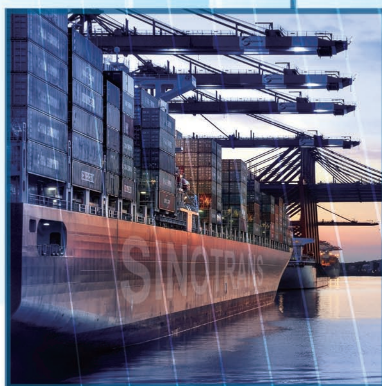
中外運航運有限公司

SINOTRANS SHIPPING LTD.

(Incorporated in Hong Kong with limited liability)

Stock Code : 368



2017 Interim Report

Contents

Corporate Information

REGISTERED OFFICE

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

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Mr. Li Zhen *(Chairman)*
Mr. Tian Zhongshan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsang Hing Lun (passed away on 4 June 2017)
Mr. Lee Peter Yip Wah
Mr. Zhou Qifang
Mr. Xu Zhengjun
Mr. Wu Tak Lung (appointed on 4 July 2017)

COMPANY SECRETARY

Ms. Koo Ching Fan, *ACIS ACS FCCA*

AUTHORISED REPRESENTATIVES

Mr. Li Hua
Ms. Feng Guoying

AUDIT COMMITTEE

Mr. Wu Tak Lung *(Chairman)* (appointed on 4 July 2017)
Mr. Zhou Qifang
Mr. Lee Peter Yip Wah
Mr. Tsang Hing Lun (passed away on 4 June 2017)

REMUNERATION COMMITTEE

Mr. Zhou Qifang *(Chairman)*
Mr. Li Zhen
Mr. Tsang Hing Lun (passed away on 4 June 2017)
Mr. Xu Zhengjun (appointed on 4 July 2017)

NOMINATION COMMITTEE

Mr. Li Zhen *(Chairman)*
Mr. Lee Peter Yip Wah
Mr. Zhou Qifang

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Ltd., Harbour Road Branch
G/F., China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Industrial and Commercial Bank of China (Asia) Limited
ICBC Tower
122-126 Queen's Road Central
Hong Kong

The Hongkong and Shanghai Banking Corp. Ltd.,
Sun Hung Kai Centre Branch
115-117 & 127-133 Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

AUDITOR

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

LEGAL ADVISERS TO OUR COMPANY

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

Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

	Note	Unaudited Six months ended 30 June 2017 US$'000	 2016 US$'000
Revenues	4	**500,622**	385,804
Cost of operations		**(478,064)**	(413,705)
Selling, administrative and general expenses		**(16,554)**	(16,164)
Other losses, net	5	**(904)**	(2,314)
Operating profit/(loss)		**5,100**	(46,379)
Finance income	6	**7,273**	5,090
Finance expenses	6	**(3,063)**	(3,156)
Share of (losses)/profits of joint ventures		**(52)**	98
Profit/(loss) before income tax		**9,258**	(44,347)
Income tax (expense)/credit	7	**(1,583)**	93
Profit/(loss) for the period		**7,675**	(44,254)
Profit/(loss) attributable to:			
– Owners of the Company		**8,006**	(40,230)
– Non-controlling interests		**(331)**	(4,024)
		7,675	(44,254)
Other comprehensive income/(loss) for the period			
Items that may be reclassified to profit or loss:			
Currency translation differences		**7,050**	(5,043)
Fair value changes of available-for-sale financial assets		**(96)**	–
Total comprehensive income/(loss) for the period		**14,629**	(49,297)
Total comprehensive income/(loss) for the period attributable to:			
– Owners of the Company		**14,557**	(44,816)
– Non-controlling interests		**72**	(4,481)
		14,629	(49,297)
Earnings/(loss) per share attributable to owners of the Company			
– Basic and diluted	9	**US0.20 cents**	US(1.01) cents

Unaudited Condensed Consolidated Balance Sheet

As at 30 June 2017

	Note	Unaudited As at 30 June 2017 US$'000	Audited As at 31 December 2016 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	1,089,369	1,105,373
Intangible asset	12	2,416	2,502
Investments in joint ventures		87,545	74,057
Loans to joint ventures		3,333	4,000
Loans to related companies	13	14,496	15,027
Available-for-sale financial assets		24,081	18,360
Deferred income tax assets		15	15
		1,221,255	1,219,334
Current assets			
Inventories		16,040	17,996
Loans to joint ventures		1,333	1,333
Trade and other receivables	13	178,830	157,194
Available-for-sale financial assets		1,418	34,507
Cash and bank balances			
– Cash and cash equivalents		285,436	283,243
– Short-term bank deposits		414,774	360,627
– Restricted cash		111	108
		897,942	855,008
Total assets		2,119,197	2,074,342

Unaudited Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2017

	Note	Unaudited As at 30 June 2017 US$'000	Audited As at 31 December 2016 US$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	1,878,209	1,878,209
Reserves		(95,702)	(89,772)
		1,782,507	1,788,437
Non-controlling interests		7,878	7,806
Total equity		1,790,385	1,796,243
LIABILITIES			
Non-current liabilities			
Provision for other liabilities	16	3,747	6,393
Borrowings	17	59,023	62,879
		62,770	69,272
Current liabilities			
Trade and other payables	15	237,208	178,460
Provision for other liabilities	16	18,264	20,554
Taxation payable		2,472	1,804
Borrowings	17	8,098	8,009
		266,042	208,827
Total liabilities		328,812	278,099
Total equity and liabilities		2,119,197	2,074,342

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

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

Unaudited Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2017

	Attributable to owners of the Company									
	Share capital US$'000	Merger reserve US$'000	Statutory reserve US$'000	Other reserve US$'000	Available-for-sale reserve US$'000	Exchange reserve US$'000	Retained earnings US$'000	Subtotal US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2017	1,878,209	(448,132)	2,995	51,941	(148)	(14,536)	318,108	1,788,437	7,806	1,796,243
Comprehensive income/(loss)										
Profit/(loss) for the period	–	–	–	–	–	–	8,006	8,006	(331)	7,675
Other comprehensive (loss)/income										
Currency translation differences	–	–	–	–	–	6,647	–	6,647	403	7,050
Fair value changes of available-for-sale financial assets	–	–	–	–	(96)	–	–	(96)	–	(96)
Total comprehensive (loss)/income	–	–	–	–	(96)	6,647	8,006	14,557	72	14,629
Transactions with owners										
Dividend paid	–	–	–	–	–	–	(20,487)	(20,487)	–	(20,487)
Total transactions with owners	–	–	–	–	–	–	(20,487)	(20,487)	–	(20,487)
At 30 June 2017	1,878,209	(448,132)	2,995	51,941	(244)	(7,889)	305,627	1,782,507	7,878	1,790,385

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2017

	Note	Six months ended 30 June 2017 US$'000	2016 US$'000
Cash flows from operating activities			
Cash generated from/(used in) operations	18	32,968	(6,191)
Interest received		8,947	9,842
Income tax paid		(1,036)	–
Net cash generated from operating activities		40,879	3,651
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible asset		(9,190)	(60,936)
Proceeds from disposals of:			
– Property, plant and equipment		64	7,967
– Available-for-sale financial assets		33,510	31,020
Investments in joint ventures		(13,540)	(16,238)
Repayment of loans to:			
– Joint ventures		667	666
– Related companies		718	719
Interest income from:			
– Available-for-sale financial assets		687	211
– Loans to related companies		153	122
Purchase of available-for-sale financial assets		(5,847)	(22,168)
(Increase)/decrease in bank deposits		(51,943)	118,533
Increase in restricted cash		–	(5)
Net cash (used in)/generated from investing activities		(44,721)	59,891
Cash flows from financing activities			
Dividend paid		(20,487)	–
Interest expenses on bank borrowings		(457)	(536)
Interest expense on finance lease obligation		(2,530)	(2,620)
Interest expenses on amounts due to related companies		(76)	–
Repayment of finance lease obligation		(770)	(697)
Repayment of bank borrowings		(2,983)	(3,121)
Increase in amounts due to related companies		30,337	–
Net cash generated from/(used in) financing activities		3,034	(6,974)
Net (decrease)/increase in cash and cash equivalents		(808)	56,568
Cash and cash equivalents at 1 January		283,243	154,978
Effect of foreign exchange rate changes		3,001	(1,925)
Cash and cash equivalents at 30 June		285,436	209,621

Notes to the Interim Financial Information

1 General information

Sinotrans Shipping Limited (the "Company") was incorporated in Hong Kong on 13 January 2003 with limited liability under the Hong Kong Companies Ordinance. The address of its registered office is 21/F, Great Eagle Centre, 23 Harbour Road, Wan Chai, Hong Kong. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 23 November 2007. The Company and its subsidiaries (collectively the "Group") principally engages in dry bulk shipping business, container shipping business, shipping agency and ship management.

The ultimate holding company is China Merchants Group Limited, a stated-owned enterprise established in the People's Republic of China (the "PRC").

In December 2015, the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") approved the strategic reorganisation between SINOTRANS & CSC Holdings Co., Ltd. and China Merchants Group Limited. According to the approval, SINOTRANS & CSC Holdings Co., Ltd. will be administratively allocated (for no consideration) into, and become a wholly-owned subsidiary of, China Merchants Group Limited. In April 2017, the relevant legal procedures of the above strategic reorganisation have been completed. Thereafter, China Merchant Group Limited becomes the ultimate holding company of the Company.

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

The financial information relating to the year ended 31 December 2016 that is included in interim financial information for the six months ended 30 June 2017 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

The interim financial information has been approved for issue by the Board of Directors on 10 August 2017.

2 Basis of preparation and accounting policies

The interim financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

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

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

Amendments to HKAS 7	Statement of Cash Flows
Amendments to HKAS 12	Income Taxes
Annual Improvements Project	Annual Improvements 2014-2016 Cycle

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

2 Basis of preparation and accounting policies (Continued)

The HKICPA has issued the following new standards and amendments to existing standards which are not effective for accounting period beginning on 1 January 2017 and have not been early adopted:

HKFRS 15 [(1)]	Revenue of Contracts from Customers
HKFRS 9 [(1)]	Financial Instruments
HK (IFRIC) 22 [(1)]	Foreign Currency Transactions and Advance Consideration
Annual Improvements Project [(1)]	Annual Improvements 2014-2016 Cycle
HKFRS 16 [(2)]	Leases
HK (IFRIC) 23 [(2)]	Uncertainty over Income Tax Treatments
Amendments to HKFRS 10 and HKAS 28 [(3)]	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

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

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

In preparing the interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the annual financial statements for the year ended 31 December 2016.

3 Financial risk management and financial instruments

(a) Financial risk factors

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

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

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

3 Financial risk management and financial instruments (Continued)

(b) Fair value estimation

The table below analyses financial instruments carried at fair value as at 30 June 2017 and as at 31 December 2016, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000
Available-for-sale financial assets		
Level 1:		
Equity securities	90	173
Debt securities	20,391	36,261
Level 2:		
Debt securities	1,328	12,829
Level 3:		
Equity securities	3,690	3,604
	25,499	52,867

3 Financial risk management and financial instruments (Continued)

(b) Fair value estimation (Continued)

The following table presents the changes in level 3 instruments.

	Equity securities	
	2017	2016
	US$'000	US$'000
Opening balance at 1 January	3,604	3,863
Other comprehensive income/(loss)		
– Fair value changes of available-for-sale financial assets	–	–
– Currency translation differences	86	(80)
Closing balance at 30 June	3,690	3,783
Total gain/(loss) for the period recognised in statement of profit or loss and other comprehensive income and presented in fair value changes of available-for-sale financial assets	86	(80)
Total gain/(loss) for the period recognised in profit or loss related to assets held at the end of the period and presented in other losses, net	–	–

There were no changes in valuation techniques during the period.

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

Specific valuation techniques used to value financial instruments include:

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

4 Revenues and segment information

(a) Revenues

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

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Dry bulk shipping (note)	**240,310**	161,957
Container shipping	**259,867**	223,274
Others	**445**	573
	500,622	385,804

Note: Revenue from dry bulk shipping under time charter hire agreements was US$90,119,000 for the period ended 30 June 2017 (2016: US$35,439,000).

(b) Segment information

Operating segments

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

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

- Dry bulk shipping – dry bulk vessel time chartering and dry bulk cargo voyage chartering.

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

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

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

4 Revenues and segment information (Continued)

(b) Segment information (Continued)

Operating segments (Continued)

	Six months ended 30 June 2017			
	Dry bulk shipping US$'000	Container shipping US$'000	Others US$'000	Total US$'000
Total revenues	**241,605**	**259,867**	**2,580**	**504,052**
Inter-segment revenues	**(508)**	**–**	**(2,135)**	**(2,643)**
Revenues from external customers	**241,097**	**259,867**	**445**	**501,409**
Segment results	**6,265**	**15,364**	**(554)**	**21,075**
Depreciation	**21,620**	**3,628**	**161**	**25,409**
Reversal of impairment of trade and other receivables	**(118)**	**–**	**–**	**(118)**
Additions to property, plant and equipment	**5,958**	**2,859**	**30**	**8,847**
Reversal of provision for onerous contracts, net	**(5,256)**	**–**	**–**	**(5,256)**

	Six months ended 30 June 2016			
	Dry bulk shipping US$'000	Container shipping US$'000	Others US$'000	Total US$'000
Total revenues	163,263	223,274	2,637	389,174
Inter-segment revenues	(489)	–	(2,064)	(2,553)
Revenues from external customers	162,774	223,274	573	386,621
Segment results	(40,031)	10,413	(294)	(29,912)
Depreciation	26,379	3,382	315	30,076
Provision for impairment of trade receivables	580	–	–	580
Additions to property, plant and equipment	51,695	5,513	2,659	59,867
Reversal of provision for onerous contracts, net	(214)	–	–	(214)

4 Revenues and segment information (Continued)

(b) Segment information (Continued)

Operating segments (Continued)

Revenues between segments are carried out on terms with reference to the market practice. Revenues from external customers reported to the Directors are measured in a manner consistent with that in the condensed consolidated statement of profit or loss and other comprehensive income, except that revenues from the Group's joint ventures are measured at proportionate consolidated basis in the segment information.

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

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Revenues from external customers for reportable segments	**501,409**	386,621
Revenues from external customers derived by joint ventures measured at proportionate consolidated basis	**(787)**	(817)
Total revenues per the condensed consolidated statement of profit or loss and other comprehensive income	**500,622**	385,804

The Directors assess the performance of the operating segments based on a measure of operating results from each reportable segment. This measurement includes the results from the Group's joint ventures on a proportionate consolidated basis. Corporate expenses, depreciation and amortisation of corporate assets, finance income and finance expenses are not included in the segment results.

A reconciliation of segment results to profit/(loss) before income tax is provided as follows:

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Segment results for reportable segments	**21,075**	(29,912)
Corporate expenses	**(15,444)**	(15,921)
Depreciation and amortisation	**(583)**	(448)
Finance income	**7,273**	5,090
Finance expenses	**(3,063)**	(3,156)
Profit/(loss) before income tax	**9,258**	(44,347)

4 Revenues and segment information (Continued)

(b) Segment information (Continued)

Operating segments (Continued)

For the period ended 30 June 2017, the Group has nil (2016: one) customer with revenue exceeding 10% of the Group's total revenue. In prior period, revenue from this customer amounting to US$50,461,000 is attributable to the container shipping segment.

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

	As at 30 June 2017			
	Dry bulk shipping US$'000	**Container shipping US$'000**	**Others US$'000**	**Total US$'000**
Segment assets	**1,054,717**	**304,327**	**100,141**	**1,459,185**
Segment assets include:				
Interests in joint ventures	**20,950**	**–**	**66,595**	**87,545**
Loans to joint ventures	**4,666**	**–**	**–**	**4,666**
Segment liabilities	**132,499**	**158,259**	**5,162**	**295,920**

	As at 31 December 2016			
	Dry bulk shipping US$'000	Container shipping US$'000	Others US$'000	Total US$'000
Segment assets	1,068,323	281,709	98,122	1,448,154
Segment assets include:				
Interests in joint ventures	20,809	–	53,248	74,057
Loans to joint ventures	5,333	–	–	5,333
Segment liabilities	124,800	144,077	4,918	273,795

4 Revenues and segment information (Continued)

(b) Segment information (Continued)

Operating segments (Continued)

Reportable segment assets are reconciled to total assets as follows:

	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000
Segment assets	1,459,185	1,448,154
Corporate assets	660,012	626,188
Total assets per the condensed consolidated balance sheet	2,119,197	2,074,342

Reportable segment liabilities are reconciled to total liabilities as follows:

	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000
Segment liabilities	295,920	273,795
Corporate liabilities	32,892	4,304
Total liabilities per the condensed consolidated balance sheet	328,812	278,099

Geographical information

Revenues

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

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

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

4 Revenues and segment information (Continued)

(b) Segment information (Continued)

Geographical information (Continued)

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

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Container shipping		
– Asia	236,212	204,698
– Australia	23,655	18,576
	259,867	223,274
Dry bulk shipping	241,097	162,774
Others	445	573
	501,409	386,621

5 Other losses, net

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Gain/(loss) on disposals of property, plant and equipment, net (note)	26	(49,563)
Reversal of/(provision for) impairment of trade and other receivables	118	(580)
Exchange losses	(1,006)	(500)
Government subsidy (note)	–	48,645
Provision for claims under pending litigations	(92)	(368)
Others	50	52
	(904)	(2,314)

Note:

In prior period, the Group, through China Merchants Group Limited, submitted an application for government subsidy of RMB318,612,000 (equivalent to approximately US$48,645,000) in respect of demolition of five vessels in accordance with "Implementation Plan for Early Retirement and Replacement of Obsolete and Worn-out Transportation Vessels And Single-hull Oil Tankers"《老舊運輸船舶和單殼油輪提前報廢更新實施方案》and "Administrative Measure For The Special Subsidies Given By The Central Finance To Encourage Retirement And Replacement Of Obsolete and Worn-out Transportation Vessels And Single-hull Oil Tankers"《老舊運輸船舶和單殼油輪報廢更新中央財政補助專項資金管理辦法》jointly promulgated by the Ministry of Finance, the Ministry of Transport, the Development and Reform Commission, and the Ministry of Industry and Information Technology of China ("Vessel Demolition Subsidy"). After taking into account of the subsidy compensation, the net loss of demolition of the five vessels was approximately US$919,000 in prior period.

6 Finance income and expenses

	Six months ended 30 June 2017 US$'000	2016 US$'000
Interest expenses:		
– Bank borrowings	(457)	(536)
– Finance lease obligation	(2,530)	(2,620)
– Amounts due to related companies	(76)	–
Finance expenses	(3,063)	(3,156)
Interest income		
– Cash and bank balance	5,651	4,328
– Amounts due from fellow subsidiaries	535	165
– Loans to related companies	400	386
– Available-for-sale financial assets – debt securities	687	211
Finance income	7,273	5,090
Finance income, net	4,210	1,934

7 Income tax (expense)/credit

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2016: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates. These rates range from 17% to 26% during the period (2016: 17% to 26%).

	Six months ended 30 June 2017 US$'000	2016 US$'000
Current income tax		
Hong Kong profits tax	(9)	(8)
Overseas taxation	(1,574)	(51)
	(1,583)	(59)
Deferred income tax	–	152
Income tax (expense)/credit	(1,583)	93

8 Employee benefit expenses

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

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Wages and salaries	12,848	12,897
Pension costs – defined contribution plans	1,004	1,033
	13,852	13,930

9 Earnings/(loss) per share

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

	Six months ended 30 June	
	2017	2016
Profit/(loss) attributable to owners of the Company (US$'000)	8,006	(40,230)
Weighted average number of shares in issue (thousands)	3,992,100	3,992,100
Basic earnings/(loss) per share (US cents per share)	0.20	(1.01)

As there were no dilutive potential ordinary shares outstanding during the six months ended 30 June 2017 and 2016, the diluted earnings/(loss) per share for the period is equal to basic earnings/(loss) per share.

10 Dividend

The Board of Directors has resolved not to declare an interim dividend for the six months ended 30 June 2017 and 2016.

Notes to the Interim Financial Information

11 Property, plant and equipment

	Six months ended 30 June 2017 US$'000	2016 US$'000
Cost		
At 1 January	1,539,446	1,589,251
Currency translation differences	1,069	(213)
Additions	8,941	60,101
Disposals and write-offs	(1,318)	(140,456)
At 30 June	1,548,138	1,508,683
Accumulated depreciation and impairment		
At 1 January	434,073	297,275
Currency translation differences	319	(209)
Charge for the period	25,657	30,323
Disposals and write-offs	(1,280)	(82,926)
At 30 June	458,769	244,463
Net book value		
At 30 June	1,089,369	1,264,220

12 Intangible asset

	Six months ended 30 June 2017 US$'000	2016 US$'000
At 1 January		
Cost	3,206	1,592
Accumulated amortisation	(704)	(243)
Net book amount	2,502	1,349
Six months ended		
Opening net book amount	2,502	1,349
Additions	249	835
Amortisation charge	(335)	(201)
Closing net book amount	2,416	1,983
At 30 June		
Cost	3,455	2,427
Accumulated amortisation	(1,039)	(444)
	2,416	1,983

13 Trade and other receivables

	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000
Trade receivables, net of provision (note a)		
– fellow subsidiaries	6,295	8,565
– third parties	102,258	78,502
	108,553	87,067
Prepayments, deposits and other receivables, net of provision (note b)	60,810	59,911
Loans to related companies (note c)	15,554	16,071
Amounts due from related parties (note d)		
– fellow subsidiaries	1,273	2,223
– joint ventures	74	53
– an ultimate holding company	–	6,896
– an intermediate holding company	7,062	–
	8,409	9,172
	193,326	172,221
Less: non-current portion-loans to related companies	(14,496)	(15,027)
Current portion	178,830	157,194

13 Trade and other receivables (Continued)

Notes:

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

	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000
Within 6 months	106,617	84,631
7-12 months	1,222	1,693
1-2 years	823	933
2-3 years	280	1,962
Over 3 years	3,945	2,227
Trade receivables	112,887	91,446
Less: impairment provision		
Within 6 months	–	–
7-12 months	(109)	(134)
1-2 years	(267)	(335)
2-3 years	(98)	(1,769)
Over 3 years	(3,860)	(2,141)
Provision for impairment of trade receivables	(4,334)	(4,379)
Trade receivables, net of provision	108,553	87,067

(b) As at 30 June 2017, other receivables include government subsidy in relation to the demolition of vessels amounted to US$18,836,000 (31 December 2016: US$18,395,000).

As at 30 June 2017, other receivables of US$1,792,000 (31 December 2016: US$1,792,000) were considered as impaired by management and were provided for.

(c) Loans to related companies are denominated in US$ and bear floating interest rates. The effective interest rate as at 30 June 2017 was 4.43% to 4.62% (31 December 2016: 4.13% to 4.31%). The maturity dates of the loans range from 2020 to 2021. These loans were secured by the vessels of these related companies.

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

As at 30 June 2017 and as at 31 December 2016, the fair value of the Group's trade and other receivables approximates their carrying amounts.

Notes to the Interim Financial Information

14 Share capital

	As at 30 June 2017		As at 31 December 2016	
	Number of shares	Nominal value US$'000	Number of shares	Nominal value US$'000
Ordinary shares				
Issued and fully paid	3,992,100,000	1,878,209	3,992,100,000	1,878,209

15 Trade and other payables

	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000
Trade payables (note a)		
– fellow subsidiaries	12,742	12,272
– third parties	171,475	140,379
	184,217	152,651
Other payables and accruals	20,601	24,564
Amounts due to related parties		
– fellow subsidiaries (note b)	3,465	1,143
– joint ventures (note b)	64	102
– an immediate holding company (note c)	28,861	–
	32,390	1,245
	237,208	178,460

Note:

(a) Ageing analysis of trade payables (including amounts due to related parties of trading in nature) based on invoice date are as follows:

	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000
Within 6 months	166,719	126,917
7-12 months	2,074	5,826
1-2 years	2,894	8,704
2-3 years	2,497	1,300
Over 3 years	10,033	9,904
Trade payables	184,217	152,651

15 Trade and other payables (Continued)

Note: (Continued)

(b) Amounts due to fellow subsidiaries and joint ventures are unsecured, repayable on demand and interest free, except for advance of US$1,476,000 (31 December 2016: US$nil) from a fellow subsidiary that is subject to floating interest rate with maturity date on 27 March 2018.

(c) Amount due to an immediate holding company is unsecured and bear interest at prevailing market rates with maturity date on 26 April 2018.

As at 30 June 2017 and as at 31 December 2016, the fair value of the Group's trade and other payables approximates their carrying amounts.

16 Provision for other liabilities

	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000
Provision for onerous contracts	12,651	17,637
Provision for claims under pending litigations	9,360	9,310
	22,011	26,947
Less: Non-current portion	(3,747)	(6,393)
Current portion	18,264	20,554

The movements in the provision for other liabilities are as follows:

	Provision for onerous contracts		Provision for claims under pending litigations	
	Six months ended 30 June			
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
At 1 January	17,637	3,176	9,310	9,310
Provision during the period	573	1,996	92	368
Utilisation during the period	(5,829)	(2,210)	–	–
Settlement during the period	–	–	(92)	(368)
Currency translation differences	270	–	50	–
At 30 June	12,651	2,962	9,360	9,310

17 Borrowings

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

	Bank borrowings		Finance lease obligation		Total	
	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000	**As at 30 June 2017 US$'000**	As at 31 December 2016 US$'000	**As at 30 June 2017 US$'000**	As at 31 December 2016 US$'000
Within 1 year	**6,346**	6,346	**1,752**	1,663	**8,098**	8,009
Between 1 and 2 years	**6,346**	6,346	**1,935**	1,819	**8,281**	8,165
Between 2 and 5 years	**13,948**	16,931	**7,496**	7,047	**21,444**	23,978
Over 5 years	**–**	–	**29,298**	30,736	**29,298**	30,736
	26,640	29,623	**40,481**	41,265	**67,121**	70,888
Less: current portion	**(6,346)**	(6,346)	**(1,752)**	(1,663)	**(8,098)**	(8,009)
Non-current portion	**20,294**	23,277	**38,729**	39,602	**59,023**	62,879

Notes:

(a) As at 30 June 2017, bank borrowings of US$26,640,000 (31 December 2016: US$29,623,000) bear fixed rate. The effective interest rate of bank borrowing is 3.2% as at 30 June 2017 (31 December 2016: 3.2%).

(b) As at 30 June 2017, the Group's bank borrowings of US$26,640,000 (31 December 2016: US$29,623,000), were secured by its vessels with aggregate carrying amount of US$65,564,000 (31 December 2016: US$66,937,000).

(c) The fair value of current borrowings approximates their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 3.2% (31 December 2016: 3.2%) and are within level 2 of the fair value hierarchy.

The Group's borrowings are denominated in US$.

Notes to the Interim Financial Information

17 Borrowings (Continued)

Notes: (Continued)

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

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

	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000
Finance lease payable – minimum lease payments		
– within one year	**6,643**	6,643
– in the second year	**6,643**	6,643
– in the third to fifth year	**19,947**	19,947
– after the fifth year	**40,699**	44,013
	73,932	77,246
Future finance charges on finance lease	**(33,451)**	(35,981)
Present value of finance lease payable	**40,481**	41,265

18 Note to unaudited condensed consolidated cash flow statement

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

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Profit/(loss) before income tax	9,258	(44,347)
Adjustments for:		
Depreciation and amortisation	25,992	30,524
(Reversal of)/provision for impairment of trade and other receivables	(118)	580
(Gain)/loss on disposals of property, plant and equipment, net	(26)	49,563
Share of losses/(profits) of joint ventures	52	(98)
Finance income, net	(4,210)	(1,934)
Reversal of provision of onerous contracts, net	(5,256)	(214)
Provision for claims under pending litigation	92	368
Government subsidy	–	(48,645)
Exchange losses	1,006	500
Changes in working capital:		
Inventories	1,956	1,639
Trade and other receivables (excluding amounts due from related companies)	(24,982)	21,374
Amounts due from related companies	1,737	2,373
Amount due from an ultimate holding company	–	153
Amount due from an intermediate holding company	(166)	–
Trade and other payables (excluding amounts due to related companies)	27,633	(18,027)
Cash generated from/(used in) operations	32,968	(6,191)

19 Contingent liabilities

Sinochart as both defendant and plaintiff

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

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

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

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

On 10 May 2017, the Supreme Court in the UK delivered judgements regarding the case and the Court held that Sinochart shall not be responsible for the damages of the vessel thereof. However, the indemnity responsibility of losses involving fees, rentals and interests thereafter is subject to the final decision of the Court. As at 30 June 2017, directors considered it is appropriate to maintain the provision for the case amounted to US$8,700,000 (31 December 2016: US$8,700,000).

In addition to the above, as at 30 June 2017, Sinochart was also involved in 11 (31 December 2016: 8) other pending lawsuits amounted to approximately US$3,183,000 (31 December 2016: US$2,698,000). Taking into account the latest status of legal proceedings and the progress of settlement negotiations, the provisions for those cases is in the sum of US$660,000 as at 30 June 2017 (31 December 2016: US$610,000).

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

As at 30 June 2017 and 31 December 2016, the Group is unable to ascertain the likelihood and amounts of these respective claims, other than those provided for. However, based on the information available to the Group, the Directors are of the opinion that these cases will not have the significant financial or operational impact to the Group.

20 Commitments

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

	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000
Contracted but not provided for	184,094	191,605

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

	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000
Capital commitment in respect of the vessels under construction	–	12,146

21 Related party transactions

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

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

Apart from the above-mentioned transactions with the state-owned enterprises, the following is a summary of significant related party transactions during the period.

21 Related party transactions (Continued)

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

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Charter hire income from fellow subsidiaries	79,699	90,976
Charter hire expenses paid to a joint venture	1,575	1,638
Charter hire expenses paid to fellow subsidiaries	–	1,498
Commission expenses to fellow subsidiaries	77	36
Expenses for hiring of crews and seafarers to a fellow subsidiary	5,020	5,389
Interest income from loans to joint ventures	46	51
Interest income from fellow subsidiaries	535	165
Interest income from loans to related companies	354	335
Rental expenses to fellow subsidiaries	1,493	641
Service fee paid to fellow subsidiaries	57,255	56,278
Service fee income from fellow subsidiaries	77	233
Service fee paid to a related company	–	180
Agency income from fellow subsidiaries	16,367	14,900
Vessel and container leasing cost paid	2,831	8,045
Commercial management fee from joint ventures	78	–
Interest expense paid to an immediate holding company	68	–
Interest expense paid to a fellow subsidiary	8	–

In the opinion of the Directors, the above related party transactions were carried out in the ordinary course of business and in accordance with the terms of the underlying agreements.

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

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

21 Related party transactions (Continued)

(d) Key management compensation

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Salaries, bonus, allowances, and benefits-in-kind	**239**	259
Contributions to pension plans	**17**	16
	256	275

Management Discussion and Analysis of Results of Operations and Financial Position

Review of historical operating results

In the first half of 2017, the world economy was moderately recovering and both international and domestic economic situations improved. With the thriving world trade and increasing prices of major commodities, growth rate of shipping demand picked up while the supply of shipping capacity continued to grow slowly, which narrowed the imbalance of supply-and-demand. Dry bulk and container shipping markets were steadily emerging from their historical lows in last year, showing signs of revival.

In face of complicated and changing world economic and market conditions, the Group adhered to its market-oriented strategies that strive for stable development in continuously optimizing the fleet structure and responding flexibly to market changes. By strengthening information technology applied in ship management, the Group increased efficiency of its internal management, actively promoted cost reduction and efficiency enhancement, further reduced its fleet costs, enhanced quality of customer services and consolidated its overall competitiveness. By putting effort in the above aspects, the Group recorded significant improvement in its operating results in the first half year and turned losses into profits, laying a solid foundation for further development.

The Group recorded profit attributable to owners of the Company of US$8.01 million for the six months ended 30 June 2017 (2016: loss of US$40.23 million).

Revenues

For the six months ended 30 June 2017, revenues of our Group were US$500.62 million (2016: US$385.80 million).

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

	Six months ended 30 June		
	2017	2016	
	US$'000	US$'000	% Change
Revenues from:			
– Dry bulk shipping [(1)]	**241,097**	162,774	48.1%
– Container shipping	**259,867**	223,274	16.4%
– Others	**445**	573	(22.3%)
	501,409	386,621	29.7%
Revenues derived from joint ventures measured at proportionate consolidated basis [(1)]	**(787)**	(817)	(3.7%)
Revenues per the condensed consolidated statement of profit or loss and other comprehensive income	**500,622**	385,804	29.8%

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

Dry bulk shipping

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

Along with the global economic recovery in the first half of 2017, the increasing shipping demand and, in particular, the increasing imports of major commodities of China, confidence in the dry bulk shipping market has been boosted sharply, despite a higher net growth in capacity as compared with last year. The average Baltic Dry Index (BDI), which reflects the situation of dry bulk shipping market, was 975 points in the first half of 2017, representing a year-on-year increase of 100.6% as compared with its historical low in last year. During the period, the market experienced an upturn followed by a downturn. The BDI fluctuated between 685 points and 1,338 points which bounced once in the peak season between March and April but dropped immediately as the demand fell in May and June.

To capture every golden chance in the market, through comprehensive market research, the Group adopted active strategies in response to the market and flexibly adjusted its fleet structure, resulting in good performance. In addition to seizing market opportunities, the Group also developed synergy advantages by expanding its global business network, optimized its existing business mode, explored the potentials of its existing clients and endeavored to develop new routes and new customers, achieving a turnaround eventually.

In the first half of 2017, revenue of our Group from dry bulk shipping was US$241.10 million (2016: US$162.77 million), among which ocean freight income recorded US$150.19 million (2016: US$126.52 million), and charter hire income recorded US$90.91 million (2016: US$36.25 million). The shipping volume was 20.87 million tons during the first half year (2016: 20.47 million tons). The average daily charter hire rate/time charter equivalent (TCE) rate of dry bulk vessels was US$9,514 (2016: US$5,562). The average charter rate level was around 10% higher than the average charter rate level of BDI in the spot market.

Container shipping

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

In the first half of 2017, the container shipping market in Intra-Asia area was stable and on an uptrend. The shipping demand picked up, and under the influence of shipping companies' control of fleet utilization, the freight rates were stable and increased.

The Group persistently oriented itself as the liner carrier in Intra-Asia area and sought for further development. The Group has prepared its development once the market showed signs of recovery. It developed three new routes and largely increased the import shipping volume in China, as well as ensured better fleet utilization by strengthening customer marketing. In the meantime, the Group insisted on cost reduction and efficiency enhancement, extended new services by innovative measures, improved service quality, striving for continuous growth in profitability. As at 30 June 2017, revenue of our Group from container shipping was US$259.87 million (2016: US$223.27 million), among which income from liner service recorded US$235.22 million (2016: US$205.55 million), income from freight forwarding as well as other related business recorded US$24.65 million (2016: US$17.72 million). The container shipping volume of the Group for the first half of 2017 was 470,610 TEU (2016: 406,476 TEU). The average income per TEU was US$388 (2016: US$396).

Cost of operations

The cost of operations increased to US$478.06 million (2016: US$413.71 million) for the six months ended 30 June 2017. The principal cost of operations included voyage costs, cargo transportation costs, operating lease rentals and vessel costs.

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

	Six months ended 30 June		
	2017	2016	
	US$'000	US$'000	% Change
Dry Bulk Shipping			
Voyage costs	**74,379**	58,470	27.2%
Cargo transportation costs	**21,808**	29,627	(26.4%)
Operating lease rentals	**86,898**	54,763	58.7%
Vessel costs	**46,601**	54,499	(14.5%)
Others	**4,368**	2,605	67.7%
	234,054	199,964	17.0%
Container Shipping			
Voyage costs	**41,353**	27,512	50.3%
Cargo transportation costs	**122,444**	109,925	11.4%
Operating lease rentals	**69,047**	65,101	6.1%
Vessel costs	**10,934**	10,923	0.1%
Others	**155**	6	2,483.3%
	243,933	213,467	14.3%
Segment – Others	**77**	274	(71.9%)
Total cost of operations	**478,064**	413,705	15.6%

The operating costs of dry bulk shipping amounted to US$234.05 million (2016: US$199.96 million). The increase in the operating costs in 2017 was caused by the rise in operating lease rentals by 58.7% due to the upturn in charter hire rate and the increase in voyage costs by 27.2% due to the boost in bunker price. Simultaneously, the increase in the operating costs was partially offset by the decrease in cargo transportation costs and vessel costs due to the cost reduction and efficiency enhancement.

The operating costs of container shipping amounted to US$243.93 million (2016: US$213.47 million). The increase in the operating costs in 2017 was as results of the rise in voyage costs by 50.3% due to the upturn in shipping volume and bunker price, and the increase in cargo transportation costs by 11.4% due to the boost in shipping volume.

Management Discussion and Analysis of Results of Operations and Financial Position

Selling, administrative and general expenses

The selling, administrative and general expenses, mainly comprising staff costs and office cost, amounted to US$16.55 million (2016: US$16.16 million).

Other losses, net

The net amount of the other losses amounted to US$0.90 million (2016: US$2.31 million). The decrease in the other losses was attributable to no loss on disposal of vessel and provision for impairment of trade receivables incurred for the period ended 30 June 2017 compared to 2016.

Finance income and expenses

The finance income and expenses were US$7.27 million (2016: US$5.09 million) and US$3.06 million (2016: US$3.16 million) respectively. The increase in finance income was attributable to the increase in bank balances and interest rate.

Share of (losses)/profits of joint ventures

The share of losses of joint ventures was US$0.05 million (2016: profits US$0.10 million) mainly due to the startup expenses incurred for the LNG shipping business.

Income tax (expense)/credit

Income tax expense for the period ended 30 June 2017 was US$1.58 million (2016: income tax credit of US$0.09 million). The unutilized tax losses of a subsidiary fully utilized by the end of 2016 caused the increase in income tax expense.

Liquidity and financial resources

Our cash had been principally used for payment for final dividend of 2016, investment in LNG shipping business, construction of vessels, operating costs and working capital in the first half of 2017. We had financed our liquidity requirements primarily through internal generated cash.

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

	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000
Current assets	897,942	855,008
Current liabilities	266,042	208,827
Liquidity ratio (note)	3.38	4.09

Note: The liquidity ratio is equal to the total current assets over the total current liabilities of our Group as at the balance sheet date indicated.

Our liquidity ratios as at 30 June 2017 and 31 December 2016 were 3.38 and 4.09 respectively.

Borrowings

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

	Bank borrowings		Finance lease obligation		Total	
	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000
Within 1 year	6,346	6,346	1,752	1,663	8,098	8,009
Between 1 and 2 years	6,346	6,346	1,935	1,819	8,281	8,165
Between 2 and 5 years	13,948	16,931	7,496	7,047	21,444	23,978
Over 5 years	–	–	29,298	30,736	29,298	30,736
	26,640	29,623	40,481	41,265	67,121	70,888
Less: current portion	(6,346)	(6,346)	(1,752)	(1,663)	(8,098)	(8,009)
Non-current portion	20,294	23,277	38,729	39,602	59,023	62,879

Gearing ratio

Gearing ratio is not presented as our Group had net cash (in excess of debt) as at 30 June 2017 and 31 December 2016.

Commitments

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

	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000
Contracted but not provided for	184,094	191,605

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

	As at 30 June 2017 US$'000	As at 31 December 2016 US$'000
Capital commitment in respect of the vessels under construction	–	12,146

Capital expenditures

For the six months ended 30 June 2017, total capital expenditures were US$22.73 million (2016: US$77.18 million) which was mainly attributable to the capital expenditures for investment in LNG shipping business, construction of dry bulk vessels, dry docking and intangible asset in the first half of the year.

Foreign exchange risk

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

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

Contingent liabilities

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

Management Discussion and Analysis of Results of Operations and Financial Position

LNG shipping

In cooperation with its partners, the Group successfully won the bidding of Russian Yamal ice-class LNG carriers project in 2015 to jointly invest in five new-built LNG carriers, and engaged in the LNG shipping business of Arctic route. The project was at implementation stage and all five vessels were under construction.

Two ice-class LNG carriers of the project are expected to be delivered during the year and the remaining three will be delivered by 2019. Such project will contribute stable investment income to the Group starting from the next year. The Group will closely monitor the shipbuilding progress to ensure the ship quality and smooth project development.

Fleet development

Under the sluggish market over the past three years, through extensive vessel replacement, the Group has scrapped 23 aged vessels and delivered 10 eco-vessels. The fleet structure was optimized substantially, and the average age of self-owned vessels was only 6.1 years old.

In addition, the Group has an orderbook of 6 Handysize bulk vessels and 4 container vessels which are expected to be delivered from the second half of this year and is expected to be completed by 2018. By continuous adjustment, the Group achieved a significant reduction in fleet cost and a notable enhancement in competitiveness.

As at 30 June 2017, details of the fleet are as follows:

	Owned vessels (unit)	Chartered-in Vessels (unit)	Controlled Vessels (unit)	Orderbook (unit)
Capesize	9	2	11	–
Panamax	11	41	52	–
Handymax	13	19	32	–
Handysize [1]	4	2	6	6
Total for bulk vessels	37	64	101	6
Total for bulk vessels (kt)	3,418 kt	4,844 kt	8,262 kt	233 kt
Total for container vessels	11	17	28	4
Total for container vessels (TEU)	9,537 TEU	26,918 TEU	36,455 TEU	7,600 TEU
Ice-class LNG carriers [2]	–	–	–	5
Ice-class LNG carriers (thousand cubic meters)	–	–	–	860
Total vessels	48	81	129	15

(1) 2 of the Handysize vessels are collectively owned by the Group and Mitsui O.S.K. Lines, Ltd. The Group owns 50% interests in each of the 2 vessels.

(2) 5 ice-class LNG carriers are collectively owned by the Group and its partners. The Group owns 25.5% interests in each of the 5 vessels.

Management Discussion and Analysis of Results of Operations and Financial Position

Employees

As at 30 June 2017, our Group had a total of 672 shore-based employees working in our offices in Hong Kong, Mainland China, Canada, Singapore and other regions. The remuneration policies and development of our employees were substantially the same as those disclosed in the 2016 annual report with no material change.

Outlook

Looking ahead to the second half of 2017, although developed economies such as the United States and the Eurozone are on an upward trend and the China's economy is stable and even improving, the United States will be still under policy adjustment progress and the prospect of the Eurozone remains uncertain. With factors comprising complicated geopolitics and trade friction, the new emerging economies will also face uncertainties. Overall, opportunities and challenges coexist in the world economy.

The hardest time of the dry bulk shipping has gone. Driven by the world economic recovery, shipping demand is expected to rise continuously. The gradual implementation of the "Belt and Road" initiative of China may bring new impetus to the growth of shipping demands from the countries alongside the Belt and Road. The moderate growth in shipping capacity may also improve the supply-and-demand balance. The market may have better performance in traditional peak season in the second half of year. The dry bulk shipping market is expected to further recover in 2018. As for the container market, the active economy in Intra-Asia area will stimulate the container shipping demand growth while supply-and-demand is relatively balanced and freight rates will also be stable and even improve.

Facing the ever-changing market, the Group will adhere to its principle of moving forward with steady growth in pursuit of both short-term and long-term benefits. In order to improve our competitiveness and fight for success, we will put effort in the integration of resources, improve operation efficiency and enhance cost-control management as well as consolidate its profits recorded in the first half year. In the meantime, the Group will proactively strive for opportunities from the "Belt and Road", identify potential demands and continue its innovation, in order to achieve sustainable and healthy development. Leveraging the above measures, and with sound financial condition, the low-cost fleet, a professional team and its global business network, the Group will capture opportunities and avoid risks, which will further contribute to its business growth. The Group will constantly endeavor to create value and maximize shareholders' benefits.

Audit committee

The audit committee of our Company has reviewed the interim financial information of our Group for the six months ended 30 June 2017. In addition, the Company's independent auditor, PricewaterhouseCoopers, has performed a review of the interim financial information of our Group in accordance with the Hong Kong Standard on Review Engagements 2410 issued by the Hong Kong Institute of Certified Public Accountants.

Interim Dividend

Dividend

Our Board has resolved not to declare any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

Other Information

Directors' interests in shares

As at 30 June 2017, none of the directors and chief executive of the Company or their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to Section 352 of the SFO to be entered into the register kept by the Company, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in the Listing Rules.

Substantial shareholders

As at 30 June 2017, the interests or short positions of the following persons (other than directors or chief executive of the Company) in the shares of the Company which were recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholders	Long Position/ Short Position	Capacity	Number of Shares Held	As a % of Total Issued Shares
Sinotrans & CSC Group Company (Note 1)	Long Position	Interest of controlled corporation	2,724,742,500	68.25
Sinomarine Limited (Note 1)	Long Position	Interest of controlled corporation	2,600,000,000	65.13
Sinotrans Shipping (Holdings) Limited (Note 1)	Long Position	Beneficial owner	2,600,000,000	65.13

Note:

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

Save as disclosed above, as at 30 June 2017, no other person (other than directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Purchase, sale and redemption of listed securities of the Company

During the six months ended 30 June 2017, neither our Company nor any of our subsidiaries had purchased, sold or redeemed any of our Company's shares.

Other Information

Compliance with the corporate governance code

Except that the Chairman of the Company was unable to attend and preside over the annual general meeting of the Company held on 25 May 2017 due to other business commitments, our Group has complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2017.

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

We have adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by our Directors.

Our Board confirms that, having made specific enquiry of all Directors, all our Directors have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2017.

Change in Director's information

In May 2017, Mr, Li Zhen was appointed as the deputy general manager of China Merchants Energy Transportation Holdings Co. Ltd.

Compliance with Rules 3.10(1), 3.21 and 3.25 of the Listing Rules

Following the passing away of Mr. Tsang Hing Lun on 4 June 2017, the audit committee of the Board (1) did not have an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong King Limited (the ''Listing Rules'') and (2) comprised only 2 members which did not fulfil the requirement under Rule 3.21 that the audit committee must comprise a minimum of three members. Besides, the remuneration committee of the Board comprised one executive director and one independent non-executive director which did not fulfil the requirement under Rule 3.25 of the Listing Rules that the remuneration committee must comprise a majority of independent non-executive directors.

In order to fulfill the requirements of Rules 3.10(1), 3.21 and 3.25 of the Listing Rules, Mr. Wu Tak Lung was appointed as independent non-executive director of the Company and the chairman of Audit Committee of the Company with effect from 4 July 2017.

Following the above appointment, the audit committee of the Board (1) has included an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules and (2) comprises three members which fulfil the requirement under Rule 3.21 of the Listing Rules that the audit committee must comprise a minimum of three members.

On the same day, Mr. Xu Zhengjun was appointed as member of remuneration committee of the Company. Following the above appointment, the remuneration committee comprises a majority of independent non-executive directors of the Company as required under Rule 3.25 of the Listing Rules that the remuneration committee must comprise a majority of independent non-executive directors.