



Management

Discussion and Analysis





Front row (left to right): Mr. Lin Libing (Deputy Managing Director), Mr. Zhao Kaiji (Deputy Managing Director), Mr. Liu Hanbo (Managing Director), Mr. Wang Xiaodong (Deputy General Manager)

Back row (left to right): Ms. Zhu Yizhen (General Manager of Strategic Investment Department), Ms. Wai Ching Sum (Company Secretary), Mr. Pak Wai Keung, Martin (Financial Controller), Mr. Wang Jixin (General Manager of Corporate Management Department), Ms. Sun Xian (General Manager of Finance Department), Ms. Ma Xiashan (Deputy General Manager of Internal Audit Department)

Financial Review

For the year ended 31st December 2004, the Group recorded a turnover of HK\$1,688,374,000 (2003: HK\$939,680,000), representing a substantial increase of 80% as compared to the prior year despite the decrease in turnover of building construction, property investment and infrastructure investment segments. The significant increase was mainly attributable to the turnover from the paint business which was accounted for during the year after the completion of acquisition of a 63.07% equity interest in Shanghai COSCO Kansai Paint & Chemicals Co., Ltd and Tianjin COSCO Kansai Paint & Chemicals Co. Ltd., (collectively "COSCO Kansai Companies") in January 2004 and the turnover from the insurance brokerage business which was accounted for in the second half of the year after the completion of acquisition of 100% equity interest in COSCO (Hong Kong) Insurance Brokers Limited ("COSCO Insurance") in July 2004. The commencement of sales of Phase I of Shenyang Yihe Garden also accounted for the increase in turnover during the year.

The gross profit increased by 302% to HK\$417,462,000 (2003: HK\$103,795,000). The increase was mainly due to the contributions of the gross profit of HK\$214,431,000 and HK\$20,043,000 from the newly acquired COSCO Kansai

Companies and COSCO Insurance respectively. The increase in selling prices of Phase II of Fragrant Garden in Shanghai and the sales of Phase I of Shenyang COSCO Yihe Garden also resulted in increase of gross profit of property development segment by HK\$74,700,000.

The Group achieved an operating profit of HK\$316,041,000 for the year (2003: loss of HK\$73,886,000). The great turnaround was partly due to the write-back of deficit on revaluation of investment properties of HK\$155,966,000 (2003: deficit of HK\$70,966,000) in 2004 which offset provisions made comprising provisions for claims with related legal costs and foreseeable loss on certain construction contracts of HK\$6,559,000 (2003: HK\$42,429,000), the provision for completed properties held for sale in Hong Kong of HK\$13,646,000 (2003: HK\$11,271,000); provision for diminution in value of investment securities of HK\$9,677,000 (2003: HK\$8,893,000); impairment loss on other investment in a joint venture of HK\$23,431,000 (2003: impairment loss on fixed assets of HK\$2,855,000). Excluding the above write-back of provisions and provisions made, the Group achieved an operating profit of HK\$213,388,000 (2003: HK\$62,528,000). The increase in operating profit was mainly attributable to contribution of

the newly acquired COSCO Kansai Companies and COSCO Insurance and the increase in ship trading commission income which increased operating profit of the ship trading and supplying services segment by HK\$103,703,000. The increase in selling prices of Phase II of Fragrant Garden in Shanghai and the sales of Phase I of Shenyang COSCO Yihe Garden also accounted for an increase of HK\$67,728,000 in operating profit during the year.

As a result, the Group attained a profit attributable to shareholders of HK\$219,158,000 (2003: loss of HK\$116,706,000).

Financial Resources and Liquidity

As at 31st December 2004, shareholders' funds of the Group increased by 26% to HK\$1,117,319,000 resulting from the profit generated during the year. As at 31st December 2003, the shareholders' funds decreased by 12% to HK\$887,072,000 as a result of the loss attributable to shareholders of HK\$116,706,000.

For the year ended 31st December 2004, the Group had a net draw down of bank loans in the amount of

HK\$29,770,000 (2003: net repayment of HK\$171,161,000). As at 31st December 2004, total banking facilities available to the Group amounted to HK\$1,222,999,000 (2003: HK\$1,296,897,000) of which HK\$964,890,000 (2003: HK\$935,120,000) were utilised. The increase in utilisation of banking facilities was primarily attributable to the bank loans from the paint business which was accounted for during the year after the completion of acquisition of a 63.07% equity interest in COSCO Kansai Companies in January 2004. The gearing ratio, which represents total bank loans over total assets, was approximately 32% (2003: 40%).

As at 31st December 2004, the Group's borrowings were denominated in Hong Kong dollar, United States dollar and Renminbi and carry interests at rates calculated with reference to Hong Kong Interbank Offered Rate, London Interbank Offered Rate and the Base Rates announced by the People's Bank of China. The Group did not have any financial instruments used for hedging purpose.

The maturity and currency profiles of the outstanding bank loans as at 31st December 2004 are analysed as follows:

	2004		2003	
	HK\$'000		HK\$'000	
Maturity profiles:				
Bank loans repayable				
- Within one year	122,619	13%	257,220	28%
- In the second year	12,825	1%	19,230	2%
- In the third to fifth year	829,446	86%	658,670	70%
	964,890	100%	935,120	100%
Secured	677,676	70%	697,130	75%
Unsecured	287,214	30%	237,990	25%
	964,890	100%	935,120	100%
Currency profiles:				
Hong Kong dollar	598,600	62%	916,330	98%
United States dollar	287,214	30%	—	—
Renminbi	79,076	8%	18,790	2%
	964,890	100%	935,120	100%

As at 31st December 2004, investment properties in Hong Kong of HK\$398,000,000 (2003: HK\$242,034,000), other properties in Hong Kong of HK\$706,291,000 (2003: HK\$722,549,000) and certain properties under development in the China Mainland of HK\$194,634,000 (2003: nil) were pledged as securities to banks in respect of certain banking facilities granted to the Group.

Cash and bank balances amounted to HK\$562,870,000 (2003: HK\$554,930,000) as at 31st December 2004 and accounted for 39% (2003: 56%) of the current assets of the Group. No bank balances (2003: HK\$4,392,000) has been restricted by a bank for the purpose of granting banking facilities to the Group. During the year, the Group had no material exposure to exchange rate fluctuations. With its strong cash position and the available banking facilities, the Group has adequate resources for its ongoing operations and future development.

Major Customers and Suppliers

For the year ended 31st December 2004, the Group's five largest customers accounted for 38% of the Group's turnover and the largest customer included therein accounted for 16%. During the year, the aggregate amount of purchases from the five largest suppliers accounted for less than 30% of the total cost of sales of the Group.

None of the Company's directors, their associates, or any shareholders of the Company (which to the knowledge of the Company's directors owned more than 5% of the Company's issued shares) had a beneficial interest in any of the Group's five largest suppliers and customers.

Employees

As at 31st December 2004, excluding associated companies and jointly controlled entities, the Group had approximately 664 (2003: 269) employees of whom approximately 137 (2003: 134) employees were in Hong Kong. The number of employees increased upon the completion of the acquisition of COSCO Kansai Companies in January 2004 and 100% equity interest in COSCO Insurance in July 2004. For the year ended 31st December 2004, employees costs including directors' emoluments and pension costs totaled HK\$95,924,000 (2003: HK\$57,772,000). During the year, all Hong Kong employees participated in the Mandatory Provident Fund scheme.

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. The share options are exercisable at any time from 23rd December 2003 to 22nd December 2008. On 2nd December 2004, the directors and employees of the Group were granted certain share options to subscribe for a total of 32,650,000 shares at a price of HK\$1.37 per share. The share options are exercisable at any time from 29th December 2004 to 28th December 2014.