中期報告
Interim Report 2003

COSCO Pacific Limited
中遠太平洋有限公司

CONTENTS

INTERIM RESULTS

The board of directors of COSCO Pacific Limited (the "Company" or "COSCO Pacific") is pleased to present the interim report including the condensed accounts of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2003. This interim report has been reviewed by the Company's Audit Committee. The consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30th June 2003 and the consolidated balance sheet of the Group as at 30th June 2003, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 1 to 20 of this report.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30TH JUNE 2003

		Unaudited Six months ended 30th June	
	Note	2003 *US$'000*	2002 *US$'000* (Restated)
Turnover	*2*	125,756	116,004
Cost of sales		(55,030)	(50,723)
Gross profit		70,726	65,281
Other revenues		14,422	10,139
Administrative expenses		(12,621)	(11,272)
Other operating expenses (net)		(11,161)	(9,498)
Operating profit	*3*	61,366	54,650
Finance costs	*4*	(7,331)	(8,090)
Operating profit after finance costs		54,035	46,560
Share of profits less losses of			
– jointly controlled entities		3,404	4,925
– associated companies		28,663	27,176
Profit before taxation		86,102	78,661
Taxation	5	(11,473)	(7,981)
Profit after taxation		74,629	70,680
Minority interests		(1,021)	(837)
Profit attributable to shareholders		73,608	69,843
Transfer to other reserves		(946)	(662)
Interim dividend	*6*	37,986	30,278
Earnings per share			
Basic earnings per share	*7*	US3.4284 cents	US3.2556 cents
Diluted earnings per share	*7*	US3.4272 cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH JUNE 2003

	Note	Unaudited As at 30th June 2003 *US$'000*	As at 31st December 2002 *US$'000* (Restated)
Non-current assets			
Fixed assets	*8*	1,087,244	1,048,158
Joint ventures		42,549	46,052
Associated companies		275,727	284,570
Investment securities		56,973	66,876
Finance lease receivables		4,894	197
Restricted bank deposits	*10*	9,835	7,817
Deferred tax assets		329	262
		1,477,551	1,453,932
Current assets			
Inventories		2,621	2,648
Trade and other receivables	*9*	69,726	56,152
Tax prepaid		43	65
Current portion of finance lease receivables		1,452	2,696
Time deposits	*10*	103,840	202,224
Bank balances and cash	*10*	31,225	26,080
		208,907	289,865
Current liabilities			
Trade and other payables	*11*	67,903	36,999
Unsecured short term bank loans		–	482
Current portion of long term liabilities	*13*	166,150	209,707
Tax payable		992	817
		235,045	248,005
Net current (liabilities) / assets		(26,138)	41,860
Total assets less current liabilities		1,451,413	1,495,792
Representing:			
Share capital	*12*	27,533	27,533
Share premium		560,057	560,057
Other reserves		8,368	7,284
Retained profits		643,304	608,628
Proposed final dividend		–	49,546
Interim dividend declared	*6*	37,986	–
Shareholders' funds		1,277,248	1,253,048
Minority interests		9,174	8,314
Non-current liabilities			
Deferred tax liabilities		29,130	23,945
Long term liabilities	*13*	135,861	210,485
		1,451,413	1,495,792

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE 2003

		Unaudited Six months ended 30th June	
		2003	2002
	Note	***US$'000***	*US$'000*
Net cash from operating activities		**96,170**	106,920
Net cash used in investing activities		**(13,213)**	(15,928)
Net cash used in financing activities		**(176,196)**	(106,809)
Net decrease in cash and cash equivalents		**(93,239)**	(15,817)
Cash and cash equivalents at 1st January		**228,304**	245,935
Cash and cash equivalents at 30th June	*10*	**135,065**	230,118
Analysis of balances of cash and cash equivalents:			
Time deposits		**103,840**	220,127
Bank balances and cash		**31,225**	9,991
		135,065	230,118

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	Unaudited Six months ended 30th June	
	2003	2002
	US$'000	*US$'000*
		(Restated)
Shareholders' funds as at 1st January, as previously reported	**1,287,902**	1,200,294
Change in an accounting policy in respect of deferred taxation (note 1)	**(34,854)**	(22,483)
Shareholders' funds as at 1st January, as restated	**1,253,048**	1,177,811
Share of capital reserve in a jointly controlled entity	**–**	8
Exchange reserve arising on the investment in an associated company	**138**	–
Impairment loss of leasehold land and buildings taken to other properties revaluation reserve	**–**	(165)
Net gain/(loss) not recognised in the consolidated profit and loss account	**138**	(157)
Profit attributable to shareholders	**73,608**	69,843
2002/2001 final dividends paid	**(49,546)**	(38,536)
Issue of shares upon exercise of share options	**–**	2,052
Shareholders' funds as at 30th June	**1,277,248**	1,211,013

NOTES TO CONDENSED INTERIM ACCOUNTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited consolidated condensed interim accounts (the "Condensed Interim Accounts") are prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants (the "HKSA"), and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Condensed Interim Accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of the Condensed Interim Accounts are consistent with those used in the annual accounts for the year ended 31st December 2002 except that the Group has changed an accounting policy following its adoption of revised SSAP 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policies and the effect of the adoption of the revised SSAP 12 is set out below:

In accordance with revised SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, joint ventures and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP12 represents a change in accounting policy, which has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy.

The effect of initial adoption of the revised SSAP 12 is to decrease the profit attributable to shareholders for the six months ended 30th June 2002 by US$3,073,000 and to decrease the opening retained profits as at 1st January 2002 and 2003 by US$22,483,000 and US$34,854,000 respectively.

2. TURNOVER AND SEGMENT INFORMATION

(a) Primary reporting format – business segments

Segment turnover and results

	Six months ended 30th June 2003					
	Container leasing	Container terminal and related businesses	Banking	Other operations	Corporate	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Turnover						
– total revenue	116,526	9,268	–	–	–	125,794
– inter-segment sales	–	(38)	–	–	–	(38)
External sales	116,526	9,230	–	–	–	125,756
Segment results	47,835	8,541	–	–	–	56,376
Unallocated costs						
– net corporate expenses	–	–	–	–	(2,844)	(2,844)
– corporate interest income	–	–	–	–	503	503
Operating profit/(loss) after finance costs	47,835	8,541	–	–	(2,341)	54,035
Share of profits less losses of						
– jointly controlled entities	–	16	–	3,388	–	3,404
– associated companies	–	24,445	4,218	–	–	28,663
Profit before taxation						86,102
Taxation						(11,473)
Profit after taxation						74,629
Minority interests						(1,021)
Profit attributable to shareholders						73,608

2. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format - business segments (Continued)

Segment turnover and results (Continued)

	Six months ended 30th June 2002 (Restated)					
	Container leasing *US$'000*	Container terminal and related businesses *US$'000*	Banking *US$'000*	Other operations *US$'000*	Corporate *US$'000*	Total *US$'000*
Turnover						
External sales	107,558	8,446	–	–	–	116,004
Segment results	41,628	5,918	–	–	–	47,546
Unallocated costs						
– net corporate expenses	–	–	–	–	(1,936)	(1,936)
– corporate finance costs	–	–	–	–	(384)	(384)
– corporate interest income	–	–	–	–	1,334	1,334
Operating profit/(loss) after finance costs	41,628	5,918	–	–	(986)	46,560
Share of profits less losses of						
– jointly controlled entities	–	1,593	–	3,332	–	4,925
– associated companies	–	22,733	4,443	–	–	27,176
Profit before taxation						78,661
Taxation						(7,981)
Profit after taxation						70,680
Minority interests						(837)
Profit attributable to shareholders						69,843

2. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format - business segments (Continued)

Segment assets, liabilities and other information

	Container leasing *US$'000*	Container terminal and related businesses *US$'000*	Banking *US$'000*	Other operations *US$'000*	Corporate *US$'000*	Total *US$'000*
As at 30th June 2003						
Segment assets	1,191,081	50,081	–	–	–	1,241,162
Joint ventures	(5,377)	24,589	–	23,337	–	42,549
Associated companies	–	120,307	155,420	–	–	275,727
Investment securities	–	56,973	–	–	–	56,973
Unallocated assets						70,047
Total assets						1,686,458
Segment liabilities	(389,638)	(8,300)	–	–	–	(397,938)
Minority interests	–	(9,174)	–	–	–	(9,174)
Unallocated liabilities						(2,098)
Total liabilities						(409,210)
Capital expenditure	100,273	162	–	–	1,572	102,007
Depreciation and amortisation	45,810	582	–	–	126	46,518
Impairment loss recognised in profit and loss account	2,598	–	–	–	–	2,598
Other non-cash expenses	884	2,239	–	–	2	3,125

2. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format - business segments (Continued)

Segment assets, liabilities and other information (Continued)

	Container leasing US$'000	Container terminal and related businesses US$'000	Banking US$'000	Other operations US$'000	Corporate US$'000	Total US$'000
As at 31st December 2002 (Restated)						
Segment assets	1,140,061	34,672	–	–	–	1,174,733
Joint ventures	(4,754)	24,576	–	26,230	–	46,052
Associated companies	–	128,497	156,073	–	–	284,570
Investment securities	–	66,876	–	–	–	66,876
Unallocated assets						171,566
Total assets						1,743,797
Segment liabilities	(471,349)	(8,890)	–	–	–	(480,239)
Minority interests	–	(8,314)	–	–	–	(8,314)
Unallocated liabilities						(2,196)
Total liabilities						(490,749)
Capital expenditure	155,314	1,294	–	–	113	156,721
Depreciation and amortisation	86,230	1,173	–	–	279	87,682
Impairment loss recognised in						
– profit and loss account	15,997	–	–	–	–	15,997
– other properties revaluation reserve	165	–	–	–	–	165
Other non-cash expenses	2,531	3,280	–	–	5	5,816

(b) Secondary reporting format - geographical segments

The movements of containers under operating leases or finance leases are known through report from the lessees but the Group is not able to control the movements of containers except to the degree that the movements are restricted by the terms of the leases or where safety of the containers is concerned. It is therefore impracticable to present segment information by geographical areas.

The activities of container terminal and related businesses, other operations and corporate segments are carried out in Hong Kong and China mainland while that of banking operation is predominantly carried out in Hong Kong.

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June	
	2003	2002
	US$'000	*US$'000*
Crediting		
Dividend income from unlisted investments	7,511	5,003
Sale of inventories	5,909	3,347
Interest income	977	1,763
Recovery of bad and doubtful debts	941	415
Charging		
Depreciation and amortisation	46,518	42,608
Cost of inventories sold	7,385	4,241
Impairment loss of containers	2,598	4,117
Loss on disposal of an unlisted investment	2,192	–
Provision for bad and doubtful debts	1,238	707
Revaluation deficit of investment properties	90	233
Provision for loan to an investee company	–	1,862
Impairment loss of leasehold land and buildings	–	941
Provision for inventories	–	137

4. FINANCE COSTS

	Six months ended 30th June	
	2003	2002
	US$'000	*US$'000*
Interest expense on		
– bank loans	2,365	5,695
– other loans wholly repayable within five years	1,020	1,298
– other loans not wholly repayable within five years	177	248
– loan from a minority shareholder of a subsidiary wholly repayable within five years	41	57
Loss on interest rate swap contracts	1,407	559
	5,010	7,857
Other incidental borrowing costs	2,321	233
	7,331	8,090

5. TAXATION

	Six months ended 30th June	
	2003	2002
	US$'000	*US$'000*
		(Restated)
Company and subsidiaries		
Current taxation		
– Hong Kong profits tax	**195**	112
– China mainland taxation	**345**	126
– Overseas taxation	**39**	59
– Over provision in prior years	**–**	(13)
	579	284
Deferred taxation	**5,118**	3,253
	5,697	3,537
Share of taxation attributable to:		
Jointly controlled entities		
Current taxation		
– China mainland taxation	**406**	568
Associated companies		
Current taxation		
– Hong Kong profits tax	**3,976**	3,734
– China mainland taxation	**412**	322
Deferred taxation	**982**	(180)
	5,776	4,444
	11,473	7,981

Hong Kong profits tax has been provided at a rate of 17.5% (2002: 16.0%) on the estimated assessable profit for the period. A substantial portion of the Group's profit neither arises in nor is derived from Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong profits tax.

Taxation on profits from container terminal operations in China mainland of a subsidiary has been calculated at an effective tax rate of 15.0% (2002: 7.5%) on the estimated assessable profit for the period. The subsidiary in China mainland was eligible for a 50% relief from corporate income tax of 15% for five years up to 2002.

5. TAXATION (CONTINUED)

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

The Group's profits from container leasing are exempt from income tax in China mainland in accordance with a notice granting temporary exemption of income tax on rental payments made to foreign container leasing companies operating in international transportation (Guo Shui Fa (1993) No. 49) issued by the State Tax Bureau of the People's Republic of China (the "PRC") on 12th March 1993.

The Group is also exempt from business tax on its rental income in relation to the lease of containers and interest income earned in China mainland in accordance with a notice granting exemption from business tax for foreign enterprises earning such income but having no establishment in China mainland (Guo Shui Fa (1997) No. 35) issued by the State Tax Bureau of the PRC on 14th March 1997.

6. INTERIM DIVIDEND

	Six months ended 30th June	
	2003	2002
	US$'000	*US$'000*
2003 interim, declared, of US1.769 cents (2002: US1.410 cents) per ordinary share	**37,986**	30,278

At a meeting held on 22nd September 2003, the directors declared an interim dividend of HK13.8 cents (US1.769 cents) per ordinary share. This dividend declared is not reflected as a dividend payable in the Condensed Interim Accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2003.

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30th June 2003 is based on the Group's profit attributable to shareholders of US$73,608,000 (2002: US$69,843,000) and on the weighted average number of 2,147,012,298 (2002: 2,145,292,475) ordinary shares in issue during the period.

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30th June 2003 was calculated based on the profit attributable to shareholders of US$73,608,000 and the weighted average number of 2,147,012,298 ordinary shares in issue during the period plus weighted average number of 746,795 ordinary shares deemed to be issued at no consideration if all outstanding dilutive options had been exercised.

As the exercise price of the share options outstanding on 30th June 2002 was greater than the average market price of the Company's share during the prior period, there was no dilutive effect on earnings per ordinary share for the six months ended 30th June 2002.

8. FIXED ASSETS

During the six months ended 30th June 2003, the Group acquired fixed assets of US$102,007,000 (2002: US$86,271,000) and disposed of fixed assets with net book value of US$13,715,000 (2002: US$5,002,000).

9. TRADE AND OTHER RECEIVABLES

The Group grants credit periods of 30 to 90 days to its customers.

At 30th June 2003, the ageing analysis of the trade balances due from third parties (net of provision), fellow subsidiaries and related companies was as follows:

	As at 30th June 2003 US$'000	As at 31st December 2002 US$'000
Within 30 days	29,078	27,507
31-60 days	19,227	17,141
61-90 days	13,927	2,403
Over 90 days	1,249	982
Included under trade and other receivables	63,481	48,033

10. CASH AND CASH EQUIVALENTS

	As at 30th June 2003 US$'000	As at 31st December 2002 US$'000
Total time deposits, bank balances and cash (note a)	144,900	236,121
Restricted bank deposits included in non-current assets (note b)	(9,835)	(7,817)
	135,065	228,304
Representing:		
Time deposits	103,840	202,224
Bank balances and cash	31,225	26,080
	135,065	228,304

Notes:

(a) Cash and cash equivalents of US$22,273,000 (31st December 2002: US$39,427,000) are held by certain subsidiaries of the Group which operate in the PRC where foreign exchange controls apply.

(b) Restricted bank deposits are deposits pledged as securities for repayment of bank loans of the Group and are restricted for the purpose of the related banking facilities.

11. TRADE AND OTHER PAYABLES

The ageing analysis of trade balances due to third parties, fellow subsidiaries, minority shareholders of subsidiaries and jointly controlled entities and related companies is as follows:

	As at 30th June 2003 US$'000	As at 31st December 2002 US$'000
Within 30 days	8,502	6,409
31-60 days	16,626	3,791
61-90 days	9,617	1,842
Over 90 days	6,043	1,519
	40,788	13,561
Included under trade and other payables	35,464	8,807
Included under joint ventures	5,324	4,754
	40,788	13,561

12. SHARE CAPITAL

	As at 30th June 2003 US$'000	As at 31st December 2002 US$'000
Authorised:		
3,000,000,000 (31st December 2002: 3,000,000,000) ordinary shares of HK$0.10 each	38,462	38,462
Issued and fully paid:		
2,147,012,298 (31st December 2002: 2,147,012,298) ordinary shares of HK$0.10 each	27,533	27,533

There was no movement of the issued share capital of the Company during the period.

12. SHARE CAPITAL (CONTINUED)

(a) Share options

Movements of the share options, which have been granted under the share option scheme adopted by the shareholders of the Company on 30th November 1994 (the "1994 Share Option Scheme"), during the period are set out below:

		Number of share options			
Category	Exercise price HK$	Outstanding at 1st January 2003	Exercised during the period	Lapsed during the period	Outstanding at 30th June 2003
Directors	5.53	3,000,000	–	–	3,000,000
	8.80	5,000,000	–	–	5,000,000
Continuous contract employees	5.53	80,000	–	–	80,000
	8.80	6,800,000	–	(1,200,000)	5,600,000

(b) At the Special General Meeting of the Company held on 23rd May 2003, the shareholders of the Company approved the adoption of a new share option scheme ("2003 Share Option Scheme") which complies with the new requirements of the Listing Rules and the termination of the 1994 Share Option Scheme (such that no further options shall thereafter be offered under the 1994 Share Option Scheme but on all other respects the provisions of the 1994 Share Option Scheme shall remain in full force and effect).

During the period, no options were granted by the Company under the 2003 Share Option Scheme since its adoption.

13. LONG TERM LIABILITIES

	As at 30th June 2003 US$'000	As at 31st December 2002 US$'000
Loans		
Secured (note c)	158,832	156,578
Unsecured	143,179	263,614
	302,011	420,192
Amounts due within one year included under current liabilities	(166,150)	(209,707)
	135,861	210,485

13. LONG TERM LIABILITIES (CONTINUED)

(a) The analysis of the above is as follows:

	As at 30th June 2003 US$'000	As at 31st December 2002 US$'000
Wholly repayable within five years		
Bank loans	146,961	223,599
Other loans	153,846	140,000
Loans from a minority shareholder of a subsidiary	1,204	1,445
	302,011	365,044
Not wholly repayable within five years		
Bank loans	–	40,179
Other loans	–	14,969
	–	55,148
	302,011	420,192

(b) The maturity of the long term liabilities is as follows:

	As at 30th June 2003 US$'000	As at 31st December 2002 US$'000
Bank loans		
Within one year	23,535	66,937
In the second year	26,440	64,464
In the third to fifth years inclusive	96,986	124,342
In more than five years	–	8,035
	146,961	263,778
Loan from a minority shareholder of a subsidiary		
Within one year	241	482
In the second year	482	482
In the third to fifth years inclusive	481	481
	1,204	1,445
Other loans		
Within one year	142,374	142,288
In the second year	2,557	2,464
In the third to fifth years inclusive	8,915	8,590
In more than five years	–	1,627
	153,846	154,969
	302,011	420,192

13. LONG TERM LIABILITIES (CONTINUED)

(c) Secured bank loans and other loans of US$158,832,000 (31st December 2002: US$156,578,000) were pledged by certain containers of the Group. US$144,984,000 (31st December 2002: US$141,609,000) out of these loans were also secured by the assignment of the container lease agreements and the rental income thereon, other assets and shares of certain subsidiaries.

Bank loan of approximately US$1,373,000 (31st December 2002: US$1,566,000) was guaranteed by the minority shareholder of a subsidiary.

14. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30th June 2003 and 31st December 2002.

15. CAPITAL COMMITMENTS

	As at 30th June 2003 *US$'000*	As at 31st December 2002 *US$'000*
Authorised but not contracted for		
– containers	15,876	155,977
– other fixed assets	1,423	–
	17,299	155,977
Contracted but not provided for		
– containers	54,025	468
– investments	19,730	76,086
	73,755	76,554

16. OFF-BALANCE SHEET DERIVATIVE INSTRUMENTS

The Group has employed interest rate swaps to manage its interest rate exposure. These instruments are used solely to reduce or eliminate the interest rate risks associated with the Group's borrowings and not for trading or speculation purposes.

The notional principal amounts of the outstanding interest rate swap contracts at 30th June 2003 were US$100,000,000 (31st December 2002: US$100,000,000).

As at 30th June 2003, the fixed interest rates under the outstanding interest rate swap contracts varied from 3.88% to 4.90% (31st December 2002: 3.88% to 4.90%) per annum.

17. RELATED PARTY TRANSACTIONS

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

	Six months ended 30th June	
	2003	2002
	US$'000	*US$'000*
Container rental income from a fellow subsidiary (note a)	**64,959**	67,234
Income for container terminal handling services rendered by an associated company of the Group to a fellow subsidiary (note b)	**27,571**	33,363
Handling and storage income from fellow subsidiaries (note c)	**3,354**	3,654
Net transportation income from a fellow subsidiary (note c)	**1,080**	881
Management fee income from an associated company (note d)	**1,282**	1,282
Container terminal handling and storage income from a fellow subsidiary (note e)	**673**	686
Purchase of containers from (note f)		
– associated companies of ultimate holding company	**(36,471)**	(24,943)
– jointly controlled entities of the Group	**(7,157)**	(9,732)
Container freight charge to (note g)		
– associated companies of ultimate holding company	**(635)**	(1,098)
– jointly controlled entities of the Group	**(106)**	(178)
Approved Continuous Examination Program fee to a fellow subsidiary (note h)	**(1,100)**	(1,100)

Notes:

(a) The Group has conducted container leasing business with COSCO Container Lines Company Limited ("COSCON"), a subsidiary of the China Ocean Shipping (Group) Company ("COSCO") which is the Company's ultimate holding company. The container rental income was charged based on terms as set out in the agreements entered into between the Group and COSCON.

(b) COSCO-HIT Terminals (Hong Kong) Limited ("COSCO-HIT"), an associated company of the Group, provided handling and storage services to COSCON for cargoes shipped to Container Terminal 8 (East) in Hong Kong. The services rendered were charged at terms pursuant to agreements entered into by COSCO-HIT with COSCON.

(c) The handling and storage income and the transportation income received from fellow subsidiaries were conducted at terms pursuant to agreement entered into by the mutual parties.

(d) The Group provided advisory and management services to COSCO-HIT during the period. Management fee was charged and agreed at HK$20,000,000 (2002: HK$20,000,000) per annum.

17. **RELATED PARTY TRANSACTIONS (CONTINUED)**

(e) During the period, the Group provided handling and storage services to a fellow subsidiary for cargoes shipped to Zhangjiagang port. The tariff rates charged by the Group were with reference to the rates as set out by the Ministry of Communications of the PRC.

(f) The purchases of containers from associated companies of COSCO and jointly controlled entities of the Group were conducted in the normal course of the business at terms pursuant to agreement entered into by the mutual parties.

(g) During the period, the Group paid container freight charges of US$635,000 (2002: US$1,098,000) and US$106,000 (2002: US$178,000) to certain associated companies of COSCO and jointly controlled entities of the Group respectively for container repositioning services rendered to the Group.

(h) The Group has agreed to pay an annual approved Continuous Examination Program fee of US$2,200,000 to COSCON (2002: US$2,200,000).

18. **SUBSEQUENT EVENTS**

The following significant events took place subsequent to 30th June 2003 and up to the date of this report:

(a) On 18th July 2003, the Group entered into an agreement with a third party to acquire a 20% equity interest in Qingdao Qianwan Container Terminal Co. Limited ("QQCT"), a company established in the China mainland and principally engaged in operating terminals in Qingdao, at a consideration of US$44,200,000. On 21st July 2003, QQCT entered into a series of agreements with one of its shareholders (the "Shareholder") to acquire certain fixed assets from the Shareholder and to obtain the concession rights of using certain port facilities owned by the Shareholder for a period of 30 years. In order to provide sufficient funding to QQCT to acquire those fixed assets and concession rights, the Group has committed to inject approximately US$138,611,000 to QQCT by way of shareholder's loan. All the transactions have not been completed as of the date of approval of the Condensed Interim Accounts.

(b) On 30th August 2003, the Company signed Heads of Agreement with PSA Corporation Limited whereby both parties agreed to set up a joint venture company for the operation of two container berths in the port of Singapore. The project will be undertaken in two phases with annual designed throughput of 500,000 TEUs for each berth.

(c) The Company has appointed three investment banks to act as Joint Bookrunners for the proposed issuance of approximately US$300,000,000 fixed rate bonds with 10-year maturity. The bonds will be offered outside the United States in accordance with Regulation S under the United States Securities Act of 1933. The proceeds will be mainly used for financing of new port acquisitions and for refinancing purposes. It is expected that the issuance will be completed by October 2003 subject to market conditions.

18. SUBSEQUENT EVENTS (CONTINUED)

(d) On 22nd September 2003, COSCO Pacific Logistics Company Limited ("CPLCL"), a wholly owned subsidiary of the Company, entered into agreements with COSCO to effect, subsequent to the fulfillment of certain conditions precedent, a capital increase and transfer of equity interest transaction for the acquisition of a 49% equity interest in COSCO Logistics Company ("COSCO LOGISTICS"), a wholly owned subsidiary of COSCO, at a total consideration of RMB1,180,410,000 (approximately US$142,769,000). CPLCL further agreed to pay COSCO an additional amount of RMB50,000,000 (approximately US$6,047,000) if the pro forma combined net profit of COSCO LOGISTICS and its subsidiaries for the year ending 31st December 2003 exceeds RMB200,000,000 (approximately US$24,190,000). COSCO LOGISTICS and its subsidiaries operate businesses including shipping agency, freight forwarding, third party logistics and supporting services.

INTERIM DIVIDEND

The directors have declared an interim cash dividend of HK13.8 cents per share for the six months ended 30th June 2003 (2002: HK11.0 cents per share). The interim dividend will be payable on 23rd October 2003 to shareholders whose names appear on the register of members of the Company on 16th October 2003.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 13th October 2003 to Thursday, 16th October 2003, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrars, Secretaries Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 10th October 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Overall Results

Profit attributable to shareholders for the six months ended 30th June 2003 amounted to US$73,608,000, representing an increase of 5.4% compared with US$69,843,000 for the corresponding period in the previous year. Earnings per share were US3.4284 cents compared with US3.2556 cents for the corresponding period in the previous year. The change in accounting policy on deferred taxation as a result of the adoption of the revised SSAP 12 during the period resulted in provision for net deferred taxation charge of US$6,100,000 for the six months ended 30th June 2003 (corresponding period of 2002: US$3,073,000). During the period, the outbreak of SARS affected the economic growth in individual areas but the Group was not seriously affected. The Group's container leasing and container terminal businesses performed satisfactorily.

Financial Review

Turnover for the first half of 2003 amounted to US$125,756,000 (corresponding period of 2002: US$116,004,000), up 8.4%, which was mainly due to an increase of 8.3% in turnover of the container leasing business to US$116,526,000 (corresponding period of 2002: US$107,558,000). During the period, container fleet increased by 12.8% to 755,043 TEUs (corresponding period of 2002: 669,265 TEUs). Turnover of Zhangjiagang Win Hanverky Container Terminal Co., Ltd. increased 21.2% to US$4,581,000 (corresponding period of 2002: US$3,780,000) as a result of increase in throughput of 15.6% to 123,689 TEUs, whereas the turnover from container handling and storage businesses amounted to US$4,649,000 (corresponding period of 2002: US$4,666,000).

Cost of sales, mainly comprising depreciation, depot rental, repositioning and maintenance expenses, increased by US$4,307,000 to US$55,030,000 (corresponding period of 2002: US$50,723,000). Among which depreciation accounted for 82.4% (corresponding period of 2002: 81.8%) has been increased by US$3,855,000. During the period, the Group strategically reallocated containers from Europe and America to cater for the increasing demand in Asia, thus an increase in repositioning cost by US$1,363,000 over the corresponding period in the previous year.

Other revenues increased by US$4,283,000, mainly due to the dividend declared during the period by Shekou Container Terminals Ltd. for the first half of the year amounting to US$2,191,000 (corresponding period of 2002: Nil) and the increase in disposal of returned containers from COSCO Container Lines Company Limited ("COSCON"), a fellow subsidiary of the Company. Interest income for the period decreased by US$786,000. The dividend income from Yantian International Container Terminals Ltd. was US$5,135,000 (corresponding period of 2002: US$5,003,000).

Administrative expenses increased by 12.0% to US$12,621,000 compared with the corresponding period in the previous year (corresponding period of 2002: US$11,272,000). During the period, the Group increased its marketing efforts for new projects, hence higher staff costs and marketing expenses were incurred.

Other net operating expenses amounted to US$11,161,000 for the first half of the year (corresponding period of 2002: US$9,498,000). During the period, the carrying value of the returned containers sold increased by US$3,144,000 and the provision for impairment of fixed assets amounted to US$2,598,000 (corresponding period of 2002: US$5,058,000), a decrease of US$2,460,000. In addition, the Company disposed of its 10% interest in River Trade Terminal Holdings Limited ("River Trade Terminal") and incurred a loss of US$2,192,000. During the first half of 2002, a provision of US$1,862,000 was made for the shareholder's loan to River Trade Terminal.

During the period, finance costs decreased by 9.4%. Interest rates remained low in the first half of 2003. At the end of June 2003, the US Federal Reserve further reduced the interest rate by 0.25%. The average borrowing cost of the Group (including a loss of US$1,407,000 arising on interest rate swap contracts (corresponding period of 2002: US$559,000)) was 3.03% (corresponding period of 2002: 3.52%) and the average loan amount decreased to US$330,458,000 (corresponding period of 2002: US$445,882,000).

Profit contribution from jointly controlled entities amounted to US$3,404,000 (corresponding period of 2002: US$4,925,000), representing a decrease of 30.9%. Profit contributions increased from Shanghai CIMC Far East Container Co., Ltd., Tianjin CIMC North Ocean Container Co., Ltd., Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. (formerly known as Shanghai Kansai Paint & Chemical Co., Ltd.) and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. (formerly known as Tianjin Kansai Paint and Chemical Co., Ltd.) while that from Shanghai CIMC Reefer Containers Co., Ltd. decreased due to the decrease in both sales volume and unit price of containers and increase in the cost of raw materials. Starting from 2003, Qingdao Cosport International Container Terminals Co., Ltd. shifted its business from handling foreign trade containers to domestic cargoes. The throughput handled in the first half of the year decreased and as a result the terminal recorded a moderate profit.

Profit contributions from associated companies for the period amounted to US$28,663,000 (corresponding period of 2002: US$27,176,000). The increase in profit contribution was mainly due to the profit contribution from Shanghai Pudong International Container Terminals Limited ("SPICT") in which the Group holds 20% interest. SPICT commenced operation in March 2003 and had recorded satisfactory performance in throughput and results. The throughput of COSCO-HIT Terminals (Hong Kong) Limited ("COSCO-HIT") increased by 4.6% and its profit contribution was US$17,775,000 (corresponding period of 2002: US$17,697,000). Profit contribution from Shanghai Container Terminals Ltd. was satisfactory as a result of the increase in its throughput by 23.9%. Profit contribution from Liu Chong Hing Bank Limited for the period was US$4,218,000 (corresponding period of 2002: US$4,443,000). The Shanghai Yixian Road Project was sold by an associated company of the Group, Twinbridge Development Corp., in the first half of 2002 and thus no profit contribution was recorded for the period (corresponding period of 2002: US$1,500,000).

Taxation for the period amounted to US$11,473,000 (corresponding period of 2002: US$7,981,000). Pursuant to the revised SSAP 12, the Group had made provision for its deferred tax assets and liabilities. Provision for net deferred taxation charge for the first half of the year amounted to US$6,100,000 and the provision for the corresponding period in 2002 has been restated to US$3,073,000.

FINANCIAL POSITION

Assets and Liabilities

As at 30th June 2003, the balances of deferred tax assets and liabilities dealt with in the consolidated balance sheet amounted to US$329,000 (31st December 2002: US$262,000) and US$29,130,000 (31st December 2002: US$23,945,000) respectively.

Total assets amounted to US$1,686,458,000 (31st December 2002: US$1,743,797,000), whereas total liabilities and minority interests amounted to US$409,210,000 (31st December 2002: US$490,749,000). Net assets amounted to US$1,277,248,000, an increase of 1.9% from the end of 2002. Net asset value per share was HK$4.64, up 1.9% from the end of last year.

Cash balance of the Group was US$144,900,000 (31st December 2002: US$236,121,000). Total outstanding borrowings amounted to US$302,011,000 (31st December 2002: US$420,674,000). During the period, the Group had early repaid syndicated loan of US$120,000,000 in order to minimise interest expenses. This resulted in a decrease in both cash balance and total outstanding borrowings. Net debt-to-equity ratio was 12.3% (31st December 2002: 14.7%). Interest coverage increased to 18.2 times, against 11.0 times in the corresponding period of the previous year.

The Group's bank deposits of US$9,835,000 (31st December 2002: US$7,817,000), together with certain fixed assets with net book value of US$293,561,000 (31st December 2002: US$278,378,000) were pledged to various banks and financial institutions to secure borrowings totalling US$158,832,000 (31st December 2002: US$156,578,000).

Cash Flow

Net cash inflow from operating activities during the period amounted to US$96,170,000 (corresponding period of 2002: US$106,920,000). During the period, the Group strengthened its development efforts and invested US$45,908,000 in the acquisition of a 20% interest in SPICT and US$63,533,000 in purchase of new containers. A total of US$19,768,000 of loan facilities was utilised by the Group (corresponding period of 2002: US$18,467,000) while loan repayments amounted to US$138,431,000 (corresponding period of 2002: US$80,966,000).

Contingent Liabilities

As at 30th June 2003 and 31st December 2002, the Group had no significant contingent liabilities.

FINANCIAL MANAGEMENT

Financing

During the period, the Group completed a major financing exercise. A subsidiary of the Group entered into an agreement with a banking consortium on 17th February 2003 for a 5-year loan facility of US$175,000,000 which was used as working capital and refinancing. The fund raising exercise had exceeded its target with favourable terms, which further demonstrated the strong credit standing of the Group and the support from the banking sector to the Group.

As at 30th June 2003, the Group had an aggregate amount of US$277,960,000 (31st December 2002: US$96,329,000) in committed but unutilised facilities available from banks.

Foreign Exchange and Interest Rate Risks Management

The majority of the Group's borrowings is denominated in US dollars and used primarily for container leasing while revenues and expenses of the container leasing business are mainly in US dollars. Hence, exposure to foreign exchange risk is minimal.

The Group exercises stringent control over the use of derivatives for hedging purpose. As at 30th June 2003, the notional principal amounts of the outstanding interest rate swap contracts amounted to US$100,000,000 (31st December 2002: US$100,000,000), with the fixed interest rates ranged from 3.88% to 4.90% per annum (31st December 2002: 3.88% to 4.90%). Fixed rate borrowings of the Group amounted to US$3,180,000 (31st December 2002: US$4,095,000). The aforesaid interest rate swap contracts and fixed rate borrowing arrangement accounted for 34.2% (31st December 2002: 24.7%) of the Group's total borrowings.

Debt Analysis

	30th June 2003		31st December 2002	
	US$	*%*	*US$*	*%*
By repayment term:				
within the first year	166,150,000	55.0	210,189,000	50.0
within the second year	29,479,000	9.8	67,410,000	16.0
within the third year	32,914,000	10.9	67,839,000	16.1
within the fourth year	41,176,000	13.6	31,314,000	7.5
within the fifth year and beyond	32,292,000	10.7	43,922,000	10.4
	302,011,000	100.0	420,674,000	100.0
By type of loan:				
secured	158,832,000	52.6	156,578,000	37.2
unsecured	143,179,000	47.4	264,096,000	62.8
	302,011,000	100.0	420,674,000	100.0
By denomination of loan:				
in US$	298,831,000	98.9	416,579,000	99.0
in RMB	3,180,000	1.1	4,095,000	1.0
	302,011,000	100.0	420,674,000	100.0

Business and Investment Risks Management

COSCO Pacific maintains a positive and prudent approach to its control over business development and investment risks. The Company's operations focus on container leasing, container terminals and logistics businesses, where it has competitive strengths. An investment examination mechanism was established and indicators of economic effectiveness on its business and investment projects were formulated and these were strictly complied with by the Company. Investment and Strategic Planning Committee and Risk Management Committee have been established under the Board to monitor closely the implementation of business and investment risks management.

BUSINESS REVIEW

Container Leasing

Benefiting from the growth in China's import and export trade, container leasing business of the Group grew faster than expected during the period. As at 30th June 2003, Florens Container Holdings Limited, a wholly owned subsidiary of the Company, owned and operated a container fleet of 755,043 TEUs, up 12.8% from a year ago, and accounted for approximately 9.3% of the global market share (corresponding period of 2002: 8.8%).

The Group primarily provides 10-year container leasing service for COSCON, the world's seventh largest container liner operator, and provides both long term and short term container leasing services for other international customers ("International Customers"). These International Customers include major global shipping companies. The top 20 International Customers accounted for approximately 75.9% (corresponding period of 2002: 71.2%) of the Group's total container rental income with International Customers while the total number of customers reached 183 (corresponding period of 2002: 173).

As at 30th June 2003, the Group leased a total of 306,763 TEUs (corresponding period of 2002: 325,129 TEUs) to COSCON, which represents 40.6% (corresponding period of 2002: 48.6%) of the entire container fleet. Containers available to International Customers rose to 448,280 TEUs (corresponding period of 2002: 344,136 TEUs), representing 59.4% (corresponding period of 2002: 51.4%) of the total containers.

Container fleet analysis

	30th June 2003		31st December 2002		30th June 2002	
	COSCON	**International Customers**	COSCON	International Customers	COSCON	International Customers
Total containers (in TEUs)	**306,763**	**448,280**	329,028	378,862	325,129	344,136
– Dry containers	**91.0%**	**95.1%**	91.0%	94.5%	91.4%	94.1%
– Reefers	**8.1%**	**2.7%**	7.9%	2.9%	7.5%	3.1%
– Specials	**0.9%**	**2.2%**	1.1%	2.6%	1.1%	2.8%

During the period, the Group purchased new containers and sold containers returned from COSCON following the expiry of the leases. The average age of the Group's container fleet was 4.58 years (corresponding period of 2002: 4.47 years).

	2003	2002
	TEUs	*TEUs*
Total containers as at 1st January	**707,890**	610,019
New containers purchased	**70,033**	74,388
Containers returned from COSCON upon expiry of leases		
– Total	**(22,038)**	(11,576)
– Re-leased	**567**	1,321
– Disposed of and pending for disposal	**(21,471)**	(10,255)
Ownership transferred to customers upon expiry of finance leases	**(64)**	(3,438)
Defective containers written off	**(1,345)**	(1,449)
Total containers as at 30th June	**755,043***	669,265

* Including 5,216 TEUs (corresponding period of 2002: Nil) of containers managed on behalf of a third party

Utilisation rates

While containers leased to COSCON remained 100% utilised during the period, the overall average utilisation rate of the Group stood at 95.1% (corresponding period of 2002: 91.9%), still well above the industry average of approximately 88% (corresponding period of 2002: approximately 80%).

Handling of returned containers

During the period, a total of 22,038 TEUs (corresponding period of 2002: 11,576 TEUs) were returned from COSCON upon expiry of leases. The Group disposed of 13,005 TEUs (corresponding period of 2002: 7,161 TEUs) including 2,973 TEUs of containers previously returned by COSCON but have not yet been disposed of on or before 31st December 2002 (corresponding period of 2002: 1,620 TEUs). The loss on disposal of the returned containers including other direct costs was US$2,289,000 (corresponding period of 2002: US$1,912,000), which was mainly due to the fact that the carrying value of the returned containers is higher than the average disposal price.

Container Terminal and Related Businesses

Fuelled by the strong performance in the China trade during the period, container terminal and related businesses of the Group reported relatively good performance as a whole. The container terminals, in which the Group has interests, achieved a combined throughput of 8,334,461 TEUs, representing an increase of 24.4% from the corresponding period of the previous year. According to the latest ranking by Drewry Shipping Consultant, a renowned shipping research institute, COSCO Pacific ranked eighth among the world's top ten leading port operators.

	First six months of		
Throughput (in TEUs)	**2003**	2002	+/-
COSCO-HIT Terminals (Hong Kong) Limited	**702,457**	671,331	+4.6%
River Trade Terminal	**1,074,348**	820,791	+30.9%
Yantian International Container Terminals Ltd.	**2,312,234**	1,773,087	+30.4%
Shekou Container Terminals Ltd.	**633,549**	347,078	+82.5%
Shanghai Container Terminals Limited	**1,640,200**	1,324,300	+23.9%
Shanghai Pudong International Container Terminals Limited	**999,643***	817,200*	+22.3%
Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	**123,689**	107,028	+15.6%
Qingdao Cosport International Container Terminals Co., Ltd.	**128,858**	267,347	-51.8%
Dalian Port Container Co., Ltd.	**719,483**	570,834	+26.0%
Combined throughput	**8,334,461**	6,698,996	+24.4%
Combined throughput of China mainland terminals	**6,557,656**	5,206,874	+25.9%

* The figures represent the throughput of Shanghai Waigaoqiao Container Terminal Phase 1 for the 1st half year of 2002 and 2003 respectively. SPICT was incorporated on 1st March 2003 and has the right to operate Shanghai Waigaoqiao Container Terminal Phase 1 since then.

COSCO-HIT Terminals (Hong Kong) Limited

COSCO Pacific has a 50% interest in COSCO-HIT. During the period, COSCO-HIT has benefited from the growth in China trade and has consolidated and broadened its customer base through its commitment in providing quality services to customers. Throughput at the terminal increased 4.6% during the first six months of 2003 and a total of 702,457 TEUs were handled (corresponding period of 2002: 671,331 TEUs), and its performance is satisfactory.

Container Terminals in China mainland

During the period, the container terminals in China mainland in which the Group has interests all recorded a total throughput of 6,557,656 TEUs representing an increase of 25.9% from the corresponding period of the previous year.

Shanghai Pudong International Container Terminals Limited

SPICT commenced operation officially on 1st March 2003. This company was formed by the Company's wholly owned subsidiary, COSCO Pacific (China) Investments Co., Ltd., Shanghai Waigaoqiao Free Trade Zone Stevedoring Company, Hutchison Ports Pudong Ltd., and S. I. Infrastructure Holdings Limited.

COSCO Pacific (China) Investments Co., Ltd. has invested US$45,908,000 in cash for a 20% interest in SPICT. The capital contribution is funded by internal resources. SPICT manages and operates Phase I of the Shanghai Waigaoqiao Container Terminals.

Located at Waigaoqiao free trade zone area A, the terminal is a well-equipped container terminal in Shanghai, capable of handling larger-sized container vessels. The 3-berth terminal has a 900-metre quay length. The terminal covers a whole land area of 500,000 square metres, of which 238,000 square metres are attributable to the depot area. Twelve international container shipping companies which operate 16 international container transportation routes use this terminal to load, unload and handle their containers. From March to June of 2003, the terminal handled 683,343 TEUs, a 21.4% increase over same period of 2002.

River Trade Terminal

To meet the fleet development of COSCO Group, COSCO Pacific disposed of its entire 10% interest in the River Trade Terminal in June 2003 and resulted in a loss of US$2,192,000.

Container Handling and Storage

Plangreat Limited, a wholly owned subsidiary of the Company, and its subsidiaries provide container stevedoring, storage, repairs and transportation services. During the period, turnover of Plangreat Limited and its subsidiaries amounted to US$4,649,000 (corresponding period of 2002: US$4,666,000).

Other Operations

During the period, the production volume of Shanghai CIMC Far East Container Co., Ltd. and Tianjin CIMC North Ocean Container Co., Ltd. recorded a 94.8% increase; the production volume of Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. recorded a 47.7% increase and that of Shanghai CIMC Reefer Containers Co., Ltd. recorded a 4.8% decrease. The above five jointly controlled entities continued to contribute to the Group's profit.

The Group has a 20% interest in Liu Chong Hing Bank Limited, which contributed US$4,218,000 to the Group's pre-tax profit, a decrease of 5.1% compared with the corresponding period in the previous year.

NEW DEVELOPMENTS

Qingdao Qianwan Container Terminal Co., Ltd.

On 18th July 2003, an equity transfer agreement was entered into in Beijing by COSCO Ports (Qianwan) Limited, a wholly owned subsidiary of COSCO Pacific, and Qingdao Port (Group) Co., Ltd., pursuant to which COSCO Ports (Qianwan) Limited agreed to acquire a 20% interest of Qingdao Qianwan Container Terminal Co., Ltd. ("QQCT") from Qingdao Port (Group) Co., Ltd.. QQCT operates three berths at Qingdao Qianwan Container Terminals Phase II and handled approximately 800,000 TEUs in 2002.

QQCT held a signing ceremony of the co-operation agreement in Beijing on 21st July 2003 which was witnessed by China's Premier Wen Jiabao and Tony Blair, Prime Minister of the United Kingdom. The agreement extended the scope of the joint venture to Qingdao Qianwan Container Terminals Phase III. In Qingdao Qianwan Container Terminals Phase III, three berths are in operation and two other berths will be put into operation towards the end of the year. Three more berths will be built in the coming two years. Upon completion of Phase III, QQCT will have 11 berths, spanning a coastline of approximately 3,400 metres. The depot will cover an area of approximately 2,250,000 square metres. Berth depth will reach 17.5 metres, capable of handling a mega container vessel with a capacity of 10,000 TEUs. Its annual handling capacity will be over 6,500,000 TEUs.

COSCO Ports (Qianwan) Limited will invest approximately US$180,000,000 in QQCT with a total of 11 berths.

COSCO-PSA Terminal Private Limited

On 30th August 2003, COSCO Pacific signed Heads of Agreement with PSA Corporation Limited whereby both parties agreed to set up a joint venture company for the operation of two container berths in the port of Singapore. The project will be undertaken in two phases with annual designed throughput of 500,000 TEUs for each berth.

COSCO Logistics Co., Ltd.

On 22nd September 2003, COSCO Pacific Logistics Company Limited ("CPLCL"), a wholly owned subsidiary of the Company, entered into agreements with China Ocean Shipping (Group) Company ("COSCO") to effect, subsequent to the fulfillment of certain conditions precedent, a capital increase and transfer of equity interest transaction for the acquisition of a 49% equity interest in COSCO Logistics Co., Ltd. ("COSCO LOGISTICS"), a wholly owned subsidiary of COSCO, at a total consideration of RMB1,180,410,000 (approximately US$142,769,000). CPLCL further agreed to pay COSCO an additional amount of RMB50,000,000 (approximately US$6,047,000) if the pro forma combined net profit of COSCO LOGISTICS and its subsidiaries for the year ending 31st December 2003 exceeds RMB200,000,000 (approximately US$24,190,000). COSCO LOGISTICS and its subsidiaries operate businesses including shipping agency, freight forwarding, third party logistics services and supporting services. For details of the transaction, please refer to the Company's announcement published in accordance with the requirements of the Listing Rules in South China Morning Post and Hong Kong Economic Times on 23rd September 2003.

Issuance of 10-year bonds

The Company has appointed three investment banks to act as Joint Bookrunners for the proposed issuance of approximately US$300,000,000 fixed rate bonds with 10-year maturity. The bonds will be offered outside the United States in accordance with Regulation S under the United States Securities Act of 1933. The proceeds will be mainly used for financing of new port acquisitions and for refinancing purposes. This financing will diversify the Company's fund raising channels and will improve its debt maturity profile. It is expected that the issuance will be completed by October this year subject to market conditions.

EMPLOYEES AND REMUNERATION POLICIES

The Group considers that staff quality is among the key factors for its success, and regards its team of staff as the most precious asset. Therefore, the Group attaches great importance to its staff and their management on training. To this end, the Group organises seminars on modern management theory and practice given by internationally renowned management and consultative experts, maintains and subsidises various training programmes on team building, arranges its staff to participate in a variety of professional training courses or overseas training courses. These will enhance the overall qualification of our staff, enrich and update their knowledge to the extent that their potential could be maximised. As they become more capable to complete their tasks creatively, the Group's competitive edge will be enhanced.

As at 30th June 2003, there were 363 employees in the Group. The Group continues to improve the remuneration packages for its employees based on fair principles and competitive market conditions. The management will review the remuneration policies on a regular basis to formulate more reasonable incentives and appraisal measures. Apart from the general remuneration and bonus packages, share options were granted by the Group to the employees to motivate their performance and contribution to the Group's continuous growth. Total staff cost of the Group for the first half of the year, including directors' remuneration, totalled US$6,926,000 (corresponding period of 2002: US$6,522,000).

DIRECTORS' INTERESTS

As at 30th June 2003, the interests and short positions of the Company's directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which came into effect on 1st April 2003 and repealed and replaced the Securities (Disclosure of Interests) Ordinance) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Long positions in shares of the Company

Name of director	Capacity	Nature of interests	Number of ordinary shares held	Percentage of total issued share capital
Mr. KWONG Che Keung, Gordon	Beneficial owner	Personal	250,000	0.012%
Dr. LI Kwok Po, David	Beneficial owner	Personal	258,000	0.012%
Mr. LEE Yip Wah, Peter	Beneficial owner	Personal	150,000	0.007%

Long positions in underlying shares of equity derivatives of the Company

Share options were granted to certain directors of the Company pursuant to the Share Option Scheme adopted in 1994. Details of the directors' interests in share options granted by the Company are set out under the section "Share Options" of this report.

Save as disclosed above, as at 30th June 2003, none of the directors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation which have been recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

At the special general meeting of the Company held on 23rd May 2003, the shareholders of the Company approved the adoption of a new share option scheme (the "2003 Share Option Scheme") which complies with the new requirements of the Listing Rules and termination of the share option scheme adopted by the shareholders of the Company on 30th November 1994 (the "1994 Share Option Scheme"). No further options shall thereafter be offered under the 1994 Share Option Scheme but in all other respects the provisions of the 1994 Share Option Scheme shall remain in full force and effect.

Movements of the share options, which have been granted under the 1994 Share Option Scheme, during the period are set out below:

		Number of share options					
Category	Exercise price HK$	Outstanding at 1st January 2003	Exercised during the period	Lapsed during the period	Outstanding at 30th June 2003	Percentage of total issued share capital	Note
Directors							
Mr. LU Zhiming	5.53	1,500,000	–	–	1,500,000	0.070%	(1)
Mr. WONG Tin Yau, Kelvin	8.80	5,000,000	–	–	5,000,000	0.233%	(2)
Mr. QIN Fuyan	5.53	1,500,000	–	–	1,500,000	0.070%	(1)
Continuous contract employees	5.53	80,000	–	–	80,000	0.004%	(1)
	8.80	6,800,000	–	(1,200,000)	5,600,000	0.261%	(2)
		14,880,000	–	(1,200,000)	13,680,000	0.638%	

Notes:

(1) The share options were granted on 1st July 1996 under the 1994 Share Option Scheme. The options are exercisable at any time within ten years from the date of grant, subject to the following conditions:

Percentage of the total number of options granted to each grantee which can be exercised (including the options which have already been exercised)	Price level per share at which the options can be exercised*
20% of the options	HK$6.50 or above
40% of the options	HK$7.00 or above
60% of the options	HK$7.50 or above
80% of the options	HK$8.00 or above
100% of the options	HK$8.50 or above

* The price level refers to the closing price of the share of the Company on the Stock Exchange at the date prior to the exercise of the options.

(2) The share options were granted on 20th May 1997 (the "Offer Date") under the 1994 Share Option Scheme. The options are exercisable at any time within ten years from the date of grant, subject to the following conditions:

(i) For those grantees who have completed one year full-time service in the Group may exercise a maximum of 20% of share options granted in each of the first five anniversary year from the Offer Date.

(ii) For those grantees who have not completed one year full-time service in the Group as at the Offer Date, a maximum of 20% of options granted may be exercisable in each of the first five anniversary years of the Offer Date after completion of one year full-time service.

During the period, no share options were cancelled under the 1994 Share Option Scheme and no options were granted by the Company under the 2003 Share Option Scheme since its adoption.

Particulars and movements of the Company's share options during the period are also set out in note 12 to the Condensed Interim Accounts.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th June 2003, according to the register kept by the Company pursuant to Section 336 of the SFO, the following companies had an interest of 5% or more of the issued share capital of the Company:

Name	Capacity	Nature of interests	Number of ordinary shares/Percentage of total issued share capital: Long position	%	Short position	%	Lending pool	%	Note
COSCO Investments Limited	Beneficial owner	Beneficial interest	207,520,000	9.67	–	–	–	–	(1)
COSCO (Hong Kong) Group Limited	Beneficial owner and interest of controlled corporation	Beneficial interest and corporate interest	1,158,766,411	53.97	–	–	–	–	(1)
China Ocean Shipping (Group) Company	Interest of controlled corporation	Corporate interest	1,158,766,411	53.97	–	–	–	–	(1)
J.P. Morgan Chase & Co.	Beneficial owner, investment manager and other	Beneficial interest and corporate interest	218,558,911	10.18	–	–	66,791,682	3.11	(2)
Deutsche Bank Aktiengesellschaft	Investment manager	Corporate interest	130,996,369	6.10	–	–	–	–	(3)

Notes:

(1) Since COSCO Investments Limited ("COSCO Investments") is a wholly owned subsidiary of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") which is in turn a wholly owned subsidiary of China Ocean Shipping (Group) Company ("COSCO"), the interests of COSCO Investments are recorded as the interests of COSCO Hong Kong and in turn the interests of COSCO Hong Kong are recorded as the interests of COSCO.

(2) The corporate interest of J.P. Morgan Chase & Co. was attributable on account through a number of its wholly owned subsidiaries and non wholly owned subsidiaries, including, Robert Fleming Asset Management Ltd. (99.96% control), Robert Fleming Holdings Ltd. (96% control), J.P. Morgan Securities Ltd. (90% control) and JF Asset Management Limited (99.99% control).

(3) The corporate interest of Deutsche Bank Aktiengesellschaft was attributable on account through a number of its wholly owned subsidiaries and non wholly owned subsidiaries, including, Deutsche Asset Management Investmentgesellschaft mbH (94% control), DWS Investment GmbH (94% control), DWS (Austria) Investmentgesellschaft mbH (94% control), DWS Investments Italy SGR S.p.A. (94% control), DWS Investments Schweiz (94% control) and DWS Investment S.A., Luxemburg (94% control).

Save as disclosed above, the Company has not been notified of any other interests or short positions in the shares or the underlying shares of the Company representing 5% or more of the issued share capital of the Company as at 30th June 2003.

AUDIT COMMITTEE

The Company has an audit committee consisting of three independent non-executive directors of the Company. The committee reviews the systems of internal controls throughout the Group, the completeness and accuracy of its financial statements and liaises on behalf of the board of directors (the "Board") with external auditors and the Group's internal auditors. The committee members meet regularly with management, external and internal auditors and reviewed the internal and external audit reports and the interim and annual financial statements of the Group.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period for 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.

To enhance the Company's corporate governance standard, during the board meeting held on 26th March 2003, the Board approved the establishment of three board committees, namely, (i) Investment and Strategic Planning Committee, (ii) Corporate Governance Committee and (iii) Risk Management Committee. These three committees have started operation.

Two new board committees, namely, (i) Nomination Committee and (ii) Remuneration and Assessment Committee were established by the Company at the board meeting held on 22nd September 2003.

In April 2003, COSCO Pacific was awarded by CLSA Ltd. as one of the Best Chinese Companies in Corporate Governance, which was the third consecutive year for the Company in receiving such honour. In its survey and research report, CLSA Ltd. highly appraised COSCO Pacific for its focused business, persistently creating shareholders' value and high transparency; in particular, it noted that COSCO Pacific was the only Chinese enterprise that has formed its own Corporate Governance Committee.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company has not redeemed any of its listed shares during the six months ended 30th June 2003. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed shares during the six months ended 30th June 2003.

INVESTOR RELATIONS

In June 2003, COSCO Pacific was accredited as "The Asian Conglomerate Enterprise with the Best Investor Relations" by the globally renowned Institutional Investor Research Group. With active participation of institutional investors in the poll, the ranking can better represent the impression of institutional investors on investor relations of listed companies. The poll was marked by 200 analysts in total. Classified as an Asian Conglomerate Enterprise, COSCO Pacific received the highest score from analysts by industry category, and ranked top in the Best Investor Relations.

COSCO Pacific is glad to have achieved such excellent award, which is investors' affirmation of the long term efforts made by COSCO Pacific. In keeping abreast with the times, COSCO Pacific will continue to raise its standard of corporate governance and transparency, and strive for excellence in investor relations over its counterparts, so as to enhance its market value and generate wealth for its shareholders.

PROSPECTS

On 9th June 2003, COSCO Pacific became a constituent stock of the Hang Seng Index, representing the first PRC shipping related company ever incorporated into the index. This has proved that our performance and efforts are widely recognised. We will continue to strengthen investors' confidence through our good management and sound corporate governance. It is one of our committed long term goals to become a highly profitable and effectively managed conglomerate.

Looking into the second half of the year, business sentiment should improve on the back of a recovering US economy and a relaxed global monetary regime. However, as structural imbalance still exists in the world's major economies, we remain cautiously optimistic in the longer term, in anticipation of a moderate and uneven economic recovery. China's economy is set to benefit from its accession to the World Trade Organisation, the hosting of the 2008 Beijing Olympic Games and the 2010 Shanghai World Expo. Meanwhile, Hong Kong's economy will be revitalised by the signing of Mainland-Hong Kong Closer Economic Partnership Arrangement.

The overall utilisation rate of the Group's container fleet in the first half of the year was higher than the industry's average. Business proportion of International Customers continued to grow, an evidence that the Group's container leasing business is increasingly competitive. The Group will rise to any opportunities to further expand its container leasing business so as to exploit economies of scale and strengthen its world leading position in container leasing.

It is expected that the China's import and export trade will maintain its growth momentum, which should benefit container terminal operations in China mainland and Hong Kong. To this end, the Group's container terminal business will continue to grow in the second half of the year. The Group will adhere to its investment strategy in seizing suitable opportunities of container terminal investment so as to strengthen its container terminal business and command a leading position in the industry in Asia.

The Group will capitalise on the positioning of its core business laid down by its parent company and expand into logistics and other operations so as to cultivate new sources of profit and become a leading logistics service provider in China mainland and Hong Kong.

As a constituent stock of the Hang Seng Index, the Group has attached great importance to better corporate governance and transparency and is committed to creating shareholders' value and providing customers with quality services.

By Order of the Board
SUN Jiakang
Managing Director

Hong Kong, 22nd September 2003

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