COSCO

COSCO Pacific Limited Interim Report 2004 中期報告

COSCO Pacific Limited
中遠太平洋有限公司

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

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 consolidated accounts of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2004. This interim report has been reviewed by the Company's Audit Committee.

The condensed consolidated accounts as set out on pages 2 to 22 have also been reviewed by the Company's auditors, PricewaterhouseCoopers, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") except that the scope of their review did not extend to the Group's share of net assets and results of the listed associated company, Liu Chong Hing Bank Limited, which were presented in the segment headed "Banking businesses" in note 2 to the condensed consolidated accounts. Accordingly, their independent review report was modified in this respect.

The condensed consolidated accounts, comprising 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 2004 and the consolidated balance sheet of the Group as at 30th June 2004, all of which are unaudited and condensed, along with selected explanatory notes (collectively the "Condensed Interim Accounts"), are set out on pages 2 to 22 of this report.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30TH JUNE 2004

		Unaudited Six months ended 30th June	
	Note	**2004** *US$'000*	2003 *US$'000*
Turnover	*2*	**129,761**	125,756
Cost of sales		**(56,471)**	(55,030)
Gross profit		**73,290**	70,726
Other revenues		**26,074**	14,422
Administrative expenses		**(14,184)**	(12,621)
Other operating expenses (net)		**(18,672)**	(11,161)
Operating profit	*3*	**66,508**	61,366
Finance costs	*4*	**(9,970)**	(7,331)
Operating profit after finance costs		**56,538**	54,035
Share of profits less losses of			
- jointly controlled entities	*5*	**19,724**	3,404
- associated companies		**32,444**	28,663
Profit before taxation		**108,706**	86,102
Taxation	*6*	**(14,553)**	(11,473)
Profit after taxation		**94,153**	74,629
Minority interests		**(1,178)**	(1,021)
Profit attributable to shareholders		**92,975**	73,608
Transfer to other reserves		**(568)**	(946)
Interim dividend	*7*	**48,090**	37,986
Earnings per share			
Basic earnings per share	*8*	**US4.3190 cents**	US3.4284 cents
Diluted earnings per share	*8*	**US4.3022 cents**	US3.4272 cents

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH JUNE 2004

	Note	Unaudited As at 30th June 2004 US$'000	As at 31st December 2003 US$'000
Non-current assets			
Fixed assets	9	**1,181,830**	1,105,971
Jointly controlled entities		**322,117**	83,282
Associated companies		**281,073**	274,610
Investment securities		**69,378**	63,249
Finance lease receivables		**4,625**	4,994
Restricted bank deposits	11	**9,847**	12,056
Deferred tax assets		**273**	196
		1,869,143	1,544,358
Current assets			
Inventories		**4,656**	2,600
Trade and other receivables	10	**79,019**	80,539
Tax prepaid		**43**	43
Current portion of finance lease receivables		**1,060**	947
Time deposits	11	**178,639**	248,574
Bank balances and cash	11	**35,373**	23,205
		298,790	355,908
Current liabilities			
Trade and other payables	12	**107,856**	56,043
Current portion of long term liabilities	14	**32,122**	32,848
Tax payable		**1,252**	834
		141,230	89,725
Net current assets		**157,560**	266,183
Total assets less current liabilities		**2,026,703**	1,810,541
Representing:			
Share capital	13	**27,645**	27,553
Share premium		**569,688**	561,138
Other reserves		**8,847**	9,150
Retained profits		**718,647**	673,741
Proposed final dividend		**–**	49,582
Interim dividend declared		**48,090**	–
Shareholders' funds		**1,372,917**	1,321,164
Minority interests		**8,153**	8,644
Non-current liabilities			
Deferred tax liabilities		**40,787**	35,221
Long term liabilities	14	**604,846**	445,512
		2,026,703	1,810,541

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE 2004

		Unaudited Six months ended 30th June	
		2004	2003
	Note	***US$'000***	*US$'000*
Net cash from operating activities		**130,403**	96,032
Net cash used in investing activities		**(290,721)**	(13,213)
Net cash from/(used in) financing activities		**102,572**	(176,196)
Effect of foreign exchange rate changes		**(21)**	138
Net decrease in cash and cash equivalents		**(57,767)**	(93,239)
Cash and cash equivalents at 1st January		**271,779**	228,304
Cash and cash equivalents at 30th June	*11*	**214,012**	135,065
Analysis of balances of cash and cash equivalents:			
Time deposits		**178,639**	103,840
Bank balances and cash		**35,373**	31,225
		214,012	135,065

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited Six months ended 30th June	
	2004	2003
	US$'000	*US$'000*
Shareholders' funds as at 1st January	**1,321,164**	1,253,048
Exchange differences arising on the translation of the accounts of a subsidiary, a jointly controlled entity and associated companies	**(153)**	138
Share of exchange reserve of an associated company	**(70)**	–
Net (loss)/gain not recognised in the consolidated profit and loss account	**(223)**	138
Reserves realised upon disposal of investments in jointly controlled entities	**104**	–
Profit attributable to shareholders	**92,975**	73,608
2003/2002 final dividends paid	**(49,745)**	(49,546)
Issue of shares upon exercise of share options, net of share issue expenses	**8,642**	–
Shareholders' funds as at 30th June	**1,372,917**	1,277,248

NOTES TO CONDENSED INTERIM ACCOUNTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Condensed Interim Accounts are prepared in accordance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the HKICPA, 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 2003 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 2003.

2. TURNOVER AND SEGMENT INFORMATION

(a) Primary reporting format — business segments

Segment turnover and results

	Six months ended 30th June 2004						
	Container leasing and related businesses *US$'000*	Container terminal and related businesses *US$'000*	Logistics businesses *US$'000*	Banking businesses *US$'000*	Other businesses *US$'000*	Corporate *US$'000*	Total *US$'000*
Turnover							
- total revenues	120,879	8,885	–	–	–	–	129,764
- inter-segment sales	–	(3)	–	–	–	–	(3)
External sales	120,879	8,882	–	–	–	–	129,761
Segment results	52,929	9,577	(2,669)	–	–	–	59,837
Unallocated costs							
- net corporate expenses	–	–	–	–	–	(3,450)	(3,450)
- corporate finance costs	–	–	–	–	–	(255)	(255)
- corporate interest income	–	–	–	–	–	406	406
Operating profit/(loss) after finance costs	52,929	9,577	(2,669)	–	–	(3,299)	56,538
Share of profits less losses of							
- jointly controlled entities	–	8,979	9,140	–	1,605	–	19,724
- associated companies	–	27,425	–	5,019	–	–	32,444
Profit before taxation							108,706
Taxation							(14,553)
Profit after taxation							94,153
Minority interests							(1,178)
Profit attributable to shareholders							92,975

2. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

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

Segment turnover and results (Continued)

	Six months ended 30th June 2003						
	Container leasing and related businesses *US$'000*	Container terminal and related businesses *US$'000*	Logistics businesses *US$'000*	Banking businesses *US$'000*	Other businesses *US$'000*	Corporate *US$'000*	Total *US$'000*
Turnover							
- total revenues	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 assets, liabilities and other information

	Container leasing and related businesses *US$'000*	Container terminal and related businesses *US$'000*	Logistics businesses *US$'000*	Banking businesses *US$'000*	Other businesses *US$'000*	Corporate *US$'000*	Total *US$'000*
As at 30th June 2004							
Segment assets	**1,370,841**	**105,746**	**–**	**–**	**13,075**	**–**	**1,489,662**
Jointly controlled entities	**(916)**	**138,925**	**166,316**	**–**	**17,792**	**–**	**322,117**
Associated companies	**–**	**122,393**	**–**	**158,680**	**–**	**–**	**281,073**
Unallocated assets							**75,081**
							2,167,933
Segment liabilities	**(494,569)**	**(107,758)**	**(134,519)**	**–**	**–**	**–**	**(736,846)**
Minority interests	**–**	**(8,153)**	**–**	**–**	**–**	**–**	**(8,153)**
Unallocated liabilities							**(50,017)**
							(795,016)
Capital expenditure	**148,373**	**227**	**–**	**–**	**13,075**	**298**	**161,973**
Depreciation and amortisation	**49,002**	**623**	**–**	**–**	**–**	**215**	**49,840**
Impairment loss recognised in consolidated profit and loss account	**211**	**–**	**–**	**–**	**–**	**–**	**211**
Other non-cash expenses	**1,390**	**39**	**46**	**–**	**–**	**5**	**1,480**
As at 31st December 2003							
Segment assets	1,208,517	114,213	–	–	–	–	1,322,730
Jointly controlled entities	7	61,036	–	–	22,239	–	83,282
Associated companies	–	116,201	–	158,409	–	–	274,610
Unallocated assets							219,644
							1,900,266
Segment liabilities	(362,431)	(45,785)	–	–	–	–	(408,216)
Minority interests	–	(8,644)	–	–	–	–	(8,644)
Unallocated liabilities							(162,242)
							(579,102)
Capital expenditure	197,905	17,189	–	–	–	2,038	217,132
Depreciation and amortisation	94,041	1,169	–	–	–	307	95,517
Impairment loss recognised in consolidated profit and loss account	9,865	–	–	–	–	–	9,865
Other non-cash expenses	2,254	2,350	–	–	–	827	5,431

2. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Secondary reporting format — geographical segments

The movements of containers and generator sets 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 and generator sets except to the degree that the movements are restricted by the terms of the leases or where safety of the containers and generator sets is concerned. It is therefore impracticable to present segment information by geographical areas.

The activities of container terminal and related businesses, logistics businesses, other businesses and corporate segment are carried out in Hong Kong, China mainland and Singapore while that of banking businesses are predominantly carried out in Hong Kong.

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June	
	2004	2003
	US$'000	*US$'000*
Crediting		
Sale of inventories	**16,972**	5,909
Dividend income from unlisted investments	**7,859**	7,511
Interest income	**1,218**	977
Profit on disposal of fixed assets	**609**	446
Recovery of bad and doubtful debts	**25**	941
Charging		
Depreciation and amortisation	**49,840**	46,518
Cost of inventories sold	**17,678**	7,385
Loss on disposal of fixed assets	**474**	59
Provision for inventories	**451**	–
Write off of inventories	**285**	–
Impairment loss of containers	**211**	2,598
Provision for bad and doubtful debts	**150**	1,238
Loss on disposal of an unlisted investment	**–**	2,192
Revaluation deficit of investment properties	**–**	90

4. FINANCE COSTS

	Six months ended 30th June	
	2004	2003
	US$'000	*US$'000*
Interest expense on		
- bank loans	**2,576**	2,365
- other loans wholly repayable within five years	**136**	1,020
- other loans not wholly repayable within five years	**–**	177
- Notes not wholly repayable within five years	**8,813**	–
- loan from a minority shareholder of a subsidiary wholly repayable within five years	**28**	41
Amortised amount of discount on issue of Notes	**120**	–
Net (gain)/loss on interest rate swap contracts	**(2,011)**	1,407
	9,662	5,010
Other incidental borrowing costs	**308**	2,321
	9,970	7,331

5. SHARE OF PROFITS LESS LOSSES OF JOINTLY CONTROLLED ENTITIES

The share of profits less losses of jointly controlled entities includes the amortisation charge of goodwill on acquisition of US$1,253,000 (2003: Nil).

6. TAXATION

	Six months ended 30th June	
	2004	2003
	US$'000	*US$'000*
Company and subsidiaries		
Current taxation		
- Hong Kong profits tax	**409**	195
- China mainland taxation	**397**	345
- Overseas taxation	**16**	39
- Under provision in prior years	**5**	–
	827	579
Deferred taxation	**5,489**	5,118
	6,316	5,697
Share of taxation attributable to:		
Jointly controlled entities		
Current taxation		
- China mainland taxation	**2,809**	406
- Overseas taxation	**298**	–
Deferred taxation	**42**	–
Associated companies		
Current taxation		
- Hong Kong profits tax	**4,296**	3,976
- China mainland taxation	**1,015**	412
Deferred taxation	**(223)**	982
	8,237	5,776
	14,553	11,473

Hong Kong profits tax has been provided at a rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period.

Taxation on profits from a subsidiary operating in China mainland has been calculated at an effective tax rate of 15.0% (2003: 15.0%) on the estimated assessable profit for the period.

Taxation on overseas profits 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.

6. TAXATION (CONTINUED)

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

The Group is also exempt from business tax currently on its China mainland sourced rental income earned in accordance with a notice granting exemption from business tax for foreign enterprises which has no establishment in China mainland earning rental income from leasing of movable properties (Guo Shui Fa (1997) No. 35) issued by the State Administration of Taxation of the PRC on 14th March 1997.

7. INTERIM DIVIDEND

	Six months ended 30th June	
	2004	2003
	US$'000	*US$'000*
2004 interim, declared, of US2.231 cents (2003: US1.769 cents) per ordinary share	**48,090**	37,986

At a meeting held on 8th September 2004, the directors declared an interim dividend of HK17.4 cents (US2.231 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 2004.

8. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share for the six months ended 30th June 2004 are based on the Group's profit attributable to shareholders of US$92,975,000 (2003: US$73,608,000).

The basic earnings per share is based on the weighted average number of 2,152,708,155 (2003: 2,147,012,298) ordinary shares in issue during the period. The diluted earnings per share is based on the weighted average number of ordinary shares in issue during the period plus the weighted average number of 8,378,759 (2003: 746,795) ordinary shares deemed to be issued at no consideration if all outstanding dilutive options had been exercised.

9. FIXED ASSETS

During the six months ended 30th June 2004, the Group acquired fixed assets of US$148,898,000 (2003: US$102,007,000) and disposed of fixed assets with net book value of US$22,988,000 (2003: US$13,715,000).

10. TRADE AND OTHER RECEIVABLES

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

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 2004 *US$'000*	As at 31st December 2003 *US$'000*
Within 30 days	**18,000**	23,793
31 – 60 days	**24,541**	21,258
61 – 90 days	**7,093**	5,925
Over 90 days	**1,785**	1,779
Included under trade and other receivables	**51,419**	52,755

11. CASH AND CASH EQUIVALENTS

	As at 30th June 2004 *US$'000*	As at 31st December 2003 *US$'000*
Total time deposits, bank balances and cash (note a)	**223,859**	283,835
Restricted bank deposits included in non-current assets (note b)	**(9,847)**	(12,056)
	214,012	271,779
Representing:		
Time deposits	**178,639**	248,574
Bank balances and cash	**35,373**	23,205
	214,012	271,779

Notes:

(a) As at 30th June 2004, cash and cash equivalents amounting to US$20,166,000 (31st December 2003: US$20,712,000) were denominated in Renminbi and United States dollars which are held by certain subsidiaries of the Group with bank accounts operating in the PRC where 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.

12. TRADE AND OTHER PAYABLES

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

	As at 30th June 2004 *US$'000*	As at 31st December 2003 *US$'000*
Within 30 days	**2,665**	24,528
31 – 60 days	**16,413**	295
61 – 90 days	**26,666**	1,097
Over 90 days	**9,507**	3
	55,251	25,923
Included under trade and other payables	**54,335**	25,923
Included under jointly controlled entities	**916**	–
	55,251	25,923

13. SHARE CAPITAL

	As at 30th June 2004 *US$'000*	As at 31st December 2003 *US$'000*
Authorised:		
3,000,000,000 (31st December 2003: 3,000,000,000) ordinary shares of HK$0.10 each	**38,462**	38,462
Issued and fully paid:		
2,155,750,298 (31st December 2003: 2,148,542,298) ordinary shares of HK$0.10 each	**27,645**	27,553

13. SHARE CAPITAL (CONTINUED)

(a) Movements of issued share capital

	Number of ordinary shares	Nominal value US$'000
At 1st January 2004	2,148,542,298	27,553
Issued on exercising of share options	7,208,000	92
At 30th June 2004	2,155,750,298	27,645

(b) Share options

Movements of the share options, which have been granted under the share option schemes adopted by the Company on 30th November 1994 (the "1994 Share Option Scheme") and 23rd May 2003 (the "2003 Share Option Scheme") respectively, during the period are set out below:

		Number of share options			
Category	Exercise price HK$	Outstanding as at 1st January 2004	Exercised during the period	Lapsed during the period	Outstanding as at 30th June 2004
Directors	5.53	1,500,000	–	–	1,500,000
	8.80	5,000,000	(1,000,000)	–	4,000,000
	9.54	16,500,000	(300,000)	–	16,200,000
Continuous	5.53	80,000	–	–	80,000
contract	8.80	5,600,000	(808,000)	–	4,792,000
employees	9.54	23,140,000	(3,650,000)	–	19,490,000
Others	9.54	6,180,000	(1,450,000)	–	4,730,000
		58,000,000	(7,208,000)	–	50,792,000

14. LONG TERM LIABILITIES

	As at 30th June 2004 *US$'000*	As at 31st December 2003 *US$'000*
Borrowings		
Secured (note c)	**161,830**	177,523
Unsecured	**475,138**	300,837
	636,968	478,360
Amounts due within one year included under current liabilities	**(32,122)**	(32,848)
	604,846	445,512

Notes:

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

	As at 30th June 2004 *US$'000*	As at 31st December 2003 *US$'000*
Wholly repayable within five years		
Bank loans	**326,491**	166,553
Other loans	**11,472**	12,681
Loans from a minority shareholder of a subsidiary	**722**	963
	338,685	180,197
Notes not wholly repayable within five years	**298,283**	298,163
	636,968	478,360

14. LONG TERM LIABILITIES (CONTINUED)

(b) Long term liabilities were repayable as follows:

	As at 30th June 2004 *US$'000*	As at 31st December 2003 *US$'000*
Bank loans		
Within one year	**29,324**	29,902
In the second year	**33,963**	29,474
In the third to fifth years inclusive	**263,204**	107,177
	326,491	166,553
Notes		
In more than five years	**298,283**	298,163
Other loans		
Within one year	**2,557**	2,464
In the second year	**2,754**	2,653
In the third to fifth years inclusive	**6,161**	7,564
	11,472	12,681
Loan from a minority shareholder of a subsidiary (note e)		
Within one year	**241**	482
In the second year	**481**	481
	722	963
	636,968	478,360

(c) Secured bank loans and other loans of US$161,830,000 (31st December 2003: US$177,523,000) were secured by certain containers of the Group. These loans of amounts of US$150,359,000 (31st December 2003: US$164,842,000) were also secured by the assignment of the container lease agreements and the rental income thereon, other assets and shares of certain subsidiaries.

(d) Bank loan of a subsidiary of approximately US$530,000 (31st December 2003: US$1,108,000) was guaranteed by the minority shareholder of that subsidiary.

(e) The loan from a minority shareholder of a subsidiary is unsecured and repayable in various annual instalments up to December 2005. Annual interest rate is calculated at prevailing market rate quoted by the State Development Bank of the PRC during the period. The interest rate was at 5.76% per annum (2003: 5.76%) for the period.

15. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30th June 2004 and 31st December 2003.

16. CAPITAL COMMITMENTS

	As at 30th June 2004 *US$'000*	As at 31st December 2003 *US$'000*
Authorised but not contracted for:		
Containers	**19,000**	147,816
Generator sets	**913**	3,000
Computer system under development	**1,388**	985
	21,301	151,801
Contracted but not provided for:		
Investments	**198,794**	395,295
Containers	**83,049**	22,329
Generator sets	**406**	–
Other fixed assets	**–**	254
	282,249	417,878
The Group's share of capital commitments of the joint ventures themselves not included in the above are as follows:		
Authorised but not contracted for	**743**	–
Contracted but not provided for	**286**	–
	1,029	–

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	
	2004	2003
	US$'000	*US$'000*
Transactions carried out by the Group		
Container rental income from a fellow subsidiary (note a)		
- long term leases	**57,331**	64,817
- short term leases	**47**	142
Handling and storage income from fellow subsidiaries (note b)	**2,820**	3,354
Net transportation income from a fellow subsidiary (note b)	**624**	1,080
Management fee income from an associated company (note c)	**1,282**	1,282
Container terminal handling fees received from fellow subsidiaries and an associated company of the ultimate holding company (note d)	**1,057**	673
Container freight charges to (note e)		
- Related Entities	**(517)**	(635)
- jointly controlled entities of the Group	**(69)**	(106)
Approved continuous examination program fee to a fellow subsidiary (note f)	**(1,100)**	(1,100)
Proceeds on disposal of investments in jointly controlled entities to a fellow subsidiary (note g)	**4,943**	–
Consideration paid and payable for the acquisition of equity interest in a jointly controlled entity (note h)	**(148,201)**	–
Purchase of containers from (note i)		
- Related Entities	**(18,463)**	(36,471)
- jointly controlled entities of the Group	**(6,197)**	(7,157)
Transactions carried out by jointly controlled entities and an associated company		
Income for container terminal handling services from a fellow subsidiary (note j)	**35,935**	27,571
Income for logistics services from fellow subsidiaries (note k)	**10,599**	–
Transportation and related charges to fellow subsidiaries (note l)	**(31,233)**	–

17. RELATED PARTY TRANSACTIONS (CONTINUED)

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 and accordingly a fellow subsidiary of the Company. The container rental income was charged based on terms agreed between the Group and COSCON.

(b) The handling and storage income and the transportation income received from fellow subsidiaries of the Company were conducted at terms as set out in the agreements entered into between the Group and these fellow subsidiaries.

(c) The Group provided advisory and management services to COSCO-HIT Terminals (Hong Kong) Limited ("COSCO-HIT"), an associated company of the Group, during the period. Management fee was charged and agreed at HK$20,000,000 (2003: HK$20,000,000) per annum.

(d) During the period, the Group provided handling and storage services to fellow subsidiaries and an associated company of COSCO for cargoes shipped from/to Zhangjiagang port. The tariff rates charged by the Group were by reference to the rates as set out by the Ministry of Communications of the PRC.

(e) During the period, the Group paid container freight charges of US$517,000 (2003: US$635,000) and US$69,000 (2003: US$106,000) to certain companies owned by a related company (the "Related Entities") and jointly controlled entities of the Group respectively for container repositioning services rendered to the Group. During the period, COSCO and its subsidiaries have an aggregated equity interest of 17.18% in the related company.

(f) An approved continuous examination program fee of US$2,200,000 to COSCON in connection with the containers leased to COSCON on a long term basis was agreed between the Group and COSCON for the year ending 31st December 2004 (2003: US$2,200,000).

(g) On 25th November 2003, the Group entered into agreements with COSCO International Limited, a listed fellow subsidiary, to dispose of its entire 20% equity interests in each of Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd., both were then jointly controlled entities of the Group, at aggregate considerations in cash totalling RMB41,040,000 (equivalent to approximately US$4,943,000) (the "Disposals"). The Disposals were completed in January 2004 and the gain on the Disposals was insignificant.

17. RELATED PARTY TRANSACTIONS (CONTINUED)

(h) On 22nd September 2003, the Group entered into agreements with COSCO to effect, subsequent to the fulfilment of certain conditions precedent, a capital increase and transfer of equity interest transaction for the acquisition of 49% equity interest in COSCO Logistics Co., Ltd. ("COSCO Logistics"), a then wholly owned subsidiary of COSCO, at a total consideration of RMB1,180,410,000 (equivalent of approximately US$142,179,000) (the "Acquisition"). The Group also agreed to pay COSCO an additional amount of RMB50,000,000 (equivalent of approximately US$6,022,000) if the combined net profit of COSCO Logistics for the year ended 31st December 2003 exceeds RMB200,000,000 (the "Additional Amount").

The Acquisition was completed in January 2004 and COSCO Logistics became a jointly controlled entity of the Group since then. The Additional Amount payable to COSCO amounted to RMB50,000,000 as at 30th June 2004.

(i) The purchases of containers from Related Entities and jointly controlled entities of the Group were conducted at terms as set out in the agreements entered into between the Group and the parties in concern.

(j) COSCO-HIT and Qingdao Qianwan Container Terminal Co., Ltd, a jointly controlled entity of the Group, provided container terminal handling and storage services to COSCON. The services rendered were charged at terms pursuant to the respective agreements with COSCON which governed the transactions.

(k) COSCO Logistics provided certain subsidiaries of COSCO (other than those within the Group) with logistics services including shipping agency, freight forwarding, third party logistics and supporting services. The services were charged at rates as agreed on a mutual basis.

(l) Certain subsidiaries of COSCO (other than those within the Group) provided COSCO Logistics with transportation and related services at charges as agreed on a mutual basis.

(m) Pursuant to an agreement dated 15th June 2004 entered into between COSCO and COSCO Ports (Yingkou) Limited ("COSCO Ports Yingkou"), an indirect wholly owned subsidiary of the Company, COSCO Ports Yingkou agreed to acquire from COSCO its entire 50% equity interest in a company established in the PRC which principally engages in the provision of container terminal business in Yingkou, at a cash consideration of RMB22,500,000 (equivalent to approximately US$2,710,000). The transaction was completed in August 2004.

18. FINANCIAL INSTRUMENTS AND COMMITMENTS

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 risk associated with the Group's borrowings and not for trading or speculation purposes.

The notional principal amounts of the outstanding interest rate swap contracts as at 30th June 2004 were US$300,000,000 (31st December 2003: US$300,000,000).

Interest rate swap contracts of notional amount of US$100,000,000 (31st December 2003: US$100,000,000) were committed with the fixed interest rates ranging from 3.88% to 4.90% (31st December 2003: 3.88% to 4.90%) per annum whereas the remaining interest rate swap contracts of notional amount of US$200,000,000 (31st December 2003: US$200,000,000) were committed with the interest rates ranging from 1.05% to 1.16% (31st December 2003: 1.05% to 1.16%) per annum above the London Interbank Offered Rate.

19. SUBSEQUENT EVENT

On 19th August 2004, COSCO Container Industries Limited, a wholly owned subsidiary of the Company, entered into an agreement with COSCO to acquire 163,701,456 non-publicly tradable State-owned legal person shares in China International Marine Containers (Group) Co., Ltd. ("CIMC"), representing approximately 16.23% of the issued share capital of CIMC. The consideration for the acquisition amounted to approximately RMB1,056,384,000 (approximately US$127,240,000).

INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF COSCO PACIFIC LIMITED

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 2 to 22.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA, except that the scope of our review, as instructed by the directors, did not extend to the Group's share of net assets and results of an associated company, Liu Chong Hing Bank Limited, which were equity accounted for on the basis of its published interim financial information.

A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Modified review conclusion arising from limitation of review scope

On the basis of our review which does not constitute an audit, with the exception of any modifications that might have been determined to be necessary had the above limitation not existed, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June 2004.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8th September 2004

INTERIM DIVIDEND

The directors have declared an interim cash dividend of HK17.4 cents per share for the six months ended 30th June 2004 (2003: HK13.8 cents per share). The interim dividend will be payable on 8th October 2004 to shareholders whose names appeared on the register of members of the Company on 30th September 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 24th September 2004 to Thursday, 30th September 2004, 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 4:00 p.m. on Thursday, 23rd September 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overall analysis of results

The economy in the PRC has witnessed a new era of growth, as a result of the acceleration in industrialisation and urbanisation, the upgrading of domestic consumers' spending structure and the shift of global manufacturing bases, the enormous market demand in the PRC has become a driving force in the development in global freight forwarding industry and a major source fuelling global economic growth. This driving force propelled the growth of our three core businesses, i.e. container leasing, container terminal and logistics businesses.

During the period, the PRC government adopted a series of macro-economic controls to regulate certain overheated industries amid high energy prices in the global market. As these factors had minimal impact on the Group, the Group continued to achieve satisfactory results in its business expansion during the first half of 2004.

Profit attributable to shareholders during the six months ended 30th June 2004 was US$92,975,000, representing an increase of 26.3% when compared with US$73,608,000 for the corresponding period of last year. Earnings per share rose 26.0% to US4.3190 cents, compared to US3.4284 cents in the corresponding period of last year. The Group's acquisition of the 49% equity interest in COSCO Logistics Co., Ltd. ("COSCO Logistics") was completed in January 2004, and it contributed US$6,237,000 to the Group's net profit in the first half of the year.

Financial analysis

Turnover for the first half of 2004 grew by 3.2% to US$129,761,000 (corresponding period of 2003: US$125,756,000). Container leasing operation accounted for the majority of such increase, generating US$120,879,000 (corresponding period of 2003: US$116,526,000) of turnover that represented an increase of 3.7%. As at 30th June 2004, total container fleet rose by 14.5% to 864,568 TEUs (corresponding period of 2003: 755,043 TEUs). The average utilisation rate during the period increased to 96.0% (corresponding period of 2003: 95.1%). Efforts of Zhangjiagang Win Hanverky Container Terminal Co., Ltd. ("Zhangjiagang Win Hanverky Terminal") to explore business opportunities from domestic traders resulted in a 25.9% increase in throughput to 155,753 TEUs (corresponding period of 2003: 123,689 TEUs) and a 12.1% increase in turnover to US$5,134,000 (corresponding period of 2003: US$4,581,000). Overall business volume of container handling and storage operation decreased in the first six-month period with a turnover of US$3,748,000 (corresponding period of 2003: US$4,649,000).

Cost of sales, comprising mainly depreciation, depot expenses, maintenance and operating expenses, rose by US$1,441,000 to US$56,471,000 (corresponding period of 2003: US$55,030,000) in the first half of the year, in which depreciation increased by US$3,254,000 and accounted for 86.1% (corresponding period of 2003: 82.4%) of cost of sales. Keen demand for containers during the period contributed to a decrease in depot and repositioning expenses by US$2,723,000.

Other revenues increased by US$11,652,000, mainly attributable to the sales revenues of the returned containers from COSCO Container Lines Company Limited ("COSCON") upon expiry of leases, 28,247 TEUs were sold during the first half of the year (corresponding period of 2003: 13,005 TEUs), generating US$16,972,000 in revenue (corresponding period of 2003: US$5,909,000). Yantian International Container Terminals Ltd. ("Yantian International Terminals") declared an interim dividend of US$7,461,000 (corresponding period of 2003: US$5,135,000) for the first half of 2004. Shekou Container Terminals Ltd. ("Shekou Terminals") did not declare an interim dividend for the first half of 2004 (corresponding period of 2003: US$2,191,000), but paid an additional dividend of US$398,000 for 2003. Interest income during the period increased by US$241,000.

Administration expenses increased by 12.4% over the corresponding period of 2003 to US$14,184,000 (corresponding period of 2003: US$12,621,000). During the period, human resources expenses, travel expenses and professional fees rose as the Group continued to strengthen its marketing and new project development.

Other net operating expenses in the first half of the year amounted to US$18,672,000 (corresponding period of 2003: US$11,161,000). During the period, the carrying value of the returned containers sold increased by US$10,293,000 and the direct cost relating to the sale of returned containers increased by US$1,234,000. Provision for impairment losses of fixed assets decreased by US$2,387,000 to US$211,000 (corresponding period of 2003: US$2,598,000). In addition, the Group recorded a loss of US$2,192,000 in the first half of 2003 from the disposal of its 10% interest in River Trade Terminal Holdings Limited last year.

During the period, financial expenses increased by 36.0% to US$9,970,000 (corresponding period of 2003: US$7,331,000). Interest rate remained at low level in the first half of 2004, while the Group's average borrowing increased to US$581,852,000 (corresponding period of 2003: US$330,458,000), including the issue of US$300,000,000 10-year fixed rate notes in September 2003. The Group's average cost of borrowing, net of gain of US$2,011,000 (corresponding period of 2003: loss of US$1,407,000) arising from interest rate swap contracts, was 3.32% (corresponding period of 2003: 3.03%).

Profit contribution from jointly controlled entities after goodwill amortisation was US$19,724,000 (corresponding period of 2003: US$3,404,000), representing a significant increase of 479.4% which was mainly attributable to profit contribution from Qingdao Qianwan Container Terminal Co., Ltd ("Qingdao Qianwan Terminal"), COSCO-PSA Terminal Private Limited ("COSCO-PSA Terminal"), COSCO Logistics and Yangzhou Yuanyang International Ports Co. Ltd. ("Yangzhou Yuanyang International Ports"), all of which were jointly controlled entities invested by the Group since last year. Amortisation of goodwill amounted to US$1,253,000 (corresponding period of 2003: Nil), mainly comprising of goodwill amortisation arising from the investment in Qingdao Qianwan Terminal and COSCO Logistics. The throughput in Qingdao Cosport International Container Terminals Co., Ltd. ("Qingdao Cosport Terminals") grew by 39.4% and reported an increase in profit contribution. Shanghai CIMC Reefer Containers Co., Ltd. recorded a drop in profit due to price hikes in raw materials.

Profit contribution from associated companies amounted to US$32,444,000 (corresponding period of 2003: US$28,663,000), representing an increase of 13.2%. Efforts of COSCO-HIT Terminals (Hong Kong) Limited ("COSCO-HIT") to explore news sources for business resulted in the significant surge in throughput to a record high of 803,338 TEUs (corresponding period of 2003: 702,457 TEUs) in the first half of the year, while profit contribution grew by 2.1% due to changes in cargo mix. Throughput of Shanghai Container Terminals Limited ("Shanghai Terminals") rose by 7.3% while the profit contribution increased by 22.3%. Shanghai Pudong International Container Terminals Limited ("Shanghai Pudong International Terminals"), which started operations in March last year, achieved a throughput of 1,098,955 TEUs (March to June 2003: 683,343 TEUs) in the first half of the year and reported an increase of 70.7% in profit contribution. Liu Chong Hing Bank Limited ("Liu Chong Hing Bank") contributed profit of US$5,019,000 (corresponding period of 2003: US$4,218,000).

Aggregate tax amount rose by US$3,080,000 to US$14,553,000 (corresponding period of 2003: US$11,473,000), mainly reflecting the increase in profit of the jointly controlled entities.

FINANCIAL POSITION

Cashflow

Cash inflows of the Group remained stable. During the period, net cash from operating activities amounted to US$130,403,000 (corresponding period of 2003: US$96,032,000). The Group drew bank loans of US$220,000,000 (corresponding period of 2003: US$19,768,000) and repaid US$61,512,000 (corresponding period of 2003: US$138,431,000) during the first half of the year. The Group invested in 49% equity interest in COSCO Logistics, involving cash outflow of US$142,179,000 (corresponding period of 2003: Nil). In respect of terminals, investments included interests in Qingdao Qianwan Terminal, Yangzhou Yuanyang International Ports and Dalian Automobile Terminal Co., Ltd. ("Dalian Automobile Terminal"), involving cash outflow of US$61,170,000, US$11,126,000 and US$2,896,000 respectively (corresponding period of 2003: US$45,908,000 in Shanghai Pudong International Terminals) according to respective contract or progress of work. Amounts of US$109,568,000 (corresponding period of 2003: US$63,533,000) were paid during the period for purchase of new containers.

Financing and credit facilities

A subsidiary of the Group raised a loan of US$205,000,000 from seven international banks on a club deal basis during the period for a term of six years at a cost equivalent to London Interbank Offered Rate ("LIBOR") plus 60 basis points. The loan agreement in respect of this significant borrowing was signed on 12th July 2004. It was the largest bank loan raised with the lowest cost since the listing of COSCO Pacific. The proceeds of the facility will be used to finance the purchase of new containers and for working capital.

As at 30th June 2004, the cash balances and committed but unutilised banking facilities amounted to US$223,859,000 and US$125,558,000 respectively (31st December 2003: US$283,835,000 and US$297,908,000 respectively). Coupled with the US$205,000,000 facility recently secured, available funds and facilities amounted to US$544,570,000.

Assets and liabilities

As at 30th June 2004, total assets amounted to US$2,167,933,000 (31st December 2003: US$1,900,266,000), whereas total liabilities and minority interests amounted to US$795,016,000 (31st December 2003: US$579,102,000). Net assets amounted to US$1,372,917,000 (31st December 2003: US$1,321,164,000) and net asset value per share was HK$4.968, representing a 3.6% increase when compared with the end of last year.

Cash balances as at 30th June 2004 amounted to US$223,859,000 (31st December 2003: US$283,835,000). Total outstanding borrowings amounted to US$636,968,000 (31st December 2003: US$478,360,000), with a net debt-to-equity ratio of 30.1% (31st December 2003: 14.7%). Interest coverage was 12.3 times while that in the same period last year was 18.2 times.

Certain of the Group's fixed assets with net book value of US$305,816,000 (31st December 2003: US$318,976,000) and bank deposits of US$9,847,000 (31st December 2003: US$12,056,000) were pledged to banks and financial institutions as security against borrowings totalling US$161,830,000 (31st December 2003: US$177,523,000).

Debt analysis

	As at 30th June 2004		As at 31st December 2003	
	US$	*%*	*US$*	*%*
By repayment term:				
Within the first year	**32,122,000**	**5.0**	32,848,000	6.9
Within the second year	**37,198,000**	**5.9**	32,608,000	6.8
Within the third year	**50,134,000**	**7.9**	41,046,000	8.6
Within the fourth year	**219,231,000**	**34.4**	54,108,000	11.3
Within the fifth year and beyond	**298,283,000***	**46.8**	317,750,000*	66.4
	636,968,000	**100.0**	478,360,000	100.0
By type of borrowings:				
Secured borrowings	**161,830,000**	**25.4**	177,523,000	37.1
Unsecured borrowings	**475,138,000**	**74.6**	300,837,000	62.9
	636,968,000	**100.0**	478,360,000	100.0
By denomination of borrowings:				
US Dollar	**635,113,000**	**99.7**	475,686,000	99.4
RMB	**1,855,000**	**0.3**	2,674,000	0.6
	636,968,000	**100.0**	478,360,000	100.0

* Including the US$300,000,000 notes with a maturity date on 3rd October 2013, net of discount.

Contingent liabilities

As at 30th June 2004 and 31st December 2003, the Group had no significant contingent liabilities.

Foreign exchange and interest rate risks management

Most of the Group's borrowings were denominated in US dollars, a majority of which was used for container leasing operation that had its revenues and expenses mainly in US dollars. Hence, exposure to exchange rate risk is minimal.

In respect of the financing activities of associated companies and jointly controlled entities, such as COSCO-HIT and COSCO-PSA Terminal, all material borrowings were denominated in Hong Kong and Singapore dollars respectively, with corresponding hedging being effected.

The Group continued to exercise stringent control over the use of derivatives for hedging against its interest rate risks. As at 30th June 2004 and 31st December 2003, outstanding interest rate swap contracts comprised:

- Notional principals of contracts amounted to US$100,000,000 in total at fixed interest rates ranging from 3.88% to 4.90% per annum payable by the Group.

- Notional principals of contracts amounted to US$200,000,000 in total at floating interest rates ranging 6-month LIBOR plus 105 basis points to 116 basis points payable by the Group.

As at 30th June 2004, through interest rate swap contracts and fixed rate borrowing arrangements, the ratio of fixed-rate to floating-rate borrowings stood at 31.4%: 68.6% (31st December 2003: 42.0%: 58.0%) of the Group's debt portfolio. The Group monitored and adjusted its debt portfolio of fixed and floating interests from time to time to reflect market situation.

REVIEW OF OPERATIONS

Container leasing

Benefiting from the robust growth in container cargoes, container leasing business of the Group grew faster than expected during the period. As at 30th June 2004, Florens Container Holdings Limited, a wholly owned subsidiary of the Company and its subsidiaries (collectively referred to as "Florens") owned and operated a container fleet of 864,568 TEUs, up 14.5% as compared with the corresponding period of last year. Excluding 4,815 TEUs of containers under finance leases, Florens was the fifth largest marine container leasing company with an approximately 9.9% share of the global market (corresponding period of 2003: 9.3%).

Further expanding market share in container leasing operations

Florens's satisfactory results were attributable to its sales and marketing activities during the period. To better cope with the increasing demand, Florens purchased 90,372 TEUs (corresponding period of 2003: 70,033 TEUs) (comprising mainly dry containers), representing approximately 15.0% of the new containers produced for the entire container leasing industry.

In anticipation of price increases, Florens placed advanced purchase order at the end of last year for its new container requirements, and enabled Florens to maintain relatively lower prices overall for its new containers despite a surge in material prices during the first half of 2004.

While acquiring new containers, Florens also sold 28,247 TEUs (corresponding period of 2003: 13,005 TEUs) of containers returned from COSCON upon expiry of the leases. The average age of the Group's container fleet was 4.36 years (corresponding period of 2003: 4.58 years).

Container fleet movement

	2004	2003
	TEUs	*TEUs*
Total containers (as at 1st January)	**808,825**	707,890
New containers purchased	**90,372**	70,033
Containers returned from COSCON upon expiry of leases		
— Total	**(31,820)**	(22,038)
— Re-leased	**2,102**	567
— Disposed of and pending for disposal	**(29,718)**	(21,471)
Ownership transferred to customers upon expiry of finance leases	**(302)**	(64)
Defective containers written off	**(4,609)**	(1,345)
Total containers as at 30th June	**864,568***	755,043*

* including 16,665 TEUs of containers managed on behalf of third party (corresponding period of 2003: 5,216 TEUs)

Customer base expansion

The Group primarily provided a 10-year container leasing service for COSCON, the world's ninth largest container ship operator, and provided both long-term and short-term container leasing services for other international customers ("International Customers"). These International Customers included major global shipping companies. The top 20 International Customers accounted for approximately 75.7% (corresponding period of 2003: 75.9%) of the Group's total container rental income with International Customers while the total number of customers reached 198 (corresponding period of 2003: 183).

As at 30th June 2004, the Group leased a total of 304,088 TEUs (corresponding period of 2003: 306,763 TEUs) to COSCON, which represents 35.2% (corresponding period of 2003: 40.6%) of the entire container fleet. Containers available to International Customers rose to 560,480 TEUs (corresponding period of 2003: 448,280 TEUs), representing 64.8% (corresponding period of 2003: 59.4%) of the total containers.

Container fleet analysis

	30th June 2004		31st December 2003		30th June 2003	
	COSCON	**International Customers**	COSCON	International Customers	COSCON	International Customers
Total containers (in TEUs)	**304,088**	**560,480**	310,444	498,381	306,763	448,280
— Dry containers	**91.7%**	**96.0%**	91.1%	95.5%	91.0%	95.1%
— Reefers	**7.7%**	**2.2%**	8.0%	2.5%	8.1%	2.7%
— Specials	**0.6%**	**1.8%**	0.9%	2.0%	0.9%	2.2%

Utilisation rates beating industry average

While containers leased to COSCON remained 100% utilised during the period, the overall average utilisation rate of the Group stood at 96.0% (corresponding period of 2003: 95.1%), well above the industry average of approximately 91.6% (corresponding period of 2003: approximately 88.0%).

Handling of returned containers

During the period, a total of 31,820 TEUs (corresponding period of 2003: 22,038 TEUs) of containers were returned from COSCON upon expiry of leases. The Group disposed of 28,247 TEUs (corresponding period of 2003: 13,005 TEUs) including 4,872 TEUs of containers previously returned by COSCON upon expiry of leases but had not yet been disposed of on or before 31st December 2003. The loss on disposal of the returned containers, including other direct costs, amounted to US$2,753,000 (corresponding period of 2003: US$2,289,000). Loss on disposal of returned containers per TEU decreased in view of an increase in steel price, which led to an increase in disposal price.

Container terminal and related operations

The development of the container terminal industry is closely connected with the global economy and shipping industry. Marine transport accounted for 80% of worldwide freight, while the percentage is probably higher in Asia. The PRC has become an increasingly important player in world trade, ranking as the third largest importer and fourth largest exporter of the world in 2003. International trade of the nation totalled US$523 billion in the first half of 2004, up 39% from the corresponding period of last year. The amount of exports increased 36% to US$258.1 billion, while imports increased 43% to US$264.9 billion.

Spurred by the growth of the PRC economy, the container terminal and related businesses of the Group reported solid performance. The container terminals, in which the Group held interests, registered a throughput of 10,697,834 TEUs, up 41.5% from the corresponding period of last year.

Further expansion of market share in container terminal operations

China economic development shows beyond doubt that the rapid growth of its international trade will be sustainable in the next decade. China is projected to be the world's second largest trader by 2020 according to "China 2020" published by the World Bank. The Group will strive to expand its market share in container terminal business in order to capitalise on such opportunities.

In its terminals portfolio as of 30th June 2004, including those which the Group have signed contracts in the first half of 2004 to invest in two container terminals, namely Yingkou Container Terminals Company Limited ("Yingkou Terminal") and Zhenjiang Jinyuan Container Terminals Co., Ltd. ("Zhenjiang Jinyuan Terminals"), the Group will hold interests in a total of 15 terminals. Construction of Dalian Automobile Terminal commenced upon completion of its registration procedures during the period under review and the acquisition of Yingkou Terminals was completed in August 2004. These 15 terminals strategically located in Pearl River Delta, Yangtze River Delta, Bohai Rim and major overseas regions. Meanwhile, amongst the 63 berths in aggregate, there were 58 container terminal berths, 2 automobile terminal berths and 3 multi-functional terminal berths. The aggregate annual capacity of containers will be increased by 2,750,000 TEUs to 28,950,000 TEUs.

	Effective Group equity interest *%*	Berths *Number*	Annual capacity *TEUs*
Pearl River Delta			
COSCO-HIT	50	2	1,800,000
Yantian International Terminals Phase I & II	5	5	4,500,000
Yantian International Terminals Phase III	4.45	4	2,400,000
Shekou Terminals	17.5	2	1,300,000
		13	10,000,000
Yangtze River Delta			
Shanghai Terminals	10	10	3,500,000
Shanghai Pudong International Terminals	20	3	2,300,000
Zhangjiagang Win Hanverky Terminal	51	2	300,000
Yangzhou Yuanyang International Ports	55.59	3	100,000 3,500,000 tons of break-bulk cargo
Zhenjiang Jinyuan Terminals*	25	1	150,000
		19	6,350,000
Bohai Rim			
Qingdao Qianwan Terminal	20	11	6,500,000
Qingdao Cosport Terminals	50	1	600,000
Dalian Port Container Co., Ltd.	8	9	1,800,000
Dalian Automobile Terminal	30	2	600,000 (vehicles)
Tianjin Five Continents International Container Terminal Co., Ltd.	14	4	1,500,000
Yingkou Terminal*	50	2	1,000,000
		29	11,400,000
Overseas region			
COSCO-PSA Terminal	49	2	1,200,000

Total	Container terminal berths	: 58	28,950,000
	Automobile terminal berths	: 2	600,000 (vehicles)
	Multi-functional terminal berths	: 3	3,500,000 tons of break-bulk cargo

* The agreements for the capital injection to these terminal projects were signed in the first half of 2004

Satisfactory growth in throughput of containers

Amongst the 15 investment projects of the Group, Tianjin Five Continents International Container Terminal Co., Ltd., Dalian Automobile Terminal, Yingkou Terminal and Zhenjiang Jinyuan Terminals are either under construction or the establishment procedures of the relevant joint venture or associated company are under way, the other 11 terminals contributed profits to the Group during the period. Throughput of containers reported growth of 41.5% over the corresponding period of last year.

In respect of container throughput in the four major regions, the 124.9% growth over the corresponding period of last year of Bohai Rim outstripped that of Yangtze River Delta and Pearl River Delta, which registered growth of 24.7% and 11.9% respectively, while the COSCO-PSA Terminal in overseas region registered throughput of 274,265 TEUs.

Throughput of container terminals	**1H 2004** *TEUs*	1H 2003 *TEUs (Note 2)*	**Changes over the corresponding period**
Pearl River Delta			
COSCO-HIT	**803,338**	702,457	+14.4%
Yantian International Terminals Phase I, II and III	**2,768,615**	2,312,234	+19.7%
Shekou Terminals	**509,682**	633,549	-19.6%
	4,081,635	3,648,240	+11.9%
Yangtze River Delta			
Shanghai Terminals	**1,759,440**	1,640,200	+7.3%
Shanghai Pudong International Terminals	**1,098,955**	683,343	+60.8%
Zhangjiagang Win Hanverky Terminal	**155,753**	123,689	+25.9%
Yangzhou Yuanyang International Ports	**37,844**	n.a.	n.a.
	3,051,992	2,447,232	+24.7%
Bohai Rim			
Qingdao Qianwan Terminal	**2,141,078**	614,465	+248.4%
Qingdao Cosport Terminals	**179,673**	128,858	+39.4%
Dalian Port Container Co., Ltd.	**969,191**	719,483	+34.7%
	3,289,942	1,462,806	+124.9%
Overseas region			
COSCO-PSA Terminal	**274,265**	n.a.	n.a.
Total throughput	**10,697,834**	7,558,278	+41.5%
Throughput of terminals in China mainland	**9,620,231**	6,855,821	+40.3%

Notes:

(1) The data represents throughput as from the effective date when the Group has equity interests in respective investments.

(2) Total throughput of container terminals for 1H 2003 as presented above does not include the throughput of River Trade Terminal Holdings Limited as the Group's 10% equity interest in that terminal was disposed of on 27th June 2003.

Container handling and storage

During the period, Plangreat Limited, a wholly owned subsidiary of the Company, and its subsidiaries, engaged in container stevedoring, storage, repairs and drayage services, registered a turnover of US$3,748,000 (corresponding period in 2003: US$ 4,649,000). The decline of turnover was attributable to a rise in exports and trans-shipment containers and a reduction in off-hire containers leading to a decrease in container storage and drayage at its depots.

Logistics operation

The acquisition of the 49% equity interest in COSCO Logistics by the Group was completed in January 2004. The operation and development of the three core businesses of COSCO Logistics, namely logistics, shipping agency and freight forwarding, were satisfactory. Through brand building strategy, COSCO Logistics makes considerable efforts to expand the market shares of its logistics operation in sectors of household appliances, automobiles, electricity, chemicals, conventions and exhibitions and retailing markets. Besides, COSCO Logistics continues to maintain the leading position of shipping agency business in China mainland markets and further reinforces sales and marketing and services network of freight forwarding business.

During the period, third-party logistics business recorded strong growth in business volume and revenue. In home appliances logistics services, apart from services provided to the major customers such as Hisense, Kelon and Little Swan, COSCO Logistics also entered into a letter of intent and agreement for overseas logistics cooperation with the business department of TCL Group during the period. COSCO Logistics also became the nationwide operator for Nokia's centralised inventory management of its phone-pledged loan projects. In respect of automobile logistics, COSCO Logistics secured cooperation with Jiangsu Yueda Motor and Dong Feng Motor that joined Hyundai Motor and Beijing Jeep Corporation to become its customers in the provision of logistics services. Meanwhile, a number of power plant logistics projects including the Tibetan Plateau electricity equipment logistics project were conducted whilst the Power Plant logistics project in India commenced operations after the earlier winning bid. Regarding chemical logistics services, various major chemical logistics projects including the co-operation with Chongqing Yangzijiang and SECCO Petrochemical were put in place. During April and May, items of heavy petrochemical equipment weighing 888 tonnes, 1,016 tonnes and 1,284 tonnes respectively were successfully unloaded using the vessel-to-vehicle technology at the CNOOC-Shell Petrochemical Terminal located in Huizhou for subsequent delivery to a construction site, setting records for the loading/unloading and road transportation of large scale equipment in China.

The shipping agency business handled 62,868 vessels during the period, maintaining leadership with a 50.6% share of the PRC market. The freight forwarding arm handled 180,000,000 tonnes of cargoes during the period, representing an 11% increase from the corresponding period of last year. The sea-freight forwarding agency business registered a marine freight forwarding business volume of 645,000 TEUs, up 17% compared to the corresponding period of last year.

Other businesses

Attributable to the surging market demand for containers, the container production companies, in which the Group invested, registered a higher level of productivity than the corresponding period of last year and continued to contribute profits to the Group.

Productivity of container factories	Shareholding	1H 2004 *TEUs*	1H 2003 *TEUs*	Changes over the corresponding period
Shanghai CIMC Reefer Containers Co., Ltd.	20%	**19,149**	14,973	+27.9%
Shanghai CIMC Far East Container Co., Ltd.	20%	**62,028**	63,079	-1.7%
Tianjin CIMC North Ocean Container Co., Ltd.	22.5%	**62,041**	54,504	+13.8%

Liu Chong Hing Bank, in which the Group held a 20% interest, made a pre-tax profit contribution of US$5,019,000, up 19.0% from the corresponding period of last year.

NEW DEVELOPMENTS

China International Marine Containers (Group) Co., Ltd.

On 19th August 2004, COSCO Container Industries Limited, a wholly owned subsidiary of the Company, entered into an agreement with China Ocean Shipping (Group) Company ("COSCO") to acquire from COSCO 163,701,456 non-publicly tradable State-owned legal person shares in China International Marine Containers (Group) Co., Ltd. ("CIMC"), representing approximately 16.23% of the issued share capital of CIMC. The consideration for the acquisition amounted to approximately RMB1,056,384,000 (approximately US$127,240,000). CIMC is the world's largest container manufacturer which has a large scale and comprehensive suite of products, ranging from dry van, reefer, tank to various special containers. For details of the transaction, please refer to the Company's announcement published in accordance with the requirements of the Listing Rules in The Standard and Hong Kong Economic Times on 20th August 2004.

Dalian Port Container Terminal Co., Ltd.

On 25th August 2004, COSCO Ports (Dalian) Limited, a wholly owned subsidiary of the Company together with the other 3 parties, including a subsidiary of PSA Corporation Limited, a subsidiary of A.P. Moller-Maersk Group and Dalian Port Container Co., Ltd, jointly signed the contract, articles of association and relevant legal documents in respect of the establishment of a joint venture company namely Dalian Port Container Terminal Limited ("Dalian Port") in Dalian. On 7th September 2004, Dalian Port obtained a business license issued by the Dalian Administration of Industry and Commerce, with a total investment of RMB240,000,000 and a registered capital of RMB80,000,000. COSCO Pacific holds 20% equity interest in the joint venture company. Dalian Port will acquire the right to operate berths No. 11 and 12 in Dayao Wan Terminal Phase 2 by way of lease in the first half of 2005. The two berths occupy a total area of 250,000 square metres with water depth of 13.5 metres, quay length of 652 metres and a throughput capacity of 700,000 TEUs.

EMPLOYEES AND REMUNERATION POLICIES

The Group always considers that staff team is the key pillar for its continuous steady growth. Throughout history, the Group has consistently regarded the team spirit building activities as one of the most important long-term development plans. To fully cope with the business expansion of its container leasing, container terminals as well as logistics businesses, the Group strives to provide professional training to the management and attract competent expertise. The Group endeavours to cultivate harmonious working atmosphere with the aims of promoting enthusiasm and achieving a co-operative, respectful and faithful relationship.

The Group has continued to improve the remuneration packages for its employees based on fair principles. The management reviews 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 also granted by the Company to the employees, so as to motivate their performance and contribution to the Group's continuous growth fueled by forming integrity under the corporate mission of "creating value for shareholders". As at 30th June 2004, there were 395 employees in the Group. Total staff cost for the Group for the first half of the year, including directors' remuneration, totalled US$7,947,000 (corresponding period of 2003: US$6,926,000).

SHARE OPTIONS

At a special general meeting of the Company held on 23rd May 2003, the shareholders of the Company approved the adoption of a share option scheme (the "2003 Share Option Scheme") and the 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 would thereafter be offered under the 1994 Share Option Scheme but the options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects the provisions of the 1994 Share Option Scheme shall remain in full force and effect.

(i) Movements of the 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 2004	Exercised during the period	Lapsed during the period	Outstanding at 30th June 2004	Percentage of total issued share capital	*Note*
Directors							
Mr. WONG Tin Yau, Kelvin	8.80	5,000,000	(1,000,000)	—	4,000,000	0.186%	*(2), (3), (4)*
Mr. QIN Fuyan	5.53	1,500,000	—	—	1,500,000	0.070%	*(1), (3)*
Continuous contract employees	5.53	80,000	—	—	80,000	0.004%	*(1)*
	8.80	5,600,000	(808,000)	—	4,792,000	0.222%	*(2), (4)*
		12,180,000	(1,808,000)	—	10,372,000		

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 (i.e. on or before 30th June 2006), subject of 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% or the options	HK$8.50 or above

* The price level refers to the closing price of the shares of the Company (the "Shares") on The Stock Exchange of Hong Kong Limited (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 (i.e. on or before 19th May 2007), 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 years 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.

(3) These options represent personal interests held by the relevant director as beneficial owner.

(4) The weighted average closing price of the Shares immediately before the dates on which the options were exercised was HK$12.75.

(5) During the period, no options were cancelled under the 1994 Share Option Scheme.

(ii) Movements of the options, which have been granted under the 2003 Share Option Scheme, during the period are set out below:

Category	Exercise price HK$	Number of share options: Outstanding at 1st January 2004	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30th June 2004	Percentage of total issued share capital	Exercisable period	*Note*
Directors									
Capt. WEI Jiafu	9.54	1,000,000	—	—	—	1,000,000	0.046%	30.10.2003 – 29.10.2013	*(1), (2)*
Mr. LIU Guoyuan	9.54	1,000,000	—	—	—	1,000,000	0.046%	28.10.2003 – 27.10.2013	*(1), (2)*
Mr. ZHANG Fusheng	9.54	800,000	—	—	—	800,000	0.037%	29.10.2003 – 28.10.2013	*(1), (2)*
Mr. WANG Futian	9.54	800,000	—	—	—	800,000	0.037%	29.10.2003 – 28.10.2013	*(1), (2)*
Mr. GAO Weijie	9.54	800,000	—	—	—	800,000	0.037%	29.10.2003 – 28.10.2013	*(1), (2)*
Mr. CHEN Hongsheng	9.54	800,000	—	—	—	800,000	0.037%	28.10.2003 – 27.10.2013	*(1), (2)*
Mr. LI Jianhong	9.54	800,000	—	—	—	800,000	0.037%	29.10.2003 – 28.10.2013	*(1), (2)*
Mr. MA Zehua	9.54	800,000	—	—	—	800,000	0.037%	30.10.2003 – 29.10.2013	*(1), (2)*
Mr. MA Guichuan	9.54	800,000	—	—	—	800,000	0.037%	29.10.2003 – 28.10.2013	*(1), (2)*
Mr. LI Yunpeng	9.54	800,000	—	—	—	800,000	0.037%	29.10.2003 – 28.10.2013	*(1), (2)*
Ms. SUN Yueying	9.54	800,000	—	—	—	800,000	0.037%	29.10.2003 – 28.10.2013	*(1), (2)*
Mr. ZHOU Liancheng	9.54	800,000	—	—	—	800,000	0.037%	29.10.2003 – 28.10.2013	*(1), (2)*
Mr. SUN Jiakang	9.54	1,000,000	—	—	—	1,000,000	0.046%	28.10.2003 – 27.10.2013	*(1), (2)*
Mr. XU Lirong	9.54	800,000	—	—	—	800,000	0.037%	31.10.2003 – 30.10.2013	*(1), (2)*
Mr. HE Jiale	9.54	700,000	—	—	—	700,000	0.032%	31.10.2003 – 30.10.2013	*(1), (2)*
Mr. LIANG Yanfeng	9.54	800,000	—	—	—	800,000	0.037%	30.10.2003 – 29.10.2013	*(1), (2)*
Mr. WONG Tin Yau, Kelvin	9.54	800,000	—	—	—	800,000	0.037%	28.10.2003 – 27.10.2013	*(1), (2)*
Mr. MENG Qinghui	9.54	800,000	—	—	—	800,000	0.037%	28.10.2003 – 27.10.2013	*(1), (2)*
Mr. LU Chenggang	9.54	800,000	—	(300,000)	—	500,000	0.023%	29.10.2003 – 28.10.2013	*(1), (2), (3)*
Mr. QIN Fuyan	9.54	800,000	—	—	—	800,000	0.037%	30.10.2003 – 29.10.2013	*(1), (2)*
Continuous contract employees	9.54	23,140,000	—	(3,650,000)	—	19,490,000	0.904%		*(1), (3)*
Others	9.54	6,180,000	—	(1,450,000)	—	4,730,000	0.219%		*(1), (3)*
		45,820,000		(5,400,000)		40,420,000			

Notes:

(1) The share options were granted during the period from 28th October 2003 to 6th November 2003 under the 2003 Share Option Scheme at an exercise price of HK$9.54. The options are exercisable at any time within ten years from the commencement date which is the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme (the "Commencement Date"). The Commencement Date of the options of the grantees was from 28th October 2003 to 6th November 2003.

(2) These options represent personal interests held by the relevant director as beneficial owner.

(3) The weighted average closing price of the Shares immediately before the dates on which the options were exercised was HK$12.19.

(4) During the period, no share options were cancelled under the 2003 Share Option Scheme.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June 2004, the interests 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")), 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(a) Long positions in shares of the Company

Name of director	Capacity	Nature of interest	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%

(b) Long positions in underlying shares of equity derivatives of the Company

Share options were granted to certain directors of the Company pursuant to the 1994 Share Option Scheme and the 2003 Share Option Scheme. Details of the directors' interests in share options granted by the Company are set out under the section headed "Share Options" of this report.

(c) Long positions in underlying shares of equity derivatives of associated corporation

Movement of the share options granted to the directors of the Company by an associated corporation during the period is set out below:

				Number of share options					
Name of associated corporation	**Name of director**	**Capacity**	**Nature of interest**	**Outstanding at 1st January 2004**	**Granted during the period**	**Exercised during the period**	**Lapsed during the period**	**Outstanding at 30th June 2004**	**Percentage of total issued share capital**
COSCO International Holdings Limited*	Capt. WEI Jiafu	Beneficial owner	Personal	1,800,000	—	—	—	1,800,000	0.128%
	Mr. LIU Guoyuan	Beneficial owner	Personal	1,800,000	—	—	—	1,800,000	0.128%
	Mr. LI Jianhong	Beneficial owner	Personal	1,800,000	—	—	—	1,800,000	0.128%
	Mr. ZHOU Liancheng	Beneficial owner	Personal	1,800,000	—	—	—	1,800,000	0.128%
	Mr. SUN Jiakang	Beneficial owner	Personal	1,200,000	—	(300,000)	—	900,000	0.064%
	Mr. HE Jiale	Beneficial owner	Personal	1,800,000	—	—	—	1,800,000	0.128%
	Mr. LIANG Yanfeng	Beneficial owner	Personal	1,200,000	—	—	—	1,200,000	0.085%
	Mr. WONG Tin Yau, Kelvin	Beneficial owner	Personal	800,000	—	—	—	800,000	0.057%
	Mr. MENG Qinghui	Beneficial owner	Personal	1,200,000	—	—	—	1,200,000	0.085%

* The share options were granted by COSCO International Holdings Limited ("COSCO International"), a fellow subsidiary of the Company, on 26th November 2003 under the share option scheme approved by the shareholders of COSCO International on 17th May 2002 and are exercisable at HK$0.57 per share at any time between 23rd December 2003 and 22nd December 2008.

Save as disclosed above, as at 30th June 2004, none of the directors or chief executives of the Company had any interests or short positions in any shares or underlying shares or interests in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

So far as was known to any director of the Company, as at 30th June 2004, the interests of shareholders in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

			Number of ordinary shares/Percentage of total issued share capital						
Name	**Capacity**	**Nature of interests**	**Long positions**	**%**	**Short positions**	**%**	**Lending pool**	**%**	***Note***
COSCO Investments Limited	Beneficial owner	Beneficial interest	200,120,000	9.28	—	—	—	—	*(1)*
COSCO (Hong Kong) Group Limited	Beneficial owner and interest of controlled corporation	Beneficial interest and corporate interest	1,144,166,411	53.08	—	—	—	—	*(1)*
China Ocean Shipping (Group) Company	Interest of controlled corporation	Corporate interest	1,144,166,411	53.08	—	—	—	—	*(1)*
J.P. Morgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/ approved lending agent	Beneficial interest and corporate interest	172,170,044	7.99	—		57,986,582	2.69	*(2)*

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) and JF Asset Management Limited (99.99% control).

Save as disclosed above, as at 30th June 2004, the Company has not been notified of any other interests or short positions in the Shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

DISCLOSURE UNDER RULE 13.22 OF CHAPTER 13 OF THE LISTING RULES

In relation to the financial assistance granted by the Group to certain affiliated companies, a proforma combined balance sheet of the affiliated companies as at 30th June 2004 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

	US$'000
Non-current assets	748,169
Current assets	81,628
Current liabilities	(35,944)
Non-current liabilities	(527,185)
Net assets	266,668
Share capital	226,357
Reserves	40,311
Capital and reserves	266,668

As at 30th June 2004, the Group's consolidated attributable interest in these affiliated companies amounted to US$119,152,000. Details of the financial assistance granted to the aforesaid affiliated companies will be published in the Company's announcement on 15th September 2004 pursuant to Rule 13.16 of Chapter 13 of the Listing Rules.

AUDIT COMMITTEE

The Company has an audit committee consisting of three independent non-executive directors. The committee reviews the systems of internal controls throughout the Group and the completeness and accuracy of its accounts and liaises on behalf of the Directors with external auditors and the Group's internal auditors. The committee members met regularly with management, external auditors and the Group's internal auditors and reviewed the internal and external audit reports and the interim and annual accounts 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 2004, in compliance with the Code of Best Practices set out in Appendix 14 of the Listing Rules.

In order to ensure that the Group attains a higher standard of corporate governance, the Board and the senior management of the Company are committed to implementing consistently all key principles of corporate governance in the long-term interest of shareholders and stakeholders by assuring that our financing partners who provide funds for the Group will secure reasonable investment returns.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company has not redeemed any of its listed shares during the six months ended 30th June 2004. 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 2004.

INVESTOR RELATIONS

COSCO Pacific firmly believes that effective investor relations are beneficial to both investors and related parties to fully appreciate the intrinsic value of an enterprise, the market value of which will be reflected in its share price. Good investor relations will not only benefit us in securing favourable financing channels but also further create value for shareholders.

The closing share price of COSCO Pacific as at 30th June 2004 was HK$10.85, an increase of 4.8% over 31st December 2003, outperforming the Hong Kong stock market while Hang Seng Index, Hang Seng Chinese-Affiliated Corporations Index and Hang Seng China Enterprises Index fell by 2.3%, 4.9% and 14.5%, respectively.

COSCO Pacific's market capitalisation as at 30th June 2004 was HK$23.4 billion, which ranked 28th and 4th in the Hang Seng Index and Hang Seng Chinese-Affiliated Corporations Index respectively, moving up by one rank in both indices as compared to the same period last year.

COSCO Pacific has won numerous recognitions from institutional investors as it strives for enhancing its management mechanism, upgrading governance standards and improving corporate transparency by building a corporate image underpinned by integrity and diligence.

- In March 2004, COSCO Pacific was selected as one of the "Finance Asia 100 Blue Chips" by Finance Asia representing recognition from another international institutions following inclusion in the MSCI China Free Index, FTSE Global Style Index and as a Hang Seng Index constituent stock in 2000, 2002 and 2003 respectively.

- In the "Best Asia Companies Poll" conducted by Finance Asia and published in its May 2004 edition, COSCO Pacific was among Chinese enterprises with the best dividend policy.

- In June 2004, Institutional Investor Research Group, the most authoritative global research institute, rated COSCO Pacific as the "Conglomerate with the Best Investor Relations in Asia" for the second year in a row.

CORPORATE CULTURE

COSCO Pacific sees a positive corporate culture important in laying a solid foundation for the continuous development of an enterprise. While actively expanding its business, the Group puts much emphasis on building its corporate culture, setting out the guiding principle of "achieving customer satisfaction and creating value to shareholders" for our employees with a view to "maximising return for shareholders". Having due regard to its employees, shareholders and investors, customers, other stakeholders and the community as a whole and adhering to its corporate value of "integrity, creativity, growth, good communication, understanding, sound management, morality and dedicated services", the Group takes a people-oriented approach and encourages life-long learning so as to create an environment featuring "integrity, progression, exploration and innovation".

PROSPECTS

The PRC economy is enjoying steady growth at the moment. Its recent implementation of macro-economic control is not only beneficial to sustained economic prosperity and stability of the PRC and the world, but is also conducive to China's further convergence with the global economy. The sound economic outlook of the PRC and the world furnishes the Group with valuable opportunities to develop its core business.

The overall average utilisation rate of containers persistently above the industry average and the increasing proportion of revenue derived from the International Customers reflect the growing competitiveness of the Group in its container leasing business. The Group will capitalise on every business opportunity to further expand its container leasing and reinforce its leading position in the global container leasing industry with enhanced economies of scale.

Growth of the Group's container terminal operations will be sustained on the expectation that the terminal operations of China mainland and Hong Kong will benefit from the continual strong growth of China's international trade. The Group will go extra miles to become a leading player in the container terminal industry by persistently applying its stated strategies in container investment and making opportune investments to expand and strengthen its container terminal business.

COSCO Logistics will focus on efforts to expand its logistics operations, refine its shipping agency operations and strengthen its freight forwarding operations, pursuing rapid development in the modern logistics sector with full force as the Group endeavours to play a pivotal role in the logistics industry across China mainland and Hong Kong.

The Company is optimistic about the business environment in the second half of the year in view of the trend of continued growth seen in the PRC and US economies.

MEMBERS OF THE BOARD

As at the date hereof, the executive directors of the Company are Capt. WEI Jiafu (Chairman), Mr. LIU Guoyuan (Vice Chairman), Mr. ZHANG Fusheng, Mr. WANG Futian, Mr. GAO Weijie, Mr. CHEN Hongsheng, Mr. LI Jianhong, Mr. MA Zehua, Mr. MA Guichuan, Mr. LI Yunpeng, Ms. SUN Yueying, Mr. ZHOU Liancheng, Mr. SUN Jiakang (Managing Director), Mr. XU Lirong, Mr. HE Jiale, Mr. LIANG Yanfeng, Mr. WONG Tin Yau, Kelvin, Mr. MENG Qinghui, Mr. LU Chenggang and Mr. QIN Fuyan; the independent non-executive directors are Dr. LI Kwok Po, David, Mr. LIU Lit Man, Mr. Alexander Reid HAMILTON and Mr. LEE Yip Wah, Peter and the non-executive director is Mr. KWONG Che Keung, Gordon.

By Order of the Board
SUN Jiakang
Managing Director

Hong Kong, 8th September 2004