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## IMPORTANT

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

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

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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## **JINHUI HOLDINGS COMPANY LIMITED**

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 137)

### **MAJOR TRANSACTION REGARDING THE DISPOSAL OF 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:*

“associates”	shall have the same meaning ascribed to it by the Listing Rules;
“Board”	the board of Directors;
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
“Company”	Jinhui Holdings Company Limited;
“Directors”	the directors of the Company;
“Disposals”	the disposal of the First Vessel and the Second Vessel under the First Memorandum and the Second Memorandum;
“Fairline”	Fairline Consultants Limited, a limited liability company incorporated in the British Virgin Islands, which is the controlling shareholder of the Company holding approximately 57.74 per cent. of the issued share capital and voting rights in general meetings of the Company as at the Latest Practicable Date;
“First Memorandum”	the memorandum of agreement dated 8 July 2004 between the First Vendor and the Purchaser in respect of the disposal of the First Vessel;
“First Vendor”	Jintai Marine Inc., a wholly owned subsidiary of Jinhui Shipping;
“First Vessel”	the motor vessel “Jin Tai” registered in Hong Kong;
“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 50.9 per cent owned subsidiary of the Company whose shares are listed on the Oslo Stock Exchange, Norway;
“Latest Practicable Date”	27 July 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular;

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## DEFINITIONS

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“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Purchaser”	Sun Enterprises S.A.;
“Second Memorandum”	the memorandum of agreement dated 8 July 2004 between the Second Vendor and the Purchaser in respect of the disposal of the Second Vessel;
“Second Vendor”	Jinkang Marine Inc., a wholly owned subsidiary of Jinhui Shipping;
“Second Vessel”	the motor vessel “Jin Kang” registered in Hong Kong;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholders”	holders of Shares;
“Share(s)”	ordinary share(s) of HK\$1.00 each in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“US\$”	United States dollars, the lawful currency of the United States of America, for the purpose of illustration only, translated into HK\$ at the rate of US\$1.00 = HK\$7.80



**JINHUI HOLDINGS COMPANY LIMITED**

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 137)

*Directors:*

Ng Siu Fai (*Chairman*)  
Ng Kam Wah Thomas (*Managing Director*)  
Ng Ki Hung Frankie  
Ho Suk Lin  
Ho Kin Lung\*  
So Wing Hung Peter\*  
Cui Jian Hua\*\*  
Tsui Che Yin Frank\*\*

*Registered office:*

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

\* *Non-executive director*

\*\* *Independent non-executive director*

30 July 2004

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION  
REGARDING THE DISPOSAL OF VESSELS**

**INTRODUCTION**

The Directors refer to the announcement of the Company dated 9 July 2004 in relation to the following:

- (a) the First Memorandum entered into on 8 July 2004 between the First Vendor and the Purchaser for the disposal of the First Vessel at a consideration of US\$29,500,000 (approximately HK\$230,100,000); and
- (b) the Second Memorandum entered into on 8 July 2004 between the Second Vendor and the Purchaser for the disposal of the Second Vessel, at a consideration of US\$27,000,000 (approximately HK\$210,600,000).

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## LETTER FROM THE BOARD

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The Purchaser is a private shipping company headquartered in Greece with a fleet size of approximately 70 vessels, operating out of offices in London, New York and Greece. To the best of the Board's knowledge, information and belief having made all reasonable enquiry, the Purchaser and its ultimate beneficial owners are third parties independent of the Company and are not connected persons (as defined in the Listing Rules) of the Company.

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

### THE DISPOSALS

Under the First Memorandum, the First Vendor agrees to dispose of the First Vessel for a consideration of US\$29,500,000 (approximately HK\$230,100,000) payable by two instalments. An initial deposit of US\$2,950,000 (approximately HK\$23,010,000) was paid by the Purchaser on 13 July 2004 to a bank account in the joint names of the First Vendor and the Purchaser until released on delivery of the First Vessel (see below). The balance of the consideration for the First Vessel is payable on the delivery of the First Vessel which is expected to take place between 20 August 2004 and 15 November 2004, at the First Vendor's option.

Under the Second Memorandum, the Second Vendor agrees to dispose of the Second Vessel for a consideration of US\$27,000,000 (approximately HK\$210,600,000) payable by two instalments. An initial deposit of US\$2,700,000 (approximately HK\$21,060,000) was paid by the Purchaser on 23 July 2004 to a bank account in the joint names of the Second Vendor and the Purchaser until released on delivery of the Second Vessel (see below). The balance of the consideration for the Second Vessel is payable on the delivery of the Second Vessel which is expected to take place between 15 October 2004 and 30 November 2004, at the Second Vendor's option.

The First Memorandum and the Second Memorandum are not inter-conditional.

The aggregate consideration for the Disposals is US\$56,500,000 (approximately HK\$440,700,000). The consideration 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 First Memorandum and the Second Memorandum, driven by supply and demand and based on arm's length negotiations with the Purchaser. The net book value as at 31 December 2003 of the First Vessel was US\$20,643,682 and the Second Vessel was US\$19,980,844.

### THE VESSELS

The First Vessel and the Second Vessel are dry bulk carriers each of dead weight tonnage of 74,204 tonnes, built in 2002 and registered in Hong Kong. The net profit both before and after taxation and extraordinary items attributable to the First Vendor (a special purpose holding company whose only asset is the First Vessel) for the two financial years ended 31 December 2003 are HK\$3,575,161 and HK\$15,708,412 respectively.

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## LETTER FROM THE BOARD

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The net profit both before and after taxation and extraordinary items attributable to the Second Vendor (a special purpose holding company whose only asset is the Second Vessel) for the two financial years ended 31 December 2003 are HK\$3,606,572 and HK\$9,949,563 respectively.

### REASONS FOR THE DISPOSALS

The Directors continuously review the prevailing market conditions of the shipping industry and monitor and adjust the Group's fleet size as appropriate. The Directors believe that the Disposals are a good opportunity to realize the book gains arising from the sale of the two vessels, and will enable the Group to enhance its working capital position. The Disposals will not have any material adverse effect on the operation of the Group. Taking into account completion of the Disposals, the Group will own 8 vessels, with a further 5 vessels contracted for delivery in 2005 and 2007.

The terms and conditions of the First Memorandum and Second Memorandum have been agreed on normal commercial terms following arm's length negotiations. The Board considers such terms and conditions to be fair and reasonable and in the best interests of the Company and its Shareholders as a whole. Based on the net book values of the First Vessel and the Second Vessel as at 31 December 2003 as described above, the Group would realize a book gain of approximately HK\$33.2 million on the disposal of the First Vessel and HK\$26.3 million on the disposal of the Second Vessel. However, the actual book gain which the Group would realize upon completion of the Disposals will depend on the actual book values of the vessels as at the dates of their delivery in accordance with the Group's depreciation policy for its vessels (as shown in the Company's annual report) which is provided to write off the cost or valuation of motor vessels over their estimated useful lives after taking into account their estimated residual values using the straight-line method of 25 years from the date on which they become fully operational.

### USE OF PAYMENT RECEIVED

The Group intends to use approximately HK\$187.4 million of the payment received pursuant to the First Memorandum and the Second Memorandum to repay bank loans and the balance as additional working capital of the Group.

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## LETTER FROM THE BOARD

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### GENERAL

The principal businesses of the Group include ship chartering, ship owning and trading. Under the Listing Rules, the First Disposal and the Second Disposal constitute a major transaction for the Company and are subject to Shareholders' approval in general meeting in accordance with Rule 14.44 of the Listing Rules. However, Fairline, the controlling shareholder of the Company holding approximately 57.74 per cent. of the issued share capital of the Company and voting rights in general meeting, has given to the Company its irrevocable approval in writing to the Disposals. Fairline is not interested in the Disposals (other than through its shareholding interest in the Company and its approximately 0.50 per cent. shareholding interest in Jinhui Shipping). Accordingly, no Shareholder is required to abstain from voting in the general meeting. The Company has applied for a waiver from the Stock Exchange from the requirement to convene a general meeting pursuant to Rule 14.44 of the Listing Rules and the Stock Exchange has confirmed that the Company is not required to convene a general meeting to obtain an approval of the Disposals from the Shareholders.

Your attention is also 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 2003 as extracted from the annual report of the Company for the year ended 31 December 2003.*

**CONSOLIDATED INCOME STATEMENT**

*Year ended 31 December 2003*

	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>1,048,515</u>	<u>756,179</u>	<u>864,485</u>
Profit (Loss) from operations	98,745	(89,290)	576
Share of results of associates	–	–	(133)
Interest income	4,279	6,113	18,147
Interest expenses	<u>(20,947)</u>	<u>(22,250)</u>	<u>(24,454)</u>
Profit (Loss) before taxation	82,077	(105,427)	(5,864)
Taxation	<u>(64)</u>	<u>(667)</u>	<u>(325)</u>
Profit (Loss) from ordinary activities after taxation	82,013	(106,094)	(6,189)
Minority interests	<u>(45,337)</u>	<u>43,755</u>	<u>(12,267)</u>
Net profit (loss) for the year	<u>36,676</u>	<u>(62,339)</u>	<u>(18,456)</u>
Basic earnings (loss) per share	<u>HK\$0.70</u>	<u>(HK\$1.18)</u>	<u>(HK\$0.35)</u>

**CONSOLIDATED BALANCE SHEET**

*At 31 December 2003*

	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed assets	1,430,045	1,387,830	1,112,779
Intangible asset	119	134	148
Interests in associates	(27)	(28)	(28)
Other investments	37,789	40,320	54,151
Other non-current assets	21,549	26,188	3,626
Current assets	346,086	272,794	425,192
Current liabilities	(303,838)	(240,180)	(266,545)
Non-current liabilities	(643,891)	(690,665)	(426,844)
Minority interests	<u>(395,135)</u>	<u>(349,218)</u>	<u>(392,969)</u>
Net assets	<u>492,697</u>	<u>447,175</u>	<u>509,510</u>
Issued capital	52,624	52,624	52,624
Reserves	<u>440,073</u>	<u>394,551</u>	<u>456,886</u>
Shareholders' equity	<u>492,697</u>	<u>447,175</u>	<u>509,510</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 2003, together with accompanying notes.

### CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2003

	<i>Note</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
<b>Turnover</b>	3	1,048,515	756,179
Other operating income		56,251	54,859
Reversal of (Provision for) impairment loss of fixed assets		104,276	(12,661)
Voyage related expenses		(727,327)	(470,012)
Cost of trading goods sold		(214,974)	(180,815)
Staff costs		(34,797)	(34,235)
Other operating expenses		(40,958)	(49,229)
Other net expenses		(27,670)	(85,173)
Depreciation and amortization		(64,571)	(68,203)
<b>Profit (Loss) from operations</b>	4	98,745	(89,290)
Interest income		4,279	6,113
Interest expenses	5	(20,947)	(22,250)
<b>Profit (Loss) before taxation</b>		82,077	(105,427)
Taxation	8	(64)	(667)
<b>Profit (Loss) from ordinary activities after taxation</b>		82,013	(106,094)
Minority interests		(45,337)	43,755
<b>Net profit (loss) for the year</b>	9	<u>36,676</u>	<u>(62,339)</u>
<b>Basic earnings (loss) per share (2002: restated)</b>	11	<u>HK\$0.70</u>	<u>(HK\$1.18)</u>

## STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2003

	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
<b>Group</b>		
Shareholders' equity at 1 January	447,175	509,510
Exchange reserve arising on consolidation	(1)	4
Release on disposal of a subsidiary	(148)	–
Reversal of impairment loss of fixed assets	8,995	–
Net gains not recognized in the income statement	8,846	4
Net profit (loss) for the year	36,676	(62,339)
<b>Shareholders' equity at 31 December</b>	<b>492,697</b>	<b>447,175</b>
<b>Company</b>		
Shareholders' equity at 1 January	493,091	520,280
Net loss for the year	(15,127)	(27,189)
<b>Shareholders' equity at 31 December</b>	<b>477,964</b>	<b>493,091</b>

**BALANCE SHEETS***At 31 December 2003*

	<i>Note</i>	<b>Group</b>		<b>Company</b>	
		<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</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	12	1,430,045	1,387,830	–	–
Intangible asset	13	119	134	–	–
Interests in subsidiaries	14	–	–	489,009	501,331
Interests in associates	15	(27)	(28)	–	–
Other investments	16	37,789	40,320	5,000	5,000
Other non-current assets	17	21,549	26,188	–	–
		<u>1,489,475</u>	<u>1,454,444</u>	<u>494,009</u>	<u>506,331</u>
<b>Current assets</b>					
Inventories	18	34,161	31,107	–	–
Short-term investments	19	10,445	31,376	–	4,684
Trade receivables	20	75,435	67,012	–	–
Prepayments, deposits and other receivables		72,938	26,855	318	166
Pledged deposits	27(b)	30,551	30,470	–	–
Bank balances and cash		122,556	85,974	67	515
		<u>346,086</u>	<u>272,794</u>	<u>385</u>	<u>5,365</u>
<b>Current liabilities</b>					
Trade payables	21	56,098	57,104	–	–
Accrued charges and other payables		141,581	82,966	468	3,251
Taxation		510	465	–	–
Secured bank loans	22	63,309	62,538	–	–
Secured bank overdrafts	22	42,340	37,107	15,962	15,354
		<u>303,838</u>	<u>240,180</u>	<u>16,430</u>	<u>18,605</u>
<b>Net current assets (liabilities)</b>		<u>42,248</u>	<u>32,614</u>	<u>(16,045)</u>	<u>(13,240)</u>
<b>Total assets less current liabilities</b>		<u>1,531,723</u>	<u>1,487,058</u>	<u>477,964</u>	<u>493,091</u>

	<i>Note</i>	<b>Group</b>		<b>Company</b>	
		<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current liabilities</b>					
Secured bank loans	22	643,891	690,665	–	–
<b>Minority interests</b>		395,135	349,218	–	–
<b>Net assets</b>		<u>492,697</u>	<u>447,175</u>	<u>477,964</u>	<u>493,091</u>
<b>CAPITAL AND RESERVES</b>					
Issued capital	23	52,624	52,624	52,624	52,624
Reserves	24	440,073	394,551	425,340	440,467
<b>Shareholders' equity</b>		<u>492,697</u>	<u>447,175</u>	<u>477,964</u>	<u>493,091</u>

**CONSOLIDATED CASH FLOW STATEMENT***Year ended 31 December 2003*

	<i>Note</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>			
Cash generated from operations	25(a)	81,343	20,257
Claim received		3,168	–
Interest paid		(21,032)	(22,127)
Hong Kong Profits Tax paid		(19)	(589)
<b>Net cash generated from (used in) operating activities</b>		<u>63,460</u>	<u>(2,459)</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of fixed assets		(29,998)	(408,736)
Proceeds from disposal of fixed assets, other than investment properties		42,452	43,725
Proceeds from disposal of an investment property		–	4,840
Proceeds from termination of investment in toll road		–	13,650
Net cash (outflow) inflow on disposal of a subsidiary	25(b)	(291)	1,000
Interest received		4,728	6,313
Net amount of loan received (advanced)		5,200	(866)
Dividend and investment income received, including toll income received		8,435	14,797
Net repayment to associates		(1)	–
<b>Net cash generated from (used in) investing activities</b>		<u>30,525</u>	<u>(325,277)</u>
<b>FINANCING ACTIVITIES</b>			
New bank loans		–	343,161
Repayment of bank loans		(62,555)	(103,564)
Increase in pledged deposits		(81)	(23,101)
<b>Net cash (used in) generated from financing activities</b>		<u>(62,636)</u>	<u>216,496</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		31,349	(111,240)
<b>Cash and cash equivalents at 1 January</b>		<u>48,867</u>	<u>160,107</u>
<b>Cash and cash equivalents at 31 December</b>	25(c)	<u><u>80,216</u></u>	<u><u>48,867</u></u>

**NOTES TO THE FINANCIAL STATEMENTS**

*Year ended 31 December 2003*

**1. CHANGES IN ACCOUNTING POLICIES**

In the current year, the Group has adopted Statement of Standard Accounting Practice (“SSAP”) 12 (Revised) “Income Taxes” issued by the Hong Kong Society of Accountants (“HKSA”). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. SSAP 12 (Revised) has been applied retrospectively and certain comparative information has been restated to conform to the current year’s presentation. The adoption of SSAP 12 (Revised) has no material effect on the Group’s results other than presentational changes.

**2. PRINCIPAL ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with SSAPs and Interpretations issued by the HKSA, 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. 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 properties, leasehold land and buildings and motor vessels and improvement and the marking to market of certain investments in securities, 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. Any negative goodwill arising on acquisition is presented as a deduction from goodwill and is released to the income statement based on an analysis of the circumstances from which the balance resulted.

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.

*Other 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.

### **Fixed assets**

*Investment properties* are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long-term basis for their investment potential. Investment properties are stated at their open market values on the basis of annual professional valuations. Changes in the values of investment properties 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 properties, 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 HKSA 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 properties 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 costs 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.

**Cash equivalents**

For the purpose of consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change 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 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, bank overdrafts, financing expenses and minority interests.

### 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. During the year, the Group disposed of a subsidiary which carried out the Group's operations in transportation and warehousing. The disposed subsidiary did not contribute significant revenue and results for current and prior years.

Turnover and revenue recognized by category are analyzed as follows:

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>		
Chartering freight and hire:		
Hire income under time charter from owned vessels	268,320	215,403
Other chartering freight and hire income	540,725	328,238
Trading	239,470	209,098
Transportation and warehousing	—	3,440
	1,048,515	756,179
<b>Other revenue</b>		
Dividend and investment income from co-operative joint ventures	7,786	9,759
Interest income	4,279	6,113
	1,060,580	772,051
<b>Revenue</b>	<b>1,060,580</b>	<b>772,051</b>

**4. PROFIT (LOSS) FROM OPERATIONS**

This is stated after charging (crediting):

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration	663	675
Cost of inventories	266,464	230,481
Amortization of other investments	2,531	3,289
Amortization of intangible asset	15	14
Hire payments under time charters	358,668	238,645
Operating lease charges in respect of land and buildings	4,674	5,102
Exchange loss, including unrealized provision, for foreign currency exposures	43,090	55,356
Loss on disposal/written off of fixed assets, other than investment properties	422	4,699
Loss on disposal of an investment property	-	860
Gain on disposal of a subsidiary	(422)	-
Net (gain) loss on disposal of short-term investments, including unrealized holding loss of HK\$76,000 (2002: HK\$10,131,000)	(6,943)	10,888
Gain on termination of investment in toll road	-	(4,222)
Provision for bad and doubtful debts	1,680	1,980
Provision for impairment loss of other investments (included in other operating expenses)	-	114
(Write-back of provision for) Provision for a claim receivable	(6,688)	30,200
Retirement benefits scheme contributions net of forfeited contributions of HK\$37,000 (2002: HK\$345,000)	1,658	1,485
Revaluation (surplus) deficit of an investment property	(4,200)	2,000
Gross rental income of HK\$716,000 (2002: HK\$912,000) net of outgoings from operating lease on an investment property	(606)	(873)
	<u>(606)</u>	<u>(873)</u>

**5. INTEREST EXPENSES**

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interests on bank loans and overdrafts:		
Wholly repayable within five years	6,078	6,780
Not wholly repayable within five years	14,869	15,470
	<u>20,947</u>	<u>22,250</u>

## 6. DIRECTORS' EMOLUMENTS

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Directors' fees	5,972	5,972
Other emoluments:		
Salaries and other benefits	7,183	4,088
Retirement benefits scheme contributions	89	89
	13,244	10,149
	13,244	10,149

The directors' emoluments included fee of HK\$60,000 (2002: HK\$60,000) paid to the independent non-executive directors during the year.

Emoluments of the directors were within the following bands:

	Number of directors	
	2003	2002
HK\$0 – HK\$1,000,000	4	4
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$3,000,001 – HK\$3,500,000	–	1
HK\$4,500,001 – HK\$5,000,000	2	–
	8	8
	8	8

## 7. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included four (2002: four) directors whose details of emoluments are set out in note 6 above. Emoluments of the remaining one (2002: one) individual were as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Salaries and other benefits	1,895	1,808
Retirement benefits scheme contributions	30	30
	1,925	1,838
	1,925	1,838

The emoluments of the one (2002: one) individual with the highest emoluments were within the following band:

	Number of individual	
	2003	2002
HK\$1,500,001 – HK\$2,000,000	<u>1</u>	<u>1</u>

## 8. TAXATION

	Group	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong Profits Tax:		
Current year	491	670
Over provision in prior years	(427)	(3)
	<u>64</u>	<u>667</u>

Hong Kong Profits Tax has been provided at the rate of 17.5% (2002: 16%) 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	
	2003	2002
	HK\$'000	HK\$'000
Profit (Loss) before taxation	82,077	(105,427)
Income tax at the rates applicable to profits in the tax jurisdiction concerned	(4,803)	(7,167)
Non-deductible expenses	921	2,945
Tax exempt revenue	(2,079)	(3,665)
Unrecognized tax losses	7,238	8,494
Unrecognized temporary differences	(501)	45
Utilization of previously unrecognized tax losses	(311)	(4)
Over provision in prior years	(427)	(3)
Others	26	22
Tax expense for the year	<u>64</u>	<u>667</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.

**9. NET PROFIT (LOSS) FOR THE YEAR**

The net profit (loss) for the year included a loss of HK\$15,127,000 (2002: HK\$27,189,000) which has been dealt with in the financial statements of the Company.

**10. DIVIDENDS**

The Board has resolved not to recommend the payment of any final dividend for the year (2002: nil). As interim dividend has also not been declared in the year (2002: nil), there will be no dividend distribution for the whole year of 2003 (2002: nil).

**11. EARNINGS (LOSS) PER SHARE**

Basic earnings (loss) per share for the year is calculated on the net profit attributable to shareholders for the year of HK\$36,676,000 (2002: net loss of HK\$62,339,000) and on the weighted average number of 52,624,248 (2002: 52,624,248) shares in issue during the year. The weighted average number of ordinary shares outstanding for both years presented have been adjusted for the consolidation of shares effective on 2 June 2003 (note 23).

Diluted earnings (loss) per share is not presented as there is no potential ordinary share in issue during both years.

## 12. FIXED ASSETS

## Group

	Investment property HK\$'000	Leasehold land and buildings HK\$'000	Property under development HK\$'000	Motor vessels and improvement HK\$'000	Vessels under construction HK\$'000	Plant and machinery HK\$'000	Leasehold improvement, utility vessels, furniture and equipment HK\$'000	Total HK\$'000
<b>Cost or valuation</b>								
At 1 January 2003	15,800	210,670	69,356	1,759,009	-	1,300	32,175	2,088,310
Additions	-	-	529	3,525	24,644	-	1,300	29,998
On disposal of a subsidiary	-	(422)	-	-	-	-	(471)	(893)
Disposals/Write off	-	-	-	(111,953)	-	(458)	(1,581)	(113,992)
Revaluation	4,200	-	-	-	-	-	-	4,200
<b>At 31 December 2003</b>	<b>20,000</b>	<b>210,248</b>	<b>69,885</b>	<b>1,650,581</b>	<b>24,644</b>	<b>842</b>	<b>31,423</b>	<b>2,007,623</b>
<b>Accumulated depreciation and impairment losses</b>								
At 1 January 2003	-	140,421	54,356	477,212	-	1,041	27,450	700,480
Charge for the year	-	1,620	-	58,442	-	57	1,906	62,025
Eliminated on disposal of a subsidiary	-	(136)	-	-	-	-	(402)	(538)
Eliminated on disposals/ written off	-	-	-	(69,522)	-	(325)	(1,271)	(71,118)
Impairment loss reversed	-	-	-	(113,271)	-	-	-	(113,271)
<b>At 31 December 2003</b>	<b>-</b>	<b>141,905</b>	<b>54,356</b>	<b>352,861</b>	<b>-</b>	<b>773</b>	<b>27,683</b>	<b>577,578</b>
<b>Net book value</b>								
<b>At 31 December 2003</b>	<b>20,000</b>	<b>68,343</b>	<b>15,529</b>	<b>1,297,720</b>	<b>24,644</b>	<b>69</b>	<b>3,740</b>	<b>1,430,045</b>
At 1 January 2003	15,800	70,249	15,000	1,281,797	-	259	4,725	1,387,830
<b>Analysis of cost or valuation of fixed assets</b>								
At 31 December 2003								
At cost	-	157,248	69,885	1,305,899	24,644	842	31,423	1,589,941
At professional valuation in:								
1994	-	53,000	-	344,682	-	-	-	397,682
2003	20,000	-	-	-	-	-	-	20,000
	<b>20,000</b>	<b>210,248</b>	<b>69,885</b>	<b>1,650,581</b>	<b>24,644</b>	<b>842</b>	<b>31,423</b>	<b>2,007,623</b>

During the year, favourable indicative shipping market index and the increased demand for the Group's ship chartering caused the Group to assess the recoverable amount of its motor vessels, which had been impaired in previous years. Based on this assessment, the carrying amount of these motor vessels was increased by HK\$113,271,000. The estimates of recoverable amount were based on the net selling price of transactions around balance sheet date in an active resale market.

Investment property of the Group was revalued at balance sheet date by Midland 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>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold land and buildings	<u>68,343</u>	<u>70,249</u>
Motor vessels and improvement	<u>1,262,137</u>	<u>1,281,797</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>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Medium term lease:		
Property under development in Hong Kong	15,529	15,000
Long term leases:		
Leasehold land and buildings in Hong Kong	68,343	69,962
Leasehold land and buildings outside Hong Kong	–	287
Investment property in Hong Kong	<u>20,000</u>	<u>15,800</u>
	<u>103,872</u>	<u>101,049</u>

## 13. INTANGIBLE ASSET

	<b>Group</b>	
	<b>2003</b>	<b>2002</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	116	102
Charge for the year	15	14
<b>At 31 December</b>	131	116
<b>Net book value</b>		
<b>At 31 December</b>	119	134

## 14. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed shares on 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	141,092	153,462
Due to subsidiaries	(3,798)	(3,846)
	489,009	501,331

Details of the Company's principal subsidiaries are set out in note 35 to the financial statements.

The market value of one of the subsidiaries, Jinhui Shipping, whose shares are listed on the Oslo Stock Exchange, amounted to approximately HK\$423,148,000 (2002: HK\$66,321,000) at balance sheet date.

## 15. INTERESTS IN ASSOCIATES

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Share of net assets	23	23
Due to associates	(50)	(51)
	(27)	(28)
	(27)	(28)

## 16. OTHER INVESTMENTS

	Group		Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Toll road, at cost	–	15,600	–	–
Less: Accumulated amortization	–	(6,172)	–	–
Eliminated on termination	–	(9,428)	–	–
	–	–	–	–
Co-operative joint ventures, at cost	78,648	78,648	–	–
Less: Accumulated amortization	(24,253)	(21,722)	–	–
Accumulated impairment losses	(24,016)	(24,016)	–	–
	30,379	32,910	–	–
Unlisted club debentures, at cost	7,410	8,524	5,000	5,000
Less: Provision for impairment loss	–	(114)	–	–
Disposal	–	(1,000)	–	–
	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)	–	–
	–	–	–	–
	37,789	40,320	5,000	5,000

## 17. OTHER NON-CURRENT ASSETS

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred drydocking expenses, at cost	11,417	14,398
Less: Amount written off	(6,868)	(10,210)
	<u>4,549</u>	<u>4,188</u>
Loan receivable	20,800	26,000
Less: Amount included in current assets	(3,800)	(4,000)
	<u>17,000</u>	<u>22,000</u>
Loan receivable due over one year	17,000	22,000
	<u>21,549</u>	<u>26,188</u>

## 18. INVENTORIES

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Ship stores	4,187	1,639
Trading goods	29,974	29,468
	<u>34,161</u>	<u>31,107</u>

Inventories at balance sheet date were carried at cost.

## 19. SHORT-TERM INVESTMENTS

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Debts securities, at fair value:				
Listed outside Hong Kong	363	744	-	-
Unlisted	-	7,761	-	-
	<u>363</u>	<u>8,505</u>	<u>-</u>	<u>-</u>
Equity securities, at fair value:				
Listed in Hong Kong	7,694	21,316	-	4,684
Listed outside Hong Kong	2,388	1,555	-	-
	<u>10,082</u>	<u>22,871</u>	<u>-</u>	<u>4,684</u>
	<u>10,445</u>	<u>31,376</u>	<u>-</u>	<u>4,684</u>

**20. 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>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 90 days	60,431	41,640
91 – 180 days	11,953	22,102
181 – 365 days	1,520	2,484
Over 365 days	1,531	786
	75,435	67,012
	75,435	67,012

**21. TRADE PAYABLES**

The aging analysis of trade payables is as follows:

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 90 days	47,579	45,623
91 – 180 days	1,126	711
181 – 365 days	279	740
Over 365 days	7,114	10,030
	56,098	57,104
	56,098	57,104

## 22. SECURED BANK LOANS AND OVERDRAFTS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The maturity of secured bank loans and overdrafts is as follows:				
Within one year	105,649	99,645	15,962	15,354
After one year but within two years	63,215	62,608	–	–
After two years but within five years	187,953	188,463	–	–
After five years	392,723	439,594	–	–
	<u>749,540</u>	<u>790,310</u>	<u>15,962</u>	<u>15,354</u>
Less: Amount included in current liabilities				
Secured bank loans	(63,309)	(62,538)	–	–
Secured bank overdrafts	<u>(42,340)</u>	<u>(37,107)</u>	<u>(15,962)</u>	<u>(15,354)</u>
Amount included in non-current liabilities	<u>643,891</u>	<u>690,665</u>	<u>–</u>	<u>–</u>

## 23. ISSUED CAPITAL

## Company

	2003		2002	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
<i>Authorized:</i>				
At 1 January	1,000,000,000	100,000	1,000,000,000	100,000
Consolidation of shares	<u>(900,000,000)</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>At 31 December</b>	<u>100,000,000</u>	<u>100,000</u>	<u>1,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>				
At 1 January	526,242,488	52,624	526,242,488	52,624
Consolidation of shares	<u>(473,618,232)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Cancellation of repurchased shares	<u>(8)</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>At 31 December</b>	<u>52,624,248</u>	<u>52,624</u>	<u>526,242,488</u>	<u>52,624</u>

At the annual general meeting of the Company held on 30 May 2003, the resolutions regarding the consolidation of every 10 issued and unissued shares of HK\$0.10 each in the capital of the Company into 1 consolidated share of HK\$1.00 each (“Share Consolidation”) were approved by the shareholders of the Company. With effect from 2 June 2003, the authorized share capital of the Company has become HK\$100 million divided into 100 million shares of HK\$1.00 each, of which 52,624,248 shares were issued and fully paid.

## 24. RESERVES

## Group

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Other asset revaluation reserve <i>HK\$'000</i>	Accumulated profits (losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	288,733	139,652	2,023	–	26,478	456,886
Exchange reserve arising on consolidation	–	4	–	–	–	4
Net loss for the year	–	–	–	–	(62,339)	(62,339)
At 31 December 2002	288,733	139,656	2,023	–	(35,861)	394,551
Exchange reserve arising on consolidation	–	(1)	–	–	–	(1)
Release on disposal of a subsidiary	–	(148)	–	–	–	(148)
Reversal of impairment loss of fixed assets	–	4,417	–	4,578	–	8,995
Net profit for the year	–	–	–	–	36,676	36,676
<b>At 31 December 2003</b>	<b>288,733</b>	<b>143,924</b>	<b>2,023</b>	<b>4,578</b>	<b>815</b>	<b>440,073</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 subsidiaries and associates, revaluation of fixed assets and foreign currency translation.

## Company

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	288,733	–	2,023	176,900	467,656
Net loss for the year	–	–	–	(27,189)	(27,189)
At 31 December 2002	288,733	–	2,023	149,711	440,467
Net loss for the year	–	–	–	(15,127)	(15,127)
<b>At 31 December 2003</b>	<b>288,733</b>	<b>–</b>	<b>2,023</b>	<b>134,584</b>	<b>425,340</b>

Accumulated 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\$102,364,000 (2002: HK\$117,491,000).

## 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Cash generated from operations

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (Loss) before taxation	82,077	(105,427)
Depreciation and amortization	64,571	68,203
Interest income	(4,279)	(6,113)
Interest expenses	20,947	22,250
Dividend income from short-term investments	(649)	(1,683)
Dividend and investment income, including toll income	(7,786)	(12,333)
Loss on disposal/written off of fixed assets, other than investment properties	422	4,699
Loss on disposal of an investment property	-	860
Gain on disposal of a subsidiary	(422)	-
Gain on termination of investment in toll road	-	(4,222)
Provision for bad and doubtful debts	1,680	1,980
(Reversal of) Provision for impairment loss of fixed assets	(104,276)	12,661
Provision for impairment loss of other investments	-	114
(Write-back of provision for) Provision for a claim receivable	(6,688)	30,200
Revaluation (surplus) deficit of an investment property	(4,200)	2,000
Net drydocking expense deferred	(361)	(562)
Effects of exchange rates movement	16,549	20,985
Changes in working capital:		
Inventories	(3,062)	(10,420)
Short-term investments	20,931	(1,982)
Trade receivables	(9,764)	9,170
Prepayments, deposits and other receivables	(44,703)	2,784
Trade payables	(1,006)	(11,449)
Accrued charges and other payables	61,362	(1,458)
<b>Cash generated from operations</b>	<b>81,343</b>	<b>20,257</b>

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

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net (liabilities) assets disposed of:		
Fixed assets	355	–
Other investments	–	1,000
Inventories	8	–
Trade receivables	67	–
Prepayments, deposits and other receivables	1,085	–
Bank balances and cash	291	–
Accrued charges and other payables	(2,662)	–
	<u>(856)</u>	<u>1,000</u>
Minority interests	582	–
Capital reserve released	(148)	–
Gain on disposal of a subsidiary	422	–
	<u>–</u>	<u>1,000</u>
Total consideration, satisfied by cash	<u>–</u>	<u>1,000</u>
Net cash (outflow) inflow arising on disposal of a subsidiary:		
Cash consideration	–	1,000
Bank balances and cash disposed	(291)	–
	<u>(291)</u>	<u>1,000</u>

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

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank balances and cash	122,556	85,974
Secured bank overdrafts	(42,340)	(37,107)
	<u>80,216</u>	<u>48,867</u>

## 26. DEFERRED TAXATION

## Unrecognized deferred tax assets

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deductible temporary differences	4,217	4,345
Tax losses	73,578	61,249
	<u>77,795</u>	<u>65,594</u>
At 31 December	<u>77,795</u>	<u>65,594</u>

Both the tax losses and the deductible temporary differences have no expiry date under current tax legislation. Deferred tax assets have not been recognized in respect of these items because of uncertainty of their recoverability.

## 27. PLEDGE OF ASSETS

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

- (a) Legal charges on the Group's investment property, leasehold land and buildings and motor vessels with an aggregate net book value of HK\$1,192,488,000 (2002: HK\$1,154,813,000);
- (b) Deposits totalling HK\$30,551,000 (2002: HK\$30,470,000) of the Group placed with banks;
- (c) Short-term investments in securities with fair values totalling HK\$1,767,000 (2002: HK\$21,399,000) of the Group placed with a bank;
- (d) Legal charges on shares of seven (2002: seven) ship owning subsidiaries of the Company; and
- (e) Assignment agreements entered into with banks assigning seven (2002: seven) ship owning subsidiaries' chartering income in favour of banks.

## 28. COMMITMENTS

### (a) Capital expenditure commitments

At balance sheet date, the Group had capital expenditure commitments relating to the newbuildings of two dry bulk carriers at total purchase prices of approximately HK\$321,516,000 and the total amount contracted but not provided for, net of deposits paid, was approximately HK\$296,872,000. At 31 December 2002, the Group had no material capital expenditure commitment.

### (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>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year:		
Land and buildings	1,038	1,091
Time charter hire	566,832	190,141
	<u>567,870</u>	<u>191,232</u>
After one year but within five years:		
Land and buildings	1,146	42
Time charter hire	394,724	219,387
	<u>395,870</u>	<u>219,429</u>
	<u><u>963,740</u></u>	<u><u>410,661</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>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year:		
Land and buildings	734	289
Time charter hire	260,032	152,860
	<u>260,766</u>	<u>153,149</u>
After one year but within five years:		
Land and buildings	572	–
Time charter hire	–	48,542
	<u>572</u>	<u>48,542</u>
	<u><u>261,338</u></u>	<u><u>201,691</u></u>

## 29. SEGMENTAL INFORMATION

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

	<b>Chartering freight and hire</b>	<b>Trading</b>	<b>Investments in China</b>	<b>Other operations</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>	809,045	239,470	–	–	1,048,515
Other operating income	40,235	3,083	7,854	5,079	56,251
Reversal of impairment loss of fixed assets	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>
<b>Profit (Loss) from operations</b>					98,745
Interest income					4,279
Interest expenses					(20,947)
					<u>82,077</u>
<b>Profit before taxation</b>					82,077
Taxation					(64)
					<u>82,013</u>
<b>Profit from ordinary activities after taxation</b>					82,013
Minority interests					(45,337)
					<u>36,676</u>
<b>Net profit for the year</b>					<u><u>36,676</u></u>

## (a) (ii) Consolidated income statement by business segments – 2002

	Chartering freight and hire <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Investments in China <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	543,641	209,098	3,440	–	756,179
Other operating income	40,658	2,314	10,608	1,279	54,859
Provision for impairment loss of fixed assets	(4,975)	–	–	(7,686)	(12,661)
	579,324	211,412	14,048	(6,407)	798,377
Operating expenses	(516,099)	(205,750)	(10,071)	(2,371)	(734,291)
Other net (expenses) income	(5,287)	(15)	4,216	(84,087)	(85,173)
Depreciation and amortization	(61,158)	(495)	(3,339)	(3,211)	(68,203)
(Loss) Profit from operations	(3,220)	5,152	4,854	(96,076)	(89,290)
Interest income					6,113
Interest expenses					(22,250)
Loss before taxation					(105,427)
Taxation					(667)
Loss from ordinary activities after taxation					(106,094)
Minority interests					43,755
Net loss for the year					<u>(62,339)</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% (2002: 90%) of the Group's turnover from trading operations 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 – 2003

	Chartering freight and hire <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Investments in China <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Total <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 during the year	28,176	1,044	9	769	29,998

## (b) (ii) Consolidated balance sheet by business segments – 2002

	Chartering freight and hire <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Investments in China <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>Allocated assets</i>					
Fixed assets	1,281,936	1,307	361	104,226	1,387,830
Intangible asset	–	–	–	134	134
Interests in associates	–	(28)	–	–	(28)
Other investments	–	–	32,910	7,410	40,320
Other non-current assets	4,188	22,000	–	–	26,188
Current assets	26,950	92,535	876	35,989	156,350
Total segment assets	1,313,074	115,814	34,147	147,759	1,610,794
<i>Unallocated assets</i>					
Pledged deposits					30,470
Bank balances and cash					85,974
Total assets					<u>1,727,238</u>
<i>Allocated liabilities</i>					
Total segment liabilities	797,258	47,302	2,295	46,883	893,738
<i>Unallocated liabilities</i>					
Secured bank overdrafts					37,107
Total liabilities					<u>930,845</u>
Capital expenditures incurred during the year	<u>407,577</u>	<u>463</u>	<u>10</u>	<u>686</u>	<u>408,736</u>

- (iii) The segment assets of the Group's chartering freight and hire business cannot be attributable to any particular geographical location. Besides, around 17% (2002: 19%) of the segment assets under the other three business segments are located in China and the remaining are mainly located in Hong Kong.

**30. CONTINGENT LIABILITIES**

At balance sheet date, contingent liabilities not provided for in the financial statements are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees to secure banking facilities granted to subsidiaries	–	–	114,070	114,070
Other guarantees	–	293	–	–
	<u>–</u>	<u>293</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>293</u>	<u>114,070</u>	<u>114,070</u>

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\$45,721,000 (2002: HK\$52,693,000).

**31. 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\$1,658,000 (2002: HK\$1,485,000) net of the forfeited contributions of HK\$37,000 (2002: HK\$345,000) which arose upon employees leaving the defined contribution retirement scheme.

**32. 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\$32,000) 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 is a shareholder and a director of Vintage. Consultancy fee in the amount of £10,000 (approximately HK\$128,000) (2002: HK\$117,000) has been paid during the year under the agreement.

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

**33. POST BALANCE SHEET EVENTS**

- (a) On 9 January 2004, the Group entered into an agreement to acquire a motor vessel of deadweight 55,300 metric tons for the consideration of HK\$150,150,000 which will be delivered on or before 31 October 2007.
- (b) On 9 March 2004, the Group entered into an agreement to acquire a motor vessel of deadweight 55,500 metric tons for the consideration of HK\$275,340,000 which is expected to be delivered during the period from 1 February 2005 to 30 May 2005.

**34. ULTIMATE HOLDING COMPANY**

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

**35. PRINCIPAL SUBSIDIARIES**

Name	Issued and paid-up capital	Attributable equity interest	Principal activities	Place of operation
<b>Incorporated in Bermuda</b>				
Jinhui MetCoke Limited	12,000 ordinary shares of US\$1 each	50.9%	Investment holding	Worldwide
# Jinhui Shipping and Transportation Limited	98,428,341 ordinary shares of US\$0.05 each	50.9%	Investment holding	Worldwide
<b>Incorporated in the British Virgin Islands</b>				
Advance Rich Limited	1 share of US\$1 each	50.9%	Investment	Worldwide
Jin Hui Shipping Inc.	50,000 shares of US\$1 each	50.9%	Investment holding	Worldwide
Jinhui Investments Limited	1 share of US\$1 each	50.9%	Investment holding	Worldwide
Jinhui Transportation Inc.	1,000 shares of US\$1 each	50.9%	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

Name	Issued and paid-up capital	Attributable equity interest	Principal activities	Place of operation
<b>Incorporated in Hong Kong</b>				
Carpa Limited	2 shares of HK\$1 each	100%	Property investment	Hong Kong
* Digital Sino Limited	2 shares of HK\$1 each	75%	General trading	Hong Kong
Exalten Limited	2 shares of HK\$1 each	100%	Property investment	Hong Kong
Fair Fait International Limited	2 shares of HK\$1 each	50.9%	Property investment	Hong Kong
Fair Group International Limited	10,000 shares of HK\$1 each	100%	Property investment	Hong Kong
Goldbeam International Limited	5,000,000 shares of HK\$1 each	50.9%	Ship management services, shipping agent and investment	Hong Kong
# Jinhui Investments (China) Limited	2 shares of HK\$1 each	100%	Investment holding	Hong Kong and China
Keenfair Investment Limited	2 shares of HK\$1 each	100%	Property investment	Hong Kong
Linkford International Limited	2 shares of HK\$1 each	100%	Property investment	Hong Kong
Monocosmic Limited	10,000 shares of HK\$1 each	50.9%	Property investment	Hong Kong
Ocean Fame International Limited	1,000 shares of HK\$1 each	100%	Property investment	Hong Kong
* Yee Lee Industrial Chemical, Limited	50,000 shares of HK\$100 each	75%	Trading of chemical and industrial raw materials	Hong Kong
<b>Incorporated in the Republic of Liberia</b>				
Galsworthy Limited	1 registered share of US\$1 each	50.9%	Ship chartering	Worldwide
Goldbeam Shipping Inc.	100 registered shares of US\$1 each	50.9%	Ship chartering	Worldwide
Jinbi Shipping Ltd	1 registered share of US\$1 each	50.9%	Ship owning	Worldwide
Paxton Enterprises Limited	500 registered shares of US\$1 each	50.9%	Ship chartering	Worldwide

Name	Issued and paid-up capital	Attributable equity interest	Principal activities	Place of operation
Sompol Trading Limited	10 registered shares of US\$1 each	50.9%	Ship chartering	Worldwide
Wonder Enterprises Ltd	500 registered shares of US\$ 1 each	50.9%	Ship chartering	Worldwide
<b>Incorporated in the Republic of Panama</b>				
Jinan Marine Inc.	2 common shares of US\$1 each	50.9%	Ship owning	Worldwide
Jinda Shipping Inc.	2 common shares of US\$1 each	50.9%	Ship owning	Worldwide
Jinfeng Marine Inc.	2 common shares of US\$1 each	50.9%	Ship owning	Worldwide
Jinhui Marine Inc.	2 common shares of US\$1 each	50.9%	Ship owning	Worldwide
Jinkang Marine Inc.	2 common shares of US\$1 each	50.9%	Ship owning	Worldwide
Jinli Marine Inc.	2 common shares of US\$1 each	50.9%	Ship owning	Worldwide
Jinping Marine Inc.	2 common shares of US\$1 each	50.9%	Ship owning	Worldwide
Jinshun Shipping Inc.	2 common shares of US\$1 each	50.9%	Ship owning	Worldwide
Jintai Marine Inc.	2 common shares of US\$1 each	50.9%	Ship owning	Worldwide
Rimpacific Navigation Inc.	2 common shares of US\$1 each	50.9%	Investment	Worldwide
<b>Incorporated in the State of Delaware, United States of America</b>				
Jinhui Shipping (USA) Inc.	500 shares of US\$1 each	50.9%	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 30 June 2004, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding bank borrowings amounting to approximately HK\$747 million. The bank borrowings comprised secured term loans of approximately HK\$675 million, secured bank overdraft of approximately HK\$19 million and unsecured trust receipt and import loans of approximately HK\$53 million.

As at 30 June 2004, 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\$1,171 million and bank deposits of the Group amounting to approximately HK\$30 million. As at 30 June 2004, the Group had contingent liabilities in respect of guarantees granted of approximately HK\$2 million for the purposes of shipping related claims.

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 as at the close of business on 30 June 2004.

**(3) CURRENT TRADING AND PROSPECTS**

The Group has continued to carry on 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, the indebtedness statement of the Group as set out in the section headed "(2) INDEBTEDNESS" above and the Disposals, the Group has sufficient working capital for its present requirements up to, and including, 30 June 2005.

**(5) MATERIAL ADVERSE CHANGE**

In an announcement dated 20 July 2004, the Company had announced that due to the realized losses incurred from, and the provisions to be made for the unrealized losses from, certain forward freight agreements entered ("FFA") into by Jinhui Shipping since January 2004, the interim results of Jinhui Shipping for the six months ended 30 June 2004 will be substantially worse than those for the six months ended 30 June 2003. The losses from the FFAs had been caused by the unexpected and sudden decline in the freight rates of the dry bulk shipping market which began in March 2004 and continued further in June 2004. The falling freight rates for the dry bulk shipping market had been caused by the negative sentiment towards the economy of the People's Republic of China as a result of the macro economic measures introduced by the relevant authorities.

As the results of the Group are largely attributable to the results of Jinhui Shipping, the Company expects that the Group's results for the interim period 2004 will be adversely affected and worse than those for the interim period 2003. However, the Group's financial results for the six months ended 30 June 2004 has not yet been finalised and the Company is presently unable to quantify precisely the financial implications for the Group in respect of such period.

In an additional announcement dated 22 July 2004, the Company had announced that the majority of the FFAs entered into by Jinhui Shipping have been squared off and hence Jinhui Shipping's extraordinary losses under such squared off FFAs have been crystalised. Jinhui Shipping estimated that the extraordinary losses attributable to FFAs, including the FFAs that have been, and have not been, squared off, to be in the region of US\$60 million to US\$70 million as at 30 June 2004.

The Board had confirmed in the announcement dated 22 July 2004 that the anticipated negative impact on the financial position of Jinhui Shipping for the 6 months ended 30 June 2004 is wholly attributable to the extraordinary losses under the FFAs and the operations of Jinhui Shipping remain unaffected.

FFA is a forward agreement to purchase or sell the transportation of cargoes at a predetermined price, and typically, an FFA runs twelve months forward and is used as a method of risk management where physical alternatives are expected to be more expensive going forward. In respect of the FFAs entered into by Jinhui Shipping, Jinhui Shipping had contracted to buy or sell the shipping capacities from or to the counterparties.

Save as disclosed above, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2003, the date to which the latest published audited financial statements of the Group were made up.

**RESPONSIBILITY STATEMENT**

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

**DISCLOSURE OF INTERESTS**

- (a) As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she is taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name	Type of Interests	The Company		Jinhui Shipping	
		No. of Shares	Percentage of total issued Shares	No. of shares	Percentage of total issued shares
Ng Siu Fai	Family interests	2,134,000	4.06%	–	–
	Other interests	<i>Note</i>	<i>Note</i>	<i>Note</i>	<i>Note</i>
Ng Kam Wah Thomas	Other interests	<i>Note</i>	<i>Note</i>	<i>Note</i>	<i>Note</i>
Ng Ki Hung Frankie	Other interests	<i>Note</i>	<i>Note</i>	<i>Note</i>	<i>Note</i>
So Wing Hung Peter	Family interests	218,000	0.41%	15,000	0.02%

*Note:* 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 30,385,628 Shares (representing 57.74% of the total issued Shares) and 494,049 shares of US\$0.05 each in the share capital of Jinhui Shipping (representing 0.5% 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.

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:

<b>Name of Shareholder</b>	<b>No. of Shares</b>	<b>Percentage of total issued Shares</b>
Fairline	30,385,628	57.74%

<b>Name of shareholder</b>	<b>No. of shares in Jinhui Shipping</b>	<b>Percentage of total issued shares</b>
The Company	50,100,000	50.90%

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

### LITIGATION

As at the Latest Practicable Date, Goldbeam Shipping Inc. (“Goldbeam”) an approximately 50.9 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.

Goldbeam is also claiming around US\$111,000 against another charterer of a vessel for outstanding hire while the charterer has made a counterclaim of around US\$437,000 against Goldbeam for refusal to load a consignment of cargo in which Goldbeam claims that charterer's order was illegitimate. 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.

### **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 16 August 2004:

- (a) Memorandum and Articles of Association of the Company;
- (b) the 2002 and 2003 annual reports of the Company for the two financial years ended 31 December 2002 and 2003 respectively;
- (c) the circular issued by the Company dated 2 February 2004, in relation to a discloseable transaction regarding the acquisition of a single screw diesel propelled bulk carrier;
- (d) the circular issued by the Company dated 30 March 2004, in relation to a major transaction regarding the acquisition of a single screw diesel propelled bulk carrier;
- (e) the circular issued by the Company dated 4 May 2004 in relation to a discloseable transaction regarding the acquisition of a bulk carrier; and
- (f) the written approval given by Fairline in relation to the Disposals dated 8 July 2004.

**GENERAL**

- (a) The secretary and the qualified accountant of the Company is Ms. Ho Suk Lin, a fellow member of the Hong Kong Society of 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.