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)

Interim Report 2001
二零零一年中期報告

INTERIM RESULTS

The board of directors of COSCO Pacific Limited (the "Company") is pleased to present the interim report including the condensed accounts of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2001. This interim report has been reviewed by the Company's Audit Committee. The consolidated profit and loss account, consolidated cash flow statement and consolidated statement of recognised gains and losses of the Group for the six months ended 30th June 2001 and the consolidated balance sheet as at 30th June 2001 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 1 to 19 of this report.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30TH JUNE 2001

		Unaudited	
		Six months ended 30th June	
	Notes	**2001**	2000
		US$'000	*US$'000*
Turnover	*2*	**108,351**	105,466
Cost of sales		**(46,597)**	(43,043)
Gross profit		**61,754**	62,423
Other revenues		**7,238**	20,310
Administrative expenses		**(9,958)**	(9,484)
Other operating income/(expenses) (net)		**14,262**	(12,078)
Operating profit	*3*	**73,296**	61,171
Finance costs	*4*	**(16,031)**	(20,786)
Operating profit after finance costs		**57,265**	40,385
Share of profits less losses of			
– jointly controlled entities		**4,965**	3,652
– associated companies		**27,251**	30,607
Profit before taxation		**89,481**	74,644
Taxation	*5*	**(5,002)**	(5,110)
Profit after taxation		**84,479**	69,534
Minority interests		**(550)**	(468)
Profit attributable to shareholders		**83,929**	69,066
Transfer to other reserves		**(962)**	(112)
Profit for the period retained		**82,967**	68,954
Interim dividend	*6*	**26,091**	22,562
Basic earnings per share	*7*	**US3.922 cents**	US3.229 cents
Fully diluted earnings per share	*7*	**US3.915 cents**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH JUNE 2001

	Note	Unaudited As at 30th June 2001 US$'000	As at 31st December 2000 US$'000 (Restated)
Non-current assets			
Fixed assets	8	**1,024,990**	942,410
Investments in joint ventures		**42,897**	42,135
Investments in associated companies		**335,285**	330,163
Investment securities		**36,513**	46,946
Hire purchase debtors		**5,137**	7,261
Restricted bank deposits	10	**5,468**	3,855
		1,450,290	1,372,770
Current assets			
Inventories		**2,310**	3,849
Trade and other receivables	9	**45,732**	45,508
Current portion of hire purchase debtors		**4,518**	4,868
Time deposits		**147,415**	87,828
Bank balances and cash	10	**9,905**	53,924
		209,880	195,977
Current liabilities			
Trade and other payables	11	**46,890**	35,545
Unsecured short term bank loans		**16,597**	41,162
Current portion of long term liabilities	14	**229,868**	98,207
Tax payable		**1,505**	1,331
		294,860	176,245
Net current (liabilities)/assets		**(84,980)**	19,732
Total assets less current liabilities		**1,365,310**	1,392,502
Representing:			
Share capital	12	**27,471**	27,433
Share premium		**557,851**	556,528
Other reserves		**6,217**	5,255
Retained profits	13	**538,444**	481,594
Proposed dividend	13	**26,091**	30,169
Shareholders' funds		**1,156,074**	1,100,979
Minority interests		**7,796**	7,247
Non-current liabilities			
Long term liabilities	14	**201,440**	284,276
		1,365,310	1,392,502

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2001

	Unaudited	
	Six months ended 30th June	
	2001	2000
	US$'000	*US$'000*
Net cash inflow from operating activities	**98,429**	117,159
Net cash outflow from returns on investments and servicing of finance	**(24,738)**	(39,069)
Net taxation paid	**(196)**	(20)
Net cash outflow from investing activities	**(83,548)**	(63,475)
Net cash (outflow)/inflow before financing	**(10,053)**	14,595
Net cash inflow/(outflow) from financing	**25,621**	(71,661)
Increase/(decrease) in cash and cash equivalents	**15,568**	(57,066)
Cash and cash equivalents at 1st January	**141,752**	252,335
Cash and cash equivalents at 30th June	**157,320**	195,269
Analysis of balances of cash and cash equivalents:		
Time deposits	**147,415**	147,498
Bank balances and cash	**9,905**	47,771
	157,320	195,269

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE SIX MONTHS ENDED 30TH JUNE 2001

	Unaudited	
	Six months ended 30th June	
	2001	2000
	US$'000	*US$'000*
Net losses not recognised in the profit and loss account		
– Exchange differences arising on translation of subsidiaries, jointly controlled entities and associated companies	**—**	(70)
Profit attributable to shareholders	**83,929**	69,066
Total recognised gains	**83,929**	68,996

NOTES TO CONDENSED INTERIM ACCOUNTS

1 Basis of preparation and principal accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Statement of Standard Accounting Practice 2.125, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These condensed interim accounts should be read in conjunction with the 2000 annual accounts.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2000 except that the Group has changed certain of its accounting policies following the adoption of the following Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 14 (revised):	Leases (effective for accounting periods commencing on or after 1st July 2000)
SSAP 26:	Segment reporting
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 29:	Intangible assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

The relevant changes to the Group's principal accounting policies and the related effects of adopting these new SSAPs are set out below:

(a) SSAP 9 (revised): Events after the balance sheet date

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the 2000 proposed final dividend amounting to US$30,169,000 previously recorded as a current liability as at 31st December 2000 has been adjusted to opening retained profits as at 1st January 2001 and shown under shareholders' funds.

(b) SSAP 26: Segment reporting

In previous years, segment disclosures have been presented in accordance with the requirements of the Listing Rules. The adoption of SSAP 26 "Segment reporting" has resulted in a respecification of some reportable segments. Segment disclosures for the six months ended 30th June 2000 have been amended so that they are presented on a consistent basis.

1 **Basis of preparation and principal accounting policies** *(Continued)*

(c) SSAP 28: Provisions, contingent liabilities and contingent assets

In accordance with the SSAP 28 "Provisions, contingent liabilities and contingent assets", provision is recognised only when either a legal or constructive present obligation exists as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

The Group does not have significant provision which does not meet the recognition and measurement criteria of SSAP 28 and has to be adjusted to the opening retained profits as at 1st January 2001.

(d) SSAP 30: Business combinations

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight line method over its estimated useful life.

Goodwill on acquisition that occurred prior to 1st January 2001 was written off against reserves. The Group has adopted the transitional provisions in SSAP 30 and such goodwill has not been retroactively capitalised and amortised. However, any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of assets".

(e) SSAP 31: Impairment of assets

SSAP 31 "Impairment of assets" requires that the carrying amount of an asset is reduced to reflect the decline in value when the recoverable amount of an asset has declined below its carrying amount. In determining the recoverable amount of assets, expected cash flows are discounted to their present values.

The assessment on the carrying amounts of assets has indicated an impairment loss for containers of US$2,847,000 which has been provided for in the interim accounts for the six months ended 30th June 2001.

2 Turnover and segment information

(a) Segment turnover and results

	Container leasing US$'000	Container terminal and related businesses US$'000	Banking US$'000	PRC investment securities US$'000	Other operations US$'000	Corporate US$'000	Total US$'000
Six months ended 30th June 2001							
Turnover							
Total revenue	100,736	7,615	—	—	—	—	108,351
Inter-segment sales	—	—	—	—	—	—	—
External sales	100,736	7,615	—	—	—	—	108,351
Segment results	42,253	935	—	14,137	(237)	2,080	59,168
Unallocated costs							
– net corporate expenses	—	—	—	—	—	(1,449)	(1,449)
– corporate finance costs	—	—	—	—	—	(454)	(454)
Operating profit after finance costs	42,253	935	—	14,137	(237)	177	57,265
Share of profits less losses of							
– jointly controlled entities		1,660			3,305		4,965
– associated companies		21,799	5,452				27,251
Profit before taxation							89,481
Taxation							(5,002)
Profit after taxation							84,479
Minority interests							(550)
Profit attributable to shareholders							83,929
Six months ended 30th June 2000							
Turnover							
Total revenue	98,002	7,529	—	—	—	—	105,531
Inter-segment sales	—	(65)	—	—	—	—	(65)
External sales	98,002	7,464	—	—	—	—	105,466
Segment results	37,016	1,453	—	(1)	(358)	4,008	42,118
Unallocated costs							
– net corporate expenses	—	—	—	—	—	(1,303)	(1,303)
– corporate finance costs	—	—	—	—	—	(430)	(430)
Operating profit after finance costs	37,016	1,453	—	(1)	(358)	2,275	40,385
Share of profits less losses of							
– jointly controlled entities		1,622			2,030		3,652
– associated companies		22,464	8,143				30,607
Profit before taxation							74,644
Taxation							(5,110)
Profit after taxation							69,534
Minority interests							(468)
Profit attributable to shareholders							69,066

2 Turnover and segment information *(Continued)*

(b) Segment balance sheet and other segment information

	Container leasing	Container terminal and related businesses	Banking	PRC investment securities	Other operations	Corporate	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
As at 30th June 2001							
Segment assets	1,072,723	37,444	—	—	20,229	4	1,130,400
Investments in joint ventures	(3,347)	26,225	—	—	20,019	—	42,897
Investments in associated companies	—	178,650	156,635	—	—	—	335,285
Investment securities	—	36,513	—	—	—	—	36,513
Unallocated assets							115,075
Total assets							1,660,170
Segment liabilities	(475,986)	(7,655)	—	—	(20)	(1)	(483,662)
Unallocated liabilities							(12,638)
Total liabilities							(496,300)
Capital expenditure	128,356	831	—	—	8	149	129,344
Depreciation	38,397	575	—	—	254	91	39,317
Other non-cash expenses	3,675	1,809	—	—	—	—	5,484
As at 31st December 2000							
Segment assets	993,763	38,111	—	—	20,812	2	1,052,688
Investments in joint ventures	(442)	24,772	—	—	17,805	—	42,135
Investments in associated companies	—	174,096	156,067	—	—	—	330,163
Investment securities	—	39,730	—	7,216	—	—	46,946
Unallocated assets							96,815
Total assets							1,568,747
Segment liabilities	(414,992)	(8,111)	—	—	(464)	—	(423,567)
Unallocated liabilities							(36,954)
Total liabilities							(460,521)
Capital expenditure	117,643	2,080	—	—	1	157	119,881
Depreciation	72,568	1,114	—	—	613	520	74,815
Other non-cash expenses	1,124	4,611	—	—	201	—	5,936

There are no sales or other transactions between the business segments for the six months ended 30th June 2001.

Segment assets consist primarily of fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets.

2 Turnover and segment information *(Continued)*

(b) Segment balance sheet and other segment information *(Continued)*

The movements of containers under operating leases or hire purchase contracts are only known through report from the lessees and the Group is unable to control the movements of containers except to the degree that the movements are restricted by the terms of the leases or where safety of the containers is concerned. It is therefore impracticable to present turnover and segmental information of container leasing operations by geographical areas.

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

3 Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June	
	2001	2000
	US$'000	*US$'000*
Crediting		
Profit on sale of listed investment	**14,137**	—
Sale of inventories	**4,218**	12,521
Interest income	**2,991**	6,740
Reversal of provision for container repairs and maintenance expense	**6,156**	—
Dividend income from unlisted investment	**—**	1,023
Charging		
Depreciation and amortisation	**39,317**	36,197
Cost of inventories sold	**4,819**	12,310
Provision for impairment loss on containers	**2,847**	—
Provision for loan to an investee company	**1,800**	2,002
Provision for inventories	**152**	—

4 Finance costs

	Six months ended 30th June	
	2001	2000
	US$'000	*US$'000*
Interest expense on		
– bank loans	**8,691**	14,806
– other loans wholly repayable within five years	**3,966**	3,751
– other loans not wholly repayable within five years	**591**	349
– loan from a minority shareholder of a subsidiary wholly repayable within five years	**79**	99
Gain on interest rate swap contracts	**(40)**	(28)
	13,287	18,977
Other incidental borrowing costs	**2,744**	1,809
	16,031	20,786

5 Taxation

	Six months ended 30th June	
	2001	2000
	US$'000	*US$'000*
Company and subsidiaries		
– Hong Kong profits tax	**183**	194
– China mainland taxation	**73**	61
– overseas taxation	**114**	206
– over provision in prior years	**—**	(130)
	370	331
Share of taxation attributable to:		
Jointly controlled entities		
– China mainland taxation	**605**	281
Associated companies		
– Hong Kong profits tax	**3,549**	4,103
– China mainland taxation	**419**	454
– deferred taxation	**59**	(59)
	5,002	5,110

5 Taxation *(Continued)*

Hong Kong profits tax has been provided at a rate of 16% (2000: 16%) on the estimated assessable profit for the period. A substantial portion of the Group's profit neither arises in nor is derived from Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong profits tax.

Taxation on profits from container terminal operations in China mainland has been calculated at an effective tax rate of 7.5% (2000: 7.5%) on the estimated assessable profit for the period. The subsidiary in China mainland is eligible for a 50% relief from corporate income tax of 15% for five years since 1998.

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

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

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

6 Dividends

	Six months ended 30th June	
	2001	2000
	US$'000	*US$'000*
2000 final dividend, paid, of US1.410 cents (1999: US1.350 cents) per ordinary share *(note a)*	**30,169**	28,890
Additional 2000 final dividend paid on shares issued due to the exercise of share options before the closure of register of members	**26**	—
2001 interim, proposed, of HK9.5 cents (US1.218 cents) (2000: HK8.2 cents (US1.055 cents)) per ordinary share *(note b)*	**26,091**	22,562
	56,286	51,452

Notes:

(a) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31st December 1999 and 2000 were US$28,890,000 and US$30,169,000 respectively. Under the Group's new accounting policy as described in note 1a, these have been written back against opening retained profits as at 1st January 2000 and 2001 respectively in note 13 and are now charged in the period in which they were proposed.

(b) At a meeting held on 6th September 2001 the directors declared an interim dividend of HK9.5 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these interim accounts, but will be reflected as an appropriation of retained profits for the six months ended 30th June 2001.

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of US$83,929,000 (2000: US$69,066,000) and on the weighted average number of 2,139,907,116 (2000: 2,139,228,298) shares in issue during the period.

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30th June 2001 is calculated based on the profit attributable to shareholders of US$83,929,000 and the weighted average number of ordinary shares in issue of 2,139,907,116 shares during the period and the ordinary shares of 4,017,131 shares deemed to be issued at no consideration if all outstanding share options have been exercised.

As the exercise price of the share options during the six months ended 30th June 2000 was greater than the average market price of the Company's share, there was no dilution effect on earnings per share.

8 Fixed assets

During the six months ended 30th June 2001, the Group acquired fixed assets of US$129,344,000 and disposed of fixed assets with net book value of US$4,600,000.

9 Trade and other receivables

The Group grants various credit periods to its customers and the analysis of the credit periods by principal activities is as follows:

– container leasing	:	60 days
– container terminal and related businesses	:	30 to 90 days

Included in trade and other receivables are trade debtors and their age analysis (net of provision) is as follows:

	As at 30th June 2001 ***US$'000***	As at 31st December 2000 *US$'000*
0-30 days	**13,100**	11,933
30-60 days	**4,302**	3,243
60-90 days	**1,780**	1,664
Over 90 days	**1,718**	2,361
	20,900	19,201

10 Bank balances and cash

	As at 30th June 2001 US$'000	As at 31st December 2000 US$'000
Bank balances and cash	**15,373**	57,779
Restricted bank deposits included in non-current assets	**(5,468)**	(3,855)
	9,905	53,924

Included in bank balances and cash of the Group are amounts of US$5,468,000 (31st December 2000: US$3,855,000) pledged as securities for bank loans of the Group and are restricted for the purpose of the related banking facilities.

11 Trade and other payables

Included in trade and other payables are trade creditors and their age analysis is as follows:

	As at 30th June 2001 US$'000	As at 31st December 2000 US$'000
0-30 days	**8,399**	8,082
30-60 days	**2,599**	3,567
60-90 days	**115**	350
Over 90 days	**291**	1,323
	11,404	13,322

12 Share capital

	As at 30th June 2001 US$'000	As at 31st December 2000 US$'000
Authorised:		
3,000,000,000 ordinary shares of HK$0.10 each	**38,462**	38,462
Issued and fully paid:		
2,142,190,298 (31st December 2000: 2,139,228,298) ordinary shares of HK$0.10 each	**27,471**	27,433

12 Share capital *(Continued)*

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

	Number of ordinary shares	Nominal value *US$'000*
At 1st January 2001	2,139,228,298	27,433
Issued upon exercise of share options *(note b)*	2,962,000	38
At 30th June 2001	2,142,190,298	27,471

(b) Share options

As at 1st January 2001, there were outstanding 14,140,000 share options granted on 6th April 2000 which are exercisable at HK$3.584 per ordinary share. 590,000 share options were forfeited following resignations of certain employees and 2,962,000 share options were exercised during the period. As at 30th June 2001, there were 10,588,000 share options outstanding which are exercisable at any time from the first day of the thirteenth month from the date of grant to the end of the twenty-fourth month from the date of grant.

During the period, there was no movement for those share options granted on 1st July 1996 and 20th May 1997 respectively.

13 Retained profits

	As at 30th June 2001 ***US$'000***	As at 31st December 2000 *US$'000*
At beginning of period/year as previously reported	**481,594**	393,247
Effect of adopting SSAP 9 (revised)		
– 2000/1999 final dividend proposed *(note 6a)*	**30,169**	28,890
At beginning of period/year as restated	**511,763**	422,137
2000/1999 final dividend paid	**(30,195)**	(28,890)
Profit for the period/year	**83,929**	142,546
Transfer to other reserves	**(962)**	(1,468)
2000 interim dividend paid	**—**	(22,562)
At end of period/year	**564,535**	511,763
2000 final dividend proposed *(note 6a)*	**—**	(30,169)
2001 interim dividend proposed *(note 6b)*	**(26,091)**	—
	538,444	481,594

14 Long term liabilities

	As at 30th June 2001 US$'000	As at 31st December 2000 US$'000
Loans		
Secured *(note c)*	**140,778**	105,349
Unsecured	**290,530**	277,134
	431,308	382,483
Amounts due within one year included under current liabilities	**(229,868)**	(98,207)
	201,440	284,276

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

	As at 30th June 2001 US$'000	As at 31st December 2000 US$'000
Wholly repayable within five years:		
Bank loans	**238,573**	213,207
Other loans	**145,669**	147,801
Loan from a minority shareholder of a subsidiary	**2,168**	2,409
Not wholly repayable within five years:		
Bank loans	**26,800**	—
Other loans	**18,098**	19,066
	431,308	382,483

14 Long term liabilities *(Continued)*

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

	As at 30th June 2001	As at 31st December 2000
	US$'000	*US$'000*
Bank loans:		
Within one year	**83,088**	91,413
In the second year	**38,989**	77,796
In the third to fifth year inclusive	**137,936**	41,193
In more than five years	**5,360**	2,805
	265,373	213,207
Loan from a minority shareholder of a subsidiary:		
Within one year	**241**	482
In the second year	**482**	482
In the third to fifth year inclusive	**1,445**	1,445
	2,168	2,409
Other loans:		
Within one year	**146,539**	6,312
In the second year	**3,383**	145,587
In the third to fifth year inclusive	**7,685**	7,405
In more than five years	**6,160**	7,563
	163,767	166,867
	431,308	382,483

(c) Bank loans and other loans of US$140,778,000 (31st December 2000: US$105,349,000) were secured by certain fixed assets of the Group at net book value of US$253,293,000 (31st December 2000: US$210,911,000).

Bank loan of approximately US$1,662,000 (31st December 2000: US$1,325,000) was guaranteed by the minority shareholder of a subsidiary.

15 Contingent liabilities

	As at 30th June 2001 US$'000	As at 31st December 2000 US$'000
Guarantees executed for securing banking facilities granted to jointly controlled entities	**750**	748

16 Commitments

(a) Capital commitments

	As at 30th June 2001 US$'000	As at 31st December 2000 US$'000
Authorised but not contracted for		
– containers	**18,580**	155,698
– other fixed assets	**—**	2,836
	18,580	158,534
Contracted but not provided for		
– investment *(note i)*	**45,770**	45,770
– containers	**1,627**	—
– others	**831**	—
	48,228	45,770

Notes:

(i) As at 30th June 2001 and 31st December 2000, the Group's commitment in respect of an investment in a 20% equity interest in Shanghai Pudong International Container Terminal Limited amounted to US$45,770,000.

(ii) As at 30th June 2001 and 31st December 2000, there were no capital commitments relating to the Group's interests in the joint ventures included in the above.

As at 30th June 2001 and 31st December 2000, there were no capital commitments of the joint ventures themselves not included in the above.

16 Commitments *(Continued)*

(b) Commitments under operating leases

At 30th June 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 30th June 2001		(Restated) As at 31st December 2000	
	Land and buildings	**Plant and machinery**	Land and buildings	Plant and machinery
	US$'000	***US$'000***	*US$'000*	*US$'000*
Within one year	**2,493**	**82**	2,801	289
In the second to fifth year inclusive	**3,662**	**9**	4,735	11
After the fifth year	**50**	**—**	50	—
	6,205	**91**	7,586	300

17 Deferred taxation

The potential deferred tax liability/(asset) as at 30th June 2001 not provided for in the accounts amounts to:

	As at 30th June 2001	As at 31st December 2000
	US$'000	*US$'000*
Accelerated depreciation allowances	**8,300**	13,254
Tax losses	**(8,477)**	(11,874)
	(177)	1,380

18 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	
	2001	2000
	US$'000	*US$'000*
Container rental income from a fellow subsidiary *(note a)*	**66,502**	66,881
Income for container terminal handling services rendered by an associated company of the Group to a fellow subsidiary *(note b)*	**37,667**	42,301
Handling and storage income from fellow subsidiaries *(note c)*	**3,731**	3,681
Net transportation income from fellow subsidiaries *(note c)*	**962**	976
Management fee income from an associated company *(note d)*	**1,282**	1,286
Compensation for loss of containers from a fellow subsidiary *(note e)*	**396**	433
Container terminal handling and storage income from a fellow subsidiary *(note f)*	**481**	594
Service income from an associated company of ultimate holding company *(note g)*	**270**	—
Container drop-off credit to a fellow subsidiary *(note h)*	**—**	1,115
Purchase of containers from *(note i)*		
– associated companies of ultimate holding company	**(46,495)**	(22,979)
– jointly controlled entities of the Group	**(15,412)**	(11,048)
Container freight charge to *(note j)*		
– associated companies of ultimate holding company	**(568)**	(169)
– jointly controlled entities of the Group	**(87)**	(10)
Refurbishment fee to a fellow subsidiary *(note k)*	**(1,300)**	(1,500)
Property rental expense paid to a fellow subsidiary under operating lease *(note l)*	**(356)**	(337)

Notes:

(a) The Group has conducted container leasing business with COSCO Container Lines Company Limited ("COSCON"), a wholly owned subsidiary of the China Ocean Shipping (Group) Company ("COSCO") which is the Company's ultimate holding company. During the period, the Group entered into new container leasing arrangements and revised the terms of the existing container leasing contracts.

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

18 Related party transactions *(Continued)*

Notes:

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

(d) The Group provided advisory and management services to COSCO-HIT during the period. Management fee was charged and agreed at HK$20,000,000 (2000: HK$20,000,000) per annum.

(e) During the period, the Group had compensation received and receivable of US$396,000 from COSCON (2000: US$433,000) for the loss of containers under operating leases, resulting in profit of US$26,000 (2000: US$29,000).

(f) During the period, the Group provided handling and storage services to a fellow subsidiary for cargoes shipped to Zhangjiagang port. The tariff rates charged by the Group are determined by the Ministry of Communications of the PRC.

(g) Pursuant to an agreement entered into between China International Marine Containers (Hong Kong) Limited ("CIMCHK"), an associated company of the ultimate holding company, and a subsidiary on 20th January 2000 (the "Service Agreement"), the Group provides CIMCHK with consultancy services for a term of 5 years at fees as stipulated in the Service Agreement.

(h) In 2000, COSCON agreed to waive the container drop-off credit for delivery of old containers returned from COSCON to the Group's designated depots in connection with the disposal of these containers in 1999. Accordingly this expense payable was credited to the operating profit for the six months ended 30th June 2000.

(i) The purchases of containers from associated companies of COSCO and jointly controlled entities of the Group were conducted in the normal course of the business at terms no less favourable than the purchases of containers from other third party suppliers of the Group.

(j) During the period, the Group paid container freight charges of US$568,000 (2000: US$169,000) and US$87,000 (2000: US$10,000) to associated companies of COSCO and jointly controlled entities of the Group respectively for container repositioning services rendered to the Group.

(k) Pursuant to an addendum of long term lease agreement dated 17th May 2001 entered into between the Group and COSCON, the Group agreed to pay an annual container refurbishment fee of US$2,600,000 to COSCON (2000: US$3,000,000).

(l) The Group entered into a lease agreement with a subsidiary of the Company's immediate holding company to lease office space for a period of 3 years commencing on 4th December 2000 at a monthly rental of HK$465,023.

INTERIM DIVIDEND

The directors have declared an interim cash dividend of HK9.5 cents per share for the six months ended 30th June 2001 (2000: HK8.2 cents per share). The interim dividend will be payable on 5th October 2001 to shareholders whose names appear on the register of members of the Company on 27th September 2001.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 24th September 2001 to Thursday, 27th September 2001, 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, 21st September 2001.

REVIEW OF OPERATIONS

OVERVIEW

For the six months ended 30th June 2001, the Group's profit attributable to shareholders amounted to US$83,929,000, an increase of 21.5% compared to US$69,066,000 for the same period last year. The results are satisfactory.

During the period, the global economic slowdown brought an unfavourable business environment across the markets. This inevitably affected the Group's core businesses, which experienced a setback in performance. However, by adopting stringent cost control, the Group was able to maintain steady performance. Furthermore, the disposal of listed securities previously held as investment securities also generated a profit of US$14,137,000 for the Group during the period (2000: US$Nil).

FINANCIAL REVIEW

Turnover of the Group for the first half of 2001 amounted to US$108,351,000, up 2.7% from the same period last year. Container leasing turnover rose by 2.8% to US$100,736,000, mainly as a result of the increased leasing volume to international customers. As for our container terminal and related businesses, the combined turnover of Zhangjiagang Win Hanverky Container Terminal Co. Ltd. and the container handling and storage businesses increased 2.0% from a year ago.

Cost of sales mainly comprised depreciation, depot rental and maintenance expenses, among which, depreciation of containers accounted for 81.1% of the cost of sales during the period (2000: 80.2%).

Operating profit before finance costs increased by 19.8% to US$73,296,000 (2000: US$61,171,000). A loss of US$940,000 (2000: a profit of US$372,000) was incurred from the disposal of containers returned by COSCO Container Lines Company Limited ("COSCON") upon the expiry of 10-year leases. Interest income dropped to US$2,991,000 (2000: US$6,740,000). However, the Group took advantage of the rally in the China mainland stock market and sold the entire 18,150,000 B shares of Shanghai Zhenhua Port Machinery Co., Ltd. This generated a profit of US$14,137,000 (2000: US$Nil). Moreover, due to the adoption of new accounting policies, there was a reversal of provision for container repairs and maintenance expense, which amounted to US$6,156,000 (2000: US$Nil), and a provision of US$2,847,000 (2000: US$Nil) was made for the impairment loss of containers.

Finance costs decreased by 22.9%, mainly because interest expense dropped from US$18,977,000 to US$13,287,000 as a result of the cuts in interest rates and the Group's reduced loan balance. Average interest cost was 6.3% during the period, compared to 7.1% in the corresponding period last year.

Share of profits less losses from associated companies and jointly controlled entities amounted to US$27,251,000 (2000: US$30,607,000) and US$4,965,000 (2000: US$3,652,000) respectively. The declines were mainly attributable to reduced profit contributed by Liu Chong Hing Bank Limited, whose profit contribution dropped to US$5,452,000 (2000: US$8,143,000), and profit declines in COSCO-HIT Terminals (Hong Kong) Limited and Shanghai Container Terminals Limited as a result of the decreased throughput. On the other hand, the performances of Shanghai CIMC Reefer Containers Co., Ltd. and the Shanghai Yixian Road project were more satisfactory.

FINANCIAL POSITION

ASSETS AND LIABILITIES

The Group continued to maintain a healthy balance sheet. As at 30th June 2001, total assets amounted to US$1,660,170,000 (31st December 2000: US$1,568,747,000), whereas total liabilities and minority interests amounted to US$504,096,000 (31st December 2000: US$467,768,000). Net assets amounted to US$1,156,074,000, an increase of 5.0% from the end of 2000. The increase was mainly a result of the retained profit for the period.

Total cash on hand as at 30th June 2001 amounted to US$162,788,000 (31st December 2000: US$145,607,000). Total outstanding borrowings amounted to US$447,905,000 (31st December 2000: US$423,645,000). Net debt-to-equity ratio further improved to 24.7%, against 25.3% at the end of 2000. Interest coverage was 7.7 times, against 5.1 times at 31st December 2000.

As at 30th June 2001, the Group's bank deposit of US$5,468,000 (31st December 2000: US$3,855,000), together with certain fixed assets with an aggregate net book value of US$253,293,000 (31st December 2000: US$210,911,000) were pledged to various banks and financial institutions for loans of US$140,778,000 (31st December 2000: US$105,349,000).

CASH FLOW

During the period, the Group's net cash inflow from operating activities amounted to US$98,429,000 (2000: US$117,159,000). Capital expenditure totalled US$129,344,000 (2000: US$51,178,000), of which, US$127,584,000 (2000: US$48,305,000) was used to purchase new containers. The Group borrowed loans of US$141,698,000 (2000: US$28,431,000) and repaid loans of US$117,438,000 (2000: US$100,092,000) during the period.

CONTINGENT LIABILITIES

As at 30th June 2001, the Group granted guarantees of US$750,000 (31st December 2000: US$748,000) for securing the banking facilities of its jointly controlled entities.

FINANCING

The Group signed an agreement in April 2001 for a syndicated loan to finance its purchase of containers in 2001 and in the first quarter of 2002. The 6-year US$100 million secured facility was well received. 19 banks joined the syndicate with a total subscription of over two times, reflecting the confidence and support of the banking community to the Group.

In order to further improve its loan portfolio and reduce its borrowing cost, the Group is on the verge of granting a mandate for arranging a 7-year US$170 million syndicated loan on a fully underwritten basis. This proposed facility will be used to refinance the US$140 million commercial paper facility maturing in May 2002 and other bank loans.

As at 30th June 2001, the Group had an aggregate amount of US$116,703,000 (31st December 2000: US$147,570,000) in committed facilities available from banks.

As at 30th June 2001, debt maturity of the Group in the next five years was as follows:

	Amount *(US$)*	**%**
Within the first year	246,465,000	55.0
Within the second year	42,854,000	9.6
Within the third year	55,764,000	12.5
Within the fourth year	56,578,000	12.6
Within the fifth year and beyond	46,244,000	10.3
Total	447,905,000	100.0

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

The Group only uses derivatives for hedging purpose. As at 30th June 2001, the Group swapped US$32,025,000 (31st December 2000: US$54,600,000) floating rate borrowings to fixed rate borrowings through interest rate swap contracts. Excluding this, the Group's fixed interest borrowings amounted to US$52,001,000 (31st December 2000: US$59,493,000).

As interest rates have been dropping since early this year, the Group had taken into account the lower interest rate risk and reduced fixed rate borrowings accordingly.

BUSINESS REVIEW

CONTAINER LEASING

As at 30th June 2001, our wholly owned subsidiary group, Florens group, owned and operated a container fleet of 593,098 TEUs, which was up 16.5% from a year ago and accounted for 8.0%, of the global container leasing market.

The Group has a 10-year container lease agreement with COSCON and provides long 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 70% of the Group's leasing turnover with International Customers.

As at 30th June 2001, the Group leased a total of 321,166 TEUs (2000: 296,929 TEUs) to COSCON, which represents 54.2% (2000: 58.3%) of our total container fleet. Containers available to International Customers rose to 271,932 TEUs (2000: 212,056 TEUs), representing 45.8% (2000: 41.7%) of the total container fleet.

Container fleet analysis

	30th June 2001		31st December 2000		30th June 2000	
		International		International		International
	COSCON	**Customers**	COSCON	Customers	COSCON	Customers
Total containers (TEUs)	**321,166**	**271,932**	303,978	224,004	296,929	212,056
– Dry containers	**293,404**	**251,896**	277,699	204,817	271,275	193,403
– Reefers	**24,134**	**10,130**	22,638	9,242	22,011	8,684
– Specials	**3,628**	**9,906**	3,641	9,945	3,643	9,969

During the period, the Group purchased new containers and sold containers returned from COSCON following the expiry of their 10-year leases. With its container fleet averaging 4.3 years of age, the Group can compete more favourably to attract customers.

TEUs	**2001**	2000
Total containers (as at 1st January)	**527,982**	500,899
New containers purchased	**77,125**	34,998
Containers expired upon expiry of 10-year leases		
Total	**(7,808)**	(25,193)
Re-leased	**50**	111
Disposed of and pending for disposal	**(7,758)**	(25,082)
Ownership transferred to customers upon expiry of hire purchase contracts	**(3,122)**	(16)
Defective containers written off	**(1,129)**	(1,814)
Total containers (as at 30th June)	**593,098**	508,985

Utilisation rates

While containers leased to COSCON remained 100% utilised, the overall average utilisation rate was 91.9% (2000: 95.7%), still well above the industry average of about 78% (2000: 83%). The fall in the overall average utilisation rate was due to the global economic slowdown, which reduced containerised trade and affected container leasing demand.

Handling of returned containers

During the period, there were 7,808 TEUs (2000: 25,193 TEUs) of containers returned by COSCON upon the expiry of 10-year leases. The Group disposed of 7,488 TEUs (2000: 20,910 TEUs) at a loss of US$940,000 (2000: a profit of US$372,000). The disposal included part of the 6,180 TEUs of containers returned but remained unsold at 31st December 2000. The loss incurred in the disposal of containers was mainly due to a decline in container disposal price. As at 30th June 2001, containers that had been returned but not yet disposed of numbered 6,450 TEUs. According to the agreement, in the second half of 2001, COSCON expects to return around 12,850 TEUs upon the expiry of 10-year leases. On 22nd August 2001, the Group has entered into leases with COSCON whereby COSCON agreed to continue leasing containers of approximately 10,000 TEUs. The remaining returned containers will be disposed of in the market by the Group or leased to third party lessees.

Container leasing e-commerce platform

The Group has been devoting efforts to enhancing its on-line container leasing platform. The second phase of the platform is in satisfactory progress, and is expected to commence operation by the end of this year to provide on-line container leasing and retrieval services. The Group will further improve its computer systems and provide additional e-commerce training for its staff as well as guidelines for its existing customers in order to improve its competitiveness in the industry.

CONTAINER TERMINAL AND RELATED BUSINESSES

Despite the slowdown in the global economy during the first half of the year, the Group's container terminal and related businesses recorded overall satisfactory results. Compared with the same period last year, the aggregate throughput of our five container terminals rose 2.7% to 3,380,490 TEUs.

TEUs	**First six months of 2001**	First six months of 2000	+/-
COSCO-HIT	**624,218**	659,247	-5.3%
Shanghai Terminal	**1,280,300**	1,405,900	-8.9%
Qingdao Cosport International Terminal	**261,849**	236,870	+10.6%
Zhangjiagang Win Hanverky Terminal	**78,179**	69,362	+12.7%
Yantian International Terminal	**1,135,944**	919,879	+23.5%
Total	**3,380,490**	3,291,258	+2.7%

COSCO-HIT

COSCO Pacific has a 50% interest in COSCO-HIT Terminals (Hong Kong) Limited ("COSCO-HIT"). During the period under review, the slowdown in global trade affected COSCO-HIT, whose throughput declined by 5.3% to 624,218 TEUs (2000: 659,247 TEUs). While this led to a decrease in revenue, COSCO-HIT was able to maintain high operational efficiency due to the management's stringent cost control efforts.

Starting from late July this year, COSCON will take delivery of seven new container vessels into operation, each with a carrying capacity of 5,400 TEUs. As Hong Kong is among their ports of call, throughput at COSCO-HIT is expected to benefit.

The four container terminals in China mainland

The aggregate throughput at our four container terminals in China mainland rose 4.7% to 2,756,272 TEUs. Each of Qingdao Cosport International Container Terminals Co. Ltd., Zhangjiagang Win Hanverky Container Terminal Co. Ltd. and Yantian International Container Terminals Ltd. reported a double-digit growth in throughput. Shanghai Container Terminals Limited still provided good returns for the Group despite a decline in throughput due to re-routings by some shipping companies.

River Trade Terminal

The terminal handled 594,046 TEUs of containers during the period, an increase of 39.9% from the corresponding period of last year. As the terminal continues to incur losses, the Group has made an additional provision of US$1,800,000 (2000: US$2,002,000) against the shareholders' loan to the terminal.

Shanghai Waigaoqiao Container Terminal (Phase 1)

The Group has signed an agreement with other partners to form a joint venture, Shanghai Pudong International Container Terminal Ltd. (Shanghai Waigaoqiao Container Terminal). The joint venture, in which the Group will hold a 20% interest, is pending final approval from relevant government authorities.

Shanghai Yixian Road

Shanghai Yixian Road, which comprises Wusong Toll Bridge, Wenchuan Toll Bridge and Jiangyang Toll Bridge, saw a 4.9% increase in their combined traffic flow and 6.4% increase in their combined tariff income.

Container handling and storage

Our wholly owned subsidiary, Plangreat Limited, and its subsidiaries provide container stevedoring, container storage and container repair and transport services. During the period, Plangreat Limited and its subsidiaries recorded a turnover of US$4,883,000 (2000: US$4,811,000) and achieved satisfactory results.

OTHER OPERATIONS

The Group has various interests in Shanghai CIMC Reefer Containers Co., Ltd., Shanghai CIMC Far East Container Co., Ltd., Tianjin CIMC North Ocean Container Co., Ltd., Shanghai Kansai Paint & Chemical Co., Ltd. and Tianjin Kansai Paint & Chemicals Co., Ltd. These companies each contributed profits to the Group during the period under review.

BANKING

The Group has a 20% interest in Liu Chong Hing Bank Limited, which contributed US$4,471,000 to the Group's profit attributable to shareholders, a decrease of 35.2% over the same period of 2000.

PRC INVESTMENT SECURITIES

During the first half of 2001, the Group sold all its shares in Shanghai Zhenhua Port Machinery Co., Ltd. The disposal generated a profit of US$14,137,000 for the Group (2000: US$Nil).

PROSPECTS

Though global trade and economic outlook remain uncertain for the second half of the year, with China's imminent entry to the World Trade Organisation and Beijing's successful bid to host the 2008 Olympic Games, it is expected that a new driving force and impetus for global and China trade growth has been emerging. This will benefit the long term development of the Group's core businesses of container leasing and container terminal operations.

The strong support of China Ocean Shipping (Group) Company, our ultimate holding company, provides the Group with a major competitive advantage in operating and expanding its businesses. Moreover, given the current slowdown in the world trade, the Group, with long term container leasing contracts accounting for about 85% of its container lease portfolio, is in a more advantageous position to compete in the container leasing market. The Group will continue to adopt prudent development policies and utilise its competitive advantages to further strengthen the earnings bases of its core businesses. The Group will also carefully evaluate the circumstances to seize opportunities for expanding its container leasing and container terminal businesses and the related logistics operations.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June 2001, there were around 340 employees in COSCO-HIT, 80 in the container leasing division and 30 in the headquarters of the Company in Hong Kong. The Group's remuneration policies are formulated on the performance of individual employees and will be reviewed by the management on a regular basis. Share options are also granted to employees to motivate them to enhance their performance and contribution to the Group. Every year, the Company organises seminars, meetings, recreational activities and computer training courses to improve employees' skills, communications and efficiency.

DIRECTORS' INTERESTS

As at 30th June 2001, the interests of the Company's directors in the share capital and share options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

INTERESTS IN ORDINARY SHARES OF THE COMPANY

Name of director	Nature of interests	Number of ordinary shares held
Dr. LI Kwok Po, David	Personal	258,000
Mr. LEE Yip Wah, Peter	Personal	100,000

INTERESTS IN SHARE OPTIONS GRANTED BY THE COMPANY

On 30th November 1994, a share option scheme was approved by the shareholders of the Company under which the directors of the Company may, at their discretion, grant to any executive and/or employee of the Group, including any director in full time employment with any company in the Group, share options to subscribe for the Company's shares, subject to the terms and conditions stipulated therein. A summary of the movement of directors' share options for the six months ended 30th June 2001 is as follows:

				Number of share options held			
Name of director	**Date of grant**	**Exercisable period**	**Exercise price** ***HK$***	**Outstanding at 1st January 2001**	**Granted during the period**	**Exercised during the period**	**Outstanding at 30th June 2001**
Mr. SHI Qin	6/4/2000	6/4/2001 to 5/4/2002	3.584	500,000	—	—	500,000
Mr. YANG Bin	6/4/2000	6/4/2001 to 5/4/2002	3.584	250,000	—	—	250,000
Mr. LU Zhiming	1/7/1996	1/7/1996 to 30/6/2006	5.53	1,500,000	—	—	1,500,000
	6/4/2000	6/4/2001 to 5/4/2002	3.584	250,000	—	—	250,000
Mr. LI Jianhong	6/4/2000	6/4/2001 to 5/4/2002	3.584	250,000	—	—	250,000
Mr. XU Lirong	6/4/2000	6/4/2001 to 5/4/2002	3.584	250,000	—	—	250,000
Mr. KWONG Che Keung, Gordon	6/4/2000	6/4/2001 to 5/4/2002	3.584	250,000	—	—	250,000
Mr. WONG Tin Yau, Kelvin	20/5/1997	20/5/1997 to 19/5/2007	8.80	5,000,000	—	—	5,000,000
	6/4/2000	6/4/2001 to 5/4/2002	3.584	350,000	—	(200,000)	150,000
Mr. LU Chenggang	6/4/2000	6/4/2001 to 5/4/2002	3.584	350,000	—	—	350,000
Mr. QIN Fuyan	1/7/1996	1/7/1996 to 30/6/2006	5.53	1,500,000	—	—	1,500,000
	6/4/2000	6/4/2001 to 5/4/2002	3.584	350,000	—	—	350,000

INTERESTS IN SHARE OPTIONS GRANTED BY ASSOCIATED CORPORATION

Name of director	Name of associated corporation	Date of grant	Exercisable period	Exercise price *HK$*	Number of share options held: Outstanding at 1st January 2001	Granted during the period	Exercised during the period	Outstanding at 30th June 2001
Mr. KWONG Che Keung, Gordon	COSCO International Holdings Limited	20/3/2000	20/3/2001 to 16/1/2002	0.656	4,500,000	—	—	4,500,000

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above, as at 30th June 2001, none of the directors and chief executives had any interests in the securities of the Company and its associated corporations required to be disclosed pursuant to the SDI Ordinance and the Model Code, and none of the directors and chief executives or their respective spouses or children under 18 years of age, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th June 2001, according to the register kept by the Company under Section 16(1) of the SDI Ordinance, the following companies had notified the Company that they were interested in 10% or more of the issued share capital of the Company:

Name of shareholder	Number of ordinary shares	Percentage of total issued shares
COSCO (Hong Kong) Group Limited	1,149,866,411	53.68%
China Ocean Shipping (Group) Company*	1,149,866,411	53.68%

* Since COSCO (Hong Kong) Group Limited ("COSCO (Hong Kong)") is a wholly owned subsidiary of China Ocean Shipping (Group) Company ("COSCO"), COSCO (Hong Kong)'s interests are recorded as the interests of COSCO.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 30th June 2001.

LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER UNDER PRACTICE NOTE 19 OF THE LISTING RULES

Pursuant to Practice Note 19 of the Listing Rules, the following disclosures of the Group are required in the interim report of the Company:

The Group has provided undertakings regarding certain loan facilities that equity interest held by its controlling shareholder, COSCO (Hong Kong), in the Company will not be less than 35% or 51% throughout the relevant loan borrowing period. As at 30th June 2001, the outstanding loan balances under such covenants amounted to US$206,700,000 and US$5,900,000 respectively.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company has not redeemed any of its listed shares during the six months ended 30th June 2001. 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 2001.

AUDIT COMMITTEE

The Company has an Audit Committee consisting of three independent non-executive directors of the Company. The Committee meets regularly with the executive directors, senior management, external auditors and the Group's internal auditor to review and supervise the Group's financial reporting process and internal controls.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June 2001, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

By Order of the Board
SHI Qin
Managing Director

Hong Kong, 6th September 2001

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