# COSCO Pacific Limited

*(Incorporated in Bermuda with limited liability)*

**ANNOUNCEMENT OF 2001 INTERIM RESULTS**

## RESULTS HIGHLIGHTS

- Return on equity for the first half of 2001 was 7.3% (2000: 6.6%).
- Turnover increased 2.7% to US$108,351,000.
- Profit attributable to shareholders increased 21.5% to US$83,929,000.
- Container leasing fleet increased 16.5% to 593,098 TEUs.
- Financial position remained solid, with net assets per share up by 5.0% to HK$4.2 (31st December 2000: HK$4.0).
- Aggregate throughput of the five container terminals rose 2.7% to 3,380,490 TEUs.

## INTERIM RESULTS

The board of directors of COSCO Pacific Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2001. These unaudited interim results have been reviewed by the Company's Audit Committee.

**Condensed consolidated profit and loss account**

| | | **Unaudited** | |
|---|---|---|---|
| | | **Six months ended 30th June** | |
| | *Note* | ***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 |
| | | | |
| Proposed 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**

| | *Note* | **Unaudited As at 30th June 2001 *US$'000*** | As at 31st December 2000 *US$'000* (Restated) |
|---|---|---|---|
| Non-current assets | | | |
| | | | |
| Fixed assets | | **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 | | **5,468** | 3,855 |
| | | **1,450,290** | 1,372,770 |
| Current assets | | | |
| Inventories | | **2,310** | 3,849 |
| Trade and other receivables | *8* | **45,732** | 45,508 |
| Current portion of hire purchase debtors | | **4,518** | 4,868 |
| Time deposits | | **147,415** | 87,828 |
| Bank balances and cash | | **9,905** | 53,924 |
| | | **209,880** | 195,977 |
| Current liabilities | | | |
| Trade and other payables | *9* | **46,890** | 35,545 |
| Unsecured short term bank loans | | **16,597** | 41,162 |
| Current portion of long term liabilities | | **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 | | **27,471** | 27,433 |
| Share premium | | **557,851** | 556,528 |
| Other reserves | | **6,217** | 5,255 |
| Retained profits | *10* | **538,444** | 481,594 |
| Proposed dividend | *6* | **26,091** | 30,169 |
| Shareholders' funds | | **1,156,074** | 1,100,979 |

| | | |
|---|---|---|
| Minority interests | **7,796** | 7,247 |
| Non-current liabilities | | |
| Long term liabilities | **201,440** | 284,276 |
| | **1,365,310** | 1,392,502 |

*Notes:*

**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 applicable 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.

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.

(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 accounts for the six months ended 30th June 2001.

## 2 Segment turnover and results

| | Container leasing US$'000 | Container terminal & related facilities US$'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 |

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

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 facilities 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** | | |
| Dividend income from unlisted investment | **-** | |
| | 1,023 | |
| Interest income | **2,991** | 6,740 |
| Sale of inventories | **4,218** | 12,521 |
| Profit on sale of listed investment | **14,137** | - |
| Reversal of provision for container repairs and maintenance expense | **6,156** | - |
| **Charging** | | |
| Cost of inventories sold | **4,819** | 12,310 |
| Depreciation and amortisation | **39,317** | 36,197 |
| Provision for impairment loss on containers | **2,847** | - |
| Provision for inventories | **152** | - |
| Provision for loan to an investee company | **1,800** | 2,002 |

## 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 |
| - loans from a minority shareholder of a subsidiary wholly repayable within five years | **79** | 99 |
| Gain on interest rate swap contracts | **(40)** | (28) |

| | 2001 | 2000 |
|---|---|---|
| | **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 |

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 dividend, 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 in note 10 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.

(c) 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 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 facilities | : | 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 |

## 9 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 |

## 10 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 6b)* | **-** (30,169) | |
| 2001 interim dividend proposed *(note 6b)* | **(26,091)** | - |
| | | |
| | **538,444** | 481,594 |

## 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 facilities, 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 borrowing 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 (31.12. 2000: US$1,568,747,000), whereas total liabilities amounted to US$504,096,000 (31.12. 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 (31.12. 2000: US$145,607,000). Total outstanding borrowings amounted to US$447,905,000 (31.12. 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 (31.12. 2000: US$3,855,000), together with certain fixed assets with an aggregate net book value of US$253,293,000 (31.12. 2000: US$210,911,000) were pledged to various banks and financial institutions for loans of US$140,778,000 (31.12. 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 (31.12. 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 (31.12. 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 (31.12. 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 (31.12. 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 | |
|---|---|---|---|---|---|---|
| | **COSCON** | **International Customers** | COSCON | International Customers | COSCON | International 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 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.

## 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board
**SHI Qin**
*Managing Director*

Hong Kong, 6th September 2001

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*This announcement can also be accessed through the Company's internet at http://www.coscopac.com.hk.*

*A detailed interim results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Exchange") will be published on the same website and the website of the Exchange in due course.*

Please also refer to the published version of this announcement in the South China Morning Post.