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

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

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**JINHUI HOLDINGS COMPANY LIMITED**

*(Incorporated in Hong Kong with limited liability)*

Stock Code: 137

**MAJOR TRANSACTION**

**ACQUISITION OF TWO VESSELS**

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## DEFINITIONS

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

|                       |   |
|-----------------------|---|
| “Acquisition”         | the First Acquisition and the Second Acquisition, collectively;   |
| “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;   |
| “Fairline”            | Fairline Consultants Limited, a limited liability company incorporated in the British Virgin Islands, which is the controlling shareholder of the Company holding approximately 59.63 per cent. of the issued share capital and voting rights in general meetings of the Company as at the Latest Practicable Date; |
| “First Acquisition”   | the acquisition of the First Vessel under the First Memorandum;   |
| “First Memorandum”    | the memorandum of agreement dated 22 February 2005 between Jinzhou Marine and the First Vendor in respect of the acquisition of the First Vessel;   |
| “First Vendor”        | Progreso Dos Navigation Ltd., a ship owning company incorporated in Malta;  |
| “First Vessel”        | a deadweight 50,209 metric tons bulk carrier named “Progreso Dos” built in 2001 by Mitsui Engineering & Shipbuilding Co. Ltd., Chiba, Japan;  |
| “Group”               | the Company and its subsidiaries;   |
| “HK\$”                | Hong Kong dollars, the lawful currency of Hong Kong;  |
| “Hong Kong”           | Hong Kong Special Administrative Region of the People’s Republic of China;  |
| “Jinhui Shipping”     | Jinhui Shipping and Transportation Limited, a company incorporated in Bermuda and an approximately 59.61 per cent. owned subsidiary of the Company as at the Latest Practicable Date whose shares are listed on the Oslo Stock Exchange, Norway;  |

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## DEFINITIONS

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|                           |  |
|---------------------------|--|
| “Jinkang Marine”          | Jinkang Marine Inc., a wholly owned subsidiary of Jinhui Shipping;   |
| “Jinzhou Marine”          | Jinzhou Marine Inc., a wholly owned subsidiary of Jinhui Shipping;   |
| “Latest Practicable Date” | 29 March 2005, 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;   |
| “Memoranda”               | the First Memorandum and the Second Memorandum, collectively;  |
| “Second Acquisition”      | the acquisition of the Second Vessel under the Second Memorandum;  |
| “Second Memorandum”       | the memorandum of agreement dated 22 February 2005 between Jinkang Marine and the Second Vendor in respect of the acquisition of the Second Vessel;                            |
| “Second Vendor”           | Futuro Dos Navigation Ltd., a ship owning company incorporated in Malta;   |
| “Second Vessel”           | a deadweight 50,212 metric tons bulk carrier named “Futuro Dos” built in 2001 by Mitsui Engineering & Shipbuilding Co. Ltd., Chiba, Japan;                                     |
| “SFO”                     | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);   |
| “Share(s)”                | ordinary share(s) of HK\$1.00 each in the share capital of the Company;  |
| “Shareholder(s)”          | holder(s) of Share(s);   |
| “Stock Exchange”          | The Stock Exchange of Hong Kong Limited;   |
| “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; |
| “Vendors”                 | the First Vendor and the Second Vendor, collectively; and  |
| “Vessels”                 | the First Vessel and the Second Vessel, collectively.  |

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## LETTER FROM THE BOARD

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### **JINHUI HOLDINGS COMPANY LIMITED**

*(Incorporated in Hong Kong with limited liability)*

Stock Code: 137

*Directors:*

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

*Registered office:*

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

\* *Non-executive director*

\*\* *Independent non-executive director*

31 March 2005

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

Dear Sir or Madam,

### **MAJOR TRANSACTION REGARDING THE ACQUISITION OF TWO VESSELS**

#### **INTRODUCTION**

The Directors refer to the announcement of the Company dated 23 February 2005 in relation to the Acquisition of two vessels pursuant to the two Memoranda dated 22 February 2005 entered into by Jinchou Marine and the First Vendor, and Jinkang Marine and the Second Vendor, respectively.

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

Both the First Vendor and the Second Vendor are independent ship owning companies incorporated in Malta, and to the best of the Board's knowledge, information and belief having made all reasonable enquiry, the First Vendor, the Second Vendor and their respective ultimate beneficial owners are independent third parties not connected with the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates (as defined in the Listing Rules).

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## LETTER FROM THE BOARD

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### THE ACQUISITION

The consideration for the First Acquisition of the First Vessel is US\$34,000,000 (equivalent to HK\$265,200,000). After the signing of the First Memorandum, a deposit of US\$3,400,000 was paid by Jinzhou Marine into a bank account in the joint names of Jinzhou Marine and the First Vendor and will be released to the First Vendor on the delivery of the First Vessel. The balance of the consideration for the First Vessel will be payable on the delivery of the First Vessel which will take place sometime between 1 April 2005 and 2 May 2005 at the First Vendor's option.

The consideration for the Second Acquisition of the Second Vessel is US\$34,000,000 (equivalent to HK\$265,200,000). After the signing of the Second Memorandum, a deposit of US\$3,400,000 was paid by Jinkang Marine into a bank account in the joint names of Jinkang Marine and the Second Vendor and will be released to the Second Vendor on the delivery of the Second Vessel. The balance of the consideration for the Second Vessel will be payable on the delivery of the Second Vessel which will take place sometime between 1 June 2005 and 30 June 2005 at the Second Vendor's option.

The purchase price for the Vessels will be payable in United States Dollars. It is expected that the purchase price will be funded as to US\$40,800,000 (equivalent to HK\$318,240,000) by bank financing and as to the balance of US\$27,200,000 (equivalent to HK\$212,160,000) by the internal resources of Jinhui Shipping and its subsidiaries. The purchase price was determined by reference to the prevailing market values, as ascertained from independent sources including (but not limited to) industry reports and recent comparable transactions, at or about the time of entry into the two Memoranda, driven by supply and demand and based on arm's length negotiations with the First Vendor and the Second Vendor. The Directors are of the view that the purchase price for each of the Vessels is fair and reasonable.

The two Memoranda provides that the expected time for delivery of the First Vessel and the Second Vessel will take place on or before 2 May 2005 and 30 June 2005, respectively. Subject to the terms of the Memoranda, if there is a delay in the delivery of the Vessels, Jinzhou Marine and Jinkang Marine may at their option rescind the First Memorandum and the Second Memorandum (as the case may be) and the full amount of all sums paid by Jinzhou Marine and Jinkang Marine shall be returned to Jinzhou Marine and Jinkang Marine (as the case may be).

Following the completion of the Acquisition, it is expected that the revenue to be generated by the two Vessels will make a positive contribution to the earnings of the Group, the two Vessels will be treated as assets and the bank loans for the Acquisition will be treated as liabilities thereby increasing the carrying amounts for the assets and liabilities of the Group respectively.

### GUARANTEE

Jinhui Shipping, the intermediate holding company of Jinzhou Marine and Jinkang Marine, will guarantee the performance of the obligations of Jinzhou Marine and Jinkang Marine under the First Memorandum and the Second Memorandum in favour of the First Vendor and the Second Vendor, respectively.

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## LETTER FROM THE BOARD

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### REASONS FOR THE ACQUISITION

The principal businesses of the Group 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 are of the view that given the healthy outlook in the shipping industry, it is a good opportunity to acquire the additional Vessels. The Group currently owns nine dry bulk vessels. After the Acquisition, the Group will have an additional two dry bulk vessels, with five newly built dry bulk vessels for delivery going forward and two of which will be delivered in 2005, one in 2006 and another two in 2007. The Group believes the freight rates will remain robust and decides to acquire two more motor vessels to expand its fleet of owned vessels instead of charter-in vessels in order to generate more operating income and to maximize the returns for the Group in the future.

The negotiations for the Acquisition between the Group and the respective Vendors began in mid February 2005. The terms and conditions of the Memoranda have been agreed on normal commercial terms following arm's length negotiations. The Board considers the terms of the Acquisition to be fair and reasonable and in the best interests of the Company and its shareholders as a whole.

### GENERAL

Under the Listing Rules, the Acquisition constitutes a major transaction for the Company and is subject to shareholders' approval by a majority vote in accordance with the Listing Rules. No shareholder is required to abstain from voting on the Acquisition and, in lieu of holding a general meeting for the approval of the Acquisition, Fairline, which holds approximately 59.63 per cent. of the issued share capital of the Company and voting rights in general meeting as at the Latest Practicable Date, has given a written shareholders approval for the Acquisition.

### CERTAIN INFORMATION REQUIRED UNDER THE LISTING RULES

According to Rule 14.67(4)(b)(i) of the Listing Rules, the Company is required to include in this circular, amongst other things, a profit and loss statement for the three preceding years (or less, if the Vessels have been held by the Vendors for a shorter period) on the identifiable net income stream in relation to the two Vessels, which must be reviewed by the Company's auditors or reporting accountants to ensure that such information has been properly compiled and derived from the underlying books and records.

Each of the Vendors is a private company incorporated and based outside of Hong Kong. As such, financial information relating to the Vendors in respect of the two Vessels are not publicly available. In addition, it is common industry practice within the shipping industry that sales and purchases of vessels in the nature of the Acquisition are conducted through shipbrokers, and hence, all dealings between the Group and the Vendors have been made through Arrow Asia Shipbrokers Limited, the Company's shipbroker for the Acquisition. Furthermore, the primary concern of a company as a purchaser of a second hand vessel free from any ongoing charter arrangements is the physical condition of the vessel rather than the historical revenue characteristics of the vessel, therefore, it is not common practice within the shipping industry for vendors of second hand vessels to provide the historical revenue information of the vessels

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## LETTER FROM THE BOARD

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for sale. Despite repeated requests made by the Group, through Arrow Asia Shipbrokers Limited, to the Vendors for the relevant financial information relating to the Vessels as required under Rule 14.67(4)(b)(i) of the Listing Rules as referred to above, the Vendors have not agreed to provide such information due to confidentiality reasons. The Company is therefore unable to include such information in this circular.

The Company has applied to the Stock Exchange for a waiver from the strict compliance with the disclosure requirements under Rule 14.67(4)(b)(i) of the Listing Rules mentioned above, and as an alternative, the following is hereby disclosed:

*I The theoretical gross revenue which the Vessels may potentially have generated for the three financial years ended 31 December 2004*

|               | 2004     | 2003     | 2002     |
|---------------|----------|----------|----------|
|               | US\$'000 | US\$'000 | US\$'000 |
| First Vessel  | 9,563    | 4,891    | 2,920    |
| Second Vessel | 9,563    | 4,891    | 2,920    |

The above theoretical gross revenue figures have been calculated based on the prevailing average twelve month period time charter rates for Handymax during the relevant three year period as published in publicly available reports issued by R.S. Platou Shipbrokers a.s.

Handymax is a type of dry bulk vessel with deadweight tonnage ranging between 40,000 to 59,999, and is the tonnage class of the First Vessel and the Second Vessel.

A twelve month period time charter is a contract for the leasing of a vessel for a period of twelve months between an owner of a vessel and a charterer. The average twelve month period time charter rates are based on the average market rates for a twelve month period time charter arrangement and the annual average rates were derived by multiplying the average market daily rates for a twelve month period time charter by 365 days in a year. The average market daily rates for a twelve month period time charter were compiled by R.S Platou Shipbrokers a.s based on historical reported time charter rates in the market. R.S. Platou Shipbrokers a.s is an international shipbroking company established in 1936, and serves the shipping and offshore industry world-wide by providing services such as chartering, sale and purchase and contracting of ships and offshore units.

The theoretical gross revenue figures do not take into account any operating costs associated with the Vessels, including fuel, maintenance, depreciation and any other costs.

**The above figures have been included for reference purposes only. The figures do not in any way whatsoever indicate or suggest that the Vessels had generated or could necessarily have generated such revenue in the three preceding years or whilst under the ownership and management of the Vendors. Neither do such revenue figures indicate or suggest the level of revenue which the Vessels will generate in the future whilst under the ownership and management of the Company. The above figures are market average figures only and do not in any way attribute to the two Vessels whether in respect of the historical revenue for the two Vessels or expected revenue for the two Vessels.**



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## LETTER FROM THE BOARD

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### II *The theoretical income statement for the two Vessels for the year ended 31 December 2004*

The theoretical income statement for the two Vessels for the year ended 31 December 2004 have been derived from the theoretical gross revenue (as extracted from the above section “*I The theoretical gross revenue which the Vessels may potentially have generated for the three financial years ended 31 December 2004*”) and the theoretical expenses which may have incurred in connection with the two Vessels for the year ended 31 December 2004 and is as follows:

|  | <i>Notes</i> | <i>US\$'000</i>             |
|--|--------------|-----------------------------|
| Turnover                                     | <i>1</i>     | 19,126                      |
| Operating expenses excluding depreciation    | <i>2</i>     | (3,486)                     |
| Depreciation                                 | <i>3</i>     | <u>(2,743)</u>              |
| Profit from operations                       |              | 12,897                      |
| Net interest expenses                        | <i>4</i>     | <u>(1,317)</u>              |
| Profit before taxation                       |              | 11,580                      |
| Taxation                                     |              | <u>–</u>                    |
| <b>Theoretical net profit after taxation</b> |              | <b><u><u>11,580</u></u></b> |

*Notes:*

The above has been arrived at on the following basis:

1. The theoretical turnover has been calculated based on the average 12-month period time charter rate for year 2004 as set out in the above section under “*I The theoretical gross revenue which the Vessels may potentially have generated for the three financial years ended 31 December 2004*”.
2. The theoretical operating expenses have been calculated based on the expenses of similar type of vessels within the Group.
3. Theoretical depreciation of the Vessels has been calculated according to the accounting policies adopted by the Group for the year ended 31 December 2004.
4. On the basis that the Acquisition would be funded as to US\$40,800,000 by bank financing and as to the balance of US\$27,200,000 from the Group’s internal resources on 1 January 2004, the net interest expenses for year 2004 represents the interest expenses on the bank loan and interest income forfeited on the part of internal resources, both calculated at prevailing market rates on normal commercial terms.
5. Transaction costs which are insignificant have not been accounted for.

The above information was also disclosed as part of the additional information regarding the Acquisition by Jinhui Shipping released on 15 March 2005 through the Oslo Stock Exchange in accordance with the regulations of the Oslo Stock Exchange and by the Company in the announcement dated 15 March 2005.

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## LETTER FROM THE BOARD

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**The above figures have been included for reference purposes only. The figures do not in any way whatsoever indicate or suggest that the Vessels had generated or could necessarily have generated such profits in the preceding year or whilst under the ownership and management of the Vendors. Neither do such profit figures indicate or suggest the level of profit which the Vessels will generate in the future whilst under the ownership and management of the Company. The above figures are estimated only and do not in any way attribute to the two Vessels whether in respect of the historical profit for the two Vessels or expected profit for the two Vessels.**

*III The theoretical operating expenses other than depreciation and interest expenses which may have been incurred in connection with each of the Vessels for the year ended 31 December 2002 and 2003*

As the prices of the dry bulk vessels have appreciated significantly over the past few years, with a sharp increase over 2003 and 2004, the finance costs for the acquisition of a vessel in 2005 are significantly higher than the finance costs for the acquisition of a vessel in 2002 and 2003 and the corresponding depreciation rate for a vessel acquired in 2005 are significantly higher than the depreciation rates for vessels acquired in 2002 and 2003, therefore, the Company is not in a position to estimate the theoretical depreciation and interest expenses for the Vessels for the two financial years ended 31 December 2003. The theoretical operating expenses other than depreciation and interest expenses have been calculated based on the expenses of similar type of vessels within the Group. The theoretical operating expenses other than depreciation and interest expenses which may have been incurred in connection with each of the Vessels for the year ended 31 December 2002 and 2003 would be US\$1,175,000 and US\$1,404,000, respectively.

**The above figures have been included for reference purposes only. The figures do not in any way whatsoever indicate or suggest that the Vessels had incurred or will incur such expenses in the three preceding years or whilst under the ownership and management of the Vendors. Neither do such expenses figures indicate or suggest the level of expenses which the Vessels will incur in the future whilst under the ownership and management of the Company. The above figures are estimated figures only and do not in any way attribute to the two Vessels whether in respect of the historical expenses for the two Vessels or expected expenses for the two Vessels.**

Your attention is drawn to the appendices to this circular.

Yours faithfully,  
By Order of the Board  
**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 2004 as extracted from the annual report of the Company for the year ended 31 December 2004.*

**Consolidated Income Statements**

|  | <b>Year ended 31 December</b>  |                                |                                |
|--|--------------------------------|--------------------------------|--------------------------------|
|  | <b>2004</b><br><i>HK\$'000</i> | <b>2003</b><br><i>HK\$'000</i> | <b>2002</b><br><i>HK\$'000</i> |
| Turnover   | <u>1,974,661</u>               | <u>1,048,515</u>               | <u>756,179</u>                 |
| Profit (Loss) from operations                            | 412,922                        | 98,745                         | (89,290)                       |
| Interest income  | 4,165                          | 4,279                          | 6,113                          |
| Interest expenses  | <u>(22,972)</u>                | <u>(20,947)</u>                | <u>(22,250)</u>                |
| Profit (Loss) before taxation                            | 394,115                        | 82,077                         | (105,427)                      |
| Taxation   | <u>(2,608)</u>                 | <u>(64)</u>                    | <u>(667)</u>                   |
| Profit (Loss) from ordinary activities<br>after taxation | 391,507                        | 82,013                         | (106,094)                      |
| Minority interests                                       | <u>(163,993)</u>               | <u>(45,337)</u>                | <u>43,755</u>                  |
| Net profit (loss) for the year                           | <u>227,514</u>                 | <u>36,676</u>                  | <u>(62,339)</u>                |
| Dividends per share                                      | <u>HK\$1.20</u>                | <u>–</u>                       | <u>–</u>                       |
| Basic earnings (loss) per share                          | <u>HK\$4.32</u>                | <u>HK\$0.70</u>                | <u>(HK\$1.18)</u>              |

## Consolidated Balance Sheet

|                          | At 31 December          |                         |                         |
|--------------------------|-------------------------|-------------------------|-------------------------|
|                          | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i> |
| Fixed assets             | 1,259,323               | 1,430,045               | 1,387,830               |
| Intangible asset         | 46,453                  | 119                     | 134                     |
| Interests in associates  | (25)                    | (27)                    | (28)                    |
| Other investments        | 35,257                  | 37,789                  | 40,320                  |
| Other non-current assets | 34,076                  | 21,549                  | 26,188                  |
| Current assets           | 746,066                 | 346,086                 | 272,794                 |
| Current liabilities      | (587,360)               | (303,838)               | (240,180)               |
| Non-current liabilities  | (414,872)               | (643,891)               | (690,665)               |
| Minority interests       | (398,695)               | (395,135)               | (349,218)               |
|                          | <u>720,223</u>          | <u>492,697</u>          | <u>447,175</u>          |
| Net assets               |                         |                         |                         |
|                          | <u>720,223</u>          | <u>492,697</u>          | <u>447,175</u>          |
| Issued capital           | 52,624                  | 52,624                  | 52,624                  |
| Reserves                 | 667,599                 | 440,073                 | 394,551                 |
|                          | <u>720,223</u>          | <u>492,697</u>          | <u>447,175</u>          |
| Shareholders' equity     |                         |                         |                         |
|                          | <u>720,223</u>          | <u>492,697</u>          | <u>447,175</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 2004, together with accompanying notes.

### Consolidated Income Statement

Year ended 31 December 2004

|  | <i>Note</i> | <b>2004</b><br><i>HK\$'000</i> | <b>2003</b><br><i>HK\$'000</i> |
|--|-------------|--------------------------------|--------------------------------|
| <b>Turnover</b>  | 3           | 1,974,661                      | 1,048,515                      |
| Other operating income                                       |             | 99,353                         | 56,251                         |
| Gain on disposal of motor vessels                            |             | 127,201                        | –                              |
| Reversal of impairment loss of motor vessels                 |             | –                              | 104,276                        |
| Voyage related expenses                                      |             | (877,600)                      | (727,327)                      |
| Losses on forward freight agreements                         | 4           | (490,947)                      | –                              |
| Cost of trading goods sold                                   |             | (254,377)                      | (214,974)                      |
| Staff costs  |             | (43,300)                       | (34,797)                       |
| Other operating expenses                                     |             | (41,336)                       | (40,958)                       |
| Other net income (expenses)                                  |             | 4,458                          | (27,670)                       |
| Depreciation and amortization                                |             | (85,191)                       | (64,571)                       |
|  |             | <hr/>                          | <hr/>                          |
| <b>Profit from operations</b>                                | 5           | 412,922                        | 98,745                         |
| Interest income  |             | 4,165                          | 4,279                          |
| Interest expenses  | 6           | (22,972)                       | (20,947)                       |
|  |             | <hr/>                          | <hr/>                          |
| <b>Profit before taxation</b>                                |             | 394,115                        | 82,077                         |
| Taxation   | 9           | (2,608)                        | (64)                           |
|  |             | <hr/>                          | <hr/>                          |
| <b>Profit from ordinary activities after taxation</b>        |             | 391,507                        | 82,013                         |
| Minority interests   |             | (163,993)                      | (45,337)                       |
|  |             | <hr/>                          | <hr/>                          |
| <b>Net profit for the year</b>                               | 10          | <u>227,514</u>                 | <u>36,676</u>                  |
|  |             | <hr/>                          | <hr/>                          |
| <b>Proposed final dividends after<br/>balance sheet date</b> | 11          | <u>63,155</u>                  | <u>–</u>                       |
|  |             | <hr/>                          | <hr/>                          |
| <b>Earnings per share</b>                                    |             |                                |                                |
| – Basic  | 12(a)       | <u>HK\$4.32</u>                | <u>HK\$0.70</u>                |
|  |             | <hr/>                          | <hr/>                          |
| – Diluted  | 12(b)       | <u>HK\$4.32</u>                | <u>N/A</u>                     |
|  |             | <hr/>                          | <hr/>                          |

**Statements of Changes in Equity***Year ended 31 December 2004*

|  | <b>2004</b><br><i>HK\$'000</i> | <b>2003</b><br><i>HK\$'000</i> |
|--|--------------------------------|--------------------------------|
| <b>Group</b>                                     |                                |                                |
| Shareholders' equity at 1 January                | <u>492,697</u>                 | <u>447,175</u>                 |
| Exchange reserve arising on consolidation        | –                              | (1)                            |
| Release on disposal of a subsidiary              | 12                             | (148)                          |
| Reversal of impairment loss of fixed assets      | <u>–</u>                       | <u>8,995</u>                   |
| Net gains not recognized in the income statement | <u>12</u>                      | <u>8,846</u>                   |
| Net profit for the year                          | <u>227,514</u>                 | <u>36,676</u>                  |
| <b>Shareholders' equity at 31 December</b>       | <b><u>720,223</u></b>          | <b><u>492,697</u></b>          |
| <b>Company</b>                                   |                                |                                |
| Shareholders' equity at 1 January                | 477,964                        | 493,091                        |
| Net loss for the year                            | <u>(1,785)</u>                 | <u>(15,127)</u>                |
| <b>Shareholders' equity at 31 December</b>       | <b><u>476,179</u></b>          | <b><u>477,964</u></b>          |

**Balance Sheets***At 31 December 2004*

|  | <i>Note</i> | <b>Group</b>     |                  | <b>Company</b>  |                 |
|--|-------------|------------------|------------------|-----------------|-----------------|
|  |             | <b>2004</b>      | <b>2003</b>      | <b>2004</b>     | <b>2003</b>     |
|  |             | <i>HK\$'000</i>  | <i>HK\$'000</i>  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <b>ASSETS AND LIABILITIES</b>                  |             |                  |                  |                 |                 |
| <b>Non-current assets</b>                      |             |                  |                  |                 |                 |
| Fixed assets                                   | 13          | 1,259,323        | 1,430,045        | –               | –               |
| Goodwill                                       | 14          | 46,348           | –                | –               | –               |
| Intangible asset                               | 15          | 105              | 119              | –               | –               |
| Interests in subsidiaries                      | 16          | –                | –                | 478,787         | 489,009         |
| Interests in associates                        | 17          | (25)             | (27)             | –               | –               |
| Other investments                              | 18          | 35,257           | 37,789           | 5,000           | 5,000           |
| Other non-current assets                       | 19          | 34,076           | 21,549           | –               | –               |
|  |             | <u>1,375,084</u> | <u>1,489,475</u> | <u>483,787</u>  | <u>494,009</u>  |
| <b>Current assets</b>                          |             |                  |                  |                 |                 |
| Inventories                                    | 20          | 27,175           | 34,161           | –               | –               |
| Short-term investments                         | 21          | 19,074           | 10,445           | –               | –               |
| Trade receivables                              | 22          | 77,543           | 75,435           | –               | –               |
| Prepayments, deposits and<br>other receivables |             | 136,396          | 72,938           | 319             | 318             |
| Pledged deposits                               | 30(b)       | 23,522           | 30,551           | –               | –               |
| Bank balances and cash                         |             | 462,356          | 122,556          | 73              | 67              |
|  |             | <u>746,066</u>   | <u>346,086</u>   | <u>392</u>      | <u>385</u>      |
| <b>Current liabilities</b>                     |             |                  |                  |                 |                 |
| Trade payables                                 | 23          | 70,733           | 56,098           | –               | –               |
| Accrued charges and other payables             |             | 255,530          | 141,581          | 1,095           | 468             |
| Provision for losses                           | 4           | 202,913          | –                | –               | –               |
| Taxation                                       |             | 2,435            | 510              | –               | –               |
| Secured bank loans                             | 24          | 45,914           | 63,309           | –               | –               |
| Secured bank overdrafts                        | 24          | 9,835            | 42,340           | 6,905           | 15,962          |
|  |             | <u>587,360</u>   | <u>303,838</u>   | <u>8,000</u>    | <u>16,430</u>   |
| <b>Net current assets (liabilities)</b>        |             | <u>158,706</u>   | <u>42,248</u>    | <u>(7,608)</u>  | <u>(16,045)</u> |
| <b>Total assets less current liabilities</b>   |             | <u>1,533,790</u> | <u>1,531,723</u> | <u>476,179</u>  | <u>477,964</u>  |

|                                |             | <b>Group</b>    |                 | <b>Company</b>  |                 |
|--------------------------------|-------------|-----------------|-----------------|-----------------|-----------------|
|                                |             | <b>2004</b>     | <b>2003</b>     | <b>2004</b>     | <b>2003</b>     |
|                                | <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <b>Non-current liabilities</b> |             |                 |                 |                 |                 |
| Secured bank loans             | 24          | 414,872         | 643,891         | –               | –               |
| <b>Minority interests</b>      |             |                 |                 |                 |                 |
|                                |             | 398,695         | 395,135         | –               | –               |
| <b>Net assets</b>              |             |                 |                 |                 |                 |
|                                |             | <u>720,223</u>  | <u>492,697</u>  | <u>476,179</u>  | <u>477,964</u>  |
| <b>CAPITAL AND RESERVES</b>    |             |                 |                 |                 |                 |
| Issued capital                 | 25          | 52,624          | 52,624          | 52,624          | 52,624          |
| Reserves                       | 27          | <u>667,599</u>  | <u>440,073</u>  | <u>423,555</u>  | <u>425,340</u>  |
| <b>Shareholders' equity</b>    |             |                 |                 |                 |                 |
|                                |             | <u>720,223</u>  | <u>492,697</u>  | <u>476,179</u>  | <u>477,964</u>  |



**Consolidated Cash Flow Statement***Year ended 31 December 2004*

|  | <i>Note</i> | <b>2004</b><br><i>HK\$'000</i> | <b>2003</b><br><i>HK\$'000</i> |
|--|-------------|--------------------------------|--------------------------------|
| <b>OPERATING ACTIVITIES</b>                              |             |                                |                                |
| Cash generated from operations                           | 28(a)       | 571,729                        | 81,343                         |
| Claim received   |             | 5,280                          | 3,168                          |
| Interest paid  |             | (20,835)                       | (21,032)                       |
| Hong Kong Profits Tax paid                               |             | (683)                          | (19)                           |
| <b>Net cash from operating activities</b>                |             | <u>555,491</u>                 | <u>63,460</u>                  |
| <b>INVESTING ACTIVITIES</b>                              |             |                                |                                |
| Purchase of fixed assets                                 |             | (199,265)                      | (29,998)                       |
| Proceeds from disposal of fixed assets                   |             | 434,096                        | 42,452                         |
| Net cash inflow (outflow) on disposal<br>of a subsidiary | 28(b)       | 8,854                          | (291)                          |
| Interest received  |             | 4,062                          | 4,728                          |
| Net amount of loan received                              |             | 7,796                          | 5,200                          |
| Dividend and investment income received                  |             | 19,025                         | 8,435                          |
| Net repayment to associates                              |             | (2)                            | (1)                            |
| <b>Net cash from investing activities</b>                |             | <u>274,566</u>                 | <u>30,525</u>                  |
| <b>FINANCING ACTIVITIES</b>                              |             |                                |                                |
| Repayment of bank loans                                  |             | (246,414)                      | (62,555)                       |
| Decrease (Increase) in pledged deposits                  |             | 7,029                          | (81)                           |
| Repurchase of own shares by a subsidiary                 |             | (218,367)                      | -                              |
| <b>Net cash used in financing activities</b>             |             | <u>(457,752)</u>               | <u>(62,636)</u>                |
| <b>Net increase in cash and cash equivalents</b>         |             | 372,305                        | 31,349                         |
| <b>Cash and cash equivalents at 1 January</b>            |             | <u>80,216</u>                  | <u>48,867</u>                  |
| <b>Cash and cash equivalents at 31 December</b>          | 28(c)       | <u><u>452,521</u></u>          | <u><u>80,216</u></u>           |

**Notes to the Financial Statements**

*Year ended 31 December 2004*

**1. PRINCIPAL ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice (“SSAPs”) 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”). 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 investment property, leasehold land and buildings, motor vessels and improvement and the marking to market of certain investments in securities and forward freight agreements, as explained in the accounting policies set out below.

**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 or negative goodwill arising on consolidation represents the excess or deficit of the consideration paid over the fair value of the Group’s share of net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions which occurred prior to 1 January 2001 is eliminated against consolidated reserves and subject to assessments of impairment of goodwill in accordance with SSAP 31. Negative goodwill is credited to a capital reserve.

Goodwill arising from acquisitions after 1 January 2001 is recognized as an intangible asset and is amortized on a straight-line basis over its estimated useful life not exceeding 20 years.

On disposal of a subsidiary, the attributable amount of unamortized goodwill or unreleased negative goodwill is included in the determination of the profit or loss on disposal.

**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 passed.

Dividend and investment income are recognized when the shareholders’ rights to receive payment have been established.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

**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**

Transactions involving foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are included in the income statement.

On consolidation, the balance sheet of overseas subsidiaries is translated at the rates of exchange ruling at the balance sheet date while the income statement is translated at an average rate for the year. All exchange differences arising on consolidation are dealt with in reserves.

**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 Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the income statement when incurred.

When the Group grants employees options to acquire shares of the Company, no employee benefit cost or obligation is recognized at the date of grant. When the share options are exercised, equity is increased by the amount of the proceeds received.

**Fixed assets**

Investment property is interest in land and buildings in respect of which construction work and development has been completed and which is intended to be held on a long-term basis for investment potential. Investment property is stated at open market value on the basis of annual professional valuation. Changes in the value of investment property are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is included in the income statement. Upon the disposal of investment property, the relevant portion of the investment property revaluation reserve realized in respect of previous valuations will be included in the income statement.

Leasehold land and buildings 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 less accumulated depreciation and impairment losses.

Property under development and vessels under construction are stated at cost less provision for impairment loss.

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.

Other fixed assets are stated at cost less accumulated depreciation and impairment losses.

Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP 17 "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.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalized and depreciated over their expected useful lives.

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 of fixed assets**

No depreciation is provided in respect of investment property with an unexpired lease term of over 20 years as well as property under development and vessels under construction until they are completed.

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 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 fixed assets (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                           | over the unexpired term of lease |
| Buildings                                | 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               |

### **Intangible asset**

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

### **Subsidiaries**

A subsidiary, in accordance with the Companies Ordinance, is an enterprise, 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. An investment in a subsidiary is consolidated into the consolidated financial statements. In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses. Impairment loss in respect of investments in subsidiaries is determined on an individual basis.

### **Associates**

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

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid or less any discount on acquisition in so far as the premium or discount has not already been written off or amortized.

When the Group transacts with its associates, unrealized profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealized losses provide evidence of an impairment of the asset transferred.

### **Other investments**

#### *Co-operative joint ventures*

Investments 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 are stated at cost less accumulated amortization and impairment losses. Costs of investments in co-operative joint ventures are amortized over the respective duration of the joint venture contracts. Investment income is 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.

*Unlisted club debentures*

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 profit or loss on disposal of unlisted club debentures is accounted for in the period in which the disposal occurs as the difference between net sales proceeds and the carrying amount of the debentures.

**Impairment of assets**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated.

*Calculation of recoverable amount*

The recoverable amount of an asset is the higher of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount of the cash-generating unit (the smallest identifiable group of assets that generates cash inflows from continuing use independently) to which the asset belongs.

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, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

*Reversals of impairment losses*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. A reversal of impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Inventories**

Inventories comprise ship stores, which include bunker fuel 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.

**Short-term investments**

Short-term investments in securities are stated at their fair values in the balance sheet. The unrealized holding gains or losses for short-term investments in securities are included in the income statement.

The profit or loss on disposal of short-term investments in securities is accounted for in the period in which the disposal occurs as the difference between net sales proceeds and the carrying amount of the securities.

**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 are 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.

**Forward freight agreements (“FFAs”)**

FFAs relating to ship chartering business are marked-to-market at balance sheet date and any gain or loss arising is recognized in the income statement.

**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**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

**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, financing expenses and minority interests.

## 2. RECENTLY ISSUED ACCOUNTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for year ended 31 December 2004. However, the Group is in the process of making an assessment of the impact of these new HKFRSs and has so far concluded that the adoption of these new HKFRSs would not have a significant impact on its results of operations and financial position.

The Group will be continuing with the assessment of the impact of these new HKFRSs and other significant changes may be identified as a result.

## 3. 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>2004</b>     | <b>2003</b>     |
|   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <b>Turnover</b>   |                 |                 |
| Chartering freight and hire:                                    |                 |                 |
| Hire income under time charter from owned vessels               | 509,778         | 268,320         |
| Other chartering freight and hire income                        | 1,178,219       | 540,725         |
| Trading   | 286,664         | 239,470         |
|   | 1,974,661       | 1,048,515       |
| <b>Other revenue</b>  |                 |                 |
| Dividend and investment income from co-operative joint ventures | 18,783          | 7,786           |
| Interest income   | 4,165           | 4,279           |
|   | 1,997,609       | 1,060,580       |
|   | 1,997,609       | 1,060,580       |

## 4. LOSSES ON FORWARD FREIGHT AGREEMENTS

The amount represents the realized losses incurred from, and the provisions made for the unrealized losses from FFAs. FFA is a forward agreement to purchase or sell the transportation of cargoes at a predetermined price. 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. In order to mitigate the risk to expose the Group from further potential losses, the Group had squared off majority of the FFAs during mid of the year. A provision for losses for all squared off FFAs was made accordingly. At balance sheet date, the provision for the net unrealized losses amounted to HK\$202,913,000.



**5. PROFIT FROM OPERATIONS**

This is stated after charging (crediting):

|  | <b>Group</b>    |                 |
|--|-----------------|-----------------|
|  | <b>2004</b>     | <b>2003</b>     |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Auditors' remuneration   | 854             | 663             |
| Cost of inventories  | 266,499         | 266,464         |
| Amortization of other investments  | 2,532           | 2,531           |
| Amortization of goodwill   | 11,587          | –               |
| Amortization of intangible asset   | 14              | 15              |
| Hire payments under time charters  | 655,748         | 358,668         |
| Operating lease charges in respect of land and buildings   | 4,454           | 4,674           |
| Exchange loss, including unrealized provision,<br>for foreign currency exposures   | 1,543           | 43,090          |
| Loss on disposal/written off of fixed assets,<br>other than motor vessels  | 239             | 422             |
| Reversal of impairment loss of fixed assets,<br>other than motor vessels   | (18,907)        | –               |
| Loss (Gain) on disposal of a subsidiary  | 309             | (422)           |
| Net gain on disposal of short-term investments, including unrealized<br>holding gain of HK\$1,451,000 (2003: loss of HK\$76,000) | (3,581)         | (6,943)         |
| Provision for bad and doubtful debts   | 864             | 1,680           |
| Recovery of claim receivable   | (1,760)         | (6,688)         |
| Retirement benefits scheme contributions net of forfeited<br>contributions of HK\$116,000 (2003: HK\$37,000)                     | 1,539           | 1,658           |
| Revaluation surplus of an investment property  | (4,500)         | (4,200)         |
| Gross rental income of HK\$ 696,000 (2003: HK\$716,000) net of<br>outgoings from operating lease on an investment property       | (580)           | (606)           |
|  | <u>(580)</u>    | <u>(606)</u>    |

**6. INTEREST EXPENSES**

|   | <b>Group</b>    |                 |
|---|-----------------|-----------------|
|   | <b>2004</b>     | <b>2003</b>     |
|   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interests on bank loans and overdrafts: |                 |                 |
| Wholly repayable within five years      | 10,736          | 6,078           |
| Not wholly repayable within five years  | 12,236          | 14,869          |
|   | <u>22,972</u>   | <u>20,947</u>   |

## 7. DIRECTORS' EMOLUMENTS

|  | Group                   |                         |
|--|-------------------------|-------------------------|
|  | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
| Directors' fees                          | 5,972                   | 5,972                   |
| Salaries and allowances                  | 3,900                   | 4,063                   |
| Discretionary bonus                      | 7,564                   | 3,120                   |
| Retirement benefits scheme contributions | 81                      | 89                      |
|  | 17,517                  | 13,244                  |
|  | 17,517                  | 13,244                  |

The directors' emoluments included fee of HK\$60,000 (2003: HK\$60,000) paid to the independent non-executive directors during the year.

In addition to the above emoluments, certain share options had been granted to the directors of the Company during the year ended 31 December 2004. Details of the share options granted to directors are disclosed in note 26.

Emoluments of the directors were within the following bands:

|                               | Number of directors |      |
|-------------------------------|---------------------|------|
|                               | 2004                | 2003 |
| HK\$0 – HK\$1,000,000         | 5                   | 4    |
| HK\$1,500,001 – HK\$2,000,000 | 1                   | 1    |
| HK\$2,000,001 – HK\$2,500,000 | 1                   | 1    |
| HK\$4,500,001 – HK\$5,000,000 | –                   | 2    |
| HK\$6,000,001 – HK\$6,500,000 | 1                   | –    |
| HK\$6,500,001 – HK\$7,000,000 | 1                   | –    |
|                               | 9                   | 8    |
|                               | 9                   | 8    |

## 8. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included four (2003: four) directors whose details of emoluments are set out in note 7 above. Emoluments of the remaining one (2003: one) individual were as follows:

|  | Group                   |                         |
|--|-------------------------|-------------------------|
|  | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
| Salaries and allowances                  | 1,797                   | 1,795                   |
| Discretionary bonus                      | 289                     | 100                     |
| Retirement benefits scheme contributions | 30                      | 30                      |
|  | 2,116                   | 1,925                   |
|  | 2,116                   | 1,925                   |

The emoluments of the one (2003: one) individual with the highest emoluments were within the following bands:

|                               | Number of individual |          |
|-------------------------------|----------------------|----------|
|                               | 2004                 | 2003     |
| HK\$1,500,001 – HK\$2,000,000 | –                    | 1        |
| HK\$2,000,001 – HK\$2,500,000 | <u>1</u>             | <u>–</u> |

## 9. TAXATION

|                                       | Group                   |                         |
|---------------------------------------|-------------------------|-------------------------|
|                                       | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
| Hong Kong Profits Tax:                |                         |                         |
| Current year                          | 2,509                   | 491                     |
| Under (Over) provision in prior years | <u>99</u>               | <u>(427)</u>            |
|                                       | <u>2,608</u>            | <u>64</u>               |

Hong Kong Profits Tax has been provided at the rate of 17.5% (2003: 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:

|  | Group                   |                         |
|--|-------------------------|-------------------------|
|  | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
| Profit before taxation   | <u>394,115</u>          | <u>82,077</u>           |
| Income tax at the rates applicable to profits<br>in the tax jurisdiction concerned | 4,515                   | (4,803)                 |
| Non-deductible expenses  | 3,396                   | 921                     |
| Tax exempt revenue   | (6,469)                 | (2,079)                 |
| Unrecognized tax losses  | 5,277                   | 7,238                   |
| Unrecognized temporary differences   | (3,435)                 | (501)                   |
| Utilization of previously unrecognized tax losses                                  | (1,119)                 | (311)                   |
| Under (Over) provision in prior years  | 450                     | (427)                   |
| Others   | <u>(7)</u>              | <u>26</u>               |
| Tax expense for the year   | <u>2,608</u>            | <u>64</u>               |

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

**10. NET PROFIT FOR THE YEAR**

The net profit for the year included a loss of HK\$1,785,000 (2003: HK\$15,127,000) which has been dealt with in the financial statements of the Company.

**11. PROPOSED FINAL DIVIDENDS AFTER BALANCE SHEET DATE**

The final dividends in respect of 2004 of HK\$1.20 (2003: nil) per share amounting to HK\$63,155,000 is proposed by the Board after the balance sheet date. The proposed final dividend for 2004 will be accounted for as an appropriation of retained profits in the year ending 31 December 2005 if it is approved at the forthcoming annual general meeting of the Company.

**12. EARNINGS PER SHARE****(a) Basic earnings per share**

Basic earnings per share for the year is calculated on the net profit attributable to shareholders for the year of HK\$227,514,000 (2003: HK\$36,676,000) and the weighted average number of 52,624,248 (2003: 52,624,248) 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 for the year of 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. Diluted earnings per share for 2003 is not presented as there is no potential ordinary share in issue during 2003.

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

|   | <b>2004</b>       | <b>2003</b>       |
|---|-------------------|-------------------|
|   | <b>Number of</b>  | <b>Number of</b>  |
|   | <b>shares</b>     | <b>shares</b>     |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 52,624,248        | 52,624,248        |
| Deemed issue of ordinary shares on granting of share options                            | 202               | -                 |
|   | <u>52,624,450</u> | <u>52,624,248</u> |

## 13. FIXED ASSETS

## Group

|   | Investment<br>property<br>HK\$'000 | Leasehold<br>land and<br>buildings<br>HK\$'000 | Property<br>under<br>development<br>HK\$'000 | Motor<br>vessels and<br>improvement<br>HK\$'000 | Vessels<br>under<br>construction<br>HK\$'000 | Plant and<br>machinery<br>HK\$'000 | Leasehold<br>improvement,<br>utility vessels,<br>furniture<br>and<br>equipment<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------------|--|--|---|--|------------------------------------|--|-------------------|
| <b>Cost or valuation</b>                                  |                                    |  |  |   |  |                                    |  |                   |
| At 1 January 2004   | 20,000                             | 210,248  | 69,885                                       | 1,650,581                                       | 24,644                                       | 842                                | 31,423   | 2,007,623         |
| Additions   | -                                  | -  | 8,568  | -   | 184,087                                      | -                                  | 6,610  | 199,265           |
| On disposal of a subsidiary                               | -                                  | -  | (78,453)                                     | -   | -  | -                                  | -  | (78,453)          |
| Disposals/Write off                                       | -                                  | -  | -  | (341,268)                                       | -  | -                                  | (5,038)  | (346,306)         |
| Revaluation   | 4,500                              | -  | -  | -   | -  | -                                  | -  | 4,500             |
| <b>At 31 December 2004</b>                                | <b>24,500</b>                      | <b>210,248</b>                                 | <b>-</b>                                     | <b>1,309,313</b>                                | <b>208,731</b>                               | <b>842</b>                         | <b>32,995</b>  | <b>1,786,629</b>  |
| <b>Accumulated depreciation<br/>and impairment losses</b> |                                    |  |  |   |  |                                    |  |                   |
| At 1 January 2004   | -                                  | 141,905  | 54,356                                       | 352,861   | -  | 773                                | 27,683   | 577,578           |
| Charge for the year                                       | -                                  | 1,618  | -  | 66,592  | -  | 31                                 | 2,817  | 71,058            |
| Eliminated on disposal<br>of a subsidiary                 | -                                  | -  | (62,156)                                     | -   | -  | -                                  | -  | (62,156)          |
| Eliminated on disposals/<br>written off                   | -                                  | -  | -  | (35,921)  | -  | -                                  | (4,346)  | (40,267)          |
| Impairment loss<br>(reversed)/made                        | -                                  | (26,707)                                       | 7,800  | -   | -  | -                                  | -  | (18,907)          |
| <b>At 31 December 2004</b>                                | <b>-</b>                           | <b>116,816</b>                                 | <b>-</b>                                     | <b>383,532</b>                                  | <b>-</b>                                     | <b>804</b>                         | <b>26,154</b>  | <b>527,306</b>    |
| <b>Net book value</b>                                     |                                    |  |  |   |  |                                    |  |                   |
| <b>At 31 December 2004</b>                                | <b>24,500</b>                      | <b>93,432</b>                                  | <b>-</b>                                     | <b>925,781</b>                                  | <b>208,731</b>                               | <b>38</b>                          | <b>6,841</b>   | <b>1,259,323</b>  |
| At 1 January 2004   | 20,000                             | 68,343   | 15,529                                       | 1,297,720                                       | 24,644                                       | 69                                 | 3,740  | 1,430,045         |
| <b>Analysis of cost or valuation<br/>of fixed assets</b>  |                                    |  |  |   |  |                                    |  |                   |
| <b>At 31 December 2004</b>                                |                                    |  |  |   |  |                                    |  |                   |
| At cost   | -                                  | 157,248  | -  | 964,631   | 208,731                                      | 842                                | 32,995   | 1,364,447         |
| At professional valuation in:                             |                                    |  |  |   |  |                                    |  |                   |
| 1994  | -                                  | 53,000   | -  | 344,682   | -  | -                                  | -  | 397,682           |
| 2004  | 24,500                             | -  | -  | -   | -  | -                                  | -  | 24,500            |
|   | <b>24,500</b>                      | <b>210,248</b>                                 | <b>-</b>                                     | <b>1,309,313</b>                                | <b>208,731</b>                               | <b>842</b>                         | <b>32,995</b>  | <b>1,786,629</b>  |

Investment property of the Group was revalued at balance sheet date by Chartersince Surveyors Limited, independent professional surveyors, on an open market value basis.

If the following classes of fixed assets 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>2004</b><br><i>HK\$'000</i> | <b>2003</b><br><i>HK\$'000</i> |
| Leasehold land and buildings  | <u>93,432</u>                  | <u>68,343</u>                  |
| Motor vessels and improvement | <u>912,808</u>                 | <u>1,262,137</u>               |

All motor vessels and improvement and investment property are held for use under operating leases.

Net book values of the Group's properties are analyzed as follows:

|   | <b>Group</b>                   |                                |
|---|--------------------------------|--------------------------------|
|   | <b>2004</b><br><i>HK\$'000</i> | <b>2003</b><br><i>HK\$'000</i> |
| Medium term lease:                        |                                |                                |
| Property under development in Hong Kong   | –                              | 15,529                         |
| Long term leases:                         |                                |                                |
| Leasehold land and buildings in Hong Kong | 93,432                         | 68,343                         |
| Investment property in Hong Kong          | <u>24,500</u>                  | <u>20,000</u>                  |
|   | <u>117,932</u>                 | <u>103,872</u>                 |

#### 14. GOODWILL

|  | <b>Group</b>                   |                                |
|--|--------------------------------|--------------------------------|
|  | <b>2004</b><br><i>HK\$'000</i> | <b>2003</b><br><i>HK\$'000</i> |
| <b>Cost</b>  |                                |                                |
| Arising from deemed acquisition of additional interests<br>in a subsidiary and <b>at 31 December</b> | 57,935                         | –                              |
| <b>Accumulated amortization</b>  |                                |                                |
| Charge for the year and <b>at 31 December</b>  | <u>(11,587)</u>                | –                              |
| <b>Net book value</b>  |                                |                                |
| <b>At 31 December</b>  | <u>46,348</u>                  | <u>–</u>                       |

The goodwill, which was arisen from the repurchase of shares by a subsidiary, Jinhui Shipping, whose shares are listed on the Oslo Stock Exchange, is amortized on a straight-line basis over a period of five years.

## 15. INTANGIBLE ASSET

|  | <b>Group</b>    |                 |
|--|-----------------|-----------------|
|  | <b>2004</b>     | <b>2003</b>     |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Transfer fee for club entrance         |                 |                 |
| <b>Cost</b>                            |                 |                 |
| At 1 January and <b>at 31 December</b> | 250             | 250             |
| <b>Accumulated amortization</b>        |                 |                 |
| At 1 January                           | 131             | 116             |
| Charge for the year                    | 14              | 15              |
| <b>At 31 December</b>                  | 145             | 131             |
| <b>Net book value</b>                  |                 |                 |
| <b>At 31 December</b>                  | <u>105</u>      | <u>119</u>      |

## 16. INTERESTS IN SUBSIDIARIES

|   | <b>Company</b>  |                 |
|---|-----------------|-----------------|
|   | <b>2004</b>     | <b>2003</b>     |
|   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Shares of Jinhui Shipping listed on<br>the Oslo Stock Exchange, at cost | 351,702         | 351,702         |
| Unlisted shares, at cost  | 13              | 13              |
|   | 351,715         | 351,715         |
| Due from subsidiaries, net of provision                                 | 130,863         | 141,092         |
| Due to subsidiaries   | (3,791)         | (3,798)         |
|   | <u>478,787</u>  | <u>489,009</u>  |

Details of the Company's principal subsidiaries are set out in note 38 to the financial statements.

The market value of Jinhui Shipping attributable to the Group amounted to approximately HK\$1,067,210,000 (2003: HK\$423,148,000) at balance sheet date.

## 17. INTERESTS IN ASSOCIATES

|                     | <b>Group</b>    |                 |
|---------------------|-----------------|-----------------|
|                     | <b>2004</b>     | <b>2003</b>     |
|                     | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Share of net assets | 23              | 23              |
| Due to associates   | (48)            | (50)            |
|                     | <u>(25)</u>     | <u>(27)</u>     |

## 18. OTHER INVESTMENTS

|                                      | <b>Group</b>    |                 | <b>Company</b>  |                 |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                      | <b>2004</b>     | <b>2003</b>     | <b>2004</b>     | <b>2003</b>     |
|                                      | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Co-operative joint ventures, at cost | 78,648          | 78,648          | –               | –               |
| Less: Accumulated amortization       | (26,785)        | (24,253)        | –               | –               |
| Accumulated impairment losses        | (24,016)        | (24,016)        | –               | –               |
|                                      | <u>27,847</u>   | <u>30,379</u>   | <u>–</u>        | <u>–</u>        |
| Unlisted club debentures, at cost    | 7,410           | 7,410           | 5,000           | 5,000           |
| Unlisted investments, at cost        | 11,700          | 11,700          | –               | –               |
| Less: Provision for impairment loss  | (11,700)        | (11,700)        | –               | –               |
|                                      | <u>–</u>        | <u>–</u>        | <u>–</u>        | <u>–</u>        |
|                                      | <u>35,257</u>   | <u>37,789</u>   | <u>5,000</u>    | <u>5,000</u>    |

## 19. OTHER NON-CURRENT ASSETS

|   | <b>Group</b>    |                 |
|---|-----------------|-----------------|
|   | <b>2004</b>     | <b>2003</b>     |
|   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Deferred drydocking expenses, at cost   | 8,351           | 11,417          |
| Less: Amount written off                | (3,964)         | (6,868)         |
|   | <u>4,387</u>    | <u>4,549</u>    |
| Loan receivable                         | 37,342          | 20,800          |
| Less: Amount included in current assets | (7,653)         | (3,800)         |
|   | <u>29,689</u>   | <u>17,000</u>   |
| Loan receivable due over one year       | 29,689          | 17,000          |
|   | <u>34,076</u>   | <u>21,549</u>   |



**20. INVENTORIES**

|               | <b>Group</b>    |                 |
|---------------|-----------------|-----------------|
|               | <b>2004</b>     | <b>2003</b>     |
|               | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Ship stores   | 1,834           | 4,187           |
| Trading goods | 25,341          | 29,974          |
|               | <u>27,175</u>   | <u>34,161</u>   |

Inventories at balance sheet date were carried at cost.

**21. SHORT-TERM INVESTMENTS**

|                                   | <b>Group</b>    |                 |
|-----------------------------------|-----------------|-----------------|
|                                   | <b>2004</b>     | <b>2003</b>     |
|                                   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Debts securities, at fair value:  |                 |                 |
| Listed outside Hong Kong          | –               | 363             |
| Equity securities, at fair value: |                 |                 |
| Listed in Hong Kong               | 9,065           | 7,694           |
| Listed outside Hong Kong          | 10,009          | 2,388           |
|                                   | <u>19,074</u>   | <u>10,082</u>   |
|                                   | <u>19,074</u>   | <u>10,445</u>   |

**22. TRADE RECEIVABLES**

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.

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

|                | <b>Group</b>    |                 |
|----------------|-----------------|-----------------|
|                | <b>2004</b>     | <b>2003</b>     |
|                | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0 – 90 days    | 57,767          | 60,431          |
| 91 – 180 days  | 15,487          | 11,953          |
| 181 – 365 days | 3,688           | 1,520           |
| Over 365 days  | 601             | 1,531           |
|                | <u>77,543</u>   | <u>75,435</u>   |

**23. TRADE PAYABLES**

The aging analysis of trade payables is as follows:

|                | <b>Group</b>    |                 |
|----------------|-----------------|-----------------|
|                | <b>2004</b>     | <b>2003</b>     |
|                | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0 – 90 days    | 62,210          | 47,579          |
| 91 – 180 days  | 556             | 1,126           |
| 181 – 365 days | 412             | 279             |
| Over 365 days  | 7,555           | 7,114           |
|                | <u>70,733</u>   | <u>56,098</u>   |

**24. SECURED BANK LOANS AND OVERDRAFTS**

|  | <b>Group</b>    |                 | <b>Company</b>  |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | <b>2004</b>     | <b>2003</b>     | <b>2004</b>     | <b>2003</b>     |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| The maturity of secured bank loans and overdrafts is as follows: |                 |                 |                 |                 |
| Within one year  | 55,749          | 105,649         | 6,905           | 15,962          |
| After one year but within two years                              | 45,989          | 63,215          | –               | –               |
| After two years but within five years                            | 133,863         | 187,953         | –               | –               |
| After five years   | 235,020         | 392,723         | –               | –               |
|  | <u>470,621</u>  | <u>749,540</u>  | <u>6,905</u>    | <u>15,962</u>   |
| Less: Amount included in current liabilities                     |                 |                 |                 |                 |
| Secured bank loans   | (45,914)        | (63,309)        | –               | –               |
| Secured bank overdrafts  | (9,835)         | (42,340)        | (6,905)         | (15,962)        |
|  | <u>414,872</u>  | <u>643,891</u>  | <u>–</u>        | <u>–</u>        |
| Amount included in non-current liabilities                       | <u>414,872</u>  | <u>643,891</u>  | <u>–</u>        | <u>–</u>        |

## 25. ISSUED CAPITAL

| Company                          | 2004                |                    | 2003                |                    |
|----------------------------------|---------------------|--------------------|---------------------|--------------------|
|                                  | Number<br>of shares | Amount<br>HK\$'000 | Number<br>of shares | Amount<br>HK\$'000 |
| <i>Authorized:</i>               |                     |                    |                     |                    |
| At 1 January                     | 100,000,000         | 100,000            | 1,000,000,000       | 100,000            |
| Consolidation of shares          | —                   | —                  | (900,000,000)       | —                  |
| <b>At 31 December</b>            | <b>100,000,000</b>  | <b>100,000</b>     | <b>100,000,000</b>  | <b>100,000</b>     |
| <i>Issued and fully paid:</i>    |                     |                    |                     |                    |
| At 1 January                     | 52,624,248          | 52,624             | 526,242,488         | 52,624             |
| Consolidation of shares          | —                   | —                  | (473,618,232)       | —                  |
| Shares repurchased and cancelled | —                   | —                  | (8)                 | —                  |
| <b>At 31 December</b>            | <b>52,624,248</b>   | <b>52,624</b>      | <b>52,624,248</b>   | <b>52,624</b>      |

Subsequent to the balance sheet date, the Company had allotted and issued 4,800 new ordinary shares of the Company upon exercise of share options granted under the share option scheme adopted by the Company. Details of the share option scheme are disclosed in note 26.

## 26. SHARE OPTIONS

A share option scheme was adopted by the shareholders of the Company at the extraordinary general meeting of the Company held on 18 November 2004 (the "Share Option Scheme") whereby the directors of the Company are authorized to grant options to the directors, officers and employees of the Group and other persons selected by the Board who have contributed or will contribute to the Group. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from 18 November 2004. The purpose of the Share Option Scheme is to provide incentive and/or rewards to eligible persons for their contribution to, and continuing efforts to promote the interests of, the Group.

The subscription price per share of a share option shall be no less than the highest of (i) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of offer; (ii) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer; and (iii) the nominal value of the share of the Company on the date of offer.

The details and movements of share options granted under the Share Option Scheme during the year are as follows:

| Category                     | Share options granted during the year and outstanding as at 31 December 2004 | Date of grant    | Exercise period                      | Closing price at date of grant of share options | Exercise price |
|------------------------------|--|------------------|--------------------------------------|---|----------------|
| Directors<br><i>Note (a)</i> | 5,262,000  | 23 December 2004 | 1 March 2006 to 22 December 2014     | HK\$15.30                                       | HK\$16.00      |
| Directors                    | 1,050,000  | 23 December 2004 | 23 December 2004 to 22 December 2009 | HK\$15.30                                       | HK\$16.00      |
|                              | <u>6,312,000</u>   |                  |                                      |   |                |
| Employees                    | 537,400  | 23 December 2004 | 23 December 2004 to 22 December 2009 | HK\$15.30                                       | HK\$16.00      |
| Employees<br><i>Note (b)</i> | 829,800  | 23 December 2004 | 23 December 2004 to 22 December 2009 | HK\$15.30                                       | HK\$16.00      |
|                              | <u>1,367,200</u>   |                  |                                      |   |                |
|                              | <u><u>7,679,200</u></u>  |                  |                                      |   |                |

*Notes:*

- (a) The share options granted to Mr. Ng Siu Fai and Mr. Ng Kam Wah Thomas, directors of the Company had been approved by shareholders of the Company at the extraordinary general meeting of the Company on 27 January 2005 and are subject to certain conditions including a performance target, whereby the 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 2005. These share options may be exercised during the period commencing on 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 22 December 2014 being the end of the 10-year period from 23 December 2004, or the date on which the share options shall lapse in accordance with the terms of the Share Option Scheme, whichever is the earlier.
- (b) These share options were granted to employees of the Group, other than directors of the Company, under vesting schedule, which began on 7 January 2005 with monthly exercisable limit of about 10% of the share options granted.
- (c) The share options granted are not recognized in the financial statements until they are exercised. The weighted average value per option granted in 2004, estimated at the date of grant using the Black-Scholes pricing model was HK\$6.6. The calculation of the weighted average value per option granted during the year does not take into account options granted and forfeited during the year. The weighted average assumptions used are as follows:

|                                   |         |
|-----------------------------------|---------|
| Risk-free interest rate per annum | 2.25%   |
| Expected life                     | 2 years |
| Volatility                        | 76.73%  |

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.

(d) During the year, no share option had been exercised and lapsed.

## 27. RESERVES

### Group

|  | Share<br>premium<br><i>HK\$'000</i> | Capital<br>reserve<br><i>HK\$'000</i> | Capital<br>redemption<br>reserve<br><i>HK\$'000</i> | Other<br>asset<br>revaluation<br>reserve<br><i>HK\$'000</i> | Other (Accumulated<br>losses)<br>Retained<br>profits<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--|-------------------------------------|---------------------------------------|---|---|---|--------------------------|
| At 1 January 2003                              | 288,733                             | 139,656                               | 2,023   | –   | (35,861)  | 394,551                  |
| Exchange reserve arising<br>on consolidation   | –                                   | (1)                                   | –   | –   | –   | (1)                      |
| Release on disposal of a subsidiary            | –                                   | (148)                                 | –   | –   | –   | (148)                    |
| Reversal of impairment loss<br>of fixed assets | –                                   | 4,417                                 | –   | 4,578   | –   | 8,995                    |
| Net profit for the year                        | –                                   | –                                     | –   | –   | 36,676  | 36,676                   |
| At 31 December 2003                            | 288,733                             | 143,924                               | 2,023   | 4,578   | 815   | 440,073                  |
| Release on disposal of a subsidiary            | –                                   | 12                                    | –   | –   | –   | 12                       |
| Net profit for the year                        | –                                   | –                                     | –   | –   | 227,514   | 227,514                  |
| <b>At 31 December 2004</b>                     | <b>288,733</b>                      | <b>143,936</b>                        | <b>2,023</b>  | <b>4,578</b>  | <b>228,329</b>  | <b>667,599</b>           |

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. The capital reserve has been set up and will be dealt with in accordance with the accounting policies adopted for goodwill arising on acquisition of subsidiaries and associates prior to 1 January 2001, revaluation of fixed assets and foreign currency translation.

### Company

|                            | Share<br>premium<br><i>HK\$'000</i> | Capital<br>redemption<br>reserve<br><i>HK\$'000</i> | Retained<br>profits<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|----------------------------|-------------------------------------|---|--|--------------------------|
| At 1 January 2003          | 288,733                             | 2,023   | 149,711                                | 440,467                  |
| Net loss for the year      | –                                   | –   | (15,127)                               | (15,127)                 |
| At 31 December 2003        | 288,733                             | 2,023   | 134,584                                | 425,340                  |
| Net loss for the year      | –                                   | –   | (1,785)                                | (1,785)                  |
| <b>At 31 December 2004</b> | <b>288,733</b>                      | <b>2,023</b>  | <b>132,799</b>                         | <b>423,555</b>           |

Retained profits 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\$100,579,000 (2003: HK\$102,364,000).

## 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Cash generated from operations

|   | Group                 |                      |
|---|-----------------------|----------------------|
|   | 2004<br>HK\$'000      | 2003<br>HK\$'000     |
| Profit before taxation                              | 394,115               | 82,077               |
| Depreciation and amortization                       | 85,191                | 64,571               |
| Interest income                                     | (4,165)               | (4,279)              |
| Interest expenses                                   | 22,972                | 20,947               |
| Dividend income from short-term investments         | (244)                 | (649)                |
| Dividend and investment income                      | (18,783)              | (7,786)              |
| (Gain) Loss on disposal/written off of fixed assets | (126,962)             | 422                  |
| Reversal of impairment loss of fixed assets         | (18,907)              | (104,276)            |
| Loss (Gain) on disposal of a subsidiary             | 309                   | (422)                |
| Provision for bad and doubtful debts                | 864                   | 1,680                |
| Recovery of claim receivable                        | (1,760)               | (6,688)              |
| Provision for unrealized losses on FFAs             | 202,913               | -                    |
| Revaluation surplus of an investment property       | (4,500)               | (4,200)              |
| Net drydocking expense deferred                     | (933)                 | (361)                |
| Effects of exchange rates movement                  | -                     | 16,549               |
| Changes in working capital:                         |                       |                      |
| Inventories   | 6,986                 | (3,062)              |
| Short-term investments                              | (8,628)               | 20,931               |
| Trade receivables                                   | (28,314)              | (9,764)              |
| Prepayments, deposits and other receivables         | (62,680)              | (44,703)             |
| Trade payables                                      | 14,635                | (1,006)              |
| Accrued charges and other payables                  | 119,620               | 61,362               |
|   | <u>571,729</u>        | <u>81,343</u>        |
| <b>Cash generated from operations</b>               | <b><u>571,729</u></b> | <b><u>81,343</u></b> |

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

|  | <b>Group</b>    |                 |
|--|-----------------|-----------------|
|  | <b>2004</b>     | <b>2003</b>     |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net assets (liabilities) disposed of:                  |                 |                 |
| Fixed assets   | 16,297          | 355             |
| Inventories  | –               | 8               |
| Trade receivables                                      | –               | 67              |
| Prepayments, deposits and other receivables            | –               | 1,085           |
| Bank balances and cash                                 | –               | 291             |
| Accrued charges and other payables                     | (7,146)         | (2,662)         |
|  | <u>9,151</u>    | <u>(856)</u>    |
| Minority interests                                     | –               | 582             |
| Capital reserve released                               | 12              | (148)           |
| (Loss) Gain on disposal of a subsidiary                | (309)           | 422             |
|  | <u>8,854</u>    | <u>–</u>        |
| Total consideration, satisfied by cash                 |                 |                 |
|  | <u>8,854</u>    | <u>–</u>        |
| Net cash inflow (outflow) on disposal of a subsidiary: |                 |                 |
| Cash consideration                                     | 8,854           | –               |
| Bank balances and cash disposed                        | –               | (291)           |
|  | <u>8,854</u>    | <u>(291)</u>    |

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

|                         | <b>Group</b>    |                 |
|-------------------------|-----------------|-----------------|
|                         | <b>2004</b>     | <b>2003</b>     |
|                         | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Bank balances and cash  | 462,356         | 122,556         |
| Secured bank overdrafts | (9,835)         | (42,340)        |
|                         | <u>452,521</u>  | <u>80,216</u>   |

**29. DEFERRED TAXATION**

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

|                                  | <b>Group</b>    |                 |
|----------------------------------|-----------------|-----------------|
|                                  | <b>2004</b>     | <b>2003</b>     |
|                                  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Deductible temporary differences | 13,928          | 24,506          |
| Tax losses                       | 438,883         | 420,445         |
|                                  | <u>452,811</u>  | <u>444,951</u>  |
| <b>At 31 December</b>            |                 |                 |
|                                  | <u>452,811</u>  | <u>444,951</u>  |

Both the tax losses and the deductible temporary differences have no expiry date under current tax legislation.

**30. PLEDGE OF ASSETS**

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

- (a) Legal charge on the Group's investment property, leasehold land and buildings and motor vessels with an aggregate net book value of HK\$859,153,000 (2003: HK\$1,192,488,000);
- (b) Deposits totalling HK\$23,522,000 (2003: HK\$30,551,000) of the Group placed with a bank;
- (c) Short-term investments in securities with fair values totalling HK\$10,009,000 (2003: HK\$1,767,000) of the Group placed with a bank;
- (d) Legal charges on shares of five (2003: seven) ship owning subsidiaries of the Company; and
- (e) Assignment agreements entered into with banks assigning five (2003: seven) ship owning subsidiaries' chartering income in favour of banks.

**31. COMMITMENTS****(a) Capital expenditure commitments**

At balance sheet date, the Group had capital expenditure commitments relating to the newbuildings of six (2003: two) dry bulk carriers at total purchase prices of approximately HK\$1,283,256,000 (2003: HK\$321,516,000) and the total amount contracted but not provided for, net of deposits paid, was approximately HK\$1,076,794,000 (2003: HK\$296,872,000).

**(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>2004</b>             | <b>2003</b>           |
|                                       | <i>HK\$'000</i>         | <i>HK\$'000</i>       |
| Within one year:                      |                         |                       |
| Land and buildings                    | 639                     | 1,038                 |
| Time charter hire                     | 576,497                 | 566,832               |
|                                       | <u>577,136</u>          | <u>567,870</u>        |
| After one year but within five years: |                         |                       |
| Land and buildings                    | 507                     | 1,146                 |
| Time charter hire                     | 514,750                 | 394,724               |
|                                       | <u>515,257</u>          | <u>395,870</u>        |
|                                       | <u><u>1,092,393</u></u> | <u><u>963,740</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>2004</b>     | <b>2003</b>     |
|   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year:                            |                 |                 |
| Land and buildings                          | 632             | 734             |
| Time charter hire from owned vessels        | 134,960         | 53,360          |
| Time charter hire from chartered-in vessels | 295,437         | 206,672         |
|   | <u>431,029</u>  | <u>260,766</u>  |
| After one year but within five years:       |                 |                 |
| Land and buildings                          | –               | 572             |
| Time charter hire from chartered-in vessels | 104,411         | –               |
|   | <u>104,411</u>  | <u>572</u>      |
|   | <u>535,440</u>  | <u>261,338</u>  |

## 32. SEGMENTAL INFORMATION

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

|   | <b>Chartering<br/>freight<br/>and hire</b> | <b>Trading</b>  | <b>Investments<br/>in China</b> | <b>Other<br/>operations</b> | <b>Total</b>          |
|---|--|-----------------|---------------------------------|-----------------------------|-----------------------|
|   | <i>HK\$'000</i>                            | <i>HK\$'000</i> | <i>HK\$'000</i>                 | <i>HK\$'000</i>             | <i>HK\$'000</i>       |
| <b>Turnover</b>   | 1,687,997                                  | 286,664         | –                               | –                           | 1,974,661             |
| Other operating income                                    | 53,619                                     | 2,709           | 18,783                          | 24,242                      | 99,353                |
| Gain on disposal of<br>motor vessels                      | 127,201                                    | –               | –                               | –                           | 127,201               |
|   | <u>1,868,817</u>                           | <u>289,373</u>  | <u>18,783</u>                   | <u>24,242</u>               | <u>2,201,215</u>      |
| Losses on forward freight<br>agreements                   | (490,947)                                  | –               | –                               | –                           | (490,947)             |
| Operating expenses  | (935,270)                                  | (277,072)       | (4,197)                         | (74)                        | (1,216,613)           |
| Other net income  | –  | –               | –                               | 4,458                       | 4,458                 |
| Depreciation and amortization                             | (66,635)                                   | (546)           | (2,535)                         | (15,475)                    | (85,191)              |
| <b>Profit from operations</b>                             | 375,965                                    | 11,755          | 12,051                          | 13,151                      | 412,922               |
| Interest income   |  |                 |                                 |                             | 4,165                 |
| Interest expenses   |  |                 |                                 |                             | <u>(22,972)</u>       |
| <b>Profit before taxation</b>                             |  |                 |                                 |                             | 394,115               |
| Taxation  |  |                 |                                 |                             | <u>(2,608)</u>        |
| <b>Profit from ordinary activities<br/>after taxation</b> |  |                 |                                 |                             | 391,507               |
| Minority interests  |  |                 |                                 |                             | <u>(163,993)</u>      |
| <b>Net profit for the year</b>                            |  |                 |                                 |                             | <u><u>227,514</u></u> |

## (a) (ii) Consolidated income statement by business segments – 2003

|   | Chartering<br>freight<br>and hire<br><i>HK\$'000</i> | Trading<br><i>HK\$'000</i> | Investments<br>in China<br><i>HK\$'000</i> | Other<br>operations<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|--|----------------------------|--|--|--------------------------|
| Turnover  | 809,045  | 239,470                    | –  | –                                      | 1,048,515                |
| Other operating income                            | 40,235   | 3,083                      | 7,854                                      | 5,079                                  | 56,251                   |
| Reversal of impairment<br>loss of motor vessels   | 104,276  | –                          | –  | –                                      | 104,276                  |
|   | <u>953,556</u>                                       | <u>242,553</u>             | <u>7,854</u>                               | <u>5,079</u>                           | <u>1,209,042</u>         |
| Operating expenses                                | (775,879)  | (237,511)                  | (4,419)                                    | (247)                                  | (1,018,056)              |
| Other net (expenses) income                       | –  | (422)                      | 421  | (27,669)                               | (27,670)                 |
| Depreciation and amortization                     | (58,496)   | (588)                      | (2,536)                                    | (2,951)                                | (64,571)                 |
|   | <u>119,181</u>                                       | <u>4,032</u>               | <u>1,320</u>                               | <u>(25,788)</u>                        | <u>98,745</u>            |
| Interest income                                   |  |                            |  |  | 4,279                    |
| Interest expenses                                 |  |                            |  |  | <u>(20,947)</u>          |
| Profit before taxation                            |  |                            |  |  | 82,077                   |
| Taxation  |  |                            |  |  | <u>(64)</u>              |
| Profit from ordinary activities<br>after taxation |  |                            |  |  | 82,013                   |
| Minority interests                                |  |                            |  |  | <u>(45,337)</u>          |
| Net profit for the year                           |  |                            |  |  | <u><u>36,676</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 90% (2003: 90%) of the Group's trading business was carried out in Hong Kong and the balance was mainly carried out in China. The Group's other operations, including property investments, foreign currency transactions and short-term investments, were mainly carried out in Hong Kong in both years.

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

|                                | Chartering<br>freight<br>and hire<br><i>HK\$'000</i> | Trading<br><i>HK\$'000</i> | Investments<br>in China<br><i>HK\$'000</i> | Other<br>operations<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--------------------------------|--|----------------------------|--|--|--------------------------|
| <i>Allocated assets</i>        |  |                            |  |  |                          |
| Fixed assets                   | 1,134,566  | 848                        | 7  | 123,902                                | 1,259,323                |
| Intangible asset               | –  | –                          | –  | 105                                    | 105                      |
| Interests in associates        | –  | (25)                       | –  | –                                      | (25)                     |
| Other investments              | –  | –                          | 27,847                                     | 7,410                                  | 35,257                   |
| Other non-current assets       | 4,387  | 29,689                     | –  | –                                      | 34,076                   |
| Current assets                 | 133,702  | 102,082                    | –  | 24,404                                 | 260,188                  |
| <b>Total segment assets</b>    | <b>1,272,655</b>                                     | <b>132,594</b>             | <b>27,854</b>                              | <b>155,821</b>                         | <b>1,588,924</b>         |
| <i>Unallocated assets</i>      |  |                            |  |  |                          |
| Goodwill                       |  |                            |  |  | 46,348                   |
| Pledged deposits               |  |                            |  |  | 23,522                   |
| Bank balances and cash         |  |                            |  |  | 462,356                  |
| <b>Total assets</b>            |  |                            |  |  | <b><u>2,121,150</u></b>  |
| <i>Allocated liabilities</i>   |  |                            |  |  |                          |
| Total segment liabilities      | 880,826  | 66,430                     | 222  | 44,919                                 | 992,397                  |
| <i>Unallocated liabilities</i> |  |                            |  |  |                          |
| Secured bank overdrafts        |  |                            |  |  | 9,835                    |
| <b>Total liabilities</b>       |  |                            |  |  | <b><u>1,002,232</u></b>  |
| <b>Capital expenditures</b>    |  |                            |  |  |                          |
| incurred during the year       | <u>184,098</u>                                       | <u>74</u>                  | <u>–</u>                                   | <u>15,093</u>                          | <u>199,265</u>           |

## (b) (ii) Consolidated balance sheet by business segments – 2003

|  | Chartering<br>freight<br>and hire<br><i>HK\$'000</i> | Trading<br><i>HK\$'000</i> | Investments<br>in China<br><i>HK\$'000</i> | Other<br>operations<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--|--|----------------------------|--|--|--------------------------|
| <i>Allocated assets</i>                          |  |                            |  |  |                          |
| Fixed assets                                     | 1,322,455  | 1,319                      | 11   | 106,260                                | 1,430,045                |
| Intangible asset                                 | –  | –                          | –  | 119                                    | 119                      |
| Interests in associates                          | –  | (27)                       | –  | –                                      | (27)                     |
| Other investments                                | –  | –                          | 30,379                                     | 7,410                                  | 37,789                   |
| Other non-current assets                         | 4,549  | 17,000                     | –  | –                                      | 21,549                   |
| Current assets                                   | 74,811   | 101,750                    | 41   | 16,377                                 | 192,979                  |
| Total segment assets                             | 1,401,815  | 120,042                    | 30,431                                     | 130,166                                | 1,682,454                |
| <i>Unallocated assets</i>                        |  |                            |  |  |                          |
| Pledged deposits                                 |  |                            |  |  | 30,551                   |
| Bank balances and cash                           |  |                            |  |  | 122,556                  |
| Total assets                                     |  |                            |  |  | <u>1,835,561</u>         |
| <i>Allocated liabilities</i>                     |  |                            |  |  |                          |
| Total segment liabilities                        | 811,901  | 48,616                     | 214  | 44,658                                 | 905,389                  |
| <i>Unallocated liabilities</i>                   |  |                            |  |  |                          |
| Secured bank overdrafts                          |  |                            |  |  | 42,340                   |
| Total liabilities                                |  |                            |  |  | <u>947,729</u>           |
| Capital expenditures incurred<br>during the year | <u>28,176</u>  | <u>1,044</u>               | <u>9</u>                                   | <u>769</u>                             | <u>29,998</u>            |

- (iii) The segment assets of the Group's chartering freight and hire business cannot be attributable to any particular geographical location. Besides, around 13% (2003: 17%) of the segment assets under the other three business segments are located in China and the remaining are mainly located in Hong Kong.

### 33. CONTINGENT LIABILITIES

At balance sheet date, 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\$121,570,000 (2003: HK\$114,070,000).

Banking facilities granted by the banks to certain subsidiaries were guaranteed by the Company. At balance sheet date, the amount of such facilities utilized was HK\$64,255,000 (2003: HK\$45,721,000).

**34. 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 income statement during the year was HK\$1,539,000 (2003: HK\$1,658,000) net of the forfeited contributions of HK\$116,000 (2003: HK\$37,000) which arose upon employees leaving the defined contribution retirement scheme.

**35. DIRECTORS' INTERESTS IN CONTRACTS**

Vintage Investments Limited ("Vintage") entered into a consultancy agreement dated 28 September 1999 with Jinhui Shipping pursuant to which Vintage agreed to provide the consultancy services to Jinhui Shipping for a quarterly fee of £2,500 (approximately HK\$35,000) and for amount of up to 1% on the total value of any project in which Vintage has given advice on. The agreement is terminable by either party by giving 30 days prior notice.

Mr. So Wing Hung Peter, a director of the Company who resigned on 13 August 2004, is a shareholder and a director of Vintage. Consultancy fee in the amount of £5,000 (approximately HK\$70,000) (2003: HK\$128,000) has been paid during the year under the agreement. The agreement was terminated in June 2004.

Other than as disclosed above, none of the directors has a service contract with any member of the Group which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation other than statutory compensation.

**36. POST BALANCE SHEET EVENTS**

On 22 February 2005, the Group entered into two memoranda to acquire two motor vessels of deadweight 50,212 metric tons each for a total consideration of HK\$530,400,000 which will be delivered to the Group on or before 2 May 2005 and 30 June 2005 respectively.

**37. ULTIMATE HOLDING COMPANY**

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

## 38. 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        | 59.61%                       | Investment holding                                      | Worldwide          |
| # Jinhui Shipping and Transportation Limited      | 84,045,341 ordinary shares of US\$0.05 each | 59.61%                       | Investment holding                                      | Worldwide          |
| <b>Incorporated in the British Virgin Islands</b> |   |                              |   |                    |
| Advance Rich Limited                              | 1 share of US\$1 each                       | 59.61%                       | Investment  | Worldwide          |
| Jin Hui Shipping Inc.                             | 50,000 shares of US\$1 each                 | 59.61%                       | Investment holding                                      | Worldwide          |
| Jinhui Investments Limited                        | 1 share of US\$1 each                       | 59.61%                       | Investment holding                                      | Worldwide          |
| Jinhui Transportation Inc.                        | 1,000 shares of US\$1 each                  | 59.61%                       | 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                      | 59.61%                       | 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              | 59.61%                       | Ship management services, shipping agent and investment | Hong Kong          |

| Name   | Issued and paid-up capital          | Attributable equity interest | Principal activities                             | Place of operation  |
|--|-------------------------------------|------------------------------|--|---------------------|
| # 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           |
| Linkford International Limited                 | 2 shares of HK\$1 each              | 100%                         | Property investment                              | Hong Kong           |
| Monocosmic Limited                             | 10,000 shares of HK\$1 each         | 59.61%                       | 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    | 59.61%                       | Ship chartering                                  | Worldwide           |
| Goldbeam Shipping Inc.                         | 100 registered shares of US\$1 each | 59.61%                       | Ship chartering                                  | Worldwide           |
| Jinbi Shipping Ltd                             | 1 registered share of US\$1 each    | 59.61%                       | Ship owning                                      | Worldwide           |
| Paxton Enterprises Limited                     | 500 registered shares of US\$1 each | 59.61%                       | Ship chartering                                  | Worldwide           |
| Sompol Trading Limited                         | 10 registered shares of US\$1 each  | 59.61%                       | Ship chartering                                  | Worldwide           |
| Wonder Enterprises Ltd                         | 500 registered shares of US\$1 each | 59.61%                       | Ship chartering                                  | Worldwide           |
| <b>Incorporated in the Republic of Panama</b>  |                                     |                              |  |                     |
| Jinan Marine Inc.                              | 2 common shares of US\$1 each       | 59.61%                       | Ship owning                                      | Worldwide           |
| Jinda Shipping Inc.                            | 2 common shares of US\$1 each       | 59.61%                       | Ship owning                                      | Worldwide           |
| Jinfeng Marine Inc.                            | 2 common shares of US\$1 each       | 59.61%                       | Ship owning                                      | Worldwide           |
| Jinhai Marine Inc.                             | 2 common shares of US\$1 each       | 59.61%                       | 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> |
|--|-----------------------------------|-------------------------------------|-----------------------------|---------------------------|
| Jinhui Marine Inc.   | 2 common shares of US\$1 each     | 59.61%                              | Ship owning                 | Worldwide                 |
| Jinli Marine Inc.  | 2 common shares of US\$1 each     | 59.61%                              | Ship owning                 | Worldwide                 |
| Jinping Marine Inc.  | 2 common shares of US\$1 each     | 59.61%                              | Ship owning                 | Worldwide                 |
| Jinsheng Marine Inc.   | 2 common shares of US\$1 each     | 59.61%                              | Ship owning                 | Worldwide                 |
| Jinshun Shipping Inc.  | 2 common shares of US\$1 each     | 59.61%                              | Ship owning                 | Worldwide                 |
| Jinyang Marine Inc.  | 2 common shares of US\$1 each     | 59.61%                              | Ship owning                 | Worldwide                 |
| Rimpacific Navigation Inc.   | 2 common shares of US\$1 each     | 59.61%                              | Investment                  | Worldwide                 |
| <b>Incorporated in the State of Delaware, United States of America</b> |                                   |                                     |                             |                           |
| Jinhui Shipping (USA) Inc.   | 500 shares of US\$1 each          | 59.61%                              | 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 January 2005, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding bank borrowings amounting to approximately HK\$516 million. The bank borrowings comprised secured term loans of approximately HK\$458 million, secured bank overdraft of approximately HK\$10 million and unsecured trust receipt and import loans of approximately HK\$48 million.

As at 31 January 2005, the Group's banking facilities were secured by certain of the Group's fixed assets, investment properties and investment in listed and unlisted shares with an aggregate carrying value of approximately HK\$866 million and bank deposits of the Group amounting to approximately HK\$24 million. Shares of five ship owning companies being members of the Group, were pledged together with the assignment of chartering income of five ship owning companies to secure credit facilities utilised by the Group.

As at 31 January 2005, 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 business of investment holding, ship chartering, ship owning, ship operating and trading during the current financial year, and the Directors expect that the Group's steady growth will be maintained.

**(4) WORKING CAPITAL**

The Directors are of the opinion that after taking into account its internal resources, the existing available banking facilities and the Acquisition, the Group has sufficient working capital for its present requirements for the next twelve month period ending on 30 March 2006.

**(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 2004, the date to which the latest published audited financial statements of the Group were made up.

**1. REPORT BY AUDITORS ON THE PRO FORMA NET ASSETS STATEMENT OF THE GROUP**

*The following is the text of a report received from Moores Rowland Mazars, the reporting accountants, in respect of the unaudited pro forma consolidated statements of assets and liabilities of the Group.*

# Moores Rowland Mazars

摩斯倫 · 馬賽 會計師事務所

31 March 2005

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

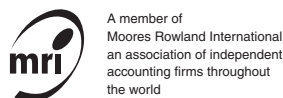
Dear Sirs,

We report on the unaudited pro forma net assets statement of the Group (as defined herein) set out on pages 3 to 4 in Appendix II to the circular dated 31 March 2005 issued by Jinhui Holdings Company Limited (the “Company”, and together with its subsidiaries are referred to as the “Group”), solely for illustrative purposes, to provide information about how the proposed acquisition of two vessels might have affected the 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 pro forma financial information is set out in the accompanying introduction and notes to the unaudited pro forma net assets statement of the Group.

**Responsibilities**

It is the responsibility solely of the directors of the Company to prepare the 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”). It is our responsibility to form an opinion, as required by the Listing Rules, on the 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 pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.



A member firm of Mazars



# Moores Rowland Mazars

## **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. 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 pro forma financial information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the pro forma financial information.

The unaudited pro forma net assets statement has been prepared based on the directors’ judgement and assumptions as set out on page 4 in Appendix II for illustrative purpose only and, because of its nature, it may not be indicative of the financial position of the Group as at 31 December 2004 or at any future date.

## **Opinion**

In our opinion:

- (a) the unaudited pro forma net assets statement 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 Company; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma net assets statement as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully

**Moores Rowland Mazars**

*Chartered Accountants*

*Certified Public Accountants*

Hong Kong

## 2. UNAUDITED PRO FORMA NET ASSETS STATEMENT OF THE GROUP

|  | <b>The Group<br/>as at<br/>31 December<br/>2004<br/>HK\$'000</b> | <b>Pro forma<br/>adjustments<br/>HK\$'000</b> | <i>Note (ii)</i> | <b>Pro forma<br/>balance<br/>HK\$'000</b> |
|--|--|---|------------------|---|
| <b>Non-current assets</b>                      |  |   |                  |   |
| Fixed assets                                   | 1,259,323  | 530,400                                       | <i>(a)</i>       | 1,789,723                                 |
| Intangible asset                               | 46,453   |   |                  | 46,453                                    |
| Interests in associates                        | (25)   |   |                  | (25)                                      |
| Other investments                              | 35,257   |   |                  | 35,257                                    |
| Other non-current assets                       | 34,076   |   |                  | 34,076                                    |
|  | <u>1,375,084</u>   |   |                  | <u>1,905,484</u>                          |
| <b>Current assets</b>                          |  |   |                  |   |
| Inventories                                    | 27,175   |   |                  | 27,175                                    |
| Short-term investments                         | 19,074   |   |                  | 19,074                                    |
| Trade receivables                              | 77,543   |   |                  | 77,543                                    |
| Prepayments, deposits and<br>other receivables | 136,396  |   |                  | 136,396                                   |
| Pledged deposits                               | 23,522   |   |                  | 23,522                                    |
| Bank balances and cash                         | 462,356  | (212,160)                                     | <i>(b)</i>       | 250,196                                   |
|  | <u>746,066</u>   |   |                  | <u>533,906</u>                            |
| <b>Current liabilities</b>                     |  |   |                  |   |
| Trade payables                                 | 70,733   |   |                  | 70,733                                    |
| Accrued charges and<br>other payables          | 255,530  |   |                  | 255,530                                   |
| Provision for losses                           | 202,913  |   |                  | 202,913                                   |
| Taxation                                       | 2,435  |   |                  | 2,435                                     |
| Secured bank loans                             | 45,914   | 23,868  | <i>(c)</i>       | 69,782                                    |
| Secured bank overdrafts                        | 9,835  |   |                  | 9,835                                     |
|  | <u>587,360</u>   |   |                  | <u>611,228</u>                            |
| <b>Non-current liabilities</b>                 |  |   |                  |   |
| Secured bank loans                             | 414,872  | 294,372                                       | <i>(c)</i>       | 709,244                                   |
| <b>Minority interests</b>                      |  |   |                  |   |
|  | <u>398,695</u>   |   |                  | <u>398,695</u>                            |
| <b>Net assets</b>                              | <u><u>720,223</u></u>  |   |                  | <u><u>720,223</u></u>                     |

*Notes:*

**(i) Purpose of the statement and basis of preparation**

The unaudited pro forma net assets statement of the Group has been prepared in accordance with Rule 4.29 of the Listing Rules for the purposes of providing Shareholders of the Company with information about the impact of the Acquisition by illustrating how the Acquisition of the Vessels might have affected the financial position of the Group as at 31 December 2004.

The unaudited pro forma net assets statement of the Group is based on the audited consolidated balance sheet of the Group as at 31 December 2004, which has been extracted from the annual report of the Company for the year ended 31 December 2004, incorporating the pro forma adjustments described in notes (ii) below.

The unaudited pro forma net assets statement is based on a number of assumptions, estimates and uncertainties. Accordingly, the statement does not purport to describe the actual financial position of the Group that would have been attained had the Acquisition been completed on 31 December 2004. Neither does the statement purport to predict the future financial position of the Group.

The unaudited pro forma net assets statement has been prepared in a manner consistent with both the format and accounting policies adopted by the Company in its audited consolidated financial statements for the year ended 31 December 2004.

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

- (a) The increase in fixed assets represents the total consideration for the Vessels of US\$68,000,000 (equivalent to HK\$530,400,000).
- (b) Total amount of approximately HK\$212,160,000 will be paid from the internal resources of the Group, thus reducing the bank balances and cash of the Group.
- (c) The Group shall raise sufficient long term bank financing of approximately HK\$318,240,000 to partially finance the Acquisition; of which approximately HK\$23,868,000 will be repayable within one year.

*The following is the text of valuation reports prepared for the purpose of incorporation in this circular received from Arrow Asia Shipbrokers Limited, an independent valuer, in connection with their valuation of the Vessels as at 22 February 2005.*



**ARROW**

ASIA SHIPBROKERS LIMITED

箭亞船舶經紀有限公司

Suite 4319A, Jardine House, 1 Connaught Place, Central, Hong Kong

Telephone: (852) 2520 0168 Facsimile: (852) 2865 9711

E-mail: chartering@arrowasialtd.com.hk, snp@arrowasialtd.com.hk

29 March 2005

Jinhui Holdings Company Limited  
26/F., Yardley Commercial Bldg.  
1-6 Connaught Road West  
Hong Kong

**VALUATION CERTIFICATE**

**M.V. "PROGRESO DOS"**

**Brief Description:**

|                       |  |
|-----------------------|--|
| Type of Vessel        | : Bulk Carrier                           |
| Flag                  | : Malta                                  |
| Built                 | : September 2001 at Mitsui, Chiba, Japan |
| Class                 | : NK                                     |
| Deadweight            | : 50,209 DWT on 11.925M                  |
| GRT / NRT             | : 27,993 / 17,077                        |
| Length of Overall     | : 189.80 M                               |
| Beam                  | : 32.26 M                                |
| Depth                 | : 16.90 M                                |
| Grain / Bale Capacity | : 63,198 / 60,713 cu.m.                  |
| No. of Holds/Hatches  | : 5 / 5                                  |
| Main Engine           | : B+W 6S50MC-C 10,998 BHP                |
| Gear                  | : Cranes 4 x 30 Tons                     |

We consider the value to be in the region of **US\$34,000,000 (United States Dollars Thirty Four Million)** only as at 22 February 2005, on a charter free basis, on the basis of a willing Buyer and a willing Seller, based upon standard sale terms as per NSF 1993.

...../2

# Arrow Asia Shipbrokers Ltd

## Valuation of M.V. “Progreso Dos” / Jinhui – P. 2

The above appraisal is only given subject to the following conditions:

The appraisal relates solely to the date above referred to and we emphasize that it is a statement of our opinion only and is without guarantee, and is not a representation of fact, nor of the correctness of the particulars of information available to us upon which our opinion is based.

All particulars above are from information given to us and such other information as we have been able to obtain from relevant works of reference in our possession, but we can accept no responsibility for their accuracy. We have not made a physical inspection of the vessel(s) nor have we inspected the vessel’s classification records.

The appraisal is solely for the information of the person instructing us but if he intends to act upon this appraisal he should first satisfy himself by inspection of the vessel(s) or otherwise as to the correctness of the particulars given.

Yours faithfully,  
for and on behalf of

**ARROW ASIA SHIPBROKERS LIMITED**

**Adam Goodman**  
(as a Valuer)





ARROW

ASIA SHIPBROKERS LIMITED

箭亞船舶經紀有限公司

Suite 4319A, Jardine House, 1 Connaught Place, Central, Hong Kong

Telephone: (852) 2520 0168 Facsimile: (852) 2865 9711

E-mail: chartering@arrowasialtd.com.hk, snp@arrowasialtd.com.hk

29 March 2005

Jinhui Holdings Company Limited  
 26/F., Yardley Commercial Bldg.  
 1-6 Connaught Road West  
 Hong Kong

VALUATION CERTIFICATE

**M.V. "FUTURO DOS"**

Brief Description:

|                       |   |                                     |
|-----------------------|---|-------------------------------------|
| Type of Vessel        | : | Bulk Carrier                        |
| Flag                  | : | Malta                               |
| Built                 | : | August 2001 at Mitsui, Chiba, Japan |
| Class                 | : | NK                                  |
| Deadweight            | : | 50,212 DWT on 11.925M               |
| GRT / NRT             | : | 27,993 / 17,077                     |
| Length of Overall     | : | 189.80 M                            |
| Beam                  | : | 32.26 M                             |
| Depth                 | : | 16.90 M                             |
| Grain / Bale Capacity | : | 63,198 / 60,713 cu.m.               |
| No. of Holds/Hatches  | : | 5 / 5                               |
| Main Engine           | : | B+W 6S50MC-C 10,998 BHP             |
| Gear                  | : | Cranes 4 x 30 Tons                  |

We consider the value to be in the region of **US\$34,000,000 (United States Dollars Thirty Four Million)** only as at 22 February 2005, on a charter free basis, on the basis of a willing Buyer and a willing Seller, based upon standard sale terms as per NSF 1993.

...../2

# Arrow Asia Shipbrokers Ltd

## Valuation of M.V. “Futuro Dos” / Jinhui – P. 2

The above appraisal is only given subject to the following conditions:

The appraisal relates solely to the date above referred to and we emphasize that it is a statement of our opinion only and is without guarantee, and is not a representation of fact, nor of the correctness of the particulars of information available to us upon which our opinion is based.

All particulars above are from information given to us and such other information as we have been able to obtain from relevant works of reference in our possession, but we can accept no responsibility for their accuracy. We have not made a physical inspection of the vessel(s) nor have we inspected the vessel’s classification records.

The appraisal is solely for the information of the person instructing us but if he intends to act upon this appraisal he should first satisfy himself by inspection of the vessel(s) or otherwise as to the correctness of the particulars given.

Yours faithfully,  
for and on behalf of

**ARROW ASIA SHIPBROKERS LIMITED**

**Adam Goodman**  
(as a Valuer)

## 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 Companies were as follows:

| Name               | Type of Interests                         | No. of Shares | Percentage of total issued Shares | No. of shares in Jinhui Shipping | Percentage of total issued shares in Jinhui Shipping |
|--------------------|---|---------------|-----------------------------------|----------------------------------|--|
| Ng Siu Fai         | Personal Interest                         | 695,600       | 1.31%                             | 746,000                          | 0.89%  |
|                    | Personal Interest (Option) <i>Note 2a</i> | 3,157,000     | 5.95%                             | –                                | –  |
|                    | Family Interest                           | 2,134,000     | 4.02%                             | –                                | –  |
|                    | Other Interests                           | <i>Note 1</i> | <i>Note 1</i>                     | <i>Note 1</i>                    | <i>Note 1</i>  |
| Ng Kam Wah Thomas  | Personal Interest (Option) <i>Note 2a</i> | 2,105,000     | 3.97%                             | –                                | –  |
|                    | Other Interests                           | <i>Note 1</i> | <i>Note 1</i>                     | <i>Note 1</i>                    | <i>Note 1</i>  |
| Ng Ki Hung Frankie | Personal Interest (Option) <i>Note 2b</i> | 300,000       | 0.57%                             | –                                | –  |
|                    | Other Interests                           | <i>Note 1</i> | <i>Note 1</i>                     | <i>Note 1</i>                    | <i>Note 1</i>  |
| Ho Suk Lin         | Personal Interest (Option) <i>Note 2b</i> | 500,000       | 0.94%                             | –                                | –  |

| Name                  | Type of Interests                            | No. of Shares | Percentage of total issued Shares | No. of shares in Jinhui Shipping | Percentage of total issued shares in Jinhui Shipping |
|-----------------------|--|---------------|-----------------------------------|----------------------------------|--|
| Cui Jianhua           | Personal Interest<br>(Option) <i>Note 2b</i> | 100,000       | 0.19%                             | –                                | –  |
| Tsui Che Yin<br>Frank | Personal Interest<br>(Option) <i>Note 2b</i> | 100,000       | 0.19%                             | –                                | –  |
| Yau William           | Personal Interest<br>(Option) <i>Note 2b</i> | 50,000        | 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 31,618,028 Shares (representing 59.63% of the total issued Shares) and 494,049 shares of US\$0.05 each in the share capital of Jinhui Shipping (representing 0.59% of the total issued shares). The Ng Hing Po 1991 Trust is a discretionary trust, the eligible beneficiaries of which include Messrs. Ng Siu Fai, Ng Kam Wah Thomas and Ng Ki Hung Frankie. Both Messrs. Ng Siu Fai and Ng Kam Wah Thomas are directors of Fairline.

*Note 2a:* 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:             | 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 22 December 2014 |
| Consideration Paid for options: | HK\$1.00   |
| Subscription Price:             | HK\$16.00 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   |

*Note 2b:* 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 Yau William 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\$16.00 per Share                  |

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest 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 had a service contract 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 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.
- (d) 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 SHAREHOLDER

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 Shareholder | No. of Shares | No. of Shares<br>(Option) | Percentage<br>of total<br>issued Shares |
|---------------------|---------------|---------------------------|---|
| Fairline            | 31,618,028    | –                         | 59.63%                                  |
| Wong Yee Man Gloria | 34,447,628 *  | –                         | 64.96%                                  |
|                     | –             | 3,157,000 **              | 5.95%                                   |

| Name of shareholder | No. of shares<br>in Jinhui Shipping | Percentage of<br>total issued shares<br>in Jinhui Shipping |
|---------------------|-------------------------------------|--|
| The Company         | 50,100,000                          | 59.61%   |

| Name of shareholder        | No. of shares<br>in Yee Lee Technology<br>Company Limited*** | Percentage of<br>total issued shares<br>in Yee Lee Technology<br>Company Limited*** |
|----------------------------|--|---|
| Pantow Profits Limited *** | 3,000,000  | 75.00%  |
| Asiawide Profits Limited   | 1,000,000  | 25.00%  |

- \* *The interest in Shares includes 2,134,000 Shares in which Ms Wong Yee Man Gloria is interested as a beneficial owner and 32,313,628 Shares in which she is deemed to be interested through the interest of her spouse, Mr Ng Siu Fai.*
- \*\* *Ms Wong Yee Man Gloria is deemed to be interested in the options to subscribe for the 3,157,000 Shares held by her spouse, Mr Ng Siu Fai.*
- \*\*\* *Yee Lee Technology Company Limited is a non wholly owned subsidiary of the Company. Pantow Profits Limited is a 100% wholly owned subsidiary of the Company.*

## LITIGATION

As at the Latest Practicable Date, Goldbeam Shipping Inc. (“Goldbeam”) an approximately 59.61 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

Within the two years preceding the date hereof, there is no contract (not being contracts entered into in the ordinary course of business) entered into by the members of the Group which is or may be material.

## EXPERTS

This circular includes statements made by experts, namely, Arrow Asia Shipbrokers Limited and Moores Rowland Mazars, a firm of Chartered Accountants and Certified Public Accountants. Arrow Asia Shipbrokers Limited offers ship valuation service which they have been providing for more than 5 years, for major shipowning groups, banks and financial institutions all over the world. Arrow Asia Shipbrokers Limited also offers detailed historical research, analysis on freight, newbuilding and second hand prices as well as providing data and information services to clients.

Arrow Asia Shipbrokers 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. Arrow Asia Shipbrokers 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 14 April 2005:

- (a) Memorandum and Articles of Association of the Company;
- (b) the 2003 and 2004 annual reports of the Company for the two financial years ended 31 December 2003 and 2004 respectively;
- (c) the written approval dated 23 February 2005 given by Fairline in relation to the Acquisition;
- (d) the First Memorandum and the Second Memorandum; and
- (e) 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 registrars and transfer office of the Company in Hong Kong is Standard Registrars Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.