



**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)

**COSCO PACIFIC LIMITED 中遠太平洋有限公司 INTERIM REPORT 2005 二零零五年中期報告**



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## Interim Results

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The board of directors of COSCO Pacific Limited (the “Company”) is pleased to present the interim report, including the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”), for the six months ended 30th June 2005. This interim report has been reviewed by the Company’s Audit Committee.

The unaudited condensed consolidated financial statements as set out on pages 2 to 33 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 two listed associates, China International Marine Containers (Group) Co., Ltd. and Liu Chong Hing Bank Limited, which have been disclosed in notes 3(a)(i) and 3(a)(ii) respectively to the unaudited condensed consolidated financial statements. Accordingly, their independent review report was modified in this respect.

## Unaudited Condensed Consolidated Income Statement

For the six months ended 30th June 2005

	Note	Six months ended 30th June	
		2005 US\$'000	2004 US\$'000 (Restated)
Turnover	3(a)	141,898	129,761
Cost of sales		(58,937)	(56,471)
<b>Gross profit</b>		<b>82,961</b>	73,290
Other revenues		23,177	26,074
Administrative expenses		(15,131)	(14,007)
Other operating expenses (net)		(10,456)	(18,672)
Profit on disposal of an available-for-sale financial asset	4	61,875	–
<b>Operating profit</b>	5	<b>142,426</b>	66,685
Finance costs	6	(11,213)	(9,970)
Operating profit after finance costs		131,213	56,715
Share of profits less losses of			
– jointly controlled entities		42,177	31,423
– associates		53,300	12,508
<b>Profit before income tax</b>		<b>226,690</b>	100,646
Income tax expenses	7	(10,457)	(6,316)
<b>Profit for the period</b>		<b>216,233</b>	94,330
Profit attributable to:			
Equity holders of the Company		214,770	93,152
Minority interests		1,463	1,178
		216,233	94,330
Dividends			
– interim	9	79,253	48,090
– special interim	9	31,871	–
		111,124	48,090
Earnings per share for profit attributable to the equity holders of the Company			
– basic	8	US9.8111 cents	US4.3272 cents
– diluted	8	US9.7336 cents	US4.3104 cents

## Unaudited Condensed Consolidated Balance Sheet

As at 30th June 2005

	Note	As at 30th June 2005 US\$'000	As at 31st December 2004 US\$'000 (Restated)
<b>Non-current assets</b>			
Property, plant and equipment	10	1,426,827	1,219,064
Investment properties		882	882
Leasehold land and land use rights		16,624	16,696
Intangible assets		3,823	3,752
Jointly controlled entities		382,667	357,583
Associates		453,287	395,012
Deferred income tax assets		245	248
Available-for-sale financial assets		225,501	–
Investment securities		–	69,500
Finance lease receivables		4,244	4,654
Derivative financial instruments	18	6,328	–
Restricted bank deposits	12	11,112	11,297
		<b>2,531,540</b>	2,078,688
<b>Current assets</b>			
Inventories		2,242	1,637
Trade and other receivables	11	82,403	73,423
Tax prepaid		43	43
Time deposits	12	93,250	43,136
Bank balances and cash	12	28,299	46,145
		<b>206,237</b>	164,384
<b>Current liabilities</b>			
Trade and other payables	13	171,512	51,414
Current income tax liabilities		938	834
Current portion of long term liabilities	15	59,353	35,520
Short term bank loans		2,658	2,658
		<b>234,461</b>	90,426
<b>Net current (liabilities)/assets</b>			
		<b>(28,224)</b>	73,958
<b>Total assets less current liabilities</b>			
		<b>2,503,316</b>	2,152,646
<b>Non-current liabilities</b>			
Deferred income tax liabilities		61,590	51,873
Derivative financial instruments	18	349	–
Long term liabilities	15	593,149	615,145
		<b>655,088</b>	667,018
<b>Net assets</b>			
		<b>1,848,228</b>	1,485,628
<b>Capital and reserves attributable to the equity holders of the Company</b>			
Share capital	14	28,121	28,003
Other reserves		1,700,059	1,379,073
Proposed final dividend		–	69,111
Interim dividends declared		111,124	–
		<b>1,839,304</b>	1,476,187
<b>Minority interests</b>			
		<b>8,924</b>	9,441
<b>Total equity</b>			
		<b>1,848,228</b>	1,485,628

## Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2005

	Note	Six months ended 30th June 2005 US\$'000	2004 US\$'000 (Restated)
<b>Total equity at 1st January</b>			
– Attributable to the equity holders of the Company (as previously reported)		1,472,807	1,321,164
– Minority interests (as previously presented separately)	2(a)(i)	9,441	8,644
		<b>1,482,248</b>	1,329,808
<b>Prior period adjustment in respect of a change in the accounting policy on leasehold land</b>	2(c)	<b>3,380</b>	3,026
<b>Opening adjustments for the adoption of HKFRS 3, HKASs 32 and 39 in respect of:</b>			
– Redesignation of investment securities as available-for-sale financial assets	2(f)(i)	234,311	–
– Recognition of interest rate swap contracts as derivative financial instruments	2(f)(ii)	1,619	–
– Recognition of unamortised transaction costs on bank borrowings and notes	2(f)(iii)	5,852	–
– Derecognition of negative goodwill	2(i)	19,886	–
<b>Share of opening adjustments of jointly controlled entities/associates for their adoption of HKFRS 3, HKASs 32 and 39:</b>			
– Reversal of general provision for trade receivables made in prior years by an associate		3,022	–
– Redesignation of investments as available-for-sale financial assets at fair values by an associate		1,814	–
– Recognition of a financial liability at amortised cost by a jointly controlled entity		732	–
– Derecognition of negative goodwill by an associate		350	–
		<b>270,966</b>	3,026
<b>Total equity at 1st January, as restated</b>		<b>1,753,214</b>	1,332,834
Exchange differences on translation of foreign operations		(1,783)	(223)
Fair value gain on an available-for-sale financial asset		714	–
Share of reserves of a jointly controlled entity/associates			
– revaluation reserve		(168)	–
– hedging reserve		(812)	–
– other reserves		43	–
<b>Net loss not recognised in the unaudited condensed consolidated income statement</b>		<b>(2,006)</b>	(223)
Profit for the period		1,751,208	1,332,611
Reserve realised upon disposal of an available-for-sale financial asset		216,233	94,330
Reserves realised upon disposal of investments in jointly controlled entities		(61,865)	–
Issue of shares on exercise of share options		–	104
Dividends paid to		13,815	8,642
– the equity holders of the Company		(69,183)	(49,745)
– minority interests		(1,980)	(1,669)
<b>Total equity at 30th June</b>		<b>1,848,228</b>	1,384,273

## Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2005

	Six months ended 30th June	
	2005 US\$'000	2004 US\$'000
Net cash generated from operating activities	128,557	130,403
Net cash used in investing activities	(30,377)	(290,721)
Net cash (used in)/generated from financing activities	(65,968)	102,572
Effect of foreign exchange rate changes	56	(21)
Net increase/(decrease) in cash and cash equivalents	32,268	(57,767)
Cash and cash equivalents at 1st January	89,281	271,779
Cash and cash equivalents at 30th June	121,549	214,012
Analysis of balances of cash and cash equivalents:		
Time deposits	93,250	178,639
Bank balances and cash	28,299	35,373
	121,549	214,012

### 1. Basis of preparation and principal accounting policies

These unaudited condensed consolidated financial statements of the Group for the six months ended 30th June 2005 (the “unaudited Condensed Financial Statements”) have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The unaudited Condensed Financial Statements should be read in conjunction with the annual financial statements for the year ended 31st December 2004 (the “2004 Annual Financial Statements”) which were prepared in accordance with the Statements of Standard Accounting Practice (“HKSSAP”) issued by the HKICPA.

The accounting policies and methods of computation used in the preparation of the unaudited Condensed Financial Statements are consistent with those used in the 2004 Annual Financial Statements except that the Group has changed certain of its accounting policies following the adoption of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”) (collectively the “new HKFRSs”) which are effective for accounting periods commencing on or after 1st January 2005.

These unaudited Condensed Financial Statements have been prepared in accordance with the HKFRSs, HKASs and interpretations issued and effective as at the time of preparing these unaudited Condensed Financial Statements. The HKFRSs, HKASs and interpretations that will be applicable at 31st December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing the unaudited Condensed Financial Statements. The overall effects of the adoption of the new HKFRSs are to increase the opening equity (including minority interests) as at 1st January 2005 and 2004 by US\$270,966,000 and US\$3,026,000 respectively and to increase the profit for the six months ended 30th June 2004 by US\$177,000. Details of the effect on adopting the new HKFRSs are set out in note 20 to the unaudited Condensed Financial Statements.

### 2. Changes in principal accounting policies

In 2005, the Group adopted the new/revised HKFRSs below, which are relevant to its operations. The comparative figures have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share



### 2. Changes in principal accounting policies (Continued)

HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKAS-Int 12	Consolidation – Special Purpose Entities
HKAS-Int 15	Operating leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

The major changes in the Group's principal accounting policies or the presentation of financial statements as a result of the adoption of the new HKFRSs are summarised below:

#### (a) HKAS 1 and HKAS 27

The adoption of HKAS 1 and HKAS 27 has resulted in the following presentational change in the Group's financial statements:

- (i) minority interests are now required to be shown within the Group's equity. On the face of the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period;
- (ii) the Group's share of profits less losses (net of income taxes) of jointly controlled entities and associates are required to be presented on the face of the consolidated income statement; and
- (iii) investment properties and intangible assets are now required to be presented on the face of consolidated balance sheet.

#### (b) HKAS 16

The residual values and useful lives of property, plant and equipment are now required to be reviewed and adjusted, if appropriate, least at each financial year-end. The directors have reviewed the residual values and useful lives of property, plant and equipment and do not consider that there are any significant changes from the previous estimates.

#### (c) HKAS 17

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land and land use rights were accounted for at cost or at valuation as at 31st December 1994 less accumulated amortisation and impairment losses.

This change in accounting policy has been applied retrospectively so that the comparative figures presented have been restated to conform with the changed policy. The effect on the adoption of the HKAS 17 is to increase the opening equity as at 1st January 2005 and 2004 by US\$3,380,000 and US\$3,026,000 respectively and to increase the profit for the six months ended 30th June 2004 by US\$177,000.

### 2. Changes in principal accounting policies (Continued)

#### (d) HKAS 21

HKAS 21 required items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The unaudited Condensed Financial Statements are presented in United States dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on monetary and non-monetary items, which are classified as available-for-sale financial assets, are included in the income statement and fair value reserve in equity respectively.

This change in accounting policy does not have any significant impact to the Group.

#### (e) HKAS 24

HKAS 24 has extended the identification and disclosure of related parties to include state-owned enterprises. Related parties include China Ocean Shipping (Group) Company ("COSCO") and its subsidiaries, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Group and COSCO as well as their close family members.

#### (f) HKASs 32 and 39

The adoption of HKASs 32 and 39 has resulted in changes in the accounting policies relating to the following:

- (i) the Group's investment securities which were previously stated at cost less provision for impairment losses are now redesignated as available-for-sale financial assets and carried in the balance sheet at their fair values. The amount, being the difference between the fair values of these available-for-sale financial assets and their previous carrying amounts, of US\$234,311,000 as at 31st December 2004 was credited to the Group's opening equity as at 1st January 2005;
- (ii) the interest rate swap contracts as entered into between the Group and certain financial institutions are now classified as derivative financial instruments and recognised in the balance sheet at their respective fair values. In prior years, derivative financial instruments were not required to be recognised in the balance sheet pursuant to the HKSSAP. The recognition of interest rate swap contracts at their fair values as at 31st December 2004 resulted in a net increase in the Group's opening equity as at 1st January 2005 by US\$1,619,000; and

### 2. Changes in principal accounting policies (Continued)

#### (f) HKASs 32 and 39 (Continued)

- (iii) the Group's borrowings or notes which were previously stated at their original carrying amounts are now required to be stated initially at their fair values, net of transaction costs incurred, and then subsequently stated at amortised cost. The unamortised transaction costs in respect of these borrowings and notes of US\$5,852,000 as at 31st December 2004, which were previously expensed as incurred, were included in the related borrowings or notes by a corresponding credit adjustment to the Group's opening equity as at 1st January 2005.

As HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis, all the related financial impact on the Group's financial statements are reflected as opening adjustments to the Group's equity as at 1st January 2005 and accordingly, the comparative figures as presented in the unaudited condensed consolidated balance sheet have not been restated.

#### (g) HKAS 40

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values of investment properties are now recorded in the income statement. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

Under HKAS 40, property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property, which is initially measured at its cost (including related transaction costs) and subsequently carried at fair value and the related valuations are reviewed annually by external valuers.

As at 31st December 2004, the valuation of investment properties was less than their original cost and the revaluation deficits had already been charged to the income statement in prior years and there was no investment properties revaluation reserve. Consequently, no prior period adjustment on the retained earnings and investment properties revaluation reserve is required.

#### (h) HKFRS 2

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments.

The Group operates an equity-settled, share-based compensation plan. Until 31st December 2004, the provision of share options granted by the Company to the Group's employees did not result in expenses in the income statement. With effect from 1st January 2005, the fair value of the employee services received in exchange for the grant of the share options of the Company is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share options granted by the Company.

As all the share options previously granted by the Company was vested on or before 1st January 2005 and accordingly, no adjustment is made in the Group's financial statements pursuant to the transitional provisions as set out in HKFRS 2.

### 2. Changes in principal accounting policies (Continued)

#### (i) HKFRS 3

The adoption of HKFRS 3 has resulted in a change in the accounting policy for goodwill and negative goodwill. In prior years, goodwill or negative goodwill on acquisitions of subsidiaries, jointly controlled entities or associates on or after 1st January 2001 was:

- Amortised on a straight-line basis over its estimated useful life of not exceeding 20 years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill or negative goodwill with effect from 1st January 2005;
- Accumulated amortisation of goodwill as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- Goodwill is tested annually for impairment, as well as when there is indication of impairment; and
- The carrying amount of negative goodwill as at 31st December 2004 is derecognised and reflected as an adjustment to the Group's opening equity as at 1st January 2005.

Upon the adoption of HKFRS 3, the derecognition of a negative goodwill from the acquisition of an associate of US\$19,886,000 was credited to the Group's opening equity as at 1st January 2005 in accordance with HKFRS 3.

The adoption of HKASs 2, 7, 8, 10, 23, 28, 31, 33, 36, 38, HKAS-Ints 12, 15 and 21 did not result in any significant change to the Group's principal accounting policies and the presentation of the Group's unaudited Condensed Financial Statements.

### 3. Segment information

#### (a) Primary reporting format – business segments

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format.

Unallocated costs represent net corporate expenses and corporate finance costs less corporate income. Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land and land use rights, intangible assets, inventories, receivables and operating cash, and mainly exclude deferred income tax assets and investments in jointly controlled entities, associates, available-for-sale financial assets and investment securities.

Segment liabilities comprise operating liabilities and exclude items such as current and deferred income tax liabilities, corporate borrowings and related hedging derivatives.

Capital expenditure comprises additions to property, plant and equipment, investment properties, leasehold land and land use rights and intangible assets, including additions resulting from acquisitions through business combinations.

## Notes to the Unaudited Condensed Consolidated Financial Statements

### 3. Segment information (Continued)

#### (a) Primary reporting format – business segments (Continued)

##### Segment turnover and results

	Six months ended 30th June 2005						Total US\$'000
	Container leasing and related businesses US\$'000	Container terminal and related businesses US\$'000	Freight forwarding, logistics and related businesses US\$'000	Container manufacturing and related businesses US\$'000	Banking businesses US\$'000	Corporate and other businesses US\$'000	
Turnover							
– total revenues	132,380	9,520	-	-	-	-	141,900
– inter-segment sales	-	(2)	-	-	-	-	(2)
External sales	132,380	9,518	-	-	-	-	141,898
Segment results	63,316	2,581	(1,782)	(767)	-	-	63,348
Dividend income from							
– a listed investment	-	-	-	-	-	768	768
– unlisted investments	-	8,177	-	-	-	-	8,177
Profit on disposal of an available-for-sale financial asset (note 4)	-	61,875	-	-	-	-	61,875
Unallocated costs							
– net corporate expenses	-	-	-	-	-	(3,993)	(3,993)
– corporate finance costs	-	-	-	-	-	(132)	(132)
– corporate interest income	-	-	-	-	-	1,170	1,170
Operating profit/(loss) after finance costs	63,316	72,633	(1,782)	(767)	-	(2,187)	131,213
Share of profits less losses of							
– jointly controlled entities	-	27,307	7,628	7,242	-	-	42,177
– associates (note ii)	-	8,171	-	40,236	4,893	-	53,300
Profit before income tax							226,690
Income tax expenses							(10,457)
Profit for the period							216,233

## Notes to the Unaudited Condensed Consolidated Financial Statements

### 3. Segment information (Continued)

#### (a) Primary reporting format – business segments (Continued)

##### Segment turnover and results (Continued)

	Six months ended 30th June 2004 (Restated)						Total US\$'000
	Container leasing and related businesses US\$'000	Container terminal and related businesses US\$'000	Freight forwarding, logistics and related businesses US\$'000	Container manufacturing and related businesses US\$'000	Banking businesses US\$'000	Corporate and other businesses 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	53,106	1,718	(2,669)	–	–	–	52,155
Dividend income from unlisted investments	–	7,859	–	–	–	–	7,859
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	53,106	9,577	(2,669)	–	–	(3,299)	56,715
Share of profits less losses of							
– jointly controlled entities	–	23,676	6,236	1,511	–	–	31,423
– associates (note ii)	–	8,264	–	–	4,244	–	12,508
Profit before income tax							100,646
Income tax expenses							(6,316)
Profit for the period							94,330

### 3. 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	Freight forwarding, logistics and related businesses US\$'000	Container manufacturing and related businesses US\$'000	Banking businesses US\$'000	Corporate and other businesses US\$'000	Total US\$'000
<b>As at 30th June 2005</b>							
Segment assets	1,548,867	54,558	-	654	-	-	1,604,079
Jointly controlled entities	-	180,244	180,020	22,403	-	-	382,667
Associates (note i)	-	107,421	-	178,097	167,769	-	453,287
Available-for-sale financial assets	-	212,004	-	-	-	13,497	225,501
Unallocated assets							72,243
							<u>2,737,777</u>
Segment liabilities	525,114	112,842	127,724	55,000	-	-	820,680
Unallocated liabilities							68,869
							<u>889,549</u>
<b>Six months ended 30th June 2005</b>							
Capital expenditure	276,865	2,868	-	-	-	29	279,762
Depreciation and amortisation	53,722	628	-	-	-	214	54,564
Other non-cash expenses	647	74	96	41	-	2	860

3. Segment information (Continued)

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

Segment assets, liabilities and other information (Continued)

	Container leasing and related businesses US\$'000	Container terminal and related businesses US\$'000	Freight forwarding, logistics and related businesses US\$'000	Container manufacturing and related businesses US\$'000	Banking businesses US\$'000	Corporate and other businesses US\$'000	Total US\$'000
<b>As at 31st December 2004 (Restated)</b>							
Segment assets	1,324,510	52,084	-	2,604	-	-	1,379,198
Jointly controlled entities	-	169,389	172,297	15,897	-	-	357,583
Associates (note i)	-	104,708	-	127,514	162,790	-	395,012
Investment securities	-	56,425	-	-	-	13,075	69,500
Unallocated assets							41,779
							<u>2,243,072</u>
Segment liabilities	405,068	109,200	127,724	55,000	-	-	696,992
Unallocated liabilities							60,452
							<u>757,444</u>
<b>Six months ended 30th June 2004 (Restated)</b>							
Capital expenditure	148,373	227	-	-	-	298	148,898
Addition to investment securities	-	-	-	-	-	13,075	13,075
Depreciation and amortisation	48,825	623	-	-	-	215	49,663
Impairment loss	211	-	-	-	-	-	211
Other non-cash expenses	1,390	39	46	-	-	5	1,480

Notes:

- (i) As at 30th June 2005, the Group's share of unaudited net assets of China International Marine Containers (Group) Co., Ltd. ("CIMC") and Liu Chong Hing Bank Limited ("LCHB") amounted to US\$178,097,000 (31st December 2004: US\$127,514,000) and US\$167,769,000 (31st December 2004: US\$162,790,000) respectively.
- (ii) For the six months ended 30th June 2005, the Group's share of unaudited profits (net of income tax expenses) of CIMC and LCHB amounted to US\$40,236,000 (2004: Not applicable) and US\$4,893,000 (2004: US\$4,244,000) respectively.
- (iii) The adoption of HKFRS 3, HKASs 32 and 39 in 2005 do not require the restatement of the comparative figures of the relevant balance sheet items and accordingly, the segment assets, liabilities and other information as at 31st December 2004 have not been restated in this respect.



### 3. Segment information (Continued)

#### (b) Secondary reporting format – geographical segments

In respect of container leasing and related businesses, 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 turnover and results by geographical areas for the related business.

The Group's segment assets are primarily dominated by its containers and generator sets. The directors consider that the nature of the Group's business precludes a meaningful allocation of containers and generator sets and their related capital expenditure to specific geographical segments as defined under HKAS 14 "Segment Reporting". These containers and generator sets are primarily utilised across geographical markets for shipment of cargoes throughout the world. Accordingly, it is also impractical to present segment assets and capital expenditure by geographical areas.

The activities of the container terminal and related businesses as conducted by certain subsidiaries of the Group are predominantly carried out in China mainland and Hong Kong.

The activities of the Group's jointly controlled entities and associates are predominantly carried out in the following geographical areas:

<u>Business segments</u>	<u>Geographical areas</u>
Container terminal and related businesses	Hong Kong, China mainland, Singapore and Belgium
Freight forwarding, logistics and related businesses	China mainland
Container manufacturing and related businesses	China mainland
Banking businesses	Hong Kong

### 4. Profit on disposal of an available-for-sale financial asset

The amount represented profit on disposal of the 17.5% equity interest in Shekou Container Terminals Ltd. to China Merchants Holdings (International) Company Limited in March 2005.

## Notes to the Unaudited Condensed Consolidated Financial Statements

### 5. Operating profit

Operating profit is stated after crediting and charging the following:

	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004
	<b>US\$'000</b>	US\$'000 (Restated)
<b>Crediting</b>		
Sale of inventories	<b>12,148</b>	16,972
Dividend income from		
– a listed investment	<b>768</b>	–
– unlisted investments	<b>8,177</b>	7,859
Interest income	<b>2,058</b>	1,218
Profit on disposal of property, plant and equipment	<b>343</b>	609
Reversal of provision for bad and doubtful debts	<b>6</b>	25
<b>Charging</b>		
Depreciation and amortisation	<b>54,564</b>	49,663
Cost of inventories sold	<b>9,271</b>	17,678
Loss on disposal of property, plant and equipment	<b>8</b>	474
Provision for impairment of trade receivables	<b>153</b>	–
Provision for bad and doubtful debts	–	150
Provision for inventories	–	451
Write-off of inventories	–	285
Impairment loss of containers	–	211

### 6. Finance costs

	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004
	<b>US\$'000</b>	US\$'000
Interest expense on		
– bank loans	<b>6,279</b>	2,576
– other loans	<b>184</b>	136
– loan from a minority shareholder of a subsidiary	–	28
– notes not wholly repayable within five years	<b>8,813</b>	8,813
Amortised amount of discount on issue of notes	<b>114</b>	120
Amortised amount of transaction costs on		
bank loans and notes	<b>593</b>	–
Net gain on interest rate swap contracts	–	(2,011)
Fair value gain on interest rate swap contracts	<b>(5,097)</b>	–
	<b>10,886</b>	9,662
Other incidental borrowing costs and charges	<b>327</b>	308
	<b>11,213</b>	9,970

### 7. Income tax expenses

	<b>Six months ended 30th June</b>	
	<b>2005</b> <b>US\$'000</b>	2004 US\$'000
Current income tax		
– Hong Kong profits tax	<b>51</b>	409
– China mainland taxation	<b>499</b>	397
– Overseas taxation	<b>192</b>	16
– (Over)/under provision in prior years	<b>(5)</b>	5
	<b>737</b>	827
Deferred income tax	<b>9,720</b>	5,489
	<b>10,457</b>	6,316

The Group's share of income tax expenses of jointly controlled entities and associates of US\$7,421,000 (2004: US\$6,448,000) and US\$5,095,000 (2004: US\$1,789,000) are included in the unaudited condensed consolidated income statement as share of profits less losses of jointly controlled entities and associates respectively.

Hong Kong profits tax has been provided at a rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period.

Taxation on profits from a subsidiary operating in China mainland has been calculated at a tax rate of 15.0% (2004: 15.0%) on the estimated assessable profit for the period.

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.

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.

Deferred taxation is calculated in full on temporary differences under the liability method using tax rates substantively enacted by the balance sheet date.

As at 30th June 2005, deferred tax liabilities of US\$30,935,000 (31st December 2004: US\$24,643,000) have not been established for the withholding taxation that would be payable on the unremitted earnings of certain subsidiaries totalling US\$103,118,000 (31st December 2004: US\$82,145,000) as the directors considered that the timing of the reversal of the related temporary differences can be controlled and accordingly the temporary difference will not be reversed in the foreseeable future.

### 8. Earnings per share

#### Basic

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004 (Restated)
Profit attributable to the equity holders of the Company	<b>US\$214,770,000</b>	US\$93,152,000
Weighted average number of ordinary shares in issue	<b>2,189,048,596</b>	2,152,708,155
Basic earnings per share	<b>US9.8111 cents</b>	US4.3272 cents
Basic earnings per share — excluding the profit on disposal of an available-for-sale financial asset (for information only)	<b>US6.9845 cents</b>	US4.3272 cents

#### Diluted

Diluted earnings per share is calculated based on the profit attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue during the period, after adjusting for the number of dilutive potential ordinary shares deemed to be issued at no considerations as if all outstanding share options granted by the Company had been exercised.

	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004 (Restated)
Profit attributable to the equity holders of the Company	<b>US\$214,770,000</b>	US\$93,152,000
Weighted average number of ordinary shares in issue	<b>2,189,048,596</b>	2,152,708,155
Adjustments for assumed conversion of share options	<b>17,426,155</b>	8,378,759
Weighted average number of ordinary shares for diluted earnings per share	<b>2,206,474,751</b>	2,161,086,914
Diluted earnings per share	<b>US9.7336 cents</b>	US4.3104 cents
Diluted earnings per share — excluding the profit on disposal of an available-for-sale financial asset (for information only)	<b>US6.9294 cents</b>	US4.3104 cents

### 9. Dividends

	<b>Six months ended 30th June</b>	
	<b>2005</b> <b>US\$'000</b>	2004 US\$'000
2005 interim dividend, declared, of US3.614 cents (2004: US2.231 cents) per ordinary share	<b>79,253</b>	48,090
2005 special interim dividend, declared, of US1.453 cents per ordinary share	<b>31,871</b>	–
	<b>111,124</b>	48,090

Notes:

- (a) At a meeting held on 4th March 2005, the directors proposed a final dividend of HK24.6 cents (equivalent to US3.165 cents) per ordinary share for the year ended 31st December 2004, which was paid on 2nd June 2005 and has been reflected as an appropriation of retained earnings for the six months ended 30th June 2005.
- (b) At a meeting held on 8th September 2005, the directors declared an interim dividend of HK28.1 cents (equivalent to US3.614 cents) per ordinary share and a special interim dividend of HK11.3 cents (equivalent to US1.453 cents) per ordinary share. These dividends declared are not reflected as dividend payable in the unaudited Condensed Financial Statements, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2005.

### 10. Property, plant and equipment

During the six months ended 30th June 2005, the Group acquired property, plant and equipment of US\$279,361,000 (2004: US\$148,333,000, as restated) and disposed of property, plant and equipment with net book value of US\$18,588,000 (2004: US\$22,988,000).

### 11. Trade and other receivables

	<b>As at</b> <b>30th June</b> <b>2005</b> <b>US\$'000</b>	As at 31st December 2004 US\$'000
Trade receivables	<b>39,015</b>	31,667
Other receivables, deposits and prepayments	<b>16,705</b>	15,204
Current portion of finance lease receivables	<b>1,331</b>	1,301
Amounts due from		
– fellow subsidiaries (note a)	<b>23,224</b>	22,560
– jointly controlled entities (note b)	<b>1,877</b>	2,294
– associates	<b>87</b>	315
– related companies	<b>164</b>	82
	<b>82,403</b>	73,423

### 11. Trade and other receivables (Continued)

Notes:

- (a) The balance represented container leasing income receivable from fellow subsidiaries and mainly included a receivable balance from COSCO Container Lines Company Limited ("COSCON"), a fellow subsidiary, of US\$21,044,000 (2004: US\$20,141,000) (note 19(a)(i)).
- (b) The balance represented dividend income receivable from jointly controlled entities of US\$1,877,000 (2004: US\$2,294,000).
- (c) 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:

	<b>As at 30th June 2005 US\$'000</b>	As at 31st December 2004 US\$'000
Within 30 days	<b>25,376</b>	25,533
31-60 days	<b>26,371</b>	22,409
61-90 days	<b>8,518</b>	5,287
Over 90 days	<b>2,138</b>	1,080
Included under trade and other receivables	<b>62,403</b>	54,309

- (d) The amounts due from fellow subsidiaries, jointly controlled entities, associates and related companies are unsecured and interest free. Trading balances have credit periods ranging from 30 to 90 days while the other balances have no fixed terms of repayment.

### 12. Cash and cash equivalents

	<b>As at 30th June 2005 US\$'000</b>	As at 31st December 2004 US\$'000
Total time deposits, bank balances and cash (note a)	<b>132,661</b>	100,578
Restricted bank deposits included in non-current assets (note b)	<b>(11,112)</b>	(11,297)
	<b>121,549</b>	89,281
Representing:		
Time deposits	<b>93,250</b>	43,136
Bank balances and cash	<b>28,299</b>	46,145
	<b>121,549</b>	89,281

### 12. Cash and cash equivalents (Continued)

Notes:

- (a) As at 30th June 2005, cash and cash equivalents of US\$16,916,000 (31st December 2004: US\$15,338,000) 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 mainly include deposits of US\$10,954,000 (31st December 2004: US\$11,139,000) which are held as security for repayment of bank loans of the Group and are restricted for the purpose of the related banking facilities.

### 13. Trade and other payables

	<b>As at 30th June 2005 US\$'000</b>	As at 31st December 2004 US\$'000
Trade payables	76,010	1,967
Other payables and accruals	59,995	48,819
Dividend payable	–	14
Amounts due to		
– fellow subsidiaries	136	110
– jointly controlled entities (note a)	18,921	–
– subsidiaries of an associate (note a)	16,001	–
– minority shareholder of a subsidiary	449	504
Included under trade and other payables	<b>171,512</b>	51,414

Notes:

- (a) The balances mainly represented the amounts payable to jointly controlled entities of the Group and certain subsidiaries owned by CIMC of US\$18,921,000 (2004: US\$Nil) and US\$16,001,000 (2004: US\$Nil) respectively in respect of purchases of containers (note 19(a)(viii)).
- (b) The ageing analysis of trade balances due to third parties, fellow subsidiaries, jointly controlled entities, subsidiaries of an associate and minority shareholder of a subsidiary was as follows:

	<b>As at 30th June 2005 US\$'000</b>	As at 31st December 2004 US\$'000
Within 30 days	27,457	1,947
31-60 days	64,039	329
61-90 days	19,955	268
Over 90 days	44	14
Included under trade and other payables	<b>111,495</b>	2,558

- (c) Other payables include an amount of US\$32,941,000 (31st December 2004: US\$28,143,000) accrued for purchase of containers which were delivered to the Group prior to the period end. The amount has not been included in the ageing analysis above.
- (d) The amounts due to fellow subsidiaries, jointly controlled entities, subsidiaries of an associate and minority shareholder of a subsidiary are unsecured and interest free. Trading balances have similar credit periods granted as those of other third party suppliers while the other balances have no fixed terms of repayment.

## Notes to the Unaudited Condensed Consolidated Financial Statements

### 14. Share capital

	<b>As at 30th June 2005 US\$'000</b>	As at 31st December 2004 US\$'000
Authorised: 3,000,000,000 (31st December 2004: 3,000,000,000) ordinary shares of HK\$0.10 each	<b>38,462</b>	38,462
Issued and fully paid: 2,192,864,298 (31st December 2004: 2,183,630,298) ordinary shares of HK\$0.10 each	<b>28,121</b>	28,003

Notes:

(a) The movements of the issued share capital of the Company are summarised as follows:

	<b>Number of ordinary shares</b>	<b>Nominal value US\$'000</b>
At 1st January 2005	2,183,630,298	28,003
Issued on exercising of share options	9,234,000	118
<b>At 30th June 2005</b>	<b>2,192,864,298</b>	<b>28,121</b>

(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 and 23rd May 2003 respectively, during the period are set out below:

<b>Category</b>	<b>Exercise price HK\$</b>	<b>Number of share options</b>		
		<b>Outstanding as at 1st January 2005</b>	<b>Exercised during the period</b>	<b>Outstanding as at 30th June 2005</b>
Directors	8.80	1,800,000	(900,000)	<b>900,000</b>
	9.54	5,200,000	–	<b>5,200,000</b>
	13.75	9,000,000	–	<b>9,000,000</b>
Continuous contract employees	8.80	902,000	(564,000)	<b>338,000</b>
	9.54	9,394,000	(2,132,000)	<b>7,262,000</b>
	13.75	35,990,000	(3,926,000)	<b>32,064,000</b>
Ex-Directors	9.54	4,576,000	(382,000)	<b>4,194,000</b>
	13.75	9,000,000	(500,000)	<b>8,500,000</b>
Others	9.54	1,320,000	(320,000)	<b>1,000,000</b>
	13.75	9,750,000	(510,000)	<b>9,240,000</b>
		<b>86,932,000</b>	<b>(9,234,000)</b>	<b>77,698,000</b>



## Notes to the Unaudited Condensed Consolidated Financial Statements

### 15. Long term liabilities

	<b>As at 30th June 2005 US\$'000</b>	As at 31st December 2004 US\$'000
Borrowings		
Secured (notes c and d)	<b>159,197</b>	176,392
Unsecured	<b>493,305</b>	474,273
	<b>652,502</b>	650,665
Amounts due within one year included under current liabilities	<b>(59,353)</b>	(35,520)
	<b>593,149</b>	615,145

Notes:

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

	<b>As at 30th June 2005 US\$'000</b>	As at 31st December 2004 US\$'000
Wholly repayable within five years		
Bank loans	<b>346,476</b>	342,045
Other loans	<b>8,914</b>	10,217
	<b>355,390</b>	352,262
Notes not wholly repayable within five years	<b>297,112</b>	298,403
	<b>652,502</b>	650,665

## Notes to the Unaudited Condensed Consolidated Financial Statements

### 15. Long term liabilities (Continued)

(b) Long term liabilities were repayable as follows:

	<b>As at 30th June 2005 US\$'000</b>	As at 31st December 2004 US\$'000
Bank loans		
Within one year	56,599	32,867
In the second year	49,882	41,188
In the third to fifth years inclusive	239,995	267,990
	<b>346,476</b>	342,045
Notes		
In more than five years	297,112	298,403
Other loans		
Within one year	2,754	2,653
In the second year	2,966	2,858
In the third to fifth years inclusive	3,194	4,706
	<b>8,914</b>	10,217
	<b>652,502</b>	650,665

(c) Bank and other loans of US\$157,697,000 (31st December 2004: US\$176,092,000) and bank loans of US\$1,500,000 (31st December 2004: US\$300,000) were secured by certain containers of the Group and land use rights respectively. Bank and other loans of US\$149,884,000 (31st December 2004: US\$165,875,000) are 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\$266,000 (31st December 2004: US\$266,000) was guaranteed by the minority shareholder of that subsidiary.

### 16. Contingent liabilities

	<b>As at 30th June 2005 US\$'000</b>	As at 31st December 2004 US\$'000
Guarantee for bank loan facilities granted to an associate	14,530	–

### 17. Capital commitments

	<b>As at 30th June 2005 US\$'000</b>	As at 31st December 2004 US\$'000
Authorised but not contracted for:		
Containers	<b>151,558</b>	352,676
Generator sets	<b>4,895</b>	6,600
Computer system under development	<b>824</b>	956
	<b>157,277</b>	360,232
Contracted but not provided for:		
Investments	<b>588,665</b>	351,103
Containers	<b>16,519</b>	11,550
Other equipment	<b>1,329</b>	3,914
	<b>606,513</b>	366,567
The Group's share of capital commitments of the jointly controlled entities themselves not included in the above are as follows:		
Authorised but not contracted for	<b>11,681</b>	23,521
Contracted but not provided for	<b>14,354</b>	7,883
	<b>26,035</b>	31,404

Note:

The Group's committed investments as at 30 June 2005 primarily included the investment in a 14% equity interest in Tianjin Five Continents International Container Terminal Co., Ltd. of approximately US\$43,557,000 (31st December 2004: US\$19,045,000) and the capital/loan contributions to Antwerp Gateway NV, an associate of the Group, Qingdao Qianwan Container Terminal Co., Ltd and COSCO-PSA Terminal Private Limited, jointly controlled entities of the Group, of approximately US\$111,754,000 (31st December 2004: US\$176,249,000), US\$94,799,000 (31st December 2004: US\$106,880,000) and US\$43,597,000 (31st December 2004: US\$45,045,000) respectively.

The Group's committed investments as at 30th June 2005 also included the capital/loan contributions to be made by the Group for the establishment of a sino-foreign joint venture in Nansha, the PRC (the "JV Company") of approximately US\$271,259,000 (31st December 2004: US\$Nil) and for a 20% equity interest in Nanjing Port Longtan Container Co., Ltd. ("NPLC"), of approximately US\$19,815,000 (31st December 2004: US\$Nil). Both the JV Company and NPLC will be engaged in the container terminal business in the PRC and the port authorities in Guangzhou and Nanjing, the PRC, will have equity interests in the JV Company and NPLC respectively.

### 18. Derivative financial instruments

The Group has entered into interest rate swaps contracts with certain financial institutions with notional principal amounts of US\$300,000,000 as at 30th June 2005 (31st December 2004: US\$300,000,000).

Interest rate swap contracts of notional amount of US\$100,000,000 (31st December 2004: US\$100,000,000) were committed with the fixed interest rates ranging from 3.88% to 4.90% (31st December 2004: 3.88% to 4.90%) per annum whereas the remaining interest rate swap contracts of notional amount of US\$200,000,000 (31st December 2004: US\$200,000,000) were committed with the interest rates ranging from 1.05% to 1.16% (31st December 2004: 1.05% to 1.16%) per annum above the London Interbank Offered Rate.

Following the adoption of the HKASs 32 and 39 (note 2(f)(ii)), these interest rate swap contracts are recognised in the balance sheet as derivative financial instruments at their respective fair values.

### 19. Related party transactions

The Group is controlled by China COSCO Holdings Company Limited ("China COSCO"), a company established in the PRC and listed in Hong Kong, which owns 52.18% of the Company's shares as at 30th June 2005. The remaining 47.82% of the Company's shares are widely held. The parent of China COSCO is COSCO, a state-owned enterprise established in the PRC.

COSCO itself is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with HKAS 24, other state-owned enterprises and their subsidiaries (other than COSCO group companies), directly or indirectly controlled by the PRC government, are also defined as related parties of the Group. On that basis, related parties include COSCO and its subsidiaries, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and COSCO as well as their close family members.

For the purpose of related party transaction disclosures, the Group has identified, to the extent practicable, its customers and suppliers as to whether they are state-owned enterprises. Nevertheless, the directors believe that meaningful information in respect of related party transactions has been adequately disclosed.

In addition to those disclosed elsewhere in the unaudited Condensed Financial Statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the period.

19. Related party transactions (Continued)

(a) Sales/purchases of goods, services and investments

	Six months ended 30th June	
	2005 US\$'000	2004 US\$'000 (Restated)
Container rental income from (note i)		
– a fellow subsidiary	59,668	57,378
– other state-owned enterprises	137	103
Handling, storage and net transportation income from a fellow subsidiary (note ii)	3,228	3,444
Management fee income from a jointly controlled entity (note iii)	1,282	1,282
Container terminal handling fees received (note iv)		
– fellow subsidiaries	1,219	571
– an associate of a jointly controlled entity of the Group	281	486
Approved continuous examination program fee to a fellow subsidiary (note v)	(550)	(1,100)
Consideration received for the disposal of a subsidiary and assignment of a shareholder's loan to a fellow subsidiary (note vi)	1,577	–
Proceeds on disposal of investments in jointly controlled entities to a fellow subsidiary (note vii)	–	4,943
Purchase of containers from (note viii)		
– subsidiaries of CIMC	(62,892)	–
– jointly controlled entities of the Group	(33,718)	(6,197)
– Related Entities	–	(18,463)
Consideration paid or payable for the acquisition of equity interest in a jointly controlled entity (note ix)	–	(148,201)

Notes:

- (i) The Group has conducted container leasing business with COSCON and other state-owned enterprises. The container rental income was charged based on terms agreed between the Group and the parties in concern.
- (ii) The handling, storage income and net transportation income received from a fellow subsidiary were conducted at terms agreed between the Group and the fellow subsidiary.
- (iii) The Group provided advisory and management services to COSCO-HIT Terminals (Hong Kong) Limited, a jointly controlled entity of the Group, during the period. Management fee was charged and agreed at HK\$20,000,000 (2004: HK\$20,000,000) per annum.
- (iv) The Group provided container terminal handling and storage services to fellow subsidiaries and an associate of a jointly controlled entity of the Group 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.
- (v) An approved continuous examination program fee of US\$1,100,000 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 2005 (2004: US\$2,200,000).

**19. Related party transactions (Continued)**

**(a) Sales/purchases of goods, services and investments (Continued)**

- (vi) On 31st May 2005, the Group disposed of a wholly owned subsidiary, which holds certain properties located in Hong Kong, and assigned a shareholder's loan to COSCO (H.K.) Property Development Limited, a fellow subsidiary, at an aggregated consideration of HK\$12,100,000 (equivalent of approximately US\$1,557,000), resulting in an insignificant gain.
- (vii) The Group disposed 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, to COSCO International Holdings Limited, a listed fellow subsidiary, and the gains on the disposals were insignificant.
- (viii) The purchases of containers from certain subsidiaries of CIMC, jointly controlled entities and Related Entities of the Group were conducted at terms as set out in the agreements entered into between the Group and the parties in concern. CIMC was acquired by the Group from COSCO in December 2004 and prior to the Acquisition, CIMC and the companies owned by CIMC were classified as a related company and Related Entities of the Group respectively.
- (ix) The Group's acquisition of 49% equity interest in COSCO Logistics Co., Ltd. ("COSCO Logistics"), a then wholly owned subsidiary of COSCO, from COSCO was completed in January 2004 (the "Acquisition"). The consideration of the Acquisition amounted to RMB1,180,410,000 (equivalent of approximately US\$142,179,000), comprising an amount payable to COSCO of RMB446,410,000 and capital contribution to COSCO Logistics of RMB734,000,000.

The Group had also paid COSCO an additional consideration of RMB50,000,000 (equivalent of approximately US\$6,022,000) in September 2004 pursuant to the terms and conditions as set out in the agreement which governed the Acquisition.

**(b) Balances with state-owned banks**

	<b>As at 30th June 2005 US\$'000</b>	As at 31st December 2004 US\$'000
Bank deposits	107,237	72,869
Loans from state-owned banks	100,848	78,494

The deposits and loans with state-owned banks were in accordance with the terms as set out in the respective agreements or as mutually agreed between the parties in concern.

**(c) Balances with other state-owned enterprises**

	<b>As at 30th June 2005 US\$'000</b>	As at 31st December 2004 US\$'000
Other payable to a state-owned enterprise	4,968	4,937

The balance represented the port construction levy collected by a subsidiary of the Group on behalf of the port authority in Zhangjiagang pursuant to a notice issued by the Ministry of Communications of the PRC. The balance is unsecured, interest free and has no fixed terms of repayment.

20. Summary of the effect of adopting the new HKFRSs

(a) Effect on unaudited condensed consolidated income statement for the six month ended 30th June 2005

	Effect of adopting				Total US\$'000
	HKAS 1 US\$'000 (note 2(a)(ii))	HKAS 17 US\$'000 (note 2(c))	HKFRS 3 US\$'000 (note i)	HKASs 32 & 39 US\$'000 (note ii)	
Turnover	-	-	-	-	-
Cost of sales	-	-	-	-	-
<b>Gross profit</b>	-	-	-	-	-
Other revenue	-	-	-	-	-
Administrative expenses	-	177	-	-	177
Other operating expenses (net)	-	-	-	-	-
Profit on disposal of an available-for-sale financial asset	-	-	-	-	-
<b>Operating profit</b>	-	177	-	-	177
Finance costs	-	-	-	3,279	3,279
Operating profit after finance costs	-	177	-	3,279	3,456
Share of profits less losses of					
– jointly controlled entities	(7,421)	-	1,256	(242)	(6,407)
– associates	(5,095)	-	(366)	(332)	(5,793)
<b>Profit before income tax</b>	<b>(12,516)</b>	<b>177</b>	<b>890</b>	<b>2,705</b>	<b>(8,744)</b>
Income tax expenses	12,516	-	-	-	12,516
<b>Profit for the period</b>	<b>-</b>	<b>177</b>	<b>890</b>	<b>2,705</b>	<b>3,772</b>
Profit attributable to:					
Equity holders of the Company	-	177	890	2,705	3,772
Minority interests	-	-	-	-	-
	-	177	890	2,705	3,772
Earnings per share for profit attributable to the equity holders of the Company					
– basic (US cents)	-	0.0081	0.0407	0.1236	0.1724
– diluted (US cents)	-	0.0080	0.0403	0.1226	0.1709

Notes:

- (i) Amortisation of goodwill/negative goodwill is no longer required pursuant to HKFRS 3.
- (ii) These mainly comprised the Group's recognition of the changes in fair values of derivative financial instruments, amortisation of transaction costs of bank loans and notes and also the Group's share of the adjustments made by a jointly controlled entity and an associate pursuant to HKASs 32 and 39.

20. Summary of the effect of adopting the new HKFRSs (Continued)

(b) Effect on unaudited condensed consolidated income statement for the six month ended 30th June 2004

	Effect of adopting		
	HKAS 1 US\$'000 (note 2(a)(ii))	HKAS17 US\$'000 (note 2(c))	Total US\$'000
Turnover	–	–	–
Cost of sales	–	–	–
<b>Gross profit</b>	–	–	–
Other revenues	–	–	–
Administrative expenses	–	177	177
Other operating expenses (net)	–	–	–
<b>Operating profit</b>	–	177	177
Finance costs	–	–	–
Operating profit after finance costs	–	177	177
Share of profits less losses of			
– jointly controlled entities	(6,448)	–	(6,448)
– associates	(1,789)	–	(1,789)
<b>Profit before income tax</b>	(8,237)	177	(8,060)
Income tax expenses	8,237	–	8,237
<b>Profit for the period</b>	–	177	177
Profit attributable to:			
Equity holders of the Company	–	177	177
Minority interests	–	–	–
	–	177	177
Earnings per share for profit attributable to the equity holders of the Company			
– basic (US cents)	–	0.0082	0.0082
– diluted (US cents)	–	0.0082	0.0082



## Notes to the Unaudited Condensed Consolidated Financial Statements

### 20. Summary of the effect of adopting the new HKFRSs (Continued)

#### (c) Effect on unaudited condensed consolidated balance sheet as at 30th June 2005

	Effect of adopting				Total US\$'000
	HKAS 1 US\$'000 (note 2(a)(iii))	HKAS 17 US\$'000 (note 2(c))	HKFRS 3 US\$'000 (note i)	HKASs 32 & 39 US\$'000 (note ii)	
<b>Non-current assets</b>					
Property, plant and equipment	(4,705)	(13,067)	-	-	(17,772)
Investment properties	882	-	-	-	882
Leasehold land and land use rights	-	16,624	-	-	16,624
Intangible assets	3,823	-	-	-	3,823
Jointly controlled entities	-	-	1,256	490	1,746
Associates	-	-	19,870	3,524	23,394
Deferred income tax assets	-	-	-	-	-
Available-for-sale financial assets	-	-	-	225,501	225,501
Investment securities	-	-	-	(52,353)	(52,353)
Finance lease receivables	-	-	-	-	-
Derivative financial instruments	-	-	-	6,328	6,328
Restricted bank deposits	-	-	-	-	-
	-	3,557	21,126	183,490	208,173
<b>Current assets</b>					
Inventories	-	-	-	-	-
Trade and other receivables	-	-	-	980	980
Tax prepaid	-	-	-	-	-
Time deposits	-	-	-	-	-
Bank balances and cash	-	-	-	-	-
	-	-	-	980	980
<b>Current liabilities</b>					
Trade and other payables	-	-	-	-	-
Current income tax liabilities	-	-	-	-	-
Current portion of long term liabilities	-	-	-	(1,107)	(1,107)
Short term bank loans	-	-	-	-	-
	-	-	-	(1,107)	(1,107)
<b>Net current (liabilities)/assets</b>	-	-	-	2,087	2,087
<b>Total assets less current liabilities</b>	-	3,557	21,126	185,577	210,260
<b>Non-current liabilities</b>					
Deferred income tax liabilities	-	-	-	-	-
Derivative financial instruments	-	-	-	349	349
Long term liabilities	-	-	-	(2,684)	(2,684)
	-	-	-	(2,335)	(2,335)
<b>Net assets</b>	-	3,557	21,126	187,912	212,595
<b>Capital and reserves attributable to the equity holders of the Company</b>					
Share capital	-	-	-	-	-
Other reserves	-	3,557	21,126	187,912	212,595
Interim dividends declared	-	-	-	-	-
	-	3,557	21,126	187,912	212,595
<b>Minority interests</b>	-	-	-	-	-
<b>Total equity</b>	-	3,557	21,126	187,912	212,595

20. Summary of the effect of adopting the new HKFRSs (Continued)

(c) Effect on unaudited condensed consolidated balance sheet as at 30th June 2005 (Continued)

Notes:

- (i) These mainly comprised the cessation of amortisation of the goodwill on acquisitions of jointly controlled entities in prior years and the derecognition of unamortised negative goodwill by the Group and an associate.
- (ii) These mainly comprised the redesignation of investments as available-for-sale financial assets at fair values by the Group and an associate, recognition of interest rate swap contracts as derivative financial instruments at fair values by the Group, recognition of unamortised transaction costs on bank loans and notes by the Group, and the Group's share of the adjustments made by a jointly controlled entity and associates pursuant to HKASs 32 and 39.

(d) Effect on unaudited condensed consolidated balance sheet as at 31st December 2004

	Effect of adopting		
	HKAS 1 US\$'000 (note 2(a)(iii))	HKAS 17 US\$'000 (note 2(c))	Total US\$'000
<b>Non-current assets</b>			
Property, plant and equipment	(4,634)	(13,316)	(17,950)
Investment properties	882	–	882
Leasehold land and land use rights	–	16,696	16,696
Intangible assets	3,752	–	3,752
Jointly controlled entities	–	–	–
Associates	–	–	–
Deferred income tax assets	–	–	–
Investment securities	–	–	–
Finance lease receivables	–	–	–
Restricted bank deposits	–	–	–
	–	3,380	3,380
<b>Current assets</b>			
Inventories	–	–	–
Trade and other receivables	–	–	–
Tax prepaid	–	–	–
Time deposits	–	–	–
Bank balances and cash	–	–	–
	–	–	–
<b>Current liabilities</b>			
Trade and other payables	–	–	–
Current income tax liabilities	–	–	–
Current portion of long term liabilities	–	–	–
Short term bank loans	–	–	–
	–	–	–

20. Summary of the effect of adopting the new HKFRSs (Continued)

(d) Effect on unaudited condensed consolidated balance sheet as at 31st December 2004 (Continued)

	Effect of adopting		
	HKAS 1 US\$'000 (note 2(a)(iii))	HKAS 17 US\$'000 (note 2(c))	Total US\$'000
<b>Net current (liabilities)/assets</b>	–	–	–
<b>Total assets less current liabilities</b>	–	3,380	3,380
<b>Non-current liabilities</b>			
Deferred income tax liabilities	–	–	–
Long term liabilities	–	–	–
	–	–	–
<b>Net assets</b>	–	3,380	3,380
<b>Capital and reserves attributable to the equity holders of the Company</b>			
Share capital	–	–	–
Other reserves	–	3,380	3,380
Proposed final dividend	–	–	–
	–	3,380	3,380
<b>Minority interests</b>	–	–	–
<b>Total equity</b>	–	3,380	3,380

Note:

The reconciliation above does not include the opening adjustments on the Group's opening equity as at 1st January 2005 as a result of the adoption of HKFRS 3, HKASs 32 and 39 (notes 2(i) and 2(f)).

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## **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 33.

### **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 Hong Kong Accounting Standard 34 “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 two associates, China International Marine Containers (Group) Co., Ltd. and Liu Chong Hing Bank Limited, which were equity accounted for on the basis of their 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 limitations 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 limitations 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 2005.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 8th September 2005

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## Dividends

The directors have declared an interim cash dividend of HK28.1 cents (2004: HK17.4 cents) per share and a special interim cash dividend of HK11.3 cents (2004: Nil) per share for the six months ended 30th June 2005. The interim dividend and special interim dividend will be payable on 7th October 2005 to shareholders whose names appeared on the register of members of the Company on 29th September 2005.

## Closure of register of members

The register of members of the Company will be closed from Monday, 26th September 2005 to Thursday, 29th September 2005, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend and special 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 Friday, 23rd September 2005.

## Management discussion and analysis

### Business review

#### Overall analysis of results

The past six months saw the global economy maintaining a stable and balanced growth. In the PRC, the implementation of the austerity measures by the PRC government, a GDP growth of 9.5% was achieved. The Group's focused efforts to develop the core business in recent years have paid off, resulting in a remarkable performance in the first half.

Profit attributable to the equity holders of the Company for the period rose to US\$214,770,000 from US\$93,152,000 a year ago. Earnings per share rose by 126.7% to US9.8111 cents from US4.3272 cents a year ago. In December 2004, the Group completed the acquisition of approximately 16.23% equity interest in China International Marine Containers (Group) Co., Ltd. ("CIMC"), which contributed US\$40,236,000 to the Group's net profit for the period (same period of 2004: N/A). Further, the disposal of the Group's 17.5% equity interest in Shekou Container Terminals Ltd. ("Shekou Terminals") in March this year not only generated a profit of US\$61,875,000, but also enable the Group to restructure the investment portfolio to capitalise on the strategic advantage of the Pearl River Delta terminal operations.

#### Financial analysis

Turnover for the first half of 2005 grew by 9.4% to US\$141,898,000. Majority of the increase was gained from container leasing operation which recorded a turnover of US\$132,380,000 or an increase of 9.5% from last year. Total container fleet rose by 18.9% to 1,027,954 TEUs from 864,568 TEUs a year ago. Average utilisation rate of 96.4% was achieved, versus 96.0% for the same period of last year. Continuous efforts of Zhangjiagang Win Hanverky Container Terminal Co., Ltd. ("Zhangjiagang Win Hanverky Terminal") to explore new business opportunities resulted in a 15.8% increase in throughput to 180,329 TEUs and an increase of 17.7% in turnover to US\$6,042,000. On container handling and storage operation, overall business turnover recorded a 7.3% decrease to US\$3,476,000 from a year ago.

Cost of sales, comprising mainly depreciation, depot expenses, maintenance and operating expenses, rose by 4.4% to US\$58,937,000 in the first half of the year. Depreciation increased by 10.5% to US\$53,717,000 and accounted for 91.1% of cost of sales (same period of 2004: 86.1%). High utilisation rate was maintained on the containers during the period, resulting in a decrease in operation cost of containers by 64.5% to US\$1,363,000.

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Other revenues amounted to US\$23,177,000, a decrease of 11.1%. During the period, 14,833 TEUs of containers as returned from COSCO Container Lines Company Limited (“COSCON”) upon expiry of leases were sold, generating US\$12,148,000 in revenue. A year-to-year decrease of US\$4,824,000 was recorded. Yantian International Container Terminals Ltd. (“Yantian International Terminals”) declared an interim dividend of US\$7,480,000 for the first half of 2005 (same period of 2004: US\$7,461,000). An additional 2004 dividend of US\$511,000 was received from Shekou Terminals before it was sold. Interest income during the period increased by 69.0% to US\$2,058,000.

Administrative expenses increased by 8.0% from a year ago to US\$15,131,000. During the period, human resources and travelling expenses of the Group increased while professional fees and depreciation had a reduction.

Other net operating expenses in the first half of the year amounted to US\$10,456,000 (same period of 2004: US\$18,672,000). The carrying value of the returned containers sold amounted to US\$9,271,000 (same period of 2004: US\$17,678,000) and the direct cost associated with these returned containers was US\$284,000 (same period of 2004: US\$2,047,000). As the prices of old containers have sustained at relatively higher levels, no provision for impairment losses was required.

During the period, the disposal of an available-for-sale financial asset, 17.5% equity interest in Shekou Terminals, generated a profit of US\$61,875,000.

Finance costs increased by 12.5% to US\$11,213,000. Cost of borrowing gradually increased as interest rate entered into a rising cycle since 2004. The Group’s average borrowing for the first half of the year amounted to US\$660,054,000 (same period of 2004: US\$581,852,000). The Group’s average cost of borrowing (including amortisation of transaction costs on bank loans and notes and changes in fair values of interest rate swap contracts) was 3.40% (same period of 2004: 3.32%).

Net profit contribution from jointly controlled entities amounted to US\$42,177,000, an increase of 34.2%. Efforts of COSCO-HIT Terminals (Hong Kong) Limited (“COSCO-HIT”) in exploring new business opportunities resulted in a 17.3% increase in throughput to 942,488 TEUs in the first half, while net profit contribution grew 1.2% to US\$15,024,000 due to changes in cargo mix. Throughput of Qingdao Qianwan Container Terminal Co., Ltd. (“Qingdao Qianwan Terminal”) increased by 22.2% to 2,616,018 TEUs in the first half. Throughput of COSCO-PSA Terminal Private Limited (“COSCO-PSA Terminal”) increased by 13.0% to 309,821 TEUs in the first half. Throughput of Yangzhou Yuanyang International Ports Co. Ltd. (“Yangzhou Yuanyang International Ports”) increased by 94.9% to 73,740 TEUs in the first half. Throughput of Yingkou Container Terminals Company Limited (“Yingkou Terminals”), which was acquired last year, increased by 112.7% to 288,961 TEUs in the first half. The above terminals all contributed a remarkable net profit. Net profit contribution from Shanghai CIMC Far East Container Co., Ltd. and Tianjin CIMC North Ocean Container Co., Ltd. increased significantly from last year, while Shanghai CIMC Reefer Containers Co., Ltd. recorded a drop in profit due to keen competition in the market. The Group’s share of net profit from COSCO Logistics Co., Ltd. (“COSCO Logistics”) increased by 22.3% to US\$7,628,000 in the first half of 2005.

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Net profit contribution from associates amounted to US\$53,300,000, registering a significant increase of 326.1%. CIMC, which became an associate of the Group at the end of last year, made a profit contribution of US\$40,236,000 in the first half of the year (same period of 2004: N/A). Throughput of Shanghai Container Terminals Limited (“Shanghai Terminals”) dropped 3.4% while net profit contribution decreased by 10.9% to US\$3,814,000. Shanghai Pudong International Container Terminals Limited (“Shanghai Pudong International Terminals”), achieved a 12.2% increase in throughput in the first half of the year and reported an increase of 33.9% in net profit contribution to US\$5,335,000. Antwerp Gateway NV (“Antwerp Terminal”) as acquired at the end of last year was still under construction. Liu Chong Hing Bank Limited (“Liu Chong Hing Bank”) contributed net profit of US\$4,893,000 during the period (same period of 2004: US\$4,244,000).

Aggregate tax charge rose by 65.6% to US\$10,457,000, mainly due to increase in provision for deferred tax arising from the increase in profits from the container leasing business.

## Financial position

### Cash flow

Cash inflows of the Group remained stable. During the period, net cash from operating activities amounted to US\$128,557,000 (same period of 2004: US\$130,403,000). The Group drew bank loans of US\$77,650,000 and repaid US\$72,286,000 during the first half of the year. During the period, major capital investments of the Group involved US\$3,142,000 in Antwerp Terminal, US\$12,081,000 in Qingdao Qianwan Terminal and US\$5,800,000 in Dalian Automobile Terminal Co., Ltd. (“Dalian Automobile Terminal”). Over the same period last year, major investments comprised: acquisition of 49% equity interest in COSCO Logistics involving cash outflow of US\$142,179,000; investment in Qingdao Qianwan Terminal, Yangzhou Yuanyang International Ports and Dalian Automobile Terminal, involving cash outflows of US\$61,170,000, US\$11,126,000 and US\$2,896,000, respectively. In addition to terminal investments, US\$161,520,000 (same period of 2004: US\$109,568,000) was paid during the period for purchase of new containers.

### Financing and credit facilities

In July 2005, a subsidiary of the Group obtained a loan facility of US\$300,000,000 from thirteen banks on a club deal basis for a term of six years at a cost equivalent to London Interbank Offered Rate (“LIBOR”) plus 50 basis points. Of this amount, US\$180,000,000 will be used to finance the purchase of new containers and for working capital and US\$120,000,000 for re-financing purpose. The loan agreement was signed on 14th July 2005. Such loan, along with other favourable terms, will not only reduce the Group’s interest expenses but also optimise its debt structure as well.

As at 30th June 2005, cash balances and banking facilities available but unused amounted to US\$132,661,000 and US\$269,908,000 respectively (31st December 2004: US\$100,578,000 and US\$291,108,000 respectively). Coupled with the US\$180,000,000 facility as mentioned above, available cash and credit facilities amounted to US\$582,569,000 in total.

Antwerp Terminal, an associate of the Group, raised funds through project financing during the period to finance part of the construction costs of the terminal project. The loan facility amounted to Euro 143,400,000 for a term of eleven years. The loan agreement was signed in March 2005.

## Assets and liabilities

As at 30th June 2005, the Group's total assets amounted to US\$2,737,777,000 (31st December 2004: US\$2,243,072,000, as restated), and total liabilities amounted to US\$889,549,000 (31st December 2004: US\$757,444,000, as restated). Net assets amounted to US\$1,848,228,000 (31st December 2004: US\$1,485,628,000, as restated) and net asset value per share attributable to the equity holders of the Company was HK\$6.55, representing a 23.5% increase from the end of last year.

The Group's cash balances as at 30th June 2005 amounted to US\$132,661,000 (31st December 2004: US\$100,578,000). Total outstanding borrowings amounted to US\$655,160,000 (31st December 2004: US\$653,323,000), with a net debt-to-equity ratio of 28.3% (31st December 2004: 37.2%). Interest coverage was 21 times, versus 11 times a year ago.

Certain fixed assets and land use rights of the Group with net book value of US\$319,166,000 (31st December 2004: US\$331,647,000) and bank deposits of US\$11,112,000 (31st December 2004: US\$11,297,000) were pledged to banks and financial institutions as security against borrowings totalling US\$159,197,000 (31st December 2004: US\$176,392,000), representing 22.1% of our total fixed assets and land use rights (31st December 2004: 26.8%).

## Debt analysis

	As at 30th June 2005		As at 31st December 2004	
	US\$	%	US\$	%
By repayment term:				
Within the first year	62,011,000	9.5	38,178,000	5.9
Within the second year	52,848,000	8.1	44,046,000	6.7
Within the third year	226,749,000	34.6	58,609,000	9.0
Within the fourth year	8,961,000	1.4	202,087,000	30.9
Within the fifth year and beyond	304,591,000	46.4	310,403,000	47.5
	<b>655,160,000*</b>	<b>100.0</b>	653,323,000**	100.0
By type of borrowings:				
Secured borrowings	159,197,000	24.3	176,392,000	27.0
Unsecured borrowings	495,963,000	75.7	476,931,000	73.0
	<b>655,160,000*</b>	<b>100.0</b>	653,323,000**	100.0
By denomination of borrowings:				
US Dollar	650,182,000	99.2	649,795,000	99.5
RMB	4,978,000	0.8	3,528,000	0.5
	<b>655,160,000*</b>	<b>100.0</b>	653,323,000**	100.0

\* net of unamortised discount on notes and transaction costs on borrowings and notes.

\*\* net of unamortised discount on notes only.



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## Contingent liabilities

As at 30th June 2005, the Group provided guarantees on a loan facility granted to an associate of US\$14,530,000 (31st December 2004: US\$ Nil).

## Foreign exchange and interest rate risks management

The Group's functional currency is US dollar and most of its borrowings are denominated in US dollars, a majority of which are used for the container leasing operation that has revenues generated and expenses incurred mainly denominated in US dollars. Accordingly, exposure to exchange rate risk is minimal.

In respect of the financing activities of jointly controlled entities and associates, such as COSCO-HIT, COSCO-PSA Terminal and Antwerp Terminal, all material borrowings were denominated in the corresponding local currencies, with corresponding hedging being effected.

The Group continued to exercise stringent control over the use of financial derivatives for hedging against its interest rate risks. As at 30th June 2005 and 31st December 2004, 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 2005, through interest rate swap contracts and fixed rate borrowing arrangements, the Group's ratio of fixed-rate to floating-rate borrowings stood at 31.1% : 68.9% (31st December 2004: 31.0% : 69.0%). The Group monitored and adjusted its debt portfolio of fixed and floating interests from time to time to reduce interest rate risk.

## Review of operations

### Container leasing

Benefiting from the growth in PRC trade and the containerisation trend in the transportation industry, the Group achieved satisfactory results in the container leasing operation. As at 30th June 2005, 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 1,027,954 TEUs (same period of 2004: 864,568 TEUs), surpassing 1 million TEUs for the first time while recording an increase of 18.9% from a year ago. Florens further escalated its ranking as the fourth largest marine container leasing company (same period of 2004: fifth) with approximately 10.4% share of the global market (same period of 2004: approximately 9.9%). Average age of the Group's container fleet was 4.28 years (same period of 2004: 4.36 years).

#### *Further effort made in expanding market reach*

Florens further increased its momentum to penetrate the market while solidifying customer relations. To cope with the increasing demand, Florens purchased 131,838 TEUs of new containers (same period of 2004: 90,372 TEUs).

While acquiring new containers, Florens also sold 14,833 TEUs (same period of 2004: 28,247 TEUs) of containers returned from COSCON upon expiry of the leases ("Returned Containers"), including those being received before 2005.

### Container fleet movement

	<b>2005 TEUs</b>	2004 TEUs
Total containers (as at 1st January)	<b>919,128</b>	808,825
New containers purchased	<b>131,838</b>	90,372
Containers returned from COSCON upon expiry of leases		
– Total	<b>(15,613)</b>	(31,820)
– Re-leased	<b>148</b>	2,102
– Disposed of and pending for disposal	<b>(15,465)</b>	(29,718)
Ownership transferred to customers upon expiry of finance leases	<b>(341)</b>	(302)
Defective containers written off	<b>–</b>	(210)
Total loss of containers declared and compensated by customers	<b>(7,206)</b>	(4,399)
Total containers (as at 30th June)	<b>1,027,954*</b>	864,568*

\* including 23,614 TEUs of containers managed on behalf of a third party (same period of 2004: 16,665 TEUs)

### Customer base expansion

Besides providing 10-year container leases to COSCON, the world's seventh largest container ship operator (according to "The Journal of Commerce" dated 27th June 2005), the Group also provided short and long term leases to other international customers ("International Customers"). These International Customers included major global shipping companies. For the six months ended 30th June 2005, the top 20 International Customers accounted for approximately 71.8% (same period of 2004: 75.7%) of the Group's total container rental income from International Customers. The total number of customers reached 233 (same period of 2004: 198).

As at 30th June 2005, the Group leased a total of 362,635 TEUs to COSCON, representing 35.3% of the entire container fleet. Containers available to International Customers totalled 665,319 TEUs, representing 64.7% of the total containers.

### Container fleet analysis

	<b>30th June 2005</b>		31st December 2004		30th June 2004	
	<b>COSCON</b>	<b>International Customers</b>	COSCON	International Customers	COSCON	International Customers
Total containers (in TEUs)	<b>362,635</b>	<b>665,319</b>	327,845	591,283	304,088	560,480
– Dry containers	<b>92.5%</b>	<b>96.6%</b>	92.0%	96.3%	91.7%	96.0%
– Reefers	<b>7.1%</b>	<b>1.9%</b>	7.4%	2.1%	7.7%	2.2%
– Specials	<b>0.4%</b>	<b>1.5%</b>	0.6%	1.6%	0.6%	1.8%

### Utilisation rates beating industry average

While containers dedicated to COSCON remained 100% utilised during the period, the overall average utilisation rate of the Group was 96.4% (same period of 2004: 96.0%), well above the industry average of approximately 92.0% (same period of 2004: approximately 91.6%).

### Handling of returned containers

During the period, a total of 15,613 TEUs (same period of 2004: 31,820 TEUs) of 10-year containers were returned from COSCON, of which 6,937 TEUs and 8,676 TEUs represented units to be returned on or before 2004 and 2005, respectively. The Group disposed of 14,833 TEUs (same period of 2004: 28,247 TEUs) of Returned Containers with a net profit on disposal of US\$2,593,000 (same period of 2004: net loss of US\$2,753,000).

### Container terminal and related operations

During the period, the Group further enhanced its management capability while achieving higher operational efficiency. As a result, terminal throughput and net profit had a remarkable performance.

### Strong growth in throughput of container terminals

Boosted by the growth of the PRC economy, the Group's container terminal business recorded a good growth. As at 30th June 2005, the 11 operating container terminals in which the Group has an interest handled a total of 12,129,340 TEUs during the period, a 17.5% increase from last year.

### Throughput of container terminals

	<b>1H 2005</b> <b>(TEUs)</b>	1H 2004 (TEUs)	Changes over the corresponding period
<b>Pearl River Delta*</b>	<b>4,256,763</b>	<b>3,571,953</b>	<b>+19.2%</b>
COSCO-HIT	942,488	803,338	+17.3%
Yantian International Terminals Phase I, II and III	3,314,275	2,768,615	+19.7%
<b>Yangtze River Delta</b>	<b>3,187,756</b>	<b>3,051,992</b>	<b>+4.4%</b>
Shanghai Terminals	1,700,115	1,759,440	-3.4%
Shanghai Pudong International Terminals	1,233,572	1,098,955	+12.2%
Zhangjiagang Win Hanverky Terminal	180,329	155,753	+15.8%
Yangzhou Yuanyang International Ports	73,740	37,844	+94.9%
<b>Bohai Rim</b>	<b>4,375,000</b>	<b>3,425,765</b>	<b>+27.7%</b>
Qingdao Qianwan Terminal	2,616,018	2,141,078	+22.2%
Qingdao Cosport Terminals	265,206	179,673	+47.6%
Dalian Port Container Co., Ltd.	1,204,815	969,191	+24.3%
Yingkou Terminals	288,961	135,823	+112.7%
<b>Overseas region</b>	<b>309,821</b>	<b>274,265</b>	<b>+13.0%</b>
COSCO-PSA Terminal	309,821	274,265	+13.0%
<b>Total throughput</b>	<b>12,129,340</b>	<b>10,323,975</b>	<b>+17.5%</b>
<b>Throughput of terminals in China mainland</b>	<b>10,877,031</b>	<b>9,246,372</b>	<b>+17.6%</b>

\* Shekou Terminals of which the Group had an interest, was disposed of on 23rd March 2005.

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*Expansion of terminal business, further enhancing its position as a leading terminal operator*

The Group entered into a joint venture contract on 28th May 2005 for the establishment of Nanjing Port Longtan Container Co., Ltd (“Nanjing Longtan Terminal”) in which the Group owns a 20% interest. Nanjing Longtan will operate Nanjing Longtan Container Terminal Phase I, which has a total of five berths with a quay length of 910 metres long and a depth alongside of 12 metres. Total area of the terminal is 930,000 square metres with an annual handling capacity of 1,000,000 TEUs. The terminal commenced operation on 26th August 2005.

On 16th April 2005, the Group entered into a joint venture heads of agreement with Guangzhou Port Group Co., Ltd. to form a joint venture company regarding the construction and operation of the Guangzhou Nansha Container Terminal Phase II. The Group will have an initial interest of 56% in the joint venture company. Six berths will be constructed at Nansha Container Terminal Phase II (the first two berths will be completed and operational in the second half of 2006 and the remaining four will be completed and operational in 2007). The terminal will have a quay length of 2,100 metres and a depth alongside of 17 metres. Total area of the terminal will be 2,320,000 square metres with an annual handling capacity of 4,200,000 TEUs.

Meanwhile, to capitalise on the strategic advantage of the Pearl River Delta Terminals and the opportunity to restructure the investment portfolio, the Group entered into an agreement with China Merchants Holdings (International) Company Limited on 23rd March 2005 for the disposal of its 17.5% equity interest in Shekou Terminals for a consideration of approximately HK\$610,000,000. Profit on disposal of US\$61,875,000 which has been booked in the first half of the year.

With all these new business developments and acquisitions in terminal operations, the Group held a total of 19 terminals as of 30th June 2005. These 19 terminals are strategically located in Pearl River Delta, Yangtze River Delta, Bohai Rim and major overseas locations. The Group held a total of 81 berths, including 76 berths for containers, 2 berths for automobile, 3 berths for multipurpose. The expected handling capacity will be increased to 40,400,000 TEUs.

## Container terminals portfolio

	Shareholding	Total area (square metres)	No. of berths	Depth alongside (metres)	Annual handling capacity (TEUs)
<b>PEARL RIVER DELTA</b>			<b>17</b>		<b>14,100,000</b>
COSCO-HIT	50%	292,360	2	15.5	1,800,000
Yantian International Terminal (Phase I, II)	5%	1,180,000	5	14.0-15.5	4,500,000
Yantian International Terminal (Phase III)	4.45%	900,000	4	16	3,600,000
Guangzhou Nansha Container Terminal Phase II (Note 1)	56%	2,320,000	6	17	4,200,000
<b>YANGTZE RIVER DELTA</b>			<b>25</b>		<b>8,200,000</b>
Shanghai Terminals	10%	830,000	10	9.4-10.5	3,700,000
Shanghai Pudong International Terminals	20%	500,000	3	12	2,300,000
Zhangjiagang Win Hanverky Terminal	51%	251,000	2	10	500,000
Yangzhou Yuanyang International Ports	55.59%	350,000	4	11	500,000
					4,700,000 tonnes bulk cargoes
Zhenjiang Jinyuan Terminals (Note 1)	25%	105,000	1	13	200,000
Nanjing Longtan Terminal (Note 1)	20%	930,000	5	12	1,000,000
<b>BOHAI RIM</b>			<b>31</b>		<b>13,600,000</b>
Qingdao Qianwan Terminal	20%	2,250,000	11	17.5	6,500,000
Qingdao Cosport Terminals	50%	186,800	1	13.5	600,000
Dalian Port Container Co., Ltd. (Note 2)	8%	710,000	9	8.9-14.0	3,000,000
Dalian Automobile Terminal	30%	540,000	2	11	600,000 vehicles
Dalian Port Terminal	20%	250,000	2	13.9	1,000,000
Tianjin Five Continents International Terminal (Note 1)	14%	516,000	4	15.7	1,500,000
Yingkou Terminals	50%	426,000	2	14	1,000,000
<b>OVERSEAS</b>			<b>8</b>		<b>4,500,000</b>
COSCO-PSA Terminal	49%	228,000	2	15	1,000,000
Antwerp Terminal (Note 3)	20%	1,263,000	6	17	3,500,000
<b>Total number of berths in container terminal</b>			<b>76</b>		<b>40,400,000</b>
<b>Number of berths in the automobile terminal</b>			<b>2</b>		<b>600,000 vehicles</b>
<b>Number of berths in the multipurpose terminal</b>			<b>3</b>		<b>4,700,000 tonnes bulk cargoes</b>

Note 1: Joint Venture Contracts or Joint Venture Heads of Agreements signed and capital injection has not been made as at 30th June 2005.

Note 2: Not include Dalian Port Terminal.

Note 3: After the disposal of 5% equity interest in Antwerp Terminal to a third party in July 2005.

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### Latest development of the container terminal project

The Group signed a letter of intent with Ningbo Port Group Ltd. and Tianjin Port Group Ltd. respectively in the first half of 2005, to engage in the development and operations of container terminals in Jintang Island of Ningbo and Tianjin North Port Basin.

Dalian Port Terminal, in which the Group has a 20% interest, commenced operation on 8th July 2005. In addition, pursuant to the Share Purchase Agreement entered into between the Group and P&O Ports Europe NV on 16th November 2004, in order to introduce an additional partner with liner carrier background to bring more volume to the Antwerp Terminal, the Group sold 5% of its equity interest to CMA CGM Group. The Group has accordingly reduced the shareholding percentage in Antwerp Terminal from 25% to 20% on 5th July 2005. Antwerp Terminal was opened on 6th July 2005 and will commence operations in the middle of September 2005.

### Container handling and storage

During the period, Plangreat Limited, a wholly owned subsidiary of the Group, and its subsidiaries, engaged in container stevedoring, storage, repairs and drayage services, registered a turnover of US\$3,476,000 (same period of 2004: US\$3,748,000). The decline in turnover was attributed to a rise in container terminal transshipment which led to a decrease in container service market.

### Logistics operation

COSCO Logistics continued to step up its efforts to expand its market share through achieving business expansion in 2005 in several sectors: household appliances, automobiles, electricity and petrol chemicals.

In relation to the shipping agency business, 16 routes were newly added while agency agreements were entered with four shipping companies. On the freight forwarding business, the Group entered into cooperation agreements with two companies, while an agency framework agreement was reached with another company.

The shipping agency business handled 63,380 vessels during the period (same period of 2004: 62,961 vessels), while maintaining its leadership position with a 49.1% share of the PRC market, up 0.67% from a year ago (same period of 2004: 50.6%). The freight forwarding arm handled 197,195,600 tonnes of cargoes during the period (same period of 2004: 186,695,300 tonnes), achieving a 5.6% increase from last year. The sea-freight forwarding agency business also recorded a growth in its marine freight forwarding business; volume increased by 19.6% to 771,620 TEUs (same period of 2004: 645,337 TEUs).

Furthermore, COSCO Logistics' branding position in the market was affirmed by the shipping industry media. At the "4th China Logistics Business Award" Conference, COSCO Logistics received 12 gold awards, 4 silver awards and 1 bronze award, from the conference sponsors, which included amongst others, "China Freight Weekly", "Logistics Era" and "China Freight Trade Net".

## Container manufacturing

The Group acquired an equity interest of approximately 16.23% in CIMC at the end of last year. CIMC made its maiden contribution in the first half of the year, bringing profit of US\$40,236,000 to the Group.

In addition, Shanghai CIMC Reefer Containers Co., Ltd., Shanghai CIMC Far East Container Co., Ltd. and Tianjin CIMC North Ocean Container Co., Ltd. also provided the Group with profit contributions for the period.

<i>Container manufacturing factories</i>	Shareholding	<b>1H 2005 Production volume (TEUs)</b>	1H 2004 Production volume (TEUs)	+/-
Shanghai CIMC Reefer Containers Co., Ltd.	20.0%	<b>23,422</b>	19,149	+22.3%
Shanghai CIMC Far East Container Co., Ltd.	20.0%	<b>57,879</b>	62,028	-6.7%
Tianjin CIMC North Ocean Container Co., Ltd.	22.5%	<b>72,173</b>	62,041	+16.3%

## Other business

Liu Chong Hing Bank, in which the Group held a 20% interest, made a net profit contribution of US\$4,893,000, up 15.3% from last year.

## Employees and remuneration policies

The Group considers the building of an effective staff team as the best assurance for the corporation to achieve a rapid, solid and yet healthy growth. To cope with the business development needs of all the businesses – container leasing, container terminal, logistics and container manufacturing, the Group has been dedicating significant efforts to attracting, recruiting, and developing management talents.

Continuous improvements are made on remuneration policy and incentive schemes, which are based on the principles of fairness. Approved by the board of directors, the Remuneration and Assessment Committee and the Nomination Committee were established to facilitate the implementation of an advanced human resource management philosophy. Besides basic salary and bonus, the Company also uses share options as incentives to motivate employees to make significant contributions as a team to help the Group achieve the required growth and the corporate mission of “Satisfying Customers While Creating Shareholders’ Wealth”.

As at 30th June 2005, there were 431 employees in the Group. Total staff cost for the Group for the first half of the year, including directors’ remuneration, amounted to US\$9,434,000 (same period of 2004: US\$7,947,000).

## 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 new 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 share options shall thereafter be offered under the 1994 Share Option Scheme but the share 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.

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

Category	Exercise price HK\$	Number of share options			Percentage of total issued share capital	Note
		Outstanding at 1st January 2005	Exercised during the period	Outstanding at 30th June 2005		
<b>Director</b>						
Mr. WONG Tin Yau, Kelvin	8.80	1,800,000	(900,000)	900,000	0.04%	(1), (2), (3)
<b>Continuous contract employees</b>						
	8.80	902,000	(564,000)	338,000	0.02%	(1), (3)
		2,702,000	(1,464,000)	1,238,000		

Notes:

- (1) The share options were granted on 20th May 1997 (the “Offer Date”) under the 1994 Share Option Scheme. The share 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 share 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.
- (2) These share options represent personal interests held by the director as beneficial owner.
- (3) The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK\$15.77.
- (4) During the period, no share options were cancelled or lapsed under the 1994 Share Option Scheme.



(b) Movements of the share 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			Percentage of total issued share capital	Exercisable period	Note
		Outstanding at 1st January 2005	Exercised during the period	Outstanding at 30th June 2005			
<b>Directors</b>							
Mr. WEI Jiafu	9.54	1,000,000	–	1,000,000	0.046%	30.10.2003 – 29.10.2013	(1), (2), (4)
	13.75	1,000,000	–	1,000,000	0.046%	3.12.2004 – 2.12.2014	
Mr. CHEN Hongsheng	9.54	800,000	–	800,000	0.036%	28.10.2003 – 27.10.2013	(1), (2), (4)
	13.75	1,000,000	–	1,000,000	0.046%	3.12.2004 – 2.12.2014	
Mr. LI Jianhong	9.54	800,000	–	800,000	0.036%	29.10.2003 – 28.10.2013	(1), (2), (4)
	13.75	1,000,000	–	1,000,000	0.046%	2.12.2004 – 1.12.2014	
Ms. SUN Yueying	9.54	800,000	–	800,000	0.036%	29.10.2003 – 28.10.2013	(1), (2), (4)
	13.75	1,000,000	–	1,000,000	0.046%	3.12.2004 – 2.12.2014	
Mr. SUN Jiakang	9.54	200,000	–	200,000	0.009%	28.10.2003 – 27.10.2013	(1), (2), (4)
	13.75	1,000,000	–	1,000,000	0.046%	1.12.2004 – 30.11.2014	
Mr. XU Lirong	9.54	800,000	–	800,000	0.036%	31.10.2003 – 30.10.2013	(1), (2), (4)
	13.75	1,000,000	–	1,000,000	0.046%	2.12.2004 – 1.12.2014	
Mr. WONG Tin Yau, Kelvin	9.54	800,000	–	800,000	0.036%	28.10.2003 – 27.10.2013	(1), (2), (4)
	13.75	1,000,000	–	1,000,000	0.046%	2.12.2004 – 1.12.2014	
Mr. LU Chenggang	13.75	1,000,000	–	1,000,000	0.046%	29.11.2004 – 28.11.2014	(2), (4)
Mr. QIN Fuyan	13.75	1,000,000	–	1,000,000	0.046%	29.11.2004 – 28.11.2014	(2), (4)

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

Category	Exercise price HK\$	Number of share options			Percentage of total issued share capital	Exercisable period	Note
		Outstanding at 1st January 2005	Exercised during the period	Outstanding at 30th June 2005			
<b>Ex-directors</b>							
Mr. LIU Guoyuan	9.54	100,000	(100,000)	–	N/A	28.10.2003 – 27.10.2013	(1), (2), (3), (4), (5)
	13.75	1,000,000	–	1,000,000	0.046%	29.11.2004 – 28.11.2014	
Mr. ZHANG Fusheng	9.54	800,000	–	800,000	0.036%	29.10.2003 – 28.10.2013	(1), (2), (3), (4)
	13.75	1,000,000	–	1,000,000	0.046%	3.12.2004 – 2.12.2014	
Mr. WANG Futian	9.54	800,000	–	800,000	0.036%	29.10.2003 – 28.10.2013	(1), (2), (3), (4)
	13.75	1,000,000	–	1,000,000	0.046%	3.12.2004 – 2.12.2014	
Mr. MA Zehua	9.54	800,000	–	800,000	0.036%	30.10.2003 – 29.10.2013	(1), (2), (3), (4)
	13.75	1,000,000	–	1,000,000	0.046%	3.12.2004 – 2.12.2014	
Mr. MA Guichuan	9.54	800,000	–	800,000	0.036%	29.10.2003 – 28.10.2013	(1), (2), (3), (4)
	13.75	1,000,000	–	1,000,000	0.046%	3.12.2004 – 2.12.2014	
Mr. LI Yunpeng	9.54	800,000	–	800,000	0.036%	29.10.2003 – 28.10.2013	(1), (2), (3), (4)
	13.75	1,000,000	–	1,000,000	0.046%	3.12.2004 – 2.12.2014	
Mr. ZHOU Liancheng	9.54	400,000	(206,000)	194,000	0.009%	29.10.2003 – 28.10.2013	(1), (2), (3), (4), (5)
	13.75	1,000,000	–	1,000,000	0.046%	29.11.2004 – 28.11.2014	
Mr. HE Jiale	9.54	76,000	(76,000)	–	N/A	31.10.2003 – 30.10.2013	(1), (2), (3), (4), (5)
	13.75	1,000,000	(500,000)	500,000	0.023%	30.11.2004 – 29.11.2014	
Mr. MENG Qinghui	13.75	1,000,000	–	1,000,000	0.046%	29.11.2004 – 28.11.2014	(2), (3), (4)
		<u>27,776,000</u>	<u>(882,000)</u>	<u>26,894,000</u>			

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

Category	Exercise price HK\$	Number of share options			Percentage of total issued share capital	Exercisable period	Note
		Outstanding at 1st January 2005	Exercised during the period	Outstanding at 30th June 2005			
<b>Continuous contract employees</b>	9.54	9,394,000	(2,132,000)	7,262,000	0.331%	(refer to note 1)	(1), (2),
	13.75	35,990,000	(3,926,000)	32,064,000	1.462%	(refer to note 2)	(5)
<b>Others</b>	9.54	1,320,000	(320,000)	1,000,000	0.046%	(refer to note 1)	(1), (2),
	13.75	9,750,000	(510,000)	9,240,000	0.421%	(refer to note 2)	(5)
		56,454,000	(6,888,000)	49,566,000			
		84,230,000	(7,770,000)	76,460,000			

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) The share options were granted during the period from 25th November 2004 to 16th December 2004 under the 2003 Share Option Scheme at an exercise price of HK\$13.75. The options are exercisable at any time within ten years from the Commencement Date. The Commencement Date of the options of the grantees was from 25th November 2004 to 16th December 2004.
- (3) During the period, Mr. LIU Guoyuan, Mr. ZHANG Fusheng, Mr. WANG Futian, Mr. MA Zehua, Mr. MA Guichuan, Mr. LI Yunpeng, Mr. HE Jiale resigned as executive directors of the Company with effect from 9th June 2005 and Mr. ZHOU Liancheng and Mr. MENG Qinghui did not seek for re-election as executive directors of the Company and retired at the annual general meeting of the Company held on 20th May 2005.
- (4) These share options represent personal interests held by the relevant directors as beneficial owner.
- (5) The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK\$16.83.
- (6) During the period, no share options were granted, lapsed or cancelled under the 2003 Share Option Scheme.

## Directors' interests in shares, underlying shares and debentures

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 at 30th June 2005, 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 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
Dr. LI Kwok Po, David	Beneficial owner	Personal	258,000	0.012%
Mr. Timothy George FRESHWATER	Beneficial owner	Personal	30,000	0.001%
Mr. KWONG Che Keung, Gordon	Beneficial owner	Personal	250,000	0.011%

### (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 shares of associated corporation

Name of associated corporation	Name of director	Capacity	Nature of interest	Number of shares held	Percentage of total issued share capital of associated corporation
	<b>Ex-director</b>				
COSCO Corporation (Singapore) Limited	Mr. ZHOU Liancheng	Beneficial owner	Personal	500,000	0.046%

## (d) Long positions in underlying shares of equity derivatives of associated corporations

Movements of the share options granted to the directors of the Company by associated corporations during the period are set out below:

Name of associated corporation	Name of director	Capacity	Nature of interest	Exercise price	Number of share options				Out-standing at 30th June 2005	Percentage of total issued share capital of associated corporation	Note
					Out-standing at 1st January 2005	Granted during the period	Exercised during the period	Lapsed during the period			
<b>Directors</b>											
COSCO International Holdings Limited	Mr. WEI	Beneficial owner	Personal	HK\$0.57	1,800,000	-	-	-	1,800,000	0.127%	(1)
	Jiafu	owner		HK\$1.37	1,200,000	-	-	-	1,200,000	0.085%	(2)
	Mr. LI	Beneficial owner	Personal	HK\$0.57	1,800,000	-	-	-	1,800,000	0.127%	(1)
	Jianhong	owner		HK\$1.37	1,200,000	-	-	-	1,200,000	0.085%	(2)
	Mr. SUN	Beneficial owner	Personal	HK\$0.57	900,000	-	-	-	900,000	0.063%	(1)
	Jiakang	owner		HK\$1.37	800,000	-	-	-	800,000	0.056%	(2)
Mr. WONG Tin Yau, Kelvin	Beneficial owner	Personal	HK\$0.57	800,000	-	-	-	800,000	0.056%	(1)	
	owner		HK\$1.37	500,000	-	-	-	500,000	0.035%	(2)	
<b>Ex-directors</b>											
Mr. LIU Guoyuan	Beneficial owner	Personal	HK\$0.57	1,800,000	-	-	-	1,800,000	0.127%	(1)	
	owner		HK\$1.37	1,200,000	-	-	-	1,200,000	0.085%	(2)	
Mr. ZHOU Liancheng	Beneficial owner	Personal	HK\$0.57	1,800,000	-	-	-	1,800,000	0.127%	(1)	
	owner		HK\$1.37	1,200,000	-	-	-	1,200,000	0.085%	(2)	
Mr. HE Jiale	Beneficial owner	Personal	HK\$0.57	1,800,000	-	-	-	1,800,000	0.127%	(1)	
	owner		HK\$1.37	1,200,000	-	-	-	1,200,000	0.085%	(2)	
Mr. MENG Qinghui	Beneficial owner	Personal	HK\$0.57	1,200,000	-	-	-	1,200,000	0.085%	(1)	
	owner		HK\$1.37	800,000	-	-	-	800,000	0.056%	(2)	
<b>Directors</b>											
COSCO Corporation (Singapore) Limited	Mr. WEI	Beneficial owner	Personal	S\$0.2	350,000	-	-	-	350,000	0.032%	(3)
	Jiafu	owner		S\$0.2	350,000	-	-	-	350,000	0.032%	(4)
				S\$0.735	700,000	-	-	-	700,000	0.064%	(5)
				S\$1.614	-	450,000	-	-	450,000	0.041%	(6)
Mr. LI Jianhong	Beneficial owner	Personal	S\$0.2	200,000	-	-	-	200,000	0.018%	(3)	
	owner		S\$0.2	250,000	-	-	-	250,000	0.023%	(4)	
			S\$0.735	500,000	-	-	-	500,000	0.046%	(5)	
			S\$1.614	-	300,000	-	-	300,000	0.027%	(6)	
Ms. SUN Yueying	Beneficial owner	Personal	S\$0.2	250,000	-	-	-	250,000	0.023%	(3)	
	owner		S\$0.2	250,000	-	-	-	250,000	0.023%	(4)	
			S\$0.735	500,000	-	-	-	500,000	0.046%	(5)	
			S\$1.614	-	300,000	-	-	300,000	0.027%	(6)	
<b>Ex-director</b>											
Mr. ZHOU Liancheng	Beneficial owner	Personal	S\$0.735	500,000	-	-	-	500,000	0.046%	(5)	
	owner		S\$1.614	-	300,000	-	-	300,000	0.027%	(6)	

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Notes:

- (1) The share options were granted by COSCO International Holdings Limited (“COSCO International”), an associated corporation of the Company and a company listed on the Stock Exchange, on 26th November 2003 pursuant to the share option scheme approved by the shareholders of COSCO International on 17th May 2002 (the “Share Option Scheme of COSCO International”). The share options can be exercised at HK\$0.57 per share at any time between 23rd December 2003 and 22nd December 2008.
- (2) The share options were granted by COSCO International on 2nd December 2004 pursuant to the Share Option Scheme of COSCO International. The share options can be exercised at HK\$1.37 per share at any time between 29th December 2004 and 28th December 2014.
- (3) The share options were granted by COSCO Corporation (Singapore) Limited (“COSCO Corporation (Singapore)”), an associated corporation of the Company and a company listed on the Singapore Exchange Securities Trading Limited, on 12th August 2002 and can be exercised at any time between 12th August 2003 and 11th August 2007.
- (4) The share options were granted by COSCO Corporation (Singapore) on 1st April 2003 and can be exercised at any time between 1st April 2004 and 31st March 2008.
- (5) The share options were granted by COSCO Corporation (Singapore) on 24th May 2004 and can be exercised at any time between 24th May 2005 and 23rd May 2009.
- (6) The share options were granted by COSCO Corporation (Singapore) on 6th April 2005 and can be exercised at any time between 6th April 2006 and 5th April 2010.

Save as disclosed above, as at 30th June 2005, 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

As at 30th June 2005, 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:

Name	Capacity	Nature of interests	Number of ordinary shares/ Percentage of total issued share capital			
			Long positions	%	Short positions	%
COSCO Investments Limited	Beneficial owner	Beneficial interest	200,120,000	9.13	–	–
COSCO Pacific Investment Holdings Limited	Beneficial owner and interest of controlled corporation	Beneficial interest and corporate interest	1,144,166,411 (Note)	52.18	–	–
China COSCO Holdings Company Limited	Interest of controlled corporation	Corporate interest	1,144,166,411 (Note)	52.18	–	–
China Ocean Shipping (Group) Company	Interest of controlled corporation	Corporate interest	1,144,166,411 (Note)	52.18	–	–

Note:

The 1,144,166,411 shares relate to the same batch of shares in the Company. COSCO Investments Limited (“COSCO Investments”) is a wholly owned subsidiary of COSCO Pacific Investment Holdings Limited (“COSCO Pacific Investment”). Accordingly, the 200,120,000 shares of the Company held by COSCO Investments are also included as part of the COSCO Pacific Investment’s interests in the Company. COSCO Pacific Investment is a wholly owned subsidiary of China COSCO Holdings Company Limited (“China COSCO”) and it itself holds 944,046,411 shares of the Company beneficially. Accordingly, COSCO Pacific Investment’s interests in relation to the 1,144,166,411 shares of the Company are also recorded as China COSCO’s interests in the Company. China Ocean Shipping (Group) Company (“COSCO”) holds 63.5% interest of the issued share capital of China COSCO as at 30th June 2005, and accordingly, COSCO is deemed to have the interests of 1,144,166,411 shares of the Company held by COSCO Pacific Investment.

Save as disclosed above, as at 30th June 2005, 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 2005 required to be disclosed under Rule 13.22 of Chapter 13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) is set out below:

	US\$'000
Non-current assets	789,358
Current assets	67,201
Current liabilities	(298,231)
Non-current liabilities	(248,719)
Net assets	<u>309,609</u>
Share capital	260,407
Reserves	49,202
Capital and reserves	<u>309,609</u>

As at 30th June 2005, the Group’s consolidated attributable interests in these affiliated companies amounted to US\$130,433,000.

## Corporate governance

### Compliance with Code on Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders’ interests. The Company has complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) in Appendix 14 of the Listing Rules throughout the six months ended 30th June 2005, except for the following deviations:

#### Code provision A.4.2 (the last sentence)

The code provision A.4.2 of the Code (the last sentence) provides that, every director (including directors with specific terms) should be subject to retirement by rotation at least once every three years. According to Bye-law 87(1) of the Bye-laws of the Company then in effect before 20th May 2005, at each annual general meeting, one-third (if the number of directors is not a multiple of three then the number nearest to three) of the directors for the time being shall retire from office by rotation provided that notwithstanding anything therein, the Chairman of the Board and/or the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

The Bye-laws of the Company constitutes a deviation from the code provision A.4.2 of the Code. To comply with the code provision A.4.2 of the Code, amendments to Bye-law 87(1) of the Bye-laws of the Company was proposed and approved by the shareholders at the annual general meeting of the Company held on 20th May 2005.

#### Code provision E.1.2

The code provision E.1.2 of the Code provides that the Chairman of the Board shall attend the annual general meeting of the Company. Due to unexpected business commitment, Mr. WEI Jiafu, the Chairman of the Board who resides in Beijing, was unable to attend the annual general meeting of the Company held on 20th May 2005 in Hong Kong. This constitutes a deviation from the code provision E.1.2 of the Code.



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## **Audit Committee**

The Audit Committee comprises four independent non-executive directors of the Company and its terms of reference have been modified to incorporate certain provisions set out in the Code. The Audit Committee has reviewed, in the presence of the internal and external auditors, the Group's principal accounting policies and the unaudited Condensed Financial Statements for the six months ended 30th June 2005.

## **Other board committees**

On top of the Audit Committee, the Board has also established various committees which include Executive Committee, Investment and Strategic Planning Committee, Corporate Governance Committee, Risk Management Committee, Nomination Committee and Remuneration and Assessment Committee. Among them, the Nomination Committee and Remuneration and Assessment Committee comprise a majority of independent non-executive directors. Each committee has its defined scope of duties and terms of reference.

## **Model code for securities transactions by directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the Company's code of conduct and rules governing dealings by all directors in the securities of the Company. Having made specific enquiry of all directors of the Company, they all confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30th June 2005.

## **Purchase, sale or redemption of listed shares**

The Company has not redeemed any of its listed shares during the six months ended 30th June 2005. 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 2005.

## **Investor relations**

The Group has long been putting emphasis on investor relations. Through regular interaction with the investors, the Group achieves the objective of bringing the investors fully updated on matters that relate to the Group, such as management philosophy, operating conditions, and corporate strategy. The Group also believes in the value of maintaining both high transparency on corporate matters and high standards on corporate governance, while striving to create shareholders' value.

During the first half of the year, the meetings we had with the investors and relevant parties had a total attendance of 171, up 14.8% from the same period last year. By category, those who attended were fund managers (34.5%); analysts (16.4%); bankers (22.8%), and from sectors such as securities (15.8%), media (2.9%) and others (7.6%). In addition, 11 roadshows and investor forums were conducted with a total attendance of 641, up 102.8% from the same period last year.

We also arranged various visits for the investors to visit our terminals and logistics facilities, enabling them to develop a deeper understanding of our core business and the operating environment.

In addition, the Company also releases information via website and emails alerts to the financial market regularly on key events and operational performance data about the Group.

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During the period, the Group achieved very good recognition in investor relations. This was demonstrated by the Group being included in many of the important indices in connection with the capital market, and the many awards which the Group has received from the community of institutional investors.

- In January 2005, rated one of the Top 30 Stock Picks in 2005 by Standard & Poor's.
- In March 2005, rated as "Listed Enterprise with the Best Investor Relations" by the Institutional Investor Research Group.
- In April 2005, selected as one of the 2000 Top Enterprises in 2005 by Forbes in the US.
- In April 2005, received the Honourable Mention in the Top Chinese Enterprises with the Best Dividend Policy by FinanceAsia, for the second year in a row.

## Corporate culture

While aggressively expanding the business, the Group also places significant emphasis on building a successful corporate culture. This includes creating an environment where teamwork is promoted, with employees having the opportunity to develop themselves as individuals, to excel in their job and to realise their potentials. The Group also encourages employees to pursue life-time learning to continuously expand their horizon, so as to raise their management and professional expertise.

"Satisfying Customers While Creating Shareholders' Wealth" has become a common corporate goal for all the Group's employees. The Group will continue to cultivate the corporate core values centered around: Integrity; Nurturing; Innovation; Communication; Understanding; Management; Conduct; Service. Through these core values, the Group's employees will engrain in their work the successful culture required to achieve the mission of "Maximising Corporate Efficiency, While Maximising Shareholders' Return".

## Prospects

The global economy will continue to grow in the second half of this year. The appreciation of Reminbi has created an environment for improvement in the world trade and the functioning of China's economy. Although oil price remains high, it has been stabling off. The Sino-US trade dispute has become clear and eased, and China's export will continue to grow at high speed. These environments will all benefit our Company's business.

Within the Group, the container leasing business continued to increase its competitive strengths, with over 1 million TEUs currently in the container fleet, and capacity utilisation continue to be ahead of the market. The market will continue to sustain a moderate growth in the second half, providing the Group with good business opportunities.

The thriving shipping market has continued to boost a substantial increase in the global demand for more ports. With the Group's investment presence in many major ports in the world, such as the PRC, Hong Kong, Asia, and Europe, the Group is well-positioned to take advantage of the growth in throughput in the second half of the year. Coupled with the Group's plan to capture new opportunities in terminal operation, the Group will further increase its market share and overall competitive strengths.

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COSCO Logistics will consolidate its advantageous position in the shipping and freight forwarding sector, and develop itself into a leading logistics company with modern logistics backbone.

The container manufacturing division has achieved an excellent result in the first half of the year. With foreign trade in the PRC maintaining a high growth, the division is well-positioned as a market leader to further penetrate the market and increase its competitive strengths.

In conclusion, 2005 should be another year of sustained growth for the global economy. Capitalising on its established business strengths, the Group will continue to take an aggressive approach to enhance profitability through expanding its market share in container leasing; terminal operations; logistics, and container manufacturing. Every opportunity will be seized to broaden the income stream, raise operational efficiency, and increase contributions to earnings.

### **Members of the board**

As at the date of this interim report, the Board comprises 14 directors, namely Mr. WEI Jiafu<sup>2</sup> (Chairman), Mr. CHEN Hongsheng<sup>1</sup>, Mr. LI Jianhong<sup>1</sup>, Ms. SUN Yueying<sup>1</sup>, Mr. SUN Jiakang<sup>1</sup> (Vice Chairman & Managing Director), Mr. XU Lirong<sup>2</sup>, Mr. WONG Tin Yau, Kelvin<sup>1</sup>, Mr. WANG Zhi<sup>1</sup>, Mr. QIN Fuyan<sup>1</sup>, Dr. LI Kwok Po, David<sup>3</sup>, Mr. LIU Lit Man<sup>3</sup>, Mr. CHOW Kwong Fai, Edward<sup>3</sup>, Mr. Timothy George FRESHWATER<sup>3</sup> and Mr. KWONG Che Keung, Gordon<sup>2</sup>.

<sup>1</sup> Executive Director

<sup>2</sup> Non-executive Director

<sup>3</sup> Independent Non-executive Director

By Order of the Board  
**SUN Jiakang**  
*Vice Chairman & Managing Director*

Hong Kong, 8th September 2005

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