

Interim Report 2005 中期報告



中遠國際控股有限公司
COSCO International Holdings Limited

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DIRECTORS**Executive Directors**

Mr. Wei Jiafu (*Chairman*)
 Mr. Liu Guoyuan (*Vice-chairman*)
 Mr. Li Jianhong
 Mr. Zhou Liancheng
 Mr. Liu Hanbo (*Managing Director*)
 Mr. He Jiale
 Mr. Guo Huawei
 Mr. Chen Pisen
 Mr. Meng Qinghui
 Mr. Zhao Kaiji
 Mr. Lin Libing

Independent Non-Executive Directors

Mr. Chan Cheong Foon, Andrew
 Mr. Kwong Che Keung, Gordon
 Mr. Tsui Yiu Wa, Alec

COMPANY SECRETARY

Ms. Wai Ching Sum

QUALIFIED ACCOUNTANT

Mr. Fong Chi Keung

AUDIT COMMITTEE

Mr. Chan Cheong Foon, Andrew
(Committee Chairman)
 Mr. Tsui Yiu Wa, Alec
 Mr. Kwong Che Keung, Gordon

EXECUTIVE COMMITTEE

Mr. Liu Hanbo (*Committee Chairman*)
 Mr. Zhao Kaiji
 Mr. Lin Libing

INVESTMENT COMMITTEE

Mr. He Jiale (*Committee Chairman*)
 Mr. Liu Hanbo
 Mr. Chen Pisen
 Mr. Lin Libing

NOMINATION COMMITTEE

Mr. Tsui Yiu Wa, Alec (*Committee Chairman*)
 Mr. Chan Cheong Foon, Andrew
 Mr. Kwong Che Keung, Gordon
 Mr. Lin Libing

REMUNERATION COMMITTEE

Mr. Kwong Che Keung, Gordon
(Committee Chairman)
 Mr. Chan Cheong Foon, Andrew
 Mr. Tsui Yiu Wa, Alec
 Mr. Liu Hanbo

RISK MANAGEMENT COMMITTEE

Mr. Liu Guoyuan (*Committee Chairman*)
 Mr. Zhou Liancheng
 Mr. Liu Hanbo
 Mr. He Jiale

AUDITORS

PricewaterhouseCoopers

SOLICITORS

Woo, Kwan, Lee & Lo
 Li & Partners
 Conyers Dill & Pearman

PRINCIPAL BANKERS

Wing Hang Bank, Limited
 The Hongkong and Shanghai Banking
 Corporation Limited
 Hang Seng Bank Limited
 Bank of China (Hong Kong) Limited

PRINCIPAL REGISTRAR

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HONG KONG BRANCH REGISTRAR

Abacus Share Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

47th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Ordinary shares (Stock Code: 0517)

INVESTORS RELATIONS

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FINANCIAL CALENDAR

2005 annual general meeting	5th May 2005
Announcement of interim results	22nd September 2005
Announcement of final results	March 2006*

* to be advised

DIVIDEND

Interim dividend	HK1 cent per share
Interim results announced	22nd September 2005
Ex-dividend date for interim dividend	20th October 2005
Share register closed	24th to 26th October 2005
Record date for interim dividend	26th October 2005
Payment date for interim dividend	On or about 2nd November 2005

(For the six months ended 30th June 2005)

SUSTAINABLE DEVELOPMENT WITH SOLID GROWTH

- Turnover reached HK\$947,008,000, up 4%
- Profit attributable to shareholders was HK\$369,794,000, up 754%
- Basic earnings per share was HK26.12 cents, up 748%
- Operating profit was HK\$428,680,000, up 344%. The substantial increase was mainly due to the surplus arising from the revaluation of the properties at COSCO Tower of HK\$299,841,000. Excluding the surplus, the Group achieved an operating profit of HK\$128,839,000, up 34%
- Outperformed ship trading and supplying services, recorded a turnover of HK\$831,229,000, up 76%; its profit contribution was HK\$96,451,000, up 31%
- Solid expansion in the core businesses through the respective acquisitions of 49% and 100% equity interest in Guangzhou Jotun Ocean Paint Co., Limited and Yuantong Marine Service Company Limited
- The Board declared an interim dividend payment of HK1 cent per share

I am pleased to announce that COSCO International Holdings Limited (“COSCO International” or the “Company”) and its subsidiaries (the “Group”) recorded a satisfactory performance in the first half of 2005. For the six months ended 30th June 2005, the Group achieved a turnover of HK\$947,008,000 (2004: HK\$906,390,000), an increase of 4% over the same period of last year, the profit attributable to the shareholders amounted to HK\$369,794,000 (2004: HK\$43,297,000) and the basic earnings per share was HK26.12 cents (2004: HK 3.08 cents), representing a rise of 754% and 748% respectively as compared with the same period of 2004.

During the review period, the Group achieved an operating profit of HK\$428,680,000, a 344% increase compared with the same period of last year. The substantial increase was mainly due to the surplus arising from the revaluation of the properties at COSCO Tower of HK\$299,841,000. Excluding the surplus, the Group achieved an operating profit of HK\$128,839,000, a 34% increase compared with the same period of last year.

The board of directors (the “Board”) of the Company declared an interim dividend payment of HK1 cent per share for the six months ended 30th June 2005 (2004: nil). The Board will maintain a stable and reasonable dividend payment policy.

BUSINESS REVIEW

The global economy maintained a steady growth in the first half of 2005 and according to the latest releases by National Bureau of Statistics, China's economy continued to grow at a fast pace with a growth rate of 9.5% in terms of gross domestic product comparable with the same period of last year. China's exports and imports recorded USD645 billion, up 23.2% as compared with the same period of last year. The consumer price index surged by 2.3%, a slight decrease as compared with the first half of 2004. China's economy has a prosperous future due to its continued high economic growth and the relative low consumer price index level. With full support from its parent company, China Ocean Shipping (Group) Company (“COSCO”) and its subsidiaries (“COSCO Group”), COSCO International further consolidated the foundation of ship trading and supplying services platform following the acquisitions of the marine equipment and spare parts, as well as marine coatings business projects during the period. This ensured that the Group is able to maintain a stable and healthy business development. In addition, the Group disposed of its non-core business assets during the period and hence improved its capital structure and its debt ratio, paving the way for sustainable development with additional cash reserve.

Ship Trading and Supplying Services

In the first half of 2005, the Group recorded a solid growth in the turnover and profit contribution from the segment of ship trading and supplying services. For the six months ended 30th June 2005, the revenue from the ship trading and supplying services was HK\$831,229,000 (2004: HK\$472,597,000), increased by 76% as compared with the corresponding period of last year and represented 88% of the total turnover of the Group; the contribution from the ship trading and supplying services was HK\$96,451,000 (2004: HK\$73,797,000), up 31% as compared with the same period of the previous year and accounted for 69% of the Group's total segment results in the first half of the year.

Ship Trading Services

Being the sole ship trading agent of the COSCO Group, COSCO International Ship Trading Company Limited ("COSCO Ship Trading") seized the business opportunity brought about by the increase in volume of new ship building and completed the trading of vessels with a total volume of 1,569,400 dead weight tonnages during the period, up 180% as compared with the corresponding period of last year.

Manufacturing and Sale of Coatings

The Group's coatings business, including container coatings, marine coatings and industrial anti-corrosion coatings, performed well during the period despite the price upsurge in raw materials and crude oil. The Group recorded a total sales of coatings products of about 58,680 tones during the period, increased by 40% as compared with the corresponding period of last year.

The Group completed the acquisition of 49% equity interest in Guangzhou Jotun Ocean Paint Co., Ltd. ("JOP") in February 2005. JOP is mainly engaged in the manufacturing and sale of marine coatings. To further expand marine coatings business in China, the Group joined hands with Jotun A/S, a famous international coatings manufacturer, to form a 50/50 joint venture namely Jotun COSCO Marine Coatings (HK) Limited ("Jotun COSCO") by signing a Shareholders' Agreement on 12th July 2005, which became effective from 1st September 2005. Jotun COSCO wholly-owns JOP as its manufacturing base and sales offices in Shanghai, Dalian, Chengdu and Hong Kong.

Marine Equipments, Spare Parts, Communications & Navigation Systems

Yuantong Marine Service Company Limited ("Yuantong") became a wholly-owned subsidiary of the Group in May 2005. It is principally engaged in the supply of marine equipment and spare parts, marine communications and navigation equipment, as well as the provision of after-sale installation, testing and commissioning and repair services together with navigation supplies, medical supplies and chemicals supplies. Benefited from the thriving new building market, the demand for marine equipment and spare parts has been growing substantially. During the period under review, Yuantong achieved a remarkable performance with a total sales of HK\$178,517,000.

Marine Insurance Brokerage Services

Being a marine insurance broker in the COSCO Group, COSCO (Hong Kong) Insurance Brokers Limited ("COSCO Insurance") continued to provide high quality brokerage services for COSCO fleets in the aspects of marine insurance, including protection and indemnity insurance as well as hull and machinery insurance during the period. It recorded a commission income of approximately HK\$18,512,000, up 25% as compared with the corresponding period of last year. In addition, COSCO Insurance proactively expanded its market to non-COSCO customers and explored new business like the non-marine insurance. It has made a good progress and achieved a satisfactory result. In the first half of the year, more than 20% of the total commission income was derived from the non-COSCO customers. This indicated an initial success of the Group's strategy to expand non-COSCO customers market.

Property Investment and Development

Hong Kong

Riding on the recovery of the property market in Hong Kong in the first half of the year and with a view to providing support for the expansion of its core business, the Group endeavoured to reorganise its business structure and improve its capital structure. The Group sold the eight floors of COSCO Tower, i.e. the 39th, 40th, 42nd, and 47th to 51st floors with total floor area of 172,660 square feet, to COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") on 30th May 2005 for a total consideration of approximately HK\$1.4 billion. The average selling price of the gross floor area was HK\$8,120 per square foot. The transaction was completed on 3rd August 2005. The cash gained from the disposal of the said properties paid back to the banks, which lowered the debt to total asset ratio considerably. The remaining cash enables the Company to finance its new investments in the near future.

In addition, the Group sold a shopping arcade together with 9 coach car parks located in Broadview Court, Shum Wan at the end of June 2005.

China Mainland

Affected by the macroeconomic control measures and new policies imposed on the real estate industry by the Central Government, the property market in the China Mainland slowed down in the first half of the year. The increase in the property prices in major cities in the China Mainland had been narrowed slightly in which Shanghai, Shenyang and Beijing recorded a relative smaller increase in its property selling prices as compared with the corresponding period of last year. During the period under review, the construction works and sale of the Group's mid-to-high end property project in Shenyang, COSCO Yihe Garden, had progressed well and some of the residential units were put on sale in April 2005. The total floor area of COSCO Yihe Garden sold was approximately 16,000 square meters representing about 132 residential units.

The Group's jointly controlled entity in Beijing, COSCO Real Estate Development Co., Ltd. ("CRED"), continued to undertake the construction and sale of property projects in the China Mainland. During the period under review, CRED boosted the sales of its existing five property projects comprising Ocean Paradise, Ocean Prospect, Ocean Landscape, Ocean Express and Ocean Seasons. The total floor area sold was about 200,000 square meters with more than 1,700 residential units.

Other Businesses

The Group's Henan Xinzhongyi Electric Power Co., Ltd. ("Henan XZY"), invested in two 20 MW coal-fired power plants in Henan Province. Owing to the upsurge in coal price, there was no profit contribution from the Henan XZY during the period.

Shun Shing Construction & Engineering Company Limited, a wholly-owned subsidiary of the Company, continued to provide maintenance services during the period.

PROSPECTS

According to the estimate by United Nations, the world economy will maintain a steady growth rate of 3.25%. Riding on the appreciation of Renminbi and the adoption of a new exchange rate management mechanism by the People's Bank of China in July 2005, China will continue to be well poised to lead the world economic growth. It is predicted that shipping and its related industries will continue a gradual upward growth trend. Looking forward, the Group will continue to implement its corporate strategies, i.e. initiating new businesses through agency services, integrating resources and capabilities through network system and increasing profits through joint venture businesses. The Group is confident in achieving the establishment of a one-stop, standardised and professional supply platform of ship trading and supplying services, providing efficient and quality services for all our customers and to become a competitive, professional and unique ship trading and supplying services provider worldwide.

To further develop its core business, the Group will continue to expand the customers' base and explore new market in the ship trading services and marine insurance brokerage services businesses. In the marine equipment and spare parts business, the Group will enhance the agency services of imported accessories and equipment, delivery and collection, technology and logistics support, providing high quality, efficient and all-round services for all customers including ship owners and dockyards.

In the coatings business, the Group will strive to implement specialisation in different coatings products and build a pan-regional manufacturing and sales of coatings business platform with operations in the northern, eastern and southern China. Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. will specialize in the manufacture and sales of container coatings and industrial anti-corrosion coatings while Jotun COSCO will focus on the manufacture and sales of marine coatings in China. Capitalising on the tremendous resources and huge market potential of the COSCO Group and coupled with the competence and advanced technology of our business partners, we are confident that the Group will become a first class coatings manufacturer and supplier in China, generating higher profitability for shareholders.

By the order of the Board

LIU Hanbo

Managing Director

Hong Kong, 22nd September 2005

FINANCIAL REVIEW

For the six months ended 30th June 2005, the Group achieved a turnover of HK\$947,008,000, a 4% increase compared with the same period of last year despite the decrease of turnover in building construction, property development and infrastructure investment. The Group's turnover in the first six months increased as a result of the acquisition of 100% equity interest in COSCO Insurance in July 2004 and the acquisition of 100% equity interest in Yuantong in February 2005. Gross profit increased by 26% to HK\$243,876,000 which was also mainly due to the acquired new business of COSCO Insurance and Yuantong.

The Group achieved an operating profit of HK\$428,680,000, a 344% increase compared with the same period of last year. The substantial increase was mainly due to the surplus arising on revaluation of the properties at COSCO Tower of HK\$299,841,000. Excluding the surplus, the Group achieved an operating profit of HK\$128,839,000, a 34% increase compared with the same period of last year.

Profit attributable to shareholders for the period was HK\$369,794,000, a 754% increase compared with the same period of last year.

FINANCIAL RESOURCES AND LIQUIDITY

For the six months ended 30th June 2005, shareholders' funds of the Group increased by 32% to HK\$1,480,109,000.

The net drawdown of loans from banks and other financial institution amounted to HK\$57,060,000 (2004: HK\$30,604,000) during the period. As at 30th June 2005, total credit facilities available to the Group amounted to HK\$1,205,797,000 (31st December 2004: HK\$1,222,999,000), of which HK\$1,021,950,000 (31st December 2004: HK\$964,890,000) was utilised. The increase in utilisation of credit facilities was mainly attributable to the drawdown of loans to finance the property development project in Shenyang and the payment of consideration for the purchase of Yuantong. The gearing ratio, which represents total loans over total assets, was approximately 24% (31st December 2004: 32%).

As at 30th June 2005, the Group's borrowings were denominated in Hong Kong dollars, United States dollars and Renminbi and carried at interest rates calculated with reference to Hong Kong Interbank Offered Rate, London Interbank Offered Rate and the Base Rate announced by the People's Bank of China respectively. During the period, the Group did not have any financial instruments for hedging purpose.

The maturity and currency profiles of the outstanding loans (excluding loan from a minority shareholder) as at 30th June 2005 are analysed as follows:

	30th June 2005		31st December 2004	
	HK\$'000	%	HK\$'000	%
Maturity profiles:				
Loans repayable				
– Within one year	686,068	67	122,619	13
– In the second year	155,701	15	12,825	1
– In the third to fifth year	180,181	18	829,446	86
	1,021,950	100	964,890	100
Secured	587,486	57	677,676	70
Unsecured	434,464	43	287,214	30
	1,021,950	100	964,890	100
Currency profiles:				
Hong Kong dollar	642,486	63	598,600	62
United States dollar	275,243	27	287,214	30
Renminbi	104,221	10	79,076	8
	1,021,950	100	964,890	100

As at 30th June 2005, properties in Hong Kong classified as non-current assets classified as held for sale of HK\$1,402,000,000 (31st December 2004: investment properties in Hong Kong of HK\$398,000,000 and other properties in Hong Kong of HK\$706,291,000) were pledged as securities to a bank in respect of certain banking facilities granted to the Group.

Cash and bank balances amounted to HK\$1,223,114,000 (31st December 2004: HK\$562,870,000) as at 30th June 2005 and accounted for 33% (31st December 2004: 39%) of the current assets of the Group.

EMPLOYEES

As at 30th June 2005, excluding associated companies and jointly controlled entities, the Group had 634 (31st December 2004: 664) employees of whom 127 (31st December 2004: 137) employees are employed in Hong Kong. During the period, staff costs including directors' emoluments, net of amount capitalised in construction contract in progress of HK\$8,082,000 (2004: HK\$9,669,000) totalled to HK\$45,729,000 (2004: HK\$33,947,000). All the staff employed in Hong Kong participate in the Mandatory Provident Fund Scheme.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

		Unaudited	
		Six months ended 30th June	
	<i>Note</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
Turnover	4	947,008	906,390
Cost of sales		(703,132)	(712,289)
Gross profit		243,876	194,101
Other revenues		7,557	1,496
Other operating income		11,710	7,524
Fair value gains on investment properties and write-back of impairment loss on prepaid premium for land leases		300,441	–
Administrative expenses		(62,861)	(40,962)
Selling and distribution expenses		(65,826)	(58,234)
Other operating expenses		(6,217)	(7,459)
Operating profit	5	428,680	96,466
Finance costs	6	(13,095)	(6,082)
Share of results of an associated company		3,760	–
Share of results of a jointly controlled entity		(7,969)	3,132
Profit before taxation		411,376	93,516
Taxation	7	(18,644)	(24,773)
Profit after taxation		392,732	68,743
Profit attributable to:			
Shareholders of the Company		369,794	43,297
Minority interests		22,938	25,446
		392,732	68,743
Dividend	9	14,174	–
Earnings per share	8		
Basic		26.12 cents	3.08 cents
Fully diluted		25.84 cents	3.04 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2005

	Note	Unaudited 30th June 2005 HK\$'000	Restated 31st December 2004 HK\$'000
Non-current assets			
Goodwill	10	79,616	62,321
Property, plant and equipment	10	58,431	204,147
Investment properties	10	29,300	425,100
Prepaid premium for land leases	10	20,949	568,478
Associated companies		22,732	2,659
Jointly controlled entities		203,501	210,454
Available-for-sale financial assets/other investment in a joint venture and investment securities	11	90,909	73,526
		505,438	1,546,685
Current assets			
Completed properties held for sale		28,633	50,878
Properties under development for sale		214,437	194,634
Inventories		206,134	216,478
Trade and other receivables	12	654,666	410,204
Financial assets at fair value through profit or loss/short-term investments		377	327
Non-current assets classified as held for sale	10	1,402,000	–
Cash and bank balances		1,223,114	562,870
		3,729,361	1,435,391
Current liabilities			
Trade and other payables	13	1,505,916	668,253
Taxation		30,253	19,101
Current portion of long-term bank loans	15	12,870	12,825
Bank loan			
– secured		–	79,076
– unsecured		85,712	30,718
Liabilities directly associated with non-current assets classified as held for sale	15	587,486	–
		2,222,237	809,973
Net current assets			
		1,507,124	625,418
		2,012,562	2,172,103

CONDENSED CONSOLIDATED BALANCE SHEET (cont'd)

AS AT 30TH JUNE 2005

	<i>Note</i>	Unaudited 30th June 2005 HK\$'000	Restated 31st December 2004 HK\$'000
Financed by:			
Share capital	14	141,744	141,444
Reserves		1,324,191	940,514
Proposed final dividend		–	35,361
Proposed interim dividend	9	14,174	–
		<hr/>	<hr/>
Shareholders' funds		1,480,109	1,117,319
Minority interests		188,821	188,895
		<hr/>	<hr/>
Total equity		1,668,930	1,306,214
Long-term bank and other loans	15	343,632	865,889
		<hr/>	<hr/>
		2,012,562	2,172,103
		<hr/>	<hr/>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	Unaudited	
	Six months ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
Net cash flow from operating activities	662,960	80,757
Net cash flow from investing activities	77,865	22,541
Net cash flow used in financing activities	(28,533)	(17,766)
Increase in cash and cash equivalents	712,292	85,532
Cash and cash equivalents at beginning of period	510,744	413,271
Changes in exchange rates	78	(34)
Cash and cash equivalents at end of period	1,223,114	498,769

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

Unaudited
Six months ended 30th June 2005

	Share capital HK\$'000	Share premium HK\$'000	Employee share-based compensation reserve HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Investment revaluation reserve HK\$'000	Retained profits HK\$'000	Minority interests HK\$'000	Total HK\$'000
Balance at 1st January 2005, as previously reported	141,444	9,275	-	676,218	69,087	(2,741)	-	224,036	-	1,117,319
Reclassification of minority interests as equity	-	-	-	-	-	-	-	-	188,895	188,895
Opening adjustment on the adoption of HKFRS 3	-	-	-	-	-	-	-	8,315	-	8,315
Opening adjustment on the adoption of HKAS 39	-	-	-	-	-	-	11,012	-	-	11,012
Balance at 1st January 2005, as restated	141,444	9,275	-	676,218	69,087	(2,741)	11,012	232,351	188,895	1,325,541
Transfer of reserves	-	-	-	-	17,421	-	-	(17,421)	-	-
Issue of shares	300	1,410	-	-	-	-	-	-	-	1,710
Exchange differences	-	-	-	-	-	78	-	-	-	78
Fair value gains on available-for-sale financial assets	-	-	-	-	-	-	5,893	-	-	5,893
Employee share option benefits	-	-	1,400	-	-	-	-	-	-	1,400
Profit for the period	-	-	-	-	-	-	-	369,794	22,938	392,732
Dividends	-	-	-	-	-	-	-	(35,412)	(23,012)	(58,424)
At 30th June 2005	141,744	10,685	1,400	676,218	86,508	(2,663)	16,905	549,312	188,821	1,668,930

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	Unaudited							
	Six months ended 30th June 2004							
	Share	Share	Contributed	Capital	Exchange	(Accumulated	Minority	
	capital	premium	surplus	reserve	reserve	retained	interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	losses)/	HK\$'000	HK\$'000
						profits		
Balance at 1st January 2004, as previously reported	139,439	2,356,553	-	63,151	(2,550)	(1,669,521)	-	887,072
Reclassification of minority interests as equity	-	-	-	-	-	-	87,259	87,259
Balance at 1st January 2004, as restated	139,439	2,356,553	-	63,151	(2,550)	(1,669,521)	87,259	974,331
Acquisition of minority interests	-	-	-	-	-	-	53,352	53,352
Issue of 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	25,446	68,743
At 30th June 2004	141,064	-	694,670	63,151	(2,582)	43,297	166,057	1,105,657

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1 Basis of preparation

The condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods used in the preparation of the condensed interim financial statements are consistent with those set out in the 2004 annual financial statements, except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards (“HKFRS”) and Hong Kong Accounting Standards (“HKAS”) (collectively “HKFRS”) which are effective for accounting periods commencing on or after 1st January 2005.

The condensed interim financial statements should be read in conjunction with the 2004 annual financial statements.

2 Changes in accounting policies

In 2005, the Group adopted the HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements and current period classification.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates

2 Changes in accounting policies (cont'd)

HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HKAS-Int 3	Revenue – Pre-completion of Contracts for the Sale of Development Properties
HKAS-Int 4	Leases-Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of the above HKFRSs has the following impacts on the Group's accounting policies:

- (i) The adoption of new and revised HKASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 18, 21, 23, 24, 27, 28, 31, 33, 34, 37 and 38 did not result in substantial changes to the Group's accounting policies. In summary:
 - a) HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associated companies and jointly controlled entities, and other disclosures.
 - b) HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 21, 23, 27, 28, 31, 33, 34, 37 and 38 have no material effect on the Group's accounting policies.
 - c) HKAS 24 has affected the identification of related parties and some other related party disclosures.

2 Changes in accounting policies (cont'd)

- (ii) The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to prepaid premium for land leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was stated at cost less accumulated depreciation and accumulated impairment loss. HKAS 17 was applied retrospectively.
- (iii) The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to investment securities and short-term investments. Investment securities and other investment in a joint venture have been re-designated as available-for-sale financial assets and are stated at fair values. Changes in their fair values are accounted for as movements in reserve. The difference between the fair value of available-for-sale financial assets as at 1st January 2005 and the carrying amounts of the investment securities and other investment in a joint venture as at 31st December 2004 was credited to the opening investment revaluation reserve as at 1st January 2005. In previous accounting periods, investment securities were stated at cost less provision for diminution in value; other investment in a joint venture was carried at cost less accumulated amortisation and accumulated impairment losses.

Short-term investments have been re-designated as financial assets at fair value through profit or loss.

HKAS 39 does not permit the recognition, derecognition or measurement of financial assets and liabilities in accordance with this standard on a retrospective basis.

- (iv) The adoption of HKAS 40 has resulted in a change in the accounting policy for investment properties. In previous accounting periods, surpluses arising on revaluation of investment properties were credited to the investment property revaluation reserve while deficits arising on revaluation of investment properties were firstly set off against any previous revaluation surpluses on a portfolio basis and thereafter charged to the income statement. Following the adoption of HKAS 40, all changes in revaluation of the investment properties are to be recognised in the income statement.

2 Changes in accounting policies (cont'd)

Since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information; any adjustment should be made to the retained earnings as at 1st January 2005, including the reclassification of any amount held in revaluation surplus for investment properties.

- (v) The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective from 1st January 2005, the Group expenses the cost of share options in the income statement. There is no impact on the prior year financial statements, as the Group had no unvested share options outstanding as at 1st January 2005. HKFRS 2 was applied retrospectively only for equity instruments granted after 7th November 2002 and not vested at 1st January 2005.
- (vi) The adoption of HKFRS 3 and HKAS 36 has resulted in a change in the accounting policy for goodwill. Until 31st December 2004,
 - Goodwill was amortised on a straight-line basis over its estimated useful life.
 - Negative goodwill was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases, it was recognised in the income statement as those expected losses were incurred.

In accordance with the provision of HKFRS 3:

- For previously recognised goodwill, the Group ceased amortisation from 1st January 2005 and the accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill. From the year ending 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is an indication of impairment. Any impairment loss recognised is charged to the income statement.
- For previously recognised negative goodwill, the carrying amount of negative goodwill at 1st January 2005 was derecognised and credited to the opening balance of retained profits. From the year ending 31st December 2005 onwards, any excess of the fair value of the Group's share of the identifiable net assets acquired over the cost of acquisition is recognised directly in the income statement.

2 Changes in accounting policies (cont'd)

HKFRS 3 was applied prospectively after the adoption date with any adjustment made to the retained profits as at 1st January 2005.

- (vii) The adoption of HKFRS 5 has resulted in the reclassification of certain assets which the Group had the intention to sell as non-current assets classified as held for sale and certain liabilities as liabilities directly associated with non-current assets classified as held for sale.
- (viii) The adoption of HKAS-Int 3 has resulted in a change in the accounting policy for sales of properties under development. In previous accounting periods, profit was recognised by the stage of completion method. Effective from 1st January 2005, profit from sales of properties under development is only recognised upon completion of the property development.

In accordance with the transitional provisions, the Group will continue to use the stage of completion method to recognise revenue from the sale of properties under development entered into before 1st January 2005.

3 Effects of the changes in accounting policies

The effects of the changes in the above accounting policies on the financial statements are summarised below:

	Effect of adopting						Total HK\$'000
	HKFRS 2 HK\$'000	HKAS 17 HK\$'000	HKAS 32 and 39 HK\$'000	HKFRS 3, HKAS 36 and 38 HK\$'000	HKAS 40 HK\$'000	HKFRS 5 HK\$'000	
a) Consolidated income statement							
For the six months ended							
30th June 2005							
Increase in administrative expenses	(1,400)	(44)	-	-	-	-	(1,444)

The changes in accounting policies have no material effect on the basic earnings per share and fully diluted earnings per share.

The changes in accounting policies have no material effect on the consolidated income statement for the six months ended 30th June 2004.

	Effect of adopting						Total HK\$'000
	HKFRS 2 HK\$'000	HKAS 17 HK\$'000	HKAS 32 and 39 HK\$'000	HKFRS 3, HKAS 36 and 38 HK\$'000	HKAS 40 HK\$'000	HKFRS 5 HK\$'000	
b) Consolidated balance sheet							
At 30th June 2005							
Increase in goodwill	-	-	-	8,315	-	-	8,315
Decrease in property, plant and equipment	-	(575,218)	-	-	(112,503)	(38,987)	(726,708)
Increase/(decrease) in investment properties	-	-	-	-	522,602	(1,172,124)	(649,522)
Increase/(decrease) in prepaid premium for land leases	-	575,218	-	-	(410,099)	(190,889)	(25,770)
Increase in available-for-sale financial assets	-	-	16,905	-	-	-	16,905
Decrease in completed properties held for sale	-	(44)	-	-	-	-	(44)
Increase in non-current assets classified as held for sale	-	-	-	-	-	1,402,000	1,402,000
Decrease in profit for the period	(1,400)	(44)	-	-	-	-	(1,444)
Increase in employee share-based compensation reserve	1,400	-	-	-	-	-	1,400
Increase in investment revaluation reserve	-	-	16,905	-	-	-	16,905
Increase in opening balance of retained profits	-	-	-	8,315	-	-	8,315
At 31st December 2004							
Decrease in property, plant and equipment	-	(568,478)	-	-	-	-	(568,478)
Increase in prepaid premium for land leases	-	568,478	-	-	-	-	568,478

4 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. Turnover and revenues recognised during the period are as follows:

	Six months ended 30th June	
	2005	2004
	HK\$'000	<i>HK\$'000</i>
Turnover		
Sales of coating products	598,987	444,553
Sales of spare parts and navigation equipments	178,517	–
Ship trading and insurance brokerage		
commission income	53,725	28,044
Sale of properties	78,397	138,040
Building construction	18,585	270,944
Rental income	18,049	16,643
Income from available-for-sale financial		
assets/other investment in a joint venture	–	7,610
Building management fee income	748	556
	947,008	906,390
Other revenues		
Interest income	4,178	525
Dividend income from available-for-sale financial		
assets/investment securities	3,379	971
	7,557	1,496
Total revenues	954,565	907,886

4 Turnover and segment information (cont'd)

Primary reporting format – business segments

The Group is organised into four main business segments:

Ship trading and supplying services	–	manufacturing and trading of coating products
	–	provision of agency services in respect of trading of vessels, marine equipment, bareboat charter business
	–	trading of spare parts and navigation equipments for vessels
	–	provision of insurance brokerage services
Property development and investment	–	development of properties and holding of properties for rental purpose
Building construction	–	construction of buildings
Infrastructure investment	–	investment in a power plant project

Other operations of the Group comprise mainly holding of financial assets and provision of building management services.

There were no transactions between business segments.

Secondary reporting format – geographical segments

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

Hong Kong	–	provision of agency services in respect of trading of vessels, marine equipment, bareboat charter business
	–	trading of spare parts and navigation equipments for vessels
	–	provision of insurance brokerage services
	–	construction of buildings
	–	holding of properties for rental purpose
China Mainland	–	manufacturing and trading of coating products
	–	development of properties
	–	holding of properties for rental purpose
	–	investment in a power plant project

There were no transactions between geographical segments.

4 Turnover and segment information (cont'd)

Primary reporting format – business segments

Six months ended 30th June 2005

	Ship trading and supplying services HK\$'000	Property development and investment HK\$'000	Building construction HK\$'000	Infrastructure investment HK\$'000	Other operations HK\$'000	Group HK\$'000
Segment turnover	<u>831,229</u>	<u>96,446</u>	<u>18,585</u>	<u>–</u>	<u>748</u>	<u>947,008</u>
Segment results	<u>96,451</u>	<u>40,209</u>	<u>(4,363)</u>	<u>(577)</u>	<u>8,323</u>	<u>140,043</u>
Fair value gains on investment properties and write-back of impairment loss on prepaid premium for land leases						<u>300,441</u>
Unallocated corporate expenses, net of income						<u>(11,804)</u>
Operating profit						<u>428,680</u>
Finance costs						<u>(13,095)</u>
Share of results of an associated company	<u>3,760</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,760</u>
Share of results of a jointly controlled entity	<u>–</u>	<u>(7,969)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(7,969)</u>
Profit before taxation						<u>411,376</u>
Taxation						<u>(18,644)</u>
Profit after taxation						<u>392,732</u>
Minority interests						<u>(22,938)</u>
Profit attributable to shareholders						<u>369,794</u>

4 Turnover and segment information (cont'd)*Primary reporting format – business segments* (cont'd)

	Six months ended 30th June 2004					Group HK\$'000
	Ship trading and supplying services HK\$'000	Property development and investment HK\$'000	Building construction HK\$'000	Infrastructure investment HK\$'000	Other operations HK\$'000	
Segment turnover	<u>472,597</u>	<u>154,683</u>	<u>270,944</u>	<u>7,610</u>	<u>556</u>	<u>906,390</u>
Segment results	<u>73,797</u>	<u>45,903</u>	<u>(15,102)</u>	<u>1,067</u>	<u>2,638</u>	108,303
Unallocated corporate expenses, net of income						<u>(11,837)</u>
Operating profit						96,466
Finance costs						(6,082)
Share of results of a jointly controlled entity	–	3,132	–	–	–	<u>3,132</u>
Profit before taxation						93,516
Taxation						<u>(24,773)</u>
Profit after taxation						68,743
Minority interests						<u>(25,446)</u>
Profit attributable to shareholders						<u>43,297</u>

4 Turnover and segment information (cont'd)

Secondary reporting format – geographical segments

	Segment turnover Six months ended 30th June		Segment results Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	292,130	308,761	376,791	9,117
China Mainland	654,878	597,629	63,693	99,186
	947,008	906,390	440,484	108,303
Unallocated corporate expenses, net of income			(11,804)	(11,837)
Operating profit			428,680	96,466

5 Operating profit

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

	Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
Crediting		
Net rental income	16,552	13,623
Net realised gain on available-for-sale financial assets/investment securities	5,018	12
Fair value gains on financial assets at fair value through profit or loss	50	–
Gain on disposal of fixed assets	3,497	212
Charging		
Depreciation, net of amounts capitalised in construction contracts in progress and properties under development for sale totalling HK\$440,000 (2004: HK\$204,000)	5,068	9,921
Amortisation of the cost of other investment in a joint venture	–	6,043
Amortisation of goodwill	–	1,304
Staff costs, net of amount capitalised in construction contracts in progress totalling HK\$8,082,000 (2004: HK\$9,669,000)	45,729	33,947
Pension costs	3,021	1,631
Write-down of inventories to net realisable value	–	2,146
Provision for doubtful debts	–	1,797

6 Finance costs

	Six months ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	16,165	6,363
Capitalised in construction contracts in progress	–	(281)
Capitalised in properties under development for sale	(3,070)	–
	13,095	6,082

7 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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.

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

	Six months ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
The Company and subsidiaries:		
– Hong Kong profits tax	8,719	2,652
– China Mainland taxation	9,925	22,121
	18,644	24,773

8 Earnings per share

The calculation of basic and fully diluted earnings per share is based on the Group's profit attributable to shareholders of HK\$369,794,000 (2004: HK\$43,297,000). The basic earnings per share is based on the weighted average number of 1,415,797,092 (2004: 1,406,446,247) shares in issue during the period.

The fully diluted earnings per share for the six months ended 30th June 2005 was based on 1,431,052,065 shares which was the weighted average number of shares in issue during the period plus the weighted average of 15,254,973 shares deemed to be issued at no consideration if all outstanding share options had been exercised.

9 Dividend

The Board has resolved to declare the payment of an interim dividend for the six months ended 30th June 2005 of HK1 cent (2004: Nil) per share, totalling HK\$14,174,000.

10 Capital expenditure

	Goodwill	Property, plant and equipment	Investment properties	Prepaid premium for land leases	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening net book value at 1st January 2005	62,321	204,147	425,100	568,478	1,260,046
Opening adjustment on the adoption of HKFRS 3	8,315	–	–	–	8,315
Opening adjustment on the adoption of HKAS 40	–	(112,503)	522,602	(410,099)	–
Additions	–	4,621	–	–	4,621
Acquisition of a subsidiary	8,980	4,687	–	8,714	22,381
Fair value gains on investment properties	–	–	253,722	–	253,722
Write-back of impairment loss	–	–	–	46,719	46,719
Transfer to non-current assets classified as held for sale (note 19 (h))	–	(38,987)	(1,172,124)	(190,889)	(1,402,000)
Depreciation	–	(3,534)	–	(1,974)	(5,508)
Closing net book value as at 30th June 2005	<u>79,616</u>	<u>58,431</u>	<u>29,300</u>	<u>20,949</u>	<u>188,296</u>
Opening net book value at 1st January 2004	37,624	738,835	269,134	–	1,045,593
Opening adjustment on the adoption of HKAS 17	–	(578,374)	–	578,374	–
Acquisition of subsidiaries	11,483	50,680	–	3,131	65,294
Depreciation and amortisation	(1,304)	(3,611)	–	(6,514)	(11,429)
Closing net book value as at 30th June 2004	<u>47,803</u>	<u>207,530</u>	<u>269,134</u>	<u>574,991</u>	<u>1,099,458</u>

11 Available-for-sale financial assets/other investment in a joint venture and investment securities

	<i>HK\$'000</i>
At 1st January 2005 (<i>note</i>)	73,526
Opening adjustment on the adoption of HKAS 39	11,012
Acquisition of a subsidiary (<i>note 18</i>)	478
Revaluation surplus transfer to equity	<u>5,893</u>
At 30th June 2005	<u>90,909</u>

Available-for-sale financial assets/other investment in a joint venture and investment securities include the following:

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Listed equity securities in Hong Kong	45,945	36,298
Unlisted securities	15,384	7,648
Other investment in a joint venture	29,580	29,580
	<u>90,909</u>	<u>73,526</u>

Note: Other investment in a joint venture and investment securities were re-designated as available-for-sale financial assets.

12 Trade and other receivables

At 30th June 2005, trade and other receivables included trade receivables amounting to HK\$556,123,000 (31st December 2004: HK\$315,667,000). The ageing analysis of the trade receivables, net of provision for bad and doubtful debt is as follows:

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Current – 90 days	334,667	183,067
91 – 180 days	170,892	82,703
Over 180 days	50,564	49,897
	556,123	315,667

For building construction contracts, they are billed according to the progress of the contracts, while revenue from sales of properties and other operating revenues except for sales of coating products, spare parts and navigation equipments 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 coating products, spare parts and navigation equipments, a majority of the sales are on credit terms from 30 days to 90 days.

13 Trade and other payables

At 30th June 2005, trade and other payables included a deposit received of HK\$600,000,000 (2004: nil) in respect of the disposal of a wholly-owned subsidiary (*note 19(h)*).

The balance also included trade payables amounting to HK\$359,774,000 (31st December 2004: HK\$265,291,000). The ageing analysis of the trade payables is as follows:

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Current – 90 days	227,868	221,623
91 – 180 days	81,965	28,362
Over 180 days	49,941	15,306
	359,774	265,291

14 Share capital

	30th June 2005		31st December 2004	
	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	1,414,441,291	141,444	1,394,389,291	139,439
Issue of shares	3,000,000	300	20,052,000	2,005
At period/year end	1,417,441,291	141,744	1,414,441,291	141,444

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 and employees of the Group and 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") to subscribe for shares of the Company.

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 COSCO Group. The share options are exercisable at any time from 23rd December 2003 to 22nd December 2008. 3,000,000 share options (2004: 16,252,000 share options) were exercised during the period. The weighted average closing price of the shares immediately before the dates on which the share options were exercised was HK\$1.29 (2004: HK\$1.34) per share.

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 share options are exercisable at any time from 29th December 2004 to 28th December 2014. No share options were exercised during the period.

On 10th May 2005, the employees of the Group were granted 2,400,000 share options at an exercise price of HK\$1.21 per share. The share options are exercisable at any time between 6th June 2005 to 5th June 2015. No share options were exercised during the period.

At 30th June 2005, share options to subscribe for 112,950,000 shares were still outstanding.

15 Long-term bank and other loans

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Bank loans		
Secured	587,486	598,600
Unsecured	244,531	256,496
	832,017	855,096
Loan from a minority shareholder (<i>note 19(f)</i>)	7,750	23,618
Loan from a fellow subsidiary (<i>note 19(g)</i>)	104,221	–
	943,988	878,714
Less: Amount repayable within one year included in current liabilities	(12,870)	(12,825)
Less: Bank loan reclassified as liabilities directly associated with non-current assets classified as held for sale (<i>note 19(h)</i>)	(587,486)	–
	343,632	865,889
The bank loans are repayable as follows:		
Within one year	600,356	12,825
In the second year	155,701	12,825
In the third to fifth years	75,960	829,446
	832,017	855,096

16 Operating lease commitments

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

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Within one year	1,737	1,004
In the second to fifth years inclusive	3,005	1,176
	4,742	2,180

17 Contingencies

	30th June 2005 HK\$'000	31st December 2004 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>)	95,601	172,736

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 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 Company 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.

18 Business combinations

In 2004, the Group entered into a sale and purchase agreement to acquire 100% of the share capital of Yuantong Marine Service Company Limited (“Yuantong”), which is engaged in the trading of spare parts and navigation equipment of vessels. The acquired business contributed revenues of HK\$178,517,000 and net profit of HK\$13,955,000 to the Group for the period from 1st January 2005 to 30th June 2005.

Details of net assets acquired and goodwill are as follows:

	<i>HK\$'000</i>
Purchase consideration	
– Cash paid	53,750
– Direct costs relating to the acquisition	1,540
	<hr/>
Total purchase consideration	55,290
Fair value of net assets acquired – (see below)	(46,310)
	<hr/>
Goodwill	8,980
	<hr/>

The goodwill is attributable to the expected future profitability of the acquired business.

The assets and liabilities arising from the acquisition are as follows:

	Fair value <i>HK\$'000</i>	Acquiree's carrying amount <i>HK\$'000</i>
Cash and cash equivalents	89,786	89,786
Property, plant and equipment (<i>note 10</i>)	4,687	4,687
Prepaid premium for land leases (<i>note 10</i>)	8,714	5,404
Investment in jointly controlled entities	1,015	1,015
Available-for-sale financial assets (<i>note 11</i>)	478	478
Inventories	2,941	2,941
Trade and other receivables	52,837	52,837
Amounts due from fellow subsidiaries	59,532	59,532
Trade and other payables	(84,810)	(84,810)
Amounts due to fellow subsidiaries	(86,309)	(86,309)
Taxation payables	(2,561)	(2,561)
	<hr/>	<hr/>
Net assets acquired	46,310	43,000
	<hr/>	<hr/>

19 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 period:

		Six months ended 30th June	
		2005	2004
		HK\$'000	HK\$'000
	<i>Note</i>		
Rental income received from:			
an intermediate holding company	<i>(i)</i>	893	893
fellow subsidiaries	<i>(i)</i>	10,710	12,565
Sales of coating products to:	<i>(ii)</i>		
fellow subsidiaries		6,024	10,860
associated companies of COSCO		237,563	196,046
Sales of spare parts and navigation equipments to fellow subsidiaries	<i>(iii)</i>	139,390	–
Commission income in relation to:			
provision of agency services to fellow subsidiaries	<i>(iv)</i>	35,212	28,044
provision of insurance brokerage services to fellow subsidiaries	<i>(v)</i>	14,960	–
Commission expenses in relation to sales of coating products paid to:	<i>(vi)</i>		
fellow subsidiaries		365	581
associated companies of COSCO		5,072	1,886
a minority shareholder		697	359
Purchases of raw materials from minority shareholders	<i>(vii)</i>	4,680	5,382
Technology usage fee paid to a minority shareholder	<i>(viii)</i>	3,573	2,763

19 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) Group Limited ("COSCO (Hong Kong)") or its subsidiaries as tenants, for the lease of certain properties of the Group at COSCO Tower at an average monthly rental of approximately HK\$28 (2004: HK\$28) per square foot.
- (ii) Sales of coating products to fellow subsidiaries and associated companies of COSCO were conducted at terms as set out in the agreements governing these transactions.
- (iii) Sales of spare parts and navigation equipments to fellow subsidiaries were conducted at terms as set out in the agreements governing these transactions.
- (iv) Certain subsidiaries of the Company act as agent of COSCO Group 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.
- (v) Commission income in relation to provision of insurance brokerage services to the fellow subsidiaries was calculated at terms as set out in the agreements governing these transactions.
- (vi) Commission paid was based on a certain percentage to sales amount in accordance with terms as set out in the agreements governing these transactions.
- (vii) Purchases of raw materials from minority shareholders were conducted at terms as set out in the agreements governing these transactions.
- (viii) 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) Key management compensation

	Six months ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	3,753	<u>2,575</u>

19 Related party transactions (cont'd)

(c) Period-end balances arising from sales/purchases of goods/services

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Receivables from related parties		
fellow subsidiaries	96,305	12,450
associated companies of COSCO	220,840	90,647
	<hr/>	<hr/>
Payables to related parties		
fellow subsidiaries	317,145	103,097
	(10,925)	–
	<hr/>	<hr/>
	306,220	103,097
	<hr/>	<hr/>

- (d) In 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.
- (e) In 2004, the Group entered into a conditional sale 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 at a consideration of HK\$53,750,000. The acquisition was completed in May 2005.
- (f) As at 30th June 2005, a long-term loan of RMB8,254,000 (approximately HK\$7,750,000) was advanced by a minority shareholder which is also a fellow subsidiary to finance a property development project of the Group. The loan is unsecured, interest free and has no fixed terms of repayment.
- (g) On 4th April 2005, a 51% owned subsidiary of the Company (“Borrower”) entered into an agreement with a fellow subsidiary (“Lender”) for a loan facility of RMB150,000,000 under which the Company together with the other shareholders of the Borrower agreed to provide the Lender with their guarantee on a joint and several basis. The loan is unsecured, interest bearing at 5.76% per annum and has fixed terms of repayment. The amount of loan outstanding as at 30th June 2005 is RMB111,000,000 (approximately HK\$104,221,000).

19 Related party transactions (cont'd)

- (h) On 30th May 2005, the Group entered into a conditional sale and purchase agreement with a wholly-owned subsidiary of COSCO (Hong Kong), pursuant to which the Group agreed to dispose of the entire issued share capital of, and loan to, Modern Capital Investment Limited ("Modern Capital"), a wholly-owned subsidiary of the Company, at a total consideration of HK\$1,402,000,000. Modern Capital indirectly owns the beneficial interests in eight floors of the COSCO Tower with a carrying value of HK\$1,402,000,000 and there was a bank loan associated with COSCO Tower of HK\$587,486,000 as at 30th June 2005. The property and the associated bank loan were transferred respectively to non-current assets classified as held for sale and liabilities directly associated with non-current assets classified as held for sale as at 30th June 2005. The disposal was completed in August 2005 and there was no material financial impact to the Group's results.
- (i) The Company is indirectly owned by COSCO, a state-owned enterprise established in the People's Republic of China ("PRC"). The Group also conducts business with other enterprises directly or indirectly owned or controlled by the PRC government. The transactions with other state-owned enterprises are conducted in the normal course of business and under normal commercial terms. The directors consider that the transactions with these related parties are not significant.

INTERIM DIVIDEND

The Board declared an interim dividend of HK1 cent (2004: nil) per share for the six months ended 30th June 2005 totalling HK\$14,174,000 (2004: nil).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 24th October 2005 to 26th October 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Abacus Share Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 21st October 2005. Dividend warrants will be dispatched on or about 2nd November 2005.

SHARE OPTIONS

The Company adopted a share option scheme (the "Share Option Scheme of the Company") on 17th May 2002 and the Scheme will expire on 16th May 2012. Details of the movements of the share options granted under the Share Option Scheme of the Company during the period are set out below:

	Exercise price HK\$	Number of share options					Outstanding as at 30th June 2005	Percentage of total issued share capital	Exercisable period	Note
		Outstanding as at 1st January 2005	Granted during the period	Exercised during the period	Lapsed during the period	Changed category during the period				
Directors										
Mr. Wei Jiafu	0.57	1,800,000	-	-	-	-	1,800,000	0.127%	23.12.2003 – 22.12.2008	(1), (3), (4)
	1.37	1,200,000	-	-	-	-	1,200,000	0.085%	29.12.2004 – 28.12.2014	(2), (3), (4)
Mr. Liu Guoyuan	0.57	1,800,000	-	-	-	-	1,800,000	0.127%	23.12.2003 – 22.12.2008	(1), (3), (4)
	1.37	1,200,000	-	-	-	-	1,200,000	0.085%	29.12.2004 – 28.12.2014	(2), (3), (4)
Mr. Li Jianhong	0.57	1,800,000	-	-	-	-	1,800,000	0.127%	23.12.2003 – 22.12.2008	(1), (3), (4)
	1.37	1,200,000	-	-	-	-	1,200,000	0.085%	29.12.2004 – 28.12.2014	(2), (3), (4)
Mr. Zhou Liancheng	0.57	1,800,000	-	-	-	-	1,800,000	0.127%	23.12.2003 – 22.12.2008	(1), (3), (4)
	1.37	1,200,000	-	-	-	-	1,200,000	0.085%	29.12.2004 – 28.12.2014	(2), (3), (4)

	Exercise Price HK\$	Number of share options					Outstanding as at 30th June 2005	Percentage of total issued share capital	Exercisable period	Note
		Outstanding as at 1st January 2005	Granted during the period	Exercised during the period	Lapsed during the period	Changed category during the period				
Mr. Liu Hanbo	0.57	1,800,000	-	-	-	-	1,800,000	0.127%	23.12.2003 – 22.12.2008	(1), (3), (4)
	1.37	1,200,000	-	-	-	-	1,200,000	0.085%	29.12.2004 – 28.12.2014	(2), (3), (4)
Mr. He Jiale	0.57	1,800,000	-	-	-	-	1,800,000	0.127%	23.12.2003 – 22.12.2008	(1), (3), (4)
	1.37	1,200,000	-	-	-	-	1,200,000	0.085%	29.12.2004 – 28.12.2014	(2), (3), (4)
Mr. Guo Huawei	1.37	800,000	-	-	-	-	800,000	0.056%	29.12.2004 – 28.12.2014	(2), (3), (4)
Mr. Chen Pisen	0.57	1,200,000	-	-	-	-	1,200,000	0.085%	23.12.2003 – 22.12.2008	(1), (3), (4)
	1.37	800,000	-	-	-	-	800,000	0.056%	29.12.2004 – 28.12.2014	(2), (3), (4)
Mr. Meng Qinghui	0.57	1,200,000	-	-	-	-	1,200,000	0.085%	23.12.2003 – 22.12.2008	(1), (3), (4)
	1.37	800,000	-	-	-	-	800,000	0.056%	29.12.2004 – 28.12.2014	(2), (3), (4)
Mr. Zhao Kaiji	0.57	1,200,000	-	-	-	-	1,200,000	0.085%	23.12.2003 – 22.12.2008	(1), (3), (4)
	1.37	800,000	-	-	-	-	800,000	0.056%	29.12.2004 – 28.12.2014	(2), (3), (4)
Mr. Lin Libing	0.57	1,200,000	-	-	-	-	1,200,000	0.085%	23.12.2003 – 22.12.2008	(1), (3), (4)
	1.37	800,000	-	-	-	-	800,000	0.056%	29.12.2004 – 28.12.2014	(2), (3), (4)
Ex-Director	0.57	1,200,000	-	-	-	(1,200,000)	-	-	23.12.2003 – 22.12.2008	(1), (3), (4)
Continuous contract employees of the Group	0.57	16,198,000	-	(1,600,000)	(98,000)	-	14,500,000	1.023%	23.12.2003 – 22.12.2008	(1), (3), (4)
	1.37	21,450,000	-	-	(200,000)	-	21,250,000	1.499%	29.12.2004 – 28.12.2014	(2), (3), (4)
	1.21	-	2,400,000	-	-	-	2,400,000	0.169%	06.06.2005 – 05.06.2015	(3), (4), (5)
Other participants	0.57	24,950,000	-	(1,400,000)	-	1,200,000	24,750,000	1.746%	23.12.2003 – 22.12.2008	(1), (3), (4)
	1.37	23,250,000	-	-	-	-	23,250,000	1.640%	29.12.2004 – 28.12.2014	(2), (3), (4)

Note:

- (1) Pursuant to the Share Option Scheme of the Company, these share options were granted on 26th November 2003 and are exercisable at HK\$0.57 per share at any time between 23rd December 2003 and 22nd December 2008.
- (2) These share options were granted on 2nd December 2004 pursuant to the Share Option Scheme of the Company and are exercisable at HK\$1.37 per share at any time between 29th December 2004 and 28th December 2014.
- (3) These share options represent personal interest held by the relevant participants as beneficial owner.
- (4) During the six months ended 30th June 2005, none of the share options of the above Directors were cancelled or lapsed.
- (5) These share options were granted on 10th May 2005 pursuant to the Share Option Scheme of the Company and are exercisable at HK\$1.21 per share at any time between 6th June 2005 and 5th June 2015.
- (6) During the six months ended 30th June 2005, the weighted average closing price of the Shares immediately before the dates on which the share options were exercised was HK\$1.29.
- (7) The share options entitled to be exercised will be recorded by the Company as staff cost in the income statement at the fair value of the relevant share options. Upon the exercise of the share options, the shares to be issued will be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares will be recorded by the Company in the share premium account. Share options which have lapsed or been cancelled will be deducted from the outstanding options. Save for the share options referred to in the above table which have lapsed during the six months ended 30th June 2005, no share option has lapsed or been cancelled during the six months ended 30th June 2005.
- (8) The Company adopted Black-Scholes Options Pricing Model (a common valuation methodology for share options) to calculate the value of share options. The fair value for each of the share options granted during the period was HK\$0.58 at the date of grant with assumptions as follows:
 - (i) interest rate of 10-year Exchange Fund Notes of 3.806% per annum as the risk-free interest rate;
 - (ii) expected life of 10 years; and
 - (iii) expected volatility of 50.2%, being the annualized volatility of the closing price of the share from 1st August 2004 to 30th November 2004.

The value of the share options is subject to a number of assumptions and with regard to the limitation of the model. Therefore the value may be subjective and difficult to determine.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th June 2005, the interests and short positions of the Directors and chief executives of the Company in the shares or underlying shares or the equity interest or debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)(the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director has taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

1. Long positions in shares of associated corporation

Name of director	Name of associated corporation	Number of shares held	Percentage of total issued share capital
Mr. Kwong Che Keung, Gordon	COSCO Pacific Limited ("COSCO Pacific")	250,000	0.012%
Mr. Zhou Liancheng	COSCO Corporation (Singapore) Limited ("COSCO SGP")	500,000	0.046%

Note :

The shares represent personal interest held by Mr. Kwong and Mr. Zhou as beneficial owners.

2. Long positions in underlying shares of equity derivatives of associated corporation

Director	Name of associated corporation	Exercise Price	Number of share options				Outstanding as at 30th June 2005	Percentage of total issued share capital	Exercisable Period	Note
			Outstanding as at 1st January 2005	Granted during the period	Exercised during the period	Lapsed during the period				
Mr. Wei Jiafu	COSCO Pacific	HK\$9.54	1,000,000	-	-	-	1,000,000	0.046%	30.10.2003-29.10.2013	(1),(3),(4)
	COSCO Pacific	HK\$13.75	1,000,000	-	-	-	1,000,000	0.046%	3.12.2004-2.12.2014	(2),(3),(4)
	COSCO SGP	SGD0.2	350,000	-	-	-	350,000	0.032%	12.08.2003-11.08.2007	(3),(4),(5)
	COSCO SGP	SGD0.2	350,000	-	-	-	350,000	0.032%	01.04.2004-31.03.2008	(3),(4),(6)
	COSCO SGP	SGD0.735	700,000	-	-	-	700,000	0.064%	24.05.2005-23.05.2009	(3),(4),(7)
	COSCO SGP	SGD1.614	-	450,000	-	-	450,000	0.041%	06.04.2006-05.04.2010	(3),(4),(8)
Mr. Liu Guoyuan	COSCO Pacific	HK\$9.54	100,000	-	(100,000)	-	-	-	28.10.2003-27.10.2013	(1),(3),(4)
	COSCO Pacific	HK\$13.75	1,000,000	-	-	-	1,000,000	0.046%	29.11.2004-28.11.2014	(2),(3),(4)
Mr. Li Jianhong	COSCO Pacific	HK\$9.54	800,000	-	-	-	800,000	0.036%	29.10.2003-28.10.2013	(1),(3),(4)
	COSCO Pacific	HK\$13.75	1,000,000	-	-	-	1,000,000	0.046%	2.12.2004-1.12.2014	(2),(3),(4)
	COSCO SGP	SGD0.2	200,000	-	-	-	200,000	0.018%	12.08.2003-11.08.2007	(3),(4),(5)
	COSCO SGP	SGD0.2	250,000	-	-	-	250,000	0.023%	01.04.2004-31.03.2008	(3),(4),(6)
	COSCO SGP	SGD0.735	500,000	-	-	-	500,000	0.046%	24.05.2005-23.05.2009	(3),(4),(7)
	COSCO SGP	SGD1.614	-	300,000	-	-	300,000	0.027%	06.04.2006-05.04.2010	(3),(4),(8)
Mr. Zhou Liancheng	COSCO Pacific	HK\$9.54	400,000	-	(206,000)	-	194,000	0.009%	29.10.2003-28.10.2013	(1),(3),(4)
	COSCO Pacific	HK\$13.75	1,000,000	-	-	-	1,000,000	0.046%	29.11.2004-28.11.2014	(2),(3),(4)
	COSCO SGP	SGD0.735	500,000	-	-	-	500,000	0.046%	24.05.2005-23.05.2009	(3),(4),(7)
	COSCO SGP	SGD1.614	-	300,000	-	-	300,000	0.027%	06.04.2006-05.04.2010	(3),(4),(8)
Mr. Liu Hanbo	COSCO Pacific	HK\$9.54	700,000	-	-	-	700,000	0.032%	6.11.2003-5.11.2013	(1),(3),(4)
	COSCO Pacific	HK\$13.75	800,000	-	-	-	800,000	0.036%	30.11.2004-29.11.2014	(2),(3),(4)

Director	Name of associated corporation	Exercise Price	Number of share options				Outstanding as at 30th June 2005	Percentage of total issued share capital	Exercisable Period	Note
			Outstanding as at 1st January 2005	Granted during the period	Exercised during the period	Lapsed during the period				
Mr. He Jiale	COSCO Pacific	HK\$9.54	76,000	-	(76,000)	-	0	0%	31.10.2003-30.10.2013	(1),(3),(4)
	COSCO Pacific	HK\$13.75	1,000,000	-	(500,000)	-	500,000	0.02%	30.11.2004-29.11.2014	(2),(3),(4)
Mr. Chen Pisen	COSCO Pacific	HK\$9.54	50,000	-	-	-	50,000	0.002%	29.10.2003-28.10.2013	(1),(3),(4)
	COSCO Pacific	HK\$13.75	600,000	-	-	-	600,000	0.027%	6.12.2004-5.12.2014	(2),(3),(4)
Mr. Meng Qinghui	COSCO Pacific	HK\$13.75	1,000,000	-	-	-	1,000,000	0.046%	29.11.2004-28.11.2014	(2),(3),(4)

Note:

- (1) Pursuant to the share option scheme of COSCO Pacific ("Share Option Scheme of COSCO Pacific"), an associated corporation of the Company, adopted on 23rd May 2003, these share options were granted during the period from 28th October 2003 to 6th November 2003 and are exercisable at HK\$9.54 per share for ten years from their respective date of grant of the share options.
- (2) These share options were granted pursuant to the Share Option Scheme of COSCO Pacific during the period from 29th November 2004 to 6th December 2004 and are exercisable at HK\$13.75 per share at any time within ten years from their respective date of grant of the share options.
- (3) These share options represent personal interest held by the relevant participants as beneficial owner.
- (4) For the six months ended 30th June 2005, none of the share options of the above Directors were cancelled or lapsed.
- (5) These share options were granted by COSCO SGP, an associated corporation of the Company, on 12th August 2002.
- (6) These share options were granted by COSCO SGP on 1st April 2003.
- (7) These share options were granted by COSCO SGP on 24th May 2004.
- (8) These share options were granted by COSCO SGP on 6th April 2005.

Save as disclosed above and in the section headed "Share Options" as at 30th June 2005, none of the Directors and the chief executives of the Company had any interest and short position in the shares, underlying shares or, the equity interest and debentures of the Company or any associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director has taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2005, the following persons and entities, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Number of shares/Percentage of total issued share capital					
	Long position		Short position		Lending pool	
		%		%		%
COSCO	829,360,511	58.51	–	–	–	–
COSCO Hong Kong	829,360,511	58.51	–	–	–	–
True Smart International Limited (“True Smart”)	829,360,511	58.51	–	–	–	–

Note: Since True Smart is a wholly owned subsidiary of COSCO Hong Kong which is in turn a wholly owned subsidiary of COSCO, the interests of True Smart is deemed to be the interests of COSCO Hong Kong and in turn the interests of COSCO Hong Kong are deemed to be the interests of COSCO under the SFO.

Save as disclosed above, as at 30th June 2005, the Company has not been notified of any person or entity had an interests or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

Under Rule 13.21 of the Listing Rules, the Company is required to disclose the following loan agreement which contain covenants requiring specific performance obligations of the controlling shareholder:

1. A HK\$700,970,000 secured term loan facility was granted by Bank of China (Hong Kong) Limited to the Company in August 1998 and amended on 9th June, 2001 and 20th October 2003 to finance the acquisition of the eight floors of COSCO Tower. The loan had been fully repaid on 21st July 2005 following the sale of 8 floors of COSCO Tower, 183 Queen’s Road Central, Hong Kong to Wealthocean Investments Limited, a wholly-owned subsidiary of COSCO Hong Kong. The loan was guaranteed unconditionally and irrevocably by COSCO Hong Kong which undertakes, amongst other conditions, that:
 - (a) it would procure that COSCO would maintain an equity or shareholding interest, either directly or indirectly, giving rise to more than 50% of the voting rights attached to the issued share capital of COSCO Hong Kong and would ensure that such equity or shareholding interest was not disposed of in any way by COSCO and remains free from any security interest (save for any of such existing thereon prior to the date of the guarantee); and

- (b) it would procure that the ultimate holding company will maintain an equity interest, either directly or indirectly, of not less than 35% in the Company and such equity or shareholding interest being the single largest equity or shareholding interest in the Company.
- 2. An unsecured loan and credit facility of US\$45,000,000 to finance the general working capital and corporate funding requirement of the Company was granted by China Merchants Bank, Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited, Shanghai Branch to the Company on 8th March 2004. The unsecured loan and credit facility will be repayable on or before 8th March 2009. The loan is guaranteed unconditionally and irrevocably by COSCO Hong Kong which undertakes, amongst other conditions, that:
 - (a) it shall directly or indirectly beneficially maintain an equity or shareholding interest of not less than 35% of the voting rights attached to the issued share capital of the Company, which shall maintain its listings on the Stock Exchange; and
 - (b) it shall be more than 50% beneficially owned by COSCO.
- 3. A revolving loan facility of up to HK\$150,000,000 to finance the general working capital requirements was granted by Wing Hang Bank, Limited to the Company on 12th September 2002 and amended on 26th August 2004 and 8th September 2005. The facility is available up to 26th August 2006. The loan is guaranteed unconditionally and irrevocably by COSCO Hong Kong which undertakes, amongst other conditions, that it will maintain an equity or shareholding interest, either directly or indirectly, giving rise to not less than 35% of the voting rights attached to the issued share capital of the Company such equity or shareholding interest being the single largest equity or shareholding interest in the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the six months ended 30th June 2005, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold the Company's shares.

CORPORATE GOVERNANCE

The Board believes that high standards, appropriate and rigorous corporate governance practices are essential for the Company to enhance its accountability and transparency, and achieve a balance of interests among the public and those of its stakeholders, inter alia, shareholders, customers, employees, creditors, and investment partners. In this connection, the corporate governance practices of the Company are published on its website so that stakeholders are aware of the standards which they can expect from the Company and keep the Company informed of these standards, and the manner in which the Company conducts itself in practice, meet with their expectations.

The Audit Committee consists of three independent non-executive directors. The Audit Committee is chaired by an independent non-executive director who is a certified public accountant. The Audit Committee reviews important accounting policies and supervises the Company's financial reporting process; monitors the performance of both the internal and external auditors; reviews and examines the effectiveness of the Company's financial reporting procedures and internal controls; ensures compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, and internal rules and procedures approved by the Board. The Audit Committee has discussed the internal controls and financial reporting matters with management and reviewed the condensed interim financial statements of the Group for the six months ended 30th June 2005.

The Company has adopted a code of conduct regarding securities transactions of directors and employees (the "Securities Code") no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. To ensure directors' dealing in the securities of the Company is conducted in accordance with the Securities Code, a committee (the "Committee") comprising the Chairman, the Vice-chairman, the Managing Director and Deputy Managing Directors was set up to deal with such transactions. Prior to any dealing in the securities of the Company, a director is required to notify the Chairman or the Vice-chairman in writing and obtain a written acknowledgement from the Committee. The Company has made specific enquiry of all directors regarding any non-compliance with the Securities Code during the six months ended 30th June 2005 and all directors confirm that they have fully complied with the required standard set out in the Securities Code during the period.

The Board acknowledges its ultimate responsibility for setting up a robust internal control system for the Group to safeguard the shareholders' investment and the assets of the Group. According to the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules (the "CG Code"), the Board will annually conduct review of the effectiveness of the Company's system of internal control.

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in full compliance with the code provisions set out in the CG Code during the six months ended 30th June 2005.

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