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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** about this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold** all your shares in Jinhui Holdings Company Limited, you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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**JINHUI HOLDINGS COMPANY LIMITED**

*(Incorporated in Hong Kong with limited liability)*

Stock Code: 137

**MAJOR TRANSACTION**  
**ACQUISITION OF A VESSEL**

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4 July 2006

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context indicates otherwise:*

|                           |  |
|---------------------------|--|
| “Acquisition”             | the acquisition of the Vessel under the Contract;  |
| “associates”              | has the same meaning ascribed to it under the Listing Rules;   |
| “Board”                   | the board of Directors;  |
| “Builder”                 | Oshima Shipbuilding Co., Ltd., a company incorporated in Japan;  |
| “Companies Ordinance”     | Companies Ordinance (Chapter 32 of the Laws of Hong Kong);   |
| “Company”                 | Jinhui Holdings Company Limited;   |
| “Contract”                | the construction and sale contract dated 9 June 2006 between the Purchaser and the Contractor in respect of the acquisition of the Vessel;   |
| “Contractor”              | Sumitomo Corporation, a company incorporated in Japan;   |
| “Directors”               | the directors of the Company;  |
| “Fairline”                | Fairline Consultants Limited, a company incorporated in the British Virgin Islands with limited liability, which is the controlling shareholder of the Company holding approximately 58.59 per cent. of the issued share capital and voting rights in general meetings of the Company as at the Latest Practicable Date; |
| “Group”                   | the Company and its subsidiaries;  |
| “Hong Kong”               | the Hong Kong Special Administrative Region of the People’s Republic of China;   |
| “Jinhui Shipping”         | Jinhui Shipping and Transportation Limited, a company incorporated in Bermuda and an approximately 50.21 per cent. owned subsidiary of the Company as at the Latest Practicable Date whose shares are listed on the Oslo Stock Exchange, Norway;   |
| “Latest Practicable Date” | 29 June 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular;  |
| “Listing Rules”           | the Rules Governing the Listing of Securities on the Stock Exchange;   |

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## DEFINITIONS

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|                      |   |
|----------------------|---|
| “Purchaser”          | Jinshun Shipping Inc., a wholly-owned subsidiary of Jinhui Shipping;  |
| “SFO”                | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);  |
| “Share(s)”           | ordinary share(s) of HK\$0.10 each in the share capital of the Company;   |
| “Shareholder(s)”     | shareholder(s) of the Company;  |
| “Stock Exchange”     | The Stock Exchange of Hong Kong Limited;  |
| “Vessel”             | a deadweight 54,200 metric tons type bulk carrier;  |
| “Yee Lee Technology” | Yee Lee Technology Company Limited, a company incorporated in the British Virgin Islands and a 75 per cent. owned subsidiary of the Company;      |
| “HK\$”               | Hong Kong Dollars, the lawful currency of Hong Kong;  |
| “JPY”                | Japanese Yen, the lawful currency of Japan, and for the purpose of illustration only, translated into HK\$ at the rate of JPY1 = HK\$0.06809; and |
| “US\$”               | United States Dollars, the lawful currency of the United States of America.   |

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## LETTER FROM THE BOARD

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# JINHUI HOLDINGS COMPANY LIMITED

*(Incorporated in Hong Kong with limited liability)*

Stock Code: 137

*Directors:*

Ng Siu Fai (*Chairman*)  
Ng Kam Wah Thomas (*Managing Director*)  
Ng Ki Hung Frankie  
Ho Suk Lin  
Cui Jianhua \*  
Tsui Che Yin Frank \*  
William Yau \*

*Registered office:*

26th Floor  
Yardley Commercial Building  
1-6 Connaught Road West  
Hong Kong

\* *Independent Non-executive Director*

4 July 2006

*To the Shareholders and,  
for information only, the holders of options,*

Dear Sir or Madam,

## **MAJOR TRANSACTION ACQUISITION OF A VESSEL**

### **INTRODUCTION**

The Directors refer to the announcement of the Company dated 12 June 2006 in relation to the Acquisition of the Vessel pursuant to the Contract dated 9 June 2006 entered into between the Purchaser and the Contractor.

The purpose of this circular is to give you further information in relation to the Acquisition.

### **THE CONTRACT**

#### **Purchaser**

The Purchaser is a ship owning company and a wholly-owned subsidiary of Jinhui Shipping, which is in turn an approximately 50.21 per cent. owned subsidiary of the Company.

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## LETTER FROM THE BOARD

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### **Vendor**

The Contractor is a trading firm listed on five stock exchanges in Tokyo, Osaka, Nagoya, Fukuoka and Frankfurt. Through its worldwide network, the Contractor engages in diverse business activities including various domestic and overseas transactions and import and export of a wide range of goods and commodities. To the best of the Board's knowledge, information and belief having made all reasonable enquiry, the Contractor is a third party independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

### **The Acquisition**

Pursuant to the Contract dated 9 June 2006, the Contractor has agreed to procure the Builder to build, launch, equip and complete at the Builder's shipyard in Japan and to sell and deliver the Vessel to the Purchaser and the Purchaser has agreed to purchase and take delivery of the Vessel from the Contractor. The Vessel is a deadweight 54,200 metric tons type bulk carrier and proposed to be used for chartering out to gain operating income by the Purchaser after delivery.

The Builder began its business in shipbuilding in June 1974 and launched its first ship in 1975 and specializes in the fabrication of bulk carriers, especially dry cargo carriers. To the best of the Board's knowledge, information and belief having made all reasonable enquiry, the Builder and its ultimate beneficial owners are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

### **Consideration**

Subject to certain provisions for adjustment to reduce the purchase price of the Vessel contained in the Contract relating to, amongst other things, delay in the delivery of the Vessel, guaranteed speed deficiency, guaranteed fuel consumption being exceeded or guaranteed deadweight deficiency, the purchase price for the Vessel is JPY3,430,000,000 (approximately HK\$233,548,700) payable by four instalments as follows:

- (1) the first instalment in the sum of JPY343,000,000 (approximately HK\$23,354,870) was paid on 14 June 2006;
- (2) the second instalment in the sum of JPY343,000,000 (approximately HK\$23,354,870) will be payable upon keel-laying of the Vessel which is expected to be around June 2008;
- (3) the third instalment in the sum of JPY343,000,000 (approximately HK\$23,354,870) will be payable upon launching of the Vessel which is expected to be around February 2009; and
- (4) the last instalment of JPY2,401,000,000 (approximately HK\$163,484,090) will be payable upon delivery of the Vessel on or before 31 March 2009.

The purchase price for the Vessel will be payable by cash in Japanese Yen which will be funded by the internal resources and bank loans of the Group. The purchase price was determined by reference to current market values of similar type of vessels and on the basis of arm's length negotiations.

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## LETTER FROM THE BOARD

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### **Delivery**

The Contract provides for the delivery of the Vessel on or before 31 March 2009 to the Purchaser in Japan. If there is delay in delivery of the Vessel which continues for a period of 180 days from the thirty-first day after the agreed delivery date by all the parties involved, then after such period has expired, the Purchaser may at its option rescind the Contract. The Contractor shall thereupon promptly refund to the Purchaser in Japanese Yen the full amount of all sums received by the Contractor together with interest accrued thereon at an agreed rate from the date of receipt by the Contractor of such amount to the date of full payment to the Purchaser of such amount.

### **Undertaking by the Builder**

The Contract was also signed by the Builder for the purpose of an undertaking on its part to duly perform all the terms and conditions stipulated in the Contract to be performed by a shipbuilder including the undertaking to remedy the Purchaser at first priority and free of charge for any defects in the Vessel which are due to defective material, defective construction and/or bad workmanship on the part of the Builder and/or its subcontractors within a period of twelve months after the date of delivery of the Vessel.

### **GUARANTEE**

Jinhui Shipping, the intermediate holding company of the Purchaser, executed on 9 June 2006 a guarantee in favour of the Contractor pursuant to which it agrees to guarantee the full and punctual payment of the purchase price and the prompt and punctual performance by the Purchaser in accordance with the terms of the Contract.

### **REASONS FOR THE ACQUISITION**

The Group's principal activities include international ship chartering, ship owning and trading. The Vessel is a Handymax vessel. The Acquisition will enable the Group, as previously announced by the Company, to concentrate on maintaining a fleet of Handymax vessels that are of better equipped loading facilities, and will further complement our owned young and modern fleet of vessels to serve the growing needs of our customers. As at the Latest Practicable Date, the Group owns ten dry bulk vessels including one vessel contracted to be disposed of later in July 2006. After the Acquisition, the Group will have additional six newly built vessels and one 2004-built second hand vessel for delivery going forward, where four of which will be delivered in 2007, two in 2008 and one in 2009. After the Acquisition, the Group's property, plant and equipment will increase by the amount of purchase price of the Vessel, the current assets will decrease by the amount of purchase price funded from internal resources and the liabilities will increase by the amount of purchase price funded by bank financing.

The terms and conditions of the Contract have been agreed on normal commercial terms following arm's length negotiations. The Company considers that such terms and conditions are fair and reasonable and it is an opportune moment during recent market situations to further expand its fleet of vessels in order to generate more operating income for the Group and hence further increase Shareholders' value.

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## LETTER FROM THE BOARD

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The Group has been a customer of the Contractor since 1997 and had previously acquired and took delivery of eight motor vessels from the Contractor in the past. In addition, the Group had during the past twelve months entered into other three separate contracts with the Contractor on 2 November 2005 and 4 January 2006 for the acquisition of other three motor vessels from the Contractor. Each of the aforementioned contracts is separate and not inter-conditional of each other.

### GENERAL

Under the Listing Rules, the Acquisition constitutes a major transaction for the Company and is subject to shareholders' approval in general meeting. Fairline, the controlling shareholder of the Company holding approximately 58.59 per cent. of the issued share capital of the Company and voting rights in general meetings of the Company as at the Latest Practicable Date, is not interested in the Acquisition other than through its shareholding interest in the Company, and therefore no Shareholder is required to abstain from voting on the Acquisition and the Acquisition had been approved by a written shareholders' approval.

According to Rule 14.67(4)(b) of the Listing Rules, on an acquisition of any revenue-generating assets (other than a business or company) with an identifiable income stream or assets valuation, certain historical financial information and valuation of the assets being acquired and pro forma financial information of the listed issuer's group combined with the assets being acquired should be included in the circular for a major transaction. The Vessel does not currently exist and there is no identifiable income stream or asset valuation available as at date of this circular. Hence, Rule 14.67(4)(b) of the Listing Rules should not apply to the Acquisition.

Your attention is also drawn to the appendices to this circular.

Yours faithfully,  
By Order of the Board  
**Jinhui Holdings Company Limited**  
**Ng Siu Fai**  
*Chairman*



**(1) FINANCIAL STATEMENTS**

*Set out below is a summary of the audited consolidated financial statements of the Group for each of three years ended 31 December 2005 as extracted from the relevant annual reports of the Company.*

**Consolidated Income Statement**

|                             | <b>Year ended 31 December</b> |                  |                  |
|-----------------------------|-------------------------------|------------------|------------------|
|                             | <b>2005</b>                   | <b>2004</b>      | <b>2003</b>      |
|                             | <i>HK\$'000</i>               | <i>HK\$'000</i>  | <i>HK\$'000</i>  |
| Turnover                    | <u>1,985,235</u>              | <u>1,974,661</u> | <u>1,048,515</u> |
| Profit from operations      | 869,660                       | 412,922          | 98,745           |
| Interest income             | 13,983                        | 4,165            | 4,279            |
| Interest expenses           | <u>(40,213)</u>               | <u>(22,972)</u>  | <u>(20,947)</u>  |
| Profit before taxation      | 843,430                       | 394,115          | 82,077           |
| Taxation                    | <u>(2,474)</u>                | <u>(2,608)</u>   | <u>(64)</u>      |
| Net profit for the year     | <u>840,956</u>                | <u>391,507</u>   | <u>82,013</u>    |
| Attributable to:            |                               |                  |                  |
| Shareholders of the Company | 526,862                       | 227,514          | 36,676           |
| Minority interests          | <u>314,094</u>                | <u>163,993</u>   | <u>45,337</u>    |
|                             | <u>840,956</u>                | <u>391,507</u>   | <u>82,013</u>    |
| Dividends per share         | <u>HK\$0.190</u>              | <u>HK\$0.120</u> | <u>–</u>         |
| Basic earnings per share    | <u>HK\$0.992</u>              | <u>HK\$0.432</u> | <u>HK\$0.07</u>  |
| Diluted earnings per share  | <u>HK\$0.982</u>              | <u>HK\$0.432</u> | <u>N/A</u>       |

## Consolidated Balance Sheet

|   | At 31 December   |                  |                 |
|---|------------------|------------------|-----------------|
|   | 2005             | 2004             | 2003            |
|   | <i>HK\$'000</i>  | <i>HK\$'000</i>  | <i>HK\$'000</i> |
| <b>ASSETS AND LIABILITIES</b>                         |                  |                  |                 |
| Property, plant and equipment                         | 2,319,229        | 1,234,823        | 1,430,045       |
| Investment properties                                 | 35,000           | 24,500           | –               |
| Goodwill  | 39,040           | 46,348           | –               |
| Available-for-sale financial assets                   | 36,938           | 35,257           | 37,789          |
| Intangible asset                                      | –                | 105              | 119             |
| Interests in an associate                             | –                | (25)             | (27)            |
| Other non-current assets                              | 28,827           | 34,076           | 21,549          |
| Current assets  | 757,381          | 1,251,242        | 346,086         |
| Current liabilities                                   | (373,230)        | (1,092,536)      | (303,838)       |
| Non-current liabilities                               | (1,005,205)      | (414,872)        | (643,891)       |
|   | <u>1,837,980</u> | <u>1,118,918</u> | <u>887,832</u>  |
| Net assets  |                  |                  |                 |
| <b>EQUITY</b>   |                  |                  |                 |
| Equity attributable to shareholders<br>of the Company |                  |                  |                 |
| Issued capital  | 53,394           | 52,624           | 52,624          |
| Reserves  | 1,058,258        | 667,599          | 440,073         |
|   | <u>1,111,652</u> | <u>720,223</u>   | <u>492,697</u>  |
| Minority interests                                    | 726,328          | 398,695          | 395,135         |
|   | <u>1,837,980</u> | <u>1,118,918</u> | <u>887,832</u>  |
| Total equity  |                  |                  |                 |

Set out below is the audited consolidated financial statements of the Group as contained in the annual report of the Company for the year ended 31 December 2005 together with accompanying notes.

### Consolidated Income Statement

Year ended 31 December 2005

|  | <i>Note</i> | <b>2005</b><br><i>HK\$'000</i> | <b>2004</b><br><i>HK\$'000</i> |
|--|-------------|--------------------------------|--------------------------------|
| <b>Turnover</b>  | 4           | 1,985,235                      | 1,974,661                      |
| Cancellation fee income  | 5           | 156,000                        | –                              |
| Gain on disposal of partial interests in a subsidiary                                | 32(c)       | 102,855                        | –                              |
| Gain on disposal of motor vessels  |             | –                              | 127,201                        |
| Other operating income   |             | 93,792                         | 105,324                        |
| Shipping related expenses  |             | (948,959)                      | (877,600)                      |
| Losses on forward freight agreements   | 6           | –                              | (490,947)                      |
| Cost of trading goods sold   |             | (276,860)                      | (254,377)                      |
| Depreciation and amortization  |             | (94,072)                       | (85,191)                       |
| Staff costs  | 7           | (66,128)                       | (43,190)                       |
| Other operating expenses   |             | (82,203)                       | (42,959)                       |
|  |             | <hr/>                          | <hr/>                          |
| <b>Profit from operations</b>  | 8           | 869,660                        | 412,922                        |
| Interest income  |             | 13,983                         | 4,165                          |
| Interest expenses  | 9           | (40,213)                       | (22,972)                       |
|  |             | <hr/>                          | <hr/>                          |
| <b>Profit before taxation</b>  |             | 843,430                        | 394,115                        |
| Taxation   | 12          | (2,474)                        | (2,608)                        |
|  |             | <hr/>                          | <hr/>                          |
| <b>Net profit for the year</b>   |             | <u>840,956</u>                 | <u>391,507</u>                 |
| <b>Attributable to:</b>  |             |                                |                                |
| Shareholders of the Company  |             | 526,862                        | 227,514                        |
| Minority interests   |             | 314,094                        | 163,993                        |
|  |             | <hr/>                          | <hr/>                          |
|  |             | <u>840,956</u>                 | <u>391,507</u>                 |
| <b>Dividends</b>   | 14          | <u>101,356</u>                 | <u>63,713</u>                  |
| <b>Earnings per share for net profit attributable to shareholders of the Company</b> |             |                                |                                |
| – Basic (2004: restated)   | 15          | <u>HK\$0.992</u>               | <u>HK\$0.432</u>               |
| – Diluted (2004: restated)   | 15          | <u>HK\$0.982</u>               | <u>HK\$0.432</u>               |

**Balance Sheets**

At 31 December 2005

|   | Note  | Group            |                  | Company          |                  |
|---|-------|------------------|------------------|------------------|------------------|
|   |       | 2005<br>HK\$'000 | 2004<br>HK\$'000 | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| <b>ASSETS AND LIABILITIES</b>                                 |       |                  |                  |                  |                  |
| <b>Non-current assets</b>                                     |       |                  |                  |                  |                  |
| Property, plant and equipment                                 | 16    | 2,319,229        | 1,234,823        | –                | –                |
| Investment properties   | 17    | 35,000           | 24,500           | –                | –                |
| Goodwill  | 18    | 39,040           | 46,348           | –                | –                |
| Available-for-sale financial assets                           | 19    | 36,938           | 35,257           | 6,260            | 5,000            |
| Intangible asset  | 20    | –                | 105              | –                | –                |
| Investments in subsidiaries                                   | 21    | –                | –                | 296,257          | 351,715          |
| Interests in an associate                                     |       | –                | (25)             | –                | –                |
| Other non-current assets                                      | 22    | 28,827           | 34,076           | –                | –                |
|   |       | <u>2,459,034</u> | <u>1,375,084</u> | <u>302,517</u>   | <u>356,715</u>   |
| <b>Current assets</b>   |       |                  |                  |                  |                  |
| Inventories   | 23    | 16,649           | 27,175           | –                | –                |
| Trade and other receivables                                   | 26    | 225,720          | 213,939          | 21,364           | 319              |
| Financial assets at fair value<br>through profit or loss      | 25    | 99,788           | 524,250          | 42,475           | –                |
| Due from subsidiaries   | 24    | –                | –                | 135,138          | 130,863          |
| Pledged deposits  | 34(c) | 19,610           | 23,522           | –                | –                |
| Bank balances and cash  |       | 395,614          | 462,356          | 172,294          | 73               |
|   |       | <u>757,381</u>   | <u>1,251,242</u> | <u>371,271</u>   | <u>131,255</u>   |
| <b>Current liabilities</b>                                    |       |                  |                  |                  |                  |
| Trade and other payables                                      | 27    | 185,031          | 326,263          | 7,037            | 1,095            |
| Financial liabilities at fair value<br>through profit or loss | 25    | 30,323           | 708,089          | 153              | –                |
| Due to subsidiaries   | 24    | –                | –                | –                | 3,791            |
| Taxation  |       | 3,278            | 2,435            | –                | –                |
| Secured bank loans  | 28    | 154,598          | 45,914           | –                | –                |
| Secured bank overdrafts                                       | 28    | –                | 9,835            | –                | 6,905            |
|   |       | <u>373,230</u>   | <u>1,092,536</u> | <u>7,190</u>     | <u>11,791</u>    |
| <b>Net current assets</b>                                     |       | <u>384,151</u>   | <u>158,706</u>   | <u>364,081</u>   | <u>119,464</u>   |
| <b>Total assets less current liabilities</b>                  |       | <u>2,843,185</u> | <u>1,533,790</u> | <u>666,598</u>   | <u>476,179</u>   |
| <b>Non-current liabilities</b>                                |       |                  |                  |                  |                  |
| Secured bank loans  | 28    | 1,005,205        | 414,872          | –                | –                |
| <b>Net assets</b>   |       | <u>1,837,980</u> | <u>1,118,918</u> | <u>666,598</u>   | <u>476,179</u>   |

**Balance Sheets***At 31 December 2005*

|  | <i>Note</i> | <b>Group</b>            |                         | <b>Company</b>        |                       |
|--|-------------|-------------------------|-------------------------|-----------------------|-----------------------|
|  |             | <b>2005</b>             | <b>2004</b>             | <b>2005</b>           | <b>2004</b>           |
|  |             | <i>HK\$'000</i>         | <i>HK\$'000</i>         | <i>HK\$'000</i>       | <i>HK\$'000</i>       |
| <b>EQUITY</b>                              |             |                         |                         |                       |                       |
| <b>Equity attributable to shareholders</b> |             |                         |                         |                       |                       |
| <b>of the Company</b>                      |             |                         |                         |                       |                       |
| Issued capital                             | 29          | 53,394                  | 52,624                  | 53,394                | 52,624                |
| Reserves                                   | 31          | 1,058,258               | 667,599                 | 613,204               | 423,555               |
|  |             | <u>1,111,652</u>        | <u>720,223</u>          | <u>666,598</u>        | <u>476,179</u>        |
| <b>Minority interests</b>                  |             | <u>726,328</u>          | <u>398,695</u>          | <u>–</u>              | <u>–</u>              |
| <b>Total equity</b>                        |             | <u><u>1,837,980</u></u> | <u><u>1,118,918</u></u> | <u><u>666,598</u></u> | <u><u>476,179</u></u> |

## Statements of Changes in Equity

Year ended 31 December 2005

## Group

|  | Attributable to shareholders of the Company |               |                 |                            |                                 |   |   |                  |           |                    |              |
|--|---|---------------|-----------------|----------------------------|---------------------------------|---|---|------------------|-----------|--------------------|--------------|
|  | Share capital                               | Share premium | Capital reserve | Capital redemption reserve | Other asset revaluation reserve | Reserve for available-for-sale financial assets | Employee share-based compensation reserve | Retained profits | Sub-total | Minority interests | Total equity |
|  | HK\$'000                                    | HK\$'000      | HK\$'000        | HK\$'000                   | HK\$'000                        | HK\$'000  | HK\$'000                                  | HK\$'000         | HK\$'000  | HK\$'000           | HK\$'000     |
| At 1 January 2004  | 52,624                                      | 288,733       | 143,924         | 2,023                      | 4,578                           | -   | -   | 815              | 492,697   | 395,135            | 887,832      |
| Release on disposal of a subsidiary                        | -   | -             | 12              | -                          | -                               | -   | -   | -                | 12        | -                  | 12           |
| Net income recognized directly in equity                   | -   | -             | 12              | -                          | -                               | -   | -   | -                | 12        | -                  | 12           |
| Net profit for the year                                    | -   | -             | -               | -                          | -                               | -   | -   | 227,514          | 227,514   | 163,993            | 391,507      |
| Total recognized income                                    | -   | -             | 12              | -                          | -                               | -   | -   | 227,514          | 227,526   | 163,993            | 391,519      |
| Decrease in minority interests on share repurchase         | -   | -             | -               | -                          | -                               | -   | -   | -                | -         | (160,433)          | (160,433)    |
| At 31 December 2004  | 52,624                                      | 288,733       | 143,936         | 2,023                      | 4,578                           | -   | -   | 228,329          | 720,223   | 398,695            | 1,118,918    |
| At 1 January 2005,<br>as previously reported               | 52,624                                      | 288,733       | 143,936         | 2,023                      | 4,578                           | -   | -   | 228,329          | 720,223   | 398,695            | 1,118,918    |
| Effect on initial adoption of HKFRS 3                      | -   | -             | (143,936)       | -                          | -                               | -   | -   | 143,936          | -         | -                  | -            |
| At 1 January 2005, as restated                             | 52,624                                      | 288,733       | -               | 2,023                      | 4,578                           | -   | -   | 372,265          | 720,223   | 398,695            | 1,118,918    |
| Gain on revaluation for property, plant and equipment      | -   | -             | -               | -                          | 3,038                           | -   | -   | -                | 3,038     | -                  | 3,038        |
| Gain on revaluation of available-for-sale financial assets | -   | -             | -               | -                          | -                               | 1,681   | -   | -                | 1,681     | -                  | 1,681        |
| Net income recognized directly in equity                   | -   | -             | -               | -                          | 3,038                           | 1,681   | -   | -                | 4,719     | -                  | 4,719        |
| Net profit for the year                                    | -   | -             | -               | -                          | -                               | -   | -   | 526,862          | 526,862   | 314,094            | 840,956      |
| Total recognized income                                    | -   | -             | -               | -                          | 3,038                           | 1,681   | -   | 526,862          | 531,581   | 314,094            | 845,675      |
| 2004 final dividend  | -   | -             | -               | -                          | -                               | -   | -   | (63,713)         | (63,713)  | -                  | (63,713)     |
| 2005 interim dividend                                      | -   | -             | -               | -                          | -                               | -   | -   | (101,356)        | (101,356) | -                  | (101,356)    |
| Dividend to minority interests                             | -   | -             | -               | -                          | -                               | -   | -   | -                | -         | (132,088)          | (132,088)    |
| Shares issued upon exercise of share options               | 770   | 11,547        | -               | -                          | -                               | -   | -   | -                | 12,317    | -                  | 12,317       |
| Expenses for shares issued upon exercise of share options  | -   | (71)          | -               | -                          | -                               | -   | -   | -                | (71)      | -                  | (71)         |
| Employee share option benefits                             | -   | -             | -               | -                          | -                               | -   | 12,671                                    | -                | 12,671    | 7,441              | 20,112       |
| Disposal of partial interests in a subsidiary              | -   | -             | -               | -                          | -                               | -   | -   | -                | -         | 138,186            | 138,186      |
| At 31 December 2005  | 53,394                                      | 300,209       | -               | 2,023                      | 7,616                           | 1,681   | 12,671                                    | 734,058          | 1,111,652 | 726,328            | 1,837,980    |

## Statements of Changes in Equity

Year ended 31 December 2005

## Company

|  | Attributable to shareholders of the Company |                                  |   |  |  |                                     |                                 |
|--|---|----------------------------------|---|--|--|-------------------------------------|---------------------------------|
|  | Share capital<br><i>HK\$'000</i>            | Share premium<br><i>HK\$'000</i> | Capital redemption reserve<br><i>HK\$'000</i> | Reserve for available-for-sale financial assets<br><i>HK\$'000</i> | Employee share-based compensation reserve<br><i>HK\$'000</i> | Retained profits<br><i>HK\$'000</i> | Total equity<br><i>HK\$'000</i> |
| At 1 January 2004  | 52,624                                      | 288,733                          | 2,023   | -  | -  | 134,584                             | 477,964                         |
| Net loss for the year                                      | -   | -                                | -   | -  | -  | (1,785)                             | (1,785)                         |
| At 31 December 2004  | 52,624                                      | 288,733                          | 2,023   | -  | -  | 132,799                             | 476,179                         |
| Gain on revaluation of available-for-sale financial assets | -   | -                                | -   | 1,260  | -  | -                                   | 1,260                           |
| Net income recognized directly in equity                   | -   | -                                | -   | 1,260  | -  | -                                   | 1,260                           |
| Net profit for the year                                    | -   | -                                | -   | -  | -  | 338,965                             | 338,965                         |
| Total recognized income                                    | -   | -                                | -   | 1,260  | -  | 338,965                             | 340,225                         |
| 2004 final dividend  | -   | -                                | -   | -  | -  | (63,713)                            | (63,713)                        |
| 2005 interim dividend                                      | -   | -                                | -   | -  | -  | (101,356)                           | (101,356)                       |
| Shares issued upon exercise of share options               | 770   | 11,547                           | -   | -  | -  | -                                   | 12,317                          |
| Expenses for shares issued upon exercise of share options  | -   | (71)                             | -   | -  | -  | -                                   | (71)                            |
| Employee share option benefits                             | -   | -                                | -   | -  | 3,017  | -                                   | 3,017                           |
| <b>At 31 December 2005</b>                                 | <b>53,394</b>                               | <b>300,209</b>                   | <b>2,023</b>                                  | <b>1,260</b>   | <b>3,017</b>   | <b>306,695</b>                      | <b>666,598</b>                  |

**Consolidated Cash Flow Statement***Year ended 31 December 2005*

|   | <i>Note</i> | <b>2005</b><br><i>HK\$'000</i> | <b>2004</b><br><i>HK\$'000</i> |
|---|-------------|--------------------------------|--------------------------------|
| <b>OPERATING ACTIVITIES</b>   |             |                                |                                |
| Cash generated from operations                                      | 32(a)       | 497,521                        | 571,729                        |
| Claim received  |             | 2,323                          | 5,280                          |
| Interest paid   |             | (34,939)                       | (20,835)                       |
| Hong Kong Profits Tax paid  |             | (1,631)                        | (683)                          |
| <b>Net cash from operating activities</b>                           |             | <u>463,274</u>                 | <u>555,491</u>                 |
| <b>INVESTING ACTIVITIES</b>   |             |                                |                                |
| Purchase of property, plant and equipment                           |             | (1,173,839)                    | (199,265)                      |
| Proceeds from disposal of property,<br>plant and equipment          |             | 717                            | 434,096                        |
| Net cash inflow on disposal of a subsidiary                         | 32(b)       | –                              | 8,854                          |
| Net cash inflow on disposal of partial interests<br>in a subsidiary | 32(c)       | 248,349                        | –                              |
| Interest received   |             | 13,662                         | 4,062                          |
| Net amount of loan received   |             | 12,455                         | 7,796                          |
| Dividend income received from listed securities                     |             | 823                            | 242                            |
| Dividend income received from unlisted investment                   |             | 3,866                          | 18,783                         |
| Net repayment to an associate                                       |             | –                              | (2)                            |
| <b>Net cash (used in) from investing activities</b>                 |             | <u>(893,967)</u>               | <u>274,566</u>                 |
| <b>FINANCING ACTIVITIES</b>   |             |                                |                                |
| New bank loans  |             | 733,293                        | –                              |
| Repayment of bank loans   |             | (81,772)                       | (246,414)                      |
| Decrease in pledged deposits  |             | 3,912                          | 7,029                          |
| Dividend paid to shareholders of the Company                        |             | (165,069)                      | –                              |
| Dividend paid to minority interests                                 |             | (128,824)                      | –                              |
| Proceeds from exercise of share options                             |             | 12,317                         | –                              |
| Share issuance expenses related to exercise<br>of share options     |             | (71)                           | –                              |
| Repurchase of own shares by a subsidiary                            |             | –                              | (218,367)                      |
| <b>Net cash from (used in) financing activities</b>                 |             | <u>373,786</u>                 | <u>(457,752)</u>               |
| <b>Net (decrease) increase in cash and cash equivalents</b>         |             | (56,907)                       | 372,305                        |
| <b>Cash and cash equivalents at 1 January</b>                       |             | <u>452,521</u>                 | <u>80,216</u>                  |
| <b>Cash and cash equivalents at 31 December</b>                     | 32(d)       | <u><u>395,614</u></u>          | <u><u>452,521</u></u>          |



**Notes to the Financial Statements**

*Year ended 31 December 2005*

**1. CORPORATE INFORMATION**

The Company is incorporated in Hong Kong. The address of the Company's registered office and its principal place of businesses are disclosed in the directors' report on page 23.

The ultimate holding company of the Company is Fairline Consultants Limited, a company incorporated in the British Virgin Islands.

**2. PRINCIPAL ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standard, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Group has adopted all HKFRSs pertinent to its operations with effect from 1 January 2005. The adoption of certain HKFRSs has resulted in changes to the Group's accounting policies that are set out in note 3.

A summary of the principal accounting policies adopted by the Group is set out below.

**Basis of preparation**

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of a leasehold land and building, motor vessels and improvement except for investment properties, financial assets or financial liabilities at fair value through profit or loss and unlisted club debentures which included in available-for-sale financial assets, which have been measured at fair value.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated income statement from or up to their effective dates of acquisition or disposal respectively.

All material inter-company transactions and balances within the Group are eliminated on consolidation.

**Goodwill**

Goodwill on acquisition of businesses is initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities being acquired recognized at the date of acquisition. Goodwill on acquisition of businesses is recognized as a separate asset and carried at cost less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment test and determination of gain or loss on disposal. An impairment loss on goodwill is not reversed.

**Excess of the Company's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost**

On acquisition of businesses, associates and jointly controlled entities, if the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities being acquired recognized at the date of acquisition exceeds the cost of business combination, the Company should reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities being acquired and the measurement of the cost of the business combination. Any excess remaining after that reassessment must be recognized immediately in the income statement.

**Subsidiaries**

A subsidiary, in accordance with the Companies Ordinance, is an entity in which the Company, directly or indirectly, holds more than half of the voting power or issued share capital, or controls the composition of the board of directors or equivalent governing body.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less accumulated impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**Associates**

An associate is an entity, in which the Company has significant influence and which is neither a subsidiary nor a joint venture of the Company.

The Group's investment in an associate is accounted for under the equity method of accounting. The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. The consolidated balance sheet includes the Group's share of the net assets of the associate and also goodwill. Unless the Group has incurred obligations or guaranteed obligations in respect of the associate, equity accounting is discontinued when the Group's share of losses of the associate equals or exceeds the carrying amount.

**Revenue recognition**

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases.

Revenue from the operations of ship chartering or owning business is recognized on the percentage of completion basis measured by time proportion.

Income from trading is recognized when goods are delivered and title has been passed.

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Interest income is recognized as the interest accrued, using the effective interest method, to the net carrying amount of the financial assets.

**Drydocking, repairs and survey costs**

Vessel repairs and survey costs are expensed as incurred. Drydocking and special survey costs are deferred and written off over the drydocking cycle of two to three years. Upon disposal of vessels, any relevant costs not yet written off are transferred to the income statement.

**Foreign currencies**

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the Company operates ("functional currency"). The consolidated financial statements are presented in Hong Kong Dollars, which is the functional and presentation currency of the Company.

Foreign currency transactions are translated into the functional currency at the exchange rates ruling at the dates of transaction. 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 at the balance sheet date are recognized in the income statement.

Exchange differences on items that are classified as financial assets or financial liabilities at fair value through profit or loss, are reported as part of the fair value gain or loss.

On consolidation, the assets and liabilities in the balance sheet of overseas subsidiaries are translated at the exchange rates ruling at the balance sheet date while the income and expenses in the income statement are translated at an average exchange rate for the year. Exchange differences arising from the translation of the overseas subsidiaries are recognized in a separate component of equity and recognized in the income statement on disposal of the overseas subsidiaries.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases.

Hire income and payments applicable to operating leases in respect of time charters are recognized as revenue and expenses on the percentage of completion basis. Rental receivables and payables in respect of other operating leases are recognized as revenue and expenses respectively on the straight-line basis over the lease terms.

**Taxation**

The charge for taxation is based on the results for the year adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilized.

**Employee benefits**

The Group operates a defined contribution retirement scheme and a mandatory provident fund scheme.

The obligations for contributions to defined contribution retirement scheme are recognized as expenses in the income statement as incurred and are reduced by forfeited contributions of those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Contributions to the mandatory provident fund scheme as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the income statement when incurred.

### **Share-based payment transactions**

The Company operates a share option scheme for granting of share options, for the purpose of providing incentives and/or rewards, to eligible employees of the Group.

Employees of the Group (including Directors) receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instrument (“equity-settled transactions”).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. It is recognized, together with a corresponding increase in equity, over the year in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“vesting date”). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Directors at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

### **Borrowing costs**

Borrowing costs are recognized as an expense when incurred.

### **Property, plant and equipment**

Leasehold land and buildings (included land held under operating leases and building, where fair values of the leasehold interest in the land and buildings cannot be reliably measured separately at the inception of the lease) are stated at cost less accumulated depreciation and impairment losses, except for a leasehold land and building which is stated at valuation made in 1994 by a professional valuer on an open market existing use basis accumulated depreciation and impairment losses.

Motor vessels and improvement acquired before May 1994 are stated at the average valuation made by three firms of shipbrokers at open market value on a charter free basis in 1994 less accumulated depreciation and impairment losses. For motor vessels and improvement acquired after May 1994, they are stated at cost less accumulated depreciation and impairment losses.

Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 “Property, plant and equipment” issued by the HKICPA from the requirement to make regular revaluation of certain leasehold land and buildings and motor vessels and improvement which had been carried at revalued amounts prior to 30 September 1995, and accordingly no further revaluation of the entire class of leasehold land and buildings and motor vessels and improvement is carried out.

Vessels under construction are stated at cost less necessary provision for impairment loss.

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Improvements are capitalized only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditures incurred in restoring assets to their normal working conditions and other repairs and maintenances are charged to the income statement.

The gain or loss arising from the retirement or disposal of assets is determined as the difference between the net sale proceeds and the carrying amount of the assets and is recognized as an income or expense in the income statement.

Depreciation is provided to write off the cost or valuation of motor vessels over their estimated useful lives, after taking into account their estimated residual values, using the straight-line method of 25 years from the date on which they become fully operational.

Depreciation is provided to write off the cost or valuation of other property, plant and equipment (as specified below) over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method, as follows:

|  |  |
|--|--|
| Leasehold land and buildings             | over the shorter of unexpired term of lease<br>or 3% per annum |
| Vessel improvement                       | 20% – 40% per annum  |
| Plant and machinery                      | 20% per annum  |
| Leasehold improvement                    | 20% – 30% per annum  |
| Utility vessels, furniture and equipment | 6% – 25% per annum   |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the unexpired term of lease.

No depreciation is provided in respect of vessels under construction until it is completed.

### **Investment properties**

Investment properties are properties which are held by the owner or lessee under finance lease, either to earn rental income and/or for capital appreciation. Investment properties are stated at fair value at balance sheet date. Any gain or loss arising from a change in fair value of the investment properties is recognized in the income statement. Gain or loss on disposal of investment properties is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement upon disposal.

The fair value of investment property is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the property being valued. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

**Impairment of assets**

At each balance sheet date, the Group reviews internal and external sources of information to determine the carrying amounts of its property, plant and equipment, investments in subsidiaries, unlisted investments, current receivables, and other financial assets that are carried at cost, have suffered an impairment loss or impairment loss previously recognized no longer exists or may be reduced. If any such indication exists, an impairment loss is determined and recognized as follows:

The recoverable amount of an asset is estimated, based on the higher of its fair value less cost to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognized in prior years. Reversal of impairment loss in respect of other assets is recognized as income immediately.

**Inventories**

Inventories comprise ship stores and trading goods.

Initial ship stores are capitalized as part of the costs of the vessels. Subsequent purchases of ship stores are charged as operating expenses to the extent that they are consumed during the year. Ship stores unused at the balance sheet date are carried forward as inventories at the lower of cost and net realizable value. Trading goods are stated at the lower of cost and net realizable value.

Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

**Intangible assets**

Intangible asset represents transfer fee for club entrance and is amortized on a straight-line basis over 20 years.

**Financial instruments**

Financial assets and financial liabilities are recognized on the trade date basis, and when the Group becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially recognized at cost, being the fair value of the consideration given and except for financial assets or financial liabilities at fair value through profit or loss, including transaction costs directly attributable to the acquisition. The derecognition of a financial asset takes place when the Group's contractual rights to future cash flows from the financial asset expire or the Group transfers the contractual rights to future cash flows to a third party. The Group derecognizes financial liability when, and only when the liability is extinguished.

The Group classified its financial assets and financial liabilities in the following categories:

*Financial assets or financial liabilities at fair value through profit or loss*

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss include those held for trading and those designated as this category at inception, are measured at fair value. Derivatives, including forward foreign exchange contracts and options, interest rate swaps and forward freight agreements are stated at fair value. This category also includes derivatives which are not qualifying as hedges. At balance sheet date, the fair values are measured by reference to price quotations for equivalent instruments in active market provided by financial institutions. Any changes in fair value are recognized in the income statement.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Any gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process. An impairment loss is recognized in the income statement when there is objective evidence that the financial asset is impaired, and is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if, in a subsequent period, the amount of the impairment loss decreases.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as this category or not classified as any other categories. They are measured at fair value with change in value recognized as a separate component of equity until the investments are sold, collected or otherwise disposed of, or until the investments are determined to be impaired, at which time, the cumulative loss that had been recognized directly in equity is removed from equity and recognized in the income statement, that is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in the income statement. Any subsequent increases in fair value of the financial assets are not reversed through the income statement and reversal of impairment losses is recognized directly in equity.

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are stated at cost less any accumulated impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognized in the income statement when there is objective evidence that the unquoted financial asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Such impairment losses will not be reversed in subsequent periods.

**Provisions**

A provision is recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Expenditures for which a provision has been recognized are charged against the related provision in the year in which the expenditures incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

**Cash equivalents**

For the purpose of consolidated cash flow statement, cash equivalents represent short-term, highly liquid investments which are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, net of bank overdrafts.

**Related parties**

A party is related to the Group if:

- (a) directly, or indirectly through one or more intermediaries, the party:
  - (i) controls, is controlled by, or is under common control with, the Group;
  - (ii) has an interest in the Group that gives it significant influence over the Group; or
  - (iii) has joint control over the Group;
- (b) the party is an associate of the Group;
- (c) the party is a joint venture in which the Group is a venturer;
- (d) the party is a member of the key management personnel of the Company or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

**Segment reporting**

In accordance with the Group's internal financial reporting, the Group has determined that business segments as the principal reporting format and geographical segments analysis as secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year. Unallocated items mainly comprise financial assets, goodwill, bank overdrafts and financing expenses.



### **Critical accounting estimates and judgements**

Estimates and judgements are currently evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Apart from information disclosed elsewhere in these financial statements, the following summarize: (1) estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within next financial year; and (2) significant judgements made in the process of applying the Group's accounting policies.

#### *Impairment of assets*

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

#### *Accounting for leasehold land and buildings*

The land element and building element of a lease of land and building are considered separately for the purpose of lease classification. The minimum lease payments, including any lump-sum upfront payments, are allocated between the land and buildings elements in proportion to their relative fair values at the inception of the lease. In case the two elements cannot be allocated reliably, the entire lease is classified as a finance lease and is stated collectively at cost less accumulated depreciation over the shorter of unexpired term of lease or useful life of the building. The Group considers each leasehold land and buildings separately in making its judgement. The economic life of the buildings is regarded as the economic life of the entire leased asset.

#### *Provision for bad and doubtful debts*

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectibility and aging analysis of the trade receivables and on management's judgement. At balance sheet date, the trade receivables, net of provision, amounted to HK\$118,919,000 (2004: HK\$77,543,000). A considerable amount of judgement is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were deteriorated, resulting in an impairment of their ability to make payments, additional provision will be required.

#### *Provision for inventories*

The management reviews an aging analysis of inventories at each balance sheet date, and make provision for obsolete and slow-moving inventory items identified that are no longer recoverable or suitable for use in production. The management estimates the net realizable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes provision for obsolete items.

**Future changes in accounting policies**

At the date of authorization of these financial statements, the HKICPA has issued a number of new/revised HKFRSs that are not yet effective. The Group has already commenced an assessment of these HKFRSs which are effective for accounting periods beginning on or after 1 January 2006 but is not yet in a position to state whether these HKFRSs would have a significant impact on its results of operations and financial position. The Group will be continuing with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.

**3. CHANGES IN ACCOUNTING POLICIES**

The major effects on the changes in accounting policies as mentioned in note 2 above are summarized as follows:

**HKFRS 2 Share-based Payment**

The adoption of HKFRS 2 has resulted in a change in the Group's accounting policy for employee share options benefits. Prior to this, the provision of share options to employees did not result in a charge to the income statement. Following the adoption of HKFRS 2 on 1 January 2005, the fair value of share options at grant date is amortized over the relevant vesting periods in the income statement. Where the options were granted by the Company, the value was credited to equity reserves. Details of accounting policies are set out in note 2.

The Group has taken advantage of the transitional provisions of HKFRS 2 in respect of equity-settled share-based payments and has applied HKFRS 2 only to share options granted after 7 November 2002 that had not vested at 1 January 2005.

The change in accounting policy has no significant effect on the previously reported retained profits and net assets as the value of the unvested options existed at that time was insignificant to the Group.

Details of the employee share-based payment transactions are set out in note 30.

**HKFRS 3 Business Combinations****Until 31 December 2004**

Goodwill on acquisitions which occurred prior to 1 January 2001 was eliminated against consolidated reserves and subject to assessments of impairment and negative goodwill was credited to a capital reserve.

Goodwill arising from acquisitions after 1 January 2001 was recognized as an intangible asset and was amortized on a straight-line basis over its estimated useful life not exceeding 20 years. Any negative goodwill was presented as deduction from goodwill and was released to the income statement based on an analysis of the circumstance from which the balance resulted.

**From 1 January 2005**

In accordance with the provisions of HKFRS 3, the Group ceased amortization of goodwill from 1 January 2005. Accumulated amortization of goodwill arising from acquisition of subsidiaries as at 1 January 2005 have been eliminated with a corresponding decrease in the cost of goodwill at that date. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities being acquired recognized at the date of acquisition over the cost of the business combination is recognized immediately in the consolidated income statement.

In addition, following the transitional provisions of HKFRS 3, the carrying amount of the negative goodwill as at 1 January 2005 was derecognized by way of a corresponding adjustment to the opening balance of retained profits as at 1 January 2005. There should be no further reversal of negative goodwill on disposal of a subsidiary.

#### **HKAS 1 Presentation of Financial Statements**

In prior years, minority interests at balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the net profit attributable to the shareholders of the Company.

With effect from 1 January 2005, the Group has changed the presentation of the financial statements relating to minority interests. The change in presentation has been applied retrospectively with comparative restated.

#### **HKAS 17 Leases**

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and impairment losses. Under HKAS 17, leasehold land is classified as an operating lease because the title of the land is not expected to be passed to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid lease payments. Leasehold buildings continue to be classified as part of property, plant and equipment. Since the amount of the lease payment in respect of land element was insignificant to the Group's property, plant and equipment, the entire lease payment is continuously included in the cost of land and buildings as a finance lease in property, plant and equipment. The change in accounting policy has no effect on the previously reported retained profits and net assets.

#### **HKAS 24 Related Party Disclosures**

HKAS 24 has affected the identification of related parties and some other related party disclosures. As the definition of related parties has been expanded, certain related party transactions in relation to key management personnel have been disclosed in note 37. Comparative information have been added accordingly.

#### **HKAS 32 Financial Instruments: Disclosure and Presentation & HKAS 39 Financial Instruments: Recognition and Measurement**

##### **Until 31 December 2004**

The Group's investments in equity and debts securities were classified as short-term investments. The Group's unlisted club debentures and investments in co-operative joint ventures were classified as other investments and recognized provision for losses on forward freight agreements.

##### *Short-term investments*

Investments in equity and debts securities were stated at fair value at balance sheet date and changes in fair value were recognized in the income statement as they arise.

*Unlisted club debentures*

In prior years, unlisted club debentures are stated at cost and subject to impairment review at each reporting date to reflect any impairment in their values, which is expected to be other than temporary. The amount of impairment loss is recognized as an expense in the period in which the decline occurs. The gain or loss on disposal of unlisted club debentures is accounted for in the period in which the disposal occurs as the difference between net sale proceeds and the carrying amount of the debentures.

*Other investments*

Investments in co-operative joint ventures made by means of joint venture structures which do not result in the Group having joint control with other venturers are accounted for as other investments (where the Group exercises neither control nor significant influence). Investments in co-operative joint ventures were stated at cost less accumulated amortization and impairment losses. Costs of investments in co-operative joint ventures were amortized over the respective duration of the joint venture contracts. Investment income was recognized on a receivable basis and in accordance with the provisions of the joint venture agreements. The profit sharing arrangement may not coincide with the proportion of the capital contribution from the joint venture partners. At the end of the joint venture period, the title to all assets of the joint venture will be reverted to the joint venture partners.

*Forward freight agreements (“FFAs”)*

Provision for losses on FFAs had been made in 2004 when the Group had squared off majority of the FFAs during mid of 2004. Any gain or loss arising from FFAs was recognized in the income statement.

**From 1 January 2005**

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

*Listed equity and debts securities held for trading purposes*

There is no material adjustment arising from the adoption of the new policies for quoted securities held for trading purposes. They are now classified as financial assets at fair value through profit or loss and any changes in fair value are recognized in the income statement.

*Available-for-sale financial assets*

In accordance with HKAS 39, the Group’s investments in co-operative joint ventures have been re-designated as available-for-sale financial assets stated at cost less impairment losses in view of the fact that they are unlisted investments whose fair values cannot be reliably measured. The Group ceased amortization on 1 January 2005 and any impairment loss is recognized in the income statement.

The Group’s investments in unlisted club debentures are non-derivative financial assets that are either designated as this category or not classified as any of the other categories. They are measured at fair value with change in value recognized as a separate component of equity until the investments are sold, collected or otherwise disposed of, or until the investments are determined to be impaired, at which time, the cumulative gain or loss previously reported in equity is included in the income statement.

*FFAs*

With effect from 1 January 2005, the Group has re-designated unrealized gains or losses on FFAs into respective financial assets or financial liabilities at fair value through profit or loss and they are re-measured in accordance with HKAS 39 as appropriate.

*Derivative financial instruments*

In prior years, fair values of derivative financial instruments including foreign exchange contracts, foreign exchange options, securities derivatives and interest rate swaps were not recognized in the balance sheet. With effect from 1 January 2005, the Group has re-designated derivative financial instruments into respective financial assets or financial liabilities at fair value through profit or loss and they are re-measured in accordance with HKAS 39 as appropriate. Any changes in fair value of the derivative financial instruments are recognized in the income statement. No adjustment was made to the Group's retained profits at the beginning of the year as the amount involved was not material and comparative amounts are not restated.

The change in HKAS 32 relating to disclosure and presentation of financial instruments has been adopted retrospectively while HKAS 39 relating to the recognition and measurement of financial instruments has been adopted prospectively under transitional provisions.

Details of accounting policies in relation to derivative financial instruments are set out in note 2.

**HKAS 40 Investment Property**

In prior years, the changes in values of the Group's investment properties were dealt with as movements in the investment property revaluation reserve or, in case this reserve was insufficient to cover a deficit on a portfolio basis, the excess of the deficit was included in the income statement.

With effect from 1 January 2005, under HKAS 40, investment property is stated at fair value at balance sheet date, all changes in fair value of the investment properties are recognized in the income statement. There is no impact on these financial statements as a result of this change in accounting policy because the Group's investment properties had a net revaluation deficit position as at 31 December 2005 and the changes in valuation of the Group's investment properties during the year ended 2004 and 2005 would be recognized in the income statement irrespective whether the old policy or the new policy is applied.

The estimated effect on the changes in accounting policies on current year are set out below.

Summary of financial effects of the changes in accounting policies on the consolidated financial statements for the year ended 31 December 2005:

**Effect of adopting HKFRSs on consolidated income statement**

|  | 2005                |                     |                                  | Total<br>HK\$'000 |
|--|---------------------|---------------------|----------------------------------|-------------------|
|  | HKFRS 2<br>HK\$'000 | HKFRS 3<br>HK\$'000 | HKAS 32 &<br>HKAS 39<br>HK\$'000 |                   |
| <b>Increase (Decrease) in profit</b>   |                     |                     |                                  |                   |
| Increase in staff costs  | (20,112)            | –                   | –                                | (20,112)          |
| Increase in net loss on financial assets or<br>financial liabilities at fair value through<br>profit or loss | –                   | –                   | (5,416)                          | (5,416)           |
| Decrease in amortization   | –                   | 10,978              | 2,532                            | 13,510            |
| Decrease in gain on disposal of partial<br>interests in a subsidiary   | –                   | (1,218)             | –                                | (1,218)           |
|  | <u>(20,112)</u>     | <u>9,760</u>        | <u>(2,884)</u>                   | <u>(13,236)</u>   |
| (Decrease) Increase in basic earnings per share  | <u>(0.0379)</u>     | <u>0.0184</u>       | <u>(0.0054)</u>                  | <u>(0.0249)</u>   |

## Effect of adopting HKFRSs on consolidated balance sheet

|   | 2005                |                     |                                  | Total<br>HK\$'000 |
|---|---------------------|---------------------|----------------------------------|-------------------|
|   | HKFRS 2<br>HK\$'000 | HKFRS 3<br>HK\$'000 | HKAS 32 &<br>HKAS 39<br>HK\$'000 |                   |
| <b>Increase (Decrease) in assets</b>                                      |                     |                     |                                  |                   |
| Increase in goodwill  | –                   | 9,760               | –                                | 9,760             |
| Increase in available-for-sale financial assets                           | –                   | –                   | 36,938                           | 36,938            |
| Decrease in other investments   | –                   | –                   | (32,725)                         | (32,725)          |
| Decrease in prepayments, deposits<br>and other receivables                | –                   | –                   | (9,680)                          | (9,680)           |
| Decrease in short-term investments  | –                   | –                   | (65,201)                         | (65,201)          |
| Increase in financial assets<br>at fair value through profit or loss      | –                   | –                   | 99,788                           | 99,788            |
|   | <u>–</u>            | <u>9,760</u>        | <u>29,120</u>                    | <u>38,880</u>     |
| <b>Increase (Decrease) in liabilities/equity</b>                          |                     |                     |                                  |                   |
| Increase in financial liabilities at<br>fair value through profit or loss | –                   | –                   | 30,323                           | 30,323            |
| Increase in employee share-based<br>compensation reserve                  | 12,671              | –                   | –                                | 12,671            |
| Increase in reserve for available-for-sale<br>financial assets            | –                   | –                   | 1,681                            | 1,681             |
| Increase in minority interests  | 7,441               | –                   | –                                | 7,441             |
| Decrease in capital reserve   | –                   | (143,936)           | –                                | (143,936)         |
| Increase in opening balance of retained profits                           | –                   | 143,936             | –                                | 143,936           |
| (Decrease) Increase in retained profits                                   | (20,112)            | 9,760               | (2,884)                          | (13,236)          |
|   | <u>–</u>            | <u>9,760</u>        | <u>29,120</u>                    | <u>38,880</u>     |

|  | 2004                |                   |
|--|---------------------|-------------------|
|  | HKAS 32<br>HK\$'000 | Total<br>HK\$'000 |
| <b>Increase (Decrease) in assets</b>                                   |                     |                   |
| Increase in available-for-sale financial assets                        | 35,257              | 35,257            |
| Decrease in other investments  | (35,257)            | (35,257)          |
| Decrease in short-term investments                                     | (19,074)            | (19,074)          |
| Increase in financial assets at fair value through profit or loss      | 524,250             | 524,250           |
|  | <u>505,176</u>      | <u>505,176</u>    |
| <b>Increase (Decrease) in liabilities</b>                              |                     |                   |
| Increase in financial liabilities at fair value through profit or loss | 708,089             | 708,089           |
| Decrease in provision for losses                                       | (202,913)           | (202,913)         |
|  | <u>505,176</u>      | <u>505,176</u>    |

#### 4. TURNOVER AND REVENUE

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the businesses of ship chartering, ship owning and trading.

Turnover and revenue recognized by category are analyzed as follows:

|   | <b>Group</b>            |                         |
|---|-------------------------|-------------------------|
|   | <b>2005</b>             | <b>2004</b>             |
|   | <i>HK\$'000</i>         | <i>HK\$'000</i>         |
| <b>Turnover</b>                                   |                         |                         |
| Chartering freight and hire:                      |                         |                         |
| Hire income under time charter from owned vessels | 645,302                 | 509,778                 |
| Other chartering freight and hire income          | 1,027,490               | 1,178,219               |
| Trading   | <u>312,443</u>          | <u>286,664</u>          |
|   | 1,985,235               | 1,974,661               |
| <b>Other revenue</b>                              |                         |                         |
| Dividend income from listed securities            | 823                     | 244                     |
| Dividend income from unlisted investment          | 11,783                  | 18,783                  |
| Interest income                                   | <u>13,983</u>           | <u>4,165</u>            |
| <b>Revenue</b>                                    | <u><u>2,011,824</u></u> | <u><u>1,997,853</u></u> |

#### 5. CANCELLATION FEE INCOME

The amount represented a fee of approximately HK\$156,000,000 received by Goldbeam Shipping Inc. ("GSI"), a wholly-owned subsidiary of Jinhui Shipping and Transportation Limited ("Jinhui Shipping"), on 14 February 2005 under a contract (the "Termination Contract") made between GSI and a counterparty (the "Counterparty") on 31 August 2004. Under the Termination Contract, upon receiving a fee of approximately HK\$156,000,000 by GSI from the Counterparty, both parties agreed to early terminate a charter party dated 8 February 2000 made between the Counterparty, as owner, and GSI, as charterer, for the chartering of a Capesize vessel to GSI for a period of upto seven years from October 2001.

#### 6. LOSSES ON FORWARD FREIGHT AGREEMENTS

The amount for year 2004 represented the realized losses incurred from, and the provisions made for the unrealized losses from FFAs. In the opinion of the Directors, the losses from the FFAs had been caused by the unexpected and sudden decline in the freight rates of the dry bulk shipping market which began in March 2004 and continued further in June 2004. The Group had squared off majority of the FFAs during mid of 2004 and therefore, unrealized gains or losses for all squared off FFAs were recognized during year 2004 accordingly. As stated in note 3 above, the unrealized gains or losses on FFAs have been re-designated into financial assets or financial liabilities at fair value through profit or loss on 1 January 2005.

## 7. STAFF COSTS

|  | Group           |                 |
|--|-----------------|-----------------|
|  | 2005            | 2004            |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Directors' other emoluments:                 |                 |                 |
| Salaries and other benefits                  | 12,606          | 11,483          |
| Employee share-based payments                | 17,373          | –               |
| Contributions to retirement benefits schemes | 88              | 88              |
| Employees other than Directors:              |                 |                 |
| Salaries and other benefits                  | 31,648          | 30,168          |
| Employee share-based payments                | 2,739           | –               |
| Contributions to retirement benefits schemes | 1,674           | 1,451           |
|  | <u>66,128</u>   | <u>43,190</u>   |

At balance sheet date, the Group had 107 full-time employees and 330 crew (2004: 106 full-time employees and 208 crew).

## 8. PROFIT FROM OPERATIONS

This is stated after charging (crediting):

|  | Group           |                 |
|--|-----------------|-----------------|
|  | 2005            | 2004            |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Auditors' remuneration   |                 |                 |
| – audit services   | 908             | 814             |
| – other professional services  | 190             | 350             |
| Cost of inventories  | 279,688         | 266,499         |
| Amortization of other investments  | –               | 2,532           |
| Amortization of goodwill   | –               | 11,587          |
| Amortization of intangible asset   | –               | 14              |
| Hire payments under time charters  | 725,755         | 655,748         |
| Operating lease charges in respect of premises   | 4,579           | 4,454           |
| Net exchange loss  | 12,699          | 1,543           |
| Loss on written off of an intangible asset   | 105             | –               |
| (Gain) Loss on disposal/written off of property, plant and equipment, other than motor vessels             | (146)           | 239             |
| Reversal of impairment loss of property, plant and equipment   | (11,234)        | (18,907)        |
| Loss on disposal of a subsidiary   | –               | 309             |
| Provision for bad and doubtful debts   | 2,160           | 864             |
| Provision for impairment loss of available-for-sale financial assets                                       | 23              | –               |
| Recovery of claim receivable   | (2,323)         | (1,760)         |
| Retirement benefits schemes contributions net of forfeited contributions of HK\$24,000 (2004: HK\$116,000) | 1,762           | 1,539           |
| Revaluation surplus of investment properties   | (1,438)         | (4,500)         |
| Gross rental income from operating leases on investment properties   | (455)           | (696)           |
| Direct operating expenses arising from investment properties that generated rental income                  | 253             | 116             |
| Net loss (gain) on financial assets or financial liabilities at fair value through profit or loss          | <u>23,255</u>   | <u>(4,546)</u>  |



## 9. INTEREST EXPENSES

|   | Group         |               |
|---|---------------|---------------|
|   | 2005          | 2004          |
|   | HK\$'000      | HK\$'000      |
| Interests on bank loans and overdrafts: |               |               |
| Wholly repayable within five years      | 5,447         | 10,736        |
| Not wholly repayable within five years  | 34,766        | 12,236        |
|   | <u>40,213</u> | <u>22,972</u> |

## 10. DIRECTORS' EMOLUMENTS

| Name                                       | Salaries, allowances and benefits in kind |                     | Contributions to retirement benefits schemes |                  | Sub-total     | Employee share-based payments | 2005 Total    | 2004 Total    |
|--|---|---------------------|--|------------------|---------------|-------------------------------|---------------|---------------|
|  | Directors' fees                           | Discretionary bonus | Discretionary bonus                          | benefits schemes |               |                               |               |               |
|  | HK\$'000                                  | HK\$'000            | HK\$'000                                     | HK\$'000         | HK\$'000      | HK\$'000                      | HK\$'000      | HK\$'000      |
| <b>Executive Directors</b>                 |   |                     |  |                  |               |                               |               |               |
| Ng Siu Fai                                 | 1,933                                     | 1,086               | 3,736  | 14               | 6,769         | 10,423                        | 17,192        | 6,994         |
| Ng Kam Wah Thomas                          | 1,933                                     | 960                 | 3,424  | 14               | 6,331         | 6,950                         | 13,281        | 6,109         |
| Ng Ki Hung Frankie                         | 1,326                                     | 1,061               | 1,020  | 14               | 3,421         | -                             | 3,421         | 2,421         |
| Ho Suk Lin                                 | 780                                       | 791                 | 528  | 46               | 2,145         | -                             | 2,145         | 2,019         |
| <b>Non-executive Directors</b>             |   |                     |  |                  |               |                               |               |               |
| Ho Kin Lung <sup>(1)</sup>                 | -   | -                   | -  | -                | -             | -                             | -             | -             |
| So Wing Hung Peter <sup>(2)</sup>          | -   | -                   | -  | -                | -             | -                             | -             | 50            |
| <b>Independent Non-executive Directors</b> |   |                     |  |                  |               |                               |               |               |
| Cui Jianhua                                | 100                                       | -                   | -  | -                | 100           | -                             | 100           | 30            |
| Tsui Che Yin Frank                         | 115                                       | -                   | -  | -                | 115           | -                             | 115           | 30            |
| William Yau <sup>(3)</sup>                 | 95  | -                   | -  | -                | 95            | -                             | 95            | -             |
|  | <u>6,282</u>                              | <u>3,898</u>        | <u>8,708</u>                                 | <u>88</u>        | <u>18,976</u> | <u>17,373</u>                 | <u>36,349</u> | <u>17,653</u> |

## Notes:

- (1) Mr. Ho Kin Lung resigned on 25 October 2005.
- (2) Mr. So Wing Hung Peter resigned on 13 August 2004.
- (3) Mr. William Yau was appointed on 2 December 2004.

**11. EMPLOYEES' EMOLUMENTS**

The five highest paid individuals included four (2004: four) Directors whose details of emoluments are set out in note 10 above. Emoluments of the remaining one (2004: one) highest paid individual fall within the band from HK\$2,000,001 to HK\$2,500,000 and his aggregate emoluments were as follows:

|  | <b>Group</b>    |                 |
|--|-----------------|-----------------|
|  | <b>2005</b>     | <b>2004</b>     |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Salaries and other benefits                  | 1,786           | 1,797           |
| Discretionary bonus                          | 231             | 289             |
| Employee share-based payments                | 165             | –               |
| Contributions to retirement benefits schemes | 30              | 30              |
|  | <u>2,212</u>    | <u>2,116</u>    |

**12. TAXATION**

|                                | <b>Group</b>    |                 |
|--------------------------------|-----------------|-----------------|
|                                | <b>2005</b>     | <b>2004</b>     |
|                                | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Hong Kong Profits Tax:         |                 |                 |
| Current year                   | 2,456           | 2,509           |
| Under provision in prior years | 18              | 99              |
|                                | <u>2,474</u>    | <u>2,608</u>    |

Hong Kong Profits Tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year. In the opinion of the Directors, a substantial portion of the Group's income neither arose in nor derived from Hong Kong and therefore was not subject to Hong Kong Profits Tax. The Group is also not subject to taxation in any other jurisdictions in which the Group operates.

**Reconciliation of tax expense:**

|  | <b>Group</b>                   |                                |
|--|--------------------------------|--------------------------------|
|  | <b>2005</b><br><i>HK\$'000</i> | <b>2004</b><br><i>HK\$'000</i> |
| Profit before taxation   | <u>843,430</u>                 | <u>394,115</u>                 |
| Income tax at the rates applicable to profits<br>in the tax jurisdiction concerned | 26,520                         | 4,515                          |
| Non-deductible expenses  | 1,019                          | 3,396                          |
| Tax exempt revenue   | (36,881)                       | (6,469)                        |
| Unrecognized tax losses  | 12,605                         | 5,277                          |
| Unrecognized temporary differences   | (798)                          | (3,435)                        |
| Utilization of previously unrecognized tax losses                                  | (2)                            | (1,119)                        |
| Under provision in prior years   | 18                             | 450                            |
| Others   | <u>(7)</u>                     | <u>(7)</u>                     |
| Tax expense for the year   | <u>2,474</u>                   | <u>2,608</u>                   |

The applicable tax rates are the weighted average of current rates of taxation ruling in the relevant countries of the Company and its subsidiaries.

**13. NET PROFIT FOR THE YEAR**

The consolidated net profit attributable to shareholders of the Company for the year included a net profit of HK\$172,708,000 (2004: loss of HK\$2,446,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's net profit (loss) for the year:

|   | <b>Company</b>                 |                                |
|---|--------------------------------|--------------------------------|
|   | <b>2005</b><br><i>HK\$'000</i> | <b>2004</b><br><i>HK\$'000</i> |
| Amount of consolidated net profit (loss) attributable to shareholders<br>dealt with in the Company's financial statements | 172,708                        | (2,446)                        |
| Dividends from a subsidiary attributable to the<br>net profit for the year  | 162,911                        | -                              |
| Other transactions with subsidiaries  | <u>3,346</u>                   | <u>661</u>                     |
| Company's net profit (loss) for the year  | <u>338,965</u>                 | <u>(1,785)</u>                 |

## 14. DIVIDENDS

|  | Group           |                 |
|--|-----------------|-----------------|
|  | 2005            | 2004            |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <b>Interim dividend declared during the year</b>   |                 |                 |
| Interim dividend of HK\$0.19 (2004: nil) per share declared and paid                                 | 101,356         | –               |
| <b>Final dividend proposed after balance sheet date</b>  |                 |                 |
| Proposed final dividend of nil (2004: HK\$0.12 restated) per share declared after balance sheet date | –               | 63,713          |
|  | <u>101,356</u>  | <u>63,713</u>   |

As a result of the share subdivision of the Company effective on 23 May 2005, final dividend per share for 2004 has been adjusted accordingly.

## 15. EARNINGS PER SHARE

## (a) Basic earnings per share

Basic earnings per share for the year is calculated on the net profit attributable to shareholders of the Company for the year of HK\$526,862,000 (2004: HK\$227,514,000) and the weighted average number of 531,337,466 (2004: 526,242,480 restated) ordinary shares in issue during the year.

## (b) Diluted earnings per share

Diluted earnings per share for the year is calculated on the net profit attributable to shareholders of the Company for the year of HK\$526,862,000 (2004: HK\$227,514,000) and the weighted average number of ordinary shares in issue during the year after adjusting for the number of dilutive potential ordinary shares arising from the share options granted under the Company's share option scheme.

**Reconciliation of weighted average number of ordinary shares used in calculating diluted earnings per share:**

|   | 2005               | 2004               |
|---|--------------------|--------------------|
|   | Number of shares   | Number of shares   |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 531,337,466        | 526,242,480        |
| Deemed issue of ordinary shares on granting of share options                            | 5,357,026          | 2,020              |
|   | <u>536,694,492</u> | <u>526,244,500</u> |

As a result of the share subdivision of the Company effective on 23 May 2005, the weighted average number of ordinary shares in issue of 2004 has been adjusted accordingly.

## 16. PROPERTY, PLANT AND EQUIPMENT

## Group

|   | Leasehold<br>land and<br>buildings<br>HK\$'000 | Property<br>under<br>development<br>HK\$'000 | Motor<br>vessels and<br>improvement<br>HK\$'000 | Vessels<br>under<br>construction<br>HK\$'000 | Plant and<br>machinery<br>HK\$'000 | Leasehold<br>improvement,<br>utility vessels,<br>furniture<br>and<br>equipment<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|--|---|--|------------------------------------|--|-------------------|
| <b>Cost or valuation</b>                                  |  |  |   |  |                                    |  |                   |
| At 1 January 2004   | 210,248  | 69,885                                       | 1,650,581                                       | 24,644                                       | 842                                | 31,423   | 1,987,623         |
| Additions   | -  | 8,568  | -   | 184,087                                      | -                                  | 6,610  | 199,265           |
| On disposal of a subsidiary                               | -  | (78,453)                                     | -   | -  | -                                  | -  | (78,453)          |
| Disposals/written off                                     | -  | -  | (341,268)                                       | -  | -                                  | (5,038)  | (346,306)         |
| At 31 December 2004                                       | 210,248  | -  | 1,309,313                                       | 208,731                                      | 842                                | 32,995   | 1,762,129         |
| Reclassification  | (10,231)                                       | -  | 315,745   | (315,745)                                    | -                                  | -  | (10,231)          |
| Additions   | 500  | -  | 960,922   | 210,942                                      | 39                                 | 1,436  | 1,173,839         |
| Disposals/written off                                     | (459)  | -  | -   | -  | (71)                               | (612)  | (1,142)           |
| Revaluation   | 3,038  | -  | -   | -  | -                                  | -  | 3,038             |
| At 31 December 2005                                       | 203,096  | -  | 2,585,980                                       | 103,928                                      | 810                                | 33,819   | 2,927,633         |
| <b>Accumulated depreciation<br/>and impairment losses</b> |  |  |   |  |                                    |  |                   |
| At 1 January 2004   | 141,905  | 54,356                                       | 352,861   | -  | 773                                | 27,683   | 577,578           |
| Charge for the year                                       | 1,618  | -  | 66,592  | -  | 31                                 | 2,817  | 71,058            |
| Eliminated on disposal of<br>a subsidiary                 | -  | (62,156)                                     | -   | -  | -                                  | -  | (62,156)          |
| Eliminated on disposals/written off                       | -  | -  | (35,921)  | -  | -                                  | (4,346)  | (40,267)          |
| Impairment loss (reversed) made                           | (26,707)                                       | 7,800  | -   | -  | -                                  | -  | (18,907)          |
| At 31 December 2004                                       | 116,816  | -  | 383,532   | -  | 804                                | 26,154   | 527,306           |
| Charge for the year                                       | 3,849  | -  | 87,603  | -  | 38                                 | 2,582  | 94,072            |
| Reclassification  | (1,169)  | -  | -   | -  | -                                  | -  | (1,169)           |
| Eliminated on disposals/written off                       | (96)   | -  | -   | -  | (71)                               | (404)  | (571)             |
| Impairment loss reversed                                  | (11,234)                                       | -  | -   | -  | -                                  | -  | (11,234)          |
| At 31 December 2005                                       | 108,166  | -  | 471,135   | -  | 771                                | 28,332   | 608,404           |
| <b>Net book value</b>                                     |  |  |   |  |                                    |  |                   |
| At 31 December 2005                                       | <u>94,930</u>                                  | <u>-</u>                                     | <u>2,114,845</u>                                | <u>103,928</u>                               | <u>39</u>                          | <u>5,487</u>   | <u>2,319,229</u>  |
| At 31 December 2004                                       | <u>93,432</u>                                  | <u>-</u>                                     | <u>925,781</u>                                  | <u>208,731</u>                               | <u>38</u>                          | <u>6,841</u>   | <u>1,234,823</u>  |

## Group

|   | Leasehold<br>land and<br>buildings<br><i>HK\$'000</i> | Property<br>under<br>development<br><i>HK\$'000</i> | Motor<br>vessels and<br>improvement<br><i>HK\$'000</i> | Vessels<br>under<br>construction<br><i>HK\$'000</i> | Plant and<br>machinery<br><i>HK\$'000</i> | Leasehold<br>improvement,<br>utility vessels,<br>furniture<br>and<br>equipment<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|---|---|--|---|---|---|--------------------------|
| <b>Analysis of cost or valuation<br/>of property, plant<br/>and equipment</b> |   |   |  |   |   |   |                          |
| <b>At 31 December 2005</b>  |   |   |  |   |   |   |                          |
| At cost   | 150,096   | -   | 2,241,298  | 103,928   | 810                                       | 33,819  | 2,529,951                |
| At professional valuation in 1994   | 53,000  | -   | 344,682  | -   | -   | -   | 397,682                  |
|   | <u>203,096</u>  | <u>-</u>  | <u>2,585,980</u>                                       | <u>103,928</u>                                      | <u>810</u>                                | <u>33,819</u>   | <u>2,927,633</u>         |

Having regard to the moderate recovery of property markets in Hong Kong, the Group carried out a review of the recoverable amount of its leasehold land and buildings situated in Hong Kong as at 31 December 2005. The review led to the recognition of reversal of impairment loss of HK\$11,234,000 in the income statement of 2005. The recoverable amount of the relevant assets has been determined on the basis of the higher of its fair value less cost to sell and value in use.

If the following classes of property, plant and equipment had not been revalued at balance sheet date, their carrying amounts at cost less accumulated depreciation and impairment losses would have been:

|                               | <b>Group</b>                   |                                |
|-------------------------------|--------------------------------|--------------------------------|
|                               | <b>2005</b><br><i>HK\$'000</i> | <b>2004</b><br><i>HK\$'000</i> |
| Leasehold land and buildings  | <u>94,930</u>                  | <u>93,432</u>                  |
| Motor vessels and improvement | <u>2,109,354</u>               | <u>912,808</u>                 |

All motor vessels and improvement are held for use under operating leases and the leasehold land and buildings are held under long term lease and located in Hong Kong.

## 17. INVESTMENT PROPERTIES

**Group**

|                            | <i>HK\$'000</i> |
|----------------------------|-----------------|
| <b>At fair value</b>       |                 |
| At 1 January 2004          | 20,000          |
| Revaluation                | 4,500           |
|                            | <hr/>           |
| At 31 December 2004        | 24,500          |
| Reclassification           | 9,062           |
| Revaluation                | 1,438           |
|                            | <hr/>           |
| <b>At 31 December 2005</b> | <b>35,000</b>   |
|                            | <hr/> <hr/>     |

The investment properties are held for use under operating leases. These are held under long term lease and located in Hong Kong.

At balance sheet date, the investment properties were revalued by Midland Surveyors Limited, an independent qualified professional valuer, on the open market value basis.

## 18. GOODWILL

## Group

HK\$'000

## Cost

|   |               |
|---|---------------|
| At 1 January 2004   | –             |
| Arising from deemed acquisition of additional interests in a subsidiary | 57,935        |
|   | <hr/>         |
| At 31 December 2004   | 57,935        |
|   | <hr/>         |
| At 1 January 2005, as previously reported                               | 57,935        |
| <i>Effect on initial adoption of HKFRS 3</i>                            |               |
| Opening balance adjustment to eliminate accumulated amortization        | (11,587)      |
|   | <hr/>         |
| At 1 January 2005, restated   | 46,348        |
| Release on disposal of partial interests in a subsidiary                | (7,308)       |
|   | <hr/>         |
| <b>At 31 December 2005</b>  | <b>39,040</b> |
|   | <hr/> <hr/>   |
| <b>Accumulated amortization and impairment losses</b>                   |               |
| At 1 January 2004   | –             |
| Amortization for the year   | 11,587        |
|   | <hr/>         |
| At 31 December 2004   | 11,587        |
|   | <hr/>         |
| At 1 January 2005, as previously reported                               | 11,587        |
| <i>Effect on initial adoption of HKFRS 3</i>                            |               |
| Opening balance adjustment to eliminate against cost at 1 January 2005  | (11,587)      |
|   | <hr/>         |
| <b>At 1 January 2005, restated and 31 December 2005</b>                 | <b>–</b>      |
|   | <hr/>         |
| <b>Carrying amount</b>  |               |
| <b>At 31 December 2005</b>  | <b>39,040</b> |
|   | <hr/> <hr/>   |
| At 31 December 2004   | 46,348        |
|   | <hr/> <hr/>   |

Prior to 31 December 2004, positive goodwill not recognized directly in reserve was amortized on a straight-line basis over five years. The amortization of positive goodwill for the year ended 31 December 2004 was included in depreciation and amortization in the consolidated income statement.

With effect from 1 January 2005 the Group no longer amortizes goodwill. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortization of goodwill as at 1 January 2005 has been eliminated against goodwill as at that date.



## 19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|   | Group         |               | Company      |              |
|---|---------------|---------------|--------------|--------------|
|   | 2005          | 2004          | 2005         | 2004         |
|   | HK\$'000      | HK\$'000      | HK\$'000     | HK\$'000     |
| Unlisted club debentures ( <i>Note 1</i> )    | 7,410         | 7,410         | 5,000        | 5,000        |
| Changes in fair value                         | 1,681         | –             | 1,260        | –            |
|   | <u>9,091</u>  | <u>7,410</u>  | <u>6,260</u> | <u>5,000</u> |
| Unlisted investments                          |               |               |              |              |
| Co-operative joint ventures ( <i>Note 2</i> ) | 27,847        | 78,648        | –            | –            |
| Less: Accumulated amortization                | –             | (26,785)      | –            | –            |
| Accumulated impairment losses                 | –             | (24,016)      | –            | –            |
|   | <u>27,847</u> | <u>27,847</u> | <u>–</u>     | <u>–</u>     |
| Other unlisted investments ( <i>Note 3</i> )  | 11,723        | 11,700        | –            | –            |
| Less: Accumulated impairment losses           | (11,723)      | (11,700)      | –            | –            |
|   | <u>–</u>      | <u>–</u>      | <u>–</u>     | <u>–</u>     |
|   | <u>36,938</u> | <u>35,257</u> | <u>6,260</u> | <u>5,000</u> |

*Notes:*

1. Prior to 31 December 2004, unlisted club debentures were stated at cost. With the adoption of HKAS 32 & HKAS 39 on 1 January 2005, unlisted club debentures are stated at fair value and any changes in fair value have been recognized directly in the equity.
2. Prior to 31 December 2004, co-operative joint ventures were stated at cost less accumulated amortization and impairment losses. With the adoption of HKAS 32 & HKAS 39 on 1 January 2005, the carrying amount are deemed as cost of co-operative joint ventures and no further amortization is required under HKAS 39.
3. Other unlisted investments were stated at cost less accumulated impairment losses in both years. Under HKAS 39, the impairment loss of unlisted equity investments classified as available-for-sale financial assets shall not be reversed in future.

**20. INTANGIBLE ASSET****Group***HK\$'000*

Transfer fee for club entrance

**Cost**

At 1 January 2004 and at 31 December 2004

250

Written off

(250)

**At 31 December 2005**

—

**Accumulated amortization**

At 1 January 2004

131

Charge for the year

14

At 31 December 2004

145

Written off

(145)

**At 31 December 2005**

—

**Carrying amount****At 31 December 2005**

—

At 31 December 2004

105

**21. INVESTMENTS IN SUBSIDIARIES****Company****2005****2004***HK\$'000**HK\$'000*

Shares of Jinhui Shipping listed on the Oslo Stock Exchange, at cost

296,244

351,702

Unlisted shares, at cost

13

13

296,257

351,715

Details of the Company's principal subsidiaries are set out in note 43 to the financial statements.

The market value of 50.21% (2004: 59.61%) in the share capital of Jinhui Shipping attributable to the Group amounted to approximately HK\$815,305,000 (2004: HK\$1,067,210,000) at balance sheet date.

**22. OTHER NON-CURRENT ASSETS**

|  | <b>Group</b>    |                 |
|--|-----------------|-----------------|
|  | <b>2005</b>     | <b>2004</b>     |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Deferred drydocking expenses, at cost                        | 12,924          | 8,351           |
| Less: Amount written off                                     | (6,271)         | (3,964)         |
|  | <u>6,653</u>    | <u>4,387</u>    |
| Loan receivable  | 24,887          | 37,342          |
| Less: Amount included in other receivables in current assets | (2,713)         | (7,653)         |
|  | <u>22,174</u>   | <u>29,689</u>   |
| Loan receivable due over one year                            | 22,174          | 29,689          |
|  | <u>28,827</u>   | <u>34,076</u>   |

The loan receivable is interest bearing at commercial borrowing rate and receivable upto 2008.

**23. INVENTORIES**

|               | <b>Group</b>    |                 |
|---------------|-----------------|-----------------|
|               | <b>2005</b>     | <b>2004</b>     |
|               | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Ship stores   | 226             | 1,834           |
| Trading goods | 16,423          | 25,341          |
|               | <u>16,649</u>   | <u>27,175</u>   |

Inventories at balance sheet date were carried at cost.

**24. DUE FROM/TO SUBSIDIARIES**

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed repayment terms. The carrying amount of the amounts due represents approximately their fair values.

## 25. FINANCIAL ASSETS/FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

|  | Group         |                | Company       |          |
|--|---------------|----------------|---------------|----------|
|  | 2005          | 2004           | 2005          | 2004     |
|  | HK\$'000      | HK\$'000       | HK\$'000      | HK\$'000 |
| <b>Analysis of financial assets at fair value through profit or loss:</b>      |               |                |               |          |
| <i>Held for trading</i>  |               |                |               |          |
| Equity securities  |               |                |               |          |
| Listed in Hong Kong  | 44,331        | 9,065          | 21,605        | –        |
| Listed outside Hong Kong   | 5,470         | 10,009         | 5,470         | –        |
|  | <u>49,801</u> | <u>19,074</u>  | <u>27,075</u> | <u>–</u> |
| Debts securities   |               |                |               |          |
| Listed outside Hong Kong   | 15,400        | –              | 15,400        | –        |
|  | <u>15,400</u> | <u>–</u>       | <u>15,400</u> | <u>–</u> |
| <i>Held for trading or not qualifying as hedges</i>                            |               |                |               |          |
| Derivative financial instruments   |               |                |               |          |
| Interest rate swaps  | 6,008         | –              | –             | –        |
| Forward foreign exchange contracts and options                                 | 1,158         | –              | –             | –        |
| Securities derivatives   | 6             | –              | –             | –        |
| Forward freight agreements   | 27,415        | 505,176        | –             | –        |
|  | <u>34,587</u> | <u>505,176</u> | <u>–</u>      | <u>–</u> |
|  | <u>99,788</u> | <u>524,250</u> | <u>42,475</u> | <u>–</u> |
| <b>Analysis of financial liabilities at fair value through profit or loss:</b> |               |                |               |          |
| <i>Held for trading or not qualifying as hedges</i>                            |               |                |               |          |
| Derivative financial instruments   |               |                |               |          |
| Interest rate swaps  | 942           | –              | –             | –        |
| Forward foreign exchange contracts and options                                 | 11,646        | –              | 153           | –        |
| Forward freight agreements   | 17,735        | 708,089        | –             | –        |
|  | <u>30,323</u> | <u>708,089</u> | <u>153</u>    | <u>–</u> |

## 26. TRADE AND OTHER RECEIVABLES

|   | Group          |                | Company       |            |
|---|----------------|----------------|---------------|------------|
|   | 2005           | 2004           | 2005          | 2004       |
|   | HK\$'000       | HK\$'000       | HK\$'000      | HK\$'000   |
| Trade receivables                           | 118,919        | 77,543         | –             | –          |
| Prepayments, deposits and other receivables | 106,801        | 136,396        | 21,364        | 319        |
|   | <u>225,720</u> | <u>213,939</u> | <u>21,364</u> | <u>319</u> |

The aging analysis of trade receivables (net of provision for doubtful debts) is as follows:

|                | Group          |               |
|----------------|----------------|---------------|
|                | 2005           | 2004          |
|                | HK\$'000       | HK\$'000      |
| 0 – 90 days    | 98,447         | 57,767        |
| 91 – 180 days  | 17,452         | 15,487        |
| 181 – 365 days | 1,964          | 3,688         |
| Over 365 days  | 1,056          | 601           |
|                | <u>118,919</u> | <u>77,543</u> |

The credit terms given to charterers vary according to the types of vessels' employment. The credit terms could vary from 15 to 60 days.

The credit terms given to trading customers vary based on the financial assessments and payment track records. Credit limits are set for all customers and are revised only with the approval of senior management. General credit terms are payments by the end of 60 to 120 days following the month in which sales took place.

## 27. TRADE AND OTHER PAYABLES

|                                    | Group          |                | Company      |              |
|------------------------------------|----------------|----------------|--------------|--------------|
|                                    | 2005           | 2004           | 2005         | 2004         |
|                                    | HK\$'000       | HK\$'000       | HK\$'000     | HK\$'000     |
| Trade payables                     | 23,975         | 70,733         | –            | –            |
| Accrued charges and other payables | 161,056        | 255,530        | 7,037        | 1,095        |
|                                    | <u>185,031</u> | <u>326,263</u> | <u>7,037</u> | <u>1,095</u> |

The aging analysis of trade payables is as follows:

|                | <b>Group</b>                   |                                |
|----------------|--------------------------------|--------------------------------|
|                | <b>2005</b><br><i>HK\$'000</i> | <b>2004</b><br><i>HK\$'000</i> |
| 0 – 90 days    | 14,308                         | 62,210                         |
| 91 – 180 days  | 1,256                          | 556                            |
| 181 – 365 days | 84                             | 412                            |
| Over 365 days  | 8,327                          | 7,555                          |
|                | <u>23,975</u>                  | <u>70,733</u>                  |

## 28. SECURED BANK LOANS AND OVERDRAFTS

|  | <b>Group</b>                   |                                | <b>Company</b>                 |                                |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|  | <b>2005</b><br><i>HK\$'000</i> | <b>2004</b><br><i>HK\$'000</i> | <b>2005</b><br><i>HK\$'000</i> | <b>2004</b><br><i>HK\$'000</i> |
| The maturity of secured bank loans and overdrafts is as follows: |                                |                                |                                |                                |
| Within one year  | 154,598                        | 55,749                         | –                              | 6,905                          |
| After one year but within two years                              | 90,175                         | 45,989                         | –                              | –                              |
| After two years but within five years                            | 286,855                        | 133,863                        | –                              | –                              |
| After five years   | 628,175                        | 235,020                        | –                              | –                              |
|  | <u>1,159,803</u>               | <u>470,621</u>                 | –                              | <u>6,905</u>                   |
| Less: Amount included in current liabilities                     |                                |                                |                                |                                |
| Secured bank loans   | (154,598)                      | (45,914)                       | –                              | –                              |
| Secured bank overdrafts  | –                              | (9,835)                        | –                              | (6,905)                        |
|  | <u>1,005,205</u>               | <u>414,872</u>                 | <u>–</u>                       | <u>–</u>                       |
| Amount included in non-current liabilities                       | <u>1,005,205</u>               | <u>414,872</u>                 | <u>–</u>                       | <u>–</u>                       |

## 29. ISSUED CAPITAL

## Company

|   | 2005                        |                       | 2004                      |                       |
|---|-----------------------------|-----------------------|---------------------------|-----------------------|
|   | Number<br>of shares         | Amount<br>HK\$'000    | Number<br>of shares       | Amount<br>HK\$'000    |
| <b>Authorized</b>   |                             |                       |                           |                       |
| At 1 January  | 100,000,000                 | 100,000               | 100,000,000               | 100,000               |
| Share Subdivision ( <i>Note</i> )   | 900,000,000                 | —                     | —                         | —                     |
| <b>At 31 December</b>   | <b><u>1,000,000,000</u></b> | <b><u>100,000</u></b> | <b><u>100,000,000</u></b> | <b><u>100,000</u></b> |
| <b>Issued and fully paid</b>  |                             |                       |                           |                       |
| At 1 January  | 52,624,248                  | 52,624                | 52,624,248                | 52,624                |
| Shares issued upon exercise of<br>share options from 1 January 2005<br>to 23 May 2005:<br>546,800 ordinary shares of<br>HK\$1.00 each     | 546,800                     | 547                   | —                         | —                     |
|   | 53,171,048                  | 53,171                | 52,624,248                | 52,624                |
| Share Subdivision effective<br>on 23 May 2005 ( <i>Note</i> )   | 478,539,432                 | —                     | —                         | —                     |
|   | 531,710,480                 | 53,171                | 52,624,248                | 52,624                |
| Shares issued upon exercise of<br>share options from 24 May 2005 to<br>31 December 2005:<br>2,230,000 ordinary shares of<br>HK\$0.10 each | 2,230,000                   | 223                   | —                         | —                     |
| <b>At 31 December</b>   | <b><u>533,940,480</u></b>   | <b><u>53,394</u></b>  | <b><u>52,624,248</u></b>  | <b><u>52,624</u></b>  |

*Note:*

At the extraordinary general meeting of the Company held on 20 May 2005, the resolutions regarding the subdivision of every one issued and unissued share of HK\$1.00 each in the share capital of the Company into ten subdivided shares of HK\$0.10 each (“Share Subdivision”) were approved by the shareholders of the Company. With effect from 23 May 2005, the authorized share capital of the Company has become HK\$100 million divided into 1,000 million shares of HK\$0.10 each, of which 531,710,480 shares were issued and fully paid.

**30. EMPLOYEE SHARE-BASED PAYMENT TRANSACTIONS**

On 23 December 2004, the Company granted a number of share options to acquire the share of the Company to the directors, officers and employees of the Group and other persons selected by the board of Company who have contributed or will contribute to the Group. The purpose of granting the share options is to provide incentives and/or rewards to eligible persons for their contribution to, and continuing efforts to promote the interests of, the Group.

The weighted average value per option granted in 2004 by the Company was HK\$0.66\* that are estimated at the date of grant based on Black-Scholes option pricing model using the following assumptions:

|   |            |
|---|------------|
| Share price at the option grant date                          | HK\$1.53 * |
| Exercise price  | HK\$1.60 * |
| Risk-free interest rate per annum based on Federal Funds Rate | 2.25%      |
| Expected stock price volatility                               | 76.73%     |
| Expected option life  | 2 years    |

\* As a result of the Share Subdivision effective on 23 May 2005, the option value, share price and exercise price of the options at the option grant date as shown above have been adjusted accordingly.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the share options of the Company have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options of the Company.

**(a) Number, terms and conditions of the options granted by the Company:**

| Conditions  | Number<br>of options<br>granted on<br>23 December 2004 | Value<br>of options<br>at grant date<br>HK\$'000 |
|---|--|--|
| <b>Options granted to Directors:</b>                      |  |  |
| Performance based options (Note 1)                        | 52,620,000   | 34,745   |
| Non-performance based options (Note 2)                    | 10,500,000   | 6,933  |
|   | 63,120,000   | 41,678   |
| <b>Options granted to employees other than Directors:</b> |  |  |
| With vesting schedules (Note 1)                           | 8,298,000  | 5,479  |
| Without vesting schedules (Note 2)                        | 5,374,000  | 3,549  |
|   | 13,672,000   | 9,028  |
|   | 76,792,000   | 50,706   |



Notes:

- The Group has recognized these share options in the income statement with a corresponding increase in employee share-based compensation reserve in equity of 2005.

|  |                 |
|--|-----------------|
|  | <b>2005</b>     |
|  | <i>HK\$'000</i> |
| <b>Employee share-based payments recognized under HKFRS 2 in 2005</b>                  |                 |
| In respect of performance based options granted to Directors                           | 17,373          |
| In respect of options with vesting schedules granted to employees other than Directors | 2,739           |
|  | <u>20,112</u>   |

No adjustment to the opening balance of retained profits as at 1 January 2005 and for the year of 2004 is required as the amount involved was not material.

- Under transitional provisions of HKFRS 2, these share options were granted to Directors or employees after 7 November 2002 which had vested before 1 January 2005 and therefore no employee share-based payment is required to be recognized.
- (b) **Movements in the number of the outstanding options and weighted average share price of the Company at dates of exercise of options in 2005:**

|   | Performance based options granted to Directors | Non-performance based options granted to Directors | Options with vesting schedules granted to employees other than Directors | Options without vesting schedules granted to employees other than Directors |
|---|--|--|--|---|
| <b>Number of options</b>  |  |  |  |   |
| At 1 January 2005   | 52,620,000                                     | 10,500,000   | 8,298,000  | 5,374,000   |
| Exercised during the year   | -  | -  | (4,148,000)  | (3,550,000)   |
| <b>At 31 December 2005</b>  | <u>52,620,000</u>                              | <u>10,500,000</u>                                  | <u>4,150,000</u>   | <u>1,824,000</u>  |
| <b>Exercisable at</b>   |  |  |  |   |
| 31 December 2005  | <u>(Note 3)</u>                                | <u>10,500,000</u>                                  | <u>(Note 4)</u>  | <u>1,824,000</u>  |
| Weighted average share price of the Company at dates of exercise of options in 2005 | <u>N/A</u>                                     | <u>N/A</u>   | <u>HK\$2.53</u>  | <u>HK\$2.72</u>   |

At 31 December 2005, the exercise price of the outstanding options is HK\$1.60 and their weighted average remaining contractual life are four years except for options with performance based of nine years.

*Notes:*

3. These share options will become exercisable upon the Group having recorded an audited consolidated net profit of not less than HK\$400 million for the financial year of 2005 and may be exercised during the period commencing on (i) 1 March 2006 or on the business day immediately after the day of the issue and publication of the audited consolidated results of the Group for the financial year of 2005, whichever is the later, and ending on (ii) 22 December 2014, being the end of the 10-year period from 23 December 2004. There was no performance based option granted to Directors exercisable as at 31 December 2005.
4. These share options are under vesting schedules, which began on January 2005 with monthly exercisable limit of about 10% of the share options granted. There was no option with vesting schedules granted to employees other than Directors exercisable as at 31 December 2005.

**31. RESERVES**

Details of movements in reserves of the Group and the Company for current and last years are disclosed in the statements of changes in equity on pages 34 to 35.

**Group**

The application of the share premium account and the capital redemption reserve is governed by Section 48B and 49H respectively of the Hong Kong Companies Ordinance.

**Company**

The retained profits of the Company includes HK\$32,220,000 which represents profits on disposal of certain subsidiaries to Jinhui Shipping in previous years. As it does not constitute realized profits within the meaning of Section 79B(2) of the Hong Kong Companies Ordinance, it is not available for distribution to shareholders. Thus, at balance sheet date, reserves of the Company available for distribution to shareholders amounted to HK\$274,475,000 (2004: HK\$100,579,000).

## 32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Cash generated from operations

|  | <b>Group</b>    |                 |
|--|-----------------|-----------------|
|  | <b>2005</b>     | <b>2004</b>     |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit before taxation   | 843,430         | 394,115         |
| Depreciation and amortization  | 94,072          | 85,191          |
| Interest income  | (13,983)        | (4,165)         |
| Interest expenses  | 40,213          | 22,972          |
| Dividend income from listed securities   | (823)           | (244)           |
| Dividend income from unlisted investment   | (11,783)        | (18,783)        |
| Employee share-based payments  | 20,112          | –               |
| Loss on written off of an intangible asset   | 105             | –               |
| Gain on disposal/written off of property, plant and equipment                      | (146)           | (126,962)       |
| Reversal of impairment loss of property, plant and equipment                       | (11,234)        | (18,907)        |
| Loss on disposal of a subsidiary   | –               | 309             |
| Gain on disposal of partial interests in a subsidiary                              | (102,855)       | –               |
| Provision for bad and doubtful debts   | 2,160           | 864             |
| Provision for impairment loss of<br>available-for-sale financial assets            | 23              | –               |
| Recovery of claim receivable   | (2,323)         | (1,760)         |
| Revaluation surplus of investment properties                                       | (1,438)         | (4,500)         |
| Net drydocking expense deferred  | (2,266)         | (933)           |
| <i>Changes in working capital:</i>   |                 |                 |
| Inventories  | 10,526          | 6,986           |
| Financial assets and financial liabilities<br>at fair value through profit or loss | (253,304)       | 194,285         |
| Trade and other receivables  | (10,643)        | (90,994)        |
| Trade and other payables   | (102,322)       | 134,255         |
| <b>Cash generated from operations</b>  | <u>497,521</u>  | <u>571,729</u>  |

## (b) Summary of the effects of the disposal of a subsidiary

|  | Group                   |                         |
|--|-------------------------|-------------------------|
|  | 2005<br><i>HK\$'000</i> | 2004<br><i>HK\$'000</i> |
| Net liabilities disposed of:                 |                         |                         |
| Property, plant and equipment                | –                       | 16,297                  |
| Accrued charges and other payables           | –                       | (7,146)                 |
|  | –                       | 9,151                   |
| Capital reserve released                     | –                       | 12                      |
| Loss on disposal of a subsidiary             | –                       | (309)                   |
|  | –                       | 8,854                   |
| Total consideration, satisfied by cash       | <u>–</u>                | <u>8,854</u>            |
| Net cash inflow on disposal of a subsidiary: |                         |                         |
| Cash consideration                           | <u>–</u>                | <u>8,854</u>            |

## (c) Summary of the effects of the disposal of partial interests in a subsidiary

|   | Group                   |                         |
|---|-------------------------|-------------------------|
|   | 2005<br><i>HK\$'000</i> | 2004<br><i>HK\$'000</i> |
| Goodwill released   | 7,308                   | –                       |
| Loss of dividend receivable which paid to minority interests          | 12,324                  | –                       |
| Increase in minority interests  | 125,862                 | –                       |
| Gain on disposal of partial interests in a subsidiary ( <i>Note</i> ) | 102,855                 | –                       |
|   | 248,349                 | –                       |
| Total consideration, satisfied by cash                                | <u>248,349</u>          | <u>–</u>                |
| Net cash inflow on disposal of partial interests in a subsidiary:     |                         |                         |
| Gross sale proceeds   | 252,773                 | –                       |
| Commission to placing agent   | (4,424)                 | –                       |
|   | <u>248,349</u>          | <u>–</u>                |

*Note:*

The amount represented a gain on disposal of 7,900,000 shares or 9.4% interests in the share capital of Jinhui Shipping during the year.

**(d) Analysis of the balances of cash and cash equivalents**

|                         | <b>Group</b>                   |                                |
|-------------------------|--------------------------------|--------------------------------|
|                         | <b>2005</b><br><i>HK\$'000</i> | <b>2004</b><br><i>HK\$'000</i> |
| Bank balances and cash  | 395,614                        | 462,356                        |
| Secured bank overdrafts | —                              | (9,835)                        |
|                         | <u>395,614</u>                 | <u>452,521</u>                 |

**33. DEFERRED TAXATION**

Deferred tax assets for the year have not been recognized in respect of the followings:

|                                  | <b>Group</b>                   |                                |
|----------------------------------|--------------------------------|--------------------------------|
|                                  | <b>2005</b><br><i>HK\$'000</i> | <b>2004</b><br><i>HK\$'000</i> |
| Deductible temporary differences | 6,704                          | 13,928                         |
| Tax losses                       | 516,737                        | 438,883                        |
| <b>At 31 December</b>            | <u>523,441</u>                 | <u>452,811</u>                 |

Both the deductible temporary differences and the tax losses do not expire under current tax legislation.

**34. PLEDGE OF ASSETS**

At balance sheet date, the Group had certain credit facilities which were secured by the followings:

- (a) Legal charges on the Group's motor vessels with an aggregate net book value of HK\$1,996,802,000 (2004: HK\$787,485,000);
- (b) Legal charges on the Group's leasehold land and buildings and investment properties with an aggregate net book value of HK\$82,479,000 (2004: HK\$71,668,000);
- (c) Deposits totalling HK\$19,610,000 (2004: HK\$23,522,000) of the Group placed with a bank;
- (d) Legal charges on shares of ten (2004: five) ship owning subsidiaries of the Company; and
- (e) Assignment agreements entered into with banks assigning ten (2004: five) ship owning subsidiaries' chartering income in favour of banks.

## 35. COMMITMENTS

## (a) Capital expenditure commitments

At balance sheet date, the Group had outstanding capital expenditure commitments relating to the newbuildings of four (2004: six) dry bulk carriers at total purchase price of approximately HK\$766,738,000 (2004: HK\$1,283,256,000) and the total amount contracted but not provided for, net of deposits paid, was approximately HK\$665,494,000 (2004: HK\$1,076,794,000).

## (b) Commitments under operating leases (as lessee)

At balance sheet date, the total of future minimum lease payments under non-cancellable operating leases for each of the following periods of the Group are:

|                                       | <b>Group</b>          |                         |
|---------------------------------------|-----------------------|-------------------------|
|                                       | <b>2005</b>           | <b>2004</b>             |
|                                       | <i>HK\$'000</i>       | <i>HK\$'000</i>         |
| Within one year:                      |                       |                         |
| Premises                              | 779                   | 639                     |
| Time charter hire                     | 487,891               | 576,497                 |
|                                       | <u>488,670</u>        | <u>577,136</u>          |
| After one year but within five years: |                       |                         |
| Premises                              | 333                   | 507                     |
| Time charter hire                     | 337,279               | 514,750                 |
|                                       | <u>337,612</u>        | <u>515,257</u>          |
|                                       | <u><u>826,282</u></u> | <u><u>1,092,393</u></u> |

## (c) Commitments under operating leases (as lessor)

At balance sheet date, the total of future minimum lease payments receivable under non-cancellable operating leases for each of the following periods of the Group are:

|   | <b>Group</b>          |                       |
|---|-----------------------|-----------------------|
|   | <b>2005</b>           | <b>2004</b>           |
|   | <i>HK\$'000</i>       | <i>HK\$'000</i>       |
| Within one year:                            |                       |                       |
| Premises                                    | 336                   | 632                   |
| Time charter hire from owned vessels        | 183,984               | 134,960               |
| Time charter hire from chartered-in vessels | 186,452               | 295,437               |
|   | <u>370,772</u>        | <u>431,029</u>        |
| After one year but within five years:       |                       |                       |
| Premises                                    | 56                    | -                     |
| Time charter hire from chartered-in vessels | -                     | 104,411               |
|   | <u>56</u>             | <u>104,411</u>        |
|   | <u><u>370,828</u></u> | <u><u>535,440</u></u> |

## 36. SEGMENTAL INFORMATION

## (a) (i) Consolidated income statement by business segments – 2005

|  | <b>Chartering<br/>freight<br/>and hire</b> | <b>Trading</b>  | <b>Other<br/>operations</b> | <b>Total</b>    |
|--|--|-----------------|-----------------------------|-----------------|
|  | <i>HK\$'000</i>                            | <i>HK\$'000</i> | <i>HK\$'000</i>             | <i>HK\$'000</i> |
| <b>Turnover</b>  | 1,672,792                                  | 312,443         | –                           | 1,985,235       |
| Cancellation fee income                                  | 156,000                                    | –               | –                           | 156,000         |
| Gain on disposal of partial<br>interests in a subsidiary | –  | –               | 102,855                     | 102,855         |
| Other operating income                                   | 62,405                                     | 3,023           | 28,364                      | 93,792          |
|  | <hr/>                                      | <hr/>           | <hr/>                       | <hr/>           |
|  | 1,891,197                                  | 315,466         | 131,219                     | 2,337,882       |
| Operating expenses                                       | (1,023,927)                                | (301,841)       | (48,382)                    | (1,374,150)     |
| Depreciation and amortization                            | (87,649)                                   | (444)           | (5,979)                     | (94,072)        |
|  | <hr/>                                      | <hr/>           | <hr/>                       | <hr/>           |
| <b>Profit from operations</b>                            | 779,621                                    | 13,181          | 76,858                      | 869,660         |
| Interest income  |  |                 |                             | 13,983          |
| Interest expenses  |  |                 |                             | (40,213)        |
|  |  |                 |                             | <hr/>           |
| <b>Profit before taxation</b>                            |  |                 |                             | 843,430         |
| Taxation   |  |                 |                             | (2,474)         |
|  |  |                 |                             | <hr/>           |
| <b>Net profit for the year</b>                           |  |                 |                             | <b>840,956</b>  |
|  |  |                 |                             | <hr/> <hr/>     |
| <b>Attributable to:</b>                                  |  |                 |                             |                 |
| Shareholders of the Company                              |  |                 |                             | 526,862         |
| Minority interests                                       |  |                 |                             | 314,094         |
|  |  |                 |                             | <hr/>           |
|  |  |                 |                             | <b>840,956</b>  |
|  |  |                 |                             | <hr/> <hr/>     |



## (a) (ii) Consolidated income statement by business segments – 2004

|   | <b>Chartering<br/>freight<br/>and hire</b> | <b>Trading</b>  | <b>Other<br/>operations</b> | <b>Total</b>          |
|---|--|-----------------|-----------------------------|-----------------------|
|   | <i>HK\$'000</i>                            | <i>HK\$'000</i> | <i>HK\$'000</i>             | <i>HK\$'000</i>       |
| Turnover                                | 1,687,997                                  | 286,664         | –                           | 1,974,661             |
| Gain on disposal of<br>motor vessels    | 127,201                                    | –               | –                           | 127,201               |
| Other operating income                  | 53,619                                     | 2,709           | 48,996                      | 105,324               |
|   | <u>1,868,817</u>                           | <u>289,373</u>  | <u>48,996</u>               | <u>2,207,186</u>      |
| Losses on forward freight<br>agreements | (490,947)                                  | –               | –                           | (490,947)             |
| Operating expenses                      | (935,270)                                  | (277,072)       | (5,784)                     | (1,218,126)           |
| Depreciation and amortization           | (66,635)                                   | (546)           | (18,010)                    | (85,191)              |
|   | <u>375,965</u>                             | <u>11,755</u>   | <u>25,202</u>               | <u>412,922</u>        |
| Profit from operations                  |  |                 |                             | 412,922               |
| Interest income                         |  |                 |                             | 4,165                 |
| Interest expenses                       |  |                 |                             | (22,972)              |
|   |  |                 |                             | <u>394,115</u>        |
| Profit before taxation                  |  |                 |                             | 394,115               |
| Taxation                                |  |                 |                             | (2,608)               |
|   |  |                 |                             | <u>391,507</u>        |
| Net profit for the year                 |  |                 |                             | <u><u>391,507</u></u> |
| Attributable to:                        |  |                 |                             |                       |
| Shareholders of the Company             |  |                 |                             | 227,514               |
| Minority interests                      |  |                 |                             | 163,993               |
|   |  |                 |                             | <u><u>391,507</u></u> |

- (iii) The Group's chartering freight and hire business is carried out internationally and cannot be attributable to any particular geographical location. During the year, about 83% (2004: 90%) and 11% (2004: 7%) of the Group's trading business was carried out in Hong Kong and China respectively. The Group's other operations comprised gain on disposal of partial interests in Jinhui Shipping, as well as investment holding, property investments, equity and debt securities and foreign currency transactions which were mainly carried out in Hong Kong in both years.

## (b) (i) Consolidated balance sheet by business segments – 2005

|   | <b>Chartering<br/>freight<br/>and hire</b> | <b>Trading</b>  | <b>Other<br/>operations</b> | <b>Total</b>     |
|---|--|-----------------|-----------------------------|------------------|
|   | <i>HK\$'000</i>                            | <i>HK\$'000</i> | <i>HK\$'000</i>             | <i>HK\$'000</i>  |
| <i>Allocated assets</i>                       |  |                 |                             |                  |
| Property, plant and equipment                 | 2,218,885                                  | 459             | 99,885                      | 2,319,229        |
| Investment properties                         | –  | –               | 35,000                      | 35,000           |
| Available-for-sale financial assets           | –  | –               | 36,938                      | 36,938           |
| Other non-current assets                      | 6,653                                      | 22,174          | –                           | 28,827           |
| Current assets                                | 127,208                                    | 113,809         | 101,140                     | 342,157          |
| Total segment assets                          | 2,352,746                                  | 136,442         | 272,963                     | 2,762,151        |
| <i>Unallocated assets</i>                     |  |                 |                             |                  |
| Goodwill                                      |  |                 |                             | 39,040           |
| Pledged deposits                              |  |                 |                             | 19,610           |
| Bank balances and cash                        |  |                 |                             | 395,614          |
| Total assets                                  |  |                 |                             | <u>3,216,415</u> |
| <i>Allocated liabilities</i>                  |  |                 |                             |                  |
| Total segment liabilities                     | 1,234,952                                  | 77,351          | 66,132                      | 1,378,435        |
| Total liabilities                             |  |                 |                             | <u>1,378,435</u> |
| Capital expenditures incurred during the year | <u>1,171,968</u>                           | <u>56</u>       | <u>1,815</u>                | <u>1,173,839</u> |

## (b) (ii) Consolidated balance sheet by business segments – 2004

|   | Chartering<br>freight<br>and hire<br><i>HK\$'000</i> | Trading<br><i>HK\$'000</i> | Other<br>operations<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|--|----------------------------|--|--------------------------|
| <i>Allocated assets</i>                       |  |                            |  |                          |
| Property, plant and equipment                 | 1,134,566  | 848                        | 99,409                                 | 1,234,823                |
| Investment properties                         | –  | –                          | 24,500                                 | 24,500                   |
| Available-for-sale financial assets           | –  | –                          | 35,257                                 | 35,257                   |
| Intangible asset                              | –  | –                          | 105                                    | 105                      |
| Interests in an associate                     | –  | (25)                       | –                                      | (25)                     |
| Other non-current assets                      | 4,387  | 29,689                     | –                                      | 34,076                   |
| Current assets                                | 638,878  | 102,082                    | 24,404                                 | 765,364                  |
| Total segment assets                          | 1,777,831  | 132,594                    | 183,675                                | 2,094,100                |
| <i>Unallocated assets</i>                     |  |                            |  |                          |
| Goodwill                                      |  |                            |  | 46,348                   |
| Pledged deposits                              |  |                            |  | 23,522                   |
| Bank balances and cash                        |  |                            |  | 462,356                  |
| Total assets                                  |  |                            |  | <u>2,626,326</u>         |
| <i>Allocated liabilities</i>                  |  |                            |  |                          |
| Total segment liabilities                     | 1,386,002  | 66,430                     | 45,141                                 | 1,497,573                |
| <i>Unallocated liabilities</i>                |  |                            |  |                          |
| Secured bank overdrafts                       |  |                            |  | 9,835                    |
| Total liabilities                             |  |                            |  | <u>1,507,408</u>         |
| Capital expenditures incurred during the year | <u>184,098</u>                                       | <u>74</u>                  | <u>15,093</u>                          | <u>199,265</u>           |

- (iii) The segment assets of the Group's chartering freight and hire business cannot be attributable to any particular geographical location. Besides, around 15% (2004: 13%) of the segment assets under the other two business segments are located in China and the remaining are mainly located in Hong Kong.

## 37. RELATED PARTY TRANSACTIONS

**Group**

Save as disclosed elsewhere in these financial statements, during the year, the Group had the following related party transactions:

- (a) Key management personnel compensation to the directors of the Company and certain employees of the Group for the year are as follows:

|  | <b>2005</b>     | <b>2004</b>     |
|--|-----------------|-----------------|
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Directors' fees                              | 6,282           | 6,082           |
| Salaries and other benefits                  | 17,872          | 16,489          |
| Employee share-based payments                | 17,703          | –               |
| Contributions to retirement benefits schemes | 362             | 361             |
|  | <u>42,219</u>   | <u>22,932</u>   |

- (b) As at 31 December 2005, an amount of HK\$14,000,000 (2004: nil) due to a related company was included in trade and other payables. The amount is unsecured, interest-free and has no fixed repayment term. The company is considered as related party as it is controlled by one of the key management personnel of the Group.

**Company**

During the year, the Company had the following related party transactions:

- (a) Receipt of dividends of HK\$162,911,000 (2004: nil) from a subsidiary;
- (b) Payment of an administrative fee of HK\$2,264,000 (2004: HK\$2,095,000) to an indirect subsidiary;
- (c) Receipt of interest income of HK\$7,050,000 (2004: HK\$4,196,000) from its subsidiaries;
- (d) Payment of rental charges of HK\$1,440,000 (2004: HK\$1,440,000) to its subsidiaries;
- (e) On 23 December 2004, 63,148,200\* share options of the Company were granted to the directors, officers and employees of Jinhui Shipping and its subsidiaries at nil consideration. During the year of 2005, no share option of the Company was granted to any director, officer or employee of the Group; and

\* As a result of the Share Subdivision effective on 23 May 2005, the number of share options as shown above has been adjusted accordingly.

(f) Key management personnel compensation to the directors of the Company for the year are as follows:

|  | <b>2005</b>     | <b>2004</b>     |
|--|-----------------|-----------------|
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Directors' fees                              | 310             | 110             |
| Salaries and other benefits                  | 9,487           | 4,350           |
| Employee share-based payments                | 2,655           | –               |
| Contributions to retirement benefits schemes | 88              | 88              |
|  | <u>12,540</u>   | <u>4,548</u>    |

### 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include bank borrowings, bank balances and cash, investments in equity and debt securities, and derivative financial instruments. The main purpose of these financial instruments is to raise and maintain finance for the Group's operations. The Group also has different types of financial instruments such as trade receivables and trade payables, which arise directly from its business activities. Details of these financial instruments are disclosed in respective notes. The management manages and monitors these exposures to ensure appropriate measures are implemented on timely and effective manner.

The risks associated with these financial instruments including interest rate risk, foreign currency risk, credit risk and liquidity risk, and the policies on how to mitigate these risks are set out below.

#### Interest rate risk

The Group's exposure to changes in interest rates relates primarily to the Group's long term debt obligation. The Group's bank borrowings were all committed on floating rate basis and were denominated mainly in United States Dollars and Hong Kong Dollars. Details of maturity of bank loans are disclosed in note 28.

The Group also entered into interest rate swaps so as to mitigate the interest rate exposures. At 31 December 2005, the Group had interest rate swaps with a notional contract amount of US\$80 million. The fair value of the interest rate swaps as at 31 December 2005 was recognized in the balance sheet and, accordingly, HK\$6,008,000 was recognized as financial assets and HK\$942,000 was recognized as financial liabilities. The Group had managed the interest rate exposures by entering into interest rate swaps during June 2004 and January 2004 respectively as follows:

- US\$50 million over five years upto June 2009 through cap at 4.3% with a knock out at 6.5%; and
- US\$30 million over three years upto January 2007 through cap at 2.5% with a knock out at 4%.

#### Foreign currency risk

The Group's transactions, assets and liabilities for the year ended 31 December 2005 are mainly denominated in Hong Kong Dollars and United States Dollars. The functional currency of the Company is Hong Kong Dollars. Certain of the Company's subsidiaries report in United States Dollars, which is linked to Hong Kong Dollars at exchange rate of around US\$1.00 to HK\$7.80. The Group believes that there will be no significant fluctuation in the exchange rates between Hong Kong Dollars and United States Dollars.

In addition, the Group is exposed to foreign currency risk primarily through trading of derivative financial instruments such as forward foreign exchange contracts and options. As at 31 December 2005, the Group had forward foreign exchange contracts and options whose fair values were recognized in the balance sheet and, accordingly, HK\$1,158,000 was recognized as financial assets and HK\$11,646,000 was recognized as financial liabilities.

The Group has an outstanding capital commitment in relation to the acquisition of a newbuilding in Japanese Yen which amounted to JPY3,015,000,000 as at 31 December 2005. The Group has from time to time closely monitored the foreign currency exposures, to hedge firm commitments where appropriate and, to some extent, for investment purpose.

#### **Credit risk**

The Group's credit risk is primarily attributable to trade and other receivables arising from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation with the results that the Group thereby suffers financial loss. In order to minimize the credit risk, the Group will, wherever possible, enter into derivative financial instruments with a diversity of creditworthy counterparties. In addition, the Group has reviewed regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

Trading of investment securities and derivative financial instruments are mainly entered with counterparties with sound credit rating and the management does not expect any investment counterparty to fail to meet its obligations. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

#### **Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and other borrowings. The management regularly monitors current and expected liquidity requirements and its compliance with lending covenants, to ensure it maintains sufficient reserves of cash and bank balances, readily realizable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements.

### **39. CONTINGENT LIABILITIES**

At 31 December 2005, the Group has contingent liabilities not provided for in the financial statements in respect of a guarantee granted to a third party in its ordinary course of business amounting to HK\$78,000,000 (2004: nil).

At 31 December 2005, the Company has contingent liabilities not provided for in the financial statements in respect of guarantees to secure banking facilities granted to subsidiaries amounting to HK\$108,320,000 (2004: HK\$121,570,000), and the amount of such facilities utilized was HK\$52,161,000 (2004: HK\$64,255,000).

### **40. RETIREMENT BENEFITS SCHEMES**

The Group operates a defined contribution retirement scheme and a mandatory provident fund scheme. It is optional for all qualified employees to choose either of the schemes. The assets of the schemes are held separately from those of the Group in their respective schemes managed by an independent trustee. The pension costs charged represent contribution payable to the funds by the Group at the rates specified in the rules of the schemes.

The contributions to the defined contribution retirement scheme vest in employees according to a vesting percentage set out in the scheme. When employees leave the scheme prior to being vested fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. On the other hand, the contributions to the mandatory provident fund scheme vest immediately and fully in employees once the contributions are payable by the Group. There is no forfeited contribution when employees leave the mandatory provident fund scheme.

The Group's contributions to the retirement benefits schemes charged to the consolidated income statement during the year was HK\$1,762,000 (2004: HK\$1,539,000) net of the forfeited contributions of HK\$24,000 (2004: HK\$116,000) which arose upon employees leaving the defined contribution retirement scheme.

#### 41. POST BALANCE SHEET EVENTS

On 4 January 2006, the Group entered into two construction and sale contracts to acquire two motor vessels of deadweight 55,300 metric tons each for a total consideration of JPY6,860,000,000 which will be delivered to the Group on or before 31 March 2008 and 31 December 2008 respectively.

On 23 January 2006, the Group entered into a memorandum of agreement to acquire a motor vessel of deadweight 173,880 metric tons for a consideration of US\$60,000,000 which will be delivered to the Group sometime between mid March 2007 and mid July 2007.

On 25 March 2006, the Group entered into a provisional agreement for sale and purchase to dispose one of its investment properties with net carrying amount of HK\$25,500,000 as at disposal date for a consideration of HK\$27,126,000. The estimated completion date of the transaction will be on or before mid July 2006.

#### 42. COMPARATIVE FIGURES

Due to the adoption of HKFRSs in 2005, the accounting treatment and presentation of certain items and balances have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform to current year's presentation.

#### 43. PRINCIPAL SUBSIDIARIES

| Name   | Issued and paid-up capital                  | Attributable equity interest | Principal activities | Place of operation |
|--|---|------------------------------|----------------------|--------------------|
| <b>Incorporated in Bermuda</b>               |   |                              |                      |                    |
| Jinhui MetCoke Limited                       | 12,000 ordinary shares of US\$1 each        | 50.21%                       | Investment holding   | Worldwide          |
| # Jinhui Shipping and Transportation Limited | 84,045,341 ordinary shares of US\$0.05 each | 50.21%                       | Investment holding   | Worldwide          |

| Name  | Issued and paid-up capital     | Attributable equity interest | Principal activities                                    | Place of operation  |
|---|--------------------------------|------------------------------|---|---------------------|
| <b>Incorporated in the British Virgin Islands</b> |                                |                              |   |                     |
| Advance Rich Limited                              | 1 share of US\$1 each          | 50.21%                       | Investment  | Worldwide           |
| Jin Hui Shipping Inc.                             | 50,000 shares of US\$1 each    | 50.21%                       | Investment holding                                      | Worldwide           |
| Jinhui Investments Limited                        | 1 share of US\$1 each          | 50.21%                       | Investment holding                                      | Worldwide           |
| Jinhui Transportation Inc.                        | 1,000 shares of US\$1 each     | 50.21%                       | Investment holding                                      | Worldwide           |
| # Pantow Profits Limited                          | 60,000 shares of US\$1 each    | 100%                         | Investment holding                                      | Worldwide           |
| * Yee Lee Technology Company Limited              | 4,000,000 shares of HK\$1 each | 75%                          | Investment holding                                      | Hong Kong           |
| <b>Incorporated in Hong Kong</b>                  |                                |                              |   |                     |
| Carpa Limited                                     | 2 shares of HK\$1 each         | 100%                         | Property investment                                     | Hong Kong           |
| * Digital Sino Limited                            | 2 shares of HK\$1 each         | 75%                          | General trading   | Hong Kong           |
| Exalten Limited                                   | 2 shares of HK\$1 each         | 100%                         | Property investment                                     | Hong Kong           |
| Fair Fait International Limited                   | 2 shares of HK\$1 each         | 50.21%                       | Property investment                                     | Hong Kong           |
| Fair Group International Limited                  | 10,000 shares of HK\$1 each    | 100%                         | Property investment                                     | Hong Kong           |
| Goldbeam International Limited                    | 5,000,000 shares of HK\$1 each | 50.21%                       | Ship management services, shipping agent and investment | Hong Kong           |
| # Jinhui Investments (China) Limited              | 2 shares of HK\$1 each         | 100%                         | Investment holding                                      | Hong Kong and China |
| Keenfair Investment Limited                       | 2 shares of HK\$1 each         | 100%                         | Property investment                                     | Hong Kong           |



| <b>Name</b>                                    | <b>Issued and paid-up capital</b>   | <b>Attributable equity interest</b> | <b>Principal activities</b>                      | <b>Place of operation</b> |
|--|-------------------------------------|-------------------------------------|--|---------------------------|
| Linkford International Limited                 | 2 shares of HK\$1 each              | 100%                                | Property investment                              | Hong Kong                 |
| Monocosmic Limited                             | 10,000 shares of HK\$1 each         | 50.21%                              | Property investment                              | Hong Kong                 |
| * Yee Lee Industrial Chemical, Limited         | 50,000 shares of HK\$100 each       | 75%                                 | Trading of chemical and industrial raw materials | Hong Kong                 |
| <b>Incorporated in the Republic of Liberia</b> |                                     |                                     |  |                           |
| Galsworthy Limited                             | 1 registered share of US\$1 each    | 50.21%                              | Ship chartering                                  | Worldwide                 |
| Goldbeam Shipping Inc.                         | 100 registered shares of US\$1 each | 50.21%                              | Ship chartering                                  | Worldwide                 |
| Jinbi Shipping Ltd.                            | 1 registered share of US\$1 each    | 50.21%                              | Ship owning                                      | Worldwide                 |
| Paxton Enterprises Limited                     | 500 registered shares of US\$1 each | 50.21%                              | Ship chartering                                  | Worldwide                 |
| Sompol Trading Limited                         | 10 registered shares of US\$1 each  | 50.21%                              | Ship chartering                                  | Worldwide                 |
| Wonder Enterprises Ltd.                        | 500 registered shares of US\$1 each | 50.21%                              | Ship chartering                                  | Worldwide                 |
| <b>Incorporated in the Republic of Panama</b>  |                                     |                                     |  |                           |
| Jinan Marine Inc.                              | 2 common shares of US\$1 each       | 50.21%                              | Ship owning                                      | Worldwide                 |
| Jinda Shipping Inc.                            | 2 common shares of US\$1 each       | 50.21%                              | Ship owning                                      | Worldwide                 |
| Jinfeng Marine Inc.                            | 2 common shares of US\$1 each       | 50.21%                              | Ship owning                                      | Worldwide                 |
| Jinhai Marine Inc.                             | 2 common shares of US\$1 each       | 50.21%                              | Ship owning                                      | Worldwide                 |
| Jinhui Marine Inc.                             | 2 common shares of US\$1 each       | 50.21%                              | Ship owning                                      | Worldwide                 |

| <b>Name</b>  | <b>Issued and paid-up capital</b> | <b>Attributable equity interest</b> | <b>Principal activities</b> | <b>Place of operation</b> |
|--|-----------------------------------|-------------------------------------|-----------------------------|---------------------------|
| Jinkang Marine Inc.  | 2 common shares of US\$1 each     | 50.21%                              | Ship owning                 | Worldwide                 |
| Jinli Marine Inc.  | 2 common shares of US\$1 each     | 50.21%                              | Ship owning                 | Worldwide                 |
| Jinping Marine Inc.  | 2 common shares of US\$1 each     | 50.21%                              | Ship owning                 | Worldwide                 |
| Jinsheng Marine Inc.   | 2 common shares of US\$1 each     | 50.21%                              | Ship owning                 | Worldwide                 |
| Jinshun Shipping Inc.  | 2 common shares of US\$1 each     | 50.21%                              | Ship owning                 | Worldwide                 |
| Jinyang Marine Inc.  | 2 common shares of US\$1 each     | 50.21%                              | Ship owning                 | Worldwide                 |
| Jinzhou Marine Inc.  | 2 common shares of US\$1 each     | 50.21%                              | Ship owning                 | Worldwide                 |
| Rimpacific Navigation Inc.   | 2 common shares of US\$1 each     | 50.21%                              | Investment                  | Worldwide                 |
| <b>Incorporated in the State of Delaware, United States of America</b> |                                   |                                     |                             |                           |
| Jinhui Shipping (USA) Inc.   | 500 shares of US\$1 each          | 50.21%                              | Shipping agent              | United States of America  |

# *These are direct subsidiaries of the Company. All other companies are indirect subsidiaries.*

\* *Companies not audited by Moores Rowland Mazars.*

**(2) INDEBTEDNESS**

As at the close of business on 31 May 2006, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding bank and other borrowings amounting to approximately HK\$1,344 million. The bank and other borrowings comprised secured term loans of approximately HK\$1,261 million, secured bank overdrafts of approximately HK\$13 million, secured trust receipt and import loans of approximately HK\$53 million, and other secured loan of approximately HK\$17 million.

As at 31 May 2006, the Group's banking facilities were secured by certain of the Group's property, plant and equipment and investment properties with an aggregate net book value of approximately HK\$2,304 million, equity and debt securities and equity linked note with an aggregate market value of approximately HK\$146 million and bank deposits of the Group amounting to approximately HK\$59 million. Shares of ten ship owning companies being members of the Group, were pledged together with the assignment of chartering income of eleven ship owning companies to secure credit facilities utilized by the Group. As at 31 May 2006, the Group had contingent liabilities in respect of a bank guarantee of approximately HK\$78 million granted to a third party in its ordinary course of businesses.

As at 31 May 2006, save as aforesaid and apart from intra-group liabilities, none of the companies in the Group had any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loan or indebtedness in the nature of borrowings, debt securities or other similar indebtedness, finance leases or hire purchase commitments, or any guarantees or other material contingent liabilities.

**(3) CURRENT TRADING AND PROSPECTS**

The Group has continued to carry on the businesses of investment holding, ship chartering, ship owning, ship operating and trading during the current financial year, and the Directors expect that the Group's steady growth will be maintained.

**(4) WORKING CAPITAL**

The Directors are of the opinion that after taking into account its internal resources, the existing available banking facilities and the Acquisition, the Group has sufficient working capital for its present requirements for the next twelve-month period ending on 3 July 2007.

**(5) MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, the date to which the latest published audited financial statements of the Group were made up.

## RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are 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 he or she is taken or deemed to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

| Name               | Type of interests                         | No. of Shares | Percentage of total issued Shares |
|--------------------|---|---------------|-----------------------------------|
| Ng Siu Fai         | Personal interests (Option) <i>Note 2</i> | 31,570,000    | 5.91%                             |
|                    | Personal interests (Option) <i>Note 4</i> | 3,184,000     | 0.60%                             |
|                    | Family interests                          | 10,770,000    | 2.02%                             |
|                    | Other interests                           | <i>Note 1</i> | <i>Note 1</i>                     |
| Ng Kam Wah Thomas  | Personal interests (Option) <i>Note 2</i> | 21,050,000    | 3.94%                             |
|                    | Personal interests (Option) <i>Note 4</i> | 3,184,000     | 0.60%                             |
|                    | Other interests                           | <i>Note 1</i> | <i>Note 1</i>                     |
| Ng Ki Hung Frankie | Personal interests (Option) <i>Note 3</i> | 3,000,000     | 0.56%                             |
|                    | Personal interests (Option) <i>Note 4</i> | 3,184,000     | 0.60%                             |
|                    | Other interests                           | <i>Note 1</i> | <i>Note 1</i>                     |
| Ho Suk Lin         | Personal interests (Option) <i>Note 3</i> | 5,000,000     | 0.94%                             |
| Cui Jianhua        | Personal interests (Option) <i>Note 3</i> | 1,000,000     | 0.19%                             |
| Tsui Che Yin Frank | Personal interests (Option) <i>Note 3</i> | 1,000,000     | 0.19%                             |
| William Yau        | Personal interests (Option) <i>Note 3</i> | 500,000       | 0.09%                             |

*Note 1:* Lorimer Limited, in its capacity as trustee of the Ng Hing Po 1991 Trust, is the legal owner of the entire issued share capital of Fairline which is the legal and beneficial owner of 312,829,280 Shares (representing 58.59 per cent. of the total issued Shares). The Ng Hing Po 1991 Trust is a discretionary trust, the eligible beneficiaries of which include members of the Ng family. Both Messrs. Ng Siu Fai and Ng Kam Wah Thomas are directors of Fairline.

*Note 2:* Further details relating to the options granted to each of Mr Ng Siu Fai and Mr Ng Kam Wah Thomas are as follows:

|                                 |   |
|---------------------------------|---|
| Date of grant:                  | 23 December 2004 (approved at the extraordinary general meeting of the Company on 27 January 2005)  |
| Exercisable period:             | 31 March 2006 (the business day immediately after the day of the issue and publication of the audited consolidated results of the Group for the financial year of 2005) to 22 December 2014 |
| Consideration paid for options: | HK\$1.00  |
| Subscription price:             | HK\$1.60 per Share  |
| Other conditions:               | the Group having recorded an audited consolidated net profit of not less than HK\$400 million for the financial year of 2005 (which had been achieved)                                      |

*Note 3:* Further details relating to the options granted to each of Mr Ng Ki Hung Frankie, Ms Ho Suk Lin, Mr Cui Jianhua, Mr Tsui Che Yin Frank and Mr William Yau are as follows:

|                                 |                                      |
|---------------------------------|--------------------------------------|
| Date of grant:                  | 23 December 2004                     |
| Exercisable period:             | 23 December 2004 to 22 December 2009 |
| Consideration paid for options: | HK\$1.00                             |
| Subscription price:             | HK\$1.60 per Share                   |

*Note 4:* Further details relating to the options granted to each of Mr Ng Siu Fai, Mr Ng Kam Wah Thomas and Mr Ng Ki Hung Frankie are as follows:

|                                 |                              |
|---------------------------------|------------------------------|
| Date of grant:                  | 29 June 2006                 |
| Exercisable period:             | 29 June 2006 to 28 June 2016 |
| Consideration paid for options: | HK\$1.00                     |
| Subscription price:             | HK\$1.57 per Share           |

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests in any securities and short positions of the Company or any of its associated corporations as defined in the SFO.

- (b) As at the Latest Practicable Date, none of the Directors has any existing or proposed service contracts with any member of the Group not determinable by the Company within one year without payment of compensation (other than statutory compensation).
- (c) As at the Latest Practicable Date, none of the Directors or their respective associates has any interests in any company or business which competes or may compete with the businesses of the Group.
- (d) As at the Latest Practicable Date, none of the Directors has or has had direct or indirect material interest in any assets acquired or disposed of by or leased to or by or proposed to be acquired or disposed of by or leased to or by any member of the Group.
- (e) Save as disclosed herein, there is no contract or arrangement subsisting at the date of this circular in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

### SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to any Director or chief executive of the Company, the following persons, other than a Director or chief executive of the Company, has an interest or short position in the Shares and underlying shares of the Company 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 is, directly or indirectly, interested in 10 per cent. 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:

| Name of Shareholders | No. of Shares | No. of Shares<br>(Option) | Percentage<br>of total<br>issued Shares |
|----------------------|---------------|---------------------------|---|
| Fairline             | 312,829,280   | –                         | 58.59%                                  |
| Wong Yee Man Gloria  | 323,599,280 * | –                         | 60.61%                                  |
|                      | –             | 34,754,000 **             | 6.51%                                   |

| Name of shareholder      | No. of shares in<br>Yee Lee Technology | Percentage of<br>total issued shares in<br>Yee Lee Technology |
|--------------------------|--|---|
| Asiawide Profits Limited | 1,000,000                              | 25.00%  |

\* *The interest in Shares includes 10,770,000 Shares in which Ms Wong Yee Man Gloria is interested as a beneficial owner and 312,829,280 Shares in which she is deemed to be interested through the interest of her spouse, Mr Ng Siu Fai (as disclosed hereinabove).*

\*\* *Ms Wong Yee Man Gloria is deemed to be interested in the options to subscribe for 34,754,000 Shares held by her spouse, Mr Ng Siu Fai (as disclosed hereinabove).*

**LITIGATION**

As at the Latest Practicable Date, Goldbeam Shipping Inc. (“Goldbeam”) an approximately 50.21 per cent. owned subsidiary of the Company, is claiming around US\$769,000 and costs against a charterer of a vessel for detention of the vessel at discharge port. An arbitrator has been appointed and the arbitration proceedings in London, England are underway.

Save as disclosed herein, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries as at the Latest Practicable Date.

**MATERIAL CONTRACTS**

The following contract (not being contracts entered into in the ordinary course of business) has been entered into by a member of the Group within two years preceding the date of this circular and is or may be material:

A placing agreement entered into between the Company and Pareto Securities ASA dated 26 August 2005 for the placing of 7,900,000 shares in the share capital of Jinhui Shipping, representing approximately 9.4 per cent. of the then existing issued share capital of Jinhui Shipping.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the registered office of the Company in Hong Kong at 26th Floor, Yardley Commercial Building, 1-6 Connaught Road West, Hong Kong upto and including 19 July 2006:

- (a) Memorandum and Articles of Association of the Company;
- (b) the 2004 and 2005 annual reports of the Company for the two financial years ended 31 December 2004 and 2005 respectively;
- (c) the material contract as disclosed in this circular;
- (d) the circular issued by the Company dated 27 January 2006, in relation to a major transaction regarding the acquisition of two vessels;
- (e) the circular issued by the Company dated 16 February 2006 in relation to a major transaction regarding the acquisition of a vessel;
- (f) the circular issued by the Company dated 13 April 2006 in relation to the proposed amendments to the Articles of Association, general mandates to issue new shares and to repurchase shares, re-election of a retiring director and notice of annual general meeting;

- (g) the circular issued by the Company dated 6 May 2006 in relation to two discloseable transactions regarding the disposal of two vessels;
- (h) the circular issued by the Company dated 19 May 2006 in relation to a very substantial disposal regarding the disposal of two vessels and notice of extraordinary general meeting;
- (i) the circular issued by the Company dated 30 May 2006 in relation to a discloseable transaction regarding the disposal of a vessel; and
- (j) the written approval dated 12 June 2006 given by Fairline in relation to the Acquisition.

**GENERAL**

- (a) The secretary and the qualified accountant of the Company is Ms Ho Suk Lin, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.
- (b) The registered office of the Company is situated at 26th Floor, Yardley Commercial Building, 1-6 Connaught Road West, Hong Kong.
- (c) The principal share registrar and transfer office of the Company in Hong Kong is Standard Registrars Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.