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 2005 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 Institute of Certified Public Accountants ("HKICPA"). An unmodified review conclusion has been issued by the auditors.

The unaudited interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and basis of preparation adopted in these interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2004 except for the adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and HKASs as disclosed below.

The HKICPA has issued a number of new/revised HKFRSs, and HKASs and Interpretations, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the following HKFRSs and HKASs issued up to 30 June 2005 which are pertinent to its operations and relevant to these interim financial statements.

– HKAS 1 Presentation of Financial Statements
– HKAS 28 Investments in Associates
– HKAS 32 Financial Instruments: Disclosure and Presentation
– HKAS 36 Impairment of Assets
– HKAS 38 Intangible Assets
– HKAS 39 Financial Instruments: Recognition and Measurement
– HKAS 40 Investment Property
– HKFRS 2 Share-based Payment
– HKFRS 3 Business Combinations

The adoption of these new/revised HKFRSs and HKASs has resulted in the following changes to the Group's accounting policies and the major effect of the adoption are summarized as follows:

(a) The adoption of HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.

(b) The adoption of HKAS 40 has resulted in a change in the accounting policy for the Group's investment property. Prior to this, the changes in values of the Group's investment properties were dealt with as movements in the investment property revaluation reserve or, in case this reserve was insufficient to cover a deficit on a portfolio basis, the excess of the deficit was included in the profit and loss account.

Under HKAS 40, investment property is stated at fair value at balance sheet date, all changes in fair value of the investment property are recognized in the profit and loss account. There is no impact on these financial statements as a result of this change in accounting policy because the Group's investment property had a net revaluation deficit position as at 30 June 2004 and 31 December 2004 and the changes in valuation of the Group's investment property during the period ended 30 June 2004 and year ended 31 December 2004 would be recognized in the profit and loss account irrespective of whether the old policy or the new policy is applied.

(c) The adoption of HKFRS 2 has resulted in a change in the Group's accounting policy for employee share options. Prior to this, the provision of share options to employees did not result in a charge to profit and loss account. The main impact of HKFRS 2 on the Group is the expensing of share options of employees and Directors. The Group has taken advantage of the transitional provisions of HKFRS 2 in respect of equity-settled incentives and has applied HKFRS 2 only to equity-settled incentives granted after 7 November 2002 that had not vested on or before 1 January 2005.

(d) The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in accounting policy for goodwill. Prior to this, goodwill on acquisitions which occurred prior to 1 January 2001 was eliminated against consolidated reserves and subject to assessments of impairment and negative goodwill was credited to a capital reserve. Goodwill arising from acquisitions after 1 January 2001 was recognized as an intangible asset and was amortized on a straight-line basis over its estimated useful life not exceeding 20 years. Any negative goodwill was presented as deduction from goodwill and was released to the profit and loss account based on an analysis of the circumstance from which the balance resulted.

In accordance with the provisions of HKFRS 3:

- the Group ceased amortization of goodwill from 1 January 2005;

- accumulated amortization of goodwill arising from acquisition of subsidiaries as at 1 January 2005 have been eliminated with a corresponding decrease in the cost of goodwill at that date;

- any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired as at the date of acquisition over the cost of the business combination is recognized immediately in the consolidated profit and loss account. In addition, following the transitional provisions of HKFRS 3, the carrying amount of the negative goodwill as at 1 January 2005 was derecognized by way of a corresponding adjustment to the opening balance of retained profits as at 1 January 2005;

- there should be no further reversal of negative goodwill on disposal of a subsidiary; and

- from the year ending 31 December 2005, goodwill is tested annually for impairment, as well as when there are indications of impairment.

(e) The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Prior to this, the Group's investments in co-operative joint ventures were classified as other investments, which the Group have no control, joint control or significant influence, and were carried at costs less accumulated amortization (over the duration of contracts) and accumulated impairment losses; the Group's investments in equity securities were classified as short-term investments, which were stated at their fair values in the balance sheet and recognized the changes in fair value in the profit and loss account; and specific provisions were made for forward freight agreements.

In accordance with the provisions of HKAS 39, the Group's investments have been redesignated as available-for-sale financial assets and financial assets at fair value through profit or loss. The classification depends on the purpose for which the investments were held. As a result, all the investments are now stated at fair value in the balance sheet except for certain available-for-sale financial assets that do not have a quoted market price in an active market and whose fair values cannot be reliably measured, they are stated at cost less accumulated impairment losses. The impairment loss is measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed in future.

Derivative financial instruments, including foreign exchange contracts, foreign exchange options, interest rate swaps and forward freight agreements are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair values. They are classified as financial assets or liabilities at fair value through profit or loss and changes in the fair value of any derivative instruments are recognized immediately in the profit and loss account.

As a result of the adoption of HKAS 32 and HKAS 39, the Group:

– has redesignated other investments into available-for-sale financial assets on 1 January 2005;

– has redesignated investments in equity securities into financial assets at fair value through profit or loss on 1 January 2005;

– has redesignated forward freight agreements into respective financial assets or financial liabilities at fair value through profit or loss on 1 January 2005;

– has recognized all derivatives including foreign exchange contracts, foreign exchange options and interest rate swaps at fair value in the balance sheet on 1 January 2005;

– has remeasured those financial assets or liabilities that should be measured at fair value at 1 January 2005;

– has determined that no adjustment to the Group's retained profits would be made as the amount involved was not material; and

– will apply the principles for the derecognition of financial assets prospectively.

2. Segmental information

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

	Turnover		Profit (Loss) from operations	
	Six months ended 30 June		Six months ended 30 June	
	2005	2004	**2005**	2004
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Chartering freight and hire	**919,419**	850,867	**576,605**	(138,143)
Trading	**129,380**	155,314	**6,214**	5,237
Investments in China	**–**	–	**2,040**	6,481
Other operations	**–**	–	**(5,297)**	(10,189)
	1,048,799	1,006,181	**579,562**	(136,614)

The Group's chartering freight and hire business is carried out internationally and cannot be attributable to any particular geographical location. During the period, about 90% (2004: 45%) and 5% (2004: 54%) of the Group's trading business was carried out in Hong Kong and China 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. Cancellation fee income

The amount represented a fee of approximately HK$156,000,000 received by Goldbeam Shipping Inc. ("GSI"), an approximately 59.61% owned subsidiary of the Company, on 14 February 2005 under a contract (the "Termination Contract") made between GSI and a counter party (the "Counter Party") on 31 August 2004. Under the Termination Contract, upon receiving a fee of approximately HK$156,000,000 by GSI from the Counter Party, both parties agreed to early terminate a charterparty dated 8 February 2000 made between the Counter Party, as owner, and GSI, as charterer, for the chartering of a Capesize vessel to GSI for a period of up to seven years from October 2001.

4. Losses on forward freight agreements

The amount for year 2004 represents the realized losses incurred from, and the provisions made for the unrealized losses from forward freight agreements. In the opinion of the Directors, the losses from the forward freight agreements had been 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 had squared off majority of the forward freight agreements during mid of 2004 and therefore, a provision for losses for all squared off forward freight agreements was made during year 2004 accordingly. As stated in note 1 above, the provision for losses on forward freight agreements has been redesignated into financial assets or liabilities at fair value through profit or loss on 1 January 2005.

5. Taxation

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current period	**(1,068)**	(951)
Under provision in respect of prior periods	**(20)**	–
	(1,088)	(951)

Hong Kong Profits Tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the period ended 30 June 2005. 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.

6. Dividends

The Board declares an interim dividend of HK$0.19 per share for 2005 (2004: nil).

7. Earnings (Loss) per share

The calculation of basic earnings per share for the period is based on the profit attributable to shareholders of the Company for the period of HK$338,346,000 (2004: loss of HK$79,691,000) and the weighted average number of 529,307,541 (2004: 526,242,480 as adjusted) ordinary shares in issue during the period. The weighted average number of ordinary shares outstanding for both periods presented have been adjusted for the subdivision of shares effective on 23 May 2005 (as disclosed hereinafter).

The calculation of diluted earnings per share for the period is based on the profit attributable to shareholders of the Company for the period of HK$338,346,000. The weighted average number of ordinary shares used in the calculation is 529,307,541 ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 6,714,549 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period. Diluted loss per share for last corresponding period in 2004 is not presented as there is no potential ordinary share in issue during that period.

8. Trade and other receivables

	30 June 2005 (Unaudited) ***HK$'000***	31 December 2004 (Audited) *HK$'000*
Trade receivables	**82,182**	77,543
Prepayments, deposits and other receivables	**117,948**	136,396
	200,130	213,939

The credit terms given to charterers vary from 15 to 60 days according to the types of vessels' 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 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
0 – 90 days	**62,595**	57,767
91 – 180 days	**14,663**	15,487
181 – 365 days	**4,334**	3,688
Over 365 days	**590**	601
	82,182	77,543

9. Trade and other payables

	30 June 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
Trade payables	**22,126**	70,733
Accrued charges and other payables	**149,842**	255,530
	171,968	326,263

The aging analysis of trade payables is as follows:

	30 June 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
0 – 90 days	**12,826**	62,210
91 – 180 days	**985**	556
181 – 365 days	**624**	412
Over 365 days	**7,691**	7,555
	22,126	70,733

10. Financial assets/liabilities at fair value through profit or loss

	30 June 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
Analysis of financial assets at fair value through profit or loss:		
Held for trading		
Equity securities, at fair value	**33,396**	–
Designated as financial assets, at fair value through profit or loss		
Derivative financial instruments, at fair value		
– Interest rate swaps	**4,038**	–
– Forward freight agreements *(Note*)*	**101,021**	–
	138,455	–
Analysis of financial liabilities at fair value through profit or loss:		
Held for trading		
Derivative financial instruments, at fair value		
– Forward foreign exchange contracts and options	**842**	–
– Equity derivatives	**112**	–
Designated as financial liabilities, at fair value through profit or loss		
Derivative financial instruments, at fair value		
– Forward freight agreements *(Note*)*	**185,239**	–
	186,193	–

*Note *: As at 30 June 2005, all the forward freight agreements were squared off and the unrealized losses thereon had been fully taken up in the profit and loss account.*

11. Comparative figures

Certain comparative figures have been restated to conform to current period's presentation.