## RESULTS

The Group is principally engaged in the businesses of ship chartering, ship owning and trading. The consolidated turnover of the Group for the year was HK$1,985,235,000, representing a slight increase of 1% as compared to that of last year. The Group's net profit attributable to shareholders of the Company for the year amounted to HK$526,862,000; representing an increase of 132% over net profit of HK$227,514,000 for year 2004. Basic earnings per share for the year was HK$0.992 as compared with basic earnings per share of HK$0.432 (restated) for last year.

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

According to the Group's accounting policies, all the Group's owned vessels were stated at cost or valuation, as disclosed in note 2 to the financial statements, less accumulated depreciation and impairment losses at each balance sheet date. Given the immense rises in market value of dry bulk carriers, the book values of the Group's owned vessels vis-a-vis the Group's net asset value as at 31 December 2005 were greatly stated below their current market values. Based on the valuation made by an independent professional valuer, the total market value of the Group's thirteen owned vessels as at 31 December 2005 was approximately HK$2,458 million as compared to their net book values of approximately HK$2,115 million. In addition, the market values of the Group's four newbuildings under construction as at 31 December 2005 were valued by the independent professional valuer at approximately HK$987 million as compared to the total contract prices of approximately HK$767 million.

On 1 January 2005, a number of new Hong Kong Financial Reporting Standards ("HKFRSs") came into effect. The resulting changes in accounting treatment and presentation of various income statement and balance sheet items may render certain comparative figures not strictly comparable. Details of the changes in accounting policies are set out in note 3 to the financial statements.

## DIVIDENDS

The Board has resolved not to recommend the payment of any final dividend for the year (2004: HK$0.12 restated per share). Thus, the interim dividend of HK$0.19 (2004: nil) per share represents the total dividend distribution for the year ended 31 December 2005.

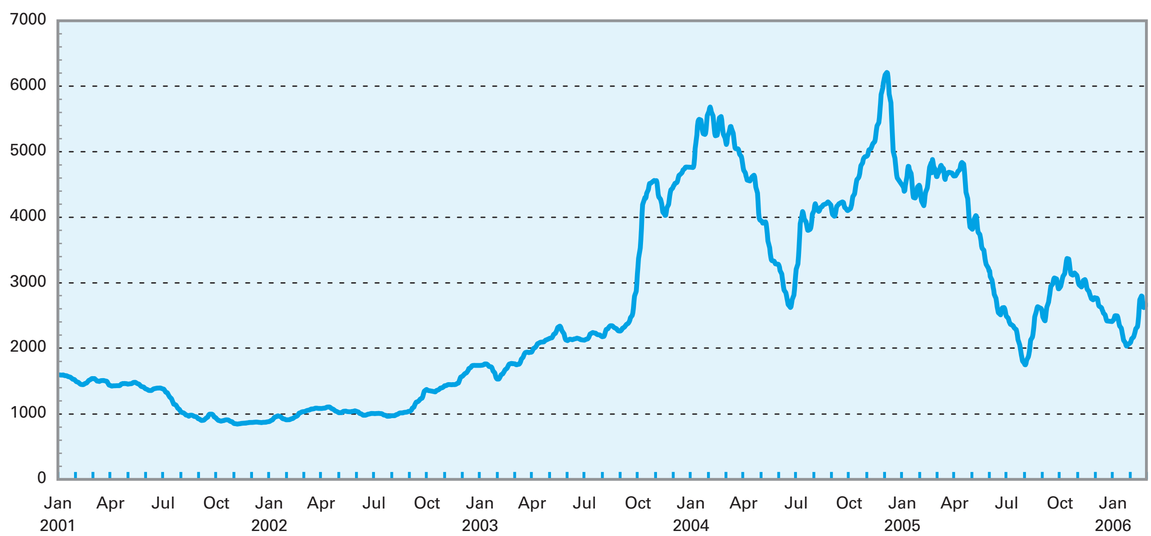
## BUSINESS REVIEW

**Chartering freight and hire.** The Group operates its worldwide shipping activities through Jinhui Shipping, an approximately 50.21% owned subsidiary of the Company as at date of this report whose shares are listed on the Oslo Stock Exchange.

## BUSINESS REVIEW *(Continued)*

Year 2005 was another good year for the dry bulk market despite the high volatility in freight rates. After reaching record high in early December last year, the freight rates softened and remained at firm and relatively stable situation during the first few months given the iron ore trades continued to drive the market supported by strong level of coal shipment. Since mid of the year, the compound effects of influx of newbuildings which entered the fleet and the reduction of port congestion caused the downturn in freight rates. During summer, natural disasters also took their toll with Hurricanes Katrina and Rita wreaking havoc on New Orleans and the US Gulf region. The Baltic Dry Index opened at 4,598, and went on to hit its 2005 high in late February at 4,880, before falling steadily to its lowest point of 1,747 in early August. The Baltic Dry Index closed at 2,407 at end of the year, around 48% below its opening level.

**Baltic Dry Index**




*Source: Bloomberg*

The Group's shipping turnover for the year amounted to HK$1,672,792,000; representing a slight decrease of 1% over last year. The Group's shipping business recorded an operating profit of HK$779,621,000 for the year; representing an increase of 107% as compared to that of last year. The increase in overall net profit of shipping business was partly attributed to the improvement in average freight rates and partly attributed to an exceptional cancellation fee income of approximately HK$156,000,000 on compensation received from a counterparty on early termination of a long term time charter party; whereas the profit for 2004 was partly offset by the losses of HK$490,947,000 on the FFAs. The average daily time charter equivalent rate of our fleet was increased by 2% to US$26,375 in year 2005. However, the net profit for the year was offset by the operating loss of two Capesize vessels chartered-in by the Group, comparatively lower number of available days of operations as quite a number of vessels operated by the Group were under scheduled drydocking, and off-hire for repairs, in particular, one of our owned vessels "Jin An" had been off-hire for nearly two months. On 30 June 2005, motor vessel "Jin An" touched ground near the port at Visakhapatnam, India to avoid collision and sustained various damages. The said vessel came into operation again by end of August 2005 after taking all necessary repairs and surveys.

## BUSINESS REVIEW *(Continued)*

The Group continuously reviews the prevailing market conditions of the shipping industry and monitors and adjusts the Group's fleet size as appropriate. During the year, the Group had further committed to acquire one newbuilding and three second hand vessels. However, the Group had terminated the acquisition of one of the second hand vessels due to the protracted delay in delivery.

During the year, two Panamax newbuildings, one Handymax newbuilding and two 2001-built Handymax vessels were delivered to the Group as scheduled.

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

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

## FINANCIAL REVIEW

**Liquidity, financial resources and capital structure.** During the year, net sale proceeds of HK$248 million was received on disposal of 9.4% interests in the share capital of Jinhui Shipping and offset by cash used to partially finance the delivery of five additional vessels. The total of the Group's equity and debt securities, bank balances and cash decreased to HK$460,815,000 as at 31 December 2005 (2004: HK$481,430,000). The Group's bank borrowings increased to HK$1,159,803,000 as at 31 December 2005 (2004: HK$470,621,000), of which 13%, 8%, 25% and 54% are repayable respectively within one year, one to two years, two to five years and over five years. The gearing ratio, as calculated on the basis of net debts (total interest-bearing debts net of equity and debt securities, cash and cash equivalents) over total equity, was 38% as compared to nil gearing ratio as at 31 December 2004. All the bank borrowings were committed on floating rate basis and were denominated mainly in United States Dollars and Hong Kong Dollars. Certain interest rate swap arrangements have been in place in order to mitigate the risk associated with the increase in interest rates. With cash and marketable equity and debt securities in hand as well as available banking facilities, the Group's liquidity position remains strong and the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

## FINANCIAL REVIEW *(Continued)*

**Pledge of assets.** As at 31 December 2005, the Group's motor vessels of HK$1,996,802,000 (2004: HK$787,485,000), leasehold land and buildings and investment properties of HK$82,479,000 (2004: HK$71,668,000), bank deposits of HK$19,610,000 (2004: HK$23,522,000) and shares of ten (2004: five) ship owning companies were pledged together with the assignment of chartering income of ten (2004: five) ship owning companies to secure credit facilities utilized by the Group.

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

As at 31 December 2005, there were outstanding capital commitments relating to the newbuildings of four (2004: six) dry bulk carriers at total purchase price of approximately HK$766,738,000 (2004: HK$1,283,256,000) and the total amount contracted but not provided for, net of deposits paid, was approximately HK$665,494,000 (2004: HK$1,076,794,000).

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

## RISK MANAGEMENT

The Group is principally exposed to various risks and uses derivatives and other financial instruments in connection with its risk management activities.

**Business risk.** The Group is exposed to the market risk to the extent that the fluctuations in freight rates of the shipping market and prices for raw materials traded by the Group may have a negative effect on the Group's cash flows and operations. The Group used to enter into FFAs in order to manage its exposures to the risk of movements in the spot market for certain trade routes. However, the international shipping market, while enjoying favourable performance by historical standards, is also becoming extremely volatile. As a result, the Board believed that FFAs now have a low correlation with the actual physical market and the trading of FFAs for hedging purpose can no longer be achieved.

The Board announced on 2 February 2005 that the Group would not enter into new open position in the trading of FFAs until further notice. The Board believed by terminating the use of FFAs in the prevailing market conditions, unnecessary business risks will be eliminated, thus allowing the management to focus on the core business and achieve a more secure and predictable revenue stream. We may in the future enter into FFAs should our management determines that the use of such instruments for hedging purposes would be beneficial to our business or would result in minimizing our exposure to market risks. The Company will inform the public immediately, details of any new FFAs entered into by the Group in the future should they arise.

**Credit risk.** Credit risk arising from the inability of a counterparty to meet the terms of the Group's financial instrument contracts is generally limited to the amount, if any, by which the counterparty's obligations exceed those of the Group. The Group will, wherever possible, enter into derivative financial instruments with a diversity of creditworthy counterparties. Therefore, the Group does not expect to incur material credit losses on managing the derivative financial instruments.

## RISK MANAGEMENT *(Continued)*

**Foreign currency risk.** The Group's transactions, assets and liabilities for the year ended 31 December 2005 are mainly denominated in Hong Kong Dollars and United States Dollars. The functional currency of the Company is Hong Kong Dollars. Certain of the Company's subsidiaries report in United States Dollars, which is linked to Hong Kong Dollars at exchange rate of around US$1.00 to HK$7.80. The Group has an outstanding capital commitment in relation to the acquisition of a newbuilding in Japanese Yen which amounted to JPY3,015,000,000 as at 31 December 2005. The Group has from time to time closely monitored the foreign currency exposures, to hedge firm commitments where appropriate and, to some extent, for investment purpose.

**Interest rate risk.** The Group's exposure to interest rate risk relating to bank borrowings is closely monitored and the Group uses financial instruments to reduce the risk associated with fluctuations in interest rates. The Group had managed the interest rate exposures by entering into interest rate swaps as follows:

– US$50 million over five years upto June 2009 through cap at 4.3% with a knock out at 6.5%; and

– US$30 million over three years upto January 2007 through cap at 2.5% with a knock out at 4%.

## EMPLOYEES

As at 31 December 2005, the Group had 107 full-time employees and 330 crew (2004: 106 full-time employees and 208 crew). The Group remunerates its employees in accordance with their performances, experiences and prevailing market practices and provides them with usual fringe benefits including medical insurance and contributions to provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

## SHARE CAPITAL

At the extraordinary general meeting of the Company held on 20 May 2005, the resolutions regarding the subdivision of every one issued and unissued share of HK$1.00 each in the share capital of the Company into ten subdivided shares of HK$0.10 each ("Share Subdivision") were approved by the shareholders of the Company. With effect from 23 May 2005, the authorized share capital of the Company has become HK$100 million divided into 1,000 million shares of HK$0.10 each.

During the year, the number of issued shares of the Company was increased from 526,242,480 (restated) shares to 533,940,480 shares following the allotment and issue of new ordinary shares of HK$0.10 each as a result of the exercise of options to subscribe for shares of the Company under the share option scheme of the Company.

## OUTLOOK

As at date of this report, the total capacity of the Group's fleet is around deadweight 1.35 million metric tons comprising thirteen owned vessels and seven chartered-in vessels, and approximately 56% of the Group's revenue days in 2006 for the existing fleet have been covered.

Freight rates for all sizes of the dry bulk carriers further declined in January 2006 but then improved after the Chinese New Year. Since mid of February 2006, there is an increase in freight rates attributable to improvement in business activities. The Baltic Dry Index dropped around 400 points to 2,033 in January 2006 and then picked up to around 2,500 by end of March 2006. In the short term, the Board expects freight rates to improve further due to increase in Chinese demand and expected increase in port congestion. In the medium to long term, the Board remains confident with the business outlook and expects freight rates to remain at relatively strong level, given the limited newbuildings to enter the market in 2007 and 2008, as well as expected increase in demolition of old tonnages in the market which will result in a tight balance between supply and demand.

In addition, the Board expects the Group's trading business and investment in Shanxi Jinyao will continue to contribute steady returns to the Group.

## APPRECIATION

I would like to take this opportunity to express my gratitude to my colleagues on the Board for their valuable contribution and to the staff for their hard work, commitment and dedication throughout the year.

By Order of the Board

**Ng Siu Fai**
*Chairman*

Hong Kong, 30 March 2006