



Interim Report **2003** 中期報告



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

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## CORPORATE INFORMATION

### DIRECTORS

#### Executive Directors

Mr. Wei Jiafu (Chairman)  
Mr. Liu Guoyuan (Vice-Chairman)  
Mr. Li Jianhong  
Mr. Zhou Liancheng  
Mr. Liu Hanbo (Managing Director)  
Mr. Lu Zhiming  
Mr. Liang Yanfeng  
Mr. Chen Pisen  
Mr. Meng Qinghui  
Mr. Dong Shu Sen  
(resigned on 13th July 2003)

#### Non-Executive Director

Mr. Kwong Che Keung, Gordon

#### Independent Non-Executive Directors

Mr. Chan Cheong Foon, Andrew  
Mr. Alexander Reid Hamilton

#### COMPANY SECRETARY

Ms. Wai Ching Sum

#### AUDIT COMMITTEE

Mr. Chan Cheong Foon, Andrew  
(Committee Chairman)  
Mr. Alexander Reid Hamilton

#### AUDITORS

PricewaterhouseCoopers

#### SOLICITORS

Woo, Kwan, Lee & Lo  
Heller Ehrman White & McAuliffe  
Conyers Dill & Pearman

#### PRINCIPAL BANKERS

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

### PRINCIPAL REGISTRARS

Codan Services Limited  
Clarendon House  
Church Street  
Hamilton HM11  
Bermuda

### HONG KONG BRANCH REGISTRARS

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

### REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

### LISTING INFORMATION

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

### INVESTORS RELATIONS

For further information about  
the Company, please contact:  
Company Secretarial Department  
47th Floor, COSCO Tower  
183 Queen's Road Central  
Hong Kong

Telephone : (852) 2809 7888  
Facsimile : (852) 2548 8214  
Website : <http://www.coscointl.com>  
E-mail : [info@coscointl.com](mailto:info@coscointl.com)



## MANAGING DIRECTOR'S REPORT

We are pleased to announce that COSCO International Holdings Limited (the "Company") and its subsidiaries (the "Group") achieved operating profit amounted to HK\$26,065,000 in the first half of 2003 despite the sluggish global economy and the outbreak of atypical pneumonia.

During the period, the Group achieved steady growth by positioning itself in properties and actively exploring the business opportunities of ship trading and supplying services. During the period, the Group acquired 20% equity interests in a property development and investment company, COSCO Real Estate Development Co., Ltd. ("CRED"). In addition, the Group successfully bid for a piece of land situated at Beita Xin Cun, Shenyang which will be developed into a mid to high class residential area, COSCO Yihe Garden. Thereafter, the Group will keep its efforts to explore more lucrative projects relating to the core businesses of China Ocean Shipping (Group) Company ("COSCO"), striving to become a major conglomerate of COSCO.

### Properties

Owing to the adverse impact of the conflict between the United States and Iraq as well as the outbreak of atypical pneumonia, local economy remained uncertain. Declining office rents and occupancy rate of grade-A commercial office, with completion of new commercial buildings in the same district, further intensified the market competition. Despite all these, eight storeys in COSCO Tower owned by the Group recorded an occupancy rate of over 97% during the period under review, providing the Group with stable income.

Basically all units of Phase I of Fragrant Garden in Shanghai Hongkou District developed by the Group were sold out and delivered. Pre-sale of Phase II was launched as scheduled. As at the end of June 2003, over 40% of the units were either subscribed or sold. Construction of Phase II was in good progress and expected to complete by the end of second quarter in 2004.

In early 2003, the Group announced the acquisition of 20% of the enlarged share capital of CRED. The transaction had already completed in July 2003. The Group also announced to sell its entire 49% equity interests in Beijing Tian Lin Property Development Co., Ltd. to



Yuan Kun Property Development Co., a subsidiary of CRED, which will be completed by end of the third quarter in 2003.

In order to further capture the China Mainland's property market, the Company entered into an agreement with Guangzhou Yihe Investment & Development Co., Ltd. and COSCO Guangzhou Construction Industry Company, a subsidiary of COSCO, to establish a sino-foreign equity joint venture, Shenyang COSCO Yihe Property Development Co., Ltd. ("Shenyang COSCO Yihe") on 12th June 2003. The transaction was approved at the special general meeting held on 22nd July 2003 and completed on the same day. Shenyang COSCO Yihe was formally established on 16th July 2003. It will develop a residential estate namely "COSCO Yihe Garden", at the site situated within the inner ring of Shenyang City with a total area of 72,600 square meters in the Yu Hung District, Shenyang. The gross floor area is 200,000 square meters. The whole project is expected to complete in two phases within three and a half years. Pre-sale of Phase I is expected to be launched at the earliest in 2004.

### **Ship Trading and Supplying Services**

After becoming one of the subsidiaries of the Group on 1st July 2002, COSCO International Ship Trading Company Limited ("COSCO Ship Trading") has been one of the main sources of profit driver for the Group. As one of the largest professional shipbrokers and providers of commercial and technical consulting services in Hong Kong, the principal activities of COSCO Ship Trading include sale and purchase of new and second-hand vessels (including scrap vessels), bareboat charter, marine equipments for new shipbuilding projects and provision of consulting services in ship techniques, business and trade, shipping market analysis, ship valuation and finance. During the period, COSCO Ship Trading achieved satisfactory results, realising profits before taxation of approximately HK\$17,140,000.

During the period, COSCO Ship Trading not only improved the quality of human resources by offering more staff training, but also enhanced the development of information system by upgrading the operation interface for its new vessel database and interface for its statistics and output functions. It intends to develop an information platform on which an electronic networking system with a centralised database will be established.



## **Building Construction**

During the period, the Government of HKSAR announced to further suspend building flats under Home Ownership Scheme. In view of the reduction in building public housing estates, the number of government projects will remain at a relatively low level in the foreseeable future. In addition, private property market has not yet revived and only few private construction projects were contracted out during the period. In response to fierce market competition, Shun Shing Construction & Engineering Company, Limited ("SSCE"), a wholly owned subsidiary of the Group, actively tendered for a number of maintenance and improvement works in private and public sectors during the period. By bidding for projects including construction, maintenance and improvement works in both private and public sectors, SSCE strive to diversify its contracted works to provide clients with "one-stop" construction and engineering services, maintaining stable income amongst the poor economic environment.

During the period, SSCE strengthened its control over construction cost, construction quality and works progress, and strictly implemented the safety measures. Our senior management had regular on-site inspections to construction sites during the period and set up safety guidelines for all frontline foremen and site workers to follow. With a view to familiarising its workers with safety measures, SSCE also carried out fire drills and strong wind precautions. In addition, SSCE implemented Occupational Health and Safety Management System and obtained OHSAS 18001 certification issued by Hong Kong Quality Assurance Agency in early 2003, evidencing that SSCE attained international recognition in this aspect. During the period, SSCE improved its communication with subcontractors, ensuring the working schedule, construction quality and safety management were up to standard.

The Sky Tower, a large residential project located at To Kwa Wan, the first move of SSCE to the private property development market, is scheduled to complete in early 2004. The whole project with a gross floor area of 173,075 square meters had a contract value of HK\$867,000,000.

## **Infrastructure**

During the period, Henan Xinzhongyi Electric Power Co., Ltd ("Henan Power Plant") adopted a series of management measures in order to strengthen its control and



monitoring over the operation of power plant. With the rapid development of macro economy and the persistently hot weather in the China Mainland during the first half of 2003, electricity supply was under pressure and a number of power plants had to restrict the supply during peak hours. The Central Government therefore introduced a reform policy on power supply system, regulating the operation of the power market. The reform also proposed to separate the operation of power grids from power plants, and stressed the awareness of safety management. Coupled with the changes in the operating environment induced by the reform, Henan Power Plant will continue its efforts in cost control and strive for more saleable power rationing. It will also seek the opportunities to implement "self-run, self-regulated" management measures so as to enhance the overall management standard. The Group is confident that with its continuous improvement in management, in depth research and analysis, together with its flexible contingency plan, profit contributions from Henan Power Plant to the Group can be sustained.

### **Future Outlook**

Looking ahead, the Group will continue to develop and consolidate its existing businesses. The Group will seek to invest any business with promising prospects and related to the core businesses of COSCO.

Most of the tenancy agreements in COSCO Tower will be expired by the end of 2003, reflecting that the current rental market has little impact on the rental income of the Group for the year ending 2003. The Company will keep a close eye on the latest development of the rental market and initiate negotiation of tenancy renewal with existing tenants for a stable rental income for the Group.

According to the latest market research, the economy of the China Mainland is thriving rapidly with a robust growth rate between 6.5% and 7% in the second quarter. In relation to the property market, the Central Government promulgated new laws and regulations monitoring individual loan credits in mid 2003. The property market is expected to sustain solid growth after self-adjustment and elimination of competitors with poor performance. With the accession of China into World Trade Organization, Beijing's 2008 Olympic Games and 2010 World Expo to be held in Shanghai, these factors are favorable to further fuel the economic development in China. Besides, the Closer Economic Partnership Arrangement signed by the Central Government and the Government of



HKSAR will boost the flow of human resources and goods across the border. In the long run, economic growth in Hong Kong and the China Mainland is anticipated and the demand for houses is increasing. The Group will tap every chance and make well preparation so as to position property development as one of its principal businesses.

As to the ship trading and supplying services sector, market demand for new vessels and shipbuilding projects is expected to increase steadily. Apart from performing as a window company of COSCO in ship trading business and as a sole shipping agent of the COSCO group, the Group will actively explore non-COSCO businesses to add growth to profits and achieve better economic efficiency. In addition, the Group had been actively studied the possibility of developing paint business, which is related to the core businesses of COSCO. On 14th August 2003, the Company announced the acquisition of 34.19% equity interests in Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. respectively, and 10% equity interests in International Paint of Shanghai Co., Ltd. at a total consideration of RMB75,980,000. As the respective vendors, COSCO Industry Company Ltd. and Shen-John Investment Company L.L.C. are subsidiaries of COSCO, a special general meeting will be convened on 23rd September 2003 to seek approval of independent shareholders of the Company. It is expected that the Company will further develop business in ship trading and supplying services sector through the integration of paint business within the COSCO group.

## CONCLUSION

In tandem with its emphasis on profitability, market awareness, quality services, solid management and team spirit, the Group will continue to strive for improved results in the second half of the year, standing ready to overcome any difficulties that may arise.

On behalf of the board of directors (the "Board") of the Company, I would like to express my most sincere gratitude to our business partners, bankers, clients, suppliers and shareholders for their unfailing support and trust. Appreciation is also due to our dedicated staff for their commitment and hard work.

By the order of the Board

**LIU Hanbo**

*Managing Director*

Hong Kong, 4th September 2003



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

For the six months ended 30th June 2003, the Group achieved a turnover of HK\$449,480,000, a 39% increase over that of the same period last year. The increase was primarily attributable to the increase in the turnover of the building construction business. Revenue from the construction contract of the private residential development project, the Sky Tower, had not attained a completion level at which turnover could be recognised in the same period of last year under the accounting policy adopted by the Group, was accounted for in the current period. In addition, turnover by the ship trading business was recognised for in the current period after the completion of the acquisition of a 60% equity interest in COSCO Ship Trading on 1st July 2002. Despite the gross profit contributed by the ship trading business, the gross profit of the Group dropped by 1% as a result of the decrease in the profit margin of the building construction business.

The Group achieved an operating profit of HK\$26,065,000 after taking into accounts of a profit of HK\$17,141,000 from the ship trading segment. There is a decrease of HK\$13,579,000 as compared with the same period of last year. The decline was attributable to the decrease of profits in the property development and building construction segments by HK\$6,759,000 and HK\$23,918,000 respectively.

The Group attained a profit attributable to shareholders of HK\$831,000 for the period, a 95% drop from that of the same period of last year.

### FINANCIAL RESOURCES AND LIQUIDITY

For the six months ended 30th June 2003, shareholders' funds of the Group increased by 0.1% to HK\$1,005,112,000 resulting from the profit generated during the period. For the corresponding period of last year, the shareholders' funds increased by 1% to HK\$1,560,009,000.

The net repayment of bank loans amounted to HK\$8,150,000 (2002: HK\$328,916,000) during the period. As at 30th June 2003, total banking facilities available to the Group amounted to HK\$1,287,750,000 (31st December 2002: HK\$1,507,615,000), of which HK\$1,098,131,000 (31st December 2002: HK\$1,106,281,000) was utilised. The reduction in



utilisation of banking facilities was primarily attributable to the repayment of bank loans by applying the rental proceeds received from the eight storeys of COSCO Tower. The gearing ratio, which represents total bank loans over total assets, was approximately 43% (31st December 2002: 44%).

As at 30th June 2003, the Group's borrowings were denominated in Hong Kong dollars and Renminbi and carried at interest rates calculated with reference to Hong Kong Interbank Offered Rate and the Base Rate announced by the People's Bank of China respectively. During the period, the Group did not have any financial instruments for hedging purpose.

The maturity and currency profiles of the outstanding bank loans as at 30th June 2003 are analysed as follows:

	30th June 2003		31st December 2002	
	HK\$'000	%	HK\$'000	%
<b>Maturity profiles:</b>				
Bank loans repayable				
— within one year	<b>145,000</b>	<b>13</b>	155,000	14
— in the second year	<b>222,071</b>	<b>20</b>	171,281	15
— in the third to fifth year	<b>731,060</b>	<b>67</b>	780,000	71
	<b>1,098,131</b>	<b>100</b>	1,106,281	100
<b>Secured</b>				
	<b>716,060</b>	<b>65</b>	853,281	77
<b>Unsecured</b>				
	<b>382,071</b>	<b>35</b>	253,000	23
	<b>1,098,131</b>	<b>100</b>	1,106,281	100
<b>Currency profiles:</b>				
Hong Kong Dollar	<b>1,006,060</b>	<b>92</b>	1,033,000	93
Renminbi	<b>92,071</b>	<b>8</b>	73,281	7
	<b>1,098,131</b>	<b>100</b>	1,106,281	100



As at 30th June 2003, investment properties in Hong Kong of HK\$313,000,000 (31st December 2002: HK\$313,000,000) and other properties in Hong Kong of HK\$730,677,000 (31st December 2002: HK\$738,806,000) were pledged as securities to a bank in respect of certain banking facilities granted to the Group.

Cash and bank balances amounted to HK\$434,995,000 (31st December 2002: HK\$486,117,000) as at 30th June 2003 accounted for 43% (31st December 2002: 53%) of the current assets of the Group. In addition to the above, there is no bank balances (31st December 2002: HK\$54,129,000) being restricted for the purpose of granting a banking facility to a subsidiary of the Company.

## **EMPLOYEES**

As at 30th June 2003, excluding associated companies and jointly controlled entities, the Group had approximately 275 (31st December 2002: 292) employees of whom 151 (31st December 2002: 158) are employed in Hong Kong. During the period, staff costs including directors' emoluments, net of amount capitalised in construction contract in progress of HK\$11,460,000 (2002: HK\$19,183,000) totalled to HK\$16,516,000 (2002: HK\$17,579,000). All the staff employed in Hong Kong participate in the Mandatory Provident Fund Scheme.



## CONSOLIDATED INCOME STATEMENT

for the six months ended 30th June 2003

	Note	Unaudited Six months ended 30th June	
		2003 HK'000	2002 HK'000
<b>TURNOVER</b>	2	<b>449,480</b>	324,487
Cost of sales		<b>(389,306)</b>	(263,849)
Gross profit		<b>60,174</b>	60,638
Other revenues		<b>2,708</b>	4,510
Other operating income		<b>3,923</b>	3,668
Administrative expenses		<b>(33,569)</b>	(26,354)
Other operating expenses		<b>(7,171)</b>	(2,818)
<b>OPERATING PROFIT</b>	3	<b>26,065</b>	39,644
Finance costs		<b>(13,044)</b>	(16,278)
Share of results of associated companies		—	855
Share of results of jointly controlled entities		<b>2,250</b>	3,077
<b>PROFIT BEFORE TAXATION</b>		<b>15,271</b>	27,298
Taxation	4	<b>(7,920)</b>	(7,836)
<b>PROFIT AFTER TAXATION</b>		<b>7,351</b>	19,462
Minority interests		<b>(6,520)</b>	(1,797)
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>831</b>	17,665
<b>EARNINGS PER SHARE BASIC</b>	5	<b>0.06 cents</b>	1.27 cents
<b>FULLY DILUTED</b>		<b>Not Applicable</b>	Not Applicable

## CONSOLIDATED BALANCE SHEET

as at 30th June 2003

	Note	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
<b>GOODWILL</b>		<b>38,641</b>	39,658
<b>FIXED ASSETS</b>	7	<b>1,091,743</b>	1,101,740
<b>ASSOCIATED COMPANIES</b>		<b>2,784</b>	2,784
<b>JOINTLY CONTROLLED ENTITIES</b>		<b>263,796</b>	262,744
<b>OTHER INVESTMENT IN A JOINT VENTURE</b>		<b>67,651</b>	77,868
<b>INVESTMENT SECURITIES</b>		<b>54,869</b>	62,645
<b>OTHER NON-CURRENT ASSETS</b>	9	<b>—</b>	54,129
<b>CURRENT ASSETS</b>			
Properties held for sale		<b>68,664</b>	68,614
Properties under development for sale		<b>214,066</b>	165,200
Trade and other receivables	8	<b>294,860</b>	181,817
Short-term investments		<b>8,539</b>	9,238
Cash and bank balances	9	<b>434,995</b>	486,117
		<b>1,021,124</b>	910,986
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	<b>370,821</b>	348,363
Taxation		<b>12,019</b>	5,622
Current portion of long-term bank loans	12	<b>30,000</b>	90,000
Bank loan, unsecured		<b>115,000</b>	65,000
		<b>527,840</b>	508,985
<b>NET CURRENT ASSETS</b>		<b>493,284</b>	402,001
		<b>2,012,768</b>	2,003,569
Financed by:			
<b>SHARE CAPITAL</b>	11	<b>139,439</b>	139,439
<b>RESERVES</b>		<b>865,673</b>	864,846
<b>SHAREHOLDERS' FUNDS</b>		<b>1,005,112</b>	1,004,285
<b>LONG-TERM BANK LOANS</b>	12	<b>953,131</b>	951,281
<b>MINORITY INTERESTS</b>		<b>54,525</b>	48,003
		<b>2,012,768</b>	2,003,569



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30th June 2003

	Unaudited	
	Six months ended 30th June	
	2003	2002
	HK'000	HK'000
Net cash flow (used in)/from operating activities	(87,459)	354,274
Net cash flow from/(used in) investing activities	61,556	(24,658)
Net cash flow used in financing activities	(20,840)	(328,916)
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(46,743)</b>	700
Cash and cash equivalents at beginning of period	368,489	401,621
Changes in exchange rates	(4)	(46)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>321,742</b>	402,275
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	434,995	575,437
Bank deposits with maturity more than three months from the date of placement	(113,253)	(173,162)
	<b>321,742</b>	402,275

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the six months ended 30th June 2003

Unaudited  
Six months ended 30th June 2003

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>At 1st January 2003</b>	139,439	2,356,553	60,020	(2,043)	(1,549,684)	1,004,285
<b>Exchange differences</b>	—	—	—	(4)	—	(4)
<b>Profit for the period</b>	—	—	—	—	831	831
<b>At 30th June 2003</b>	139,439	2,356,553	60,020	(2,047)	(1,548,853)	1,005,112

Unaudited  
Six months ended 30th June 2002

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>At 1st January 2002</b>	139,439	2,356,553	56,683	(2,027)	(1,008,291)	1,542,357
<b>Exchange differences</b>	—	—	—	(13)	—	(13)
<b>Profit for the period</b>	—	—	—	—	17,665	17,665
<b>At 30th June 2002</b>	139,439	2,356,553	56,683	(2,040)	(990,626)	1,560,009



## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed Interim Financial Statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25. “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (“HKSA”) and Appendix 16 of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The condensed Interim Financial Statements should be read in conjunction with the 2002 Annual Financial Statements.

The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in the Annual Financial Statements for the year ended 31 December 2002 except that the Group has adopted revised SSAP12 “Income Taxes” issued by the HKSA which became effective for accounting periods commencing on or after 1st January 2003.

The adoption of the above revised SSAP has no material effect on the Group’s results and net asset value.

### 2. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in property investment and development, building construction and civil engineering, infrastructure investment and provision of ship trading and supplying services.



## 2. TURNOVER AND SEGMENT INFORMATION (cont'd)

### Primary reporting format — business segments

The Group is organised into five main business segments:

Property development	—	development of properties
Building construction	—	construction of buildings and civil engineering
Property investment	—	holding of properties for rental purpose
Infrastructure investment	—	investment in a power plant project
Ship trading	—	trading of vessels, marine equipments and bareboat charter business

Other operations of the Group comprise mainly holding of investment securities, investment in high technology project and provision of building management services, neither of which are of a sufficient size to be reported separately.

### Secondary reporting format — geographical segments

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

Hong Kong	—	all of the Group's business segments except for infrastructure investment
China Mainland	—	all of the Group's business segments except for building construction

There are no sales between geographical segments.



## 2. TURNOVER AND SEGMENT INFORMATION (cont'd)

### Primary reporting format — business segments

	Six months ended 30th June 2003						
	Property development	Building construction	Property investment	Infrastructure investment	Ship trading	Other operations	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover	85,185	297,476	27,523	11,274	26,770	1,252	449,480
Segment results	9,607	(10,933)	22,100	318	17,141	(699)	37,534
Unallocated corporate expenses, net of income							(11,469)
Operating profit							26,065
Finance costs							(13,044)
Share of results of a jointly controlled entity	2,250	—	—	—	—	—	2,250
Profit before taxation							15,271
Taxation							(7,920)
Profit after taxation							7,351
Minority interests							(6,520)
Profit attributable to Shareholders							831

## 2. TURNOVER AND SEGMENT INFORMATION (cont'd)

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

	Six months ended 30th June 2002						
	Property	Building	Property	Infrastructure	Ship	Other	Group
	development	construction	investment	investment	trading	operations	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment turnover	101,907	185,631	29,762	7,187	—	—	324,487
Segment results	16,366	12,985	19,630	1,371	—	3,150	53,502
Unallocated corporate expenses, net of income							(13,858)
Operating profit							39,644
Finance costs							(16,278)
Share of results of an associated company	—	855	—	—	—	—	855
Share of results of jointly controlled entities	4,342	—	—	—	—	(1,265)	3,077
Profit before taxation							27,298
Taxation							(7,836)
Profit after taxation							19,462
Minority interests							(1,797)
Profit attributable to Shareholders							17,665



## 2. TURNOVER AND SEGMENT INFORMATION (cont'd)

### Secondary reporting format — geographical segments

	Segment turnover		Segment results	
	Six months ended 30th June		Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	<b>350,504</b>	216,655	<b>26,447</b>	34,545
China Mainland	<b>98,976</b>	107,832	<b>11,087</b>	18,957
	<b>449,480</b>	324,487	<b>37,534</b>	53,502
Unallocated corporate expenses, net of income			<b>(11,469)</b>	(13,858)
Operating profit			<b>26,065</b>	39,644



### 3. OPERATING PROFIT

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

	<b>Six months ended</b>	
	<b>30th June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Crediting</b>		
Net rental income	<b>27,703</b>	27,692
Net realised and unrealised gains on investments in securities	—	3,150
<b>Charging</b>		
Depreciation, net of amounts capitalised in construction contracts in progress and properties under development for sale totalling HK\$916,000 (2002: HK\$1,044,000)	<b>10,326</b>	11,948
Amortisation of the cost of other investment in a joint venture	<b>10,217</b>	4,726
Amortisation of goodwill	<b>1,017</b>	—
Staff costs, net of amount capitalised in construction in progress totalling HK\$11,460,000 (2002: HK\$19,183,000)	<b>16,516</b>	17,579
Pension costs — defined contribution plans	<b>388</b>	349
Net realised and unrealised loss on investments in securities	<b>699</b>	—



#### 4. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the period. In 2002, no Hong Kong profits tax had been provided as there was no estimated assessable profit.

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

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

	<b>Six months ended</b>	
	<b>30th June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Company and subsidiaries		
— Hong Kong taxation	<b>2,712</b>	—
— China Mainland taxation	<b>4,010</b>	4,856
Share of taxation attributable to a jointly controlled entity in China Mainland	<b>1,198</b>	2,980
	<b>7,920</b>	7,836

#### 5. EARNINGS PER SHARE

The calculation of basic and fully diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$831,000 (2002: HK\$17,665,000). The basic earnings per share is based on the weighted average number of 1,394,389,291 (2002: 1,394,389,291) shares in issue during the period.

There is no potential dilutive shares in issue during the period and for the comparative period.

## 6. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2003 (2002: Nil).

## 7. FIXED ASSETS

	HK\$'000
Net book value at 1st January 2003	1,101,740
Additions	1,330
Disposal/write-off	(85)
Depreciation	(11,242)
Net book value at 30th June 2003	1,091,743

## 8. TRADE AND OTHER RECEIVABLES

At 30th June 2003, trade and other receivables included trade receivables amounting to HK\$116,756,000 (31st December 2002: HK\$74,118,000). The ageing analysis of the trade receivables is as follows:

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Current – 90 days	97,119	56,864
91 – 180 days	5,058	5,821
Over 180 days	14,579	11,433
	116,756	74,118

The Group's revenue from building construction contracts is billed according to certified progress billings, revenue from sales of properties and other operating revenues are billed according to terms of the relevant contracts governing the transactions. All invoices billed are payable upon presentation of invoices.



## 9. CASH AND BANK BALANCES

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
Cash and bank balances	<b>434,995</b>	540,246
Restricted bank deposits	—	(54,129)
	<b>434,995</b>	486,117

At 31st December 2002, the Group's bank deposits of HK\$54,129,000 are restricted for the purpose of a long-term banking facility granted to the Group (Note 12).

## 10. TRADE AND OTHER PAYABLES

At 30th June 2003, trade and other payables included trade payables amounting to HK\$121,406,000 (31st December 2002: HK\$91,908,000). The ageing analysis of the trade payables is as follows:

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
Current – 90 days	<b>28,601</b>	54,955
91 – 180 days	<b>3,535</b>	4,082
Over 180 days	<b>89,270</b>	32,871
	<b>121,406</b>	91,908

## 11. SHARE CAPITAL

	30th June 2003		31st December 2002	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:				
Shares of HK\$0.10 each	<b>3,000,000,000</b>	<b>300,000</b>	3,000,000,000	300,000
Issued and fully paid:				
Shares of HK\$0.10 each at 1st January and at period/year end	<b>1,394,389,291</b>	<b>139,439</b>	1,394,389,291	139,439

## 12. LONG-TERM BANK LOANS

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Bank loans		
Secured	<b>716,060</b>	853,281
Unsecured	<b>267,071</b>	188,000
	<b>983,131</b>	1,041,281
Amount repayable within one year included in current liabilities	<b>(30,000)</b>	(90,000)
	<b>953,131</b>	951,281
The bank loans are repayable as follows:		
Within one year	<b>30,000</b>	90,000
In the second year	<b>222,071</b>	171,281
In the third to fifth year	<b>731,060</b>	780,000
	<b>983,131</b>	1,041,281



### 13. INVESTMENT COMMITMENTS

At 30th June 2003, the Group had the following investment commitments:

- (i) On 24th January 2003, the Group entered into the share transfer and capital injection agreement and the joint venture agreement for the acquisition of a 23.4% equity interest in CRED, a 50% owned company of COSCO, from COSCO for a cash consideration of RMB191,750,000, and the participation in the capital injection by the Group for an aggregate amount of RMB26,500,000. Upon completion of the transaction, the Group will hold 20% of the enlarged equity interest in CRED.
- (ii) On 12th June 2003, the Group entered into a co-operative agreement whereby the parties conditionally agreed to establish a joint venture company to develop a property development project in Shenyang, the PRC.

Pursuant to the terms of the co-operative agreement, the Group will contribute approximately HK\$47,910,000 to the registered capital of the joint venture company thereby giving the Group 51% equity interest in the joint venture company. In addition, the Group will also advance shareholder's loan up to approximately HK\$47,910,000 to the joint venture company. One of the joint venture parties which owns 29% of equity interest in the joint venture company is a subsidiary of COSCO.

### 14. CONTINGENCIES

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
Performance bonds in respect of performance and completion of construction contracts	<b>10,271</b>	10,271
Claims for liquidated damages and cost of rectification works in respect of a completed construction contract	<b>42,500</b>	42,500
Guarantee and counter-indemnity to bank guarantees in respect of due performance of management and remedial cost of a property undertaken by the Group	<b>43,000</b>	43,000

## 15. RELATED PARTY TRANSACTIONS

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

		<b>Six months ended 30th June</b>	
		<b>2003</b>	2002
Note		<b>HK\$'000</b>	HK\$'000
<hr/>			
Rental income received from			
An intermediate holding company	(i)	<b>1,037</b>	1,037
Fellow subsidiaries	(i)	<b>15,414</b>	16,759
Commission income for			
provision of agencies services	(ii)	<b>26,770</b>	—
<hr/>			

Notes:

- (i) Ten tenancy agreements were entered into between certain subsidiaries of the Company as landlords, and COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") or its subsidiaries as tenants, for the lease of certain properties of the Group at COSCO Tower at an average monthly rental of approximately HK\$33 (2002: HK\$33) per square foot.
- (ii) Certain subsidiaries of the Company act as agent of COSCO and its subsidiaries in respect of (a) sale and purchase of new and second hand vessels, (b) bareboat charter businesses, and (c) sale and purchase of marine equipment for new ship-building projects. According to the terms of the relevant engagement/ commission agreements, the Group received commission income from vendors, ship-owners and equipment makers with respect to the transactions mentioned above.



## OTHER INFORMATION

### INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2003 (2002: Nil).

### SHARE OPTIONS

Pursuant to the Company's share option scheme (the "Scheme") approved by its shareholders on 17th May 2002, the Board may, at their discretion, grant options to the following participants to subscribe for shares in the Company:

1. any director of the Group;
2. any director of the substantial shareholders of the Company;
3. any employee of the Group;
4. any employee of the Company's substantial shareholder or any employee of such substantial shareholders' subsidiaries or associated companies;
5. any business associate of the Group; and
6. any business associate of any substantial shareholder of each member of the Group.

The Scheme is valid and effective for a period of 10 years commenced on 17th May 2002 and will expire on 16th May 2012. The Scheme has complied with Chapter 17 of the Listing Rules of the Stock Exchange.

No share option was granted under the Scheme during the period.

**DIRECTORS' INTERESTS IN SECURITIES**

As at 30th June 2003, the interests of the directors and chief executives of the Company or their respective associates (within the meaning of the Securities and Future Ordinance ("SFO")) in the equity or debt securities of the Company which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

**1. Directors' interests in shares**

Name of director	Number of shares held	
	Personal interests	Percentage
Mr. Chen Pisen	500,000	0.04%

**2. Directors' interests in shares of associated corporations**

Name of associated corporation	Name of director	Number of shares held	
		Personal interests	Percentage
COSCO Pacific Limited	Mr. Kwong Che Keung, Gordon	250,000	0.01%

**3. Directors' interests in share options granted by associated corporations**

Name of associated corporation	Name of director	Outstanding as at 1st January 2003	Number of share options			
			Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30th June 2003
COSCO Pacific Limited	Mr. Lu Zhiming	1,500,000	—	—	—	1,500,000*

\* The share options were granted by COSCO Pacific Limited on 1st July 1996 and are exercisable at HK\$5.53 per share at any time between 1st July 1996 and 30th June 2006.



Save as disclosed above and in the section headed "Share Options", as at 30th June 2003, none of the directors and the chief executives of the Company had interests in the equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS

As at 30th June 2003, the persons, other than the directors and chief executive of the Company, who had interests or short positions in the share capital and underlying share capital of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of shareholders	Ordinary shares held	Percentage of total issued shares
COSCO	829,360,511	59.48%
COSCO Hong Kong*	829,360,511	59.48%
True Smart International Limited*	527,060,904	37.80%
COSCO Investments Limited*	302,299,607	21.68%

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

## SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

Pursuant to paragraph 3.7.1 of Practice Note 19 of the Listing Rules of the Stock Exchange, the Company disclosed details of a loan agreement containing covenants that require specific performance obligations of the controlling shareholder as follows:

A secured term loan facility amounted HK\$780,000,000 was granted by Bank of China (Hong Kong) Limited to the Company in August 1998 and amended on 9th June 2001 to finance the acquisition of eight storeys in COSCO Tower. The secured term loan facility is



repayable on or before 18th June 2006. The loan is guaranteed unconditionally and irrevocably by COSCO Hong Kong which has undertaken, amongst others, that:

- (i) it will procure that the ultimate holding company will maintain a 51% equity interest, either directly or indirectly, in it and such equity interest remains free from any security interests (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 interests (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 remain free from any security interests (save for any of such existing thereon prior to the date of the guarantee); and
- (iv) it will maintain an equity interest, either directly or indirectly, of not less than 35% in the Company and such equity interest being the single largest shareholding in the Company.

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

During the six months ended 30th June 2003, the Company had not redeem, and neither the Company nor any of its subsidiaries had purchase or sell any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters with management including a review of the interim financial statements of the Group for the six months ended 30th June 2003.

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not at any time during the six months ended 30th June 2003 in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules of the Stock Exchange.



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