

Financial Information

CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30th June 2004

	Note	Unaudited six months ended 30th June	
		2004 HK\$'000	2003 HK\$'000
TURNOVER	2	906,390	449,480
Cost of sales		(712,289)	(389,306)
Gross profit		194,101	60,174
Other revenues		1,496	2,708
Other operating income		7,524	3,923
Administrative expenses		(40,962)	(33,569)
Selling and distribution expenses		(58,234)	—
Other operating expenses		(7,459)	(7,171)
OPERATING PROFIT	3	96,466	26,065
Finance costs		(6,082)	(13,044)
Share of results of a jointly controlled entity		6,944	2,250
PROFIT BEFORE TAXATION		97,328	15,271
Taxation	4	(28,585)	(7,920)
PROFIT AFTER TAXATION		68,743	7,351
Minority interests		(25,446)	(6,520)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		43,297	831
EARNINGS PER SHARE	5		
BASIC		3.08 cents	0.06 cents
FULLY DILUTED		3.04 cents	Not Applicable

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CONDENSED CONSOLIDATED BALANCE SHEET

as at 30th June 2004

	Note	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
GOODWILL		47,803	37,624
FIXED ASSETS	7	1,051,655	1,007,969
ASSOCIATED COMPANIES JOINTLY CONTROLLED ENTITY		2,572	2,784
OTHER INVESTMENT IN A JOINT VENTURE		210,032	206,900
INVESTMENT SECURITIES		50,659	56,490
OTHER NON-CURRENT ASSETS	9	62,076	45,976
CURRENT ASSETS		—	4,392
Completed properties held for sale		56,571	56,943
Properties under development for sale		157,670	122,556
Inventories		225,084	—
Trade and other receivables	8	653,171	262,261
Short-term investments		254	243
Cash and bank balances	9	498,769	554,930
		1,591,519	996,933
CURRENT LIABILITIES			
Trade and other payables	10	933,266	433,007
Taxation		11,669	16,610
Current portion of long-term bank loans	12	131,496	99,230
Bank loan			
– Secured		61,068	—
– Unsecured		35,428	157,990
		1,172,927	706,837
NET CURRENT ASSETS		418,592	290,096
		1,843,389	1,652,231
Financed by:			
SHARE CAPITAL RESERVES	11	141,064 798,536	139,439 747,633
SHAREHOLDERS' FUNDS		939,600	887,072
LONG-TERM BANK LOANS	12	737,732	677,900
MINORITY INTERESTS		166,057	87,259
		1,843,389	1,652,231

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30th June 2004

	Unaudited	
	Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Net cash flow from/(used in) operating activities	80,757	(87,459)
Net cash flow from investing activities	22,541	61,556
Net cash flow used in financing activities	(17,766)	(20,840)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	85,532	(46,743)
Cash and cash equivalents at beginning of period	413,271	368,489
Changes in exchange rates	(34)	(4)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	498,769	321,742
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	498,769	434,995
Cash investments with maturity more than three months from the date of placement	—	(113,253)
	498,769	321,742

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June 2004

Unaudited							
Six months ended 30th June 2004							
	Share capital	Share premium	Capital reserve	Contributed surplus	Exchange fluctuation reserve	(Accumulated losses)/ retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2004	139,439	2,356,553	63,151	—	(2,550)	(1,669,521)	887,072
Issue of new shares	1,625	7,638	—	—	—	—	9,263
Reduction of share premium	—	(2,364,191)	—	694,670	—	1,669,521	—
Exchange differences	—	—	—	—	(32)	—	(32)
Profit for the period	—	—	—	—	—	43,297	43,297
At 30th June 2004	141,064	—	63,151	694,670	(2,582)	43,297	939,600

Unaudited							
Six months ended 30th June 2003							
	Share capital	Share premium	Capital reserve	Contributed surplus	Exchange fluctuation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2003	139,439	2,356,553	60,020	—	(2,043)	(1,549,684)	1,004,285
Exchange differences	—	—	—	—	(4)	—	(4)
Profit for the period	—	—	—	—	—	831	831
At 30th June 2003	139,439	2,356,553	60,020	—	(2,047)	(1,548,853)	1,005,112

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed Interim Financial Statements were prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25. “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and Appendix 16 to the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies and methods of computation used in the preparation of these condensed Interim Financial Statements are consistent with those used in the 2003 Annual Financial Statement. The condensed Interim Financial Statements should be read in conjunction with the 2003 Annual Financial Statements.

2. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in provision of ship trading and supplying services, property investment and development, building construction and infrastructure investment.

Primary reporting format — business segments

The Group is organised into five main business segments:

Ship trading and supplying services	—	trading of vessels, marine equipment, bareboat charter business and manufacturing and trading of paint products
Property development	—	development of properties
Building construction	—	construction of buildings
Property investment	—	holding of properties for rental purpose
Infrastructure investment	—	investment in a power plant project

Other operations of the Group comprise mainly holding of investment securities and provision of building management services, neither of which are of a sufficient size to be reported separately.

There were no transactions between business segments.

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2. TURNOVER AND SEGMENT INFORMATION (cont'd)

	Six months ended 30th June 2003							
	Paint products	Ship trading	Property development	Building construction	Property investment	Infrastructure investment	Other operations	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover	—	26,770	85,185	297,476	27,523	11,274	1,252	449,480
Segment results	—	17,141	9,607	(10,933)	22,100	318	(699)	37,534
Unallocated corporate expenses, net of income								(11,469)
Operating profit								26,065
Finance costs								(13,044)
Share of results of a jointly controlled entity	—	—	2,250	—	—	—	—	2,250
Profit before taxation								15,271
Taxation								(7,920)
Profit after taxation								7,351
Minority interests								(6,520)
Profit attributable to shareholders								831

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2. TURNOVER AND SEGMENT INFORMATION (cont'd)

Secondary reporting format — geographical segments

	Segment turnover		Segment results	
	Six months ended 30th June		Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	308,761	350,504	9,117	26,447
China Mainland	597,629	98,976	99,186	11,087
	906,390	449,480	108,303	37,534
Unallocated corporate expenses, net of income			(11,837)	(11,469)
Operating profit			96,466	26,065

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3. OPERATING PROFIT

Operating profit was arrived at after crediting and charging the following:

	Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Crediting		
Net rental income	16,643	27,703
Net realised and unrealised gain on investments in securities	12	—
Charging		
Depreciation, net of amounts capitalised in construction contracts in progress and properties under development for sale totalling HK\$204,000 (2003: HK\$916,000)	9,921	10,326
Amortisation of the cost of other investment in a joint venture	6,043	10,217
Amortisation of goodwill	1,304	1,017
Staff costs, net of amount capitalised in construction in progress totalling HK\$9,669,000 (2003: HK\$11,460,000)	33,947	16,516
Pension costs	1,631	388
Net realised and unrealised loss on investments in securities	—	699
Write-down of inventories to net realisable value	2,146	—
Provision for doubtful debts	1,797	—

4. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period.

China Mainland taxation has been calculated on the estimated assessable profit derived from the Group's operations in China Mainland for the period at the rates of taxation prevailing in China Mainland.

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4. TAXATION (cont'd)

The amount of taxation charged for the period to the condensed consolidated income statement represents:

	Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
The Company and subsidiaries:		
— Hong Kong profits tax	2,652	2,712
— China Mainland taxation	22,121	4,010
	24,773	6,722
Share of taxation of a jointly controlled entity	3,812	1,198
	28,585	7,920

5. EARNINGS PER SHARE

The calculation of basic and fully diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$43,297,000 (2003: HK\$831,000). The basic earnings per share is based on the weighted average number of 1,406,446,247 (2003: 1,394,389,291) shares in issue during the period under review.

The fully diluted earnings per share for the period ended 30th June 2004 was based on 1,422,913,228 shares which was weighted average number of shares in issue during the period plus weighted average of 16,466,981 shares deemed to be issued at no consideration if all outstanding share options had been exercised. (There is no potential dilutive shares in issue during the comparative period.)

6. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2004 (2003: Nil).

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7. FIXED ASSETS

	2004 HK\$'000	2003 HK\$'000
Net book value at 1st January	1,007,969	1,101,740
Additions	2,911	1,330
Acquisition of subsidiaries	50,900	—
Disposal	—	(85)
Depreciation for the period	(10,125)	(11,242)
Net book value at 30th June	1,051,655	1,091,743

8. TRADE AND OTHER RECEIVABLES

At 30th June 2004, trade and other receivables included trade receivables amounting to HK\$480,817,000 (31st December 2003: HK\$117,462,000). The ageing analysis of the trade receivables, net of provision for bad and doubtful debt is as follows:

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Current – 90 days	343,679	103,280
91 – 180 days	111,148	—
Over 180 days	25,990	14,182
	480,817	117,462

For building construction contracts, they are billed according to certified progress billings, while revenue from sales of properties and other operating revenues except for sales of paint products are billed according to the terms of the relevant contracts governing the transactions. All invoices billed are payable upon presentation of invoices.

For the sales of paint products, the majority of the sales are on credit terms from 30 days to 90 days.

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9. CASH AND BANK BALANCES

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Cash and bank balances	498,769	559,322
Restricted bank deposits	—	(4,392)
	498,769	554,930

10. TRADE AND OTHER PAYABLES

At 30th June 2004, trade and other payables included trade payables amounting to HK\$499,630,000 (31st December 2003: HK\$75,827,000). The ageing analysis of the trade payables is as follows:

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Current – 90 days	406,048	61,850
91 – 180 days	80,059	—
Over 180 days	13,523	13,977
	499,630	75,827

11. SHARE CAPITAL

	30th June 2004		31st December 2003	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:				
Shares of HK\$0.1 each	3,000,000,000	300,000	3,000,000,000	300,000
Issued and fully paid:				
Shares of HK\$0.1 each				
At 1st January	1,394,389,291	139,439	1,394,389,291	139,439
Issue of shares	16,252,000	1,625	—	—
At period/year end	1,410,641,291	141,064	1,394,389,291	139,439

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11. SHARE CAPITAL (cont'd)

On 17th May 2002, a share options scheme was approved at an Annual General Meeting of the Company under which the directors of the Company may, at their discretion, invite but not limited to the directors of the Group and employees of COSCO Group to subscribe for shares of the Company.

On 26th November 2003, the directors and employees of the Group were granted certain share options to subscribe for a total of 44,800,000 shares at a price of HK\$0.57 per share. In addition, certain share options to subscribe for a total of 34,200,000 shares were granted to employees of COSCO Group (other than the Group). The share options are exercisable at any time from 23rd December 2003 to 22nd December 2008.

Up to 30th June 2004, share options to subscribe for 16,252,000 shares have been exercised and the same number of shares have been issued accordingly. At 30th June 2004, share options to subscribe for 62,248,000 shares were still outstanding.

12. LONG-TERM BANK LOANS

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Bank loans		
Secured	675,628	697,130
Unsecured	193,600	80,000
	869,228	777,130
Amount repayable within one year included in current liabilities	(131,496)	(99,230)
	737,732	677,900
The bank loans are repayable as follows:		
Within one year	131,496	99,230
In the second year	51,759	19,230
In the third to fifth year	685,973	658,670
	869,228	777,130

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13. CONTINGENCIES

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Performance bonds in respect of performance and completion of construction contracts	10,271	10,271
Guarantee and counter-indemnity to bank guarantees in respect of due performance of management and remedial cost of a property undertaken by the Group	43,000	43,000
Guarantees to mortgage loans in respect of a property development project (<i>Note</i>)	307,878	213,517

Note: The Group provides guarantees to the mortgage loans granted by certain banks to the buyers of a property development project in China Mainland. Pursuant to the terms of the guarantees, upon default in loan repayments by the buyers, the Group is responsible to repay the outstanding loan principals together with the accrued interest and penalty owed by the default buyers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Directors consider that in case of default, the net realisable value of the related properties can cover the repayment of outstanding loan principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements of the Group for the guarantees.

14. RELATED PARTY TRANSACTIONS

- (a) The following is a summary of significant related party transactions carried out in the normal course of the Group's business during the period under review:

		Six months ended 30th June	
	Note	2004 HK\$'000	2003 HK\$'000
Rental income received from			
An intermediate holding company	(i)	893	1,037
Fellow subsidiaries	(i)	12,565	15,414
Commission income for provision of agency services	(ii)	28,044	26,770
Sales of paint products to fellow subsidiaries	(iii)	54,711	—

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14. RELATED PARTY TRANSACTIONS (cont'd)

Notes:

- (i) Eleven tenancy agreements were entered into between certain subsidiaries of the Company as landlords, and COSCO Hong Kong or subsidiaries of COSCO Hong Kong as tenants, for the lease of certain properties of the Group at COSCO Tower at an average monthly rental of approximately HK\$28 (2003: HK\$33) per square foot.
 - (ii) Certain subsidiaries of the Company act as the agent of COSCO, the ultimate holding company, and its subsidiaries in respect of (a) sale and purchase of new and second hand vessels, (b) bareboat charter businesses, and (c) sale and purchase of marine equipment for new ship-building projects. According to the terms of the relevant engagement/ commission agreements, the Group received commission income from vendors, ship-owners and equipment makers with respect to the transactions mentioned above.
 - (iii) The paint products are manufactured and sold to the fellow subsidiaries of the Group. All such sales of paint products are conducted at terms as set out in the agreements.
- (b) On 14th August and 25th November 2003, the Group entered into conditional share transfer agreements for the acquisition of 34.19% and 28.88% respectively, 63.07% in aggregate, equity interest in Shanghai COSCO Kansai Paint & Chemicals Co. Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co. Ltd. from subsidiaries of COSCO at a total consideration of HK\$109,763,000 in cash. The acquisitions were completed in January 2004 when the conditions precedent were fulfilled.
- (c) On 14th August 2003, the Group entered into a conditional sale and purchase agreement with COSCO Industry Company, a wholly-owned subsidiary of COSCO, for the acquisition of 10% equity interest of International Paint of Shanghai Co., Ltd. The acquisition was completed in June 2004 when the conditions precedent were fulfilled.
- (d) On 14th May 2004, the Group and a wholly-owned subsidiary entered into an agreement for the acquisition of 100% interest in COSCO Insurance from an intermediate holding company and a fellow subsidiary of the Group at a consideration of HK\$47,240,000. The transaction was completed in July 2004 after all the conditions precedent under the agreement have been fulfilled.