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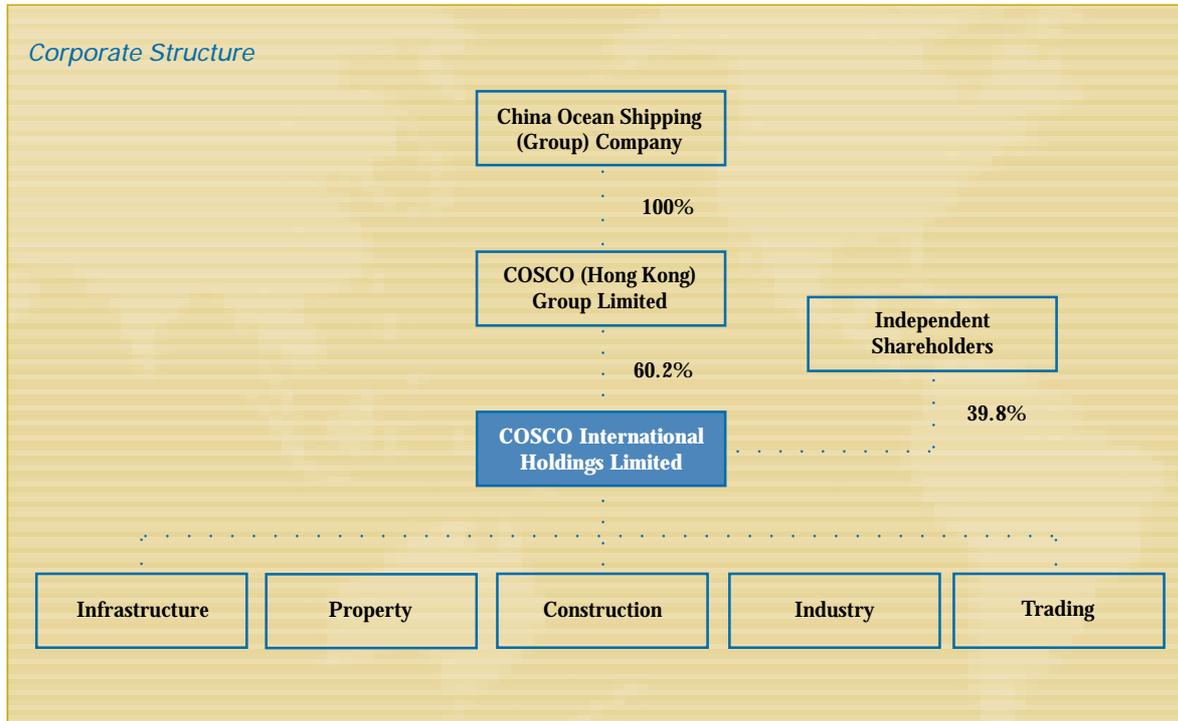
Mr. Chen Zhongbiao,
Chairman

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REVIEW OF RESULTS

The Asian financial turmoil has swept through the region since the second half of 1997 till present. Inevitably, the Hong Kong economy has been affected adversely at previously unheard of levels. As a consequence, Hong Kong suffered from soaring interest rates, credit crunch and a dramatic decline in asset value. Like all other listed companies in Hong Kong, COSCO International Holdings Limited (the "Company", together with its subsidiaries, the "Group") faced the toughest operating environment in the past year.

For the year ended 31st December, 1998, the Group recorded an operating profit of HK\$2,254,000. Owing to the significant downturn in property and stock prices under the impact of the Asian financial turmoil, the board of directors (the "Board") has revalued the Group's portfolio of properties and investments and felt it prudent to make provisions for diminution in the value of some of these investments which together with other exceptional provisions made amounted to HK\$719,009,000 during the year under review. Taking into account these exceptional items, the loss attributable to shareholders amounted to HK\$715,216,000. The Board does not recommend the payment of a final dividend for the year ended 31st December, 1998 (1997: nil).



MAJOR EVENTS

With the support of its parent company COSCO (Hong Kong) Group Limited ("COSCO (Hong Kong)"), the Group successfully completed its first asset injection in April 1998. Through the asset injection, the Group acquired from COSCO (Hong Kong) eight floors of COSCO Tower and a 48.6% stake in a power plant in Henan Province. Besides, benefiting from the housing reforms in the People's Republic of China (the "PRC"), the Group entered into a joint venture with a subsidiary of the Shanghai Hongkou District Government for an urban redevelopment project in Shanghai, the PRC. The total investment cost of the project will be approximately HK\$776 million in which the Group owns 85% interests. The acquisitions of and investment in these quality assets and development project have broadened the income base of the Group.

In response to the Asian financial turmoil, management has reviewed and strengthened the Group's operational and financial controls. Reassessments have been made on investment direction and development strategies have been adjusted in accordance with the changing operating environment. To ensure the steady growth of the Group, additional effective measures have been introduced including the broadening of income stream, controlling operating cost, streamlining operations and strengthening management.

Employees are the most precious resources of a corporation. The Group is proud to have a management team of experienced and dynamic professionals. The team was further strengthened by the appointment of Mr Kwong Che Keung, Gordon as the Group's Managing Director in May 1998.

The Group's growth was further proven by its inclusion into the Hang Seng 100 Index and the Hang Seng Hong Kong China-Affiliated Corporations Index constituent stocks in April and May 1998 respectively.

PROSPECTS

It is expected that the adverse effects of the Asian crisis on the regional economies will take a period of time to fade out. The year 1999 promises to be another year of challenges to all corporations. Nonetheless, the Group is confident in the long-term economic prospects of the PRC and Hong Kong. It is expected the recent downward adjustment of interest rates and the gradual rising of asset values will help accelerate the market's recovery. Amidst the turbulence of the Asian financial turmoil, the PRC Government has managed to maintain a steady economic growth and keep its pledge not to devalue the Renminbi. All these have proved the PRC Government's ability in managing the economic crisis. The PRC Government uses infrastructure investments and housing reforms as engines to fuel the economy through expanding local demand. The significant development potential of the PRC market should not be overlooked.

With the strong level of support from the ultimate holding company, China Ocean Shipping (Group) Company, the Group is intent on improving the operational performance of the existing projects while striving to grasp every opportunity to develop its infrastructure, property and construction businesses in the PRC and Hong Kong. The Group will also look for small to medium sized industrial and trading projects which can generate stable income. To meet the challenges ahead, the Group will follow its philosophy of prudent financial control and steady growth strategy. It will also further strengthen its cost control and operational management in order to raise cost effectiveness.

Finally, on behalf of the Board, I would like to thank our shareholders for their continuous support and the staff for their dedication and hard work. I am confident that management and staff will work hand in hand to steer the Group through these difficult times towards a bright future.

CHEN ZHONGBIAO

Chairman

Hong Kong, 14th May, 1999



Mr. Dong Jiufeng,
Vice-Chairman

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REVIEW OF OPERATIONS

Infrastructure Business

Henan Power Plant



Henan Power Plant was injected from COSCO (Hong Kong) in 1998 through the acquisition of an indirect effective 48.6% interest in a sino-foreign cooperative joint venture which owns the operating rights of the 2 x 200 MW coal-fired power plant. With an operating term expiring in 2015, the power plant provides steady cash flow and return to the Group. Since the acquisition, the Group has improved the internal management and strengthened the financial control system of the Henan Power Plant. In addition, efforts have been made on cost control to maximize the return of the power plant. As the acquisition of Henan Power Plant was completed at the end of March 1998, it generated income of only nine months to the Group during the year under review.



Property Business

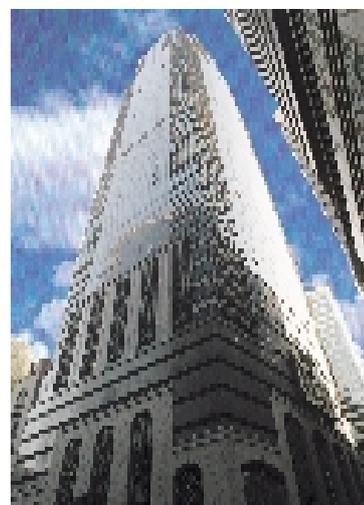
COSCO Tower, Hong Kong

COSCO Tower is a new Grade A office tower which enjoys a panoramic view of Victoria Harbour. The Group acquired in April 1998 eight floors of COSCO Tower, one of the Group's core assets, which generates steady cash flow, from COSCO (Hong Kong). Four of the eight floors and a portion of the 47th floor are currently leased to the subsidiaries of COSCO (Hong Kong), the rest of the 47th floor is occupied by the Group as head office and the remaining three floors are leased to third parties, achieving an occupancy rate of around 99% and an average rental rate of approximately HK\$34 per square feet.

Against the backdrop of weakening demand, office rental in Hong Kong has demonstrated a declining trend. However, the downward pressure on rental rate does not have a significant impact on the Group as most of the tenancy agreements of the eight floors of COSCO Tower were entered into at the end of 1997 with an average tenancy period of three years.

Fragrant Garden, Shanghai

The PRC Government last year announced its housing reform policy by abandoning the welfare housing allocation system in order to propel the development of the property market in the PRC. Taking advantage of the reform policy, the Group teamed up with Shanghai Siping Development and Operation (Group) Co. Ltd., a subsidiary of the Shanghai Hongkou District Government, in April 1998 to participate in an urban redevelopment project – Fragrant Garden (previously known as Hailun Garden) in Hongkou District, Shanghai.





Situated in the junction of Yuezhou Road and Gaoyang Road and adjacent to Hailaer Road and Tongzhou Road at Hongkou District in Shanghai, Fragrant Garden's total investment will amount to approximately HK\$776 million, of which the Group holds 85% of the equity interest. Fragrant Garden has a total site area of approximately 376,000 square feet. It will comprise about 1,300 residential units and 300 car parking spaces. The project will be developed in two phases. Phase I and Phase II of the project are expected to be completed in the end of 2000 and mid 2001 respectively. Targeting at the middle income group in Shanghai, presale of Fragrant Garden is scheduled to commence in the second half of 1999.

It is expected that the Group will continue to enjoy the opportunities and benefits brought by the new housing policy in the PRC.

Kingswell Garden, Shanghai

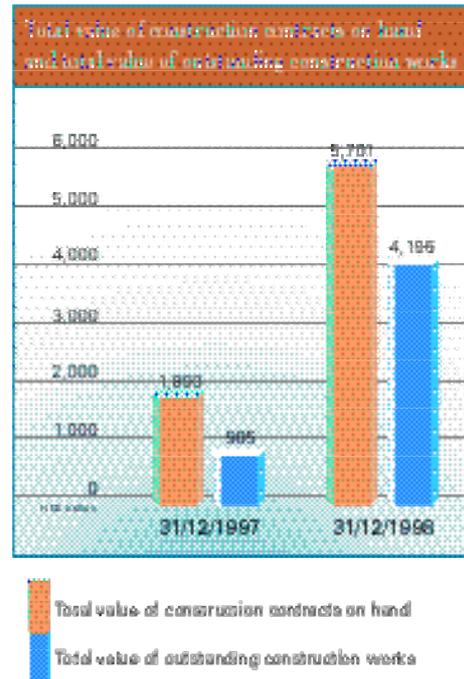


Located at Hongmei Road, Chang Ning District in Shanghai, Kingswell Garden is a high class service apartment property of which the Group acquired 16 residential units together with 16 car parking spaces for long-term investment. Most of the tenants are expatriate staff of multinational corporations based in Shanghai and the rental income therefrom is satisfactory.

Construction Business

Shun Shing Construction and Engineering Company, Limited ("SSCE"), a wholly-owned subsidiary of the Group, has strengthened its management since acquisition. As at 31st December, 1998, SSCE's total value of construction contracts on hand and outstanding construction works were HK\$5,701 million and HK\$4,196 million respectively.

The Group's associated company, International Precast Systems Limited ("IPSL") has been operating at full capacity since 1997. Working in synergy with the construction business, IPSL has started to make profit. It is expected profit contribution by IPSL will grow steadily through increasing tenders for government contracts.



Contracts completed by SSCE during the year ended 31st December, 1998

Construction Contract	% Owned	Awarded By	Contract Value (HK\$ million)
Project in Hong Kong			
Chap Lap Kok Airport			
Link Bridges	50	Airport Authority	53
Projects in Singapore			
Jurong West N6C2	50	Singapore Housing and Development Board	147
Kangkar N2C6	100	Singapore Housing and Development Board	228
Total			428

VICE-CHAIRMAN'S REPORT (CONT'D)

Contracts in progress of SSCE for the year ended 31st December, 1998

Construction Contract	% Owned	Awarded By	Contract Value <i>(HK\$ million)</i>
Projects in Hong Kong			
Chung Hau Street	100	Housing Society	291
Yan Chai Hospital Multi-Services Complex	100	Yan Chai Hospital Board	263
Tseung Kwan O Area 59 Phase V	100	Housing Authority	536
Sai Ying Pun Market	100	Architectural Services Department	110
Hung Hum Estate Phase I	100	Housing Authority	290
Yan Chai Hospital Extension Phase IV-B*	100	Yan Chai Hospital Board	47
Tsz Ching Estate Phase II*	100	Housing Authority	818
Shum Wan Road PSPS Project	100	Housing Authority	728
Tin Shui Wai Area 102 Phase I*	100	Housing Authority	713
Tin Shui Wai Area 102 Phase II*	100	Housing Authority	762
Aldrich Bay Phase II*	100	Housing Authority	882
Tai Lam Correctional Institution*	100	Architectural Services Department	229
Project in Singapore			
Shanghai Road Project*	50	Cosland (SR) Development Pte Limited	32
Total value of construction contracts on hand as at 31st December, 1998			5,701

* New construction contracts awarded in the year of 1998

FUTURE OUTLOOK AND STRATEGIES

Infrastructure Projects

The PRC Government has adopted a plan to give impetus to the PRC's economic growth by expanding local demand. Using infrastructure investments as the major engine to fuel economic growth, the PRC Government plans to channel US\$1 trillion into this sector. The PRC Government's determination to boost the development in the infrastructure sector was further evidenced by its issue of Rmb100 billion in special bonds and the approval of Rmb100 billion bank loans last year to fund infrastructure spendings. In view of this, the Group is confident in the prospect of this sector and recognises the development opportunities in the PRC market. The Group will take proactive measures to capture these opportunities to develop infrastructure projects such as water treatment plants and toll roads which will broaden the source of recurrent income.

Property Development

The Asian financial turmoil has led to the dramatic decline in property prices in Hong Kong and has dampened the confidence of investors. To address the problem, the Government of the Hong Kong Special Administrative Region ("HK SAR") has introduced throughout the year appropriate measures to stimulate the housing demand. With the recent interest rate cuts and the HK SAR Government's resumption of land sales in April 1999, investors' confidence in buying flats should gradually be restored. The Group will adopt prudent measures to capture suitable opportunities in new property projects with investment value and development potential.

Apart from infrastructure investments, the PRC Government also uses housing reforms to foster economic growth in the PRC. To accelerate the commercialisation of welfare housing, the PRC Government encourages more home mortgage lending by banks which helps promote the healthy growth of the residential property market in the

PRC. Benefited from the housing reforms, the Group participated in an urban redevelopment project, Fragrant Garden in Hongkou District, Shanghai in April 1998, which has a total investment cost of approximately HK\$776 million and is one of the major development projects of the Group. With the steady economic growth over the past few years in the PRC, the living standard of the people has been raised which created demand for high quality residential units equipped with complete facilities. Taking advantage of the housing reforms, the Group will concentrate strategically on the development of quality residential projects in major cities with high population density.

Construction

Under the HK SAR Government's policy to provide adequate housing for Hong Kong people, it is expected that a considerable amount of contracts on housing and related projects will be awarded in the coming years. Construction companies with a sound financial position will therefore benefit from this policy. The Group will continue to strengthen SSCE's financial control and closely monitor the progress of all projects on hand. The Group will strive to improve the quality of works and lower costs in order to raise SSCE's competitiveness in tendering for government projects. This will improve the profitability of SSCE and help make a turnaround.

With respect to long term plans for growth and development, and the broadening of earning base of the construction business, the Group plans to vertically integrate into interior decoration and mechanical installation works in the PRC which offer higher profit margins.

DONG JIUFENG

Vice-Chairman

Hong Kong, 14th May, 1999

1. FINANCIAL REVIEW

The Group recorded a turnover of HK\$801,307,000 for the year ended 31st December, 1998, representing a decrease of 39.1% comparing with the previous period. The decrease is mainly due to the change of the accounting year-end in 1997 resulting in a 16-month period as reported in the previous period. The reduction is also attributed to the decline in turnover for building construction since several construction projects which were awarded in the first quarter and commenced in the second and third quarters of 1998 have not yet attained a completion level at which turnover could be recorded under the accounting policy adopted by the Group. As a whole, the amount of certified construction works completed for the year is similar to that of the previous year. The turnover for 1998 included revenue from Henan Power Plant and rental income from COSCO Tower and Kingswell Garden for the period since acquisition.

The Group is able to turnaround from an operating loss of HK\$37,395,000 in last period to an operating profit before exceptional items of HK\$2,254,000 in current year. Since the economic crisis has led to the sharp decline in property and stock prices, the Board, after careful consideration, has felt it prudent to make provisions aggregating HK\$719,009,000 for diminution in value of some of these investments to reflect their fair value under the current market condition and for potential claims on certain construction contracts. Taking into account these provisions, loss attributable to shareholders for the year amounted to HK\$715,216,000.

2. LIQUIDITY & FINANCIAL RESOURCES

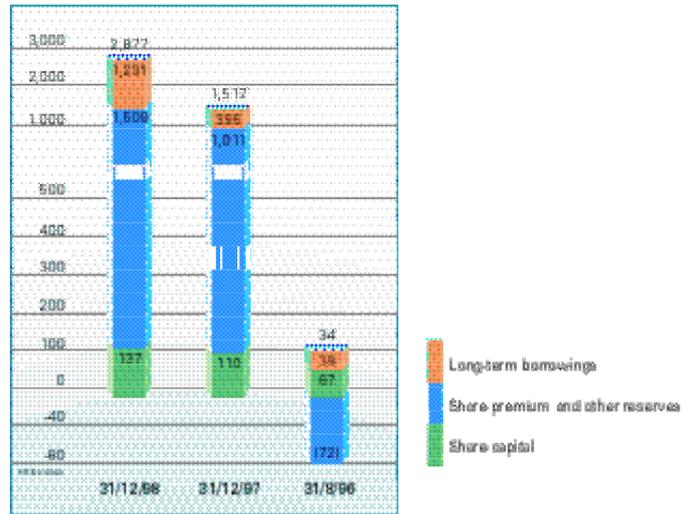
As at 31st December, 1998, shareholders' funds of the Group increased substantially by 46.8% to HK\$1,645,668,000. During the year, 124,429,224 and 145,765,983 new shares were issued in March 1998 and April 1998 respectively, which enlarged the equity base by approximately HK\$1,183,455,000.

For the year ended 31st December, 1998, the Group solicited a total of HK\$2,117,000,000 new banking facilities. As at 31st December, 1998, total banking facilities available to the Group amounted to HK\$2,669,000,000 of which HK\$1,532,529,000 were utilised.

Cash and bank balances amounted to HK\$680,153,000 and accounted for 66% of current assets which were higher than that of the previous year's HK\$549,279,000.

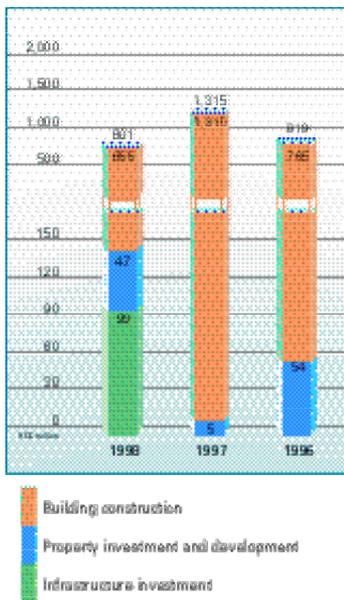
With its strong cash position and the available banking facilities, the Group has adequate resources for its ongoing operations and future development.

3. SHAREHOLDERS' FUNDS AND LONG-TERM BORROWINGS

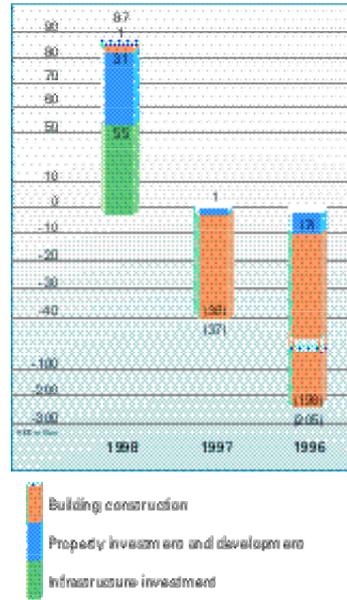


4. ANALYSIS OF OPERATIONS

Turnover by activities



Contribution/(loss) by activities

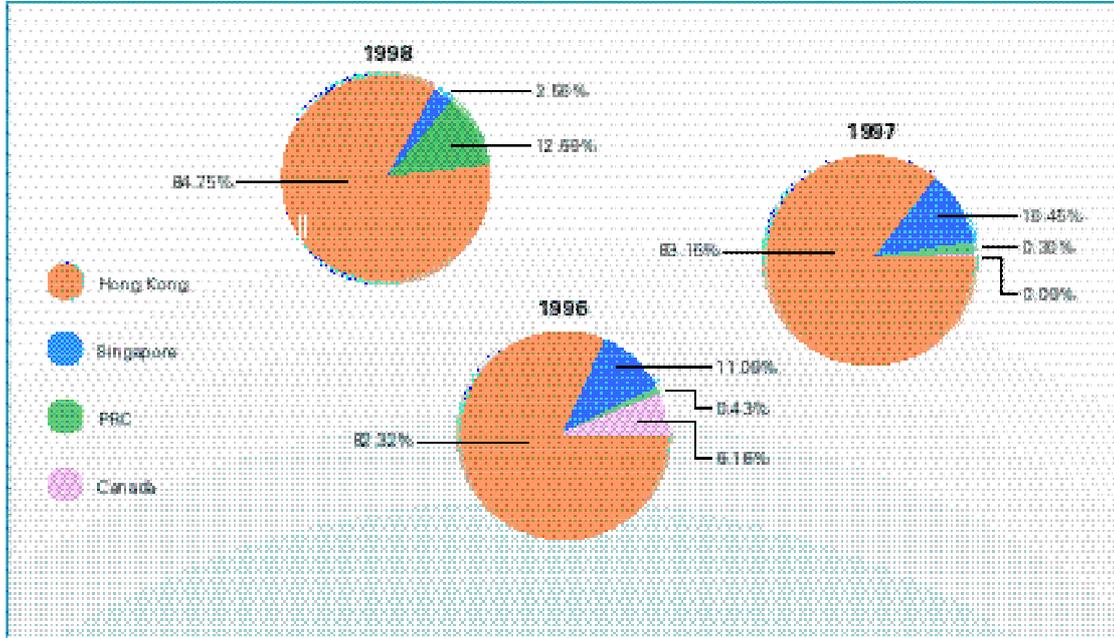


Notes:

1. The analysis of 1998 represents the operations for 12 months ended 31st December, 1998. The analysis of 1997 represents the operations for 16 months ended 31st December, 1997. The analysis of 1996 represents the operations for 12 months ended 31st August, 1996.
2. Contribution/(loss) represents the profit/(loss) before exceptional items, net interest, other income, general and administrative expenses and taxation.

4. ANALYSIS OF OPERATIONS (Cont'd)

Turnover by geographical area



5. MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 1998, the Group's five largest customers accounted for 90% of the Group's turnover and the largest customer included therein amounted to 47% represented by Hong Kong Housing Authority.

Purchases from the five largest suppliers accounted for 52% of the total purchases for the year and purchases from the largest supplier included therein amounted to 16%.

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

6. EMPLOYEES

The Group's development rely on the efficiency, dedication and loyalty of its 284 employees. Since its establishment, the Group has been committed to organising various training programmes and recreational activities for its employees to increase team spirit and sense of belonging and providing employees with reasonable salaries and staff welfare. Facing last year's drastic changes in the market environment, the Group has reorganised its structure and streamlined its operations to increase competitiveness and meet the challenges in the market.

7. THE 'YEAR 2000' ISSUE

As mentioned in the 1998 Interim Report which outlined the Group's understanding of the Year 2000 ("Y2K") Problem and the structure of the Group's compliance project, the Group has carried out a thorough examination and has assessed the potential risks in regard to the Y2K Problem. To confirm that all products, services and systems used are Y2K ready, the Group has sent out a questionnaire to its major suppliers, customers and business partners and has assessed the impact. Testing of the Group's computer and software systems, electronic equipment and devices is underway. A small portion of computers which were not Y2K ready have already been upgraded or replaced. Henan Province Electricity Co, which operates and manages the Group's 48.6% owned Henan Power Plant, is addressing the Y2K Problem as a major priority. A technical examination has been carried out on the power plant's computer systems, electronic equipment and devices. Rectification of non-compliant systems and testing is underway. The target is to have all systems Y2K compliant by mid 1999.

The Group expects that the aggregate expenses for tackling the issue is approximately HK\$1,130,000, most of which will be used for the upgrading, replacement, assessment and testing of computer systems. At present, HK\$913,000 has been spent representing 81% of the total budget. As at 31st December, 1998, there is no outstanding commitments in respect of the Y2K modification costs.

DIRECTORS' REPORT

The Directors present their report together with the audited accounts of the Company and the Group for the year ended 31st December, 1998.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are infrastructure investment, property investment and development, building construction and civil engineering, as well as related industrial investment and trading.

The turnover and loss from ordinary activities by principal activities and by geographical areas are analysed as follows:

	Turnover	Profit/(loss)
	<i>HK\$'000</i>	from ordinary
		activities
		<i>HK\$'000</i>
By activities:		
Infrastructure investment	99,353	55,412
Property investment and development	46,688	30,534
Building construction and civil engineering	655,266	922
	<u>801,307</u>	<u>86,868</u>
Net interest and other income		(14,753)
Less: General and administrative expenses		(69,861)
Less: Exceptional items		(719,009)
		<u>(716,755)</u>
By geographical areas:		
Hong Kong	679,090	30,856
People's Republic of China	101,679	57,251
Singapore	20,538	(1,239)
	<u>801,307</u>	<u>86,868</u>
Net interest and other income		(14,753)
Less: General and administrative expenses		(69,861)
Less: Exceptional items		(719,009)
		<u>(716,755)</u>

RESULTS

The results of the Group for the year ended 31st December, 1998 and the state of affairs of the Company and the Group as at that date are set out in the accounts on pages 32 to 75.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31st December, 1998 (1997: nil).

PROPOSED BONUS ISSUE OF WARRANTS

The Board is considering to propose a bonus issue of warrants to shareholders of the Company. The terms of such proposed bonus issue of warrants have not yet been finalised. Further announcement will be made by the Company once the terms are finalised and a circular containing details of such proposed bonus issue of warrants will be delivered to shareholders of the Company as soon as practicable. The proposed bonus issue of warrants shall be subject to compliance of the relevant rules and regulations of The Stock Exchange of Hong Kong Limited.

SHARE CAPITAL

Details of the movements in share capital during the year are set out in note 17 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets during the year are set out in note 9 to the accounts.

BORROWINGS AND INTEREST CAPITALISED

Borrowings repayable on demand or within one year are classified under current liabilities. Details of the long-term borrowings are set out in note 19 to the accounts. Interest capitalised by the Group during the year amounted to HK\$48,529,000 (1997: HK\$ 30,913,000).

RESERVES

Details of movements in reserves during the year are set out in note 18 to the accounts.

DONATIONS

The donations made by the Group during the year amounted to HK\$745,000 (1997: HK\$1,082,000).

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on pages 78 to 80.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Chen Zhongbiao (*Chairman*)

Mr. Dong Jiufeng (*Vice-Chairman*)

(appointed on 19th March, 1999)

Mr. Kwong Che Keung, Gordon (*Managing Director*)

(appointed on 6th February, 1998 with effect from 1st May, 1998)

Mr. Zhu Guangyun

Ms. Chen Wenzhen

Mr. Zhang Yongjian

Mr. Dong Shu Sen

Mr. Zuo Wei

Mr. Zhang Dachun

(resigned on 19th March, 1999)

Mr. Tse Lai Leung, Jimmy

(resigned on 15th January, 1999)

Non-Executive Director

Mr. Tse Yip Sang (alias Tse Kwok Wah)

(resigned on 7th December, 1998)

Independent Non-Executive Directors

Mr. Chan Cheong Foon, Andrew

Mr. Kwok Shiu Keung, Ernest

Mr. Alexander Reid Hamilton

In accordance with Bye-laws 99 and 102B of the Company's Bye-laws, all the remaining Directors retire at the forthcoming Annual General Meeting and, being eligible, offer themselves, except Mr. Kwok Shiu Keung, Ernest, for re-election.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had any beneficial interests, whether directly or indirectly, in any significant contract to which the Company, any of its subsidiaries, holding companies or fellow subsidiaries was a party at the balance sheet date or at any time during the year.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the following connected transactions of the Company require disclosure in the annual report of the Company. Summary of connected transactions set out in paragraphs (1), (3), (4), (5) and (6) are also set out in note 23 to the accounts.

- (1) On 31st January and 6th February, 1998, nine tenancy agreements were entered into between Tian Lee Property Limited ("Tian Lee"), Velu Exports Limited, Wing Thye Holdings Limited, Year Of The Rat Corp. and 99 Prove Finance Limited, wholly-owned subsidiaries of Modern Capital Investment Limited ("Modern Capital"), as landlords, and COSCO (Hong Kong) or certain subsidiaries of COSCO (Hong Kong) as tenants for the leasing of approximately 5,010 sq.ft. of 47th floor together with approximately 85,120 sq.ft. of 48th to 51st floors of the COSCO Tower for a term of 3 years at an average monthly rental of approximately HK\$37 per sq.ft.. COSCO (Hong Kong) guaranteed the performance of each tenant under the nine tenancy agreements for an amount equal to 3 months rental of respective tenancy agreements.
- (2) On 6th February, 1998, a tenancy agreement was entered into between Tian Lee and the Company for the leasing of portion of 47th floor of COSCO Tower as the head office of the Company for a term of three years commencing from 27th November, 1997 at a monthly rental of HK\$557,807 exclusive of government rent, rates and management fees. On 17th April, 1998, Tian Lee became a wholly owned subsidiary of the Company.

CONNECTED TRANSACTIONS (Cont'd)

- (3) On 6th February, 1998, an agreement was entered into between COSCO Industrial Investments Limited ("COSCO Industrial"), a fellow subsidiary of the Company, as vendor, High Grove Developments Limited as share purchaser, Glorious World International Limited as loan purchaser, both are wholly owned subsidiaries of the Company, and COSCO (Hong Kong) as guarantor for the sale and purchase of 90% of the issued share capital and 100% of shareholder's loan due and owing by New Central International Enterprises Co., Limited ("New Central"), a company owns a 54% interest in Henan Xin Zhong Yi Electric Power Company, Limited ("Xinzhongyi") which owns the operating right of Xinxiang Power Plant in Henan Province at a consideration of HK\$545,000,000 (the "Consideration"). COSCO (Hong Kong) and COSCO Industrial have also jointly and severally undertaken and guaranteed, unconditionally and irrevocably to the Group that within a period from 1st January, 1998 to 30th September, 2001, the return of the Group from Xinzhongyi will not be less than 16% per annum on the Consideration. Completion took place on 23rd March, 1998 and New Central then became a 90% owned subsidiary of the Company.
- (4) On 6th February, 1998, an agreement was entered into between Top System Investment Limited, a fellow subsidiary of the Company, as vendor, Monoland Assets Limited, a wholly owned subsidiary of the Company, as purchaser, and COSCO (Hong Kong) as guarantor for the sale and purchase of share in and shareholder's loan due and owing by Modern Capital, a company which owns, through its wholly owned subsidiaries, the beneficial interests in eight floors of the COSCO Tower at a consideration of HK\$1,658,700,000. Completion took place on 17th April, 1998 and Modern Capital then became a wholly owned subsidiary of the Company.
- (5) An agreement dated 3rd April, 1998 was entered into between True Smart International Limited ("True Smart"), the immediate holding company and Golden Success Limited ("Golden Success"), the former ultimate holding company, pursuant to which Golden Success paid HK\$53,460,000 to True Smart in respect of certain outstanding amounts, aggregating HK\$94,666,000 approximately, owing by certain debtors to SSCE (the "Outstanding Amounts"). True Smart undertakes to Golden Success that True Smart shall arrange to pay the amount of HK\$53,460,000 to SSCE in return that SSCE shall enter into a deed of undertakings as follows.

A deed of undertakings dated 3rd April, 1998 was given by SSCE in favour of Golden Success, pursuant to which True Smart paid HK\$53,460,000 to SSCE in respect of the Outstanding Amounts. SSCE undertakes that any principal amount of the Outstanding Amounts subsequently recovered from any of those debtors, together with interest accrued thereon, after deducting any counter-claim thereof, shall be repaid to Golden Success to the extent of no more than HK\$53,460,000.

CONNECTED TRANSACTIONS (Cont'd)

- (6) (i) On 11th June, 1998, SSCE was awarded a tender by Cosland (SR) Development Pte Limited ("Cosland"), a fellow subsidiary of the Company, for a residential development project (the "Construction Project") in Shanghai Road, Singapore. The contract sum for the Construction Project is S\$13,480,000 (approximately HK\$63,284,000). Pursuant to the terms of the tender, SSCE is required to provide a performance bond to Cosland for a sum of S\$1,348,000 (approximately HK\$6,328,000).
- (ii) On 21st July, 1998, SSCE and COSCO Industry Limited, a fellow subsidiary of the Company, entered into a Project Co-operation Agreement to form a consortium to develop the Construction Project jointly and to share the rights and obligations in relation to the Construction Project on equal basis. Pursuant to the Project Co-operation Agreement, a contract for sub-contracting of labour works for cement works, manufacturing and installation of reinforcing steel work and formwork for S\$660,000 (approximately HK\$3,099,000) and a labour co-operation contract for determining the terms of the management of the sub-contracted labour were entered into on 19th August, 1998 between the same parties.

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

Under paragraph 3.7.1 of Practice Note 19 of 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. Out of the term loan facility, HK\$351 million was utilised to repay a bridging loan facility granted by The Hongkong and Shanghai Banking Corporation Limited to Century Metro. 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.

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER (Cont'd)

- (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 the ultimate holding company 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 the ultimate holding company 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.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31st December, 1998, the interests of the Directors and chief executives and their associates in the share capital 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 shares

Name of company	Name of Director	Number of shares held
		Personal Interests
1. The Company	Mr. Zhang Dachun	5,000,000
	Mr. Zhu Guangyun	1,478,400
	Mr. Zhang Yongjian	1,478,400
	Mr. Dong Shu Sen	1,500,000
	Mr. Zuo Wei	120,000
2. COSCO Pacific Limited	Mr. Kwok Shiu Keung, Ernest	50,000

(B) Interests in share options granted by associated corporation

Name of associated corporation	Name of Director	Number of share options held
		(Note)
COSCO Pacific Limited	Mr. Chen Zhongbiao	2,000,000
	Mr. Zhang Dachun*	2,000,000
	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.

* The 2,000,000 share options exercisable by Mr. Zhang Dachun were lapsed upon his resignation on 19th March, 1999.

Save as disclosed above, none of the Directors or chief executives or their associates of the Company had any interests in the share capital of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

As at 31st December, 1998, 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 year was the Company, any of its subsidiaries, holding companies, or fellow subsidiaries a party to any arrangements to enable the Company's Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 1998, 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 *	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.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 1998 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

During the year, the Company established an Audit Committee to review and supervise the Group's financial reporting process and internal controls. The Audit Committee members shall meet not less than twice a year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiaries of any listed securities of the Company.

PRE-EMPTIVE RIGHTS

No pre-emptive right exists in Bermuda being the jurisdiction in which the Company is incorporated.

AUDITORS

Our auditors, Price Waterhouse, have merged with Coopers & Lybrand and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

Price Waterhouse were the auditors of the Company for the year ended 31st December, 1998 and the sixteen months ended 31st December, 1997 and Ernst & Young were the auditors of the Company for the year ended 31st August, 1996.

On behalf of the Board
Kwong Che Keung, Gordon
Managing Director

Hong Kong, 14th May, 1999

DIRECTORS

Mr. CHEN Zhongbiao, aged 61, is the Chairman of the Company. He is also the Chairman of China Ocean Shipping (Group) Company ("COSCO"), COSCO (Hong Kong) Group Limited ("COSCO (Hong Kong)") and COSCO Pacific Limited. Graduated from Dalian Maritime University in 1964, he has more than 35 years of extensive experience in the shipping industry. He has been the President of COSCO from April 1992 to November 1998 and the China Shipowners' Association since April 1992. He joined the Company in April 1997 and is responsible for the formulation of the Group's overall strategy and business policy.

Mr. DONG Jiufeng, aged 59, is the Vice-Chairman of the Company. He is also the Executive Vice-Chairman and President of COSCO (Hong Kong) and the Vice-Chairman of COSCO Pacific Limited. He is a Non-Executive Director of Lai Sun Hotels International Limited and the Vice-Chairman of Soundwill Holdings Limited. Graduated from Dalian Maritime University in 1963, Mr. Dong has held important positions of Vice President of COSCO, Director of Ship Survey Bureau of Ministry of Communications of the PRC and the President of China Classification Society. Mr. Dong had also been the Chairman of International Association of Classification Society and the President of COSCO Americas Inc.. Mr. Dong has more than 35 years of experience in international navigation management and was entitled senior engineer (professor). He joined the Company in March 1999 and is responsible for strategic planning and major investments.

Mr. KWONG Che Keung, Gordon, aged 49, joined the Company as the Managing Director in May 1998. He is also a Director and Vice-President of COSCO (Hong Kong) and an Executive Director of COSCO Pacific Limited, an Independent Non-Executive Director of Tianjin Development Holdings Limited and a Director of Soundwill Holdings Limited. Mr. Kwong graduated from the University of Hong Kong in 1972 with a Bachelor of Social Sciences Degree. After graduation, he joined an international firm of accountants to begin his professional career which took him to England from 1973 to 1979. He qualified as a chartered accountant of the Institute of Chartered Accountants in England & Wales in 1977. In 1979, he joined Price Waterhouse Hong Kong and gained admission as a partner of the firm in 1984. In the 1990s, he has acted as a part-time panel member of the Hong Kong Government's Central Policy Unit, an independent member of the Council of The Stock Exchange of Hong Kong Limited, Director of Hong Kong Clearing Co., Limited and Stock Options Clearing House Co. Limited, and Convenor of the Hong Kong Stock Exchange's Compliance Committee and Listing Committee.

Mr. ZHU Guangyun, aged 55, joined the Company in April 1997. He is a Director and Vice-President of COSCO (Hong Kong). Mr. Zhu graduated from the Sociology Distance Learning University in the PRC. He has pursued a career in enterprise management for more than 31 years and has rich experience in the property and shipping industries.

DIRECTORS (Cont'd)

Ms. CHEN Wenzhen, aged 58, joined the Company in April 1997. She is also a Director and Financial Controller of COSCO (Hong Kong) and a Director of COSCO Pacific Limited. Following her graduation from the Shanghai Maritime Transportation Institute in 1963, she joined the Finance Department of the Ministry of Communications of the PRC. She was also the Head of the Finance Department and the Chief Accountant of the Shanghai Ocean Shipping Company. Ms. Chen has over 35 years of experience in accounting and financial management. She was awarded the qualification of Senior Accountant by the Ministry of Communications of the PRC.

Mr. ZHANG Yongjian, aged 47, joined the Company in September 1997. He is also an Assistant to President and the General Manager of the Strategic Planning Division of COSCO (Hong Kong). He graduated from the Maritime University in 1976 and also obtained a Degree of Master of Law (Maritime Law) from Dalian Maritime University in 1984. He joined COSCO in 1976 and had been the General Manager of the Shipping Department of COSCO Dalian, and the Deputy General Manager of COSCO Dalian. He was awarded the qualification of Senior Economist.

Mr. DONG Shu Sen, aged 55, joined the Company in December 1997, is the Executive Deputy Managing Director of the Company. He graduated from the University of International Business & Economics in Beijing. He joined COSCO in 1968 and has since served professionally in sea transportation, shipbuilding, container transportation, external affairs and administration management as well as property management.

Mr. ZUO Wei, aged 39, joined the Company in May 1997, is the Deputy Managing Director of the Company. He graduated from Zhejiang University in 1983. He joined COSCO in 1983 and has worked in manufacturing of vessels, trading of marine machinery, international trade and risk management of debt finance. He has extensive experience in shipbuilding management, finance and corporate management.

Mr. CHAN Cheong Foon, Andrew, aged 61, has been an Independent Non-Executive Director of the Company since December 1991. He is the senior partner of Wong Brothers & Co., Certified Public Accountants. He has over 31 years experience in public accounting practice and is a fellow member of both the Australian Society of Certified Practising Accountants and the Hong Kong Society of Accountants.

Mr. KWOK Shiu Keung, Ernest, aged 63, has been an Independent Non-Executive Director of the Company since January 1992. He is the senior partner of Kwok & Chu, Solicitors. Apart from being a practising solicitor, he is also a chartered civil engineer and a practising arbitrator. He is a member of the Institution of Civil Engineers of the United Kingdom and a fellow member of the Chartered Institute of Arbitrators of the United Kingdom.

DIRECTORS (Cont'd)

Mr. Alexander Reid HAMILTON, aged 57, has been an Independent Non-Executive Director of the Company since August 1997. He is also a Non-Executive Director of COSCO Pacific Limited, CITIC Pacific Limited, Esprit Holdings Limited, Kwong On Bank Limited and a Director of a number of other Hong Kong companies. He is a member of the Institute of Chartered Accountants of Scotland, a fellow member of the Hong Kong Society of Accountants and a fellow member of the Institute of Directors. He was a partner in Price Waterhouse for 16 years and has over 20 years of audit and accounting experience.

SENIOR MANAGEMENT

Mr. WONG Shiu Kee, aged 35, joined the Company in July 1997, is the Financial Controller of the Company. With over 13 years of experience in financial management, he is a fellow member of both the Chartered Association of Certified Accountants and the Hong Kong Society of Accountants, and an associate member of the Institute of Chartered Secretaries and Administrators.

Ms. ZHAO Zhuochu, aged 44, joined Shun Shing Construction & Engineering Company, Limited in June 1997 as the Executive Deputy Managing Director. She graduated from Wuhan Transportation University and is also a senior shipbuilding engineer.

Mr. ZHANG Huimin, aged 48, joined the Company in December 1997, is the Manager of the Infrastructure and Investment Department of the Company. He graduated from Hangzhou University in 1976 majoring in foreign languages. From 1977 to 1996, he worked for Shanghai Ocean Shipping Company in the areas of shipping and shipping economic management and held the positions of Division Chief, Deputy Division Chief and Deputy Manager. He has also been awarded the Certificate for Senior Economist by the Ministry of Communications of the PRC.

Mr. KU Shing Pan, aged 53, is the Manager of the Real Estate Department of the Company. He joined the Company in July 1998. He graduated from Zhejiang University and has about 17 years of working experience in the PRC. Mr. Ku came to work in Hong Kong in 1984 and had been the head of investment development and the head of development department in other two groups. He has over 14 years of experience in project investment and property development in PRC.

Mr. CAI Lu, aged 48, joined the Company in July 1997, is the Senior Manager of the Administration Department of the Company. Graduating from the Heilongjiang University, he joined COSCO in 1976 and has comprehensive experience in container transportation, cargo transportation, marketing, as well as administration and management. He was awarded the Certificate for Senior Economist by the Ministry of Communications of the PRC in 1994.

SENIOR MANAGEMENT (Cont'd)

Mr. WONG Ping Hang, aged 46, joined the Company in July 1997, is the Manager of the Internal Audit Department of the Company. He graduated from the Brigham Young University, United States of America, majoring in Accounting and has over 21 years of banking and corporate working experience.

Ms. WAI Ching Sum, aged 31, joined the Company in February 1999, is the Company Secretary of the Company. She is a qualified chartered secretary designated as ACIS, ACS and holds a Master of Science Degree in Financial Economics. Before joining the Company, she had been the company secretary of other listed companies in Hong Kong.

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
COSCO INTERNATIONAL HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 32 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view, in all material respects, of the state of affairs of the Company and the Group as at 31st December, 1998 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PRICE WATERHOUSE

Certified Public Accountants

Hong Kong, 14th May, 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December, 1998

	<i>Note</i>	Year ended 31.12.1998 <i>HK\$'000</i>	Sixteen months ended 31.12.1997 <i>HK\$'000</i>
TURNOVER	2	<u>801,307</u>	<u>1,314,792</u>
OPERATING PROFIT/(LOSS)	3	2,254	(37,395)
EXCEPTIONAL ITEMS	5	<u>(719,009)</u>	<u>38,000</u>
(LOSS)/PROFIT FROM ORDINARY ACTIVITIES		<u>(716,755)</u>	605
SHARE OF RESULTS OF ASSOCIATED COMPANIES		<u>4,590</u>	<u>883</u>
(LOSS)/PROFIT BEFORE TAXATION		<u>(712,165)</u>	1,488
TAXATION	6	<u>1,075</u>	<u>2,076</u>
LOSS AFTER TAXATION		<u>(713,240)</u>	(588)
MINORITY INTERESTS		<u>(1,976)</u>	<u>108</u>
LOSS ATTRIBUTABLE TO SHAREHOLDERS	7	<u>(715,216)</u>	<u>(480)</u>
LOSS PER SHARE	8	<u>(55.0 cents)</u>	<u>(0.1 cents)</u>

CONSOLIDATED BALANCE SHEET

As at 31st December, 1998

		1998	1997
	Note	HK\$'000	HK\$'000
FIXED ASSETS	9	1,511,839	51,093
ASSOCIATED COMPANIES	11	6,978	71,244
LONG-TERM INVESTMENTS	12	712,318	644,481
PROPERTIES UNDER DEVELOPMENT	13	617,091	450,926
NET CURRENT ASSETS	14	50,080	306,981
		<u>2,898,306</u>	<u>1,524,725</u>
Financed by:			
SHARE CAPITAL	17	137,043	110,024
RESERVES	18	1,508,625	1,010,652
SHAREHOLDERS' FUNDS		1,645,668	1,120,676
LONG-TERM LIABILITIES	19	1,230,850	395,815
MINORITY INTERESTS		21,788	8,234
		<u>2,898,306</u>	<u>1,524,725</u>

Kwong Che Keung, Gordon

Managing Director

Dong Shu Sen

Executive Deputy Managing Director

BALANCE SHEET

As at 31st December, 1998

		1998	1997
	Note	HK\$'000	HK\$'000
FIXED ASSETS	9	9,235	8,038
SUBSIDIARIES	10	2,061,361	870,136
LONG-TERM INVESTMENTS	12	20,684	20,675
NET CURRENT ASSETS	14	326,559	399,766
		<u>2,417,839</u>	<u>1,298,615</u>
Financed by:			
SHARE CAPITAL	17	137,043	110,024
RESERVES	18	1,505,946	1,188,591
SHAREHOLDERS' FUNDS		1,642,989	1,298,615
LONG-TERM LIABILITIES	19	774,850	–
		<u>2,417,839</u>	<u>1,298,615</u>

Kwong Che Keung, Gordon

Managing Director

Dong Shu Sen

Executive Deputy Managing Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 1998

		Year ended 31.12.1998 <i>HK\$'000</i>	Sixteen months ended 31.12.1997 <i>HK\$'000</i>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	24(a)	29,602	(553,676)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		50,574	25,616
Interest paid		(113,278)	(32,417)
Dividend received		705	–
Income from investment in fixed return joint venture received		67,159	–
Interest element on finance lease rental payments		–	(219)
NET CASH INFLOW/(OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		5,160	(7,020)
TAXATION			
Hong Kong profits tax paid		(27)	(59)
Overseas profits tax paid		(564)	(132)
TAX PAID		(591)	(191)
INVESTING ACTIVITIES			
Investment in an associated company		(100)	–
Advances from associated companies		17,897	2,583
Purchase of long-term investments		(1,672)	(681,625)
Purchase of fixed assets		(22,331)	(19,775)
Purchase of subsidiaries (net of cash and cash equivalents acquired)	24(c)	(990,948)	–
Proceeds from disposal of fixed assets		946	148
Proceeds from disposal of subsidiaries	24(d)	57,187	–
Proceeds from disposal of long-term investments		–	69,704
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(939,021)	(628,965)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(904,850)	(1,189,852)

CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

For the year ended 31st December, 1998

		Year ended 31.12.1998	Sixteen months ended 31.12.1997
	Note	HK\$'000	HK\$'000
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(904,850)	(1,189,852)
FINANCING ACTIVITIES			
Issue of shares, net of share issue expenses		(6,706)	1,133,507
Drawdown of bank loans		881,529	705,167
Repayment of bank loans		(58,424)	(55,030)
Loan from an intermediate holding company		247,556	–
Contribution by minority shareholders		12,643	–
Capital element of finance lease rental payments		–	(4,815)
Repayment of loan from a related company		–	(30,000)
NET CASH INFLOW FROM FINANCING ACTIVITIES	24(e)	1,076,598	1,748,829
INCREASE IN CASH AND CASH EQUIVALENTS		171,748	558,977
Cash and cash equivalents at beginning of year		487,429	(72,524)
Changes in exchange rates		976	976
CASH AND CASH EQUIVALENTS AT END OF YEAR		660,153	487,429
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		680,153	549,279
Short-term bank loans		(20,000)	(57,361)
Bank overdrafts		–	(4,489)
		660,153	487,429

1. PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and with accounting standards issued by the Hong Kong Society of Accountants.

(a) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

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

(b) Goodwill and capital reserve

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries and associated companies acquired and is taken to reserves in the year of acquisition. Capital reserve represents the excess of the fair values ascribed to the net assets of subsidiaries and associated companies acquired over the purchase consideration and is taken directly to reserves.

(c) Subsidiaries

A company is a subsidiary if more than 50% of the voting capital is held for the long term or if the composition of the board of directors is controlled by the Group. In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Associated companies

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

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

(e) 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.

(i) *Jointly controlled operations*

The Group's interests in jointly controlled operations are accounted for in the consolidated accounts on the following bases:

- (1) the assets that the Group controls and the liabilities that the Group incurs; and
- (2) the expenses that the Group incurs and its share of the income that it earns from services rendered by these joint ventures.

(ii) *Fixed return joint venture*

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

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length. Investment properties held on leases with unexpired periods greater than twenty years are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by either independent professional valuers or professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(g) Property, plant and equipment

Other tangible fixed assets are stated at cost less accumulated depreciation.

Leasehold land is depreciated over the period of the lease while other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight line basis. The principal annual rates are as follows.

Buildings	2%
Machinery	16 ² / ₃ %
Equipment and motor vehicles	20% – 33 ¹ / ₃ %
Leasehold improvements	20% – 33 ¹ / ₃ %
Furniture and fixtures	20% – 33 ¹ / ₃ %

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**(g) Property, plant and equipment (Cont'd)**

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have been discounted in determining the recoverable amount.

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

(h) Other investments

Other investments held for the long term are stated at cost less provision for any permanent diminution in value.

(i) Properties under development/completed properties for sale

Properties under development for sale and which are due for completion more than one year from the balance sheet date are stated at cost less provision for any possible loss and shown as non-current assets. Properties under development for sale and which are due for completion within one year from the balance sheet date and completed properties for sale are stated at the lower of cost and net realisable value and shown as current assets. Cost includes the cost of land, development expenditure, other attributable expenses and capitalised interest cost.

(j) Construction contracts in progress

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

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

(k) Short-term investments

Short-term investments are stated at the lower of cost, calculated on a weighted average basis, and net realisable value.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(l) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the profit and loss account in proportion to the capital balances outstanding. Assets held under finance leases are depreciated over the shorter of their estimated useful lives or lease periods.

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(m) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profits as computed for taxation purposes and profits as stated in the accounts to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

(n) Translation of foreign currencies

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

The accounts of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising therefrom are dealt with as a movement in reserves.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**(o) Borrowing costs**

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

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) Pensions and retirement benefits

The Group operates a defined contribution scheme which is available to certain employees in Hong Kong. Under this scheme, eligible employees of the Group are required to make contributions to the scheme calculated at 5% of the individual employee's monthly basic salaries. The Group's contributions are based on 5% to 10% of the individual employee's monthly basic salaries depending upon the length of service. The Group's contributions to this scheme are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in independently administered funds.

(q) Revenue recognition*(i) Construction contracts*

Revenue from construction contract is recognised based on the stage of completion of the contract when the outcome of contract 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.

(ii) Income from investment in fixed return joint venture

Income from investment in fixed return joint venture is recognised when the right to receive investment income is established.

(iii) Rental income

Rental income is recognised on a straight line basis over the terms of the respective leases.

(iv) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) Revenue recognition (Cont'd)

(v) *Dividend income*

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

2. TURNOVER

Turnover represents the gross billing value of contracting work performed, income from investment in fixed return joint venture, proceeds from the sale of properties and rental income.

	Year ended	Sixteen
	31.12.1998	months ended
	HK\$'000	31.12.1997
		HK\$'000
Building construction	655,266	1,309,600
Income from investment in fixed return joint venture	99,353	–
Rental income	46,688	1,204
Sale of properties	–	3,988
	801,307	1,314,792

NOTES TO THE ACCOUNTS (CONT'D)

3. OPERATING PROFIT/(LOSS)

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

	Year ended 31.12.1998 <i>HK\$'000</i>	Sixteen months ended 31.12.1997 <i>HK\$'000</i>
Crediting:		
Net rental income <i>(note (a))</i>	45,437	960
Interest income	50,350	27,214
Dividend from listed shares	705	–
Profit on disposal of fixed assets	–	106
Profit on disposal of long-term listed investments	–	11,666
	–	11,666
Charging:		
Depreciation <i>(note (b))</i>	18,960	3,550
Interest expense <i>(note (c))</i>	67,286	5,002
Operating lease rental expense <i>(note (d))</i>	3,863	2,769
Auditors' remuneration	920	980
Amortisation of investment in fixed return joint venture <i>(note 12(b))</i>	43,941	–
Retirement benefits costs <i>(note (e))</i>	805	560
Loss on disposal/write-off of fixed assets	1,378	–
Provision for short-term investments	1,114	1,212
Provision for doubtful debts	6,174	–
	6,174	–

(a) Net rental income

	Year ended 31.12.1998 <i>HK\$'000</i>	Sixteen months ended 31.12.1997 <i>HK\$'000</i>
Gross rental income from		
Investment properties	18,818	1,204
Other properties	27,870	–
	46,688	1,204
Outgoings	(1,251)	(244)
	45,437	960

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

(b) Depreciation

	Year ended 31.12.1998 <i>HK\$'000</i>	Sixteen months ended 31.12.1997 <i>HK\$'000</i>
Charge for the year	23,147	9,889
Amount capitalised in construction contracts in progress	(4,187)	(6,339)
	18,960	3,550

(c) Interest expense

	Year ended 31.12.1998 <i>HK\$'000</i>	Sixteen months ended 31.12.1997 <i>HK\$'000</i>
Bank loans and overdrafts		
Wholly repayable within five years	81,453	33,306
Not wholly repayable within five years	-	477
Loan from an intermediate holding company <i>(notes 14(c) & 23(a))</i>	28,701	-
Loan from a fellow subsidiary <i>(note 23(a))</i>	5,661	-
Loan from a related company	-	1,913
Obligations under finance leases	-	219
	115,815	35,915
Amount capitalised in construction contracts in progress	(10,740)	(26,293)
Amount capitalised in properties under development	(37,789)	(1,980)
Amount capitalised in investment in associated company	-	(2,640)
	67,286	5,002

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

(d) Operating lease rental expense

	Year ended	Sixteen months ended
	31.12.1998	31.12.1997
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and buildings	3,863	2,520
Hire of plant and machinery	3,323	6,960
	7,186	9,480
Amount capitalised in construction contracts in progress	(3,323)	(6,711)
	3,863	2,769

(e) Retirement benefits costs

During the year, the Group contributed HK\$805,000 (1997: HK\$560,000) to the Group's employee retirement scheme after offsetting forfeited contributions of HK\$30,000 (1997: HK\$43,000). At 31st December, 1998, no forfeitures (1997: Nil) were available to reduce the Group's future contributions to the employee retirement scheme.

4. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

(a) Directors' emoluments

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

	Year ended	Sixteen
	31.12.1998	months ended
	<i>HK\$'000</i>	31.12.1997
		<i>HK\$'000</i>
Fees	662	243
Salaries and other emoluments	8,152	8,191
	8,814	8,434

Emoluments paid and payable to independent non-executive directors amounted to HK\$520,000 (1997: HK\$243,000) during the year.

The emoluments of the directors fall within the following bands:

Emolument bands	Number of directors	
<i>HK\$</i>	Year ended	Sixteen
	31.12.1998	months ended
		31.12.1997
Nil – 1,000,000	9	16
1,500,001 – 2,000,000	3	1
2,500,001 – 3,000,000	–	1
3,000,001 – 3,500,000	1	–
	13	18

The above analysis includes three (1997: two) individuals whose emoluments were among the five highest in the Group.

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

(b) Senior management

Details of the emoluments paid to the two (1997: three) individuals, whose emoluments were the highest in the Group and have not been included in the directors' emoluments mentioned above are as follows:

	Year ended	Sixteen months ended
	31.12.1998	31.12.1997
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other emoluments	<u>4,562</u>	<u>4,098</u>

The emoluments of the two (1997: three) individuals fall within the following bands:

Emolument bands	Number of individuals	
<i>HK\$</i>	Year ended	Sixteen months ended
	31.12.1998	31.12.1997
1,000,001 – 1,500,000	–	3
1,500,001 – 2,000,000	1	–
2,500,001 – 3,000,000	1	–
	<u>2</u>	<u>3</u>

NOTES TO THE ACCOUNTS (CONT'D)

5. EXCEPTIONAL ITEMS

	Year ended 31.12.1998 <i>HK\$'000</i>	Sixteen months ended 31.12.1997 <i>HK\$'000</i>
Provision for diminution in value of long-term investments	(385,000)	–
Deficit on revaluation of investment properties	(219,700)	–
Provision for potential claims on certain construction contracts	(52,309)	–
Provision for diminution in value of a property development project engaged by an associated company	(37,000)	–
Provision for diminution in value of a property under development	(25,000)	–
Claim received in respect of a completed construction contract	–	38,000
	(719,009)	38,000

6. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (1997: 16.5%) on the estimated assessable profit for the year.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the profit and loss account represents:

	Year ended	Sixteen
	31.12.1998	months ended
	<i>HK\$'000</i>	31.12.1997
		<i>HK\$'000</i>
Company and subsidiaries		
Current		
Hong Kong		
Provision for the year	511	1,818
Overseas		
Provision for the year	564	1,182
	1,075	3,000
Associated companies		
Current		
Over provision in prior year	-	(924)
	1,075	2,076

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$832,375,000 (1997: profit of HK\$3,265,000).

8. LOSS PER SHARE

The calculation of loss per share is based on the Group's loss attributable to shareholders of HK\$715,216,000 (1997: HK\$480,000) and the weighted average number of 1,300,489,491 (1997: 908,980,899) shares in issue during the year.

9. FIXED ASSETS

Group

	Investment properties <i>HK\$'000</i>	Other properties <i>HK\$'000</i>	Machinery, equipment and motor vehicles <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation						
At 1st January, 1998	13,560	13,713	56,159	7,977	15,027	106,436
Exchange adjustment	(635)	4	62	12	12	(545)
Acquisition of subsidiaries	653,443	1,044,000	-	204	1,901	1,699,548
Additions	-	-	16,473	2,581	3,277	22,331
Disposal of subsidiaries	(12,925)	(1,752)	(241)	(92)	(366)	(15,376)
Revaluation	(219,700)	-	-	-	-	(219,700)
Write-off	-	-	(12,792)	(16)	(11,250)	(24,058)
Disposals	-	-	(2,895)	(794)	(580)	(4,269)
At 31st December, 1998	433,743	1,055,965	56,766	9,872	8,021	1,564,367
Accumulated depreciation						
At 1st January, 1998	-	1,125	39,288	2,067	12,863	55,343
Exchange adjustment	-	-	48	6	10	64
Acquisition of subsidiaries	-	-	-	62	705	767
Charge for the year	-	14,913	5,365	1,496	1,373	23,147
Disposal of subsidiaries	-	(236)	(241)	(9)	(304)	(790)
Write-off	-	-	(11,237)	(16)	(11,036)	(22,289)
Disposals	-	-	(2,810)	(403)	(501)	(3,714)
At 31st December, 1998	-	15,802	30,413	3,203	3,110	52,528
Net book value						
At 31st December, 1998	433,743	1,040,163	26,353	6,669	4,911	1,511,839
At 31st December, 1997	13,560	12,588	16,871	5,910	2,164	51,093

The analysis of the cost or valuation at 31st December, 1998 of the above assets is as follows:

At cost	-	1,055,965	56,766	9,872	8,021	1,130,624
At 1998 professional valuation	433,743	-	-	-	-	433,743
	433,743	1,055,965	56,766	9,872	8,021	1,564,367

NOTES TO THE ACCOUNTS (CONT'D)

9. FIXED ASSETS (cont'd)

Company

	Machinery, equipment and motor vehicles <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1st January, 1998	1,867	5,491	871	8,229
Additions	1,220	1,712	230	3,162
At 31st December, 1998	3,087	7,203	1,101	11,391
Accumulated depreciation				
At 1st January, 1998	84	92	15	191
Charge for the year	419	1,341	205	1,965
At 31st December, 1998	503	1,433	220	2,156
Net book value				
At 31st December, 1998	2,584	5,770	881	9,235
At 31st December, 1997	1,783	5,399	856	8,038

9. FIXED ASSETS (Cont'd)

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

	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>
In Hong Kong, held on:		
Leases of between 10 and 50 years	1,450,965	11,968
Outside Hong Kong, held on :		
Freehold	-	13,560
Leases of between 10 and 50 years	-	1,745
Leases of over 50 years	38,743	-
	1,489,708	27,273

The investment properties were revalued at 31st December, 1998 on the basis of their open market value by an independent firm of Chartered Surveyors, C. Y. Leung & Company Limited.

Investment properties in Hong Kong of HK\$395,000,000 (1997: HK\$13,560,000) and other properties of HK\$1,029,326,000 (1997: Nil) are pledged as security to a bank in respect of a banking facility granted to the Group.

The cost and accumulated depreciation of other properties leased to an intermediate holding company and certain fellow subsidiaries are HK\$886,423,000 (1997: Nil) and HK\$12,459,000 (1997: Nil) respectively.

10. SUBSIDIARIES

	Company	
	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	-	139,670
Amounts due from	3,004,217	836,322
	3,004,217	975,992
Provision for diminution in value	(942,856)	(105,856)
	2,061,361	870,136

Particulars of the principal subsidiaries which, in the opinion of the directors, principally affect the results or assets of the Group at 31st December, 1998, are set out in note 25.

11. ASSOCIATED COMPANIES

	Group	
	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	9,653	11,545
Amounts due from, less provision	2,000	62,211
Amounts due to	(4,675)	(2,512)
	6,978	71,244

Particulars of the principal associated companies which, in the opinion of the directors, principally affect the results or assets of the Group at 31st December, 1998, are set out as follows:

Name	Place of incorporation	Percentage of equity attributable to the Group	Principal activities
International Precast Systems Limited	Hong Kong	49.12	Manufacture and marketing of precast concrete products
Well Force Properties Limited	British Virgin Islands	33.33	Investment holding in a joint venture whose principal activity is property development in the People's Republic of China

12. LONG-TERM INVESTMENTS

	Group		Company	
	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Listed shares in Hong Kong, at cost (<i>note (a)</i>)	623,709	623,587	20,684	20,675
Listed investments outside Hong Kong, at cost	1,550	-	-	-
Fixed return joint venture (<i>note (b)</i>)	472,059	-	-	-
Freehold land in Canada	-	15,121	-	-
Leasehold land in the People's Republic of China	-	5,773	-	-
	<u>1,097,318</u>	<u>644,481</u>	<u>20,684</u>	<u>20,675</u>
Provision for diminution in value	<u>(385,000)</u>	-	-	-
	<u>712,318</u>	<u>644,481</u>	<u>20,684</u>	<u>20,675</u>
Market value of listed shares and investments	<u>82,997</u>	<u>272,815</u>	<u>13,502</u>	<u>13,502</u>

- (a) Included in listed shares is an amount of HK\$436,556,000 (1997: HK\$436,556,000) which represents the Group's 9.0% (1997: 9.69%) interest in the issued shares of Soundwill Holdings Limited ("Soundwill"), a company incorporated in Bermuda whose principal activities are property investment and development.

The accounts of Soundwill for the year ended 31st December, 1998 disclosed a proposed standstill agreement between Soundwill and its bankers ("the Standstill Agreement"), under which Soundwill has to fulfil certain conditions by 31st March, 2000. The accounts have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Standstill Agreement and the ability of Soundwill to fulfil its conditions. The accounts do not include any adjustments that would result from the failure of the Standstill Agreement or fulfilment of its conditions.

The directors have made provision against its investment in Soundwill taking into account Soundwill's underlying net asset value according to its accounts for the year ended 31st December, 1998, which have been prepared on the abovementioned basis.

12. LONG-TERM INVESTMENTS (Cont'd)

(b) Fixed return joint venture

	Group <i>HK\$'000</i>
Cost	
Carried by an acquired subsidiary and at 31st December, 1998	634,454 -----
Accumulated amortisation	
Carried by an acquired subsidiary	118,454
Charge for the year	43,941 -----
At 31st December, 1998	162,395 -----
	472,059 =====

New Central International Enterprises Company, Limited ("New Central"), a 90% indirectly owned subsidiary of the Group, holds a 54 % interest in the registered capital of Henan Xin Zhong Yi Electric Power Company, Limited ("Xinzhongyi"), a sino-foreign co-operative joint venture which owns the operating right of Xinxiang Power Plant in Henan Province, the People's Republic of China ("PRC").

Xinzhongyi was established on 23rd February, 1995 with a joint venture period of 20 years and commenced its operations in October 1995. Pursuant to the joint venture agreement dated 8th September, 1994 entered into by New Central with other joint venture partners (the "Xinzhongyi Contract"), New Central, up to 30th September, 2001, is entitled to receive 60% of the after tax profit of Xinzhongyi which is equal to or below RMB229.97 million; all profit exceeding such amount will be attributable to the PRC joint venture partner. New Central, from 1st October, 2001 until the end of the joint venture period, will receive 30% of the after tax profit of Xinzhongyi which is equal to or below RMB160 million; all profit exceeding such amount will be shared amongst the joint venture partners in accordance with their respective proportional interests in the registered capital of Xinzhongyi.

Upon the termination of the joint venture period, all the remaining assets of Xinzhongyi will revert to the PRC joint venture partner in accordance with the Xinzhongyi Contract.

13. PROPERTIES UNDER DEVELOPMENT

	Group	
	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties under development		
Land, at cost		
Hong Kong	446,000	446,000
People's Republic of China	85,374	–
Development expenditure	110,717	4,926
	642,091	450,926
Provision for diminution in value	(25,000)	–
	617,091	450,926

Included in properties under development is an amount of HK\$ 498,264,000 (1997: Nil) which is pledged as security to banks in respect of certain banking facilities granted to the Group.

NOTES TO THE ACCOUNTS (CONT'D)

14. NET CURRENT ASSETS

	Group		Company	
	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Current assets				
Properties held for sale	-	26,974	-	-
Net amounts due from customers				
for contract work (<i>note 15</i>)	21,593	9,379	-	-
Accounts receivable (<i>note (a)</i>)	187,787	263,386	-	-
Retentions receivable	77,680	45,560	-	-
Deposits, prepayments and other receivables	54,689	37,331	5,150	4,901
Short-term investments (<i>note 16</i>)	6,068	5,365	-	277
Cash and bank balances (<i>note (b)</i>)	680,153	549,279	329,707	404,497
	<u>1,027,970</u>	<u>937,274</u>	<u>334,857</u>	<u>409,675</u>
Current liabilities				
Net amounts due to customers				
for contract work (<i>note 15</i>)	84,043	74,342	-	-
Accounts payable	301,952	153,531	-	-
Accrued liabilities and other payables	37,845	22,551	6,875	1,640
Current portion of long-term liabilities	-	167	-	-
Amounts due to fellow subsidiaries	781	7,085	159	7,005
Loan from an intermediate holding company (<i>note (c)</i>)	247,556	-	-	-
Taxation	4,034	9,984	1,264	1,264
Bank loans and overdrafts				
Secured	40,679	7,150	-	-
Unsecured (<i>note (d)</i>)	261,000	355,483	-	-
	<u>977,890</u>	<u>630,293</u>	<u>8,298</u>	<u>9,909</u>
	<u>50,080</u>	<u>306,981</u>	<u>326,559</u>	<u>399,766</u>

14. NET CURRENT ASSETS (Cont'd)

- (a) Included in accounts receivable is an amount due from Cosland (SR) Development Pte Limited ("Cosland"), a fellow subsidiary of the Company, of S\$638,770 (approximately HK\$2,986,000) in respect of a construction contract (note 23(f)(i)).
- (b) The Group's bank deposits of approximately HK\$54,000,000 (1997: HK\$9,000,000) are pledged as security to banks in respect of certain banking facilities granted to the Group.
- (c) The loan from an intermediate holding company was unsecured, interest bearing at prevailing market rate and wholly repaid in March 1999.
- (d) As at 31st December, 1998 certain bank loans and overdrafts, amounting to HK\$261,000,000 (1997: HK\$269,000,000) are guaranteed by COSCO (Hong Kong) Group Limited ("COSCO (Hong Kong)"), an intermediate holding company of the Company.

15. CONSTRUCTION CONTRACTS

	Group	
	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract costs incurred to date plus recognised profits		
less recognised losses to date	2,359,853	1,832,380
Progress billings received and receivable	(2,422,303)	(1,897,343)
	<u>(62,450)</u>	<u>(64,963)</u>
Representing:		
Net amounts due from customers for		
contract work included in current assets	21,593	9,379
Net amounts due to customers for		
contract work included in current liabilities	(84,043)	(74,342)
	<u>(62,450)</u>	<u>(64,963)</u>

NOTES TO THE ACCOUNTS (CONT'D)

16. SHORT-TERM INVESTMENTS

	Group		Company	
	1998	1997	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost less provision				
Treasury bills, listed outside				
Hong Kong	4,808	5,032	-	-
Listed shares in Hong Kong	1,260	333	-	277
	<u>6,068</u>	<u>5,365</u>	<u>-</u>	<u>277</u>
Market value	<u>6,068</u>	<u>5,525</u>	<u>-</u>	<u>437</u>

17. SHARE CAPITAL

	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Authorised:</i>		
3,000,000,000 (1997: 3,000,000,000) shares of HK\$0.10 each	<u>300,000</u>	<u>300,000</u>
<i>Issued and fully paid:</i>		
1,370,434,591 (1997: 1,100,239,384) shares of HK\$0.10 each	<u>137,043</u>	<u>110,024</u>

On 23rd March, 1998, 124,429,224 new shares of the Company were allotted and issued at HK\$4.38 per share to COSCO Industrial Investments Limited, a fellow subsidiary, as the consideration of the acquisition of an indirect effective 48.6 per cent interest in Xinzhongyi (*note 23(c)*).

On 17th April, 1998, 145,765,983 new shares of the Company were allotted and issued at HK\$4.38 per share to Top System Investment Limited, a fellow subsidiary, as part of the consideration of the acquisition of the beneficial interest in eight floors of the COSCO Tower (*note 23(d)*).

Under the terms of the Company's share option scheme approved by the shareholders on 17th January, 1992, the board of directors may at its discretion invite employees, including directors, of the Company and its subsidiaries to take up options to subscribe for shares of the Company. No share options have been granted since its adoption.

NOTES TO THE ACCOUNTS (CONT'D)

18. RESERVES

Group

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profit/ (accumu- lated loss) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 1998					
As previously stated	1,192,767	–	(9,845)	7,424	1,190,346
Prior period adjustments (<i>note (a)</i>)	–	–	–	(179,694)	(179,694)
As restated	1,192,767	–	(9,845)	(172,270)	1,010,652
Exchange differences	–	–	6,776	–	6,776
Premium on issue of shares	1,156,436	–	–	–	1,156,436
Share issue expenses	(6,706)	–	–	–	(6,706)
Acquisition of subsidiaries	–	56,683	–	–	56,683
Loss for the year (<i>note (b)</i>)	–	–	–	(715,216)	(715,216)
At 31st December, 1998	<u>2,342,497</u>	<u>56,683</u>	<u>(3,069)</u>	<u>(887,486)</u>	<u>1,508,625</u>
Company and subsidiaries	2,342,497	56,683	(3,069)	(880,605)	1,515,506
Associated companies	–	–	–	(6,881)	(6,881)
	<u>2,342,497</u>	<u>56,683</u>	<u>(3,069)</u>	<u>(887,486)</u>	<u>1,508,625</u>

Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated loss <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 1998	1,192,767	83,770	(87,946)	1,188,591
Premium on issue of shares	1,156,436	–	–	1,156,436
Share issue expenses	(6,706)	–	–	(6,706)
Loss for the year (<i>note 7</i>)	–	–	(832,375)	(832,375)
At 31st December, 1998	<u>2,342,497</u>	<u>83,770</u>	<u>(920,321)</u>	<u>1,505,946</u>

18. RESERVES (Cont'd)

(a) Prior period adjustments

	Accumulated as	Sixteen	Year ended
	at 31.12.1997	months ended	31.8.1996
	<i>HK\$'000</i>	<i>31.12.1997</i>	<i>31.8.1996</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Understatement of anticipated losses			
on construction contracts			
Decrease in construction contracts in progress	145,694	12,472	133,222
Increase/(decrease) in accounts payable	15,396	(1,487)	16,883
	<u>161,090</u>	<u>10,985</u>	<u>150,105</u>
Correction of overstatement in			
accounts receivable and turnover	18,604	2,019	16,585
	<u>179,694</u>	<u>13,004</u>	<u>166,690</u>

COSCO (Hong Kong) completed the acquisition of Shun Shing Holdings Limited (renamed as COSCO International Holdings Limited) on 5th March, 1997 and became the controlling shareholder. To ensure a smooth transition, all of the original management and staff of Shun Shing Holdings Limited and Shun Shing Construction & Engineering Company, Limited ("SSCE") have been retained to continue with the management of the construction business operations.

The appointment of a new management team was put in place in 1998 and a review of the internal control systems of SSCE was carried out. As a result of this review, it was discovered that there were deficiencies in management and accounting controls over construction contracts in progress, thereby resulting in fundamental accounting errors being made in recognising profit on incomplete contracts when in fact there were significant anticipated losses on these contracts. In the opinion of the current board of directors, the losses on a number of construction contracts which were tendered by SSCE prior to 5th March, 1997 and amounted in aggregate to approximately HK\$161,090,000 should have been fully provided for in the financial periods in which they were anticipated. In addition it was noted that fundamental errors also occurred in the recording of accounts receivable amounting to approximately HK\$18,604,000 in the prior accounting periods through the overstatement of the value of work done for variation orders on certain construction contracts. These fundamental errors have been accounted for as prior period adjustments in the current financial year in accordance with the Statement of Standard Accounting Practice No. 2.102 issued by the Hong Kong Society of Accountants.

18. RESERVES (Cont'd)

- (b) Loss for the year of HK\$715,216,000 (1997: HK\$480,000) included a profit of HK\$4,590,000 (1997: HK\$1,807,000) attributable to associated companies.
- (c) Under the Companies Act 1981 of Bermuda, the Company's contributed surplus is currently not distributable. Accordingly, the Company had no reserves available for distribution at 31st December, 1998.

19. LONG-TERM LIABILITIES

	Group		Company	
	1998	1997	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans				
Secured	1,191,850	5,982	774,850	-
Unsecured	39,000	390,000	-	-
	1,230,850	395,982	774,850	-
Amount repayable within one year included in current liabilities	-	(167)	-	-
	1,230,850	395,815	774,850	-

	Group		Company	
	1998	1997	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) The bank loans are repayable as follows:				
Within one year	-	167	-	-
In the second year	39,000	178	-	-
In the third to fifth year	1,191,850	390,579	774,850	-
After the fifth year	-	5,058	-	-
	1,230,850	395,982	774,850	-

- (b) The bank loans are guaranteed by COSCO (Hong Kong), an intermediate holding company of the Company.

NOTES TO THE ACCOUNTS (CONT'D)

20. DEFERRED TAXATION

The potential deferred taxation not provided for in the accounts amounts to:

	Group	
	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax losses	(59,484)	(21,394)
Accelerated depreciation allowances	2,960	1,658
Other timing differences	(9,481)	14
	<u>(66,005)</u>	<u>(19,722)</u>

21. COMMITMENTS

(a) Capital commitments

	Group		Company	
	1998	1997	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for	-	100	-	100
Authorised but not contracted for	-	-	-	-
	<u>-</u>	<u>100</u>	<u>-</u>	<u>100</u>

21. COMMITMENTS (Cont'd)

(b) Operating lease commitments

	Group		Company	
	1998	1997	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating lease commitments at 31st December payable in the next twelve months, analysed according to the period in which the leases expire, are as follows:				
Land and buildings				
Within one year	160	-	-	-
In the second to fifth years inclusive	-	1,922	6,136	-
	<u>160</u>	<u>1,922</u>	<u>6,136</u>	<u>-</u>
Plant and machinery				
Within one year	1,100	-	-	-
In the second to fifth years inclusive	200	-	-	-
	<u>1,300</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,460</u>	<u>1,922</u>	<u>6,136</u>	<u>-</u>

(c) The Group is committed to provide financing of approximately HK\$142 million (1997: Nil) in respect of the development of a residential and commercial property in Shanghai, the PRC.

NOTES TO THE ACCOUNTS (CONT'D)

22. CONTINGENCIES

	Group		Company	
	1998	1997	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees for banking facilities granted to:				
Subsidiaries	-	-	1,225,409	92,512
An associated company	-	2,000	-	2,000
Performance bonds in respect of performance and completion of construction contracts	<u>137,422</u>	<u>145,912</u>	<u>-</u>	<u>-</u>

23. RELATED PARTY TRANSACTIONS

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

	Year ended	Sixteen months ended
	31.12.1998	31.12.1997
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense paid to		
An intermediate holding company (<i>notes 3(c) and 14(c)</i>)	28,701	-
A fellow subsidiary (<i>notes (i) and 3(c)</i>)	5,661	-
Legal and professional fees paid/payable to Kwok & Chu, Solicitors (<i>note (ii)</i>)	3,096	1,440
Purchases of building materials from an associated company (<i>note (iii)</i>)	13,761	-
Rental expense paid to Hillfine Development Limited (<i>note (iv)</i>)	1,536	1,778
Rental income received from		
An intermediate holding company (<i>note (b)</i>)	2,188	-
Fellow subsidiaries (<i>note (b)</i>)	<u>25,682</u>	<u>-</u>

23. RELATED PARTY TRANSACTIONS (Cont'd)

- (i) The loan from a fellow subsidiary was unsecured, interest bearing at prevailing market rate and wholly repaid during the year.
 - (ii) Mr Kwok Shiu Keung, Ernest, an independent non-executive director of the Company, has beneficial interests in Kwok & Chu, Solicitors. The legal and professional fees paid/payable were based on the time spent by Kwok & Chu, Solicitors on the Group's affairs.
 - (iii) During the year, SSCE purchased building materials from an associated company. The prices were set at terms no less favourable than terms available from independent third parties.
 - (iv) Mr Tse Yip Sang (alias Tse Kwok Wah), a former non-executive director of the Company, and his family have beneficial interests in Hillfine Development Limited. The rental was set at HK\$128,000 per month pursuant to the tenancy agreement dated 29th September, 1997.
- (b) On 31st January and 6th February, 1998, nine tenancy agreements were entered into between certain subsidiaries of the Company as landlords and COSCO (Hong Kong) or certain subsidiaries of COSCO (Hong Kong) as tenants for the leasing of office spaces in COSCO Tower for a term of 3 years at an average monthly rental of approximately HK\$37 per square feet. The terms of the tenancy agreements have been determined according to the advice of a firm of professional surveyors.
- (c) Pursuant to an agreement dated 6th February, 1998, the Group acquired a 90% interest in the issued share capital and 100% of the shareholder's loan due by New Central from COSCO Industrial Investments Limited, a fellow subsidiary of the Company at a consideration of HK\$545,000,000 and the transaction was completed on 23rd March, 1998. The consideration was according to a business valuation of Xinzhongyi performed by a firm of professional valuers.
- (d) Pursuant to an agreement dated 6th February, 1998, the Group acquired a 100% interest in the issued share capital and the shareholder's loan due by Modern Capital Investment Limited ("Modern Capital") from Top System Investment Limited, a fellow subsidiary of the Company at a consideration of HK\$1,658,700,000 and the transaction was completed on 17th April, 1998. Modern Capital indirectly owns the beneficial interests in eight floors of COSCO Tower and the consideration represented a 10% discount to a property valuation on the said properties performed by a firm of professional surveyors.

23. RELATED PARTY TRANSACTIONS (Cont'd)

- (e) (i) An agreement dated 3rd April, 1998 was entered into between True Smart International Limited ("True Smart"), the immediate holding company and Golden Success Limited ("Golden Success"), the former ultimate holding company, pursuant to which Golden Success paid HK\$53,460,000 to True Smart in respect of certain outstanding amounts, aggregating HK\$94,666,000 approximately, owing by certain debtors to SSCE (the "Outstanding Amounts"). True Smart undertakes to Golden Success that True Smart shall arrange to pay the amount of HK\$53,460,000 to SSCE in return that SSCE shall enter into a deed of undertakings as follows.
 - (ii) A deed of undertakings dated 3rd April, 1998 was given by SSCE in favour of Golden Success, pursuant to which True Smart paid HK\$53,460,000 to SSCE in respect of the Outstanding Amounts. SSCE undertakes that any principal amount of the Outstanding Amounts subsequently recovered from any of those debtors, together with interest accrued thereon, after deducting any counter-claim thereof, shall be repaid to Golden Success to the extent of no more than HK\$53,460,000.
- (f) (i) On 11th June, 1998, SSCE was awarded a tender by Cosland for a residential development project ("Construction Project") in Shanghai Road, Singapore. The contract sum for the Construction Project is S\$13,480,000 (approximately HK\$63,284,000). Pursuant to the terms of the tender, SSCE is required to provide a performance bond to Cosland for a sum of S\$1,348,000 (approximately HK\$6,328,000).
 - (ii) On 21st July, 1998, SSCE and COSCO Industry Limited, a fellow subsidiary of the Company, entered into a Project Co-operation Agreement to form a consortium to develop the Construction Project jointly and to share the rights and obligations in relation to the Construction Project on equal basis.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of (loss)/profit from ordinary activities to net cash inflow/(outflow) from operating activities

	Year ended	Sixteen
	31.12.1998	months ended
	<i>HK\$'000</i>	31.12.1997
		<i>HK\$'000</i>
(Loss)/profit from ordinary activities	(716,755)	605
Provision for diminution in value of		
Long-term investments	385,000	–
A property development project engaged by an associated company	37,000	–
A property under development	25,000	–
Deficit on revaluation of investment properties	219,700	–
Loss on disposal of subsidiaries	31	–
Interest expense (excluding amount capitalised)	67,286	5,002
Interest income	(50,350)	(27,214)
Depreciation of fixed assets (excluding amount capitalised)	18,960	3,550
Amortisation of investment in fixed return joint venture	43,941	–
Loss/(profit) on disposal/write-off of fixed assets	1,378	(106)
Profit on disposal of long-term listed investments	–	(11,666)
Dividend income	(705)	–
Income from investment in fixed return joint venture	(99,353)	–
Increase in short-term investments	(703)	(276)
Increase in properties under development/held for sale	(153,654)	(452,917)
Decrease in construction contracts in progress	19,006	20,910
Decrease/(increase) in accounts receivable, retentions receivable, deposits, prepayments and other receivables	83,702	(90,474)
Increase/(decrease) in accounts payable, accrued liabilities and other payables	156,422	(8,175)
(Decrease)/increase in amounts due to fellow subsidiaries	(6,304)	7,085
Net cash inflow/(outflow) from operating activities	<u>29,602</u>	<u>(553,676)</u>

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Acquisition of subsidiaries		<i>HK\$'000</i>
Net assets acquired		
Fixed assets	1,698,781	
Long-term investments	516,000	
Accounts receivable	2,551	
Other receivables	36,265	
Cash and bank balances	69,848	
Other payables	(15,382)	
Minority interests	(7,129)	
Reserve on consolidation	(56,683)	
	<u>2,244,251</u>	
Satisfied by:		
Shares issued	1,183,455	
Cash	1,060,796	
	<u>2,244,251</u>	

The subsidiaries acquired during the year contributed HK\$24,071,000 to the Group's net operating cash inflows, received HK\$31,492,000 in respect of the net returns on investments and servicing of finance and utilised HK\$364,000 for investing activities.

(c) Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:		<i>HK\$'000</i>
Cash consideration	1,060,796	
Cash and bank balances acquired	(69,848)	
	<u>990,948</u>	
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries		<u>990,948</u>

NOTES TO THE ACCOUNTS (CONT'D)

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(d) Disposal of subsidiaries

	<i>HK\$'000</i>
Net assets disposed of	
Fixed assets	14,586
Associated companies	14,116
Long-term investments	20,894
Properties held for sale	26,974
Accounts receivable	8,115
Other receivables	5,090
Accounts payable	(107)
Other payables	(10,520)
Short-term bank loans	(1,359)
Taxation	(6,355)
Long-term bank loan	(5,982)
Minority interests	(8,234)
Loss on disposal of subsidiaries	(31)
	57,187
	57,187
Satisfied by :	
Cash	57,187

(e) Analysis of changes in financing during the year

	Loan from an intermediate holding company	Bank loans	Minority interests	Share capital and premium	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 1st January, 1998	-	696,765	8,234	1,302,791	2,007,790
Net cash inflow/(outflow) from financing activities	247,556	823,105	12,643	(6,706)	1,076,598
Shares issued for non-cash consideration	-	-	-	1,183,455	1,183,455
Disposal of subsidiaries	-	(7,341)	(8,234)	-	(15,575)
Acquisition of subsidiaries	-	-	7,129	-	7,129
Changes in exchange rates	-	-	40	-	40
Minority interests' share of profit for the year	-	-	1,976	-	1,976
Balance at 31st December, 1998	247,556	1,512,529	21,788	2,479,540	4,261,413

25. PRINCIPAL SUBSIDIARIES

Name	Place of incorporation	Issued/ registered share capital	Percentage of equity attributable to the Group	Principal activities
Operated in Hong Kong				
99 Prove Finance Limited	British Virgin Islands	US\$1	100	Property holding
Capital Properties Limited †	Hong Kong	HK\$2	100	Provision of nominee services
Cash in Hand Inc	British Virgin Islands	US\$1	100	Property investment
Century Metro Development Limited	Hong Kong	HK\$10,000	100	Property development
COSCO International Industry Limited	Hong Kong	HK\$2	100	Investment holding
COSCO International Infrastructure Limited	Hong Kong	HK\$2	100	Investment holding
COSCO International Land Limited	Hong Kong	HK\$2	100	Investment holding
COSCO International Trade Limited	Hong Kong	HK\$2	100	Investment holding
COSCO Project Management Limited	Hong Kong	HK\$2	100	Project management
Gwee Brothers Limited	British Virgin Islands	US\$1	100	Property investment
Malayan Corporations Limited	British Virgin Islands	US\$1	100	Property investment
Shun Shing Construction (China) Company Limited	Hong Kong	HK\$2	100	Project management

25. PRINCIPAL SUBSIDIARIES (Cont'd)

Name	Place of incorporation	Issued/ registered share capital	Percentage of equity attributable to the Group	Principal activities
Operated in Hong Kong				
Shun Shing Construction & Engineering Company, Limited	Hong Kong	Ordinary HK\$156,600,000 Non-voting HK\$12,000,000	100	Building construction, maintenance and civil engineering
Tian Lee Property Limited	British Virgin Islands	US\$1	100	Property holding
Velu Exports Limited	British Virgin Islands	US\$1	100	Property holding
Waily Development Limited	Hong Kong	HK\$2	100	Investment holding
Wealth Nice Limited	Hong Kong	HK\$2	100	Property development
Wing Thye Holdings Limited	British Virgin Islands	US\$1	100	Property holding
Year Of The Rat Corp.	British Virgin Islands	US\$1	100	Property holding
Operated in British Virgin Islands				
Cash Rich Enterprises Limited	British Virgin Islands	US\$10,000	85.85	Investment holding
COSCO (B.V.I.) Holdings Limited †	British Virgin Islands	US\$1	100	Investment holding
COSCO International Construction Limited	British Virgin Islands	US\$100	100	Investment holding
COSCO International Infrastructure (B.V.I.) Limited	British Virgin Islands	US\$1	100	Investment holding
COSCO International Land (B.V.I.) Limited	British Virgin Islands	US\$1	100	Investment holding
Graceful Nice Limited	British Virgin Islands	US\$1	100	Investment holding

25. PRINCIPAL SUBSIDIARIES (Cont'd)

Name	Place of incorporation	Issued/ registered share capital	Percentage of equity attributable to the Principal Group	Principal activities
Operated in British Virgin Islands (Cont'd)				
Modern Capital Investment Limited	British Virgin Islands	US\$1	100	Investment holding
Monoland Assets Limited	British Virgin Islands	US\$2	100	Investment holding
Raycle Match Development Ltd.	British Virgin Islands	US\$1	100	Investment holding
Trinity Development Limited	British Virgin Islands	US\$1	100	Investment holding
Uppermost Corporation †	British Virgin Islands	US\$1	100	Investment holding
Operated in PRC				
New Central International Enterprises Co., Limited	Hong Kong	HK\$1,000,000	90	Investment holding
Shanghai COSCO Honour Property Development Limited	PRC	RMB 277,185,100	85	Property development
Wellbase Holdings Limited	Hong Kong	HK\$2	100	Property investment
Operated in Singapore				
Shun Shing Construction (Singapore) Pte Limited	Singapore	S\$2	100	Civil engineering and construction works

† Shares held directly by the Company

26. JOINT VENTURE – JOINTLY CONTROLLED OPERATIONS

The Group has engaged into two jointly controlled operations to undertake certain construction contracts. As at 31st December, 1998, the aggregate amounts of assets, liabilities, turnover and results for the year recognised in the accounts in relation to these jointly controlled operations are as follows:

	Group	
	Year ended	Sixteen months ended
	31.12.1998	31.12.1997
	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets	15,745	17,849
Liabilities	(7,791)	(10,722)
Turnover	14,029	43,084
(Loss)/profit for the year	<u>(566)</u>	<u>7,127</u>

27. HOLDING COMPANIES

The intermediate holding company is COSCO (Hong Kong) Group Limited, a company incorporated in Hong Kong.

The ultimate holding company is China Ocean Shipping (Group) Company, a State-owned enterprise established in the People's Republic of China.

28. CHANGE OF ACCOUNTING YEAR-END

Pursuant to a board resolution passed on 29th May, 1997, the Company announced the change of its accounting year-end date from 31st August to 31st December to conform with that of its ultimate holding company, China Ocean Shipping (Group) Company. The Group has prepared this report with the comparative figures for the previous period from 1st September, 1996 to 31st December, 1997.

29. COMPARATIVE FIGURES

Certain comparative figures have been restated for the effect of the prior period adjustments made during the year as stated in note 18(a) to the accounts.

30. APPROVAL OF THE ACCOUNTS

The accounts were approved by the board of directors on 14th May, 1999.

LIST OF MAJOR PROPERTIES

PROPERTIES UNDER DEVELOPMENT

Description	Use	Approximate area	Stage of completion	Percentage of attributable interest to the Group
(1) Aberdeen Inland Lot No. 435, Shum Wan Road, Hong Kong	Residential, commercial and car parking spaces	Site area 15,855 sq.m. Estimated gross floor area: Residential 88,800 sq.m. Commercial 1,790 sq.m. Car park 319 units	Site formation	100
(2) Shatin Town Lot No. 217, Mei Woo circuit, Area 41A, Shatin, New Territories	Residential	Site area 1,308 sq.m. Estimated gross floor area 523 sq.m.	Design and planning	100
(3) Huang Sha Station, No. 1 Route of the Guangzhou Metro Railway, Guangzhou, People's Republic of China	Residential and commercial	Site area 6,036 sq.m. Estimated gross floor area 46,150 sq.m.	Development on hold	33.33
(4) Between Yuezhou Road, Hailaer Road, Tongzhou Road and Gaoyang Road at Hongkou District, Shanghai, People's Republic of China	Residential, commercial and car parking spaces	Site area 35,000 sq.m. Estimated gross floor area 180,000 sq.m.	Design and planning	85

LIST OF MAJOR PROPERTIES (CONT'D)

OTHER PROPERTIES

Description	Use	Approximate area	Lease term	Percentage of attributable interest to the Group
(1) 47/F-51/F COSCO Tower, 183 Queen's Road Central, Hong Kong	Commercial	Gross floor area 106,400 sq.ft.	From 25th June, 1997 to 30th June, 2047	100

INVESTMENT PROPERTIES

Description	Use	Approximate area	Lease term	Percentage of attributable interest to the Group
(1) 39/F, 40/F and 42/F COSCO Tower, 183 Queen's Road Central, Hong Kong	Commercial	Gross floor area 66,260 sq.ft.	From 25th June, 1997 to 30th June, 2047	100

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	Year ended 31st December, 1998 <i>HK\$'000</i>	Sixteen months ended 31st December, 1997 <i>HK\$'000</i>	1996 <i>HK\$'000</i>	Year ended 31st August, 1995 <i>HK\$'000</i>	1994 <i>HK\$'000</i>
Turnover	<u>801,307</u>	<u>1,314,792</u>	<u>819,257</u>	<u>1,173,961</u>	<u>603,439</u>
Operating profit/(loss)	2,254	(37,395)	(234,427)	(71,406)	20,330
Exceptional items	<u>(719,009)</u>	38,000	–	30,565	11,305
(Loss)/profit from ordinary activities	<u>(716,755)</u>	605	(234,427)	(40,841)	31,635
Share of results of associated companies	<u>4,590</u>	883	(7,868)	(13,426)	(4,261)
(Loss)/profit before taxation	<u>(712,165)</u>	1,488	(242,295)	(54,267)	27,374
Taxation charge/(credit)	<u>1,075</u>	2,076	929	(4,557)	10,608
(Loss)/profit after taxation	<u>(713,240)</u>	(588)	(243,224)	(49,710)	16,766
Minority interests	<u>(1,976)</u>	108	431	560	(2,326)
(Loss)/profit attributable to shareholders	<u>(715,216)</u>	<u>(480)</u>	<u>(242,793)</u>	<u>(49,150)</u>	<u>14,440</u>

FIVE-YEAR FINANCIAL SUMMARY (CONT'D)

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31st December, 1998 <i>HK\$'000</i>	As at 31st December, 1997 <i>HK\$'000</i>	As at 1996 <i>HK\$'000</i>	As at 31st August, 1995 <i>HK\$'000</i>	1994 <i>HK\$'000</i>
Fixed assets	1,511,839	51,093	41,522	31,373	60,454
Associated companies	6,978	71,244	72,219	59,566	18,640
Long-term investments	712,318	644,481	21,600	16,169	15,816
Properties under development	617,091	450,926	13,151	12,135	99,887
Current assets	1,027,970	937,274	379,962	564,954	506,693
TOTAL ASSETS	3,876,196	2,155,018	528,454	684,197	701,490
Current liabilities	977,890	630,293	485,481	432,246	393,458
Long-term liabilities	1,230,850	395,815	39,497	4,841	363
Deferred taxation	-	-	-	242	258
Minority interests	21,788	8,234	8,323	8,782	18,579
TOTAL LIABILITIES	2,230,528	1,034,342	533,301	446,111	412,658
NET ASSETS/(LIABILITIES)	1,645,668	1,120,676	(4,847)	238,086	288,832

FIVE-YEAR FINANCIAL SUMMARY (CONT'D)

PER SHARE DATA

	Year ended	Sixteen		Year ended 31 st August,		
	31st December,	months ended	31st December,	1996	1995	1994
	1998	1997	1996	1995	1994	1994
	<i>HK\$ cents</i>	<i>HK\$ cents</i>	<i>HK\$ cents</i>	<i>HK\$ cents</i>	<i>HK\$ cents</i>	<i>HK\$ cents</i>
(Loss)/earnings per share	<u>(55.0)</u>	<u>(0.1)</u>	<u>(30.1)</u>	<u>(6.1)</u>	<u>1.8</u>	<u>1.8</u>
Dividends per share	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.8</u>	<u>0.8</u>
Net asset/(liability) value per share	<u>120.1</u>	<u>101.9</u>	<u>(0.6)</u>	<u>29.5</u>	<u>35.8</u>	<u>35.8</u>

The financial data of the five year financial summary have been adjusted to take into account the bonus issue of shares made during the period ended 31st December, 1997 and the prior period adjustments for the year ended 31st December, 1998.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the Multi-Purpose Room, 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong on Monday, 28th June, 1999 at 10:00 a.m. for the following purposes:

1. To receive and consider the Audited Accounts for the year ended 31st December, 1998 together with the Directors' Report and the Auditors' Report thereon.
2. To re-elect the Directors and to fix their remuneration.
3. To appoint auditors and to authorise the Directors to fix their remuneration. A special notice has been received from a shareholder of the Company, pursuant to Section 89(3) of the Companies Act 1981, Bermuda, of the intention to propose the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT** PricewaterhouseCoopers be and are hereby appointed auditors of the Company in place of the retiring auditors, Price Waterhouse, to hold office until the conclusion of the next annual general meeting at a fee to be agreed with the Directors."

By Order of the Board

WAI Ching Sum

Company Secretary

Hong Kong, 14th May, 1999

Notes:

1. A member entitled to attend and vote is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. To be valid the proxy form together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited with the Company's Branch Registrars in Hong Kong, Tengis Limited at Room 1601, Hutchison House, 10 Harcourt Road, Hong Kong, not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.
3. Following the merger of our exiting auditors, Price Waterhouse, with Coopers & Lybrand, to form a new firm, PricewaterhouseCoopers, Price Waterhouse will not seek for reappointment at the meeting, and a resolution to appoint PricewaterhouseCoopers as auditors of the Company will be proposed at the meeting.

DIRECTORS

Executive Directors

Chen Zhongbiao (*Chairman*)
Dong Jiufeng (*Vice-Chairman*)
Kwong Che Keung, Gordon (*Managing Director*)
Zhu Guangyun
Chen Wenzhen
Zhang Yongjian
Dong Shu Sen
Zuo Wei

Independent Non-Executive Directors

Chan Cheong Foon, Andrew
Kwok Shiu Keung, Ernest
Alexander Reid Hamilton

COMPANY SECRETARY

Wai Ching Sum

AUDIT COMMITTEE

Chan Cheong Foon, Andrew
Kwok Shiu Keung, Ernest
Alexander Reid Hamilton

AUDITORS

Price Waterhouse

SOLICITORS

Woo, Kwan, Lee & Lo
Conyers Dill & Pearman

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Bank of China, Hong Kong Branch

PRINCIPAL REGISTRARS

Westbroke Limited
Clarendon House
Church Street
Hamilton HM 11
Bermuda

BRANCH REGISTRARS IN HONG KONG

Tengjs Limited
1601 Hutchison House
10 Harcourt Road
Hong Kong

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL

PLACE OF BUSINESS IN HONG KONG

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

SHARE LISTING

The Company's shares are listed on
The Stock Exchange of Hong Kong Limited
(The Stock Code: 517)

INVESTORS RELATIONS

For further information about the Company,
please contact:
Public Relations and Company Secretarial
Department
47th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong
Telephone: (852) 2809 7888
Facsimile: (852) 2907 6107



COSCO INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

PROXY FORM FOR ANNUAL GENERAL MEETING TO BE HELD ON 28TH JUNE, 1999

I/We ¹ (name)
of (address)
being a member/members of ² shares of HK\$0.10 each
in the capital of COSCO International Holdings Limited (the "Company") hereby appoint ³ the Chairman of the Meeting
or (name) of
..... (address)
as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the
Multi-Purpose Room, 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong on Monday, 28th June, 1999 at
10:00 a.m., and at any adjournment thereof on the undermentioned resolutions as indicated:

		For ⁴	Against ⁴
1.	To receive and consider the Audited Accounts for the year ended 31st December, 1998 together with the Directors' Report and the Auditors' Report thereon.		
2.	(i) To re-elect Mr. Chen Zhongbiao as a Director.		
	(ii) To re-elect Mr. Dong Jiufeng as a Director.		
	(iii) To re-elect Mr. Kwong Che Kwong, Gordon as a Director.		
	(iv) To re-elect Mr. Zhu Guangyun as a Director.		
	(v) To re-elect Ms. Chen Wenzhen as a Director.		
	(vi) To re-elect Mr. Zhang Yongjian as a Director.		
	(vii) To re-elect Mr. Dong Shu Sen as a Director.		
	(viii) To re-elect Mr. Zuo Wei as a Director.		
	(ix) To re-elect Mr. Chan Cheong Foon, Andrew as a Director.		
	(x) To re-elect Mr. Alexander Reid Hamilton as a Director.		
	(xi) To fix the Directors' fees.		
3.	To appoint PricewaterhouseCoopers as auditors of the Company and to authorise the Directors to fix their remuneration.		

Dated this day of 1999

Signature ⁵

Notes:

- Full name(s) and address(es) to be inserted in BLOCK CAPITALS.
- Please insert the number of shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the capital of the Company registered in your name(s).
- If any proxy other than the Chairman of the meeting is preferred, please strike out the words "the Chairman of the meeting or" and insert the name and address of the proxy desired in the space provided.
- Please indicate with a 'X' in the appropriate box beside the resolutions how you wish the proxy to vote on your behalf. In the absence of any such indication the proxy will vote for or against the resolutions or will abstain at his discretion.
- This proxy form must be signed by you or your attorney duly authorised in writing.
- To be valid this proxy form together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's Branch Registrars in Hong Kong, Tengis Limited at Room 1601, Hutchison House, 10 Harcourt Road, Hong Kong, not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.
- A member entitled to attend and vote is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company.
- Any alteration made to this proxy form must be initialled by the person who signs it.