

INTERIM DIVIDEND

The directors have declared an interim cash dividend of HK11.0 cents per share for the six months ended 30th June 2002 (2001: HK9.5 cents per share). The interim dividend will be payable on 4th October 2002 to shareholders whose names appear on the register of members of the Company on 26th September 2002.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 23rd September 2002 to Thursday, 26th September 2002, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrars, Secretaries Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, for registration not later than 4:00 p.m. on Friday, 20th September 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Overall Results

Profit attributable to shareholders of COSCO Pacific for the six months ended 30th June 2002 amounted to US\$72,916,000, representing a decrease of 13.1% compared with US\$83,929,000 for the corresponding period in the previous year. However, profit for the corresponding period in the previous year included a profit of US\$14,137,000 from the disposal of investment securities. Excluding this non-recurring profit, profit attributable to shareholders for the first half of the year would have been increased by 4.5% over the corresponding period in the previous year. During the period, the core businesses of the Group made steady progress on the whole.

Financial Review

Turnover for the first half of 2002 amounted to US\$116,004,000, up 7.1% from the corresponding period in the previous year, which was mainly due to an increase of 6.8% in turnover of the container leasing business to US\$107,558,000. During the period, the number of containers leased to international customers continued to increase. Turnover of Zhangjiagang Win Hanverky Container Terminal Co., Ltd. increased by 38.4% to US\$3,780,000 as a result of satisfactory increase in throughput, whereas the turnover from container handling and storage businesses recorded a slight decline.

Cost of sales mainly comprised depreciation, depot rental and maintenance expenses, among which, depreciation accounted for 81.8% of the cost of sales for the first half of the year (corresponding period of 2001: 82.2%). Cost of sales during the period increased by US\$4,126,000, mainly due to increase in depreciation of containers.

Other revenues increased by US\$2,901,000, mainly due to the dividend received from Yantian International Container Terminals Ltd. of US\$5,003,000 (corresponding period of 2001: US\$Nil), while decreases were recorded in interest income and sales of returned containers from COSCO Container Lines Company Limited.

Administrative expenses increased by US\$1,314,000 a year ago. During the period, staff costs, travel expenses and depreciation increased while office expenses and professional fees decreased as compared with the corresponding period in the previous year.

Other net operating expenses amounted to US\$9,498,000 against other net operating income of US\$14,262,000 in the corresponding period of the previous year. Such difference was mainly attributed to the gain from disposal of 18,150,000 B shares of Shanghai Zhenhua Port Machinery Co., Ltd. of US\$14,137,000 and the reversal of provision for container repairs and maintenance expense amounting to US\$6,156,000 in 2001. Furthermore, impairment loss of fixed assets for the first half of 2002 amounted to US\$5,058,000, representing an increase of US\$2,211,000 from the corresponding period of the previous year.

Finance costs decreased by 49.5% as interest rate fell substantially following 11 consecutive interest rate cuts by the US Federal Reserve commencing early last year. Interest rate had no major changes during this year but remained at a lower level. The Group's loans were financed at an average interest rate of 3.52% during the period (corresponding period of 2001: 6.29%). The average loan amount was slightly higher than the corresponding period in the previous year.

During the period, the Group's associated companies contributed profit of US\$26,921,000 (corresponding period of 2001: US\$27,251,000) while profit contribution from its jointly controlled entities amounted to US\$4,925,000 (corresponding period of 2001: US\$4,965,000). The lower profit contribution from associated companies were mainly due to the decrease in profit contribution from Liu Chong Hing Bank Limited, Shanghai Container Terminals Limited and the Shanghai Yixian Road Project. Nevertheless, COSCO-HIT Terminals (Hong Kong) Limited ("COSCO-HIT") recorded a relatively satisfactory profit contribution as a result of increase in throughput and savings in interest expenses.

FINANCIAL POSITION

Assets and Liabilities

The Group continued to maintain a healthy balance sheet. As at 30th June 2002, total assets amounted to US\$1,752,756,000 (31st December 2001: US\$1,738,747,000), whereas total liabilities and minority interests amounted to US\$516,187,000 (31st December 2001: US\$538,453,000). Net assets amounted to US\$1,236,569,000, an increase of 3.0% from the end of 2001. The increase was mainly a result of the retained profit for the period. Net asset value per share reached HK\$4.49, up 2.7% from the end of last year.

As at 30th June 2002, total cash on hand was US\$237,333,000 (31st December 2001: US\$254,109,000), of which 98.3% (31st December 2001: 98.2%) is denominated in US dollars and HK dollars. Total outstanding borrowings amounted to US\$447,039,000 (31st December 2001: US\$509,538,000). Net debt-to-equity ratio reduced to 17.0% (31st December 2001: 21.3%). Interest coverage was 11.0 times, against 7.7 times in the corresponding period of the previous year.

As at 30th June 2002, the Group's bank deposits of US\$7,215,000 (31st December 2001: US\$8,174,000), together with certain fixed assets with net book value of US\$261,692,000 (31st December 2001: US\$253,778,000) were pledged to various banks and financial institutions to secure borrowings totalling US\$162,229,000 (31st December 2001: US\$162,532,000).

Cash Flow

Net cash inflow from operating activities during the period amounted to US\$106,920,000 (corresponding period of 2001: US\$101,581,000). Payment for the purchase of fixed assets totalled US\$37,778,000 (corresponding period of 2001: US\$107,206,000), of which US\$36,725,000 (corresponding period of 2001: US\$105,446,000) was used to purchase new containers. A total of US\$18,467,000 of loan facilities was utilised by the Group (corresponding period of 2001: US\$141,698,000) while loan repayments amounted to US\$80,966,000 (corresponding period of 2001: US\$117,438,000).

Contingent Liabilities

As at 30th June 2002, the Group had no contingent liabilities (31st December 2001: guarantee provided by the Group for securing banking facility for a jointly controlled entity amounted to US\$585,000).

Financing

During the period, the Group embarked on two major financing exercises, one of which was completed in July, whereby the Group entered into an agreement with a banking consortium for a 5.5-year secured facility of US\$90,000,000. US\$63,027,000 of the loan facility was primarily used to purchase containers and the balance of US\$26,973,000 was utilised to refinance certain existing borrowings so as to reduce the funding cost. The fund raising exercise was well received and had exceeded its target, which further demonstrated the confidence and support of the banking sector to the Group.

In addition, COSCO-HIT, an associated company of the Group, engaged four underwriting bankers for the arrangement of a syndicated loan of HK\$2 billion, which was mainly intended for refinancing of its existing loan and repayment of shareholders' loans. The loan agreement was signed on 9th August 2002 and will be instrumental for COSCO-HIT to reduce its borrowing cost and to generate cash proceeds for its shareholders.

Excluding the above financing, as at 30th June 2002, the Group had an aggregate amount of US\$32,658,000 (31st December 2001: US\$116,703,000) in committed facilities available from banks.

Debt analysis:

	30th June 2002		31st December 2001	
	US\$	%	US\$	%
By repayment term:				
within the first year	65,692,000	14.7	108,481,000	21.3
within the second year	217,659,000	48.7	211,330,000	41.5
within the third year	84,707,000	18.9	72,987,000	14.3
within the fourth year	50,085,000	11.2	69,763,000	13.7
within the fifth year and beyond	28,896,000	6.5	46,977,000	9.2
	447,039,000	100.0	509,538,000	100.0
By type of loan:				
secured	162,229,000	36.3	162,532,000	31.9
unsecured	284,810,000	63.7	347,006,000	68.1
	447,039,000	100.0	509,538,000	100.0
By denomination of loan:				
in US\$	428,466,000	95.8	495,470,000	97.2
in RMB	18,573,000	4.2	14,068,000	2.8
	447,039,000	100.0	509,538,000	100.0

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

The Group exercises stringent control over the use of derivatives for hedging purpose. During the first half of 2002 with interest rate being maintained at a low level, the Group entered into interest rate swap contracts for US\$100,000,000 to contain the risk of rising interest rate. As at 30th June 2002, the notional principal amounts of the outstanding interest rate swap contracts amounted to US\$100,000,000 (31st December 2001: US\$19,825,000) and fixed rate borrowings of the Group amounted to US\$46,231,000 (31st December 2001: US\$45,671,000). The aforesaid interest rate swap contracts and fixed rate borrowing arrangement accounted for 32.7% (31st December 2001: 12.9%) of the Group's total borrowings.

BUSINESS REVIEW

Container Leasing

Benefited by the growth in China's import and export trade, container leasing business of the Group posted a growth which is higher than expected during the period. As at 30th June 2002, Florens Container Holdings Limited, a wholly owned subsidiary of the Company, owned and operated a container fleet of 669,265 TEUs, up 12.8% from a year ago, and accounted for approximately 8.8% of the global container leasing market (corresponding period of 2001: 8.0%).

The Group has a 10-year container lease agreement with COSCO Container Lines Company Limited ("COSCON"), the world's seventh largest container carrier, and provides both long term and short term container leasing services for other international customers ("International Customers"). These International Customers include major global shipping companies. The top 20 International Customers accounted for approximately 71.2% (corresponding period of 2001: 70.0%) of the Group's leasing turnover with International Customers while the total number of customers amounted to 173 (corresponding period of 2001: 148).

As at 30th June 2002, the Group leased a total of 325,129 TEUs (corresponding period of 2001: 321,166 TEUs) to COSCON, which represents 48.6% (corresponding period of 2001: 54.2%) of the entire container fleet. Containers available to International Customers rose to 344,136 TEUs (corresponding period of 2001: 271,932 TEUs), representing 51.4% (corresponding period of 2001: 45.8%) of the total containers.

Container fleet analysis

	30th June 2002		31st December 2001		30th June 2001	
	COSCON	International Customers	COSCON	International Customers	COSCON	International Customers
Total containers (TEUs)	325,129	344,136	327,370	282,649	321,166	271,932
– Dry containers	91.4%	94.1%	91.4%	92.8%	91.4%	92.6%
– Reefers	7.5%	3.1%	7.5%	3.7%	7.5%	3.7%
– Specials	1.1%	2.8%	1.1%	3.5%	1.1%	3.7%

During the period, the Group purchased new containers and sold containers returned from COSCON following the expiry of the leases. The average age of the Group's container fleet was 4.47 years (corresponding period of 2001: 4.32 years).

TEUs	2002	2001
Total containers (as at 1st January)	610,019	527,982
New containers purchased (from 1st January to 30th June)	74,388	77,125
Containers returned from COSCON upon expiry of leases		
Total	(11,576)	(7,808)
Re-leased	1,321	50
Disposed of and pending disposal	(10,255)	(7,758)
Ownership transferred to customers upon expiry of finance leases	(3,438)	(3,122)
Defective containers written off	(1,449)	(1,129)
Total containers (as at 30th June)	669,265	593,098

Utilisation rates

While containers leased to COSCON remained 100% utilised during the period, the overall average utilisation rate of the Group stood at 91.9% (corresponding period of 2001: 91.9%), still well above the industry average of approximately 80% (corresponding period of 2001: approximately 78%).

Handling of returned containers

During the period, a total of 11,576 TEUs (corresponding period of 2001: 7,808 TEUs) were received from COSCON. The Group disposed of 7,161 TEUs (corresponding period of 2001: 7,488 TEUs) of containers returned upon expiry of leases, which included those returned by COSCON on or before 31st December 2001 and remained unsold totalling 1,620 TEUs. The loss on disposal of the returned containers was US\$1,912,000 (corresponding period of 2001: US\$1,092,000), which was mainly due to a decline in disposal price and the increase in the direct selling costs.

Container leasing e-commerce platform

Starting from 2nd January 2002, the Group provides customers with on-line leasing services. Customer service has been further enhanced, which helps to increase the competitiveness in the container leasing market.

Container Terminal and Related Businesses

With better performance in the import and export trade in China, container terminal and related businesses of the Group reported relatively good performance as a whole. The container terminals in which the Group has interests, including Dalian Port Container Co., Ltd. in which the Group became a shareholder in February 2002, had a combined throughput of 4,713,927 TEUs, an increase of 20.2% from the corresponding period of the previous year.

Throughput (TEUs)	First six months of 2002	First six months of 2001	+/-
COSCO-HIT Terminals (Hong Kong) Limited	671,331	624,218	+7.5%
Shanghai Container Terminals Limited	1,324,300	1,280,300	+3.4%
Qingdao Cosport International Container Terminals Co., Ltd.	267,347	261,849	+2.1%
Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	107,028	78,179	+36.9%
Yantian International Container Terminals Ltd.	1,773,087	1,135,944	+56.1%
Dalian Port Container Co., Ltd.	570,834	542,807	+5.2%
Combined throughput	4,713,927	3,923,297	+20.2%
Combined throughput of China mainland terminals	4,042,596	3,299,079	+22.5%

COSCO-HIT

COSCO Pacific has a 50% interest in COSCO-HIT. During the period, COSCO-HIT has benefited from the growth in China's import and export trade and has consolidated and broadened its customer base through its commitment in providing quality services to customers. Throughput at the terminal increased 7.5% during the first six months of 2002 and a total of 671,331 TEUs were handled (corresponding period of 2001: 624,218 TEUs), and its performance is considered satisfactory.

The container terminals in China mainland

The container terminals in which the Group has interests all recorded growth in throughput compared with the corresponding period in the previous year. During the period, a total of 4,042,596 TEUs were handled, representing an increase of 22.5% from the corresponding period of the previous year. Among them, Zhangjiagang Win Hanverky Container Terminal Co., Ltd. benefited from the growth of the foreign and domestic trade in the Yangtze River Delta and the number of containers handled by it increased 36.9% as compared with the corresponding period in the previous year. In addition, supported by the growth in shipping volume in the Pearl River Delta, Yantian International Container Terminals Ltd. recorded a rise in throughput by 56.1% as compared with the corresponding period of last year.

River Trade Terminal

The terminal handled a total of 820,791 TEUs during the period, representing a growth of 38.2% over the corresponding period in the previous year. However, the terminal continued to record a loss due to intense competition. Accordingly, the Group made further provisions for shareholders' loans of US\$1,862,000 (corresponding period of 2001: US\$1,800,000).

Shanghai Waigaoqiao Container Terminal (Phase 1)

The Group signed an agreement for the establishment of Shanghai Pudong International Container Terminal Ltd. in which the Group shall have a 20% interest. The joint venture is now pending final approval by the government authority.

Shanghai Yixian Road

Twinbridge Development Corp. ("Twinbridge Corp."), in which COSCO Pacific has a 30% interest since 1997, participated in the Shanghai Yixian Road Project through a co-operative joint venture, Shanghai Yixian Road & Bridge Development Co., Ltd. ("SYRBL"), and was granted the exclusive rights to collect toll on three toll bridges, namely Wusong Toll Bridge, Wenchuan Toll Bridge and Jiangyang Toll Bridge.

As part of the urban transportation network in Shanghai which is under rapid development, the outer ring road and its tunnel will be completed and fully operational towards the end of 2002. Meanwhile, other roads and bridges in Shanghai are now toll-free. The People's Government of Baoshan District, Shanghai, indicated its intention to terminate the exclusive operating rights for Shanghai Yixian Road. Following negotiations between Twinbridge Corp. and the People's Government of Baoshan District, Shanghai, it was agreed the exclusive operating rights for Shanghai Yixian Road Project will be terminated. On 30th June 2002, an agreement was signed for disposal of the interests in SYRBL (the "Interests Assignment Agreement").

The interests assignment involves a transaction amount of RMB2,126,000,000, of which RMB1,930,000,000 being the investment recovered by and the compensation awarded to Twinbridge Corp., RMB26,000,000 as payments for all the taxes arising from the termination of the exclusive operating rights and RMB170,000,000 for repayment of bank loans due from SYRBL.

The profit arising from the interests assignment has not been accounted for by the Group in the Interim Accounts as the Interests Assignment Agreement was approved by the relevant authorities on 26th August 2002. During the first six months of the year, the combined traffic flow of Wusong Toll Bridge, Wenchuan Toll Bridge and Jiangyang Toll Bridge increased by 2.0% over the corresponding period of the previous year.

Container handling and storage

Plangreat Limited, a wholly owned subsidiary of the Company, and its subsidiaries provide container stevedoring, storage, repair and transportation services. During the period, turnover of Plangreat Limited and its subsidiaries amounted to US\$4,666,000 (corresponding period of 2001: US\$4,883,000).

Other Operations

Shanghai CIMC Reefer Containers Co., Ltd., Shanghai CIMC Far East Container Co., Ltd., Tianjin CIMC North Ocean Container Co., Ltd. and Tianjin Kansai Paint and Chemical Co., Ltd., in which the Group has an interest, recorded growth in their production volumes during the period. Shanghai Kansai Paint & Chemical Co., Ltd., in which the Group also has an interest, recorded a modest decline in its production volume. The above five jointly controlled entities continued to contribute to the Group's profit.

Banking

The Group has a 20% interest in Liu Chong Hing Bank Limited, which contributed US\$3,638,000 to the Group's profit, a decrease of 18.6% compared with the corresponding period in the previous year.

PROSPECTS

Looking into the second half of the year, as there are still uncertainties faced by the global economy, competition in the container transportation and leasing markets will remain intense and excess supply of services has yet to be improved. Nevertheless, cargo volume has increased since March this year resulting in rising demand for container leasing and container terminal services from shipping companies.

The Group has budgeted to purchase a total of 90,000 TEUs of new containers within 2002, of which 74,388 TEUs were already acquired during the first half of the year. The overall average utilisation rate of the container fleet outperformed the market, reflecting the increasing competitiveness of the Group's container leasing business. It is an integral part of the Group's ongoing process of core business consolidation and development to benefit from further economies of scale by expanding its container leasing business.

As to container terminal business, the Group expects a sustained growth for 2002. It is forecast that the import and export trade of China would continue to grow for the rest of the year, which would in turn contribute positively to the terminal operations in Hong Kong and China mainland. With the firm support of China Ocean Shipping (Group) Company ("COSCO"), it is of high priority for the Group to develop a strong and sizable line of container terminal business.

Logistics is a new area to explore in the Group's business development. In developing its logistics venture, the Group will collaborate with COSCO's core business development strategy to actively explore the entry into the logistics sector and develop the logistics business in order to nurture new growth streams.

Building on its initiative in business development, the Group attaches great importance to the upkeep of corporate governance and quality of management. While committing itself to creating better corporate and shareholder value, the Group will also strive to preserve the interests of its shareholders.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June 2002, there were around 370 employees in the Group. The Group offers remuneration packages based on the performance of individual employees and also provides mandatory provident fund to its Hong Kong employees. Remuneration policies are regularly reviewed by the management. Besides, share options were granted by the Company to the employees to motivate them to enhance their performance and contribution to the Group.

Staff quality and team spirits are among the key factors for the success of the Group. In spite of the unfavourable economic situation, the Group will continue to assure its customers of high quality services. To this end, the Group maintains various training programmes for its staff and implements effective human resources policies. The Group will continue to motivate its staff and make the best of their potential by providing them with career advancement opportunities.