



## Notes to the Financial Statements



### 1. PRINCIPAL ACCOUNTING POLICIES

#### (a) Statement of compliance

These financial statements have been prepared in accordance with the applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance.

The principal accounting policies adopted in the preparation of the 2004 financial statements are as follows:

#### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost except that, as disclosed in the accounting policies below, certain investment properties and short-term investments are stated at fair values.

The Hong Kong Institute of Certified Public Accountants had 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 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have significant impact on its results of operations and financial position.

#### (c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year. The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated income statement from the effective dates of acquisition or to the effective dates of disposal respectively, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (d) Subsidiaries

Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (e) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated income statement includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill on acquisition (net of accumulated amortisation).

### (f) Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

#### (i) *Jointly controlled entities*

The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill on acquisition (net of accumulated amortisation).

#### (ii) *Other investment in a joint venture*

Other investment in a joint venture is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided to write-off the investment cost of the joint venture less accumulated impairment losses over the joint venture period on a basis whereby the annual investment income less amortisation for the year would produce a constant periodic rate of return on the carrying amount of the investment in the joint venture. Provision is made when, in the opinion of the directors, there is an impairment in value of investment in a joint venture.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (g) Goodwill or negative goodwill on consolidation

Goodwill or negative goodwill arising on consolidation represents the deficit or excess, respectively, of the fair value of the separable net assets of the subsidiaries, associated companies and jointly controlled entities at the respective acquisition dates over the value of the considerations paid.

Goodwill on acquisitions occurred on or after 1st January 2001 is capitalised and amortised using the straight-line method over its estimated useful life.

Negative goodwill on acquisitions occurred on or after 1st January 2001 is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

Goodwill/negative goodwill on acquisitions that occurred prior to 1st January 2001 was directly eliminated against/taken to reserves and has not been restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill/negative goodwill relating to the entity disposed of or, for pre 1st January 2001 acquisitions, the related goodwill eliminated against/negative goodwill taken to reserves to the extent that it has not previously been realised in the income statement.

Where an indication of impairment exists, the carrying amount of goodwill, including goodwill previously eliminated against reserves, is assessed and written down immediately to its recoverable amount.

### (h) Properties

#### (i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (h) Properties (Cont'd)

#### (i) *Investment properties (Cont'd)*

Investment properties held on leases with unexpired periods greater than twenty years are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by either independent professional valuers or professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Surpluses arising on revaluation are credited to the investment property revaluation reserve; deficits arising on revaluation are firstly set off against any previous revaluation surpluses on a portfolio basis and thereafter taken to the income statement. Any subsequent increases are credited to the income statement up to the amount previously debited.

Depreciation is provided for investment properties with unexpired lease terms of twenty years or less and is calculated to write-off the carrying value on a straight-line basis over the remaining term of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the income statement.

#### (ii) *Leasehold land and buildings*

Leasehold land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses. Leasehold land is depreciated over the period of the lease while buildings are depreciated at a rate from 2% to 5% per annum.

#### (iii) *Properties under development for sale*

Properties under development for sale are included in current assets and stated at cost plus attributable profits taken to date, less provisions for any foreseeable losses and sales instalments received and receivable. Cost includes the cost of land, development expenditure, other attributable expenses and borrowing costs capitalised.

The accounting policy for recognition of revenue from sale of properties under development for sale is set out in note 1(w)(i)(1).

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (h) Properties (Cont'd)

#### (iv) *Completed properties held for sale*

Completed properties held for sale are included as current assets and stated at the lower of cost and net realisable value. Net realisable value is determined by reference to estimated sales proceeds of the properties sold in the ordinary course of business less estimated selling expenses.

The accounting policy for recognition of revenue from sale of completed properties is set out in note 1(w)(i)(2).

### (i) Other tangible fixed assets

Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated at rates sufficient to write-off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Machinery	10%–20%
Equipment and motor vehicles	20%–33 $\frac{1}{3}$ %
Leasehold improvements	20%–33 $\frac{1}{3}$ %
Furniture and fixtures	20%–33 $\frac{1}{3}$ %

Major costs incurred in restoring other tangible fixed assets to their normal working condition to allow continued use of the overall assets are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

### (j) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in leasehold land and buildings and other tangible fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises direct materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (l) Investments in securities

#### (i) *Investment securities*

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities should be reduced to its fair value. The amount of the reduction is recognised as an expense in the income statement.

Provision against the carrying amounts of individual investments should be written back to income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is evidence that the new circumstances and events will persist for the foreseeable future. The amount written back should not exceed the amount of the write-downs.

#### (ii) *Short-term investments*

Short-term investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the income statement. Profits or losses on disposal of short-term investments, representing the differences between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (m) Construction contracts in progress

Construction contracts in progress are stated at cost plus attributable profits less allowances for foreseeable losses and progress payments received and receivable. Contract costs comprise direct materials, direct labour, sub-contracting charges and an appropriate portion of construction overheads. Where progress billings received and receivable on construction contracts exceed contract costs incurred to date plus recognised profits less recognised losses, the net amount is treated as amounts due to contract customers. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings received and receivable on construction contracts, the net amount is treated as amounts due from contract customers.

The accounting policy for recognition of contract revenue is set out in note 1(w)(ii).

### (n) Assets under operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Rentals applicable to such operating leases, net of any incentives received from the lessors, are charged to the income statement on a straight-line basis over the lease term.

### (o) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (p) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and cash investments with maturity of three months or less from the date of placement.

### (q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (r) **Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

### (s) **Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

### (t) **Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The balance sheets of subsidiaries, associated companies and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences arising therefrom are dealt with as a movement in reserves.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

### (v) Pensions and retirement benefits

Following the adoption of the Mandatory Provident Fund ("MPF") Scheme in December 2000, all staff of the Group employed in Hong Kong joined the MPF Scheme. Under this scheme, employees and the Group are required to make contributions to the scheme calculated at 5% of the individual employee's monthly basic salaries, subject to a cap of HK\$1,000. The Group's contributions to this scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in independently administered funds.

The Group also contributes to employee pension schemes established by municipal government in respect of certain subsidiaries in the China Mainland. The municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group.

Contributions to these schemes are charged to the income statement as incurred.

### (w) Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with the transactions during the year will flow to the Group and these benefits can be measured reliably on the following bases.

#### (i) *Sale of properties*

##### (1) *Properties under development for sale*

When a development property is sold in advance of completion, recognition of profit commences when a legally binding sale and purchase agreement has been executed. The profit recognised in a year is computed as a proportion of the total estimated profit to completion and such proportion is taken to be the percentage of construction costs incurred at the end of the year to the estimated total construction costs on completion, with due allowance for contingencies. The profit so recognised is restricted to the amount of instalments received.

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (w) Revenue recognition (Cont'd)

- (i) *Sale of properties (Cont'd)*
  - (2) *Completed properties held for sale*

Revenue from sale of completed properties held for sale is recognised upon completion of the sale and purchase contracts.
  
- (ii) *Construction contracts*

Revenue from construction contracts is recognised based on the stage of completion of the contracts when the outcome of the contracts can be ascertained with reasonable certainty. The stage of completion of a contract is established by reference to the gross billing value of contracting work to date as certified by qualified architects and/or engineers as compared to the total sum under the contract.
  
- (iii) *Rental income*

Rental income is recognised on a straight-line basis over the terms of the respective leases.
  
- (iv) *Income from other investment in a joint venture*

Income from other investment in a joint venture is recognised when the right to receive investment income is established.
  
- (v) *Sales of paint products*

Revenue from the sales of paint products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time the goods are delivered to customers according to the sales agreements and titles have passed.
  
- (vi) *Commission income*
  - (1) *Agency commission income*

Commission income from agency services is recognised when the terms of the agency contracts are fulfilled upon provision of services.
  
  - (2) *Brokerage commission income*

Brokerage commission income is recognised when premium becomes due.
  
- (vii) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
  
- (viii) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

## 2. TURNOVER, REVENUE 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. Turnover and revenues recognised during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of paint products	893,742	—
Ship trading and insurance brokerage commission income	73,837	41,749
Sale of properties	375,345	217,134
Building construction	306,814	601,589
Rental income	32,642	54,852
Income from other investment in a joint venture	3,479	22,839
Building management fee income	2,515	1,517
	<u>1,688,374</u>	<u>939,680</u>
Other revenues		
Interest income	2,679	3,829
Dividend income from listed and unlisted investment securities	3,882	1,105
	<u>6,561</u>	<u>4,934</u>
Total revenues	<u>1,694,935</u>	<u>944,614</u>

### Primary reporting format — business segments

The Group is organised into five main business segments:

Ship trading and supplying services	— manufacturing and trading of paint products
	— provision of agency services in respect of trading of vessels, marine equipment, bareboat charter business
	— provision of insurance brokerage services
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

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

### Primary reporting format — business segments (Cont'd)

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 are no sales between business segments.

### Secondary reporting format — geographical segments

The Group's business segments operated in Hong Kong and the China Mainland are as follows:

- |                |   |  |
|----------------|---|--|
| Hong Kong      | — | provision of agency services in respect of trading of vessels, marine equipment, bareboat charter business |
|                | — | provision of insurance brokerage services  |
|                | — | construction of buildings  |
|                | — | holding of properties for rental purpose   |
| China Mainland | — | manufacturing and trading of paint products  |
|                | — | development of properties  |
|                | — | holding of properties for rental purpose   |
|                | — | investment in a power plant project  |

There are no sales between geographical segments.



## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

## Primary reporting format — business segments (Cont'd)

	Ship trading and supplying services 2004 HK\$'000	Property development 2004 HK\$'000	Building construction 2004 HK\$'000	Property investment 2004 HK\$'000	Infrastructure investment 2004 HK\$'000	Other operations 2004 HK\$'000	Group 2004 HK\$'000
Segment assets	734,873	446,794	110,597	1,204,011	36,719	—	2,532,994
Associated companies	—	—	2,659	—	—	—	2,659
Jointly controlled entity	—	210,454	—	—	—	—	210,454
Investment securities	—	—	—	—	—	43,946	43,946
Unallocated assets							192,023
Total assets							2,982,076
Segment liabilities	427,938	140,993	211,980	607,124	105	—	1,388,140
Taxation							19,101
Unallocated liabilities							268,621
Total liabilities							1,675,862
The segment results have been arrived at after charging/(crediting) the following:							
Depreciation and amortisation (net)	8,838	660	1,662	16,361	3,479	—	31,000
Write back of deficit on revaluation of investment properties	—	—	—	(155,966)	—	—	(155,966)
Provision for diminution in value of investment securities	—	—	—	—	—	9,677	9,677
Write back of provision for claims and foreseeable losses on certain construction projects	—	—	(452)	—	—	—	(452)
Legal costs in respect of litigation on certain construction projects	—	—	7,011	—	—	—	7,011
Provision for completed properties held for sale	—	13,646	—	—	—	—	13,646
Impairment loss on other investment in a joint venture	—	—	—	—	23,431	—	23,431
Capital expenditure	4,370	1,151	246	—	—	—	5,767



## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

### Primary reporting format — business segments (Cont'd)

	Ship trading and supplying services 2003 HK\$'000	Property development 2003 HK\$'000	Building construction 2003 HK\$'000	Property investment 2003 HK\$'000	Infrastructure investment 2003 HK\$'000	Other operations 2003 HK\$'000	Group 2003 HK\$'000
Segment assets	103,024	443,985	208,817	1,098,761	84,240	—	1,938,827
Associated companies	—	—	2,784	—	—	—	2,784
Jointly controlled entity	—	206,900	—	—	—	—	206,900
Investment securities	—	—	—	—	—	45,976	45,976
Unallocated assets							164,581
Total assets							<u>2,359,068</u>
Segment liabilities	33,544	53,781	544,409	726,483	92	—	1,358,309
Taxation							16,610
Unallocated liabilities							9,818
Total liabilities							<u>1,384,737</u>
The segment results have been arrived at after charging the following:							
Depreciation and amortisation	2,736	479	2,232	16,625	21,378	—	43,450
Deficit on revaluation of investment properties	—	—	—	70,966	—	—	70,966
Impairment loss on fixed assets	—	—	2,855	—	—	—	2,855
Provision for diminution in value of investment securities	—	—	—	—	—	8,893	8,893
Provision for claims and foreseeable losses on certain construction projects	—	—	27,899	—	—	—	27,899
Legal costs in respect of litigation on certain construction projects	—	—	14,530	—	—	—	14,530
Provision for completed properties held for sale	—	11,271	—	—	—	—	11,271
Capital expenditure	576	925	636	—	—	—	2,137

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

## Secondary reporting format — geographical segments

	Turnover 2004 HK\$'000	Segment results 2004 HK\$'000	Total assets 2004 HK\$'000	Capital expenditure 2004 HK\$'000
Hong Kong	435,132	185,309	1,456,971	241
China Mainland	1,253,242	149,237	1,076,023	5,526
	<u>1,688,374</u>	<u>334,546</u>	<u>2,532,994</u>	<u>5,767</u>
Unallocated corporate expenses, net of income		<u>(18,505)</u>		
Operating profit		<u>316,041</u>		
Associated companies			2,659	
Jointly controlled entity			210,454	
Investment securities			43,946	
Unallocated assets			<u>192,023</u>	
Total assets			<u>2,982,076</u>	

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

### Secondary reporting format — geographical segments (Cont'd)

	Turnover 2003 HK\$'000	Segment results 2003 HK\$'000	Total assets 2003 HK\$'000	Capital expenditure 2003 HK\$'000
Hong Kong	685,773	(102,354)	1,486,940	1,999
China Mainland	253,907	42,401	451,887	138
	<u>939,680</u>	<u>(59,953)</u>	1,938,827	<u>2,137</u>
Unallocated corporate expenses, net of income		<u>(13,933)</u>		
Operating loss		<u>(73,886)</u>		
Associated companies			2,784	
Jointly controlled entity			206,900	
Investment securities			45,976	
Unallocated assets			<u>164,581</u>	
Total assets			<u>2,359,068</u>	

### 3. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after crediting and charging the following:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Net rental income (note (a))	<b>27,491</b>	53,192
Gain on disposal of jointly controlled entities	—	12,467
Net realised and unrealised gains on investments securities	<b>84</b>	1,220
Gain on disposal/write-off of fixed assets	<b>317</b>	499
Depreciation (note (c))	<b>(23,979)</b>	(20,038)
Operating lease rental expense (note (d))	<b>(1,620)</b>	(1,194)
Auditors' remuneration	<b>(1,533)</b>	(950)
Amortisation of goodwill (net) (note 10)	<b>(2,495)</b>	(2,034)
Amortisation of the cost of other investment in a joint venture (note 15)	<b>(3,479)</b>	(21,378)
Staff costs, including directors' emoluments (note (e))	<b>(72,511)</b>	(37,855)
Cost of inventories sold	<b>(679,311)</b>	—
Cost of completed properties sold	<b>(13,382)</b>	(450)
Other income/(charges)		
Write-back of deficit/(deficit) on revaluation of investment properties	<b>155,966</b>	(70,966)
Write-back of provision/(provision) for claims and foreseeable losses on certain construction projects	<b>452</b>	(27,899)
Provision for diminution in value of investment securities	<b>(9,677)</b>	(8,893)
Legal charges in respect of litigation on a construction project	<b>(7,011)</b>	(14,530)
Provision for completed properties held for sale	<b>(13,646)</b>	(11,271)
Impairment loss on other investment in a joint venture	<b>(23,431)</b>	—
Impairment loss on fixed assets	—	(2,855)
	<b>102,653</b>	(136,414)

**3. OPERATING PROFIT/(LOSS) (Cont'd)****(a) Net rental income**

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Gross rental income from		
Investment properties	<b>5,638</b>	21,681
Other properties	<b>26,548</b>	33,171
	<b>32,186</b>	54,852
Outgoings	<b>(4,695)</b>	(1,660)
	<b>27,491</b>	53,192

**(b) Future minimum rental payments receivable**

The future minimum rental receivable under non-cancellable leases is as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
In the first year	<b>36,957</b>	32,887
In the second to third years inclusive	<b>29,986</b>	54,564
	<b>66,943</b>	87,451

The Group's operating leases are for terms ranging from two to three years.

**(c) Depreciation**

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Charge for the year	<b>25,026</b>	21,824
Capitalised in construction contracts in progress	<b>(233)</b>	(1,786)
Capitalised in inventories	<b>(814)</b>	—
	<b>23,979</b>	20,038

### 3. OPERATING PROFIT/(LOSS) (Cont'd)

#### (d) Operating lease rental expense

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Land and buildings	<b>1,620</b>	1,194
Plant and machinery	<b>211</b>	281
	<hr/>	<hr/>
	<b>1,831</b>	1,475
Capitalised in construction contracts in progress	<b>(211)</b>	(281)
	<hr/>	<hr/>
	<b>1,620</b>	1,194
	<hr/>	<hr/>

#### (e) Staff costs, including directors' emoluments

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Wages and salaries	<b>92,499</b>	56,870
Pension costs — defined contribution scheme	<b>3,425</b>	902
	<hr/>	<hr/>
Staff costs, including directors' emoluments	<b>95,924</b>	57,772
Capitalised in construction contracts in progress	<b>(17,355)</b>	(19,917)
Capitalised in inventories	<b>(6,058)</b>	—
	<hr/>	<hr/>
	<b>72,511</b>	37,855
	<hr/>	<hr/>

#### 4. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank loans wholly repayable within five years	16,206	25,242
Other borrowing costs	2,993	4,888
	<u>19,199</u>	<u>30,130</u>
Capitalised in construction contracts in progress	(644)	(1,101)
Capitalised in properties under development for sale	(2,945)	(3,473)
	<u>15,610</u>	<u>25,556</u>

#### 5. TAXATION

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

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

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

	2004 HK\$'000	2003 HK\$'000
The Company and subsidiaries:		
— Hong Kong profits tax	5,947	2,928
— China Mainland taxation	44,456	9,549
	<u>50,403</u>	<u>12,477</u>
Share of taxation of jointly controlled entities		
— China Mainland taxation	17,947	6,048
	<u>68,350</u>	<u>18,525</u>

## 5. TAXATION (Cont'd)

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the profits tax rate of Hong Kong where the Company operates and the difference is set out below:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Profit/(loss) before taxation	<b>331,266</b>	(89,562)
Calculated at a tax rate of 17.5% (2003: 17.5%)	<b>57,971</b>	(15,673)
Effect of different taxation rate in China Mainland	<b>20,642</b>	8,931
Income not subject to taxation	<b>(26,449)</b>	(9,340)
Expenses not deductible for taxation purposes	<b>13,950</b>	17,608
Tax losses not recognised	<b>6,366</b>	20,828
Utilisation of previously unrecognised tax losses	<b>(4,130)</b>	(3,829)
Taxation charges	<b>68,350</b>	18,525

## 6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of a profit of HK\$143,391,000 (2003: loss of HK\$116,514,000).

## 7. DIVIDEND

At a board meeting held on 3rd March 2005, the directors proposed a final dividend for the year ended 31st December 2004 of HK2.5 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in the financial statements until it is to be approved at the annual general meeting, but will be reflected as an appropriation of the retained profit for the year ending 31st December 2005.

## 8. EARNINGS/(LOSS) PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$219,158,000 (2003: loss of HK\$116,706,000) and the weighted average number of 1,410,080,624 (2003: 1,394,389,291) ordinary shares in issue during the year.

## 8. EARNINGS/(LOSS) PER SHARE (Cont'd)

The calculation of diluted earnings per share for the year ended 31st December 2004 is based on the weighted average number of 1,440,135,287 shares in issue after adjusting for the potential dilutive effect in respect of outstanding share options. Diluted loss per share was not presented for the year ended 31st December 2003 because the effect was anti-dilutive.

## 9. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

### (a) Directors' emoluments

Details of the emoluments paid and payable to the directors of the Company are as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Fees	<b>517</b>	445
Salaries and other emoluments	<b>4,560</b>	2,985
	<b>5,077</b>	3,430

Emoluments paid and payable to independent non-executive directors of the Company amounted to HK\$517,000 (2003: HK\$445,000) during the year.

The emoluments of the directors of the Company fell within the following bands:

<b>Emolument bands</b>	<b>Number of directors</b>	
	<b>2004</b>	2003
HK\$Nil–HK\$1,000,000	<b>11</b>	12
HK\$1,000,001–HK\$1,500,000	<b>2</b>	—
HK\$2,000,001–HK\$2,500,000	<b>1</b>	1
	<b>14</b>	13

Note:

- (i) The above analysis includes two (2003: one) directors whose emoluments are among the five highest in the Group.

## 9. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

### (a) Directors' emoluments (Cont'd)

During the year, eleven (2003: eleven) directors of the Company were granted by the Company 11,200,000 (2003: 16,800,000) share options which are exercisable at HK\$1.37 (2003: HK\$0.57) per share (refer to note 26 to the financial statements, for details of option granted and exercised during the year).

During the year, eight (2003: nine) directors of the Company were granted by COSCO Pacific Limited ("COSCO Pacific"), a fellow subsidiary, under COSCO Pacific's Share Option Scheme 7,400,000 (2003: 6,850,000) share options which are exercisable at HK\$13.75 (2003: HK\$9.54) per share.

Particulars and movement of share options granted by COSCO Pacific are as follows:

Category	Note	Exercise price HK\$	Number of share options			
			Outstanding as at 1st January 2004	Granted during the year	Exercised during the year	Outstanding as at 31st December 2004
Directors	(i)	9.54	6,050,000	—	(2,924,000)	3,126,000
	(ii)	13.75	—	7,400,000	—	7,400,000
Ex-director	(i)	9.54	800,000	—	(800,000)	—
			<u>6,850,000</u>	<u>7,400,000</u>	<u>(3,724,000)</u>	<u>10,526,000</u>

Note:

- (i) The share options were granted by COSCO Pacific during the period from 28th October 2003 to 6th November 2003 and are exercisable for ten years from their respective date of acceptance of the share options.
- (ii) The share options were granted by COSCO Pacific during the period from 29th November 2004 to 6th December 2004 and are exercisable at any time within ten years from their respective date on which an offer is accepted or deemed to be accepted. No share options were exercised during the year.

## 9. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

### (b) Senior management's emoluments

Details of the emoluments paid to the remaining three (2003: four) individuals whose emoluments are among the five highest in the Group and have not been included in the directors' emoluments mentioned above, are as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Salaries and other emoluments	<b>4,690</b>	4,580
Pension costs — defined contribution scheme	<b>36</b>	48
	<hr/> <b>4,726</b> <hr/>	<hr/> 4,628 <hr/>

The emoluments of the individuals fell within the following bands:

	<b>Number of individuals</b>	
<b>Emolument bands</b>	<b>2004</b>	2003
HK\$1,000,001–HK\$1,500,000	<b>1</b>	4
HK\$1,500,001–HK\$2,000,000	<b>2</b>	—
	<hr/> <b>3</b> <hr/>	<hr/> 4 <hr/>

## 10. GOODWILL

	Goodwill		Negative goodwill		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>Cost</b>						
At 1st January	40,675	40,675	—	—	40,675	40,675
Acquisition of subsidiaries	35,945	—	(8,753)	—	27,192	—
At 31st December	76,620	40,675	(8,753)	—	67,867	40,675
<b>Accumulated amortisation</b>						
At 1st January	3,051	1,017	—	—	3,051	1,017
Amortisation charge	2,933	2,034	(438)	—	2,495	2,034
At 31st December	5,984	3,051	(438)	—	5,546	3,051
<b>Net book value</b>						
At 31st December	70,636	37,624	(8,315)	—	62,321	37,624

## 11. FIXED ASSETS

## Group

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Machinery, equipment and motor vehicles HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
<b>Cost or valuation</b>						
At 1st January 2004	269,134	1,059,525	51,980	11,576	7,637	1,399,852
Acquisition of subsidiaries	—	52,209	28,298	362	8,656	89,525
Additions	—	72	3,268	81	2,346	5,767
Revaluation	155,966	—	—	—	—	155,966
Disposals/write-off	—	—	(3,998)	—	(1,506)	(5,504)
<b>At 31st December 2004</b>	<b>425,100</b>	<b>1,111,806</b>	<b>79,548</b>	<b>12,019</b>	<b>17,133</b>	<b>1,645,606</b>
<b>Accumulated depreciation and impairment</b>						
At 1st January 2004	—	325,608	48,005	11,290	6,980	391,883
Acquisition of subsidiaries	—	14,765	15,629	362	4,903	35,659
Charge for the year	—	18,899	4,939	81	1,107	25,026
Disposals/write-off	—	—	(3,659)	—	(1,028)	(4,687)
<b>At 31st December 2004</b>	<b>—</b>	<b>359,272</b>	<b>64,914</b>	<b>11,733</b>	<b>11,962</b>	<b>447,881</b>
<b>Net book value</b>						
<b>At 31st December 2004</b>	<b>425,100</b>	<b>752,534</b>	<b>14,634</b>	<b>286</b>	<b>5,171</b>	<b>1,197,725</b>
At 31st December 2003	269,134	733,917	3,975	286	657	1,007,969

## 11. FIXED ASSETS (Cont'd)

### Group (Cont'd)

The analysis of the cost or valuation at 31st December 2004 of the above assets are as follows:

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Machinery, equipment and motor vehicles HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
At cost	—	1,111,806	79,548	12,019	17,133	1,220,506
At professional valuation	425,100	—	—	—	—	425,100
At 31st December 2004	<u>425,100</u>	<u>1,111,806</u>	<u>79,548</u>	<u>12,019</u>	<u>17,133</u>	<u>1,645,606</u>

The analysis of the cost or valuation at 31st December 2003 of the above assets are as follows:

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Machinery, equipment and motor vehicles HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
At cost	—	1,059,525	51,980	11,576	7,637	1,130,718
At professional valuation	269,134	—	—	—	—	269,134
At 31st December 2003	<u>269,134</u>	<u>1,059,525</u>	<u>51,980</u>	<u>11,576</u>	<u>7,637</u>	<u>1,399,852</u>

As at 31st December 2004, the cost and accumulated depreciation and impairment of land and buildings that are leased to an intermediate holding company and certain fellow subsidiaries amounted to HK\$767,973,000 (2003: HK\$809,862,000) and HK\$247,565,000 (2003: HK\$248,639,000) respectively.

**11. FIXED ASSETS (Cont'd)****Group (Cont'd)**

The Group's interests in investment properties and other properties at their cost or valuation are analysed as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
In Hong Kong, held on leases of between 10 and 50 years	<b>1,453,965</b>	1,297,999
Outside Hong Kong, held on leases less than 10 years	<b>15,454</b>	—
Outside Hong Kong, held on leases of between 10 and 50 years	<b>40,387</b>	3,560
Outside Hong Kong, held on leases of over 50 years	<b>27,100</b>	27,100
	<b>1,536,906</b>	1,328,659

The investment properties were revalued at 31st December 2004 on the basis of their open market value by an independent firm of Chartered Surveyors, DTZ Debenham Tie Leung Limited.

As at 31st December 2004, investment properties in Hong Kong of HK\$398,000,000 (2003: HK\$242,034,000) and other properties in Hong Kong with net book value of HK\$706,291,000 (2003: HK\$722,549,000) are pledged as securities to a bank in respect of certain banking facilities granted to the Group.

## 11. FIXED ASSETS (Cont'd)

## Company

	Machinery, equipment and motor vehicles HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
<b>Cost</b>				
At 1st January 2004	3,198	7,344	1,128	11,670
Additions	202	—	—	202
Disposals/write-off	(761)	—	(4)	(765)
	<u>2,639</u>	<u>7,344</u>	<u>1,124</u>	<u>11,107</u>
At 31st December 2004	<u>2,639</u>	<u>7,344</u>	<u>1,124</u>	<u>11,107</u>
<b>Accumulated depreciation</b>				
At 1st January 2004	2,812	7,235	1,114	11,161
Charge for the year	173	30	5	208
Disposals/write-off	(749)	—	(4)	(753)
	<u>2,236</u>	<u>7,265</u>	<u>1,115</u>	<u>10,616</u>
At 31st December 2004	<u>2,236</u>	<u>7,265</u>	<u>1,115</u>	<u>10,616</u>
<b>Net book value</b>				
<b>At 31st December 2004</b>	<u>403</u>	<u>79</u>	<u>9</u>	<u>491</u>
At 31st December 2003	<u>386</u>	<u>109</u>	<u>14</u>	<u>509</u>

**12. SUBSIDIARIES**

	<b>Company</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Unlisted investments, at cost	<b>111,027</b>	—
Amounts due from	<b>3,619,834</b>	3,409,651
Amounts due to	<b>(341,103)</b>	(178,753)
	<b>3,389,758</b>	3,230,898
Provision for diminution in value	<b>(1,551,905)</b>	(1,695,964)
	<b>1,837,853</b>	1,534,934

Particulars of the principal subsidiaries which, in the opinion of the directors, principally affect the results and/or assets of the Group at 31st December 2004 are set out in note 34 to the financial statements.

**13. ASSOCIATED COMPANIES**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>8,365</b>	8,490
Amounts due to associated companies	<b>(5,706)</b>	(5,706)
	<b>2,659</b>	2,784

**14. JOINTLY CONTROLLED ENTITY**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>210,454</b>	206,900

#### 14. JOINTLY CONTROLLED ENTITY (Cont'd)

Particulars of the jointly controlled entity of the Group at 31st December 2004 are set out as follows:

Name	Place of incorporation and operation	Principal activity	Percentage of interest held
COSCO Real Estate Development Company Limited	The People's Republic of China ("PRC"), equity joint venture	Property development in China Mainland	20

#### 15. OTHER INVESTMENT IN A JOINT VENTURE

	Group	
	2004 HK\$'000	2003 HK\$'000
Cost		
At 1st January	<u>634,454</u>	<u>634,454</u>
Accumulated amortisation and impairment		
At 1st January	(577,964)	(556,586)
Charge for the year	(3,479)	(21,378)
Impairment (note 3)	<u>(23,431)</u>	<u>—</u>
At 31st December	<u>(604,874)</u>	<u>(577,964)</u>
Net book value as at 31st December	<u>29,580</u>	<u>56,490</u>

**16. INVESTMENT SECURITIES**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Listed equity securities in Hong Kong, at cost	<b>492,397</b>	492,397	—	—
Unlisted equity securities outside Hong Kong, at cost	<b>12,569</b>	4,922	<b>7,648</b>	—
	<b>504,966</b>	497,319	<b>7,648</b>	—
Provision for diminution in value	<b>(461,020)</b>	(451,343)	—	—
	<b>43,946</b>	45,976	<b>7,648</b>	—
Market value of listed securities	<b>40,051</b>	46,674		

**17. PROPERTIES UNDER DEVELOPMENT FOR SALE**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Cost incurred plus attributable profits	<b>283,586</b>	864,838
Sales instalments received	<b>(88,952)</b>	(742,282)
	<b>194,634</b>	122,556

As at 31st December 2004, properties under development in China Mainland of HK\$194,634,000 (2003: nil) are pledged as securities to a bank in respect of certain banking facilities granted to the Group.

**18. COMPLETED PROPERTIES HELD FOR SALE**

At 31st December 2004, the carrying amount of completed properties held for sale that are carried at net realisable value amounted to HK\$50,878,000 (2003: HK\$56,943,000).

**19. INVENTORIES**

At 31st December 2004, the carrying amount of inventories that are carried at net realisable value amounted to HK\$22,535,000 (2003: nil).

## 20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Net amounts due from customers for contract work (note 21)	<b>6,803</b>	13,163	—	—
Trade receivables				
— fellow subsidiaries	<b>12,450</b>	—	—	—
— fellow associated companies	<b>90,647</b>	—	—	—
— third parties	<b>212,570</b>	117,462		
Retention receivables	<b>50,625</b>	69,171	—	—
Deposits, prepayments and other receivables	<b>35,027</b>	58,098	<b>3,746</b>	3,984
Amounts due from fellow subsidiaries	<b>2,082</b>	4,367	<b>33</b>	33
	<b>410,204</b>	262,261	<b>3,779</b>	4,017

For the sales of paint products, the majority of the sales are on credit terms from 30 days to 90 days. For building construction contracts, they are billed according to certified progress billings, while revenue from sales of properties and other operating revenues are billed according to terms of the relevant contracts governing the transactions. All invoices billed are repayable upon presentation of invoices.

As at 31st December 2004, the ageing analysis of trade receivables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current–90 days	<b>183,067</b>	103,280
91–180 days	<b>82,703</b>	—
Over 180 days	<b>49,897</b>	14,182
	<b>315,667</b>	117,462

**21. CONSTRUCTION CONTRACTS IN PROGRESS**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	<b>6,384,415</b>	6,150,890
Progress billings received and receivable	<b>(6,494,820)</b>	(6,329,771)
	<b><u>(110,405)</u></b>	<u>(178,881)</u>
Representing:		
Net amounts due from customers for contract work included in trade and other receivables (note 20)	<b>6,803</b>	13,163
Net amounts due to customers for contract work included in trade and other payables (note 24)	<b>(117,208)</b>	(192,044)
	<b><u>(110,405)</u></b>	<u>(178,881)</u>

**22. SHORT-TERM INVESTMENTS**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Market value of Hong Kong listed equity securities	<b><u>327</u></b>	<u>243</u>	<u>—</u>	<u>—</u>

**23. CASH AND BANK BALANCES**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Cash and bank balances	<b>562,870</b>	559,322
Restricted bank deposits included in non-current assets	<b>—</b>	(4,392)
	<b><u>562,870</u></b>	<u>554,930</u>

**24. TRADE AND OTHER PAYABLES**

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Net amounts due to customers for contract work (note 21)	117,208	192,044	—	—
Trade payables	265,291	75,827	—	—
Retention payables	65,101	86,523	—	—
Accrued liabilities and other payables	209,868	58,875	3,158	3,036
Amounts due to fellow subsidiaries	4,920	3,562	—	—
Amount due to the ultimate holding company	872	16,176	—	—
Amount due to a minority shareholder	4,993	—	—	—
	<b>668,253</b>	<b>433,007</b>	<b>3,158</b>	<b>3,036</b>

As at 31st December 2004, the ageing analysis of trade payables was as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current—90 days	221,623	61,850
91—180 days	28,362	—
Over 180 days	15,306	13,977
	<b>265,291</b>	<b>75,827</b>

**25. BANK LOANS — UNSECURED**

As at 31st December 2003, bank loans of HK\$107,000,000 and HK\$18,790,000 were guaranteed by COSCO (Hong Kong) Group Limited ("COSCO (Hong Kong)"), an intermediate holding company of the Group and a minority shareholder of a subsidiary respectively. These bank loans were fully repaid during the year.

## 26. SHARE CAPITAL

	2004		2003	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:				
Shares of HK\$0.10 each	<b>3,000,000,000</b>	<b>300,000</b>	3,000,000,000	300,000
Issued and fully paid:				
At 1st January	<b>1,394,389,291</b>	<b>139,439</b>	1,394,389,291	139,439
Issue of shares upon exercise of share options	<b>20,052,000</b>	<b>2,005</b>	—	—
At 31st December	<b>1,414,441,291</b>	<b>141,444</b>	1,394,389,291	139,439

Particulars and movements of share options granted by the Company are as follows:

Category	Note	Exercise price HK\$	Outstanding as at 1st January 2004	Number of share options				Outstanding as at 31st December 2004
				Granted during the year	Exercised during the year	Changed category during the year	Lapsed during the year	
Directors	(i)	0.57	15,600,000	—	—	—	—	15,600,000
	(ii)	1.37	—	11,200,000	—	—	—	11,200,000
Ex-director	(i)	0.57	1,200,000	—	—	—	—	1,200,000
Continuous contract employees	(i)	0.57	28,000,000	—	(9,802,000)	(1,000,000)	(1,000,000)	16,198,000
	(ii)	1.37	—	21,450,000	—	—	—	21,450,000
Others	(i)	0.57	34,200,000	—	(10,250,000)	1,000,000	—	24,950,000
	(ii)	1.37	—	23,250,000	—	—	—	23,250,000
			<b>79,000,000</b>	<b>55,900,000</b>	<b>(20,052,000)</b>	<b>—</b>	<b>(1,000,000)</b>	<b>113,848,000</b>

## 26. SHARE CAPITAL (Cont'd)

Notes:

- (i) On 26th November 2003, the directors and employees of the Group were granted a total of 44,800,000 share options at an exercise price of HK\$0.57 per share. In addition, 34,200,000 share options were granted to employees of China Ocean Shipping (Group) Company ("COSCO"), the ultimate holding company, and its subsidiaries and associated companies (other than the Group) (collectively "COSCO Group"). The options are exercisable at any time from 23rd December 2003 to 22nd December 2008.
- (ii) On 2nd December 2004, the directors and employees of the Group were granted 32,650,000 share options at an exercise price of HK\$1.37 per share. In addition, 23,250,000 share options were granted to employees of COSCO Group. The options are exercisable at any time from 29th December 2004 to 28th December 2014. No share options were exercised during the year.

During the year, an aggregate of 20,052,000 share options were exercised and a summary of which, analysed by exercise month, is set out below:

<b>Exercise month</b>	<b>Number of share options exercised at exercise price of HK\$0.57 per share</b>
January	5,430,000
February	7,520,000
March	1,200,000
April	1,400,000
May	602,000
June	100,000
July	100,000
August	—
September	200,000
October	1,800,000
November	1,600,000
December	100,000
	<hr/>
	20,052,000
	<hr/>

**26. SHARE CAPITAL (Cont'd)**

The exercise of the 20,052,000 share options during the year yielded the proceeds as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Ordinary share capital — at par	<b>2,005</b>	—
Share premium	<b>9,425</b>	—
	<hr/>	<hr/>
Proceeds	<b>11,430</b>	—
	<hr/>	<hr/>

The weighted average closing price of the Company's shares on the dates when the share options were exercised was HK\$1.31 (2003: nil).

## 27. RESERVES

## Group

	Share premium account HK\$'000	Capital reserve (note (c)) HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ accumulated losses) HK\$'000	Total HK\$'000
At 1st January 2004	2,356,553	63,151	—	(2,550)	(1,669,521)	747,633
Exchange differences	—	—	—	(191)	—	(191)
Transfer of reserves	—	5,936	—	—	(5,936)	—
Reduction of share premium (note (a))	(2,356,553)	—	676,218	—	1,680,335	—
Issue of shares upon exercise of share options	9,425	—	—	—	—	9,425
Share issue expenses	(150)	—	—	—	—	(150)
Profit for the year (note (b))	—	—	—	—	219,158	219,158
	<b>9,275</b>	<b>69,087</b>	<b>676,218</b>	<b>(2,741)</b>	<b>224,036</b>	<b>975,875</b>
At 31st December 2004						
Representing:						
Reserves	9,275	69,087	676,218	(2,741)	188,675	940,514
2004 final dividend proposed	—	—	—	—	35,361	35,361
	<b>9,275</b>	<b>69,087</b>	<b>676,218</b>	<b>(2,741)</b>	<b>224,036</b>	<b>975,875</b>
Retained by:						
Company and subsidiaries	9,275	69,087	676,218	(2,741)	216,903	968,742
Associated companies	—	—	—	—	(7,009)	(7,009)
Jointly controlled entity	—	—	—	—	14,142	14,142
	<b>9,275</b>	<b>69,087</b>	<b>676,218</b>	<b>(2,741)</b>	<b>224,036</b>	<b>975,875</b>
At 1st January 2003	2,356,553	60,020	—	(2,043)	(1,549,684)	864,846
Exchange differences	—	—	—	(507)	—	(507)
Transfer to reserves	—	3,131	—	—	(3,131)	—
Loss for the year (note (b))	—	—	—	—	(116,706)	(116,706)
At 31st December 2003	2,356,553	63,151	—	(2,550)	(1,669,521)	747,633
Retained by:						
Company and subsidiaries	2,356,553	63,151	—	(2,550)	(1,663,766)	753,388
Associated companies	—	—	—	—	(7,009)	(7,009)
Jointly controlled entity	—	—	—	—	1,254	1,254
	<b>2,356,553</b>	<b>63,151</b>	<b>—</b>	<b>(2,550)</b>	<b>(1,669,521)</b>	<b>747,633</b>

**27. RESERVES (Cont'd)****Company**

	<b>Share premium account HK\$'000</b>	<b>Contributed surplus (note (d)) HK\$'000</b>	<b>Retained profits/ (accumulated losses) HK\$'000</b>	<b>Total HK\$'000</b>
At 1st January 2004	<b>2,356,553</b>	<b>83,770</b>	<b>(1,680,335)</b>	<b>759,988</b>
Reduction of share premium (note (a))	<b>(2,356,553)</b>	<b>676,218</b>	<b>1,680,335</b>	<b>—</b>
Issue of shares upon exercise of share options	<b>9,425</b>	<b>—</b>	<b>—</b>	<b>9,425</b>
Share issue expenses	<b>(150)</b>	<b>—</b>	<b>—</b>	<b>(150)</b>
Profit for the year	<b>—</b>	<b>—</b>	<b>143,391</b>	<b>143,391</b>
	<b><u>9,275</u></b>	<b><u>759,988</u></b>	<b><u>143,391</u></b>	<b><u>912,654</u></b>
At 31st December 2004				
Representing:				
Reserves	<b>9,275</b>	<b>759,988</b>	<b>108,030</b>	<b>877,293</b>
2004 final dividend proposed	<b>—</b>	<b>—</b>	<b>35,361</b>	<b>35,361</b>
	<b><u>9,275</u></b>	<b><u>759,988</u></b>	<b><u>143,391</u></b>	<b><u>912,654</u></b>
At 1st January 2003	2,356,553	83,770	(1,563,821)	876,502
Loss for the year	—	—	(116,514)	(116,514)
At 31st December 2003	<u>2,356,553</u>	<u>83,770</u>	<u>(1,680,335)</u>	<u>759,988</u>

## Notes:

- (a) During the year, part of the amount standing to the credit of the share premium account of the Company was offset the entire accumulated losses as at 31st December 2003 of HK\$1,680,335,000 and the remaining credit of the share premium account was transferred to contributed surplus.
- (b) Profit for the year of HK\$219,158,000 (2003: loss of HK\$116,706,000) includes a net profit of HK\$12,888,000 (2003: HK\$3,832,000) attributable to a jointly controlled entity.

**27. RESERVES (Cont'd)****Company (Cont'd)**

- (c) Included in the capital reserve is an amount of HK\$12,404,000 (2003: HK\$6,468,000) which represents the Group's share of the statutory reserves of certain PRC subsidiaries.
- (d) The balance of contributed surplus of the Company as at 1st January 2004 arose in 1992 when the Company issued shares in exchange for the shares of companies being acquired, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the companies acquired. The increase in contributed surplus for the year relates to the reduction of the share premium as mentioned in note (a).

**28. LONG-TERM BANK AND OTHER LOANS**

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans				
Secured	<b>598,600</b>	697,130	<b>598,600</b>	697,130
Unsecured	<b>256,496</b>	80,000	<b>256,496</b>	80,000
Loan from a minority shareholder (note a)	<b>23,618</b>	—	—	—
	<b>878,714</b>	777,130	<b>855,096</b>	777,130
Amount repayable within one year included in current liabilities	<b>(12,825)</b>	(99,230)	<b>(12,825)</b>	(99,230)
	<b>865,889</b>	677,900	<b>842,271</b>	677,900
The bank loans are repayable as follows:				
Within one year	<b>12,825</b>	99,230	<b>12,825</b>	99,230
In the second year	<b>12,825</b>	19,230	<b>12,825</b>	19,230
In the third to fifth year	<b>829,446</b>	658,670	<b>829,446</b>	658,670
	<b>855,096</b>	777,130	<b>855,096</b>	777,130

**28. LONG-TERM BANK AND OTHER LOANS (Cont'd)**

Note:

- (a) The loan from a minority shareholder is to finance a property development project and unsecured, interest free and has no fixed terms of repayment.
- (b) In addition to the pledge of certain of the Group's properties as securities to long-term bank loans, the Group's long-term bank loans of HK\$855,096,000 (2003: HK\$777,130,000) are guaranteed by COSCO (Hong Kong).

**29. DEFERRED TAXATION**

Deferred income tax assets are recognised for tax losses to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$751,725,000 (2003: HK\$856,572,000) to carry forward against future taxable income.

**30. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT****(a) Reconciliation of operating profit/(loss) to net cash generated from operating activities**

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Operating profit/(loss)	<b>316,041</b>	(73,886)
Impairment loss on other investment in a joint venture	<b>23,431</b>	—
Provision for diminution in value of investment securities	<b>9,677</b>	8,893
Provision for completed properties held for sale	<b>13,646</b>	11,271
Depreciation of fixed assets, net of amount capitalised	<b>23,979</b>	20,038
Amortisation of cost of other investment in a joint venture	<b>3,479</b>	21,378
Amortisation of goodwill (net)	<b>2,495</b>	2,034
(Write-back of deficit)/deficit on revaluation of investment properties	<b>(155,966)</b>	70,966
(Write-back of provision)/provision for claims and foreseeable losses on certain construction projects	<b>(452)</b>	27,899
Impairment loss of fixed assets	—	2,855
Gain on disposal/write-off of fixed assets	<b>(317)</b>	(499)
Gain on disposal of jointly controlled entities	—	(12,467)
Interest income	<b>(2,679)</b>	(3,829)
Dividend income	<b>(3,882)</b>	(1,105)
Income from other investment in a joint venture	<b>(3,479)</b>	(22,839)
	<hr/>	<hr/>
Operating profit before working capital changes	<b>225,973</b>	50,709

**30. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)**
**(a) Reconciliation of operating profit/(loss) to net cash generated from operating activities (Cont'd)**

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Operating profit before working capital changes (Cont'd)	<b>225,973</b>	50,709
(Increase)/decrease in properties under development for sale	<b>(92,008)</b>	46,117
Decrease in completed properties held for sales	<b>12,474</b>	400
Increase in inventories	<b>(1,316)</b>	—
Decrease/(increase) in trade receivables, retention receivables, deposits, prepayments and other receivables	<b>48,453</b>	(72,843)
Decrease/(increase) in amounts due from fellow subsidiaries	<b>15,534</b>	(4,267)
(Increase)/decrease in short-term investments	<b>(84)</b>	8,995
Increase in trade payables, accrued liabilities and other payables	<b>9,708</b>	8,946
(Decrease)/increase in construction contracts in progress	<b>(66,977)</b>	40,837
Increase/(decrease) in amounts due to fellow subsidiaries	<b>1,358</b>	(4,286)
(Decrease)/increase in amounts due to the ultimate holding company	<b>(15,304)</b>	16,176
Increase in amount due to a minority shareholder	<b>4,993</b>	—
	<hr/>	<hr/>
Net cash generated from operations	<b>142,804</b>	90,784
	<hr/>	<hr/>

## 30. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

## (b) Purchase of subsidiaries

	2004 HK\$'000
Net assets acquired	
Fixed assets	53,866
Inventories	215,162
Trade receivables, prepayments and deposits	224,401
Amount due from fellow subsidiaries	13,249
Bank balances and cash	62,872
Trade payables, accrued liabilities and other payables	(309,327)
Taxation payable	(11,476)
Minority interests	(70,555)
Short term bank loans, unsecured	(46,618)
	<hr/>
	131,574
Goodwill arising from the acquisition (note 10)	27,192
	<hr/>
Total cost of acquisitions	<b>158,766</b>
Satisfied by:	
Cash	<b>158,766</b>

The subsidiaries acquired during the year contributed HK\$86,519,000 cash inflow from operating activities, and utilised HK\$158,766,000 cash outflow for investing activities.

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2004 HK\$'000
Cash consideration	158,766
Bank balances and cash acquired	(62,872)
	<hr/>
Net cash used in the acquisition of subsidiaries	<b>95,894</b>

## 30. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

## (c) Analysis of changes in financing during the year

	Share capital and premium HK\$'000	Bank and other loans HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January 2003	2,495,992	1,106,281	48,003	3,650,276
Net cash (outflow)/inflow from financing activities	—	(171,161)	30,637	(140,524)
Minority's share of profit for the year	—	—	8,619	8,619
At 31st December 2003	<u>2,495,992</u>	<u>935,120</u>	<u>87,259</u>	<u>3,518,371</u>
At 1st January 2004	<b>2,495,992</b>	<b>935,120</b>	<b>87,259</b>	<b>3,518,371</b>
Reduction of share premium	<b>(2,356,553)</b>	—	—	<b>(2,356,553)</b>
Net cash inflow/(outflow) from financing activities	<b>11,280</b>	<b>6,770</b>	<b>(12,677)</b>	<b>5,373</b>
Acquisition of subsidiaries	—	<b>46,618</b>	<b>70,555</b>	<b>117,173</b>
Minority's share of profit for the year	—	—	<b>43,758</b>	<b>43,758</b>
At 31st December 2004	<u><b>150,719</b></u>	<u><b>988,508</b></u>	<u><b>188,895</b></u>	<u><b>1,328,122</b></u>

**31. OPERATING LEASE COMMITMENTS**

The aggregate future minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	1,004	362	2,458	3,149
In the second to fifth years inclusive	1,176	—	2,253	6,035
	<b>2,180</b>	362	<b>4,711</b>	9,184

The Company entered into non-cancellable operating leases with a subsidiary of the Group, such lease commitments are eliminated upon consolidation.

**32. CONTINGENCIES**

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	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	35,000	35,000
Guarantee to mortgage loans in respect of property development projects (note)	172,736	213,517	—	—

### 32. CONTINGENCIES (Cont'd)

Note: The Group provided guarantees to the mortgage loans granted by certain banks to buyers of property development projects in China Mainland. Pursuant to the terms of the guarantees, upon default in loan payments by the buyers, the Group is responsible to repay the outstanding loan principals together with accrued interest and penalty owed by the defaulted buyers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The directors of the Group 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.

### 33. RELATED PARTY TRANSACTIONS

(a) The following is a summary of the significant related party transactions carried out in the normal course of the Group's business during the year.

		Group	
	Note	2004 HK\$'000	2003 HK\$'000
Rental income received from:			
an intermediate holding company	(i)	1,786	2,051
fellow subsidiaries	(i)	26,632	28,512
Sales of paint products to:	(ii)		
fellow subsidiaries		17,856	—
fellow associated companies		350,466	—
Commission income in relation to:			
provision of agency services to fellow subsidiaries	(iii)	50,856	40,834
provision of insurance brokerage services to fellow subsidiaries	(iv)	15,064	—
Commission expenses related to sales of paint products:	(v)		
fellow subsidiaries		(1,193)	—
fellow associated companies		(6,906)	—
a minority shareholder		(1,704)	—
Purchase of raw materials from minority shareholders	(vi)	(6,800)	—
Technology usage fee paid to a minority shareholder	(vii)	(5,780)	—
		<b>—</b>	<b>—</b>

### 33. 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 its subsidiaries as tenants, for the leasing of certain properties of the Group at COSCO Tower at monthly rental ranging from HK\$23 to HK\$28 (2003: HK\$23 to HK\$28) per square feet.
  - (ii) All sales of paint products to fellow subsidiaries and fellow associated companies were conducted at terms as set out in the agreements governing these transactions.
  - (iii) 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.
  - (iv) Commission income in relation to provision of insurance brokerage services to the fellow subsidiaries were conducted at terms as set out in the agreements governing these transactions.
  - (v) Commission paid was based on a certain percentage to sales amount in accordance with terms as set out in the agreements governing these transactions.
  - (vi) Purchase of raw materials from minority shareholders were conducted at terms as set out in the agreements governing these transactions.
  - (vii) Technology usage fee paid to a minority shareholder was made based on a certain percentage to the net sales amount in accordance with terms as set out in the agreements governing these transactions.
- (b) In 2003, the Group entered into conditional share transfer agreements for the acquisition of an aggregate of 63.07% equity interest in Shanghai COSCO Kansai Paint & Chemical Co. Ltd. and Tianjin COSCO Kansai Paint & Chemical Co. Ltd. which are engaging in paint manufacturing business in China Mainland from subsidiaries of COSCO. The transactions were completed in January 2004 after all the conditions precedent under the agreement have been fulfilled.
- (c) In 2003, the Group entered into a conditional sales 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 after all the conditions precedent under the agreement have been fulfilled.
- (d) On 14th May 2004, the Group entered into an agreement for the acquisition of 100% equity interest in COSCO (HONG KONG) Insurance Brokers Limited from an intermediate holding company of the Company and a fellow subsidiary of COSCO at total consideration of HK\$47,236,800. The transaction was completed on 1st July 2004 after all the conditions precedent under the agreement have been fulfilled.

## 34. PRINCIPAL SUBSIDIARIES

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
<b>Operated in Hong Kong</b>				
99 Prove Finance Ltd.	British Virgin Islands	1 Ordinary share of US\$1	100	Property holding
Capital Properties Limited#	Hong Kong	2 Ordinary shares of HK\$1 each	100	Provision of nominee services
Cash in Hand Inc.	British Virgin Islands	1 Ordinary share of US\$1	100	Property investment
Century Metro Development Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	100	Property development
COSCO (Hong Kong) Insurance Brokers Limited	Hong Kong	5,000,000 Ordinary shares of HK\$1 each	100	Provision of insurance brokerages and related services
COSCO International Infrastructure Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
COSCO International Land Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
COSCO International Ship Trading and Supplying Services Limited (formerly known as COSCO International Trade Limited)	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
COSCO International Ship Trading Company Limited	Hong Kong	500,000 Ordinary shares of HK\$1 each	60	Provision of agency services on ship trading business

**34. PRINCIPAL SUBSIDIARIES (Cont'd)**

<b>Name</b>	<b>Place of incorporation and kind of legal entity</b>	<b>Particulars of issued share capital/ registered capital</b>	<b>Percentage of interest held</b>	<b>Principal activities</b>
<b>Operated in Hong Kong (Cont'd)</b>				
COSCO Project Management Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
Cosmart Company Limited	Hong Kong	2 Ordinary shares of HK\$1 each	60	Provision of agency services on ship trading business
Gwee Brothers Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property investment
Malayan Corporations Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property investment
Mission Success Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
Selwin Limited	Hong Kong	1,000,000 Ordinary shares of HK\$1 each	100	Building construction
Shun Shing Construction & Engineering Company, Limited	Hong Kong	5,352,000 Ordinary shares of HK\$100 each 120,000 non-voting Deferred shares of HK\$100 each	100	Building construction, maintenance and civil engineering
Success Gate Investments Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
Tian Lee Property Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property holding
Velu Exports Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property holding

### 34. PRINCIPAL SUBSIDIARIES (Cont'd)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
<b>Operated in Hong Kong (Cont'd)</b>				
Waily Development Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
Wealth Nice Investment Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Property development
Wing Thye Holdings Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property holding
Year Of The Rat Corp.	British Virgin Islands	1 Ordinary share of US\$1	100	Property holding
<b>Operated in British Virgin Islands</b>				
Cash Rich Enterprises Limited	British Virgin Islands	10,000 Ordinary shares of US\$1 each	85.85	Investment holding
COSCO (B.V.I.) Holdings Limited#	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
COSCO International Construction Limited	British Virgin Islands	100 Ordinary shares of US\$1 each	100	Investment holding
COSCO International Infrastructure (B.V.I.) Holdings Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
COSCO International Land (B.V.I.) Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Graceful Nice Limited Islands	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Leadfull Investments Ltd	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding

**34. PRINCIPAL SUBSIDIARIES (Cont'd)**

<b>Name</b>	<b>Place of incorporation and kind of legal entity</b>	<b>Particulars of issued share capital/ registered capital</b>	<b>Percentage of interest held</b>	<b>Principal activities</b>
<b>Operated in British Virgin Islands (Cont'd)</b>				
Mega Precise Profit Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Modern Capital Investment Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Monoland Assets Limited	British Virgin Islands	2 Ordinary shares of US\$1 each	100	Investment holding
Promise Keep Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Raycle Match Development Ltd.	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Top Elegant Investments Ltd.	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Trinity Developments Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Uppermost Corporation#	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
<b>Operated in the PRC</b>				
COSCO Ship Beijing Company Limited	PRC, wholly foreign-owned enterprise	US\$500,000	60	Provision of agency services on ship trading business
New Central International Enterprises Co., Limited	Hong Kong	1,000,000 Ordinary shares of HK\$1 each	90	Investment holding

## 34. PRINCIPAL SUBSIDIARIES (Cont'd)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
<b>Operated in the PRC (Cont'd)</b>				
Shanghai COSCO Honour Property Development Limited	PRC, equity joint venture	RMB232,238,926	85	Property development
Shanghai COSCO Kansai Paint & Chemicals Co., Ltd.#	PRC, equity joint venture	US\$7,000,000	63.07	Manufacturing and trading of paint products
Shenyang COSCO Yihe Property Development Co. Ltd.	PRC, equity joint venture	RMB100,000,000	51	Property development
Tianjin COSCO Kansai Paint & Chemicals Co., Ltd.#	PRC, equity joint venture	US\$5,000,000	63.07	Manufacturing and trading of paint products
Xiang Li Yuan (Shanghai) Property Management Company Limited	PRC, wholly foreign-owned enterprise	US\$500,000	100	Property management services
Wellbase Holdings Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Property investment

# Shares held directly by the Company

**35. SUBSEQUENT EVENTS**

- (a) On 4th November 2004, the Group entered into a conditional share transfer agreement for the acquisition of 49% equity interest in Guangzhou Jotun Ocean Paint Co. Ltd. from Guangzhou Economy & Technology Development Zone COSCO Marine Service Co. Limited., a wholly-owned subsidiary of COSCO at a consideration of RMB17,310,000 (approximately HK\$16,263,000). The acquisition was completed in February 2005 when the conditions precedent are fulfilled.
- (b) On 28th December 2004, the Group entered into a conditional sales and purchase agreement with COSCO Trading and Supply Investments Limited, a wholly-owned subsidiary of COSCO (Hong Kong), for the acquisition of 100% equity interest in Yuantong Marine Service Company Limited at a consideration of HK\$53,750,000. The acquisition will be completed in the midst of 2005 when the conditions precedent are fulfilled.

**36. ULTIMATE HOLDING COMPANY**

The directors regard China Ocean Shipping (Group) Company, a state-owned enterprise established in the PRC, as being the ultimate holding company of the Company.

**37. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the Board of Directors on 3rd March 2005.