

INTERIM DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 24th September 2004 to Thursday, 30th September 2004, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrars, Secretaries Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Thursday, 23rd September 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overall analysis of results

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

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

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

Financial analysis

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

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

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

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

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

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

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

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

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

FINANCIAL POSITION

Cashflow

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

Financing and credit facilities

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

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

Assets and liabilities

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

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

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

Debt analysis

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

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

Contingent liabilities

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

Foreign exchange and interest rate risks management

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

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

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

- Notional principals of contracts amounted to US\$100,000,000 in total at fixed interest rates ranging from 3.88% to 4.90% per annum payable by the Group.
- Notional principals of contracts amounted to US\$200,000,000 in total at floating interest rates ranging 6-month LIBOR plus 105 basis points to 116 basis points payable by the Group.

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

REVIEW OF OPERATIONS

Container leasing

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

Further expanding market share in container leasing operations

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

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

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

Container fleet movement

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

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

Customer base expansion

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

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

Container fleet analysis

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

Utilisation rates beating industry average

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

Handling of returned containers

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

Container terminal and related operations

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

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

Further expansion of market share in container terminal operations

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

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

	Effective Group equity interest %	Berths Number	Annual capacity TEUs
Pearl River Delta			
COSCO-HIT	50	2	1,800,000
Yantian International Terminals Phase I & II	5	5	4,500,000
Yantian International Terminals Phase III	4.45	4	2,400,000
Shekou Terminals	17.5	2	1,300,000
		<u>13</u>	<u>10,000,000</u>
Yangtze River Delta			
Shanghai Terminals	10	10	3,500,000
Shanghai Pudong International Terminals	20	3	2,300,000
Zhangjiagang Win Hanverky Terminal	51	2	300,000
Yangzhou Yuanyang International Ports	55.59	3	100,000
			3,500,000 tons of break-bulk cargo
Zhenjiang Jinyuan Terminals*	25	1	150,000
		<u>19</u>	<u>6,350,000</u>
Bohai Rim			
Qingdao Qianwan Terminal	20	11	6,500,000
Qingdao Cosport Terminals	50	1	600,000
Dalian Port Container Co., Ltd.	8	9	1,800,000
Dalian Automobile Terminal	30	2	600,000 (vehicles)
Tianjin Five Continents International Container Terminal Co., Ltd.	14	4	1,500,000
Yingkou Terminal*	50	2	1,000,000
		<u>29</u>	<u>11,400,000</u>
Overseas region			
COSCO-PSA Terminal	49	2	1,200,000
Total	Container terminal berths : 58		28,950,000
	Automobile terminal berths : 2		600,000 (vehicles)
	Multi-functional terminal berths : 3	3,500,000 tons of break-bulk cargo	

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

Satisfactory growth in throughput of containers

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

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

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

Notes:

- (1) The data represents throughput as from the effective date when the Group has equity interests in respective investments.
- (2) Total throughput of container terminals for 1H 2003 as presented above does not include the throughput of River Trade Terminal Holdings Limited as the Group's 10% equity interest in that terminal was disposed of on 27th June 2003.

Container handling and storage

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

Logistics operation

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

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

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

Other businesses

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

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

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

NEW DEVELOPMENTS

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

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

Dalian Port Container Terminal Co., Ltd.

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

EMPLOYEES AND REMUNERATION POLICIES

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

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

SHARE OPTIONS

At a special general meeting of the Company held on 23rd May 2003, the shareholders of the Company approved the adoption of a share option scheme (the "2003 Share Option Scheme") and the termination of the share option scheme adopted by the shareholders of the Company on 30th November 1994 (the "1994 Share Option Scheme"). No further options would thereafter be offered under the 1994 Share Option Scheme but the options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects the provisions of the 1994 Share Option Scheme shall remain in full force and effect.

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

Category	Exercise price HK\$	Number of share options			Outstanding at 30th June 2004	Percentage of total issued share capital	Note
		Outstanding at 1st January 2004	Exercised during the period	Lapsed during the period			
Directors							
Mr. WONG Tin Yau, Kelvin	8.80	5,000,000	(1,000,000)	—	4,000,000	0.186%	(2), (3), (4)
Mr. QIN Fuyan	5.53	1,500,000	—	—	1,500,000	0.070%	(1), (3)
Continuous contract employees	5.53	80,000	—	—	80,000	0.004%	(1)
	8.80	5,600,000	(808,000)	—	4,792,000	0.222%	(2), (4)
		<u>12,180,000</u>	<u>(1,808,000)</u>	<u>—</u>	<u>10,372,000</u>		