

Interim Report

2004



JINHUI

Holdings Company Limited

The board of directors (the "Board") of Jinhui Holdings Company Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 together with comparative figures for the corresponding period of 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004

	Note	Six months ended 30 June	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	1,006,181	473,017
Other operating income		40,860	29,585
Voyage related expenses		(435,181)	(336,335)
Losses, including provisions made for unrealized losses, on forward freight agreements		(523,980)	–
Cost of trading goods sold		(139,211)	(100,420)
Staff costs		(17,622)	(14,957)
Other operating expenses		(29,527)	(21,055)
Other net (expenses) income		(715)	11,596
Depreciation and amortization		(37,419)	(31,826)
(Loss) Profit from operations	2	(136,614)	9,605
Interest income		935	2,968
Interest expenses		(9,041)	(10,713)
(Loss) Profit before taxation		(144,720)	1,860
Taxation	3	(951)	279
(Loss) Profit from ordinary activities after taxation		(145,671)	2,139
Minority interests		65,980	(3,663)
Net loss for the period		(79,691)	(1,524)
Basic loss per share (HK\$)	4	(1.514)	(0.029)

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

		30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
	Note		
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets		1,484,586	1,430,045
Intangible asset		112	119
Interests in associates		(25)	(27)
Other investments		36,523	37,789
Other non-current assets		20,766	21,549
		1,541,962	1,489,475
Current assets			
Inventories		27,231	34,161
Short-term investments		10,887	10,445
Trade receivables	5	107,278	75,435
Prepayments, deposits and other receivables		120,751	72,938
Pledged deposits		30,301	30,551
Bank balances and cash		410,575	122,556
		707,023	346,086
Current liabilities			
Trade payables	6	70,885	56,098
Accrued charges and other payables		237,640	141,581
Provision for losses		411,627	–
Taxation		950	510
Secured bank loans		63,178	63,309
Secured bank overdrafts		18,765	42,340
		803,045	303,838
Net current (liabilities) assets		(96,022)	42,248

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Note		
Total assets less current liabilities	1,445,940	1,531,723
Non-current liabilities		
Provision for losses	91,486	–
Secured bank loans	612,293	643,891
	703,779	643,891
Minority interests	329,155	395,135
Net assets	413,006	492,697
CAPITAL AND RESERVES		
Issued capital	52,624	52,624
Reserves	360,382	440,073
Shareholders' funds	413,006	492,697

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Issued capital (Unaudited) <i>HK\$'000</i>	Share premium (Unaudited) <i>HK\$'000</i>	Capital reserve (Unaudited) <i>HK\$'000</i>	Capital redemption reserve (Unaudited) <i>HK\$'000</i>	Other asset revaluation reserve (Unaudited) <i>HK\$'000</i>	Accu- mulated profits (losses) (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 January 2004	52,624	288,733	143,924	2,023	4,578	815	492,697
Net loss for the period	-	-	-	-	-	(79,691)	(79,691)
At 30 June 2004	52,624	288,733	143,924	2,023	4,578	(78,876)	413,006
At 1 January 2003	52,624	288,733	139,656	2,023	-	(35,861)	447,175
Exchange reserve arising on consolidation	-	-	(1)	-	-	-	(1)
Release on disposal of subsidiaries	-	-	(147)	-	-	-	(147)
Net losses not recognized in the income statement	-	-	(148)	-	-	-	(148)
Net loss for the period	-	-	-	-	-	(1,524)	(1,524)
At 30 June 2003	52,624	288,733	139,508	2,023	-	(37,385)	445,503

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2004*

	Six months ended	
	30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash generated from operating activities	426,762	17,176
Net cash (used in) generated from investing activities	(83,689)	53,218
Net cash used in financing activities	(31,479)	(48,549)
Net increase in cash and cash equivalents	311,594	21,845
Cash and cash equivalents at 1 January	80,216	48,867
Cash and cash equivalents at 30 June	<u>391,810</u>	<u>70,712</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	410,575	129,816
Secured bank overdrafts	(18,765)	(59,104)
	<u>391,810</u>	<u>70,712</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The consolidated interim results of the Group for the six months ended 30 June 2004 have been reviewed by our auditors, Messrs. Moores Rowland Mazars, in accordance with Statement of Auditing Standard 700 “Engagements to Review Interim Financial Reports” issued by the Hong Kong Society of Accountants (“HKSA”). An unmodified review conclusion has been issued by the auditors.

These interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the HKSA and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). They should be read in conjunction with the annual financial statements and notes thereto included in the annual report of the Group for the year ended 31 December 2003.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2003.

2. Segmental information

An analysis of the Group’s turnover and (loss) profit from operations by principal activities is as follows:

	Turnover		(Loss) Profit from operations	
	Six months ended 30 June 2004 (Unaudited) HK\$’000	2003 (Unaudited) HK\$’000	Six months ended 30 June 2004 (Unaudited) HK\$’000	2003 (Unaudited) HK\$’000
Chartering freight and hire	850,867	362,709	(138,143)	(970)
Trading	155,314	110,308	5,237	(270)
Investments in China	–	–	6,481	737
Other operations	–	–	(10,189)	10,108
	<u>1,006,181</u>	<u>473,017</u>	<u>(136,614)</u>	<u>9,605</u>

The Group’s chartering freight and hire business is carried out internationally and cannot be attributable to any particular geographical location. During the period, the Group’s turnover from trading operations was carried out mainly in Hong Kong and China of about 45% (2003: 90%) and 54% (2003: 10%) respectively. The Group’s other operations, including property investments, foreign currency transactions and short-term investments, were mainly carried out in Hong Kong in both periods.

3. Taxation

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
The Group		
Hong Kong Profits Tax:		
Current period	(951)	–
Over provision in respect of prior periods	–	279
	<u>(951)</u>	<u>279</u>

Hong Kong Profits Tax has been provided at the rate of 17.5% on the estimated assessable profits for the period ended 30 June 2004. Hong Kong Profits Tax has not been provided as the Group has no assessable profit for the six months ended 30 June 2003. 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.

4. Loss per share

The calculation of basic loss per share for the period is based on the net loss for the period of HK\$79,691,000 (six months ended 30/6/2003: HK\$1,524,000) and the weighted average number of 52,624,248 (six months ended 30/6/2003: 52,624,248) ordinary shares in issue during the period. The weighted average number of ordinary shares outstanding for period ended 30 June 2003 has been adjusted for the consolidation of shares effective on 2 June 2003.

Diluted loss per share is not presented as there is no potential ordinary share in issue during both periods.

5. Trade receivables

The credit terms given to charterers vary from 15 to 60 days according to the types of vessel's employment. 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:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
0 – 90 days	83,855	60,431
91 – 180 days	21,083	11,953
181 – 365 days	1,688	1,520
Over 365 days	652	1,531
	107,278	75,435

6. Trade payables

The aging analysis of trade payables is as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
0 – 90 days	62,561	47,579
91 – 180 days	481	1,126
181 – 365 days	805	279
Over 365 days	7,038	7,114
	70,885	56,098

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of any interim dividend for the period (six months ended 30 June 2003: Nil).

BUSINESS REVIEW

The consolidated turnover of the Group for the period was HK\$1,006,181,000, representing an increase of 113% as compared to that of last corresponding period. Net loss for the period amounted to HK\$79,691,000 whereas a net loss of HK\$1,524,000 was made for last corresponding period. Basic loss per share was HK\$1.514 for the period as against basic loss per share of HK\$0.029 for last corresponding period. The loss for the period was wholly attributed by the losses under the forward freight agreements (“FFAs”) entered into by the Group since January 2004.

Chartering freight and hire. The dry bulk sector market enjoyed breaking rates during early 2004. However, driven by the negative sentiment towards the China economy as a result of the macro economic measures introduced by the relevant authorities and historical high bunker prices, the freight rates of all dry bulk sectors have been adjusted downwards since March 2004. The Baltic Dry Index surged from 4,765 at the end of 2003 to record high of 5,681 in early February 2004, dropped drastically to 2,622 in late June 2004 and closed at 3,005 during the period.

The Group's shipping turnover for the period amounted to HK\$850,867,000; representing an increase of 135% over last corresponding period. Affected by the losses attributable to the FFAs, including the FFAs that have been, and have not been, squared off, amounting to HK\$523,980,000, the Group's shipping operations recorded a loss of HK\$138,143,000 for the period; whereas a loss of HK\$970,000 was reported for last corresponding period.

In view of the upturn of the shipping markets especially during early 2004, the Group has entered into certain FFAs in order to mitigate its risks associated primarily with upward trend of freight rates. However, caused by the unexpected and sudden decline in the freight rates of the dry bulk shipping market which began in March 2004 and continued further in June 2004, the Group suffered from the realized losses incurred from, and the provisions made for the unrealized losses from, the FFAs entered into by the Group since January 2004. The majority of the FFAs entered into by the Group have now been squared off and hence the Group's losses under such squared off FFAs have been crystallised. As a consequence, the losses attributable to the FFAs, including the FFAs that have been, and have not been, squared off, amounting to HK\$523,980,000 had been accounted for in the period ended 30 June 2004.

The Board continuously reviews the prevailing market conditions of the shipping industry and monitors and adjusts the Group's fleet size as appropriate. On 8 July 2004, the Group has contracted to sell two motor vessels "Jin Tai" and "Jin Kang" with aggregate net book values of US\$39,808,000 (approximately HK\$310,502,000) as at 30 June 2004 at total consideration of US\$56,500,000 (approximately HK\$440,700,000); which will be delivered to an independent buyer during second half of 2004. As at date of this report, the Group has also committed to acquire five newbuildings at total purchase prices of US\$133,020,000 (approximately HK\$1,037,556,000); of which three will be delivered in 2005 and the other two will be delivered in 2007.

The Group intends to use approximately HK\$187.4 million of the payment received from the disposal of motor vessels "Jin Tai" and "Jin Kang" to repay bank loans and the balance as additional working capital. After taking into account of the disposals of two motor vessels, the Board believes that the current ratio will be improved to a much healthier position.

According to the Group's accounting policies, all the Group's owned vessels were stated at cost less accumulated depreciation and impairment losses at each balance sheet date. Based on the valuation made by an independent professional valuer, the market values of the Group's ten owned vessels as at 30 June 2004 was approximately HK\$1,606.8 million as compared to their net book values of approximately HK\$1,263.8 million.

Trading and investments in China. The turnover for the Group's trading of chemical and industrial raw materials was HK\$155,314,000, representing an increase of 41% as compared to that of last corresponding period. The Group's trading business was affected by the outbreak of Severe Acute Respiratory Syndrome during last corresponding period. Due to the increase in demand and price for chemical and industrial raw materials as a result of the economic recovery, the performance of the Group's trading business was improved with a profit of HK\$5,237,000 for the period against a loss of HK\$270,000 for last corresponding period. Due to the increase in demand and price for commodities, the performance of the Group's investment in a co-operative joint venture producing metallurgical coke in Shanxi Province of China was rather promising. The Group's investments in China reported a profit of HK\$6,481,000 for the period against a profit of HK\$737,000 for last corresponding period.

FINANCIAL REVIEW

Liquidity, financial resources and capital structure. The total of the Group's pledged deposits, bank balances and cash increased to HK\$440,876,000 as at 30 June 2004 (31 December 2003: HK\$153,107,000). The Group's borrowings decreased to HK\$694,236,000 as at 30 June 2004 (31 December 2003: HK\$749,540,000), of which 12%, 9%, 27% and 52% are repayable respectively within one year, one to two years, two to five years and over five years. The gearing ratio, as calculated on the basis of net debts (total interest bearing debts net of securities, cash and cash equivalents) over shareholders' equity decreased to 66% (31 December 2003: 125%). All the borrowings were committed on a floating rate basis and were denominated mainly in United States Dollars and Hong Kong Dollars.

Pledge of assets. As at 30 June 2004, the Group's fixed assets of HK\$1,168,356,000 (31 December 2003: HK\$1,192,488,000), short-term investments of HK\$2,550,000 (31 December 2003: HK\$1,767,000), deposits of HK\$30,301,000 (31 December 2003: HK\$30,551,000) and shares of seven (31 December 2003: seven) ship owning companies were pledged together with the assignment of chartering income of seven (31 December 2003: seven) ship owning companies to secure credit facilities utilized by the Group.

Capital expenditures and commitments. Out of the Group's capital expenditures totalling HK\$98,487,000 (31 December 2003: HK\$29,998,000) for the period ended 30 June 2004, approximately HK\$93,151,000 (31 December 2003: HK\$24,644,000) was spent on the constructions of the Group's newbuildings.

As at 30 June 2004, there were outstanding capital commitments relating to the newbuildings of five (31 December 2003: two) dry bulk carriers at total purchase prices of approximately HK\$1,037,556,000 (31 December 2003: HK\$321,516,000) and the total amount contracted but not yet provided for, net of deposits paid, was approximately HK\$919,760,000 (31 December 2003: HK\$296,872,000).

Contingent liabilities. As at 30 June 2004, except for certain guarantees amounting to HK\$2,340,000 granted by the Company's subsidiary to a third party in its ordinary course of businesses, the Group had no other contingent liabilities. As at 31 December 2003, the Group had no material contingent liability not yet provided for.

EMPLOYEES

As at 30 June 2004, the Group had 102 full-time employees and 260 crew (31 December 2003: 100 full-time employees and 262 crew). The Group remunerates its employees in accordance with their performances, experiences and prevailing market practices and provides them with usual fringe benefits. The Group has not adopted any share option scheme during the period.

OUTLOOK

The shipping industry and, the freight market in particular, are becoming more and more volatile, evidenced by the wide variations in freight rates and vessel prices. To manage this risk and avoid significant losses, the Board has recognised the need for a more conservative and effective strategies for its business in FFAs so as to limit and monitor the market-related and financial risks.

Apart from the Group's ten owned vessels, the Group currently operates around thirteen chartered-in dry bulk carriers including one Capesize, seven Panamaxs and five Handymaxes. By the end of June 2004, the freight rates for all dry bulk sectors started to recover with the Baltic Dry Index picked up to around 4,100 during early August 2004. The Board is also aware of the recent rises in bunker prices, which may affect the shipping industry. The Board believes that the fundamentals of demand in dry bulk shipping remain unchanged with the supply of vessels remaining tight in the next few years. The Board is confident that the continued strength in freight rates bode well for the Group in the coming years and therefore, will consider to expand the Group's own fleet at appropriate timing. The Board also expects that the Group's trading business and investments in China will also continue to contribute steady returns to the Group.

Going forward, the Board would continuously review the prevailing market conditions of the shipping industry and monitor and adjust the Group's fleet size as appropriate; maintain a balance in its employment mix by engaging part of its fleet in longer term charters to ensure certainty in future earnings for the Group; and adopt more stringent risk management procedures.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES

As at 30 June 2004, the directors of the Company had the following interests and long positions in shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"):

Name	Type of interests	The Company		Jinhui Shipping	
		No. of shares in the Company	Percentage of total issued shares of the Company	No. of shares in Jinhui Shipping	Percentage of total issued shares of Jinhui Shipping
Ng Siu Fai	Family interests	2,134,000	4.06%	–	–
	Other interests	Note	Note	Note	Note
Ng Kam Wah Thomas	Other interests	Note	Note	Note	Note
Ng Ki Hung Frankie	Other interests	Note	Note	Note	Note
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 Consultants Limited which is the legal and beneficial owner of 30,385,628 shares of the Company (representing 57.74% of the total issued shares of the Company) and 494,049 shares of Jinhui Shipping and Transportation Limited ("Jinhui Shipping") (representing 0.5% of the total issued shares of Jinhui Shipping) as at 30 June 2004. The Ng Hing Po 1991 Trust is a discretionary trust, the eligible beneficiaries of which include members of the Ng family. Both Messrs. Ng Siu Fai and Ng Kam Wah Thomas are directors of Fairline Consultants Limited.

Save as disclosed above, as at 30 June 2004, none of the directors, chief executive or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which is required to be recorded and kept in the register in accordance with Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable any director or chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor chief executive of the Company or any of their spouses or children under the age of 18 had any interest in, or had been granted, any right to subscribe for the shares in or debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO), or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, in accordance with the register kept under Section 336 of the SFO, the following person (other than the directors or chief executive of the Company) had interests representing 5% or more of the issued share capital of the Company:

Name of shareholder	No. of shares in the Company	Percentage of total issued share of the Company
Fairline Consultants Limited	30,385,628	57.74%

Save as disclosed herein, as at 30 June 2004, the Company has not been notified of any person (other than the directors or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2004.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2004.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not at any time during the six months ended 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

By Order of the Board

Ng Siu Fai

Chairman

Hong Kong, 11 August 2004