BUSINESS REVIEW

Turnover for the six months ended 30 June 2003 was HK$473,017,000, representing an increase of 26% as compared to that of last corresponding period. Net loss for the period amounted to HK$1,524,000 whereas a loss of HK$30,464,000 was made for the last corresponding period. Basic loss per share was HK2.90 cents for the period as against basic loss per share of HK57.89 cents for the last corresponding period.

The dry bulk market was rather strong and the freight rates remained firm during the first half of 2003 due to strong demand. The Baltic Dry Index increased by 387 points to close at 2,125 over the past six months, an unprecedented level during recent years. However, the prolonged rise in operating costs such as fuel costs and maintenance expenses greatly affected the shipping industry and the Group's committed tonnages were yet to be unwound. The shipping turnover was HK$362,709,000 for the period, representing an increase of 36% as compared to that of the last corresponding period. The Group's shipping operations recorded a loss of HK$970,000 for the period; whereas an operating profit of HK$12,030,000 was reported for last corresponding period.

During January 2003, the disposal of a 1985 built motor vessel was completed in accordance with an agreement entered into by the Group in October 2002. As at 30 June 2003, the Group owned ten motor vessels with total deadweight of around 517,000 metric tons. Meanwhile, the Group remains its strategy of expanding a fleet of well-equipped and modernized vessels. On 30 June 2003, the Group entered into a contract to acquire a deadweight 76,300 metric tons motor vessel, which will be delivered on or before 20 December 2005, for a consideration of US$21,970,000 (equivalent to HK$171,366,000). Subsequent to the period, the Group entered into another contract on 12 August 2003 to acquire a deadweight 55,300 metric tons motor vessel, which will be delivered on or before 31 July 2007, for a consideration of US$19,250,000 (equivalent to HK$150,150,000).

The turnover for the Group's trading of chemical and industrial products was HK$110,308,000, representing an increase of 5% as compared to that of last corresponding period. Affected by the increasing number of competitors and the outbreak of Severe Acute Respiratory Syndrome ("SARS"), despite a slight increase in turnover, the profit margin of the trading activities was reduced and a modest loss of HK$270,000 was reported for the period against a profit of HK$2,004,000 for last corresponding period. The direct investments in China during the period reported a profit of HK$737,000 for the period against a profit of HK$635,000 for last corresponding period.

The Group's other operations recorded an operating profit of HK$10,108,000 which comprised an exchange gain of HK$5,242,000. The loss of HK$63,159,000 for last corresponding period was mainly due to the provision made for a claim receivable of HK$30,200,000 payable by CNMG and the realized and unrealized exchange loss of HK$36,742,000 for the Group's foreign currency exposures in Japanese Yen as a result of the drastic and unexpected rebound of Japanese Yen and the weakening of United States Dollars. The Group has foreign currency exposures in Japanese Yen derived from the borrowings in Japanese Yen to finance the payments for the deliveries of newbuildings in previous years.

FINANCIAL REVIEW

Liquidity, financial resources and capital structure

The total of the Group's pledged deposits, bank balances and cash increased to HK$177,584,000 as at 30 June 2003 (31 December 2002: HK$116,444,000). The Group's borrowings decreased to HK$779,093,000 as at 30 June 2003 (31 December 2002: HK$790,310,000), of which 16%, 8%, 24% 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 total borrowings over shareholders' funds, decreased to 175% (31 December 2002: 177%). All the borrowings were committed on a floating rate basis and were denominated mainly in United States Dollars and Japanese Yen. The Group has from time to time closely monitored the foreign currency exposures so as to balance the exchange rate risk associated with the fluctuation in Japanese Yen and possible interest saving from Japanese Yen borrowings. Should market conditions require, the Group would consider appropriate foreign exchange and interest rate hedging products to mitigate the Group's exposure.

Pledge of assets

As at 30 June 2003, the Group's fixed assets of HK$1,134,776,000 (31 December 2002: HK$1,154,813,000), short-term investments of HK$13,385,000 (31 December 2002: HK$21,399,000), deposits of HK$47,768,000 (31 December 2002: HK$30,470,000) and some of the shares and chartering income of ship owning subsidiaries were pledged to secure credit facilities utilized by the Group.

Capital expenditures and commitments

There was no material capital expenditure for the six months ended 30 June 2003. Out of the Group's capital expenditures totalling HK$272,530,000 for the six months ended 30 June 2002, approximately HK$272,202,000 was spent on the constructions of the Group's owned vessels.

As at 30 June 2003, the Group had capital expenditure commitments relating to the newbuilding of one motor vessel at the purchase price of HK$171,366,000 wholly contracted but not provided for. The Group had no material capital commitment at year ended 31 December 2002.