

COSCO International Holdings Limited

The board of directors (the "Board") of COSCO International Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 1999:

**OPERATING RESULTS**

|   | <i>Notes</i> | Six months<br>ended<br>30.6.1999<br><i>HK\$'000</i> | Six months<br>ended<br>30.6.1998<br><i>HK\$'000</i> |
|---|--------------|---|---|
| TURNOVER                                    |              | <u>749,115</u>                                      | <u>428,777</u>                                      |
| LOSS FROM<br>ORDINARY ACTIVITIES            | <i>1</i>     | (19,283)  | (75,290)  |
| Share of results of<br>associated companies |              | <u>808</u>  | <u>809</u>  |
| LOSS BEFORE TAXATION                        |              | (18,475)  | (74,481)  |
| Taxation                                    | <i>2</i>     | <u>(98)</u>   | <u>(367)</u>  |
| LOSS AFTER TAXATION                         |              | (18,573)  | (74,848)  |
| Minority interests                          |              | <u>(1,263)</u>                                      | <u>(2,138)</u>                                      |
| LOSS ATTRIBUTABLE<br>TO SHAREHOLDERS        |              | <u>(19,836)</u>                                     | <u>(76,986)</u>                                     |
| LOSS PER SHARE                              | <i>3</i>     | <u>(1.4 cents)</u>                                  | <u>(6.3 cents)</u>                                  |

# COSCO International Holdings Limited

Notes:

## 1. LOSS FROM ORDINARY ACTIVITIES

Loss from ordinary activities is stated after charging the following:

|  | Six months<br>ended<br>30.6.1999<br>HK\$'000 | Six months<br>ended<br>30.6.1998<br>HK\$'000 |
|--|--|--|
| Provision for potential claims on certain construction contracts                                     | (28,000)                                     | (15,000)                                     |
| Provision for claim on a completed construction contract   | (10,000)                                     | —  |
| Provision for diminution in value of long-term investment  | —  | (35,000)                                     |
| Provision for diminution in value of a property development project engaged by an associated company | —  | (37,000)                                     |
|  | <u>—</u>                                     | <u>(37,000)</u>                              |

## 2. TAXATION

No Hong Kong profits tax has been provided as the Group has no assessable profit for the period (1998: 16%). Taxation on profits assessable overseas was calculated at the rates of taxation prevailing in the countries in which the Group operates.

|                          | Six months<br>ended<br>30.6.1999<br>HK\$'000 | Six months<br>ended<br>30.6.1998<br>HK\$'000 |
|--------------------------|--|--|
| Company and subsidiaries |  |  |
| Current                  |  |  |
| Hong Kong                | —  | (367)  |
| Overseas                 | (98)   | —  |
|                          | <u>(98)</u>                                  | <u>(367)</u>                                 |

## 3. LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to shareholders for the period of HK\$19,836,000 (1998: HK\$76,986,000) and 1,370,434,591 shares (1998: weighted average number of 1,229,385,081 shares) in issue during the period.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 1999 (1998: Nil).

## **BUSINESS REVIEW**

In response to the Asian financial turmoil, the Group has taken measures to consolidate its business base and to strengthen its overall operational and internal controls. Such measures have successfully reduced the overall operating costs to a targeted level and improved the cost effectiveness. In return for shareholders' continuous support, it was approved in the Special General Meeting on 28th June 1999 to issue bonus warrants exercisable at a premium above the current share price of the Company, which also demonstrates the Board's confidence in the Group's future.

- **Infrastructure Business**

The 2 x 200 MW coal-fired Henan Power Plant's operation and financial control systems have been closely monitored by the Group since acquisition. The power plant continues to be a major source of the Group's recurrent income.

The infrastructure sector will continue to be the engine for the economic growth of the People's Republic of China (the "PRC") in the 21st century. The Group will continue to consider infrastructure investments such as toll roads and water treatment plants to improve its asset base and income base.

- **Property Business**

One of the Group's core assets, the eight floors of the COSCO Tower continue to generate stable rental income and maintain an occupancy rate of over 99%.

Construction works for the Fragrant Garden, a residential project in Shanghai, the PRC jointly developed by the Group and the Shanghai Siping Development and Operation (Group) Co. Ltd., a subsidiary of the Shanghai Hongkou District Government, commenced in June 1999 and are progressing on schedule. The development which comprises about 1,300 residential units and 300 car parking spaces together with recreational facilities will be developed in two phases. Completion of Phase I is targeted at the end of 2000. The Group is optimistic about the development and is planning a presale of Fragrant Garden units before the end of 1999.

Development plans for the Shatin Town Lot No.217 at Mei Wo Circuit, which the Group acquired in the first land auction organised by the Government of the Hong Kong Special Administrative Region ("HK SAR") in 1997 have been finalised. The lot will be developed into two detached houses. Shun Shing Construction and Engineering Co. Ltd., a wholly owned construction subsidiary of the Group, has been awarded the construction contract. Construction works commenced in August 1999 and are expected to be completed by the second half of 2000.

## COSCO International Holdings Limited

- **Construction Business**

The Group continues to strengthen controls at various work sites of Shun Shing Construction & Engineering Co. Ltd. ("SSCE"). New systems have been implemented to improve operational, safety and financial controls, thereby achieving higher safety standard, better quality and enhanced cost effectiveness. To meet with the higher standard of quality now expected by owners and purchasers, additional expenditure was incurred by SSCE to meet with the stringent inspection requirements. In addition, further provision was made in the period for the risk of potential claims on some construction contracts.

On 30th June 1999, SSCE's total value of construction contracts on hand and outstanding construction works were HK\$4.5 billion and HK\$3.4 billion respectively. During the period under review, several contracts have been completed including the Yan Chai Hospital Multi-Services Complex, Chung Hau Street, Sai Ying Pun Market and Tseung Kwan O Area 59 Phase V. Works for the remaining contracts are in progress and are on schedule.

## OUTLOOK

Hong Kong has survived the worst of the Asian financial turmoil. Signs of recovery could be observed from the satisfactory results of the HK SAR Government resumed land sales, the gradual restoration of the public's confidence in property purchase and improvement in consumer spending power. The HK SAR Government's initiatives for the development of hi-tech projects are expected to provide a new direction for economic growth and lead Hong Kong's economy to a new milestone.

While strengthening its existing businesses, the Group is also exploring investment opportunities which could provide new source of profit growth. It is widely acknowledged that the 21st century will bring many opportunities for the environmental protection and high technology industries to flourish. The PRC Government actively supports and encourages the development of these sectors as part of its economic stimulation programme. Accordingly, it is also the Group's strategy to expand its business into these industries by acquiring interests in suitable projects in the PRC. With a solid recurrent income base from existing businesses, the Group seeks, through these opportunities, to create new growth momentum and to improve its asset base and return on capital. In line with this strategy, the Group has entered into agreement, after completion of certain precedent conditions by the counter parties, to acquire 51% interest in Ark Microelectronics (Shenzhen) Ltd., a private enterprise in Shenzhen, the PRC. This private enterprise is among the few companies in the PRC which have the technology in the development and design of telecommunications integrated circuit. The products have already passed the testing of customers and provide tremendous development potential in the market.

The Group is confident in the future of the Hong Kong and PRC economy and will actively explore investment opportunities to improve the asset portfolio and broaden its income base. The Group will adopt the strategy of consolidating the development of its property business, steadily expanding its infrastructure business and improving the performance of its construction business while actively exploring environmental protection and hi-tech projects and will strive to bring a new look to the Group in the next one to two years.

### **THE “YEAR 2000” ISSUE**

The Interim and Annual Reports 1998 have outlined the Group’s understanding of the Year 2000 (“Y2K”) Problem and the status of the Group’s compliance project. To tackle the problem, the Group has carried out a thorough examination of all potentially affected systems and has assessed any possible risk with regard to the Y2K Problem. This assessment found that the majority of the computer systems, hardware and software, electronic equipment and devices are Y2K compliant. The small proportion of the computers which were identified as Y2K non-compliant have already been upgraded or replaced. A contingency plan has been set up to minimise the risk and impact of non-compliance of any systems. To confirm that all products, services and systems used are Y2K ready, the Group has issued a questionnaire to its major suppliers, customers and business partners and has assessed the impact based on their responses. Assessment results indicate that most major suppliers, customers and business partners are Y2K compliant and hence have no significant impact on the business of the Group. Henan Province Electricity Co, which operates and manages the Group’s Henan Power Plant, has carried out a thorough examination and testing of the power plant’s computer systems, electronic equipment and devices. Testing on certain parts of the power plant is being centralised and to be carried out by the Henan Province Electric Power Bureau. The Group is closely monitoring the progress and is finalising a contingency plan on the power plant’s Y2K Problem.

There can be no assurance that the Group’s compliance program will be successful or that the date change from 1999 to 2000 will not adversely affect the Group’s operations and financial results, nor can there be any assurance that the systems of third parties with which the Group does business will be timely converted, or that a failure to convert by any such third party, or a conversion that is incompatible with the Group’s networks or systems, would not have an adverse effect on the Group. However, the Group does not anticipate that its operation or services will experience any interruption or disruption as a result of any failure, and any such disruption will be insignificant because, as a contingency plan, any activities that are currently handled by a computerised system can be handled manually without much difficulty or any significant additional cost.

The Group expects that the aggregate expenses for tackling the Y2K Problem is approximately HK\$1,100,000, most of which will be used for upgrading, replacement, assessment and testing of computer systems. At present, HK\$994,000 has been spent representing 90% of the total budget. As at 30th June 1999, there are no outstanding commitments in respect of the Y2K modification costs.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS**

As at 30th June 1999, the interests of the directors and chief executives and their associates in the securities of the Company and its associated corporations as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

**(A) Interests in securities of the Company**

| Name of director   | Number of shares held |  |
|--------------------|-----------------------|--|
|                    | Personal interests    | Amount of warrants held<br><i>(Note)</i> |
| Mr. Zhu Guangyun   | 1,478,400             | HK\$212,889.60                           |
| Mr. Zhang Yongjian | 1,478,400             | HK\$212,889.60                           |
| Mr. Dong Shu Sen   | 1,500,000             | HK\$216,000.00                           |
| Mr. Zuo Wei        | 120,000               | HK\$17,280.00                            |

*Note:* The Company has approved on 28th June 1999 to grant warrants by way of a bonus issue to its shareholders on the basis of one warrant for every five shares held on 28th June 1999. Each warrant entitles its holder to subscribe for one new fully paid share at any time from 5th July 1999 to 4th July 2000 at an initial exercise price of HK\$0.72 per share.

**(B) Interests in share options granted by associated corporation**

| Name of associated corporation | Name of director   | Number of share options held |
|--------------------------------|--------------------|------------------------------|
|                                |                    | <i>(Note)</i>                |
| COSCO                          | Mr. Chen Zhongbiao | 2,000,000                    |
| Pacific Limited                | Ms. Chen Wenzhen   | 1,500,000                    |

*Note:* These share options were granted on 1st July 1996 and are exercisable at HK\$5.53 per share at any time within ten years from the date of grant.

Saved as disclosed above, none of the directors or chief executives or their associates of the Company had any interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

As at 30th June 1999, no share option has been granted under the share option scheme approved by the shareholders on 17th January 1992.

Apart from the foregoing and share options granted by COSCO Pacific Limited to certain directors as mentioned above, at no time during the period was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Company's directors to acquire benefits by means of the acquisition of securities in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 30th June 1999, the interests of those persons in the share capital of the Company as recorded in the register kept under Section 16(1) of the SDI Ordinance were as follows:

| Name of shareholder                                    | Number of shares held |
|--|-----------------------|
| China Ocean Shipping (Group) Company ("COSCO")         | 825,042,511           |
| COSCO (Hong Kong) Group Limited* ("COSCO (Hong Kong)") | 825,042,511           |
| True Smart International Limited*                      | 526,070,904           |
| COSCO Investments Limited*                             | 298,971,607           |

\* These companies are wholly-owned subsidiaries of COSCO and their interests in the shares of the Company were included in the interests held by COSCO.

## SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

Under paragraph 3.7.1. of Practice Note 19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"), the Company discloses the following loan agreements which contain covenants requiring specific performance obligations of the controlling shareholder:-

- (1) A HK\$1,129 million secured medium term loan facility was granted by a syndicate of financial institutions with HongkongBank China Services Limited as agent to Century Metro Development Limited ("Century Metro"), a wholly owned subsidiary of the Company, on 30th March 1998 to finance the PSPS project at Shum Wan Road, Aberdeen Inland Lot No. 435. The term loan is repayable on the earlier of March 2001 or 3 months after the issuance of the certificate of compliance of the project. The loan is guaranteed unconditionally and irrevocably by COSCO (Hong Kong) which undertakes amongst other conditions that it will remain the ultimate beneficial owner of at least 51% of the entire issued share capital of Century Metro and SSCE, unless consented by the agent acting on the instruction of majority of the syndicate.

## COSCO International Holdings Limited

- (2) A US\$100 million secured three years term loan facility was granted by Bank of China, Hong Kong Branch to the Company in August 1998 to partly refinance the shareholder's loan advanced by COSCO (Hong Kong) when the Company acquired the beneficial interest in eight floors of the COSCO Tower in April 1998. The loan is guaranteed unconditionally and irrevocably by COSCO (Hong Kong) which undertakes amongst other conditions that:
- (i) it will procure that COSCO will maintain a 100% equity interest, either directly or indirectly, in it and such equity interest remains free from any security interest (save for any of such existing thereon prior to the date of the guarantee);
  - (ii) it will procure that COSCO will maintain an equity interest, either directly or indirectly, of not less than 35% in the Company and such equity interest remains free from any security interest (save for any of such existing thereon prior to the date of the guarantee);
  - (iii) it will maintain an equity interest, either directly or indirectly, of not less than 35% in COSCO Pacific Limited, a fellow subsidiary of the Company, and such equity interest remains free from any security interest (save for any of such existing thereon prior to the date of the guarantee);
  - (iv) it will maintain an equity interest, either directly or indirectly, of not less than 35% in the Company and such equity interest being the single largest shareholding in the Company.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June 1999.

## **CORPORATE GOVERNANCE**

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended 30th June 1999, in compliance with the Code of Best Practice as set out in the Listing Rules. In addition, the Group has established an Audit Committee for review and supervision of the Group's financial reporting process and internal controls. The Audit Committee comprises of Mr. Chan Cheong Foon, Andrew and Mr. Alexander Reid Hamilton, both are independent non-executive directors of the Company.

By Order of the Board  
**Kwong Che Keung, Gordon**  
*Managing Director*

Hong Kong, 20th September 1999