Notes to the Financial Statements

1. GENERAL INFORMATION

COSCO International Holdings Limited ("the Company") and its subsidiaries ("the Group") are principally engaged in the provision of ship trading and supplying services, property development and property investment, and building construction.

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of its principal place of business is 47/F, COSCO Tower, 183 Queen's Road Central, Hong Kong.

These consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively "HKFRS"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, available-for-sale financial assets, financial assets and financial liabilities at fair value through profit and loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

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
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures 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
HK-Int 3	Revenue – Pre-completion of Contracts for the Sale of Development Properties
HK-Int 4	Leases-Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

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

(i) The adoption of new/revised HKASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 18, 21, 23, 24, 27, 28, 31, 33, 34, 37, HK-Int 4 and HKAS-Int 15 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, HK-Int 4 and HKAS-Int 15 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.

(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 relating to the reclassification of properties leased to group companies (i.e. fellow subsidiaries) from property, plant and equipment to investment properties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

(v) The adoption of revised HKAS Int-21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

(vi) 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. The Group's new share-based payment policy is set out in note 2 (v)(ii).

(vii) The adoption of HKFRS 3 and HKASs 36 and 38 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 and assessed for an indication of impairment at each balance sheet date.

- 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 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.

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

(viii) The adoption of HKFRS 5 has resulted in the reclassification of an asset which the Group had the intention to sell as non-current assets classified as held for sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

(ix) The adoption of HK-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.

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

	Effect of adopting						
	HKFRS 2 HK$'000	HKAS 17 HK$'000	HKASs 32 and 39 HK$'000	HKFRS 3, HKASs 36 and 38 HK$'000	HKAS 40 HK$'000	HKFRS 5 HK$'000	Total HK$'000
a) Consolidated income statement							
For the year ended 31st December 2005							
Increase/(decrease) in administrative and other operating expenses	1,400	91	–	(3,842)	–	–	(2,351)

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 year ended 31st December 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

	Effect of adopting						
	HKFRS 2 HK$'000	HKAS 17 HK$'000	HKASs 32 and 39 HK$'000	HKFRS 3, HKASs 36 and 38 HK$'000	HKAS 40 HK$'000	HKFRS 5 HK$'000	Total HK$'000
b) Consolidated balance sheet							
At 31st December 2005							
Increase in intangible assets	–	–	–	8,315	–	–	8,315
Decrease in property, plant and equipment	–	(574,990)	–	–	(112,503)	–	(687,493)
Increase in investment properties	–	–	–	–	522,602	–	522,602
Increase/(decrease) in prepaid premium for land leases	–	574,990	–	–	(410,099)	(9,179)	155,712
Increase in available -for-sale financial assets	–	–	12,802	–	–	–	12,802
Decrease in completed properties held for sale	–	(91)	–	–	–	–	(91)
Increase in non-current assets classified as held for sale	–	–	–	–	–	9,179	9,179
Decrease in profit for the year	(1,400)	(91)	–	–	–	–	(1,491)
Increase in employee share-based compensation reserve	1,400	–	–	–	–	–	1,400
Increase in investment revaluation reserve	–	–	12,802	–	–	–	12,802
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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

No early adoption of the following new Standards, Interpretations and Amendments that have been issued but are not yet effective. The adoption of such Standards, Interpretations and Amendments will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 (Amendment) and HKFRS 4	Financial guarantee contracts (Amendments)[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HKFRS -Int 4	Determining whether an arrangement contains a lease[2]
HKFRS -Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HKFRS -Int 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[3]

1 Effective for annual reports beginning on or after 1st January 2007
2 Effective for annual reports beginning on or after 1st January 2006
3 Effective for annual reports beginning on or after 1st December 2005

(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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

All significant intercompany transactions, balances and unrealised gain on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see note 2(g)).

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 dividend received and receivable.

(e) Associated companies

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

(f) Joint ventures

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.

Investments in jointly controlled entities are accounted for by the equity method of accounting. 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 on acquisition.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

In the Company's balance sheet, the investment in a jointly controlled entity is stated at cost less provision for impairment losses. The result of a jointly controlled entity is accounted for by the Company on the basis of dividends received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the separable net assets of the subsidiaries, associated companies and jointly controlled entities at the date of acquisition.

After initial recognition, goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(h) Properties

(i) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Investment property is measured initially at cost, including related transaction cost. After initial recognition, investment properties are carried at fair value.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

(ii) 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 2(w)(i)(1).

(iii)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 2(w)(i)(2).

(iv) Prepaid premium for land leases

Prepaid premium for land leases are up-front payments to acquire long-term interests in lessee-occupied properties. The premiums are stated at cost and are amortised on a straight line basis over the lease period to the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using straight line method to allocate cost less their residual values over their estimated useful lives as follows:

Buildings	20 – 50 years
Machinery	5 – 10 years
Equipment and motor vehicles	3 – 5 years
Leasehold improvements	3 – 5 years
Furniture and fixtures	3 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal of a property, plant and equipment 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.

(j) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(k) Inventories

Inventories, comprise stock and work in progress, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and are not intended for trading. They are included in current assets, except for those with maturity greater than 12 months after the balance sheet date in which case they are classified as non-current assets.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in the investment revaluation reserve. Upon disposal, the difference between net sale proceeds and the carrying value, and accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Investments (Continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(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 2(w)(ii).

(n) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Payment made under 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) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment. A provision for impairment of trade and other receivable is established when there is objective evidence that the Group will not be able to collect all amounts due to it according to the original terms of receivables. The amount of write-down is based on the difference between the asset's carrying amount and the present value of estimated future cash flows. The amount of the provision is recognised in the income statement.

(p) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with bank and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits with banks with maturity less than three months from the date of placement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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 income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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 income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint controlled entities, 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) Foreign currency translation

(i) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Foreign currency translation (Continued)

(iii)Group companies

Translation differences on non-monetary items are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity. On consolidation, the results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(u) Borrowing costs

Borrowings are recognised initially at fair value and subsequently stated at amortised cost. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

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) Employee benefits

(i) Pension and retirement benefits

Following the adoption of the Mandatory Provident Fund Scheme ("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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Employee benefits (Continued)

(i) Pension and retirement benefits (Continued)

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.

(ii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(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 basis.

(i) Sale of properties

(1) Properties under development for sale

Refer to note 2(b)(ix), the Group has continued to use the stage of completion method to recognise revenue from the sale of properties under development entered into before 1st January 2005. 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.

In respect of property sales entered into on or after 1st January 2005, revenue is recognised upon completion of development.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue recognition (Continued)

(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 coating products

Revenue from the sales of coating 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) Dividend income

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

(x) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(y) Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holders.

3. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include trade and other receivables, trade and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Currency risk

The Group is subject to foreign exchange risk arising from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

A majority of the Group's transactions, balances and investments are denominated in Hong Kong dollars, Renminbi and US dollars. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(b) Price risk

The Group is exposed to equity securities price risk. To manage this exposure, the management of the Group maintains a portfolio of investments with different risk profiles.

(c) Credit risk

The Group is exposed to credit risk in relation to its financial assets. To manage this exposure, the management of the Group has predetermined credit limits and other credit approval procedures. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group has no significant concentrations of credit risk, with exposure spread over a number of counterparties and customers. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed credit facilities. The Company aims to maintain flexibility in funding by keeping committed credit lines available.

(e) Fair value interest rate risk

The Group's fair value interest rate risk relates to fixed-rate borrowings (see note 32 for details of these borrowings). With the current level of debt which is low, the Group considers the exposure is minimal but will explore ways to reduce the exposure should new borrowings be required to support the Group's operations.

3. FINANCIAL RISK MANAGEMENT (Continued)

(f) Fair value estimation

The fair value of financial instruments traded in active markets (such as shares of publicly listed companies) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the closing price at year end date.

The fair value of financial instruments that are not traded in an active market is determined by using discounted cash flow valuation techniques.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December 2005, the carrying amount of goodwill was HK$79,616,000. Details of the recoverable amount calculation are disclosed in note 15.

(b) Estimate of fair value of investment properties

In making its judgement, the Group considers information from a variety of sources including:

(i) Current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.

(ii) Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) Discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

(c) Determination of fair value of shared-based compensation

The Group uses the Black-Scholes valuation model to determine the fair value of share options issued during the year. Under this model, the value of the share options is subject to a number of assumptions such as risk-free interest rate, expected life of the options and expected volatility based on annualised volatility of the closing price of the share. Therefore the value may be subjective and would change should any of the assumptions change.

(d) Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31st December 2005 was HK$60,030,000. The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful life of three to fifty years, and after taking into account of their estimated residual value, using the straight-line method. The estimated useful life reflects the directors' best estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

(e) Allowances for inventory

The management of the Group reviews the ageing analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

(f) Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the creditworthiness and the past collection history of each customer.

5. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the provision of ship trading and supplying services, property development and property investment, and building construction. Turnover and other income recognised during the year are as follows:

	2005 HK$'000	2004 HK$'000
Turnover		
Sales of coating products	**902,621**	893,742
Sales of spare parts and navigation equipment	**350,023**	–
Ship trading and insurance brokerage commission income	**92,320**	73,837
Sale of properties	**121,889**	375,345
Building construction	**21,491**	306,814
Rental income	**19,724**	32,186
Building management fee income	**2,608**	2,971
Income from other investment in a joint venture	**–**	3,479
	1,510,676	1,688,374
Other income		
Interest income	**18,436**	2,679
	1,529,112	1,691,053

Primary reporting format – business segments

The Group is organised into three 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 equipment for vessels
	–	provision of insurance brokerage services
Property development and property investment	–	development of properties and holding of properties for rental purpose
Building construction	–	construction of buildings

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

There were no transactions between business segments during both year 2005 and 2004.

5. TURNOVER AND SEGMENT INFORMATION (Continued)

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
	– trading of spare parts and navigation equipment 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 during both year 2005 and 2004.

Primary reporting format – business segments

	Ship trading and supplying services 2005 HK$'000	Property development and property investment 2005 HK$'000	Building construction 2005 HK$'000	Other operations 2005 HK$'000	Group 2005 HK$'000
Segment turnover	1,344,964	141,613	21,491	2,608	1,510,676
Segment results	127,157	344,672	46,670	(5,035)	513,464
Unallocated corporate expenses, net of income					(6,787)
Operating profit					506,677
Finance costs					(20,524)
Share of profits of jointly controlled entities	5,661	59,227	–	–	64,888
Profit before income tax					551,041
Income tax expense					(25,398)
Profit for the year					525,643

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	Ship trading and supplying services 2005 HK$'000	Property development and property investment 2005 HK$'000	Building construction 2005 HK$'000	Other operations 2005 HK$'000	Group 2005 HK$'000
Segment assets	1,087,635	440,242	43,052	12,187	1,583,116
Associated companies	–	–	5,919	–	5,919
Jointly controlled entities	49,484	255,792	–	–	305,276
Available-for-sale financial assets	–	–	–	86,806	86,806
Unallocated assets					730,570
Total assets					2,711,687
Segment liabilities	655,993	149,299	109,199	357	914,848
Current income tax liabilities					7,038
Unallocated liabilities					2,764
Total liabilities					924,650
The segment results have been arrived at after charging/ (crediting) the following:					
Depreciation and amortisation (net)	7,756	2,498	221	240	10,715
Fair value gains on investment properties and write-back of impairment loss on prepaid premium for land leases	–	(303,765)	–	–	(303,765)
Write-back of provision for claims and foreseeable losses on certain construction projects	–	–	(53,199)	–	(53,199)
Capital expenditure	24,123	294	–	183	24,600

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	Ship trading supplying services 2004 HK$'000	Property and development and property investment 2004 HK$'000	Building construction 2004 HK$'000	Other operations 2004 HK$'000	Group 2004 HK$'000
Segment turnover	967,579	407,531	306,814	6,450	1,688,374
Segment results	124,174	258,508	(19,146)	(28,990)	334,546
Unallocated corporate expenses, net of income					(18,505)
Operating profit					316,041
Finance costs					(15,610)
Share of profit of a jointly controlled entity	–	12,888	–	–	12,888
Profit before income tax					313,319
Income tax expense					(50,403)
Profit for the year					262,916

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	Ship trading and supplying services 2004 HK$'000	Property development and property investment 2004 HK$'000	Building construction 2004 HK$'000	Other operations 2004 HK$'000	Group 2004 HK$'000
Segment assets	734,873	1,650,805	110,597	7,139	2,503,414
Associated companies	–	–	8,365	–	8,365
Jointly controlled entity	–	210,454	–	–	210,454
Other investment in a joint venture and investment securities	–	–	–	73,526	73,526
Unallocated assets					192,023
Total assets					2,987,782
Segment liabilities	427,938	748,117	217,686	105	1,393,846
Current income tax liabilities					19,101
Unallocated liabilities					268,621
Total liabilities					1,681,568
The segment results have been arrived at after charging/(crediting) the following:					
Depreciation and amortisation (net)	8,024	17,021	1,429	3,479	29,953
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 charges in respect of litigation on a construction project	–	–	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	91,050	1,151	246	–	92,447

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Secondary reporting format – geographical segments

	Turnover 2005 HK$'000	Segment results 2005 HK$'000	Total assets 2005 HK$'000	Capital expenditure 2005 HK$'000
Hong Kong	**493,642**	**450,411**	**322,460**	**14,870**
China Mainland	**1,017,034**	**63,053**	**1,260,656**	**9,730**
	1,510,676	**513,464**	**1,583,116**	**24,600**
Unallocated corporate expenses, net of income		**(6,787)**		
Operating profit		**506,677**		
Associated companies			**5,919**	
Jointly controlled entities			**305,276**	
Available-for-sale financial assets			**86,806**	
Unallocated assets			**730,570**	
Total assets			**2,711,687**	

	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	36,462
China Mainland	1,253,242	149,237	1,046,443	55,985
	1,688,374	334,546	2,503,414	92,447
Unallocated corporate expenses, net of income		(18,505)		
Operating profit		316,041		
Associated companies			8,365	
Jointly controlled entity			210,454	
Other investment in a joint venture and investment securities			73,526	
Unallocated assets			192,023	
Total assets			2,987,782	

6. OPERATING PROFIT

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

	2005 HK$'000	2004 HK$'000
Net rental income (note 6(a))	**16,195**	27,491
Depreciation (note 6(b))	**(8,513)**	(10,952)
Operating lease rental expense (note 6(c))	**(5,883)**	(1,620)
Net exchange (loss)/gain	**(2,333)**	149
Auditors' remuneration	**(1,686)**	(1,533)
Amortisation of goodwill – net (note 15)	**–**	(2,495)
Amortisation of leasehold land (note 17)	**(2,202)**	(13,027)
Amortisation of the cost of other investment in a joint venture	**–**	(3,479)
Employee benefit expenses, including directors' emoluments (note 6(d))	**(104,787)**	(72,511)
Cost of inventories sold	**(1,017,661)**	(679,311)
Cost of completed properties sold	**(22,500)**	(13,382)
Other gains – net (note 7)	**358,892**	116,935

(a) Net rental income

	2005 HK$'000	2004 HK$'000
Gross rental income from		
investment properties	**18,994**	5,638
other properties	**730**	26,548
	19,724	32,186
Outgoings	**(3,529)**	(4,695)
	16,195	27,491

(b) Depreciation

	2005 HK$'000	2004 HK$'000
Charge for the year	**8,939**	11,999
Capitalised in construction contracts in progress	**–**	(233)
Capitalised in inventories	**(426)**	(814)
	8,513	10,952

6. OPERATING PROFIT (Continued)

(c) Operating lease rental expense

	2005 HK$'000	2004 HK$'000
Land and buildings	**5,883**	1,620
Plant and machinery	**–**	211
	5,883	1,831
Capitalised in construction contracts in progress	**–**	(211)
	5,883	1,620

(d) Employee benefit expenses, including directors' emoluments

	2005 HK$'000	2004 HK$'000
Wages and salaries	**98,089**	92,499
Employee share option benefits	**1,400**	–
Pension costs – defined contribution scheme (note)	**8,367**	3,425
Employee benefit expenses, including directors' emoluments (note 13)	**107,856**	95,924
Capitalised in construction contracts in progress	**–**	(17,355)
Capitalised in inventories	**(3,069)**	(6,058)
	104,787	72,511

Note:

There were no forfeited contributions (2004: Nil) utilised during the year and no further forfeited contributions were available at year end to reduce future contributions.

There were no contributions (2004: Nil) payable to the MPF Scheme at year-end.

7. OTHER GAINS – NET

	2005 HK$'000	2004 HK$'000
Fair value gains on investment properties	**257,046**	–
Fair value gains on financial assets at fair value through profit or loss	**23**	–
Net realised and unrealised gains on short-term investments	**–**	84
Write-back of impairment loss on prepaid premium for land leases	**46,719**	–
Write-back of deficit on revaluation of investment properties	**–**	155,966
Provision for diminution in value of investment securities	**–**	(9,677)
Loss on disposal of subsidiaries	**(16,825)**	–
Write-back of provision for claims and foreseeable losses on certain construction projects	**53,199**	452
Legal charges in respect of litigation on a construction project	**–**	(7,011)
Provision for completed properties held for sale	**–**	(13,646)
Impairment loss on other investment in a joint venture	**–**	(23,431)
Dividend income from available-for-sale financial assets/investment securities	**5,838**	3,882
Recovery of legal cost in respect of litigation on a construction project	**4,500**	–
Gain on disposal/write-off of plant and equipment, net	**4,848**	317
Others	**3,544**	9,999
	358,892	116,935

8. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank and other loans wholly repayable within five years	**23,585**	16,206
Other borrowing costs	**2,108**	2,993
	25,693	19,199
Capitalised in construction contracts in progress	**–**	(644)
Capitalised in properties under development for sale	**(5,169)**	(2,945)
	20,524	15,610

9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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 the China Mainland for the year at the rates of taxation prevailing in the China Mainland.

	2005 HK$'000	2004 HK$'000
Current income tax		
– Hong Kong profits tax	**11,962**	5,947
– China Mainland taxation	**13,351**	44,456
Deferred income tax (note 33)	**85**	–
Tax expense	**25,398**	50,403

The tax on the Group's profit before income tax 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:

	2005 HK$'000	2004 HK$'000
Profit before income tax (excluding share of profits of jointly controlled entities)	**486,153**	300,431
Calculated at a tax rate of 17.5% (2004: 17.5%)	**85,077**	52,575
Effect of different tax rate in the China Mainland	**233**	8,091
Income not subject to tax	**(59,791)**	(26,449)
Expenses not deductible for tax purposes	**4,304**	13,950
Tax losses not recognised	**10,217**	6,366
Utilisation of previously unrecognised tax losses	**(14,642)**	(4,130)
Tax expense	**25,398**	50,403

10. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$409,782,000 (2004: HK$143,391,000).

11. DIVIDENDS

The dividends paid during the year ended 31st December 2005 were HK$49,593,000. No dividends were paid during the year ended 31st December 2004.

	2005 HK$'000	2004 HK$'000
Interim dividend paid of HK$0.01 (2004: Nil) per ordinary share	**14,182**	–
Proposed special dividend of HK$0.014 (2004: Nil) per ordinary share	**19,855**	–
Proposed final dividend of HK$0.021 (2004: HK$0.025) per ordinary share	**29,783**	35,361
	63,820	35,361

At the board meeting held on 30th March 2006, the directors proposed a final dividend of HK$0.021 per ordinary share and a special dividend of HK$0.014 per ordinary share for the year ended 31st December 2005. These proposed dividends are not reflected as dividend payable in the financial statements until it has been approved at the annual general meeting, but will be reflected as an appropriation of retained profit for the year ending 31st December 2006.

12. EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to the equity holders of the Company of HK$496,463,000 (2004: HK$219,158,000) and the weighted average number of 1,416,855,538 (2004: 1,410,080,624) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31st December 2005 is based on the weighted average number of 1,445,160,990 (2004: 1,440,135,287) shares in issue after adjusting for the potential dilutive effect in respect of outstanding share options.

13. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

(a) Directors' emoluments

Details of the emoluments paid and payable to the directors of the Company for the year ended 31st December 2005 are as follows:

Name of directors	Fees HK$'000	Salaries and other emoluments HK$'000	Total HK$'000
Mr. Liu Guoyuan	–	3,750	3,750
Mr. Liu Hanbo	–	2,400	2,400
Mr. Zhao Kaiji (resigned on 25th January 2006)	–	660	660
Mr. Lin Libing	–	1,080	1,080
Mr. Chan Cheong Foon, Andrew	185	–	185
Mr. Kwong Che Keung, Gordon	185	–	185
Mr. Tsui Yiu Wa, Alec	185	–	185
	555	7,890	8,445

Details of the emoluments paid and payable to the directors of the Company for the year ended 31st December 2004 are as follows:

Name of directors	Fees HK$'000	Salaries and other emoluments HK$'000	Total HK$'000
Mr. Liu Hanbo	–	2,400	2,400
Mr. Zhao Kaiji	–	1,080	1,080
Mr. Lin Libing	–	1,080	1,080
Mr. Chan Cheong Foon, Andrew	175	–	175
Mr. Kwong Che Keung, Gordon	100	–	100
Mr. Tsui Yiu Wa, Alec	170	–	170
Mr. Alexander Reid Hamilton (retired on 3rd June 2004)	72	–	72
	517	4,560	5,077

As at 31st December 2005, the directors of the Company had outstanding share options to subscribe for 26,800,000 shares of the Company (refer to note 30 for details).

13. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

(a) Directors' emoluments (Continued)

The directors were granted share options by COSCO Pacific Limited ("COSCO Pacific"), a fellow subsidiary, details of which are as follows:

			Number of share options			
Category	Note	Exercise price HK$	Outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Outstanding as at 31st December 2005
Directors	i	9.54	3,126,000	–	(1,282,000)	1,844,000
	ii	13.75	7,400,000	–	(700,000)	6,700,000
			10,526,000	–	(1,982,000)	8,544,000

The directors were granted share options by COSCO Corporation (Singapore) Limited ("COSCO SGP"), a fellow subsidiary, details of which are as follows:

			Number of share options			
Category	Note	Exercise price S$	Outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Outstanding as at 31st December 2005
Directors	iii	0.2	550,000	–	(550,000)	–
	iv	0.2	600,000	–	(600,000)	–
	v	0.735	1,700,000	–	(1,700,000)	–
	vi	1.614	–	1,050,000	–	1,050,000
			2,850,000	1,050,000	(2,850,000)	1,050,000

The directors were granted share appreciation rights by China COSCO Holdings Company Limited ("China COSCO"), a fellow subsidiary, details of which are as follows:

			Number of units of share appreciation rights			
Category	Note	Exercise price HK$	Outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Outstanding as at 31st December 2005
Directors	vii	3.195	–	2,175,000	–	2,175,000

13. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

(a) Directors' emoluments (Continued)

Note:

(i) The share options were granted by COSCO Pacific during the period from 28th October 2003 to 6th November 2003 and are exercisable at any time within ten years from their respective date on which an offer is accepted or deemed to be accepted.

(ii) The share options were granted by COSCO Pacific during the period from 25th November 2004 to 16th December 2004 and are exercisable at any time within ten years from their respective date of acceptance of the share options.

(iii) The share options were granted by COSCO SGP on 12th August 2002 and are exercisable at any time from 12th August 2003 to 11th August 2007.

(iv) The share options were granted by COSCO SGP on 1st April 2003 and are exercisable at any time from 1st April 2004 to 31st March 2008.

(v) The share options were granted by COSCO SGP on 24th May 2004 and are exercisable at any time from 24th May 2005 to 23rd May 2009.

(vi) The share options were granted by COSCO SGP on 6th April 2005 and are exercisable at any time from 6th April 2006 to 5th April 2010.

(vii) Pursuant to the share appreciation rights plan ("Share Appreciation Rights") of China COSCO implemented on 16th December 2005, these Share Appreciation Rights are exercisable during the period from 16th December 2007 to 15th December 2015. The Share Appreciation Rights were granted in units with each unit representing one H share of China COSCO. These Share Appreciation Rights represent personal interest held by the relevant participants as beneficial owners. The beneficial owners of these Share Appreciation Rights are entitled to the premium of the price of the issued shares of China COSCO over the exercise price of the share appreciation rights.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2004: two) directors whose emoluments are reflected in the above analysis. The emoluments paid and payable to the remaining two (2004: three) individuals during the year are as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries, share options, other allowances and benefit-in-kind	**2,531**	4,690
Pension costs – defined contribution scheme	**21**	36
	2,552	4,726

The emoluments of these individuals fell within the following bands:

	Number of individuals	
Emolument bands	2005	2004
HK$1,000,001 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**1**	2
	2	3

14. INVESTMENT PROPERTIES

	Group	
	2005 HK$'000	2004 HK$'000
At 1st January	**425,100**	269,134
Adjustment on the adoption of HKAS 40	**522,602**	–
Exchange difference	**(10)**	–
Fair value gains	**257,046**	–
Write-back of deficit on revaluation of investment properties	**–**	155,966
Disposal of subsidiaries (note 34(b))	**(1,172,124)**	–
At 31st December	**32,614**	425,100

The Group's interests in investment properties are analysed as follows:

	2005 HK$'000	2004 HK$'000
In Hong Kong, held on leases of between 10 and 50 years	**–**	398,000
Outside Hong Kong, held on leases of between 10 and 50 years	**4,914**	–
Outside Hong Kong, held on leases of over 50 years	**27,700**	27,100
	32,614	425,100

The investment properties were revalued at 31st December 2005 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 were pledged as securities to a bank in respect of certain banking facilities granted to the Group.

15. INTANGIBLE ASSETS

	Goodwill		Negative goodwill		Total	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Cost						
At 1st January	**76,620**	40,675	**(8,753)**	–	**67,867**	40,675
Opening adjustment on the adoption of HKFRS 3	**–**	–	**8,753**	–	**8,753**	–
Acquisition of subsidiaries (note 37)	**8,980**	35,945	**–**	(8,753)	**8,980**	27,192
At 31st December	**85,600**	76,620	**–**	(8,753)	**85,600**	67,867
Accumulated amortisation						
At 1st January	**5,984**	3,051	**(438)**	–	**5,546**	3,051
Opening adjustment on the adoption of HKFRS 3	**–**	–	**438**	–	**438**	–
Amortisation charge (note 6)	**–**	2,933	**–**	(438)	**–**	2,495
At 31st December	**5,984**	5,984	**–**	(438)	**5,984**	5,546
Net book value						
At 31st December	**79,616**	70,636	**–**	(8,315)	**79,616**	62,321

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units under ship trading and supplying services business segment as follows:

	2005 HK$'000	2004 HK$'000
Agency services in respect of trading of vessels, marine equipment, bareboat charter business ("Ship trade business")	**35,590**	35,590
Trading of spare parts and navigation equipment for vessels ("Supply business")	**8,980**	–
Provision of insurance brokerage services ("Insurance business")	**35,046**	35,046
	79,616	70,636

15. INTANGIBLE ASSETS (Continued)

The recoverable amounts of the above business units under ship trading and supplying services are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below.

Key assumptions used for value-in-use calculations

	Ship trade business	Supply business	Insurance business
Growth rate	2.5%	2.5%	5.8%
Discount rate	9.8%	9.8%	9.8%

Management determined the budgeted margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are after-tax and reflect specific risks relating to the relevant segments.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Machinery, equipment and motor vehicles HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Total HK$'000
At 1st January 2004					
Cost	177,035	51,980	11,576	7,637	248,228
Accumulated depreciation and impairment	(21,492)	(48,005)	(11,290)	(6,980)	(87,767)
Net book amount	155,543	3,975	286	657	160,461
Year ended 31st December 2004					
Opening net book amount	155,543	3,975	286	657	160,461
Acquisition of subsidiaries	34,313	12,669	–	3,753	50,735
Additions	72	3,268	81	2,346	5,767
Depreciation	(5,872)	(4,939)	(81)	(1,107)	(11,999)
Disposals/write-off	–	(339)	–	(478)	(817)
Closing net book amount	184,056	14,634	286	5,171	204,147
At 31st December 2004					
Cost	226,185	79,548	12,019	17,133	334,885
Accumulated depreciation and impairment	(42,129)	(64,914)	(11,733)	(11,962)	(130,738)
Net book amount	184,056	14,634	286	5,171	204,147
Year ended 31st December 2005					
Opening net book amount	**184,056**	**14,634**	**286**	**5,171**	**204,147**
Adjustment on the adoption of HKAS 40	**(112,503)**	**–**	**–**	**–**	**(112,503)**
Acquisition of a subsidiary (note 37)	**3,686**	**455**	**366**	**180**	**4,687**
Additions	**2,092**	**7,291**	**6**	**1,544**	**10,933**
Exchange differences	**745**	**300**	**(8)**	**81**	**1,118**
Depreciation	**(2,933)**	**(4,266)**	**(208)**	**(1,532)**	**(8,939)**
Disposal of subsidiaries (note 34(b))	**(38,987)**	**–**	**–**	**–**	**(38,987)**
Disposals/write-off	**–**	**(345)**	**–**	**(81)**	**(426)**
Closing net book amount	**36,156**	**18,069**	**442**	**5,363**	**60,030**
At 31st December 2005					
Cost	**56,070**	**55,038**	**10,761**	**18,413**	**140,282**
Accumulated depreciation and impairment	**(19,914)**	**(36,969)**	**(10,319)**	**(13,050)**	**(80,252)**
Net book amount	**36,156**	**18,069**	**442**	**5,363**	**60,030**

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Machinery, equipment and motor vehicles HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Total HK$'000
At 1st January 2004				
Cost	3,198	7,344	1,128	11,670
Accumulated depreciation and impairment	(2,812)	(7,235)	(1,114)	(11,161)
Net book amount	386	109	14	509
Year ended 31st December 2004				
Opening net book amount	386	109	14	509
Additions	202	–	–	202
Depreciation	(173)	(30)	(5)	(208)
Disposals/write-off	(12)	–	–	(12)
Closing net book amount	403	79	9	491
At 31st December 2004				
Cost	2,639	7,344	1,124	11,107
Accumulated depreciation and impairment	(2,236)	(7,265)	(1,115)	(10,616)
Net book amount	403	79	9	491
Year ended 31st December 2005				
Opening net book amount	**403**	**79**	**9**	**491**
Additions	**183**	**–**	**–**	**183**
Depreciation	**(190)**	**(45)**	**(5)**	**(240)**
Closing net book amount	**396**	**34**	**4**	**434**
At 31st December 2005				
Cost	**2,822**	**7,344**	**1,124**	**11,290**
Accumulated depreciation and impairment	**(2,426)**	**(7,310)**	**(1,120)**	**(10,856)**
Net book amount	**396**	**34**	**4**	**434**

17. PREPAID PREMIUM FOR LAND LEASES

	Group	
	2005 **HK$'000**	**2004** **HK$'000**
At 1st January	**568,478**	578,374
Adjustment on the adoption of HKAS 40	**(410,099)**	–
Acquisition of a subsidiary (note 37)	**8,714**	3,131
Write-back of impairment loss	**46,719**	–
Amortisation	**(2,202)**	(13,027)
Disposal of subsidiaries (note 34(b))	**(190,889)**	–
Transfer to non-current assets classified as held for sale (note)	**(9,179)**	–
At 31st December	**11,542**	568,478

The Group's interests in prepaid premium for land leases at their net book value are analysed as follows:

	2005 **HK$'000**	**2004** **HK$'000**
In Hong Kong, held on leases of between 10 and 50 years	**2,204**	565,347
In Hong Kong, held on leases of over 50 years	**6,389**	–
Outside Hong Kong, held on leases of less than 10 years	**2,949**	3,131
	11,542	568,478

Note:

On 18th January 2006, the Group entered into a sale and purchase agreement to dispose of the land lease held by one of the Group's subsidiaries. The disposal of the land lease will be completed in May 2006. Accordingly, the land lease is transferred to non-current assets classified as held for sale as at 31st December 2005.

18. SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2005 HK$'000	Restated 2004 HK$'000
Unlisted investments, at cost	**111,027**	111,027

(b) Amounts due from/to subsidiaries

	Company	
	2005 HK$'000	Restated 2004 HK$'000
Amounts due from subsidiaries	**2,870,580**	3,619,834
Provision for impairment loss	**(1,172,860)**	(1,551,905)
	1,697,720	2,067,929
Amounts due to subsidiaries	**993,917**	341,103

The amounts due from/to subsidiaries are interest-free and repayable on demand. 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 2005 are set out in note 39 to the financial statements.

19. ASSOCIATED COMPANIES

	Group	
	2005 HK$'000	Restated 2004 HK$'000
At 1st January	**8,365**	8,365
Capital distribution by an associated company	**(2,446)**	–
At 31st December	**5,919**	8,365
Share of net assets of associated companies	**5,919**	8,365

20. JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
At 1st January	**210,454**	206,900	**–**	–
Acquisition of a subsidiary (note 37)	**1,015**	–	**–**	–
Acquisition of a jointly controlled entity	**42,808**	–	**42,808**	–
Share of results of jointly controlled entities				
– profit before income tax	**106,554**	30,835	**–**	–
– income tax expense	**(41,666)**	(17,947)	**–**	–
	64,888	12,888	**–**	–
Dividends received	**(13,889)**	(9,334)	**–**	–
At 31st December	**305,276**	210,454	**42,808**	–

As at 31st December 2005, the Group has contingent liabilities of HK$24,039,000 (2004: Nil) in respect of guarantee for bank facility provided to a jointly controlled entity.

As at 31st December 2005, total commitments in respect of capital contribution to a jointly controlled entity was HK$19,385,000 (2004: Nil).

Particulars of the principal jointly controlled entities of the Group at 31st December 2005 and 2004 are set out as follows:

Name	Place of incorporation and operation	Principal activities	% of interest held
2004			
COSCO Real Estate Development Co Ltd	The People's Republic of China ("PRC"), equity joint venture	Property development in the China Mainland	20
2005			
Sino Ocean Real Estate Development Co., Ltd. (formerly known as COSCO Real Estate Development Co Ltd)	PRC, equity joint venture	Property development in the China Mainland	20
Jotun COSCO Marine Coatings (HK) Limited	Hong Kong	Manufacturing and trading of coating products	50

20. JOINTLY CONTROLLED ENTITIES (Continued)

Share of financial results and positions of the jointly controlled entities for the year ended and as at 31st December are as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Assets		
Non-current assets	**202,321**	99,070
Current assets	**1,587,961**	1,100,169
	1,790,282	1,199,239
Liabilities		
Non-current liabilities	**(609,453)**	(296,890)
Current liabilities	**(875,553)**	(691,895)
	(1,485,006)	(988,785)
Net assets	**305,276**	210,454
Income	**634,099**	381,809
Expenses	**(569,211)**	(368,921)
Share of profits less losses	**64,888**	12,888

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS/OTHER INVESTMENT IN A JOINT VENTURE AND INVESTMENT SECURITIES

	Group
	2005 HK$'000
At 1st January (note)	**73,526**
Opening adjustment on the adoption of HKAS 39	**11,012**
Acquisition of a subsidiary (note 37)	**478**
Fair value gains (note 31)	**1,790**
At 31st December	**86,806**

There were no impairment provisions on available-for-sale financial assets as at 31st December 2005.

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

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Listed equity securities in Hong Kong	**41,366**	36,298	**–**	–
Unlisted securities	**15,505**	7,648	**15,027**	7,648
Available-for-sale financial assets/ other investment in a joint venture	**29,935**	29,580	**–**	–
	86,806	73,526	**15,027**	7,648

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

22. COMPLETED PROPERTIES HELD FOR SALE

As at 31st December 2005, the carrying amount of completed properties held for sale that are carried at net realisable value amounted to HK$29,071,000 (2004: HK$50,878,000).

23. PROPERTIES UNDER DEVELOPMENT FOR SALE

	Group 2005 HK$'000	Group 2004 HK$'000
Cost incurred plus attributable profits	**267,343**	283,586
Sales instalments received	**(122,814)**	(88,952)
	144,529	194,634

As at 31st December 2005, none of the properties under development was pledged (2004: properties under development of HK$194,634,000 were pledged as securities to a bank in respect of certain banking facilities granted to the Group).

24. INVENTORIES

	Group 2005 HK$'000	Group 2004 HK$'000
Raw materials	**67,098**	67,236
Work in progress	**4,009**	3,398
Finished goods	**92,837**	145,844
	163,944	216,478

During the year ended 31st December 2005, the cost of inventories recognised as expenses and included in cost of inventories sold amounted to HK$1,017,661,000 (2004: HK$679,311,000).

25. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Gross amounts due from customers for contract work (note 26)	**2,817**	6,803	**–**	–
Trade receivables				
– fellow subsidiaries	**55,806**	12,450	**–**	–
– associated companies of COSCO	**88,151**	90,647	**–**	–
– jointly controlled entities	**1,601**	–	**–**	–
– third parties	**247,989**	212,570	**–**	–
Retention receivables	**24,286**	50,625	**–**	–
Deposits, prepayments and other receivables	**29,152**	35,027	**3,436**	3,746
Amounts due from fellow subsidiaries	**6,039**	2,082	**33**	33
	455,841	410,204	**3,469**	3,779

For sales of coating products, the majority of 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 the terms of the relevant contracts governing the transactions. Other than those with credit terms, all invoices billed are payable upon presentation.

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

	Group	
	2005 HK$'000	2004 HK$'000
Current – 90 days	**218,825**	183,067
91 – 180 days	**102,144**	82,703
Over 180 days	**72,578**	49,897
	393,547	315,667

26. CONSTRUCTION CONTRACTS IN PROGRESS

	Group 2005 HK$'000	Group 2004 HK$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	**5,560,345**	6,384,415
Progress billings received and receivable	**(5,615,426)**	(6,494,820)
	(55,081)	(110,405)
Representing:		
Gross amounts due from customers for contract work included in trade and other receivables (note 25)	**2,817**	6,803
Gross amounts due to customers for contract work included in trade and other payables (note 29)	**(57,898)**	(117,208)
	(55,081)	(110,405)

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT-TERM INVESTMENTS

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Market value of Hong Kong listed equity securities	**350**	327	**–**	–

28. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Cash at banks and in hand	**345,941**	262,156	**1,217**	1,744
Short-term bank deposits	**928,144**	300,714	**554,465**	60,837
	1,274,085	562,870	**555,682**	62,581

The effective interest rate on short-term bank deposits was 2.01% (2004: 0.48%); these deposits have an average maturity of 30 days.

Cash and cash equivalents include the following for the purposes of cash flow statement:

	Group	
	2005 HK$'000	2004 HK$'000
Cash and cash equivalents	**1,274,085**	562,870
Less: Cash investments with maturity more than three months from date of placement	**(4,465)**	(52,126)
	1,269,620	510,744

29. TRADE AND OTHER PAYABLES

	Group		Company	
	2005 HK$'000	**2004 HK$'000**	**2005 HK$'000**	**2004 HK$'000**
Gross amounts due to customers for contract work (note 26)	**57,898**	117,208	**–**	–
Trade payables				
– fellow subsidiaries	**2,698**	–	**–**	–
– associated companies of COSCO	**81**	–	**–**	–
– jointly controlled entities	**27**	–	**–**	–
– third parties	**229,051**	265,291	**–**	–
Retention payables	**28,224**	65,101	**–**	–
Accrued liabilities and other payables	**414,380**	209,868	**5,906**	3,158
Amounts due to fellow subsidiaries	**60,768**	4,920	**1,112**	–
Amount due to ultimate holding company	**111**	872	**–**	–
Amounts due to jointly controlled entities	**186**	–	**–**	–
Amount due to a minority shareholder	**3,415**	4,993	**–**	–
Amounts due to associated companies	**5,706**	5,706	**–**	–
Dividend payable to a minority shareholder	**8,322**	–	**–**	–
	810,867	673,959	**7,018**	3,158

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

	Group	
	2005 HK$'000	**2004 HK$'000**
Current – 90 days	**172,621**	221,623
91 – 180 days	**19,714**	28,362
Over 180 days	**39,522**	15,306
	231,857	265,291

As at 31st December 2004, there was a liquidated damage cost estimation of HK$46,080,000 included in gross amounts due to customers for contract work, which was fully written back during the year.

30. SHARE CAPITAL

	2005 Number of shares	2005 HK$'000	2004 Number of shares	2004 HK$'000
Authorised:				
Shares of HK$0.10 each	**3,000,000,000**	**300,000**	3,000,000,000	300,000
Issued and fully paid:				
At 1st January	**1,414,441,291**	**141,444**	1,394,389,291	139,439
Issue of shares upon exercise of share options (note)	**3,800,000**	**380**	20,052,000	2,005
At 31st December	**1,418,241,291**	**141,824**	1,414,441,291	141,444

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

			Number of share options						Vested %	
Category	Note	Exercise price HK$	Outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Changed category during the year	Lapsed during the year	Outstanding as at 31st December 2005	as at 31st December 2005	as at 31st December 2004
Directors	i	0.57	15,600,000	–	–	–	–	15,600,000	100	100
	ii	1.37	11,200,000	–	–	–	–	11,200,000	100	100
Ex-director	i	0.57	1,200,000	–	–	(1,200,000)	–	–	N/A	100
Continuous contract employees	i	0.57	16,198,000	–	(2,400,000)	–	–	13,798,000	100	100
	ii	1.37	21,450,000	–	–	–	(2,750,000)	18,700,000	100	100
	iii	1.21	–	2,400,000	–	–	–	2,400,000	100	N/A
Others	i	0.57	24,950,000	–	(1,400,000)	1,200,000	–	24,750,000	100	100
	ii	1.37	23,250,000	–	–	–	–	23,250,000	100	100
			113,848,000	2,400,000	(3,800,000)	–	(2,750,000)	109,698,000		

Note:

(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 share options are exercisable at any time from 23rd December 2003 to 22nd December 2008. A total of 3,800,000 share options (2004: 20,052,000 share options) were exercised during the year.

(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 share options are exercisable at any time from 29th December 2004 to 28th December 2014. No share options were exercised during the year. However, 2,750,000 share options were lapsed during the year.

(iii) 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 year.

30. SHARE CAPITAL (Continued)

During the year, an aggregate of 3,800,000 (2004: 20,052,000) share options were exercised and a summary of which, analysed by exercise month, is set out below:

	Number of share options exercised at exercise price of HK$0.57 per share	
	2005	**2004**
Exercise month		
January	**500,000**	5,430,000
February	**–**	7,520,000
March	**500,000**	1,200,000
April	**1,000,000**	1,400,000
May	**500,000**	602,000
June	**500,000**	100,000
July	**–**	100,000
August	**–**	–
September	**800,000**	200,000
October	**–**	1,800,000
November	**–**	1,600,000
December	**–**	100,000
	3,800,000	20,052,000

Exercise of the 3,800,000 (2004: 20,052,000) share options during the year yielded proceeds as follows:

	2005 HK$'000	**2004 HK$'000**
Ordinary share capital – at par	**380**	2,005
Share premium	**1,786**	9,425
Proceeds	**2,166**	11,430

The weighted average closing price of the Company's shares on the dates when the share options were exercised was HK$1.26 (2004: HK$1.31).

30. SHARE CAPITAL (Continued)

The fair value of the share options granted during the year determined using the Black-Scholes valuation model was HK$0.58. The significant inputs into the model and assumptions were as follows:

- interest rate of 10-year Exchange Fund Notes of 3.806% per annum as the risk-free interest rate;
- expected life of 10 years; and
- expected volatility of 50.2%, being the annualised volatility of the closing price of the share from 1st August 2004 to 30th November 2004.

31. RESERVES

Group

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Investment revaluation reserve HK$'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 (c))	(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 (a))	–	–	–	–	–	–	219,158	219,158
At 31st December 2004	9,275	–	69,087	676,218	(2,741)	–	224,036	975,875
Representing:								
Reserves	9,275	–	69,087	676,218	(2,741)	–	188,675	940,514
2004 proposed final dividend	–	–	–	–	–	–	35,361	35,361
	9,275	–	69,087	676,218	(2,741)	–	224,036	975,875

31. RESERVES (Continued)

Group (Continued)

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January 2005, as previously reported	**9,275**	**–**	**69,087**	**676,218**	**(2,741)**	**–**	**224,036**	**975,875**
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, adjusted	**9,275**	**–**	**69,087**	**676,218**	**(2,741)**	**11,012**	**232,351**	**995,202**
Transfer of reserves (note (b))	–	–	18,715	–	–	–	(18,715)	–
Capital reserve realised on disposal of subsidiaries	–	–	(22,618)	–	–	–	22,618	–
Issue of shares on exercise of share options	1,786	–	–	–	–	–	–	1,786
Exchange differences	–	–	–	–	4,312	–	–	4,312
Fair value gains on available-for-sale financial assets (note 21)	–	–	–	–	–	1,790	–	1,790
Employee share option benefits (note 6(d))	–	1,400	–	–	–	–	–	1,400
Profit for the year (note (a))	–	–	–	–	–	–	496,463	496,463
Dividends paid	–	–	–	–	–	–	(49,593)	(49,593)
Balance at 31st December 2005	**11,061**	**1,400**	**65,184**	**676,218**	**1,571**	**12,802**	**683,124**	**1,451,360**
Representing:								
Reserves	11,061	1,400	65,184	676,218	1,571	12,802	633,486	1,401,722
2005 proposed final and special dividends	–	–	–	–	–	–	49,638	49,638
	11,061	1,400	65,184	676,218	1,571	12,802	683,124	1,451,360

31. RESERVES (Continued)

Company

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Contributed surplus (note (d)) HK$'000	Investment revaluation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1st January 2004	2,356,553	–	83,770	–	(1,680,335)	759,988
Reduction of share premium (note (c))	(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	–	–	–	–	143,391	143,391
At 31st December 2004	**9,275**	**–**	**759,988**	**–**	**143,391**	**912,654**
Representing:						
Reserves	9,275	–	759,988	–	108,030	877,293
2004 proposed final dividend	–	–	–	–	35,361	35,361
	9,275	–	759,988	–	143,391	912,654

31. RESERVES (Continued)

Company

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Contributed surplus (note (d)) HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January 2005, as previously reported	**9,275**	**–**	**759,988**	**–**	**143,391**	**912,654**
Opening adjustment on the adoption of HKAS 39	–	–	–	7,259	–	7,259
Balance at 1st January 2005, adjusted	9,275	–	759,988	7,259	143,391	919,913
Employee share option benefits	–	1,400	–	–	–	1,400
Issue of shares upon exercise of share options	1,786	–	–	–	–	1,786
Fair value gains on available-for-sale financial assets	–	–	–	120	–	120
Profit for the year	–	–	–	–	409,782	409,782
Dividends paid	–	–	–	–	(49,593)	(49,593)
Balance at 31st December 2005	**11,061**	**1,400**	**759,988**	**7,379**	**503,580**	**1,283,408**
Representing:						
Reserves	11,061	1,400	759,988	7,379	453,942	1,233,770
2005 proposed final and special dividends	–	–	–	–	49,638	49,638
	11,061	1,400	759,988	7,379	503,580	1,283,408

Note:

(a) Profit for the year of HK$496,463,000 (2004: HK$219,158,000) includes a net profit of HK$64,888,000 (2004: HK$12,888,000) attributable to jointly controlled entities.

(b) Included in the capital reserve is an amount of HK$31,119,000 (2004: HK$12,404,000) which represents the Group's share of the statutory reserves of certain PRC subsidiaries.

(c) In 2004, part of the amount standing to the credit of the share premium account of the Company was offset against 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.

(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.

32. BORROWINGS

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Non-current				
Bank loans (note (a))				
– secured	**–**	598,600	**–**	598,600
– unsecured	**–**	243,671	**–**	243,671
	–	842,271	**–**	842,271
Loan from a minority shareholder (note (b))	**–**	23,618	**–**	–
Loan from a fellow subsidiary (note (c))	**96,090**	–	**–**	–
	96,090	865,889	**–**	842,271
Current				
Loan from a fellow subsidiary (note (c))	**10,570**	–	**–**	–
Bank loans – unsecured (note (a))	**–**	12,825	**–**	12,825
Short term bank loans				
– secured	**–**	79,076	**–**	–
– unsecured	**–**	30,718	**–**	–
	10,570	122,619	**–**	12,825
Total borrowings	**106,660**	988,508	**–**	855,096
The above loans are repayable as follows:				
Within one year	**10,570**	122,619	**–**	12,825
In the second year	**96,090**	36,443	**–**	12,825
In the third to fifth year	**–**	829,446	**–**	829,446
	106,660	988,508	**–**	855,096

Note:

(a) 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 as at 31st December 2004 were guaranteed by COSCO (Hong Kong) Group Limited ("COSCO Hong Kong"). Such loans were fully repaid during the year.

(b) The loan from minority shareholder of a subsidiary was unsecured, interest free and had no fixed terms of repayment. Such loan was fully repaid during the year.

(c) The loans from a fellow subsidiary are unsecured and interest bearing at either 5.58% or 5.76% per annum, the non-current portion of which is repayable before 5th April 2007.

32. BORROWINGS (Continued)

(d) The effective interest rates of borrowings during the year ended 31st December 2005 and 2004 are as follows:

	2005	2004
Renminbi	**4.94%**	4.55%
Hong Kong dollars	**1.63%**	1.30%
United States dollars	**4.07%**	2.5%

33. DEFERRED INCOME TAX LIABILITIES

Deferred income tax liabilities are calculated in full on temporary differences under liability method using a principal tax rate of 17.5% (2004: 17.5%).

The deferred income tax liabilities arise from accelerated depreciation allowances and its movements are as follows:

	Group	
	2005 HK$'000	2004 HK$'000
At 1st January	**–**	–
Deferred income tax charged to income statement (note 9)	**85**	–
At 31st December	**85**	–

Deferred income tax assets are recognised for tax losses to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group has unrecognised tax losses of HK$607,328,000 (2004: HK$751,725,000) to carry forward against future taxable income.

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to cash generated from operations

	2005 HK$'000	2004 HK$'000
Operating profit	**506,677**	316,041
Impairment loss on other investment in a joint venture	**–**	23,431
Provision for diminution in value of investment securities	**–**	9,677
Provision for completed properties held for sale	**–**	13,646
Depreciation of property, plant and equipment, net of amount capitalised	**8,513**	10,952
Amortisation of leasehold land	**2,202**	13,027
Amortisation of cost of other investment in a joint venture	**–**	3,479
Amortisation of goodwill (net)	**–**	2,495
Write-back of impairment loss on prepaid premium for land leases	**(46,719)**	–
Fair value gains on investment properties	**(257,046)**	–
Write-back of deficit on revaluation of investment properties	**–**	(155,966)
Loss on disposal of subsidiaries	**16,825**	–
Write-back of provision for claims and foreseeable losses on certain construction projects	**(53,199)**	(452)
Gain on disposal/write-off of plant and equipment	**(4,848)**	(317)
Interest income	**(18,436)**	(2,679)
Employee share option benefits	**1,400**	–
Dividend income	**(5,838)**	(3,882)
Recovery of legal cost in respect of litigation on a construction project	**(4,500)**	–
Income from other investment in a joint venture	**–**	(3,479)
Operating profit before working capital changes	**145,031**	225,973
Decrease/(increase) in properties under development for sale	**50,105**	(92,008)
(Increase)/decrease in completed properties held for sale	**(31,078)**	12,474
Decrease/(increase) in inventories	**55,901**	(1,316)
Decrease in trade receivables, retention receivables, deposits, prepayments and other receivables	**5,585**	48,453
Decrease in amounts due from fellow subsidiaries	**55,575**	15,534
Increase in financial assets at fair value through profit or loss/short-term investments	**(23)**	(84)
Increase in trade payables, accrued liabilities and other payables	**50,292**	9,708
Increase/(decrease) in construction contracts in progress	**1,499**	(66,977)
(Decrease)/increase in amounts due to fellow subsidiaries	**(30,356)**	1,358
Decrease in amounts due to the ultimate holding company	**(747)**	(15,304)
Increase in amounts due to joint controlled entities	**186**	–
(Decrease)/increase in amount due to a minority shareholder	**(1,578)**	4,993
Increase in dividend payable to a minority shareholder	**8,322**	–
Cash generated from operations	**308,714**	142,804

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries

	2005 HK$'000
Net assets disposed	
Investment properties (note 14)	1,172,124
Leasehold buildings (note 16)	38,987
Prepaid premium for land leases (note 17)	190,889
Trade and other receivables	6,086
Cash and cash equivalents	15,383
Trade and other payables	(4,525)
Amounts due to fellow subsidiaries	(105)
Amounts due to holding companies	(14)
	1,418,825
Loss on disposal (note 7)	(16,825)
Total consideration	1,402,000
Satisfied by:	
Cash	1,402,000

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2005 HK$'000
Cash consideration	1,402,000
Cash and cash equivalents disposed	(15,383)
Net cash from the disposal of subsidiaries	1,386,617

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Analysis of changes in financing during the year

	Share capital and share premium HK$'000	Bank and other loans HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January 2004	2,495,992	935,120	87,259	3,518,371
Reduction of share premium	(2,356,553)	–	–	(2,356,553)
Net cash inflow/(outflow) from financing activities	11,280	6,770	(12,677)	5,373
Acquisition of subsidiaries	–	46,618	70,555	117,173
Minority's share of profit for the year	–	–	43,758	43,758
At 31st December 2004	150,719	988,508	188,895	1,328,122
At 1st January 2005	150,719	988,508	188,895	1,328,122
Net cash inflow/(outflow) from financing activities	2,166	(881,848)	(27,759)	(907,441)
Minority's share of profit for the year	–	–	29,180	29,180
Exchange differences	–	–	3,537	3,537
At 31st December 2005	152,885	106,660	193,853	453,398

35. COMMITMENTS

(a) Capital commitments

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Approved but not contracted for property, plant and equipment	**–**	–	**–**	–
Commitments in respect of capital contribution to a joint venture (note 38(h))	**28,602**	–	**28,602**	–
	28,602	–	**28,602**	–

35. COMMITMENTS (Continued)

(b) 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	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Within one year	**10,255**	1,004	**6,384**	2,458
In the second to fifth years inclusive	**11,580**	1,176	**6,384**	2,253
Over five years	**3,724**	–	**3,724**	–
	25,559	2,180	**16,492**	4,711

(c) Future minimum rental payments receivable

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

	Group	
	2005 HK$'000	2004 HK$'000
In the first year	**1,532**	36,957
In the second to third years inclusive	**163**	29,986
	1,695	66,943

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

36. CONTINGENCIES

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Performance bonds in respect of performance and completion of construction contracts	**–**	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 a property development project (note)	**44,211**	172,736	**–**	–
Guarantee for banking facility provided to a company which is held by the Group as available-for-sale financial asset	**5,189**	–	**5,189**	–

Note:

The Group has provided guarantees to the mortgage loans granted by certain banks to buyers of property development projects in the 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 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.

37. BUSINESS COMBINATION

In 2005, the Group completed the acquisition of 100% interest in Yuantong Marine Service Co. Limited, which is engaged in the trading of spare parts and navigation equipment for vessels. The acquired business contributed revenues of HK$350,023,000 and net profit of HK$24,917,000 to the Group for the year ended 31st December 2005.

Details of net assets acquired and goodwill are as follows:

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

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

37. BUSINESS COMBINATION (Continued)

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

	Fair value HK$'000	Acquiree's carrying amount HK$'000
Cash and cash equivalents	89,786	89,786
Property, plant and equipment (note 16)	4,687	4,687
Prepaid premium for land leases (note 17)	8,714	5,404
Jointly controlled entities (note 20)	1,015	1,015
Available-for-sale financial assets (note 21)	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)
Current income tax liabilities	(2,561)	(2,561)
Net assets acquired	46,310	43,000

Analysis of net cash flow in respect of the acquisition of a subsidiary:

Cash consideration	55,290
Cash and cash equivalents acquired	(89,786)
Net cash generated from the acquisition of a subsidiary	(34,496)

38. RELATED PARTY TRANSACTIONS

The Group is controlled by COSCO Hong Kong, a company incorporated in Hong Kong, which owns 58.48% of the Company's shares as at 31st December 2005. The remaining 41.52% of the Company's shares is widely held. The parent of COSCO Hong Kong is COSCO, a state-owned enterprise established in the PRC.

COSCO itself is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with HKAS 24, other state-owned enterprises and their subsidiaries (other than COSCO group companies), directly or indirectly controlled by the PRC government, are also defined as related parties of the Group. On that basis, related parties include COSCO and its subsidiaries, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government and other entities and corporations in which the Company is able to control or exercise significant influence.

For the purpose of related party transaction disclosures, the Group has identified, except where the amounts have been disclosed elsewhere in the accounts, to the extent practicable, its customers, suppliers and banks which are state-owned enterprises. The directors believe that meaningful information in respect of related party transactions has been adequately disclosed.

The following is a summary of the significant related party transactions carried out in the normal course of the Group's business and at terms no less favourable than those charged/being charged to/from other third party customers/suppliers of the Group.

(a) Sales of goods and provision of services to fellow subsidiaries, associated companies of COSCO and other related entities

		Group	
	Note	2005 HK$'000	2004 HK$'000
Rental income received from:			
– an intermediate holding company	(i)	**893**	1,786
– fellow subsidiaries	(i)	**11,839**	26,632
Sales of coating products to:	(ii)		
– fellow subsidiaries		**16,799**	17,856
– associated companies of COSCO		**340,754**	350,466
– state-owned enterprises		**6,422**	7,346
Sales of spare parts and navigation equipment to:	(iii)		
– fellow subsidiaries		**266,080**	–
– state-owned enterprises		**18,829**	–
Commission income in relation to:			
– provision of agency services to fellow subsidiaries	(iv)	**52,680**	50,856
– provision of insurance brokerage services to fellow subsidiaries	(v)	**31,209**	15,064
– provision of insurance brokerage services to state-owned enterprises	(v)	**1,136**	696
Interest income received from state-owned banks		**13,751**	1,491

38. RELATED PARTY TRANSACTIONS (Continued)

Note:

(i) On 12th January 2004, 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 an average monthly rental of approximately HK$28 (2004: HK$28) per square foot.

(ii) Sales of coating products to fellow subsidiaries, associated companies of COSCO and state-owned enterprises were conducted at terms as set out in the agreements governing these transactions.

(iii) Sales of spare parts and navigation equipment to fellow subsidiaries and state-owned enterprises were conducted at terms as set out in the agreements governing these transactions.

(iv) Certain subsidiaries of the Company acted as agent of COSCO 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.

(v) Commission income in relation to the provision of insurance brokerage services to fellow subsidiaries and state-owned enterprises were calculated at terms as set out in the agreements governing these transactions.

(b) Purchases of goods and services from fellow subsidiaries, associated companies of COSCO and other related entities

		Group	
	Note	2005 HK$'000	2004 HK$'000
Rental expenses paid to immediate holding company	(i)	**(3,301)**	–
Commission expenses in relation to sales of coating products paid to:	(ii)		
– fellow subsidiaries		**(1,882)**	(1,193)
– associated companies of COSCO		**(7,062)**	(6,906)
– a minority shareholder		**(931)**	(1,704)
Purchases of raw materials from minority shareholders of a subsidiary	(iii)	**(5,642)**	(6,800)
Purchases of construction materials from a fellow subsidiary of COSCO	(iv)	**(23,746)**	–
Commission expenses paid to an associated company of COSCO in relation to purchases of construction materials		**(935)**	–
Technology usage fee paid to a minority shareholder of a subsidiary	(v)	**(5,402)**	(5,780)
Interest expenses paid to state-owned banks		**(11,789)**	(4,908)
Interest expense paid to a fellow subsidiary	(vi)	**(4,436)**	–

38. RELATED PARTY TRANSACTIONS (Continued)

Note:

(i) In August 2005, the Group leased certain properties from a wholly-owned subsidiary of COSCO Hong Kong at the average monthly rental of HK$697,825 for an initial term of 3 years. On 5th January 2006, the Group entered into a supplementary tenancy agreement with a wholly-owned company of COSCO Hong Kong to amend the terms to exclude one of the units, resulting in revised monthly rental of HK$567,325.

(ii) Commission paid was based on a certain percentage of sales amount in accordance with terms as set out in the agreements governing these transactions.

(iii) Purchases of raw material from minority shareholders of a subsidiary were conducted at terms as set out in the agreements governing these transactions.

(iv) On 31st March 2005, a 51% owned subsidiary of the Company ("Purchaser") entered into a purchase agreement with a fellow subsidiary ("Vendor") for the purchase of construction materials.

(v) Technology usage fee paid to a minority shareholder of a subsidiary was made based on a certain percentage of the net sales amount in accordance with terms as set out in the agreements governing these transactions.

(vi) 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 repayable before 5th April 2007. The amount of loan outstanding as at 31st December 2005 is RMB111,000,000 (approximately HK$106,660,000).

(c) Balances with associates and state-owned enterprises arising from sales and purchases of goods and services

	2005 HK$'000	2004 HK$'000
Receivables from associated companies of COSCO	**88,151**	90,647
Receivables from state-owned enterprises	**3,026**	1,483
Payables to state-owned enterprises	**114**	–

38. RELATED PARTY TRANSACTIONS (Continued)

(d) Balances with state-owned banks and a fellow subsidiary

	2005 HK$'000	2004 HK$'000
Bank deposits with state-owned banks	**991,768**	449,849
Loans from state-owned banks	**–**	770,947
Loan from a fellow subsidiary	**106,660**	–

(e) 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. (renamed as Jotun COSCO Marine Coatings (Guangzhou) Limited) 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$16,633,000). The acquisition was completed in February 2005.

(f) 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 Marine Service Co. Limited at a consideration of HK$53,750,000. The acquisition was completed in May 2005.

(g) 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. The disposal was completed in August 2005.

(h) On 28th November 2005, the Group entered into an agreement with a minority shareholder of a subsidiary for the setting up and operation of a joint venture in Zhuhai, PRC for a term of 20 years. The new joint venture will be owned as to 64.71% by the Company. The total investment amount and registered capital is US$5,700,000 (approximately HK$44,200,000).

(i) On 28th November 2005, the Group entered into an agreement with Shenzhen Ocean Shipping Co., Ltd., a non wholly-owned subsidiary of COSCO for the setting up and operation of a joint venture in Shenzhen, PRC for a term of 20 years. The new joint venture will be owned as to 55% by the Group. The total investment amount and registered capital are RMB8,000,000 and RMB5,000,000 (approximately HK$7,687,000 and HK$4,804,000) respectively.

39. PRINCIPAL SUBSIDIARIES

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
Operated in Hong Kong				
Capital Properties Limited #	Hong Kong	2 Ordinary shares of HK$1 each	100	Provision of nominee services
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	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
COSCO Project Management Limited	Hong Kong	2 Ordinary shares of HK$1 each	100	Investment holding

39. PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
Operated in Hong Kong (Continued)				
Cosmart Company Limited	Hong Kong	2 Ordinary shares of HK$1 each	60	Provision of agency services on ship trading business
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
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
Yuantong Marine Service Co. Limited	Hong Kong	43,000,000 Ordinary shares of HK$1 each	100	Trading of spare parts and navigation equipment for vessels

39. PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
Operated in British Virgin Islands				
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 (BVI) 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	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
Mega Precise Profit 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

39. PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
Operated in the PRC				
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
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 coating products
Shenyang COSCO Yihe Property Development Co., Ltd	PRC, equity joint venture	RMB100,000,000	51	Property development
Shenzhen COSCO Insurance Brokers Limited	PRC, equity joint venture	RMB5,000,000	55	Provision of professional services of insurance brokerages
Tianjin COSCO Kansai Paint & Chemicals Co., Ltd #	PRC, equity joint venture	US$5,000,000	63.07	Manufacturing and trading of coating products
Xiang Li Yuan (Shanghai) Property Management Co., Ltd	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

40. 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.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 30th March 2006.