



COSCO International Holdings Limited

(Incorporated in Bermuda with limited liability)

2003 INTERIM RESULTS

The board of directors (the "Board") of COSCO International Holdings Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2003 as follows:

CONSOLIDATED INCOME STATEMENT

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

Notes:

1. TURNOVER AND SEGMENT INFORMATION

Primary reporting format — business segments

	Six months ended 30th June 2003						Group HK\$'000
	Property development HK\$'000	Building construction HK\$'000	Property investment HK\$'000	Infrastructure investment HK\$'000	Ship trading HK\$'000	Other operations 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

The segment results have been arrived at after charging:
Depreciation and amortization

	Six months ended 30th June 2002						Group HK\$'000
	Property development HK\$'000	Building construction HK\$'000	Property investment HK\$'000	Infrastructure investment HK\$'000	Ship trading HK\$'000	Other operations 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
The segment results have been arrived at after charging: Depreciation and amortization	1,014	1,483	10,495	4,726	—	—	17,718

Secondary reporting format — geographical segments

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

2. 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:

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

3. 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.

INTERIM DIVIDEND

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

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 compared with that of the same period last year. The increase was mainly due to the increase in the turnover of the building construction business. The 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 accounted for in the current period after the completion of the acquisition of a 60% equity interest in COSCO International Ship Trading Company Limited ("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 due to the decrease of profits in 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 shareholder's fund increased by 1% to HK\$1,560,009,000.

The net repayment of bank loans amounted to HK\$8,150,000 (2002: net repayment of bank loans 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	%
Maturity profiles:				
Bank loans repayable				
— Within one year	145,000	13	155,000	14
— In the second year	222,071	20	171,281	15
— In the third to fifth year	731,060	67	780,000	71
	1,098,131	100	1,106,281	100
Secured	716,060	65	853,281	77
Unsecured	382,071	35	253,000	23
	1,098,131	100	1,106,281	100
Currency profiles:				
Hong Kong Dollar	1,006,060	92	1,033,000	93
Renminbi	92,071	8	73,281	7
	1,098,131	100	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.

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 COSCO Real Estate Development Co., Ltd. ("CRED"), a 50% owned company of China Ocean Shipping (Group) Company ("COSCO"), the ultimate holding company, 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 the joint venture company to develop a property development project in Shenyang, 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 owns 29% of equity interest in the joint venture company is a subsidiary of COSCO.

Contingencies

	30th June 2003	31st December 2002
	HK\$'000	HK\$'000
Performance bonds in respect of performance and completion of construction contracts	10,271	10,271
Claims for liquidated damages and cost of rectification works in respect of a completed construction contract	42,500	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	43,000	43,000

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.

BUSINESS REVIEW

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. 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 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 total construction area is 181,600 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 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 equipment 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 Home Ownership Scheme flats. In view of the reduction in building public housing estates, the number of government projects will remain at a 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 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 safety measures were strictly implemented. Our senior management had regular on-site inspection to construction sites during the period and implemented 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 under review, Henan Xinzongyi 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 management and 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 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, prudent research and analysis, together with its flexible contingency plan, profit contributions from Henan Power Plant to the Group can be sustained.

Future Prospects

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 its ultimate holdings company, COSCO.

Most of the tenancy 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 during the period. The Company will keep close eyes 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 in 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 Government of the PRC 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 properties development as one of its principal business.

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 acting as a sole shipping agent of 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 RMB75.98 million. 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 through the integration of paint business within COSCO group.

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.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June 2003, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares.

By Order of the Board
LIU Hanbo
Managing Director

Hong Kong, 4th September 2003

Remarks:

- A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be published on the Stock Exchange's website (<http://www.hkex.com.hk>) within the prescribed period.
- The Company's 2003 interim report will be available within the prescribed period and will be published on the Company's website (<http://www.coscointl.com>) and COSCO (Hong Kong) Group Limited's website (<http://www.cosco.com.hk>) as soon as practicable.