

INTERIM RESULTS

The board of directors of COSCO Pacific Limited (the “Company” or “COSCO Pacific”) is pleased to present the interim report including the condensed consolidated accounts of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2004. This interim report has been reviewed by the Company’s Audit Committee.

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

The condensed consolidated accounts, comprising the consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30th June 2004 and the consolidated balance sheet of the Group as at 30th June 2004, all of which are unaudited and condensed, along with selected explanatory notes (collectively the “Condensed Interim Accounts”), are set out on pages 2 to 22 of this report.

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

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

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH JUNE 2004

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

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

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

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

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

NOTES TO CONDENSED INTERIM ACCOUNTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Condensed Interim Accounts are prepared in accordance with Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the HKICPA, and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Condensed Interim Accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of the Condensed Interim Accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

2. TURNOVER AND SEGMENT INFORMATION

(a) Primary reporting format — business segments

Segment turnover and results

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

2. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

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

Segment turnover and results (Continued)

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

2. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

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

Segment assets, liabilities and other information

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

2. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Secondary reporting format — geographical segments

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

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

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

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

4. FINANCE COSTS

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

5. SHARE OF PROFITS LESS LOSSES OF JOINTLY CONTROLLED ENTITIES

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

6. TAXATION

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

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

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

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

6. TAXATION (CONTINUED)

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

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

7. INTERIM DIVIDEND

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

At a meeting held on 8th September 2004, the directors declared an interim dividend of HK17.4 cents (US2.231 cents) per ordinary share. This dividend declared is not reflected as a dividend payable in the Condensed Interim Accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2004.

8. EARNINGS PER SHARE

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

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

9. FIXED ASSETS

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

10. TRADE AND OTHER RECEIVABLES

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

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

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

11. CASH AND CASH EQUIVALENTS

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

Notes:

- As at 30th June 2004, cash and cash equivalents amounting to US\$20,166,000 (31st December 2003: US\$20,712,000) were denominated in Renminbi and United States dollars which are held by certain subsidiaries of the Group with bank accounts operating in the PRC where exchange controls apply.
- Restricted bank deposits are deposits pledged as securities for repayment of bank loans of the Group and are restricted for the purpose of the related banking facilities.

12. TRADE AND OTHER PAYABLES

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

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

13. SHARE CAPITAL

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

13. SHARE CAPITAL (CONTINUED)

(a) Movements of issued share capital

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

(b) Share options

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

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

14. LONG TERM LIABILITIES

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

Notes:

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

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

14. LONG TERM LIABILITIES (CONTINUED)

(b) Long term liabilities were repayable as follows:

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

- (c) Secured bank loans and other loans of US\$161,830,000 (31st December 2003: US\$177,523,000) were secured by certain containers of the Group. These loans of amounts of US\$150,359,000 (31st December 2003: US\$164,842,000) were also secured by the assignment of the container lease agreements and the rental income thereon, other assets and shares of certain subsidiaries.
- (d) Bank loan of a subsidiary of approximately US\$530,000 (31st December 2003: US\$1,108,000) was guaranteed by the minority shareholder of that subsidiary.
- (e) The loan from a minority shareholder of a subsidiary is unsecured and repayable in various annual instalments up to December 2005. Annual interest rate is calculated at prevailing market rate quoted by the State Development Bank of the PRC during the period. The interest rate was at 5.76% per annum (2003: 5.76%) for the period.

15. CONTINGENT LIABILITIES

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

16. CAPITAL COMMITMENTS

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

17. RELATED PARTY TRANSACTIONS

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

	Six months ended 30th June	
	2004 <i>US\$'000</i>	2003 <i>US\$'000</i>
Transactions carried out by the Group		
Container rental income from a fellow subsidiary (note a)		
- long term leases	57,331	64,817
- short term leases	47	142
Handling and storage income from fellow subsidiaries (note b)	2,820	3,354
Net transportation income from a fellow subsidiary (note b)	624	1,080
Management fee income from an associated company (note c)	1,282	1,282
Container terminal handling fees received from fellow subsidiaries and an associated company of the ultimate holding company (note d)	1,057	673
Container freight charges to (note e)		
- Related Entities	(517)	(635)
- jointly controlled entities of the Group	(69)	(106)
Approved continuous examination program fee to a fellow subsidiary (note f)	(1,100)	(1,100)
Proceeds on disposal of investments in jointly controlled entities to a fellow subsidiary (note g)	4,943	-
Consideration paid and payable for the acquisition of equity interest in a jointly controlled entity (note h)	(148,201)	-
Purchase of containers from (note i)		
- Related Entities	(18,463)	(36,471)
- jointly controlled entities of the Group	(6,197)	(7,157)
Transactions carried out by jointly controlled entities and an associated company		
Income for container terminal handling services from a fellow subsidiary (note j)	35,935	27,571
Income for logistics services from fellow subsidiaries (note k)	10,599	-
Transportation and related charges to fellow subsidiaries (note l)	(31,233)	-

17. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes:

- (a) The Group has conducted container leasing business with COSCO Container Lines Company Limited (“COSCON”), a subsidiary of the China Ocean Shipping (Group) Company (“COSCO”) which is the Company’s ultimate holding company and accordingly a fellow subsidiary of the Company. The container rental income was charged based on terms agreed between the Group and COSCON.
- (b) The handling and storage income and the transportation income received from fellow subsidiaries of the Company were conducted at terms as set out in the agreements entered into between the Group and these fellow subsidiaries.
- (c) The Group provided advisory and management services to COSCO-HIT Terminals (Hong Kong) Limited (“COSCO-HIT”), an associated company of the Group, during the period. Management fee was charged and agreed at HK\$20,000,000 (2003: HK\$20,000,000) per annum.
- (d) During the period, the Group provided handling and storage services to fellow subsidiaries and an associated company of COSCO for cargoes shipped from/to Zhangjiagang port. The tariff rates charged by the Group were by reference to the rates as set out by the Ministry of Communications of the PRC.
- (e) During the period, the Group paid container freight charges of US\$517,000 (2003: US\$635,000) and US\$69,000 (2003: US\$106,000) to certain companies owned by a related company (the “Related Entities”) and jointly controlled entities of the Group respectively for container repositioning services rendered to the Group. During the period, COSCO and its subsidiaries have an aggregated equity interest of 17.18% in the related company.
- (f) An approved continuous examination program fee of US\$2,200,000 to COSCON in connection with the containers leased to COSCON on a long term basis was agreed between the Group and COSCON for the year ending 31st December 2004 (2003: US\$2,200,000).
- (g) On 25th November 2003, the Group entered into agreements with COSCO International Limited, a listed fellow subsidiary, to dispose of its entire 20% equity interests in each of Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd., both were then jointly controlled entities of the Group, at aggregate considerations in cash totalling RMB41,040,000 (equivalent to approximately US\$4,943,000) (the “Disposals”). The Disposals were completed in January 2004 and the gain on the Disposals was insignificant.

17. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

- (i) The purchases of containers from Related Entities and jointly controlled entities of the Group were conducted at terms as set out in the agreements entered into between the Group and the parties in concern.
- (j) COSCO-HIT and Qingdao Qianwan Container Terminal Co., Ltd, a jointly controlled entity of the Group, provided container terminal handling and storage services to COSCON. The services rendered were charged at terms pursuant to the respective agreements with COSCON which governed the transactions.
- (k) COSCO Logistics provided certain subsidiaries of COSCO (other than those within the Group) with logistics services including shipping agency, freight forwarding, third party logistics and supporting services. The services were charged at rates as agreed on a mutual basis.
- (l) Certain subsidiaries of COSCO (other than those within the Group) provided COSCO Logistics with transportation and related services at charges as agreed on a mutual basis.
- (m) Pursuant to an agreement dated 15th June 2004 entered into between COSCO and COSCO Ports (Yingkou) Limited (“COSCO Ports Yingkou”), an indirect wholly owned subsidiary of the Company, COSCO Ports Yingkou agreed to acquire from COSCO its entire 50% equity interest in a company established in the PRC which principally engages in the provision of container terminal business in Yingkou, at a cash consideration of RMB22,500,000 (equivalent to approximately US\$2,710,000). The transaction was completed in August 2004.

18. FINANCIAL INSTRUMENTS AND COMMITMENTS

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

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

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

19. SUBSEQUENT EVENT

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

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

Introduction

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

Respective responsibilities of directors and auditors

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

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

Review work performed

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

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

Modified review conclusion arising from limitation of review scope

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8th September 2004