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## **JINHUI HOLDINGS COMPANY LIMITED**

*(Incorporated in Hong Kong with limited liability)*

Stock Code: 137

### **VERY SUBSTANTIAL DISPOSAL**

### **DISPOSAL OF TWO VESSELS**

### **AND**

### **NOTICE OF EXTRAORDINARY GENERAL MEETING**

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The notice dated 19 May 2006 convening the extraordinary general meeting of Jinhui Holdings Company Limited to be held at Caine Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Monday, 5 June 2006 at 9:30 a.m. is reproduced on pages VI-1 to VI-2 of this circular for information only.

Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so desire.

19 May 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:*

“associates”	has the same meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
“Company”	Jinhui Holdings Company Limited;
“Directors”	the directors of the Company;
“Disposals”	the disposal of the First Vessel and the Second Vessel under the First Memorandum and the Second Memorandum;
“Extraordinary General Meeting” or “EGM”	an extraordinary general meeting of the Company to be convened for approving the Disposals;
“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 55.36 per cent. of the issued share capital and voting rights in general meetings of the Company as at the Latest Practicable Date;
“First Disposal”	the disposal of the First Vessel under the First Memorandum;
“First Memorandum”	the memorandum of agreement dated 25 April 2006 between the First Vendor and the First Purchaser in respect of the disposal of the First Vessel;
“First Purchaser”	Panstar Maritime Inc.;
“First Vendor”	Jinyang Marine Inc., a wholly-owned subsidiary of Jinhui Shipping;
“First Vessel”	the motor vessel “Jin Yang” registered in Hong Kong;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;

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## DEFINITIONS

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“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”	16 May 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;
“Remaining Group”	the Group immediately after the completion of the Disposals;
“Second Disposal”	the disposal of the Second Vessel under the Second Memorandum;
“Second Memorandum”	the memorandum of agreement dated 25 April 2006 between the Second Vendor and the Second Purchaser in respect of the disposal of the Second Vessel;
“Second Purchaser”	Pansolar Maritime Inc.;
“Second Vendor”	Jinsheng Marine Inc., a wholly-owned subsidiary of Jinhui Shipping;
“Second Vessel”	the motor vessel “Jin Sheng” registered in Hong Kong;
“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;
“Shareholders”	shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Vessels”	the First Vessel and the Second Vessel;
“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; and
“US\$”	United States Dollars, the lawful currency of the United States of America, and for the purpose of illustration only, translated into HK\$ at the rate of US\$1.00 = HK\$7.80.



## 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*

19 May 2006

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

Dear Sir or Madam,

### **VERY SUBSTANTIAL DISPOSAL DISPOSAL OF TWO VESSELS**

#### **INTRODUCTION**

The Directors refer to the announcement of the Company dated 27 April 2006 in relation to the Disposals of the Vessels pursuant to the First Memorandum dated 25 April 2006 entered into between the First Purchaser and the First Vendor, and the Second Memorandum dated 25 April 2006 entered into between the Second Purchaser and the Second Vendor.

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

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## LETTER FROM THE BOARD

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### THE PURCHASERS

The First Purchaser and the Second Purchaser are private shipping companies managed and operated by Magna Marine Inc. and beneficially owned by a family based in Greece. To the best of the Board's knowledge, information and belief having made all reasonable enquiry, the First Purchaser, the Second Purchaser, Magna Marine Inc. and their beneficial owners are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

### THE DISPOSALS

Under the First Memorandum, the First Vendor agrees to dispose of the First Vessel for a consideration of US\$39,100,000 (approximately HK\$304,980,000) payable by two instalments. An initial deposit of US\$3,910,000 (approximately HK\$30,498,000) was paid by the First Purchaser on 28 April 2006 to a bank account in the joint names of the First Vendor and the First Purchaser and will be released on delivery of the First Vessel (see below). The balance of the consideration for the First Vessel will be payable on the delivery of the First Vessel which will take place immediately after the completion of the prevailing voyage as at 11 June 2006, sometime between 11 June 2006 and 31 July 2006, at the First Vendor's option.

Under the Second Memorandum, the Second Vendor agrees to dispose of the Second Vessel for a consideration of US\$39,100,000 (approximately HK\$304,980,000) payable by two instalments. An initial deposit of US\$3,910,000 (approximately HK\$30,498,000) was paid by the Second Purchaser on 28 April 2006 to a bank account in the joint names of the Second Vendor and the Second Purchaser and will be released on delivery of the Second Vessel (see below). The balance of the consideration for the Second Vessel will be payable on the delivery of the Second Vessel which will take place immediately after the completion of the prevailing voyage as at 11 June 2006, sometime between 11 June 2006 and 31 July 2006, at the Second Vendor's option.

The First Memorandum and the Second Memorandum are not inter-conditional. The aggregate consideration for the Disposals is US\$78,200,000 (approximately HK\$609,960,000). The consideration for the Disposals were determined by reference to the prevailing market values, driven by supply and demand and based on arm's length negotiations with the First Purchaser and the Second Purchaser. The net book values of the First Vessel and the Second Vessel as at 31 December 2005 were approximately HK\$284,346,000 and HK\$171,365,000 respectively.

### THE VESSELS

The First Vessel is a dry bulk carrier of deadweight 76,629 metric tons, built in April 2005 and registered in Hong Kong.

The Second Vessel is a dry bulk carrier of deadweight 76,343 metric tons, built in November 2005 and registered in Hong Kong.

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## LETTER FROM THE BOARD

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Each of the First Vendor and the Second Vendor is a special purpose holding company whose only fixed asset is the First Vessel and the Second Vessel respectively. The net profit both before and after taxation and extraordinary items attributable to the First Vessel for the financial year ended 31 December 2005 is approximately HK\$23,111,000. The net loss both before and after taxation and extraordinary items attributable to the Second Vessel for the financial year ended 31 December 2005 is approximately HK\$412,000. The Vessels were purchased as newly built vessels in 2005 and were held by the Group since then, as such, financial information attributable to the Vessels for the financial year ended 31 December 2005 is being included in this circular.

The following is the income statements attributable to the Vessels for the year ended 31 December 2005 which have been prepared by the Directors based on the information shown in the underlying books and records of the Vendors and translated into Hong Kong Dollars for illustration purposes.

	<b>Year ended</b>	
	<b>31 December 2005</b>	
	<b>The First</b>	<b>The Second</b>
	<b>Vessel</b>	<b>Vessel</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Chartering hire income	42,930	3,713
Other operating income	444	13
Depreciation expenses	(7,880)	(951)
Other operating expenses	(8,869)	(2,386)
	<hr/>	<hr/>
Profit from operations	26,625	389
Net interest expenses	(3,514)	(801)
	<hr/>	<hr/>
Net profit (loss) for the year	<u>23,111</u>	<u>(412)</u>

### USE OF PAYMENT RECEIVED

The Group intends to use approximately HK\$281.4 million of the net sale proceeds received pursuant to the First Memorandum and the Second Memorandum to repay bank loans and the balance as additional working capital of the Group.

### REASONS FOR THE DISPOSALS

The Group's principal activities include international ship chartering, ship owning and trading. The Directors continuously review the prevailing market conditions of the shipping industry and monitor and adjust the Group's fleet size as appropriate. The Directors believe that, as the Vessels are Panamax vessels, the Disposals would enable the Group to concentrate on maintaining a fleet of Handymax vessels that are of a smaller size with better equipped loading facilities and the Disposals are a good opportunity to realize the book gains arising from the disposal of the Vessels, and will enable the Group to enhance its working capital position. After completion of the Disposals and the disposal of three motor vessels "Jin Da", "Jin Shun" and "Jin Bi" as announced by the Company on 13 April 2006, 21 April 2006 and 9 May 2006 respectively, the Group will own nine dry bulk vessels with further five newly built vessels and one 2004-built second hand vessel contracted for delivery in 2007 and 2008, and the Board believes that the Disposals will not have any material adverse effect on the operations of the Group.

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## LETTER FROM THE BOARD

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The terms and conditions of the First Memorandum and the Second Memorandum have been agreed on normal commercial terms following arm's length negotiations with reference to the prevailing market values. The Board considers such terms and conditions to be fair and reasonable and in the best interests of the Company and its Shareholders as a whole.

Based on the net book values of the Vessels as at 31 December 2005 as described above, the Group would realize book gains, after minority interests, of approximately HK\$5.6 million on the disposal of the First Vessel and approximately HK\$62.5 million on the disposal of the Second Vessel. However, the actual book gains which the Group would realize upon completion of the Disposals will depend on the actual book values of the Vessels as at their respective dates of delivery in accordance with the Group's depreciation policy for its vessels as shown in the Company's annual report. After the Disposals, the Group's property, plant and equipment will decrease by the book values of the Vessels, the current assets will increase by the balance of net sale proceeds received from the Disposals after repayment of bank loans of the Vessels, and the current liabilities and the non-current liabilities will decrease by the amount of vessel mortgage loans of the Vessels repayable in full.

### FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As disclosed in the Company's annual report 2005, the consolidated turnover of the Group for the year ended 31 December 2005 was HK\$1,985,235,000, representing a slight increase of 1% as compared to that of last year. The Group's net profit attributable to shareholders of the Company for the year 2005 amounted to HK\$526,862,000; representing an increase of 132% over net profit of HK\$227,514,000 for year 2004.

The Group achieved a record high annual results supported by rather strong dry bulk market conditions during the first half of the year 2005 notwithstanding a drop in freight rates during the second half, partly attributed to an exceptional cancellation fee income of approximately HK\$156,000,000 on compensation received from a counterparty on early termination of a long term time charter party, and a gain of HK\$102,855,000 on disposal of 7,900,000 shares or 9.4% interests in the share capital of a subsidiary, Jinhui Shipping; whereas the profit for year 2004 was partly offset by the losses of HK\$490,947,000 on the forward freight agreements.

As at 31 December 2005, the Group had outstanding bank borrowings of HK\$1,159,803,000 (2004: HK\$470,621,000) of which 13%, 8%, 25% and 54% are repayable respectively within one year, one to two years, two to five years and over five years. The gearing ratio, as calculated on the basis of net debts (total interest-bearing debts net of equity and debt securities, cash and cash equivalents) over total equity, was 38% as compared to nil gearing ratio as at 31 December 2004. As at 31 December 2005, the Group's motor vessels of HK\$1,996,802,000 (2004: HK\$787,485,000), leasehold land and buildings and investment properties of HK\$82,479,000 (2004: HK\$71,668,000), bank deposits of HK\$19,610,000 (2004: HK\$23,522,000) and shares of ten (2004: five) ship owning companies were pledged together with the assignment of chartering income of ten (2004: five) ship owning companies to secure credit facilities utilized by the Group.

Out of the Group's capital expenditures totalling HK\$1,173,839,000 for the year (2004: HK\$199,265,000), approximately HK\$1,171,864,000 (2004: HK\$184,087,000) was spent on the construction of the Group's newbuildings and acquisition of second hand motor vessels.



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## LETTER FROM THE BOARD

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As at 31 December 2005, there were outstanding capital 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).

As at 31 December 2005, except for guarantee amounting to HK\$78,000,000 granted by the Group to a third party in its ordinary course of businesses, the Group had no other contingent liabilities. As at 31 December 2004, the Group had no material contingent liability not provided for.

Set out in the Appendix I is the financial information of the Group for the two years ended 31 December 2004 and 2005.

The Group will continue to focus on its core business of international ship chartering, ship owning and trading, and has no present plan to diversify or invest into other business activities.

The Directors believe that upon completion of the Disposals and after taking into account the present available banking facilities and internal resources of the Group, the Group has sufficient working capital for its present requirements for at least twelve months from date of this circular.

### MANAGEMENT DISCUSSION AND ANALYSIS ON THE REMAINING GROUP

The following management discussion and analysis on the Remaining Group has been prepared for the purposes of providing Shareholders with information about the impact of the Disposals by illustrating how the disposal of the Vessels might have affected the financial information of the Group based on a number of assumptions, estimates and uncertainties as set out on pages 3 to 5 in Appendix II of this circular.

#### Business Review

##### *Chartering freight and hire*

The Remaining Group's shipping turnover for the year amounted to HK\$1,626,149,000; representing a decrease of 4% over last year. The Remaining Group's shipping business recorded an operating profit of HK\$882,352,000 for the year; representing an increase of 135% as compared to that of last year. The increase in overall net profit of shipping business was partly attributed to the improvement in average freight rates, partly attributed to an exceptional cancellation fee income of approximately HK\$156,000,000 on compensation received from a counterparty on early termination of a long term time charter party and partly attributed to a gain of HK\$129,745,000 on the disposals of the Vessels; whereas the profit for 2004 was partly offset by the losses of HK\$490,947,000 on the forward freight agreements. However, the net profit for the year was offset by the operating loss of two Capesize vessels chartered-in by the Remaining Group, comparatively lower number of available days of operations as quite a number of vessels operated by the Remaining Group were under scheduled drydocking, and off-hire for repairs, in particular, one of our owned vessels "Jin An" had been off-hire for nearly two months. On 30 June 2005, motor vessel "Jin An" touched ground near the port at Visakhapatnam, India to avoid collision and sustained various damages. The said vessel came into operation again by end of August 2005 after taking all necessary repairs and surveys.

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## LETTER FROM THE BOARD

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During the year, the Remaining Group had further committed to acquire one newbuilding and two second hand vessels. In addition, one Handymax newbuilding and two 2001-built Handymax vessels were delivered to the Group as scheduled in 2005 (excluding the Vessels).

### *Trading*

The Remaining Group operates its trading of chemical and industrial raw materials through Yee Lee Technology, a 75% owned subsidiary of the Company. The turnover for the Remaining Group's trading business was HK\$312,443,000, representing an increase of 9% as compared to that of last year. The increase in turnover was mostly a result of the increase in prices for raw materials traded by the Remaining Group, predominately copper and nickel. The business was particular strong in the fourth quarter because of shortages of supplies in certain raw materials traded by the Remaining Group. The Remaining Group's trading business recorded a profit of HK\$13,181,000, representing an increase of 12% as compared to that of last year.

### *Other operations*

The Remaining Group's other operations recorded an operating profit of HK\$76,858,000 as compared to an operating profit of HK\$25,202,000 last year. The increase in profit for other operations for the year was primarily due to a gain of HK\$102,855,000 on disposal of 9.4% interests in the share capital of Jinhui Shipping. In addition, the Remaining Group's investment in Shanxi Jinyao Coke & Chemicals Ltd. ("Shanxi Jinyao") which produces battery type of metallurgical coke in Shanxi Province of China, declared a dividend income of HK\$11,783,000 to the Remaining Group during the year. Whereas the profit for other operations in 2004 was mainly due to the reversal of impairment loss of HK\$18,907,000 on the Remaining Group's leasehold land and buildings located in Hong Kong and, however, offset by the amortization of goodwill of HK\$11,587,000.

## **Financial Review**

### *Liquidity, financial resources and capital structure*

During the year, net sale proceeds of HK\$248 million on disposal of 9.4% interests in the share capital of Jinhui Shipping and net sale proceeds of HK\$591 million on the disposal of the Vessels were received, and however, offset by cash used to partially finance the delivery of three additional vessels. The total of the Remaining Group's equity and debt securities, bank balances and cash increased to HK\$761,835,000 as at 31 December 2005 (2004: HK\$481,430,000). The Remaining Group's bank borrowings increased to HK\$869,549,000 as at 31 December 2005 (2004: HK\$470,621,000), of which 15%, 8%, 25% and 52% are repayable respectively within one year, one to two years, two to five years and over five years. The Remaining Group's gearing ratio, as calculated on the basis of net debts (total interest-bearing debts net of equity and debt securities, cash and cash equivalents) over total equity, was 5% as compared to nil gearing ratio as at 31 December 2004. All the bank borrowings were committed on floating rate basis and were denominated mainly in United States Dollars and Hong Kong Dollars. Certain interest rate swap arrangements have been in place in order to mitigate the risk associated with the increase in interest rates. With cash and marketable equity and debt securities in hand as well as available banking facilities, the Remaining Group's liquidity position remains strong and the Remaining Group has sufficient financial resources to satisfy its commitments and working capital requirements.

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## LETTER FROM THE BOARD

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### *Pledge of assets*

As at 31 December 2005, the Remaining Group's motor vessels of HK\$1,541,091,000 (2004: HK\$787,485,000), leasehold land and buildings and investment properties of HK\$82,479,000 (2004: HK\$71,668,000), bank deposits of HK\$19,610,000 (2004: HK\$23,522,000) and shares of eight (2004: five) ship owning companies were pledged together with the assignment of chartering income of eight (2004: five) ship owning companies to secure credit facilities utilized by the Remaining Group.

### *Capital expenditures and commitments*

Out of the Remaining Group's capital expenditures totalling HK\$1,173,839,000 for the year (2004: HK\$199,265,000), approximately HK\$1,171,864,000 (2004: HK\$184,087,000) was spent on the construction of the Vessels and the Remaining Group's newbuildings and acquisition of second hand motor vessels.

As at 31 December 2005, there were outstanding capital 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).

### *Contingent liabilities*

As at 31 December 2005, except for guarantee amounting to HK\$78,000,000 granted by the Remaining Group to a third party in its ordinary course of businesses, the Remaining Group had no other contingent liabilities. As at 31 December 2004, there was no material contingent liability not provided for.

### **Employees**

As at 31 December 2005, the Remaining Group had 107 full-time employees and 282 crew (2004: 106 full-time employees and 208 crew). The Remaining Group remunerates its employees in accordance with their performances, experiences and prevailing market practices and provides them with usual fringe benefits including medical insurance and contributions to provident fund. Share options and bonuses are also available to employees of the Remaining Group at the discretion of the Directors and depending upon the financial performance of the Remaining Group.

### **EXTRAORDINARY GENERAL MEETING**

Notice of the EGM is set out on pages VI-1 to VI-2 of this circular. At the EGM, the ordinary resolutions will be proposed to approve the First Disposal, the Second Disposal and the Disposals (in aggregate).

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## LETTER FROM THE BOARD

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A form of proxy for use by the Shareholders at the EGM is enclosed with this circular. Whether or not you intend to attend and vote at the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the registered office of the Company at 26th Floor, Yardley Commercial Building, 1-6 Connaught Road West, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM if you so wish.

### RECOMMENDATION

The Directors consider that the Disposals are beneficial to the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the First Disposal, the Second Disposal and the Disposals (in aggregate).

### GENERAL

Under the Listing Rules, each of the First Disposal and the Second Disposal constitutes a major transaction for the Company and is subject to shareholders' approval, furthermore, the Disposals, in aggregate, constitute a very substantial disposal for the Company and are conditional upon the passing of ordinary resolutions by Shareholders approving the Disposals in the EGM. Fairline, the controlling shareholder of the Company holding approximately 55.36 per cent. of the issued share capital of the Company and voting rights in general meeting, has given to the Company a written irrevocable approval in relation to each of the First Disposal, the Second Disposal and the Disposals (in aggregate). Fairline is not interested in the Disposals (other than through its shareholding interest in the Company).

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 annual report of the Company for the year ended 31 December 2005.*

**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 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <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)
Net assets	<u>1,837,980</u>	<u>1,118,918</u>	<u>887,832</u>
<b>EQUITY</b>			
Equity attributable to shareholders of the Company			
Issued capital	53,394	52,624	52,624
Reserves	1,058,258	667,599	440,073
	1,111,652	720,223	492,697
Minority interests	726,328	398,695	395,135
Total equity	<u>1,837,980</u>	<u>1,118,918</u>	<u>887,832</u>

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> <i>HK\$'000</i>	<b>2004</b> <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 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 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 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 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
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'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, 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 <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Reserve for available-for-sale financial assets <i>HK\$'000</i>	Employee share-based compensation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total equity <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> <i>HK\$'000</i>	<b>2004</b> <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, 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 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 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 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 HK\$'000
	HKFRS 2 HK\$'000	HKFRS 3 HK\$'000	HKAS 32 & HKAS 39 HK\$'000	
<b>Increase (Decrease) in profit</b>				
Increase in staff costs	(20,112)	–	–	(20,112)
Increase in net loss on financial assets or financial liabilities at fair value through profit or loss	–	–	(5,416)	(5,416)
Decrease in amortization	–	10,978	2,532	13,510
Decrease in gain on disposal of partial 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 <i>HK\$'000</i>
	HKFRS 2 <i>HK\$'000</i>	HKFRS 3 <i>HK\$'000</i>	HKAS 32 & HKAS 39 <i>HK\$'000</i>	
<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 and other receivables	–	–	(9,680)	(9,680)
Decrease in short-term investments	–	–	(65,201)	(65,201)
Increase in financial assets 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 fair value through profit or loss	–	–	30,323	30,323
Increase in employee share-based compensation reserve	12,671	–	–	12,671
Increase in reserve for available-for-sale 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>
<b>2004</b>				
			<b>HKAS 32</b>	<b>Total</b>
			<i>HK\$'000</i>	<i>HK\$'000</i>
<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	312,443	286,664
	<u>1,985,235</u>	<u>1,974,661</u>
<b>Other revenue</b>		
Dividend income from listed securities	823	244
Dividend income from unlisted investment	11,783	18,783
Interest income	13,983	4,165
	<u>2,011,824</u>	<u>1,997,853</u>
<b>Revenue</b>	<u>2,011,824</u>	<u>1,997,853</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	Directors' fees	Salaries, allowances and benefits	Discretionary bonus	Contributions to retirement benefits	Sub-total	Employee share-based payments	2005 Total	2004 Total
		in kind	HK\$'000	schemes		HK\$'000	HK\$'000	HK\$'000
	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> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Profit before taxation	<u>843,430</u>	<u>394,115</u>
Income tax at the rates applicable to profits 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> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Amount of consolidated net profit (loss) attributable to shareholders dealt with in the Company's financial statements	172,708	(2,446)
Dividends from a subsidiary attributable to the 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 land and buildings HK\$'000	Property under development HK\$'000	Motor vessels and improvement HK\$'000	Vessels under construction HK\$'000	Plant and machinery HK\$'000	Leasehold improvement, utility vessels, furniture and equipment HK\$'000	Total 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 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 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 land and buildings <i>HK\$'000</i>	Property under development <i>HK\$'000</i>	Motor vessels and improvement <i>HK\$'000</i>	Vessels under construction <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Leasehold improvement, utility vessels, furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Analysis of cost or valuation of property, plant 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> <i>HK\$'000</i>	<b>2004</b> <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

1313296,257351,715

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> <i>HK\$'000</i>	<b>2004</b> <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> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <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 of shares	Amount HK\$'000	Number of shares	Amount 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>1,000,000,000</b>	<b>100,000</b>	<b>100,000,000</b>	<b>100,000</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 share options from 1 January 2005 to 23 May 2005: 546,800 ordinary shares of HK\$1.00 each	546,800	547	—	—
	53,171,048	53,171	52,624,248	52,624
Share Subdivision effective 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 share options from 24 May 2005 to 31 December 2005: 2,230,000 ordinary shares of HK\$0.10 each	2,230,000	223	—	—
<b>At 31 December</b>	<b>533,940,480</b>	<b>53,394</b>	<b>52,624,248</b>	<b>52,624</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 of options granted on 23 December 2004	Value of options at grant date 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:

1. 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.

2. 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>				
<b>31 December 2005</b>	<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 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 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>	<b>497,521</b>	<b>571,729</b>

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

	Group	
	2005 <i>HK\$'000</i>	2004 <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 <i>HK\$'000</i>	2004 <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>	<b>2004</b>
	<i>HK\$'000</i>	<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>	<b>2004</b>
	<i>HK\$'000</i>	<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 freight and hire</b>	<b>Trading</b>	<b>Other 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 interests in a subsidiary	–	–	102,855	102,855
Other operating income	62,405	3,023	28,364	93,792
	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)
<b>Profit from operations</b>	779,621	13,181	76,858	869,660
Interest income				13,983
Interest expenses				(40,213)
<b>Profit before taxation</b>				843,430
Taxation				(2,474)
<b>Net profit for the year</b>				<u>840,956</u>
<b>Attributable to:</b>				
Shareholders of the Company				526,862
Minority interests				314,094
				<u>840,956</u>

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

	<b>Chartering freight and hire</b>	<b>Trading</b>	<b>Other 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 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 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 freight and hire</b>	<b>Trading</b>	<b>Other 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 freight and hire <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Total <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 March 2006, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding bank borrowings amounting to approximately HK\$1,212 million. The bank borrowings comprised secured term loans of approximately HK\$1,166 million and secured trust receipt and import loans of approximately HK\$46 million.

As at 31 March 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\$2,058 million, equity and debt securities and equity linked note with an aggregate market value of approximately HK\$49 million and bank deposits of the Group amounting to approximately HK\$111 million. Shares of ten ship owning companies being members of the Group, were pledged together with the assignment of chartering income of ten ship owning companies to secure credit facilities utilized by the Group. As at 31 March 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 March 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 Disposals, the Group has sufficient working capital for its present requirements for the next twelve-month period ending on 18 May 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.

REPORT BY AUDITORS ON THE UNAUDITED PRO FORMA NET ASSETS STATEMENT OF  
THE REMAINING GROUP

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from Moores Rowland Mazars, the reporting accountants of the Company.*

## Moores Rowland Mazars

摩斯倫 · 馬賽會計師事務所

16 May 2006

The Directors  
Jinhui Holdings Company Limited  
26th Floor  
Yardley Commercial Building  
1-6 Connaught Road West  
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Jinhui Holdings Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 3 to 5 in Appendix II to the circular of the Company to be dated 19 May 2006 in connection with the disposal of two motor vessels (the “Disposals”). The unaudited pro forma financial information has been prepared by the Company, for illustrative purposes only, to provide financial information about how the Disposals might have affected the relevant historical financial information in respect of the Group.

The historical financial information is derived from the audited historical financial information of the Group appearing elsewhere herein. The basis of preparation of the unaudited pro forma financial information is set out in the accompanying introduction and notes to the unaudited pro forma financial information of the Group immediately after the completion of the Disposals.

**Responsibilities**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with Rule 4.29(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It is our responsibility to form an opinion, as required by the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.



**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The unaudited pro forma financial information has been prepared based on the directors’ judgement and assumptions as set out on pages 3 to 5 in Appendix II for illustrative purpose only and, because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2005 or at any future date.

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated therein;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully

**Moores Rowland Mazars**

*Chartered Accountants*

*Certified Public Accountants*

Hong Kong



A member of  
Moores Rowland International  
an association of independent  
accounting firms throughout  
the world

A member firm of Mazars



M A Z A R S

## UNAUDITED PRO FORMA FINANCIAL INFORMATION

## (1) Unaudited pro forma consolidated income statement

The following is the unaudited pro forma consolidated income statement of the Remaining Group prepared to demonstrate the effect of the Disposals as if the First Disposal and the Second Disposal had been completed respectively on 26 April 2005 and 25 November 2005, the respective delivery dates of the First Vessel and the Second Vessel when they were newly built.

	<b>For the year ended 31 December 2005</b>			
	<b>Before the Disposals</b>	<b>Pro forma adjustments</b>		<b>After the Disposals</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>Note (a)</i>	<i>Note (b)</i>	
Turnover	1,985,235	(46,643)		1,938,592
Cancellation fee income	156,000			156,000
Gain on disposal of partial interests in a subsidiary	102,855			102,855
Gain on disposal of motor vessels	–		129,745	129,745
Other operating income	93,792	(457)		93,335
Shipping related expenses	(948,959)	9,071		(939,888)
Cost of trading goods sold	(276,860)			(276,860)
Depreciation and amortization	(94,072)	8,831		(85,241)
Staff costs	(66,128)			(66,128)
Other operating expenses	(82,203)	2,184		(80,019)
Profit from operations	869,660			972,391
Interest income	13,983	(55)		13,928
Interest expenses	(40,213)	4,370		(35,843)
Profit before taxation	843,430			950,476
Taxation	(2,474)			(2,474)
Net profit for the year	<u>840,956</u>			<u>948,002</u>
Attributable to:				
Shareholders of the Company	526,862	(12,483)	65,641	580,020
Minority interests	314,094	(10,216)	64,104	367,982
	<u>840,956</u>			<u>948,002</u>

## (2) Unaudited pro forma net assets statement

The following is the unaudited pro forma net assets statement of the Remaining Group prepared to demonstrate the effect of the Disposals as if the Disposals had been completed as at 31 December 2005.

	As at 31 December 2005			
	Before the Disposals <i>HK\$'000</i>	Pro forma adjustments <i>HK\$'000</i> <i>HK\$'000</i> <i>Note (c)</i> <i>Note (d)</i>		After the Disposals <i>HK\$'000</i>
Non-current assets				
Property, plant and equipment	2,319,229	(455,711)		1,863,518
Investment properties	35,000			35,000
Goodwill	39,040			39,040
Available-for-sale financial assets	36,938			36,938
Other non-current assets	28,827			28,827
	<u>2,459,034</u>			<u>2,003,323</u>
Current assets				
Inventories	16,649			16,649
Trade and other receivables	225,720			225,720
Financial assets at fair value				
through profit or loss	99,788			99,788
Pledged deposits	19,610			19,610
Bank balances and cash	395,614		301,020	696,634
	<u>757,381</u>			<u>1,058,401</u>
Current liabilities				
Trade and other payables	185,031			185,031
Financial liabilities at fair value				
through profit or loss	30,323			30,323
Taxation	3,278			3,278
Secured bank loans	154,598		(22,043)	132,555
	<u>373,230</u>			<u>351,187</u>
Non-current liabilities				
Secured bank loans	1,005,205		(268,211)	736,994
Net assets	<u>1,837,980</u>			<u>1,973,543</u>

**(3) Notes to the unaudited pro forma financial information****(i) Purpose of the financial information and basis of preparation**

The unaudited pro forma financial information of the Remaining Group has been prepared for the purposes of providing Shareholders with information about the impact of the Disposals by illustrating how the disposal of the Vessels might have affected the financial position of the Group as at 31 December 2005.

The unaudited pro forma financial information of the Remaining Group is based on the audited consolidated financial statements of the Group as at 31 December 2005, which has been extracted from the annual report of the Company for the year ended 31 December 2005, incorporating the pro forma adjustments described in notes (ii) below.

The unaudited pro forma financial information of the Remaining Group is based on a number of assumptions, estimates and uncertainties. Accordingly, the information does not purport to describe the actual financial position of the Remaining Group that would have been attained had the Disposals been completed on the dates specified in note (ii) below. Neither does the statement purport to predict the future financial position of the Remaining Group after the Disposals.

The unaudited pro forma financial information of the Remaining Group has been prepared in a manner consistent with both the format and accounting policies adopted by the Group in its audited consolidated financial statements for the year ended 31 December 2005.

**(ii) Notes to the pro forma adjustments**

- (a) The adjustments reflect the exclusion of the financial results attributable to the Vessels during the year 2005.
- (b) The adjustments reflect the net gain on the Disposals, being the cash consideration of the Disposals over the acquisition costs of the Vessels and after deducting the estimated expenses, assuming that the First Disposal and the Second Disposal had been taken place respectively on 26 April 2005 and 25 November 2005, the respective delivery dates of the First Vessel and the Second Vessel when they were newly built.
- (c) The adjustment reflects the decrease in property, plant and equipment for the total net book values for the Vessels of approximately HK\$455,711,000 as at 31 December 2005.
- (d) It is assumed that the cash consideration of US\$78,200,000 (approximately HK\$609,960,000) will be used to repay bank loans of the Vessels for an amount of HK\$290,254,000 in full with the balance, after deducting estimated expenses, of HK\$301,020,000 as additional working capital.

*The following is the text of valuation report prepared for the purpose of incorporation in this circular received from Project Marine And Shipping Limited, an independent valuer, in connection with their valuation of the Vessels as at 25 April 2006.*

#### VALUATION CERTIFICATE

Vessel's Name : M.V. JIN YANG  
Flag : Hong Kong  
Classed : NK  
Type : Bulkcarrier  
Built by : Imabari Shipbuilding Co., Ltd., Japan in 2005  
DWT / Draft : 76,629mt on 14.139m  
LOA / Beam : 224.94m / 32.26m  
Cargo Capacity : 90,740.35 CBM Grain  
Main Engine : B&W 6S60MC (Mark-VI) 10,320KW  
Generators : 3 x Yanmar  
Other Characteristics : Gearless  
Remarks : -

Estimated Value : US\$39,100,000.00 (United States Dollars Thirty-Nine Million One Hundred Thousand Only) as at 25th April 2006.

For the purpose of making this valuation:-

- a) We have assumed that above information is true and accurate in every respect.
- b) We have assumed that the vessel has been maintained in accordance with good commercial practice, that it is in good working order and sound seaworthy condition as regards hull and machinery as can be expected for a vessel of this age, size and classification, and that it is free from all Classification Society recommendations and freely transferable.
- c) We have not inspected the vessel and have relied solely on the above information which has been supplied to us. This valuation is therefore not a representation of fact or of the correctness of the above information or any other information available to us and no representation or warranties as the correctness of the information are made or implied by the giving of this valuation which is a statement of our opinion only.
- d) This valuation is expressed solely to and is for the benefit solely of the person instructing us. No other party is entitled to rely on the contents hereof nor is it to be quoted or referred to in any document or filed with any government agency or other person without the written consent of Project Marine And Shipping Limited.

For and on behalf of  
**Project Marine And Shipping Limited**

**Lee Man Sang Paul**  
*Director*  
16th May 2006

## VALUATION CERTIFICATE

Vessel's Name	:	M.V. JIN SHENG
Flag	:	Hong Kong
Classed	:	NK
Type	:	Bulkcarrier
Built by	:	Tsuneishi Corporation, Japan in 2005
DWT / Draft	:	76,343mt on 14.028m
LOA / Beam	:	225m / 32.26m
Cargo Capacity	:	91,356.6 CBM Grain
Main Engine	:	B&W 7S50MC 9,350KW
Generators	:	3 x Daihatsu
Other Characteristics	:	Gearless
Remarks	:	-
Estimated Value	:	US\$39,100,000.00 (United States Dollars Thirty-Nine Million One Hundred Thousand Only) as at 25th April 2006.

For the purpose of making this valuation:-

- a) We have assumed that above information is true and accurate in every respect.
- b) We have assumed that the vessel has been maintained in accordance with good commercial practice, that it is in good working order and sound seaworthy condition as regards hull and machinery as can be expected for a vessel of this age, size and classification, and that it is free from all Classification Society recommendations and freely transferable.
- c) We have not inspected the vessel and have relied solely on the above information which has been supplied to us. This valuation is therefore not a representation of fact or of the correctness of the above information or any other information available to us and no representation or warranties as the correctness of the information are made or implied by the giving of this valuation which is a statement of our opinion only.
- d) This valuation is expressed solely to and is for the benefit solely of the person instructing us. No other party is entitled to rely on the contents hereof nor is it to be quoted or referred to in any document or filed with any government agency or other person without the written consent of Project Marine And Shipping Limited.

For and on behalf of  
**Project Marine And Shipping Limited**

**Lee Man Sang Paul**  
*Director*  
16th May 2006

**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:

<b>Name</b>	<b>Type of interests</b>	<b>No. of Shares</b>	<b>Percentage of total issued Shares</b>
Ng Siu Fai	Personal interests (Option) <i>Note 2</i>	31,570,000	5.91%
	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%
	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%
	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 295,607,280 Shares (representing 55.36 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

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 or the experts named in this circular 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 (Option)	Percentage of total issued Shares
Fairline	295,607,280	–	55.36%
Wong Yee Man Gloria	306,377,280 *	–	57.38%
	–	31,570,000 **	5.91%

Name of shareholder	No. of shares in Yee Lee Technology	Percentage of total issued shares in 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 295,607,280 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 31,570,000 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 the members 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.

**EXPERTS**

This circular includes statements made by experts, namely, Project Marine And Shipping Limited and Moores Rowland Mazars, a firm of Chartered Accountants and Certified Public Accountants. Project Marine And Shipping Limited offers ship valuation service which they have been providing for more than three years, for ship owners and banks. Project Marine And Shipping Limited also offers detailed historical research, analysis on newbuilding and second hand prices as well as providing data and information services to clients.

Project Marine And Shipping Limited does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for securities in any member of the Group. Project Marine And Shipping Limited has given and has not withdrawn its written consent to the issue of this circular with the expert's statement included in the form and context in which it is included.

Moores Rowland Mazars does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for securities in any member of the Group. Moores Rowland Mazars has given and has not withdrawn its written consent to the issue of this circular with the expert's statement included in the form and context in which it is included.

**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 up to and including 5 June 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 written approval dated 26 April 2006 given by Fairline in relation to the First Disposal, the Second Disposal and the Disposals (in aggregate); and
- (i) all reports, letters or documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this circular.

**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.

1. Subject to the provisions of the Companies Ordinance, a poll may be demanded:
  - (a) by the chairman;
  - (b) by not less than five members having the right to vote at the meeting;
  - (c) by a member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
  - (d) by a member or members holding shares conferring a right to vote on the resolution on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.
2. The demand for a poll may, before the poll is taken, be withdrawn but only with the consent of the chairman, and a demand so withdrawn shall not be taken to have invalidated the result of a show of hands declared before the demand was made.
3. A poll shall be taken as the chairman directs, and he may appoint scrutineers (who need not be members) and fix a time and place for declaring the result of the poll. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.
4. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman shall be entitled to a casting vote in addition to any other vote he may have.
5. A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either forthwith or at such time and place as the chairman directs, not being more than thirty days after the poll is demanded. The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which the poll was demanded. If a poll is demanded before the declaration of the result of a show of hands and the demand is duly withdrawn, the meeting shall continue as if the demand had not been made.
6. No notice need be given of a poll not taken forthwith if the time and place at which it is to be taken are announced at the meeting in respect of which it is demanded. In any other case, at least seven clear days' notice shall be given specifying the time and place at which the poll is to be taken.

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# NOTICE OF EXTRAORDINARY GENERAL MEETING

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## JINHUI HOLDINGS COMPANY LIMITED

*(Incorporated in Hong Kong with limited liability)*

Stock Code: 137

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Jinhui Holdings Company Limited (the “Company”) will be held at Caine Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Monday, 5 June 2006 at 9:30 a.m. for the following purposes of considering and, if thought fit, to pass, with or without amendments, the following resolutions as Ordinary Resolutions:

### ORDINARY RESOLUTIONS

1. **“THAT** the disposal of the motor vessel “Jin Yang” (the “First Disposal”) be and is hereby approved and any of the board of directors (the “Director(s)”) of the Company be and is hereby authorized to do all things and execute all documents in connection with or incidental to the First Disposal.”
2. **“THAT** the disposal of the motor vessel “Jin Sheng” (the “Second Disposal”) be and is hereby approved and any of the Directors be and is hereby authorized to do all things and execute all documents in connection with or incidental to the Second Disposal.”
3. **“THAT** subject to the approval of the ordinary resolutions numbered (1) and (2) above, the First Disposal and the Second Disposal, in aggregate, be and are hereby approved and any of the Directors be and is hereby authorized to do all things and execute all documents in connection with or incidental to the First Disposal and the Second Disposal.”

By Order of the Board  
**Ho Suk Lin**  
*Company Secretary*

Hong Kong, 19 May 2006

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and vote instead of him/her. A proxy need not be a member of the Company.
2. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notorially certified copy of that power or authority, must be lodged at the registered office of the Company at 26th Floor, Yardley Commercial Building, 1-6 Connaught Road West, Hong Kong not less than 48 hours before the time appointed for holding the above meeting and any adjourned meeting.
3. The register of members of the Company will be closed from 30 May 2006 to 5 June 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for voting at the meeting, shareholders should ensure that they are registered as members of the Company on 29 May 2006.