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping with a capacity of 1,100 cargos each. These vessels are crucial assets comprising their shipping lines. Subsequent to the SNL Acquisition, the Company will provide support for the shipping business of Sinotrans Container Lines. The acquisitions of the HK Target Group together with these four vessels are therefore beneficial for maintaining a stable operation for Sinotrans Container Lines

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so as to continue the chartering arrangement of these four vessels by the HK Target Group to Sinotrans Container Lines. From the perspective of the Company, taking into account that these four relatively new vessels will be the pillars of the fleet of container vessels, the inclusion of these highly competitive vessels into the Company's fleet would be beneficial for the expansion of a large container vessel fleet, which is crucial to the optimisation of the Company's fleet and the enhancement of the Company's fleet's competitiveness.

Two multi-purpose vessels with a capacity of 22 thousand tons are owned by Skyglory and Skyroyal and managed by Sinotrans Tianze. In order to maintain the operation of Sinotrans Tianze, it is reasonable to acquire Skyglory and Skyroyal together with these two multi-purpose vessels after the acquisition of Sinotrans Tianze by the Company. Those two multi-purpose vessels are the types of vessels which the Group does not have. They will become great complements to the Company's existing fleet, contributing to the optimisation of the Company's fleet structure and balancing the Company's exposure to market risks.

The acquisition of the six vessels mentioned above at the current market price would lower the overall costs of the Company's fleet and lay a sturdy foundation for the Enlarged Group's future operation.

Enrich the Company's principal business portfolio, balance the Company's market risks and maintain stable operation

Currently, ocean-going dry bulk vessel operation is the Company's core principal business and has a generally undiversified business structure. Following the Acquisition, along with a continuous focus on ocean-going dry bulk shipping, the Company will also be able to build up a diversified and balanced business structure with near-sea container shipping line operation and international multi-purpose vessel operation set as the two main business streams. As each of these three separate shipping sectors has its own development cycle and is subject to the influence of different factors, the Acquisition will, to a certain degree, balance the risk exposure among different business segments and the Group's market risks and hence allow the Group to maintain a stable operation.

From the 2013 Final Results, we noted over 90% of the Group's revenue was from dry bulk shipping and only small portion was contributed by container shipping. Therefore, we are of the view that, the Acquisition will facilitate the Group to further diversify its revenue stream into container shipping and general cargo shipping business, thus reducing its reliance on dry bulk shipping. In particular, as mentioned above in the section headed "Industry overview" regarding general cargo shipping business, historically the general cargo shipping market usually was not as volatile as dry bulk shipping and container shipping market. Together with the diversification into container shipping business with a positive outlook, we are of the view that the Acquisition will help balance the market risks and maintain stable operation of the Group.

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Improve the Group's results by increasing revenue and profit and strengthen its market-leading position

Shipping business is the Group's core business. In 2012, each of Sinochart Group, Sinotrans Container Lines Group and Sinotrans Tianze Business recorded a revenue of approximately US\$696.1 million, US\$620.5 million and US\$6.6 million, respectively. After the Acquisition, the capacity of the fleet for the Enlarged Group will reach 4.48 million DWT, with the Enlarged Group's revenue significantly increase, posing the Enlarged Group in a position to exert greater influence in the market. In addition, following the Acquisition, given the thorough integration of relevant business segments and management procedures in accordance with the internationalisation standard of such a listed company and the principle of unified platform, network and service standard, along with the optimisation of resource allocation and the improvement of operation management and service quality as well as the reduction in costs and expenses, the Enlarged Group's profitability will experience a significant improvement and its revenue, net of impairment, will be increased accordingly.

We have reviewed the unaudited pro forma financial information on the Enlarged Group as set out in Appendix IV of the Circular and concur with the view of the management of the Company. We have also performed a detailed analysis below in the section headed "Financial impacts of the Acquisition".

Attract professional talents with extensive experience in the industry

Each of the Target Group Companies is supported by a professional team of management personnel, 59% of whom possess over 10 years of experience in the shipping industry. As a valuable complement to the Company's management team, those professional talents will enhance the Company's core competitiveness.

We have reviewed the profile of management personnel of the Target Group Companies and agree with the management of the Company that they have extensive experience and qualifications in the industry. Therefore, we are of the view that those professional talents will enhance the Company's core competitiveness.

With similar operational objectives, the long-term cooperation with the Target Group Companies will mitigate the integration-related risk arising from the Acquisition

Given that the Target Group Companies and the Group are under the Parent Company and they share similar corporate culture and operational objectives, the long-term business cooperation and knowledge about each other's business procedures, coupled with the prior cooperation experience among some of the management persons who served as senior management in some of those companies, would lead to a smoother integration and contribute to the achievement of synergy after the Acquisition. We agree that the Acquisition will also avoid internal competition and therefore is in the interests of the Company and the Shareholders as a whole.

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Having taken into account the reasons above, we consider that the Acquisition represents another step forward to optimise the Group's fleet structure in order to capture improvement in market conditions and create synergies. This is also in line with the Group's long-term business strategy. Furthermore, the Acquisition will diversify the business risk and expand the customer base of the Group. In light of the above, we are of the view that the Acquisition is in the interests of and beneficial to the Company and the Shareholders as a whole.

5. *Principal terms of the Acquisition Agreements*

Set out below are the principal terms of the Acquisition Agreements involved in the Acquisition:

(A) *The HK Acquisition Agreement*

Date 25 March 2014

Parties

Vendor: Sinotrans (HK) Logistics

Purchaser: Trade Worlder

Subject Matter and Assets to be Acquired

The HK Acquisition Agreement, which was entered into after arm's length negotiations between the parties, set out the terms and conditions upon which Trade Worlder shall acquire the Target HK Sale Shares and the Sinotrans (HK) Logistics Shareholders Loan and the Sinotrans (HK) Shipping Loan from Sinotrans (HK) Logistics.

Consideration

Under the HK Acquisition Agreement, the initial consideration for the acquisition of the Target HK Sale Shares is RMB1,650,002 (equivalent to approximately HK\$2,090,000) and the initial consideration for the acquisition of the Sinotrans (HK) Logistics Shareholders Loan and the Sinotrans (HK) Shipping Loan is US\$23,602,649.59 (equivalent to approximately HK\$184,101,000). The acquisition of the Target HK Sale Shares will proceed on an "all or nothing" basis. The initial consideration of the acquisition of the Target HK Sale Shares shall be payable in cash within 5 Business Days after completion of the acquisition of the Target HK Sale Shares, which was determined at arm's length negotiations between Trade Worlder and Sinotrans (HK) Logistics after taking into account various relevant factors including (1) the combined NAV of the HK Target Group as at 30 June 2013, (2) the historical financial information of the HK Target Group since their commencement of business in the second half of 2013, (3) the strategic rationales behind the transactions contemplated such as reorganization and

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increasing the relative competitiveness of the Sinotrans Group and the Enlarged Group in the shipping market, (4) the future prospects of the shipping industry including a modest recovery in the shipping market in the coming years and the anticipated increase in vessels price and market growth in demand for quality vessels like the four vessels owned by the HK Target Group, the acquisition of which will optimise the fleet structure of the Group and enhance its competitiveness in the market, (5) the perceived value of the HK Target Group to Trade Worlder which has already had a transportation fleet, and (6) from the perspective of Trade Worlder, the acquisition of the four vessels owned by the HK Target Group will strengthen its fleet size.

The initial consideration for the acquisition of the Target HK Sale Shares will be subject to adjustment by adding any NAV Increase and deducting any NAV Decrease of an aggregate amount not more than RMB48,000,000 taking into account of the financial performance of the HK Target Group since their commencement of business in the second half of 2013 and factors that may potentially affect the combined NAV of the HK Target Group including any uncertainty of the shipping market, provided, however, that within 60 calendar days after the relevant Completion Date (i) if the adjusted consideration is higher than the amount already paid by Trade Worlder to Sinotrans (HK) Logistic, Trade Worlder shall pay such shortfall in immediately available funds to the bank account designated by Sinotrans (HK) Logistic, or (ii) if the adjusted consideration is lower than the amount already paid by Trade Worlder to Sinotrans (HK) Logistic, Sinotrans (HK) Logistic shall pay such excess in immediately available funds to the bank account designated by Trade Worlder and such payment must be set off against any amount payable by Trade Worlder to Sinotrans (HK) Logistic, including without limitation the consideration for the Sinotrans (HK) Logistics Shareholders Loan.

The initial consideration for the acquisition of the Sinotrans (HK) Logistics Shareholders Loan and the Sinotrans (HK) Shipping Loan is US\$23,602,649.59 (equivalent to approximately HK\$184,101,000). An amount of US\$15,565,149.59 (equivalent to approximately HK\$121,408,000) will be payable by Trade Worlder within 60 calendar days after completion of the acquisition of the rights, title, benefits and interests in the Sinotrans (HK) Logistics Shareholders Loan, determined with reference to the Completion Accounts and the disagreement to such amount shall be subject to adjustment of no more than an aggregate amount of RMB20,000,000 taking into account the estimated demand in working capital for the HK Target Group based on the corresponding actual figure stated in the Audited Completion Audit Accounts; and an amount of US\$8,037,500 (equivalent to approximately HK\$62,693,000) will be payable by Trade Worlder within 60 calendar days after completion of the acquisition of the rights, title, benefits and interests in the Sinotrans (HK) Shipping Loan, determined with reference to the Completion Accounts and the disagreement to such amount shall be based on the corresponding actual figure stated in the Audited Completion Audit Accounts.

Conditions Precedent

The completion of the HK Acquisition Agreement is subject to the fulfillment of the following conditions precedent pursuant to the HK Acquisition Agreement:

- (a) the approval by the Independent Shareholders at the EGM of the entering into of the HK Acquisition Agreement and all transactions contemplated thereunder in accordance and compliance with the Listing Rules, having been obtained;
- (b) the approval by the Sinotrans' shareholders (other than the Parent Company and its associates) at a general meeting of Sinotrans of the entering into of the HK Acquisition Agreement and all transactions contemplated thereunder in accordance and compliance with the Listing Rules, having been obtained;
- (c) all conditions precedent to completion under the SNL 49% Acquisition Agreement (except for such condition that requires the fulfillment of the conditions precedent of the HK Acquisition Agreement) having been fulfilled or waived (as the case may be), including without limitation, the SNL 49% Acquisition Agreement and the transactions contemplated thereunder having been approved by or filed with the relevant authorities with competent jurisdiction in the PRC (including the SASAC and the MOFCOM) unconditionally and irrevocably pursuant to the applicable laws;
- (d) all necessary approvals, consents, filings and waivers (if any) required to be obtained by the HK Target Group, Trade Worlder, the Company or Sinotrans (HK) Logistics from any authorities or third party in respect of the HK Acquisition Agreement and/or the transactions contemplated thereunder having been obtained unconditionally and irrevocably, including but not limited to the consent letter from the Bank of UFJ, a creditor of the HK Target Group pursuant to a requirement of seeking the creditor's consent in case of any share transfer of the HK Target Group in the UFJ Facility Agreement, agreeing to the transactions contemplated under the HK Acquisition Agreement having been obtained; and
- (e) the warranties under the HK Acquisition Agreement remaining true, accurate and not misleading in all respects as of the Completion Date by reference to the facts and circumstances subsisting as at the Completion Date.

If any of the above conditions precedent (other than condition (e) above) have not been satisfied on or before 31 December 2014 (or any such other date as may be agreed by the parties) and condition (e) has not been fulfilled at the

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time when the other conditions precedent are satisfied. The acquisition of the HK Target Group will proceed on an “all or nothing” basis. If the condition precedents for one of the Hong Kong Target Group companies are not fulfilled, the acquisition of the other Hong Kong Target Group companies will not take place. Trade Worlder shall have the right to postpone such date or terminate the HK Acquisition Agreement.

The Company does not anticipate any material amendments to the HK Acquisition Agreement. If there are any material amendments to the HK Acquisition Agreement (including any adjustments to the consideration amounts which are not disclosed herein), the Company will comply with all relevant Listing Rules requirements (including shareholder approval requirements). The Company will issue an announcement to disclose the finalized considerations of the Target Group Companies after the completion of the Acquisition.

Completion

Subject to satisfaction of all the conditions precedent as set out in the paragraph headed “Conditions Precedent” of the above paragraph have been fulfilled or waived (as the case may be), completion of the HK Acquisition Agreement will take place on the Completion Date unless otherwise specified therein. Completion of the HK Acquisition Agreement is inter-conditional upon completion of the SNL 49% Acquisition Agreement.

(B) The Panama Acquisition Agreement

Date 25 March 2014

Parties

Vendor: The Parent Company

Purchaser: Double Strong

Subject Matter and Assets to be Acquired

The Panama Acquisition Agreement, which was entered into after arm’s length negotiations between the parties, set out the terms and conditions upon which Double Strong shall acquire the Target Panama Sale Shares from the Parent Company and the Panama Loan from the Parent Company.

Consideration

Under the Panama Acquisition Agreement, the aggregate consideration for the acquisition of the Target Panama Sale Shares is RMB12,000,000 (equivalent to approximately HK\$15,199,000) and the acquisition of the Panama Loan is US\$20,436,000 (equivalent to approximately

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HK\$159,401,000). The respective consideration for the acquisition of each of Skyroyal, Skyglory and the Panama Loan shall be payable by Double Strong to the Parent Company in accordance with the following schedule:

- (a) RMB6,500,000 (equivalent to approximately HK\$8,233,000) within 5 Business Days days after completion of the acquisition of 100% of the entire issued share capital of Skyroyal, determined at after arm's length negotiations between Double Strong and the Parent Company after taking into account various relevant factors including (1) the NAV of Skyroyal as at 30 June 2013, the difference of which has taken into account the sustainable and stable income received by Skyroyal from chartering the vessel of Skyroyal to a subsidiary of Sinotrans for a term of 5 years from 2010 to 2015, with an approximate amount of RMB63,804,300 (equivalent to HK\$80,815,000) of charter hire fee received by Skyroyal from 2010 to March 2014, and the development potential of Skyroyal together with Skyglory and Sinotrans Tianze to run as a single business given Sinotrans Tianze will continue to manage the vessel of Skyroyal after the acquisitions, (2) the historical financial information of Skyroyal for the two financial years ended 31 December 2012 and the ten months ended 31 October 2013, (3) the strategic rationales behind the transactions contemplated such as reorganization and increasing the relative competitiveness of the Parent Group and the Enlarged Group in the shipping market, (4) comparable companies of similar size with Skyroyal engaging in similar businesses in the shipping industry, and (5) the future prospects of the shipping industry including general economic trends and market growth, and subject to adjustment by adding any NAV Increase and deducting any NAV Decrease, provided, however, that within 60 calendar days after the relevant Completion Date (i) if the adjusted consideration is higher than the amount already paid by Double Strong to the Parent Company, Double Strong shall pay such shortfall in immediately available funds to the bank account designated by the Parent Company, or (ii) if the adjusted consideration is lower than the amount already paid by Double Strong to the Parent Company, the Company shall pay such excess in immediately available funds to the bank account designated by Double Strong and such payment must be set off against any amount payable by Double Strong to the Parent Company, including without limitation the consideration for the Panama Loan;
- (b) RMB5,500,000 (equivalent to approximately HK\$6,966,000) within 5 Business Days after completion of the acquisition of 100% of the entire issued share capital of Skyglory, determined at after arm's length negotiations between Double Strong and the Parent Company after taking into account various relevant factors

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including (1) the NAV of Skyglory as at 30 June 2013, the difference of which has taken into account the sustainable and stable income received by Skyglory from chartering the vessel of Skyglory to a subsidiary of Sinotrans for a term of 5 years from 2010 to 2015, with an approximate amount of RMB62,139,000 (equivalent to HK\$78,705,000) of charter hire fee received by Skyglory from 2010 to March 2014, and the development potential of Skyglory together with Skyroyal and Sinotrans Tianze to run as a single business given Sinotrans Tianze will continue to manage the vessel of Skyglory after the acquisitions, (2) the historical financial information of Skyglory for the two financial years ended 31 December 2012 and the ten months ended 31 October 2013, (3) the strategic rationales behind the transactions contemplated such as reorganization and increasing the relative competitiveness of the Parent Group and the Enlarged Group in the shipping market, (4) comparable companies of similar size with Skyglory engaging in similar businesses in the shipping industry, and (5) the future prospects of the shipping industry including general economic trends and market growth, and subject to adjustment by adding any NAV Increase and deducting any NAV Decrease, provided, however, that within 60 calendar days after the relevant Completion Date (i) if the adjusted consideration is higher than the amount already paid by Double Strong to the Parent Company, Double Strong shall pay such shortfall in immediately available funds to the bank account designated by the Parent Company, or (ii) if the adjusted consideration is lower than the amount already paid by Double Strong to the Parent Company, the Company shall pay such excess in immediately available funds to the bank account designated by Double Strong and such payment must be set off against any amount payable by Double Strong to the Parent Company, including without limitation the consideration for the Panama Loan; and

- (c) US\$20,436,000 (equivalent to approximately HK\$159,401,000) within 60 calendar days after completion of the acquisition of the rights, title, benefits and interests in the Panama Loan, determined with reference to the Completion Accounts and the disagreement to such amount shall be subject to adjustment based on the corresponding actual figure stated in the Audited Completion Audit Accounts.

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Conditions Precedent

The completion of the Panama Acquisition Agreement is subject to the fulfillment of the following conditions precedent pursuant to the Panama Acquisition Agreement:

- (a) the approval by the Independent Shareholders at the EGM of the entering into of the Panama Acquisition Agreement and all transactions contemplated thereunder in accordance and compliance with the Listing Rules, having been obtained;
- (b) the entering into of and all the transactions contemplated under the Panama Acquisition Agreement having been approved by the board of directors of the Parent Company as required by its constitutional documents;
- (c) all conditions precedent to completion under the Sinotrans Tianze Acquisition Agreement (except for such condition that requires the fulfillment of the conditions precedent of the Panama Acquisition Agreement) having been fulfilled or waived (if applicable), including without limitation, the Sinotrans Tianze Acquisition Agreement and the transactions contemplated thereunder having been approved by or filed with the relevant authorities with competent jurisdiction in the PRC (including the SASAC and the MOFCOM) unconditionally and irrevocably pursuant to the applicable laws;
- (d) all necessary approvals, consents, filings and waivers (if any) required to be obtained by the Panama Target Group, Double Strong, the Company or the Parent Company from any authorities or third party in respect of the Panama Acquisition Agreement and/or the transactions contemplated thereunder having been obtained unconditionally and irrevocably; and
- (e) the warranties under the Panama Acquisition Agreement remaining true, accurate and not misleading in all respects as of the Completion Date by reference to the facts and circumstances subsisting as at the Completion Date.

If any of the above conditions (other than condition (e) above) have not been satisfied on or before 31 December 2014 and condition (e) above is not satisfied on the completion date of the Panama Acquisition Agreement, the Panama Acquisition Agreement shall lapse.

The Company does not anticipate any material amendments to the Panama Acquisition Agreement. If there are any material amendments to the Panama Acquisition Agreement (including any adjustments to the consideration amounts which are not disclosed herein), the Company will

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comply with all relevant Listing Rules requirements (including Shareholders' approval requirements). The Company will issue an announcement to disclose the finalized considerations of the Target Group Companies after the completion of the Acquisition.

Completion

Subject to satisfaction of all the conditions precedent as set out in the paragraph headed "Conditions Precedent" of the above paragraph have been fulfilled or waived (as the case may be), completion of the Panama Acquisition Agreement will take place on the Completion Date unless otherwise specified therein. Completion of the Panama Acquisition Agreement is inter-conditional upon completion of the Sinotrans Tianze Acquisition Agreement.

(C) The Sinotrans Tianze Acquisition Agreement

Date 25 March 2014

Parties

Vendor: The Parent Company

Purchaser: Marine Peace

Subject Matter and Assets to be Acquired

The Sinotrans Tianze Acquisition Agreement, which was entered into after arm's length negotiations between the parties, set out the terms and conditions upon which Marine Peace shall acquire the Target Sinotrans Tianze Equity Interests from the Parent Company.

Consideration

The consideration under the Sinotrans Tianze Acquisition Agreement in the amount of RMB101,000,000 (equivalent to approximately HK\$127,927,000) is payable by Marine Peace to the Parent Company in RMB cash, determined at after arms' length negotiations between Marine Peace and the Parent Company and as approved by SASAC pursuant to the applicable local requirements taking into account various factors including but not limited to (1) the NAV of Sinotrans Tianze as at 30 June 2013, the difference of which has taken into account Sinotrans Tianze's expertise in ship management, conveying business and its niche market in the multi-purpose vessels shipping industry, as well as the potential that the Company will be able to expand into such market, (2) the strategic rationales behind the transactions contemplated such as reorganization and increasing the relative competitiveness of the Parent Group and the Enlarged Group in the shipping market, (3) comparable companies of similar size with Sinotrans Tianze engaging in similar businesses in the shipping industry, and (4) the prospect of shipping industry. The

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payment of the consideration under the Sinotrans Tianze Acquisition Agreement will be made in accordance with the following schedule:

- (a) a sum of RMB60,600,000 (equivalent to approximately HK\$76,756,000), representing 60% of the consideration, will be payable by Marine Peace to the designated bank account of the Parent Company within 5 Business Days after the completion of the acquisition of the rights, title, benefits and interests in the Target Sinotrans Tianze Equity Interests; and
- (b) the remaining balance of the consideration in the amount of RMB40,400,000 (equivalent to approximately HK\$51,171,000), representing 40% of the consideration, will be payable by Marine Peace to the designated bank account of the Parent Company within 60 days, subject to adjustment by adding any NAV Increase of no more than RMB1,000,000 and deducting any NAV Decrease of no more than RMB900,000 taking into account of the financial performance of Sinotrans Tianze during the period from 1 July 2013 to 30 June 2014 and factors that may potentially affect the NAV of Sinotrans Tianze including any uncertainty of the shipping market.

Conditions Precedent

The completion of the Sinotrans Tianze Acquisition Agreement is subject to the fulfillment or waiver of the following conditions precedent pursuant to the Sinotrans Tianze Acquisition Agreement:

- (a) the approval from the board of directors of the Parent Company in respect of the entering into of the Sinotrans Tianze Acquisition Agreement and the transactions contemplated thereunder having been obtained in accordance with the articles of association of the Parent Company;
- (b) the approval by the Independent Shareholders at the EGM of the entering into of the Sinotrans Tianze Acquisition Agreement and all transactions contemplated thereunder in accordance and compliance with the Listing Rules, having been obtained;
- (c) all conditions precedent to completion under the Panama Acquisition Agreement (except for such condition that requires the fulfillment of the conditions precedent of the Sinotrans Tianze Acquisition Agreement) having been fulfilled or waived (if applicable);
- (d) all necessary approvals, filings, authorisations, waivers (if applicable) and consents from any authorities or third party including the SASAC and MOFCOM in accordance with the applicable laws having been obtained; and

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- (e) the relevant new business licence from the competent SAIC having been obtained by Sinotrans Tianze.

The Sinotrans Tianze Acquisition Agreement may be amended or terminated upon the occurrence of certain events by the parties thereto in writing, including but not limited to a party to the Sinotrans Tianze Acquisition Agreement is in material breach of its obligations thereunder and any of the conditions precedent as set out above has not been fulfilled or waived (as the case may be) on or before 31 December 2014.

The Company does not anticipate any material amendments to the Sinotrans Tianze Acquisition Agreement. If there are any material amendments to the Sinotrans Tianze Acquisition Agreement (including any adjustments to the consideration amounts which are not disclosed herein), the Company will comply with all relevant Listing Rules requirements (including Shareholders' approval requirements). The Company will issue an announcement to disclose the finalized considerations of the Target Group Companies after the completion of the Acquisition.

Completion

Subject to satisfaction of all the conditions precedent as set out in the paragraph headed "Conditions Precedent" of the above paragraph have been fulfilled or waived (as the case may be), completion of the Sinotrans Tianze Acquisition Agreement will take place on the Completion Date unless otherwise specified therein. Completion of the Sinotrans Tianze Acquisition Agreement is inter-conditional upon completion of the Panama Acquisition Agreement.

(D) The Sinochart Acquisition Agreement

Date 25 March 2014

Parties

Vendor: The Parent Company

Purchaser: Marine Peace

Subject Matter and Assets to be Acquired

The Sinochart Acquisition Agreement, which was entered into after arm's length negotiations between the parties, set out the terms and conditions upon which Marine Peace has conditionally agreed to acquire the Target Sinochart Equity Interests for the Sinochart Acquisition Consideration. As at the date of the Sinochart Acquisition Agreement, the Target Sinochart Equity Interests comprise 49% of the equity interests in the Sinochart Group. Marine

Peace can only purchase 49% of the equity interests in Sinochart because the local rules and regulations (i.e. Regulations of the PRC on International Maritime Transportation (《中華人民共和國國際海運條例》), Rules for the Administration of Foreign-Funded International Marine Transportation (《外商投資國際海運業管理規定》) and Catalogue for the Guidance of Foreign Investment Industries (Revised in 2011) (《外商投資產業指導目錄》(2011年修訂)) that restrict foreign investment in PRC companies engaging in certain businesses and industries (such as the international cargo voyage transportation services which Sinochart intends to cover) and only permit the majority interest in such companies to be held by Chinese local partner(s).

Consideration

The Sinochart Acquisition Consideration in the amount of RMB434,000,000 (equivalent to approximately HK\$549,704,000) is payable by Marine Peace to the Parent Company in RMB cash, determined at after arms' length negotiations between Marine Peace and the Parent Company and as approved by SASAC pursuant to the applicable local regulatory requirement taking into account various factors including but not limited to (1) the NAV of Sinochart as at 30 June 2013, the difference of which has taken into account Sinochart's asset quality given its deposit with the Finance Company of more than RMB450,000,000 since 2011 and similar price-to-book value with comparable companies in the shipping industry which is about 1.25x in average, (2) the strategic rationales behind the transactions contemplated such as reorganization and increasing the relative competitiveness of the Parent Group and the Enlarged Group in the shipping market, (3) comparable companies of similar size with Sinochart engaging in similar businesses in the shipping industry, and (4) the prospect of shipping industry. The payment of the consideration under the Sinochart Acquisition Agreement will be made in accordance with the following schedule:

- (a) a sum of RMB260,400,000 (equivalent to approximately HK\$329,823,000), representing 60% of the consideration will be payable by Marine Peace to the designated bank account of the Parent Company within 5 Business Days after the completion of the acquisition of the rights, title, benefits and interests in the Target Sinochart Equity Interests; and
- (b) the remaining balance of the consideration in the amount of RMB173,600,000 (equivalent to approximately HK\$219,882,000), representing 40% of the consideration, will be payable by Marine Peace to the designated bank account of the Parent Company within 60 days, subject to adjustment by adding any NAV Increase and deducting any NAV Decrease within the range of RMB50,000,000 taking into account of the financial performance of Sinochart during the period from 1 July 2013 to 30 June 2014 and factors that may potentially affect the NAV of Sinochart including any uncertainty of the shipping market.

Conditions Precedent

The completion of the Sinochart Acquisition Agreement is subject to the fulfillment or waiver of the following conditions precedent pursuant to the Sinochart Acquisition Agreement:

- (a) the approval from the board of directors of the Parent Company in respect of the entering into of the Sinochart Acquisition Agreement and the transactions contemplated thereunder having been obtained in accordance with the articles of association of the Parent Company;
- (b) the approval by the Independent Shareholders at the EGM of the entering into of the Sinochart Acquisition Agreement and all transactions contemplated thereunder in accordance and compliance with the Listing Rules, having been obtained;
- (c) all necessary approvals, filings, authorizations and consents from any authorities or third parties including the SASAC and the MOFCOM in accordance with the applicable laws having been obtained; and
- (d) the relevant new business licence from the competent SAIC having been obtained by Sinochart.

The Sinochart Acquisition Agreement may be amended or terminated upon the occurrence of certain events by the parties thereto in writing, including but not limited to a party to the Sinochart Acquisition Agreement is in material breach of its obligations thereunder and any of the conditions precedent as set out above has not been fulfilled or waived (as the case may be) on or before 31 December 2014.

The Company does not anticipate any material amendments to the Sinochart Acquisition Agreement. If there are any material amendments to the Sinochart Acquisition Agreement (including any adjustments to the consideration amounts which are not disclosed herein), the Company will comply with all relevant Listing Rules requirements (including Shareholders' approval requirements). The Company will issue an announcement to disclose the finalized considerations of the Target Group Companies after the completion of the Acquisition.

Sinochart Acquisition Completion

Subject to satisfaction of all the conditions precedent as set out in the paragraph headed "Conditions Precedent" of the above paragraph have been fulfilled or waived (as the case may be), completion of the Sinochart Acquisition Agreement will take place on the Completion Date unless otherwise specified therein.

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(E) *The SNL 49% Acquisition Agreement*

Date 25 March 2014

Parties

Vendor: Sinotrans

Purchaser: Marine Harvest

Subject Matter and Assets to be Acquired

The SNL 49% Acquisition Agreement, which was entered into after arm's length negotiations between the parties, set out the terms and conditions upon which Marine Harvest shall acquire the Target SNL 49% Equity Interests and the SNL 49% Loan from Sinotrans. Marine Harvest can only purchase 49% of the equity interests in Sinotrans Container Lines because the local rules and regulations (i.e. Regulations of the PRC on International Maritime Transportation (《中華人民共和國國際海運條例》), Rules for the Administration of Foreign-Funded International Marine Transportation (《外商投資國際海運業管理規定》) and Catalogue for the Guidance of Foreign Investment Industries (Revised in 2011) (《外商投資產業指導目錄》(2011年修訂)) that restrict foreign investment in PRC companies engaging in certain businesses and industries (such as the international container transportation services which Sinotrans Container Lines principally covers) and only permit the majority interest in such companies to be held by Chinese local partner(s).

Consideration

The aggregate consideration under the SNL 49% Acquisition Agreement is RMB23,648,084.72 (equivalent to approximately HK\$29,953,000), representing RMB490,000 (equivalent to approximately HK\$621,000) for the acquisition of the Target SNL 49% Equity Interests determined at after arms' length negotiations between Marine Harvest and Sinotrans and as approved by SASAC pursuant to the applicable local regulatory requirements taking into account various factors including but not limited to (1) the NAV of the Target SNL 49% Equity Interests as at 30 June 2013, the difference of which has taken into account the businesses of both Sinotrans Container Lines and the Group which will be complementary to each other as Sinotrans Container Lines can charter vessels from the Company and the Company can penetrate into the container transportation business, and the low acquisition cost of Sinotrans Container Lines, (2) the strategic rationales such as reorganization and increasing the relative competitiveness of the Sinotrans Group and the Enlarged Group in the shipping market behind the transactions contemplated, (3) comparable companies of similar size with Sinotrans Container Lines engaging in similar businesses in the shipping industry, and (4) the prospect of shipping industry, and RMB23,158,084.72 (equivalent to approximately

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HK\$29,332,000) for the acquisition of the SNL 49% Loan. The considerations for the acquisition of the Target SNL 49% Equity Interests and the SNL 49% Loan shall be payable by Marine Harvest to Sinotrans in RMB cash in accordance with the following schedule:

- (a) a sum of RMB294,000 (equivalent to approximately HK\$372,000), representing 60% of the consideration, will be payable by Marine Harvest to the designated bank account of Sinotrans within 5 Business Days after the completion of the acquisition of the rights, title, benefits and interests in the Target SNL 49% Equity Interests; and
- (b) the remaining balance of the consideration in the amount of RMB196,000 (equivalent to approximately HK\$248,000), representing 40% of the consideration, will be payable by Marine Harvest to the designated bank account of Sinotrans within 60 days, subject to adjustment by adding any NAV Increase and deducting any NAV Decrease within the range of RMB100,000,000 taking into account of the financial performance of Sinotrans Container Lines over the past three years and factors that may potentially affect the NAV of Sinotrans Container Lines including any uncertainty of the shipping market; and
- (c) RMB23,158,084.72 (equivalent to approximately HK\$29,332,000) to be payable by Marine Harvest to Sinotrans for the SNL 49% Loan within 60 calendar days after completion of the acquisition of the rights, title, benefits and interests in the Target SNL 49% Equity Interests, subject to an increase of approximately RMB24,500,000 or decrease of approximately RMB23,030,000 taking into account the estimated demand in working capital by Sinotrans Container Lines and the disagreement to such amount shall be subject to adjustment based on the corresponding actual figure stated in the Audited Completion Audit Accounts.

Conditions Precedent

The completion of the SNL 49% Acquisition Agreement is subject to the fulfillment or waiver of the following conditions precedent pursuant to the SNL 49% Acquisition Agreement:

- (a) the approval by the Sinotrans' shareholders (other than the Parent Company and its associates) at a general meeting of Sinotrans of the entering into of the SNL 49% Acquisition Agreement and all transactions contemplated thereunder in accordance and compliance with the Listing Rules and its articles of association, having been obtained;
- (b) the approval by the Independent Shareholders at the EGM of the entering into of the SNL 49% Acquisition Agreement and all transactions contemplated thereunder in accordance and compliance with the Listing Rules, having been obtained;
- (c) all conditions precedent to completion under the HK Acquisition Agreement (except for such condition that requires the fulfillment of the conditions precedent of the SNL 49% Acquisition Agreement) having been fulfilled or waived (if applicable);
- (d) all necessary approvals, filings, authorizations and consents from any authorities or third parties including the SASAC and the MOFCOM in accordance with the applicable laws having been obtained; and
- (e) the relevant new business licence from the SAIC having been obtained by Sinotrans Container Lines.

The SNL 49% Acquisition Agreement may be amended or terminated upon the occurrence of certain events by the parties thereto in writing, including but not limited to a party to the SNL 49% Acquisition Agreement is in material breach of its obligations thereunder and any of the conditions precedent as set out above has not been fulfilled or waived (as the case may be) on or before 31 December 2014.

The Company does not anticipate any material amendments to the SNL 49% Acquisition Agreement. If there are any material amendments to the SNL 49% Acquisition Agreement (including any adjustments to the consideration amounts which are not disclosed herein), the Company will comply with all relevant Listing Rules requirements (including Shareholders' approval requirements). The Company will issue an announcement to disclose the finalized considerations of the Target Group Companies after the completion of the Acquisition.

Completion

Subject to satisfaction or waiver (as the case may be) of all the conditions precedent as set out in the paragraph headed “Conditions Precedent” above, completion of the SNL 49% Acquisition Agreement will take place on the Completion Date unless otherwise specified therein. In the event that the approval of Sinotrans’ Shareholders (other than the Parent Company and its associates) at the general meeting of Sinotrans having been obtained and Marine Harvest cannot fulfill any obligations under the SNL 49% Acquisition Agreement on the relevant Completion Date and Trade Worlder cannot fulfill any obligations under the HK Acquisition Agreement on the relevant Completion Date, the Parent Company undertakes to acquire the Target SNL 49% Equity Interests and the SNL 49% Loan from Sinotrans as well as the Target HK Sale Shares and the Sinotrans (HK) Logistics Shareholders Loan and the Sinotrans (HK) Shipping Loan from Sinotrans (HK) Logistics, respectively, on same terms. The rationale for such an undertaking from the Parent Company is that Sinotrans Container Lines will become its wholly-owned subsidiary if Marine Harvest cannot fulfill any obligations under the SNL 49% Acquisition Agreement and Trade Worlder cannot fulfill any obligations under the HK Acquisition Agreement. From a commercial perspective, the completion of the acquisition for Sinotrans Container Lines is necessary and inter-conditional upon the completion of the acquisition for the HK Target Group for maintaining a stable operation for Sinotrans Container Lines as the HK Target Group has been chartering four new vessels to Sinotrans Container Lines since the second half of 2013, details of which are stated in the paragraph headed “Reasons for and Benefits of the Acquisition” of the Circular.

To contemplate there would be a potential disposal of Sinotrans Container Lines, it was the commercial decision that Sinotrans and Sinotrans Container Lines entered into the Debt Waiver Agreement, pursuant to which Sinotrans has agreed to waive the amount of approximately US\$106,421,000 owed by Sinotrans Container Lines to Sinotrans as at 30 June 2013 upon the SNL Acquisition Completion or the completion as contemplated under the circumstance that the Parent Company will acquire the Target SNL 49% Equity Interests and the SNL 49% Loan from Sinotrans as well as the Target HK Sales Shares and the Sinotrans (HK) Logistics Shareholders Loan and the Sinotrans (HK) Shipping Loan from Sinotrans (HK) Logistics. If the SNL Acquisition Completion does not occur before 30 June 2014, the Debt Waiver Agreement will terminate and the amount owed by Sinotrans Container Lines to Sinotrans as at 30 June 2013 shall continue to be outstanding and payable.

6. *Principal factors considered regarding the Acquisition Agreements*

As discussed with the management of the Company, the aggregate consideration paid by the Company of approximately RMB549,140,002 (equivalent to approximately HK\$695,541,000) for the Sale Shares and Interests and approximately RMB23,158,084.72 and US\$44,038,650 (equivalent to approximately HK\$372,833,000) for assignment of the Shareholders Loan was determined after arm's length negotiations between the Purchasers and Vendors. The Company also determined the aggregate consideration with reference to P/Bs of comparable companies in the shipping industry, the average of which is approximately 1.25x. We have performed our analysis to justify the basis of determination in the sections headed "Comparable Companies" and "Comparable Transactions" below. Nevertheless, the aggregate consideration was also determined with reference to, inter alia, the following factors:

(a) Analysis of the Target Group from various aspects

As discussed with the management of the Company, we understand that the analysis of the Target Group includes, among other things, the sector outlook, market dynamics, key players, asset quality, historical financial and operating performance and business prospects of the Target Group.

Although the Target Group is currently suffering losses because of the market downturn, we consider that (i) the strong asset quality of the Target Group; (ii) potential expansion of its regional liner business to cover almost all the main cities and ports of the PRC and overseas; and (iii) strengthened fleet scale of the Enlarged Group will enable the Enlarged Group to be in a better position to capture the market rebound in the future.

As stated in the 2012 Annual Report and the 2013 Final Results, the Group's profit was down by 78.1% and 78.5% year-on-year respectively. As discussed in the sections headed "Industry overview" and "Reasons for and benefits of the Acquisition" above, we believe that the Acquisition will improve the Enlarged Group's profitability in future and help the Enlarged Group capture shipping market improvements. Nevertheless, the injection of the assets will create a new source of revenue to the existing businesses of the Group. In view of the addition of general cargo shipping business after the acquisition of Sinotrans Tianze Business, the Enlarged Group will reduce its reliance on dry bulk shipping for revenues and have more balanced revenue streams. After the Acquisition, we believe the Enlarged Group will have better access to a broader customer base to mitigate the risks of customer concentration.

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(b) *Comparison of the NAV of the Target Group Companies with the consideration under the Acquisition Agreements*

	NAV of equity interest acquired as at 30 June 2013 (US\$'000)	NAV of equity interest acquired as at 31 October 2013 (US\$'000)	Consideration (US\$'000)
HK Acquisition Agreement (Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping)	(4)	130	268
Panama Acquisition Agreement (Skyroyal & Skyglory)	(2,605)	(3,016)	1,949
100% equity interest in the Sinotrans Tianze	15,817	15,946	16,402
49% equity interests in the Sinochart Group (<i>Note 1</i>)	54,716	58,994	70,478
49% equity interests in the Sinotrans Container Lines Group (<i>Note 1</i>)	<u>(56,423)</u>	<u>(56,958)</u>	<u>80</u>
Total for the acquisition of the Sales Shares and Interest (<i>Note 2</i>)	<u>11,501</u>	<u>15,096</u>	<u>89,177</u>

Note:

- (1) NAV of equity interest acquired as at 30 June 2013 and 31 October 2013 for 49% equity interests in the Sinochart Group and 49% equity interests in the Sinotrans Container Lines Group are derived from multiplying 49% by NAV of their respective total equity interest as at 30 June 2013 and 31 October 2013.
- (2) Total consideration for the acquisition of the Sale Shares and Interests is approximately US\$89,177,000 (equivalent to approximately HK\$695,541,000), and total consideration for the acquisition of the Shareholders Loans is approximately US\$47,799,353 (equivalent to approximately HK\$372,833,000), therefore total consideration under the Acquisition Agreements equals to approximately HK\$1,068,374,000.

We are of the view that the basis of determination of consideration paid for Sale Shares and Interests is fair and reasonable. We have discussed with the management of the Company on the differences between the NAV and consideration under respective agreements that were described in the above section headed “Principal terms of the Acquisition Agreements” and considered the explanations are fair and reasonable. We noted that for the acquisition of the equity interests under the Sinotrans Tianze Acquisition Agreement and the Sinochart Acquisition Agreement, the respective considerations are just slightly above the NAV of equity interest acquired and were mainly determined with reference to P/Bs of comparable companies in the shipping industry (approximately 1.25x). We are of the view that P/B of the considerations are within the range of P/Bs of the Comparable Companies and therefore fair and reasonable. For the acquisition of the equity interests under the

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HK Acquisition Agreement, as the four vessels under Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping are newly-built, we consider that it is fair and reasonable to pay a larger premium to the NAV since the profitability of these vessels has not been fully reflected in the financial information yet. For the acquisition of the equity interests under the Panama Acquisition Agreement, we have reviewed the 5-year charter hire agreements of chartering vessel of Skyroyal to a subsidiary of Sinotrans and vessel of Skyglory to a subsidiary of Sinotrans and we consider both Skyroyal and Skyglory will generate sustainable and stable income. As such, we are of the view that this sustainable and stable income source can justify the consideration to acquire Skyroyal & Skyglory. In particular, for the consideration paid to acquire 49% equity interests in the Sinotrans Container Lines Group, we did a detailed analysis under the section headed “Comparable Companies” below.

(c) Comparable Companies

In order to assess the fairness and reasonableness of the aggregate consideration, we have attempted to identify comparable companies (the “Comparable Companies”) that (i) are currently listed on the Main Board of the Stock Exchange; (ii) are primarily engaged in shipping business in Hong Kong and the PRC; (iii) are of market capitalisation in the range of HK\$7.5 billion to HK\$12.5 billion as at the Latest Practicable Date (taking reference to the Company’s market capitalisation of approximately HK\$9.0 billion as at the Latest Practicable Date).

The Comparable Companies have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavours, in our research through public information.

In our assessment, we have considered price-to-earnings ratio (the “P/E”) and P/B, which are commonly used to assess the financial valuation of a company engaged in shipping business. Nevertheless, given the Target Group Companies in aggregate recorded a net loss historically, we consider the P/E of the Target Group is not representative and hence, should not be evaluated against the P/E of the Comparable Companies. The P/B analysis of the Comparable Companies is shown in Table 1 below.

In addition, in our calculation of P/B of the Acquisition, we excluded the consideration paid for SNL 49% Acquisition Agreement. As of 31 October 2013, Sinotrans Container Lines Group was in net liabilities of US\$116,240,000. On the Completion Date, upon effective of the Debt Waiver Agreement, which the total debts of approximately US\$106,421,000 due to Sinotrans will be waived upon the SNL Acquisition Completion. Accordingly, the net liabilities value of Sinotrans Container Lines Group will decrease by US\$106,421,000. We consider such waive of debt will largely improve Sinotrans Container Lines Group’s financial position and the premium paid to acquire Sinotrans Container Lines Group will be largely reduced.

Furthermore, we consider that it will not be fair and reasonable to value the business of Sinotrans Container Lines Group by simply using P/B as the only factor, instead we should also consider other qualitative factors such as the asset quality of

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Sinotrans Container Lines Group and also the fact that container shipping industry is picking up gradually, which were mentioned in the sections headed “Industry overview” and “Reasons for and benefits of the Acquisition” above. We also consider the consideration paid for SNL 49% Acquisition Agreement, which was only RMB23.7 million and only represented approximately 2.8% of the total consideration of the Acquisition. We concur with the management of the Company that the consideration paid for SNL 49% Acquisition Agreement is not significant compared to the total consideration paid for the Acquisition. Historically, Sinotrans Container Lines Group was in net liabilities position due to losses suffered from sluggish market environment. We are of the view that such situation will be improved in future based on our analysis in the section headed “Industry overview” above. Also, after considering the qualitative factors and future recovery in the container business, we are of the view that the acquisition of the Target SNL 49% Equity Interests and the SNL 49% Loan will be beneficial to the Company and Shareholders as a whole.

Table 1 – Comparable Companies analysis on P/B

Company name	Principal business	Ticker	Market capitalisation (HK\$' billion)	P/B (x) (Note 1)
China COSCO Holdings Company Limited	Provisions of a range of container shipping, dry bulk shipping, managing and operating container terminals, container leasing and logistics services all over the world.	1919HK	8.8	1.12
Pacific Basin Shipping Ltd.	Provision of dry bulk shipping services internationally, and towage services to the harbour and offshore sectors in Australia and New Zealand.	2343HK	8.7	0.86
SITC International Holdings Company Limited	Provision of marine transportation services, integrated freight forwarding, shipping agency, depot and warehousing, trucking and ship brokerage services and related businesses.	1308HK	9.5	1.64
			Maximum	1.64
			Minimum	0.86
			Average	1.21
The Target Group Companies excluding Sinotrans Container Lines Group (Note 2)				1.15

Source: Bloomberg and the Circular

Notes:

- (1) The P/Bs of the Comparable Companies are calculated by dividing their respective market capitalisation as at the Latest Practicable Date by their net asset value as of 31 December 2013 as compiled by Bloomberg.

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- (2) The P/B of the Target Group Companies excluding Sinotrans Container Lines Group is calculated by dividing the aggregate consideration of US\$133.1 million (excluding consideration paid for SNL 49% Acquisition Agreement) by total net asset value of the Target Group Companies and shareholder loans acquired (excluding Sinotrans Container Lines Group) of US\$116.1 million as of 31 October 2013. The aggregate consideration of US\$133.1 million was calculated by adding up total consideration under (i) HK Acquisition Agreement; (ii) Panama Acquisition Agreement; (iii) Sinotrans Tianze Acquisition Agreement; and (iv) Sinochart Acquisition Agreement, the RMB denominated considerations were translated to US\$ using exchange rate of USD/RMB at 6.1579.

As shown in Table 1 above, the P/Bs of the Comparable Companies ranged from 0.86x to 1.64x (the “P/B Range I”) with an average of 1.21x (the “Average P/B I”). The P/B of the Target Group Companies (excluding Sinotrans Container Lines Group) of 1.15x is within the range of P/B Range I and lower than Average P/B I.

In light of the above, we are of the view that the aggregate consideration for the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

(d) Comparable Transactions

In order to assess the fairness and reasonableness of the aggregate consideration, to the best of our endeavours, we have reviewed transactions announced by companies listed on the Main Board of the Stock Exchange over the past two years which (i) were subject to shareholders’ approval under the Listing Rules; and (ii) involved acquisition or disposal of shipping logistics and transportation related assets (the “Comparable Transactions”). We consider that two years is a reasonable period as the transactions announced over two years were out-of-date and were performed in a different market environment and hence might have a different pricing basis.

The Comparable Transactions are selected exhaustively based on the above criteria, which have been identified, to our best endeavour, in our research through public information.

Similarly, in our assessment, we have considered P/B as our benchmark. As the Target Group Companies in aggregate recorded a net loss historically, we considered the P/E of the Target Group is not representative and hence, should not be evaluated against the P/E of the Comparable Transactions. Besides, we have not considered the consideration paid for 49% SNL Acquisition Agreement due to the same reason mentioned in the section headed “Comparable Companies” above. The P/B analysis on the Comparable Transactions is shown in Table 2 below.

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Table 2 – Comparable Transactions over the past two years (Note 1)

Date of announcement	Listed company involved	Details of transactions	Stock code	P/B (x) of the disposed company (Note 2)
27 March 2013	China COSCO Holdings Company Limited	Disposal of COSCO Logistics Co., Ltd. by China COSCO Holdings Limited to its parent company which constitutes a connected transaction. The total consideration was approximately RMB6.74 billion. COSCO Logistics Co., Ltd. was principally engaged in the businesses of logistics services and other related services.	1919 HK	1.14
31 July 2013	Noble Century Investment Holding Limited	Disposal of a vessel-owning company to another company wholly-owned by a connected person. The total consideration was approximately HK\$40 million.	2322 HK	1.15
26 November 2013	China Shipping Container Lines Company Limited	Disposal of a terminal development company to a connected person who was also under China Shipping Group. The total consideration was approximately RMB3.4 billion.	2866 HK	1.35
7 March 2014	Jinhui Holdings Company Limited	Disposal of two vessels. The total consideration was approximately HK\$436.8 million.	137 HK	1.01
			Maximum	1.35
			Minimum	1.01
			Average	1.16
	The Target Group Companies excluding Sinotrans Container Lines Group (Note 3)			1.15

Source: the Circular and the respective circulars of the Comparable Transactions

Notes:

- (1) The Comparable Transactions over the past two years all involved acquisitions and disposals by the listed companies only.
- (2) The P/Bs of the disposed companies are calculated by dividing the disposal consideration by respective net asset values of the companies being disposed.

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- (3) The P/B of the Target Group Companies excluding Sinotrans Container Lines Group is calculated by dividing the aggregate consideration of US\$133.1 million (excluding consideration paid for SNL 49% Acquisition Agreement) by total net asset value of the Target Group Companies and shareholder loans acquired (excluding Sinotrans Container Lines Group) of US\$116.1 million as of 31 October 2013. The aggregate consideration of US\$133.1 million was calculated by adding up total consideration under (i) HK Acquisition Agreement; (ii) Panama Acquisition Agreement; (iii) Sinotrans Tianze Acquisition Agreement; and (iv) Sinochart Acquisition Agreement, the RMB denominated considerations were translated to US\$ using exchange rate of USD/RMB at 6.1579.

As indicated in Table 2 above, the P/Bs of the Comparable Transactions ranged from 1.01x to 1.35x (the “P/B Range II”) with an average of 1.16x (the “Average P/B II”). The P/B of the Target Group Companies (excluding Sinotrans Container Lines Group) of 1.15x is within the range of P/B Range II and lower than Average P/B II.

As such, from the perspective of the Comparable Transactions analysis, we are of the view that the aggregate consideration is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

(e) Basis of determination of adjustment to the consideration

We noted that the Acquisition Agreements included a term that the consideration may subject to adjustment by adding the NAV Increase and deducting the NAV Decrease. The NAV Increase was defined by the difference between the NAV of the relevant Target Group Companies as at the Completion Date in the Completion Accounts or the Audited Completion Accounts minus the NAV of the relevant Target Group Companies as at the Accounts Date in the Audited Accounts and the NAV Decrease was defined by the difference between the NAV of the relevant Target Group Companies as at the Accounts Date in the Completion Accounts or the Audited Completion Accounts minus the NAV of the relevant Target Group Companies as at the Completion Date in the Audited Accounts.

We are of the view that such adjustment mechanism is a commonly adopted practice in the market as this will reflect the audited actual value of the Target Group Companies on the Completion Date to the respective considerations. As such, we are of the view that the basis of determination of adjustment to the consideration is fair and reasonable.

Under the HK Acquisition Agreement, regarding the acquisitions of Target HK Sale Shares, each acquisition should subject to NAV Increase/NAV Decrease adjustment of an amount not more than RMB12,000,000 taking into account of their financial performance since their commencement of business in the second half of 2013 and factors that may potentially affect the NAV of Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping including any uncertainty of the shipping market. For the acquisition of Sinotrans (HK) Logistics Shareholders Loan,

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it shall only be subject to adjustment of no more than RMB5,000,000 taking into account the estimated demand in working capital for each of Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping based on the corresponding actual figure stated in the Audited Completion Audit Accounts.

Under the Sinotrans Tianze Acquisition Agreement, the consideration to acquire the Target Sinotrans Tianze Equity Interests will be subject to adjustment by adding any NAV Increase of no more than RMB1,000,000 and deducting any NAV Decrease of no more than RMB900,000 taking into account of the financial performance or Sinotrans Tianze during the period from 1 July 2013 to 30 June 2014 and factors that may potentially affect the NAV of Sinotrans Tianze including any uncertainty of the shipping market.

Under the Sinochart Acquisition Agreement, the consideration to acquire 49% of the equity interests in the Sinochart Group will be subject to adjustment by adding any NAV Increase and deducting any NAV Decrease within the range of RMB50,000,000 taking into account of the financial performance of Sinochart during the period from 1 July 2013 to 30 June 2014 and factors that may potentially affect the NAV of Sinochart including any uncertainty of the shipping market.

Under the SNL 49% Acquisition Agreement, the consideration to acquire SNL 49% Equity Interests will be subject to adjustment by adding any NAV Increase and deducting any NAV Decrease within the range of RMB100,000,000 taking into account of the financial performance of Sinotrans Container Lines over the past three years and factors that may potentially affect the NAV of Sinotrans Container Lines including any uncertainty of the shipping market. The consideration to acquire the SNL 49% Loan will be subject to an increase of approximately RMB24,500,000 or decrease of approximately RMB23,030,000 taking into account the estimated demand in working capital by Sinotrans Container Lines and the disagreement to such amount shall be subject to adjustment based on the corresponding actual figure stated in the Audited Completion Audit Accounts.

We consider such limitations in NAV Increase/NAV Decrease adjustment were after arm's length negotiation between the parties and in normal commercial terms. We also checked the relevant supporting documents provided by the management of the Company to justify the factors considered to determine the limitations in NAV Increase/NAV Decrease adjustment and we are of the view that these adjustment amounts are fair and reasonable. This is also a common market practice to have such NAV Increase/NAV Decrease adjustment limitation in order to protect both the Purchasers and the Vendors. As such, we are of the view that inclusion of such limitation in NAV Increase/NAV Decrease adjustment is fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

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(f) *Payment terms*

We noted that the consideration under the Acquisition Agreements will be paid within 5 Business Days/60 calendar days after completion of the related acquisitions. As discussed with the management of the Company, this was determined after arm's length negotiation between the parties and whether within 5 Business Days/60 calendar days will be basically depending on the denominated currency of the consideration. Additional approval procedures from the State Administration of Foreign Exchange will be needed if the consideration will be paid by US\$, which will usually take longer time to process. We have reviewed similar transactions that were also done by state-owned enterprises, we noted that the consideration paid by US\$ will usually take longer time to process. As such, we are of the view that such payment terms are in line with the market practice and are fair and reasonable.

For the Sinotrans Tianze Acquisition Agreement, Sinochart Acquisition Agreement and SNL 49% Acquisition Agreement, 60% of respective considerations will be paid within 5 Business Days after completion of the acquisition. The remaining 40% will be paid later, within 60 days after completion of the acquisition, subject to adjustment by adding any NAV Increase and deducting any NAV Decrease. As discussed with the management of the Company, this was determined after arm's length negotiation between the parties. We are of the view that such arrangement is commercially sensible that the Purchasers can directly adjust for NAV Increase/NAV Decrease when settling the remaining 40% of the consideration, which will be efficient and beneficial for both Purchasers and Vendors.

Having considered the above, we are of the view that the payment terms of the Acquisition Agreements are fair and reasonable.

7. *Principal terms of the JV Agreements*

Background

Upon completion of the Acquisition, Sinochart and Sinotrans Container Lines will be converted into sino-foreign joint ventures. The Sinochart JV Agreement sets out the rights and obligations of the joint venture partners in Sinochart following the Sinochart Acquisition Completion; and the SNL JV Agreement sets out the rights and obligations of the joint venture partners in Sinotrans Container Lines following the SNL Acquisition Completion. The JV Agreements will be effective upon the approval by the MOFCOM

(A) The Sinochart JV Agreement

Date 25 March 2014

Parties

(1) The Parent Company

(2) Marine Peace

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In order to regulate the business and management of, as well as the respective rights and obligations of the owners of the equity interests in Sinochart in future, the Parent Company and Marine Peace entered into the Sinochart JV Agreement and the Sinochart JV Articles of Association. The principal terms of the Sinochart JV Agreement and the Sinochart JV Articles of Association are as follows:

Principal business of Sinochart

In accordance with the terms of the Sinochart JV Agreement, Sinochart's business includes vessel voyage chartering and time chartering in dry bulk vessel, cargo transportation, international cargo voyage transportation, sale and purchase of vessels, leasing of vessel, shipping maintenance and repair, ship operation and management, and provision of technical inquiries and consultation services, etc.

Operative term

The Sinochart JV Agreement (including the Sinochart JV Articles of Association) shall become effective upon the approval of the MOFCOM. The operative term of Sinochart will be 30 years commencing from the issue date of the new business licence from the SAIC to Sinochart, and such term shall be extended upon agreement by the Parent Company and Marine Peace. Any amendment of the Sinochart JV Articles of Association shall only be made upon agreement between the Company and the Parent Company and the approval from the MOFCOM.

Board composition and supervisor

Pursuant to the Sinochart JV Articles of Association, the board of directors of Sinochart shall consist of three directors and each director's term of office is three years. The Parent Company has the right to appoint and remove up to one director, and Marine Peace has the right to appoint and remove up to two directors of Sinochart, respectively. The chairman of the board of directors of Sinochart shall be appointed by Marine Peace. A director can be reappointed and continued to hold office when his/her term of office is expired.

The board meeting of Sinochart shall be convened at least once a year. The meeting shall be called and presided over by the chairman of the board with the presence of at least two directors. Should the chairman be unable to call the meeting, he shall authorize a director to call and preside over the meeting. The chairman may convene an interim meeting upon a proposal made by more than one-third of the total number of directors. A board meeting requires a quorum of two-thirds of the directors.

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The board of directors of Sinochart shall be the highest authority of Sinochart, which shall decide all major issues concerning the joint venture including making decision on the management plans and investment solutions, the annual financial budgets and final accounts, the profit distribution plans and indemnity measures, the internal management organization, the appointment or dismissal of the general manager, the vice general manager and chief financial officer and related remuneration issue, and formulating the basic management framework.

The following matters shall only be resolved with the unanimous comment of the directors present at the board meeting:

- (a) Amendment to the Articles of association of the joint venture;
- (b) Suspension or dissolution of the joint venture;
- (c) Increase in or reduction of the registered capital of the joint venture; and
- (d) Merger or division of the joint venture.

Marine Peace has the right to appoint one supervisor of Sinochart.

Profit distribution

Any distribution of the distributable net profit of Sinochart will be determined by the board of directors of Sinochart and will be made to the equity holders of Sinochart in accordance with their respective equity interests therein.

Transfer of equity interests

The Parent Company and Marine Peace can transfer all or part of its equity interests in Sinochart to each other. Any transfer of equity interest in Sinochart by a party to the Sinochart JV Agreement to a third party shall obtain prior approval from the other party, as well as the prior consent from the relevant authorities. A joint venture party shall not offer more favourable terms to a third party for any equity transfer.

(B) The SNL JV Agreement

Date 25 March 2014

Parties

- (1) The Parent Company
- (2) Marine Harvest

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In order to regulate the business and management of, as well as the respective rights and obligations of the owners of the equity interests in Sinotrans Container Lines in future, the Parent Company and Marine Harvest entered into the SNL JV Agreement and the SNL JV Articles of Association. The principal terms of the SNL JV Agreement and the SNL JV Articles of Association are as follows:

Principal business of Sinotrans Container Lines

In accordance with the terms of the SNL JV Agreement, Sinotrans Container Lines' business encompasses international container transportation services for export and import goods, including cargo transportation, shipping agency, freight forwarding, container depot and storage services (except dangerous goods), international multi-transportation, insurance, provision of technical inquiries and consultation services, import and export trading of merchandise and technique, vessels inspection services, vessels maintenance and repairing services and marine management, etc.

Operative term

The SNL JV Agreement (including the SNL JV Articles of Association) shall become effective upon completion of the SNL Acquisition Completion. The operative term of Sinotrans Container Lines will be 30 years commencing from the issue date of the new business licence from the SAIC to Sinotrans Container Lines, and such term shall be extended upon agreement by the Parent Company and Marine Harvest. Any amendment of the SNL JV Articles of Association shall only be made upon agreement between the Company and the Parent Company and the approval from the MOFCOM.

Board composition

The board of directors of Sinotrans Container Lines shall consist of three directors and each director's term of office is four years. The Parent Company has the right to appoint and remove up to one director, and Marine Harvest has the right to appoint and remove up to two directors of Sinotrans Container Lines, respectively. The chairman of the board of directors of Sinotrans Container Lines shall be appointed by Marine Harvest. A director can be reappointed and continued to hold office when his/her term of office is expired.

The board meeting of Sinotrans Container Lines shall be convened at least once a year. The meeting shall be called and presided over by the chairman of the board with the presence of at least two directors. Should the chairman be unable to call the meeting, he shall authorize a director to call and preside over the meeting. The chairman may convene an interim meeting upon a proposal made by more than one-third of the total number of directors. A board meeting requires a quorum of two-thirds of the directors.

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The board of directors of Sinotrans Container Lines shall be the highest authority of Sinotrans Container Lines, which shall decide all major issues concerning the joint venture including making decision on the management plans and investment solutions, the annual financial budgets and final accounts, the profit distribution plans and indemnity measures, the internal management organization, the appointment or dismissal of the general manager, the vice general manager and chief financial officer and related remuneration issue, and formulating the basic management framework.

The following matters shall only be resolved with the unanimous comment of the directors present at the board meeting:

- (a) Amendment to the Articles of association of the joint venture;
- (b) Suspension or dissolution of the joint venture;
- (c) Increase in or reduction of the registered capital of the joint venture; and
- (d) Merger or division of the joint venture.

Transfer of equity interests

The Parent Company and Marine Harvest can transfer all or part of its equity interests in Sinotrans Container Lines to each other. Any transfer of equity interest in Sinotrans Container Lines by a party to the SNL JV Agreement to a third party shall obtain prior approval from the other party, as well as the prior consent from the relevant authorities. A joint venture party shall not offer more favourable terms to a third party for any equity transfer.

Profit distribution

Any distribution of the distributable net profit of Sinotrans Container Lines will be determined by the board of directors of Sinotrans Container Lines and will be made to the equity holders of Sinotrans Container Lines in accordance with their respective equity interests therein.

8. *Reasons and benefits of entering into the JV Agreements*

We have reviewed the terms of the JV Agreements and based on our discussion with the management of the Company, we are of the view that the JV Agreements were negotiated at arm's length. In accordance with the JV Agreements, the capital contributions will be in proportion to the equity interest of respective parties.

Furthermore, in respect of board composition, both Marine Peace and Marine Harvest will have the right to appoint and remove two out of three directors though they only owned 49% of Sinotrans Container Lines and Sinochart respectively. Based on our discussion with the management of the Company, Sinotrans Container Lines and Sinochart will become subsidiaries of the Company and their accounts will be consolidated with the accounts of the Company.

Therefore, we considered both Marine Peace and Marine Harvest will benefit from the board control under the JV Agreements, which are in the interests of the Company and Shareholders as a whole. Furthermore, through the control of Sinochart and Sinotrans Container Lines, the Group can efficiently manage both Sinochart and Sinotrans Container Lines and create additional synergies with the Enlarged Group.

9. *Financial impacts of the Acquisition*

(a) Effect on the NAV and NAV per share

Upon completion, the Target Group Companies will become subsidiaries of the Company and the financial information of those companies will be consolidated into the consolidated financial statements of the Company. As noted from the unaudited pro forma consolidated balance sheet of the Enlarged Group set out in Appendix IV to the Circular, on the assumption that the Acquisition had been completed on 31 December 2013, the unaudited pro forma consolidated net asset value of the Enlarged Group immediately upon completion of Acquisition would have increased to approximately US\$2,206.7 million as compared to the audited consolidated net asset value of the Group as at 31 December 2013 of approximately US\$2,174.9 million.

As such, we consider the Acquisition will have a positive effect on the NAV and NAV per share of the Group.

(b) Effect on the revenue

As noted from the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group set out in Appendix IV to the Circular, on the assumption that the Acquisition had been completed on 1 January 2013, the Enlarged Group would have recorded an unaudited pro forma consolidated revenue of approximately US\$1,492.4 million, representing an increase of approximately US\$1,297.4 million.

As such, we consider the Acquisition will have a positive effect on the revenue of the Group.

(c) Effect on the earnings

As noted from the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group set out in Appendix IV to the Circular, on the assumption that the Acquisition had been completed on 1 January 2013, the Enlarged Group would have recorded an unaudited pro forma consolidated loss attributable to equity holders of approximately US\$9.4 million, representing a decrease of approximately US\$13.7 million as compared to the audited consolidated profit attributable to equity holders of the Group of approximately US\$4.3 million.

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As described in the section headed “Reasons for and benefits of the Acquisition” above, the Acquisition will improve the Group’s results by increasing revenue and profit and strengthen its market-leading position. Besides, the additional synergies will bring positive effect to the earnings of the Enlarged Group in future. However, the exact effect cannot be quantified at the moment.

As such, we can consider that the Acquisition will have a potential positive impact on earnings of the Group.

(d) Effect on the cash and working capital

As disclosed in the 2013 Final Results, the Group had net current assets of approximately US\$909.5 million (including cash and bank balances of approximately US\$886.1 million). As referred to the unaudited pro forma consolidated balance sheet of the Enlarged Group set out in Appendix IV of the Circular, assuming the Acquisition had been completed on 31 December 2013, the unaudited pro forma net current assets will slightly decrease to approximately US\$876.6 million (including cash and bank balances of approximately US\$814.6 million) upon completion of the Acquisition.

As such, we concur with the management of the Company that the Acquisition will not have a material adverse impact on the cash position and working capital of the Group.

(e) Effect on the net gearing

Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group set out in Appendix IV to the Circular, the Group had a net cash (in excess of debt) position before completion of the Acquisition. And upon completion of the Acquisition, the Enlarged Group will continue to be in a net cash (in excess of debt) position.

As such, we consider the Acquisition will not have a material adverse impact on the net gearing of the Group.

In light of:

- (a) the positive effect on the NAV and NAV per share of the Group;
- (b) the positive effect on the revenue of the Group;
- (c) the potential positive effect on the earnings of the Group;
- (d) no material adverse impact on the cash position and the working capital of the Group; and
- (e) no material adverse impact on the net gearing of the Group,

we are of the view that the Acquisition will have a positive financial effect on the Group and is in the interests of the Company and the Shareholders as a whole.

II. CONTINUING CONNECTED TRANSACTIONS

Background and Reasons for Entering into the Reviewed Transactions

References are made to the 2012 Announcement and the circular of the Company dated 16 April 2012 in relation to the Renewed Continuing Connected Transactions Agreements. The Company entered into the Renewed Continuing Connected Transactions Agreements with the Parent Group, in relation to, among others, the provision and receipt of general services by the Group to or from Parent Group, and the chartering of vessels by the Group to members of Parent Group.

In our capacity as Independent Financial Adviser, our role is to advise the Independent Board Committee and Independent Shareholders in relation to (i) the Supplemental Parent Master Chartering Agreement; (ii) the Supplemental Parent Master Services Agreement; (iii) the CCT JV Master Chartering Agreements; and (iv) the CCT JV Master Services Agreements (the “Reviewed Transactions”).

The management of the Company consider that the Reviewed Transactions are of the types that are entered into in the ordinary and usual course of business of the Enlarged Group and on a frequent and regular basis. Therefore, the management of the Company consider that it would be: (i) impracticable to negotiate for numerous agreements with the Parent Group; and (ii) too costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Listing Rules. Hence, the management of the Company are of the view that the Reviewed Transactions will be beneficial to the Company and the Shareholders as a whole.

(A) Supplemental Parent Master Services Agreement

According to the Renewed Master Services Agreement, members of the Group have provided and received general services to or from members of the Parent Group to facilitate the businesses between the Group or Parent Group, the term of which will expire on 31 December 2015.

It is expected that the existing crew management services provided by members of the Parent Group to members of the Target Group will continue following the Acquisition, which will result in an increase in the annual cap for the category of crew management services provided by members of the Parent Group to members of the Target Group. In addition, certain existing services currently provided by members of the Parent Group to members of the Target Group (including the freight forwarding services, containers chartering and container depot) will continue following the Acquisition. On 25 March 2014, the Company terminated the Renewed Master Services Agreement and replaced it with the Supplemental Parent Master Services Agreement which was entered into between the Company and the Parent Company. The purpose of entering into the Supplemental Parent Master Services Agreement is to facilitate the cooperation between the Parent Group and the Enlarged Group and better utilize their internal resources to increase competitiveness, which is mutually beneficial to each other.

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General Principles and Terms

The Supplemental Parent Master Services Agreement is valid for a term of three years commencing from 1 January 2014 and expiring on 31 December 2016. The general services provided by the Enlarged Group to the Parent Group under the Supplemental Parent Master Services Agreement include:

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

The general services provided by the Parent Group to the Enlarged Group under the Supplemental Parent Master Services Agreement include:

- (a) vessel management services;
- (b) commercial management services;
- (c) consultancy services;
- (d) shipping broker services;
- (e) shipping agency services;
- (f) maintenance and repairing services;
- (g) supervisory services regarding construction of vessels;
- (h) crew agency services (including crew management services);
- (i) insurance broker services;
- (j) refuelling services;
- (k) vessels inspection services;
- (l) freight forwarding services;
- (m) containers chartering services; and

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(n) container depot services.

The Supplemental Parent Master Services Agreement requires, in general terms, that

1. the prices of the services to be provided must be fair and reasonable;
2. the terms and conditions in relation to the general services to be provided by the Enlarged Group to the Parent Group should not be more favourable to the Parent Group than those available to Independent Third Parties from the Enlarged Group; and
3. the terms and conditions in relation to the general services to be provided by the Parent Group to the Enlarged Group should be no less favorable than those available to Independent Third Parties from the Parent Group.

We have reviewed the terms of the Supplemental Parent Master Services Agreement and noted that the terms of which are the similar to the terms of the Renewed Master Services Agreement. The pricing principles of the Supplemental Parent Master Services Agreement are determined (i) at market prices depending on the supply and demand for the relevant service and benchmarking against similar service offered by other comparable suppliers of similar operational size and scale in the market; and (ii) on terms no less favourable than those offered by and no more favourable than those offered to Independent Third Parties for the relevant transactions contemplated under the relevant agreements.

The General Pricing Principles applicable to the determination of service fees payable under the Supplemental Parent Master Services Agreement

To ensure that the actual prices charged are on normal commercial terms, the Company will conduct checks as to pricing and payment terms prior to the entering into any new transaction to review and assess whether the services provided/received are in accordance with the terms of the relevant agreement and is no less favourable to the Enlarged Group than those available to Independent Third Parties. In addition, the Company will engage the auditors of the Company to conduct an annual review of the continuing connected transactions of the Company to assess whether such transactions have been carried out in accordance with the relevant terms of the agreement entered into by the Company.

As discussed with the management of the Company, there is no pricing policy or guideline published or adopted for the relevant services under the Supplemental Parent Master Services Agreement within the market. The services team of the Company, having market intelligence regarding pricing of different types of services in the shipping market, is responsible for reviewing and approving the pricing prior to entering into any new agreement. As there are alternative sources of supplies of all types of services with comparable pricing and quality offered to / by the Enlarged Group and the Parent Group, both the Enlarged Group and the Parent Group will make reference to the price of similar services offered from Independent Third Parties for comparison purpose prior to the entering into any new agreement.

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We have discussed with the management of the Company and obtained the Group's relevant internal control manual. For the provision of general services by the Enlarged Group to the Parent Group, the Group's internal control manual states that the Group must offer the terms of the supply of general services contracts to the Parent Group no more favourable than, i.e. at price higher or equal to the market price of similar services that the Enlarged Group will offer to Independent Third Parties. The market price will be referenced to public resources available in the market, on the date of entering into any new agreement, for instance: (i) ship management services, commercial management services and corporate administrative services will make reference to the price of similar services depending on the vessel and crew size offered by other ship management companies such as V.Ships, Anglo Eastern, Wallem or Univan, etc.; (ii) consultancy services will make reference to the average price of similar services in respect of ship construction and installation advice, ship health and safety consultancy, specialist manning and project consultancy offered by other independent marine consultancy companies in the market to other Independent Third Parties; (iii) ship broking services will make reference to the average price of similar broking services in respect of dry cargo broking, tanker broking or container broking offered by other ship broking market leaders such as Clarksons, Simpson, Spence & Young, Arrow, Braemar Shipping Services, etc.; (iv) shipping agency service will make reference to the price information published by the Ministry of Transport of the PRC and crew agency services will make reference to the minimum crew wages scale from the Hong Kong Seafarer Mutual Assistance Fund; and (v) freight forwarding services will make reference to the contract price of similar services offered by other freight forwarders in the market. We reviewed the source of market data and considered they are representative source of market data. Where there is no relevant market price, then the relevant price will be determined according to the historical price of the Group providing similar series or comparable market suppliers of similar size providing similar services in the past year, and in particular for the freight forwarding services, according to the cost incurred plus an appropriate margin with reference to the average profit margin of similar freight forwarding services in the market depending on the type, weight and size of goods carried at a rate of no more than 5%. The other types of services will not apply the cost plus margin pricing method. We reviewed the supporting documents provided by management of the Company to justify the profit margin of no more than 5% for freight forwarding services and consider this rate is appropriate, reasonable and well-accepted in the market.

For the provision of general services by the Parent Group to the Enlarged Group, the Group's internal control manual states that the services team of the Group must obtain at least two fee quotes from Independent Third Parties of similar scale offering similar services to determine if the price and terms offered by the Parent Group are fair and reasonable and around the ranges of those quotes offered by the Independent Third Parties prior to entering into any new agreement. We understand and are confirmed by the Company that in determining the pricing for such services, the Enlarged Group will take into consideration such source of independent market data for similar services to ensure that the pricing of these services will be at market prices depending on the supply and demand for the relevant service and benchmarking against similar service offered by other comparable suppliers in the market and on normal commercial terms. If the terms of provision of general services offered by the Parent Group to the Enlarged Group are no less favourable than those offered by Independent Third Parties, the quality of service and long-term business relationship and cooperation between the Parent Group and the Enlarged Group will be considered and the Enlarged Group will select the Parent Group as the general services provider.

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As such, we have obtained and reviewed, on a sample basis to obtain one invoice per quarter in the past one year, the historical invoices of the Enlarged Group and Parent Group and from other Independent Third Parties and noticed that the pricing basis under the Supplemental Parent Master Services Agreement were comparable to that of the Independent Third Parties. As discussed with the management of the Company, the Directors believe that these procedures can ensure the pricing of services provided/received will be no less favourable to the Enlarged Group than those available to Independent Third Parties and therefore can ensure the transactions will be conducted on normal commercial terms. We are of the view the terms and conditions under the Supplemental Parent Master Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Reasons for and benefits of entering into the Supplemental Parent Master Services Agreement

The purpose of entering into the Supplemental Parent Master Services Agreement is to facilitate the cooperation between the Parent Group and the Enlarged Group and better utilise their internal resources to increase competitiveness, which is mutually beneficial to each other. For example, as discussed with management of the Company, the Enlarged Group will provide shipping agency services for vessels chartered in by the Parent Group which arrive at the ports in Singapore. Likewise, the Parent Group will provide shipping agency services for the vessels of the Enlarged Group arriving at the PRC ports. This reduces the costs for setting up shipping agency services networks at places where the other party has presence and is mutually beneficial to each other. The management of the Company believes that such continuing contractual relationships are expected to broaden the revenue source of the Enlarged Group, bring synergies to both parties and provide the Enlarged Group with overall business and operational convenience.

As an extension of shipping related services, the management of the Company advised that the provision of shipping broker services regarding dry bulk vessels, maintenance and repairing services, insurance broker services and refuelling services by the Parent Group to the Enlarged Group are for the purpose of supporting the efficient operation of the Enlarged Group, which enables the Enlarged Group to fully leverage their advantages to achieve better operating performance of the Enlarged Group.

Having considered the above, we concur with the management of the Company that the entering into of the Supplemental Parent Master Services Agreement will enable the Enlarged Group to benefit from continuing its business relationship with the Parent Group which is in the ordinary and usual course of business of the Enlarged Group and is in the interest of the Company and the Shareholders as a whole.

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Historical transaction amounts

	For the year ended 31 December 2010 (US\$'000)	For the year ended 31 December 2011 (US\$'000)	For the year ended 31 December 2012 (US\$'000)	For the year ended 31 December 2013 (US\$'000)
Provision of general services by the Enlarged Group to the Parent Group	408	468	482	497
Receipt of general services by the Enlarged Group from the Parent Group	459,679	602,173	560,944	442,619

For the receipt of general services by the Enlarged Group from Parent Group, the fluctuations of the historical transaction amounts for the four years ended 31 December 2013 were mainly due to changing demand in shipping agency services, which were depending on the market conditions.

Before the Acquisition and according to the Renewed Master Services Agreement, members of the Group have provided and received general services to or from members of the Parent Group to facilitate the businesses between the Group or Parent Group. Certain new general services will be provided and received by the Enlarged Group after the Acquisition. We consider the historical utilisation rate of the annual caps under the Renewed Master Services Agreement does not serve as a meaningful reference for the analysis of proposed annual caps under the Supplemental Parent Master Services Agreement.

Proposed annual caps and basis of determination for annual caps

The proposed annual caps for the on-going transactions contemplated by the Supplemental Parent Master Services Agreement for the three years ending 31 December 2016 and the basis of determination for such annual caps are set out as follows:

	Proposed annual caps		
	For the year ending 31 December		
	2014 (US\$'000)	2015 (US\$'000)	2016 (US\$'000)
Provision of general services by the Enlarged Group to the Parent Group	7,300	7,520	7,750
Receipt of general services by the Enlarged Group from the Parent Group	735,823	787,766	879,261

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The proposed annual caps for the three years ending 31 December 2016 have been determined with reference to (i) receipt of New Services from Parent Group following the Acquisition; (ii) the continuing business cooperation between the Combined Group and the Parent Group following the Acquisition; (iii) the respective historical amounts for each of the four years ended 31 December 2013 between members of the Parent Group and members of the Enlarged Group; and (iv) continuation of certain services and working relationship between members of the Enlarged Group and the members of Parent Group after the Acquisition.

In order to assess the reasonableness of the proposed annual caps under the Supplemental Parent Master Services Agreement, we have performed certain works and discussed with the management of the Company on the basis and assumptions underlying the determination of the proposed annual caps. Details of the basis of the determination and the analysis of the said proposed annual caps are set out below:

Proposed annual caps for the continuing connected transactions in relation to the provision of general services by the Enlarged Group to Parent Group

The proposed annual caps for the provision of general services by the Enlarged Group to the Parent Group are approximately US\$7.3 million, US\$7.5 million and US\$7.8 million for the financial year ending 2014 (“FY2014”), the financial year ending 2015 (“FY2015”) and the financial year ending 2016 (“FY2016”) respectively. For FY2014 annual cap, it represents an increase of 13.69 times comparing to the historical figures for FY2013, due to increase in freight forwarding services as a result of growing demand of Parent Group from a potential project in Singapore. Parent Group will require significantly more freight forwarding services from the Enlarged Group if the project in Singapore is bid successfully. For FY2015 and FY2016 annual caps, they represent annual increase of both 3% respectively, after taking into account of expected inflation rate of the PRC during FY2015 to FY2016. We reviewed the historical trend of Consumer Price Index (“CPI”) in the PRC from January 2011 to March 2014, we noted that the average monthly CPI growth rate was approximately 3.5% and all months in such period had a positive growth rate. Therefore, it is fair and reasonable for the Group to estimate the increase in FY2015 and FY2016 annual caps by using CPI in the PRC as a proxy estimator. As discussed with the management of the Company, in order to cater for the growing demand of Parent Group, certain general services provided by the Enlarged Group to Parent Group have been expanded, mainly freight forwarding services.

After the reorganisation of Parent Group in early 2009, the scale of Parent Group has been greatly increased. As stated in the website of Parent Group, the revenue of Parent Group reached a total revenue of approximately RMB106.7 billion for the year ended 31 December 2012 and had total assets of approximately RMB122.9 billion as at 31 December 2012. As discussed with the management of the Company, having considered the business volume of Parent Group has increased after the reorganisation and Parent Group has expressed to the Company its growing demand for freight forwarding services and its interest in continuing the current business relationship with the Company after the Acquisition, it is expected that the business cooperation between the Enlarged Group and the Parent Group will be further strengthened in the three years ending 31 December 2016, which will then lead to an increase in demand for freight forwarding services from the Enlarged Group.

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In conclusion, we consider the annual caps for the provision of general services by the Enlarged Group to Parent Group are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Proposed annual caps for the continuing connected transactions in relation to the receipt of general services by the Enlarged Group from Parent Group

The proposed annual caps for the receipt of general services by the Enlarged Group from Parent Group are approximately US\$735.8 million, US\$787.8 million and US\$879.3 million for FY2014, FY2015 and FY2016 respectively. For FY2014 annual cap, it represents an increase of 66% comparing to the historical figures for FY2013. It was mainly due to increase in (i) shipping agency services; (ii) crew agency services (including crew management services); and (iii) refuelling services. Management of the Company explained the increase in shipping agency services was due to the expected increase of demand from Enlarged Group, based on the strengthened business cooperation between the Combined Group after the Acquisition, the expected expansion in fleet size of the Combined Group, and the continuation of the current large volumes of transactions in relation to the provision of shipping agency services from the Parent Group to the JV Group after the Acquisition, and the average rate of the shipping agency services provided in the market and recommended by the relevant authority. For the increase in crew agency services (including crew management services), crew wages and number of vessels under management drive up the amount of FY2014 annual cap. For refuelling services, the demand mainly comes from the consumption of fuel by vessels of Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping and also the anticipated increase in fuel charge. Besides, certain new services proposed to be included in the Supplemental Parent Master Services Agreement, including (i) vessel management services; (ii) consultancy services; (iii) freight forwarding services; (iv) containers chartering services; and (v) container depot services. After taking into account of the inclusion of these new services, it explains the significant increased in FY2014 annual cap, comparing to the historical figure for FY2013.

For FY2015 and FY2016 annual caps, they represent an annual increase of 7% and 12%, respectively. As discussed with the management of the Company, the increase of annual cap mainly due to (i) increase in crew management service fees as a result of expected increase in the wages level for the crew and the number of new vessels to be delivered to the Enlarged Group and managed by the Parent Group following the Acquisition; and (ii) expected inflation rate of the PRC.

We consider the crew wages and inflation is positively related to the CPI in the PRC and hence it is fair and reasonable for the Group to estimate the increase in those costs by using CPI in the PRC as a proxy estimator. We have reviewed the historical trend of CPI from January 2011 to March 2014, we noted that average monthly CPI growth rate was 3.5% and all months in such period had a positive growth rate.

As discussed with the management of the Company, after the Acquisition, the Company will continue the future expansion plan of the Enlarged Group's fleet of vessels. The expansion in the Enlarged Group's fleet size will result in an increase in the number of vessels from the Enlarged Group arriving at the ports in the PRC, which will in turn require additional shipping agency services from the Parent Group.

In conclusion, we consider the annual caps for the receipt of general services by the Enlarged Group from Parent Group are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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(B) *Sinochart Master Services Agreement*

Following the Acquisition, members of the Combined Group will provide services to Sinochart and Sinochart will provide the general services to members of the Combined Group. On 25 March 2014, the Company entered into the Sinochart Master Services Agreement with Sinochart, which is valid for a term of three years commencing from 1 January 2014 and expiring on 31 December 2016.

General Principles and Terms

The general services provided by the members of the Combined Group to Sinochart under the Sinochart Master Services Agreement include:

- (a) vessel management services;
- (b) commercial management services;
- (c) consultancy services;
- (d) shipping broker services; and
- (e) shipping agency services.

The general services provided by Sinochart to members of the Combined Group under the Sinochart Master Services Agreement include:

- (a) commercial management services;
- (b) consultancy services; and
- (c) shipping broker services.

The Sinochart Master Services Agreement requires, in general terms, that:

1. the prices of the services to be provided must be fair and reasonable;
2. the terms and conditions in relation to the general services to be provided by the Combined Group to Sinochart should not be more favourable to Sinochart than those available to Independent Third Parties from the Combined Group; and
3. the terms and conditions in relation to the general services to be provided by Sinochart to the Combined Group should be no less favorable than those available to Independent Third Parties from Sinochart.

We have reviewed the terms of the Sinochart Master Services Agreement and noted that the terms of which are the similar to the terms of Supplemental Parent Master Services Agreement. The pricing principles of the Sinochart Master Services Agreement are determined (i) at market prices depending on the supply and demand for the relevant service

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and benchmarking against similar service offered by other comparable suppliers of similar operational size and scale in the market; and (ii) on terms no less favorable than those offered to Independent Third Parties for the relevant transactions contemplated under the relevant agreements.

The General Pricing Principles applicable to the determination of services fees payable under the Sinochart Master Services Agreement

To ensure that the actual prices charged are on normal commercial terms, the Company will conduct checks as to pricing and payment terms prior to the entering into any new transaction to review and assess whether the services provided/received are in accordance with the terms of the relevant agreement and is no less favourable to the Combined Group/Sinochart than those available to Independent Third Parties. In addition, the Company will engage the auditors of the Company to conduct an annual review of the continuing connected transactions of the Company to assess whether such transactions have been carried out in accordance with the relevant terms of the agreement entered into by the Company.

As discussed with the management of the Company, there is no pricing policy or guideline published or adopted for the relevant services under the Sinochart Master Services Agreement within the market. The services team of the Company, having market intelligence regarding pricing of different types of services in the shipping market, is responsible for reviewing and approving the pricing prior to entering into any new agreement. As there are alternative sources of supplies of relevant services with comparable pricing and quality, the Combined Group and Sinochart will make reference to the price of similar services offered from Independent Third Parties for comparison purpose prior to the entering into any new agreement.

We have discussed with the management of the Company and obtained the Group's relevant internal control manual. For the provision of general services by the Combined Group to Sinochart, the Group's internal control manual states that the Combined Group must offer the terms of the supply of general services contracts to Sinochart no more favourable than to Independent Third Parties. The market price will be referenced to public resources available in the market, on the date of entering into any new agreement, for instance: (i) vessel management services and commercial management services depending on the vessel and crew size will make reference to the price of similar services offered by other ship management companies such as V.Ships, Anglo Eastern, Wallem or Univan, etc.; (ii) consultancy services will make reference to the price of similar services in respect of ship construction and installation advice, ship health and safety consultancy, specialist manning and project consultancy offered by other marine consultancy companies offered by other independent marine consultancy companies in the market to other Independent Third Parties; (iii) shipping broking services will make reference to the price of similar broking services in respect of dry cargo broking, tanker broking or container broking offered by other ship broking market leaders such as Clarksons, Simpson, Spence & Young, Arrow, Braemar Shipping Services, etc.; and (iv) shipping agency service will make reference to the price information published by the Ministry of Transport of the PRC. We reviewed the source of market data and considered they are representative source of market data. Where there is no relevant market price, then the relevant price will be determined according to the historical price of the Combined Group providing such services or comparable market suppliers of similar size providing similar services in the past year.

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For the provision of general services by Sinochart to the Combined Group, the Group's internal control manual states that the services team of the Combined Group must obtain at least two fee quotes from Independent Third Parties of similar scale offering similar services to determine if the price and terms offered by Sinochart are fair and reasonable and around the ranges of those quotes offered by the Independent Third Parties and approved by the management of the Company prior to entering into any new agreement. We understand and are confirmed by the Company that in determining the pricing for such services, the Combined Group will take into consideration such source of independent market data for similar services to ensure that the pricing of these services will be at market prices depending on the supply and demand for the relevant service and benchmarking against similar service offered by other comparable suppliers in the market and on normal commercial terms. If the terms of provision of general services offered by Sinochart to the Combined Group are no less favourable than those offered by Independent Third Parties to the Combined Group, the quality of service and long-term business relationship and cooperation between Sinochart and the Combined Group will be considered and the Combined Group will select Sinochart as the general services provider.

As such, we have obtained and reviewed, on a sample basis to obtain one invoice per quarter in the past one year, the historical invoices of the Combined Group and Sinochart and from other Independent Third Parties and noticed that the pricing basis under Sinochart Master Services Agreement were comparable to that of the Independent Third Parties. As discussed with the management of the Company, the Directors believe that these procedures can ensure the pricing of services provided/received will be no less favourable to the Combined Group than those available to Independent Third Parties and therefore can ensure the transactions will be conducted on normal commercial terms. We are of the view the terms and conditions under the Sinochart Master Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Reasons for and benefits of entering into the Sinochart Master Services Agreement

The purpose of entering into the Sinochart Master Services Agreement between members of the Combined Group and Sinochart is to leverage their internal resources and services arrangement to increase the competitiveness.

In addition to the existing shipping agency services provided by the members of the Combined Group to Sinochart, Sinochart will receive vessel management services, commercial management services, consultancy services and shipping broker services, and provide commercial management services, consultancy services and shipping broker services to the Combined Group, which will enable the Combined Group and Sinochart to achieve greater operation efficiency and to fully leverage their advantages to achieve better operating performance of the Enlarged Group.

Having considered the above, we concur with the management of the Company that the entering into of the Sinochart Master Services Agreement will enable the Combined Group to benefit from continuing its business relationship with Sinochart which is in the usual and ordinary course of business of the Combined Group and is in the interest of the Company and the Shareholders as a whole.

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Historical transaction amounts

	For the year ended 31 December 2010 (US\$'000)	For the year ended 31 December 2011 (US\$'000)	For the year ended 31 December 2012 (US\$'000)	For the year ended 31 December 2013 (US\$'000)
Provision of general services by the Group to Sinochart	62	58	67	60

The fluctuations of the historical transaction amounts for the four years ended 31 December 2013 were mainly due to changing demand in shipping agency services, which were depending on the market conditions.

Before the Acquisition and according to the Renewed Master Services Agreement, members of the Group have provided and received general services to or from members of the Parent Group to facilitate the businesses between the Group or Parent Group. Certain new general services will be provided and received by the Enlarged Group after the Acquisition. We consider the historical utilisation rate of the annual caps under the Renewed Master Services Agreement does not serve as a meaningful reference for the analysis of proposed annual caps under the Sinochart Master Services Agreement.

Proposed annual caps and basis of determination for annual caps

The proposed annual caps for the on-going transactions contemplated by the Sinochart Master Services Agreement for the three years ending 31 December 2016 and the basis of determination for such annual caps are set out as follows:

	Proposed annual caps		
	For the year ending 31 December		
	2014 (US\$'000)	2015 (US\$'000)	2016 (US\$'000)
Provision of general services by the Combined Group to Sinochart	1,752	1,773	1,796
Receipt of general services by the Combined Group from Sinochart	600	600	600

The proposed annual caps for the three years ending 31 December 2016 have been determined with reference to (i) the estimated supply and receipt of such services to and from the Combined Group and Sinochart following the Acquisition; (ii) better utilization of internal resources and arrangements between the Combined Group and Sinochart; and (iii) the recent fee quotes on new shipping projects which will generate large demands in shipping services if such projects are materialised.

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In order to assess the reasonableness of the proposed annual caps under the Sinochart Master Services Agreement, we have performed certain works and discussed with the management of the Company on the basis and assumptions underlying the determination of the proposed annual caps. Details of the basis of the determination and the analysis of the said proposed annual caps are set out below:

Proposed annual caps for the continuing connected transactions in relation to the provision of general services by the Combined Group to Sinochart

The proposed annual caps for the provision of general services by the Combined Group to Sinochart are approximately US\$1.75 million, US\$1.77 million and US\$1.80 million for FY2014, FY2015 and FY2016 respectively. For FY2014 annual cap, it represents a 28-fold increase comparing to the historical figures for FY2013, due to provision of new services by the Combined Group to Sinochart, namely vessel management services, commercial management services, consultancy services and shipping broker services. Approximately 78% of the total increase of annual caps is attributable to the increase of provision of new services. As discussed with the management of the Company, the proposed annual caps for provision of new services is derived from estimated business volume of Sinochart and the prevailing market price of respective services. Following the Acquisition, the management of the Company anticipated that there will be closer business cooperation and additional strategic synergies will be created between the Combined Group and Sinochart and therefore profitability of the Enlarged Group will be improved. From the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group set out in Appendix IV to the Circular, revenue of the Enlarged Group will increase by approximately seven folds after the Acquisition and at the same time, the management of the Company expected Sinochart's chartering business volume will expand substantially comparing to FY2013. As such, more general services will be demanded by Sinochart as a consequence of expansion in Sinochart's chartering business volume. We have discussed the business plan of the Enlarged Group with the management and concur with the management that provision of new services by the Combined Group to Sinochart is necessary for streamlining the Enlarged Group's business operation to create synergies between the Combined Group and Sinochart.

For FY2015 and FY2016 annual caps, they both represent an annual increase of 1%, to address slight increase in demand of shipping agency services. The management of the Company believes that the amount of services provided by the Combined Group to Sinochart will remain relatively stable for the three years ending 31 December 2016.

In conclusion, we consider the annual caps for the provision of general services by the Combined Group to Sinochart are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Proposed annual caps for the continuing connected transactions in relation to the receipt of general services by the Combined Group from Sinochart

From FY2014 onwards, Sinochart will provide commercial management services, consultancy services and shipping broker services to the Combined Group. As discussed with the management of the Company, the proposed annual caps for these three services are determined by estimated demand from the Combined Group and the prevailing market price

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of respective services. We have discussed the business plan of the Enlarged Group with the management and concur with the management that provision of new services by Sinochart to the Combined Group is necessary for streamlining the Enlarged Group's business operation to create synergies between the Combined Group and Sinochart.

The proposed annual caps for the receipt of general services by the Combined Group from Sinochart for the three years ending 31 December 2016 remain at the same level as the management of the Company expects no significant increase in demand for these services.

In conclusion, we consider the annual caps for the receipt of general services by the Combined Group from Sinochart are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(C) *SNL Master Services Agreement*

Following the Acquisition, members of the Combined Group will provide services to Sinotrans Container Lines and Sinotrans Container Lines will provide the general services to members of the Combined Group. On 25 March 2014, the Company entered into the SNL Master Services Agreement with Sinotrans Container Lines, which is valid for a term of three years commencing from 1 January 2014 and expiring on 31 December 2016.

General Principles and Terms

The general services provided by the members of the Combined Group to Sinotrans Container Lines under the SNL Master Services Agreement include:

- (a) vessel management services;
- (b) commercial management services;
- (c) consultancy services;
- (d) shipping broker services; and
- (e) shipping agency services.

The general services provided by Sinotrans Container Lines to members of the Combined Group under the SNL Master Services Agreement include:

- (a) commercial management services;
- (b) consultancy services; and
- (c) shipping broker services.

The SNL Master Services Agreement requires, in general terms, that:

1. the prices of the services to be provided must be fair and reasonable;

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2. the terms and conditions in relation to the general services to be provided by the Combined Group to Sinotrans Container Lines should not be more favourable to Sinotrans Container Lines than those available to Independent Third Parties from the Combined Group; and
3. the terms and conditions in relation to the general services to be provided by Sinotrans Container Lines to the Combined Group should be no less favorable than those available to Independent Third Parties from Sinotrans Container Lines.

We have reviewed the terms of the SNL Master Services Agreement and noted that the terms of which are the similar to the terms of Supplemental Parent Master Services Agreement. The pricing principles of the SNL Master Services Agreement are determined (i) at market prices depending on the supply and demand for the relevant service and benchmarking against similar service offered by other comparable suppliers of similar operational size and scale in the market; and (ii) on terms no less favorable than those offered to Independent Third Parties for the relevant transactions contemplated under the relevant agreements.

The General Pricing Principles applicable to the determination of services fees payable under the SNL Master Services Agreement

To ensure that the actual prices charged are on normal commercial terms, the Company will conduct checks as to pricing and payment terms prior to the entering into any new transaction to review and assess whether the services provided/received are in accordance with the terms of the relevant agreement and is no less favourable to the Combined Group/Sinotrans Container Lines than those available to Independent Third Parties. In addition, the Company will engage the auditors of the Company to conduct an annual review of the continuing connected transactions of the Company to assess whether such transactions have been carried out in accordance with the relevant terms of the agreement entered into by the Company.

As discussed with the management of the Company, there is no pricing policy or guideline published or adopted for the relevant services under the SNL Master Services Agreement within the market. The services team of the Company, having market intelligence regarding pricing of different types of services in the shipping market, is responsible for reviewing and approving the pricing prior to entering into any new agreement. As there are alternative sources of supplies of relevant services with comparable pricing and quality, the Combined Group and Sinotrans Container Lines will make reference to the price of similar services offered from Independent Third Parties for comparison purpose prior to the entering into any new agreement.

We have discussed with the management of the Company and obtained the Group's relevant internal control manual. For the provision of general services by the Combined Group to Sinotrans Container Lines, the Group's internal control manual states that the Combined Group must offer the terms of the supply of general services contracts to Sinotrans Container Lines no more favourable than to Independent Third Parties. The

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market price will be referenced to public resources available in the market, on the date of entering into any new agreement, for instance: (i) vessel management services and commercial management services depending on the vessel and crew size will make reference to the price of similar services offered by other ship management companies such as V.Ships, Anglo Eastern, Wallem or Univan, etc.; (ii) consultancy services will make reference to the price of similar services in respect of ship construction and installation advice, ship health and safety consultancy, specialist manning and project consultancy offered by other marine consultancy companies offered by other independent marine consultancy companies in the market to other Independent Third Parties; (iii) shipping broking services will make reference to the price of similar broking services in respect of dry cargo broking, tanker broking or container broking offered by other ship broking market leaders such as Clarksons, Simpson, Spence & Young, Arrow, Braemar Shipping Services, etc.; and (iv) shipping agency service will make reference to the price information published by the Ministry of Transport of the PRC. We reviewed the source of market data and considered they are representative source of market data. Where there is no relevant market price, then the relevant price will be determined according to the historical price of the Combined Group providing such services or comparable market suppliers of similar size providing similar services in the past year.

For the provision of general services by Sinotrans Container Lines to the Combined Group, the Group's internal control manual states that the services team of the Combined Group must obtain at least two fee quotes from Independent Third Parties of similar scale offering similar services to determine if the price and terms offered by Sinotrans Container Lines are fair and reasonable and around the ranges of those quotes offered by the Independent Third Parties and approved by the management of the Company prior to entering into any new agreement. We understand and are confirmed by the Company that in determining the pricing for such services, the Combined Group will take into consideration such source of independent market data for similar services to ensure that the pricing of these services will be at market prices depending on the supply and demand for the relevant service and benchmarking against similar service offered by other comparable suppliers in the market and on normal commercial terms. If the terms of provision of general services offered by Sinotrans Container Lines to the Combined Group are no less favourable than those offered by Independent Third Parties to the Combined Group, the quality of service and long-term business relationship and cooperation between Sinotrans Container Lines and the Combined Group will be considered and, the Combined Group will select Sinotrans Container Lines as the general services provider.

As such, we have obtained and reviewed, on a sample basis to obtain one invoice per quarter in the past one year, the historical invoices of the Combined Group and Sinotrans Container Lines and from other Independent Third Parties and noticed that the pricing basis under SNL Master Services Agreement were comparable to that of the Independent Third Parties. As discussed with the management of the Company, the Directors believe that these procedures can ensure the pricing of services provided/received will be no less favourable to the Combined Group than those available to Independent Third Parties and therefore can ensure the transactions will be conducted on normal commercial terms. We are of the view the terms and conditions under the SNL Master Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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Reasons for and benefits of entering into the SNL Master Services Agreement

The purpose of entering into the SNL Master Services Agreement between members of the Combined Group and Sinotrans Container Lines is to leverage their internal resources and services arrangement to increase the competitiveness.

In addition to the existing shipping agency services provided by the members of the Combined Group to Sinotrans Container Lines, Sinotrans Container Lines will receive vessel management services, commercial management services, consultancy services and shipping broker services, and provide commercial management services, consultancy services and shipping broker services to the Combined Group, which will enable the Combined Group and Sinotrans Container Lines to achieve greater operation efficiency and to fully leverage their advantages to achieve better operating performance of the Enlarged Group.

Having considered the above, we concur with the management of the Company that the entering into of the SNL Master Services Agreement will enable the Combined Group to benefit from continuing its business relationship with Sinotrans Container Lines which is in the usual and ordinary course of business of the Combined Group and is in the interest of the Company and the Shareholders as a whole.

Historical transaction amounts

	For the year ended 31 December 2010 (US\$'000)	For the year ended 31 December 2011 (US\$'000)	For the year ended 31 December 2012 (US\$'000)	For the year ended 31 December 2013 (US\$'000)
Provision of general services by the Group to Sinotrans Container Lines	8	17	9	9

The fluctuations of the historical transaction amounts for the four years ended 31 December 2013 were mainly due to changing demand in shipping agency services, which were depending on the market conditions.

Before the Acquisition and according to the Renewed Master Services Agreement, members of the Group have provided and received general services to or from members of the Parent Group to facilitate the businesses between the Group or Parent Group. Certain new general services will be provided and received by the Enlarged Group after the Acquisition. We consider the historical utilisation rate of the annual caps under the Renewed Master Services Agreement does not serve as a meaningful reference for the analysis of proposed annual caps under the SNL Master Services Agreement.

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Proposed annual caps and basis of determination for annual caps

The proposed annual caps for the on-going transactions contemplated by the SNL Master Services Agreement for the three years ending 31 December 2016 and the basis of determination for such annual caps are set out as follows:

	Proposed annual caps		
	For the year ending 31 December		
	2014	2015	2016
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
Provision of general services by the Combined Group to Sinotrans Container Lines	1,294	1,305	1,316
Receipt of general services by the Combined Group from Sinotrans Container Lines	600	600	600

The proposed annual caps for the three years ending 31 December 2016 have been determined with reference to (i) the estimated supply and receipt of such services to and from the Combined Group and Sinotrans Container Lines following the Acquisition; (ii) better utilization of internal resources and arrangements between the Combined Group and Sinotrans Container Lines; and (iii) the recent fee quotes on new shipping projects which will generate large demands in shipping services if such projects are materialised.

In order to assess the reasonableness of the proposed annual caps under the SNL Master Services Agreement, we have performed certain works and discussed with the management of the Company on the basis and assumptions underlying the determination of the proposed annual caps. Details of the basis of the determination and the analysis of the said proposed annual caps are set out below:

Proposed annual caps for the continuing connected transactions in relation to the provision of general services by the Combined Group to Sinotrans Container Lines

The proposed annual caps for the provision of general services by the Combined Group to Sinotrans Container Lines are approximately US\$1.29 million, US\$1.31 million and US\$1.32 million for FY2014, FY2015 and FY2016, respectively. For FY2014 annual cap, it represents an increase of 143 times comparing to the historical figures for FY2013, due to provision of new services by the Combined Group to Sinotrans Container Lines, namely vessel management services, commercial management services, consultancy services and shipping broker services. Approximately 84% of the total increase of annual caps is attributable to the increase of provision of new services. As discussed with the management of the Company, the proposed annual caps for provision of new services is derived from estimated business volume of Sinotrans Container Lines and the prevailing market price of respective services. Following the Acquisition, the management of the Company anticipated that there will be closer business cooperation and additional strategic synergies will be created between the Combined Group and Sinotrans Container Lines and therefore profitability of the Enlarged Group will be improved. From the unaudited pro

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forma consolidated statement of comprehensive income of the Enlarged Group set out in Appendix IV to the Circular, revenue of the Enlarged Group will increase by approximately seven folds after the Acquisition and at the same time, the management of the Company expected the business volume of Sinotrans Container Lines' container transportation services will expand substantially comparing to FY2013. As such, more general services will be demanded by Sinotrans Container Lines as a consequence of expansion in the business volume of Sinotrans Container Lines' container transportation services. We have discussed the business plan of the Enlarged Group with the management and concur with the management that provision of new services by the Combined Group to Sinotrans Container Lines is necessary for streamlining the Enlarged Group's business operation to create synergies between the Combined Group and Sinotrans Container Lines.

For FY2015 and FY2016 annual caps, they both represent an annual increase of 1%, to address slight increase in demand of shipping agency services. The management of the Company believes that the amount of services provided by the Combined Group to Sinotrans Container Lines will remain relatively stable for the three years ending 31 December 2016.

In conclusion, we consider the annual caps for the provision of general services by the Combined Group to Sinotrans Container Lines are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Proposed annual caps for the continuing connected transactions in relation to the receipt of general services by the Combined Group from Sinotrans Container Lines

From FY2014 onwards, Sinotrans Container Lines will provide commercial management services, consultancy services and shipping broker services to the Combined Group. As discussed with the management of the Company, the proposed annual caps for these three services are determined by estimated demand from the Combined Group and the prevailing market price of respective services. We have discussed the business plan of the Enlarged Group with the management and concur with the management that provision of new services by Sinotrans Container Lines to the Combined Group is necessary for streamlining the Enlarged Group's business operation to create synergies between the Combined Group and Sinotrans Container Lines.

The proposed annual caps for the receipt of general services by the Combined Group from Sinotrans Container Lines for the three years ending 31 December 2016 remain at same level as the management of the Company expects no significant increase in demand for these services.

In conclusion, we consider the annual caps for the receipt of general services by the Combined Group from Sinotrans Container Lines are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(D) Supplemental Parent Master Chartering Agreement

According to the Renewed Master Chartering Agreement, members of the Group have chartered the dry bulk vessels of the Group to members of the Parent Group, and members of the Parent Group have also chartered vessels to members of the Group. The term of the Renewed Master Chartering Agreement will expire on 31 December 2015.

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On 25 March 2014, the Board terminated the Renewed Master Chartering Agreement and replaced it with the Supplemental Parent Master Chartering Agreement entered into between the Company and the Parent Company. The Supplemental Parent Master Chartering Agreement is valid for a term of three years commencing from 1 January 2014 and expiring on 31 December 2016, and of similar terms to the Renewed Master Chartering Agreement apart from the revision of the annual caps following the Acquisition.

General Principles and Terms

The Supplemental Parent Master Chartering Agreement requires, in general terms, that:

- (i) the Charter Hire, the C/V/E Fee and the Address Commission (as defined in the Circular) are to be determined at market prices; and
- (ii) the Charter Hire, the C/V/E Fee and the Address Commission payable by the relevant members of the Group and Parent Group (and vice versa), respectively, should be fair and reasonable and should not be less favourable than those offered by Independent Third Parties (and should not be more favourable than those offered to Independent Third Parties).

We have reviewed the terms of the Supplemental Parent Master Chartering Agreement and noted that the terms of which are the similar to the terms of Renewed Master Chartering Agreement. The pricing principles of the Renewed Master Chartering Agreement are determined (i) at market prices depending on the supply and demand for vessel chartering services and benchmarking against similar chartering services in respect of similar vessel models, carriage capacities, shipping routes or periods of charter offered by other comparable charterers in the market; and (ii) on terms no less favorable than those offered by and no more favourable than those offered to Independent Third Parties for the relevant transactions contemplated under the relevant agreements.

As discussed with the management of the Company, there is no pricing policy or guideline published or adopted for the relevant services under the Supplemental Parent Master Chartering Agreement within the market. The services team of the Company, having market intelligence regarding pricing of chartering fees in the shipping market and receives daily report from the public shipbroker, is responsible for reviewing and approving the pricing prior to entering into any new agreement. As there are alternative sources of supplies of chartering of vessels with comparable pricing and quality offered to/by the Enlarged Group and the Parent Group, both the Enlarged Group and the Parent Group will make reference to the fees of similar chartering services quoted from Independent Third Parties for comparison purpose prior to the entering into any new agreement.

We have discussed with the management of the Company and obtained the Group's relevant internal control manual. For the chartering of vessels by the Group to the Parent Group, the Group's internal control manual states that the Group must offer the terms of the chartering contracts to the Parent Group no more favourable to Independent Third Parties. The market price of chartering will be reference to Baltic Dry Index or the average chartering fees in respect of similar vessel sizes, speed, consumptions, carrying capacities,

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shipping routes or periods of charter according to the transactions conducted in the recent week as disclosed in the public shipbroker reports. We reviewed the source of market data and considered they are representative source of market data. Where there is no relevant market price, then the relevant price will be determined with reference to the market report of the freight forward agreements provided by sizable shipping brokers, such as Simpson, Spence & Young and Freight Investor Services.

For the chartering of vessels by the Parent Group to the Enlarged Group, the Group's internal control manual states that the Group must obtain at least two quotes from Independent Third Parties of similar scale offering similar chartering services in respect of similar vessel sizes, speed, consumptions, carrying capacities, shipping routes or periods of charter to determine if the pricing offered by the Parent Group is fair and reasonable and within the ranges of those quotes offered by the Independent Third Parties prior to entering into any new agreement. We understand and are confirmed by the Company that in determining the pricing for such chartering services, the Enlarged Group will also take into consideration the source of independent market data such as the Baltic Dry Index, the constant business cooperation between the Enlarged Group and the Parent Group, and will ensure that the pricing of these chartering services will be at market prices and on normal commercial terms. As such, we have obtained and reviewed, on a sample basis to obtain one invoice per quarter in past one year, the historical invoices of the Enlarged Group and Parent Group and from other Independent Third Parties and noticed that the price basis under the Supplemental Parent Master Chartering Agreement was comparable to that of the Independent Third Parties. As discussed with the management of the Company, the Directors believe that these procedures can ensure the pricing of services provided/received will be no less favourable to the Enlarged Group than those available to Independent Third Parties and therefore can ensure the transactions will be conducted on normal commercial terms. We are of the view that the pricing principles under the Supplemental Parent Master Chartering Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Reasons for and benefits of entering into the Supplemental Parent Master Chartering Agreement

Pursuant to the Supplemental Parent Master Chartering Agreement, (i) Parent Group will charter in vessels from the Enlarged Group to use as a carrier to provide cargo shipping services or sub-charter vessels to Independent Third Parties for cargo shipping; and (ii) the Enlarged Group will charter in dry bulk vessels from Parent Group to Independent Third Parties for cargo shipping. As discussed with the management of the Company, the entering into of the Supplemental Parent Master Chartering Agreement allows the Group and members of Parent Group charter in each other vessels that are necessary for each other's business operation, which is mutually beneficial to each other.

Having considered the above, we concur with the management of the Company that the entering into of the Supplemental Parent Master Chartering Agreement will enable the Enlarged Group to benefit from continuing its business relationship with Parent Group which is in the usual and ordinary course of business of the Enlarged Group and is in the interest of the Company and the Shareholders as a whole.

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Historical transaction amounts

	For the year ended 31 December 2010 (US\$'000)	For the year ended 31 December 2011 (US\$'000)	For the year ended 31 December 2012 (US\$'000)	For the year ended 31 December 2013 (US\$'000)
Chartering of vessels by the Enlarged Group to the Parent Group				
(a) Charter Hire and C/V/E Fee	6,840	8,349	13,950	9,281
(b) Address Commission	53	287	498	Nil
Chartering of vessels by the Parent Group to the Enlarged Group				
(a) Charter Hire and C/V/E Fee	Nil	Nil	7,931	4,637
(b) Address Commission	Nil	Nil	Nil	Nil

For Chartering of vessels by the Enlarged Group to the Parent Group, the fluctuations of the historical transactions for the four year ended 31 December 2013 was mainly due to the chartering to a German Company under the Parent Group was on ad-hoc basis, depending on whether there will be demand driven by the end customers.

For Chartering of vessels by the Parent Group to the Enlarged Group, the services were only provided since FY2012 and therefore no historical transactions amount for FY2010 and FY2011. For the historical figures of FY2013, the decrease was mainly because only one vessel was chartered in FY2012 only.

Before the Acquisition and according to the Renewed Master Chartering Agreement, members of the Group have chartered the dry bulk vessels of the Group to members of the Parent Group, and members of the Parent Group have also chartered vessels to members of the Group. Certain new chartering services will be provided and received by the Enlarged Group after the Acquisition. We consider the historical utilisation rate of the annual caps under the Renewed Master Chartering Agreement does not serve as a meaningful reference for the analysis of proposed annual caps under the Supplemental Parent Master Chartering Agreement.

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Proposed annual caps and basis of determination for annual caps

The proposed annual caps for the on-going transactions contemplated by the Supplemental Parent Master Chartering Agreement for the three years ending 31 December 2016 and the basis of determination for such annual caps are set out as follows:

	Proposed annual caps		
	For the year ending 31 December		
	2014	2015	2016
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
Chartering of vessels by the Enlarged Group to the Parent Group			
(a) Charter Hire and C/V/E Fee	22,679	22,679	22,679
(b) Address Commission	850	850	850
Chartering of vessels by the Parent Group to the Enlarged Group			
(a) Charter Hire and C/V/E Fee	16,000	16,000	16,000
(b) Address Commission	600	600	600

Apart from the above, the proposed annual caps of the Charter Hire, the C/V/E Fee and the Address Commission charged by the Parent Group to the Enlarged Group and the proposed annual caps of the Charter Hire, the C/V/E Fee and the Address Commission charged by the Enlarged Group to the Parent Group in relation to the chartering of the vessels for the three years ending 31 December 2016 have been determined with reference to (i) the expected growing need for vessels chartering services between the Parent Group and the Enlarged Group; (ii) the interest in developing further business relationship and cooperation between the Parent Group and the Enlarged Group; (iii) the prevailing market rate of time charter of vessel of a similar class; and (iv) the average rate of the Address Commission charged by third parties.

In order to assess the reasonableness of the proposed annual caps under the Supplemental Parent Master Chartering Agreement, we have performed certain works and discussed with the management of the Company the basis and assumptions underlying the determination of the proposed annual caps. Details of the basis of the determination and the analysis of the said proposed annual caps are set out below:

Proposed annual caps for the continuing connected transactions in relation to the chartering of vessels by the Enlarged Group to Parent Group

Regarding the Charter Hire and C/V/E Fee, as discussed with the management of the Company, the Enlarged Group will further expand its fleet size and four more vessels will be chartered to the Parent Group for the three years ending 31 December 2016. Historically, there were three vessels already chartered by the Group to the Parent Group and plus the four vessels in addition, there will be a total of seven vessels chartered to the Parent Group

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for the three years ending 31 December 2016. The management of the Company estimated the charter hire fee for a related vessel will be approximately US\$3,100,000 annually with reference to daily charter hire fee of vessels of similar size and carrying capacity. We checked the prevailing market rate of time charter of vessel of a similar class and concur with the management of the Company that the estimation of the proposed annual caps for chartering of vessels by the Enlarged Group to Parent Group are fair and reasonable. This explains the increase of 144% in FY2014 proposed annual cap comparing to the historical figure for FY2013.

The proposed annual caps for chartering of vessels by the Enlarged Group to Parent Group for the three years ending 31 December 2016 remain at same level as the management of the Company is not expecting further significant expansion of fleet size, other than the four additional vessels that has planned to be chartered from the Parent Group.

For the Address Commission, in respect of the chartering of each vessel, Parent Group shall pay to the Enlarged Group the Charter Hire and C/V/E Fee. Parent Group is entitled to deduct from the Charter Hire the Address Commission. The Address Commission is calculated based on a certain percentage on the charter hire, which is calculated at a rate of 3.75% of the Charter Hire and C/V/E Fee. As discussed with the management of the Company, the Address Commission was determined according to the industry practice, which is also charging 3.75% of the charterhire fee. We have reviewed the agreements which have been entered into between the Enlarged Group and Independent Third Parties, and noted that the rate of the Address Commission charged by Parent Group is within the range charged by third parties.

Proposed annual caps for the continuing connected transactions in relation to the chartering of vessels by Parent Group to the Enlarged Group

Regarding the Charter Hire and C/V/E Fee, as discussed with the management of the Company, two more vessels will be chartered from the Parent Group for the three years ending 31 December 2016. The management of the Company estimated the charter hire fee for a related vessel will be approximately US\$3,100,000 annually with reference to daily charter hire fee of vessels of similar size and carrying capacity. We checked the prevailing market rate of time charter of vessel of a similar class (ranging from US\$2,900,000 to US\$3,600,000). Originally, there were three vessels already chartered by the Parent Group to the Group. In particular, two of the vessels were only chartered when there was demand from end customers so the charter hire fee was paid by daily basis. For the three years ending 31 December 2016, adding the chartering of two new vessels from Skyglory and Skyroyal, there will be a total of seven vessels chartered to the Parent Group for the three years ending 31 December 2016. Furthermore, management of the Company considered the two vessels chartered on daily basis will be operated at full capacity (they were only chartered for one third of the time in FY2013) as there will be increasing demand from Parent Group after shipping market bottom up. With the reason of chartering of two additional vessels and the other two vessels will be operated at full capacity, this explained the increase of 245% in FY2014 proposed annual cap comparing to the historical figure for FY2013. Therefore, we are of the view that the estimation of the proposed annual caps for chartering of vessels by the Parent Group to Enlarged Group are fair and reasonable.

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The proposed annual caps for chartering of vessels by the Parent Group to Enlarged Group for the three years ending 31 December 2016 remain at same level as the management of the Company is expecting the Parent Group will not charter more vessels, other than the two additional vessels that was planned.

For the Address Commission, in respect of the chartering of each vessel, the Enlarged Group shall pay to the Parent Group the Charter Hire and C/V/E Fee. The Enlarged Group is entitled to deduct from the Charter Hire the Address Commission. The Address Commission is based on a certain percentage on the charter hire, which is calculated at a rate of 3.75% of the Charter Hire and C/V/E Fee. We have reviewed the commission agreements which have been entered into between Parent Group and Independent Third Parties, and noted that the rate of the Address Commission charged by the Enlarged Group is within the range charged by other Independent Third Parties (approximately 3.75%).

(E) *Sinochart Master Chartering Agreement*

Following the Acquisition, members of the Combined Group will continue to provide vessels chartering services to Sinochart. On 25 March 2014, the Company entered into the Sinochart Master Chartering Agreement with Sinochart, which is valid for a term of three years commencing from 1 January 2014 and expiring on 31 December 2016. The purpose of entering into the Sinochart Master Chartering Agreement is to offer chartering services provided by members of the Combined Group to Sinochart and to maintain a steady flow of income into the Combined Group.

General Principles and Terms

The Sinochart Master Chartering Agreement requires, in general terms, that:

- (i) the Charter Hire, the C/V/E Fee and the Address Commission (as defined in the Circular) are to be determined at market prices;
- (ii) the Charter Hire and the C/V/E Fee receivable from Sinochart should be fair and reasonable and should not be less favourable than those offered to Independent Third Parties; and
- (iii) the Address Commission payable to Sinochart, should be fair and reasonable and should not be more favourable than those offered to Independent Third Parties.

We have reviewed the terms of the Sinochart Master Chartering Agreement and noted that the terms of which are the similar to the terms of Supplemental Parent Master Chartering Agreement. The pricing principles of the Sinochart Master Chartering Agreement are determined (i) at market prices depending on the supply and demand for vessel chartering services and benchmarking against similar chartering services in respect of similar vessel models, carriage capacities, shipping routes or periods of charter offered by other comparable charterers in the market; and (ii) on terms no less favorable than those offered to Independent Third Parties for the relevant transactions contemplated under the relevant agreements.

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As discussed with the management of the Company, there is no pricing policy or guideline published or adopted for the relevant services under the Sinochart Master Chartering Agreement within the market. The services team of the Company, having market intelligence regarding pricing of chartering fees in the shipping market and receives daily report from the public shipbroker, is responsible for reviewing and approving the pricing prior to entering into any new agreement. As there are alternative sources of supplies of chartering services with comparable pricing and quality, the Combined Group and Sinochart will make reference to the fees of similar chartering services in respect of similar vessel sizes, speed, consumptions, carrying capacities, shipping routes or periods of charter quoted from Independent Third Parties based on the available public information including the Baltic Dry Index or the daily reports on chartering transactions from shipbrokers for comparison purpose prior to the entering into any new agreement. We understand and are confirmed by the Company that in determining the pricing for such services, Combined Group will take into consideration at the two quotations for similar chartering services in respect of similar vessel sizes, speed, consumptions, carrying capacities, shipping routes or periods of charter to Independent Third Parties based on the available public information including the Baltic Dry Index or the daily reports on chartering transactions from shipbrokers to ensure that the pricing of the chartering services will be at market prices and on normal commercial terms. The market price of chartering will be referenced to Baltic Dry Index or the average chartering fees in respect of similar vessel models, carriage capacities, shipping routes or periods of charter according to the transactions conducted in the recent week as disclosed in the public shipbroker reports. We reviewed the source of market data and considered they are representative source of market data. Where there is no relevant market price, then the relevant price will be determined with reference to the market report of the freight forward agreements provided by sizable shipping brokers, such as Simpson, Spence & Young and Freight Investor Services. As such, we have obtained and reviewed, on a sample basis to obtain one invoice per quarter in the past one year, the historical invoices of the Combined Group issued to other Independent Third Parties and noticed that the pricing basis under the Sinochart Master Chartering Agreement was comparable to that of the Independent Third Parties. Hence, we are of the view the pricing principles under the Sinochart Master Chartering Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Reasons for and benefits of entering into the Sinochart Master Chartering Agreement

Pursuant to the Sinochart Master Chartering Agreement, Sinochart will charter in vessels from the Combined Group to use as a carrier to provide cargo shipping services or sub-charter vessels to Independent Third Parties for cargo shipping. As discussed with the management of the Company, the entering into of the Sinochart Master Chartering Agreement allows Sinochart charter in other vessels that are necessary for its business operation, which is beneficial to Sinochart. On the other hand, the entering into of the Sinochart Master Chartering Agreement provides a steady flow of income into the Combined Group.

Having considered the above, we concur with the management of the Company that the entering into of the Sinochart Master Chartering Agreement will enable the Combined Group to benefit from continuing its business relationship with Sinochart which is in the usual and ordinary course of business of the Combined Group and is in the interest of the Company and the Shareholders as a whole.

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Historical transaction amounts

	For the year ended 31 December 2010 (US\$'000)	For the year ended 31 December 2011 (US\$'000)	For the year ended 31 December 2012 (US\$'000)	For the year ended 31 December 2013 (US\$'000)
Chartering of vessels by the Group to Sinochart				
(a) Charter Hire and C/V/E Fee	11,133	33,260	29,555	24,703
(b) Address Commission	415	1,267	1,187	991

In FY2011, three more vessels were chartered by the Group to Sinochart Group and therefore the Charter Hire and C/V/E Fee and Address Commission increased by 199% comparing to FY2010. FY2011 and FY2012 actual figures were significantly higher than that of FY2013 was mainly due to Sinochart stop charter one sizeable vessel from the Group since January 2013.

Proposed annual caps and basis of determination for annual caps

The proposed annual caps for the on-going transactions contemplated by the Sinochart Master Chartering Agreement for the three years ending 31 December 2016 and the basis of determination for such annual caps are set out as follows:

	Proposed annual caps For the year ending 31 December		
	2014 (US\$'000)	2015 (US\$'000)	2016 (US\$'000)
Chartering of vessels by the Combined Group to Sinochart			
(a) Charter Hire and C/V/E Fee	25,842	25,842	25,842
(b) Address Commission	969	969	969

The proposed annual caps of the Charter Hire, the C/V/E Fee and the Address Commission charged by the Combined Group in relation to the chartering of the vessels to Sinochart for the three years ending 31 December 2016 have been determined with reference to (i) the continuing need expressed by Sinochart to the Combined Group for vessels chartering; (ii) the interest in developing further business relationship between the Combined Group and Sinochart; (iii) the prevailing market rate of time charter of a vessel of a similar class; (iv) the average rate of the Address Commission charged by third parties, which is calculated at a rate of 3.75% of the Charter Hire and C/V/E Fee; and (v) mutual agreement between Sinochart and the Combined Group.

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In order to assess the reasonableness of the proposed annual caps under the Supplemental Parent Master Chartering Agreement, we have performed certain works and discussed with the management of the Company the basis and assumptions underlying the determination of the proposed annual caps. Details of the basis of the determination and the analysis of the said proposed annual caps are set out below:

Proposed annual caps for the continuing connected transactions in relation to the chartering of vessels by the Combined Group to Sinochart

Regarding the Charter Hire and C/V/E Fee, as discussed with the management of the Company, after the Acquisition, Sinochart will continue chartering three vessels from the Group for the three years ending 31 December 2016. The management of the Company estimates the charter hire fee for a vessel will be approximately US\$8,614,000 annually with reference to daily charter hire fee of vessels of similar size and carrying capacity. We checked the prevailing market rate of time charter of vessel of a similar class (approximately US\$8,600,000) and concur with the management of the Company that the estimation of the proposed annual caps for chartering of vessels by the Group to Sinochart are fair and reasonable. The proposed annual cap of FY2014 remains stable comparing with the proposed annual cap of FY2013.

For Charter Hire and C/V/E Fee, the proposed annual caps for chartering of vessels by the Combined Group to Sinochart for the three years ending 31 December 2016 remain at same level as the management of the Company is expecting Sinochart will not charter more vessels, other than the three vessels that were planned.

For the Address Commission, in respect of the chartering of each vessel, Sinochart shall pay to the Combined Group the Charter Hire and C/V/E Fee. Sinochart is entitled to deduct from the Charter Hire the Address Commission. The Address Commission charter based on a certain percentage on the charter hire, which is calculated at a rate of 3.75% of the Charter Hire and C/V/E Fee. As discussed with the management of the Company, the Address Commission was determined according to the industry practice, which is also charging 3.75% of the charterhire fee. We have reviewed the commission agreements which have been entered into between the Combined Group and Independent Third Parties, and noted that the rate of the Address Commission charged by Sinochart is within the range charged by other independent third parties (approximately 3.75%).

(F) SNL Master Chartering Agreement

Following the Acquisition, members of the Combined Group will continue to provide vessels chartering services to Sinotrans Container Lines. On 25 March 2014, the Company entered into the SNL Master Chartering Agreement with Sinotrans Container Lines, which is valid for a term of three years commencing from 1 January 2014 and expiring on 31 December 2016. The purpose of entering into the SNL Master Chartering Agreement is to offer chartering services provided by members of the Combined Group to Sinotrans Container Lines and to maintain a steady flow of income into the Combined Group.

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General Principles and Terms

The SNL Master Chartering Agreement requires, in general terms, that:

- (i) the Charter Hire, the C/V/E Fee and the Address Commission (as defined in the Circular) are to be determined at market prices; and
- (ii) the Charter Hire and the C/V/E Fee receivable from Sinotrans Container Lines should be fair and reasonable and should not be less favourable than those offered to Independent Third Parties; and
- (iii) the Address Commission payable to Sinotrans Container Lines, should be fair and reasonable and should not be more favourable than those offered to Independent Third Parties.

We have reviewed the terms of the SNL Master Chartering Agreement and noted that the terms of which are the similar to the terms of Supplemental Parent Master Chartering Agreement for the chartering services provided by the Combined Group. The pricing principles of the SNL Master Chartering Agreement are determined (i) at market prices depending on the supply and demand for vessel chartering services and benchmarking against similar chartering services in respect of similar vessel sizes, speed, consumptions, carrying capacities, shipping routes or periods of charter offered by other comparable charterers in the market; and (ii) on terms no less favorable than those offered to Independent Third Parties for the relevant transactions contemplated under the relevant agreements.

As discussed with the management of the Company, there is no pricing policy or guideline published or adopted for the relevant services under the SNL Master Chartering Agreement within the market. The services team of the Company, having market intelligence regarding pricing of chartering fees in the shipping market and receives daily report from the public shipbroker, is responsible for reviewing and approving the pricing prior to entering into any new agreement. As there are alternative sources of supplies of chartering services with comparable pricing and quality, the Combined Group and Sinotrans Container Lines will make reference to the fees of similar chartering services in respect of similar vessel models, carriage capacities, shipping routes or periods of charter quoted from Independent Third Parties for comparison purpose prior to the entering into any new agreement. We understand and are confirmed by the Company that in determining the pricing for such services, Combined Group will take into consideration at least two quotations for similar chartering services in respect of similar vessel models, carriage capacities, shipping routes or periods of charter to Independent Third Parties to ensure that the pricing of the chartering services will be at market prices and on normal commercial terms. The market price of chartering will be reference to the average chartering fees in respect of similar vessel sizes, speed, consumptions, carrying capacities, shipping routes or periods of charter according to the transactions conducted in the recent week as disclosed in the public shipbroker reports. We reviewed the source of market data and considered they are representative source of market data. Where there is no relevant market price, then the relevant price will be determined according to the other charterers of similar size providing similar services in the past week. As such, we have obtained and reviewed, on a sample basis

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to obtain one invoice per quarter in the past one year, the historical invoices of the Combined Group issued to other Independent Third Parties and noticed that the pricing basis under the SNL Master Chartering Agreement was comparable to that of the Independent Third Parties. Hence, we are of the view the pricing principles under the SNL Master Chartering Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Reasons for and benefits of entering into the SNL Master Chartering Agreement

Pursuant to the SNL Master Chartering Agreement, Sinotrans Container Lines will charter in vessels from the Group to use or sub-charter vessels to Independent Third Parties. As discussed with the management of the Company, the entering into of the SNL Master Chartering Agreement allows Sinotrans Container Lines charter in vessels that are necessary for its business operation, which is beneficial to Sinotrans Container Lines. On the other hand, the entering into of the SNL Master Chartering Agreement provides a steady flow of income into the Combined Group.

Having considered the above, we concur with the management of the Company that the entering into of the SNL Master Chartering Agreement will enable the Combined Group to benefit from continuing its business relationship with Sinotrans Container Lines which is in the usual and ordinary course of business of the Combined Group and is in the interest of the Company and the Shareholders as a whole.

Historical transaction amounts

	For the year ended 31 December 2010 (US\$'000)	For the year ended 31 December 2011 (US\$'000)	For the year ended 31 December 2012 (US\$'000)	For the year ended 31 December 2013 (US\$'000)
Chartering of vessels by the Group to Sinotrans Container Lines				
(a) Charter Hire and C/V/E Fee	16,049	18,262	18,372	18,164
(b) Address Commission	5	4	4	31

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Proposed annual caps and basis of determination for annual caps

The proposed annual caps for the on-going transactions contemplated by the SNL Master Chartering Agreement for the three years ending 31 December 2016 and the basis of determination for such annual caps are set out as follows:

	Proposed annual caps		
	For the year ending 31 December		
	2014	2015	2016
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
Chartering of vessels by the Combined Group to Sinotrans Container Lines			
(a) Charter Hire and C/V/E Fee	31,911	40,489	49,249
(b) Address Commission	1,197	1,518	1,847

The proposed annual caps of the Charter Hire, the C/V/E Fee and the Address Commission charged by the Combined Group in relation to the chartering of the vessels to Sinotrans Container Lines for the three years ending 31 December 2016 have been determined with reference to (i) the continuing need expressed by Sinotrans Container Lines to the Combined Group for vessels chartering; (ii) the interest in developing further business relationship between the Combined Group and Sinotrans Container Lines; (iii) the prevailing market rate of time charter of a vessel of a similar class; and (iv) the average rate of the Address Commission charged by third parties, which is calculated at a rate of 3.75% of the Charter Hire and C/V/E Fee.

In order to assess the reasonableness of the proposed annual caps under the SNL Master Chartering Agreement, we have performed certain works and discussed with the management of the Company the basis and assumptions underlying the determination of the proposed annual caps. Details of the basis of the determination and the analysis of the said proposed annual caps are set out below:

Proposed annual caps for the continuing connected transactions in relation to the chartering of vessels by the Combined Group to Sinotrans Container Lines

Regarding the Charter Hire and C/V/E Fee, as discussed with the management of the Company, after the Acquisition, Sinotrans Container Lines will (i) charter four vessels from Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping, after finishing the vessel construction; and (ii) charter eight vessels, eleven vessels and fourteen vessels from the Combined Group for FY2014, FY2015 and FY2016, respectively. The management of the Company estimated the annual charter hire fee for the four vessels of Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping will be approximately US\$2,000,000 each with reference to daily charter hire fee of vessels of similar size and carrying capacity. For the other vessels charter by Sinotrans Container Lines from the Combined Group, the average annual charter hire fee for each vessel will be approximately US\$3,000,000 with reference to daily charter hire fee of vessels of similar size and carrying capacity. We checked the prevailing market rate of time charter of vessel of similar classes

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(Similar to Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping: approximately US\$2,000,000; Similar to the other vessels charter by Sinotrans Container Lines from the Combined Group: approximately US\$3,000,000 to US\$3,300,000) and concur with the management of the Company that the estimation of the proposed annual caps for chartering of vessels by the Group to Sinotrans Container Lines are fair and reasonable.

For Charter Hire and C/V/E Fee, the proposed annual caps for chartering of vessels by the Combined Group to Sinotrans Container Lines increase by approximately 76%, 27% and 22% for FY2014, FY2015 and FY2016, respectively. The increase of annual cap in FY2014 is mainly due to the four vessels chartered from Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping finished construction in August 2013. Taking the full-year effect of charter hire of these four additional vessels, management of the Company expects the FY2014 annual cap will be much higher. Furthermore, other three more vessels will be chartered by Sinotrans Container Lines from the Combined Group in FY2014, comparing to only five vessels chartered in FY2013, explained the increase of annual cap in FY2014. The increases of annual caps in FY2015 and FY2016 mainly represents increase in number of vessels chartered by Sinotrans Container Lines from the Combined Group and also cater any unexpected fluctuations in exchange rates and charter hire rate.

For the Address Commission, in respect of the chartering of each vessel, Sinotrans Container Lines shall pay to the Combined Group the Charter Hire and C/V/E Fee. Sinotrans Container Lines is entitled to deduct from the Charter Hire the Address Commission. The Address Commission charter based on a certain percentage on the charter hire, which is calculated at a rate of 3.75% of the Charter Hire and C/V/E Fee. As discussed with the management of the Company, the Address Commission was determined according to the industry practice, which is also charging 3.75% of the charterhire fee. We have reviewed the commission agreements which have been entered into between the Combined Group and Independent Third Parties, and noted that the rate of the Address Commission charged by Sinotrans Container Lines is within the range charged by other independent third parties (approximately 3.75%).

RECOMMENDATION

We have considered the above principal factors and reasons and, in particular, having taken into account the following in arriving at our opinion:

- (a) the Acquisition is in line with the long-term business strategy of the Group;
- (b) from the perspective of the Comparable Companies analysis, the aggregate consideration is fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole;
- (c) from the perspective of the Comparable Transactions analysis, the aggregate consideration is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole;
- (d) the Acquisition will have a positive financial effect on the Company and is in the interest of the Company and the Shareholders as a whole;

LETTER FROM PLATINUM SECURITIES COMPANY LIMITED

- (e) the terms of the JV Agreements fair and reasonable;
- (f) the entering into of (i) the Supplemental Parent Master Services Agreements; (ii) the CCT JV Master Services Agreements; (iii) the Supplemental Parent Master Chartering Agreement; and (iv) the CCT JV Master Chartering Agreements are in the ordinary and usual course of business of the Group and is in the interest of the Company and the Shareholders as a whole are fair and reasonable;
- (g) the terms of (i) the Supplemental Parent Master Services Agreements; (ii) the CCT JV Master Services Agreements; (iii) the Supplemental Parent Master Chartering Agreement; and (iv) the CCT JV Master Chartering Agreements are on normal commercial terms and are fair and reasonable; and
- (h) the proposed annual caps for (i) the Supplemental Parent Master Services Agreements; (ii) the CCT JV Master Services Agreements; (iii) the Supplemental Parent Master Chartering Agreement; and (iv) the CCT JV Master Chartering Agreements are fair and reasonable.

Having considered the above, we are of the view that the Acquisition Agreements and the transactions contemplated thereunder including but not limited to the JV Agreements and the JV Articles of Association, although are not entered into in the ordinary and usual course of business of the Group, they fall squarely in line with the long-term business strategy of the Group, are on normal commercial terms and the terms of respective agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Furthermore, the Supplemental Parent Master Services Agreements, the CCT JV Master Services Agreements, the Supplemental Parent Master Chartering Agreement, the CCT JV Master Chartering Agreements and the transactions contemplated thereunder, are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

Yours faithfully,

For and on behalf of

Platinum Securities Company Limited

Lenny Li

Director

1. FINANCIAL SUMMARY

The audited consolidated financial statements, together with the accompanying notes to the financial statements, of the Company for the years ended 31 December 2011, 2012 and 2013 are disclosed on pages 47 to 93, pages 49 to 96 and pages 54 to 104 of the annual reports of the Company for the years ended 31 December 2011, 2012 and 2013, respectively. The management discussion and analysis of the Company for the years ended 31 December 2011, 2012 and 2013 are disclosed in the published annual report of the Company for the relevant years.

The management discussion and analysis of the Company for the years ended 31 December 2011, 2012 and 2013 are disclosed on pages 7 to 20, pages 6 to 18, pages 6 to 17, pages 21 to 26 and pages 6 to 18 of the annual reports for the years ended 31 December 2011, 2012 and 2013, respectively. All of the above information have been published on the websites of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://sinotranship.sinotrans-csc.com/>).

2. WORKING CAPITAL OF THE ENLARGED GROUP

Taking into account the expected completion of the Acquisition and the financial resources available to the Enlarged Group, including the internally generated funds, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

3. INDEBTEDNESS OF THE ENLARGED GROUP

(i) Borrowings and debts

As at the close of business on 28 February 2014, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately US\$257,766,000, comprising secured bank loans of US\$47,247,000, secured finance lease obligations of US\$63,000,000 unsecured loans from Parent Company of US\$20,436,000, unsecured amounts due to fellow subsidiaries of US\$22,500,000 and unsecured loans from Sinotrans of US\$104,583,000.

**APPENDIX I FINANCIAL INFORMATION AND MANAGEMENT DISCUSSION
AND ANALYSIS OF THE GROUP AND THE ENLARGED GROUP**

The following table illustrates the Enlarged Group's bank and other borrowings as at 28 February 2014:

	<i>US\$'000</i>
Current portion	
Current portion of bank loans – secured	6,328
Current portion of finance lease obligations – secured	2,700
Current portion of loans from Parent Company – unsecured and unguaranteed	7,153
Amounts due to fellow subsidiaries – unsecured and unguaranteed	22,500
Loans from Sinotrans – unsecured and unguaranteed (<i>note</i>)	<u>104,583</u>
	----- 143,264
Non-current portion	
Bank loans – secured	40,919
Finance lease obligations – secured	60,300
Loans from Parent Company – unsecured and unguaranteed	<u>13,283</u>
	----- 114,502
Total	<u><u>257,766</u></u>

Note: For the purpose of the SNL Acquisition, on 28 October 2013, Sinotrans has agreed to waive part of the loans to Sinotrans Container Lines amounted to US\$83,204,000, on the pre-condition that such loans waiver shall be void and null if the SNL Acquisition failed to complete. As the pre-condition for the waiver was still outstanding as at 28 February 2014, such loans were not discharged for the purpose of this indebtedness statement of the Enlarged Group as at 28 February 2014.

As at 28 February 2014, the Enlarged Group's bank loans and finance lease obligations of US\$110,247,000 were secured by its vessels with aggregate carrying amounts of approximately US\$137,801,000.

(ii) General

Save as otherwise disclosed herein and apart from intra-group liabilities, the Enlarged Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, bank overdrafts, charges or debentures, mortgages, loans or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees as of 28 February 2014.

(iii) Contingent liabilities

The Enlarged Group was involved in a number of claims and lawsuits currently under way. These claims and lawsuits are incidental to the Enlarged Group's business operation, including but not limited to, the claims and lawsuits arising from damage to vessels during transportation, damage to goods, delay in delivery, collision of vessels and early termination of vessel chartering contracts.

As at 28 February 2014, the Enlarged Group is unable to ascertain the likelihood and amounts of the above respective claims, other than those provided for. However, based on the information available to the Enlarged Group, the Directors are of the opinion that these cases will not have significant financial or operational impact to the Enlarged Group.

4. MATERIAL ADVERSE CHANGE

Save as disclosed in the Company's profit warning announcement dated 24 May 2013, the Company is not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, being the date to which the latest published audited financial statements of the Company were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group has been endeavored to become a nationally leading and internationally well-known shipping enterprise. Dry bulk shipping business is our top tier business, followed by container shipping business and other businesses. Acquisition of relevant business assets of high quality in appropriate times will benefit the Group in expanding the scope and scale of business. It will also help to create a high quality comprehensive international shipping platform for dry bulk, container and multi-functional shipping, enhance the competitiveness of the Company and consolidate the market position of the Company. As a result of the assets injection, the Company can further expand the fleet scale of shipping industry of the Company, strengthen the national shipping network and enrich and optimize the ship model structure. The full advantages of network, resources, brand and comprehensive services of the Company can be leveraged on. It can also enlarge the business scale and enhance synergistic effect, optimize the reasonable deployment and allocation of resources, increase sources of revenue and uplift the long-term profitability of the Group. It provides a strong support for the core competitiveness of the Company and thus maximize the investment value of such a red chip listed company. Details of which have been set out in the section headed "Reasons for and benefits of the Acquisition" in this circular.

**APPENDIX I FINANCIAL INFORMATION AND MANAGEMENT DISCUSSION
AND ANALYSIS OF THE GROUP AND THE ENLARGED GROUP**

The Enlarged Group would continue to achieve sustainable development by leveraging on its advantages of low-cost structure, solid financial position and modern fleet. It would operate prudently and safeguard its interest against risks. On these bases, the Enlarged Group would also continue to explore possible investment and acquisition opportunities. The Enlarged Group would continue to leverage on the market knowledge, experience and resources provided by the Target Group so as to achieve the synergistic effects in terms of operation effectiveness and branding.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

22 April 2014

The Directors
Sinotrans Shipping Limited

Dear Sirs,

We report on the financial information of Sinotrans Container Lines Company Limited (the "Target Company") and its subsidiary (together the "Target Group") which comprises the consolidated and company balance sheets as at 31 December 2010, 2011 and 2012 and 31 October 2013, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2013 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information. The financial information has been prepared by the directors of Sinotrans Shipping Limited (the "Company") and is set out in Sections I to III below for inclusion in Appendix II A to the circular of the Company dated 22 April 2014 (the "Circular") in connection with the proposed acquisition of 49% equity interest in the Target Company by a subsidiary of the Company.

The Target Company was incorporated in the People's Republic of China ("PRC") on 24 April 1998 as a limited liability company.

As at the date of this report, the Target Company has a wholly owned subsidiary, Sinotrans Container Lines (Hong Kong) Company Limited, a company incorporated in Hong Kong on 28 September 2012, details of which are also set out in note 15 of Section II below.

The statutory financial statements of the Target Company for each of the years ended 31 December 2010, 2011 and 2012 prepared in accordance with the Accounting Standards for Business Enterprises of the People's Republic of China, were audited by Shanghai Guangju Certified Public Accountants. The statutory financial statements of its subsidiary for the year ended 31 December 2012 have not been audited. The Target Company and its subsidiary have adopted 31 December as their financial year end date for statutory reporting.

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*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

The directors of the Target Company are responsible for the preparation of the consolidated financial statements of the Target Group for the Relevant Periods that give a true and fair view in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the “HKSA”) issued by the HKICPA pursuant to separate terms of engagement.

The financial information has been prepared based on the Underlying Financial Statements with no adjustment made thereon, and on the basis set out in note 2 of Section II below.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information of the Target Group that gives a true and fair view in accordance with the basis of preparation set out in note 2 of Section II below and HKFRSs and accounting policies adopted by the Company and its subsidiaries (together the “Group”) as set out in the annual report of the Company for the year ended 31 December 2013.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in note 2 of Section II below, a true and fair view of the state of affairs of the Target Group and the Target Company as at 31 December 2010, 2011 and 2012 and 31 October 2013 and of the Target Group's results and cash flows for the Relevant Periods then ended.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I to III below included in Appendix II A to the Circular which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Target Group for the ten months ended 31 October 2012 and a summary of significant accounting policies and other explanatory information (the “Stub Period Comparative Financial Information”).

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in note 2 of Section II below, the accounting policies set out in note 3 of Section II below and the accounting policies adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2013.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report and presented on the basis set out in note 2 of Section II below, is not prepared, in all material respects, in accordance with the accounting policies set out in note 3 of Section II below.

I. FINANCIAL INFORMATION OF THE TARGET GROUP AND THE TARGET COMPANY

The following is the financial information of the Target Group and the Target Company prepared by the directors of the Company as at 31 December 2010, 2011 and 2012 and 31 October 2013 and for each of the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013 (the "Financial Information").

(A) Consolidated statements of comprehensive income

	Note	Year ended 31 December			Ten months ended	
		2010	2011	2012	31 October	2013
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					(Unaudited)	
Revenues	6	494,239	589,972	620,516	507,262	476,408
Cost of operations	7	(481,162)	(594,415)	(630,387)	(516,963)	(472,225)
Gross profit/(loss)		13,077	(4,443)	(9,871)	(9,701)	4,183
Selling expenses	7	(3,711)	(3,877)	(4,202)	(3,029)	(2,996)
Administrative and general expenses	7	(6,746)	(6,769)	(7,227)	(5,096)	(4,861)
Other operating (expense)/income, net	8	(11,928)	1,286	2,505	119	1,092
Operating loss		(9,308)	(13,803)	(18,795)	(17,707)	(2,582)
Finance income	9	46	74	73	55	63
Loss before income tax		(9,262)	(13,729)	(18,722)	(17,652)	(2,519)
Income tax expense	10	-	-	-	-	-
Loss for the year/ period attributable to owner of the Target Group		(9,262)	(13,729)	(18,722)	(17,652)	(2,519)
Other comprehensive loss						
Items that may not be reclassified subsequently to profit or loss:						
Currency translation differences		(3,460)	(4,557)	(248)	(11)	(2,616)
Total comprehensive loss for the year/period		(12,722)	(18,286)	(18,970)	(17,663)	(5,135)
Earnings/(loss) per share attributable to owner of the Target Group during the year/period						
- Basic and diluted	13	N/A	N/A	N/A	N/A	N/A
Dividend		-	-	-	-	-

(B) Consolidated balance sheets

	Note	As at 31 December			As at
		2010 US\$'000	2011 US\$'000	2012 US\$'000	31 October 2013 US\$'000
ASSETS					
Non-current assets					
Property, plant and equipment	14	4,187	7,206	5,853	4,893
Current assets					
Inventories	16	5,521	10,178	7,875	8,491
Trade and other receivables	17	111,169	119,881	128,736	107,008
Cash and cash equivalents	18	10,721	15,754	21,837	15,865
		127,411	145,813	158,448	131,364
Total assets		131,598	153,019	164,301	136,257
EQUITY					
Capital and reserves					
Paid up capital	20	12,082	57,796	57,796	57,796
Reserves	21	(131,645)	(149,931)	(168,901)	(174,036)
Total deficit on equity		(119,563)	(92,135)	(111,105)	(116,240)
LIABILITIES					
Current liabilities					
Trade and other payables	22	128,225	159,829	184,364	162,798
Loans from the immediate holding company	23	104,513	85,215	90,954	89,621
Derivative financial liabilities	19	16,103	-	-	-
Other taxes payable		141	110	88	78
Provisions for other liabilities	24	2,179	-	-	-
Total liabilities		251,161	245,154	275,406	252,497
Total equity and liabilities		131,598	153,019	164,301	136,257
Net current liabilities		(123,750)	(99,341)	(116,959)	(121,133)
Total assets less current liabilities		(119,563)	(92,135)	(111,105)	(116,240)

(C) Balance sheets

		As at 31 December			As at
		2010	2011	2012	31 October
	Note	US\$'000	US\$'000	US\$'000	2013
					US\$'000
ASSETS					
Non-current assets					
Property, plant and equipment	14	4,187	7,206	5,853	4,893
Investment in a subsidiary	15	–	–	1	1
		<u>4,187</u>	<u>7,206</u>	<u>5,854</u>	<u>4,894</u>
Current assets					
Inventories	16	5,521	10,178	7,875	8,491
Trade and other receivables	17	111,169	119,881	128,736	107,008
Cash and cash equivalents	18	10,721	15,754	21,837	15,865
		<u>127,411</u>	<u>145,813</u>	<u>158,448</u>	<u>131,364</u>
Total assets		<u>131,598</u>	<u>153,019</u>	<u>164,302</u>	<u>136,258</u>
EQUITY					
Capital and reserves					
Paid up capital	20	12,082	57,796	57,796	57,796
Reserves	21	(131,645)	(149,931)	(168,901)	(174,036)
Total deficit on equity		<u>(119,563)</u>	<u>(92,135)</u>	<u>(111,105)</u>	<u>(116,240)</u>
LIABILITIES					
Current liabilities					
Trade and other payables	22	128,225	159,829	184,365	162,799
Loans from the immediate holding company	23	104,513	85,215	90,954	89,621
Derivative financial liabilities	19	16,103	–	–	–
Other taxes payable		141	110	88	78
Provisions for other liabilities	24	2,179	–	–	–
Total liabilities		<u>251,161</u>	<u>245,154</u>	<u>275,407</u>	<u>252,498</u>
Total equity and liabilities		<u>131,598</u>	<u>153,019</u>	<u>164,302</u>	<u>136,258</u>
Net current liabilities		<u>(123,750)</u>	<u>(99,341)</u>	<u>(116,959)</u>	<u>(121,134)</u>
Total assets less current liabilities		<u>(119,563)</u>	<u>(92,135)</u>	<u>(111,105)</u>	<u>(116,240)</u>

(D) Consolidated statements of changes in equity

	Share capital <i>US\$'000</i>	Statutory reserve <i>US\$'000</i>	Currency translation reserve <i>US\$'000</i>	Accumulated losses <i>US\$'000</i>	Total equity <i>US\$'000</i>
At 1 January 2010	12,082	6,111	7,382	(132,416)	(106,841)
Comprehensive loss					
Loss for the year	-	-	-	(9,262)	(9,262)
Other comprehensive loss					
Currency translation differences	-	-	(3,460)	-	(3,460)
Total comprehensive loss	-	-	(3,460)	(9,262)	(12,722)
At 31 December 2010	<u>12,082</u>	<u>6,111</u>	<u>3,922</u>	<u>(141,678)</u>	<u>(119,563)</u>
At 1 January 2011	12,082	6,111	3,922	(141,678)	(119,563)
Comprehensive loss					
Loss for the year	-	-	-	(13,729)	(13,729)
Other comprehensive loss					
Currency translation differences	-	-	(4,557)	-	(4,557)
Total comprehensive loss	-	-	(4,557)	(13,729)	(18,286)
Transaction with owners					
Capital injection (<i>note 20</i>)	45,714	-	-	-	45,714
At 31 December 2011	<u>57,796</u>	<u>6,111</u>	<u>(635)</u>	<u>(155,407)</u>	<u>(92,135)</u>

APPENDIX IIA ACCOUNTANT'S REPORT OF SINOTRANS CONTAINER LINES GROUP

	Share capital <i>US\$'000</i>	Statutory reserve <i>US\$'000</i>	Currency translation reserve <i>US\$'000</i>	Accumulated losses <i>US\$'000</i>	Total equity <i>US\$'000</i>
At 1 January 2012	57,796	6,111	(635)	(155,407)	(92,135)
Comprehensive loss					
Loss for the year	-	-	-	(18,722)	(18,722)
Other comprehensive loss					
Currency translation differences	-	-	(248)	-	(248)
Total comprehensive loss	-	-	(248)	(18,722)	(18,970)
At 31 December 2012	<u>57,796</u>	<u>6,111</u>	<u>(883)</u>	<u>(174,129)</u>	<u>(111,105)</u>
At 1 January 2013	57,796	6,111	(883)	(174,129)	(111,105)
Comprehensive loss					
Loss for the period	-	-	-	(2,519)	(2,519)
Other comprehensive loss					
Currency translation differences	-	-	(2,616)	-	(2,616)
Total comprehensive loss	-	-	(2,616)	(2,519)	(5,135)
At 31 October 2013	<u>57,796</u>	<u>6,111</u>	<u>(3,499)</u>	<u>(176,648)</u>	<u>(116,240)</u>
Unaudited					
At 1 January 2012	57,796	6,111	(635)	(155,407)	(92,135)
Comprehensive loss					
Loss for the period	-	-	-	(17,652)	(17,652)
Other comprehensive loss					
Currency translation differences	-	-	(11)	-	(11)
Total comprehensive income/(loss)	-	-	(11)	(17,652)	(17,663)
At 31 October 2012	<u>57,796</u>	<u>6,111</u>	<u>(646)</u>	<u>(173,059)</u>	<u>(109,798)</u>

(E) Consolidated statements of cash flows

	Note	Year ended 31 December			Ten months ended 31 October	
		2010	2011	2012	2012	2013
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
						(Unaudited)
Cash flows from operating activities						
Cash (used in)/generated from						
operations	25	(11,295)	(17,092)	1,275	8,731	(2,014)
Interest received		46	74	73	55	63
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash (used in)/generated from						
operating activities		(11,249)	(17,018)	1,348	8,786	(1,951)
		<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Cash flows from investing activities						
Purchases of property, plant and						
equipment		(487)	(844)	(448)	(273)	(488)
Proceeds from disposal of property,						
plant and equipment		10	35	40	26	10
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash used in investing activities		(477)	(809)	(408)	(247)	(478)
		<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Cash flows from financing activities						
Drawdown of borrowings		11,062	-	5,562	5,555	-
Repayment of borrowings		-	(24,022)	-	-	(3,410)
Proceeds from capital injection		-	45,714	-	-	-
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash generated from/(used in)						
financing activities		11,062	21,692	5,562	5,555	(3,410)
		<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Net (decrease)/increase in cash and						
 cash equivalents		(664)	3,865	6,502	14,094	(5,839)
Cash and cash equivalents at beginning						
of the year/period		11,189	10,721	15,754	15,754	21,837
Effect of foreign exchange rate changes		196	1,168	(419)	(95)	(133)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at end of						
 the year/period		<u>10,721</u>	<u>15,754</u>	<u>21,837</u>	<u>29,753</u>	<u>15,865</u>

II. NOTES TO THE FINANCIAL INFORMATION**1 GENERAL INFORMATION**

Sinotrans Container Lines Company Limited (the "Target Company") was incorporated in Shanghai, the People's Republic of China (the "PRC") on 24 April 1998, as a company with limited liability. The address of its registered office is Room 15A, 15/F, 450 Fushan Road, Pudong District, Shanghai, the PRC. The Target Company is principally engaged in international container shipping, container vessel time chartering, ship agency, ship management services, import and export of goods and container yard services.

The Target Company has a wholly owned subsidiary, Sinotrans Container Lines (Hong Kong) Company Limited, details of which are set out in note 15 of Section II. The Target Company and its subsidiary are collectively referred to as "Target Group".

The immediate holding company is Sinotrans Limited ("SINOTRANS"), a joint-stock company with limited company established in the PRC and listed on the Main Board of The Stock Exchange of Hong Kong Limited. The parent company is SINOTRANS & CSC Holdings Co., Ltd. ("SINOTRANS & CSC Group Company"), a state-owned enterprise in the PRC.

The Financial Information is presented in United States dollar ("US\$"), unless otherwise stated.

2 BASIS OF PREPARATION

- (i) The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include Hong Kong Accounting Standards ("HKAS") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Financial Information has been prepared under the historical cost convention throughout the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013, except for derivative financial liabilities which have been measured at fair value.

As at 31 October 2013, the Target Group's and the Target Company's current liabilities exceeded their current assets by US\$121,133,000 and US\$121,134,000 respectively and the Target Group and the Target Company had the same amount of total deficit on equity of US\$116,240,000. The Target Group's and the Target Company's abilities to continue as going concerns are highly depended on the continuing financial support from its equity holders. The parent company has confirmed its intention to provide continuing financial support to the Target Group and the Target Company so as to enable the Target Group and the Target Company to meet their liabilities as and when they fall due and to carry on their business without a significant curtailment of operation for the foreseeable future. On 28 October 2013, SINOTRANS signed an agreement to waive the total debts due from the Target Company of US\$106,421,000 subject to certain pre-conditions (note 23). On this basis, the directors of the Company believe that the Target Group and the Target Company will continue as going concerns. Consequently, the directors of the Company have prepared the Financial Information on a going concern basis.

- (ii) The preparation of the Financial Information 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 Target 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 Information are disclosed in note 5.

(iii) Standards and amendments which are not yet effective

The HKICPA has issued the following new standards and amendments to the standards which are not yet effective in 2013 but relevant to the Target Group and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
HKFRS 10, HKFRS 12 and HKFRS 27 (2011) (Amendment)	Investment Entities	1 January 2014
HK (IFRIC) Interpretation 21	Levies	1 January 2014
HKFRS 7 and HKFRS 9 (Amendment)	Disclosures – Mandatory Effective Date of HKFRS 9 and Transition Disclosures	1 January 2015
HKFRS 9	Financial Instruments	To be determined

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

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of this Financial Information are set out below. These policies have been consistently applied to all the years/periods presented.

(a) Consolidation

The Financial Information includes the financial information of the Target Company and its subsidiary made up to the reporting dates.

(i) 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, the Target Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Target Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the company is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired at the acquisition date is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Company.

(ii) *Transactions with non-controlling interests*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) *Gaining or losing control or significant influence*

When the company ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(b) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

(c) Separate financial information

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Target Company on the basis of dividend received and receivable.

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

(d) Foreign currency translation*(i) Functional and presentation currency*

Items included in the Financial Information are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the Target Company is Renminbi (“RMB”) while the Financial Information is presented in US\$.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the People’s Bank of China (“PBOC”) exchange rates of the first day of the month 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 profit or loss unless they are capitalised as part of the borrowing costs.

(iii) Group companies

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

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) 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 rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(e) Property, plant and equipment

Vessels and other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. 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 company and the cost of the item can be measured reliably. All other repairs and maintenance, including vessel repairs and surveys, are expensed in the profit or loss during the financial period in which they are incurred.

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.

Depreciation of vessels 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	25 years from the date of first registration
Others (including containers, furniture, fixtures and equipment, motor vehicles)	5-8 years

The residual values of vessels 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 (note 3(k)).

The gain or loss on disposal of vessel and other 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 profit or loss.

(f) Financial assets

(i) Classification

The Target Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Target Group's receivables comprise "trade and other receivables" in the balance sheet (notes 3(j)).

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Target Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Target Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(g) Leases

Leases where substantially all the risks and rewards of ownership of assets are retained by the lessors are classified as operating leases.

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

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

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

When assets are leased out under an operating lease, the assets are included in the balance sheet based on the nature of the assets and where applicable, are depreciated in accordance with the Target Group's accounting policies as set out in note 3(e) of Section II above.

Revenue arising from assets leased out under operating leases is recognised in accordance with the Target Group's revenue recognition policies as set out in note 3(r) of Section II below.

Leases that substantially transfer to the leasees all the risks and rewards of ownership of assets are classified as finance leases.

(h) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The resulting gain or loss are recognised in profit or loss as other operating income or expense.

(i) Inventories

Inventories primarily represent bunkers on board of vessels, which are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is expected amount to be realised from use as estimated by the management.

(j) 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.

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.

(k) Impairment

(i) Impairment of investment in subsidiary 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.

(ii) Impairment of financial assets carried at amortised cost

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks with original maturities of three months or less.

(m) Trade payables

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

(n) Provisions

Provisions are recognised when the Target 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.

(o) Employee benefits

(i) Employee leave entitlements

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

(p) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, 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 Target Group operates and generates 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 Information. 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, except for deferred income tax liability 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.

(q) 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 company. 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 Information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(r) Revenue and income recognition

Revenue and income comprises the fair value of the consideration received or receivable for container shipping and provision of services in the ordinary course of the company's activities. Revenue is shown after eliminating sales within the Target Group. The Target Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for company's activities, as described below.

The company recognises revenue on the following basis:

(i) *Revenue from container shipping*

Freight revenues from the operation of international and domestic containerised transportation business are recognised on a percentage-of-completion basis, which is determined on the time proportion method of each individual vessel voyage.

(ii) *Revenue from charter hire*

Income from time charter is recognised on a straight-line basis over the period of each charter.

(iii) *Revenue from shipping related businesses*

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

(iv) *Interest income*

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

(s) **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 profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(t) **Borrowing costs**

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(u) **Government grant**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(v) **Dividend distribution**

Dividend distribution to the shareholders of the Target Company is recognised as a liability in the Financial Information in the period in which the dividends are approved by the shareholders or the directors of the Target Company, where applicable.

(w) 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 Target Company that makes strategic decisions.

4 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) Price risk

The Target Group is exposed to market freight rate risk arising from its container shipping business which is sensitive to economic fluctuations. To manage the market freight rate risk, the Target Group seek to diversify its source of revenues through operating different routes within the Asia Pacific region.

The Target Group is exposed to bunker price risk for its container shipping business. Any increase in bunker price may only be partially compensated through freight surcharge bunker price adjustment. Management monitors the market conditions and bunker price fluctuations and where appropriate, bunker forward contracts are used to lock up the price of part of the Target Group's bunker requirements.

As at 31 December 2010, 2011 and 2012 and 31 October 2013, the Target Group had no bunker forward contracts.

(ii) Cash flow and fair value interest rate risk

The Target Group's interest bearing assets comprise cash and bank balances. The Target Group's income and operating cash flows are substantially independent of changes in market interest rates.

For each of the years ended December 31 December 2010, 2011 and 2012, and each of the ten months ended 31 October 2012 and 2013, the impact on the profit or loss of a 50 basis-point shift in interest rate would be an increase or a decrease of interest income of US\$54,000, US\$79,000, US\$109,000, US\$149,000 and US\$79,000, respectively.

(iii) Credit and counterparty risks

The extent of credit exposure of the Target Group is the aggregate carrying value of cash and bank balances and trade and other receivables. The Target Group's credit risk is considered minimal as it is normal shipping practice that substantial part of the freight income has to be settled upon completion of discharge.

The Target Group also has policies in place to assess the credit worthiness of customers to ensure businesses are only conducted with customers with an appropriate credit history. Besides, management of the Target 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 state-owned PRC banks with high credit ratings. Given their high credit ratings, the Target Group does not expect to have high credit risk in this aspect. Furthermore, management regularly assesses credit risk for the issuers of the Target Group's derivative financial instruments by reviewing ageing analysis and financial information of these counterparties on a regular basis to minimise credit risk.

(iv) Liquidity risk

Cash flow forecasting is performed by the management of the Target Company, who monitors rolling forecasts of the Target Group's liquidity requirements to ensure it has sufficient cash to meet operational needs and capital commitments (if any) at all times. Such forecasting takes into consideration of the Target Group's future business plans and strategy to monitor any debt financing requirement.

At 31 December 2010, 2011 and 2012 and 31 October 2013, all the financial liabilities of the Target Group will expire within one year. As at 31 October 2013, Target Group's current liabilities exceeded its current assets by US\$121,133,000. The parent company has confirmed its intention to provide continuing financial support to the Target Group so as to enable the Target Group to meet its liabilities as and when they fall due and to carry on its business without a significant curtailment of operation for the foreseeable future.

Surplus cash held by the Target Group over balance required for working capital management are managed centrally by the immediate holding company of the Target Company 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. As at 31 December 2010, 2011 and 2012 and 31 October 2013, the Target Group had cash and cash equivalents of US\$10,721,000, US\$15,754,000, US\$21,837,000 and US\$15,865,000 respectively that are expected to readily generate cash inflows for managing liquidity risk.

(v) Foreign exchange risk

The Target Group operates internationally and is exposed to foreign exchange risk from various currency exposures primarily with respect to US\$ and Japanese Yen. Majority of the Target Group's revenues and financial assets and liabilities are principally denominated in Renminbi which majority of its cost of operations is denominated in US\$. The Target Group currently does not have regular and established hedging policy in place. The Target 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.

For each of the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2013, if Renminbi had strengthened/weakened by 5% against US\$ with all other variables unchanged, the Target Group's loss before income tax would have been US\$2,148,000, US\$1,744,000, US\$2,024,000 and US\$1,456,000 lower/higher respectively.

(b) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If quoted prices (unadjusted) in active markets for identical assets or liabilities are available, the instrument is included in level 1. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The Target Group's only assets and liabilities measured at fair value during the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013 were the derivative financial liabilities amounted to US\$16,103,000 as at 31 December 2010, which was included in level 2.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The carrying values of cash and bank balances and trade receivables and payables, are a reasonable approximation of their fair values.

(c) **Capital risk management**

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for the shareholder and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Target Group will consider macro-economic conditions, prevailing borrowing rates in the market and adequacy of cash flows generating from operations and may request for funding from its immediate holding company.

As at 31 October 2013, the Target Group's current liabilities exceeded its current assets by US\$121,133,000. The parent company has confirmed its intention to provide continuing financial support to the Target Group so as to enable the Target Group to meet its liabilities as and when they fall due and to carry on its business without a significant curtailment of operation for the foreseeable future.

The Target Group monitors its capital on the basis of the gearing ratio, which represents ratio of comparing net debt to total capital. Net debt represents borrowings less cash and bank balances. Total capital represents "total equity" as shown in the balance sheet plus net debt.

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
	US\$'000	US\$'000	US\$'000	US\$'000
Borrowings	104,513	85,215	90,954	89,621
Less: Cash and bank balances	<u>(10,721)</u>	<u>(15,754)</u>	<u>(21,837)</u>	<u>(15,865)</u>
Net debt	93,792	69,461	69,117	73,756
Total deficit on equity	<u>(119,563)</u>	<u>(92,135)</u>	<u>(111,105)</u>	<u>(116,240)</u>
Total capital	<u>(25,771)</u>	<u>(22,674)</u>	<u>(41,988)</u>	<u>(42,484)</u>
Gearing ratio	<u>364%</u>	<u>306%</u>	<u>165%</u>	<u>174%</u>

5 **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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 Target 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) Recognition of revenues and income

Revenues comprise the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Target Group's activities. Revenues are shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Target Group.

The Target Group recognises revenues when the amount of revenues can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Target Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Group recognises revenues and income on the following bases:

(i) Revenues from container shipping

Freight revenues from the operation of international and domestic containerised transportation business are recognised on a percentage-of-completion basis, which is determined on the time proportion method of each individual vessel voyage.

(ii) Revenues from charter hire

Income from time charter is recognised on a straight-line basis over the period of each charter.

(iii) Revenues from freight forwarding and shipping agency

For freight forwarding business, it generally coincides with the date of departure for outward freights and the time of transfer of goods to the customers at the designated location for inward freight. For shipping agency services, it generally coincides with the date of departure of the relevant vessels from the port.

Where the Target Group effectively acts as a principal in arranging transportation of goods for customers, revenue recognised generally includes the carrier's charges to the Target Group. Where the Target Group effectively acts as an agent for the customers, revenue recognised comprises fees for services provided by the Target Group.

(b) Provision of voyage expenses

Invoices for voyage expenses are normally received several months after the transaction. For voyages completed or in progress as at end of reporting period, voyage expenses are estimated based on the latest quotation and voyage statistics obtained from vendors. If the actual voyage expenses were different from the estimate, this would have an impact on the estimated voyage expenses in the following reporting period.

As at 31 December 2010, 2011 and 2012 and 31 October 2013, were the actual expenses of voyages differ by 10% from management estimates with all other variables held constant, it is estimated that the voyage expenses would increase/decrease by US\$6,577,000, US\$7,978,000, US\$6,353,000 and US\$6,090,000 respectively in the future periods.

(c) Provision for onerous contracts

Management estimate the provision for onerous contracts being the present obligation of the unavoidable costs less the economic benefits expected to be received under those non-cancellable vessel contracts. The expected economic benefits are estimated based on contracted freight rates of associated vessel contracts, and estimated future freight rates by reference to market statistics and information while unavoidable costs are estimated based on charterhire payments that the Target Group is obligated to make under the non-cancellable chartered-in vessel contracts.

Management conducted an assessment of the non-cancellable chartered-in-vessel contracts. Based on management's best estimates, provisions for onerous contracts made as at 31 December 2010, 2011 and 2012 and 31 October 2013, were US\$2,179,000, nil, nil and nil respectively (note 24).

(d) Income taxes, business taxes, value-added taxes, withholding taxes and deferred tax

The Target Group is subject to income taxes, business taxes, value-added taxes and withholding taxes in numerous jurisdictions. Significant judgement is required by the directors of Target Company in determining the provision for income taxes, business taxes, value-added taxes and withholding taxes based on the market situations and practice, and the understanding of the tax rules enacted or substantively enacted by the balance sheet dates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax, deferred tax and withholding tax provisions in the period in which such determination is made.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available which the temporary differences can be utilised. If the actual operating results were different from the estimate, this would impact the deferred tax assets and tax expenses in the following period.

(e) Impairment of trade and other receivables

The Target Group's management determines the provision for impairment of trade receivables in accordance with the accounting policy stated in note 3(k). Such provision for impairment is established if there is objective evidence that the Target Group will not be able to collect all amounts due according to the original term of receivables. Management reassesses the provision by each reporting date.

6 REVENUES AND SEGMENT INFORMATION

(a) Revenues

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
				(Unaudited)	
Revenues from container shipping business	451,855	536,216	574,471	469,821	435,389
Time charterhire income	12,976	9,789	-	-	-
Revenues from other shipping related business	29,408	43,967	46,045	37,441	41,019
	<u>494,239</u>	<u>589,972</u>	<u>620,516</u>	<u>507,262</u>	<u>476,408</u>

Revenue comprises turnover from gross freight, charter hire, service and other income from the operation of the container shipping business.

(b) Segment information

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

APPENDIX IIA ACCOUNTANT'S REPORT OF SINOTRANS CONTAINER LINES GROUP

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

- China-Taiwan/Hong Kong route
- China-South Korea route
- China-Japan route
- China-Australia routes
- Other routes
- Other shipping related business (including container vessels time chartering)

	Year ended 31 December 2010							Total US\$'000
	China- Taiwan/ Hong Kong route US\$'000	China- South Korea route US\$'000	China- Japan route US\$'000	China- Australia routes US\$'000	Other routes US\$'000	Other shipping related business US\$'000	Corporate and other operations US\$'000	
	Total revenues	59,827	37,761	268,615	69,682	15,970	42,384	
Inter-segment revenues	-	-	-	-	-	-	-	-
Revenues from external customers	<u>59,827</u>	<u>37,761</u>	<u>268,615</u>	<u>69,682</u>	<u>15,970</u>	<u>42,384</u>	<u>-</u>	<u>494,239</u>
Segment results	<u>5,655</u>	<u>(1,002)</u>	<u>7,756</u>	<u>2,153</u>	<u>2,224</u>	<u>2,333</u>	<u>(6,042)</u>	<u>13,077</u>
Depreciation	<u>590</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>409</u>	<u>999</u>
Additions to property, plant and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>487</u>	<u>487</u>
	Year ended 31 December 2011							
	China- Taiwan/ Hong Kong route US\$'000	China- South Korea route US\$'000	China- Japan route US\$'000	China- Australia routes US\$'000	Other routes US\$'000	Other shipping related business US\$'000	Corporate and other operations US\$'000	Total US\$'000
Total revenues	63,600	54,551	323,320	88,376	16,369	43,756	-	589,972
Inter-segment revenues	-	-	-	-	-	-	-	-
Revenues from external customers	<u>63,600</u>	<u>54,551</u>	<u>323,320</u>	<u>88,376</u>	<u>16,369</u>	<u>43,756</u>	<u>-</u>	<u>589,972</u>
Segment results	<u>5,065</u>	<u>(5,964)</u>	<u>7,512</u>	<u>(12,733)</u>	<u>(384)</u>	<u>2,061</u>	<u>-</u>	<u>(4,443)</u>
Depreciation	<u>614</u>	<u>-</u>	<u>59</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>354</u>	<u>1,027</u>
Additions to property, plant and equipment	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>844</u>	<u>3,844</u>

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	Year ended 31 December 2012							Total US\$'000
	China- Taiwan/ Hong Kong route US\$'000	China- South Korea route US\$'000	China- Japan route US\$'000	China- Australia routes US\$'000	Other routes US\$'000	Other shipping related business US\$'000	Corporate and other operations US\$'000	
	Total revenues	83,890	59,397	325,666	84,688	20,830	46,045	
Inter-segment revenues	–	–	–	–	–	–	–	–
Revenues from external customers	<u>83,890</u>	<u>59,397</u>	<u>325,666</u>	<u>84,688</u>	<u>20,830</u>	<u>46,045</u>	<u>–</u>	<u>620,516</u>
Segment results	<u>5,014</u>	<u>(4,727)</u>	<u>(8,063)</u>	<u>(5,966)</u>	<u>3,082</u>	<u>789</u>	<u>–</u>	<u>(9,871)</u>
Depreciation	<u>631</u>	<u>–</u>	<u>728</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>437</u>	<u>1,796</u>
Additions to property, plant and equipment	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>448</u>	<u>448</u>
	Ten months ended 31 October 2012 (Unaudited)							Total US\$'000
	China- Taiwan/ Hong Kong route US\$'000	China- South Korea route US\$'000	China- Japan route US\$'000	China- Australia routes US\$'000	Other routes US\$'000	Other shipping related business US\$'000	Corporate and other operations US\$'000	
Total revenues	70,201	46,423	267,033	69,518	16,646	37,441	–	
Inter-segment revenues	–	–	–	–	–	–	–	–
Revenues from external customers	<u>70,201</u>	<u>46,423</u>	<u>267,033</u>	<u>69,518</u>	<u>16,646</u>	<u>37,441</u>	<u>–</u>	<u>507,262</u>
Segment results	<u>5,157</u>	<u>(4,252)</u>	<u>(6,844)</u>	<u>(7,287)</u>	<u>2,009</u>	<u>1,516</u>	<u>–</u>	<u>(9,701)</u>
Depreciation	<u>525</u>	<u>–</u>	<u>606</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>361</u>	<u>1,492</u>
Additions to property, plant and equipment	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>277</u>	<u>277</u>

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	Ten months ended 31 October 2013							Total US\$'000
	China- Taiwan/ Hong Kong route US\$'000	China- South Korea route US\$'000	China- Japan route US\$'000	China- Australia routes US\$'000	Other routes US\$'000	Other shipping related business US\$'000	Corporate and other operations US\$'000	
	Total revenues	70,683	55,033	242,474	53,836	13,363	41,019	
Inter-segment revenues	–	–	–	–	–	–	–	–
Revenues from external customers	<u>70,683</u>	<u>55,033</u>	<u>242,474</u>	<u>53,836</u>	<u>13,363</u>	<u>41,019</u>	<u>–</u>	<u>476,408</u>
Segment results	<u>7,094</u>	<u>(4,239)</u>	<u>(2,595)</u>	<u>532</u>	<u>1,975</u>	<u>1,416</u>	<u>–</u>	<u>4,183</u>
Depreciation	<u>532</u>	<u>–</u>	<u>615</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>421</u>	<u>1,568</u>
Additions to property, plant and equipment	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>488</u>	<u>488</u>

Revenues between segments (if any) are carried out on terms with reference to the market practice. Revenues from external customers reported to the directors of the Target Group are measured in a manner consistent with that in the statement of comprehensive income.

The directors of the Target Group assess the performance of the operating segments based on a measure of operating results from each reportable segment. Corporate income, corporate expenses and net finance income are not included in the segment results.

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

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000 (Unaudited)	2013 US\$'000
Segment results for reportable segments	13,077	(4,443)	(9,871)	(9,701)	4,183
Fair value gain on derivative financial instruments	2,373	16,504	–	–	–
Government subsidies	–	17	2,399	16	–
Other corporate income	7	6	3	9	–
Corporate expenses	(24,765)	(25,887)	(11,326)	(8,031)	(6,765)
Finance income	<u>46</u>	<u>74</u>	<u>73</u>	<u>55</u>	<u>63</u>
Loss before income tax	<u>(9,262)</u>	<u>(13,729)</u>	<u>(18,722)</u>	<u>(17,652)</u>	<u>(2,519)</u>

The directors of the Target Company manage the assets and liabilities of the Target Group on an entity-wide basis and consider that there is no suitable basis for allocating the Target Group's assets and liabilities to segments. Vessels owned and managed by the Target Group operated across geographical markets and geographical information is also not available.

APPENDIX IIA ACCOUNTANT'S REPORT OF SINOTRANS CONTAINER LINES GROUP

7 EXPENSES BY NATURE

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Depreciation (note 14)	999	1,027	1,796	1,492	1,568
Inventories consumed	71,245	107,708	118,893	97,304	83,236
Spare parts, lubricants and materials	33	23	38	14	14
Operating lease expenses					
– vessels	77,451	86,018	71,525	59,745	50,030
– office premises	573	643	791	736	718
– containers	36,496	38,668	39,836	32,580	29,606
Employee benefit expense (note 11)	12,413	13,290	14,768	10,556	10,846
Port charges	25,161	39,445	41,710	33,718	35,437
Provision for onerous contracts (note 24)	2,179	–	–	–	–
Handling charges	176,183	201,338	212,129	174,041	155,176
Container charges	50,906	73,333	93,844	77,958	72,919
Repairs and maintenance expenses	63	77	81	31	11
Shipping service agency costs	35,714	41,696	45,256	35,923	39,603
Business tax	619	618	440	387	285
Others	1,584	1,177	709	603	633
	<u>491,619</u>	<u>605,061</u>	<u>641,816</u>	<u>525,088</u>	<u>480,082</u>
Total cost of operations and selling, administrative and general expenses	<u>491,619</u>	<u>605,061</u>	<u>641,816</u>	<u>525,088</u>	<u>480,082</u>

8 OTHER OPERATING (EXPENSE)/INCOME, NET

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Government subsidies	–	17	2,399	16	–
Fair value gain on derivative financial instruments	2,373	16,504	–	–	–
Loss on derivative financial instruments	(14,490)	(17,269)	–	–	–
Exchange (loss)/gain	182	2,028	103	94	1,092
Gain on disposals of property, plant and equipment	2	6	20	9	5
Others	5	–	(17)	–	(5)
	<u>(11,928)</u>	<u>1,286</u>	<u>2,505</u>	<u>119</u>	<u>1,092</u>
	<u>(11,928)</u>	<u>1,286</u>	<u>2,505</u>	<u>119</u>	<u>1,092</u>

9 FINANCE INCOME

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Interest income on bank deposits	46	74	73	55	63

10 INCOME TAX EXPENSE

For the years ended 31 December 2010, 2011 and 2012 and ten months ended 31 October 2012 and 2013, the PRC income tax has not been provided for as the Target Group did not have estimated assessable profits in the PRC.

The tax on the Target Group's loss before income tax differs from the theoretical amount that would arise using the PRC income tax rate as follows:

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Loss before income tax	(9,262)	(13,729)	(18,722)	(17,652)	(2,519)
Tax calculated at 25%	(2,316)	(3,432)	(4,681)	(4,413)	(630)
Expenses not deductible for tax purposes	97	148	216	67	63
Unrecognised deductible temporary differences	(393)	(4,173)	(117)	(67)	(176)
Tax losses not recognised as deferred tax assets	2,612	7,457	4,582	4,413	743
Income tax expense	-	-	-	-	-

As at 31 December 2010, 2011 and 2012 and 31 October 2012 and 2013, the expiry dates of the tax losses of US\$157,022,000, US\$151,013,000, US\$139,241,000, US\$143,331,000 and US\$125,996,000 respectively that are not recognised as deferred tax assets are as follows:

	As at 31 December			As at 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Within 1 year	42,450	30,416	22,776	24,005	51,870
Between 1 to 2 years	28,939	22,720	56,273	50,571	19,130
Between 2 to 3 years	21,616	56,135	11,179	18,651	28,055
Between 3 to 4 years	53,407	11,152	30,665	27,353	20,876
Between 4 to 5 years	10,610	30,590	18,348	22,751	6,065
	157,022	151,013	139,241	143,331	125,996

11 EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTOR EMOLUMENTS)

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Wages and salaries	11,070	11,905	13,236	9,389	9,448
Pension costs – defined contribution plans	1,343	1,385	1,532	1,167	1,398
	<u>12,413</u>	<u>13,290</u>	<u>14,768</u>	<u>10,556</u>	<u>10,846</u>

12 DIRECTORS' EMOLUMENTS

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Wages and salaries	418	464	386	312	294
Pension costs – defined contribution plans	24	28	24	19	19
	<u>442</u>	<u>492</u>	<u>410</u>	<u>331</u>	<u>313</u>

13 EARNINGS/(LOSSES) PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful. The Target Company and its subsidiary have no potentially dilutive option or other instruments relating to ordinary shares.

14 PROPERTY, PLANT AND EQUIPMENT

Target Group and Target Company

	Vessels US\$'000	Others US\$'000	Total US\$'000
At 1 January 2010			
Cost	4,004	4,408	8,412
Accumulated depreciation	<u>(581)</u>	<u>(3,258)</u>	<u>(3,839)</u>
Net book amount	<u>3,423</u>	<u>1,150</u>	<u>4,573</u>
Year ended 31 December 2010			
Opening net book amount	3,423	1,150	4,573
Additions	–	487	487
Disposals	–	(8)	(8)
Depreciation	(590)	(409)	(999)
Currency translation differences	97	37	134
Closing net book amount	<u>2,930</u>	<u>1,257</u>	<u>4,187</u>

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	Vessels <i>US\$'000</i>	Others <i>US\$'000</i>	Total <i>US\$'000</i>
At 31 December 2010			
Cost	4,128	4,865	8,993
Accumulated depreciation	(1,198)	(3,608)	(4,806)
Net book amount	<u>2,930</u>	<u>1,257</u>	<u>4,187</u>
Year ended 31 December 2011			
Opening net book amount	2,930	1,257	4,187
Additions	3,000	844	3,844
Disposals	–	(29)	(29)
Depreciation	(673)	(354)	(1,027)
Currency translation differences	155	76	231
Closing net book amount	<u>5,412</u>	<u>1,794</u>	<u>7,206</u>
At 31 December 2011			
Cost	7,362	5,351	12,713
Accumulated depreciation	(1,950)	(3,557)	(5,507)
Net book amount	<u>5,412</u>	<u>1,794</u>	<u>7,206</u>
Year ended 31 December 2012			
Opening net book amount	5,412	1,794	7,206
Additions	–	448	448
Disposals	–	(20)	(20)
Depreciation	(1,359)	(437)	(1,796)
Currency translation differences	11	4	15
Closing net book amount	<u>4,064</u>	<u>1,789</u>	<u>5,853</u>
At 31 December 2012			
Cost	7,379	5,367	12,746
Accumulated depreciation	(3,315)	(3,578)	(6,893)
Net book amount	<u>4,064</u>	<u>1,789</u>	<u>5,853</u>
Ten months ended 31 October 2013			
Opening net book amount	4,064	1,789	5,853
Additions	–	488	488
Disposals	–	(5)	(5)
Depreciation	(1,147)	(421)	(1,568)
Currency translation differences	82	43	125
Closing net book amount	<u>2,999</u>	<u>1,894</u>	<u>4,893</u>
At 31 October 2013			
Cost	7,552	5,868	13,420
Accumulated depreciation	(4,553)	(3,974)	(8,527)
Net book amount	<u>2,999</u>	<u>1,894</u>	<u>4,893</u>

15 INVESTMENT IN A SUBSIDIARY

Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Unlisted shares at cost	-	-	-	-
Amount due to the subsidiary (note 22)	-	-	1	1
	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>

Particulars of the subsidiary

The subsidiary was incorporated in Hong Kong on 28 September 2012 as a company with limited liability under the Hong Kong Companies Ordinance.

At 31 December 2012 and 31 October 2013, details of the subsidiary are as follows:

Name of the subsidiary	Issued capital	Percentage of capital held by the Target Company	Principal activities
Sinotrans Container Lines (Hong Kong) Company Limited (note)	HK\$10,000	100%	Dormant

Note:

No audited financial statements for the year ended 31 December 2012 have been issued up to the date of this report as the subsidiary was newly incorporated.

16 INVENTORIES

Target Group and Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Bunkers	5,515	10,173	7,870	8,491
Others	6	5	5	-
Total	<u>5,521</u>	<u>10,178</u>	<u>7,875</u>	<u>8,491</u>

17 TRADE AND OTHER RECEIVABLES

Target Group and Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Trade receivables, net of provision (note a)				
– fellow subsidiaries	18,494	13,121	12,451	17,185
– third parties	71,252	84,091	92,425	78,660
	89,746	97,212	104,876	95,845
Prepayments, deposits and other receivables	21,423	22,669	23,860	11,163
Total	111,169	119,881	128,736	107,008

Notes:

- (a) The Target Group does not grant any credit term to its customers. An ageing analysis of trade receivables (net of provision) at the respective balance sheet dates is as follows:

Target Group and Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Within 6 months	87,081	94,683	99,900	90,075
7-12 months	1,877	938	1,191	19
1-2 years	788	1,591	2,205	2,830
2-3 years	–	–	1,580	1,640
Over 3 years	–	–	–	1,281
Trade receivables	89,746	97,212	104,876	95,845

As at 31 December 2010, 2011 and 2012 and 31 October 2013, all trade receivables were past due but not considered as impaired by management.

These trade receivables relate to a number of third party customers and fellow subsidiaries for whom there is no history of default.

- (b) The maximum exposure to credit risk at the respective reporting dates is the carrying value of each class of receivable mentioned above. The Target Group does not hold any collateral as security.

18 CASH AND BANK BALANCES

Target Group and Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013 US\$'000
Cash at bank and in hand	10,612	15,715	21,674	15,679
Cash equivalents	109	39	163	186
Cash and bank balances	<u>10,721</u>	<u>15,754</u>	<u>21,837</u>	<u>15,865</u>

The cash and bank balances are denominated in the following currencies:

Target Group and Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013 US\$'000
US\$	4,800	3,196	8,319	4,947
RMB	5,885	6,256	11,025	8,739
Japanese Yen	36	6,302	2,493	2,179
Cash and bank balances	<u>10,721</u>	<u>15,754</u>	<u>21,837</u>	<u>15,865</u>

19 DERIVATIVES FINANCIAL LIABILITIES

Target Group and Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013 US\$'000
Foreign exchange forward contracts	<u>16,103</u>	<u>–</u>	<u>–</u>	<u>–</u>

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2010 were US\$100,000,000 and JPY200,000,000, respectively.

As at 31 December 2010, the Target Group had certain outstanding foreign exchange forward contracts with banks. The spot rate of JPY against US\$ as at 31 December 2010 was higher than the threshold agreed in the foreign exchange forward contracts, and the Target Group bought approximately US\$64,377,000 and simultaneously sold approximately JPY6,515,400,000 in aggregate during the year ended 31 December 2011 which is the remaining period of the contracts, subject to certain structured terms. These contracts were settled on a monthly basis and expired on 14 September 2011 and 30 December 2011, respectively.

During the year ended 31 December 2010 and 2011, the realised net losses on the above foreign exchange forward contracts amounting to US\$14,490,000 and US\$17,269,000 were charged to profit or loss under "Other (expenses)/income, net".

20 PAID UP CAPITAL

Target Company

	<i>US\$'000</i>
At 1 January 2010, 31 December 2010 and 1 January 2011	12,082
Capital injection (<i>note</i>)	<u>45,714</u>
At 31 December 2011, 1 January 2012, 31 October 2012, 31 December 2012, 1 January 2013 and 31 October 2013	<u><u>57,796</u></u>

Note:

In accordance with a resolution of SINOTRANS & CSC Group Company, the parent company of the Target Company, Sinotrans Eastern Company Limited, the former immediate holding company, transferred its 90% interest in the Target Company to SINOTRANS, its immediate holding company, in March 2011. After the equity transfer, SINOTRANS holds 100% interest in the Target Company.

In accordance with a board resolution of the Target Company in March 2011, the Target Company increased its registered and paid up capital from RMB100,000,000 to RMB400,000,000. On 31 December 2011, the capital was increased through the injection of cash of RMB300,000,000 (equivalent to US\$45,714,000) by SINOTRANS.

21 RESERVES

Target Group and Target Company

	Attributable to owners of the Target Company			
	Statutory reserve (Note)	Currency translation reserve	Accumulated losses	Total
	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2010	6,111	7,382	(132,416)	(118,923)
Loss for the year	–	–	(9,262)	(9,262)
Currency translation differences	–	(3,460)	–	(3,460)
At 31 December 2010	<u>6,111</u>	<u>3,922</u>	<u>(141,678)</u>	<u>(131,645)</u>
At 1 January 2011	6,111	3,922	(141,678)	(131,645)
Loss for the year	–	–	(13,729)	(13,729)
Currency translation differences	–	(4,557)	–	(4,557)
At 31 December 2011	<u>6,111</u>	<u>(635)</u>	<u>(155,407)</u>	<u>(149,931)</u>
At 1 January 2012	6,111	(635)	(155,407)	(149,931)
Loss for the year	–	–	(18,722)	(18,722)
Currency translation differences	–	(248)	–	(248)
At 31 December 2012	<u>6,111</u>	<u>(883)</u>	<u>(174,129)</u>	<u>(168,901)</u>
At 1 January 2013	6,111	(883)	(174,129)	(168,901)
Loss for the period	–	–	(2,519)	(2,519)
Currency translation differences	–	(2,616)	–	(2,616)
At 31 October 2013	<u>6,111</u>	<u>(3,499)</u>	<u>(176,648)</u>	<u>(174,036)</u>
Unaudited				
At 1 January 2012	6,111	(635)	(155,407)	(149,931)
Loss for the period	–	–	(17,652)	(17,652)
Currency translation differences	–	(11)	–	(11)
At 31 October 2012	<u>6,111</u>	<u>(646)</u>	<u>(173,059)</u>	<u>(167,594)</u>

Note:

Statutory reserve represents surplus reserve that can be used to offset accumulated losses or to increase capital upon approval from the board of directors.

22 TRADE AND OTHER PAYABLES

Target Group

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Trade payables (<i>note a</i>)				US\$'000
– fellow subsidiaries (<i>note b</i>)	24,802	29,007	39,608	34,785
– third parties	21,003	28,873	29,258	30,756
	45,805	57,880	68,866	65,541
Other payables and accruals (<i>note c</i>)	82,420	101,949	115,498	97,257
Total	128,225	159,829	184,364	162,798

Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Trade payables (<i>note a</i>)				US\$'000
– fellow subsidiaries (<i>note b</i>)	24,802	29,007	39,608	34,785
– third parties	21,003	28,873	29,258	30,756
	45,805	57,880	68,866	65,541
Other payables and accruals (<i>note c</i>)	82,420	101,949	115,498	97,257
Amount due to the subsidiary (<i>note d</i>)	–	–	1	1
Total	128,225	159,829	184,365	162,799

Notes:

- (a) An ageing analysis of trade payables at the respective balance sheet dates is as follows:

Target Group and Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Within 6 months	33,434	45,410	45,790	36,612
7–12 months	3,989	2,784	11,976	11,603
1–2 years	3,325	5,082	4,501	7,588
2–3 years	1,136	2,155	2,145	3,523
Over 3 years	3,921	2,449	4,454	6,215
Trade payables	45,805	57,880	68,866	65,541

(b) On 30 September 2013, Sinotrans (HK) Shipping Limited, a fellow subsidiary, entered into an agreement with SINOTRANS to novate its trade receivables from the Target Group of approximately US\$23,196,000 as at 30 September 2013 to SINOTRANS (see note 23).

(c) Other payables and accruals

Target Group and Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Voyage costs	56,374	63,371	79,973	73,648
Salary and welfare	1,247	1,300	1,241	689
Others	24,799	37,278	34,284	22,920
	<u>82,420</u>	<u>101,949</u>	<u>115,498</u>	<u>97,257</u>

(d) Amount due to the subsidiary is unsecured, interest free and repayable on demand.

23 LOANS FROM THE IMMEDIATE HOLDING COMPANY

Target Group and Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Loans from the immediate holding company	<u>104,513</u>	<u>85,215</u>	<u>90,954</u>	<u>89,621</u>

As at 31 December 2010, 2011 and 2012 and 31 October 2013, the loans from SINOTRANS were unsecured, non-interest bearing and have no fixed terms of repayment. On 28 October 2013, SINOTRANS agreed to waive total debts of US\$106,421,000 due from the Target Company including loans from the immediate holding company of US\$83,204,000 and trade payables of US\$23,217,000 subject to certain pre-conditions. As these pre-conditions for the waiver were still outstanding as at 31 October 2013, the debts were not discharged and accounted for by the Target Company as at 31 October 2013.

24 PROVISIONS FOR OTHER LIABILITIES

Target Group and Target Company

	Provision for onerous contracts <i>US\$'000</i>
At 1 January 2010	8,081
Utilised during the year	(8,237)
Provision for the year	2,179
Currency translation differences	156
	<u>2,179</u>
At 31 December 2010	<u>2,179</u>
At 1 January 2011	2,179
Utilised during the year	(2,234)
Currency translation differences	55
	<u>–</u>
At 31 December 2011	<u>–</u>

Provision for onerous contracts was made for the Target Group's container vessels time chartering business as at 31 December 2010.

25 NOTE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended 31 December			Ten months ended 31 October	
	2010 <i>US\$'000</i>	2011 <i>US\$'000</i>	2012 <i>US\$'000</i>	2012 <i>US\$'000</i>	2013 <i>US\$'000</i>
				(Unaudited)	
Loss before income tax	(9,262)	(13,729)	(18,722)	(17,652)	(2,519)
Adjustments for:					
Depreciation	999	1,027	1,796	1,492	1,568
Impairment of receivables	(3)	–	–	–	–
Gains on disposals of property, plant and equipment	(2)	(6)	(20)	(9)	(5)
Interest income	(46)	(74)	(73)	(55)	(63)
Changes in derivatives financial liabilities	(2,373)	(16,504)	–	–	–
Changes in working capital:					
Inventories	791	(4,657)	2,303	1,160	(616)
Provision for other liabilities	(5,902)	(2,179)	–	–	–
Trade and other receivables (excluding amounts due from fellow subsidiaries)	(20,047)	(12,971)	(9,141)	(11,749)	12,211
Amounts due from/to fellow subsidiaries, net	(12,822)	20,920	1,850	5,124	(5,389)
Trade and other payables (excluding amounts due to fellow subsidiaries)	38,719	14,943	22,933	31,876	(6,660)
Other taxes payables	(1,062)	(31)	(22)	(1,548)	(10)
Effect of foreign exchange rate changes	(285)	(3,831)	371	92	(531)
	<u>(11,295)</u>	<u>(17,092)</u>	<u>1,275</u>	<u>8,731</u>	<u>(2,014)</u>
Cash (used in)/generated from operations	<u>(11,295)</u>	<u>(17,092)</u>	<u>1,275</u>	<u>8,731</u>	<u>(2,014)</u>

26 CONTINGENT LIABILITIES

As at 31 December 2010, 2011, 2012 and as at 31 October 2013, the Target Group and the Target Company have contingent liabilities in respect of legal claims arising in the ordinary course of business. The directors of the Target Company consider these cases will not have significant financial or operational impact to the Target Group and the Target Company.

27 COMMITMENTS

(a) Operating lease commitments – where the Target Group and the Target Company are the lessees

As at 31 December 2010, 2011 and 2012, and as at 31 October 2013, the Target Group and the Target Company have commitments to make the following future minimum lease payments under non-cancellable operating leases:

Target Group and Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Office premises				
– no later than one year	1,215	1,460	1,493	588
– later than one year and no later than five years	236	860	510	175
	<u>1,451</u>	<u>2,320</u>	<u>2,003</u>	<u>763</u>
	-----	-----	-----	-----
Vessels				
– no later than one year	7,304	4,160	16,608	21,274
– later than one year and no later than five years	2,994	10,703	–	–
	<u>10,298</u>	<u>14,863</u>	<u>16,608</u>	<u>21,274</u>
	-----	-----	-----	-----
Containers				
– no later than one year	20,845	25,426	25,378	25,337
– later than one year and no later than five years	56,387	56,737	57,485	48,255
	<u>77,232</u>	<u>82,163</u>	<u>82,863</u>	<u>73,592</u>
	-----	-----	-----	-----
	<u>88,981</u>	<u>99,346</u>	<u>101,474</u>	<u>95,629</u>
	=====	=====	=====	=====

(b) **Operating lease commitments – where the Target Group and the Target Company are the lessors**

As at 31 December 2010, 2011 and 2012 and 31 October 2013, the Target Group and the Target Company have the following future minimum lease receipts under non-cancellable operating leases in relation to chartering of vessels.

Target Group and Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Vessels				
– not later than one year	9,789	–	–	–

28 **RELATED PARTY TRANSACTIONS**

SINOTRANS & CSC Group Company, the parent company, is controlled by the PRC Government. The PRC Government is the Target Company's ultimate controlling party. Enterprises directly or indirectly controlled, jointly controlled or significant influenced by the PRC Government ("state-owned enterprises"), together with SINOTRANS & CSC Group Company and its group companies are all related parties of the Target Group.

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

The following companies are related parties of the Target Group that had balances and/or transactions with the Target Group for the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013:

Related parties	Relationship with the Target Group
SINOTRANS & CSC Group Company	Parent company
SINOTRANS	Immediate holding company
Jinsheng Shipping Ltd.	Fellow subsidiary
Longfa Shipping Ltd.	Fellow subsidiary
Donghang Shipping Ltd.	Fellow subsidiary
Fujian Minan Shipping Ltd.	Fellow subsidiary
Sinotrans Logistics Co., Ltd.	Fellow subsidiary
Jinrong Shipping Ltd.	Fellow subsidiary
Sinotrans (HK) Shipping Ltd.	Fellow subsidiary
Sinotrans Eastern Shipping Co., Ltd.	Fellow subsidiary
China Marine Shipping Agency Shanghai Co., Ltd.	Fellow subsidiary
China Marine Shipping Agency Changshu Co., Ltd.	Fellow subsidiary
Sinotrans Changjiang Co., Ltd.	Fellow subsidiary
Sinotrans Hubei Co., Ltd.	Fellow subsidiary
Sinotrans Logistics Qindao Co., Ltd.	Fellow subsidiary
Sinotrans International Logistics Yantai Co., Ltd.	Fellow subsidiary
Sinoagent Lianyungang Co., Ltd.	Fellow subsidiary
Sinotrans Landbridge Transportation Co., Ltd.	Fellow subsidiary
Sinotrans & CSC Holding Co., Ltd.	Fellow subsidiary
Sinotrans Korea Shipping Co., Ltd.	Fellow subsidiary
Sinotrans Shipping Ltd.	Fellow subsidiary
Worlder Shipping Ltd.	Fellow subsidiary

(d) Key management compensation

	Year ended 31 December			Ten months ended 31 October	
	2010 <i>US\$'000</i>	2011 <i>US\$'000</i>	2012 <i>US\$'000</i>	2012 <i>US\$'000</i>	2013 <i>US\$'000</i>
Wages and salaries	418	464	386	312	294
Pension costs – defined contribution plans	<u>24</u>	<u>28</u>	<u>24</u>	<u>19</u>	<u>19</u>
	<u>442</u>	<u>492</u>	<u>410</u>	<u>331</u>	<u>313</u>

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 31 October 2013 up to the date of this report. No dividend or distribution has been declared or made by the Target Company in respect of any period subsequent to 31 October 2013.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
 Hong Kong

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

22 April 2014

The Directors
Sinotrans Shipping Limited

Dear Sirs,

We report on the financial information of China National Chartering Co., Ltd. (the "Target Company") and its subsidiary (together the "Target Group") which comprises the consolidated and company balance sheets as at 31 December 2010, 2011 and 2012 and 31 October 2013, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2013 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of Sinotrans Shipping Limited (the "Company") and is set out in Sections I to III below for inclusion in Appendix II B to the circular of the Company dated 22 April 2014 (the "Circular") in connection with the proposed acquisition of 49% equity interest in the Target Company by a subsidiary of the Company.

The Target Company was incorporated in the People's Republic of China ("PRC") on 9 June 1984 as a company with limited liability.

As at the date of this report, the Target Company has a wholly owned subsidiary, China National Chartering (Hong Kong) Co., Limited, a company incorporated in Hong Kong on 22 June 2012, details of which are also set out in note 17 of Section II below.

The statutory financial statements of the Target Company for each of the years ended 31 December 2010, 2011 and 2012 prepared in accordance with the Accounting Standards for Business Enterprises of the People's Republic of China, were audited by ShineWing Certified Public Accountants. The statutory financial statements of its subsidiary for the period from 22 June 2012 (date of incorporation) to 31 December 2012 were audited by Morison Heng Certified Public Accountants. The Target Company and its subsidiary have adopted 31 December as their financial year end date for statutory reporting.

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

The directors of the Target Company are responsible for the preparation of the consolidated financial statements of the Target Group for the Relevant Periods that give a true and fair view in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the “HKSA”) issued by the HKICPA pursuant to separate terms of engagement.

The financial information has been prepared based on the Underlying Financial Statements with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information of the Target Group that gives a true and fair view in accordance with HKFRSs and accounting policies adopted by the Company and its subsidiaries (together the “Group”) as set out in the annual report of the Company for the year ended 31 December 2013.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Group and the Target Company as at 31 December 2010, 2011 and 2012 and 31 October 2013 and of the Target Group's results and cash flows for the Relevant Periods then ended.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I to III below included in Appendix II B to the Circular which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Target Group for the ten months ended 31 October 2012 and a summary of significant accounting policies and other explanatory information (the “Stub Period Comparative Financial Information”).

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in note 3 of Section II below and the accounting policies adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2013.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in note 3 of Section II below.

I. FINANCIAL INFORMATION OF THE TARGET GROUP AND THE TARGET COMPANY

The following is the financial information of the Target Group and the Target Company prepared by the directors of the Company as at 31 December 2010, 2011 and 2012 and 31 October 2013 and for each of the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013 (the "Financial Information").

(A) Consolidated statements of comprehensive income

	Note	Year ended 31 December			Ten months ended 31 October	
		2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000 (Unaudited)	2013 US\$'000
Revenues	6	744,036	808,126	696,100	594,259	470,141
Cost of operations	7	(727,751)	(803,872)	(698,558)	(601,278)	(457,722)
Gross profit/(loss)		16,285	4,254	(2,458)	(7,019)	12,419
Selling, administrative and general expenses	7	(5,011)	(7,432)	(4,002)	(5,644)	(4,421)
Other operating (loss)/income, net	8	(722)	(1,027)	335	207	237
Operating profit/(loss)		10,552	(4,205)	(6,125)	(12,456)	8,235
Finance income, net	9	2,547	2,924	2,272	1,834	1,197
Profit/(loss) before income tax		13,099	(1,281)	(3,853)	(10,622)	9,432
Income tax (expense)/credit	10	(3,463)	110	878	2,604	(2,186)
Profit/(loss) for the year/period attributable to owner of the Target Company		<u>9,636</u>	<u>(1,171)</u>	<u>(2,975)</u>	<u>(8,018)</u>	<u>7,246</u>
Other comprehensive income/(loss)						
Items that may not be reclassified subsequently to profit or loss:						
Currency translation differences		5,059	7,098	313	(8)	2,499
Items that may be reclassified subsequently to profit or loss:						
Fair value change of available-for-sale financial assets, net of tax		-	-	-	-	252
Total other comprehensive income/(loss)		<u>5,059</u>	<u>7,098</u>	<u>313</u>	<u>(8)</u>	<u>2,751</u>
Total comprehensive income/(loss) for the year/period		<u>14,695</u>	<u>5,927</u>	<u>(2,662)</u>	<u>(8,026)</u>	<u>9,997</u>
Earnings per share attributable to owner of the Target Company during the year/period						
- Basic and diluted	13	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Dividend	14	<u>-</u>	<u>63,744</u>	<u>-</u>	<u>-</u>	<u>-</u>

(B) Consolidated balance sheets

		As at 31 December			As at
		2010	2011	2012	31 October
	Note	US\$'000	US\$'000	US\$'000	2013
					US\$'000
ASSETS					
Non-current assets					
Property, plant and equipment	15	1,217	1,244	1,203	1,187
Available-for-sale financial assets	19	3,806	3,968	3,977	4,070
Deferred tax assets, net	16	8,990	9,562	10,467	8,355
		<u>14,013</u>	<u>14,774</u>	<u>15,647</u>	<u>13,612</u>
Current assets					
Inventories		11,875	15,027	22,278	16,499
Trade and other receivables	18	50,820	69,050	68,145	91,035
Available-for-sale financial assets	19	-	-	-	16,619
Cash and bank balances					
- Cash and cash equivalents	20	110,730	109,305	93,491	41,642
- Short-term deposits	20	70,968	-	-	2,442
- Restricted cash deposits	20	-	-	-	114
		<u>244,393</u>	<u>193,382</u>	<u>183,914</u>	<u>168,351</u>
Total assets		<u>258,406</u>	<u>208,156</u>	<u>199,561</u>	<u>181,963</u>
EQUITY					
Capital and reserves					
Paid up capital	21	27,380	27,380	27,380	27,380
Reserves	22	143,498	85,681	83,019	93,016
		<u>170,878</u>	<u>113,061</u>	<u>110,399</u>	<u>120,396</u>
Total equity		<u>170,878</u>	<u>113,061</u>	<u>110,399</u>	<u>120,396</u>
LIABILITIES					
Non-current liabilities					
Provision for other liabilities	24	3,427	7,056	787	-
		<u>3,427</u>	<u>7,056</u>	<u>787</u>	<u>-</u>
Current liabilities					
Trade and other payables	23	54,636	66,708	72,717	58,068
Provision for other liabilities	24	27,548	18,945	15,228	3,128
Taxation payable		1,917	2,386	430	371
		<u>84,101</u>	<u>88,039</u>	<u>88,375</u>	<u>61,567</u>
Total liabilities		<u>87,528</u>	<u>95,095</u>	<u>89,162</u>	<u>61,567</u>
Total equity and liabilities		<u>258,406</u>	<u>208,156</u>	<u>199,561</u>	<u>181,963</u>
Net current assets		<u>160,292</u>	<u>105,343</u>	<u>95,539</u>	<u>106,784</u>
Total assets less current liabilities		<u>174,305</u>	<u>120,117</u>	<u>111,186</u>	<u>120,396</u>

(C) Balance sheets

		As at 31 December			As at
		2010	2011	2012	31 October
	Note	US\$'000	US\$'000	US\$'000	2013
					US\$'000
ASSETS					
Non-current assets					
Property, plant and equipment	15	1,217	1,244	1,203	1,187
Investment in a subsidiary	17	-	-	6,399	6,548
Available-for-sale financial assets	19	3,806	3,968	3,977	4,070
Deferred tax assets, net	16	8,990	9,562	10,467	8,355
		<u>14,013</u>	<u>14,774</u>	<u>22,046</u>	<u>20,160</u>
Current assets					
Inventories		11,875	15,027	22,277	16,499
Trade and other receivables	18	50,820	69,050	68,145	89,201
Available-for-sale financial assets	19	-	-	-	16,619
Cash and bank balances					
- Cash and cash equivalents	20	110,730	109,305	92,642	38,423
- Short-term deposits	20	70,968	-	-	2,442
- Restricted cash deposits	20	-	-	-	114
		<u>244,393</u>	<u>193,382</u>	<u>183,064</u>	<u>163,298</u>
Total assets		<u>258,406</u>	<u>208,156</u>	<u>205,110</u>	<u>183,458</u>
EQUITY					
Capital and reserves					
Paid up capital	21	27,380	27,380	27,380	27,380
Reserves	22	143,498	85,681	82,968	92,489
		<u>170,878</u>	<u>113,061</u>	<u>110,348</u>	<u>119,869</u>
LIABILITIES					
Non-current liabilities					
Provision for other liabilities	24	3,427	7,056	787	-
Current liabilities					
Trade and other payables	23	54,636	66,708	78,317	60,090
Provision for other liabilities	24	27,548	18,945	15,228	3,128
Taxation payable		1,917	2,386	430	371
		<u>84,101</u>	<u>88,039</u>	<u>93,975</u>	<u>63,589</u>
Total liabilities		<u>87,528</u>	<u>95,095</u>	<u>94,762</u>	<u>63,589</u>
Total equity and liabilities		<u>258,406</u>	<u>208,156</u>	<u>205,110</u>	<u>183,458</u>
Net current assets		<u>160,292</u>	<u>105,343</u>	<u>89,089</u>	<u>99,709</u>
Total assets less current liabilities		<u>174,305</u>	<u>120,117</u>	<u>111,135</u>	<u>119,869</u>

(D) Consolidated statements of changes in equity

	Share capital US\$'000	Share premium US\$'000	Statutory reserve US\$'000	Available- for-sale financial assets revaluation reserve US\$'000	Currency translation reserve US\$'000	Retained earnings/ (accumulated losses) US\$'000	Total equity US\$'000
At 1 January 2010	27,380	65,381	-	-	7,383	56,039	156,183
Comprehensive income							
Profit for the year	-	-	-	-	-	9,636	9,636
Other comprehensive income							
Currency translation difference	-	-	-	-	5,059	-	5,059
Transaction with owner							
Transfer to statutory reserve	-	-	8,497	-	-	(8,497)	-
At 31 December 2010	<u>27,380</u>	<u>65,381</u>	<u>8,497</u>	<u>-</u>	<u>12,442</u>	<u>57,178</u>	<u>170,878</u>
At 1 January 2011	27,380	65,381	8,497	-	12,442	57,178	170,878
Comprehensive loss							
Loss for the year	-	-	-	-	-	(1,171)	(1,171)
Other comprehensive income							
Currency translation difference	-	-	-	-	7,098	-	7,098
Transaction with owner							
Dividend paid	-	-	-	-	-	(63,744)	(63,744)
At 31 December 2011	<u>27,380</u>	<u>65,381</u>	<u>8,497</u>	<u>-</u>	<u>19,540</u>	<u>(7,737)</u>	<u>113,061</u>
At 1 January 2012	27,380	65,381	8,497	-	19,540	(7,737)	113,061
Comprehensive loss							
Loss for the year	-	-	-	-	-	(2,975)	(2,975)
Other comprehensive income							
Currency translation difference	-	-	-	-	313	-	313
At 31 December 2012	<u>27,380</u>	<u>65,381</u>	<u>8,497</u>	<u>-</u>	<u>19,853</u>	<u>(10,712)</u>	<u>110,399</u>
At 1 January 2013	27,380	65,381	8,497	-	19,853	(10,712)	110,399
Comprehensive income							
Profit for the period	-	-	-	-	-	7,246	7,246
Other comprehensive income							
Fair value change of available-for-sale financial assets, net of tax	-	-	-	252	-	-	252
Currency translation difference	-	-	-	-	2,499	-	2,499
At 31 October 2013	<u>27,380</u>	<u>65,381</u>	<u>8,497</u>	<u>252</u>	<u>22,352</u>	<u>(3,466)</u>	<u>120,396</u>
Unaudited							
At 1 January 2012	27,380	65,381	8,497	-	19,540	(7,737)	113,061
Comprehensive loss							
Loss for the period	-	-	-	-	-	(8,018)	(8,018)
Other comprehensive loss							
Currency translation difference	-	-	-	-	(8)	-	(8)
At 31 October 2012	<u>27,380</u>	<u>65,381</u>	<u>8,497</u>	<u>-</u>	<u>19,532</u>	<u>(15,755)</u>	<u>105,035</u>

(E) Consolidated statements of cash flows

	Note	Year ended 31 December			Ten months ended 31 October	
		2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000 (Unaudited)	2013 US\$'000
Cash flows from operating activities						
Cash generated from/(used in)						
operations	25	14,959	(17,931)	(19,399)	(5,497)	(36,467)
Interest received		2,228	3,040	2,589	2,552	1,726
Net cash generated from/(used in) operating activities		17,187	(14,891)	(16,810)	(2,945)	(34,741)
Cash flows from investing activities						
Purchase of property, plant and equipment		(65)	(54)	(27)	-	(8)
Purchase of available-for-sale financial assets		(3,693)	-	-	-	(16,109)
Dividends received		-	199	99	99	-
(Increase)/decrease in short-term deposits		(69,429)	72,768	-	-	(2,416)
Net cash (used in)/generated from investing activities		(73,187)	72,913	72	99	(18,533)
Cash flows from financing activity						
Dividend paid		-	(63,744)	-	-	-
Net cash used in financing activity		-	(63,744)	-	-	-
Net decrease in cash and cash equivalents						
Cash and cash equivalents at beginning of the year/period		164,123	110,730	109,305	109,305	93,491
Effect of foreign exchange rate changes		2,607	4,297	924	314	1,425
Cash and cash equivalents at end of the year/period		110,730	109,305	93,491	106,773	41,642

II. NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

China National Chartering Co., Ltd. ("Target Company") was incorporated in Beijing, the People's Republic of China (the "PRC") on 9 June 1984, as a company with limited liability. The address of its registered office is Room 818, Sinotrans Plaza A, A43 Xizhimen Beidajie, Beijing, the PRC. The Target Company has a wholly owned subsidiary, China National Chartering (Hong Kong) Co., Limited, details of which are set out in note 17 of Section II. The Target Company and its subsidiary (collectively the "Target Group") principally engages in dry bulk vessel time chartering and dry bulk cargo voyage chartering.

The parent company is SINOTRANS & CSC Holdings Co., Ltd. ("SINOTRANS & CSC Group Company"), a state-owned enterprise established in the PRC.

This Financial Information is presented in United States dollar ("US\$"), unless otherwise stated.

2 BASIS OF PREPARATION

- (i) The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include Hong Kong Accounting Standards ("HKAS") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Financial Information has been prepared under historical cost convention throughout the Relevant Periods, except for the available-for-sale financial assets which have been measured at fair value.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target 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 Information are disclosed in note 5.

- (ii) **Standards and amendments which are not yet effective**

The HKICPA has issued the following new standards and amendments to the standards which are not yet effective during the Relevant Periods but relevant to the Target Group and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKAS 36 (Amendment)	Recoverable Amount Disclosure for Non-Financial Assets	1 January 2014
HKFRS 10, HKFRS 12 and HKFRS 27 (2011) (Amendment)	Investment Entities	1 January 2014
HK (IFRIC) Interpretation 21	Levies	1 January 2014
HKFRS 7 and HKFRS 9 (Amendment)	Disclosure – Mandatory Effective Date of HKFRS 9 and Transition Disclosures	1 January 2015
HKFRS 9	Financial Instruments	To be determined

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

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of this Financial Information are set out below. These policies have been consistently applied to all the years presented.

(a) Consolidation

The Financial Information includes the financial information of the Target Company and its subsidiary made up to the reporting dates.

(i) 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, the Target Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Target Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the company is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired at the acquisition date is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the company.

(ii) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) *Gaining or losing control or significant influence*

When the company ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(b) **Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

(c) **Separate financial information**

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Target Company on the basis of dividend received and receivable.

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

(d) **Foreign currency translation**

(i) *Functional and presentation currency*

Items included in the Financial Information are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Target Company is Renminbi ("RMB") while the Financial Information is presented in US\$.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at 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 profit or loss unless they are capitalised as part of the borrowing costs.

(iii) *Group companies*

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

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) 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 rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(e) Property, plant and equipment

Property, plant and equipment, which consist of buildings and structures, motor vehicles and office equipment, are stated at cost less accumulated depreciation and impairment losses. 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 company and the cost of the item can be measured reliably. All other repairs and maintenance, are expensed in the profit or loss during the financial period in which they are incurred.

Depreciation of 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:

Building and structures	40 years
Motor vehicles	6 years
Office equipment	5 years

The assets' residual values 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 (note 3(j)).

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 profit or loss.

(f) Financial assets

(i) Classification

The Target Company classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in current assets when management intends to dispose of the available-for-sale financial assets within 12 months of the balance sheet date.

(ii) *Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Target Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale as sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss.

(g) **Leases**

Leases where substantially all the risks and rewards of ownership of assets are retained by the lessors are classified as operating leases.

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

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

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

When assets are leased out under an operating lease, the assets are included in the balance sheet based on the nature of the assets and where applicable, are depreciated in accordance with the Target Group's accounting policies as set out in note 3(e) of Section II above.

Revenue arising from assets leased out under operating leases is recognised in accordance with the Target Group's revenue recognition policies as set out in note 3(q) of Section II below.

Leases that substantially transfer to the leasees all the risks and rewards of ownership of assets are classified as finance leases.

(h) **Inventories**

Inventories represent bunkers on board of vessels, which are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the expected amount to be realised from use as estimated by the management.

(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.

(j) Impairment*(i) Impairment of investment in a subsidiary 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.

(ii) Impairment of financial assets carried at amortised cost

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

(iii) Impairment of available-for-sale financial assets

The Target Group assesses at each balance sheet date whether there is objective evidence that available-for-sale financial assets are impaired. A significant or prolonged decline in the fair value of the securities below its cost is considered as an indicator that in determining whether the securities are impaired. If any such evidence exists, the cumulative loss is removed from equity and recognised in profit or loss.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and financial institutions with original maturities of three months or less.

(l) Trade payables

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

(m) Provisions

Provisions are recognised when the company 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.

(n) Employee benefits*(i) Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to the 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 company 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 Target Group participates in various retirement schemes which are defined contribution in nature and are available to qualified employees. Monthly contribution made by the Target Group is calculated based on certain percentages of the applicable payroll costs. The Target Group's contributions to these schemes are expensed as incurred.

(o) Current and deferred income tax

The tax expense for the years/period comprises current and deferred tax. Tax is recognised in the profit or loss, 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 Target Group operates and generates 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 Information. 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 substantively 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 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 tax authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(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 company. 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 Information. When a change in the probability of 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 Target Group's activities. Revenue is shown after eliminating sales within the Target Group. The Target Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Target Group's activities, as described below.

The Target Group recognises revenue on the following basis:

(i) Revenue from charter hire

Income from time charter 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) Interest income

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

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(r) **Dividend distribution**

Dividend distribution to the owner of the Target Company is recognised as a liability in the Financial Information in the period in which the dividends are approved by the owner or the directors of the Target Company, where applicable.

(s) **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 top management of the Target Company.

4 FINANCIAL RISK MANAGEMENT

(a) **Financial risk factors**

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

(i) *Market freight rate risk*

The Target Group is exposed to market freight rate risk arising from its charterhire transactions. To manage the market freight rate risk, the Target Group seeks to diversify its type of chartering through the use of different forms and length of charterhire arrangements.

(ii) *Cash flow interest rate risk*

The Target Group's significant interest bearing assets comprise cash and bank balances, and available-for-sale financial assets. The Target Group's income and operating cash flows are substantially independent of changes in market interest rates.

For each of the years ended 31 December 2010, 2011 and 2012 and each of the ten months ended 31 October 2012 and 2013, the impact on the profit or loss of the year/period of a 50 basis-point shift in interest rate would be a maximum increase or decrease of approximately US\$681,000, US\$410,000, US\$351,000, US\$166,000 and US\$401,000 respectively.

(iii) *Credit risk*

The extent of credit exposure of the Target Group is the aggregate carrying value of cash and bank balances, trade and other receivables, and available-for-sale financial assets. It is normal shipping practice that substantial part of the charter hire income is prepaid by customers. Under time charters, charter hire is normally paid every 15 days in advance. Under voyage charters for dry bulk vessels, 90% – 95% of freight is normally paid within seven to twenty working days of the completion of loading, with the balance paid within 60 days of the completion of discharge.

The Target Group also has policies in place to assess the credit worthiness of the lessors of vessels and customers to ensure payments in advance for charterhire expenses to the lessors and vessels are chartered to customers with an appropriate credit history. Besides, management of the Target Company 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 state-owned PRC banks with high credit ratings and a state-owned financial institution (fellow subsidiary). Available-for-sale financial assets were either acquired from a state-owned PRC bank with high credit rating or invested in equity interest of a state-owned financial institution (fellow subsidiary). Given their high credit ratings, the Target Group does not expect to have high credit risk in this aspect. Furthermore, management regularly assesses credit risk for amounts due from related parties by reviewing ageing analysis and financial information of these counterparties on a regular basis to minimise credit risk.

(iv) *Liquidity risk*

Cash flow forecasting is performed by the management of the Target Company, who monitors rolling forecasts of the Target Group's liquidity requirements to ensure it has sufficient cash to meet operational needs and capital commitments (if any) at all times. Such forecasting takes into consideration of the Target 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 Target Company and the surplus cash would be invested in interest bearing bank deposits and available-for-sale financial assets with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As at 31 December 2010, 2011 and 2012, and 31 October 2013, the Target Group has unrestricted cash and bank balances of approximately US\$181,698,000, US\$109,305,000, US\$93,491,000 and US\$44,084,000 that are expected to readily generate cash inflows for managing liquidity risk.

(v) *Foreign exchange risk*

The Target Group operates internationally and is exposed to foreign exchange risk arising from various non-functional currencies, especially US\$. Foreign exchange risk arises from future commercial transaction, recognised assets and liabilities. The actual foreign exchange risk faced by the Target Group therefore primarily with respect to non-functional currency bank balances, receivable and payable balances.

The Target Group currently does not have regular and established hedging policy in place. The Target 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.

For the years ended 31 December 2010, 2011 and 2012 and each of the ten months ended 31 October 2012 and 2013, had RMB fluctuated by 5% against US\$ with all other variables unchanged, the Target Group's profit/loss before income tax would have been approximately US\$1,415,000, US\$1,217,000, US\$213,000, US\$185,000 and US\$850,000 higher/lower respectively.

(b) **Fair value estimation**

The carrying values of cash and bank balances and trade and other receivables and payables 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 Target Group for similar financial instruments.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If quoted prices (unadjusted) in active markets for identical assets or liabilities are available, the instrument is included in level 1. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The financial assets of the Target Group as at 31 December 2010, 2011 and 2012 and 31 October 2013 that are measured at fair value are its available-for-sale financial assets amounted to US\$3,806,000, US\$3,968,000, US\$3,977,000 and US\$20,689,000 respectively, all of which are included in level 3 (note 19). The fair value of this available-for-sale financial asset was based on the estimated future cash flow. There was no other financial assets and liabilities measured at fair value as at those reporting dates.

(c) Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target 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 Target 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 if necessary.

The Target Group monitors its capital on the basis of the gearing ratio, which represents ratio of comparing net debt to total capital. Net debt represents borrowings as shown in the balance sheet less cash and bank balances. Total capital represents borrowings as shown in the balance sheets plus net debt. Gearing ratio is not presented as the Target Group had no borrowings as at 31 December 2010, 2011 and 2012 and 31 October 2013.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 Target 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) Provision for onerous contracts

Management estimate the provision for onerous contracts being the present obligation of the unavoidable costs less the economic benefits expected to be received under those non-cancellable charter-in dry bulk vessel contracts. The expected economic benefits are estimated based on contracted freight rates of associated vessel contracts, and estimated future freight rates by reference to market statistics (such as freight forward rates) and information while unavoidable costs are estimated based on charterhire payments that the Target Group is obligated to make under the non-cancellable charter-in dry bulk vessel contracts.

Management conducted an assessment of the non-cancellable chartered-in dry bulk vessel contracts and recognised a provision for onerous contracts of US\$30,975,000, US\$26,001,000 US\$16,015,000 and US\$3,128,000 respectively at 31 December 2010, 2011 and 2012 and 31 October 2013 (note 24).

The dry bulk market is currently highly volatile and freight rates for long periods are difficult to predict with a reasonable certainty. Had the estimated freight rates for onerous contracts as at 31 December 2010, 2011, 2012 and 31 October 2013, with all other variables held constant, been increased or decreased by 10% from management's estimates, the provision for onerous contracts would have approximately decreased by US\$9,414,000, US\$4,344,000, US\$1,195,000 and US\$685,000 respectively or increased by US\$11,229,000, US\$8,861,000, US\$7,584,000 and US\$491,000 respectively.

(b) Income taxes, business taxes, value-added taxes, withholding taxes and deferred tax

The Target Group is subject to income taxes, business taxes, value-added taxes and withholding taxes in numerous jurisdictions. Significant judgement is required by the directors of the Target Company in determining the provision for these taxes based on the market situations and practices, and the understanding of the tax rules enacted or substantively enacted by the balance sheet dates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax, deferred tax and withholding tax provisions in the period in which such determination is made.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available which the temporary differences can be utilised. If the actual operating results were different from the estimate, this would impact the deferred tax assets and tax expenses in the following period.

(c) Provision for voyage expenses

Invoices for voyage expenses are normally received several months after the transactions. For voyages completed or in progress as at end of reporting period, voyage expenses are estimated based on the latest quotation and voyage statistics obtained from vendors. If the actual voyage expenses were different from the estimate, this would have an impact on the estimated voyage expenses in the following reporting period.

Had the actual expenses of a voyage been decreased/increased by 10% from management's estimates for the years ended 31 December 2010, 2011 and 2012 and 31 October 2013, the voyage expenses would have been US\$448,000, US\$196,000, US\$266,000 and US\$146,000 lower or higher in the future periods respectively.

(d) Impairment of trade and other receivables

The impairment of trade and other receivables is primarily assessed based on prior experience by taking into account the past due status, the financial position of debtors and the guarantees obtained for the outstanding debts. Should there be any change in the assumptions and estimates, revisions to the provision for impairment of trade and other receivables would be required.

(e) Provision for claims under pending litigations

Management estimates the provision for claims under pending litigations mainly based on the status of the claims, the advice of legal counsel, the recoverable amounts from insurance companies and other third parties and other available information. Should there be any change in the assumptions and estimates, revisions to the provision for claims under pending litigations would be required.

6 REVENUES AND SEGMENT INFORMATION

(a) Revenues

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000 (Unaudited)	2013 US\$'000
Time charterhire income	575,008	491,148	390,038	345,144	251,447
Voyage charterhire income	169,028	316,978	306,062	249,115	218,694
	<u>744,036</u>	<u>808,126</u>	<u>696,100</u>	<u>594,259</u>	<u>470,141</u>

(b) Segment information

The chief operating decision makers have been identified as the top management of the Target Company which comprises the general manager and deputy general managers of the Target Company (the "Top Management"). The Top Management reviews the Target Group's internal reporting in order to assess performance and allocate resources. The Top Management determined the operating segments based on these reports.

The Top Management assesses the performance of the Target Group based on the size of the vessels, which comprises:

- Capsize
- Panamax
- Handy

	Year ended 31 December 2010			
	Capsize US\$'000	Panamax US\$'000	Handy US\$'000	Total US\$'000
Total revenues				
Revenues from external customers	<u>254,396</u>	<u>374,810</u>	<u>114,830</u>	<u>744,036</u>
Segment results	<u>6,076</u>	<u>17,011</u>	<u>(136)</u>	<u>22,951</u>
	Year ended 31 December 2011			
	Capsize US\$'000	Panamax US\$'000	Handy US\$'000	Total US\$'000
Total revenues				
Revenues from external customers	<u>348,689</u>	<u>296,698</u>	<u>162,739</u>	<u>808,126</u>
Segment results	<u>6,104</u>	<u>5,120</u>	<u>(5,028)</u>	<u>6,196</u>

	Year ended 31 December 2012			
	Capsize US\$'000	Panamax US\$'000	Handy US\$'000	Total US\$'000
Total revenues				
Revenues from external customers	307,677	277,458	110,965	696,100
Segment results	(4,755)	(1,073)	3,016	(2,812)
	Ten months ended 31 October 2012 (Unaudited)			
	Capsize US\$'000	Panamax US\$'000	Handy US\$'000	Total US\$'000
Total revenues				
Revenues from external customers	256,472	239,507	98,280	594,259
Segment results	(8,953)	304	1,509	(7,140)
	Ten months ended 31 October 2013			
	Capsize US\$'000	Panamax US\$'000	Handy US\$'000	Total US\$'000
Total revenues				
Revenues from external customers	210,737	184,380	75,024	470,141
Segment results	10,046	1,961	2,272	14,279

The Top Management assesses the performance of the operating segments based on the revenues and operating results from each reportable segment. Corporate income, corporate expenses and net finance income are not included in the segment results.

A reconciliation of segment results to profit/(loss) before income tax is provided as follows:

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Segment results for reportable segments	22,951	6,196	(2,812)	(7,140)	14,279
Corporate income	–	199	335	207	237
Corporate expenses (including depreciation)	(12,550)	(10,776)	(3,826)	(5,675)	(6,376)
Finance income, net	2,698	3,100	2,450	1,986	1,292
Profit/(loss) before income tax	13,099	(1,281)	(3,853)	(10,622)	9,432

The Top Management manages the assets and liabilities of the Target Group mainly on an entity-wide basis and considers that there is no suitable basis for allocating the Target Group's assets and liabilities into segments. Vessels under the management of the Target Group are engaged in international transportation business and operated across geographical markets. The geographical information is not a major factor used by the Top Management to evaluate the performance of the Target Group and allocate the resources, therefore geographical information is not presented.

7 EXPENSES BY NATURE

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
				(Unaudited)	
Charterhire expenses					
– Operating lease rental	541,399	602,306	468,323	398,747	315,870
– Provision for onerous contracts (note 24)	26,055	22,574	8,959	12,367	2,341
Bunker expenses	108,022	131,233	168,721	147,032	101,552
Port charges	32,788	32,681	39,118	32,916	23,535
Staff costs (including directors' emoluments) (note 11)	2,713	4,241	2,555	3,797	2,775
Office rentals (note 28(a))	264	277	329	272	279
Reversal of bad debt provision	(241)	(319)	(360)	(128)	(251)
Provision for claims under pending litigations (note 26)	–	–	–	–	1,530
Others	21,762	18,311	14,915	11,919	14,512
	<u>732,762</u>	<u>811,304</u>	<u>702,560</u>	<u>606,922</u>	<u>462,143</u>
Total cost of operations and selling, administrative and general expenses					

8 OTHER OPERATING (LOSS)/INCOME, NET

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
				(Unaudited)	
Exchange (loss)/gain	(722)	(1,226)	236	108	237
Dividend income	–	199	99	99	–
	<u>(722)</u>	<u>(1,027)</u>	<u>335</u>	<u>207</u>	<u>237</u>

9 FINANCE INCOME, NET

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
				(Unaudited)	
Interest income on bank deposits	2,698	1,864	38	29	11
Interest income from a fellow subsidiary (note 28(a))	–	1,236	2,412	1,957	1,281
Others	(151)	(176)	(178)	(152)	(95)
	<u>2,547</u>	<u>2,924</u>	<u>2,272</u>	<u>1,834</u>	<u>1,197</u>

10 INCOME TAX (EXPENSE)/CREDIT

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Current income tax					
– PRC corporate income tax	–	–	–	–	–
Deferred income tax (expense)/credit (note 16)	(3,463)	110	878	2,604	(2,186)
Income tax (expense)/credit	<u>(3,463)</u>	<u>110</u>	<u>878</u>	<u>2,604</u>	<u>(2,186)</u>

Taxation on profits has been calculated on the estimated assessable profit for the year/period at the rates of taxation prevailing in the countries in which the Target Group operates. These rates range from 16.5% to 25% during the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

The Target Company was incorporated in the PRC and corporate income tax in the PRC is calculated based on its assessable income as determined in accordance with the PRC tax laws and regulations at a rate of 25% for the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

Hong Kong profits tax has not been provided for the subsidiary in Hong Kong as there is no estimated assessable profit arising in or derived from Hong Kong during the Relevant Periods.

The tax on the Target Group's profit/(loss) before income tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Profit/(loss) before income tax	<u>13,099</u>	<u>(1,281)</u>	<u>(3,853)</u>	<u>(10,622)</u>	<u>9,432</u>
Tax calculated at a rate of 25%	(3,275)	320	963	2,656	(2,358)
Income not subject to tax	–	–	–	–	138
Effect of different tax rates of overseas entity	–	–	–	–	78
Expenses not deductible for tax purposes	<u>(188)</u>	<u>(210)</u>	<u>(85)</u>	<u>(52)</u>	<u>(44)</u>
Income tax (expense)/credit	<u>(3,463)</u>	<u>110</u>	<u>878</u>	<u>2,604</u>	<u>(2,186)</u>

11 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Wages, salaries and benefit-in-kind	2,568	4,104	2,404	3,673	2,660
Pension costs – defined contribution plans	145	137	151	124	115
	<u>2,713</u>	<u>4,241</u>	<u>2,555</u>	<u>3,797</u>	<u>2,775</u>

12 DIRECTOR'S EMOLUMENTS

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Wages, salaries and benefit-in-kind	201	115	122	102	37
Pension costs – defined contribution plans	3	4	5	4	3
	<u>204</u>	<u>119</u>	<u>127</u>	<u>106</u>	<u>40</u>

13 EARNINGS/(LOSSES) PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful. The Target Company and its subsidiary have no potentially dilutive option or other instruments relating to ordinary shares.

14 DIVIDEND

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Dividend paid	<u>–</u>	<u>63,744</u>	<u>–</u>	<u>–</u>	<u>–</u>

On 14 June 2011, the director declared a dividend of approximately US\$63,744,000.

15 PROPERTY, PLANT AND EQUIPMENT

Target Group and Target Company

	Building and structures <i>US\$'000</i>	Motor vehicles <i>US\$'000</i>	Office equipment <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2010				
Cost	1,128	218	103	1,449
Accumulated depreciation	(54)	(131)	(67)	(252)
Net book amount	<u>1,074</u>	<u>87</u>	<u>36</u>	<u>1,197</u>
Year ended 31 December 2010				
Opening net book amount	1,074	87	36	1,197
Currency translation differences	32	3	1	36
Additions	–	50	15	65
Depreciation	(27)	(39)	(15)	(81)
Closing net book amount	<u>1,079</u>	<u>101</u>	<u>37</u>	<u>1,217</u>
At 31 December 2010				
Cost	1,160	271	119	1,550
Accumulated depreciation	(81)	(170)	(82)	(333)
Net book amount	<u>1,079</u>	<u>101</u>	<u>37</u>	<u>1,217</u>
Year ended 31 December 2011				
Opening net book amount	1,079	101	37	1,217
Currency translation differences	54	5	2	61
Additions	–	–	54	54
Write-off	–	–	(1)	(1)
Depreciation	(28)	(40)	(19)	(87)
Closing net book amount	<u>1,105</u>	<u>66</u>	<u>73</u>	<u>1,244</u>
At 31 December 2011				
Cost	1,214	276	175	1,665
Accumulated depreciation	(109)	(210)	(102)	(421)
Net book amount	<u>1,105</u>	<u>66</u>	<u>73</u>	<u>1,244</u>
Year ended 31 December 2012				
Opening net book amount	1,105	66	73	1,244
Currency translation differences	3	1	1	5
Additions	–	–	27	27
Depreciation	(29)	(21)	(23)	(73)
Closing net book amount	<u>1,079</u>	<u>46</u>	<u>78</u>	<u>1,203</u>

	Building and structures <i>US\$'000</i>	Motor vehicles <i>US\$'000</i>	Office equipment <i>US\$'000</i>	Total <i>US\$'000</i>
At 31 December 2012				
Cost	1,217	277	203	1,697
Accumulated depreciation	(138)	(231)	(125)	(494)
Net book amount	<u>1,079</u>	<u>46</u>	<u>78</u>	<u>1,203</u>
Ten months ended 31 October 2013				
Opening net book amount	1,079	46	78	1,203
Currency translation differences	25	–	3	28
Additions	–	–	8	8
Depreciation	(25)	(8)	(19)	(52)
Closing net book amount	<u>1,079</u>	<u>38</u>	<u>70</u>	<u>1,187</u>
At 31 October 2013				
Cost	1,242	277	214	1,733
Accumulated depreciation	(163)	(239)	(144)	(546)
Net book amount	<u>1,079</u>	<u>38</u>	<u>70</u>	<u>1,187</u>

16 DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

Target Group and Target Company

	As at 31 December			As at 31 October
	2010	2011	2012	2013
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Deferred tax assets:				
Deferred income tax assets to be recovered after more than 12 months	1,646	5,034	6,379	6,216
Deferred income tax assets to be recovered within 12 months	7,344	4,528	4,088	2,224
	<u>8,990</u>	<u>9,562</u>	<u>10,467</u>	<u>8,440</u>
Deferred tax liability:				
Deferred income tax liabilities to be settled within 12 months	–	–	–	(85)
Deferred income tax assets, net	<u>8,990</u>	<u>9,562</u>	<u>10,467</u>	<u>8,355</u>

As at 31 December 2010, 2011, 2012 and 31 October 2013, the tax losses with no deferred tax assets recognised were approximately US\$10,650,000, US\$11,194,000, US\$11,221,000 and US\$11,483,000 respectively. All unrecognised tax losses will expire in 2014.

The movement in deferred tax assets and liabilities, without taking into account the offsetting of balances within the same tax jurisdiction, is as follows:

Target Group and Target Company

Deferred tax assets:

	Tax loss	Onerous	Other	Others	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At 1 January 2010	5,598	4,840	1,707	8	12,153
(Charged)/credited to profit or loss	(4,888)	1,970	(549)	4	(3,463)
Currency translation difference	67	193	39	1	300
At 31 December 2010	<u>777</u>	<u>7,003</u>	<u>1,197</u>	<u>13</u>	<u>8,990</u>
At 1 January 2011	777	7,003	1,197	13	8,990
Credited/(charged) to profit or loss	2,381	(2,191)	(84)	4	110
Currency translation difference	98	303	60	1	462
At 31 December 2011	<u>3,256</u>	<u>5,115</u>	<u>1,173</u>	<u>18</u>	<u>9,562</u>
At 1 January 2012	3,256	5,115	1,173	18	9,562
Credited/(charged) to profit or loss	2,896	(1,633)	(381)	(4)	878
Currency translation difference	19	6	1	1	27
At 31 December 2012	<u>6,171</u>	<u>3,488</u>	<u>793</u>	<u>15</u>	<u>10,467</u>
At 1 January 2013	6,171	3,488	793	15	10,467
(Charged)/credited to profit or loss	(45)	(2,379)	241	(3)	(2,186)
Currency translation difference	84	56	19	-	159
At 31 October 2013	<u>6,210</u>	<u>1,165</u>	<u>1,053</u>	<u>12</u>	<u>8,440</u>

Deferred tax liability:

	Fair value
	change of
	available-for-sale
	financial assets
	<i>US\$'000</i>
At 1 January 2013	-
Charged to other comprehensive income	(85)
At 31 October 2013	<u>(85)</u>

17 INVESTMENT IN A SUBSIDIARY

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Investment in a subsidiary	–	–	6,399	6,548

Detailed information of the subsidiary at 31 December 2012 and 31 October 2013

Name of subsidiary	Issued share capital	Percentage of capital held by the Target Company	Principal activities
China National Chartering (Hong Kong) Co., Limited	HK\$50,000,000	100%	Dry bulk vessel time chartering and dry bulk cargo voyage chartering

The subsidiary was incorporated in Hong Kong on 22 June 2012 as a company with limited liability under the Hong Kong Companies Ordinance.

The statutory financial statements of the subsidiary for the period from 22 June 2012 (date of incorporation) to 31 December 2012 have been audited by Morison Heng Certified Public Accountants.

18 TRADE AND OTHER RECEIVABLES

Target Group

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Trade receivables, net of provision (note a)				
– fellow subsidiaries	635	564	–	942
– third parties	27,000	28,455	29,066	37,482
	27,635	29,019	29,066	38,424
Prepayments, deposits and other receivables, net of provision (note c)	22,425	37,687	29,425	28,271
Amounts due from fellow subsidiaries (note d)	760	2,344	9,654	9,529
Advance to a third party (note e)	–	–	–	14,811
	50,820	69,050	68,145	91,035

Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Trade receivables, net of provision (note a)				
– fellow subsidiaries	635	564	–	942
– a subsidiary	–	–	–	2,974
– third parties	27,000	28,455	29,066	34,622
	<u>27,635</u>	<u>29,019</u>	<u>29,066</u>	<u>38,538</u>
Prepayments, deposits and other receivables, net of provision (note c)	22,425	37,687	29,425	26,323
Amounts due from fellow subsidiaries (note d)	760	2,344	9,654	9,529
Advance to a third party (note e)	–	–	–	14,811
	<u>50,820</u>	<u>69,050</u>	<u>68,145</u>	<u>89,201</u>

Notes:

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

Target Group

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Within 6 months	26,501	27,634	28,880	37,247
7–12 months	709	1,428	235	1,277
1–2 years	714	103	8	46
2–3 years	827	211	1	2
Over 3 years	719	1,345	1,287	1,146
Trade receivables	<u>29,470</u>	<u>30,721</u>	<u>30,411</u>	<u>39,718</u>
Less: impairment				
Within 6 months	–	–	–	–
7–12 months	(114)	(135)	(50)	(127)
1–2 years	(472)	(75)	(7)	(19)
2–3 years	(530)	(147)	(1)	(2)
Over 3 years	(719)	(1,345)	(1,287)	(1,146)
Provision for receivable impairment	<u>(1,835)</u>	<u>(1,702)</u>	<u>(1,345)</u>	<u>(1,294)</u>
Trade receivables, net of provision	<u>27,635</u>	<u>29,019</u>	<u>29,066</u>	<u>38,424</u>

Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Within 6 months	26,501	27,634	28,880	37,361
7–12 months	709	1,428	235	1,277
1–2 years	714	103	8	46
2–3 years	827	211	1	2
Over 3 years	719	1,345	1,287	1,146
	<u>29,470</u>	<u>30,721</u>	<u>30,411</u>	<u>39,832</u>
Trade receivables				
Less: impairment				
Within 6 months	–	–	–	–
7–12 months	(114)	(135)	(50)	(127)
1–2 years	(472)	(75)	(7)	(19)
2–3 years	(530)	(147)	(1)	(2)
Over 3 years	(719)	(1,345)	(1,287)	(1,146)
	<u>(1,835)</u>	<u>(1,702)</u>	<u>(1,345)</u>	<u>(1,294)</u>
Provision for receivable impairment				
Trade receivables, net of provision	<u>27,635</u>	<u>29,019</u>	<u>29,066</u>	<u>38,538</u>

- (b) As at 31 December 2010, 2011 and 2012 and 31 October 2013, trade receivables of US\$2,969,000, US\$3,087,000, US\$1,531,000 and US\$2,471,000 respectively were considered as impaired by management, of which amounts of US\$1,835,000, US\$1,702,000, US\$1,345,000 and US\$1,294,000 were provided for. The individually impaired receivables mainly relate to balances under disputes with charterers. It was assessed that a portion of the receivables is expected to be recovered.

Save as disclosed above, trade receivables are past due but not considered to be impaired as at 31 December 2010, 2011 and 2012 and 31 October 2013. These trade receivables relate to fellow subsidiaries and a number of independent customers for whom there is no history of default.

- (c) As at 31 December 2010, 2011 and 2012, other receivables of US\$2,731,000, US\$2,943,000, and US\$2,199,000 respectively were considered as impaired by management, of which amounts of US\$255,000, US\$168,000 and US\$168,000 respectively were provided for. At 31 October 2013, there were no other receivables considered as impaired by management.
- (d) Amounts due from fellow subsidiaries are unsecured, interest free and repayable on demand. These balances are neither past due nor impaired and there is no history of default.
- (e) On 8 October 2013, the Target Company signed an advance agreement with a third party and agreed to lend to the third party a sum of approximately RMB92,000,000 for its acquisition of a vessel. The advance is interest free, repayable on 7 November 2013 and secured by the acquired vessel. On 23 December 2013, the advance was settled through the transfer of the acquired vessel to the Target Company.

- (f) The carrying amount of trade and other receivables are denominated in the following currencies:

Target Group

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
US\$	45,357	61,549	53,674	58,507
RMB	3,030	3,886	12,145	29,666
Others	2,433	3,615	2,326	2,862
	<u>50,820</u>	<u>69,050</u>	<u>68,145</u>	<u>91,035</u>

Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
US\$	45,357	61,549	53,674	56,673
RMB	3,030	3,886	12,145	29,666
Others	2,433	3,615	2,326	2,862
	<u>50,820</u>	<u>69,050</u>	<u>68,145</u>	<u>89,201</u>

- (g) The maximum exposure to credit risk at the respective reporting dates is the carrying value of each class of receivable mentioned above. The Target Group does not hold any collateral as security.

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Target Group and Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Unlisted investments				
– current	–	–	–	16,619
– non-current	3,806	3,968	3,977	4,070
	<u>3,806</u>	<u>3,968</u>	<u>3,977</u>	<u>20,689</u>

Movements of the available-for-sale financial assets during the Relevant Periods are as follow:

Target Group and Target Company

	Year ended 31 December			Ten months ended
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013 US\$'000
Opening net book amount	–	3,806	3,968	3,977
Additions	3,693	–	–	16,109
Fair value change	–	–	–	337
Currency translation difference	113	162	9	266
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Closing net book amount	<u>3,806</u>	<u>3,968</u>	<u>3,977</u>	<u>20,689</u>

The available-for-sale financial assets represent the Group's investments in 5% equity interest in Sinotrans & CSC Finance Co., Ltd., a fellow subsidiary which is included in the non-current portion, and a debt portfolio issued by a state-owned PRC bank which is included in the current portion.

The available-for-sale financial assets are denominated in Renminbi. The maximum exposure to credit risk at the respective reporting date is the carrying value of the debt securities classified as available-for-sale.

20 CASH AND BANK BALANCES

Target Group

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013 US\$'000
Cash at bank and in hand	110,730	109,305	93,491	41,642
Short-term deposits (note a)	70,968	–	–	2,442
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Restricted cash deposits	181,698	109,305	93,491	44,084
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>181,698</u>	<u>109,305</u>	<u>93,491</u>	<u>44,198</u>

Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013 US\$'000
Cash at bank and in hand	110,730	109,305	92,642	38,423
Short-term deposits (note a)	70,968	–	–	2,442
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Restricted cash deposits	181,698	109,305	92,642	40,865
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>181,698</u>	<u>109,305</u>	<u>92,642</u>	<u>40,979</u>

Notes:

- (a) The short-term deposits are placed with Sinotrans & CSC Finance Co., Ltd., a fellow subsidiary which is a registered financial institution in the PRC. The deposits are with original maturity over 3 months and bear interest at prevailing market rates.
- (b) The cash and bank balances of the Target Group and the Target Company are denominated in the following currencies:

Target Group

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
US\$	32,645	21,486	21,119	9,951
RMB	149,047	87,692	72,230	33,637
Others	6	127	142	610
	<u>181,698</u>	<u>109,305</u>	<u>93,491</u>	<u>44,198</u>

Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
US\$	32,645	21,486	20,270	6,732
RMB	149,047	87,692	72,230	33,958
Others	6	127	142	289
	<u>181,698</u>	<u>109,305</u>	<u>92,642</u>	<u>40,979</u>

21 PAID UP CAPITAL**Target Company**

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Registered and paid up capital	<u>27,380</u>	<u>27,380</u>	<u>27,380</u>	<u>27,380</u>

22 RESERVES

Target Group

	Share premium <i>US\$'000</i>	Statutory reserve <i>US\$'000</i>	Available-for- sale financial assets revaluation reserve <i>US\$'000</i>	Currency translation reserve <i>US\$'000</i>	Retained earnings/ (accumulated losses) <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2010	65,381	–	–	7,383	56,039	128,803
Profit for the year	–	–	–	–	9,636	9,636
Currency translation difference	–	–	–	5,059	–	5,059
Transfer to statutory reserve	–	8,497	–	–	(8,497)	–
At 31 December 2010	<u>65,381</u>	<u>8,497</u>	<u>–</u>	<u>12,442</u>	<u>57,178</u>	<u>143,498</u>
At 1 January 2011	65,381	8,497	–	12,442	57,178	143,498
Loss for the year	–	–	–	–	(1,171)	(1,171)
Currency translation difference	–	–	–	7,098	–	7,098
Dividend paid	–	–	–	–	(63,744)	(63,744)
At 31 December 2011	<u>65,381</u>	<u>8,497</u>	<u>–</u>	<u>19,540</u>	<u>(7,737)</u>	<u>85,681</u>
At 1 January 2012	65,381	8,497	–	19,540	(7,737)	85,681
Loss for the year	–	–	–	–	(2,975)	(2,975)
Currency translation difference	–	–	–	313	–	313
At 31 December 2012	<u>65,381</u>	<u>8,497</u>	<u>–</u>	<u>19,853</u>	<u>(10,712)</u>	<u>83,019</u>
At 1 January 2013	65,381	8,497	–	19,853	(10,712)	83,019
Profit for the period	–	–	–	–	7,246	7,246
Fair value change of available-for-sale financial assets, net of tax	–	–	252	–	–	252
Currency translation difference	–	–	–	2,499	–	2,499
At 31 October 2013	<u>65,381</u>	<u>8,497</u>	<u>252</u>	<u>22,352</u>	<u>(3,466)</u>	<u>93,016</u>
(Unaudited)						
At 1 January 2012	65,381	8,497	–	19,540	(7,737)	85,681
Loss for the period	–	–	–	–	(8,018)	(8,018)
Currency translation difference	–	–	–	(8)	–	(8)
At 31 October 2012	<u>65,381</u>	<u>8,497</u>	<u>–</u>	<u>19,532</u>	<u>(15,755)</u>	<u>77,655</u>

Target Company

	Share premium <i>US\$'000</i>	Statutory reserve <i>US\$'000</i>	Available-for- sale financial assets revaluation reserve <i>US\$'000</i>	Currency translation reserve <i>US\$'000</i>	Retained earnings/ losses) <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2010	65,381	–	–	7,383	56,039	128,803
Profit for the year	–	–	–	–	9,636	9,636
Currency translation difference	–	–	–	5,059	–	5,059
Transfer to statutory reserve	–	8,497	–	–	(8,497)	–
At 31 December 2010	<u>65,381</u>	<u>8,497</u>	<u>–</u>	<u>12,442</u>	<u>57,178</u>	<u>143,498</u>
At 1 January 2011	65,381	8,497	–	12,442	57,178	143,498
Loss for the year	–	–	–	–	(1,171)	(1,171)
Currency translation difference	–	–	–	7,098	–	7,098
Dividend paid	–	–	–	–	(63,744)	(63,744)
At 31 December 2011	<u>65,381</u>	<u>8,497</u>	<u>–</u>	<u>19,540</u>	<u>(7,737)</u>	<u>85,681</u>
At 1 January 2012	65,381	8,497	–	19,540	(7,737)	85,681
Loss for the year	–	–	–	–	(2,975)	(2,975)
Currency translation difference	–	–	–	262	–	262
At 31 December 2012	<u>65,381</u>	<u>8,497</u>	<u>–</u>	<u>19,802</u>	<u>(10,712)</u>	<u>82,968</u>
At 1 January 2013	65,381	8,497	–	19,802	(10,712)	82,968
Profit for the period	–	–	–	–	6,627	6,627
Fair value change of available-for-sale financial assets, net of tax	–	–	252	–	–	252
Currency translation difference	–	–	–	2,642	–	2,642
At 31 October 2013	<u>65,381</u>	<u>8,497</u>	<u>252</u>	<u>22,444</u>	<u>(4,085)</u>	<u>92,489</u>
(Unaudited)						
At 1 January 2012	65,381	8,497	–	19,540	(7,737)	85,681
Loss for the period	–	–	–	–	(8,018)	(8,018)
Currency translation difference	–	–	–	(8)	–	(8)
At 31 October 2012	<u>65,381</u>	<u>8,497</u>	<u>–</u>	<u>19,532</u>	<u>(15,755)</u>	<u>77,655</u>

23 TRADE AND OTHER PAYABLES

Target Group

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Trade payables (<i>note a</i>)				
– fellow subsidiaries	–	1,305	7,550	9,048
– third parties	39,820	45,930	54,395	37,651
	<u>39,820</u>	<u>47,235</u>	<u>61,945</u>	<u>46,699</u>
Other payables and accruals	14,784	19,473	9,772	10,282
Amounts due to fellow subsidiaries (<i>note b</i>)	32	–	1,000	1,087
	<u>54,636</u>	<u>66,708</u>	<u>72,717</u>	<u>58,068</u>

Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Trade payables (<i>note a</i>)				
– fellow subsidiaries	–	1,305	7,550	9,048
– third parties	39,820	45,930	54,395	37,513
	<u>39,820</u>	<u>47,235</u>	<u>61,945</u>	<u>46,561</u>
Other payables and accruals	14,784	19,473	8,772	9,282
Amounts due to fellow subsidiaries (<i>note b</i>)	32	–	1,000	1,087
Amount due to a subsidiary (<i>note c</i>)	–	–	6,600	3,160
	<u>54,636</u>	<u>66,708</u>	<u>78,317</u>	<u>60,090</u>

Notes:

(a) An ageing analysis of trade payables at the respective balance sheet dates is as follows:

Target Group

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Within 6 months	33,340	37,123	53,029	31,447
7–12 months	1,170	3,371	1,268	862
1–2 years	1,750	2,000	2,524	8,287
2–3 years	1,934	1,475	1,275	994
Over 3 years	1,626	3,266	3,849	5,109
	<u>39,820</u>	<u>47,235</u>	<u>61,945</u>	<u>46,699</u>

Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Within 6 months	33,340	37,123	53,029	31,309
7–12 months	1,170	3,371	1,268	862
1–2 years	1,750	2,000	2,524	8,287
2–3 years	1,934	1,475	1,275	994
Over 3 years	1,626	3,266	3,849	5,109
	<u>39,820</u>	<u>47,235</u>	<u>61,945</u>	<u>46,561</u>

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

(c) Amount due to a subsidiary is unsecured, interest free and repayable on demand.

24 PROVISION FOR OTHER LIABILITIES

Target Group and Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Provision for onerous contracts (note 5(a))				
– current portion	27,548	18,945	15,228	3,128
– non-current portion	3,427	7,056	787	–
	<u>30,975</u>	<u>26,001</u>	<u>16,015</u>	<u>3,128</u>

The movements in provision for onerous contracts are as follows:

Target Group and Target Company

	Year ended 31 December			Ten months ended
	2010	2011	2012	31 October 2013
	US\$'000	US\$'000	US\$'000	US\$'000
At beginning of the year/period	19,360	30,975	26,001	16,015
Utilised during the year/period	(14,440)	(27,548)	(18,945)	(15,228)
Provisions for the year/period	26,055	22,574	8,959	2,341
At end of the year/period	30,975	26,001	16,015	3,128

25 NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended 31 December			Ten months ended	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Profit/(loss) before income tax	13,099	(1,281)	(3,853)	(10,622)	9,432
Adjustments for:					
Depreciation and amortisation	111	119	73	62	52
Reversal of bad debt provision	(241)	(319)	(360)	(128)	(251)
Loss on disposal of property, plant and equipment	–	1	–	–	–
Dividend income	–	(199)	(99)	(99)	–
Net foreign exchange (gains)/losses	722	1,226	(236)	(108)	(237)
Interest income	(2,698)	(3,100)	(2,450)	(1,986)	(1,292)
Changes in working capital:					
Inventories	(11,099)	(2,483)	(7,184)	(7,280)	6,232
Trade and other receivables	(12,463)	(14,873)	851	(13,505)	(21,144)
Trade and other payables	27,528	2,978	(6,141)	28,169	(29,259)
Cash generated from/(used in) operations	14,959	(17,931)	(19,399)	(5,497)	(36,467)

26 CONTINGENT LIABILITIES

The Target Group was involved in the following pending lawsuits as at 31 October 2013:

(a) **The Target Group as defendant**

In 2008, the Target Company cancelled a two-year charterhire agreement after discovering regular underperformance and engine faults of a vessel it previously chartered in. The ship owner subsequently commenced arbitration against the Target Company in the sum of approximately US\$10,800,000. The Target Company was exploring possible settlements with the ship owner and it expects to settle the case at approximately US\$1,000,000 based on the current status of the legal proceedings, the advice from legal counsels and the progress of settlement negotiations. Accordingly, a provision for the case amounted to US\$1,000,000 has been made as at 31 October 2013.

Save as disclosed above, the Target Group was also involved in another six pending lawsuits amounted to approximately US\$936,000 in aggregate as at 31 October 2013. Taking into account the current status of the legal proceedings and the progress of settlement negotiations, the Target Group has made provisions for those cases in the sum of US\$280,000 as at 31 October 2013.

(b) **Back-to-back cases (the Target Group as both defendant and plaintiff)**

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

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

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

As the Target Company expects to recover any compensation from the sub-charterer, no provision has been made for the case as at 31 October 2013.

(ii) In 2010, a vessel that the Target Company chartered in and sub-chartered out on a back-to-back position to a third party collided with the shiploaders of a port in Brazil, causing damage to the port. The port authority of Brazil brought a claim against the ship owner, and the ship owner subsequently brought a claim against the Target Company in the sum of approximately US\$10,000,000. As a result, the Target Company commenced arbitration against the sub-charterer in a back-to-back position. No judgement was given as at 31 October 2013.

As the Target Company expects to recover any compensation from the sub-charterer on a back-to-back position, no provision has been made for the case as at 31 October 2013.

Save as disclosed above, the Target Group was also involved in another thirteen pending back-to-back lawsuits in the total sum of US\$3,672,000 as at 31 October 2013. Except for a case for which the Target Group has made a provision of US\$250,000, the Target Group has not made provision for those other cases as it expects to recover any compensation payable to the plaintiffs on a back-to-back basis from the sub-charterers.

27 COMMITMENTS

(a) Operating lease commitments - where the Target Group and Target Company are the lessees

As at 31 December 2010, 2011 and 2012 and 31 October 2013, the Target Group and the Target Company have commitments to make the following future minimum lease payments under non-cancellable operating leases:

Target Group

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Office premises				
– not later than one year	266	331	323	55
	-----	-----	-----	-----
Vessels				
– not later than one year	227,787	141,584	86,475	77,717
– 1–2 years	112,522	83,666	51,483	48,265
– 2–3 years	78,612	58,403	46,282	41,902
– 3–5 years	79,515	89,967	78,311	75,044
– over 5 years	175,626	162,017	127,571	96,218
	-----	-----	-----	-----
	674,062	535,637	390,122	339,146
	-----	-----	-----	-----
	674,328	535,968	390,445	339,201
	=====	=====	=====	=====

Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Office premises				
– not later than one year	266	331	323	55
	-----	-----	-----	-----
Vessels				
– not later than one year	227,787	141,584	86,475	77,065
– 1–2 years	112,522	83,666	51,483	48,265
– 2–3 years	78,612	58,403	46,282	41,902
– 3–5 years	79,515	89,967	78,311	75,044
– over 5 years	175,626	162,017	127,571	96,218
	-----	-----	-----	-----
	674,062	535,637	390,122	338,494
	-----	-----	-----	-----
	674,328	535,968	390,445	338,549
	=====	=====	=====	=====

(b) **Operating lease commitments - where the Target Group and Target Company are the lessors**

As at 31 December 2010, 2011 and 2012 and 31 October 2013, the Target Group and Target Company have the following future minimum lease receipts under non-cancellable operating leases in relation to chartering of vessels.

Target Group and Target Company

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Vessels				
– not later than one year	45,217	30,928	8,735	24,715
– 1–2 years	12,790	–	–	8,811
	<u>58,007</u>	<u>30,928</u>	<u>8,735</u>	<u>33,526</u>

28 RELATED PARTY TRANSACTIONS

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

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

The following companies are related parties of the Target Group that had balances and/or transactions with the Target Group for the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013:

Company	Relationship with the Target Company
SINOTRANS & CSC Group Company	Parent company
Sinotrans Shipowning Limited	Fellow subsidiary
Sinotrans Germany GmbH	Fellow subsidiary
Sinotrans & CSC Beijing Company	Fellow subsidiary
CSC Phoenix (HK) Investment and Development Co., Ltd.	Fellow subsidiary
Sinotrans (HK) Logistics Limited	Fellow subsidiary
Sinotrans & CSC Finance Co., Ltd	Fellow subsidiary
Sinotrans Real-estate Development Co., Ltd.	Fellow subsidiary

Apart from the above-mentioned transactions with the state-owned enterprises, the following is a summary of significant related party transactions during the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013 and balances arising from those related party transactions at each of the reporting dates.

- (a) Significant transactions carried out with related parties during the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013:

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000 (Unaudited)	2013 US\$'000
Charterhire income from fellow subsidiaries	3,248	1,064	5,351	4,136	3,237
Interest income from a fellow subsidiary	–	1,236	2,412	1,957	1,281
Charterhire expenses to fellow subsidiaries (<i>note b</i>)	(16,448)	(32,440)	(35,176)	(28,372)	(22,384)
Rental expenses to a fellow subsidiary	(264)	(277)	(329)	(272)	(279)
	<u>721</u>	<u>634</u>	<u>670</u>	<u>557</u>	<u>206</u>

In the opinion of the directors of the Target Company, the above related party transactions were carried out in the ordinary course of business and in accordance with the terms of the underlying agreements.

- (b) During 2012, the Target Company received a compensation of US\$2,000,000 from Great Tang Shipping Ltd. ("Great Tang"), a fellow subsidiary for losses of businesses as a result of prolonged repair of a vessel chartered from Great Tang. Such compensation was deducted from the charterhire expenses of the Target Company.
- (c) Year/period end balances arising from sales, purchases and other transactions with fellow subsidiaries were disclosed in notes 18, 19, 20 and 23.
- (d) During the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013, the Target Company was allowed to use trademarks registered in the name of SINOTRANS & CSC Group Company on a free-of-charge basis.
- (e) Key management compensation

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000 (Unaudited)	2013 US\$'000
Salaries, allowances, and benefits-in-kind	707	617	651	541	190
Pension costs - defined contribution plans	14	17	19	16	16
	<u>721</u>	<u>634</u>	<u>670</u>	<u>557</u>	<u>206</u>

29 SIGNIFICANT SUBSEQUENT EVENTS

In addition to those disclosed in note 18(e) to the financial information, the significant subsequent events of the Target Group are as follows:

In December 2013, the Target Company increased its registered and paid up capital to RMB700,000,000 through the capital injection of the parent company.

On 27 February 2014, the Target Company entered into a finance lease agreement as lessee with a third party for leasing of a drybulk vessel. The finance lease obligations amounted to US\$63,000,000 which is repayable in 150 monthly installments, with a mandatory purchase obligation at the end of the lease period which the Target Company shall acquire the vessel at US\$13,000,000 (included in the finance lease obligations).

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 31 October 2013 up to the date of this report. No dividend or distribution has been declared or made by the Target Company in respect of any period subsequent to 31 October 2013.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

22 April 2014

The Directors
Sinotrans Shipping Limited

Dear Sirs,

We report on the combined financial information of the vessels owning and chartering as well as ship management and conveying business carried on by Sinotrans Navigation Ltd, Skyglory Shipping S.A. and Skyroyal Shipping S.A. (together the "Sinotrans Tianze Business" or the "Target Companies") which comprises the combined balance sheets of the Target Companies as at 31 December 2010, 2011 and 2012 and 31 October 2013, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Companies for each of the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2013 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of Sinotrans Shipping Limited (the "Company") and is set out in Sections I to III below for inclusion in Appendix II to the circular of the Company dated 22 April 2014 (the "Circular") in connection with the proposed acquisition of the Target Companies by a subsidiary of the Company.

The Target Companies are companies with limited liability, details of which are set out in note 1 of Section II below. The financial statements of respective Target Companies for each of the years ended 31 December 2010, 2011 and 2012 prepared in accordance with the Accounting Standards for Business Enterprises of the People's Republic of China, were audited by ShineWing Certified Public Accountants. The Target Companies have adopted 31 December as their financial year end date for statutory reporting.

The directors of Sinotrans Navigation Ltd have prepared the combined financial statements of the Target Companies for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements").

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

The directors of Sinotrans Navigation Ltd are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with HKFRSs, and for such internal control as the directors of Sinotrans Navigation Ltd determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSA") issued by the HKICPA pursuant to separate terms of engagement.

The financial information has been prepared based on the Underlying Financial Statements with no adjustment made thereon, and on the basis set out in note 2 of Section II below.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information of the Target Companies that gives a true and fair view in accordance with the basis of presentation and preparation set out in note 2 of Section II below and HKFRSs and accounting policies adopted by the Company and its subsidiaries (the "Group") as set out in the annual report of the Company for the year ended 31 December 2013.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in note 2 of Section II below, a true and fair view of the combined state of affairs of the Target Companies as at 31 December 2010, 2011 and 2012 and 31 October 2013 and of the Target Companies' combined results and cash flows for the Relevant Periods then ended.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I to III below included in Appendix II to the Circular which comprises the combined statement of comprehensive income, the combined statement of changes in equity and the combined statements of cash flows of the Target Companies for the ten months ended 31 October 2012 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in note 2 of Section II below, the accounting policies set out in note 3 of Section II below and the accounting policies adopted by the Group as set out in the annual report for the year ended 31 December 2013.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report and presented on the basis set out in note 2 of Section II below, is not prepared, in all material respects, in accordance with the accounting policies set out in note 3 of Section II below.

I. FINANCIAL INFORMATION OF THE TARGET COMPANIES

The following is the combined financial information of Sinotrans Navigation Ltd, Skyglory Shipping S.A. and Skyroyal Shipping S.A. (together the "Sinotrans Tianze Business" or the "Target Companies") prepared by the directors of the Company as at 31 December 2010, 2011 and 2012 and 31 October 2013 and for each of the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013 (the "Financial Information").

(A) Combined statements of comprehensive income

	Note	Year ended 31 December			Ten months ended 31 October	
		2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000 (Unaudited)	2013 US\$'000
Revenues	6	2,572	5,685	6,612	5,580	4,873
Cost of operations	7	(3,100)	(6,390)	(6,850)	(5,589)	(5,152)
Gross loss		(528)	(705)	(238)	(9)	(279)
Selling, administrative and general expenses	7	(237)	(256)	(269)	(214)	(208)
Other operating income/(expense), net	8	45	48	71	1	4
Operating loss		(720)	(913)	(436)	(222)	(483)
Finance income	9	171	256	269	255	51
Finance cost	9	(228)	(204)	(216)	(199)	(104)
Loss before income tax		(777)	(861)	(383)	(166)	(536)
Income tax credit/(expense)	10	109	(101)	(163)	(144)	(42)
Loss for the year/ period attributable to owners of the Target Companies		(668)	(962)	(546)	(310)	(578)
Other comprehensive income						
Items that may not be reclassified subsequently to profit or loss:						
Currency translation differences		433	727	39	2	363
Total comprehensive loss for the year/period		(235)	(235)	(507)	(308)	(215)
Earnings per share attributable to owners of the Target Companies during the year/period						
- basic and diluted	13	N/A	N/A	N/A	N/A	N/A
Dividend		-	-	-	-	-

(B) Combined balance sheets

		As at 31 December			As at
	Note	2010	2011	2012	31 October
		US\$'000	US\$'000	US\$'000	2013
					US\$'000
ASSETS					
Non-current assets					
Property, plant and equipment	14	20,285	17,977	15,613	13,641
Deferred income tax assets	15	286	197	34	11
		<u>20,571</u>	<u>18,174</u>	<u>15,647</u>	<u>13,652</u>
Current assets					
Trade and other receivables	16	1,551	1,625	1,599	2,099
Amount due from parent company	17	12,755	–	12,728	13,024
Cash and cash equivalents	18	2,564	16,008	4,243	5,356
		<u>16,870</u>	<u>17,633</u>	<u>18,570</u>	<u>20,479</u>
Total assets		<u>37,441</u>	<u>35,807</u>	<u>34,217</u>	<u>34,131</u>
EQUITY					
Capital and reserves					
Combined capital	19	14,629	14,629	14,629	14,629
Reserves	20	(742)	(977)	(1,484)	(1,699)
		<u>13,887</u>	<u>13,652</u>	<u>13,145</u>	<u>12,930</u>
LIABILITIES					
Non-current liability					
Loans from parent company	22	18,648	16,860	15,072	13,283
Current liabilities					
Trade and other payables	21	1,112	698	626	743
Taxation payable		6	21	10	22
Loans from parent company	22	3,788	4,576	5,364	7,153
		<u>4,906</u>	<u>5,295</u>	<u>6,000</u>	<u>7,918</u>
Total liabilities		<u>23,554</u>	<u>22,155</u>	<u>21,072</u>	<u>21,201</u>
Total equity and liabilities		<u>37,441</u>	<u>35,807</u>	<u>34,217</u>	<u>34,131</u>
Net current assets		<u>11,964</u>	<u>12,338</u>	<u>12,570</u>	<u>12,561</u>
Total assets less current liabilities		<u>32,535</u>	<u>30,512</u>	<u>28,217</u>	<u>26,213</u>

(C) Combined statements of changes in equity

	Combined capital <i>US\$'000</i>	Exchange reserve <i>US\$'000</i>	Accumulated losses <i>US\$'000</i>	Total equity <i>US\$'000</i>
At 1 January 2010	14,629	15	(522)	14,122
Comprehensive loss				
Loss for the year	-	-	(668)	(668)
Other comprehensive income				
Currency translation differences	-	433	-	433
Total comprehensive income/(loss)	-	433	(668)	(235)
At 31 December 2010	14,629	448	(1,190)	13,887
At 1 January 2011	14,629	448	(1,190)	13,887
Comprehensive income				
Loss for the year	-	-	(962)	(962)
Other comprehensive income				
Currency translation differences	-	727	-	727
Total comprehensive income/(loss)	-	727	(962)	(235)
At 31 December 2011	14,629	1,175	(2,152)	13,652
At 1 January 2012	14,629	1,175	(2,152)	13,652
Comprehensive income				
Loss for the year	-	-	(546)	(546)
Other comprehensive income				
Currency translation differences	-	39	-	39
Total comprehensive income/(loss)	-	39	(546)	(507)
At 31 December 2012	14,629	1,214	(2,698)	13,145

	Combined capital <i>US\$'000</i>	Exchange reserve <i>US\$'000</i>	Accumulated losses <i>US\$'000</i>	Total equity <i>US\$'000</i>
At 1 January 2013	14,629	1,214	(2,698)	13,145
Comprehensive income				
Loss for the period	-	-	(578)	(578)
Other comprehensive income				
Currency translation differences	-	363	-	363
Total comprehensive income/(loss)	-	363	(578)	(215)
At 31 October 2013	<u>14,629</u>	<u>1,577</u>	<u>(3,276)</u>	<u>12,930</u>
Unaudited				
Ten months ended 31 October 2012				
At 1 January 2012	14,629	1,175	(2,152)	13,652
Comprehensive income				
Loss for the period	-	-	(310)	(310)
Other comprehensive loss				
Currency translation differences	-	2	-	2
Total comprehensive (loss)/ income	-	2	(310)	(308)
At 31 October 2012	<u>14,629</u>	<u>1,177</u>	<u>(2,462)</u>	<u>13,344</u>

(D) Combined statements of cash flows

	Note	Year ended 31 December			Ten months ended 31 October	
		2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
(Unaudited)						
Cash flows from operating activities						
Cash (used in)/generated from						
operations	23	(726)	1,282	1,788	1,919	695
Interest received		171	174	344	337	56
		<u>171</u>	<u>174</u>	<u>344</u>	<u>337</u>	<u>56</u>
Net cash (used in)/generated from operating activities		<u>(555)</u>	<u>1,456</u>	<u>2,132</u>	<u>2,256</u>	<u>751</u>
Cash flows from investing activities						
Purchase of property, plant and equipment						
		(21,098)	(73)	(1)	-	-
Decrease/(increase) in amount due from parent company		-	12,755	(12,728)	(12,698)	-
		<u>-</u>	<u>12,755</u>	<u>(12,728)</u>	<u>(12,698)</u>	<u>-</u>
Net cash (used in)/generated from investing activities		<u>(21,098)</u>	<u>12,682</u>	<u>(12,729)</u>	<u>(12,698)</u>	<u>-</u>
Cash flows from financing activities						
Drawdown of loans from parent company						
		22,436	-	-	-	-
Repayment of loans from parent company		-	(1,000)	(1,000)	(1,000)	-
Interest paid		-	(409)	(206)	-	-
		<u>-</u>	<u>(409)</u>	<u>(206)</u>	<u>-</u>	<u>-</u>
Net cash generated from/(used in) financing activities		<u>22,436</u>	<u>(1,409)</u>	<u>(1,206)</u>	<u>(1,000)</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents		783	12,729	(11,803)	(11,442)	751
Cash and cash equivalents at beginning of the year/period						
		1,357	2,564	16,008	16,008	4,243
Effect of foreign exchange rate changes		424	715	38	2	362
		<u>424</u>	<u>715</u>	<u>38</u>	<u>2</u>	<u>362</u>
Cash and cash equivalents at end of the year/period		<u>2,564</u>	<u>16,008</u>	<u>4,243</u>	<u>4,568</u>	<u>5,356</u>

II. NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Target Companies are principally engaged in vessel owning and chartering as well as ship management business in the People's Republic of China (the "PRC").

The parent company of the Target Companies is SINOTRANS & CSC Holdings Co., Ltd. ("SINOTRANS & CSC Group Company"), a state-owned enterprise established in the PRC.

Sinotrans Navigation Ltd ("Tianze") was incorporated in Shanghai, the PRC on 19 December 2008, as a company with limited liability with registered capital of RMB100,000,000. The address of its registered office is Room 202, Lane 1460, Pudong Avenue, Pudong District, Shanghai, the PRC. Tianze principally engages in ship management and conveying.

Skyglory Shipping S.A. ("SG") was incorporated in the Republic of Panama on 13 January 2010, as a company limited by shares with share capital of US\$10,000. The address of its registered office is Tumba Murto Edif. Plaza Avenrura Piso 4to, #409 Panama, Panama. SG principally engages in vessel owning and chartering.

Skyroyal Shipping S.A. ("SR") was incorporated in the Republic of Panama on 13 January 2010, as a company limited by shares with share capital of US\$10,000. The address of its registered office is Tumba Murto Edif. Plaza Avenrura Piso 4to, #409 Panama, Panama. SR principally engages in vessel owning and chartering.

Tianze prepares financial statements and maintains books and records of SG and SR.

This financial information of the Target Companies is presented in United States dollar ("US\$"), unless otherwise stated.

2 BASIS OF PRESENTATION AND PREPARATION

- (i) Since the Target Companies are 100% owned and controlled by SINOTRANS & CSC Group Company and have been managed as a business together throughout the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013, for the purpose of this report, the Financial Information has been presented on a combined basis. The Financial Information has been prepared to present the combined statements of comprehensive income, combined balance sheets, combined statements of changes in equity and combined statements of cash flows of the Target Companies for the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013 as if the current structure had been in existence throughout the years ended 31 December 2010, 2011 and 2012 and ten months ended 31 October 2012 and 2013 or since the respective dates of incorporation of the combining companies, whichever is the shorter period.

All intra-group transactions and balances between the Target Companies are eliminated on combination.

- (ii) This Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include Hong Kong Accounting Standards ("HKAS") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Financial Information has been prepared under the historical cost convention throughout the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Companies' accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 5.

iii) **Standards and amendments which are not yet effective**

The HKICPA has issued the following new standards and amendments to the standards which are not yet effective in 2013 but relevant to the Target Companies and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
HKFRS 10, HKFRS 12 and HKFRS 27 (2011) (Amendment)	Investment Entities	1 January 2014
HK (IFRIC) Interpretation 21	Levies	1 January 2014
HKFRS 7 and HKFRS 9 (Amendment)	Disclosures – Mandatory Effective Date of HKFRS 9 and Transition Disclosures	1 January 2015
HKFRS 9	Financial Instruments	To be determined

Each of the Target Companies has already commenced an assessment of the related impact of these new standards and amendments on each of the Target Companies. However, each of the Target Companies is not yet in a position to state whether any substantial changes to each of the Target Companies' significant accounting policies and presentation of the Financial Information will be resulted.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of Financial Information are set out below. These policies have been consistently applied to all the years/periods presented.

(a) Foreign currency translation*(i) Functional and presentation currency*

Items included in the Financial Information are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of Tianze is Renminbi ("RMB") while of SG and SR is US\$. The combined financial information is presented in US\$.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at 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 profit or loss unless they are capitalised as part of the borrowing costs.

(iii) Target Companies

The results and financial position of all the Target Companies (none of which has the currency of a hyper-inflationary economy) that have functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- (b) 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 rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognised in other comprehensive income.

(b) Property, plant and equipment

Vessels, and other property, plant and equipment

Vessels and other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. 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 company and the cost of the item can be measured reliably. All other repairs and maintenance, including vessel repairs and surveys, are expensed in the profit or loss during the financial period in which they are incurred.

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.

Depreciation of vessels 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	25 years from the date of first registration
Others (including containers, furniture, fixtures and equipment, motor vehicles)	5–6 years

The residual values of vessels 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 (note 3(e)).

The gain or loss on disposal of vessel and other 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 profit or loss.

(c) Leases

Leases where substantially all the risks and rewards of ownership of assets are retained by the lessors are classified as operating leases.

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

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

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

When assets are leased out under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Target Companies' depreciation policies, as set out in notes 3(b) above. Revenue arising from assets leased out under operating leases is recognised in accordance with the Target Companies' revenue recognition policies, as set out in note 3(k)(i) below.

Leases that substantially transfer to the lessees all the risks and rewards of ownership of assets are classified as finance leases.

(d) 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.

(e) Impairment

(i) *Impairment of 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.

(ii) *Impairment of financial assets carried at amortised cost*

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial

asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and financial institutions with original maturities of three months or less.

(g) Trade payables

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

(h) Provisions

Provisions are recognised when the company 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.

(i) Employee benefits

(i) Employee leave entitlements

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

(j) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, 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 Target Companies 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 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.

(k) Revenue and income recognition

Revenue and income comprises the fair value of the consideration received or receivable for vessel chartering and ship conveying. Revenue is shown after eliminating sales within the Target Companies. The Target Companies recognise revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Target Companies' activities, as described below.

The Target Companies recognise revenue on the following basis:

(i) Revenue from charter hire

Income from time charter is recognised on a straight-line basis over the period of each charter.

(ii) Revenue from ship management and ship conveying

Revenue from provision of ship management and conveying 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.

(l) 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 profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(m) Borrowing costs

Borrowing costs are accounted for on the accrual basis and recognised in profit or loss in the year in which they are incurred.

(n) Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(o) 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 Target Companies that makes strategic decisions.

4 FINANCIAL RISK MANAGEMENT**(a) Financial risk factors**

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

(i) Cash flow and fair value interest rate risk

The Target Companies' interest bearing assets comprise cash and bank balances and interest bearing liabilities comprise loans from parent company. The Target Companies' income and operating cash flows are substantially independent of changes in market interest rates.

For each of the years ended December 31 December 2010, 2011 and 2012, and each of the ten months ended 31 October 2012 and 2013, the impact on the profit or loss of a 50 basis-point shift in interest rate would be a maximum increase or decrease of US\$5,000, US\$9,000, US\$8,000, US\$9,000 and US\$1,000 respectively.

(ii) *Credit risk*

The extent of credit exposure of the Target Companies is the aggregate carrying value of cash and bank balances and trade and other receivables. The Target Companies' credit risk is considered minimal as most of the receivables are due from related parties of the Target Companies.

The Target Companies also have 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 Target Companies 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 state-owned PRC banks with high credit ratings and a state-owned financial institution (fellow subsidiary). Given their high credit ratings, the Target Companies do not expect to have high credit risk in this aspect. Furthermore, management regularly assesses credit risk for amounts due from related parties by reviewing ageing analysis and financial information of these counterparties on a regular basis to minimise credit risk.

(iii) *Liquidity risk*

Cash flow forecasting is performed by the Target Companies. The finance department of Target Companies monitors rolling forecasts of the Target Companies' liquidity requirements to ensure it has sufficient cash to meet operational needs and capital commitments (if any) at all times. Such forecasting takes into consideration of the Target Companies' future business plans and strategy to monitor any debt financing requirement.

Surplus cash over balance required for working capital management are managed by the finance department of Target Companies 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.

The table below analyses the Target Companies' financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date 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.

Target Companies

	Less than 1 year or on demand <i>US\$'000</i>	Between 1 to 2 years <i>US\$'000</i>	Between 2 to 5 years <i>US\$'000</i>	Over 5 years <i>US\$'000</i>	Total <i>US\$'000</i>
At 31 December 2010					
Trade and other payables	1,112	–	–	–	1,112
Loans from parent company	<u>3,788</u>	<u>1,788</u>	<u>5,365</u>	<u>11,495</u>	<u>22,436</u>
	<u>4,900</u>	<u>1,788</u>	<u>5,365</u>	<u>11,495</u>	<u>23,548</u>
At 31 December 2011					
Trade and other payables	698	–	–	–	698
Loans from parent company	<u>4,576</u>	<u>1,788</u>	<u>5,365</u>	<u>9,707</u>	<u>21,436</u>
	<u>5,274</u>	<u>1,788</u>	<u>5,365</u>	<u>9,707</u>	<u>22,134</u>
At 31 December 2012					
Trade and other payables	626	–	–	–	626
Loans from parent company	<u>5,364</u>	<u>1,788</u>	<u>5,365</u>	<u>7,919</u>	<u>20,436</u>
	<u>5,990</u>	<u>1,788</u>	<u>5,365</u>	<u>7,919</u>	<u>21,062</u>
At 31 October 2013					
Trade and other payables	743	–	–	–	743
Loans from parent company	<u>7,153</u>	<u>1,788</u>	<u>11,495</u>	–	<u>20,436</u>
	<u>7,896</u>	<u>1,788</u>	<u>11,495</u>	–	<u>21,179</u>
Unaudited					
At 31 October 2012					
Trade and other payables	401	–	–	–	401
Loans from parent company	<u>5,364</u>	<u>1,788</u>	<u>5,365</u>	<u>7,919</u>	<u>20,436</u>
	<u>5,765</u>	<u>1,788</u>	<u>5,365</u>	<u>7,919</u>	<u>20,837</u>

(iv) *Foreign exchange risk*

The Target Companies operates internationally and is exposed to foreign exchange risk arising from various non-functional currencies. The revenues, cost of operations and majority of financial assets and liabilities of SG and SR are principally denominated in US\$. The revenues, cost of operations and majority of financial assets and liabilities of Tianze are principally denominated in RMB. The directors of the Target Companies consider that the effect of foreign exchange risk on profit or loss of the Target Companies for the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013 was insignificant.

The Target Companies currently do not have regular and established hedging policy in place. The Target Companies are monitoring foreign exchange exposure and will consider hedging significant foreign currency exposure by using appropriate financial instruments, and adopting appropriate hedging policy to control the hedging risks, when need arises.

(b) **Fair value estimation**

The carrying values of cash and bank balances, trade receivables and payables 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 Target Companies for similar financial instruments.

(c) **Capital risk management**

The Target Companies' objectives when managing capital are to safeguard the Target Companies' 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 Target Companies 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, loans from parent company or bank borrowings or repay borrowings if necessary.

The Target Companies monitor its capital on the basis of the gearing ratio, which represents ratio of comparing net debt to total capital. Net debt represents borrowings (net of loans from parent company) less cash and bank balances. Total capital represents "total equity" as shown in the balance sheet plus net debt. The Target Companies' strategy was to maintain a gearing ratio below 50%.

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Loans from parent company				
– non-current portion	18,648	16,860	15,072	13,283
– current portion	3,788	4,576	5,364	7,153
Less: Amount due from parent company	(12,755)	–	(12,728)	(13,024)
Borrowings	9,681	21,436	7,708	7,412
Less: Cash and bank balances	(2,564)	(16,008)	(4,243)	(5,356)
Net debt	7,117	5,428	3,465	2,056
Total equity	13,887	13,652	13,145	12,930
Total capital	<u>21,004</u>	<u>19,080</u>	<u>16,610</u>	<u>14,986</u>
Gearing ratio	<u>34%</u>	<u>28%</u>	<u>21%</u>	<u>14%</u>

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 Target Companies 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 results of operation of the vessels, reported sale and purchase prices, market demand and general market conditions and performs impairment assessments on its vessels.

The recoverable amounts of the vessels have been determined based on the higher of fair value less costs to sell or value-in-use method. The fair values of the vessels were determined based on market transactions at the balance sheet date. While the value-in-use calculations require the use of estimates on the projectors of cash inflows from the continued use of the vessels (including the amounts to be received for the disposals of the vessels) and discount rate. All these items have been historically volatile and may impact the results of the impairment assessment. Based on management assessment, no provision for impairment losses for vessels of the Target Companies has been made for the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

(b) Useful lives of vessels

Management determines the estimated useful lives and related depreciation expenses for the vessels. Management estimates useful lives 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.

As at 31 December 2010, 2011 and 2012, and as at 31 October 2012 and 2013, were the useful lives to differ by 10% from management estimates with all other variables held constant, it is estimated that the carrying value of vessels would increase by US\$89,000, US\$214,000, US\$214,000, US\$178,000 and US\$178,000 respectively or decrease by US\$109,000, US\$261,000, US\$261,000, US\$218,000 and US\$218,000, respectively.

(c) **Residual values of vessels**

The Target Companies' 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.

As at 31 December 2010, 2011 and 2012, and as at 31 October 2012 and 2013, were the residual value to differ by 10% from management estimates, it is estimated that the carrying value of vessels would increase or decrease by US\$28,000, US\$67,000, US\$67,000, US\$56,000 and US\$56,000, respectively.

6 REVENUES

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Revenues from dry bulk vessel chartering	2,572	5,685	6,175	5,148	4,873
Revenues from ship conveying	–	–	437	432	–
	<u>2,572</u>	<u>5,685</u>	<u>6,612</u>	<u>5,580</u>	<u>4,873</u>

Revenues comprise turnover which represents dry bulk vessel chartering and ship management and conveying. Management assesses the performance based on the nature of the business of Target Companies which is organised on a worldwide basis. The business of Target Companies comprises dry bulk vessel time chartering and ship management and conveying 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 2010		
	Dry bulk shipping US\$'000	Ship management and conveying US\$'000	Total US\$'000
Total revenues	2,572	223	2,795
Inter-segment revenues	–	(223)	(223)
Revenues from external customers	<u>2,572</u>	<u>–</u>	<u>2,572</u>
Segment results	<u>(59)</u>	<u>(706)</u>	<u>(765)</u>
Depreciation	<u>881</u>	<u>31</u>	<u>912</u>
Additions to non-current assets	<u>21,095</u>	<u>3</u>	<u>21,098</u>

	Year ended 31 December 2011		
	Dry bulk shipping US\$'000	Ship management and conveying US\$'000	Total US\$'000
Total revenues	5,685	1,114	6,799
Inter-segment revenues	–	(1,114)	(1,114)
Revenues from external customers	<u>5,685</u>	<u>–</u>	<u>5,685</u>
Segment results	<u>(990)</u>	<u>32</u>	<u>(958)</u>
Depreciation	<u>2,352</u>	<u>32</u>	<u>2,384</u>
Additions to non-current assets	<u>71</u>	<u>2</u>	<u>73</u>

	Year ended 31 December 2012		
	Dry bulk shipping <i>US\$'000</i>	Ship management and conveying <i>US\$'000</i>	Total <i>US\$'000</i>
Total revenues	6,175	1,581	7,756
Inter-segment revenues	–	(1,144)	(1,144)
Revenues from external customers	<u>6,175</u>	<u>437</u>	<u>6,612</u>
Segment results	<u>(708)</u>	<u>202</u>	<u>(506)</u>
Depreciation	<u>2,352</u>	<u>13</u>	<u>2,365</u>
Additions to non-current assets	<u>–</u>	<u>1</u>	<u>1</u>
	Ten months ended 31 October 2013		
	Dry bulk shipping <i>US\$'000</i>	Ship management and conveying <i>US\$'000</i>	Total <i>US\$'000</i>
Total revenues	4,873	966	5,839
Inter-segment revenues	–	(966)	(966)
Revenues from external customers	<u>4,873</u>	<u>–</u>	<u>4,873</u>
Segment results	<u>(583)</u>	<u>97</u>	<u>(486)</u>
Depreciation	<u>1,961</u>	<u>11</u>	<u>1,972</u>
Additions to non-current assets	<u>–</u>	<u>–</u>	<u>–</u>

	Ten months ended 31 October 2012		
	Dry bulk shipping US\$'000	Ship management and conveying US\$'000 (unaudited)	Total US\$'000
Total revenues	5,148	1,384	6,532
Inter-segment revenues	–	(952)	(952)
Revenues from external customers	<u>5,148</u>	<u>432</u>	<u>5,580</u>
Segment results	<u>(495)</u>	<u>273</u>	<u>(222)</u>
Depreciation	<u>1,961</u>	<u>11</u>	<u>1,972</u>
Additions to non-current assets	<u>–</u>	<u>–</u>	<u>–</u>

Revenues between segments are carried out on terms with reference to the market practice. Revenues from external customers reported to the directors of the Target Companies are measured in a manner consistent with that in the combined statements of comprehensive income.

The directors of the Target Companies assess the performance of the operating segments based on a measure of operating results from each reporting segment. Corporate income, finance income and finance costs are not included in the segment results.

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

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Segment results for reportable segments	(765)	(958)	(506)	(222)	(486)
Government subsidies	45	45	70	–	3
Finance income	171	256	269	255	51
Finance costs	<u>(228)</u>	<u>(204)</u>	<u>(216)</u>	<u>(199)</u>	<u>(104)</u>
Loss before income tax	<u>(777)</u>	<u>(861)</u>	<u>(383)</u>	<u>(166)</u>	<u>(536)</u>

Segment assets and liabilities exclude corporate assets and liabilities, which are managed on a central basis. These are part of the reconciliation to total combined assets and liabilities. Segment assets and liabilities reported to the directors of the Target Companies are measured in a manner consistent with that in the combined balance sheets.

Corporate assets consist of cash and bank balances, amount due from parent company and deferred income tax assets. Corporate liabilities consist of taxation payable.

	As at 31 December 2010		
	Dry bulk shipping US\$'000	Ship management and conveying US\$'000	Total US\$'000
Segment assets	21,766	70	21,836
Segment liabilities	(23,480)	(68)	(23,548)
	As at 31 December 2011		
	Dry bulk shipping US\$'000	Ship management and conveying US\$'000	Total US\$'000
Segment assets	19,478	124	19,602
Segment liabilities	(22,106)	(28)	(22,134)
	As at 31 December 2012		
	Dry bulk shipping US\$'000	Ship management and conveying US\$'000	Total US\$'000
Segment assets	17,070	142	17,212
Segment liabilities	(21,007)	(55)	(21,062)
	As at 31 October 2013		
	Dry bulk shipping US\$'000	Ship management and conveying US\$'000	Total US\$'000
Segment assets	15,699	41	15,740
Segment liabilities	(21,105)	(74)	(21,179)

Reportable segment assets are reconciled to total assets as follows:

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Segment assets	21,836	19,602	17,212	15,740
Corporate assets	<u>15,605</u>	<u>16,205</u>	<u>17,005</u>	<u>18,391</u>
Total assets per the combined balance sheets	<u><u>37,441</u></u>	<u><u>35,807</u></u>	<u><u>34,217</u></u>	<u><u>34,131</u></u>

Reportable segment liabilities are reconciled to total liabilities as follows:

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Segment liabilities	(23,548)	(22,134)	(21,062)	(21,179)
Corporate liabilities	<u>(6)</u>	<u>(21)</u>	<u>(10)</u>	<u>(22)</u>
Total liabilities per the combined balance sheets	<u><u>(23,554)</u></u>	<u><u>(22,155)</u></u>	<u><u>(21,072)</u></u>	<u><u>(21,201)</u></u>

7 EXPENSES BY NATURE

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Depreciation (<i>note 14</i>)	912	2,384	2,365	1,972	1,972
Hiring of crews and seafarers	665	1,485	1,765	1,458	1,400
Spare parts, lubricants and materials	322	669	668	522	408
Operating lease expenses – office premises	178	197	192	166	169
Employee benefit expense (<i>note 11</i>)	435	507	561	417	437
Insurance premium	150	273	358	294	280
Repairs and maintenance expenses	59	331	389	266	192
Business tax	12	63	90	78	54
Others	<u>604</u>	<u>737</u>	<u>731</u>	<u>630</u>	<u>448</u>
Total cost of operations and selling, administrative and general expenses	<u><u>3,337</u></u>	<u><u>6,646</u></u>	<u><u>7,119</u></u>	<u><u>5,803</u></u>	<u><u>5,360</u></u>

8 OTHER OPERATING INCOME/(EXPENSE), NET

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Government subsidies	45	45	70	–	3
Exchange gains/(losses)	–	3	1	1	1
	<u>45</u>	<u>48</u>	<u>71</u>	<u>1</u>	<u>4</u>

9 FINANCE INCOME/(COST), NET

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Interest income					
– on bank deposits	21	39	30	24	20
– on amount due from parent company	150	89	–	–	–
– on amount due from a fellow subsidiary	–	128	239	231	31
Interest expense on loans from parent company (note 22)	(214)	(195)	(206)	(191)	(84)
Others	(14)	(9)	(10)	(8)	(20)
	<u>(57)</u>	<u>52</u>	<u>53</u>	<u>56</u>	<u>(53)</u>

10 INCOME TAX CREDIT/(EXPENSE)

For the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013, Hong Kong profits tax has not been provided as the Target Companies did not have estimated assessable profits in Hong Kong. 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 Target Companies operate.

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Current income tax	–	–	–	–	(19)
Deferred income tax	109	(101)	(163)	(144)	(23)
	<u>109</u>	<u>(101)</u>	<u>(163)</u>	<u>(144)</u>	<u>(42)</u>

The tax on the Target Companies' loss before income tax differs from the theoretical amount that would arise using applicable profits tax rate as follows:

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
				(Unaudited)	
Loss before income tax	<u>(777)</u>	<u>(861)</u>	<u>(383)</u>	<u>(166)</u>	<u>(536)</u>
Tax calculated at 25%	194	215	96	42	134
Income not subject to tax	2,572	5,685	6,170	5,148	4,873
Expenses not deductible for tax purposes	<u>(2,657)</u>	<u>(6,001)</u>	<u>(6,429)</u>	<u>(5,334)</u>	<u>(5,049)</u>
Income tax credit/(expense)	<u>109</u>	<u>(101)</u>	<u>(163)</u>	<u>(144)</u>	<u>(42)</u>

11 EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
				(Unaudited)	
Wages and salaries	357	446	472	343	354
Pension costs – defined contribution plans	<u>78</u>	<u>61</u>	<u>89</u>	<u>74</u>	<u>83</u>
	<u>435</u>	<u>507</u>	<u>561</u>	<u>417</u>	<u>437</u>

12 DIRECTORS' EMOLUMENTS

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
				(Unaudited)	
Wages and salaries	134	139	142	119	119
Pension costs – defined contribution plans	<u>7</u>	<u>8</u>	<u>9</u>	<u>7</u>	<u>8</u>
	<u>141</u>	<u>147</u>	<u>151</u>	<u>126</u>	<u>127</u>

13 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful. The Target Companies have no potentially dilutive option or other instruments relating to ordinary shares.

14 PROPERTY, PLANT AND EQUIPMENT

	Vessels US\$'000	Office equipment US\$'000	Transport equipment US\$'000	Others US\$'000	Total US\$'000
At 1 January 2010					
Cost	–	20	46	38	104
Accumulated depreciation	–	(3)	(5)	–	(8)
Net book amount	<u>–</u>	<u>17</u>	<u>41</u>	<u>38</u>	<u>96</u>
Year ended 31 December 2010					
Opening net book amount	–	17	41	38	96
Additions	21,095	3	–	–	21,098
Foreign currency translation differences	2	–	1	–	3
Depreciation	(881)	(4)	(8)	(19)	(912)
Closing net book amount	<u>20,216</u>	<u>16</u>	<u>34</u>	<u>19</u>	<u>20,285</u>
At 31 December 2010					
Cost	21,097	23	47	38	21,205
Accumulated depreciation	(881)	(7)	(13)	(19)	(920)
Net book amount	<u>20,216</u>	<u>16</u>	<u>34</u>	<u>19</u>	<u>20,285</u>
Year ended 31 December 2011					
Opening net book amount	20,216	16	34	19	20,285
Additions	71	1	1	–	73
Foreign currency translation differences	1	1	1	–	3
Depreciation	(2,352)	(5)	(8)	(19)	(2,384)
Closing net book amount	<u>17,936</u>	<u>13</u>	<u>28</u>	<u>–</u>	<u>17,977</u>
At 31 December 2011					
Cost	21,169	25	50	38	21,282
Accumulated depreciation	(3,233)	(12)	(22)	(38)	(3,305)
Net book amount	<u>17,936</u>	<u>13</u>	<u>28</u>	<u>–</u>	<u>17,977</u>
Year ended 31 December 2012					
Opening net book amount	17,936	13	28	–	17,977
Additions	–	1	–	–	1
Depreciation	(2,352)	(5)	(8)	–	(2,365)
Closing net book amount	<u>15,584</u>	<u>9</u>	<u>20</u>	<u>–</u>	<u>15,613</u>

	Vessels US\$'000	Office equipment US\$'000	Transport equipment US\$'000	Others US\$'000	Total US\$'000
At 31 December 2012					
Cost	21,169	26	50	38	21,283
Accumulated depreciation	(5,585)	(17)	(30)	(38)	(5,670)
Net book amount	<u>15,584</u>	<u>9</u>	<u>20</u>	<u>-</u>	<u>15,613</u>
Ten months ended 31 October 2013					
Opening net book amount	15,584	9	20	-	15,613
Depreciation	(1,961)	(4)	(7)	-	(1,972)
Closing net book amount	<u>13,623</u>	<u>5</u>	<u>13</u>	<u>-</u>	<u>13,641</u>
At 31 October 2013					
Cost	21,169	26	50	38	21,283
Accumulated depreciation	(7,546)	(21)	(37)	(38)	(7,642)
Net book amount	<u>13,623</u>	<u>5</u>	<u>13</u>	<u>-</u>	<u>13,641</u>

15 DEFERRED INCOME TAX ASSETS

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
At 1 January	170	286	197	34
Deferred taxation credited/(charged) to profit or loss (<i>note 10</i>)	109	(101)	(163)	(23)
Foreign currency translation differences	<u>7</u>	<u>12</u>	<u>-</u>	<u>-</u>
At 31 December	<u>286</u>	<u>197</u>	<u>34</u>	<u>11</u>

The movements in deferred tax asset/(liability) during the year/period were as follows:

	Accrued employee benefits <i>US\$'000</i>	Tax losses <i>US\$'000</i>	Advance for rent-free period <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2010	1	169	–	170
Deferred taxation credited to profit or loss	8	101	–	109
Foreign currency translation differences	–	7	–	7
	<u>9</u>	<u>277</u>	<u>–</u>	<u>286</u>
At 31 December 2010	<u>9</u>	<u>277</u>	<u>–</u>	<u>286</u>
At 1 January 2011	9	277	–	286
Deferred taxation charged to profit or loss	(3)	(98)	–	(101)
Foreign currency translation differences	–	12	–	12
	<u>6</u>	<u>191</u>	<u>–</u>	<u>197</u>
At 31 December 2011	<u>6</u>	<u>191</u>	<u>–</u>	<u>197</u>
At 1 January 2012	6	191	–	197
Deferred taxation credited/(charged) to profit or loss	6	(166)	(3)	(163)
	<u>12</u>	<u>25</u>	<u>(3)</u>	<u>34</u>
At 31 December 2012	<u>12</u>	<u>25</u>	<u>(3)</u>	<u>34</u>
At 1 January 2013	12	25	(3)	34
Deferred taxation charged to profit or loss	5	(25)	(3)	(23)
	<u>17</u>	<u>–</u>	<u>(6)</u>	<u>11</u>
At 31 October 2013	<u>17</u>	<u>–</u>	<u>(6)</u>	<u>11</u>

16 TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 31 October
	2010	2011	2012	2013
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade receivables, net of provision (note a)				
– fellow subsidiaries	1,223	1,086	1,221	1,589
Prepayments, deposits and other receivables, net of provision (note b)				
– third parties	328	539	378	510
	<u>1,551</u>	<u>1,625</u>	<u>1,599</u>	<u>2,099</u>
Total	<u>1,551</u>	<u>1,625</u>	<u>1,599</u>	<u>2,099</u>

Notes:

- (a) The Target Companies do not grant any credit term to its customers. An ageing analysis of trade receivables (net of provision) at the respective balance sheet dates is as follows:

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Within 6 months	1,223	1,086	1,221	1,589

As at 31 December 2010, 2011 and 2012, and as at 31 October 2013, no trade receivables were considered as impaired by management.

Save as disclosed the above, trade receivables are past due but not considered to be impaired as at 31 December 2010, 2011 and 2012, and as at 31 October 2013. These trade receivables relate to fellow subsidiaries for whom there is no history of default.

- (b) As at 31 December 2010, 2011 and 2012, and as at 31 October 2013, no other receivables were considered as impaired by management.
- (c) The trade and other receivables of the Target Companies are denominated in US\$.

17 AMOUNT DUE FROM PARENT COMPANY

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Amount due from parent company	12,755	–	12,728	13,024

Notes:

- (a) Amount due from parent company as at the respective reporting dates includes an amount of RMB80,000,000 (the "Balance") which is unsecured and repayable on demand. The Balance bore interest at a rate of 2.86% per annum for the year ended 31 December 2010. In 2011, the Balance was deposited with Sinotrans & CSC Finance Company Limited, a fellow subsidiary, which was classified as cash and cash equivalents (note 18). On 1 July 2012, the Balance was transferred back to the parent company and it is interest free since then. The balance is neither past due nor impaired and there is no history of default.
- (b) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Target Companies do not hold any collateral as security.
- (c) The amount due from parent company is denominated in RMB.

18 CASH AND CASH EQUIVALENTS

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Cash at bank	1,796	1,525	1,897	2,953
Deposit placed with a fellow subsidiary (note a)	–	13,654	1,489	1,507
Short-term bank deposits	768	829	857	896
	<u>2,564</u>	<u>16,008</u>	<u>4,243</u>	<u>5,356</u>

Notes:

- (a) As at 31 December 2011, amount due from Sinotrans & CSC Finance Company Limited, a fellow subsidiary, includes the Balance which bore interest at a rate of 2.86% per annum. As at 31 December 2011 and 2012, and as at 31 October 2013, other balances placed with Sinotrans & CSC Finance Company Limited bear interest at a rate of 0.50%, 0.40%, and 0.35% per annum respectively.
- (b) The cash and cash equivalents of the Target Companies are denominated in the following currencies:

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
US\$	1,595	1,390	1,871	2,804
RMB	969	14,618	2,372	2,552
Cash and cash equivalents	<u>2,564</u>	<u>16,008</u>	<u>4,243</u>	<u>5,356</u>

19 COMBINED CAPITAL

For the purpose of this report, the combined capital presented in the combined balance sheets as at 31 December 2010, 2011 and 2012 and October 2013 represents the combined capital of the Target Companies as at the respective reporting dates.

20 RESERVES

	Accumulated losses <i>US\$'000</i>	Currency translation reserve <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2010	(522)	15	(507)
Loss for the year	(668)	–	(668)
Foreign currency translation differences	–	433	433
	<u>(1,190)</u>	<u>448</u>	<u>(742)</u>
At 31 December 2010			
At 1 January 2011	(1,190)	448	(742)
Loss for the year	(962)	–	(962)
Foreign currency translation differences	–	727	727
	<u>(2,152)</u>	<u>1,175</u>	<u>(977)</u>
At 31 December 2011			
At 1 January 2012	(2,152)	1,175	(977)
Loss for the year	(546)	–	(546)
Foreign currency translation differences	–	39	39
	<u>(2,698)</u>	<u>1,214</u>	<u>(1,484)</u>
At 31 December 2012			
At 1 January 2013	(2,698)	1,214	(1,484)
Loss for the period	(578)	–	(578)
Foreign currency translation differences	–	363	363
	<u>(3,276)</u>	<u>1,577</u>	<u>(1,699)</u>
At 31 October 2013			
Unaudited			
At 1 January 2012	(2,152)	1,175	(977)
Loss for the period	(310)	–	(310)
Foreign currency translation differences	–	2	2
	<u>(2,462)</u>	<u>1,177</u>	<u>(1,285)</u>
At 31 October 2012			

21 TRADE AND OTHER PAYABLES

	As at 31 December			As at
	2010	2011	2012	31 October
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade payables (<i>note a</i>)				
– third parties	838	542	507	515
Other payables and accruals				
– third parties	274	156	119	228
	<u>1,112</u>	<u>698</u>	<u>626</u>	<u>743</u>
Total				

Notes:

(a) An ageing analysis of trade payables at the respective balance sheet dates is as follows:

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Within 6 months	838	542	507	515

(b) Trade and other payables are denominated in US\$.

22 LOANS FROM PARENT COMPANY

	Year ended 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
Loans due:				
– within one year	3,788	4,576	5,364	7,153
– between 1 and 2 years	1,788	1,788	1,788	1,788
– between 2 and 5 years	5,365	5,365	5,365	11,495
– Over 5 years	11,495	9,707	7,919	–
Loans from parent company	22,436	21,436	20,436	20,436

On 1 June 2010, SG and SR borrowed entrusted loans of US\$11,218,000 and US\$11,218,000 from SINOTRANS & CSC Group Company respectively. According to the entrusted loan agreements, amounts of US\$2,000,000 out of the total loans borrowed by SG and SR bear interest rate at one-year LIBOR plus 1% and repayable in one year. For the remaining loan balance of US\$20,436,000, 30% of the loan amount (equivalent to US\$6,131,000) is interest free and repayment in full on 1 June 2018 while 70% of the loan amount (equivalent to US\$14,305,000) bears interest rate at one-year LIBOR plus 1% and repayable in 8 years by yearly equal instalment.

On 1 July 2012, there is a change of interest-bearing portion of the loans while there is no change in the repayment term of such loans. RMB80,000,000 (equivalent to US\$12,648,000) of the loan amount borrowed by SG and SR is interest-free and the remaining loan balance of US\$7,788,000 to SG and SR bears interest rate at one-year LIBOR plus 1%.

23 NOTES TO COMBINED STATEMENTS OF CASH FLOWS

Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December			Ten months ended 31 October	
	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000 (Unaudited)	2013 US\$'000
Loss before income tax	(777)	(861)	(383)	(166)	(536)
Adjustments for:					
Depreciation	912	2,384	2,365	1,972	1,972
Interest expenses/(income)	43	(61)	(63)	(64)	33
Changes in working capital:					
Trade and other receivables (excluding amounts due from related parties)	(305)	(70)	8	179	(140)
Amounts due to related parties, net	(1,483)	77	(59)	71	(663)
Trade and other payables	895	(200)	(72)	(63)	35
Taxation payables	(9)	15	(11)	(11)	(6)
Effect of foreign exchange rate changes	(2)	(2)	3	1	–
Cash (used in)/generated from operations	<u>(726)</u>	<u>1,282</u>	<u>1,788</u>	<u>1,919</u>	<u>695</u>

24 RELATED PARTY TRANSACTIONS

SINOTRANS & CSC Group Company, the parent company, is controlled by the PRC Government. The PRC Government is the Target Companies' ultimate controlling party. Enterprises directly or indirectly controlled, jointly controlled or significant influenced by the PRC Government ("state-owned enterprises"), together with SINOTRANS & CSC Group Company and its group companies are all related parties of the Target Companies.

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

The following companies are related parties of the Target Companies that had balances and/or transactions with the Target Companies for the years ended 31 December 2010, 2011, 2012 and the ten months ended 31 October 2012 and 2013:

Related Parties	Relationship with the Target Companies
SINOTRANS & CSC Group Company	Parent company
Sinotrans Limited	Fellow subsidiary
Sinotrans & CSC Finance Co., Ltd.	Fellow subsidiary
Sinotrans & CSC International Economic and Technical Cooperation Co., Ltd.	Fellow subsidiary

Apart from the above-mentioned transactions with the state-owned enterprises, the following is a summary of significant related party transactions during the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013 and balances arising from those related party transactions at each of the reporting dates:

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

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Charter hire income from a fellow subsidiary	2,572	5,685	6,175	5,148	4,873
Interest income from parent company	150	89	–	–	–
Interest income from a fellow subsidiary	–	128	239	231	31
Crew expenses paid to a fellow subsidiary	(238)	(329)	(530)	(442)	(313)
Interest expense to parent company	(214)	(195)	(206)	(191)	(84)
	<u>2,572</u>	<u>5,685</u>	<u>6,175</u>	<u>5,148</u>	<u>4,873</u>

The above related party transactions were carried out in accordance with the terms of the underlying agreements.

(b) Year/period end balances arising from sales, purchases and other transactions with related parties were disclosed in notes 16, 17, 18, 21 and 22.

(c) During the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2012 and 2013, the Target Companies was allowed to use trademarks registered in the name of SINOTRANS & CSC Group Company on a free-of-charge basis.

(d) **Key management compensation**

	Year ended 31 December			Ten months ended 31 October	
	2010	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Wages and salaries	134	139	142	118	118
Pension costs – defined contribution plans	7	8	9	8	9
	<u>141</u>	<u>147</u>	<u>151</u>	<u>126</u>	<u>127</u>

25 **CONTINGENT LIABILITIES**

As at 31 December 2010, 2011 and 2012, and as at 31 October 2013, the Target Companies had no material contingent liabilities.

26 COMMITMENTS

(a) Operating lease commitments – where the Target Companies are the lessees

As at 31 December 2010, 2011 and 2012, and as at 31 October 2013, the Target Companies have commitments to make the following future minimum lease payments under non-cancellable operating leases:

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Office premises				
– no later than one year	175	213	204	208
– later than one year and no later than five years	9	373	170	17
	<u>184</u>	<u>586</u>	<u>374</u>	<u>225</u>

(b) Operating lease commitments – where the Target Companies are the lessors

At 31 December 2010, 2011 and 2012, and as at 31 October 2013, the Target Companies have the following future minimum lease receipts under non-cancellable operating leases in relation to chartering of vessels.

	As at 31 December			As at
	2010	2011	2012	31 October
	US\$'000	US\$'000	US\$'000	2013
				US\$'000
Vessels				
– no later than one year	5,880	5,880	5,880	5,880
– later than one year and no later than five years	20,093	14,213	8,333	3,433
	<u>25,973</u>	<u>20,093</u>	<u>14,213</u>	<u>9,313</u>

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Companies in respect of any period subsequent to 31 October 2013 up to the date of this report. No dividend or distribution has been declared or made by the Target Companies in respect of any period subsequent to 31 October 2013.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

22 April 2014

The Directors
Sinotrans Shipping Limited

Dear Sirs,

We report on the financial information of Yunrong Shipping Company Limited (the "Target Company") which comprises the balance sheets of the Target Company as at 31 December 2011 and 2012 and 31 October 2013, and the statements of comprehensive income, the statements of changes in equity and the cash flow statements of the Target Company for each of the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2013 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of Sinotrans Shipping Limited (the "Company") and is set out in Sections I to III below for inclusion in Appendix IID to the circular of the Company dated 22 April 2014 (the "Circular") in connection with the proposed acquisition of the Target Company by a subsidiary of the Company.

The Target Company was incorporated in Hong Kong on 11 May 2011 as a company with limited liability. No audited statutory financial statements for each of the periods ended 31 December 2011 and 2012 have been prepared by the Target Company. The Target Company has adopted 31 December as its financial year end date for statutory reporting.

The directors of the Target Company are responsible for the preparation of the financial statements of the Target Company for the Relevant Periods that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSA") issued by the HKICPA pursuant to separate terms of engagement.

The financial information has been prepared based on the Underlying Financial Statements with no adjustment made thereon.

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information of the Target Company that gives a true and fair view in accordance with HKFRSs and accounting policies adopted by the Company and its subsidiaries (together the "Group") as set out in the annual report of the Company for the year ended 31 December 2013.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company as at 31 December 2011 and 2012 and 31 October 2013 and of the Target Company's results and cash flows for the Relevant Periods then ended.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I to III below included in Appendix IID to the Circular which comprises the statement of comprehensive income, the statement of changes in equity and the cash flow statement of the Target Company for the ten months ended 31 October 2012 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in note 3 of Section II below and the accounting policies adopted by the Company as set out in the annual report for the year ended 31 December 2013.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in note 3 of Section II below.

I FINANCIAL INFORMATION OF THE TARGET COMPANY

The following is the financial information of Yunrong Shipping Company Limited prepared by the directors of the Company as at 31 December 2011 and 2012 and 31 October 2013 and for each of the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013 (the "Financial Information").

(A) Statements of comprehensive income

	Note	Periods ended 31 December		Ten months ended 31 October	
		2011 US\$'000	2012 US\$'000	2012 US\$'000 (Unaudited)	2013 US\$'000
Revenue	6	-	-	-	434
Cost of operations	7	-	-	-	(321)
Gross profit		-	-	-	113
Other operating expense, net	8	-	-	-	(5)
Operating profit		-	-	-	108
Finance cost	9	-	-	-	(51)
Profit before income tax		-	-	-	57
Income tax expense	10	-	-	-	-
Profit for the year/period attributable to owner of the Target Company		-	-	-	57
Other comprehensive income		-	-	-	-
Profit and total comprehensive income for the year/period		-	-	-	57
Earnings per share attributable to owner of the Target Company during the year/period					
- basic and diluted	12	N/A	N/A	N/A	N/A
Dividend		-	-	-	-

(B) Balance sheets

		As at 31 December		As at
		2011	2012	31 October
	Note	US\$'000	US\$'000	2013
				US\$'000
ASSETS				
Non-current asset				
Property, plant and equipment	13	7,226	10,248	18,199
Current assets				
Trade receivable	14	–	–	434
Cash and cash equivalents	15	1	15	84
		1	15	518
Total assets		7,227	10,263	18,717
EQUITY				
Capital and reserves				
Share capital	16	1	1	1
Retained earnings		–	–	57
Total equity		1	1	58
LIABILITIES				
Non-current liability				
Bank loan	18	–	4,131	9,896
Current liabilities				
Trade and other payables	17	7,226	5,762	7,240
Current portion of bank loan	18	–	369	1,523
		7,226	6,131	8,763
Total liabilities		7,226	10,262	18,659
Total equity and liabilities		7,227	10,263	18,717
Net current liabilities		(7,225)	(6,116)	(8,245)
Total assets less current liabilities		1	4,132	9,954

(C) Statements of changes in equity

	Share capital <i>US\$'000</i>	Retained earnings <i>US\$'000</i>	Total equity <i>US\$'000</i>
At 11 May 2011, date of incorporation	–	–	–
Issue of share capital	<u>1</u>	<u>–</u>	<u>1</u>
	----- 1	----- –	----- 1
Comprehensive income			
Profit for the period	–	–	–
Other comprehensive income	<u>–</u>	<u>–</u>	<u>–</u>
Total comprehensive income	----- –	----- –	----- –
At 31 December 2011	<u><u>1</u></u>	<u><u>–</u></u>	<u><u>1</u></u>
At 1 January 2012	----- 1	----- –	----- 1
Comprehensive income			
Profit for the year	–	–	–
Other comprehensive income	<u>–</u>	<u>–</u>	<u>–</u>
Total comprehensive income	----- –	----- –	----- –
At 31 December 2012	<u><u>1</u></u>	<u><u>–</u></u>	<u><u>1</u></u>

	Share capital <i>US\$'000</i>	Retained earnings <i>US\$'000</i>	Total equity <i>US\$'000</i>
At 1 January 2013	1	–	1
Comprehensive income			
Profit for the period	–	57	57
Other comprehensive income	–	–	–
Total comprehensive income	–	57	57
At 31 October 2013	<u>1</u>	<u>57</u>	<u>58</u>
Unaudited Ten months ended 31 October 2012			
At 1 January 2012	1	–	1
Comprehensive income			
Profit for the period	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income	–	–	–
At 31 October 2012	<u>1</u>	<u>–</u>	<u>1</u>

(D) Cash flow statements

	Note	Periods ended 31 December		Ten months ended 31 October	
		2011 US\$'000	2012 US\$'000	2012 US\$'000 (Unaudited)	2013 US\$'000
Cash flows from operating activities					
Cash used in operations	19	-	-	-	(196)
Cash flows from investing activities					
Purchase of property, plant and equipment		(7,226)	(2,992)	(2,878)	(7,978)
Net cash used in investing activities		(7,226)	(2,992)	(2,878)	(7,978)
Cash flows from financing activities					
Issue of capital		1	-	-	-
Drawdown of borrowing		-	4,500	4,500	7,300
Repayments of borrowing		-	-	-	(381)
Interest paid		-	(30)	(16)	(136)
Increase/(decrease) in amount due to immediate holding company and fellow subsidiaries		7,226	(1,464)	(1,583)	1,460
Net cash generated from financing activities		7,227	3,006	2,901	8,243
Net increase in cash and cash equivalents					
Cash and cash equivalents at beginning of the year/period		-	1	1	15
Cash and cash equivalents at end of the year/period		1	15	24	84

II. NOTES TO THE FINANCIAL INFORMATION**1 GENERAL INFORMATION**

Yunrong Shipping Company Limited (the "Target Company") was incorporated in Hong Kong on 11 May 2011, as a company with limited liability with authorised and fully paid 10,000 shares of Hong Kong dollar 1 each. The address of its registered office is Room 1607-08, 16F, Fortress Tower, 250 King's Road, North Point, Hong Kong. The Target Company is principally engaged in vessel owning and chartering.

The immediate holding company of the Target Company is Sinotrans (HK) Logistics Limited ("Sinotrans HK Logistics"), a company incorporated in Hong Kong with limited liability.

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

The Financial Information of the Target Company is presented in United States dollars ("US\$"), unless otherwise stated.

2 BASIS OF PRESENTATION AND PREPARATION

- (i) The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include Hong Kong Accounting Standards ("HKAS") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Financial Information has been prepared under the historical cost convention throughout the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

As at 31 October 2013, the Target Company's current liabilities exceeded its current assets by US\$8,245,000. The Target Company's ability to continue as a going concern is highly depended on the continuing financial support from its equity holder. The parent company has confirmed its intention to provide continuing financial support to the Target Company so as to enable the Target Company to meet its liabilities as and when they fall due and to carry on its business without a significant curtailment of operation for the foreseeable future. Consequently, the directors of the Company have prepared the Financial Information on a going concern basis.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information is disclosed in note 5.

(ii) Standards and amendments which are not yet effective

The HKICPA has issued the following new standards and amendments to the standards which are not yet effective in 2013 but relevant to the Target Company and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
HK (IFRIC) Interpretation 21	Levies	1 January 2014
HKFRS 7 and HKFRS 9 (Amendment)	Disclosures – Mandatory Effective Date of HKFRS 9 and Transition Disclosures	1 January 2015
HKFRS 9	Financial Instruments	To be determined

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

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of Financial Information are set out below. These policies have been consistently applied to all the years/periods presented.

(a) Foreign currency translation*(i) Functional and presentation currency*

Items included in the Financial Information are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Target Company is US\$ and the Financial Information is presented in US\$.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at 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 profit or loss unless they are capitalised as part of the borrowing costs.

(b) Property, plant and equipment*(i) Vessel under construction*

Vessel under construction includes all direct costs relating to the construction of the vessel. No depreciation is provided for vessel under construction until such time as the vessel is completed and ready for intended use.

(ii) Vessel and other property, plant and equipment

Vessel and other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. 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 Target Company and the cost of the item can be measured reliably. All other repairs and maintenance, including vessel repairs and surveys, are expensed in the profit or loss during the financial period in which they are incurred.

For vessel, 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.

Depreciation of vessel 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:

Vessel	25 years from the date of first registration
Other property, plant and equipment	5 years

The residual values of vessel 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 (note 3(e)).

The gain or loss on disposal of vessel and other 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 profit or loss.

(c) Leases

Leases where substantially all the risks and rewards of ownership of assets are retained by the lessors are classified as operating leases.

(i) Where the Target Company is the lessee (operating leases)

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

(ii) Where the Target Company is the lessor (operating leases)

When assets are leased out under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Target Company's depreciation policies, as set out in notes 3(b) above. Revenue arising from assets leased out under operating leases is recognised in accordance with the Target Company's revenue recognition policies, as set out in note 3(j) below.

Leases that substantially transfer to the lessees all the risks and rewards of ownership of assets are classified as finance leases.

(d) 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.

(e) Impairment*(i) Impairment of 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.

(ii) Impairment of financial assets carried at amortised cost

The Target Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and financial institutions with original maturities of three months or less.

(g) Trade and other payables

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

(h) Provisions

Provisions are recognised when the Target Company 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.

(i) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, 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 Target Company 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 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.

(j) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable in the ordinary course of the Target Company's activities. The Target Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for the Target Company's activities. Revenue from time charter is recognised on a straight-line basis over the period of each charter.

(k) 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 profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Target Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(l) 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 or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

(m) Dividend distribution

Dividend distribution to the shareholders of the Target Company is recognised as a liability in the Target Company's financial information in the period in which the dividends are approved by the shareholders or the directors of the Target Company, where applicable.

(n) 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 Target Company that makes strategic decisions.

4 FINANCIAL RISK MANAGEMENT**(a) Financial risk factors**

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

(i) Cash flow and fair value interest rate risk

The Target Company's interest bearing assets comprise cash and bank balances and interest bearing liabilities comprise bank loans. The Target Company's income and operating cash flows are substantially independent of changes in market interest rates.

For each of the periods ended 31 December 2011 and 2012, and each of the ten months ended 31 October 2012 and 2013, the impact on the interest expenses of a 50 basis-point shift in interest rate would be a maximum increase or decrease of US\$ nil, US\$22,000, US\$19,000 and US\$47,000 respectively.

(ii) Credit and counterparty risk

The extent of credit exposure of the Target Company is the aggregate carrying value of cash and bank balances and trade and other receivables. The Target Company's credit risk is considered minimal as the receivable is due from a fellow subsidiary of the Target Company.

Cash and bank balances are deposits in state-owned PRC banks with high credit ratings. Given their high credit ratings, the Target Company does not expect to have high credit risk in this aspect. Furthermore, management regularly assesses credit risk for amounts due from related parties by reviewing ageing analysis and financial statements of these counterparties on a regular basis to minimise credit risk.

(iii) *Liquidity risk*

Cash flow forecasting is performed by the Target Company. The finance department of Target Company monitors rolling forecasts of the Target Company's liquidity requirements to ensure it has sufficient cash to meet operational needs and capital commitments (if any) at all times. Such forecasting takes into consideration the Target Company's future business plans and strategy to monitor any debt financing requirement.

As at 31 October 2013, the Target Company's current liabilities exceeded its current assets by US\$8,245,000. The parent company has confirmed its intention to provide continuing financial support to the Target Company so as to enable the Target Company to meet its liabilities as and when they fall due and to carry on its business without a significant curtailment of operation for the foreseeable future.

The table below analyses the Target Company's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date 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.

	Less than 1 year or on demand US\$'000	Between 1 to 2 years US\$'000	Between 2 to 5 years US\$'000	Over 5 years US\$'000	Total US\$'000
At 31 December 2011					
Trade and other payables	7,226	–	–	–	7,226
Bank loan	–	–	–	–	–
	<u>7,226</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>7,226</u>
At 31 December 2012					
Trade and other payables	5,762	–	–	–	5,762
Bank loan	369	1,670	3,078	186	5,303
	<u>6,131</u>	<u>1,670</u>	<u>3,078</u>	<u>186</u>	<u>11,065</u>
At 31 October 2013					
Trade and other payables	7,240	–	–	–	7,240
Bank loan	1,523	1,678	4,882	3,890	11,973
	<u>8,763</u>	<u>1,678</u>	<u>4,882</u>	<u>3,890</u>	<u>19,213</u>

(b) Fair value estimation

The carrying values of cash and bank balances, trade and other receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at current market interest rate that is available to the Target Company for similar financial instruments.

(c) Capital risk management

The Target Company's objectives when managing capital are to safeguard the Target Company'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 Target Company 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, loans from parent company or bank borrowings or repay borrowings if necessary.

As at 31 October 2013, the Target Company's current liabilities exceeded its current assets by US\$8,245,000. The parent company has confirmed its intention to provide continuing financial support to the Target Company so as to enable the Target Company to meet its liabilities as and when they fall due and to carry on its business without a significant curtailment of operation for the foreseeable future.

The Target Company monitors its capital on the basis of the gearing ratio, which represents ratio of comparing net debt to total capital. Net debt represents borrowings less cash and bank balances. Total capital represents "total equity" as shown in the balance sheet plus net debt.

	As at 31 December		As at
	2011	2012	31 October
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Borrowings	7,226	10,262	18,641
Less: Cash and bank balances	(1)	(15)	(84)
Net debt	7,225	10,247	18,557
Total equity	1	1	58
Total capital	<u>7,226</u>	<u>10,248</u>	<u>18,615</u>
Gearing ratio	<u>100%</u>	<u>100%</u>	<u>100%</u>

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 Target Company 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 the vessel

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 vessel whenever events or changes in circumstances indicate that the carrying amount of the vessel may not be recoverable.

Management reviews certain indicators of potential impairment, such as results of operation of the vessel, reported sale and purchase prices, market demand and general market conditions and performs impairment assessment on its vessel.

The recoverable amount of the vessel has been determined based on the higher of fair value less costs to sell or value-in-use method. The fair value of the vessel was determined based on market transactions at the balance sheet date. While the value-in-use calculations require the use of estimates on the projectors of cash inflows from the continued use of the vessel (including the amounts to be received for the disposal of the vessel) and discount rate. All these items have been historically volatile and may impact the results of the impairment assessment. Based on management assessment, no provision for impairment loss for vessel of the Target Company has been made for the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

(b) Useful life of vessel

Management determines the estimated useful life and related depreciation expense for the vessel. Management estimates useful life of its vessel by reference to expected usage of the vessel, expected repair and maintenance, and technical or commercial obsolescence arising from changes or improvements in the vessel market. Useful life of vessel 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.

As at 31 October 2013, were the useful life to differ by 10% from management estimates with all other variables held constant, it is estimated that the carrying value of vessel would decrease by US\$10,000 or increase by US\$12,000 (not applicable as at 31 December 2011 and 2012 and as at 31 October 2012).

(c) Residual value of vessel

The Target Company's management determines the residual value for its vessel. 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 vessel as scrap steels. Depreciation expense would increase where the residual values are less than previously estimated values.

As at 31 October 2013, were the residual value to differ by 10% from management estimates, it is estimated that the carrying value of vessel would increase or decrease by US\$1,000 (not applicable as at 31 December 2011 and 2012 and as at 31 October 2012).

6 REVENUE

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Turnover				
Charter hire income from a fellow subsidiary	-	-	-	434

As the Target Company only has chartering business, no separate operating segment is presented. Management considers the nature of ship owning and provision of chartering services, which is carried out internationally, and the way in which costs are allocated, preclude a meaningful presentation of geographical information.

7 EXPENSES BY NATURE

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Depreciation (<i>note 13</i>)	-	-	-	(112)
Hiring of crews and seafarers	-	-	-	(141)
Spare parts, lubricants and materials	-	-	-	(8)
Insurance premium	-	-	-	(29)
Others	-	-	-	(31)
Total cost of operations	-	-	-	(321)

8 OTHER OPERATING EXPENSE, NET

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Exchange losses, net	-	-	-	(5)

9 FINANCE COST

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Interest expense on bank loan	–	(30)	(16)	(136)
Less: amount capitalised in vessel under construction	–	30	16	85
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(51)</u>

During the ten months ended 31 October 2013, the capitalisation rate applied to funds borrowed and used for the development of vessel under construction is between 1.64% to 1.70% (during the year ended 31 December 2012: 1.71% to 1.94%) per annum.

10 INCOME TAX EXPENSE

For the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013, Hong Kong profits tax and overseas taxation have not been provided for as the Target Company did not have estimated assessable profits.

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

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Profit before income tax	–	–	–	57
Tax calculated at 16.5%	–	–	–	9
Income not subject to tax	–	–	–	(71)
Expenses not deductible for tax purposes	–	–	–	62
Income tax expense	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

11 DIRECTORS' EMOLUMENTS

None of the directors, who represent key management personnel of the Target Company, having authority and responsibility for planning, directing and controlling the activities of the Target Company, received or will receive any fees or emoluments in respect of their services to the Target Company during the periods ended 31 December 2011, 2012 and the ten months ended 31 October 2012 and 2013.

12 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful. The Target Company has no potentially dilutive option or other instruments relating to ordinary shares.

13 PROPERTY, PLANT AND EQUIPMENT

	Container vessel under construction <i>US\$'000</i>	Container vessel <i>US\$'000</i>	Others <i>US\$'000</i>	Total <i>US\$'000</i>
At 11 May 2011				
Cost	–	–	–	–
Accumulated depreciation	–	–	–	–
Net book amount	–	–	–	–
Year ended 31 December 2011				
Opening net book amount	–	–	–	–
Additions (<i>note a</i>)	7,226	–	–	7,226
Depreciation	–	–	–	–
Closing net book amount	7,226	–	–	7,226
At 31 December 2011				
Cost	7,226	–	–	7,226
Accumulated depreciation	–	–	–	–
Net book amount	7,226	–	–	7,226
Year ended 31 December 2012				
Opening net book amount	7,226	–	–	7,226
Additions (<i>note a</i>)	3,022	–	–	3,022
Depreciation	–	–	–	–
Closing net book amount	10,248	–	–	10,248
At 31 December 2012				
Cost	10,248	–	–	10,248
Accumulated depreciation	–	–	–	–
Net book amount	10,248	–	–	10,248
Ten months period ended 31 October 2013				
Opening net book amount	10,248	–	–	10,248
Additions (<i>note a</i>)	8,058	–	5	8,063
Transfer to vessel	(18,306)	18,306	–	–
Depreciation	–	(112)	–	(112)
Closing net book amount	–	18,194	5	18,199
At 31 October 2013				
Cost	–	18,306	5	18,311
Accumulated depreciation	–	(112)	–	(112)
Net book amount	–	18,194	5	18,199

Notes:

- (a) As at 31 December 2011, deposits paid by Target Company in relation to construction work of a vessel not yet commenced, amounting to US\$7,226,000 was included in vessel under construction.
- (b) For the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013, interest expenses of US\$ nil, US\$30,000, US\$16,000 and US\$85,000 respectively were capitalised in vessel costs during the vessel construction period (note 9).

14 TRADE RECEIVABLE

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Trade receivable, net of provision (note a and note b)			
– fellow subsidiary	–	–	434
	<u>–</u>	<u>–</u>	<u>434</u>

Notes:

- (a) The Target Company does not grant any credit term to the fellow subsidiary. An ageing analysis of trade receivable (net of provision) at the respective balance sheet dates is as follows:

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Within 6 months	–	–	434
	<u>–</u>	<u>–</u>	<u>434</u>

As at 31 October 2013, trade receivable is past due but not considered to be impaired. This trade receivable relates to a fellow subsidiary for whom there is no history of default.

- (b) The trade receivable of the Target Company is denominated in US\$.

15 CASH AND CASH EQUIVALENTS

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Bank balances	1	15	84
	<u>1</u>	<u>15</u>	<u>84</u>

Cash and cash equivalents of the Target Company are denominated in US\$.

16 SHARE CAPITAL

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Authorised:			
10,000 shares of HK\$1 each	1	1	1
	<u>1</u>	<u>1</u>	<u>1</u>
			US\$'000
Issued and fully paid:			
At 11 May 2011 (date of incorporation)			–
Issue of 10,000 shares of HK\$1 each			1
			<u>1</u>
At 31 December 2011, 2012 and 31 October 2013			<u>1</u>

The Target Company was incorporated on 11 May 2011 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each. On 11 May 2011, 10,000 shares were allotted and issued at par of HK\$1.

17 TRADE AND OTHER PAYABLES

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Trade payables (<i>note a and note b</i>)			
– third parties	–	–	7
Other payables and accruals (<i>note b</i>)			
– immediate holding company	3,600	3,650	3,747
– fellow subsidiaries	3,626	2,112	3,475
– third parties	–	–	11
	<u>7,226</u>	<u>5,762</u>	<u>7,240</u>
Total	<u>7,226</u>	<u>5,762</u>	<u>7,240</u>

Notes:

- (a) An ageing analysis of trade payables at the respective balance sheet dates is as follows:

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Within 6 months	–	–	7
	<u>–</u>	<u>–</u>	<u>7</u>

- (b) The trade and other payables of the Target Company are denominated in US\$. The amounts due to immediate holding company and fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

18 BANK LOAN

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Bank loan due:			
– within one year	–	369	1,523
– between 1 and 2 years	–	1,475	1,523
– between 2 and 5 years	–	2,656	4,568
– Over 5 years	–	–	3,805
	<u>–</u>	<u>4,500</u>	<u>11,419</u>

As at 31 October 2013, bank loan of US\$11,419,000 (31 December 2012: US\$4,500,000) is secured by the container vessel with net book amount of US\$18,194,000 (31 December 2012: net book amount of US\$10,248,000) (Note (13)).

According to the loan agreements, the interest rate is determined at three-month LIBOR plus 1.4% and the loan is repayable in 7 years and 9 months by equal installment after the delivery of the container vessel.

As at 31 October 2013, the weighted average interest rate of the bank loan is 1.93% annually (31 December 2012: 1.81%).

19 NOTES TO CASH FLOW STATEMENTS

Reconciliation of profit before income tax to cash used in operations

	Periods ended		Ten months ended	
	31 December		31 October	
	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000
			(Unaudited)	
Profit before income tax	–	–	–	57
Adjustments for:				
Depreciation	–	–	–	112
Interest expenses	–	–	–	51
Increase in trade receivable	–	–	–	(434)
Increase in trade and other payables	–	–	–	18
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(196)</u>

20 CONTINGENT LIABILITIES

As at 31 December 2011 and 2012, and as at 31 October 2013, the Target Company had no material contingent liabilities.

21 COMMITMENTS**(a) Capital commitment**

At 31 December 2011 and 2012, and as at 31 October 2013, the Target Company had capital commitments in respect of interests in vessel under construction not provided for as follows:

	As at 31 December		As at
	2011	2012	31 October
	<i>US\$'000</i>	<i>US\$'000</i>	<i>2013</i>
			<i>US\$'000</i>
Vessel under construction			
– Contracted but not provided for	10,000	7,300	–
	<u>10,000</u>	<u>7,300</u>	<u>–</u>

(b) Operating lease commitment – where the Target Company is the lessor

At 31 December 2011 and 2012, and as at 31 October 2013, the Target Company has the following future minimum lease receipts under non-cancellable operating leases in relation to chartering of vessel.

	As at 31 December		As at
	2011	2012	31 October
	<i>US\$'000</i>	<i>US\$'000</i>	<i>2013</i>
			<i>US\$'000</i>
Vessel			
– no later than one year	–	–	1,013
	<u>–</u>	<u>–</u>	<u>1,013</u>

22 RELATED PARTY TRANSACTIONS

SINOTRANS & CSC Group Company, the parent company, is controlled by the PRC Government. The PRC Government is the Target Company's ultimate controlling party. Enterprises directly or indirectly controlled, jointly controlled or significant influenced by the PRC Government ("state-owned enterprises"), together with SINOTRANS & CSC Group Company and its group companies are all related parties of the Target Company.

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

The following companies are related parties of the Target Company that had balances and/or transactions with the Target Company for the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013:

Related Parties	Relationship with the Target Company
Sinotrans HK Logistics	Fellow subsidiary
Sinotrans Container Lines Co., Ltd.	Immediate holding company
Hubei Qingchuan International Seaman Labor Development Co., Ltd.	Fellow subsidiary

Apart from the above-mentioned transactions with the state-owned enterprises, the following is a summary of significant related party transactions during the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013 and balances arising from those related party transactions at each of the reporting dates:

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

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Charter hire income from a fellow subsidiary	-	-	-	434
Crew expenses charged by a fellow subsidiary	-	-	-	(141)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(141)</u>

In the opinion of the directors of the Target Company, the above related party transactions were carried out in the ordinary course of business and in accordance with the terms of the underlying agreements.

- (b) Year/period end balances arising from transactions with related parties were disclosed in notes 14 and 17.
- (c) During the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013, the Target Company was allowed to use trademarks registered in the name of SINOTRANS & CSC Group Company on a free-of-charge basis.
- (d) **Key management compensation**

There was no key management compensation incurred during the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 October 2013 up to the date of this report. No dividend or distribution has been declared or made by the Target Company in respect of any period subsequent to 31 October 2013.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
 Hong Kong

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

22 April 2014

The Directors
Sinotrans Shipping Limited

Dear Sirs,

We report on the financial information of Yunhua Shipping Company Limited (the “Target Company”) which comprises the balance sheets of the Target Company as at 31 December 2011 and 2012 and 31 October 2013, and the statements of comprehensive income, the statements of changes in equity and the cash flow statements of the Target Company for each of the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2013 (the “Relevant Periods”) and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of Sinotrans Shipping Limited (the “Company”) and is set out in Sections I to III below for inclusion in Appendix IIE to the circular of the Company dated 22 April 2014 (the “Circular”) in connection with the proposed acquisition of the Target Company by a subsidiary of the Company.

The Target Company was incorporated in Hong Kong on 11 May 2011 as a company with limited liability. No audited statutory financial statements for each of the periods ended 31 December 2011 and 2012 have been prepared by the Target Company. The Target Company has adopted 31 December as its financial year end date for statutory reporting.

The directors of the Target Company are responsible for the preparation of the financial statements of the Target Company for the Relevant Periods that give a true and fair view in accordance Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the “HKSA”) issued by the HKICPA pursuant to separate terms of engagement.

The financial information has been prepared based on the Underlying Financial Statements with no adjustment made thereon.

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information of the Target Company that gives a true and fair view in accordance with HKFRSs and accounting policies adopted by the Company and its subsidiaries (together the "Group") as set out in the annual report of the Company for the year ended 31 December 2013.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company as at 31 December 2011 and 2012 and 31 October 2013 and of the Target Company's results and cash flows for the Relevant Periods then ended.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I to III below included in Appendix IIE to the Circular which comprises the statement of comprehensive income, the statement of changes in equity and the cash flow statement of the Target Company for the ten months ended 31 October 2012 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in note 3 of Section II below and the accounting policies adopted by the Company as set out in the annual report for the year ended 31 December 2013.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in note 3 of Section II below.

I. FINANCIAL INFORMATION OF THE TARGET COMPANY

The following is the financial information of Yunhua Shipping Company Limited prepared by the directors of the Company as at 31 December 2011 and 2012 and 31 October 2013 and for each of the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013 (the "Financial Information").

(A) Statements of comprehensive income

		Periods ended 31 December		Ten months ended 31 October	
	Note	2011	2012	2012	2013
		US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Revenue	6	–	–	–	284
Cost of operations	7	–	–	–	(253)
Gross profit		–	–	–	31
Other operating expense, net	8	–	–	–	(5)
Operating profit		–	–	–	26
Finance cost	9	–	–	–	(17)
Profit before income tax		–	–	–	9
Income tax expense	10	–	–	–	–
Profit for the year/ period attributable to owner of the Target Company		–	–	–	9
Other comprehensive income		–	–	–	–
Profit and total comprehensive income for the year/period		–	–	–	9
Earnings per share attributable to owner of the Target Company during the year/period					
– basic and diluted	12	N/A	N/A	N/A	N/A
Dividend		–	–	–	–

(B) Balance sheets

		As at 31 December		As at
		2011	2012	31 October
	Note	US\$'000	US\$'000	2013
				US\$'000
ASSETS				
Non-current asset				
Property, plant and equipment	13	7,225	10,203	18,167
Current assets				
Trade receivable	14	–	–	284
Cash and cash equivalents	15	1	15	72
		1	15	356
Total assets		7,226	10,218	18,523
EQUITY				
Capital and reserves				
Share capital	16	1	1	1
Retained earnings		–	–	9
Total equity		1	1	10
LIABILITIES				
Non-current liability				
Bank loan	18	–	4,131	10,277
Current liabilities				
Trade and other payables	17	7,225	5,717	6,713
Current portion of bank loan	18	–	369	1,523
		7,225	6,086	8,236
Total liabilities		7,225	10,217	18,513
Total equity and liabilities		7,226	10,218	18,523
Net current liabilities		(7,224)	(6,071)	(7,880)
Total assets less current liabilities		1	4,132	10,287

(C) Statements of changes in equity

	Share capital <i>US\$'000</i>	Retained earnings <i>US\$'000</i>	Total equity <i>US\$'000</i>
At 11 May 2011, date of incorporation	–	–	–
Issue of share capital	<u>1</u>	<u>–</u>	<u>1</u>
	----- 1	----- –	----- 1
Comprehensive income			
Profit for the period	–	–	–
Other comprehensive income	<u>–</u>	<u>–</u>	<u>–</u>
	----- –	----- –	----- –
Total comprehensive income	<u>–</u>	<u>–</u>	<u>–</u>
	----- –	----- –	----- –
At 31 December 2011	<u><u>1</u></u>	<u><u>–</u></u>	<u><u>1</u></u>
At 1 January 2012	----- 1	----- –	----- 1
Comprehensive income			
Profit for the year	–	–	–
Other comprehensive income	<u>–</u>	<u>–</u>	<u>–</u>
	----- –	----- –	----- –
Total comprehensive income	<u>–</u>	<u>–</u>	<u>–</u>
	----- –	----- –	----- –
At 31 December 2012	<u><u>1</u></u>	<u><u>–</u></u>	<u><u>1</u></u>

	Share capital <i>US\$'000</i>	Retained earnings <i>US\$'000</i>	Total equity <i>US\$'000</i>
At 1 January 2013	1	–	1
	-----	-----	-----
Comprehensive income			
Profit for the period	–	9	9
Other comprehensive income	–	–	–
	-----	-----	-----
Total comprehensive income	–	9	9
	-----	-----	-----
At 31 October 2013	1	9	10
	=====	=====	=====
Unaudited Ten months ended 31 October 2012			
At 1 January 2012	1	–	1
	-----	-----	-----
Comprehensive income			
Profit for the period	–	–	–
Other comprehensive income	–	–	–
	-----	-----	-----
Total comprehensive income	–	–	–
	-----	-----	-----
At 31 October 2012	1	–	1
	=====	=====	=====

(D) Cash flow statements

	<i>Note</i>	Periods ended		Ten months	
		31 December		ended 31 October	
		2011	2012	2012	2013
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
				(Unaudited)	
Cash flows from operating activities					
Cash used in operations	19	–	–	–	(183)
Cash flows from investing activities					
Purchase of property, plant and equipment		(7,225)	(2,959)	(183)	(7,938)
Net cash used in investing activities		(7,225)	(2,959)	(183)	(7,938)
Cash flows from financing activities					
Issue of share capital		1	–	–	–
Drawdown of borrowing		–	4,500	1,800	7,300
Interest paid		–	(19)	(9)	(99)
Increase/(decrease) in amount due to immediate holding company and fellow subsidiaries		7,225	(1,508)	(1,584)	977
Net cash generated from financing activities		7,226	2,973	207	8,178
Net increase in cash and cash equivalents					
Cash and cash equivalents at beginning of the year/period		–	1	1	15
Cash and cash equivalents at end of the year/period		1	15	25	72

II. NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

Yunhua Shipping Company Limited (the "Target Company") was incorporated in Hong Kong on 11 May 2011, as a company with limited liability with authorised and fully paid 10,000 shares of Hong Kong dollar 1 each. The address of its registered office is Room 1607-08, 16F, Fortress Tower, 250 King's Road, North Point, Hong Kong. The Target Company is principally engaged in vessel owning and chartering.

The immediate holding company of the Target Company is Sinotrans (HK) Logistics Limited ("Sinotrans HK Logistics"), a company incorporated in Hong Kong with limited liability.

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

The Financial Information of the Target Company is presented in United States dollars ("US\$"), unless otherwise stated.

2 BASIS OF PRESENTATION AND PREPARATION

- (i) The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include Hong Kong Accounting Standards ("HKAS") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Financial Information has been prepared under the historical cost convention throughout the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

As at 31 October 2013, the Target Company's current liabilities exceeded its current assets by US\$7,880,000. The Target Company's ability to continue as a going concern is highly depended on the continuing financial support from its equity holder. The parent company has confirmed its intention to provide continuing financial support to the Target Company so as to enable the Target Company to meet its liabilities as and when they fall due and to carry on its business without a significant curtailment of operation for the foreseeable future. Consequently, the directors of the Company have prepared the Financial Information on a going concern basis.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information is disclosed in note 5.

- (ii) **Standards and amendments which are not yet effective**

The HKICPA has issued the following new standards and amendments to the standards which are not yet effective in 2013 but relevant to the Target Company and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
HK (IFRIC) Interpretation 21	Levies	1 January 2014
HKFRS 7 and HKFRS 9 (Amendment)	Disclosures – Mandatory Effective Date of HKFRS 9 and Transition Disclosures	1 January 2015
HKFRS 9	Financial Instruments	To be determined

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

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of Financial Information are set out below. These policies have been consistently applied to all the years/periods presented.

(a) Foreign currency translation

(i) Functional and presentation currency

Items included in the Financial Information are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Target Company is US\$ and the Financial Information is presented in US\$.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at 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 profit or loss unless they are capitalised as part of the borrowing costs.

(b) Property, plant and equipment

(i) Vessel under construction

Vessel under construction includes all direct costs relating to the construction of the vessel. No depreciation is provided for vessel under construction until such time as the vessel is completed and ready for intended use.

(ii) Vessel and other property, plant and equipment

Vessel and other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. 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 Target Company and the cost of the item can be measured reliably. All other repairs and maintenance, including vessel repairs and surveys, are expensed in the profit or loss during the financial period in which they are incurred.

For vessel, 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.

Depreciation of vessel 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:

Vessel	25 years from the date of first registration
Other property, plant and equipment	5 years

The residual values of vessel 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 (note 3(e)).

The gain or loss on disposal of vessel and other 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 profit or loss.

(c) Leases

Leases where substantially all the risks and rewards of ownership of assets are retained by the lessors are classified as operating leases.

(i) Where the Target Company is the lessee (operating leases)

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

(ii) Where the Target Company is the lessor (operating leases)

When assets are leased out under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Target Company's depreciation policies, as set out in notes 3(b) above. Revenue arising from assets leased out under operating leases is recognised in accordance with the Target Company's revenue recognition policies, as set out in note 3(j) below.

Leases that substantially transfer to the lessees all the risks and rewards of ownership of assets are classified as finance leases.

(d) 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.

(e) Impairment

(i) Impairment of 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.

(ii) Impairment of financial assets carried at amortised cost

The Target Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and financial institutions with original maturities of three months or less.

(g) Trade and other payables

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

(h) Provisions

Provisions are recognised when the Target Company 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.

(i) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, 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 Target Company 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 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.

(j) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable in the ordinary course of the Target Company's activities. The Target Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for the Target Company's activities. Revenue from time charter is recognised on a straight-line basis over the period of each charter.

(k) 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 profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Target Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(l) 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 or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

(m) Dividend distribution

Dividend distribution to the shareholders of the Target Company is recognised as a liability in the Target Company's financial information in the period in which the dividends are approved by the shareholders or the directors of the Target Company, where applicable.

(n) 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 Target Company that makes strategic decisions.

4 FINANCIAL RISK MANAGEMENT**(a) Financial risk factors**

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

(i) Cash flow and fair value interest rate risk

The Target Company's interest bearing assets comprise cash and bank balances and interest bearing liabilities comprise bank loans. The Target Company's income and operating cash flows are substantially independent of changes in market interest rates.

For each of the periods ended 31 December 2011 and 2012, and each of the ten months ended 31 October 2012 and 2013, the impact on the interest expenses of a 50 basis-point shift in interest rate would be a maximum increase or decrease of US\$ nil, US\$22,000, US\$7,000 and US\$49,000 respectively.

(ii) Credit and counterparty risk

The extent of credit exposure of the Target Company is the aggregate carrying value of cash and bank balances and trade and other receivables. The Target Company's credit risk is considered minimal as the receivable is due from a fellow subsidiary of the Target Company.

Cash and bank balances are deposits in state-owned PRC banks with high credit ratings. Given their high credit ratings, the Target Company does not expect to have high credit risk in this aspect. Furthermore, management regularly assesses credit risk for amounts due from related parties by reviewing ageing analysis and financial statements of these counterparties on a regular basis to minimise credit risk.

(iii) Liquidity risk

Cash flow forecasting is performed by the Target Company. The finance department of Target Company monitors rolling forecasts of the Target Company's liquidity requirements to ensure it has sufficient cash to meet operational needs and capital commitments (if any) at all times. Such forecasting takes into consideration the Target Company's future business plans and strategy to monitor any debt financing requirement.

As at 31 October 2013, the Target Company's current liabilities exceeded its current assets by US\$7,880,000. The parent company has confirmed its intention to provide continuing financial support to the Target Company so as to enable the Target Company to meet its liabilities as and when they fall due and to carry on its business without a significant curtailment of operation for the foreseeable future.

The table below analyses the Target Company's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date 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.

	Less than 1 year or on demand <i>US\$'000</i>	Between 1 to 2 years <i>US\$'000</i>	Between 2 to 5 years <i>US\$'000</i>	Over 5 years <i>US\$'000</i>	Total <i>US\$'000</i>
At 31 December 2011					
Trade and other payables	7,225	–	–	–	7,225
Bank loan	–	–	–	–	–
	<u>7,225</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>7,225</u>
At 31 December 2012					
Trade and other payables	5,717	–	–	–	5,717
Bank loan	369	1,672	3,085	194	5,320
	<u>6,086</u>	<u>1,672</u>	<u>3,085</u>	<u>194</u>	<u>11,037</u>
At 31 October 2013					
Trade and other payables	6,713	–	–	–	6,713
Bank loan	1,523	1,680	4,888	4,279	12,370
	<u>8,236</u>	<u>1,680</u>	<u>4,888</u>	<u>4,279</u>	<u>19,083</u>

(b) Fair value estimation

The carrying values of cash and bank balances, trade and other receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at current market interest rate that is available to the Target Company for similar financial instruments.

(c) Capital risk management

The Target Company's objectives when managing capital are to safeguard the Target Company'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 Target Company will consider macro-economic conditions, prevailing borrowing rates in the market and adequacy of cash flows generating from operations, loans from parent company or bank borrowings or repay borrowings if necessary.

As at 31 October 2013, the Target Company's current liabilities exceeded its current assets by US\$7,880,000. The parent company has confirmed its intention to provide continuing financial support to the Target Company so as to enable the Target Company to meet its liabilities as and when they fall due and to carry on its business without a significant curtailment of operation for the foreseeable future.

The Target Company monitors its capital on the basis of the gearing ratio, which represents ratio of comparing net debt to total capital. Net debt represents borrowings less cash and bank balances. Total capital represents "total equity" as shown in the balance sheet plus net debt.

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Borrowings	7,225	10,217	18,494
Less: Cash and bank balances	(1)	(15)	(72)
Net debt	7,224	10,202	18,422
Total equity	1	1	10
Total capital	7,225	10,203	18,432
Gearing ratio	100%	100%	100%

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 Target Company 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 the vessel

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 vessel whenever events or changes in circumstances indicate that the carrying amount of the vessel may not be recoverable.

Management reviews certain indicators of potential impairment, such as results of operation of the vessel, reported sale and purchase prices, market demand and general market conditions and performs impairment assessment on its vessel.

The recoverable amount of the vessel has been determined based on the higher of fair value less costs to sell or value-in-use method. The fair value of the vessel was determined based on market transactions at the balance sheet date. While the value-in-use calculations require the use of estimates on the projectors of cash inflows from the continued use of the vessel (including the amounts to be received for the disposal of the vessel) and discount rate. All these items have been historically volatile and may impact the results of the impairment assessment. Based on management assessment, no provision for impairment loss for vessel of the Target Company has been made for the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

(b) Useful life of vessel

Management determines the estimated useful life and related depreciation expense for the vessel. Management estimates useful life of its vessel by reference to expected usage of the vessel, expected repair and maintenance, and technical or commercial obsolescence arising from changes or improvements in the vessel market. Useful life of vessel 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.

As at 31 October 2013, were the useful life to differ by 10% from management estimates with all other variables held constant, it is estimated that the carrying value of vessel would decrease by US\$31,000 or increase by US\$5,000 (not applicable as at 31 December 2011 and 2012 and as at 31 October 2012).

(c) Residual value of vessel

The Target Company's management determines the residual value for its vessel. 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 vessel as scrap steels. Depreciation expense would increase where the residual values are less than previously estimated values.

As at 31 October 2013, were the residual value to differ by 10% from management estimates, it is estimated that the carrying value of vessel would increase or increase by US\$1,000 (not applicable as at 31 December 2011 and 2012 and as at 31 October 2012).

6 REVENUE

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Turnover				
Charter hire income from a fellow subsidiary	-	-	-	284

As the Target Company only has chartering business, no separate operating segment is presented. Management considers the nature of ship owning and provision of chartering services, which is carried out internationally, and the way in which costs are allocated, preclude a meaningful presentation of geographical information.

7 EXPENSES BY NATURE

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
			(Unaudited)	
Depreciation (<i>note 13</i>)	-	-	-	(56)
Hiring of crews and seafarers	-	-	-	(89)
Spare parts, lubricants and materials	-	-	-	(75)
Insurance premium	-	-	-	(23)
Others	-	-	-	(10)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10)</u>
Total cost of operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(253)</u>

8 OTHER OPERATING EXPENSE, NET

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
			(Unaudited)	
Exchange losses, net	-	-	-	(5)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5)</u>

9 FINANCE COST

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
			(Unaudited)	
Interest expense on bank loan	-	(19)	(9)	(99)
Less: amount capitalised in vessel under construction	-	19	9	82
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17)</u>

During the ten months ended 31 October 2013, the capitalisation rate applied to funds borrowed and used for the development of vessel under construction is between 1.64% to 1.70% (during the year ended 31 December 2012: 1.71% to 1.94%) per annum.

10 INCOME TAX EXPENSE

For the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013, Hong Kong profits tax and overseas taxation have not been provided for as the Target Company did not have estimated assessable profits.

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

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Profit before income tax	-	-	-	9
Tax calculated at 16.5%	-	-	-	1
Income not subject to tax	-	-	-	(47)
Expenses not deductible for tax purposes	-	-	-	46
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

11 DIRECTORS' EMOLUMENTS

None of the directors, who represent key management personnel of the Target Company, having authority and responsibility for planning, directing and controlling the activities of the Target Company, received or will receive any fees or emoluments in respect of their services to the Target Company during the periods ended 31 December 2011, 2012 and the ten months ended 31 October 2012 and 2013.

12 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful. The Target Company has no potentially dilutive option or other instruments relating to ordinary shares.

13 PROPERTY, PLANT AND EQUIPMENT

	Container vessel under construction <i>US\$'000</i>	Container vessel <i>US\$'000</i>	Others <i>US\$'000</i>	Total <i>US\$'000</i>
At 11 May 2011				
Cost	–	–	–	–
Accumulated depreciation	–	–	–	–
Net book amount	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Year ended 31 December 2011				
Opening net book amount	–	–	–	–
Additions (<i>note a</i>)	7,225	–	–	7,225
Depreciation	–	–	–	–
Closing net book amount	<u>7,225</u>	<u>–</u>	<u>–</u>	<u>7,225</u>
At 31 December 2011				
Cost	7,225	–	–	7,225
Accumulated depreciation	–	–	–	–
Net book amount	<u>7,225</u>	<u>–</u>	<u>–</u>	<u>7,225</u>
Year ended 31 December 2012				
Opening net book amount	7,225	–	–	7,225
Additions (<i>note a</i>)	2,978	–	–	2,978
Depreciation	–	–	–	–
Closing net book amount	<u>10,203</u>	<u>–</u>	<u>–</u>	<u>10,203</u>
At 31 December 2012				
Cost	10,203	–	–	10,203
Accumulated depreciation	–	–	–	–
Net book amount	<u>10,203</u>	<u>–</u>	<u>–</u>	<u>10,203</u>
Ten month period ended 31 October 2013				
Opening net book amount	10,203	–	–	10,203
Additions (<i>note a</i>)	8,015	–	5	8,020
Transfer to vessel	(18,218)	18,218	–	–
Depreciation	–	(56)	–	(56)
Closing net book amount	<u>–</u>	<u>18,162</u>	<u>5</u>	<u>18,167</u>
At 31 October 2013				
Cost	–	18,218	5	18,223
Accumulated depreciation	–	(56)	–	(56)
Net book amount	<u>–</u>	<u>18,162</u>	<u>5</u>	<u>18,167</u>

Notes:

- (a) As at 31 December 2011, deposits paid by Target Company in relation to construction work of a vessel not yet commenced, amounting to US\$7,225,000, was included in vessel under construction.
- (b) For the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013, interest expenses of US\$ nil, US\$19,000, US\$9,000 and US\$82,000 respectively were capitalised in vessel costs during the vessel construction period (note 9).

14 TRADE RECEIVABLE

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Trade receivable, net of provision (note a and note b)			
– fellow subsidiary	–	–	284
	<u>–</u>	<u>–</u>	<u>284</u>

Notes:

- (a) The Target Company does not grant any credit term to the fellow subsidiary. An ageing analysis of trade receivable (net of provision) at the respective balance sheet dates is as follows:

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Within 6 months	–	–	284
	<u>–</u>	<u>–</u>	<u>284</u>

As at 31 October 2013, trade receivable is past due but not considered to be impaired. This trade receivable relates to a fellow subsidiary for whom there is no history of default.

- (b) The trade receivable of the Target Company is denominated in US\$.

15 CASH AND CASH EQUIVALENTS

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Bank balances	1	15	72
	<u>1</u>	<u>15</u>	<u>72</u>

Cash and cash equivalents of the Target Company are denominated in US\$.

16 SHARE CAPITAL

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Authorised:			
10,000 shares of HK\$1 each	<u>1</u>	<u>1</u>	<u>1</u>
			US\$'000
Issued and fully paid:			
At 11 May 2011 (date of incorporation)			–
Issue of 10,000 shares of HK\$1 each			<u>1</u>
At 31 December 2011, 2012 and 31 October 2013			<u>1</u>

The Target Company was incorporated on 11 May 2011 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each. On 11 May 2011, 10,000 shares were allotted and issued at par of HK\$1.

17 TRADE AND OTHER PAYABLES

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Trade payables (<i>note a and note b</i>)			
– third parties	–	–	3
Other payables and accruals (<i>note b</i>)			
– immediate holding company	3,600	3,646	3,749
– fellow subsidiaries	3,625	2,071	2,945
– third parties	<u>–</u>	<u>–</u>	<u>16</u>
Total	<u>7,225</u>	<u>5,717</u>	<u>6,713</u>

Notes:

- (a) An ageing analysis of trade payables at the respective balance sheet dates is as follows:

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Within 6 months	<u>–</u>	<u>–</u>	<u>3</u>

- (b) The trade and other payables of the Target Company are denominated in US\$. The amounts due to immediate holding company and fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

18 BANK LOAN

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Bank loan due:			
– within one year	–	369	1,523
– between 1 and 2 years	–	1,475	1,523
– between 2 and 5 years	–	2,656	4,568
– Over 5 years	–	–	4,186
	–	4,500	11,800

As at 31 October 2013, bank loan of US\$11,800,000 (31 December 2012: US\$4,500,000) is secured by the container vessel with net book amount of US\$18,162,000 (31 December 2012: net book amount of US\$10,203,000) (Note (13));

According to the loan agreements, the interest rate is determined at three-month LIBOR plus 1.4% and the loan is repayable in 7 years and 9 months by equal installment after the delivery of the container vessel.

As at 31 October 2013, the weighted average interest rate of the bank loan is 1.93% annually (31 December 2012: 1.81%).

19 NOTES TO CASH FLOW STATEMENTS

Reconciliation of profit before income tax to cash used in operations

	Periods ended		Ten months	
	31 December		ended 31 October	
	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000
			(Unaudited)	
Profit before income tax	–	–	–	9
Adjustments for:				
Depreciation	–	–	–	56
Interest expenses	–	–	–	17
Increase in trade receivable	–	–	–	(284)
Increase in trade and other payables	–	–	–	19
Cash used in operations	–	–	–	(183)

20 CONTINGENT LIABILITIES

As at 31 December 2011 and 2012, and as at 31 October 2013, the Target Company had no material contingent liabilities.

21 COMMITMENTS*(a) Capital commitment*

At 31 December 2011 and 2012, and as at 31 October 2013, the Target Company had capital commitments in respect of interests in vessel under construction not provided for as follows:

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
Vessel under construction			US\$'000
– Contracted but not provided for	10,000	7,300	–

(b) Operating lease commitment – where the Target Company is the lessor

At 31 December 2011 and 2012, and as at 31 October 2013, the Target Company has the following future minimum lease receipts under non-cancellable operating leases in relation to chartering of vessel.

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
Vessel			US\$'000
– no later than one year	–	–	1,166

22 RELATED PARTY TRANSACTIONS

SINOTRANS & CSC Group Company, the parent company, is controlled by the PRC Government. The PRC Government is the Target Company's ultimate controlling party. Enterprises directly or indirectly controlled, jointly controlled or significant influenced by the PRC Government ("state-owned enterprises"), together with SINOTRANS & CSC Group Company and its group companies are all related parties of the Target Company.

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

The following companies are related parties of the Target Company that had balances and/or transactions with the Target Company for the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013:

Related Parties	Relationship with the Target Company
Sinotrans HK Logistics	Immediate holding company
Sinotrans Container Lines Co., Ltd.	Fellow subsidiary
Hubei Qingchuan International Seaman Labor Development Co., Ltd.	Fellow subsidiary

- (a) Apart from the above-mentioned transactions with the state-owned enterprises, the following is a summary of significant related party transactions during the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013 and balances arising from those related party transactions at each of the reporting dates:

The following significant transactions were carried out with related parties:

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Charter hire income from a fellow subsidiary	-	-	-	284
Crew expenses charged by a fellow subsidiary	-	-	-	(89)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(89)</u>

In the opinion of the directors of the Target Company, the above related party transactions were carried out in the ordinary course of business and in accordance with the terms of the underlying agreements.

- (b) Year/period end balances arising from transactions with related parties were disclosed in notes 14 and 17.
- (c) During the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013, the Target Company was allowed to use trademarks registered in the name of SINOTRANS & CSC Group Company on a free-of-charge basis.
- (d) **Key management compensation**

There was no key management compensation incurred during the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 October 2013 up to the date of this report. No dividend or distribution has been declared or made by the Target Company in respect of any period subsequent to 31 October 2013.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
 Hong Kong

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

22 April 2014

The Directors
Sinotrans Shipping Limited

Dear Sirs,

We report on the financial information of Yunfu Shipping Company Limited (the "Target Company") which comprises the balance sheets of the Target Company as at 31 December 2011 and 2012 and 31 October 2013, and the statements of comprehensive income, the statements of changes in equity and the cash flow statements of the Target Company for each of the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2013 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of Sinotrans Shipping Limited (the "Company") and is set out in Sections I to III below for inclusion in Appendix IIF to the circular of the Company dated 22 April 2014 (the "Circular") in connection with the proposed acquisition of the Target Company by a subsidiary of the Company.

The Target Company was incorporated in Hong Kong on 11 May 2011 as a company with limited liability. No audited statutory financial statements for each of the periods ended 31 December 2011 and 2012 have been prepared by the Target Company. The Target Company has adopted 31 December as its financial year end date for statutory reporting.

The directors of the Target Company are responsible for the preparation of the financial statements of the Target Company for the Relevant Periods that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSA") issued by the HKICPA pursuant to separate terms of engagement.

The financial information has been prepared based on the Underlying Financial Statements with no adjustment made thereon.

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*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information of the Target Company that gives a true and fair view in accordance with HKFRSs and accounting policies adopted by the Company and its subsidiaries (together the "Group") as set out in the annual report of the Company for the year ended 31 December 2013.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company as at 31 December 2011 and 2012 and 31 October 2013 and of the Target Company's results and cash flows for the Relevant Periods then ended.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I to III below included in Appendix IIF to the Circular which comprises the statement of comprehensive income, the statement of changes in equity and the cash flow statement of the Target Company for the ten months ended 31 October 2012 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in note 3 of Section II below and the accounting policies adopted by the Company as set out in the annual report for the year ended 31 December 2013.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in note 3 of Section II below.

I FINANCIAL INFORMATION OF THE TARGET COMPANY

The following is the financial information of Yunfu Shipping Company Limited prepared by the directors of the Company as at 31 December 2011 and 2012 and 31 October 2013 and for each of the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013 (the "Financial Information").

(A) Statements of comprehensive income

	Note	Periods ended 31 December		Ten months ended 31 October	
		2011 US\$'000	2012 US\$'000	2012 US\$'000 (Unaudited)	2013 US\$'000
Revenue	6	-	-	-	450
Cost of operations	7	-	-	-	(370)
Gross profit		-	-	-	80
Other operating expense, net	8	-	-	-	(4)
Operating profit		-	-	-	76
Finance cost	9	-	-	-	(33)
Profit before income tax		-	-	-	43
Income tax expense	10	-	-	-	-
Profit for the year/ period attributable to owner of the Target Company		-	-	-	43
Other comprehensive income		-	-	-	-
Profit and total comprehensive income for the year/period		-	-	-	43
Earnings per share attributable to owner of the Target Company during the year/period					
- basic and diluted	12	N/A	N/A	N/A	N/A
Dividend		-	-	-	-

(B) Balance sheets

		As at 31 December		As at
		2011	2012	31 October
	Note	US\$'000	US\$'000	2013
				US\$'000
ASSETS				
Non-current asset				
Property, plant and equipment	13	3,900	8,012	19,900
Current assets				
Trade receivable	14	–	–	450
Cash and cash equivalents	15	1	16	87
		1	16	537
Total assets		3,901	8,028	20,437
EQUITY				
Capital and reserves				
Share capital	16	1	1	1
Retained earnings		–	–	43
Total equity		1	1	44
LIABILITIES				
Non-current liability				
Bank loan	18	–	1,523	11,614
Current liabilities				
Trade and other payables	17	3,900	6,077	7,120
Current portion of bank loan	18	–	427	1,659
		3,900	6,504	8,779
Total liabilities		3,900	8,027	20,393
Total equity and liabilities		3,901	8,028	20,437
Net current liabilities		(3,899)	(6,488)	(8,242)
Total assets less current liabilities		1	1,524	11,658

(C) Statements of changes in equity

	Share capital <i>US\$'000</i>	Retained earnings <i>US\$'000</i>	Total equity <i>US\$'000</i>
At 11 May 2011, date of incorporation	–	–	–
Issue of share capital	<u>1</u>	<u>–</u>	<u>1</u>
	----- 1	----- –	----- 1
Comprehensive income			
Profit for the period	–	–	–
Other comprehensive income	<u>–</u>	<u>–</u>	<u>–</u>
Total comprehensive income	----- –	----- –	----- –
At 31 December 2011	<u><u>1</u></u>	<u><u>–</u></u>	<u><u>1</u></u>
At 1 January 2012	----- 1	----- –	----- 1
Comprehensive income			
Profit for the year	–	–	–
Other comprehensive income	<u>–</u>	<u>–</u>	<u>–</u>
Total comprehensive income	----- –	----- –	----- –
At 31 December 2012	<u><u>1</u></u>	<u><u>–</u></u>	<u><u>1</u></u>

	Share capital <i>US\$'000</i>	Retained earnings <i>US\$'000</i>	Total equity <i>US\$'000</i>
At 1 January 2013	1	–	1
Comprehensive income			
Profit for the period	–	43	43
Other comprehensive income	–	–	–
Total comprehensive income	–	43	43
At 31 October 2013	1	43	44
Unaudited Ten months ended 31 October 2012			
At 1 January 2012	1	–	1
Comprehensive income			
Profit for the period	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income	–	–	–
At 31 October 2012	1	–	1

(D) Cash flow statements

	Note	Periods ended 31 December		Ten months ended 31 October	
		2011 US\$'000	2012 US\$'000	2012 US\$'000 (Unaudited)	2013 US\$'000
Cash flows from operating activities					
Cash used in operations	19	-	-	-	(173)
Cash flows from investing activities					
Purchase of property, plant and equipment		(3,900)	(4,097)	(4,094)	(11,949)
Net cash used in investing activities		(3,900)	(4,097)	(4,094)	(11,949)
Cash flows from financing activities					
Issue of share capital		1	-	-	-
Drawdown of borrowing		-	1,950	1,950	11,323
Interest paid		-	(15)	(9)	(96)
Increase in amount due to immediate holding company and fellow subsidiaries		3,900	2,177	2,177	966
Net cash generated from financing activities		3,901	4,112	4,118	12,193
Net increase in cash and cash equivalents					
Cash and cash equivalents at beginning of the year/period		-	1	1	16
Cash and cash equivalents at end of the year/period		1	16	25	87

II. NOTES TO THE FINANCIAL INFORMATION**1 GENERAL INFORMATION**

Yunfu Shipping Company Limited (the "Target Company") was incorporated in Hong Kong on 11 May 2011, as a company with limited liability with authorised and fully paid 10,000 shares of Hong Kong dollar 1 each. The address of its registered office is Room 1607-08, 16F, Fortress Tower, 250 King's Road, North Point, Hong Kong. The Target Company is principally engaged in vessel owning and chartering.

The immediate holding company of the Target Company is Sinotrans (HK) Logistics Limited ("Sinotrans HK Logistics"), a company incorporated in Hong Kong with limited liability.

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

The Financial Information of the Target Company is presented in United States dollars ("US\$"), unless otherwise stated.

2 BASIS OF PRESENTATION AND PREPARATION

- (i) The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include Hong Kong Accounting Standards ("HKAS") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Financial Information has been prepared under the historical cost convention throughout the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

As at 31 October 2013, the Target Company's current liabilities exceeded its current assets by US\$8,242,000. The Target Company's ability to continue as a going concern is highly depended on the continuing financial support from its equity holder. The parent company has confirmed its intention to provide continuing financial support to the Target Company so as to enable the Target Company to meet its liabilities as and when they fall due and to carry on its business without a significant curtailment of operation for the foreseeable future. Consequently, the directors of the Company have prepared the Financial Information on a going concern basis.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information is disclosed in note 5.

(ii) Standards and amendments which are not yet effective

The HKICPA has issued the following new standards and amendments to the standards which are not yet effective in 2013 but relevant to the Target Company and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
HK (IFRIC) Interpretation 21	Levies	1 January 2014
HKFRS 7 and HKFRS 9 (Amendment)	Disclosures – Mandatory Effective Date of HKFRS 9 and Transition Disclosures	1 January 2015
HKFRS 9	Financial Instruments	To be determined

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

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of Financial Information are set out below. These policies have been consistently applied to all the years/ periods presented.

(a) Foreign currency translation*(i) Functional and presentation currency*

Items included in the Financial Information are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Target Company is US\$ and the Financial Information is presented in US\$.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at 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 profit or loss unless they are capitalised as part of the borrowing costs.

(b) Property, plant and equipment*(i) Vessel under construction*

Vessel under construction includes all direct costs relating to the construction of the vessel. No depreciation is provided for vessel under construction until such time as the vessel is completed and ready for intended use.

(ii) Vessel and other property, plant and equipment

Vessel and other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. 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 Target Company and the cost of the item can be measured reliably. All other repairs and maintenance, including vessel repairs and surveys, are expensed in the profit or loss during the financial period in which they are incurred.

For vessel, 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.

Depreciation of vessel 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:

Vessel	25 years from the date of first registration
Other property, plant and equipment	5 years

The residual values of vessel 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 (note 3(e)).

The gain or loss on disposal of vessel and other 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 profit or loss.

(c) Leases

Leases where substantially all the risks and rewards of ownership of assets are retained by the lessors are classified as operating leases.

(i) Where the Target Company is the lessee (operating leases)

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

(ii) Where the Target Company is the lessor (operating leases)

When assets are leased out under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Target Company's depreciation policies, as set out in notes 3(b) above. Revenue arising from assets leased out under operating leases is recognised in accordance with the Target Company's revenue recognition policies, as set out in note 3(j) below.

Leases that substantially transfer to the lessees all the risks and rewards of ownership of assets are classified as finance leases.

(d) 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.

(e) Impairment*(i) Impairment of 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.

(ii) Impairment of financial assets carried at amortised cost

The Target Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and financial institutions with original maturities of three months or less.

(g) Trade and other payables

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

(h) Provisions

Provisions are recognised when the Target Company 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.

(i) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, 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 Target Company 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 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.

(j) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable in the ordinary course of the Target Company's activities. The Target Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for the Target Company's activities. Revenue from time charter is recognised on a straight-line basis over the period of each charter.

(k) 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 profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Target Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(l) 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 or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

(m) Dividend distribution

Dividend distribution to the shareholders of the Target Company is recognised as a liability in the Target Company's financial information in the period in which the dividends are approved by the shareholders or the directors of the Target Company, where applicable.

(n) 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 Target Company that makes strategic decisions.

4 FINANCIAL RISK MANAGEMENT**(a) Financial risk factors**

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

(i) Cash flow and fair value interest rate risk

The Target Company's interest bearing assets comprise cash and bank balances and interest bearing liabilities comprise bank loans. The Target Company's income and operating cash flows are substantially independent of changes in market interest rates.

For each of the periods ended 31 December 2011 and 2012, and each of the ten months ended 31 October 2012 and 2013, the impact on the interest expenses of a 50 basis-point shift in interest rate would be a maximum increase or decrease of US\$ nil, US\$10,000, US\$8,000 and US\$55,000 respectively.

(ii) Credit and counterparty risk

The extent of credit exposure of the Target Company is the aggregate carrying value of cash and bank balances and trade and other receivables. The Target Company's credit risk is considered minimal as the receivable is due from a fellow subsidiary of the Target Company.

Cash and bank balances are deposits in state-owned PRC banks with high credit ratings. Given their high credit ratings, the Target Company does not expect to have high credit risk in this aspect. Furthermore, management regularly assesses credit risk for amounts due from related parties by reviewing ageing analysis and financial statements of these counterparties on a regular basis to minimise credit risk.

(iii) *Liquidity risk*

Cash flow forecasting is performed by the Target Company. The finance department of Target Company monitors rolling forecasts of the Target Company's liquidity requirements to ensure it has sufficient cash to meet operational needs and capital commitments (if any) at all times. Such forecasting takes into consideration the Target Company's future business plans and strategy to monitor any debt financing requirement.

As at 31 October 2013, the Target Company's current liabilities exceeded its current assets by US\$8,242,000. The parent company has confirmed its intention to provide continuing financial support to the Target Company so as to enable the Target Company to meet its liabilities as and when they fall due and to carry on its business without a significant curtailment of operation for the foreseeable future.

The table below analyses the Target Company's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date 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.

	Less than 1 year or on demand US\$'000	Between 1 to 2 years US\$'000	Between 2 to 5 years US\$'000	Over 5 years US\$'000	Total US\$'000
At 31 December 2011					
Trade and other payables	3,900	–	–	–	3,900
Bank loan	–	–	–	–	–
	<u>3,900</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,900</u>
At 31 December 2012					
Trade and other payables	6,077	–	–	–	6,077
Bank loan	427	1,742	476	211	2,856
	<u>6,504</u>	<u>1,742</u>	<u>476</u>	<u>211</u>	<u>8,933</u>
At 31 October 2013					
Trade and other payables	7,120	–	–	–	7,120
Bank loan	1,659	1,836	5,341	5,080	13,916
	<u>8,779</u>	<u>1,836</u>	<u>5,341</u>	<u>5,080</u>	<u>21,036</u>

(b) Fair value estimation

The carrying values of cash and bank balances, trade and other receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at current market interest rate that is available to the Target Company for similar financial instruments.

(c) Capital risk management

The Target Company's objectives when managing capital are to safeguard the Target Company'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 Target Company will consider macro-economic conditions, prevailing borrowing rates in the market and adequacy of cash flows generating from operations, loans from parent company or bank borrowings or repay borrowings if necessary.

As at 31 October 2013, the Target Company's current liabilities exceeded its current assets by US\$8,242,000. The parent company has confirmed its intention to provide continuing financial support to the Target Company so as to enable the Target Company to meet its liabilities as and when they fall due and to carry on its business without a significant curtailment of operation for the foreseeable future.

The Target Company monitors its capital on the basis of the gearing ratio, which represents ratio of comparing net debt to total capital. Net debt represents borrowings less cash and bank balances. Total capital represents "total equity" as shown in the balance sheet plus net debt.

	As at 31 December		As at
	2011	2012	31 October
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Borrowings	3,900	8,027	20,364
Less: Cash and bank balances	(1)	(16)	(87)
Net debt	3,899	8,011	20,277
Total equity	1	1	44
Total capital	<u>3,900</u>	<u>8,012</u>	<u>20,321</u>
Gearing ratio	<u>100%</u>	<u>100%</u>	<u>100%</u>

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 Target Company 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 the vessel

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 vessel whenever events or changes in circumstances indicate that the carrying amount of the vessel may not be recoverable.

Management reviews certain indicators of potential impairment, such as results of operation of the vessel, reported sale and purchase prices, market demand and general market conditions and performs impairment assessment on its vessel.

The recoverable amount of the vessel has been determined based on the higher of fair value less costs to sell or value-in-use method. The fair value of the vessel was determined based on market transactions at the balance sheet date. While the value-in-use calculations require the use of estimates on the projectors of cash inflows from the continued use of the vessel (including the amounts to be received for the disposal of the vessel) and discount rate. All these items have been historically volatile and may impact the results of the impairment assessment. Based on management assessment, no provision for impairment loss for vessel of the Target Company has been made for the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

(b) Useful life of vessel

Management determines the estimated useful life and related depreciation expense for the vessel. Management estimates useful life of its vessel by reference to expected usage of the vessel, expected repair and maintenance, and technical or commercial obsolescence arising from changes or improvements in the vessel market. Useful life of vessel 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.

As at 31 October 2013, were the useful life to differ by 10% from management estimates with all other variables held constant, it is estimated that the carrying value of vessel would decrease by US\$10,000 or increase by US\$12,000 (not applicable as at 31 December 2011 and 2012 and as at 31 October 2012).

(c) Residual value of vessel

The Target Company's management determines the residual value for its vessel. 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 vessel as scrap steels. Depreciation expense would increase where the residual values are less than previously estimated values.

As at 31 October 2013, were the residual value to differ by 10% from management estimates, it is estimated that the carrying value of vessel would increase or decrease by US\$1,000 (not applicable as at 31 December 2011 and 2012 and as at 31 October 2012).

6 REVENUE

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
			(Unaudited)	
Turnover				
Charter hire income from a fellow subsidiary	-	-	-	450

As the Target Company only has chartering business, no separate operating segment is presented. Management considers the nature of ship owning and provision of chartering services, which is carried out internationally, and the way in which costs are allocated, preclude a meaningful presentation of geographical information.

7 EXPENSES BY NATURE

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
			(Unaudited)	
Depreciation (<i>note 13</i>)	-	-	-	(124)
Hiring of crews and seafarers	-	-	-	(102)
Spare parts, lubricants and materials	-	-	-	(40)
Insurance premium	-	-	-	(30)
Others	-	-	-	(74)
Total cost of operations	-	-	-	(370)

8 OTHER OPERATING EXPENSE, NET

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
			(Unaudited)	
Exchange losses, net	-	-	-	(4)

9 FINANCE COST

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Interest expense on bank loan	–	(15)	(9)	(96)
Less: amount capitalised in vessel under construction	–	15	9	63
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(33)</u>

During the ten months ended 31 October 2013, the capitalisation rate applied to funds borrowed and used for the development of vessel under construction is between 1.64% to 1.70% (during the year ended 31 December 2012: 1.71% to 1.94%) per annum.

10 INCOME TAX EXPENSE

For the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013, Hong Kong profits tax and overseas taxation have not been provided for as the Target Company did not have estimated assessable profits.

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

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Profit before income tax	–	–	–	43
Tax calculated at 16.5%	–	–	–	7
Income not subject to tax	–	–	–	(74)
Expenses not deductible for tax purposes	–	–	–	67
Income tax expense	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

11 DIRECTORS' EMOLUMENTS

None of the directors, who represent key management personnel of the Target Company, having authority and responsibility for planning, directing and controlling the activities of the Target Company, received or will receive any fees or emoluments in respect of their services to the Target Company during the periods ended 31 December 2011, 2012 and the ten months ended 31 October 2012 and 2013.

12 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful. The Target Company has no potentially dilutive option or other instruments relating to ordinary shares.

13 PROPERTY, PLANT AND EQUIPMENT

	Container vessel under construction <i>US\$'000</i>	Container vessel <i>US\$'000</i>	Others <i>US\$'000</i>	Total <i>US\$'000</i>
At 11 May 2011				
Cost	–	–	–	–
Accumulated depreciation	–	–	–	–
Net book amount	–	–	–	–
Year ended 31 December 2011				
Opening net book amount	–	–	–	–
Additions (<i>note a</i>)	3,900	–	–	3,900
Depreciation	–	–	–	–
Closing net book amount	3,900	–	–	3,900
At 31 December 2011				
Cost	3,900	–	–	3,900
Accumulated depreciation	–	–	–	–
Net book amount	3,900	–	–	3,900
Year ended 31 December 2012				
Opening net book amount	3,900	–	–	3,900
Additions (<i>note a</i>)	4,112	–	–	4,112
Depreciation	–	–	–	–
Closing net book amount	8,012	–	–	8,012
At 31 December 2012				
Cost	8,012	–	–	8,012
Accumulated depreciation	–	–	–	–
Net book amount	8,012	–	–	8,012
Ten month period ended 31 October 2013				
Opening net book amount	8,012	–	–	8,012
Additions (<i>note a</i>)	12,007	–	5	12,012
Transfer to vessel	(20,019)	20,019	–	–
Depreciation	–	(124)	–	(124)
Closing net book amount	–	19,895	5	19,900
At 31 October 2013				
Cost	–	20,019	5	20,024
Accumulated depreciation	–	(124)	–	(124)
Net book amount	–	19,895	5	19,900

Notes:

- (a) As at 31 December 2011, deposits paid by Target Company in relation to construction work of a vessel not yet commenced, amounting to US\$3,900,000 was included in vessel under construction.
- (b) For the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013, interest expense of US\$ nil, US\$15,000, US\$9,000 and US\$63,000 respectively were capitalised in vessel costs during the vessel construction period (note 9).

14 TRADE RECEIVABLE

	As at 31 December		As at
	2011	2012	31 October
	<i>US\$'000</i>	<i>US\$'000</i>	2013
			<i>US\$'000</i>
Trade receivable, net of provision (note a and note b)			
– fellow subsidiary	–	–	450
	<u>–</u>	<u>–</u>	<u>450</u>

Notes:

- (a) The Target Company does not grant any credit term to the fellow subsidiary. An ageing analysis of trade receivable (net of provision) at the respective balance sheet dates is as follows:

	As at 31 December		As at
	2011	2012	31 October
	<i>US\$'000</i>	<i>US\$'000</i>	2013
			<i>US\$'000</i>
Within 6 months	–	–	450
	<u>–</u>	<u>–</u>	<u>450</u>

As at 31 October 2013, trade receivable is past due but not considered to be impaired. This trade receivable relates to a fellow subsidiary for whom there is no history of default.

- (b) The trade receivable of the Target Company is denominated in US\$.

15 CASH AND CASH EQUIVALENTS

	As at 31 December		As at
	2011	2012	31 October
	<i>US\$'000</i>	<i>US\$'000</i>	2013
			<i>US\$'000</i>
Bank balances	1	16	87
	<u>1</u>	<u>16</u>	<u>87</u>

Cash and cash equivalents of the Target Company are denominated in US\$.

16 SHARE CAPITAL

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Authorised:			
10,000 shares of HK\$1 each	1	1	1
	<u>1</u>	<u>1</u>	<u>1</u>
			US\$'000
Issued and fully paid:			
At 11 May 2011 (date of incorporation)			–
Issue of 10,000 shares of HK\$1 each			1
			<u>1</u>
At 31 December 2011, 2012 and 31 October 2013			<u>1</u>

The Target Company was incorporated on 11 May 2011 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each. On 11 May 2011, 10,000 shares were allotted and issued at par of HK\$1.

17 TRADE AND OTHER PAYABLES

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Trade payables (<i>note a and note b</i>)			
– third parties	–	–	45
Other payables and accruals (<i>note b</i>)			
– immediate holding company	3,900	3,948	4,036
– fellow subsidiaries	–	2,129	3,007
– third parties	–	–	32
	<u>3,900</u>	<u>6,077</u>	<u>7,120</u>
Total	<u>3,900</u>	<u>6,077</u>	<u>7,120</u>

Notes:

- (a) An ageing analysis of trade payables at the respective balance sheet dates is as follows:

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Within 6 months	–	–	45
	<u>–</u>	<u>–</u>	<u>45</u>

- (b) The trade and other payables of the Target Company are denominated in US\$. The amounts due to immediate holding company and fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

18 BANK LOAN

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Bank loan due:			
– within one year	–	427	1,659
– between 1 and 2 years	–	1,523	1,659
– between 2 and 5 years	–	–	4,977
– Over 5 years	–	–	4,978
	–	1,950	13,273

As at 31 October 2013, bank loan of US\$13,273,000 (31 December 2012: US\$1,950,000) is secured by the container vessel with net book amount of US\$19,895,000 (31 December 2012: net book amount of US\$8,012,000) (Note (13));

According to the loan agreements, the interest rate is determined at three-month LIBOR plus 1.4% and the loan is repayable in 7 years and 9 months by equal installment after the delivery of the container vessel.

As at 31 October 2013, the weighted average interest rate of the bank loan is 1.93% annually (31 December 2012: 1.81%).

19 NOTES TO CASH FLOW STATEMENTS

Reconciliation of profit before income tax to cash used in operations

	Periods ended 31		Ten months ended	
	December	December	31 October	31 October
	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000
			(Unaudited)	
Profit before income tax	–	–	–	43
Adjustments for:				
Depreciation	–	–	–	124
Interest expenses	–	–	–	33
Increase in trade receivable	–	–	–	(450)
Increase in trade and other payables	–	–	–	77
Cash used in operations	–	–	–	(173)

20 CONTINGENT LIABILITIES

As at 31 December 2011 and 2012, and as at 31 October 2013, the Target Company had no material contingent liabilities.

21 COMMITMENTS

(a) Capital commitment

At 31 December 2011 and 2012, and as at 31 October 2013, the Target Company had capital commitments in respect of interests in vessel under construction not provided for as follows:

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Vessel under construction			
– Contracted but not provided for	15,600	11,700	–

(b) Operating lease commitment – where the Target Company is the lessor

At 31 December 2011 and 2012, and as at 31 October 2013, the Target Company has the following future minimum lease receipts under non-cancellable operating leases in relation to chartering of vessel.

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Vessel			
– no later than one year	–	–	1,135

22 RELATED PARTY TRANSACTIONS

SINOTRANS & CSC Group Company, the parent company, is controlled by the PRC Government. The PRC Government is the Target Company's ultimate controlling party. Enterprises directly or indirectly controlled, jointly controlled or significant influenced by the PRC Government ("state-owned enterprises"), together with SINOTRANS & CSC Group Company and its group companies are all related parties of the Target Company.

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

The following companies are related parties of the Target Company that had balances and/or transactions with the Target Company for the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013:

Related Parties	Relationship with the Target Company
Sinotrans HK Logistics	Immediate holding company
Sinotrans Container Lines Co., Ltd.	Fellow subsidiary
Hubei Qingchuan International Seaman Labor Development Co., Ltd.	Fellow subsidiary

Apart from the above-mentioned transactions with the state-owned enterprises, the following is a summary of significant related party transactions during the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013 and balances arising from those related party transactions at each of the reporting dates:

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

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
Charter hire income from a fellow subsidiary	-	-	-	450
Crew expenses charged by a fellow subsidiary	-	-	-	(102)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(102)</u>

In the opinion of the directors of the Target Company, the above related party transactions were carried out in the ordinary course of business and in accordance with the terms of the underlying agreements.

- (b) Year/period end balances arising from transactions with related parties were disclosed in notes 14 and 17.
- (c) During the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013, the Target Company was allowed to use trademarks registered in the name of SINOTRANS & CSC Group Company on a free-of-charge basis.
- (d) **Key management compensation**

There was no key management compensation incurred during the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 October 2013 up to the date of this report. No dividend or distribution has been declared or made by the Target Company in respect of any period subsequent to 31 October 2013.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
 Hong Kong

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

22 April 2014

The Directors
Sinotrans Shipping Limited

Dear Sirs,

We report on the financial information of Yungui Shipping Company Limited (the "Target Company") which comprises the balance sheets of the Target Company as at 31 December 2011 and 2012 and 31 October 2013, and the statements of comprehensive income, the statements of changes in equity and the cash flow statements of the Target Company for each of the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2013 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of Sinotrans Shipping Limited (the "Company") and is set out in Sections I to III below for inclusion in Appendix IIG to the circular of the Company dated 22 April 2014 (the "Circular") in connection with the proposed acquisition of the Target Company by a subsidiary of the Company.

The Target Company was incorporated in Hong Kong on 11 May 2011 as a company with limited liability. No audited statutory financial statements for each of the periods ended 31 December 2011 and 2012 have been prepared by the Target Company. The Target Company has adopted 31 December as its financial year end date for statutory reporting.

The directors of the Target Company are responsible for the preparation of the financial statements of the Target Company for the Relevant Periods that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSA") issued by the HKICPA pursuant to separate terms of engagement.

The financial information has been prepared based on the Underlying Financial Statements with no adjustment made thereon.

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information of the Target Company that gives a true and fair view in accordance with HKFRSs and accounting policies adopted by the Company and its subsidiaries (together the "Group") as set out in the annual report of the Company for the year ended 31 December 2013.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company as at 31 December 2011 and 2012 and 31 October 2013 and of the Target Company's results and cash flows for the Relevant Periods then ended.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I to III below included in Appendix IIG to the Circular which comprises the statement of comprehensive income, the statement of changes in equity and the cash flow statement of the Target Company for the ten months ended 31 October 2012 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in note 3 of Section II below and the accounting policies adopted by the Company as set out in the annual report for the year ended 31 December 2013.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in note 3 of Section II below.

I. FINANCIAL INFORMATION OF THE TARGET COMPANY

The following is the financial information of Yungui Shipping Company Limited prepared by the directors of the Company as at 31 December 2011 and 2012 and 31 October 2013 and for each of the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013 (the "Financial Information").

(A) Statements of comprehensive income

	<i>Note</i>	Periods ended 31 December		Ten months ended 31 October	
		2011 <i>US\$'000</i>	2012 <i>US\$'000</i>	2012 <i>US\$'000</i>	2013 <i>US\$'000</i>
				(Unaudited)	
Revenue	6	–	–	–	52
Cost of operations	7	–	–	–	(32)
Gross profit		–	–	–	20
Other operating expense, net	8	–	–	–	(3)
Operating profit		–	–	–	17
Finance cost	9	–	–	–	–
Profit before income tax		–	–	–	17
Income tax expense	10	–	–	–	–
Profit for the year/ period attributable to owner of the Target Company		–	–	–	17
Other comprehensive income		–	–	–	–
Profit and total comprehensive income for the year/period		–	–	–	17
Earnings per share attributable to owner of the Target Company during the year/period					
– basic and diluted	12	N/A	N/A	N/A	N/A
Dividend		–	–	–	–

(B) Balance sheets

	<i>Note</i>	As at 31 December		As at 31 October
		2011	2012	2013
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
ASSETS				
Non-current asset				
Property, plant and equipment	<i>13</i>	3,900	8,004	19,494
Current assets				
Trade and other receivables	<i>14</i>	–	–	65
Cash and cash equivalents	<i>15</i>	1	15	29
		1	15	94
Total assets		3,901	8,019	19,588
EQUITY				
Capital and reserves				
Share capital	<i>16</i>	1	1	1
Retained earnings		–	–	17
Total equity		1	1	18
LIABILITIES				
Non-current liability				
Bank loan	<i>18</i>	–	1,950	11,495
Current liabilities				
Trade and other payables	<i>17</i>	3,900	6,068	6,433
Current portion of bank loan	<i>18</i>	–	–	1,642
		3,900	6,068	8,075
Total liabilities		3,900	8,018	19,570
Total equity and liabilities		3,901	8,019	19,588
Net current liabilities		(3,899)	(6,053)	(7,981)
Total assets less current liabilities		1	1,951	11,513

(C) Statements of changes in equity

	Share capital <i>US\$'000</i>	Retained earnings <i>US\$'000</i>	Total equity <i>US\$'000</i>
At 11 May 2011, date of incorporation	–	–	–
Issue of share capital	<u>1</u>	<u>–</u>	<u>1</u>
	----- 1	----- –	----- 1
Comprehensive income			
Profit for the period	–	–	–
Other comprehensive income	<u>–</u>	<u>–</u>	<u>–</u>
	----- –	----- –	----- –
Total comprehensive income	<u>–</u>	<u>–</u>	<u>–</u>
	----- –	----- –	----- –
At 31 December 2011	<u><u>1</u></u>	<u><u>–</u></u>	<u><u>1</u></u>
At 1 January 2012	----- 1	----- –	----- 1
Comprehensive income			
Profit for the year	–	–	–
Other comprehensive income	<u>–</u>	<u>–</u>	<u>–</u>
	----- –	----- –	----- –
Total comprehensive income	<u>–</u>	<u>–</u>	<u>–</u>
	----- –	----- –	----- –
At 31 December 2012	<u><u>1</u></u>	<u><u>–</u></u>	<u><u>1</u></u>
At 1 January 2013	----- 1	----- –	----- 1
Comprehensive income			
Profit for the period	–	17	17
Other comprehensive income	<u>–</u>	<u>–</u>	<u>–</u>
	----- –	----- –	----- –
Total comprehensive income	<u>–</u>	<u>17</u>	<u>17</u>
	----- –	----- 17	----- 17
At 31 October 2013	<u><u>1</u></u>	<u><u>17</u></u>	<u><u>18</u></u>

	Share capital <i>US\$'000</i>	Retained earnings <i>US\$'000</i>	Total equity <i>US\$'000</i>
Unaudited			
Ten months ended 31			
October 2012			
At 1 January 2012	1	–	1
	-----	-----	-----
Comprehensive income			
Profit for the period	–	–	–
Other comprehensive income	–	–	–
	-----	-----	-----
Total comprehensive income	–	–	–
	-----	-----	-----
At 31 October 2012	1	–	1
	=====	=====	=====

(D) Cash flow statements

	<i>Note</i>	Periods ended 31 December		Ten months ended 31 October	
		2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
(Unaudited)					
Cash flows from operating activities					
Cash used in operations	19	-	-	-	(19)
Cash flows from investing activities					
Purchase of property, plant and equipment		(3,900)	(4,104)	(152)	(11,432)
Net cash used in investing activities		(3,900)	(4,104)	(152)	(11,432)
Cash flows from financing activities					
Issue of share capital		1	-	-	-
Drawdown of borrowing		-	1,950	-	11,187
Interest paid		-	-	-	(58)
Increase in amount due to immediate holding company and fellow subsidiaries		3,900	2,168	176	336
Net cash generated from financing activities		3,901	4,118	176	11,465
Net increase in cash and cash equivalents					
Cash and cash equivalents at beginning of the year/period		-	1	1	15
Cash and cash equivalents at end of the year/period		1	15	25	29

II. NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

Yungui Shipping Company Limited (the "Target Company") was incorporated in Hong Kong on 11 May 2011, as a company with limited liability with authorised and fully paid 10,000 shares of Hong Kong dollar 1 each. The address of its registered office is Room 1607-08, 16F, Fortress Tower, 250 King's Road, North Point, Hong Kong. The Target Company is principally engaged in vessel owning and chartering.

The immediate holding company of the Target Company is Sinotrans (HK) Logistics Limited ("Sinotrans HK Logistics"), a company incorporated in Hong Kong with limited liability.

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

The Financial Information of the Target Company is presented in United States dollars ("US\$"), unless otherwise stated.

2 BASIS OF PRESENTATION AND PREPARATION

- (i) The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include Hong Kong Accounting Standards ("HKAS") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Financial Information has been prepared under the historical cost convention throughout the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

As at 31 October 2013, the Target Company's current liabilities exceeded its current assets by US\$7,981,000. The Target Company's ability to continue as a going concern is highly depended on the continuing financial support from its equity holder. The parent company has confirmed its intention to provide continuing financial support to the Target Company so as to enable the Target Company to meet its liabilities as and when they fall due and to carry on its business without a significant curtailment of operation for the foreseeable future. Consequently, the directors of the Company have prepared the Financial Information on a going concern basis.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information is disclosed in note 5.

- (ii) **Standards and amendments which are not yet effective**

The HKICPA has issued the following new standards and amendments to the standards which are not yet effective in 2013 but relevant to the Target Company and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
HK (IFRIC) Interpretation 21	Levies	1 January 2014
HKFRS 7 and HKFRS 9 (Amendment)	Disclosures – Mandatory Effective Date of HKFRS 9 and Transition Disclosures	1 January 2015
HKFRS 9	Financial Instruments	To be determined

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

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of Financial Information are set out below. These policies have been consistently applied to all the years/ periods presented.

(a) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the Financial Information are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Target Company is US\$ and the Financial Information is presented in US\$.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at 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 profit or loss unless they are capitalised as part of the borrowing costs.

(b) Property, plant and equipment

(i) *Vessel under construction*

Vessel under construction includes all direct costs relating to the construction of the vessel. No depreciation is provided for vessel under construction until such time as the vessel is completed and ready for intended use.

(ii) *Vessel and other property, plant and equipment*

Vessel and other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. 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 Target Company and the cost of the item can be measured reliably. All other repairs and maintenance, including vessel repairs and surveys, are expensed in the profit or loss during the financial period in which they are incurred.

For vessel, 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.

Depreciation of vessel 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:

Vessel	25 years from the date of first registration
Other property, plant and equipment	5 years

The residual values of vessel 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 (note 3(e)).

The gain or loss on disposal of vessel and other 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 profit or loss.

(c) Leases

Leases where substantially all the risks and rewards of ownership of assets are retained by the lessors are classified as operating leases.

(i) Where the Target Company is the lessee (operating leases)

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

(ii) Where the Target Company is the lessor (operating leases)

When assets are leased out under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Target Company's depreciation policies, as set out in notes 3(b) above. Revenue arising from assets leased out under operating leases is recognised in accordance with the Target Company's revenue recognition policies, as set out in note 3(j) below.

Leases that substantially transfer to the lessees all the risks and rewards of ownership of assets are classified as finance leases.

(d) 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.

(e) Impairment

(i) Impairment of 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.

(ii) Impairment of financial assets carried at amortised cost

The Target Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and financial institutions with original maturities of three months or less.

(g) Trade and other payables

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

(h) Provisions

Provisions are recognised when the Target Company 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.

(i) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, 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 Target Company 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 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.

(j) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable in the ordinary course of the Target Company's activities. The Target Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for the Target Company's activities. Revenue from time charter is recognised on a straight-line basis over the period of each charter.

(k) 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 profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Target Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(l) 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 or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

(m) Dividend distribution

Dividend distribution to the shareholders of the Target Company is recognised as a liability in the Target Company's financial information in the period in which the dividends are approved by the shareholders or the directors of the Target Company, where applicable.

(n) 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 Target Company that makes strategic decisions.

4 FINANCIAL RISK MANAGEMENT**(a) Financial risk factors**

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

(i) Cash flow and fair value interest rate risk

The Target Company's interest bearing assets comprise cash and bank balances and interest bearing liabilities comprise bank loans. The Target Company's income and operating cash flows are substantially independent of changes in market interest rates.

For each of the periods ended December 31 December 2011 and 2012, and each of the ten months ended 31 October 2012 and 2013, the impact on the interest expenses of a 50 basis-point shift in interest rate would be a maximum increase or decrease of US\$ nil, US\$10,000, US\$ nil and US\$55,000 respectively.

(ii) Credit and counterparty risk

The extent of credit exposure of the Target Company is the aggregate carrying value of cash and bank balances and trade and other receivables. The Target Company's credit risk is considered minimal as the trade and other receivables are due from a fellow subsidiary of the Target Company.

Cash and bank balances are deposits in state-owned PRC banks with high credit ratings. Given their high credit ratings, the Target Company does not expect to have high credit risk in this aspect. Furthermore, management regularly assesses credit risk for amounts due from related parties by reviewing ageing analysis and financial statements of these counterparties on a regular basis to minimise credit risk.

(iii) Liquidity risk

Cash flow forecasting is performed by the Target Company. The finance department of Target Company monitors rolling forecasts of the Target Company's liquidity requirements to ensure it has sufficient cash to meet operational needs and capital commitments (if any) at all times. Such forecasting takes into consideration the Target Company's future business plans and strategy to monitor any debt financing requirement.

As at 31 October 2013, the Target Company's current liabilities exceeded its current assets by US\$7,981,000. The parent company has confirmed its intention to provide continuing financial support to the Target Company so as to enable the Target Company to meet its liabilities as and when they fall due and to carry on its business without a significant curtailment of operation for the foreseeable future.

The table below analyses the Target Company's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date 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.

	Less than 1 year or on demand US\$'000	Between 1 to 2 years US\$'000	Between 2 to 5 years US\$'000	Over 5 years US\$'000	Total US\$'000
At 31 December 2011					
Trade and other payables	3,900	–	–	–	3,900
Bank loan	–	–	–	–	–
	<u>3,900</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,900</u>
At 31 December 2012					
Trade and other payables	6,068	–	–	–	6,068
Bank loan	–	1,929	734	233	2,896
	<u>6,068</u>	<u>1,929</u>	<u>734</u>	<u>233</u>	<u>8,964</u>
At 31 October 2013					
Trade and other payables	6,433	–	–	–	6,433
Bank loan	1,642	1,823	5,304	5,021	13,790
	<u>8,075</u>	<u>1,823</u>	<u>5,304</u>	<u>5,021</u>	<u>20,223</u>

(b) Fair value estimation

The carrying values of cash and bank balances, trade and other receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at current market interest rate that is available to the Target Company for similar financial instruments.

(c) Capital risk management

The Target Company's objectives when managing capital are to safeguard the Target Company'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 Target Company will consider macro-economic conditions, prevailing borrowing rates in the market and adequacy of cash flows generating from operations, loans from parent company or bank borrowings or repay borrowings if necessary.

As at 31 October 2013, the Target Company's current liabilities exceeded its current assets by US\$7,981,000. The parent company has confirmed its intention to provide continuing financial support to the Target Company so as to enable the Target Company to meet its liabilities as and when they fall due and to carry on its business without a significant curtailment of operation for the foreseeable future.

The Target Company monitors its capital on the basis of the gearing ratio, which represents ratio of comparing net debt to total capital. Net debt represents borrowings less cash and bank balances. Total capital represents "total equity" as shown in the balance sheet plus net debt.

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Borrowings	3,900	8,018	19,541
Less: Cash and bank balances	(1)	(15)	(29)
Net debt	3,899	8,003	19,512
Total equity	1	1	18
Total capital	3,900	8,004	19,530
Gearing ratio	100%	100%	100%

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 Target Company 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 the vessel

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 vessel whenever events or changes in circumstances indicate that the carrying amount of the vessel may not be recoverable.

Management reviews certain indicators of potential impairment, such as results of operation of the vessel, reported sale and purchase prices, market demand and general market conditions and performs impairment assessment on its vessel.

The recoverable amount of the vessel has been determined based on the higher of fair value less costs to sell or value-in-use method. The fair value of the vessel was determined based on market transactions at the balance sheet date. While the value-in-use calculations require the use of estimates on the projectors of cash inflows from the continued use of the vessel (including the amounts to be received for the disposal of the vessel) and discount rate. All these items have been historically volatile and may impact the results of the impairment assessment. Based on management assessment, no provision for impairment loss for vessel of the Target Company has been made for the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

(b) Useful life of vessel

Management determines the estimated useful life and related depreciation expense for the vessel. Management estimates useful life of its vessel by reference to expected usage of the vessel, expected repair and maintenance, and technical or commercial obsolescence arising from changes or improvements in the vessel market. Useful life of vessel 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.

As at 31 October 2013, were the useful life to differ by 10% from management estimates with all other variables held constant, it is estimated that the carrying value of vessel would decrease by US\$10,000 or increase by US\$12,000 (not applicable as at 31 December 2011 and 2012 and as at 31 October 2012).

(c) **Residual value of vessel**

The Target Company's management determines the residual value for its vessel. 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 vessel as scrap steels. Depreciation expense would increase where the residual values are less than previously estimated values.

As at 31 October 2013, were the residual value to differ by 10% from management estimates, it is estimated that the carrying value of vessel would increase or decrease by US\$1,000 (not applicable as at 31 December 2011 and 2012 and as at 31 October 2012).

6 REVENUE

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
			(Unaudited)	
Turnover				
Charter hire income from a fellow subsidiary	-	-	-	52

As the Target Company only has chartering business, no separate operating segment is presented. Management considers the nature of ship owning and provision of chartering services, which is carried out internationally, and the way in which costs are allocated, preclude a meaningful presentation of geographical information.

7 EXPENSES BY NATURE

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
			(Unaudited)	
Hiring of crews and seafarers	-	-	-	(17)
Insurance premium	-	-	-	(13)
Others	-	-	-	(2)
Total cost of operations	-	-	-	(32)

8 OTHER OPERATING EXPENSE, NET

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
			(Unaudited)	
Exchange losses, net	-	-	-	(3)

9 FINANCE COST

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
			(Unaudited)	
Interest expense on bank loan	-	-	-	(58)
Less: amount capitalised in vessel under construction	-	-	-	58
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

During the ten months ended 31 October 2013, the capitalisation rate applied to funds borrowed and used for the development of vessel under construction is between 1.64% to 1.70% (during the year ended 31 December 2012: 1.71% to 1.94%) per annum.

10 INCOME TAX EXPENSE

For the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013, Hong Kong profits tax and overseas taxation have not been provided for as the Target Company did not have estimated assessable profits.

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

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
			(Unaudited)	
Profit before income tax	-	-	-	17
Tax calculated at 16.5%	-	-	-	3
Income not subject to tax	-	-	-	(9)
Expenses not deductible for tax purposes	-	-	-	6
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

11 DIRECTORS' EMOLUMENTS

None of the directors, who represent key management personnel of the Target Company, having authority and responsibility for planning, directing and controlling the activities of the Target Company, received or will receive any fees or emoluments in respect of their services to the Target Company during the periods ended 31 December 2011, 2012 and the ten months ended 31 October 2012 and 2013.

12 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful. The Target Company has no potentially dilutive option or other instruments relating to ordinary shares.

13 PROPERTY, PLANT AND EQUIPMENT

	Container vessel under construction US\$'000	Container vessel US\$'000	Others US\$'000	Total US\$'000
At 11 May 2011				
Cost	-	-	-	-
Accumulated depreciation	-	-	-	-
Net book amount	-	-	-	-
Year ended 31 December 2011				
Opening net book amount	-	-	-	-
Additions (<i>note a</i>)	3,900	-	-	3,900
Depreciation	-	-	-	-
Closing net book amount	3,900	-	-	3,900
At 31 December 2011				
Cost	3,900	-	-	3,900
Accumulated depreciation	-	-	-	-
Net book amount	3,900	-	-	3,900
Year ended 31 December 2012				
Opening net book amount	3,900	-	-	3,900
Additions (<i>note a</i>)	4,104	-	-	4,104
Depreciation	-	-	-	-
Closing net book amount	8,004	-	-	8,004
At 31 December 2012				
Cost	8,004	-	-	8,004
Accumulated depreciation	-	-	-	-
Net book amount	8,004	-	-	8,004
Ten months period ended 31 October 2013				
Opening net book amount	8,004	-	-	8,004
Additions (<i>note a</i>)	11,485	-	5	11,490
Transfer to vessel	(19,489)	19,489	-	-
Depreciation	-	-	-	-
Closing net book amount	-	19,489	5	19,494
At 31 October 2013				
Cost	-	19,489	5	19,494
Accumulated depreciation	-	-	-	-
Net book amount	-	19,489	5	19,494

- (a) As at 31 December 2011, deposits paid by Target Company in relation to construction work of a vessel not yet commenced, amounting to US\$3,900,000 was included in vessel under construction.
- (b) For the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013, interest expenses of US\$ nil, US\$ nil, US\$ nil and US\$58,000 respectively were capitalised in vessel costs during the vessel construction period (note 9).

14 TRADE AND OTHER RECEIVABLES

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Trade receivable, net of provision (note a and note b)			
– a fellow subsidiary	–	–	52
Prepayments, deposits and other receivables, net of provision (note b)			
– a fellow subsidiary	–	–	13
Total	–	–	65

Notes:

- (a) The Target Company does not grant any credit term to the fellow subsidiary. An ageing analysis of trade receivable (net of provision) at the respective balance sheet dates is as follows:

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Within 6 months	–	–	52

As at 31 October 2013, trade receivable is past due but not considered to be impaired. This trade receivable relates to a fellow subsidiary for whom there is no history of default.

- (b) The trade and other receivables of the Target Company is denominated in US\$.

15 CASH AND CASH EQUIVALENTS

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Bank balances	1	15	29

Cash and cash equivalents of the Target Company are denominated in US\$.

16 SHARE CAPITAL

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Authorised:			
10,000 shares of HK\$1 each	1	1	1
	<u>1</u>	<u>1</u>	<u>1</u>
			US\$'000
Issued and fully paid:			
At 11 May 2011 (date of incorporation)			–
Issue of 10,000 shares of HK\$1 each			1
			<u>1</u>
At 31 December 2011, 2012 and 31 October 2013			<u>1</u>

The Target Company was incorporated on 11 May 2011 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each. On 11 May 2011, 10,000 shares were allotted and issued at par of HK\$1.

17 TRADE AND OTHER PAYABLES

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Trade payables (<i>note a and note b</i>)			
– third parties	–	–	29
Other payables and accruals (<i>note b</i>)			
– immediate holding company	3,900	3,941	4,033
– fellow subsidiaries	–	2,127	2,371
	<u>3,900</u>	<u>6,068</u>	<u>6,433</u>
Total	<u>3,900</u>	<u>6,068</u>	<u>6,433</u>

Notes:

- (a) An ageing analysis of trade payables at the respective balance sheet dates is as follows:

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Within 6 months	–	–	29
	<u>–</u>	<u>–</u>	<u>29</u>

- (b) The trade and other payables of the Target Company are denominated in US\$. The amounts due to immediate holding company and fellow subsidiaries are unsecured interest-free and have no fixed terms of repayment.

18 BANK LOAN

	As at 31 December		As at
	2011	2012	31 October
	US\$'000	US\$'000	2013
			US\$'000
Bank loan due:			
– within one year	–	–	1,642
– between 1 and 2 years	–	1,706	1,642
– between 2 and 5 years	–	244	4,926
– Over 5 years	–	–	4,927
	–	1,950	13,137

As at 31 October 2013, bank loan of US\$13,137,000 (31 December 2012: US\$1,950,000) are secured by the container vessel with net book amount of US\$19,489,000 (31 December 2012: net book amount of US\$8,004,000) (Note (13));

According to the loan agreements, the interest rate is determined at three-month LIBOR plus 1.4% and the loan is repayable in 8 years by equal installment after the delivery of the container vessel.

As at 31 October 2013, the weighted average interest rate of the bank loan is 1.57% annually (31 December 2012: 1.71%).

19 NOTES TO CASH FLOW STATEMENTS

Reconciliation of profit before income tax to cash used in operations

	Periods ended 31		Ten months ended	
	December	December	31 October	31 October
	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000
			(Unaudited)	
Profit before income tax	–	–	–	17
Adjustments for:				
Increase in trade receivable	–	–	–	(65)
Increase in trade and other payables	–	–	–	29
Cash used in operations	–	–	–	(19)

20 CONTINGENT LIABILITIES

As at 31 December 2011 and 2012, and as at 31 October 2013, the Target Company had no material contingent liabilities.

21 COMMITMENTS**(a) Capital commitment**

At 31 December 2011 and 2012, and as at 31 October 2013, the Target Company had capital commitments in respect of interests in vessel under construction not provided for as follows:

	As at 31 December		As at 31 October
	2011	2012	2013
	US\$'000	US\$'000	US\$'000
Vessel under construction			
– Contracted but not provided for	15,600	11,700	–

(b) Operating lease commitment – where the Target Company is the lessor

At 31 December 2011 and 2012, and as at 31 October 2013, the Target Company has the following future minimum lease receipts under non-cancellable operating leases in relation to chartering of vessel.

	As at 31 December		As at 31 October
	2011	2012	2013
	US\$'000	US\$'000	US\$'000
Vessel			
– no later than one year	–	–	1,538

22 RELATED PARTY TRANSACTIONS

SINOTRANS & CSC Group Company, the parent company, is controlled by the PRC Government. The PRC Government is the Target Company's ultimate controlling party. Enterprises directly or indirectly controlled, jointly controlled or significant influenced by the PRC Government ("state-owned enterprises"), together with SINOTRANS & CSC Group Company and its group companies are all related parties of the Target Company.

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

The following companies are related parties of the Target Company that had balances and/or transactions with the Target Company for the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013:

Related Parties	Relationship with the Target Company
Sinotrans HK Logistics	Immediate holding company
Sinotrans Container Lines Co., Ltd.	Fellow subsidiary
Hubei Qingchuan International Seaman Labor Development Co., Ltd.	Fellow subsidiary

Apart from the above-mentioned transactions with the state-owned enterprises, the following is a summary of significant related party transactions during the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013 and balances arising from those related party transactions at each of the reporting dates:

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

	Periods ended 31 December		Ten months ended 31 October	
	2011 US\$'000	2012 US\$'000	2012 US\$'000	2013 US\$'000
			(Unaudited)	
Charter hire income from a fellow subsidiary	-	-	-	52
Crew expenses charged by a fellow subsidiary	-	-	-	(17)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17)</u>

In the opinion of the directors of the Target Company, the above related party transactions were carried out in the ordinary course of business and in accordance with the terms of the underlying agreements.

- (b) Year/period end balances arising from transactions with related parties were disclosed in notes 14 and 17.
- (c) During the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013, the Target Company was allowed to use trademarks registered in the name of SINOTRANS & CSC Group Company on a free-of-charge basis.
- (d) **Key management compensation**

There was no key management compensation incurred during the periods ended 31 December 2011 and 2012 and the ten months ended 31 October 2012 and 2013.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 October 2013 up to the date of this report. No dividend or distribution has been declared or made by the Target Company in respect of any period subsequent to 31 October 2013.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
 Hong Kong

BUSINESS OVERVIEW

Sinotrans Container Lines is an international container transportation services provider. Sinotrans Container Lines Group is principally engaged in centralized operation of the international container transportation, and its services cover almost all the main cities and ports of the PRC to the overseas, including Japan, Korea, Hong Kong, Taiwan, Australia, Philippines, Singapore, Vietnam and Indonesia. It also operates branches in Beijing, Dalian, Fuzhou, Nanjing, Ningbo, Qingdao, Shenzhen, Tianjin and Xiamen in the PRC.

Each of Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping is principally engaged in ship owning and chartering business.

Each of Skyglory and Skyroyal owns one vessel and is principally engaged in ship owning and chartering business.

Sinotrans Tianze is principally engaged in ship management and conveying business. Sinotrans Tianze primarily manages the vessels of Skyglory and Skyroyal. Therefore, Sinotrans Tianze, Skyglory and Skyroyal are considered to be a single business. Sinotrans Tianze Business covers routes such as the Black Sea, Indian Ocean, Mediterranean, Pacific region, Persian Gulf, Somali waters, Strait of Malacca, South America and West Africa. As specialized in general cargo business, its major customers include the Chinese contractors who ship equipments to African work fields through break-bulk cargo vessels.

Sinotrans Tianze, Skyglory and Skyroyal are owned and controlled by Sinotrans and the Parent Group and have been managed as a single business together throughout the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2013. For the purpose of this Circular, the financial information of such companies has been presented on a combined basis.

Sinochart Group is principally engaged in dry bulk vessel time chartering and dry bulk cargo voyage chartering. Sinochart Group has access to a broad consigner network.

FINANCIAL OVERVIEW

The financial information of the Target Group Companies as extracted from their accountant's reports are set out below:

Yunrong Shipping

<i>(US\$'000)</i>	Yunrong Shipping		
	Period	Year	10-month
	ended/as at	ended/as at	ended/as at
	31 December	31 December	31 October
	2011	2012	2013
Revenue	N/A	N/A	434
Depreciation	–	–	(112)
Hiring of crew and seafarers	–	–	(141)
Administrative expenses	–	–	–
Finance costs	–	–	(51)
Profit before tax	–	–	57
Profit after tax	–	–	57
Income tax expenses	–	–	–
Long-term debts	–	4,500	11,419
Maturity date of long-term debts	N/A	2021	2021
Interest rate of long-term debts	N/A	LIBOR+1.4%	LIBOR+1.4%
Gearing ratio	100%	100%	100%
Currency in which long-term debts are made	N/A	US\$	US\$
Currency in which cash and cash equivalents are held	US\$	US\$	US\$
Financial instruments held for hedging purpose	Nil	Nil	Nil
Future capital expenditure	US\$10,000	US\$7,300	Nil
	for vessel	for vessel	
	under	under	
	construction	construction	

Yunhua Shipping

	Yunhua Shipping		
	Period	Year	10-month
	ended/as at	ended/as at	ended/as at
<i>(US\$'000)</i>	31 December	31 December	31 October
	2011	2012	2013
Revenue	N/A	N/A	284
Depreciation	–	–	(56)
Hiring of crew and seafarers	–	–	(89)
Administrative expenses	–	–	–
Finance costs	–	–	(17)
Profit before tax	–	–	9
Profit after tax	–	–	9
Income tax expenses	–	–	–
Long-term debts	–	4,500	11,800
Maturity date of long-term debts	N/A	2021	2021
Interest rate of long-term debts	N/A	LIBOR+1.4%	LIBOR+1.4%
Gearing ratio	100%	100%	100%
Currency in which long-term debts are made	N/A	US\$	US\$
Currency in which cash and cash equivalents are held	US\$	US\$	US\$
Financial instruments held for hedging purpose	Nil	Nil	Nil
Future capital expenditure	US\$10,000 for vessel under construction	US\$7,300 for vessel under construction	Nil

Yunfu Shipping

	Yunfu Shipping		
	Period	Year	10-month
	ended/as at	ended/as at	ended/as at
	31 December	31 December	31 October
<i>(US\$'000)</i>	2011	2012	2013
Revenue	N/A	N/A	450
Depreciation	–	–	(124)
Hiring of crew and seafarers	–	–	(102)
Administrative expenses	–	–	–
Finance costs	–	–	(33)
Profit before tax	–	–	43
Profit after tax	–	–	43
Income tax expenses	–	–	–
Long-term debts	–	1,950	13,273
Maturity date of long-term debts	N/A	2021	2021
Interest rate of long-term debts	N/A	LIBOR+1.4%	LIBOR+1.4%
Gearing ratio	100%	100%	100%
Currency in which long-term debts are made	N/A	US\$	US\$
Currency in which cash and cash equivalents are held	US\$	US\$	US\$
Financial instruments held for hedging purpose	Nil	Nil	Nil
Future capital expenditure	US\$15,600	US\$11,700	Nil
	for vessel under construction	for vessel under construction	

Yungui Shipping

	Yungui Shipping		
	Period ended/as at 31 December 2011	Year ended/as at 31 December 2012	10-month ended/as at 31 October 2013
<i>(US\$'000)</i>			
Revenue	N/A	N/A	52
Depreciation	–	–	(17)
Hiring of crew and seafarers	–	–	(13)
Administrative expenses	–	–	–
Finance costs	–	–	–
Profit before tax	–	–	17
Profit after tax	–	–	17
Income tax expenses	–	–	–
Long-term debts	–	1,950	13,137
Maturity date of long-term debts	N/A	2021	2021
Interest rate of long-term debts	N/A	LIBOR+1.4%	LIBOR+1.4%
Gearing ratio	100%	100%	100%
Currency in which long-term debts are made	N/A	US\$	US\$
Currency in which cash and cash equivalents are held	US\$	US\$	US\$
Financial instruments held for hedging purpose	Nil	Nil	Nil
Future capital expenditure	US\$15,600 for vessel under construction	US\$11,700 for vessel under construction	Nil

Sinotrans Container Lines Group

<i>(US\$'000)</i>	Sinotrans Container Line Group		
	Year ended/as at 31 December 2011	Year ended/as at 31 December 2012	10-month ended/as at 31 October 2013
	Revenue	589,972	620,516
Bunker expenses	(107,708)	(118,893)	(83,236)
Operating lease expenses – vessels	(86,018)	(71,525)	(50,030)
Operating lease expenses – containers	(38,668)	(39,836)	(29,606)
Handling charges	(201,338)	(212,129)	(155,176)
Container charges	(73,333)	(93,844)	(72,919)
Finance costs	–	–	–
Loss before tax	(13,729)	(18,722)	(2,519)
Loss after tax	(13,729)	(18,722)	(2,519)
Income tax expenses	–	–	–
Loan from the immediate holding company	85,215	90,954	89,621
Maturity date of long-term debts	No fixed terms of repayment	No fixed terms of repayment	No fixed terms of repayment
Interest rate of long-term debts	Interest free	Interest free	Interest free
Gearing ratio	306%	165%	174%
Currency in which cash and cash equivalents are held	US\$, RMB and JPY	US\$, RMB and JPY	US\$, RMB and JPY
Financial instruments held for hedging purpose	Nil	Nil	Nil
Future capital expenditure	Nil	Nil	Nil

Sinochart Group

<i>(US\$'000)</i>	Sinochart Group		
	Year ended/as at 31 December 2011	Year ended/as at 31 December 2012	10-month ended/as at 31 October 2013
	Revenue	808,126	696,100
Operating lease rental – vessels	(602,306)	(468,323)	(315,870)
Bunker expenses	(131,233)	(168,721)	(101,552)
Port charges	(32,681)	(39,118)	(23,535)
Provision for onerous contracts	(22,574)	(8,959)	(2,341)
(Loss)/profit before tax	(1,281)	(3,853)	9,432
(Loss)/profit after tax	(1,171)	(2,975)	7,246
Income tax credit/(expenses)	110	878	(2,186)
Long term debts	Nil	Nil	Nil
Maturity date of long-term debts	N/A	N/A	N/A
Interest rate of long-term debts	N/A	N/A	N/A
Gearing ratio	N/A	N/A	13%
Currency in which cash and cash equivalents are held	RMB and US\$	RMB and US\$	RMB and US\$
Financial instruments held for hedging purpose	Nil	Nil	Nil
Future capital expenditure	Nil	Nil	Nil

Sinotrans Tianze Business

<i>(US\$'000)</i>	Sinotrans Tianze Business		
	Year	Year	10-month
	ended/as at	ended/as at	ended/as at
	31 December	31 December	31 October
	2011	2012	2013
Revenue	5,685	6,612	4,873
Depreciation	(2,384)	(2,365)	(1,972)
Hiring of crews and seafarers	(1,485)	(1,765)	(1,400)
Finance costs	(204)	(216)	(104)
Loss before tax	(861)	(383)	(536)
Loss after tax	(962)	(546)	(578)
Income tax expenses	(101)	(163)	(42)
Loan from the parent company	21,436	20,436	20,436
Maturity date of long-term debts	2018	2018	2018
Interest rate of long-term debts	30% interest free; 70%	30% interest free; 70%	30% interest free; 70%
	LIBOR+1%	LIBOR+1%	LIBOR+1%
Gearing ratio	28%	21%	14%
Currency in which cash and cash equivalents are held	US\$ and RMB	US\$ and RMB	US\$ and RMB
Financial instruments held for hedging purpose	Nil	Nil	Nil
Future capital expenditure	Nil	Nil	Nil

FINANCIAL POSITION**Yunrong Shipping**

Total assets of Yunrong Shipping were approximately US\$10.3 million and US\$18.7 million as at 31 December 2012 and 31 October 2013, respectively, which were mainly made up of the vessel.

As at 31 December 2012 and 31 October 2013, total liabilities of Yunrong Shipping were approximately US\$10.3 million and US\$18.7 million respectively, which were mainly made up of the bank loan and intercompany balances borrowed for construction of the vessel.

The net assets of Yunrong Shipping was approximately US\$1,000 and US\$58,000 as at 31 December 2012 and 31 October 2013, respectively.

Yunhua Shipping

Total assets of Yunhua Shipping were approximately US\$10.2 million and US\$18.5 million as at 31 December 2012 and 31 October 2013, respectively, which were mainly made up of the vessel.

As at 31 December 2012 and 31 October 2013, total liabilities of Yunhua Shipping were approximately US\$10.2 million and US\$18.5 million respectively, which were mainly made up of the bank loan and intercompany balances borrowed for construction of the vessel.

The net assets of Yunhua Shipping was approximately US\$1,000 and US\$10,000 as at 31 December 2012 and 31 October 2013, respectively.

Yunfu Shipping

Total assets of Yunfu Shipping were approximately US\$8.0 million and US\$20.4 million as at 31 December 2012 and 31 October 2013, respectively, which were mainly made up of the vessel.

As at 31 December 2012 and 31 October 2013, total liabilities of Yunfu Shipping were approximately US\$8.0 million and US\$20.4 million respectively, which were mainly made up of the bank loan and intercompany balances borrowed for construction of the vessel.

The net assets of Yunfu Shipping was approximately US\$1,000 and US\$44,000 as at 31 December 2012 and 31 October 2013, respectively.

Yungui Shipping

Total assets of Yungui Shipping were approximately US\$8.0 million and US\$19.6 million as at 31 December 2012 and 31 October 2013, respectively, which were mainly made up of the vessel.

As at 31 December 2012 and 31 October 2013, total liabilities of Yungui Shipping were approximately US\$8.0 million and US\$19.6 million respectively, which were mainly made up of the bank loan and intercompany balances borrowed for construction of the vessel.

The net assets of Yungui Shipping was approximately US\$1,000 and US\$18,000 as at 31 December 2012 and 31 October 2013, respectively.

Sinochart Group

Total consolidated assets of Sinochart Group were approximately US\$199.6 million and US\$182.0 million as at 31 December 2012 and 31 October 2013, respectively, which were mainly made up of trade and other receivables and cash and bank balances.

As at 31 December 2012 and 31 October 2013, total consolidated liabilities of Sinochart Group were approximately US\$89.2 million and US\$61.6 million respectively, which were mainly made up of trade and other payables.

The consolidated net assets of Sinochart Group was approximately US\$110.4 million and US\$120.4 million as at 31 December 2012 and 31 October 2013, respectively.

Sinotrans Container Lines Group

Total consolidated assets of Sinotrans Container Lines Group were approximately US\$164.3 million and US\$136.3 million as at 31 December 2012 and 31 October 2013, respectively, which were mainly made up of trade and other receivables.

As at 31 December 2012 and 31 October 2013, total consolidated liabilities of Sinotrans Container Lines Group were approximately US\$275.4 million and US\$252.5 million respectively, which were mainly made up of trade and other payables and loans from Sinotrans for working capital needs.

The consolidated deficit on equity of Sinotrans Container Lines Group was approximately US\$111.1 million and US\$116.2 million as at 31 December 2012 and 31 October 2013, respectively.

Sinotrans Tianze Business

Total combined assets of Sinotrans Tianze Business were approximately US\$34.2 million and US\$34.1 million as at 31 December 2012 and 31 October 2013, respectively, which were mainly made up of the vessels of the Panama Target Group and the amount due from Parent Company.

As at 31 December 2012 and 31 October 2013, total combined liabilities of Sinotrans Tianze Business were approximately US\$21.1 million and US\$21.2 million respectively, which were mainly made up of the loans from Parent Company for the acquisitions of the vessels of the Panama Target Group.

The combined net assets of Sinotrans Tianze Business was approximately US\$13.1 million and US\$12.9 million as at 31 December 2012 and 31 October 2013, respectively.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 28 February 2014, the Enlarged Group had available bank facilities of approximately US\$18.3 million. Details of the liquidity and financial resources and capital structure of the Target Group Companies are set out as below.

Yunrong Shipping

As at 31 December 2012 and 31 October 2013, Yunrong Shipping recorded current liabilities of approximately US\$6.1 million and US\$8.8 million respectively and had gearing ratios (calculating by dividing the net debt by total capital) of approximately 100% and 100% respectively.

Yunhua Shipping

As at 31 December 2012 and 31 October 2013, Yunhua Shipping recorded current liabilities of approximately US\$6.1 million and US\$8.2 million respectively and had gearing ratios (calculating by dividing the net debt by total capital) of approximately 100% and 100% respectively.

Yunfu Shipping

As at 31 December 2012 and 31 October 2013, Yunfu Shipping recorded current liabilities of approximately US\$6.5 million and US\$8.8 million respectively and had gearing ratios (calculating by dividing the net debt by total capital) of approximately 100% and 100% respectively.

Yungui Shipping

As at 31 December 2012 and 31 October 2013, Yungui Shipping recorded current liabilities of approximately US\$6.1 million and US\$8.1 million respectively and had gearing ratios (calculating by dividing the net debt by total capital) of approximately 100% and 100% respectively.

Sinotrans Container Lines Group

As at 31 December 2012 and 31 October 2013, Sinotrans Container Lines Group recorded consolidated current liabilities of approximately US\$275.4 million and US\$252.5 million respectively and had current ratios of approximately 0.58 and 0.52 respectively and gearing ratios (calculating by dividing the consolidated net debt by consolidated total capital) of approximately 178% and 197% respectively.

Sinochart Group

As at 31 December 2012 and 31 October 2013, Sinochart Group recorded consolidated current liabilities of approximately US\$88.4 million and US\$61.6 million respectively and had current ratios of approximately 2.08 and 2.73 respectively and gearing ratios (calculating by dividing the consolidated net debt by consolidated total capital) of approximately N/A and 13% respectively.

Sinotrans Tianze Business

As at 31 December 2012 and 31 October 2013, Sinotrans Tianze Business recorded combined current liabilities of approximately US\$6.0 million and US\$7.9 million, respectively and had current ratios of 3.10 and 2.59 respectively and gearing ratios (calculating by dividing the combined net debt by combined total capital) of 29% and 14% respectively.

BUSINESS PERFORMANCE AND SEGMENT INFORMATION**Sinotrans Container Lines Group**

Sinotrans Container Lines Group mainly operates in the segment of providing international container transportation services. Sinotrans Container Lines Group does not expect any upcoming changes in such industry segment and in the market conditions, new products and services to be introduced that will impact on its performance and changes in turnover and margins.

Ten months ended 31 October 2013 compared to ten months ended 31 October 2012*Revenue*

As the development of the shipping market was limited by the depression of macro-economy, the overall environment of the shipping industry has been weak. Total revenue for the ten months ended 31 October 2013 was US\$476,408,000, representing a decrease of US\$30,854,000, from US\$507,262,000 for the ten months ended 31 October 2012. The freight income from the China-Japan route decreased by US\$24,559,000 as compared to the same period of last year.

Cost of Operations

The cost of operations for the ten months ended 31 October 2013 was US\$472,225,000, a decrease of US\$44,738,000, from US\$516,963,000 for the ten months ended 31 October 2012. As the business volume decreased, the handling charges went down by US\$18,865,000, lease expenses for containers went down by US\$2,974,000 and fuel charges went down by US\$14,068,000. In addition, as the number of charter-in vessels decreased, operating lease expenses for vessels decreased by US\$9,715,000.

Other Operating Income

Other operating income for the ten months ended 31 October 2013 was US\$1,092,000, an increase of US\$973,000, from US\$119,000 for the ten months ended 31 October 2012. The increase was due to the exchange gain increased by US\$998,000.

Loss for the Period

The loss for the ten months ended 31 October 2013 was US\$2,519,000, a decrease of US\$15,133,000, from US\$17,652,000 for the ten months ended 31 October 2012.

Year ended 31 December 2012 compared to year ended 31 December 2011*Revenue*

Total revenue in the year 2012 was US\$620,516,000, representing an increase of US\$30,544,000, from US\$589,972,000 in the year 2011. As the business volume grew and the expansion into the China-Taiwan/Hong Kong route, the revenue from China-Taiwan/Hong Kong route increased by US\$20,290,000.

Cost of Operations

The cost of operations in the year 2012 was US\$630,387,000, an increase of US\$35,972,000, from US\$594,415,000 in the year 2011. As the business volume increased, container charges increased by US\$20,511,000, and handling charges increased by US\$10,791,000.

Selling, Administrative and General Expenses

Selling, administrative and general expenses in the year 2012 were US\$11,429,000, an increase of US\$783,000, from US\$10,646,000 in the year 2011. Such increase was mainly due to the fact that the volume of business grew and the relevant indirect expense went up accordingly.

Other Operating Income

Other operating income in the year 2012 was US\$2,505,000, an increase of US\$1,219,000, from US\$1,286,000 in the year 2011 mainly due to the increase of government subsidies of US\$2,382,000 was granted in the year 2012, which was partially offset by the decrease of the exchange gain of US\$1,925,000.

Loss for the Year

The loss in the year 2012 was US\$18,722,000, an increase of US\$4,993,000, from US\$13,729,000 in the year 2011.

Year ended 31 December 2011 compared to year ended 31 December 2010*Revenue*

Total revenue in the year 2011 was US\$589,972,000, representing an increase of US\$95,733,000, from US\$494,239,000 in the year 2010. Such increase was mainly due to the fact that the volume of business increased. The revenue from China-Japan and China-South Korea routes increased by US\$71,495,000.

Cost of Operations

The cost of operations in the year 2011 was US\$594,415,000, an increase of US\$113,253,000, from US\$481,162,000 in the year 2010. As the volume of business increased, handling charge increased by US\$25,155,000, Container charges increased by US\$22,427,000, port charge increased by US\$14,284,000 and fuel charges increased by US\$36,463,000. In addition, as the number of charter-in vessels increased, operating lease expenses for charter-in vessels increased by US\$8,567,000.

Selling, Administrative and General Expenses

Selling, administrative and general expenses in the year 2011 were US\$10,646,000, an increase of US\$189,000, from US\$10,457,000 in the year 2010. Such increase was mainly due to the fact that the volume of business rose and the relevant indirect expense went up accordingly.

Other Operating Income/(expense)

The other operating income in the year 2011 mainly represented the fair value gain on derivative financial instruments and exchange gain, netting off with the loss on derivative financial instruments. Other operating income in the year 2011 was US\$1,286,000 (2010: Other operating expense of US\$11,928,000).

Loss for the Year

The loss in the year 2011 was US\$13,729,000, an increase of US\$4,467,000, from US\$9,262,000 in the year 2010.

Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping

Each of Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping operates in the segment of vessel owning and chartering. Each of Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping does not expect any upcoming changes in such industry segment and in the market conditions, new products and services to be introduced that will impact on its performance and changes in turnover and margins.

For the years ended 31 December 2011 and 2012, the container vessels namely Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping were under construction. The vessels were delivered in the second half of 2013. For the ten months ended 31 October 2013, the profits generated from chartering the vessels of Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping accounted for US\$57,000, US\$9,000, US\$43,000 and US\$17,000, respectively.

Sinotrans Tianze Business

Sinotrans Tianze, Skyglory and Skyroyal are owned and controlled by Sinotrans and the Parent Group and have been managed as a single business together throughout the years ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2013, for the purpose of this Circular, the financial information of such companies has been presented on a combined basis.

Each of Skyglory and Skyroyal operates in the segments of dry bulk vessel owning and time chartering business. Each of Skyglory and Skyroyal does not expect any upcoming changes in such industry segment and in the market conditions, new products and services to be introduced that will impact on its performance and changes in turnover and margins.

Sinotrans Tianze operates in the segments of ship management and conveying business. Sinotrans Tianze primarily manages the vessels of Skyglory and Skyroyal. Therefore, Sinotrans Tianze, Skyglory and Skyroyal are considered to be a single business. Sinotrans Tianze Business covers routes such as the Black Sea, Indian Ocean, Mediterranean, Pacific region, Persian Gulf, Somali waters, Strait of Malacca, South America and West Africa. As specialized in general cargo business, its major customers include the Chinese contractors who ship equipments to African work fields through break-bulk cargo vessels. Sinotrans Tianze does not expect any upcoming changes in such industry segment and in the market conditions, new products and services to be introduced that will impact on its performance and changes in turnover and margins.

Ten months ended 31 October 2013 compared to ten months ended 31 October 2012*Revenue*

Total revenue for the ten months ended 31 October 2013 was US\$4,873,000, representing a decrease of US\$707,000, from US\$5,580,000 for the ten months ended 31 October 2012. The

decrease in the total revenue was mainly attributable to no ship conveying service provided for the ten months ended 31 October 2013 (for the ten months ended 31 October 2012: US\$432,000).

Cost of Operations

The cost of operation mainly comprises hiring of crews and seafarer, spare parts, lubricants and materials, employee benefit expense and repairs and maintenance expenses. The cost of operations for the ten months ended 31 October 2013 was US\$5,152,000, a decrease of US\$437,000, from US\$5,589,000 for the ten months ended 31 October 2012.

Loss for the Period

The loss for the ten months ended 31 October 2013 was US\$578,000, an increase of US\$268,000, from US\$310,000 for the ten months ended 31 October 2012.

Year ended 31 December 2012 compared to year ended 31 December 2011

Revenue

Total revenue in the year 2012 was US\$6,612,000, representing an increase of US\$927,000, from US\$5,685,000 in the year 2011. The increase in the total revenue was mainly attributable to ship conveying service was provided in the year 2012 and derived a revenue of US\$437,000 (2011: Nil).

Cost of Operations

The cost of operation mainly comprises hiring of crews and seafarer, spare parts, lubricants and materials, employee benefit expense and repairs and maintenance expenses. The cost of operations in the year 2012 was US\$6,850,000, an increase of US\$460,000, from US\$6,390,000 in the year 2011.

Loss for the Year

The loss in the year 2012 was US\$546,000, a decrease of US\$416,000, from US\$962,000 in the year 2011.

Year ended 31 December 2011 compared to year ended 31 December 2010

Revenue

As two second-hand dry bulk vessels were acquired in the second half of year 2010, the operating days in the whole year 2011 increased. Total revenue increased by US\$3,113,000 from US\$2,572,000 in the year 2010 to US\$5,685,000, in the year 2011.

Cost of Operations

The cost of operation mainly comprises hiring of crews and seafarer, spare parts, lubricants and materials, employee benefit expense and repairs and maintenance expenses. The cost of operations in the year 2011 was US\$6,390,000, an increase of US\$3,290,000, from US\$3,100,000 in the year 2010. The increase mainly due to the increase in the operation days for two secondhand dry bulk vessels acquired in second half of the year 2010.

Loss for the Year

The loss in the year 2011 was US\$962,000, an increase of US\$294,000, from US\$668,000 in the year 2010.

Sinochart Group

Sinochart Group operates in the segments of dry bulk vessel owning and time chartering and dry bulk cargo voyage chartering. Sinochart Group does not expect any upcoming changes in such industry segment and in the market conditions, new products and services to be introduced that will impact on its performance and changes in turnover and margins.

Ten months ended 31 October 2013 compared to ten months ended 31 October 2012*Revenue*

Suffering from serious oversupply of tonnage and continuously lacklustre demand, the shipping market further slumped and the Baltic Dry Index (“**BDI**”) fell to a record low of 842 points on average in the first half of the year 2013. Entering into the second half of the year, the market fundamentals improved as compared to the beginning of the year and gradually recovered from the recession in the course of volatility with the slowdown of new building vessel delivery and rebound of demand for major commodities such as iron ore and coal. For the ten months ended 31 October 2013, the average BDI recorded 1,093 points. Total revenue for the ten months ended 31 October 2013 was US\$470,141,000, representing a decrease of US\$124,118,000, from US\$594,259,000 for the ten months ended 31 October 2012.

Cost of Operations

The cost of operations for the ten months ended 31 October 2013 was US\$457,722,000, a decrease of US\$143,556,000, from US\$601,278,000 for the ten months ended 31 October 2012. The decrease was primarily owing to the decrease in the quantity of the charter-in vessels and decline of the business volume. The operating lease expense of the chartered vessels decreased by US\$82,877,000, the port expenses port decreased by US\$9,381,000 and the fuel charges decreased by US\$45,480,000.

Selling, Administrative and General Expenses

Selling, administrative and general expenses for the ten months ended 31 October 2013 were US\$4,421,000, a decrease of US\$1,223,000, from US\$5,644,000 for the ten months ended 31 October 2012. The decrease was mainly attributable to the effective cost control measures.

Finance Income

Finance income for the ten months ended 31 October 2013 was US\$1,197,000, a decrease of US\$637,000, from US\$1,834,000 for the ten months ended 31 October 2012. As the deposits decreased, the income of interests decreased accordingly.

Profit/(Loss) for the Period

The profit for the ten months ended 31 October 2013 was US\$7,246,000. (for the ten months ended 31 October 2012: Loss for the period of US\$8,018,000).

*Year ended 31 December 2012 compared to year ended 31 December 2011**Revenue*

International dry bulk shipping market remained gloomy in 2012. Dragged by the weak international macroeconomic environment, the growth in global seaborne demand for major commodities such as iron ore and coal was trivial. Meanwhile, new tonnage kept pouring into the market, adding tremendous supply pressure to the market. The BDI has been crawling low since the end of 2011 and averaged just 920 points in 2012, not only representing a slump of 40.6% from 2011, but also hitting the bottom of the past two decades. Dry bulk shipping companies around the world were all facing an extraordinarily severe business environment. As the shipping market continued to decline, leading to a decrease in the transportation fee, the total revenue in the year 2012 was US\$696,100,000, representing a decrease of US\$112,026,000, from US\$808,126,000 in the year 2011.

Cost of Operations

The cost of operations in the year 2012 was US\$698,558,000, a decrease of US\$105,314,000, from US\$803,872,000 in the year 2011. The decrease was primarily due to the decrease in the quantity of the charter-in vessels. The operating expenses of the chartered vessels decreased by US\$133,983,000.

Selling, Administrative and General Expenses

Selling, administrative and general expenses in the year 2012 were US\$4,002,000, a decrease of USD3,430,000, from US\$7,432,000 in the year 2011. The decrease was mainly attributable to the effective cost control measures.

Finance Income

Finance income in the year 2012 was US\$2,272,000, a decrease of US\$652,000, from US\$2,924,000 in 2011. As the deposits decreased, the interest income decreased accordingly.

Loss for the Year

The loss for the year 2012 was US\$2,975,000. (2011: US1,171,000).

*Year ended 31 December 2011 compared to year ended 31 December 2010**Revenue*

In 2011, growth of international dry bulk seaborne trade suffered a slowdown, which was held back by factors such as instability of the global economy, tightening of macroeconomic measures in China and the frequent occurrences of natural disasters worldwide. On the other hand, delivery of new building dry bulk vessels reached a historical high and brought huge oversupply pressure to the shipping market. As the growth in seaborne trade lagged behind the influx of new tonnage, the market became severely imbalanced in supply and demand. The average BDI for 2011 only recorded an average of 1,549, losing 43.8% from last year's level. However, as the quantity of the charter-in vessels increased and the business volume increased, the total revenue in the year 2011 was US\$808,126,000, representing an increase of US\$64,090,000, from US\$744,036,000 in the year 2010.

Cost of Operations

The cost of operations in the year 2011 was US\$803,872,000, an increase of US\$76,121,000, from US\$727,751,000 in the year 2010. The increase was primarily owing to the increase in the quantity of the chartered vessels. The operating expenses of the chartered vessels increased by US\$60,907,000.

Selling, Administrative and General Expenses

Selling, administrative and general expenses in the year 2011 were US\$7,432,000, an increase of US\$2,421,000, from US\$5,011,000 in the year 2010. The increase was owing to the increase of business volume, resulting in the increase of relevant direct costs and increase of staff cost.

Other Operating Loss

The other operating loss mainly represented an exchange loss. Due to the appreciation of the Renminbi, the other operating loss in the year 2011 was US\$1,027,000 (2010: US\$722,000).

Finance Income

Finance income in the year 2011 was US\$2,924,000, an increase of US\$377,000, from US\$2,547,000 in 2010. As the interest rates of deposits increased, the interest income increased accordingly.

(Loss)/profit for the Year

The loss for the year 2011 was US\$1,171,000. (2010: profit for the year of US\$9,636,000).

FOREIGN EXCHANGE RISK

The Target Group does not have a foreign currency hedging policy in place. However, management of the Target Group has closely monitored foreign exchange exposure and undertakes procedures necessary to mitigate the currency risk should such need arise.

CHARGE ON ASSETS

As at 31 October 2013, the carrying amounts of the assets pledged for the bank loans of the Target Group amounted to US\$75,740,000.

CONTINGENT LIABILITIES

The Enlarged Group was involved in a number of claims and lawsuits currently under way. These claims and lawsuits are incidental to the Enlarged Group's business operation, including but not limited to, the claims and lawsuits arising from damage to vessels during transportation, damage to goods, delay in delivery, collision of vessels and early termination of vessel chartering contracts.

As at 31 January 2014, the Enlarged Group is unable to ascertain the likelihood and amounts of the above respective claims, other than those provided for. However, based on the information available to the Enlarged Group, the Directors are of the opinion that these cases will not have significant financial or operational impact to the Enlarged Group.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

For the year ended 31 December 2012 and the ten months ended 31 October 2013, the Target Group did not have any significant investments, material acquisition and disposal.

EMPLOYEES AND REMUNERATION POLICY

The Target Group had 642 employees as at the ten months ended 31 October 2013. The number of employees in each of the Target Group Companies is set out below:

Target Group Company	Number of employees (as at 31 October 2013)	Total staff costs (for the ten months ended 31 October 2013) (US\$'000)	Total staff costs (for the year ended 31 December 2012) (US\$'000)
Yunrong Shipping	Nil	Nil	Nil
Yunhua Shipping	Nil	Nil	Nil
Yunfu Shipping	Nil	Nil	Nil
Yungui Shipping	Nil	Nil	Nil
Sinotrans Tianze Business	13	437	561
Sinotrans Container Lines Group	562	10,846	14,768
Sinochart Group	67	2,775	2,555

The Target Group's salary and remuneration policy is determined by reference to, among other things, employee performance, working experience and prevailing market rates. No share option scheme has been adopted for employees of the Target Group. In order to ensure that the Target Group's employees remain competitive in the relevant industries, the Target Group has adopted training programs for its employees.

FUTURE PLANS FOR SIGNIFICANT INVESTMENTS OR CAPITAL ASSETS

The Target Group has no future plans for material investments or capital assets in the coming year.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative and unaudited pro forma financial information of the Enlarged Group (“Unaudited Pro Forma Financial Information”) comprising the unaudited pro forma consolidated balance sheet, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated cash flow statement of the Enlarged Group, which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Acquisition, as if it had taken place on 31 December 2013 for the unaudited pro forma consolidated balance sheet and as if it had taken place on 1 January 2013 for the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated cash flow statement.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position, results of operations and cash flows of the Enlarged Group had the Acquisition been completed as at 31 December 2013 or 1 January 2013, where applicable, or any future dates.

The Unaudited Pro Forma Financial Information has been prepared using the accounting policies consistent with those of the Group as set out in the published annual report of the Group for the year ended 31 December 2013.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

(I) Unaudited Pro Forma Consolidated Balance Sheet of the Enlarged Group

	Pro forma adjustments												
	Unadjusted audited consolidated balance sheet of the Group as at 31 December 2013	Audited consolidated balance sheet of Sinocontainers Container Lines Group as at 31 October 2013	Audited consolidated balance sheet of Sinochart Group as at 31 October 2013	Audited combined balance sheet of Sinocontainers Tianze Business as at 31 October 2013	Audited balance sheet of Yunrong Shipping as at 31 October 2013	Audited balance sheet of Yunhua Shipping as at 31 October 2013	Audited balance sheet of Yunfu Shipping as at 31 October 2013	Audited balance sheet of Yungui Shipping as at 31 October 2013	Other adjustment #1	Other adjustment #2	Other adjustment #3	Other adjustment #4	Unaudited pro forma consolidated balance sheet of the Enlarged Group
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
ASSETS													
Non-current assets													
Property, plant and equipment	1,086,506	4,893	1,187	13,641	18,199	18,167	19,900	19,494				1,181,987	
Interests in joint ventures	21,960	-	-	-	-	-	-	-				21,960	
Loans to joint ventures	9,000	-	-	-	-	-	-	-				9,000	
Finance lease receivable from a fellow subsidiary	85,283	-	-	-	-	-	-	-				85,283	
Held-to-maturity investment	46,217	-	-	-	-	-	-	-				46,217	
Available-for-sale financial assets	16,516	-	4,070	-	-	-	-	-				20,586	
Deferred income tax assets	-	-	8,355	11	-	-	-	-				8,366	
	1,265,482	4,893	13,612	13,652	18,199	18,167	19,900	19,494				1,373,399	
Current assets													
Inventories	3,179	8,491	16,499	-	-	-	-	-				28,169	
Loans to joint ventures	1,500	-	-	-	-	-	-	-				1,500	
Trade and other receivables	53,214	107,008	91,035	2,099	434	284	450	65		(9,167)		245,422	
Available-for-sale financial assets	-	-	16,619	-	-	-	-	-				16,619	
Finance lease receivable from a fellow subsidiary	6,475	-	-	-	-	-	-	-				6,475	
Amount due from Parent Company	-	-	-	13,024	-	-	-	-				13,024	
Cash and bank balances	198,348	15,865	41,642	5,356	84	72	87	29		(137,157)		124,326	
- Cash and cash equivalents	687,709	-	2,442	-	-	-	-	-				690,151	
- Short-term deposits	-	-	114	-	-	-	-	-				114	
- Restricted cash deposits	-	-	-	-	-	-	-	-				-	
	950,425	131,364	168,351	20,479	518	356	537	94				1,175,800	
Total assets	2,215,907	136,257	181,963	34,131	18,717	18,523	20,437	19,588				2,499,199	

(II) Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group

	Pro forma adjustments										Unaudited pro forma consolidated statement of comprehensive income of the enlarged Group		
	Unadjusted audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2013	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2012	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2012	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2012	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2012	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2012	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2012	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2012	Other adjustment #1	Other adjustment #2		Other adjustment #3	Other adjustment #4
Revenues	194,950	620,516	696,100	6,612	-	-	-	-	US\$'000 (Note 6)	US\$'000 (Note 7)	US\$'000 (Note 8)	US\$'000 (Note 9)	1,492,424
Cost of operations	(195,587)	(630,387)	(698,558)	(6,850)	-	-	-	-	(25,754)	25,754	-	-	(1,505,628)
Gross loss	(637)	(9,871)	(2,458)	(238)	-	-	-	-	-	-	-	-	(13,204)
Selling, administrative and general expenses	(20,810)	(11,429)	(4,002)	(269)	-	-	-	-	-	-	-	(2,500)	(39,010)
Other operating income, net	3,218	2,505	335	71	-	-	-	-	-	-	-	-	6,129
Operating loss	(18,229)	(18,795)	(6,125)	(436)	-	-	-	-	-	-	-	-	(46,085)
Finance income, net	22,916	73	2,272	53	-	-	-	-	-	-	-	-	25,314
Share of profits of joint ventures	510	-	-	-	-	-	-	-	-	-	-	-	510
Profit before income tax	5,197	(18,722)	(3,853)	(383)	-	-	-	-	-	-	-	-	(20,261)
Income tax (expense)/credit	(880)	-	878	(163)	-	-	-	-	-	-	-	-	(165)
Profit/(loss) for the year	4,317	(18,722)	(2,975)	(546)	-	-	-	-	-	-	-	-	(20,426)
Other comprehensive (loss)/income													
Items that may be reclassified subsequently to profit or loss:													
Currency translation differences	(111)	-	-	-	-	-	-	-	-	-	-	-	(111)
Items that may not be reclassified subsequently to profit or loss:													
Currency translation differences	-	(248)	313	39	-	-	-	-	-	-	-	-	104
Total comprehensive income/(loss) for the year	4,206	(18,970)	(2,662)	(507)	-	-	-	-	-	-	-	-	(20,433)

Pro forma adjustments														
Unadjusted audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2013	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2012	Audited combined statement of comprehensive income of Business for the year ended 31 December 2012	Audited statement of comprehensive income of Yunrong Shipping for the year ended 31 December 2012	Audited statement of comprehensive income of Yunhua Shipping for the year ended 31 December 2012	Audited statement of comprehensive income of Yunfu Shipping for the year ended 31 December 2012	Audited statement of comprehensive income of Yungui Shipping for the year ended 31 December 2012	Other adjustment #1	Other adjustment #2	Other adjustment #3	Other adjustment #4	Enlarged Group	Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group		
US\$'000 (Note 1)	US\$'000 (Note 2)	US\$'000 (Note 3)	US\$'000 (Note 4)	US\$'000 (Note 4)	US\$'000 (Note 4)	US\$'000 (Note 4)	US\$'000 (Note 6)	US\$'000 (Note 7)	US\$'000 (Note 8)	US\$'000 (Note 9)	US\$'000	US\$'000		
Profit/(loss) attributable to: Equity holders of the Company	4,317	(18,722)	(2,975)	(546)	-	-	-	11,065	(2,500)	(9,361)	(9,361)			
Non-controlling interests	-	-	-	-	-	-	-	(11,065)	-	(11,065)	(11,065)			
Profit/(loss) for the year	4,317	(18,722)	(2,975)	(546)	-	-	-	-	-	(20,426)	(20,426)			
Total comprehensive income/(loss) attributable to: Equity holders of the Company	4,206	(18,970)	(2,662)	(507)	-	-	-	11,032	(2,500)	(9,401)	(9,401)			
Non-controlling interests	-	-	-	-	-	-	-	(11,032)	-	(11,032)	(11,032)			
Earnings/(loss) per share attributable to the equity holders of the Company	4,206	(18,970)	(2,662)	(507)	-	-	-	-	-	(20,433)	(20,433)			
-Basic and diluted	US0.11 cents	N/A	N/A	N/A	-	-	-	-	-	-US0.51 cents	-US0.51 cents			
Dividend	-	-	-	-	-	-	-	-	-	-	-			

(III) Unaudited Pro Forma Consolidated Cash Flow Statement of the Enlarged Group

	Pro forma adjustments										Unaudited pro forma consolidated cash flow statement of the Enlarged Group US\$'000	
	Unadjusted audited consolidated cash flow statement of the Group for the year ended 31 December 2013 US\$'000 (Note 1)	Audited consolidated cash flow statement of Sinocontainers Group for the year ended 31 December 2012 US\$'000 (Note 2)	Audited combined cash flow statement of Sinocontainers Business for the year ended 31 December 2012 US\$'000 (Note 3)	Audited cash flow statement of Yunrong Shipping for the year ended 31 December 2012 US\$'000 (Note 4)	Audited cash flow statement of Yunhua Shipping for the year ended 31 December 2012 US\$'000 (Note 4)	Audited cash flow statement of Yunfu Shipping for the year ended 31 December 2012 US\$'000 (Note 4)	Audited cash flow statement of Yungui Shipping for the year ended 31 December 2012 US\$'000 (Note 4)	Other adjustment #1 US\$'000 (Note 6)	Other adjustment #2 US\$'000 (Note 7)	Other adjustment #3 US\$'000 (Note 8)		Other adjustment #4 US\$'000 (Note 9)
Cash flows from operating activities												
Net cash generated from/(used in) operations	48,991	1,275	1,788	-	-	-	-	-	-	-	-	32,655
Interest received	24,903	73	344	-	-	-	-	-	-	-	-	27,909
Income tax paid	(2,446)	-	-	-	-	-	-	-	-	-	-	(2,446)
Net cash generated from/(used in) operating activities	71,448	1,348	2,132	-	-	-	-	-	-	-	-	58,118
Cash flows from investing activities												
Purchases of property, plant and equipment	(97,147)	(448)	(27)	(2,992)	(2,959)	(4,097)	(4,104)	-	-	-	-	(111,775)
Proceeds from disposals of property, plant and equipment	10,264	40	-	-	-	-	-	-	-	-	-	10,304
Repayment of loans to joint ventures	1,500	-	-	-	-	-	-	-	-	-	-	1,500
(Increase)/decrease in amount due from Parent Company	-	-	(12,728)	-	-	-	-	-	-	-	-	(12,728)
Repayment of finance lease receivable	1,536	-	-	-	-	-	-	-	-	-	-	1,536
Interest income from available-for-sales financial asset	1,088	-	-	-	-	-	-	-	-	-	-	1,088
Interest income from held-to-maturity investment	1,499	-	-	-	-	-	-	-	-	-	-	1,499
Purchase of available-for-sales financial asset	(16,076)	-	99	-	-	-	-	-	-	-	-	(16,076)
Dividends received	-	-	-	-	-	-	-	-	-	-	-	99
Decrease in short-term deposits	154,068	-	-	-	-	-	-	-	-	-	-	154,068
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	(137,157)	-	-	(137,157)
Net cash generated from/(used in) investing activities	56,732	(408)	72	(2,992)	(2,959)	(4,097)	(4,104)	-	-	-	-	(107,642)

Pro forma adjustments												
Unaudited audited consolidated cash flow statement of the Group for the year ended 31 December 2013	Audited consolidated cash flow statement of Sinocontainers Group for the year ended 31 December 2012	Audited consolidated cash flow statement of Sinocontainers Group for the year ended 31 December 2012	Audited combined cash flow statement of Sinocontainers Business for the year ended 31 December 2012	Audited cash flow statement of Yunrong Shipping for the year ended 31 December 2012	Audited cash flow statement of Yunhua Shipping for the year ended 31 December 2012	Audited cash flow statement of Yunfu Shipping for the year ended 31 December 2012	Audited cash flow statement of Yungui Shipping for the year ended 31 December 2012	Other adjustment #1	Other adjustment #2	Other adjustment #3	Other adjustment #4	Unaudited pro forma consolidated cash flow statement of the Enlarged Group
US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
(Note 1)	(Note 2)	(Note 2)	(Note 3)	(Note 4)	(Note 4)	(Note 4)	(Note 4)	(Note 6)	(Note 7)	(Note 8)	(Note 9)	
Cash flows from financing activities												
Dividend paid	(5,135)	-	-	-	-	-	-	-	-	-	-	(5,135)
Drawdown of borrowings	-	5,562	-	4,500	4,500	1,950	1,950	-	-	-	-	18,462
Repayment of borrowings	-	-	(1,000)	-	-	-	-	-	-	-	-	(1,000)
Interest paid	-	-	(206)	(30)	(19)	(15)	-	-	-	-	-	(270)
(Decrease)/increase in amount due to immediate holding company and fellow subsidiaries	-	-	-	(1,464)	(1,508)	2,177	2,168	-	-	-	-	1,373
Net cash (used in)/generated from financing activities	(5,135)	5,562	(1,206)	3,006	2,973	4,112	4,118	-	-	-	-	13,430
Net increase/(decrease) in cash and cash equivalents	123,045	6,502	(11,803)	14	14	15	14	14	15	14	14	(36,094)
Cash and cash equivalents at beginning of year	75,055	15,754	109,305	1	1	1	1	1	1	1	1	216,126
Effect of foreign exchange rate changes	248	(419)	924	38	-	-	-	-	-	-	-	791
Cash and cash equivalents at end of year	198,348	21,837	93,491	15	15	16	15	15	16	15	15	180,823

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

- 1 The unadjusted audited consolidated balance sheet of the Group as at 31 December 2013, the unadjusted audited consolidated statement of comprehensive income and the unadjusted audited consolidated cash flow statement of the Group for the year ended 31 December 2013 are extracted from the published annual report of the Group for the year ended 31 December 2013.
- 2 The consolidated balance sheets as at 31 October 2013 and the consolidated statement of comprehensive income and the consolidated cash flow statement for the year ended 31 December 2012 of Sinotrans Container Lines Group and Sinochart Group were extracted from the respective accountant's reports as set out in Appendices IIA and IIB to this circular.
- 3 The combined balance sheet as at 31 October 2013 and the combined statement of comprehensive income and the combined cash flow statement for the year ended 31 December 2012 of Sinotrans Tianze Business were extracted from the accountant's report as set out in Appendix IIC to this circular.
- 4 The company balance sheets as at 31 October 2013 and the statements of comprehensive income and the cash flow statements for the year ended 31 December 2012 of Yunrong Shipping, Yunhua Shipping, Yunfu Shipping and Yungui Shipping were extracted from the respective accountant's reports as set out in Appendices IID, IIE, IIF and IIG to this circular.
- 5 Following the completion of the acquisition of 49% of the respective equity interests in Sinochart and Sinotrans Container Lines, the respective board of directors of Sinochart and Sinotrans Container Lines consists of 3 directors respectively and the Group is entitled to appoint 2 directors in Sinochart and Sinotrans Container Lines respectively pursuant to the Sinochart JV Agreement and SNL JV Agreement. Ordinary resolutions are voted by simple majority. Accordingly, the Group controls the board of directors of Sinochart and Sinotrans Container Lines, and controls the operating, investing and financing activities of Sinochart and Sinotrans Container Lines. Hence, they will be accounted for as subsidiaries of the Group.

For the purpose of preparing the Unaudited Pro Forma Financial Information, the Acquisition will be accounted for using merger accounting as prescribed in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, given that the Target Group Companies are under common control of the Parent Company before and after the Acquisition.

- 6 Pursuant to an agreement signed by Sinotrans on 28 October 2013, the total debts of approximately US\$106,421,000 due to Sinotrans by Sinotrans Container Lines Group, including the loans from Sinotrans of approximately US\$83,204,000 and trade payables of approximately US\$23,217,000, will be waived by Sinotrans upon completion of the SNL Acquisition. Accordingly, such waiver of debts would be treated as a deemed contribution by Sinotrans to Sinotrans Container Lines and is recognised in reserves under equity.
- 7 The adjustments represent the elimination of transactions and balances within the Target Group Companies and between the Group and the Target Group Companies upon consolidation.
- 8 The adjustments represent the consideration of the Acquisition, settlement of the loan and other balances due to Parent Company and Sinotrans, elimination of the share capital/paid up capital of the Target Group Companies and recognition of non-controlling interests and merger reserve.

The total consideration of the Acquisition of US\$137,157,000 represents the following:

- (i) The Group shall acquire the Target SNL 49% Equity Interests and the SNL 49% Loan from Sinotrans at an aggregate cash consideration of approximately US\$3,848,000.
- (ii) The Group shall acquire the Target Sinochart Equity Interests from the Parent Company at a cash consideration of approximately US\$70,616,000.
- (iii) The Group shall acquire the Target Sinotrans Tianze Equity Interests from the Parent Company at a cash consideration of approximately US\$16,434,000.
- (iv) The Group shall acquire the Target Panama Sale Shares and the Panama Loan from the Parent Company at an aggregate cash consideration of approximately US\$22,388,000.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

- (v) The Group shall acquire the Target HK Sale Shares and the Sinotrans (HK) Logistics Shareholders Loan and the Sinotrans (HK) Shipping Loan from Sinotrans at an aggregate cash consideration of approximately US\$23,871,000.

Merger reserve of the Enlarged Group arising from the Acquisition is calculated as follows:

	<i>US\$'000</i>
Consideration of the Acquisition	137,157
Less:	
Settlement of the loans and other balances as at 31 October 2013:	
– Loans from Parent Company	(20,436)
– Loans from Sinotrans	(6,417)
– Other payables to Sinotrans	(20,954)
Elimination of share capital/paid-up capital of the Target Group Companies	(99,809)
Add:	
Recognition of non-controlling interests (<i>note a</i>)	<u>56,394</u>
Merger reserve	<u><u>45,935</u></u>

Notes:

- (a) Non-controlling interests of the Enlarged Group arising from the Acquisition is calculated as follows:

	<i>US\$'000</i>
Net asset value of Sinotrans Container Lines Group as at 31 October 2013	(116,240)
Add: Loans and other balances due to Sinotrans being waived as at the Completion Date (<i>note 6</i>)	<u>106,421</u>
	(9,819)
Net asset value of Sinochart Group as at 31 October 2013	<u>120,396</u>
	<u><u>110,577</u></u>
Non-controlling interests @ 51%	<u><u>56,394</u></u>

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

(b) Loss and total comprehensive loss attributable to non-controlling interests is calculated as follows:

	<i>US\$'000</i>
Loss of Sinotrans Container Lines Group for the year ended 31 December 2012	18,722
Loss of Sinochart Group for the year ended 31 December 2012	<u>2,975</u>
	<u>21,697</u>
Loss attributable to non-controlling interests @ 51%	<u>11,065</u>
Total comprehensive loss of Sinotrans Container Lines Group for the year ended 31 December 2012	18,970
Total comprehensive loss of Sinochart Group for the year ended 31 December 2012	<u>2,662</u>
	<u>21,632</u>
Total comprehensive loss attributable to non-controlling interests @ 51%	<u>11,032</u>

- 9 The adjustment represents the estimated transaction costs of approximately US\$2,500,000 payable by the Company in connection with the Acquisition. This adjustment is not expected to have continuing effect on the Enlarged Group's consolidated balance sheet, consolidated statement of comprehensive income and consolidated cash flow statement.
- 10 Amounts in RMB have been converted into US\$ at the rate of US\$1 = RMB6.1459 for purpose of the Unaudited Pro Forma Financial Information.
- 11 Apart from the Acquisition, no other adjustment has been made to the unaudited pro forma consolidated balance sheet, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated cash flow statement of the Enlarged Group to reflect any trading results or other transactions entered into by the Group and the Target Group Companies subsequent to 31 December 2013.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION
INCLUDED IN A CIRCULAR**

The Directors
Sinotrans Shipping Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Sinotrans Shipping Limited (the "Company") and its subsidiaries (together the "Group"), and (1) Sinotrans Container Lines Co., Ltd. ("Sinotrans Container Lines") and its subsidiary, (2) Yunfu Shipping Company Limited, Yungui Shipping Company Limited, Yunhua Shipping Company Limited and Yunrong Shipping Company Limited (together "HK Target Group"), (3) China National Chartering Co., Ltd. ("Sinochart") and its subsidiary and (4) Sinotrans Navigation Ltd, Skyglory Shipping S.A. and Skyroyal Shipping S.A. (together "Sinotrans Tianze Business") (collectively the "Enlarged Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated balance sheet as at 31 December 2013, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated cash flow statement for the year ended 31 December 2013, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages IV-1 to IV-10 of the Company's circular dated 22 April 2014, in connection with the proposed acquisitions of (I) 49% equity interest in Sinotrans Container Lines and 100% equity interest in HK Target Group, (II) 49% equity interest in Sinochart and (III) 100% equity interest in Sinotrans Tianze Business (the "Acquisition") by subsidiaries of the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in notes set out on pages IV-1 to IV-10 of the Company's circular dated 22 April 2014.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group's financial position as at 31 December 2013 and the Group's financial performance and cash flows for the year ended 31 December 2013 as if the Acquisition had taken place at 31 December 2013 and 1 January 2013, respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2013, on which an audit report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29 (7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 31 December 2013 or 1 January 2013 would have been as presented.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 22 April 2014

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Enlarged Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS**(a) Directors' Interests and Short Positions**

As at the Latest Practicable Date, none of the Directors or the chief executives of the Company or their respective associates had or was deemed to have any interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or the chief executives of the Company or their respective associates were deemed or taken to have under provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors is a director or employee of a company which has, or is deemed to have, an interest or a short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Substantial Shareholders' Interest

As at the Latest Practicable Date, so far as is known to any Director or the chief executives of the Company, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO which would fall to be disclosed to the Company under the provisions of

Divisions 2 and 3 of Part XV of the SFO, or, who was directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Long positions in the Shares and underlying Shares of the Company

Name of substantial shareholders	Capacity and nature of interests	Number of Shares held	Approximate percentage of shareholding
The Parent Company ^(Note 1)	Interest of controlled corporation	2,718,520,000	68.1%
Sinotrans Shipping (Holdings) Limited ^(Note 1)	Beneficial owner	2,600,000,000	65.13%

Note 1: The Parent Company is the beneficial owner of all the issued shares in Sinotrans Shipping (Holdings) Limited. Accordingly, the Parent Company is deemed to be or regarded as interested in the shares owned by Sinotrans Shipping (Holdings) Limited for the purposes of the SFO.

Directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group

Name of person	Capacity and nature of interests	Equity interests held	Approximate percentage of equity interests
The Parent Company ^(Note 2)	Legal and beneficial owner in Sinochart	N/A	51%
The Parent Company ^(Note 2)	Legal and beneficial owner in Sinotrans Container Lines	N/A	51%

Note 2: The Parent Company is the beneficial owner of 51% equity interests in Sinochart and Sinotrans Container Lines, respectively.

Save as disclosed above, as at the Latest Practicable Date, 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 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at the Latest Practicable Date.

3. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor his associates is and was interested in any business which competes or may compete, either directly or indirectly, with the business of the Enlarged Group.

4. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors had any interest, either directly or indirectly, in any assets which has since 31 December 2012 (being the date to which the latest published audited consolidated financial statements of the Group were made up), up to the Latest Practicable Date, been acquired or disposed of by or leased to, any member of the Enlarged Group or are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Enlarged Group which does not expire or is not determinable by such member of the Enlarged Group within one year without payment of compensation (other than statutory compensation).

6. DIRECTORS' INTERESTS IN CONTRACT OR ARRANGEMENT OF SIGNIFICANCE

As at the Latest Practicable Date, save for the Acquisition and the continuing connected transactions as disclosed under the paragraph headed "Continuing Connected Transactions" in this circular, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group.

7. MATERIAL ADVERSE CHANGE

Save as disclosed in the Company's profit warning announcement dated 24 May 2013, the Company is not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, being the date to which the latest published audited financial statements of the Company were made up.

8. EXPERT'S QUALIFICATIONS AND CONSENT

The following are the qualifications of the experts whose name/advice and/or reports are contained in this circular:

Name	Qualification
Platinum Securities Company Limited	A licensed corporation under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants, Hong Kong
King & Wood Mallesons	PRC legal advisers

As at the Latest Practicable Date, each of Platinum Securities Company Limited, PricewaterhouseCoopers and King & Wood Mallesons, (i) had no shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; (ii) had no direct or indirect interest in any assets which had been, since 31 December 2013 (the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group; and (iii) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the reference to its name included herein in the form and context in which it appears.

9. LITIGATION

Sinochart Group was involved in the following pending lawsuits as at 31 October 2013:

(a) Sinochart Group as defendant

In 2008, Sinochart cancelled a two-year charterhire agreement after discovering regular underperformance and engine faults of a vessel it previously chartered in. The ship owner subsequently commenced arbitration against Sinochart in the sum of approximately US\$10,800,000. Sinochart was exploring possible settlements with the ship owner and it expects to settle the case at approximately US\$1,000,000 based on the current status of the legal proceedings, the advice from legal counsels and the progress of settlement negotiations. Accordingly, a provision for the case amounted to US\$1,000,000 has been made as at 31 October 2013.

Save as disclosed above, Sinochart Group was also involved in another six pending lawsuits amounted to approximately US\$936,000 in aggregate as at 31 October 2013. Taking into account the current status of the legal proceedings and the progress of settlement negotiations, Sinochart Group has made provisions for those cases in the sum of US\$280,000 as at 31 October 2013.

(b) Back-to-back cases (Sinchart Group as both defendant and plaintiff)

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

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

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

As Sinchart expects to recover any compensation from the sub-charterer, no provision has been made for the case as at 31 October 2013.

- (ii) In 2010, a vessel that Sinchart chartered in and sub-chartered out on a back-to-back position to a third party collided with the shiploaders of a port in Brazil, causing damage to the port. The port authority of Brazil brought a claim against the ship owner, and the ship owner subsequently brought a claim against Sinchart in the sum of approximately US\$10,000,000. As a result, Sinchart commenced arbitration against the sub-charterer in a back-to-back position. No judgement was given as at 31 October 2013.

As Sinchart expects to recover any compensation from the sub-charterer on a back-to-back position, no provision has been made for the case as at 31 October 2013.

Save as disclosed above, Sinchart Group was also involved in another thirteen pending back-to-back lawsuits in the total sum of US\$3,672,000 as at 31 October 2013. Except for a case for which Sinchart Group has made a provision of US\$250,000, Sinchart Group has not made provision for those other cases as it expects to recover any compensation payable to the plaintiffs on a back-to-back basis from the sub-charterers.

The Directors consider these cases will not have significant financial or operational impact on the Group. Save as disclosed above, as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

10. MATERIAL CONTRACTS

The following material contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and up to the Latest Practicable Date and are or may be material:

- (a) the Acquisition Agreements;
- (b) the JV Agreements;
- (c) Renewed Continuing Connected Transactions Agreements;
- (d) CCT Master Agreements;
- (e) CCT JV Master Agreements;
- (f) the legally binding contract dated 13 February 2014 entered into between Fortress Shipping Limited, a wholly-owned subsidiary of the Company, as purchaser, CSTC and Chengxi Shipyard as sellers in relation to the acquisition of a newly built bulk carrier of approximately 64,000 DWT (Builder's Hull No. CX0657) to be constructed and equipped at the shipyard of Chengxi Shipyard;
- (g) the legally binding contract dated 13 February 2014 entered into between Grant Fortune Shipping Limited, a wholly-owned subsidiary of the Company, as purchaser, CSTC and Chengxi Shipyard as sellers in relation to the acquisition of a newly built bulk carrier of approximately 64,000 DWT (Builder's Hull No. CX0658) to be constructed and equipped at the shipyard of Chengxi Shipyard;
- (h) the legally binding contract dated 13 February 2014 entered into between Dragon Rich Shipping Limited, a wholly-owned subsidiary of the Company, as purchaser, CSTC and Chengxi Shipyard as sellers in relation to the acquisition of a newly built bulk carrier of approximately 64,000 DWT (Builder's Hull No. CX0659) to be constructed and equipped at the shipyard of Chengxi Shipyard;
- (i) the legally binding contract dated 13 February 2014 entered into between Prime Blue Limited, a wholly-owned subsidiary of the Company, as purchaser, CSTC and Chengxi Shipyard as sellers in relation to the acquisition of a newly built bulk carrier of approximately 64,000 DWT (Builder's Hull No. CX0660) to be constructed and equipped at the shipyard of Chengxi Shipyard;
- (j) the legally binding contract dated 6 January 2014 entered into between Great Kent Limited, a wholly-owned subsidiary of the Company, as purchaser, ECTEC and Jingling Shipyard as sellers in relation to the acquisition of a newly built bulk carrier of approximately 64,000 DWT (Builder's Hull No. JLZ9130433) to be constructed and equipped at the shipyard of Jinling Shipyard at a consideration of US\$25,800,000 (equivalent to approximately HK\$201,240,000);

- (k) the legally binding contract dated 6 January 2014 entered into between Federal Delight Limited, a wholly-owned subsidiary of the Company, as purchaser, ECTEC and Jinling Shipyard as sellers in relation to the acquisition of a newly built bulk carrier of approximately 64,000 DWT (Builder's Hull No. JLZ9130434) to be constructed and equipped at the shipyard of Jinling Shipyard at a consideration of US\$25,800,000 (equivalent to approximately HK\$201,240,000);
- (l) the legally binding contract dated 6 January 2014 entered into between Victory Action Limited, a wholly-owned subsidiary of the Company, as purchaser, ECTEC and Jinling Shipyard as sellers in relation to the acquisition of a newly built bulk carrier of approximately 64,000 DWT (Builder's Hull No. JLZ9130435) to be constructed and equipped at the shipyard of Jinling Shipyard at a consideration of US\$25,800,000 (equivalent to approximately HK\$201,240,000);
- (m) the legally binding contract dated 6 January 2014 entered into between On Great Limited, a wholly-owned subsidiary of the Company, as purchaser, ECTEC and Jinling Shipyard as sellers in relation to the acquisition of a newly built bulk carrier of approximately 64,000 DWT (Builder's Hull No. JLZ9130436) to be constructed and equipped at the shipyard of Jinling Shipyard at a consideration of US\$25,800,000 (equivalent to approximately HK\$201,240,000);
- (n) the legally binding contract dated 3 January 2014 entered into between Top Central Limited, a wholly-owned subsidiary of the Company, as purchaser, CSTC and Jiangnan Shipyard as sellers in relation to the acquisition of a newly built bulk carrier of approximately 78,000 DWT (Builder's Hull No. H2558) to be constructed and equipped at the shipyard of Jiangnan Shipyard;
- (o) the legally binding contract dated 3 January 2014 entered into between Top Kent Limited, a wholly-owned subsidiary of the Company, as purchaser, CSTC and Jiangnan Shipyard as sellers in relation to the acquisition of a newly built bulk carrier of approximately 78,000 DWT (Builder's Hull No. H25589) to be constructed and equipped at the shipyard of Jiangnan Shipyard;
- (p) the memorandum of agreement dated 17 October 2013 and the addendum No. 1 dated 17 October 2013 thereto entered into between Best Areo Limited, a wholly-owned subsidiary of the Company, or its nominee as purchaser and Golf Shipping S.A. as seller in relation to the acquisition of M.V. "Chang Hang Ji Hai", which is a post-panamax size bulk carrier with DWT of 93,297 tonnes, at a consideration of US\$17.3 million (equivalent to approximately HK\$134.94 million);
- (q) the memorandum of agreement dated 17 October 2013 and the addendum No. 1 dated 17 October 2013 thereto entered into between Merchant Bright Limited, a wholly-owned subsidiary of the Company, or its nominee as purchaser and Polo Shipping S.A. as seller in relation to the acquisition of M.V. "Chang Hang Xiang Hai", which is a post-panamax size bulk carrier with DWT of 93,412 tonnes, at a consideration of US\$17.3 million (equivalent to approximately HK\$134.94 million);

- (r) the memorandum of agreement dated 17 October 2013 and the addendum No. 1 dated 17 October 2013 thereto entered into between Holly Speed Limited, a wholly-owned subsidiary of the Company, or its nominee as purchaser and Passat Shipping S.A. as seller in relation to the acquisition of M.V. “Chang Hang An Hai”, which is a post-panamax size bulk carrier with DWT of 93,252 tonnes, at a consideration of US\$17.3 million (equivalent to approximately HK\$134.94 million);
- (s) the memorandum of agreement dated 17 October 2013 and the addendum No. 1 dated 17 October 2013 thereto entered into between Earning Top Limited, a wholly-owned subsidiary of the Company, or its nominee as purchaser and Phaeton Shipping S.A. as seller in relation to the acquisition of M.V. “Chang Hang Kang Hai”, which is a post-panamax size bulk carrier with DWT of 93,203 tonnes, at a consideration of US\$17.3 million (equivalent to approximately HK\$134.94 million);
- (t) the share purchase agreement dated 21 October 2013 entered into between Best Area Limited, a wholly-owned subsidiary of the Company, as purchaser and Cindy Holdings Limited as vendor in relation to the acquisition of the entire issued share capital of Golf Shipping S.A., at a consideration of US\$1.00 (equivalent to approximately HK\$7.8);
- (u) the share purchase agreement dated 21 October 2013 entered into between Merchant Bright Limited, a wholly-owned subsidiary of the Company, as purchaser and Cindy Holdings Limited as vendor in relation to the acquisition of the entire issued share capital of Polo Shipping S.A., at a consideration of US\$1.00 (equivalent to approximately HK\$7.8);
- (v) the share purchase agreement dated 21 October 2013 entered into between Holy Speed Limited, a wholly-owned subsidiary of the Company, as purchaser and Cindy Holdings Limited as vendor in relation to the acquisition of the entire issued share capital of Passat Shipping S.A., at a consideration of US\$1.00 (equivalent to approximately HK\$7.8); and
- (w) the share purchase agreement dated 21 October 2013 entered into between Earning Top Limited, a wholly-owned subsidiary of the Company, as purchaser and Cindy Holdings Limited as vendor in relation to the acquisition of the entire issued share capital of Phaeton Shipping S.A., at a consideration of US\$1.00 (equivalent to approximately HK\$7.8).

11. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Huen Po Wah, who is an associate of the Hong Kong Institute of Chartered Secretaries and also an associate of the Institute of Chartered Secretaries and Administrators.
- (b) The registered office, head office and the principal place of business of the Company is at 21st Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

- (c) The share registrar of the Company is Computershare Hong Kong Investor Services Limited.
- (d) The English text of this circular shall prevail over its respective Chinese text for the purpose of interpretation.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at 21st Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekdays, except public holidays, from the date of this circular up to and including the date of the Extraordinary General Meeting:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2013, respectively;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 83 to 84 of this circular;
- (d) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 85 to 160 of this circular;
- (e) the accountant's reports from PricewaterhouseCoopers as set out in the Appendices IIA, IIB, IIC, IID, IIE, IIF and IIG to this circular;
- (f) the report from PricewaterhouseCoopers relating to the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;
- (g) the written consent referred to in the paragraph headed "Expert's Qualifications and Consent" in this Appendix;
- (h) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix; and
- (i) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



SINOTRANS SHIPPING LIMITED

中外運航運有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 368)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**EGM**”) of Sinotrans Shipping Limited (the “**Company**”) will be held at Nathan Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 16 May 2014 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**
 - (a) the HK Acquisition Agreement dated 25 March 2014 (the “**HK Acquisition Agreement**”) entered into between Trade Worlder and Sinotrans (HK) Logistics pursuant to which Trade Worlder shall acquire the Target HK Sale Shares, the Sinotrans (HK) Logistics Shareholders Loan and the Sinotrans (HK) Shipping Loan from Sinotrans (HK) Logistics (as defined in the circular of the Company dated 22 April 2014) (the “**Circular**”) and the equity transfer agreement dated 25 March 2014 (the “**SNL 49% Acquisition Agreement**”) entered into between Marine Harvest and Sinotrans pursuant to which Marine Harvest shall acquire the Target SNL 49% Equity Interests and the SNL 49% Loan from Sinotrans (as defined in the Circular), a copy of each of the HK Acquisition Agreement and the SNL 49% Acquisition Agreement is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purpose, and the transactions contemplated thereunder including but not limited to the SNL JV Agreement and the SNL JV Articles of Association (as defined in the Circular), be and are hereby approved, confirmed and ratified;
 - (b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised to sign and execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the HK Acquisition Agreement and the SNL 49% Acquisition Agreement and completion thereof.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. “**THAT**

- (a) the Panama Acquisition Agreement dated 25 March 2014 (the “**Panama Acquisition Agreement**”) entered into between Double Strong and the Parent Company pursuant to which Double Strong shall acquire the Target Panama Sale Shares and the Panama Loan from the Parent Company (as defined in the circular of the Company dated 22 April 2014) (the “**Circular**”) and the Sinotrans Tianze Acquisition Agreement dated 25 March 2014 (the “**Sinotrans Tianze Acquisition Agreement**”) entered into between Marine Peace and the Parent Company pursuant to which Marine Peace shall acquire the Target Sinotrans Tianze Equity Interests and the Sinotrans Tianze Loan from the Parent Company (as defined in the circular of the Company dated 22 April 2014) (the “**Circular**”), a copy of each of the Panama Acquisition Agreement and the Sinotrans Tianze Acquisition Agreement is tabled at the meeting and marked “B” and initialed by the chairman of the meeting for identification purpose, and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised to sign and execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Panama Acquisition Agreement and Sinotrans Tianze Acquisition Agreement and completion thereof.”

3. “**THAT**

- (a) the equity transfer agreement dated 25 March 2014 (the “**Sinochart Acquisition Agreement**”) entered into between Marine Peace and the Parent Company pursuant to which Marine Peace shall acquire the Target Sinochart Equity Interests from the Parent Company (as defined in the Circular), a copy of the Sinochart Acquisition Agreement is tabled at the meeting and marked “C” and initialed by the chairman of the meeting for identification purpose, and the transactions contemplated thereunder including but not limited to the Sinochart JV Agreement and the Sinochart JV Articles of Association (as defined in the Circular), be and are hereby approved, confirmed and ratified;
- (b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised to sign and execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Sinochart Acquisition Agreement and completion thereof.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

4. **“THAT**

- (a) the Supplemental Renewed Master Services Agreement dated 25 March 2014 (the **“Supplemental Renewed Master Services Agreement”**) entered into between the Company and the Parent Company and the transactions contemplated thereunder, a copy of the Supplemental Renewed Master Services Agreement is tabled at the meeting and marked “D” and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;
- (b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised to sign and execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Supplemental Renewed Master Services Agreement and completion thereof.”

5. **“THAT**

- (a) the Sinochart Master Services Agreement dated 25 March 2014 (the **“Sinochart Master Services Agreement”**) entered into between the Company and Sinochart and the transactions contemplated thereunder, a copy of the Sinochart Master Services Agreement is tabled at the meeting and marked “E” and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;
- (b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised to sign and execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Sinochart Master Services Agreement and completion thereof.”

6. **“THAT**

- (a) the SNL Master Services Agreement dated 25 March 2014 (the **“SNL Master Services Agreement”**) entered into between the Company and Sinotrans Container Lines and the transactions contemplated thereunder, a copy of the SNL Master Services Agreement is tabled at the meeting and marked “F” and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;
- (b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised to sign and execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in

NOTICE OF EXTRAORDINARY GENERAL MEETING

connection with the matters contemplated in the SNL Master Services Agreement and completion thereof.”

7. **“THAT**

- (a) the Supplemental Renewed Master Chartering Agreement dated 25 March 2014 (the **“Supplemental Renewed Master Chartering Agreement”**) entered into between the Company and the Parent Company and the transactions contemplated thereunder, a copy of the Supplemental Renewed Master Chartering Agreement is tabled at the meeting and marked “G” and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;
- (b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised to sign and execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Supplemental Renewed Master Chartering Agreement and completion thereof.”

8. **“THAT**

- (a) the Sinochart Master Chartering Agreement dated 25 March 2014 (the **“Sinochart Master Chartering Agreement”**) entered into between the Company and Sinochart and the transactions contemplated thereunder, a copy of the Sinochart Master Chartering Agreement is tabled at the meeting and marked “H” and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;
- (b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised to sign and execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Sinochart Master Chartering Agreement and completion thereof.”

9. **“THAT**

- (a) the SNL Master Chartering Agreement dated 25 March 2014 (the **“SNL Master Chartering Agreement”**) entered into between the Company and Sinotrans Container Lines and the transactions contemplated thereunder, a copy of the SNL Master Chartering Agreement is tabled at the meeting and marked “I” and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;
- (b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised to sign and execute all documents, instruments and agreements and to do all such

NOTICE OF EXTRAORDINARY GENERAL MEETING

acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the SNL Master Chartering Agreement and completion thereof.”

By order of the Board
Sinotrans Shipping Limited
Huen Po Wah
Company Secretary

Hong Kong, 22 April 2014

*Registered office, Head Office
and Principal Place of Business in Hong Kong*
21st Floor, Great Eagle Centre,
23 Harbour Road,
Wanchai,
Hong Kong

Notes:

1. The register of members of the Company will be closed from Monday, 12 May 2014 to Friday, 16 May 2014 (both days inclusive) during which period no transfer of Share(s) will be effected. In order to determine the entitlement to attend and vote at the EGM, all transfer of Share(s), accompanied by the relevant share certificate(s) with the properly completed transfer form(s) either overleaf or separately, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 9 May 2014.
2. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint one or, if he/she is the holder of two or more shares, more than one proxy to attend and, on a poll, vote instead of him/her. A proxy needs not be a member of the Company.
3. A form of proxy for use at the EGM is enclosed herewith.
4. To be valid, the proxy form, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the registered office of the Company at 21st Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be) and in default thereof the proxy form and such power or authority shall not be treated as valid.
5. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the EGM or any adjournment thereof (as the case may be) and in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. As at the date of this notice, the Directors of the Company are Mr. Li Hua and Ms. Feng Guoying as the executive Directors; Mr. Li Zhen (Chairman) and Mr. Tian Zhongshan as the non-executive Directors; and Mr. Hu Hanxiang, Mr. Tsang Hing Lun, Mr. Lee Peter Yip Wah and Mr. Zhou Qifang as the independent non-executive Directors.