

# Report of the Directors

The directors have pleasure in submitting to the shareholders their report on the affairs of the Company together with the audited accounts of the Group for the year ended 31 December 2000.

## **1. PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The principal activity of the Company is investment holding. The principal activities of the Group continued to be shipowning and the operation and trading of vessels, which are carried out globally and are not attributable to any particular geographical location.

## **2. INCORPORATION**

The Company was incorporated on 11 July 1989 under the Companies Act 1981 of Bermuda with limited liability.

## **3. FINANCIAL RESULTS AND DIVIDENDS**

The results and cash flows of the Group for the year ended 31 December 2000 together with the state of affairs of the Company and the Group at that date, together with the notes thereon are set out in the accounts on pages 22 to 63. The Directors have proposed a final dividend of HK\$0.08 per share to be paid in respect of the financial year ended 31 December 2000 (1999:total dividends paid were HK\$Nil per share). The final dividend will be paid in cash with an option to receive new, fully paid shares in lieu of the cash dividend ("Scrip Dividend Scheme").

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 9.

## **4. MAJOR CUSTOMERS AND SUPPLIERS**

Purchases from the five largest suppliers of the Group accounted for 13% of the Group's total purchases for the year.

The turnover attributable to the five largest customers of the Group accounted for 44% of the Group's total turnover for the year, of which 17% is attributable to the largest customer.

According to the knowledge of the directors, none of the directors, their associates or any shareholders who owned more than 5% of the Company's issued share capital had any interest at any time in the year in any of the Group's five largest customers.

## **5. SUBSIDIARY COMPANIES**

Particulars regarding the subsidiary companies are set out on pages 51 to 59.

## **6. RESERVES**

Movements in reserves of the Company and the Group during the year are set out in Note 24 to the accounts.

## **7. FIXED ASSETS**

Details of the movements in fixed assets of the Group during the year are set out in Note 8 to the accounts.

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## 8. BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The particulars of the Group's bank loans, overdrafts and other borrowings as at 31 December 2000 are set out in Notes 19 and 20 to the accounts.

## 9. SHARE CAPITAL

There was no movement in the share capital of the Company during the year.

During the year ended 31 December 2000, neither the Company nor any of its subsidiary companies made any purchase, sale or redemption of the listed shares of the Company.

## 10. BUSINESS REVIEW

### Group Operations

Group's net profit was HK\$148,966,000 for the year ended 31 December 2000, a significant improvement over last year when the Group registered a net loss of HK\$437,256,000, of which, HK\$392,410,000 relates to provision for diminution in value of motor vessels. The better performance was mainly attributable to the firming of the freight market.

### Drybulk Vessels

The drybulk market saw a significant improvement in rates in 2000.

Helped by a strong global economy, demand grew by some 5.5%. Better freight rates were reflected across all sectors, particularly in the Panamax and Capesize markets. During the year, a considerable increase in the seaborne trade for Iron Ore, Steam Coal, Steel Products and Coke was experienced. Notable was the growth in Steel production which recorded an all-time high of 7%.

On the supply side, the dry bulk fleet saw delivery of 179 newbuildings or 13.2 million dwt. With scrapping at 4.4 million dwt., considerably less than the 1999's figure of 9.1 million dwt., the dry bulk fleet grew by 3% during 2000, compared to a growth of 1.2% during the 1998/1999 period. On a sectorial basis, the Capesize fleet expanded by 5.7%, the Panamax fleet 6.6 % and the Handymax 1.7% while the Handysize fleet shrank by 1.8%.

The drybulk market in 2000 saw one of the better improvements in rates in the past ten years. The Panamax sector recovered significantly with time charter rates for a modern 73,000 dwt. vessel in March 2000 nearly doubling to a high US\$14,000 level from its September 1999 level. While the Handymax sector also saw good gains with earnings for 2000 increasing by some 35 - 40%, the Handysizes, in relative terms, did not do as well. Modest gains of around 25% were recorded in this market.

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## 10. BUSINESS REVIEW (continued)

### IMO II Chemical Tankers

The overall tanker market was considered one of the best since the late 1970's. The clean petroleum product (CPP) market was the driving force in pulling up the freight rates in the chemical and edible oil market as demand for quality vessels in the CPP market drew vessels away from the chemical and edible oil trade. One of the main reasons for the strong CPP market was the after-effect of the sinking of the vessel "Erika" in December 1999 which caused pollution to the French coast. Other factors include low petroleum products inventories, improving global economy, in particular the Asian economies and the slowdown in newbuilding deliveries.

The CPP market East of Suez rose 70 - 80% and the Atlantic/Caribbean side rose 130 - 150%. The chemical market also improved 40 - 50% but the MTBE shipment from Middle East Gulf to US West Coast escalated by 70%. A smaller increase of 20 - 30% was seen in the edible market.

The Malaysian associated companies, in which the Company has a 30% shareholding, operated six IMO II chemical tankers during the year and they were all on time-charters with four vessels redelivered in May, June, August and November. These four vessels were able to capitalize in higher earnings in the CPP market. The performance of the Malaysian associated companies for the year was better than anticipated.

### UTSE

Unithai Shipyard and Engineering Ltd. experienced major growth developments, including the establishment of an Alliance with Unocal Thailand Ltd. and Clough Offshore from Australia to design, fabricate and install well-head platforms for Unocal in the Gulf of Thailand, although it did not contribute to the Group's earnings. This is a very timely Joint Venture which is positioned to become a major earnings contributor.

### Newbuildings

The Group have, under the joint venture investment with GATX Capital Corporation contracted to build six new IMO II chemical tankers (of which, one newbuilding contract was signed after year end). To date, the construction schedule of all the six IMO II chemical tankers were in line with the contracts with the first tanker estimated to be delivered in 2001 and the remaining five in 2002 and 2003. The Group's share of the capital commitments in respect of these newbuildings amounted to HK\$679,801,000, of which, approximately HK\$509,363,000 would be financed by independent financial institutions.

### Financial Resources

Financing and cash management activities of the Group are coordinated at the operating head office for the best utilisation of the Group's financial resources.

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## 10. BUSINESS REVIEW (continued)

### Financial Resources (continued)

The Group's bank borrowings and obligations under finance leases at the balance sheet date totalled HK\$623,444,000 (1999: HK\$870,833,000), out of which HK\$16,582,000 (1999: HK\$161,285,000) is repayable within 12 months. All borrowing facilities are committed on a floating rate basis and are denominated in US Dollars except the borrowing for a property (office) investment in Singapore (Singapore Dollars 12,600,000) which was in Singapore Dollars. 69% of the outstanding loan at the balance sheet date are hedged against fixed interest rate swap derivatives. As at the balance sheet date, the net book value of leasehold building and vessels pledged as securities for bank loans amounted to HK\$962 million (1999: HK\$966 million). The net book value of the vessels under finance lease amounted to HK\$252 million (1999: HK\$264 million).

The Group's gearing ratio was 27% (1999: 37%), which was calculated based on the Group's borrowings of HK\$623,444,000 (1999: HK\$870,833,000) and the total assets of HK\$2,281,850,000 (1999: HK\$2,363,049,000).

There was no currency hedging as most of our income and expenditure are in US Dollars.

## 11. DIRECTORS

The directors during the year were:

Mr. Chavalit TSAO  
Mr. Danny Ding Bong HO  
Mr. Peter Tin Su CHEW  
Mr. Peter Alan Lee VINE  
(retired on 12 June 2000)  
Mr. Bernard Charnwut CHAN\*  
Mr. King Wa CHEUNG\*

\* Independent non-executive directors

The biographical details of the directors of the Company are shown on page 6.

In accordance with Bye-Law 107(A) of the Company's Bye-Laws, all directors will retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## 12. DIRECTORS' INTERESTS IN CONTRACTS

The Company entered into a management service agreement with IMC Pan Asia Alliance Corporation, its ultimate holding company, on 1 January 1995 to provide corporate and allied services to the Group. Mr. Chavalit TSAO is interested in this agreement to the extent that he is a beneficial shareholder of IMC Pan Asia Alliance Corporation.

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## 12. DIRECTORS' INTERESTS IN CONTRACTS (continued)

Apart from the above, no other director had a beneficial interest, either direct or indirect, in any significant contract in relation to the Group's business to which the Company or any of its subsidiary companies was a party at the balance sheet date or at any time during the year.

## 13. INTERESTS OF DIRECTORS IN SHARES OF THE COMPANY

As at 31 December 2000, the directors and their associates had the following interests in the share capital of the Company as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"):

### Ordinary Shares of HK\$0.50 each

	No. of shares		Total
	Personal Interests	Corporate Interests	
Chavalit TSAO	-	249,382,405	249,382,405
Danny D. B. HO	3,719,000	-	3,719,000
Peter T. S. CHEW	235,000	-	235,000

Apart from the foregoing, none of the directors nor their associates had a beneficial or non-beneficial interest in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) as at 31 December 2000 or at any time during the year.

Corporate interests represent the Company's shares held by companies in which Mr. Chavalit TSAO is the beneficial shareholder.

## 14. DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company, its subsidiary companies, its fellow subsidiaries or its holding companies a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## 15. SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2000, the following persons or corporations were recorded in the register kept pursuant to Section 16(1) of the SDI Ordinance as having an interest of 10% or more in the issued share capital of the Company:-

	No. of shares held
Alliance Group Company Incorporated	152,160,205
Saratoga Navigation Company Incorporated	62,233,402

As at 31 December 2000, Mr. Chavalit TSAO was interested in these companies as the beneficial shareholder. Such holdings have also been included as corporate interests of Mr. TSAO under paragraph 13.

No pre-emptive rights exist in the jurisdiction in which the company is incorporated.

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## 16. DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year and up to date of this report, none of the executive directors have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

## 17. SHARE OPTION SCHEME

- (a) The IMC Holdings Ltd (Bermuda) Share Option Scheme ["the Scheme"] was approved by the members of the Company at a Special General Meeting on 11 May 1995. The Scheme has an expiry date which is the earlier of 10 May 2005 or the termination of the management service agreement with IMC Pan Asia Alliance Corporation.
- (b) The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed such number of shares having an aggregate nominal value equal to 10 per cent of the aggregate nominal value of all the issued shares from time to time, excluding for this purpose the aggregate number of shares issued on the exercise of options granted under the Scheme.
- (c) The maximum number of shares in respect of which options may be granted in any one year shall not exceed such number of shares as is equal to two and one-half per cent of the aggregate number of shares at the time of granting of the options.

- (d) Pursuant to the Scheme, options granted to the ultimate holding company, IMC Pan Asia Alliance Corporation up to 31 December 2000 are as follows:

Date of Option	No. of Shares	Subscription Price
1998	9,354,934	HK\$0.85 per share
1997	9,354,934	HK\$2.52 per share
1996	9,354,934	HK\$4.50 per share
	<u>28,064,802</u>	

- (e) As at 31 December 2000, none of the options granted has been exercised. The options granted would expire at the end of the fifth calendar year after the date of the grant of the options. As at 31 December 2000, the option granted in 1995 had expired.

## 18. CODE OF BEST PRACTICE

The directors are pleased to confirm that throughout the year ended 31 December 2000, the Company has complied with the Code of Best Practice as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except that non-executive directors are not appointed for a specified term as recommended in Paragraph 7 of Appendix 14 "Code of Best Practice" of the Listing Rules. According to the Bye-Laws of the Company, non-executive directors of the Company will retire at the forthcoming Annual General Meeting and their appointments will be reviewed when they are due for re-election. In the opinion of the directors, this meets the same objective as the Code of Best Practice.

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## 19. AUDIT COMMITTEE

The Audit Committee of the Board of Directors was formed on 21 December 1998. The members of the Committee are as follows:

King Wa CHEUNG, *Chairman*  
Bernard Chamwut CHAN

By reference to “A Guide for the Formation of An Audit Committee” published by the Hong Kong Society of Accountants, written terms and references which describe the authority and duties of the Audit Committee were prepared and adopted by the Board of Directors. The functions of the Audit Committee are to review accounting policies, scope of audit, internal controls and statutory accounts of the Company and its subsidiaries on behalf of the Board of Directors, and any other functions as specified in the term of reference.

## 20. FINANCIAL ASSISTANCE AND GUARANTEE FOR BANKING FACILITIES PROVIDED TO AFFILIATED COMPANIES

The Group has provided financial assistance in proportion to the Group's equity interest to certain of its affiliated companies amounting to HK\$354,702,000 as at 31 December 2000. The Company has provided guarantees to financial institutions

in proportion to the Group's equity interest for the securing of several banking facilities granted to its affiliated companies amounting to HK\$562,490,000 as at 31 December 2000, of which, HK\$544,811,000 was drawn down. The aggregate of the financial assistance given and the guarantees provided amounted to HK\$917,192,000 or 62% of the Group's net assets based on its latest audited consolidated accounts as at 31 December 2000. Subsequent to year end, the Group's joint venture investment with GATX Capital Corporation contracted to build an additional IMO II chemical tanker. The Company has provided bank guarantees to the shipbuilders in proportion to the Group's equity interest in the joint venture amounting to HK\$31,478,000. The Group has also provided financial assistance amounting to HK\$32,760,000 in relation to the joint venture investment with GATX Capital Corporation after the year end.

Taking into account these subsequent events, the aggregate financial assistance given and guarantees provided to affiliated companies would be HK\$981,430,000 or 66% of the Group's net assets based on its latest audited consolidated accounts as at 31 December 2000.

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### 20. FINANCIAL ASSISTANCE AND GUARANTEE FOR BANKING FACILITIES PROVIDED TO AFFILIATED COMPANIES (continued)

(A) Details of amounts due to the Group as at 31 December 2000 are as follows:

Affiliated Companies	Amount HK\$
Ayu Navigation Sdn. Bhd.	21,580,000
Cardinal Marine Investments LLC	50,911,000
Discovery Marine S. A.	3,039,000
Gemala Navigation Sdn. Bhd.	24,490,000
Intan Navigation Sdn. Bhd.	15,324,000
Kasa Navigation Sdn. Bhd.	10,655,000
Kencana Navigation Sdn. Bhd.	22,574,000
Mayang Navigation Sdn. Bhd.	18,334,000
Mutiara Navigation Sdn. Bhd.	16,367,000
Nilam Navigation Sdn. Bhd.	11,539,000
Ratna Navigation Sdn. Bhd.	23,778,000
Sari Navigation Sdn. Bhd.	23,125,000
Tiara Navigation Sdn. Bhd.	6,263,000
Transocean Grabbulk Pool Pte. Ltd.	4,680,000
United Bulk Carriers International S.A.	56,862,000
Unithai Shipyard & Engineering Limited	29,274,000
Wawasan Maritime Sdn. Bhd.	15,907,000
	<u>354,702,000</u>

These financial assistance granted are unsecured, interest-free and have no fixed term of repayment except for the advance to Unithai Shipyard & Engineering Limited which bears interest at 1.7 percent above the 3 month LIBOR on the outstanding balance.

(B) Details of guarantees given by the Group as at 31 December 2000 are as disclosed below:

Affiliated Companies	Guarantee Amount Provided HK\$	Guarantee Amount Drawdown HK\$
Ayu Navigation Sdn. Bhd.	38,189,000	38,189,000
Beverlee Maritime LLC	31,478,000	31,478,000
Cavalier Maritime LLC	60,409,000	60,409,000
Discovery Marine S.A.	1,402,000	1,402,000
Gemala Navigation Sdn. Bhd.	51,564,000	51,564,000
Intan Navigation Sdn. Bhd.	29,866,000	29,866,000
Kasa Navigation Sdn. Bhd.	24,469,000	24,469,000
Kencana Navigation Sdn. Bhd.	51,564,000	51,564,000
Mayang Navigation Sdn. Bhd.	25,560,000	25,560,000
Nilam Navigation Sdn. Bhd.	31,251,000	31,251,000
Ratna Navigation Sdn. Bhd.	55,079,000	55,079,000
Sari Navigation Sdn. Bhd.	49,132,000	49,132,000
Tiara Navigation Sdn. Bhd.	39,472,000	39,472,000
Unithai Shipyard & Engineering Limited	31,422,000	13,743,000
Wolverine Maritime LLC	41,633,000	41,633,000
Total	<u>562,490,000</u>	<u>544,811,000</u>

As far as the directors are aware, other than the financial assistance and guarantees given as disclosed above, the Group had no other financial assistance or committed capital injections to its affiliated companies as at 31 December 2000.

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## **20. FINANCIAL ASSISTANCE AND GUARANTEE FOR BANKING FACILITIES PROVIDED TO AFFILIATED COMPANIES** (continued)

### **SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER**

The Company, in its own name and via its subsidiaries and associated companies, have also entered into loan agreements with covenants relating to specific performance of the controlling shareholder as follows:

- (a) **US\$50million (HK\$390million) Revolving Credit Facility dated July 1997 To The Company Expiring in July 2002 (subsequently extended to July 2005)**

The major shareholder of the Company and his family would continue to beneficially own and maintain a controlling interest of more than 50% in the Company.

- (b) **Singapore Dollars 12.6million (HK\$57million) Fixed Term Loan Facility dated August 1999 (Previously October 1995) To A Subsidiary Company Expiring in June 2008**

The subsidiary must continue to be majority owned or controlled by the major shareholder of the Company.

- (c) **US\$35million (HK\$273million) Reducing Revolving Credit Facility dated July 1995 To A Subsidiary Company Expiring in July 2003**

The major shareholder of the Company and his family would continue to beneficially own and maintain a controlling interest of more than 50% in the Company.

- (d) **Term Loans Amounting to US\$31.28million (HK\$244million) dated December 1997 to Four Associated Companies of Wawasan Shipping Sdn. Bhd. Expiring in Year 2008/2009**

The major shareholder of the Company and his family would through their shareholding interests in the Company continue to beneficially own and maintain a controlling interest in Wawasan Shipping Sdn. Bhd., a wholly owned subsidiary of the Company.

## **21. AUDITORS**

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. A resolution to this effect will be proposed at the upcoming annual general meeting.

On behalf of the Board  
**Chavalit TSAO**  
*Chairman*

Hong Kong SAR, 9 April 2001