# Chairman's Statement

## 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$1,974,661,000, representing an increase of 88% as compared to that of last year. Although partly offset by the losses on forward freight agreements ("FFAs"), the overall net profit of the Group for the year 2004 soared to a record high of HK$227,514,000, representing an increase of 520% over net profit of HK$36,676,000 for year 2003. Basic earnings per share for the year was HK$4.32 as compared with basic earnings per share of HK$0.70 for last year.

The shipping market of year 2004 was characterized by a tight demand and supply balance and a high level of volatility. The dry bulk market in 2004 was mainly driven by strong growth in mineral trades as a result of booming activity in China. The freight rates were at very firm level as compared to historical rates though there was a drastic drop during mid of the year.

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. 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 2004 were greatly stated below their current market values. Based on the valuation made by an independent professional valuer, the market values of the Group's eight owned vessels as at 31 December 2004 were approximately HK$1,571.7 million as compared to their net book values of approximately HK$925.8 million. In addition, the market values of the Group's six newbuildings under construction as at 31 December 2004 were valued by the independent professional valuer at approximately HK$1,786.2 million as compared to the total contract prices of approximately HK$1,283.3 million.

## DIVIDENDS

The board of directors (the "Board") has resolved to recommend the payment of a final dividend of HK$1.20 (2003: nil) per share for the year ended 31 December 2004 to shareholders whose names appear on the register of members of the Company on 12 April 2005.

There was no interim dividend declared in the year (2003: nil).

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 April 2005 to 12 April 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 4 April 2005. Dividend warrants will be despatched on 10 May 2005.

## BUSINESS REVIEW

**Chartering freight and hire.** The dry bulk market throughout year 2004 has been characterized by overall strength and extreme volatility. The Baltic Dry Index, an index reflects the performance of charter hire for bulk carriers, opened at 4,765 at the beginning of the year, rose to record 5,681 on 4 February 2004, slumped to the year's low of 2,622 on 22 June 2004, set a new all time high of 6,208 on 6 December 2004 and closed at 4,598 at end of the year.

Baltic Dry Index


The Group's shipping turnover was HK$1,687,997,000 for the year, representing an increase of 109% as compared to that of last year. Though partly offset by the losses on FFAs during the year, the Group's shipping business recorded an operating profit of HK$375,965,000 for the year, representing an increase of 215% as compared to an operating profit of HK$119,181,000 last year.

The Group operates its worldwide shipping activities through Jinhui Shipping and Transportation Limited ("Jinhui Shipping"), an approximately 59.61% owned subsidiary of the Company as at date of this report whose shares are listed on the Oslo Stock Exchange. In view of the upturn of the shipping market during early 2004, Jinhui Shipping 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 been squared off during mid of 2004 and hence the Group's losses under such squared off FFAs have been crystallized. All the FFAs entered into by the Group were transacted through professional brokers in England. As a consequence, the losses attributable to the FFAs amounting to HK$490,947,000 had been recognized as expenses for the year.

## 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 years 2003 and 2004, the Group had committed to acquire six newbuildings of dry bulk carriers for a total consideration of approximately HK$1,283,256,000; one of which was delivered to the Group on 18 February 2005 as scheduled, two will be delivered later in 2005, one in 2006 and another two in 2007. In addition, the Group further committed on 22 February 2005 to acquire two 2001 built dry bulk carriers for a total consideration of approximately HK$530,400,000; which are expected to be delivered to the Group on or before 2 May 2005 and 30 June 2005 respectively. During the year, the Group had disposed of two motor vessels with a net gain of HK$127,201,000.

Subsequent to the year ended 31 December 2004, an amount of approximately HK$156 million was received by the Group on 14 February 2005 pursuant to an agreement made by the Group on 31 August 2004 whereby one of the Jinhui Shipping's wholly-owned subsidiaries, as charterer, agreed to early terminate a charter party in respect of a chartered-in Capesize vessel. This income will be accounted for in the Group's results for year 2005.

While the Group's expertise remains in Asia, by deploying a flexible and responsive sales strategy as well as an efficient fleet of vessels, the Group managed to serve a balancing portfolio of customers geographically during the year.

### Loading Ports Analysis

| | 2004 | 2003 |
|---|---|---|
| *(Expressed as a percentage of turnover)* | % | % |
| Australia | 29.17 | 24.50 |
| Asia excluding China | 18.94 | 24.53 |
| South America | 17.91 | 21.09 |
| North America | 16.81 | 14.64 |
| Europe | 7.66 | 3.26 |
| Africa | 5.76 | 3.45 |
| China | 3.05 | 7.49 |
| Others | 0.70 | 1.04 |
| | 100.00 | 100.00 |

## BUSINESS REVIEW *(Continued)*

### Discharging Ports Analysis

| | 2004 | 2003 |
|---|---|---|
| *(Expressed as a percentage of turnover)* | % | % |
| Asia excluding China | 39.29 | 33.12 |
| China | 22.18 | 26.44 |
| Europe | 16.88 | 18.43 |
| North America | 7.86 | 5.56 |
| Africa | 6.68 | 10.32 |
| South America | 3.12 | 2.26 |
| Australia | 1.24 | 2.25 |
| Others | 2.75 | 1.62 |
| | 100.00 | 100.00 |

Set out below is a breakdown of types of cargoes carried by the Group during the year 2004:

| | Metric Tons *(in '000)* | % |
|---|---|---|
| Coal | 4,462 | 37.01 |
| Minerals | 4,448 | 36.90 |
| Agricultural products | 1,545 | 12.82 |
| Steel products | 762 | 6.32 |
| Cement | 509 | 4.22 |
| Fertilizer | 242 | 2.01 |
| Others | 87 | 0.72 |
| | 12,055 | 100.00 |

## BUSINESS REVIEW *(Continued)*

**Trading and investments in China.** The turnover for the Group's trading of chemical and industrial raw materials was HK$286,664,000, representing an increase of 20% as compared to that of last year. Due to the increase in demand and price for chemical and industrial raw materials as a result of economic recovery, the performance of the Group's trading business was improved with an operating profit of HK$11,755,000, representing an increase of 192% as compared with an operating profit of HK$4,032,000 last year. The Group's investment in a co-operative joint venture producing metallurgical coke in Shanxi Province of China was rather promising. An operating profit of HK$12,051,000 with respect to the Group's investments in China was recorded for the year against an operating profit of HK$1,320,000 last year.

**Other operations.** The Group's other operations recorded an operating profit of HK$13,151,000 against an operating loss of HK$25,788,000 for last year. The profit for the year 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. Goodwill in the amount of HK$57,935,000 arising from deemed acquisition of additional interests in a subsidiary, Jinhui Shipping, is recognized during the year as a result of the repurchase of 14,383,000 shares of Jinhui Shipping by Jinhui Shipping at an aggregate price of approximately HK$218,367,000 during the year. The loss for year 2003 was mainly attributed to the exchange loss of HK$43,090,000 as a result of the drastic and unexpected rebound of Japanese Yen and the weakening of United States Dollars. The Group had converted the outstanding Japanese Yen borrowings in relation to the ship mortgage loans into United States Dollars during the last quarter of 2003.

## FINANCIAL REVIEW

**Liquidity, financial resources and capital structure.** After the completion of the disposal of two motor vessels before end of year 2004, the total of the Group's securities, bank balances and cash increased to HK$481,430,000 as at 31 December 2004 (2003: HK$133,001,000). The Group's bank borrowings decreased to HK$470,621,000 as at 31 December 2004 (2003: HK$749,540,000), of which 12%, 10%, 28% and 50% are repayable respectively within one year, one to two years, two to five years and over five years. The Group was in a net cash position (total of securities, cash and cash equivalents net of total interest bearing debts) of HK$10,809,000 as at 31 December 2004 as compared to net debts (total interest bearing debts net of securities, cash and cash equivalents) of HK$616,539,000 or gearing ratio, as calculated on the basis of net debts over shareholders' equity, of 125% as at 31 December 2003. All the bank borrowings were committed on floating rate basis and were denominated mainly in United States Dollars and Hong Kong Dollars. The Group hedged the interest rate exposures by entering into interest rate swaps during January 2004 and June 2004 respectively as follows:

– US$30 million over three years through cap at 2.5% with knock out at 4%; and

– US$50 million over five years through cap at 4.3% with knock out at 6.5%.

## FINANCIAL REVIEW *(Continued)*

**Pledge of assets.** As at 31 December 2004, the Group's fixed assets of HK$859,153,000 (2003: HK$1,192,488,000), short-term investments of HK$10,009,000 (2003: HK$1,767,000), bank deposits of HK$23,522,000 (2003: HK$30,551,000) and shares of five (2003: seven) ship owning companies were pledged together with the assignment of chartering income of five (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$199,265,000 (2003: HK$29,998,000) for the year ended 31 December 2004, approximately HK$184,087,000 (2003: HK$28,169,000) was spent on the constructions of the Group's owned vessels.

As at 31 December 2004, there were outstanding capital commitments relating to the newbuildings of six (2003: two) dry bulk carriers at total purchase prices of HK$1,283,256,000 (2003: HK$321,516,000) and the total amount contracted but not provided for, net of deposits paid, was HK$1,076,794,000 (2003: HK$296,872,000).

**Contingent liabilities.** The Group had no material contingent liability not provided for both years ended 31 December 2003 and 2004.

## RISK MANAGEMENT

**Business risk.** The Group is exposed to the market risk to the extent that the fluctuations in freight rates of the shipping market 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. Should the correlation between FFAs and the physical shipping market normalize to a level where Jinhui Shipping consider the use of FFAs for hedging purpose to be beneficial to the core shipping business, Jinhui Shipping will inform the market immediately before entering into new open position in FFAs. Jinhui Shipping will subsequently inform the public, details of any new FFAs entered into by Jinhui Shipping 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 year ended 31 December 2004 are mainly denominated in United States Dollars and Hong Kong Dollars. 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, as disclosed above, to reduce the risk associated with fluctuations in interest rates.

## EMPLOYEES

As at 31 December 2004, the Group had 106 full-time employees and 208 crew (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 had adopted a share option scheme at an extraordinary general meeting of the Company on 18 November 2004. On 23 December 2004, options to subscribe for an aggregate of 7,679,200 shares of the Company were granted to the officers and employees of the Group including options granted to Mr. Ng Siu Fai, Chairman of the Company, and Mr. Ng Kam Wah Thomas, Managing Director of the Company, to subscribe for 3,157,000 and 2,105,000 shares of the Company respectively. The grant of share options to both Mr. Ng Siu Fai and Mr. Ng Kam Wah Thomas were approved at an extraordinary general meeting of the Company on 27 January 2005 and are subject to certain conditions as set out in the circular of the Company dated 11 January 2005 including a performance target, whereby the options will become exercisable upon the Group having recorded an audited consolidated net profit of not less than HK$400 million for the financial year 2005.

## AMENDMENTS TO THE ARTICLES OF ASSOCIATIONS

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") had revised the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") which became effective on 31 March 2004. In addition, the Companies (Amendment) Ordinance 2003 became effective on 13 February 2004. The Board considered that amendments should be made to the Articles of Associations to bring them in line with the changes required under the revised Listing Rules and the legislative changes. The amendments of relevant Articles of Associations of the Company had been duly passed as special resolutions at the annual general meeting of the Company held on 21 June 2004.

## RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for year ended 31 December 2004. However, the Group is in the process of making an assessment of the impact of these new HKFRSs and has so far concluded that the adoption of these new HKFRSs would not have a significant impact on its results of operations and financial position.

The Group will be continuing with the assessment of the impact of these new HKFRSs and other significant changes may be identified as a result.

## OUTLOOK

As at date of this report, the total capacity of the Group's fleet is around deadweight 1.3 million metric tons comprising nine owned vessels and twelve chartered-in vessels. Subsequent to the year ended 31 December 2004, the freight rates maintain at very firm level with the Baltic Dry Index reaching around 4,800 by late February 2005 and the Group's trading business and investments in China will also continue to contribute steady returns to the Group.

At this point of time, the Board expects that the market will continue to be volatile in 2005 but the fundamentals in dry bulk shipping remain favourable with the strong demand of vessels in the next few years. The major downside risk of the shipping market still remains as there might be sudden downturn of the Chinese economy. The Board remains cautious on this particular point because there could be a various mix of factors that could trigger such downturn which includes further tightening economic measures from the Chinese government; a combination of Renminbi appreciation plus interest rate hike; a slow down on the US economy and high oil prices.

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.

# Chairman's Statement

## 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, 28 February 2005