Annual Report 2003

COSCO Pacific Limited

(Incorporated in Bermuda with limited liability)

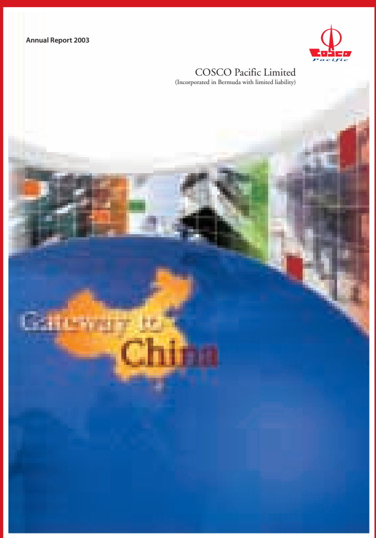
Gateway to China & capturing global opportunities

2003 was an eventful year for the Company. On 9th June 2003, COSCO Pacific advanced from its position as a quality red chip to become a constituent stock of the Hang Seng Index . We were all encouraged and very proud of this achievement, particularly since COSCO Pacific is the first Chinese shipping related enterprise to be included in the Index. We would like to express our sincere thanks to our customers and our parent company, China Ocean Shipping (Group) Company, COSCO (Hong Kong) Group Limited and affiliated entities for their continuous support to COSCO Pacific over the past few years.

Our staff has dedicated their efforts to expanding the Company's businesses while maintaining transparency and good standards of corporate governance. These efforts have won market recognition. Our mission is to enhance value for our shareholders and to provide superior service to our customers. The trust that our shareholders and stakeholders place in us motivates us to succeed.

Looking ahead, we believe that the vast potential of the China market will drive the further development of our business. As a leading container transportation group situated at the gateway to China, COSCO Pacific is well positioned to capture the opportunities resulting from China's robust economic growth.

During the year, we invested aggressively in the terminals and logistics sectors in China mainland. The results have been encouraging as these investments have become our new profit centres. In addition, we took an important step towards becoming a leading container terminal operator in Asia by pursuing our first joint venture in the operation of terminals in Singapore. Given our position in the "Gateway to China", we are dedicated to pursue the fundemental strategic objective of "Capturing Global Opportunities" for the further development of the Company.



Your feedback on this annual report would be highly appreciated.

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Contents

Financial highlights

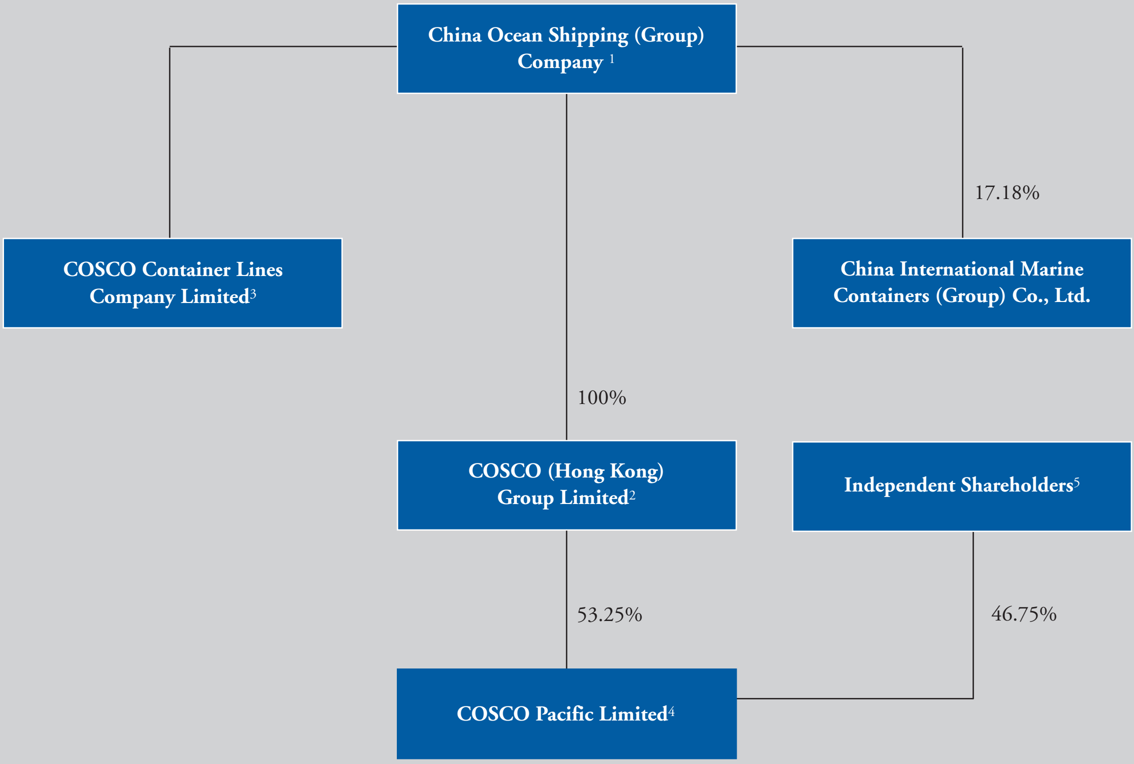
Turnover of COSCO Pacific Limited ("COSCO Pacific" or the "Company") and its subsidiaries (the "Group") was US$257,495,000 in 2003 (2002: US$241,644,000), a year-on-year increase of 6.6%. Profit attributable to shareholders rose by 8.5% to US$154,331,000 (2002: US$142,189,000, as restated). Earnings per share was US7.1871 cents (2002: US6.6253 cents, as restated). Excluding major non-recurring items (2003: loss of US$2,192,000 on disposal of its 10% interest in River Trade Terminal Holdings Limited ("River Trade Terminal"); 2002: profit of US$7,474,000 arising from disposal of the Shanghai Yixian Road Project), profit attributable to shareholders in 2003 saw a year-on-year increase of 16.2%.

	2003	2002 (Restated)	+/-
Turnover[1]	US$257,495,000	US$241,644,000	+6.6%
Operating profit after finance costs	US$108,987,000	US$91,562,000	+19.0%
Profit attributable to shareholders	US$154,331,000	US$142,189,000	+8.5%
Basic earnings per share	US7.1871 cents	US6.6253 cents	+8.5%
• Earnings per share excluding the loss from the disposal of the River Trade Terminal and the gain from the disposal of the Shanghai Yixian Road Project	US7.2892 cents	US6.2770 cents	+16.2%
Dividend per share	HK31.8 cents	HK29.0 cents	+9.7%
Dividend payout ratio	56.7%	56.1%	+0.6pp
Consolidated total assets	US$1,900,266,000	US$1,743,797,000	+9.0%
Consolidated total liabilities and minority interests	US$579,102,000	US$490,749,000	+18.0%
Consolidated net assets	US$1,321,164,000	US$1,253,048,000	+5.4%
Consolidated net debts	US$194,525,000	US$184,553,000	+5.4%
Net debt-to-equity ratio	14.7%	14.7%	–
Interest coverage	16.1 times	11.8 times	+4.3 times

Note 1: The turnover of the Group is derived from Florens Container Holdings Limited and its subsidiaries, Zhangjiagang Win Hanverky Container Terminal Co., Ltd., and Plangreat Limited and its subsidiaries. This turnover did not include the turnover of the Group's associated companies and jointly controlled entities.

Note 2: The accounts of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong and the Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants. During the year, the Group adopted the new SSAP 12 "Income Taxes". This results in a change in the accounting policy on deferred taxation which gave rise to a net deferred taxation provision of US$12,488,000 in 2003 (2002:US$12,371,000). Details of the adoption of the new SSAP12 are mentioned on page 124 of this annual report.

Corporate structure



Note 1: China Ocean Shipping (Group) Company ("COSCO Group") is the ultimate parent company of COSCO Pacific and a significant state-owned enterprise supervised by the State Council of China. It is the largest shipping company in China and one of the leading international shipping entities in the world. Currently, it owns and operates a fleet of 566 vessels with an aggregate capacity of 28,110,000 dead-weight tonnage. In 2002, COSCO Group was ranked as the eighth largest global container terminal operator. Its terminal portfolio is mainly managed and operated through COSCO Pacific.

Note 2: COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") is a wholly owned and the largest overseas subsidiary of COSCO Group. It is also the immediate controlling shareholder of COSCO Pacific, holding 1,144,166,411 shares representing 53.25% of the Company's total shares outstanding as at 31st December 2003.

Note 3: COSCO Container Lines Company Limited ("COSCON") is a subsidiary of COSCO Group. It is the largest container liner operator in China and the seventh largest in the world. It owns and operates a fleet of 115 container vessels with a carrying capacity of 257,000 TEUs. COSCON is a major customer of the container leasing and terminal operations of COSCO Pacific.

Note 4: COSCO Pacific is a constituent stock of the Hang Seng Index, a major index in Hong Kong. It is the largest listed company and the only terminal flagship of COSCO Group. COSCO Pacific owns and operates the fifth largest container leasing company in the world. It also holds various interests in 11 terminals and will have a total number of berths of 51.

Note 5: According to the disclosure of interests published by the Stock Exchange of Hong Kong Limited, J.P. Morgan Chase & Co. was an independent shareholder holding 220,461,411 shares accounting for 10.26% of the total issued share capital of COSCO Pacific as at 31st December 2003.

As at 31st December 2003

Business structure

COSCO Pacific Limited

Container leasing

Florens Container Holdings Limited (100%)

Florens Container Services Company Limited (100%)

Branches in:
- Hong Kong (Headquarters)
- San Francisco
- New York
- Sao Paulo
- London
- Hamburg
- Genoa
- Tokyo
- Shanghai
- Singapore
- Macau
- Sydney

Container terminals

COSCO-HIT Terminals (Hong Kong) Limited (50%)

Yantian International Container Terminals Ltd. (5%)

Yantian International Container Terminals (Phase III) Limited (4.45%)[6]

Shekou Container Terminals Ltd. (17.5%)

Shanghai Container Terminals Limited (10%)

Shanghai Pudong International Container Terminals Limited (20%)[7]

Zhangjiagang Win Hanverky Container Terminal Co., Ltd. (51%)

Qingdao Qianwan Container Terminal Co., Ltd. (20%)[8]

Qingdao Cosport International Container Terminals Co., Ltd. (50%)

Tianjin Five Continents International Container Terminal Co., Ltd. (14%)[9]

Dalian Port Container Co., Ltd. (8%)

Dalian Automobile Terminal Co., Ltd. (30%)[10]

COSCO-PSA Terminal Private Limited (49%)[11]

Plangreat Limited (100%)

Logistics

COSCO Logistics Co., Ltd. (49%)[12]

Branches in:
- Beijing
- Dalian
- Qingdao
- Shanghai
- Ningbo
- Xiamen
- Guangzhou
- Wuhan

Representative offices in:
- Hong Kong
- Seoul
- Singapore
- Tokyo
- Athens

Container related businesses and other investments

Shanghai CIMC Reefer Containers Co., Ltd. (20%)

Shanghai CIMC Far East Container Co., Ltd. (20%)

Tianjin CIMC North Ocean Container Co., Ltd. (22.5%)

Liu Chong Hing Bank Limited (20%)

COSCO Pacific (China) Investments Co., Ltd. (100%)

Note 6: The first two berths of Yantian International Container Terminals (Phase III) Limited commenced operation in October and November 2003 respectively. The other two berths are expected to commence operation in 2004.

Note 7: Shanghai Pudong International Container Terminals Limited officially opened for business on 1st March 2003.

Note 8: Pursuant to an agreement signed in July 2003, the acquisition of a 20% equity interest in Qingdao Qianwan Container Terminal Co., Ltd. for the investment in Qianwan Terminal Phase II was completed in December 2003. The joint venture was restructured to expand its investment to Qianwan Terminal Phase III. The newly restructured joint venture company commenced operation on 1st January 2004.

Note 9: On 23rd December 2003, the Company entered into an agreement to acquire a 14% equity interest in Tianjin Five Continents International Container Terminal Co., Ltd.

Note 10: On 28th December 2003, the Company entered into an agreement to acquire a 30% equity interest in Dalian Automobile Terminal Co., Ltd.

Note 11: In August 2003, the Company signed a heads of agreement to acquire a 49% equity interest in COSCO-PSA Terminal Private Limited. The joint venture officially opened for business on 1st November 2003. One berth commenced operation during the year, with expansion to two berths planned for completion prior to 2008.

Note 12: In January 2004, the Company completed its acquisition of a 49% equity interest in COSCO Logistics Co., Ltd.

As at 29th February 2004

COSCO Pacific

Branches of Florens

Container terminals of COSCO Pacific

Service centres and representative offices of COSCO LOGISTICS

Florens

Depots:
Total: 174

Americas: 51
Europe: 63
Asia Pacific: 60

COSCO LOGISTICS

Service centres:
Total: 313
- Beijing: 39
- Dalian: 31
- Qingdao: 43
- Shanghai: 96
- Ningbo: 21
- Xiamen: 14
- Guangzhou: 68
- Wuhan: 1

Worldwide business network

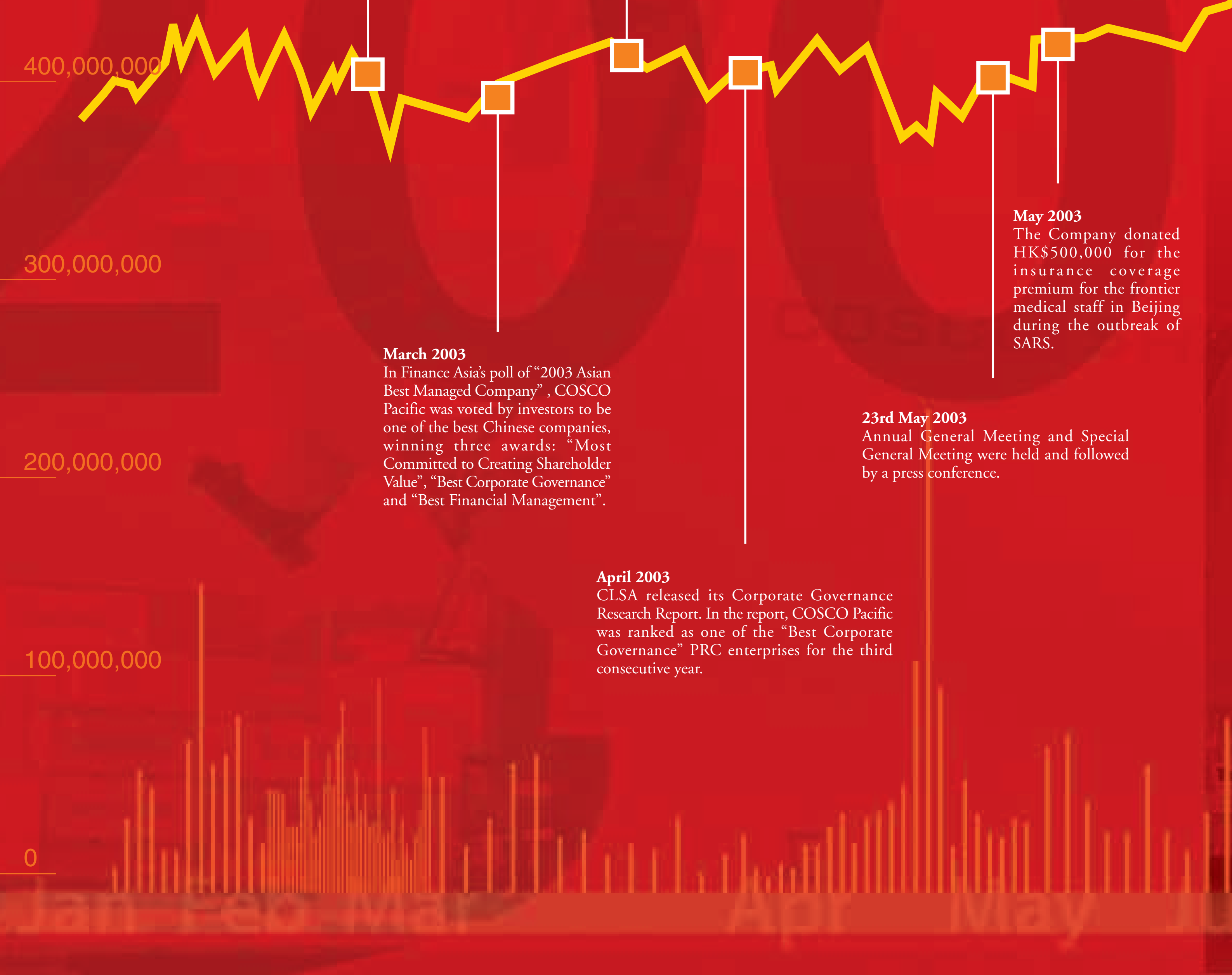
Hang Seng Thirty-Three, At the Top of the Tree,

Ten Years Sowing Seeds, A Blue Chip COSCO Succeeds.

WEI Jiafu
9th June 2003

1st March 2003
Shanghai Pudong International Container Terminals Limited, in which COSCO Pacific holds a 20% equity interest, officially opened for business.

26th March 2003
COSCO Pacific announced its 2002 annual results. A board meeting was held. A press conference, briefings for fund managers and analysts, and an investor roadshow were arranged by the Company.



March 2003
In Finance Asia's poll of "2003 Asian Best Managed Company", COSCO Pacific was voted by investors to be one of the best Chinese companies, winning three awards: "Most Committed to Creating Shareholder Value", "Best Corporate Governance" and "Best Financial Management".

April 2003
CLSA released its Corporate Governance Research Report. In the report, COSCO Pacific was ranked as one of the "Best Corporate Governance" PRC enterprises for the third consecutive year.

May 2003
The Company donated HK$500,000 for the insurance coverage premium for the frontier medical staff in Beijing during the outbreak of SARS.

23rd May 2003
Annual General Meeting and Special General Meeting were held and followed by a press conference.

9th June 2003
A celebration ceremony was held for the Company's inclusion as a constituent stock of the Hang Seng Index. More than 600 guests attended the ceremony, including the Representative of the Liaison Office of the Central People's Government in the HKSAR, the Commissioner of the Ministry of Foreign Affairs of the PRC in the HKSAR, officials of the government of HKSAR, associates in the shipping industry, senior executives in the investment and banking sectors, press and media, and financial journalists.

July 2003
COSCO Pacific and Denmark's A.P. Moller joined hands with Qingdao Port (Group) Co., Ltd. and UK's P&O Ports to establish Qingdao Qianwan Container Terminal Co., Ltd. in which the Company holds a 20% equity interest. China's Premier Wen Jiabao and UK's Prime Minister Tony Blair attended the signing ceremony in the Great Hall of People.

June 2003
Institutional Investor's poll of COSCO Pacific as "The Conglomerate Enterprise with the Best Investor Relations in Asia".

27th June 2003
COSCO Pacific completed transfer of a 10% equity interest in the River Trade Terminal Holdings Limited.

July 2003
Drewry Shipping Consultants Ltd. published its annual review of global container terminal operators. COSCO Group was ranked as the eighth largest terminal operator in 2002. Its terminal portfolio is mainly managed and operated by COSCO Pacific.

30th August 2003
COSCO Pacific and PSA Corporation Limited entered into a heads of agreement to establish COSCO-PSA Terminal Private Limited in which COSCO Pacific holds a 49% equity interest. COSCO-PSA Terminal manages two berths at Pasir Panjang Terminal in two phases.

22nd September 2003
The Company announced its 2003 interim results. A board meeting was held. A press conference, briefings for fund managers and analysts, and an investor roadshow were arranged for the senior management to meet key stakeholders.

26th September 2003
COSCO Pacific successfully raised US$300,000,000 through the issuance of 10-year notes. ABN AMRO Bank N.V., Citigroup Global Markets Limited and Goldman Sachs (Asia) L.L.C were joint bookrunners. The notes have a coupon rate of 5.875% and the total subscription were 5.4 times of the issued amount.

22nd September 2003
The Company entered into an agreement with COSCO Group to acquire a 49% equity interest in COSCO Logistics Co., Ltd.

September 2003
COSCO Pacific (China) Investments Co., Ltd. was endorsed as one of the Top 100 Model Foreign Trade Enterprises in China by the Ministry of Commerce.

29th October 2003
A resolution for the acquisition of a 49% equity interest in COSCO Logistics Co., Ltd. was passed by independent shareholders at the special general meeting.

October 2003
The first berth of Yantian International Container Terminals (Phase III) Limited commenced operation.

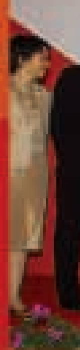
November 2003
The second berth of Yantian International Container Terminals (Phase III) Limited commenced operation.

1st November 2003
COSCO-PSA Terminal Private Limited officially opened for business.

11th November 2003
In the "Best Corporate Governance Disclosure Awards" released by the Hong Kong Society of Accountants, COSCO Pacific was granted the Significant Improvement Award in the Hang Seng Index Category. It was the first Chinese company to receive such an honour.

25th November 2003
The Company transferred a 20% equity interest in both Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. to COSCO International Holdings Limited.

2nd December 2003
The opening ceremony was officiated by the gues of People's Republic of C Cheow Tong, Minister Chairman of China Oc Stephen Lee, Chairman well as prominent memb community were also pr



15th December 2003
COSCO Pacific was awarded Honourable Mention in the Best Annual Reports Awards of the Hong Kong Management Association. This was the fourth time the Company has received such an honour.

19th December 2003
The 9th anniversary of COSCO Pacific's listing on the Stock Exchange of Hong Kong Limited.

of COSCO-PSA Terminal Private Limited
sts of honour Mr. Zhang Jiuhuan, Ambassador
China to the Republic of Singapore, Mr. Yeo
of Transport of Singapore, Mr. Wei Jiafu,
cean Shipping (Group) Company, and Mr.
of PSA Corporation Limited. Dignitaries as
ers of the international shipping and maritime
esent at the event.

28th December 2003
COSCO Pacific entered into a joint venture agreement with Dalian Port Group Co., Ltd. and Nippon Yusen Kabushiki Kaisha to invest in and operate Dalian Automobile Terminal Co., Ltd., in which COSCO Pacific holds a 30% equity interest. The signing ceremony was attended by Sun Chunlan, party secretary of Dalian.

23rd December 2003
COSCO Pacific entered into a joint venture agreement with Tianjin Port (Group) Co., Ltd., CSX World Terminals New World (Tianjin) Limited, China Shipping Terminal Development Co., Ltd. and China Merchants International Terminals (Tianjin) Limited to establish Tianjin Five Continents International Container Terminal Co., Ltd., in which COSCO Pacific holds a 14% equity interest. The joint venture company will invest, manage and operate four container terminal berths in Dongtudi of Tianjin. The signing ceremony was attended by Dai Xianglong, the mayor of Tianjin.

29th December 2003
The business registration of COSCO Logistics Co., Ltd. was approved by the State Administration for Industry and Commerce.

24th January 2004
China's Vice Premier Huangju visited Zhangjiagang Win Hanverky Container Terminal Ltd.

9th January 2004
A grand opening ceremony for Qingdao Qianwan Container Terminal Co., Ltd. was held.

29th January 2004
Dalian Automobile Terminal Co., Ltd. officially opened for business.

18th February 2004
Opening ceremony held for COSCO Logistics Co., Ltd..


COSCO


Celebration Party for the Inclusion of COSCO Pacific
Hang Seng Index Constituent Stock


COSCO

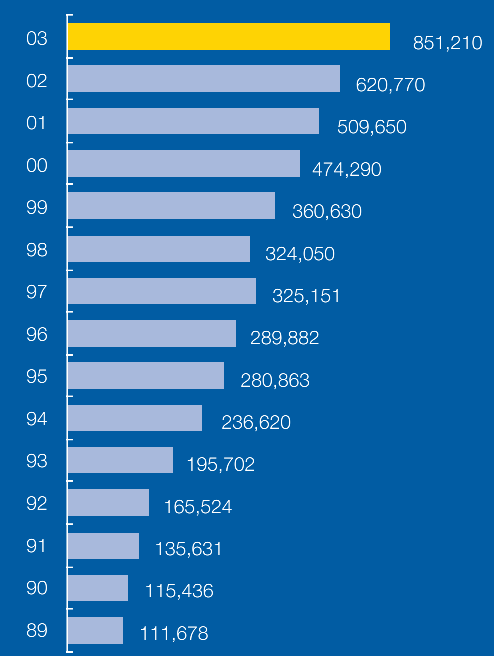
Chairman's statement

Gateway to China

I am very pleased to report to our shareholders that COSCO Pacific achieved solid growth in 2003. Significant achievements were made in the areas of business expansion, new project development, financial efficiency and corporate governance. The Company has built a strong foundation for future earnings growth. Looking ahead, we believe that the vast potential of the China market will drive further the development of our businesses.

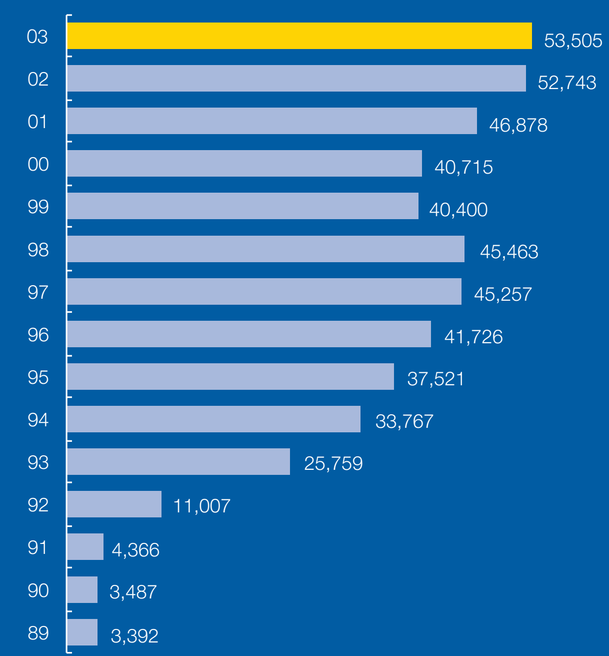
China's import and export trade (1989-2003)

Unit: US$ million



Foreign direct investment in China (1989-2003)

Unit: US$ million



Results highlights in 2003:

- Turnover rose by 6.6% to US$257,495,000.
- Profit attributable to shareholders was up 8.5% to US$154,331,000.
- Basic earnings per share increased 8.5% to US7.1871 cents.
- Normalised earnings per share (excluding the major non-recurring items) increased 16.2% to US7.2892 cents.
- A final cash dividend of HK18.0 cents per share was proposed. Together with the interim cash dividend of HK13.8 cents per share, total dividend in 2003 will be HK31.8 cents per share and the payout ratio will be 56.7% in 2003 (2002: 56.1%).
- Return on equity was 12.0% (2002: 11.7%).
- Container leasing fleet was expanded by 14.3% to 808,825 TEUs, representing a global market share of approximately 9.7% (2002: 9.3%) and achieved an average utilisation rate of 95.2% (2002: 93.4%).
- Aggregate container terminal throughput increased by 33.4% to 17,901,012 TEUs.
- Various interests of two container terminals in China mainland and one overseas terminal were acquired. Another container terminal, Yantian International Terminals (Phase III) Limited, started its operation during the year. Total number of berths will increase from 31 to 51, expanding the aggregate handling capacity by 12,200,000 TEUs to 26,000,000 TEUs.
- Acquisition of 49% interests in COSCO Logistics Co., Ltd. was proposed in September 2003 and completed in January 2004.
- US$300,000,000 of 10-year fixed rate notes were issued with total subscription in excess of 5.4 times of the issued amount.
- COSCO Pacific was admitted as a constituent stock of the Hang Seng Index.
- The Company achieved 6 awards for our excellence in corporate governance and investor relations.

We have dedicated our efforts to expanding our businesses while maintaining transparency and good corporate governance practice. These efforts have won market recognition. Our mission is to enhance value for our shareholders and to provide superior services to our customers. The trust that our shareholders and stakeholders place in us motivates us to succeed.

The China market remains a bright spot amidst a challenging global economy

2003 was a challenging year for the global economy. The slow recovery of the US economy and the severe impact of Severe Acute Respiratory Syndrome ("SARS") on the Asian and global economies, together with the tense political situation in the Middle East and the spreading fears of terrorism, created significant uncertainties in the market. However, the third quarter saw a pickup in global economic growth led by the US. Indeed, the US's Gross Domestic Product ("GDP") growth rose to 4.8% in 2003 with 1 percentage point increase over 2002. Driven by the re-bound of the US economy, the global marine transport sector also gathered strength, creating a positive backdrop for the container transport industry.

Despite the challenging global economic environment, China continued its robust growth, achieving a GDP growth of 9.1% (2002: 8.0%). In particular, import and export trade posted strong gains, making China the fourth biggest importer and exporter in the world, following the US, Germany and Japan. In 2003, China foreign trade reached US$851,210,000,000 with a year-on-year increase of 37.1%. China's exports amounted to US$438,370,000,000, with imports of US$412,840,000,000, representing growth rates of 34.6% and 39.9% respectively over 2002. Indeed, China plays a significant role in driving the world economic growth.

Foreign direct investment accelerates trade development in China

According to the Foreign Direct Investment ('FDI') Confidence Index Report published by A.T. Kearney in September 2003, China surpassed the United States as the most attractive destination for global FDI for the first time in 2002. Despite the outbreak of SARS, China managed to strengthen its FDI attractiveness lead in 2003. Given its immense growth potential, China's economic development has become the focal point of the world.

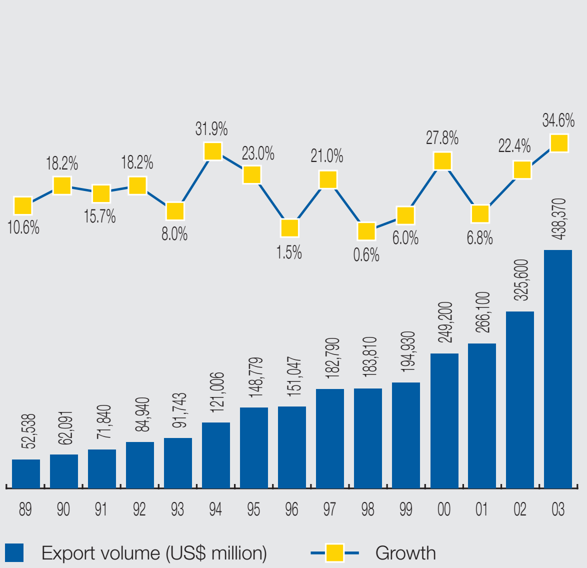
In 2003, China recorded a FDI of US$53,505,000,000 into its economy, a 1.4% increase over 2002. This figure made China the largest recipient of FDI among developing countries and the second largest recipient in the world, after the United States. The global economic recovery provides a better earnings outlook for multinational corporations. Mergers and acquisitions become more active in the capital markets. Investors maintain higher confidence for a positive economic outlook. It is expected that they will invest more aggressively in the coming years. On the other hand, the booming economy of China and its expanding domestic market provide more investment opportunities for foreign investors. China will definitely continue to be the most attractive destination for foreign investments. The growth in FDI is expected to further stimulate the economic development in China. Furthermore, the induction of the latest management skills and practices will facilitate China to integrate into the international markets.

COSCO Pacific's competitive advantages in China

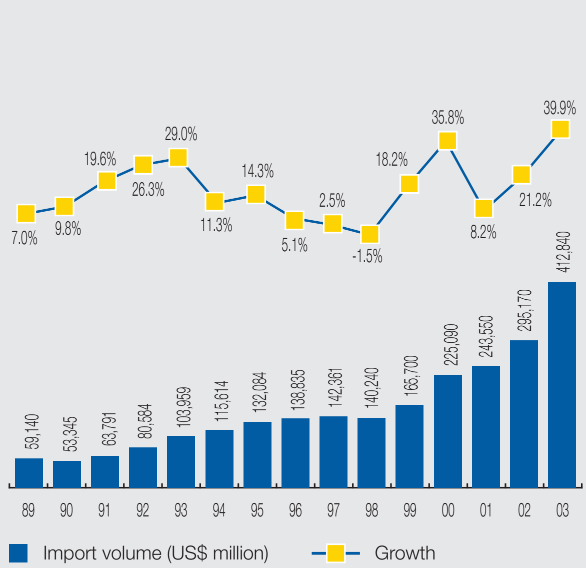
The core businesses of COSCO Pacific are intertwined with China's economy and its foreign trade position. Thanks to the China's economic development and growing domestic consumption, the demand for container transport services is increasing. This is beneficial for the development of our three pillars of business, namely container leasing, container terminal operations and logistics services.

In 2003, the shipping sector began to turnaround as demand increased steadily. Despite this, competition remained intense in the container leasing market and among container terminals. It was inevitable that our core businesses faced considerable pressure. However, under the aegis of COSCO Group, COSCO Pacific continues to enjoy unique competitive advantages in the China market.

Export volume of China (1989-2003)



Import volume of China (1989-2003)



Founded in 1961, COSCO Group is the largest shipping enterprise in China. The COSCO Group owns and operates a fleet of 566 vessels with a total carrying capacity of 28,110,000 dead-weight tonnage. In 2003, COSCO Group transported approximately 93,760,000 tons of marine cargos, accounting for approximately 11% of China's foreign seaborne trade. COSCO Group owns China's largest and the world's seventh largest container liner operator, COSCO Container Lines Company Limited ("COSCON"). COSCON operates and manages 115 container vessels calling at 120 ports around the world. Its fleet capacity is about 257,000 TEUs. With a customer base spanning the globe, COSCO Group plays an essential role in facilitating trade between China and the rest of the world.

Worldwide leader in container leasing

COSCON is the largest customer of the container leasing operations of COSCO Pacific. As at 31st December 2003, COSCO Pacific leased a total of 310,444 TEUs to COSCON, representing 38.4% of COSCO Pacific's container fleet. The services were mainly provided through 10-year leasing arrangements with 100% utilisation, thereby generating a stable source of revenue to COSCO Pacific. COSCON is actively expanding its fleet capacity by a newbuilding plan of 16 container vessels to be delivered in services from 2004 to 2006. At the end of 2006, COSCON's fleet capacity will be expanded to about 400,000 TEUs.

Since 1997, COSCO Pacific has been successfully expanding its customer base and providing leasing services to an increasing number of international customers. Total number of customers was 202 as at 31st December 2003. With its container leasing operations growing rapidly in recent years, COSCO Pacific has become the world's fifth largest container leasing company, accounting for approximately 9.7% of the global market share.

Leading container terminal operator in Asia

Stimulated by the rapid growth in import and export trade, shipping volumes in China have been on the rise. In 2003, the aggregate throughput of ports in China mainland was 48,000,000 TEUs, up 29.7% year-on-year. This performance was outstanding when compared with a 7.5% growth in the aggregate global throughput of 293,200,000 TEUs. During the year, Hong Kong and Singapore maintained their respective rankings as the first and second busiest ports in the world. Most of the ports in China mainland have improved their global rankings in terms of throughput. In particular, the rankings of Shanghai and Shenzhen rose to third and fourth place respectively.

Our strategy is to strengthen our position as the leading terminal gateway to China. We aim to build an efficient terminal portfolio so as to provide quality services to customers. We have a strong presence in the key regions of the Bohai Rim, the Yangtze River Delta and the Pearl River Delta. We will increasingly turn our attention to the high-growth areas of the Yangtze River Delta and Bohai Rim while maintaining a strong focus on the Pearl River Delta area. Furthermore, COSCO Pacific will also capture the robust growth of the global container transport industry by enhancing its competitiveness and strengthening its overseas terminal networks.

According to a research report published in July 2003 by Drewry Shipping Consultants Ltd., a leading international shipping consultant, COSCO Group was ranked as the eighth largest global terminal operator in 2002. Its terminals portfolio is mainly operated by COSCO Pacific.

Currently, the global container terminal operators can be divided into three categories. The first category is the global carrier with container shipping being its prime focus of business. It provides containers to be handled by terminals. The second category is the global stevedore with terminal operation being its prime focus of their business. The third one is other investors that contribute capital to invest in terminal business. Among these three operators, the global carrier has the most competitive advantages in terminal investments. It is because its vessels call at terminals to handle its containers.

Container throughputs of top ten global operators in 2002

Global operator[1]	TEUs[2]	Percentage of the total	Forecast CAGR for 2002-2008[3]
HPH	36,700,000	13.3%	4.2%
PSA	26,200,000	9.5%	4.1%
APM Terminals	17,200,000	6.2%	5.7%
P&O Ports	12,800,000	4.6%	7.5%
Eurogate	9,500,000	3.5%	4.2%
Evergreen	5,700,000	2.1%	3.5%
DPA	5,300,000	1.9%	7.5%
COSCO	4,700,000	1.7%	6.8%
Hanjin	4,700,000	1.7%	9.4%
SSA Marine	4,400,000	1.6%	9.6%

Note 1: Global operators are those that have terminal investments in more than one region.
Note 2: Calculated in proportion to the attributable shareholding in the relevant terminals, excluding those terminals in which global operators have less than a 10% interest.
Note 3: Only contracted development projects are included.

Source: Annual Review of Global Container Terminal Operators of Drewry Shipping Consultants Limited , July 2003

The terminals of global operators account for an increasingly significant proportion of aggregate global terminal throughput. According to the Drewry report, the total terminal throughput of 23 global operators was approximately 160,000,000 TEUs in 2002 (2001: 131,800,000 TEUs), accounting for 58.0% (2001: 53.2%) of aggregate global throughput. The privatisation of ports and the expansion of existing port facilities have provided remarkable investment opportunities for investors. However, the subsequent growth in handling capacity has intensified competition in the terminal industry, with port operators vying to attract shipping lines to their terminals. To survive in this competitive environment, many port operators have entered into partnerships with large shipping lines or other similar entities to invest in terminal operations. These shipping lines shift their routes to their invested terminals, thereby enhancing the terminals' income and achieving a win-win situation for both themselves and the port operators.

The ports along the coast of China have been in particularly high demand by international shipping lines. In 2003, COSCO Pacific expanded its terminal operations through various investments by joint ventures. Our partners include port authorities in Shanghai, Shenzhen, Qingdao, Tianjin and Dalian, and global operators including Hutchison Whampoa Limited, PSA Corporation Limited, A.P. Moller and P&O Ports. All of these acquisitions are quality terminal investments. The terminals provide comprehensive services to customers. With the strong strategic partnership of global carriers that help to provide stable sources of income to terminals, these terminals have prosperous future.

COSCO Pacific is the only terminal flagship of COSCO Group. COSCO Pacific's success in developing into one of Asia's leading terminal operators reflects the strong support of its parent company, as well as being supported by a leading global carrier that reinforce our unique position as the "Gateway to China".

Expanding into the rapidly growing logistics sector

Due to the rapid development of the international trade, companies are looking for ways to streamline their organisations for profitability. They are looking for ways to grow without losing their competitive edges. Consequently, outsourcing has become a powerful tool for achieving both steamlined productivity and competitive customer service. This provides great opportunity for the logistics industry. The rapid development of information technology allows the logistics sector to provide comprehensive and value-added services to cargo owners so as to reduce their expenditure in logistics.

In the US, the national amount spent on logistics as a proportion to GDP has gradually declined to around 10% due to the efficient services provided by transportation sector, especially by the logistics and shipping industries. In China, according to the China Federation of Logistics and Purchasing, the national amount spent on logistics accounts for approximately 20% of GDP and this proportion is even higher in certain provinces. Therefore, providing efficient services to lower customers' logistics expenditure provides an opportunity of the Chinese logistics industry.

The rapidly growing Chinese economy has created a favourable environment for the development of the logistics industry. As the foreign investment in China grows, multinational corporations are increasingly shifting their operations to China mainland. These multinational corporations, together with local Chinese companies are seeking to lower operating costs by outsourcing logistics services to professional contractors. As a result, the demand for comprehensive logistics service providers will definitely be on the rise.

During the year, COSCO Pacific entered the logistics sector through its acquisition of a 49% equity interest in COSCO Logistics Co., Ltd. ("COSCO LOGISTICS") from COSCO Group. With the well-established customer network of the COSCO Group and the terminals network of COSCO Pacific, COSCO LOGISTICS will leverage off its competitive edge and expand rapidly in logistics industry in China.

Strong market performance

China is gradually integrating into the globalisation of international trade and the benefits of reforms in the state-owned sector are beginning to emerge. The business performance of state-owned enterprises have improved. During the year, share prices of Chinese listed companies in Hong Kong outperformed the market index. COSCO Pacific's share price outperformed the market and was up by 61.7% in 2003.

The increase in market value of COSCO Pacific was primarily attributable to our efforts to conduct our business with integrity and continuously pursue improvement initiatives, thereby winning the trust and support of our shareholders and stakeholders. The positive investment community sentiment has facilitated our fund raising activities in the capital markets. From 1994 to 2003, the Group raised an aggregate of US$3,494,000,000 for the funding of various business development initiatives.

Market recognition

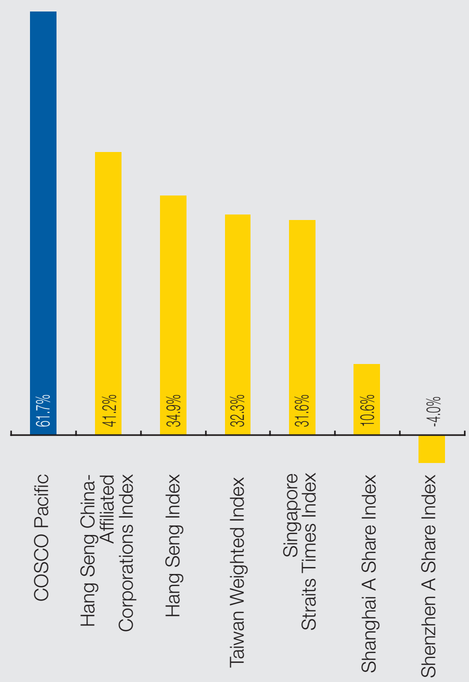
On 9th June 2003, COSCO Pacific was admitted as a constituent stock of the Hang Seng Index, becoming the first Chinese shipping-related company to be recognised as a blue chip. We are very proud of this significant development, particularly since it validates our past performance and achievements. I specially wrote a poem for this historic moment: "Hang Seng Thirty-Three, At the Top of the Tree, Ten Years Sowing Seeds, A Blue Chip COSCO Succeeds". At COSCO Pacific, we are committed to creating value for our shareholders and delivering high quality services to our customers. The trust placed in COSCO Pacific by our shareholders and customers has led to the Company's strong performance.

Pursuit of integrity

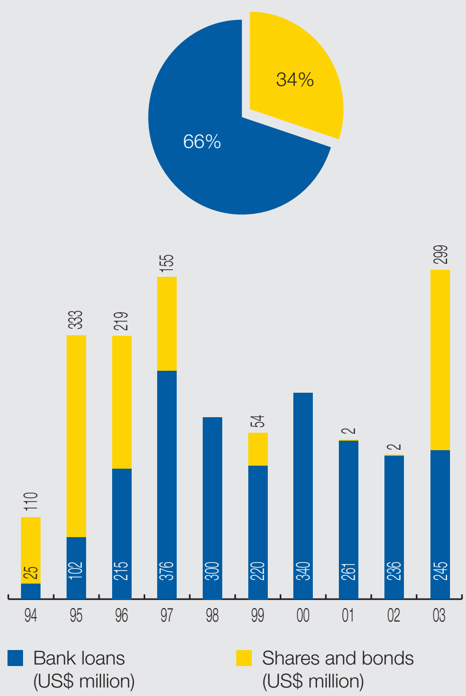
The successful relationships established between COSCO Pacific and its shareholders, customers, business partners, investors, employees and the general public have contributed to the steady development of the Company. The integrity with which we have built our business has won market recognition. We will continue to enhance corporate governance and to fulfill our social responsibilities. We will also work to increase investor confidence through our commitment to quality management and high levels of transparency. Over the long term, our objective is to develop into a large-scale enterprise with sound earnings potential and effective management.

Share price of COSCO Pacific outperformed the Hang Seng Index

(Comparison of share prices as at 31st December 2003 and 2002)



Funds raising activities



Committed to enhancing corporate governance

The board of directors (the "Board") implement constantly all the key principles of corporate governance in the long term interests of shareholders and stakeholders and the management of COSCO Pacific are committed to balancing the long term interests of stakeholders. In addition to complying with the requirements of The Stock Exchange of Hong Kong Limited, the Company implemented the following initiatives during the year to further enhance corporate governance:

- We aimed to improve the efficiency of the Board, strengthen the monitoring of management, and enhance fairness, transparency, accountability and responsibility. In addition to the Audit Committee established in 1998, Investment and Strategic Planning Committee, Corporate Governance Committee, Risk Management Committee, Nomination Committee and Remuneration and Assessment Committee were formed. There are a total of six specialised committees monitoring the operations of the Group.
- The senior management of COSCO Group was appointed to the Board as executive directors to ensure that COSCO Group provides full support to the development of COSCO Pacific.
- The Board meeting will be held four times each year to further strengthen their monitoring function.
- To further improve transparency. In addition to results announcements which take place twice a year, we also conducted quarterly investor forums and analyst conferences to enhance communication with the investment community.
- We increased disclosure by publishing on our website the monthly throughputs of terminals operated by the Company.

Social responsibility

We believe that the success of a company should be measured in terms of the fulfillment of its environmental protection duties and social responsibilities as well as its financial performance. In December 2002, in commemoration of its eighth anniversary of being listed, the Company hosted a plantation function in Tai Po Waterfront Park, Hong Kong, which was attended by all members of staff. The purpose of this event was to increase the staff's awareness of environmental protection. The Company has also made a donation of HK$500,000 in May 2003 for the purchase of insurance for frontier medical staff fighting against the SARS in Beijing.

Economic outlook and risk factors

Despite the favourable outlook for the global economy and market in 2004, the following risk factors may affect the development of shipping-related enterprises:

- China adjusted its policy on export tax rebates and this may slow down the growth of the country's foreign trade.
- As China implements certain agreements it entered into as a member of the World Trade Organisation, and as the US-China maritime agreement being reached, further deregulation is expected in the domestic freight forwarding and inland logistics transport markets. As such, competition in China market is expected to increase. In addition, trade frictions may escalate between China and other countries, in particular the US.
- Several uncertainties such as the general elections in the US, geopolitical instabilities and oil price fluctuations may affect the growth of world trade.

In spite of the above, the global economic and trade recovery is expected to accelerate in 2004. The economy of China and the international shipping market are expected to maintain their growth momentum. As such, the above risks may be mitigated by proper prevention measures.

Clear signs of a global economic recovery

The US economic recovery is expected to sustain in 2004. The Euro zone and Japan are showing positive signs, and other Asian economies are also likely to maintain their rapid growth. According to the International Monetary Fund, the global economy is forecast to further grow by 4.1% in 2004. Stimulated by the strong global economy, the growth rate of global commodity trading is expected to reach 5.4% in 2004, 2.5 percentage points higher than in 2003.

Booming economic development of China

China's economy is forecast to grow by approximately 7% in 2004. The strength of the domestic economy and the recovery of the global economy are expected to boost China's foreign trade activities. Given the increasing inbound investment in China and the growing demand for shipping services, it is estimated that in 2004 China's containerised exports will continue to grow steadily.

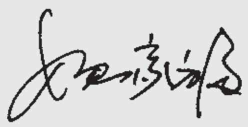
Further improvement in the peripheral foreign trade environment

From 2004, a number of provisions under the China-ASEAN Free Trade Area Agreement and the Closer Economic Partnership Arrangement will start to take effect. Accordingly, import tariffs on certain major commodities will be reduced to zero. The trade incentives will not only trigger the import growth of certain commodities, but will also have a positive effect on expanding exports. The rapid growth in China's foreign trade is likely to be characterised by a stronger growth in imports than in exports as it was in 2003, which will be conducive to improving the balance between outbound and inbound shipping.

Outlook

Looking ahead, COSCO Pacific will pursue its strategy of "capturing global opportunities". The Company will leverage its solid foundation in China and actively pursue business development opportunities around the world. Meanwhile, it will also work with international partners to jointly seize the business opportunities in China through investing in its three core business segments of container leasing, container terminal and logistics operations. Our aim is to improve the effectiveness of management and the Company's market performance so as to add value to shareholders and to meet the expectations of our stakeholders.

On behalf of the Board, I would like to take this opportunity to express my gratitude to our customers and shareholders for their support and to our employees for their dedication and contribution over the past few years.



WEI Jiafu

Chairman

25th March 2004

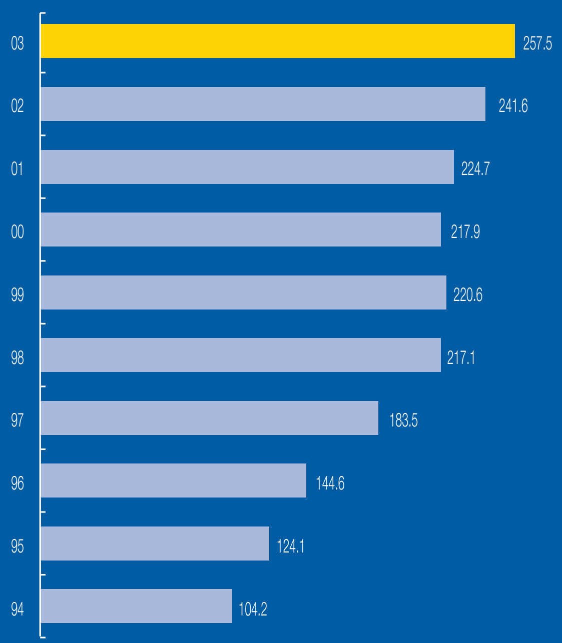
Vice Chairman's report

Performance and value

Despite the challenging business environment in 2003, with the efforts and dedication of our staff, COSCO Pacific achieved all of its operational and financial targets. In 2003, the overall performance of the Company was solid, with a profit attributable to shareholders of US$154,331,000, representing an annual increase of 8.5% over 2002 or 16.2% without taking into account the major non-recurring items in 2002 and 2003.

Turnover

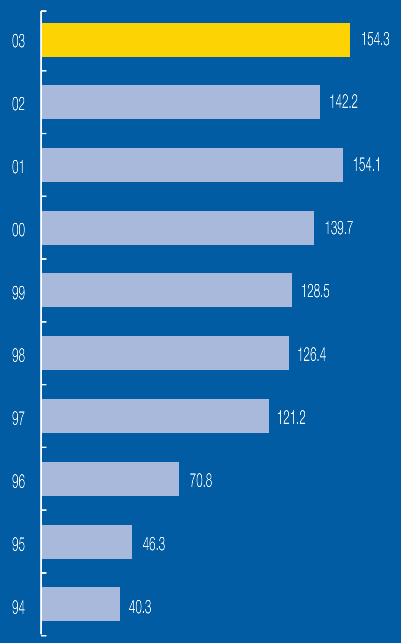
Unit: US$ million



Profit attributable to shareholders

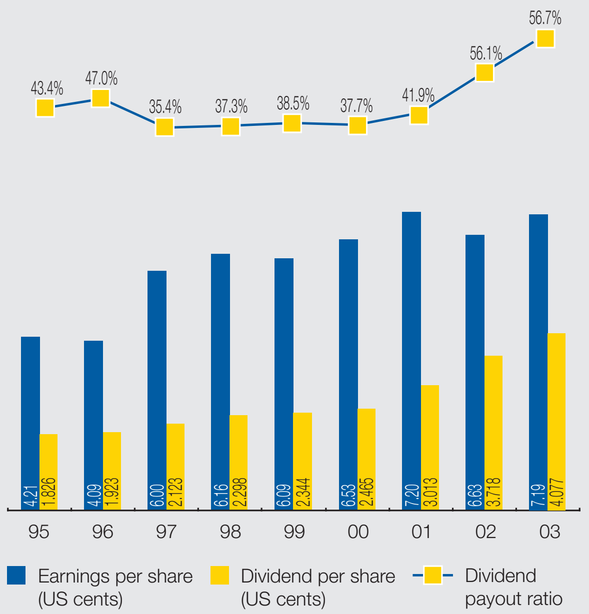
(1994 to 2002, restated as appropriate)

Unit: US$ million



The Company is committed to enhancing its corporate value and providing a sustainable return to its shareholders. While the market value of an enterprise is embodied by its share price, dividend payments form an integral part of investment returns for shareholders. The Board recommended the payment of a final cash dividend of HK18.0 cents per share (2002: HK18.0 cents). Taking into account the interim dividend of HK13.8 cents per share paid in cash on 20th October 2003, the total cash dividend for 2003 will be HK31.8 cents per share (2002: HK29.0 cents), representing a dividend payout ratio of 56.7% (2002: 56.1%, as restated). The Group is very optimistic about its future prospects. On the basis of its strong cash position, the Company maintains an appropriate dividend policy to enhance the return to its shareholders.

Maintaining a steady dividend payout policy



During the year, COSCO Pacific continued to add value for its shareholders by implementing its management philosophy of "Cost Effectiveness, Market Orientation, Quality Service, Strong Management and Team Spirit". With particular emphasis on cost effectiveness, we put in place stringent management measures and made aggressive efforts in market expansion to pave the way for the implementation of various major initiatives. Apart from seeking steady growth in our existing three core businesses, active efforts were made in developing new growth centres. During the course of the year, we also made strides in enhancing corporate governance, thereby winning the appreciation of the market. Finally, we are also pleased to see that the development of new projects progressed well in 2003.

Strengthening project investment

The growth of COSCO Pacific accelerated substantially in 2003. The total capital expenditure during the year was US$300,764,000, a record high since 1997. Of this figure, US$195,606,000 (2002: US$153,745,000) was spent on the purchase of 142,218 TEUs (2002: 119,466 TEUs) of new containers. Investment in new terminals was US$100,355,000 (2002:US$35,035,000).

Steady growth in container leasing operations

With the container fleet growing by 14.3% to 808,825 TEUs, our market share rose to approximately 9.7% (2002: 9.3%), making the Company the fifth largest container leasing company in the world. The Company's annual average utilisation rate reached 95.2% (2002: 93.4%), well above the industry average of approximately 89% (2002: 83%). The steady growth in container leasing operations provided a substantial income and solid earnings basis for the Company.

Investing and expanding terminal operations

COSCO Pacific has interests in ten China mainland terminals and one Singapore container terminal. The total number of berths will be increased to 51 (2002: 31 berths), with an aggregate handling capacity of 26,000,000 TEUs. Aggregate throughput increased by 33.4% year-on-year to 17,901,012 TEUs.

The Company primarily expanded its container terminal operations through three means:

- Participation in the expansion of existing terminal;
- Acquisition of other existing terminal; and
- Participation in the construction and operation of new terminal.

During the year, three terminals were acquired which were all operational, and one other terminal started operation, providing a total of 20 berths and an annual handling capacity of 12,200,000 TEUs. The Company also entered into agreements for the acquisition of a 14% equity interest in Tianjian Five Continents International Container Terminal Co., Ltd. and a 30% equity interest in Dalian Automobile Terminal Co., Ltd. While focusing on the investment and operation of container terminals in China, the Company will also explore investments in specific terminals with attractive potential and return, such as automobile terminal, so as to leverage its existing strength in terminal operation and to diversify its business and to add profit growth engine.

In addition to its China container terminal business, COSCO Pacific aims to capture the robust growth of the global container transport industry by enhancing its competitiveness and strengthening its overseas terminal network. To this end, the Company will explore developing container terminals in overseas hub ports, particularly where COSCO Group's fleet has substantial container handling demand.

The Company's first overseas expansion was in Singapore, the world's second largest container port and a major port in South East Asia. During the year, COSCO Pacific and PSA Corporation Limited jointly established COSCO-PSA Terminal Private Limited, in which the Company holds a 49% equity interest. The first berth of the terminal commenced operation on 1st November 2003. This investment was an important step taken by COSCO Pacific towards overseas expansion and developing into a leading Asian container terminal operator.

Given the close linkage between COSCO Pacific's container terminal operation and logistics businesses, the Group will strive for developing both in such a way as to maximise synergies and enhance competitiveness.

Terminal	Commencement of operation	Number of berths	Annual throughput (TEUs)
Shanghai Pudong International Terminal	March 2003	3	2,300,000
Yantian International Terminals Phase III (started operation)	October 2003	4	2,400,000
COSCO-PSA Terminal	November 2003	2	1,000,000
Qingdao Qianwan Terminal	January 2004	11	6,500,000
Total		20	12,200,000

Acquisition of the logistics operation platform

On 22nd September 2003, COSCO Group and COSCO Pacific entered into an agreement to acquire a 49% interest in COSCO Logistics Co., Ltd. ("COSCO LOGISTICS"), a wholly owned subsidiary of COSCO Group. The said agreement was approved by a special general meeting of COSCO Pacific held on 29th October 2003 and the acquisition process has been completed in January 2004. The opening ceremony was held on 18th February 2004. Acquiring COSCO LOGISTICS not only provides a sound opportunity for COSCO Pacific to access the buoyant logistics industry developing in China mainland, but also to fully capitalise on the brand name effect of COSCO Group and to create synergies between container transportation and modern logistics industries. COSCO Pacific believes that the acquisition will add value for shareholders and bring the Company closer towards achieving its goal of becoming a leading logistics service provider in China mainland and Hong Kong.

The competitive advantages of COSCO LOGISTICS include the following:

- an extensive and closely-knit service network covering all strategic economic regions in the PRC;
- the solid reputation of COSCO LOGISTICS and its holding company, COSCO Group;
- provision of comprehensive logistics services to customers through its shipping agency, freight forwarding, third party logistics and supporting services;
- extensive customer base covering various local and multinational companies; and
- continued strong support from its holding company, COSCO Group, which has been dedicated to developing the restructured COSCO LOGISTICS group into a leading logistics service provider in China mainland.

Enhancing capital efficiency

In September 2003, COSCO Pacific issued US$300,000,000 of 10-year notes. The market reaction was very overwhelming and the total subscription were 5.4 times of the issued amount. Investors came from Europe, Hong Kong, China mainland, Singapore and other Asian regions. This financing exercise diversified the Company's fund raising channels and improved its debt maturity profile. The average debt maturity period was extended from less than 3 years to 7.4 years, providing a solid foundation for the continued development of the Company.

In addition, a subsidiary of the Company, obtained a five-year syndicate loan of US$175,000,000 on 17th February 2003 for general working capital and re-financing purposes. Apart from being oversubscribed with very favourable terms, this fund raising exercise further reflected the Group's sound creditstanding and its supports from the banking community.

Improvement of risk controls

In addition to nurturing new profit centres, reducing costs and enhancing operational efficiency are also long term business strategies of the Company. Indeed, risk management is a fundamental concern when a business is running at full speed.

COSCO Pacific adopted a prudent financial policy by regularly reviewing its financial risks, gearing ratio, cash flow and asset quality. The same prudent approach was also taken in developing new business and controlling investment risk. In addition, an investment approval mechanism and economic efficiency indices for operation and investment projects were established and strictly enforced. Investment and Strategic Planning Committee, Corporate Governance Committee and Risk Management Committee were established by the Board to strengthen the management of operational and investment risks.

The road forward for 2004

The economic outlook for 2004 is likely to improve from 2003. It is expected that the aggregate throughput of global container terminals will continue to grow at a fast pace, presenting ample opportunities for the Company. Our strategy will focus on further strengthening the Company's leadership position in the container leasing market as well as strengthening its terminal operations so as to capture the robust economic growth in China and the expected demand for container leasing and terminal services from large shipping corporations. The Company will also continue to explore opportunities in the logistics sector.

It is my strong belief that with the concerted efforts of COSCO Pacific's staff, we will be successful in exploring new projects, enhancing market competitiveness and improving the effectiveness of management. Through these dedicated efforts, we aim to maximise the overall value and operations efficiency of the Company to create a better return for our shareholders.

LIU Guoyuan

Vice Chairman

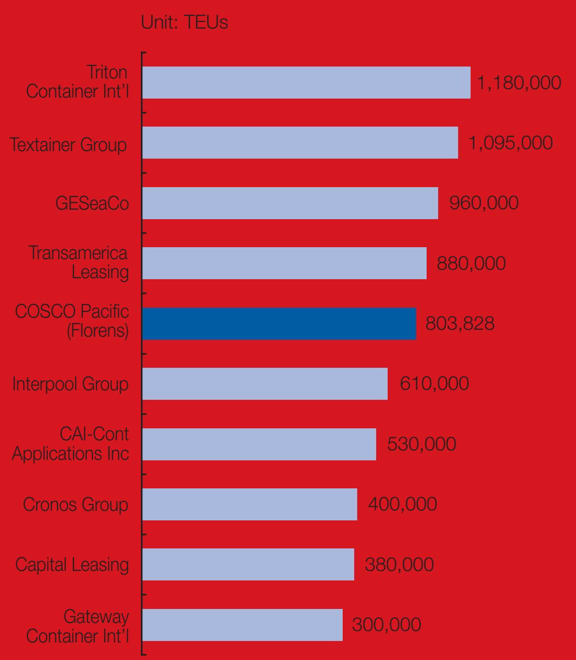
25th March 2004

Container Leasing Review

Review of the container leasing market

2003 was a year of challenges and opportunities for the container leasing market. Despite intense competition, the Group maintained its leading position in the industry by closely monitoring and analysing global market and economic trends to explore opportunities for expanding market share. COSCO Pacific owns the world's fifth largest container leasing company, which is operated and managed by our wholly owned subsidiary, Florens Container Holdings Limited, and its subsidiaries ("Florens").

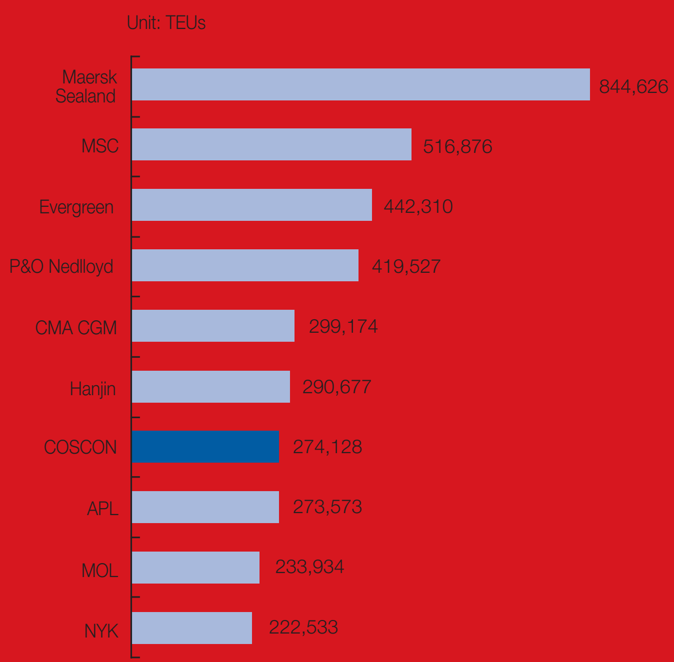
Top ten container leasing companies in the world in 2003



Source: Containerisation International (December 2003)

Note: The above figures do not include those TEUs under finance leases. If the 4,997 TEUs under finance leases were included, the container fleet of Florens would have a total of 808,825 TEUs.

Top ten container shipping companies in the world in 2003



Source: Containerisation International (October 2003)

Note: The total fleet capacity of COSCON was 257,000 TEUs in early 2004 and it plans to expand its capacity to 400,000 TEUs by 2006.

Containers On-hire

Containers Off-hire

Containers Used Worldwide

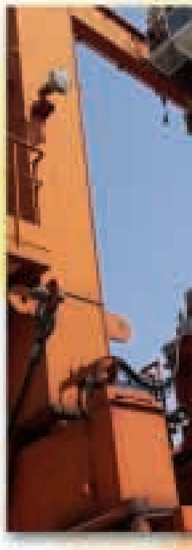
Florens

Customer Contact

- Long term Lease
- Master Lease
- Finance Lease

Customer Services

- Booking Containers
- Returning Containers



Florens has developed a portal with unique features, providing more accessible online services and enhanced e-commerce functions for its customers and employees. In order to better cater for customer needs, Florens has also developed innovative services relating to its leasing, products and cooperative models as well as provided tailor-made services to VIP clients. These initiatives have enabled Florens to enhance its partnerships with its customers.

Manufacturers

- Manufacture containers according to specifications

Depots

- Container storage, repairs and maintenance
- 174 depots worldwide
- Asia Pacific 35%
- Americas 29%
- Europe 36%

Container Management

In 2003, Florens secured supports of its target customer group by solidifying its efforts in market expansion and enhancing customer relationship. In line with customer demands, new containers of 142,218 TEUs (2002: 119,466 TEUs) were ordered and purchased during the year, accounting for approximately 12.9% of the new production of container leasing industry in 2003 (2002: 12.9%). As at 31st December 2003, Florens had a container fleet of 808,825 TEUs (2002: 707,890 TEUs), accounting for approximately 9.7% (2002: 9.3%) of the global market share, an increase of 0.4% year-on-year, after deducting 4,997 TEUs (2002: 13,733 TEUs) under finance leases.

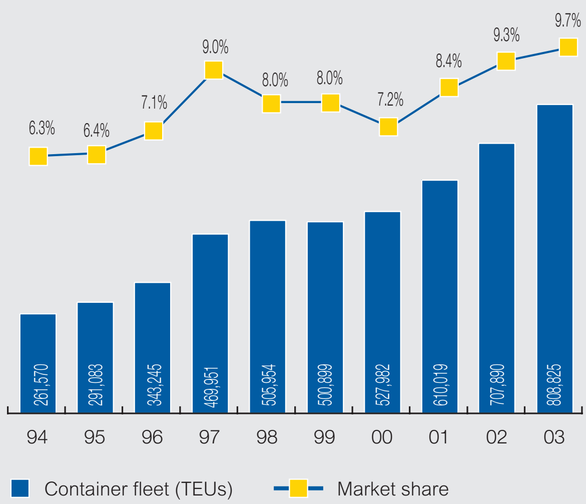
Expansion of customer base

Florens principally provides 10-year container leasing services for COSCO Container Lines Company Limited ("COSCON"), the PRC's largest and the world's seventh largest container liner operator, and both long term and master lease container leasing services for other international customers ("International Customers"). As at 31st December 2003, total number of customers of Florens was 202 (2002: 176).

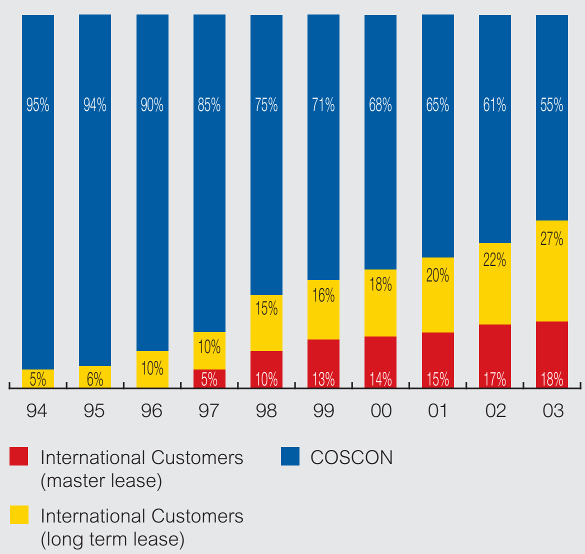
Revenue of container leasing

Florens' container leasing business made solid progress in 2003. Turnover rose by 6.5% to US$239,689,000 (2002: US$225,004,000), of which container rental income amounted to US$239,046,000 (2002: US$224,440,000). Container rental income from COSCON was US$130,567,000 (2002: US$136,110,000), accounting for 54.6% (2002: 60.6%) of Florens' container rental income. Container rental income from International Customers was US$108,479,000 (2002: US$88,330,000), accounting for 45.4% (2002: 39.4%) of Florens' container rental income, of which long term and master lease rentals were US$64,873,000 (2002: US$49,158,000) and US$43,606,000 (2002: US$39,172,000) respectively. Increase in rental income from International Customers was due to higher leasing volume.

CAGR of container fleet size: 13.4%



Percentage of rental income



As at 31st December 2003, Florens leased a total of 310,444 TEUs (2002: 329,028 TEUs) to COSCON, representing 38.4% (2002: 46.5%) of Florens' total container fleet. Containers available to International Customers rose significantly to 498,381 TEUs (2002: 378,862 TEUs), representing 61.6% (2002: 53.5%) of the total container fleet, of which long term and master lease were 326,608 TEUs (2002: 221,063 TEUs) and 121,959 TEUs (2002: 116,178 TEUs) respectively.

Container fleet analysis

In 2003, Florens' container fleet increased by 14.3% to 808,825 TEUs (2002: 707, 890 TEUs), with an average ageing of 4.3 years (2002: 4.4 years). During the year, Florens acquired new containers and sold or re-leased containers returned by COSCON upon expiry of their leases ("Returned Containers").

	2003 TEUs	2002 TEUs
Total containers (as at 1st January)	707,890	610,019
New containers purchased	142,218	119,466
Returned Containers from COSCON upon expiry of leases		
Total	(27,729)	(14,334)
Re-leased	3,943	695
Disposed of and pending for disposal	(23,786)	(13,639)
Ownership transferred to customers upon expiry of finance leases	(12,779)	(5,178)
Defective containers written off	(4,718)	(2,778)
Total containers (as at 31st December)	808,825*	707,890*

* Including 16,680 TEUs (2002: 5,218 TEUs) managed on behalf of a third party.

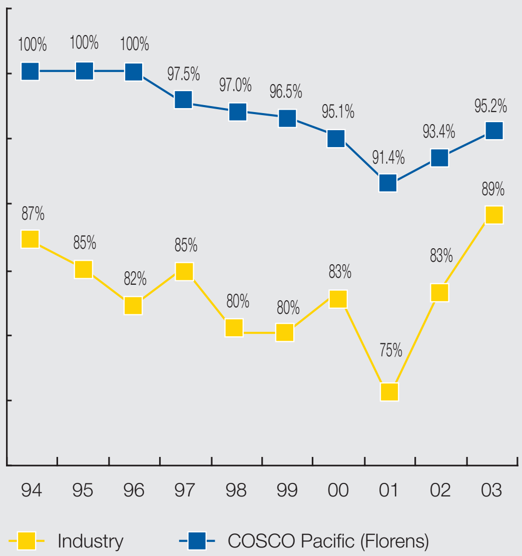
Container fleet analysis by TEUs

31st December 2003	Total	COSCON	International Customers
Total containers	808,825	310,444	498,381
Dry	93.8%	91.1%	95.5%
Reefer	4.6%	8.0%	2.5%
Special	1.6%	0.9%	2.0%
31st December 2002	**Total**	**COSCON**	**International Customers**
Total containers	707,890	329,028	378,862
Dry	92.9%	91.0%	94.5%
Reefer	5.2%	7.9%	2.9%
Special	1.9%	1.1%	2.6%

Utilisation rates

Overall annual average utilisation rate of Florens further increased to 95.2% (2002: 93.4%), well above the industry average of about 89% (2002: 83%), while containers leased to COSCON remained 100% utilised. The increase was primarily attributable to market improvement and Florens' enhanced marketing effort to capture market opportunities and improve quality level of customer service in securing supports from International Customers.

Utilisation rate above industry average



Handling of returned containers

In 2003, a total of 27,729 TEUs (2002: 14,334 TEUs) of Returned Containers was received from COSCON with 23,619 TEUs (2002: 15,710 TEUs) being disposed of during the year, including the containers returned in 2003 and those brought forward from the end of 2002 respectively. Net loss on disposal of the Returned Containers in 2003 amounted to US$4,349,000 (2002: US$4,384,000) was due to high carrying net book value of the Returned Containers.

In 2004, Florens expects to receive Returned Containers of about 60,000 TEUs (2003: 27,729 TEUs) from COSCON. Florens will continue to renew, dispose of or re-lease the remaining Returned Containers.

Risk management

Florens has strengthened its credit risk management systems in its container leasing business through

- expanding its customer base to avoid over-concentration in one particular region and implementing leasing limits on each International Customer based on a specific ratio of Florens' total fleet;
- achieving an optimal mix of relatively high-risk and low-risk customers while seeking a higher average return from relatively high-risk customers provided that risk is limited;
- acquiring appropriate insurance policies to prevent losses due to the reliance upon any one specific customer.

Customers are divided into 7 grades according to their size, ownership, assets, financial position, operating conditions, payment and credit records, operating routes, alliances, national and political risk, reputation and quality of management. Coping with the business development, the implementation of effective credit risk management systems in the container leasing business will help to enhance the Company's financial performance as well as facilitate the collection of rent and related expenses.

Container leasing market outlook

In general, both rental income and credit risk associated with long term leases are relatively lower. Master leases involve higher rental income and related expenses as well as greater credit risk. During volatile market conditions, revenue from long term leases is more stable; however, during stable and robust market conditions, revenue from master leases is higher. Florens closely monitors global economic and market trends so as to strategically adjust the proportion between long and master leases to maximise returns.

Given that the global economy is still in the recovery stage in 2004 and uncertainties still lie ahead, it is expected that the market conditions may not be completely stable. As such, we will focus on securing long term leases in the year of 2004 to maintain a high utilisation rate and stable rental income.

The price of new containers declined significantly over the last 10 years, reaching a historic low in early 2002. Given that the rental rate fluctuates according to the price of containers, the average rental rate also decreased continuously, impacting both rental income and profit. Material cost and the supply and demand are the key factors that drive the container price in coming years.

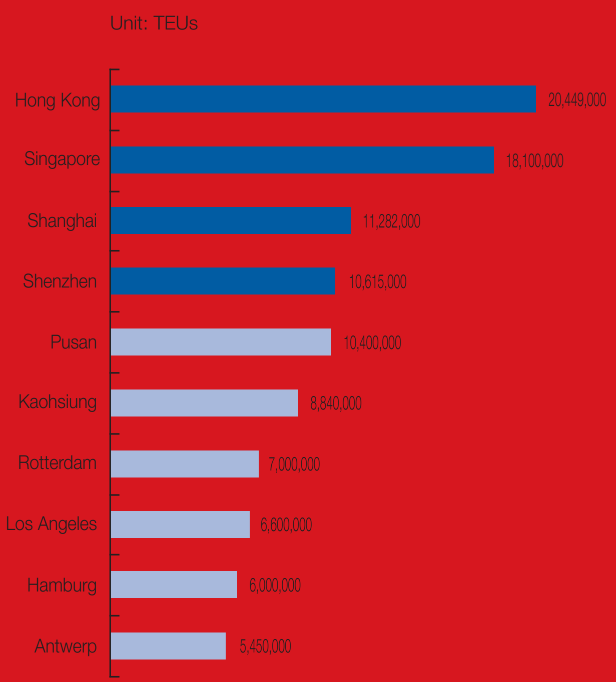
By the end of 2003, however, the price of containers rose alongside the increase in prices of steel. Prior to this increase in price, Florens had placed order to manufacture a quantity of containers under the new purchase plan for 2004 to enhance competitiveness and offset the expected increase in costs. Florens is optimistic about the prospects of the container leasing business and plans to acquire about 120,000 TEUs of new containers in 2004. The management closely monitors, analyses and reviews the annual acquisition plan of new containers so as to keep abreast of the changes in market demand and to maintain Florens' leading position.

Container Terminal Review

Review of the container terminal market

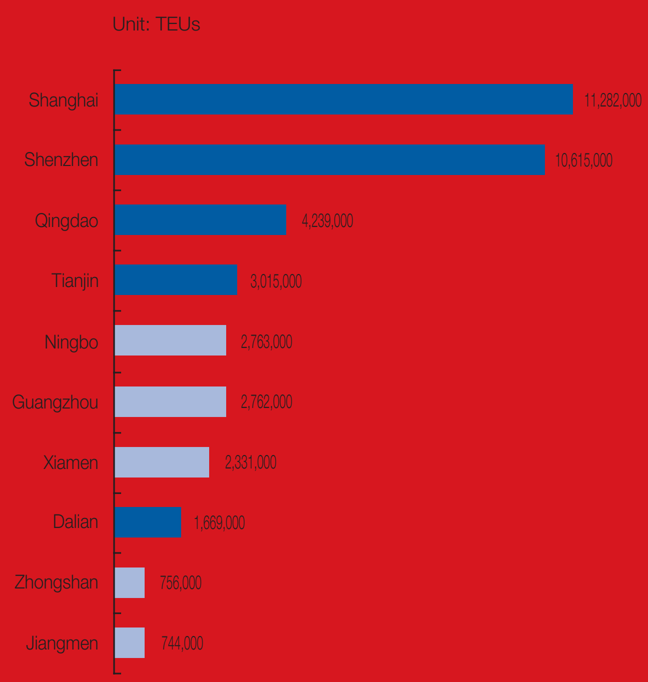
In 2003, the global container terminal market continued its strong growth. In China, container terminal throughput reached 48,000,000 TEUs, a 29.7% increase from 2002, as a result of a 9.1% growth in the economy and a 37.1% growth in foreign trade. The terminals in which the Group has equity interests are located in the Pearl River Delta, Yangtze River Delta and Bohai Rim, where the container terminal sector remains the most concentrated and promising in terms of container throughput. The Group will continue to take advantage of its knowledge of the China market and the support of the container fleet of COSCON to expand its container terminal operations.

Throughput of the world's top ten container ports in 2003



Source: www.snet.com.cn

Throughput of China's top ten container ports in 2003



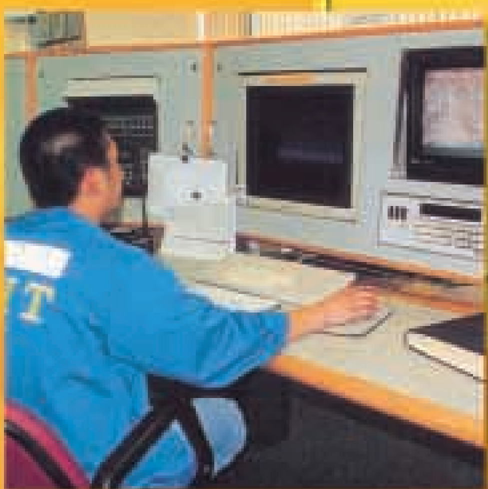
Source: www.snet.com.cn

■ Ports in which COSCO Pacific has terminal investments

Quay Crane

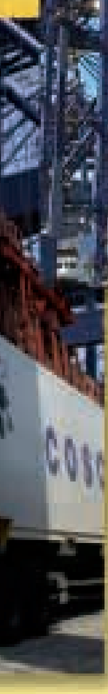
Feeder Tractor

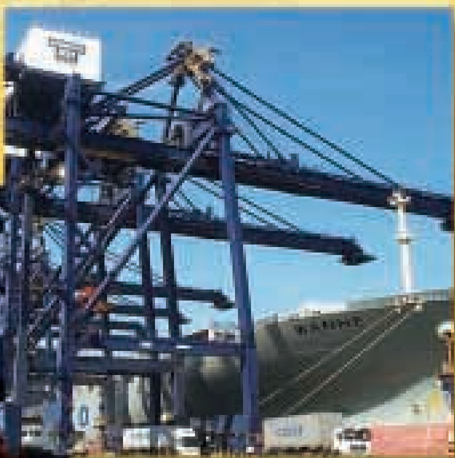
Transport containers between vessels and the yard



Control Tower

Coordinates loading and unloading of containers and the operation of the yard





Loading and unloading of containers

Outgate

Ingate

Yard Crane

Containers to be delivered or collected

Container terminal review

COSCO Pacific is one of the leading terminal operators in the Asian region. It has equity interests in 10 container terminals on the coastal ports of China and 1 container terminal in Singapore, and the total number of berths will increase to 51 (2002: 31 berths) and a total handling capacity of 26,000,000 TEUs (2002: 13,800,000 TEUs). Including the River Trade Terminal which was sold in June 2003, the total throughput for the year amounted to 17,901,012 TEUs (2002: 13,420,639 TEUs), up 33.4% year-on-year.

	Shareholding (%)	Total area (square metres)	No. of berths	Depth alongside (metres)	Annual handling capacity (TEUs)
PEARL RIVER DELTA					
COSCO-HIT	50	300,000	2	15.5	1,800,000
Yantian International Terminals	5	1,180,000	5	14.0 – 15.5	4,500,000
Yantian International Terminals (Phase III)	4.45	900,000	4	16	2,400,000
Shekou Terminals	17.5	234,000	2	14	1,300,000
YANGTZE RIVER DELTA					
Shanghai Terminals	10	830,000	10	9.4 – 10.5	3,500,000
Shanghai Pudong International Terminals	20	500,000	3	12	2,300,000
Zhangjiagang Win Hanverky Terminal	51	200,000	2	11	300,000
BOHAI RIM					
Qingdao Qianwan Terminal	20	2,250,000	11	17.5	6,500,000
Qingdao Cosport International Terminals	50	250,000	1	13.5	600,000
Dalian Port Container Co.	8	726,000	9	12.1 – 14.0	1,800,000
OVERSEAS					
COSCO-PSA Terminal	49	228,000	2	15	1,000,000
Total			51		26,000,000

Throughput: TEUs	2003 (1)	2002 (1)	+/-
PEARL RIVER DELTA			
COSCO-HIT	1,513,559	1,526,074	-0.8%
River Trade Terminal (2)	1,074,348	1,797,096	-40.2%
Yantian International Terminals (Phases I, II and III) (3)	5,258,106	4,181,478	+25.7%
Shekou Terminals	1,323,235	883,572	+49.8%
YANGTZE RIVER DELTA			
Shanghai Terminals	3,400,963	3,049,080	+11.5%
Shanghai Pudong International Terminals (4)	1,766,351	N/A	N/A
Zhangjiagang Win Hanverky Terminal	247,306	202,348	+22.2%
BOHAI RIM			
Qingdao Qianwan Terminal (Phase II) (5)	1,332,746	N/A	N/A
Qingdao Cosport International Terminals	244,159	454,528	-46.3%
Dalian Port Container Co.	1,644,409	1,326,463	+24.0%
OVERSEAS			
COSCO-PSA Terminal (6)	95,830	N/A	N/A
Total throughput	17,901,012	13,420,639	+33.4%

Notes:

(1) The data represent throughput as from the effective date of acquisition of respective equity interests.

(2) The 10% equity interest in the River Trade Terminal was disposed of on 27th June 2003.

(3) The first 2 berths of Yantian International Terminals Phase III became operational in October and November 2003 respectively, with the other 2 berths to be operational in 2004.

(4) Shanghai Pudong International Terminals officially opened for business on 1st March 2003.

(5) The acquisition agreement of 20% interest in Qingdao Qianwan Terminal (Phase II) was entered into by the Group in July 2003 and the deal was completed in December 2003. After the restructuring, Qingdao Qianwan Container Terminal Co., Ltd. (include Qingdao Qianwan Terminal Phases II and III) opened for business on 1st January 2004.

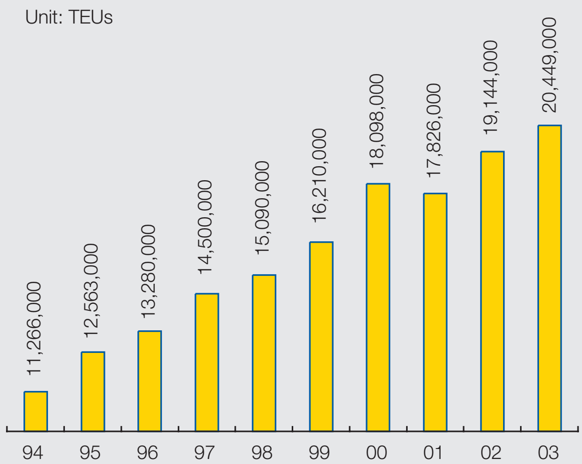
(6) COSCO-PSA Terminal officially opened for business on 1st November 2003. One berth was being operated during the year with planned expansion to two berths prior to 2008.

(7) Cheer Hero Development Limited ("Cheer Hero Terminal"), a subsidiary of Plangreat Limited which is in turn a wholly owned subsidiary of the Group, registered a throughput of 56,597 TEUs (2002: 65,935 TEUs). Taking this into account, the Group achieved a total throughput of 17,957,609 TEUs in 2003 (2002 : 13,486,574 TEUs) or a 33.2% year-on-year growth.

Hong Kong

Situated at the mouth of the Pearl River and in close proximity to Shenzhen in the southern province of Guangdong, Hong Kong's prime location and deep water harbour have made it the most important entreport for foreign trade in China. The territory has grown into an international financial, information and transportation centre. In 2003, the annual container throughput of Hong Kong ranked the first in the world at 20,449,000 TEUs, representing a year-on-year increase of 6.8%. Hong Kong is known for its efficiency, superior international route connections and advanced information networks. It plays an important role in complementing the major container terminals of southern China by providing efficient services for the phenomenal growth of container trade and transportation in China.

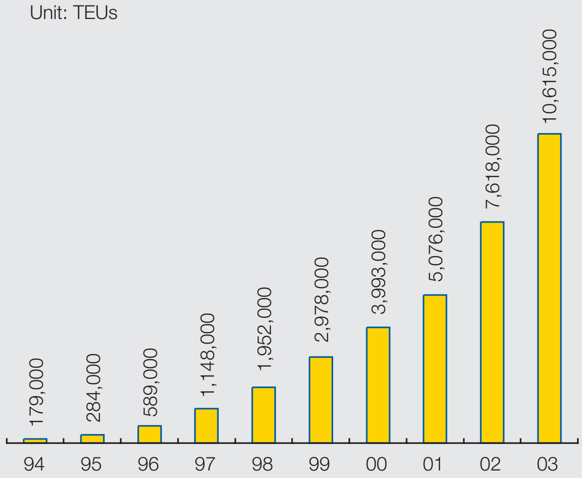
Container throughput of Hong Kong



Shenzhen port

In 2003, the total throughput of Shenzhen port reached approximately 10,615,000 TEUs, representing a growth of 39.3% from 2002, making it the second busiest container port in China mainland and the fourth busiest container port in the world. This growth has largely been due to the region's economy and increased trade. In 2003, Guangdong Province as a whole enjoyed a 13.6% increase in economic growth and a 28% increase in trade versus the previous year. Given the strong economy and export industries of the Pearl River Delta Region, as well as the port's enlarged handling capacity due to an increase in the number of berths, the future throughput of Shenzhen is expected to increase further.

Container throughput of Shenzhen port



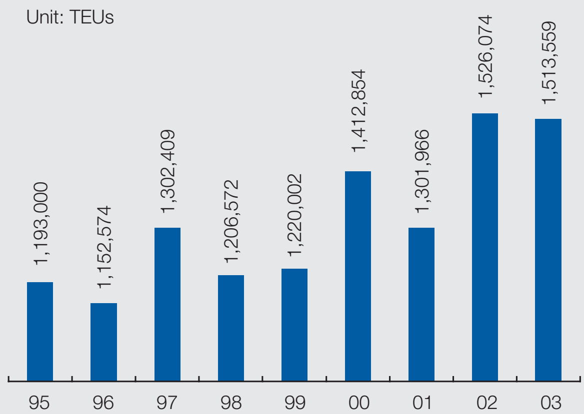
COSCO-HIT

COSCO Pacific has a 50% equity interest in COSCO-HIT Terminals (Hong Kong) Limited ("COSCO-HIT"). Located at Terminal 8 East in Kwai Chung, the terminal occupies an area of 300,000 square metres and has an annual handling capacity of 1,800,000 TEUs. It has a quay length of 640 metres and a depth alongside of 15.5 metres. The berths are equipped with 8 post-panamax quay cranes capable of handling two large container vessels simultaneously. In addition, the terminal is supplemented by a feeder berth of 98 metres and a berth of 350 metres designated for barges. These berths provide dedicated services for river vessels and barges sailing across the Pearl River Delta. The terminal has a yard capacity for 25,000 TEUs and is equipped with 696 reefer points, 32 yard cranes, 3 smaller cranes and other supporting facilities. The terminal operates 24 hours a day and 365 days a year. COSCO-HIT is committed to continuously upgrading its terminal facilities and improving efficiency through the use of advanced computer systems and communications equipment.

In 2003, the throughput of COSCO-HIT decreased slightly by 0.8% to 1,513,559 TEUs (2002: 1,526,074 TEUs), representing a 12.5% market share of the total throughput of the Hong Kong Kwai Chung Terminals (2002: 12.8%).

The slight decrease in the throughput of COSCO-HIT was due to the substantial increase in container handling capacity in the region. Renovation work is in progress at COSCO-HIT to enhance handling capacity to prepare for handling of 8,000 TEU container ships.

Container throughput of COSCO-HIT



Handling and storage of containers

Plangreat Limited, a wholly owned subsidiary of the Company, and its subsidiaries are engaged in the provision of container handling, stevedoring, storage, repairs and transportation services. During the year, despite the increase in the cargo volume at the depot, there was a decrease in utilisation of Cheer Hero Terminal. Hence, the turnover fell slightly to US$8,761,000 (2002: US$8,790,000), representing a slight decline of 0.3%.

Yantian International Terminals

The Group has a 5% effective interest in Yantian International Container Terminals Ltd. ("Yantian International Terminals"). The terminal is located at Dapeng Bay in Shenzhen and a major container terminal in southern China. Yantian International Terminals Phases I and II occupy an area of 1,180,000 square metres, with a total of 5 berths, a quay length of 2,350 metres, a depth alongside of 14 to 15.5 metres, and an annual handling capacity of 4,500,000 TEUs.

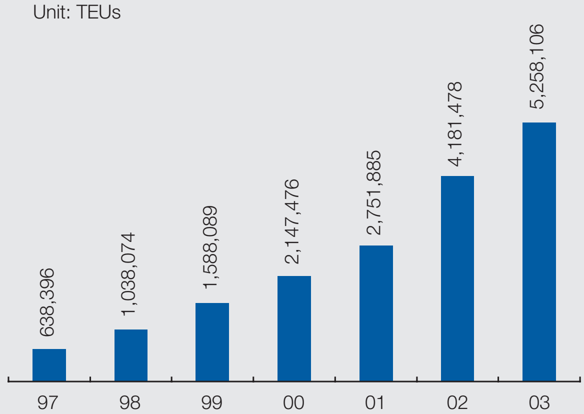
The Group has a 4.45% effective interest in Yantian International Container Terminals (Phase III) Limited ("Yantian International Terminals (Phase III)"). The terminal has 4 berths with an area of 900,000 square metres, a quay length of 1,400 metres and a depth alongside of 16 metres. Two berths were put into operation by the end of 2003 and the additional two berths will commence operation in 2004. Upon completion, the terminal's annual handling capacity will be 2,400,000 TEUs.

During the year, the total throughput of Phases I, II and III of Yantian International Terminals was 5,258,106 TEUs (2002: 4,181,478 TEUs), representing a growth of 25.7% and accounting for a 49.5% (2002: 54.9%) share of the handling capacity of Shenzhen port.

Yantian port is the largest and most important port in Shenzhen. Due to the tremendous increase in the throughput of the port, Phases I and II of the Yantian International Terminals are operating at close to full capacity. At the end of 2003, two new berths of Yantian International Terminals (Phase III) were put into operation. These new berths enhanced the handling capacity of Yantian port to cater for the increase in throughput.

Container throughput of Yantian International Terminals (Phases I, II & III)

Unit: TEUs



Shekou Terminals

The Group has a 17.5% equity interest in Shekou Container Terminals Ltd. ("Shekou Terminals"). The terminal is located at the southwestern part of the Shenzhen Special Economic Zone with an area of 234,000 square metres. The terminal is an important transportation hub for ships entering the Pearl River Delta and southern China. The terminal is equipped with 2 berths, a quay length of 650 metres and a depth alongside of 14 metres capable of handling 1,300,000 TEUs annually.

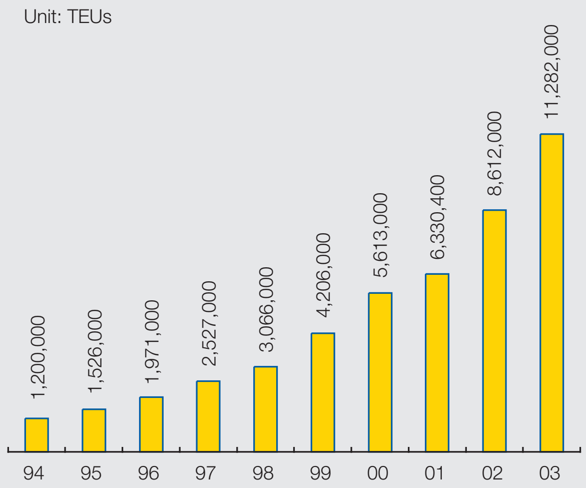
During the year, the total throughput of Shekou Terminals was 1,323,235 TEUs (2002: 883,572 TEUs), representing a growth of 49.8% and accounting for a 12.5% (2002: 11.6%) share of the handling capacity of Shenzhen port.

The strong increase in 2003 throughput at Shekou Terminals was due to the rise in containerised transportation of containers in the region, busy operation status of Yantian port as well as the increase in depot capacity of Shekou Terminals during the year.

Shanghai port

Shanghai, China's largest container hub port, is located in the highly developed Yangtze River Delta. The throughput of Shanghai port reached 11,282,000 TEUs in 2003, an increase of 31.0% from last year, making it the third busiest container port in the world. This growth has been largely due to increased economic and trade activities in the Yangtze River Delta. In 2003, the Shanghai economy grew by 11.8% while its foreign trade expanded by 50%. With the tremendous growth in China's foreign trade, Shanghai port is expected to remain the busiest China mainland ports in 2004.

Container throughput of Shanghai port



Zhangjiagang port

Zhangjiagang port is located at the southern shore of Fujiangsha, downstream from the Yangtze River, in Gangquzhen of Zhangjiagang, Suzhou. The port serves the shipping demand of 12 counties and cities in Jiangsu Province including Suzhou, Wuxi, Changzhou, and other counties and cities to the north of the Yangtze River and to the opposite of the port across the river. Zhangjiagang Win Hanverky Terminal is the only terminal with 2 berths in Zhangjiagang.

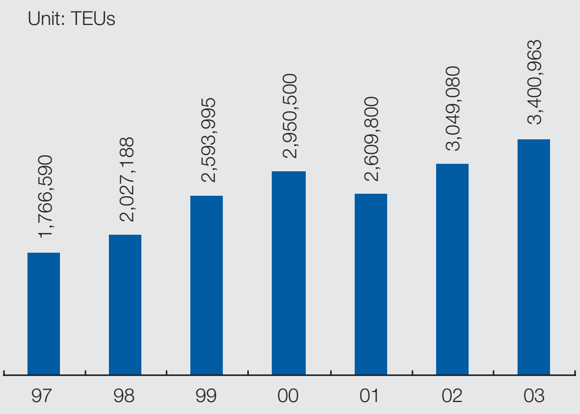
Shanghai Terminals

The Group has a 10% equity interest in Shanghai Container Terminals Limited ("Shanghai Terminals"), which has three terminals located in Zhanghuabang, Jungonglu and Baoshan at the entry of Huangpu River in Baoshan District, Shanghai. These terminals have 10 berths with a quay length of 2,281 metres, a depth alongside of 9.4 to 10.5 metres, and an area of 830,000 square metres that can accommodate 54,065 TEUs. The current handling capacity is 3,500,000 TEUs.

During the year, Shanghai Terminals handled 3,400,963 TEUs (2002: 3,049,080 TEUs), an increase of 11.5% from 2002, representing approximately 30.1% (2002: 35.4%) of Shanghai's overall throughput.

The Shanghai Terminals are river terminals and are subject to certain inherent limitations. Consequently, these terminals are operating almost at full capacity. However, due to efficient management and aggressive efforts to maxmise their development potential, the terminals achieved double-digit growth during the year.

Container throughput of Shanghai Terminals



Shanghai Pudong International Container Terminals

The Group holds a 20% interest in Shanghai Pudong International Container Terminals Limited ("Shanghai Pudong International Terminals"). The terminal commenced operation on 1st March 2003 and operates Phase I of Shanghai Waigaoqiao Container Terminals.

Situated in the Shanghai Waigaoqiao free trade zone area A, the terminal is well-equipped and capable of handling large-sized container vessels. The 3-berth terminal has a 900-metre quay length with a depth alongside of 12 metres, a total area of 500,000 square metres and an annual handling capacity of 2,300,000 TEUs.

In 2003, the terminal handled a cargo volume of 1,766,351 TEUs (2002: N/A), accounting for 15.7% (2002: N/A) of the aggregate throughput of the container terminals in Shanghai. Given their prime location in Shanghai, the terminal has a prosperous future.

Operating at close to full capacity, Shanghai Pudong International Container Terminals won customer confidence with its quality service and efficiency. During the year, its throughput reached a new high. New facilities are being acquired and existing facilities are being modified to increase the handling capacity of the terminals. It is expected that the throughput of the terminals will continue to climb.

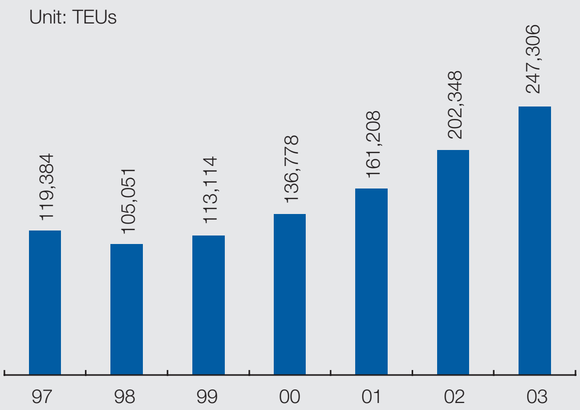
Zhangjiagang Win Hanverky Terminal

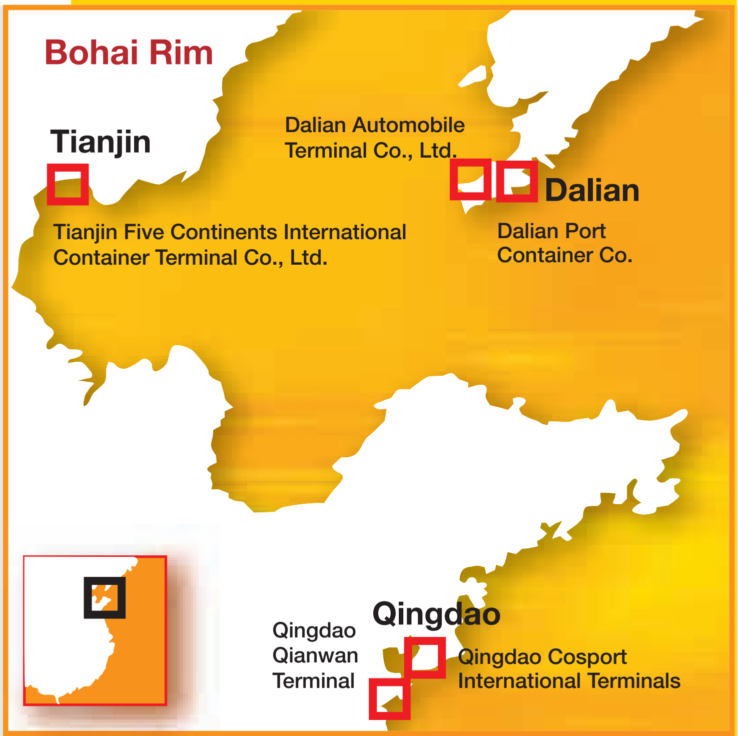
The Group has a 51% equity interest in Zhangjiagang Win Hanverky Terminal Ltd. ("Zhangjiagang Win Hanverky Terminal"). The terminal, which is the only one in the port of Zhangjiagang, has two berths, with a quay length of 505 metres and a depth alongside of 11 metres. It occupies an area of 200,000 square metres, with an annual handling capacity of 300,000 TEUs.

In 2003, the throughput of Zhangjiagang Win Hanverky Terminal increased by 22.2% to 247,306 TEUs (2002: 202,348 TEUs). With increased cargo container shipping along the Yangtze River, the throughput of Zhangjiagang Win Hanverky Terminal is expected to maintain its growth momentum.

The terminal's throughput is expected to reach a record high due to newly secured shipment orders and approvals to establish a bonded warehouse inside the terminal. Currently, facilities addition and modification are taking place at the terminal. It is expected that the throughput of the terminal will continue to increase.

Container throughput of Zhangjiagang Win Hanverky Terminal

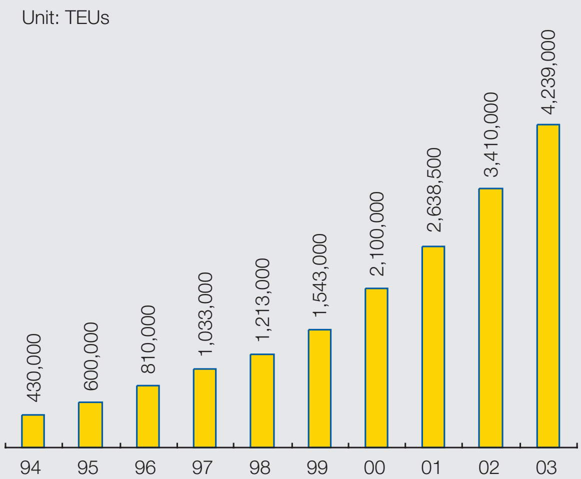




Qingdao port

Qingdao port is located in the Shandong Province, which had economic growth of 13.7% in 2003. The port was ranked the third largest container port in China after Shanghai and Shenzhen. The relocation of the foreign trade container handling facilities at Qingdao port to the western port in Qianwan in 2002 has enhanced the potential for the development of this container terminal. With well established port facilities, efficient management and quality services, Qingdao is expected to become the most important hub ports in northern China with strong future growth potential. The total container throughput for 2003 amounted to approximately 4,239,000 TEUs, up 24.3% year-on-year, mainly attributable to the remarkable economic growth in Shandong Province.

Container throughput of Qingdao port



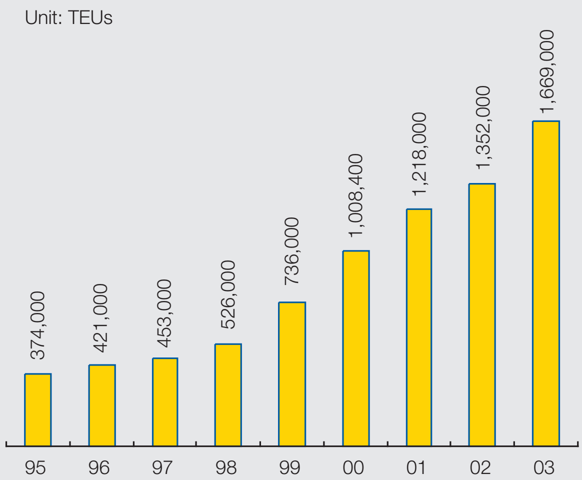
Dalian port

Dalian port is located at the southern end of the Liaoning Eastern Peninsula and is presently one of the largest international container ports in northern China. With northeastern China and eastern Mongolia as its major economic hinterland, the port has been expanded and re-structured continually over the past few years. Dalian has become a large-scale integrated port providing sophisticated services and facilities to its clients. In October 2003, the PRC government announced the policy of "Re-energisation of the Northeastern Region", initiating rapid development of the northeastern economy. Against this backdrop, there is much room for further development of the port.

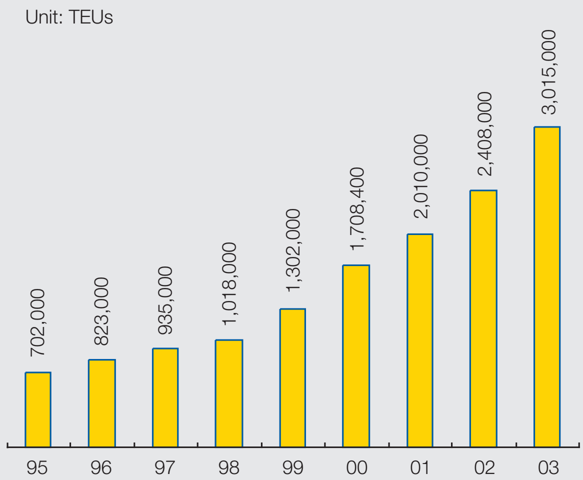
Tianjin port

Tianjin port is a major terminal hub along the coastline of northern China and is a principal international trade and container port. Its container throughput has been growing rapidly at a rate of 20% per annum since 1990. During the year, the Tianjin economy grew at a rate of 14.5%, a record high in eight years, resulting in a 25.2% increase in container throughput at the city's port. With several new berths commencing operation, the throughput at Tianjin port is expected to maintain its strong growth momentum.

Container throughput of Dalian port



Container throughput of Tianjin port



Qingdao Qianwan Terminal

In July 2003, the Group entered into an agreement to acquire an equity interest in Qingdao Qianwan Terminal Phase II. Subsequently, COSCO Pacific formed a joint venture – Qingdao Qianwan Container Terminal Co., Ltd. ("Qingdao Qianwan Terminal") with Qingdao Port (Group) Co., Ltd., Denmark's A.P. Moller and the UK's P&O Group. The joint venture company officially opened for business on 1st January 2004 operating both Phase II and Phase III. Currently, the Group holds a 20% equity interest in the joint venture company.

The terminal has 11 container berths, eight of which have commenced operation. The terminal spans a quay length of approximately 3,400 metres and a depot covering an area of 2,250,000 square metres. With a depth alongside of 17.5 metres, its berths can handle large container vessels with capacities of 10,000 TEUs. The terminal can handle 6,500,000 TEUs per annum.

During the year, Qingdao Qianwan Terminal Phase II handled a throughput of 1,332,746 TEUs (2002: N/A), accounting for 31.4% (2002: N/A) of the aggregate throughput of the terminals in Qingdao. The substantial increase in throughput is due to the relocation of the foreign trade container handling from the old port area to Qianwan at the end of 2002.

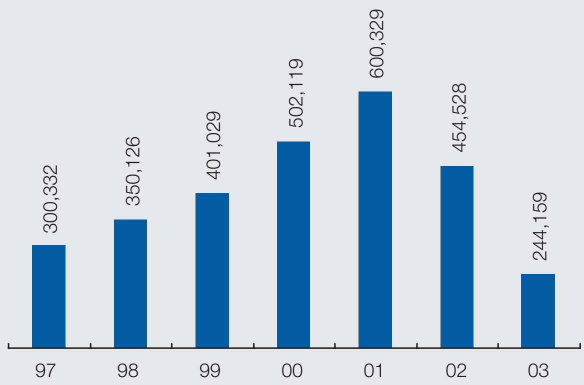
Qingdao Cosport International Terminals

The Group has a 50% equity interest in Qingdao Cosport International Container Terminals Co., Ltd. ("Qingdao Cosport International Terminals"), which is located at no. 47 berth in Qingdao port. The terminal has an area of 250,000 square metres, a quay length of 349 metres and a depth alongside of 13.5 metres. Qingdao Cosport International Terminals is one of the most advanced container terminals in the old port of Qingdao. It provides highly efficient terminal services with an annual handling capacity of 600,000 TEUs.

In 2002, the Qingdao municipal government relocated foreign trade container handling to Qianwan, west of Qingdao. All foreign trade containers are handled by the Qingdao Qianwan Terminal, while all domestic trade containers in Qingdao are now handled by Qingdao Cosport International Terminals. During the year, Qingdao Cosport International Terminals saw a 46.3% decrease in its throughput to 244,159 TEUs (2002: 454,528 TEUs), representing 5.8% (2002: 13.3%) of the aggregate throughput of the terminals in Qingdao.

Container throughput of Qingdao Cosport International Terminals

Unit: TEUs



Dalian Port Container Co.

The Group holds an 8% equity interest in Dalian Port Container Co., Ltd. ("Dalian Port Container Co."), which in turn holds a 51% equity interest in Dalian Container Terminal Co., Ltd., the principal container terminal in the city. Dalian Port Container Co. is also a major shareholder of all other container terminals in Dalian.

During the year, the terminals operated by Dalian Port Container Co. had a throughput of 1,644,409 TEUs (2002: 1,326,463 TEUs), representing a year-on-year increase of 24.0% and accounting for a 98.5% (2002: 98.1%) share of the aggregate throughput of Dalian port. The growth is attributable to the increase in production and transportation of containers in Dalian and an increase in foreign trade shipments.

Dalian Automobile Terminal Co., Ltd.

On 28th December 2003, the Group entered into a joint venture agreement with Dalian Port Group Co., Ltd. and Nippon Yusen Kabushiki Kaisha ("NYK") to set up Dalian Automobile Terminal Co., Ltd., in which the Group has a 30% equity interest. The joint venture was duly incorporated upon completion of its incorporation procedures on 29th January 2004. The terminal has a quay length of 550 metres and is equipped with two berths for roll-on/roll-off vessels. It is expected to commence operation in 2005.

The motor vehicle industry has been growing rapidly in China, and the country has become the fourth largest producer of motor vehicles in the world. In view of this rapid growth, the industry is expected to emerge as one of the major pillars of the domestic economy. However, the supply of motor vehicle terminal services fall far short of demand. Dalian is one of four ports designated for handling motor vehicle imports (the other ports include Tianjin, Shanghai and Guangzhou) and one of the leading ports designated for handling motor vehicle spare parts and component imports. Given the above factors and the fact that the joint venture RoRo shipping operation between COSCO Group and NYK is developing rapidly, considerable business volume is expected to be generated for the terminal.

Tianjin Five Continents International Container Terminal Co., Ltd.

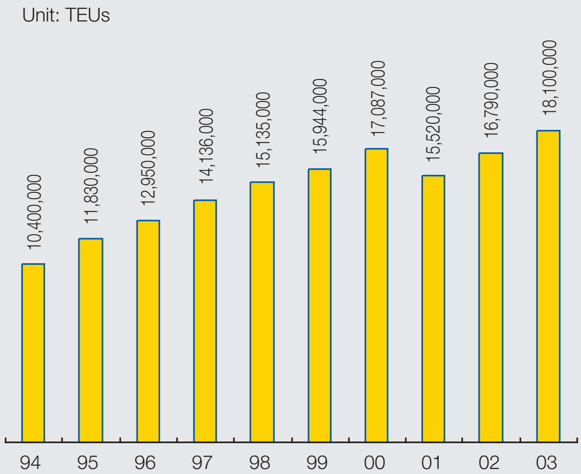
The Group entered into a joint venture agreement with Tianjin Port (Group) Co., Ltd., CSX World Terminal New World (Tianjin) Limited, China Shipping Terminal Development Co., Ltd. and China Merchants International Terminals (Tianjin) Limited on 23rd December 2003 to jointly establish Tianjin Five Continents International Container Terminal Co., Ltd. to invest in, manage and operate terminals in the northern Dongtudi of Tianjin port. The Group holds a 14% equity interest in this joint venture company.

Tianjin Five Continents International Container Terminal Co., Ltd. has 4 berths with a depth alongside of approximately 15.7 metres, spanning a quay length of 1,202 metres. The terminal covers an area of 550,000 square metres. The terminal has a maximum handling capacity of 1,500,000 TEUs.

Singapore

Singapore, a major hub in Southeast Asia, is the second largest container port in the world. It is also one of the most efficient ports around the globe. All leading international shipping lines operate shipping routes from or to Singapore. In 2003, the container throughput of Singapore reached 18,100,000 TEUs, an increase of 7.8% over the same period last year. Situated at the centre of the world's primary shipping routes and given the rapid growth and development potential of containerised trading in Southeast Asia, the port of Singapore has promising future potential.

Container throughput of Singapore port



COSCO-PSA Terminal

The Group signed a heads of agreement with PSA Corporation Limited on 30th August 2003 and a formal agreement on 25th October 2003, whereby both parties agreed to establish a joint venture company, COSCO-PSA Terminal Private Limited ("COSCO-PSA Terminal"). The Group holds a 49% equity interest in COSCO-PSA Terminal, which will operate 2 berths in Pasir Panjang Terminals in the port of Singapore in two phases.

The terminal commenced operation in November 2003 with one berth having a quay length of 360 metres and a depth alongside of 15 metres. The berth recorded a throughput of 95,830 TEUs from November to December in 2003. The terminal currently occupies a total area of 114,000 square metres with an annual handling capacity of approximately 500,000 TEUs. By 2008, COSCO-PSA Terminal will be expanded to 2 berths with a quay length of 720 metres. It is equipped with the most advanced terminal facilities in the world, with a total area of about 228,000 square metres and an annual handling capacity of 1,000,000 TEUs.

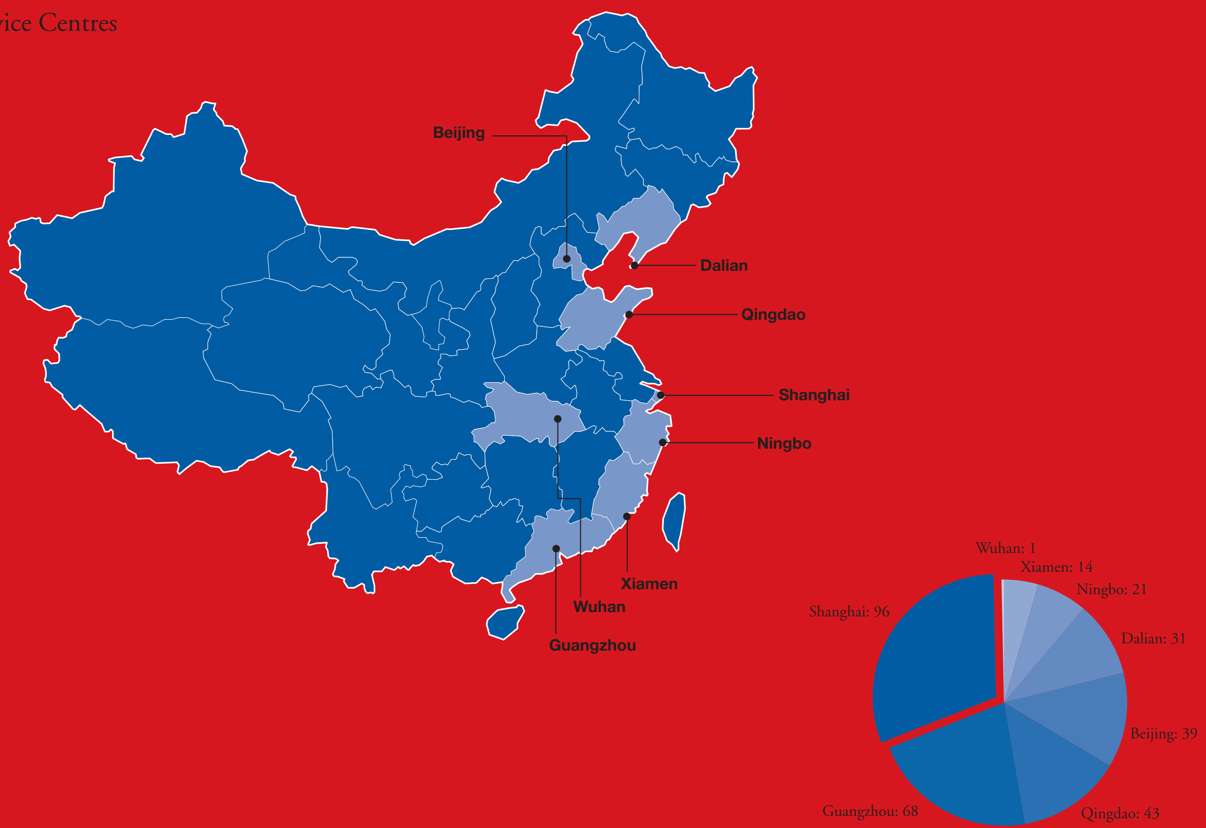
Logistics Review

Acquisition of equity interest in COSCO LOGISTICS

On 22nd September 2003, COSCO Pacific and COSCO Group entered into an agreement to acquire a 49% equity interest in COSCO Logistics Co., Ltd. ("COSCO LOGISTICS"), a wholly-owned subsidiary of COSCO Group. The acquisition agreement was approved at the special general meeting of COSCO Pacific on 29th October 2003. Other necessary procedures concerning the acquisition of COSCO LOGISTICS were also completed in January 2004. The acquisition provides exciting opportunities for COSCO Pacific to tap into the robust growth of the China logistics sector. Under the COSCO Group brand name, the acquisition will create synergies between the container leasing, terminal and logistics operations of the Company.

Service network of COSCO LOGISTICS

Total: 313 Service Centres



中國遠洋物流有限公司
COSCO LOGISTICS

COSCO Pacific acquired the 49% equity interest in COSCO LOGISTICS for a consideration of RMB1,180,410,000 (equivalent to US$142,600,000), representing implied price to earning ratios of about 9.1 or 13.1 times before and after the consideration respectively. These ratios were calculated based on the pro forma combined net profit of RMB183,829,000 for the year ended 31st December 2002.

The acquisition is effected in part by the acquisition of an equity interest in COSCO LOGISTICS from COSCO Group with cash of RMB446,410,000 and a direct injection of RMB734,000,000 into COSCO LOGISTICS. It is the intention of COSCO LOGISTICS to use the funds as follows:

- approximately 80% for developing distribution centres, warehouses, yards and information systems in economic zones such as Beijng, Dalian, Shanghai and Qingdao under the restructured COSCO LOGISTICS;
- approximately 16% for co-investment in logistics-related companies, enhancing the sales network and improving supporting assets owned by the restructured COSCO LOGISTICS; and
- the remainder as working capital and for other ordinary corporate purposes.

COSCO Pacific further agreed to pay COSCO Group an additional RMB50,000,000 provided that the pro forma combined net profit of COSCO LOGISTICS and its subsidiaries for the year ended 31st December 2003 was over RMB200,000,000. The acquisition was subsequently completed in January 2004 and the Company had paid a consideration of RMB1,180,410,000. As of the date of this report, the additional consideration of RMB50,000,000 remained unpaid as it is pending for the completion of the examination of the said pro forma combined net profit.

With an established nation-wide service network, companies under COSCO LOGISTICS enjoy a leading position in the provision of comprehensive logistics services, such as shipping, freight and relevant supporting services, to the major developed coastal regions of China mainland.

Companies under COSCO LOGISTICS are engaged in shipping, freight forwarding, third party logistics and supporting services (barge, warehouse, storage space, yard and truck transport). With an extensive service network spanning across China, the companies under COSCO LOGISTICS have established regional offices in Dalian, Beijing, Qingdao, Shanghai, Ningbo, Xiamen, Guangzhou and Wuhan, with representative offices in Hong Kong, Japan, South Korea, Singapore and Greece.

Major events

From July to December 2003, COSCO LOGISTICS participated in the bidding for the international tender regarding the logistics support for the Nanhai Petrochemical Construction Project of CNOOC and Shell, the largest joint venture enterprise in the PRC. It was the only China mainland logistics enterprise among the bidders. With its sophisticated proposal and reasonable bidding price, COSCO LOGISTICS finally won the recognition of the owners, the project manager and the imported equipment main contractor, and was awarded tranches 1 to 4 of the public tender contracts for the Nanhai Petrochemical Logistics Project. This achievement has been appraised by the industry peers inside and outside the PRC and marked the entry of COSCO LOGISTICS in the petrochemical logistics sector.

In August 2003, COSCO LOGISTICS won the bid for the logistics service for Hisense Group in Qingdao in relation to such quantity of electric appliance products representing 58% of its total sales of the refrigerators, air conditioners and colour television set of Hisense Group in Qingdao. This achievement has realised the development plan of COSCO LOGISTICS for developing the home appliances logistics platform in both Northern and Southern China. This, in turn, consolidated the leading position of COSCO LOGISTICS in the home appliance logistics market in the PRC.

In October 2003, COSCO LOGISTICS completed the Shenzhou V Re-entry Module Exhibition Logistics Project. During this assignment, COSCO LOGISTICS has established its image and gained wide exposure among the general public in China.

Also in October 2003, based on its success in developing Auto Import CKD Logistics services, COSCO LOGISTICS won the bid for the logistics contract from Beijing Jeep Corporation Ltd.. This was indicative of the achievement of COSCO LOGISTICS in extending for the first time the coverage of auto parts and components assembly distribution services. Since then, the auto procurement logistics operation of COSCO LOGISTICS has been moving ahead in delivering even more sophisticated logistics services to production centres in the PRC.

Development objectives and strategies

COSCO LOGISTICS will fully capitalise on its success in restructuring to achieve further breakthrough on all fronts on the basis of its achievements in 2003. It will continue to pursue the goal of "becoming the best logistics provider and the best shipping agent". Equal emphasis will be placed on innovation and stable performance. Efforts will also be made in enhancing both corporate values and individual values. Through expanding its core businesses of logistics, shipping agency and freight forwarding, COSCO LOGISTICS will do its best to maximise the returns to shareholders and optimise its corporate values. Collective management will be applied throughout the organisation to take full advantage of the synergy effect of the whole group to scale up, enhance and strengthen its logistics, shipping agency and freight forwarding operations and speed up its efforts in enhancing the performance of its air freight forwarding and intermodal operations. Through efficient market segmentation and proactive identification of customer needs, development of operation and management staff in a creative manner, and enhancement of financial, business, supervisory and security management, COSCO LOGISTICS aims to become the best logistics operators in China mainland.

As one of the three core operations, the third party logistics operation is and will remain to be the key pursuits of COSCO LOGISTICS. Therefore, COSCO LOGISTICS will continue to concentrate its resources on expanding its third party logistics operation through organic growth and acquisitions. It will keep on developing its professional teams to enhance its operation and management in order to win more new customers with quality services. In other words, efforts will be made on both internal and external fronts to consolidate the strengths of COSCO LOGISTICS. In recent years, COSCO LOGISTICS has been developing rapidly and has built up the following six business segments:

1. Home appliance logistics
2. Automobile logistics
3. Electricity generation logistics
4. Chemical product logistics
5. Exhibition logistics
6. Retailing logistics

In future, on the foundation of the above six segments, COSCO LOGITSICS will continue to expand its logistics operation into the major growth centres and profit contributors of COSCO LOGISTICS.

The acquisition of COSCO LOGISTICS will create synergies between the businesses of COSCO Pacific and COSCO LOGISTICS. Since COSCO Pacific has substantial interests in the container terminals along the coastline of China, COSCO LOGISTICS may boost its competitiveness by entering into cooperation with these terminals to provide better logistics services. Through its investment in COSCO LOGISTICS, COSCO Pacific may offer comprehensive freight logistics services to enhance the attraction of its container terminals to its customers. COSCO Pacific believes that this investment will benefit shareholders and help to achieve the Company's goal of becoming the leading logistics service provider in China mainland and Hong Kong.

Container related businesses and other investments

Container related businesses

In 2003, production volume for the Group's container manufacturing business increased in line with higher market demand. Contribution of profit before taxation from the five manufacturing businesses in which COSCO Pacific has an equity interest amounted to US$6,200,000 in aggregate, representing an increase of 5.8% over last year.

On 25th November 2003, the Group entered into agreements to dispose of its equity interest of 20% each in Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. respectively to COSCO International Holdings Limited, a fellow subsidiary, and all procedures of the disposals were completed in January 2004.

Other investments

Liu Chong Hing Bank Limited

The Group has a 20% interest in Liu Chong Hing Bank Limited ("Liu Chong Hing Bank"), which contributed US$9,762,000 (2002: US$8,456,000) to the Group's profit before taxation, an increase of 15.4% compared with 2002.

Container/paint factories	Shareholding (%)	Production volume 2003	Production volume 2002	+/-
Shanghai CIMC Reefer Containers Co., Ltd.	20	35,398 TEUs	33,582 TEUs	+5.4%
Shanghai CIMC Far East Container Co., Ltd.	20	124,537 TEUs	97,174 TEUs	+28.2%
Tianjin CIMC North Ocean Container Co., Ltd.	22.5	98,306 TEUs	79,506 TEUs	+23.6%
Shanghai COSCO Kansai Paint & Chemicals Co., Ltd.	20	36,024 tonnes	20,641 tonnes	+74.5%
Tianjin COSCO Kansai Paint & Chemicals Co., Ltd.	20	27,659 tonnes	24,233 tonnes	+14.1%

Management discussion & analysis

Financial management

Issuance of 10-year notes

The global low interest rates environment in 2003 prompted bond investors to fright for premium quality investments in view of surplus funds available in the international bond market. Capitalising on such opportunity, the Company appointed three investment banks, ABN AMRO Bank N.V., Citigroup Global Markets Limited and Goldman Sachs (Asia) L.L.C., as joint bookrunners in arranging the issuance of 10-year fixed rate notes of US$300,000,000 in September 2003. No credit ratings have been sought for in respect of the notes. The notes were offered and sold outside the United States in accordance with Regulation S under the United States Securities Act of 1933. Responses from investors in Europe, Hong Kong, China mainland, Singapore and other Asian countries were overwhelming with total subscriptions in excess of US$1,620,000,000, or 5.4 times of the issued amount.

At an issue price of 99.367% and a coupon rate of 5.875%, the notes carried an interest yield of 5.96% (i.e. an equivalent of 10-year US Treasury Bill yield plus 185 basis points). The issue was well sought for by international investors with interest spreads narrowed in the secondary market, demonstrating investors' confidence in the creditworthiness of the Company.

Net proceeds of the notes, after deducting issuance expenses, were primarily deployed as investments in new terminal projects and for refinancing. Such fund raising exercise hallmarked the Company's success in exploring the international bond market as financing channels, diversifying its sources of funds and enhancing its debt structure by extending the average maturity period from less than 3 years to 7.4 years. This has laid solid foundation for the Company's sustainable development and will help the Group in obtaining more favourable terms in future from the capital market.

Other financing

During the year, the Group secured a total of US$245,000,000 of committed bank loan facilities. A subsidiary of the Group entered into an agreement with a banking syndicate on 17th February 2003 for a 5-year term loan facility of US$175,000,000 that was designated for working capital and refinancing. Apart from being oversubscribed with very favourable terms at finance costs of London Interbank Offered Rate ("LIBOR") plus 65 basis points, this fund raising exercise further reflected the Group's sound creditstanding and its supports from the banking community.

Treasury policy

The Group monitors its exchange rate risks by raising funds in the denominations of its principal operating assets or cash revenue.

Most of the Group's borrowings were denominated in US dollars, a majority of which was primarily 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 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 exercises stringent control over the use of derivatives for hedging against its interest rate risks and monitors its debt portfolio of fixed and floating interests regularly to reflect market trends. During the year, the Group entered into interest rate swap contracts to swap US$200,000,000 of its 10-year notes into floating rates at average rates of 6-month LIBOR plus 112.5 basis points for 10 years.

In addition, as at 31st December 2003, notional principals of outstanding interest rate swap contracts amounted to US$100,000,000 (2002: US$100,000,000), at fixed interest rates ranging from 3.88% to 4.90% per annum (2002: 3.88% to 4.90% per annum). Through aforesaid interest rate swap contracts and fixed rate borrowing arrangements, the ratio of fixed- to floating-rate borrowings stood at 42.0%: 58.0% as at 31st December 2003 (31st December 2002: 24.7%: 75.3%) of the Group's debt portfolio.

Financial analysis

Overall results

Turnover of the Group for 2003 rose by 6.6% over last year to US$257,495,000 (2002: US$241,644,000). Profit attributable to shareholders was US$154,331,000, up 8.5% over US$142,189,000 (as restated) for 2002. Earnings per share were US7.1871 cents (2002: US6.6253 cents, as restated). Excluding major non-recurring items (2003: loss of US$2,192,000 on disposal of its 10% interest in River Trade Terminal; 2002: profit of US$7,474,000 arising from disposal of the Shanghai Yixian Road Project), profit attributable to shareholders in 2003 saw a year-on-year increase of 16.2%.

Financial review

Turnover

Turnover of container leasing and related business for 2003 rose by 6.5% to US$239,689,000 (2002: US$225,004,000). Rental income from COSCON was US$130,567,000 (2002: US$136,110,000). During the year, the number of containers leased by COSCON was 310,444 TEUs (2002: 329,028 TEUs) as the number of Returned Containers exceeded the number of containers under new leases. Rental income from International Customers was US$108,479,000 (2002: US$88,330,000). The Group further developed its market and actively expanded the size of its container fleet for International Customers to 498,381 TEUs (2002: 378,862 TEUs). Despite declines in average achieved rental income per TEU, rental income from International Customers has surged significantly by 22.8% with growth in the utilisation rate. Interest income from finance leases was US$484,000 (2002: US$545,000), and income from container management, a new activity since 2002, was US$99,000 (2002: US$19,000). Income from the leasing of generator sets, a new activity in 2003 in response to market demands, was US$60,000 (2002: nil).

Annual throughput at Zhangjiagang Win Hanverky Terminal grew by 22.2% to 247,306 TEUs (2002: 202,348 TEUs), whereas its turnover rose to US$9,045,000 (2002: US$7,850,000).

Plangreat Limited together with its subsidiaries generated a turnover of US$8,761,000 (2002: US$8,790,000), a slight drop from last year, with an increase in container storage at its depots and the drayage but the operation at the terminal declined.

Cost of sales and gross profit

Cost of sales amounted to US$112,417,000 in 2003 (2002: US$102,520,000), mainly comprised depreciation, depot rental, maintenance and operating expenses. During the year, as a result of the expansion of container fleet, depreciation rose by US$7,657,000 to US$93,050,000 (2002: US$85,393,000). Depreciation accounted for 82.8% (2002: 83.3%) of cost of sales. Other cost of sales rose by US$2,240,000 to US$19,367,000 (2002: US$17,127,000), primarily because of the Group's strategy in repositioning 20,669 TEUs (2002: 14,819 TEUs) containers from Europe and the Americas to satisfy demands from the Asian market. Accordingly, repositioning expenses increased to US$4,932,000 (2002: US$3,500,000). Gross profit margin was 56.3% (2002: 57.6%).

Other revenues

Other revenues mainly included US$20,421,000 (2002: US$5,003,000) of dividend income, US$10,762,000 (2002: US$7,048,000) of sales revenue of the Returned Containers and US$2,343,000 (2002: US$3,794,000) of interest income.

Performance of Yantian International Terminals, Shekou Terminals and Dalian Port Container Co., Ltd., in which the Group held beneficial interests, were satisfactory. Dividends were declared by these investee companies during the year and the Group's share of these dividends declared amounted to US$20,421,000 (2002: US$5,003,000 of share of dividend declared by Yantian International Terminals), a three-fold increase. During the year, sales revenue of the Returned Containers increased as the disposal of Returned Containers increased to 23,619 TEUs (2002: 15,710 TEUs). Reduction in interest income was the result of deposit interest rate being lower than that of 2002 and the reduction in the Group's cash balances due to early repayments of some of its bank loans during the year.

Administrative expenses

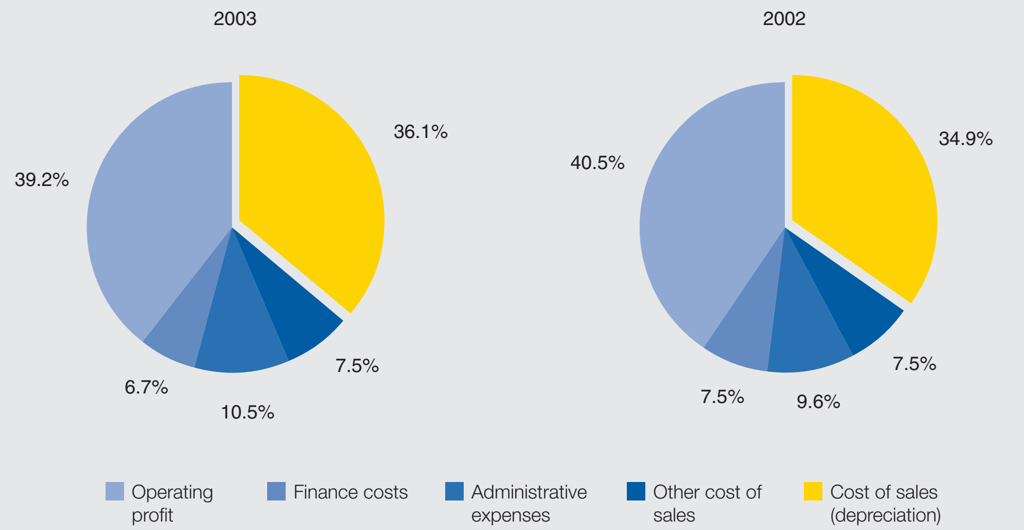
Administrative expenses increased by 16.3% over 2002. During the year, human resources, marketing, office, professional consultation, entertainment and travelling expenses rose as the Group continued to strengthen its marketing and new project development.

Other operating expenses (net)

Other net operating expenses amounted to US$25,511,000 (2002 : US$22,223,000) and included the following:

- Impairment losses of certain containers and corporate properties charged to the profit and loss account amounted to US$9,865,000 (2002: US$15,997,000).
- During the year, net book value of the Returned Containers disposed of increased by US$4,393,000 to US$13,322,000 (2002: US$8,929,000).
- During the year, bad debt recovered amounted to US$1,047,000 (2002: US$2,999,000), while net provision for bad and doubtful debts made in 2003 was US$1,370,000 (2002: US$1,142,000).
- In June 2003, the Company recognised a loss of US$2,192,000 from the disposal of its 10% interest in River Trade Terminal whereas a provision of US$3,296,000 was made against shareholders' loan advanced to the said project in 2002.

Cost analysis (percentage of turnover)



Finance costs

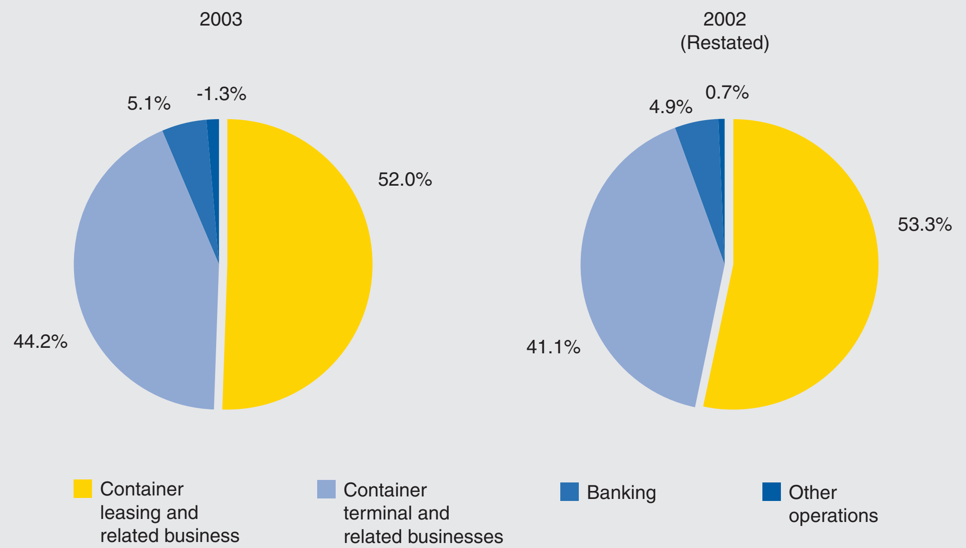
Finance costs improved by US$870,000, of which interest expenses reduced by US$3,541,000 and incidental borrowing costs rose by US$2,671,000. Interest rate remained at low levels in 2003 with a further cut of 0.25% by the U.S. Federal Reserve in June 2003. The Group's average borrowing costs (including net loss of US$1,193,000 (2002: US$1,454,000) arising from interest rate swap contracts) were 3.22% (2002: 3.40%).

Incidental borrowing costs rose primarily as a result of larger financing facilities being arranged in 2003 (including the issue of US$300,000,000 notes). In accordance with the Group's accounting policy, incidental borrowing costs were charged against the profit and loss account in the year when incurred.

Share of profits less losses from jointly controlled entities and associated companies

Profit contributions from jointly controlled entities were US$6,711,000 (2002: US$8,751,000). The decline was primarily due to the shift in handling Qingdao Port's trade cargo from exports to domestic since 2003 by Qingdao Cosport Terminals. As a result, throughput reduced to 244,159 TEUs (2002: 454,528 TEUs). Production volume of Shanghai CIMC Reefer Containers Co., Ltd. went up by 5.4% in 2003 whereas profit contribution declined when compared to last year due to increases in raw material prices and intense market competition. Profit contributions from Shanghai CIMC Far East Container Co., Ltd. and Tianjin CIMC North Ocean Container Co., Ltd., which were accounted for according to the sub-contracting agreements signed in 2000 and 2001, are both increased over 2002. Throughput and performance of the newly established COSCO-PSA Terminal, which became operational since November 2003, were better than expected with contribution in profit. There was no profit contribution from Qingdao Qianwan Terminal in 2003 as the Group's investment was not in place until late December 2003.

Breakdown of profit attributable to shareholders (percentage)



In respect of the associated companies, profit contributions in 2003 declined by 3.8% to US$64,915,000 (2002: US$67,461,000). As Twinbridge Development Corp. had disposed of its interests in the shareholding company of the Shanghai Yixian Road Project in 2002, there was no profit contribution for 2003 (2002: share of operating profit and gain on disposal of interest totalled US$9,095,000). Throughput of COSCO-HIT fell by 0.8% over 2002, its profit contribution declined by 5.6% due to changes in cargo mix. Throughput and performance of the Group's 20% equity interest, Shanghai Pudong International Terminals which has commenced operation since March 2003, were satisfactory. Profit contribution from Shanghai Terminals rose as a result of an 11.5% increase in throughput. Liu Chong Hing Bank contributed a profit of US$9,762,000 in 2003 (2002: US$8,456,000).

Taxation

Taxation aggregated US$24,424,000 for 2003 (2002: US$23,886,000, as restated). In accordance with the requirements of the new SSAP 12, provisions in respect of deferred tax liabilities and assets were made by the Group. Net deferred tax provision was US$12,488,000 for 2003 (2002: US$12,371,000).

Profit attributable to shareholders

Profit attributable to shareholders for the year amounted to US$154,331,000 (2002: US$142,189,000, as restated). Basic earnings per share was US7.1871 cents (2002: US6.6253 cents, as restated).

Financial position

Cash flow and available facility

Cash inflows of the Group remained steady. During the year, net cash inflow from operating activities amounted to US$217,757,000 (2002: US$220,540,000), coupled with net proceeds of US$298,101,000 (2002: nil) from the issuance of the US$300,000,000 10-year notes. The Group accelerated its efforts in investments in 2003. On the terminal side, investments included a 20% interest in Shanghai Pudong International Terminals, a 20% interest in Qingdao Qianwan Terminal, a 49% interest in COSCO-PSA Terminal and a beneficial interest of 4.45% in Yantian International Terminals Phase III, involving cash injections of US$45,770,000, US$14,800,000, US$23,062,000 and US$16,723,000 respectively in 2003 (2002: US$4,519,000 for subscribing a 8% interest in Dalian Port Container Co. and US$19,941,000 for acquiring a 17.5% interest of Shekou Terminals). The acquisition of Shanghai Pudong International Terminals was partly funded by US$30,000,000 derived from proceeds from issuance of new shares in May 1999. During the year, cash payments of fixed assets amounted to US$198,410,000 (2002: US$137,998,000), of which US$193,661,000 (2002: US$135,022,000) were for new containers. The Group drew US$89,620,000 (2002: US$95,604,000) bank loans and repaid US$330,097,000 (2002: US$184,468,000) of bank loans during the year. As at 31st December 2003, the Group held cash balances of US$283,835,000 (2002: US$236,121,000).

As at 31st December 2003, the Group had committed but unutilised bank loan facilities of US$297,908,000 (2002: US$96,329,000). Cash balances and banking facilities held by the Group as at the end of 2003 amounted to US$581,743,000 (2002: US$332,450,000). These were adequate to meet all of the debts due in 2004 and capital commitments contracted for prior to 31st December 2003. In January 2004, the Group further injected US$61,131,000 into Qingdao Qianwan Terminal, with balances of the investment amount payable in the next few years in accordance with the construction schedule of the terminal. Formalities and procedures in respect of the acquisition of the Group's 49% equity investment in COSCO LOGISTICS were also completed in January 2004, and the Group injected RMB1,180,410,000 in equivalent US dollars as agreed.

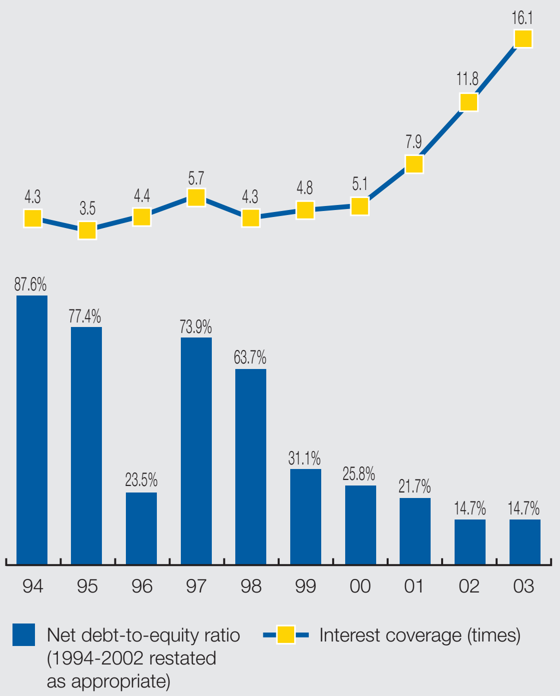
Assets and liabilities

The Group continued to implement a healthy policy in financial management. As at 31st December 2003, total assets amounted to US$1,900,266,000 (2002: US$1,743,797,000, as restated), whereas total liabilities and minority interests amounted to US$579,102,000 (2002: US$490,749,000, as restated). Net assets amounted to US$1,321,164,000 (2002: US$1,253,048,000, as restated), representing an increase of 5.4% which was primarily attributable to retained profit for the year.

Cash balances as at 31st December 2003 amounted to US$283,835,000 (2002: US$236,121,000). Total indebtedness amounted to US$478,360,000 (2002: US$420,674,000), with a net gearing ratio of 14.7% (2002: 14.7%, as restated). As interest rates continued to stay at low levels with average borrowings being reduced, interest coverage further expanded to 16.1 times (2002: 11.8 times). Our debt maturity profile was significantly improved through the issuance of the 10-year notes. Total debts due in 2004 will amount to US$32,848,000 only.

In view of the fact that the Group's indebtedness stood at a relatively low level with strong repayment capability, the Group will continue to resort to increasing its indebtedness principally for financing capital expenditure in 2004. It is expected that the increase in the Group's net gearing ratio should enhance return on shareholders' equity.

Low net debt-to-equity ratio & strong interest coverage



Debt analysis as at 31st December 2003

	As at 31st December 2003 US$	(%)	As at 31st December 2002 US$	(%)
By repayment term				
Within the first year	32,848,000	6.9	210,189,000	50.0
Within the second year	32,608,000	6.8	67,410,000	16.0
Within the third year	41,046,000	8.6	67,839,000	16.1
Within the fourth year	54,108,000	11.3	31,314,000	7.5
Within the fifth year and after	317,750,000*	66.4	43,922,000	10.4
	478,360,000	100.0	420,674,000	100.0
By type of borrowings				
Secured borrowings	177,523,000	37.1	156,578,000	37.2
Unsecured borrowings	300,837,000	62.9	264,096,000	62.8
	478,360,000	100.0	420,674,000	100.0
By denomination of borrowings				
US Dollar	475,686,000	99.4	416,579,000	99.0
RMB	2,674,000	0.6	4,095,000	1.0
	478,360,000	100.0	420,674,000	100.0

* Including the US$300,000,000 notes less discount which will mature on 3rd October 2013.

As at 31st December 2003, certain of the Group's containers with an aggregate net book value of US$318,976,000 (2002: US$278,378,000) and bank deposits of US$12,056,000 (2002: US$7,817,000) were pledged to various banks and financial institutions as security against borrowings totalling US$177,523,000 (2002: US$156,578,000).

Contingent liabilities

As at 31st December 2003 and 2002, the Group had no significant contingent liabilities.

10-year statistical summary

	94	95	96	97
PROFIT & LOSS ACCOUNT (US$ million)				
Turnover				
Container leasing and related business	104.2	124.1	144.6	167.9
Container handling and storage	—	—	—	12.0
Container terminal	—	—	—	3.6
	104.2	124.1	144.6	183.5
EBITDA	101.0	125.4	167.7	198.6
Depreciation & Amortisation	(48.2)	(61.4)	(72.8)	(52.1)
EBIT	52.8	64.0	94.9	146.5
Interest expenses	(12.9)	(18.8)	(22.5)	(27.9)
Interest income	0.6	1.7	4.0	11.1
Profit before taxation	40.5	46.9	76.4	129.7
Operating profit after finance costs	40.5	44.5	45.2	85.5
Profit attributable to shareholders	40.3	46.3	70.8	121.2
Breakdown of profit attributable to shareholders				
Container leasing and related business	40.3	44.7	42.9	82.1
Container terminal and related businesses	—	2.0	26.0	38.7
Other operations	—	—	—	2.2
Net corporate financial income/(expenses)	—	1.3	4.6	(0.3)
Net corporate income/(expenses)	—	(1.7)	(2.7)	(1.5)
	40.3	46.3	70.8	121.2
BALANCE SHEET (US$ million)				
Consolidated total assets	539.7	666.0	954.3	1,433.4
Consolidated total liabilities and minority interests	306.3	310.9	350.3	673.3
Consolidated net assets	233.4	355.1	604.0	760.1
Consolidated total debts	278.5	289.1	320.3	600.0
Cash balances	74.0	14.3	178.6	38.4
Consolidated net debts	204.5	274.8	141.7	561.6
STATISTICS				
Total number of shares issued (million)	1,020.0	1,659.1	1,917.5	2,051.8
Share price (as at 31st December) (US$)	0.340	0.647	1.154	0.808
(HK$)	2.650	5.050	9.000	6.300
Market capitalisation (as at 31st December) (US$ million)	346.5	1,074.1	2,212.4	1,657.2
Weighted average no. of shares issued (million)	777.6	1,100.6	1,730.2	2,019.1
Basic earnings per share (US cents)	—	4.2112	4.0916	6.0026
P/E (as at 31st December) (Times)	—	15.4	28.2	13.5
Dividend per share (US cents)	0.256	1.826	1.923	2.123
Dividend payout ratio (%)	—	43.4	47.0	35.4
Net assets value per share (HK$)	1.785	1.669	2.457	2.889
Return on assets (%)	7.5	7.7	8.7	10.2
Return on shareholders' equity (%)	17.3	15.8	14.8	17.8
Net debt-to-equity ratio (%)	87.6	77.4	23.5	73.9
Interest coverage (Times)	4.3	3.5	4.4	5.7

Note: The financial information of the Group for the years from 1994 to 2002 have been restated as appropriate as a result of the adoption of the new Statement of Standard Accounting Practice 12 "Income taxes" issued by the Hong Kong Society of Accountants.

98	99	00	01	02	03
202.1	205.1	202.1	209.4	225.0	239.7
10.8	10.9	10.5	9.6	8.8	8.8
4.2	4.6	5.3	5.7	7.8	9.0
217.1	220.6	217.9	224.7	241.6	257.5
241.1	245.0	255.1	264.7	267.2	285.7
(66.8)	(70.6)	(74.8)	(81.0)	(87.7)	(95.5)
174.3	174.4	180.3	183.7	179.5	190.2
(41.7)	(37.1)	(38.1)	(24.0)	(15.5)	(11.9)
3.1	5.1	12.2	5.2	3.8	2.3
135.7	142.4	154.4	164.9	167.8	180.6
80.8	83.4	81.5	98.7	91.6	109.0
126.4	128.5	139.7	154.1	142.2	154.3
84.9	80.1	72.2	80.7	75.8	80.3
39.9	40.4	47.7	44.3	58.4	68.3
11.2	11.4	16.2	29.3	12.2	13.4
(6.2)	(0.5)	6.4	2.9	(0.8)	(2.1)
(3.4)	(2.9)	(2.8)	(3.1)	(3.4)	(5.6)
126.4	128.5	139.7	154.1	142.2	154.3
1,548.4	1,629.6	1,556.9	1,729.6	1,743.8	1,900.3
690.1	638.5	478.2	551.8	490.8	579.1
858.3	991.1	1,078.7	1,177.8	1,253.0	1,321.2
634.3	560.8	423.6	509.5	420.7	478.3
87.6	252.3	145.6	254.1	236.1	283.8
546.7	308.5	278.0	255.4	184.6	194.5
2,051.8	2,139.2	2,139.2	2,142.5	2,147.0	2,148.5
0.413	0.827	0.776	0.516	0.821	1.327
3.225	6.450	6.050	4.025	6.400	10.350
848.4	1,769.0	1,659.3	1,105.6	1,761.7	2,851.0
2,051.8	2,109.5	2,139.2	2,141.2	2,146.2	2,147.3
6.1608	6.0914	6.5306	7.1971	6.6253	7.1871
6.7	13.6	11.9	7.2	12.4	18.5
2.298	2.344	2.465	3.013	3.718	4.077
37.3	38.5	37.7	41.9	56.1	56.7
3.263	3.614	3.933	4.288	4.552	4.796
8.5	8.1	8.8	9.4	8.2	8.5
15.6	13.9	13.5	13.7	11.7	12.0
63.7	31.1	25.8	21.7	14.7	14.7
4.3	4.8	5.1	7.9	11.8	16.1

10-year statistical summary (continued)

	94	95	96	97
CONTAINER LEASING				
Turnover (US$ million)	104.2	124.1	144.6	167.9
Breakdown of rental income (US$ million)				
COSCON	98.9	114.4	126.0	138.6
International Customers (long term)	4.7	6.8	14.0	17.5
International Customers (master lease)	—	—	—	7.6
Fleet capacity (TEUs)	261,570	291,083	343,245	469,951
Breakdown of fleet capacity by customers				
COSCON (TEUs)	222,810	246,973	282,160	335,117
International Customers (TEUs)	38,760	44,110	61,085	134,834
COSCON (%)	85.2	84.8	82.2	71.3
International Customers (%)	14.8	15.2	17.8	28.7
Breakdown of fleet capacity by types				
Dry (TEUs)	251,910	274,178	323,680	432,734
Reefer (TEUs)	7,314	13,245	15,789	28,889
Special (TEUs)	2,346	3,660	3,776	8,328
Dry (%)	96.3	94.2	94.3	92.1
Reefer (%)	2.8	4.5	4.6	6.1
Special (%)	0.9	1.3	1.1	1.8
Capital expenditure on containers (US$ million)	171.1	148.7	137.2	348.3
New container purchase (TEUs)	64,437	40,600	50,577	126,706
Disposal of Returned Containers (TEUs)	—	—	—	1,421
Fleet age (Year)	2.9	3.5	4.1	3.6
Utilisation rate (%)				
COSCO Pacific	100.0	100.0	100.0	97.5
Industry average	87.0	85.0	82.0	85.0
No. of customers	5	20	38	86
CONTAINER TERMINALS				
Throughput (TEUs)				
COSCO-HIT	—	1,193,000	1,152,574	1,302,409
River Trade Terminal	—	—	—	—
Yantian International Terminals (Phase I, II & III)	—	—	—	638,396
Shekou Terminals	—	—	—	—
Shanghai Pudong International Terminal	—	—	—	—
Shanghai Terminals	—	—	—	1,766,590
Zhangjiagang Win Hanverky Terminal	—	—	—	119,384
Qingdao Qianwan Container Terminal (Phase II)	—	—	—	—
Qingdao Cosport International Terminals	—	—	—	300,332
Dalian Port Container Co.	—	—	—	—
COSCO-PSA Terminal	—	—	—	—
Port's throughput (TEUs)				
Hong Kong	11,266,000	12,563,000	13,280,000	14,500,000
Shenzhen	179,000	284,000	589,000	1,148,000
Shanghai	1,200,000	1,526,000	1,971,000	2,527,000
Qingdao	430,000	600,000	810,000	1,033,000
Dalian	—	374,000	421,000	453,000
Tianjin	—	702,000	823,000	935,000
Singapore	10,400,000	11,830,000	12,950,000	14,136,000

98	99	00	01	02	03
202.1	205.1	202.1	209.4	225.0	239.7
149.0	142.6	136.8	136.0	136.1	130.6
29.0	32.0	35.7	40.4	49.1	64.9
19.9	27.2	27.9	31.9	39.2	43.6
505,954	500,899	527,982	610,019	707,890	808,825
340,344	311,047	303,978	327,370	329,028	310,444
165,610	189,852	224,004	282,649	378,862	498,381
67.3	62.1	57.6	53.7	46.5	38.4
32.7	37.9	42.4	46.3	53.5	61.6
463,200	456,490	482,516	561,419	657,466	758,783
30,325	30,757	31,880	35,078	36,962	37,400
12,429	13,652	13,586	13,522	13,462	12,642
91.5	91.2	91.4	92.0	92.9	93.8
6.0	6.1	6.0	5.8	5.2	4.6
2.5	2.7	2.6	2.2	1.9	1.6
127.9	57.7	116.3	165.0	153.7	195.6
58,009	40,094	69,060	96,953	119,466	142,218
18,740	40,319	34,087	12,151	15,710	23,619
4.0	4.1	4.2	4.3	4.4	4.3
97.0	96.5	95.1	91.4	93.4	95.2
80.0	80.0	83.0	75.0	83.0	89.0
150	175	155	155	176	202
1,206,572	1,220,002	1,412,854	1,301,966	1,526,074	1,513,559
8,075	356,846	980,759	1,262,235	1,797,096	1,074,348
1,038,074	1,588,089	2,147,476	2,751,885	4,181,478	5,258,106
—	—	—	—	883,572	1,323,235
—	—	—	—	—	1,766,351
2,027,188	2,593,995	2,950,500	2,609,800	3,049,080	3,400,963
105,051	113,114	136,778	161,208	202,348	247,306
—	—	—	—	—	1,332,746
350,126	401,029	502,119	600,329	454,528	244,159
—	—	—	—	1,326,463	1,644,409
—	—	—	—	—	95,830
15,090,000	16,210,000	18,098,000	17,826,000	19,144,000	20,449,000
1,952,000	2,978,000	3,993,000	5,076,000	7,618,000	10,615,000
3,066,000	4,206,000	5,613,000	6,330,400	8,612,000	11,282,000
1,213,000	1,543,000	2,100,000	2,638,500	3,410,000	4,239,000
526,000	736,000	1,008,400	1,218,000	1,352,000	1,669,000
1,018,000	1,302,000	1,708,400	2,010,000	2,408,000	3,015,000
15,135,000	15,944,000	17,087,000	15,520,000	16,790,000	18,100,000

Investor relations

Frequently asked questions

Strategy

Q: What will be the major growth drivers for COSCO Pacific going forward? What is your strategy in the next year?

Ans: Of our three-pillar strategy, the container terminal and container leasing businesses are our main growth drivers, while logistics has the potential for high growth in coming years. Following the acquisitions of three container terminals and the commencement of operation of one other container terminal in 2003, and the identified projects in 2004, our container terminals division is expected to become the most prominent earnings growth driver, while container leasing will remain a stable contributor to earnings. While logistics is currently a smaller part of our business, it has immense potential in the coming years. Given the established strength of COSCO Logistics Co., Ltd. ("COSCO LOGISTICS"), in which the Company has a 49% interest, is in the high growth market in China mainland.

Corporate governance

Q: What improvements have you made in corporate governance and investor relations in the last year?

Ans: We have had several notable achievements in our on-going commitment to the highest standards of investor relations and corporate governance. Details of it were mentioned in the later section of investor relations in this annual report. We continue to communicate proactively with our stakeholders through one-on-one meetings, group discussions, roadshows and the media. The number of people we meet with in these areas increases each year. In 2003 we met with 1,287 stakeholders. Starting from 2003 we began releasing quarterly operational updates and the monthly throughput of our ports portfolio to further improve our operational transparency. Moreover, we formed five Board Committees in 2003. This move goes well beyond Hong Kong regulatory requirements and is aimed at improving the Board's efficiency and oversight of management in terms of transparency, accountability, responsibility and fairness. This has surpassed the relevant regulatory requirements in Hong Kong. The new committees are the Investment and Strategic Planning Committee, the Corporate Governance Committee, the Risk Management Committee, the

Nomination Committee and the Remuneration and Assessment Committee. An Audit Committee was already in place for many years. Our board of directors has also committed to meet four times a year going forward.

Q: How do you balance conflicts of interest between the COSCO Group and minority shareholders?

Ans: The Company has a strong and balanced Board of Directors, comprising 25 members, four of which are independent non-executive directors, exceeding the Hong Kong regulatory requirement of two. Furthermore, we continually assess the performance of the Board based on the business performance of the Company and the accomplishment of long-term strategic objectives. Our six committees also ensure a system of internal checks and balances that protect the interests of all stakeholders.

Financial

Q: What are COSCO Pacific's capital expenditure and financial strategy for the coming year?

Ans: Our focus is on improving return on equity. Since the Asian financial crisis in 1997, we have adopted a prudent financial policy and maintained a relatively low gearing by paying down debt with operating cash flow. This has allowed us to take advantage of business opportunities lying ahead of us, but has diminished our ability to increase return on equity. Looking ahead, the positive outlook of China's economic growth will provide excellent opportunities for COSCO Pacific further expanding its businesses scope and market share. Going forward, our financial strategy will be to maximise our balance sheet strength through debt financing for our capital expenditures. We target an optimal gearing ratio of 55-60%, a move that should enhance return on equity.

Container terminal business

Q: What is your strategy for investment in container terminals in the coming years?

Ans: Our strategy is to strengthen our position as the leading terminal gateway to China. We look at our container terminal investments as a portfolio and our aim is to build the most effective portfolio of ports to provide comprehensive services for our customers.

We have a strong presence in China's key regions such as Bohai Rim, the Yangtze River Delta and the Pearl River Delta. We will increasingly turn our attention to the high-growth areas of the Yangtze River Delta and Bohai Rim regions while maintaining a strong focus on the Pearl River Delta area. In addition, COSCO Pacific will also explore container terminal opportunities in major overseas ports with attractive potential so as to capitalise on the robust development of the global container transportation industry.

Furthermore, being the sole flagship of container terminal business within COSCO Group, our port investments in China are strongly supported by our parent which is the largest shipping company in China. Our professional management with extensive shipping experience and expertise and strong support from COSCO Group, a global tier-one shipping liner, provided us immense advantages with increasing competitiveness as a global terminal operator.

Q: Do you think we will see the decline of Hong Kong as the world's premier port over the next few years?

Ans: For the past 12 years, with the exception of 1998, Hong Kong has maintained its number one position as the busiest port in the world. Certainly, other ports in China mainland have experienced faster growth. However, Hong Kong still has a number of key advantages including flexibility and efficiency. Recently there has been speculation that higher port charges in Hong Kong will decrease its competitiveness. This point of view cannot reflect the market perception. We believe that the higher port charges in Hong Kong are a reflection of shipping companies' willingness to pay a premium for its well-established liner services and port's efficiency in handling containers.

Q: What is your outlook for the container terminal industry in China? Is there an oversupply of container terminal capacity in China?

Ans: We believe the container terminal industry will grow at about 20% per annum over the next few years. Demand for terminal services will continue to increase.

Container leasing business

Q: In 2003, you achieved about 95% container leasing utilisation rate. Can you further improve upon this rate?

Ans: We believe that 95% utilisation rate is optimal because it gives us the room to manage master lease contracts efficiently. The 95% rate is an overall utilisation rate for our long-term and master lease services. In our portfolio, long-term contracts were at 100% utilisation, while master lease contracts were at about 77%. We were able to achieve such a high blended utilisation rate because we have quite a substantial portfolio of long-term contracts.

Q: How do you balance your customer portfolio?

Ans: We have a good balance of customers comprising COSCON and other top-tier international customers, which allows us to diversify our risk effectively. Currently, 54.6% of revenue comes from COSCON and 45.4% from our client base of over 200 international customers. The top 20 largest international customers contribute about 76.6% of revenue from international clients in 2003.

Q: Given the steel price increases in 2003, have you planned or do you plan to hedge against such movements?

Ans: Steel price increases are self-hedging, since an increase in the cost of steel has a two-fold effect. First, container leasing companies need to pay higher container box prices and container manufacturers may be unable to meet orders due to shortages of raw material. However, the higher box prices induce higher leasing rates, which are beneficial to the Company in the long run. Furthermore, the Company has strategically placed more than 10,000 TEUs advanced orders in late 2003 that will help to reduce the cost of purchasing new containers in 2004.

Q: What is the outlook for container leasing rates? Can low financing costs keep leasing rates from rising further? Are high leasing rates in 2004 sustainable?

Ans: The leasing rates in the near future depend on the movement of container cost, which will in turn be linked to the fluctuation of price of raw materials and the demand and supply of containers. This year we expect container leasing rates to increase based on higher container cost. Given the further improvement in the global economic environment that will drive strong demand of containers, we believe higher leasing rates will be sustainable in 2004.

Logistics business

Q: What is the business development plan for COSCO LOGISTICS in the coming years?

Ans: In January 2004, COSCO Pacific completed the acquisition of a 49% stake in COSCO LOGISTICS. The strategic objective of COSCO LOGISTICS is to be the best logistics service provider and shipping agent in China. To achieve that goal it will focus on developing inventory management capability and value-added services based on freight management and inland haulage. They will also solidify their current competitive advantage in household appliance and project logistics services and improve services targeted at the growing automobile and IT industries in China.

COSCO LOGISTICS is a leading services provider of shipping agency, freight forwarding and third-party logistics services in China mainland. It has a competitive regional service network, with offices in Dalian, Beijing, Qingdao, Shanghai, Ningbo, Xiamen, Guangzhou and Wuhan, and representative offices in Hong Kong, Japan, South Korea, Singapore and Greece. They also have over 200 branches in 29 Chinese provinces. COSCO LOGISTICS has signed long-term cooperative contracts with more than 40 overseas shipping agencies, establishing a multi-functional service network in North and South America, Europe, Africa, Japan, Southeast Asia and Australia. Their customers include leading global companies in the household appliance, automobile, manufacturing and steel industries.

Q: What is your outlook for COSCO LOGISTICS this year?

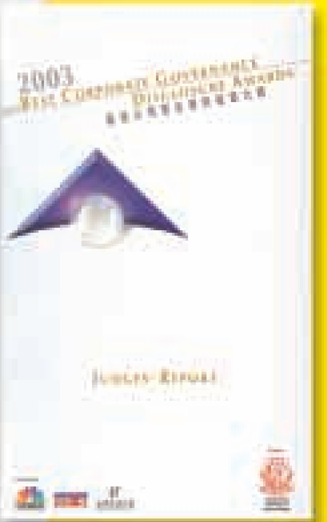
Ans: This acquisition completes our three-pillar strategy. We are now a global leader in container leasing, a regional leader in container terminal operation and will become a leading logistics service provider in China mainland. The acquisition does not only give COSCO Pacific access to the fast-growing logistics industry in China. It will also provide significant synergies between our container leasing, terminals and logistics operations.

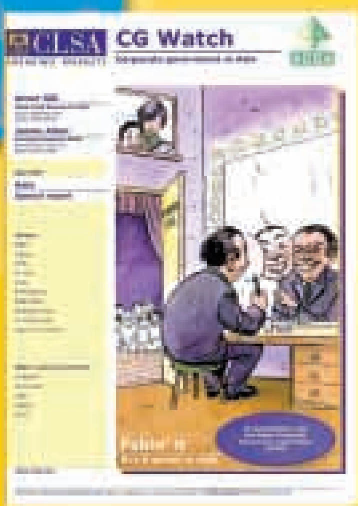
The significant performance of China economic and trade growth, in particular subsequent to the country's admission into the World Trade Organisation, will further enhance the transportation and logistics market. Although third party logistics is a relatively new business in China, the booming economy will provide excellent opportunities for the development of logistics industry. Meanwhile, the sophisticated information technology and flexible trading pattern provide comprehensive software network for the operation of logistics businesses. Furthermore, foreign direct investments in China are expected to increase in the coming years. More and more foreign companies will move to doing businesses in China. These foreign companies, and local Chinese enterprises as well, will need to enhance their competitiveness by outsourcing the logistics works so as to reduce their operational cost. According to Mercer Management in 2002, China's overall logistics services are growing by about 7.5% annually and outsourced logistics services are growing at 25% per annum, leading both North America and the rest of the world. COSCO LOGISTICS is among the earliest companies entering the third-party logistics market with a clear market orientation and development strategy. We expect it to become a high growth contributor to the Company in the coming years.

Other

Q: What is your dividend policy?

Ans: We have been maintaining a steady dividend policy based on payout ratio. This policy endorses our commitment to enhancing shareholder's return.





Investor relations

Investor relations creates shareholders' value

We believe that sound investor relations helps investors and stakeholders evaluate the intrinsic value of the Company, which will translate into a share price that truly reflects the market value of the Company. Good investor relations also gives the Company an edge over competitors by opening up favorable financing channels, hence creating value for shareholders.

Investor relations is a crucial part in corporate marketing. The company has to adhere to statutory disclosure requirements, communicate with investors through various means, provide appropriate and timely company information and financial data of the Company to explain the business environment of the industry and the management's visions on the investment strategy and future prospects of the Group. In recent years the standard of corporate governance of listed companies has been the focus of concern in capital markets. In evaluating the standard of corporate governance, corporate transparency has become a significant benchmark.

Acclaims on the corporate governance and investor relations activities of COSCO Pacific

COSCO Pacific's endeavors to improve its management system, and corporate governance and transparency have established for itself a corporate image of solid integrity and dedication to excellence. As a result, it is well regarded by institutional investors.

2003 proved to be a year of reward for COSCO Pacific and brought along 6 encouraging achievements.

- The first award: COSCO Pacifc was named one of the Chinese companies "Most Committed to Creating Shareholder Value", and with the "Best Corporate Governance" and the "Best Financial Management" in China by Finance Asia in its Asia's Best Companies survey in March 2003.

The management honour awarded to COSCO Pacific is a clear indication of market recognition. We are convinced that sound corporate management principles are the key to winning the trust of investors as well as confidence of business partners.

- The second accolade: In the "Corporate Governance Report" released by CLSA Ltd. in April 2003, COSCO Pacific was recognised as one of the "Best Corporate Governance" PRC enterprises, the third consecutive year the Company received such honour.

  The CLSA Report is an authoritative publication. The scope of the survey covers 380 enterprises in 10 regions in Asia. The report pointed out that the standard of management of a company has a direct bearing on share price and that investors place a high value on corporate governance. The report accredited COSCO Pacific for its business focus, continued efforts in creating shareholders' value and high transparency. It also highlighted the fact that COSCO Pacific is the only Chinese corporation in the survey with a corporate governance committee.

- The third encouraging compliment – Institutional Investor Research Group, the most authoritative magazine in the world, released its yearly Asian Equity Investment Report in June 2003. COSCO Pacific was voted by analysts "The Conglomerate Enterprise with the Best Investor Relations in Asia".

- The fourth honour: In September 2003, COSCO Pacific China Investments Co., Ltd. was rated among the Top 100 Model Foreign Invested Enterprises in China by the Ministry of Commerce. The fact that the company made it to the list among the heated competition is an indication of recognition of the Group by the Ministry of Commerce. It is also an approval of the Company's effort in guarding the corporate image, establishing the brand name and reputation of COSCO and laying a solid foundation for its future operation and development.

- The fifth prize: COSCO Pacific was granted the Significant Improvement Award (Hang Seng Index Category) in the Best Corporate Governance Disclosure Awards 2003 by the Hong Kong Society of Accountants on 11th November 2003, making it the first China mainland company winning such award. The panel of judges passed favorable comments on the 2002 annual report of the Company. The report is reflective of the Company's solid integrity and dedication to excellence and that it has made significant improvement in corporate governance and information disclosure.

- The sixth pleasure: COSCO Pacific was given Honorable Mention in the 2003 Best Annual Reports Awards of the Hong Kong Management Association on 15th December 2003, the fourth time the Company was granted this honour.

Market capitalisation on the rise

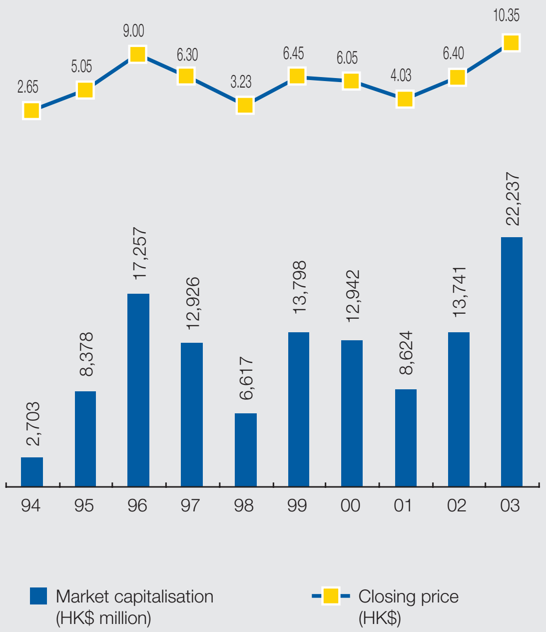
Owing to its good performance and aggressive development, as well as its efforts on investor relations, COSCO Pacific has been included as constituent stock of several major global market indexes, including the Hong Kong Hang Seng China-Affiliated Corporations Index (also known as Red Chips Index), Standard and Poor's Asia 100 index, MSCI China Free Index and FTSE Global Style Index. On 9th June 2003, COSCO Pacific was selected as a constituent stock of Hong Kong Hang Seng Index, and it has been outperforming the market and actively traded since then, driving its share price higher and higher.

On 31st December 2003, the closing price was HK$10.35 and a total of 2,148,542,298 shares were in issue, making a market capitalisation of HK$22,237,413,000. COSCO Pacific accounted for 0.58% and 2.5% of the total market capitalisation of the Hang Seng Index and Red Chips Index and ranked the 29th and 6th in the two indexes respectively.

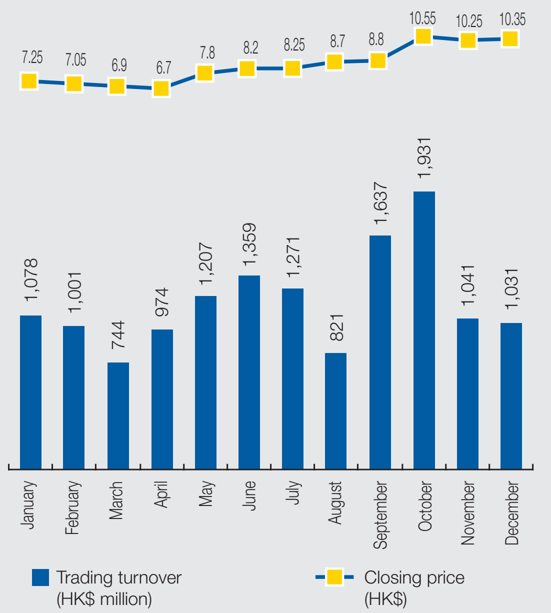
Share price outperformed the market

The share price of COSCO Pacific performed satisfactorily in 2003. During the year, share price averaged at HK$8.334, representing an increase of 46.8% as compared with HK$5.679 in 2002. The share price of COSCO Pacific outperformed those of others in the market with a gain of 61.7% from the end of 2002 to the end of 2003. For the same period, Hang Seng Index was up 34.9% whereas Red Chips Index soared 41.2%. Total trading turnover of COSCO Pacific's shares in 2003 jumped to HK$14,095,290,800, an increase of 91.1% from 2002.

Market capitalisation of COSCO Pacific



Share price performance and trading turnover of COSCO Pacific in 2003



COSCO Pacific	2003	2002	+/-
Highest trading price (HK$)	10.750	7.050	+52.5%
Lowest trading price (HK$)	5.850	3.975	+47.2%
Average trading price (HK$)	8.334	5.679	+46.8%
Closing price as at 31st December (HK$)	10.350	6.400	+61.7%
Total trading turnover (no. of shares)	1,704,359,609	1,316,223,282	+29.5%
Total trading turnover (HK$)	14,095,290,800	7,377,015,700	+91.1%
Total number of shares issued	2,148,542,298	2,147,012,298	+0.1%
Market capitalisation as at 31st December (HK$)	22,237,413,000	13,740,879,000	+61.8%
Market capitalisation ranking at HSI	29	N/A	N/A
Market capitalisation ranking at HSCCI	6	5	-1

Hang Seng Index (HSI)	2003	2002	+/-
Highest	12,741	12,022	+6.0%
Lowest	8,332	8,772	-5.0%
Average	10,291	10,454	-1.6%
Closing level as at 31st December	12,576	9,321	+34.9%

Hang Seng China-Affiliated Corporations Index (HSCCI)	2003	2002	+/-
Highest	1,477	1,405	+5.1%
Lowest	837	945	-11.4%
Average	1,129	1,164	-3.0%
Closing level as at 31st December	1,428	1,011	+41.2%

Source: Bloomberg

Our investor relations activities

- Monitoring the expectations and concerns of the market and investors
- Participating in investor forums
- Regularly meeting fund managers and analysts, conducting quarterly investor forums
- Regularly updating the media and the public about our latest business operations
- Explaining our development strategies to investors
- Keeping a high standard of transparency
- Maintaining best practice in terms of disclosure of corporate information
- Website updating to disseminate information in an effective manner

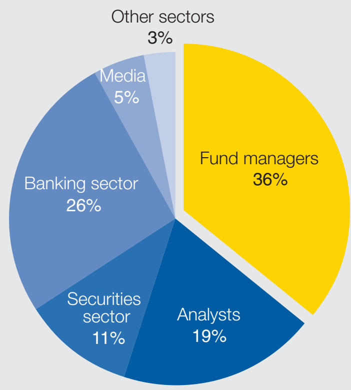
Maintaining effective investor relations is highly regarded by COSCO Pacific. In 2003, we met a total of 1,287 investors and stakeholders, including 662 investors in one-on-one meetings. These stakeholders include fund managers (36%), analysts (19%), brokers (11%), bankers (26%), media (5%) and others (3%). In addition, a total of 26 road shows and investor forums, which were attended by 625 investors, were conducted during the year.

In order to facilitate investors to understand more about COSCO Pacific's terminal and logistics business, the Company organised three visits. Fund managers, analysts and the media were invited to visit our investments in Beijing, Shanghai, Qingdao and Xiamen. These events were all well received by the participants. In the future, the Company will continue to arrange similar events to improve communications with investors and stakeholders. Strengthening investor relations of the Company is one of our important work in 2004.

Investors and stakeholders meeting (Unit: No. of investors)

Year	One-on-one meeting	Roadshow and investor forum	Total
2003	662	625	1,287
2002	581	615	1,196
2001	332	412	744
2000	317	643	960
1999	380	606	986
1998	538	677	1,215
1997	468	446	914

Stakeholders' one-on-one meeting in 2003 (Breakdown by no. of investors)



Investor relations activities

Date	Event
January 2003	Fund managers luncheon meeting being arranged by ING Financial Markets in Hong Kong
	Investor forum of Citigroup Global Markets Asia Limited in Singapore
March 2003	2003 Asian Transport Conference and the investor forum of UBS Warburg in Singapore
	Release of 2002 Final Results • Press Conference • Fund Managers and Analysts Briefings • Luncheon Presentation for investors • Analysts Panel Discussion
May 2003	Release of First Quarter Operational Briefings
	Press conference for the inclusion of COSCO Pacific as a constituent stock of the Hang Seng Index
June 2003	Ceremony of inclusion of COSCO Pacific as a constituent stock of the Hang Seng Index
July 2003	Investor forum of ABN ARMO Asia Ltd. in Singapore
	Port visits for fund managers and analysts to Shanghai Waigaoqiao Phase I, Shanghai Container Terminals and Qingdao Qianwan Container Terminal, and meeting with the management of Shanghai Port Group Co., Ltd. and Qingdao Port Group Co., Ltd.
August 2003	Commencement of releasing monthly terminal throughput in which COSCO Pacific holds equity interests
September 2003	Release of 2003 Interim Results • Press Conference • Analysts Panel Discussion • Luncheon Presentation for investors
	Site visits for Hong Kong press and media to the COSCO LOGISTICS' Beijing headquarters, and its Qingdao and Xiamen branches, and Qingdao Qianwan Container Terminals
	Roadshow for the issuance of US$300,000,000 notes
October 2003	Site visits for fund managers and analysts to the COSCO LOGISTICS' Beijing headquarters and its Qingdao branch, and Qingdao Qianwan Container Terminal
	Release of Third Quarter Operational Briefings
	Investor forums of Citigroup Global Markets Asia Limited in Hong Kong and Singapore
November 2003	China Business Summit 2003 of the World Economic Forum
	Investors relation seminar of The Asia Business Forum in Singapore
	2003 Asia Investor Forum of Morgan Stanley Dean Witter Asia Limited in Singapore
	Port Visit for fund managers to COSCO-PSA Terminal
January 2004	Release of 2003 Operational Briefings

Corporate culture

A good corporate culture is closely related and beneficial to the continuous development of a company. In addition to aggressive business expansion, COSCO Pacific takes high regard to building up a corporate culture, demonstrating our belief in "ensuring customer satisfaction, adding to shareholders' value", being dedicated and ambitious while ensuring development and creativity, seeking to cultivate a core corporate value, building up a shared corporate value and a quality and excellent workforce.

Core corporate value

The core corporate value of COSCO Pacific is as follows: maximisation of corporate efficiency and shareholders' value, trust (to trust and be trust-worthy), creativity (be creative and take the initiative to establish an excellent brand name and achieve brilliant performance, growth (growth of a company lies in growth of its workforce), communications (based on honesty and sincerity), understanding (listening to different viewpoints and learning from mistakes), management (quality management is the building block of good performance), integrity (be respective and respectful, contribute the company as well as to society), service (making dedication to service a working attitude of staff).

Team spirit

Corporate success depends on a quality workforce with a shared value. COSCO Pacific takes high regard to human resources and is committed to providing for the staff a good working environment and room for personal development. Emphasis is also placed on the recruitment of high calibre professionals and the establishment of sound personnel systems to achieve growth for the Company and for the staff.

COSCO Pacific's container leasing, terminals and logistics operations stretch out around the world. Through various activities and training to enhance team spirits, the company creates a working environment with mutual understanding and respect so that employees of different nationalities and cultural backgrounds can cooperate under the notion of "ensuring customer satisfaction, adding to shareholders' value".

Staff remuneration is set according to capability and performance of individual staff and characteristics of specific labour market. Appraisals are conducted every year by the management to evaluate staff performance, improve communications between the management and the staff and make decisions on rewards, promotion and training.

The Company encourages continuous study. Besides arranging for training for the staff according to market conditions and business development, the Company also provides education allowances to assist the staff in taking business-related courses to improve their professional skills.

The Company has set up a general manager's mailbox and a reward for reasonable suggestion to encourage the staff to take the initiative to make recommendations on the management of the Company. We encourage the staff through share option scheme to improve their service quality, which adds value to the Company whilst enabling the staff to benefit from the business development of the Company.

As at the 31st December, 2003, the Company had 380 employees in Hong Kong, China mainland, Macau, Asia, America, Europe and Australia etc.

Social responsibilities and obligations

The social responsibilities of COSCO Pacific are to provide satisfactory service for the customers, to provide room for personal development for the staff, to deliver good returns for the shareholders, and to make good contribution to our society.

To answer our higher duty to the staff, shareholders, investors, customers, suppliers and society, COSCO Pacific always sticks to its principle of honesty and sincerity. At the same time of maximising profitability, we also take great care to ensure full compliance with the local law, regulations and environmental protection ordinances in managing and developing our businesses.

Efforts are also made to enhance our corporate governance, actively participate in social charity and environmental protection, and make contribution to society. In May 2003, COSCO Pacific donated HK$500,000 for insurance coverage premium urgently required by frontline medical personnel in Beijing for their fight against SARS.

The Group offered various internship positions to students from various universities in Hong Kong in 2003. During the year, some of senior management members of the Company were invited to give professional lectures on a voluntary basis to share their knowledge and practical experience at certain universities in the PRC and Hong Kong.

We believe that continuous development of a company depends on a healthy social environment, and that high standards of corporate ethics are beneficial for improving corporate competitiveness. Therefore we consider that it is our responsibility and obligation to improve society and environment to make the world a better one.

Corporate governance

The Board of Directors (the "Board") and the senior management of the Company believe that good corporate governance is in the interest not only of investors but also of the Company itself. The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interests in general. The Company has devoted considerable effort to identifying and formalising best practices of corporate governance. Our effort in this area was widely recognised by our stakeholders and the market. In 2003, we won the "Significant Improvement Award (Hang Seng Index Category)" in the 2003 Best Corporate Governance Disclosure Awards competition organised by the Hong Kong Society of Accountants and were once again rated as one of the "Best Corporate Governance" PRC enterprises in CLSA's Corporate Governance Research Report.

Board of directors

The Board is charged with leading the Group (the Company and its subsidiaries) in a responsible and effective manner and therefore every director has to carry out his/her duties in utmost good faith above and beyond any prevailing applicable laws and regulations and act in the best interests of the shareholders and stakeholders. The Board currently consists of 25 members. Among them, 20 are executive directors, 4 are independent non-executive directors and 1 is non-executive director.

To ensure their independence, accountability and responsibility, the roles of the Chairman and the Vice Chairman are separate from that of the Managing Director. The Managing Director, supported by other board members and the senior management, is responsible for managing the Group's business, implementing major strategies, making day-to-day decision and co-ordinating overall business operations. The Chairman and the Vice Chairman are responsible for overseeing the functioning of the Board and formulating overall strategies and policies of the Company.

The independent non-executive directors, all of whom are independent to the management of the Company, are highly experienced professionals with a broad range of expertise and experience in areas such as accounting, finance, legal and commercial. They ensure that the Board maintains high standards of financial and other mandatory reporting and provide adequate check and balance to safeguard the interests of shareholders in general and the Company as a whole.

Both the Board and the management have clearly defined authorities and responsibilities under various internal control and check-and-balance mechanisms. The Board is responsible for establishing the strategic direction of the Group, setting objectives and business development plans and monitoring the performance of the senior management and assuming responsibility for corporate governance. The management, under the leadership of the Managing Director, is responsible for implementing these strategies and plans. To ensure effective discharge of the Board's responsibilities, the management submits reports on the Company's operations to the Board on a regular basis. The Board reviews and approves the Company's annual budget and business plans, which serves as an important yardstick in assessing and monitoring the performance of the management. Directors have easy access to management and are welcome to request for explanations, briefings or discussions on the Company's operations and business issues.

According to the Bye-laws of the Company, one-third of directors shall retire from office by rotation but shall be eligible for re-election at the Annual General Meeting. The Chairman and the Managing Director are not subject to retirement by rotation whilst holding office, but are subject to re-election by shareholders at the Annual General Meeting in their first year of appointment.

In the board meeting held on 22nd September 2003, the Board has resolved to meet four times a year to review the financial and operating performance of the Group in order to further strengthen the functions of the Board. Financial Controller and Company Secretary also attend all board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial.

There were two board meetings held in 2003 and two board meetings held in early 2004, including meetings conducted via video conferencing which is permitted under the Company's Bye-laws. The directors' attendance at the board meetings are set out in the table below. All businesses transacted at the above meetings are well-documented and maintained in accordance with applicable laws and regulations. Two more board meetings will be held in the second half of 2004.

Date of board meeting	Total no. of directors	No. of directors present	Attendance rate
25/3/2004	25	19	76%
7/1/2004	25	22	88%
22/9/2003	25	16	64%
26/3/2003	18	18	100%

Prior to each board meeting, the Board is supplied with relevant and comprehensive information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group. Board papers are dispatched in advance to the directors to ensure that the directors have sufficient time to review the papers and be adequately prepared for the meeting. Senior management who are responsible for the preparation of the Board papers are usually invited to present their papers and to take any questions or address queries that the Board members may have on the papers. This enables the Board to have pertinent data and insight for a comprehensive and informed evaluation as part of the Board's decision-making process.

The proceedings of the Board at its meetings are conducted by the Chairman or the Vice Chairman of the Company who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and equal opportunities will be given to directors to speak, express views and share concerns.

All new directors appointed to the Board are provided by the Company Secretary with a formal and tailored induction on business and operations of the Company and duties and responsibilities for being directors of a listed company under statutory and common law. This should ensure that the newly appointed director has a proper understanding of the operations and business of the Company and that he/she is fully aware of his/her responsibilities under relevant and applicable rules, regulations and common law. On a timely basis, the Company Secretary will provide the directors with information and update on legal, regulatory and other continuing compliance obligations for being directors of a listed company. All directors have easy access to the Company Secretary who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with.

Directors' securities transactions

The Company has adopted a code of conduct regarding directors' securities transactions. To ensure directors' dealing in the securities of the Company are conducted in accordance with the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), a committee comprising the Chairman, the Vice Chairman, the Managing Director and Deputy Managing Director was set up to deal with such transactions. Prior to any dealing in the securities of the Company, a director has to notify the Chairman or the Vice Chairman verbally and obtain a written acknowledgement from any one of the committee members.

Financial Controller

The Financial Controller is responsible for preparing interim and annual financial statements based on generally accepted accounting principles in Hong Kong and ensuring that the financial statements present fairly the results and the financial position of the Group and comply with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and other applicable laws and regulations. In addition, the Financial Controller is responsible for preparing the annual financial budget of the Group for approval by the Board. The Financial Controller also plays a role of reviewing and making recommendations to the Board on the Group's financial risk management.

Company Secretary

The Company Secretary is responsible directly to the Board to ensure applicable laws and regulations are complied with and to ensure that the Board procedures are strictly followed. The Company Secretary is also responsible for providing advices to the Board on directors' obligations on disclosure of interests in securities, disclosure of discloseable transactions, connected transactions and price-sensitive information. The Company Secretary has to advise the Board on disclosure of information in a true, accurate, complete and timely manner in strict compliance with the requirements of the applicable laws, regulations and the Company's Bye-laws. The Company Secretary, being the primary channel of communication between the Company and the Stock Exchange of Hong Kong, also assists the Board to implement and strengthen corporate governance practices with a view to enhancing long term shareholders' value.

Board committees

To assist the Board in execution of its duties and to promote good corporate governance, the Board has established various board committees which consist of directors, members of senior management and management. Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee.

(1) Audit Committee

The Audit Committee, chaired by Mr. Alexander Reid HAMILTON, was established by the Board of the Company in August 1998 with defined terms of reference. Other members are Dr. LI Kwok Po, David and Mr. LEE Yip Wah, Peter. All the committee members are independent non-executive directors of the Company and are well-versed in the accounting or legal area. The Committee provides advice and recommendations to the Board and oversees all matters relating to the external auditors, thus it plays an important role in monitoring and safeguarding the independence of external auditors. Both the Financial Controller and the Internal Auditor are directly accountable to the Chairman of the Audit Committee.

The Committee meets no less than twice a year with the senior management and the internal and external auditors to review the accounting principles and practices adopted by the Group and other financial reporting matters, assure the completeness, accuracy and fairness of the financial statements of the Company, discuss the effectiveness of the systems of internal control throughout the Group and most importantly, review all significant business affairs managed by the executive directors in particular on connected transactions.

After each Audit Committee meeting, the Audit Committee Chairman will present to the Board a written report which highlights any significant issues discussed in the meeting during a board meeting.

(2) Investment and Strategic Planning Committee

The Investment and Strategic Planning Committee comprises 10 members and is chaired by Mr. SUN Jiakang, Managing Director of the Company. It considers, evaluates, reviews and recommends to the Board the proposed major investments, acquisitions and disposals and conducts post-investment evaluation of the investment projects, reviews and considers the overall strategic direction of the Company and business developments of the Company.

(3) Corporate Governance Committee

The Corporate Governance Committee comprises 6 members and is chaired by Mr. WONG Tin Yau, Kelvin, Deputy Managing Director of the Company. It is responsible to the Board to review the Company's corporate governance practice and disclosure systems so as to enhance the standard of corporate governance of the Company.

(4) Risk Management Committee

The Risk Management Committee comprises 8 members and is chaired by Mr. LU Chenggang, Deputy Managing Director of the Company. It provides independent support to the Board to identify the operational risks of the Company and monitor and manage these risks, set direction for the Group's risk management strategy and strengthen the system of risk management of the Group.

(5) Other new board committees

The Board has also approved to establish two more new board committees, namely, the Nomination Committee and the Remuneration and Assessment Committee. These committees are respectively chaired by Dr. LI Kwok Po, David and Mr. LEE Yip Wah, Peter, both are independent non-executive directors of the Company. The Nomination Committee is responsible for nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on such appointments. The Remuneration and Assessment Committee will review and determine the policy for the remuneration of directors. The terms of reference of these committees are now under formalisation.

The above board committees have scheduled to meet regularly every year. The number of meetings held and the attendance of the members of these committees at these meetings are listed out below. The board committees will report to the Board on a regular basis. All businesses transacted at the committee meetings are well recorded and maintained.

		No. of committee members					
	Date of meeting held	Director	Senior management	Management	Total	No. of committee members present	Attendance rate
Audit Committee	17/3/2004	3	–	–	3	3	100%
	15/9/2003	3	–	–	3	3	100%
	24/3/2003	3	–	–	3	3	100%
Investment and Strategic Planning Committee	9/9/2003	3	2	5	10	10	100%
Corporate Governance Committee	8/3/2004	1	2	3	6	6	100%
	8/12/2003	1	2	3	6	5	83%
	11/9/2003	1	2	3	6	5	83%
Risk Management Committee	10/2/2004	2	2	4	8	6	75%
	26/8/2003	2	2	4	8	7	88%

Internal control and internal audit

The internal control and accounting systems of the Group are designed to provide reasonable assurance that assets are safeguarded against unauthorised use or disposition, transactions are executed in accordance with management's authorisation and the accounting records are reliable for preparing financial information used within the business or for publication and reflecting accountability for assets and liabilities.

In order to establish a sound system of internal controls in safeguarding shareholders' interests and the Group's assets, the Company has established an Internal Audit Department in September 2000, the key tasks include:

- Review of all aspects of the Group's activities and internal controls with unrestricted right of access;
- Conduct comprehensive audits of the practices and procedures, income and expenditure, and internal controls of all business units of the Group on a regular basis;
- Conduct special reviews and investigations of areas of concern identified by management.

The head of the Internal Audit Department reports directly to the Managing Director and the Chairman of the Audit Committee and attends all audit committee meetings and brings appropriate matters identified during the course of audits to the Committee's attention. This reporting structure allows the Internal Audit Department to maintain its independence.

The internal audit plan, which is reviewed and approved by the Audit Committee, is based on the sizes and prevailing risks of all business units of the Group to establish audit scopes and frequencies. All internal audit works scheduled for the year of 2003 have been completed. All areas of concern reported by the Internal Audit Department have been monitored by the management until appropriate corrective measures are implemented.

Investor relations

The Company continues to promote and enhance investor relations and communications with its investors. An intensive communications channel has been maintained with the media, analysts and fund managers through one-on-one meetings, roadshows and conferences. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development.

Communication with shareholders

The Company attaches great priority to communicate with shareholders and investors. There is a regular dialogue with institutional shareholders and general presentations are made when the financial results are announced. To foster effective communication, the Company provides extensive information in its annual report, interim report, press releases and also disseminates information relating to the Group and its business electronically through its website at www.coscopac.com.hk.

The Company regards the Annual General Meeting ("AGM") as an important event as it provides an important opportunity for direct communication between the Board and the Company's shareholders. All directors and senior management will make an effort to attend. External auditors are also available at the AGM to address shareholders' queries. All shareholders will be given at least 21 days' notice of the AGM and they are encouraged to attend the AGM and other shareholders' meetings. Questioning by the shareholders at such meetings are encouraged and welcomed.

Transparency of ownership

All shareholders and potential investors are informed of the ownership structure of the Company through its annual report, interim report, website and public announcements. The list of shareholders is available for inspection through Secretaries Limited which serves as the Hong Kong Branch Registrars of the Company.

Code of conduct

To ensure that the Group operates with professional competence and to a high level of ethical standards, the Group has maintained an employee handbook to provide guidance to employees on matters such as employee dealing, ethical standards, the code of conduct of business and code of conduct of employees. The handbook applies to all employees of the Group and they have to ensure strict compliance with the policies therein.

Code of best practice

Throughout the year, the Company has complied with Code of Best Practice (the "Code") contained in Appendix 14 of the Listing Rules. Schedule to hold four full board meetings a year and the establishment of various board committees under the Board exceeded and beyond the provisions set out in the Code.

Conclusion

The Company believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. As the constituents of good corporate governance will evolve with changing circumstances, the Company will review its corporate governance practices from time to time so as to meet the changing circumstances and to ensure that they reflect local and international developments. The Company also believes that the quality and standard of corporate governance reflect the quality of the management and the operations of the Company's business. Therefore, the Company will continue to commit itself to achieving a high quality of corporate governance and strenghen communications with shareholders and stakeholders.

Directors and senior management profiles

Executive Directors

WEI Jiafu
Chairman

Mr. WEI, aged 54, is the Chairman of the Company. He was appointed President & CEO of China Ocean Shipping (Group) Company in November 1998. Mr. WEI is also the Chairman of COSCO (Hong Kong) Group Limited, COSCO International Holdings Limited and COSCO Container Lines Company Limited. He was elected into the CPC Central Committee for Discipline Inspection in November 2002. As a former marine captain who served for more than a decade on COSCO's ocean-going ships, he is richly experienced in international shipping business. Mr. WEI is also Chairman of China Shipowners' Association, Executive Chairman of China Federation of Industrial Economics, Director of the Board of Bo'ao Forum for Asia, President of China Maritime Law Association, advisor of Harvard Business School and advisor of Panama Canal Authority. Mr. WEI obtained his Master of Shipping Management and Engineering degree from Dalian Maritime University and his Doctoral degree from Tianjin University. Before Mr. WEI was appointed President of China Ocean Shipping (Group) Company, he had held various senior positions within COSCO, including President of COSCO Investment (Singapore) Limited and Managing Director of Sino-Tanzania Joint Shipping Company, Tianjin Ocean Shipping Company and COSCO Bulk Carrier Company Limited. He joined the Company in June 2000 as Chairman of the Board of Directors and is responsible for formulating the overall strategy and policy of the Company.

LIU Guoyuan
Vice Chairman

Mr. LIU, aged 52, joined the Company in November 2000, is the Vice Chairman of the Company. He is also the Executive Vice Chairman and President of COSCO (Hong Kong) Group Limited, the Vice Chairman of COSCO International Holdings Limited, the Chairman of COSCO (H.K.) Shipping Company Limited and COSCO (Hong Kong) Industry & Trade Holdings Limited. After graduating from Beijing Foreign Languages University in February 1975, he joined China Ocean Shipping (Group) Company at the same year. In August 1982, he earned the Master of Laws degree (LL.M) from the Law School of University of Washington, USA. Since 1984, Mr. LIU had been the General Manager of the Law & Policy Research Department, the Executive Division and the Planning & Project Division in COSCO Head Office. In 1990, he was awarded the qualification of Senior Economist by the Ministry of Communications of China. In 1991, Mr. LIU was promoted as the Senior Commercial Director of China Ocean Shipping (Group) Company. Afterwards, he had been the Senior Deputy Managing Director of COSCO Tianjin, Senior Vice President and Vice Chairman and President of COSCO Europe GmbH. Mr. LIU has accumulated rich knowledge on corporate management, shipping business management, investment management and staff management from his over 29 years' working experiences in COSCO Group. He is a member of the Hong Kong Port and Maritime Board and the Hong Kong Logistics Development Council, a Council member of the Hong Kong General Chamber of Commerce and the Hong Kong Management Association, Vice Chairman of the Hong Kong Shipowners Association as well as Secretary General of the Hong Kong Chinese Enterprises Association.

ZHANG Fusheng

Mr. ZHANG, aged 53, has been a Director of the Company since September 2003. He is also the Secretary of the CPC Sub-Committee and the Executive Vice President of China Ocean Shipping (Group) Company and a Director of COSCO Container Lines Company Limited. He graduated from Shanghai Maritime University and Wuhan University of Communications Science and obtained a Master degree in Transportation Management from Wuhan University of Communications Science. He had been a Deputy Director of the First Operation Division of Tianjin Port Authority, Deputy Director of Second Division of Organisation Department of Ministry of Communications ("MOC"), Director of First Division of Organisation Department of MOC, Division Head and Deputy Director of Personnel & Labour Department of MOC, Director of Institutional Reform & Regulatory Department of MOC, spokesman of MOC, Vice President of the Beijing branch of Bank of Communications and Party Secretary of COSCO Container Lines Company Limited. He has extensive experience in corporate management.

WANG Futian

Mr. WANG, aged 53, has been a Director of the Company since September 2003. He has been a Senior Executive Supervisor and Deputy Secretary of the CPC Sub-Committee of China Ocean Shipping (Group) Company since 2000. Mr. WANG graduated from Dalian Maritime University, majoring in Navigation, in 1976. Upon graduation, he started working in Guangzhou Ocean Shipping Company and Dalian Ocean Shipping Company. He had been

Senior Marine Officer, Manager of Enterprise Planning Department and Chairman of the Labour Union of Dalian Ocean Shipping Company, Vice Chairman and Chairman of the Labour Union, Secretary of the Discipline Inspection Committee and Deputy Secretary of the CPC Sub-Committee of China Ocean Shipping (Group) Company.

GAO Weijie

Mr. GAO, aged 58, has been a Director of the Company since September 2003. He is also an Executive Vice President of China Ocean Shipping (Group) Company and a Director of COSCO Container Lines Company Limited. He graduated from Maritime Department of Cadres School of the Ministry of Communications in 1967, majoring in English. Upon graduation, he started working for Penavico Dalian. He held a number of positions including a member of the Maritime Team of the Commercial Council of the Chinese Embassy in the United Kingdom, Managing Director of COSCO Americas Inc., Deputy General Manager of COSCO UK Co., Ltd., Deputy General Manager of Transportation Division of China Ocean Shipping Company and the Deputy General Manager of the Container Transportation Division, General Manager of Development Division and General Manager of Transportation Division of China Ocean Shipping (Group) Company.

CHEN Hongsheng

Mr. CHEN, aged 54, has been a Director of the Company since September 2003. He is also a Vice President of China Ocean Shipping (Group) Company. Mr. CHEN graduated from Sichuan Foreign Language College in 1975, majoring in English. After graduation, he started working for Penavico Tianjin. He was the Deputy General Manager of Penavico Nantong Branch Company, Manager of Shipping Department of Penavico, Head Office, General Manager of Beijing Freight Forwarding Company, Deputy General Manager of COSCO International Freight Forwarding Co. Ltd., Deputy General Manager of Container Transportation Division of China Ocean Shipping (Group) Company and Managing Director of COSCO International Freight Forwarding Co. Ltd.

LI Jianhong

Mr. LI, aged 47, has been a Director of the Company since October 1997. He is also the Vice President of China Ocean Shipping (Group) Company and a Director of COSCO International Holdings Limited. Mr. LI graduated from the University of East London in the United Kingdom with a Master of Business Administration degree and holds a Master of Business Administration degree from Jilin University. He has been the Assistant to the President and Chief Commercial Officer of China Ocean Shipping (Group) Company, General Manager and Secretary of the Party Committee of COSCO Industry Co. Ltd., General Manager of COSCO Real Estate Company, General Manager of COSCO Property Group Ltd. and Chairman of the Board of Directors of China International Marine Containers (Group) Ltd. He currently holds the positions of Vice Chairman of China Youth Entrepreneur Association, General Director of China Containers Industry Association. He has more than 20 years of experience in corporate management.

MA Zehua

Mr. MA, aged 51, has been a Director of the Company since September 2003. He is also a Vice President of China Ocean Shipping (Group) Company. He graduated from Marine Department of Shanghai Maritime University in 1977 and started his career in the Shipping Department of China Ocean Shipping Company in the same year. He was then appointed as the Deputy Manager of the Shipping Department. He had been the Deputy General Manager of the Transportation Division of China Ocean Shipping Company, General Manager of COSCO UK Co., Ltd., General Manager of Development Division and Assistant President of China Ocean Shipping (Group) Company, the President of COSCO North America Inc., Deputy General Manager of Guangzhou Ocean Shipping Company and General Manager of Qingdao Ocean Shipping Company.

MA Guichuan

Mr. MA, aged 49, has been a Director of the Company since September 2003. He is also the Chairman of the Seaman Union of China Ocean Shipping (Group) Company. He graduated from Dalian Maritime University, majoring in Engineering Management, in 1978. He had been a Senior Marine Officer and Manager of the First Management Department of Qingdao Ocean Shipping Company and the Secretary of the Party Committee of Qingdao Ocean Mariner's College.

SUN Yueying

Ms. SUN, aged 45, has been a Director of the Company since March 2002. She is also the Chief Accountant of China Ocean Shipping (Group) Company and a Director of COSCO (Hong Kong) Group Limited and COSCO Container Lines Company Limited. Ms. SUN was graduated from Shanghai Maritime University in 1982 majoring in sea transportation, finance and accounting. She had been the Vice Director of the Finance Division of Tianjin Ocean Shipping Co., a Director of the General Affairs Division of COSCO Japan Co., Ltd. and the General Manager of the Finance Division of China Ocean Shipping (Group) Company. She has extensive experience in financial management.

LI Yunpeng

Mr. LI, aged 45, has been a Director of the Company since September 2003. He is also an Assistant President and General Manager of Human Resources Division and Chief of Organisation Division of China Ocean Shipping (Group) Company. He obtained a Master degree in Ship and Marine Engineering in Tianjin University in 2001. Before he was appointed as a Director of Administration Division of COSCO Bulk Carrier Co. Ltd., he worked in Tianjin Ocean Shipping Company and held various senior positions there. He was then appointed as the Deputy General Manager of Executive Division, Deputy Secretary of Discipline Inspection Committee, General Manager of Supervision Division, Director of Organization Division and General Manager of Human Resources Division of China Ocean Shipping (Group) Company.

ZHOU Liancheng

Mr. ZHOU, aged 55, has been a Director of the Company since November 2000. He is also a Director and Vice President of COSCO (Hong Kong) Group Limited and a Director of COSCO International Holdings Limited. Mr. ZHOU graduated from Dalian Maritime University. He had been the General Manager of China Ocean Shipping Agency, Nanjing and the Deputy General Manager of COSCO Asia Development Limited and COSCO (H.K.) Industry & Trade Holdings Limited. He has extensive experience in corporate management.

SUN Jiakang
Managing Director

Mr. SUN, aged 44, is the Managing Director of the Company and the Chairman of the Investment and Strategic Planning Committee of the board of directors of the Company. He is also a Vice President of COSCO (Hong Kong) Group Limited, a Non-executive Director of Liu Chong Hing Bank Limited, a fellow member of the Hong Kong Institute of Directors and a member of International WHO'S WHO of Professionals. Mr. SUN graduated from the Faculty of Navigation of Dalian Maritime Transportation Institute with a bachelor degree in shipping management in 1982 and obtained a bachelor degree in economic management of industrial enterprises from the People's University of China in 1987 and a master degree in management from Dalian Maritime University in 2001. After graduating from university in 1982, Mr. SUN joined COSCO Group and had been the Assistant to the President and Spokesman of China Ocean Shipping (Group) Company. For the past 22 years, Mr. SUN has committed to shipping management and has accumulated rich experiences in international shipping and logistics operations and has demonstrated excellent management skills. He joined the Company since September 2002 and is responsible for the overall strategic planning, corporate development, management and administration of the Company.

XU Lirong

Mr. XU, aged 46, has been a Director of the Company since March 2000. He is also the Managing Director of COSCO Container Lines Company Limited. Mr. XU graduated from Marine Navigation Department of the Adult Education College in Dalian Maritime University and obtained his Master of Business Administration degree from Shanghai Maritime University thereafter. Mr. XU had been Second Chief Officer, Chief Officer and Captain on board the vessels of Shanghai Ocean Shipping Company. He had also been the Deputy Managing Director of Shanghai Ocean Shipping Company and the President of Shanghai Shipping Exchange. He has extensive experience in shipping and corporate management.

HE Jiale

Mr. HE, aged 49, has been a Director of the Company since November 2003. He is also the Financial Controller of COSCO (Hong Kong) Group Limited and a Director of COSCO International Holdings Limited. Mr. HE graduated from Shanghai Harbour School in 1974. He was then awarded the professional qualification of Senior Accountant by the Ministry of Communications in 1997. In 2003, Mr. HE had finished the Master Program of Management Science and Engineering in Shanghai University. He had been the Deputy Manager of Financial Division of Shanghai Ocean Shipping Company, Deputy General Manager of Finance Division of COSCO Container Lines Company Limited, Deputy General Manager of Finance Division of China Ocean Shipping (Group) Company and Chief Financial Officer of COSCO Container Lines Company Limited and Shanghai Ocean Shipping Company respectively. He is responsible for assisting the Company to formulate financial plans.

LIANG Yanfeng

Mr. LIANG, aged 38, has been a Director of the Company since March 2002. He is also a Director of COSCO (Hong Kong) Group Limited and COSCO International Holdings Limited, and the General Manager of the Assets Management Division of China Ocean Shipping (Group) Company. Mr. LIANG was graduated from Tsinghua University with a Master Fellowship in Social Sciences in 1991. He had been the Deputy General Manager of the Personnel Division of China Ocean Shipping (Group) Company and the General Manager of COSCO Human Resources Development Company. He has extensive experience in corporate management.

WONG Tin Yau, Kelvin

Mr. WONG, aged 43, is a Deputy Managing Director of the Company and the Chairman of the Corporate Governance Committee of the board of directors of the Company. He is also the Assistant to the President of COSCO (Hong Kong) Group Limited. Mr. WONG is an associate member of the Chartered Institute of Bankers, Deputy Chairman and fellow member of the Hong Kong Institute of Directors, a member of the Hong Kong Securities Institute, a member of the Chartered Institute of Marketing, a member of the National Investor Relations Institute in the USA and a council member of the Hong Kong Chinese Orchestra Limited. He obtained his Master of Business Administration degree from Andrews University in Michigan, the USA in 1992. He has more than 19 years of working experience in the banking and securities industries. Mr. WONG had held various senior positions in several listed companies in Hong Kong before he joined the Company in July 1996. He is now responsible for the overall management and investor relations of the Company.

MENG Qinghui

Mr. MENG, aged 48, has been a Director of the Company since March 2002. He is also a Director of COSCO International Holdings Limited and the Managing Director of the Finance Division of COSCO (Hong Kong) Group Limited. Mr. MENG was graduated from Changsha Railway University in 1978 and was awarded the professional qualification of Accountant in China. He has 25 years of experience in financial management and accounting and is very familiar with corporate financial planning.

LU Chenggang

Mr. LU, aged 51, has been a Director of the Company since November 1999. He is also a Deputy Managing Director and the Chairman of the Risk Management Committee of the board of directors of the Company and the Chairman of Florens Container Services Company Limited. Mr. LU graduated from Changsha Railway University in 1975. He had further studies in Shanghai Maritime University and obtained a Master of Business Administration degree from Capital Economic and Trade University. He was awarded the qualification of senior economist by the Ministry of Communications of the PRC. He had been the Senior Vice President of COSCO Inc. USA, the Deputy Managing Director of COSCO International Freight Company Limited, the General Manager of COSCO Equipment Control Centre, the Vice Chairman of China Road Transportation Association and China Warehouse and Storage Association. Mr. LU has extensive experience in the container business and is currently responsible for corporate development, overall management and administration of Florens Container Services Company Limited.

QIN Fuyan

Mr. QIN, aged 51, has been a Director of the Company since March 1996. He is also the Deputy General Manager of COSCO-HIT Terminals (Hong Kong) Limited. Following his graduation from university in 1975, Mr. QIN joined China Ocean Shipping (Group) Company and has been responsible for shipping management. In 1983, he joined the chartering department of Ocean Tramping Company Limited in Hong Kong. He has been serving China Ocean Shipping (Group) Company for over 20 years and has extensive knowledge in shipping management, container terminal development and the worldwide shipping market. Mr. QIN was awarded the qualification of senior economist in shipping management by the Ministry of Communications of the PRC and obtained a diploma in container terminal management from the University of Wales in the United Kingdom.

Independent Non-executive Directors

LI Kwok Po, David

Dr. LI, aged 65, has been an Independent Non-executive Director of the Company since February 1998. He is also the Chairman of the Nomination Committee of the board of directors of the Company. Dr. LI is now the Chairman and Chief Executive of The Bank of East Asia, Limited, a member of the Legislative Council of the Hong Kong Special Administrative Region, the Chairman of the Chinese Banks' Association and a Non-executive Director of PCCW Limited. He was a Hong Kong Affairs Adviser to the PRC and a Convenor of the investment committee of the Hong Kong Special Administrative Region Government Land Fund Trust.

LIU Lit Man

GBS, JP, FIBA

Mr. LIU, aged 74, has been an Independent Non-executive Director of the Company since September 1996. He is the Executive Chairman of Liu Chong Hing Bank Limited and the Chairman of both Liu Chong Hing Investment Limited and Liu Chong Hing Insurance Company Limited. Mr. LIU is also a Director of The Hong Kong and China Gas Company Limited, Asia Commercial Bank Limited and Shanghai Land Holdings Limited. Mr. LIU was a Director of Tung Wah Group of Hospitals, the President of the Hong Kong Chiu Chow Chamber of Commerce (now Permanent Honorary President) and founder and first Chairman of Teochew International Convention (now Permanent Honorary Chairman). Presently he is a Standing Committee Member of The Chinese General Chamber of Commerce, Hong Kong, the founder and the Manager of Liu Po Shan Memorial College, a Director of New Asia College of Chinese University of Hong Kong and the founder and the Manager of Chiu Chow Association Secondary School. In 1975, he was appointed a Justice of the Peace and was elected Fellow of the International Banker Association. He had been a member of the Consultative Committee for the Basic Law from 1985 to 1990 and was a member of the Selection Committee of the First Government of the Hong Kong Special Administrative Region and a member of the First Election Committee constituted under the Chief Executive Election Ordinance. Mr. LIU was awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region in July 2001.

Alexander Reid HAMILTON

Mr. HAMILTON, aged 62, has been an Independent Non-executive Director of the Company since November 1994. He is also the Chairman of the Audit Committee of the board of directors of the Company. He is a Director of COSCO International Holdings Limited, CITIC Pacific Limited, Esprit Holdings Limited, Shangri-La Asia Limited and a number of other Hong Kong companies. He is a member of the Institute of Chartered Accountants of Scotland, a fellow of the Hong Kong Society of Accountants and a fellow member of the Institute of Directors. He was a partner in Price Waterhouse for 16 years and has more than 20 years of audit and accounting experience.

LEE Yip Wah, Peter

Mr. LEE, aged 61, has been an Independent Non-executive Director of the Company since July 1999. He is also the Chairman of the Remuneration and Assessment Committee of the board of directors of the Company. Mr. LEE is a practising solicitor in Hong Kong and a partner of Messrs. Woo, Kwan, Lee & Lo. He is also an Independent Non-executive Director of a number of public listed companies in Hong Kong including Elec & Eltek International Holdings Limited and Shenzhen Investment Limited.

Non-executive Director

KWONG Che Keung, Gordon

Mr. KWONG, aged 54, has been a Director of the Company since May 1998. Before his redesignation as a Non-executive Director in March 2003, Mr. KWONG served as an Executive Director. He graduated from the University of Hong Kong in 1972, qualifying as a chartered accountant in England in 1977. He was a partner of Price Waterhouse from 1984 to 1998. He is also a Non-executive Director of COSCO International Holdings Limited and Independent Non-executive Director of a number of Hong Kong listed companies. In the public sector services, he was a part-time panel member of the Hong Kong Government's Central Policy Unit from 1993 to 1995 and was an independent member of the Council of The Stock Exchange of Hong Kong Limited from 1992 to 1997. He was a member of the Panel of Inquiry appointed by the Financial Secretary on the Penny Stocks Incident in 2002.

Senior Management

WANG Zhi

Mr. WANG, aged 41, has been a Deputy Managing Director of the Company since April 2001. He graduated from Jimei Navigation College in 1980 and obtained an International Executive Master of Business Administration degree from International School of Management in France in 2000. He had more than 13 years of working experience in shipping industries with Guangzhou Ocean Shipping Company before he became the Deputy Chief Executive Officer of COSCO (UK) Limited and the Managing Director of Crystal Logistics Ltd. in 1993. He had been the Managing Director of COSCO France S.A. from October 1997 to March 2001. Mr. WANG is now responsible for the management and investment of the container terminals and container-related industrial businesses of the Company.

LI Wai Ho, Francis

Mr. LI, aged 50, has been the Financial Controller of the Company since April 1998. He is a member of the Chartered Institute of Management Accountants and the Hong Kong Society of Accountants. He had worked for 10 years with an international audit firm and another 10 years with a listed group of companies before he joined the Company in 1998.

HUNG Man, Michelle

Miss HUNG, aged 34, has been the Legal Counsel and Head of the Legal Department of the Company since November 1996 and the Company Secretary of the Company since March 2001. She graduated from The University of Hong Kong with a Bachelor of Laws degree. She is a practicing solicitor of the High Court of the Hong Kong Special Administrative Region. She is also qualified in England and Wales. She is responsible for all legal, company secretarial and related matters of the Company.

HUANG Kegong

Mr. HUANG, aged 57, has been the Assistant to the Managing Director of the Company since January 2002. He has worked for China Ocean Shipping (Group) Company for 37 years and has been involved in various shipping operations. From 1986, he began to station and work in Central and South America for 10 years. In 1996, he returned to China mainland and engaged in management of terminal operations. Mr. HUANG is highly experienced with good management skills. He now assists to manage the daily operations and corporate planning of the Company.

CHAN Hang, Ken

Mr. CHAN, aged 46, has been the General Manager of the Corporate Development Department of the Company since September 1998. He obtained his Master of Business Administration degree from Dalhousie University in Canada in 1985 and continued his education in the University of Washington in the USA. Before joining the Company in 1998, he had held senior positions in a local bank and an international securities firm in Hong Kong. He has 20 years of working experience in finance, securities, corporate strategic planning and management.

QIU Jincheng

Mr. QIU, aged 41, has been the Managing Director of COSCO Container Services Limited, a subsidiary of the Company, since February 2001. Following his graduation from Dalian Maritime University in 1983, Mr. QIU has been engaging in the storage, transportation and management works concerning goods and containers. He is now responsible for the operations, management and corporate planning of container handling and storage operations businesses of COSCO Container Services Limited.

Financial Report

CONTENTS

Report of the Directors

The directors submit their report together with the audited accounts of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 35 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2003 are set out in the consolidated profit and loss account on page 118 of this annual report.

The directors declared an interim dividend of HK13.8 cents (equivalent to US1.769 cents) per share, totalling HK$296,288,000 (equivalent to US$37,986,000), which was paid on 23rd October 2003.

The directors propose a final dividend of HK18.0 cents (equivalent to US2.308 cents) per share, totalling HK$386,738,000 (equivalent to US$49,582,000), payable on or before 3rd June 2004.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on pages 184 and 185 of this annual report.

RESERVES

Movements in the reserves of the Group are set out in the consolidated statement of changes in equity on pages 121 and 122 of this annual report.

Movement in the reserves of Company during the year are set out in note 22 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to US$65,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 12 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are shown in note 21 to the accounts.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company at 31st December 2003 calculated under Companies Act of Bermuda amounted to US$588,635,000.

BORROWINGS

Details of the borrowings of the Group are set out in note 23 to the accounts.

RETIREMENT BENEFIT SCHEMES

Details of retirement benefit schemes of the Group are set out in notes 1(n)(i) and 10 to the accounts.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Mr. WEI Jiafu *(Chairman)*	
Mr. LIU Guoyuan *(Vice Chairman)*	
Mr. ZHANG Fusheng	(appointed on 19th September 2003)
Mr. WANG Futian	(appointed on 19th September 2003)
Mr. GAO Weijie	(appointed on 19th September 2003)
Mr. CHEN Hongsheng	(appointed on 19th September 2003)
Mr. LI Jianhong	
Mr. MA Zehua	(appointed on 19th September 2003)
Mr. MA Guichuan	(appointed on 19th September 2003)
Ms. SUN Yueying	
Mr. LI Yunpeng	(appointed on 19th September 2003)
Mr. ZHOU Liancheng	
Mr. SUN Jiakang *(Managing Director)*	
Mr. XU Lirong	
Mr. HE Jiale	(appointed on 27th November 2003)
Mr. LIANG Yanfeng	
Mr. WONG Tin Yau, Kelvin	
Mr. MENG Qinghui	
Mr. LU Chenggang	
Mr. QIN Fuyan	
Mr. LU Zhiming	(resigned on 27th November 2003)

Independent non-executive directors

Dr. LI Kwok Po, David
Mr. LIU Lit Man
Mr. Alexander Reid HAMILTON
Mr. LEE Yip Wah, Peter

DIRECTORS (Continued)

Non-executive director

Mr. KWONG Che Keung, Gordon	(re-designated from executive director to non-executive director on 13th March 2003)

In accordance with Clause 86(2) of the Company's Bye-laws, Mr. ZHANG Fusheng, Mr. WANG Futian, Mr. GAO Weijie, Mr. CHEN Hongsheng, Mr. MA Zehua, Mr. MA Guichuan, Mr. LI Yunpeng and Mr. HE Jiale retire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

In accordance with Clause 87(1) and (2) of the Company's Bye-laws, Mr. LIU Guoyuan, Mr. LI Jianhong, Ms. SUN Yueying, Mr. QIN Fuyan and Dr. LI Kwok Po, David retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management as at the date of this report are set out on pages 90 to 96 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. SUN Jiakang has entered into a service agreement with COSCO Pacific Management Company Limited, a wholly owned subsidiary of the Company, on 16th September 2002 for a term of three years commencing from 16th September 2002. The agreement is renewable automatically for successive terms of three years subject to termination by either party giving not less than three months' notice in writing to the other party terminating at the end of the initial term or any renewed term of the service agreement.

Mr. WONG Tin Yau, Kelvin has a service agreement with the Company commencing from 22nd July 1996. The agreement is terminable by either party giving to the other party not less than one month's prior notice in writing.

Save as disclosed above, none of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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 new share option scheme (the "2003 Share Option Scheme") which complies with the new requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the termination of the share option scheme adopted by the shareholders of the Company on 30th November 1994 (the "1994 Share Option Scheme").

The following is a summary of the principal terms of these two share option schemes:

(i) **1994 Share Option Scheme**

The 1994 Share Option Scheme was designed to motivate the employees to enhance their performance and contribution to the Group. Under the 1994 Share Option Scheme, the directors of the Company may, at their discretion, grant to any director, executive and/or employee who are in full time employment with any company in the Group, share options to subscribe for the Company's shares (each a "Share" or collectively the "Shares"), subject to the terms and conditions stipulated therein.

Under the 1994 Share Option Scheme, the maximum number of Shares in respect of which options may be granted will not exceed 10% of the issued share capital of the Company from time to time. The maximum number of Shares issued to each employee or director in respect of which options may be granted shall not exceed 25% of the total Shares in issue or to be issued under the 1994 Share Option Scheme.

The period within which an option may be exercised will be determined by the board of directors of the Company (the "Board") in its absolute discretion, save that the exercise period shall not be more than ten years from the date on which the option is granted. The consideration on acceptance of an offer of the grant of an option is HK$1.00 payable within 28 days from the offer date. The full amount of the subscription price for the Shares must be paid upon exercise of an option.

The exercise price of an option is determined by the Board and will not be less than 80% of the average of the closing prices of the Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of offer of the share option or the nominal value of the Shares, whichever is higher.

The 1994 Share Option Scheme was terminated on 23rd May 2003. No further options shall 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.

As at the date of this report, a total of 12,126,000 Shares (representing approximately 0.56% of the existing issued share capital of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the 1994 Share Option Scheme.

SHARE OPTIONS (Continued)

(ii) 2003 Share Option Scheme

The 2003 Share Option Scheme is designed to attract, retain and motivate talented participants (the "Participants") (as defined in note 1 below) to strive for future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the Participants and for such other purposes as the Board may approve from time to time.

Under the 2003 Share Option Scheme, the Board may, at its discretion, invite any Participants to take up options. In determining the basis of eligibility of each Participant, the Board would mainly take into account the experience of the Participant on the Group's business, the length of service of the Participant with the Group or the length of business relationship the Participant has established with the Group and such other factors as the Board may at its discretion consider appropriate.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2003 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of the adoption of the 2003 Share Option Scheme (the "Scheme Mandate Limit") unless the Company seek approval of its shareholders in general meeting to refresh the Scheme Mandate Limit, such that the maximum number of Shares which may be issued upon exercise of all options to be granted under the 2003 Share Option Scheme or any other share option schemes of the Company under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of approval to refresh such limit. The Company may seek separate approval by its shareholders in general meeting for granting options beyond the 10% limit provided that the options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought. Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2003 Share Option Scheme and any other share option schemes of the Company (including the 1994 Share Option Scheme) shall not exceed 30% of the total number of Shares in issue from time to time (or such higher percentage as may be allowed under the Listing Rules).

As at the date of this report, a total of 168,851,229 Shares (representing approximately 7.85% of the existing issued share capital of the Company) may be issued upon exercise of all options which may be granted under the 2003 Share Option Scheme and a total of 43,460,000 Shares (representing approximately 2.02% of the existing issued share capital of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the 2003 Share Option Scheme.

The maximum entitlement for any one Participant (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.

The period under which an option must be exercised shall be such period as the Board may in its absolute discretion determine at the time of grant, save that such period shall not be longer than ten years from the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme. The minimum period for which an option must be held before it can be exercised is determined by the Board upon the grant of an option. The amount payable on acceptance of an offer of the grant of an option is HK$1.00. The full amount of the exercise price for the subscription of Shares must be paid upon exercise of an option.

SHARE OPTIONS (Continued)

(ii) 2003 Share Option Scheme (Continued)

The exercise price in relation to each option shall be determined by the Board in its absolute discretion, but in any event shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date when an option is offered; (ii) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which an option is offered; and (iii) the nominal value of a Share.

The 2003 Share Option Scheme will expire on 22nd May 2013.

Notes:

(1) As defined in the 2003 Share Option Scheme, "Participants" include:

(i) any employee of the Group (including any executive director of the Group);

(ii) any management of COSCO (Hong Kong) Group Limited or China Ocean Shipping (Group) Company; and

(iii) any person seconded or nominated by the Group to represent the Group's interest in any of the Group's associated companies or jointly controlled entities (as defined in note 2 below), or any other company or organisation, as to whether a particular person falls within the definition of Participant it shall be determined by the Board in its absolute discretion.

(2) Under the 2003 Share Option Scheme, associated companies and jointly controlled entities refer to those companies and/or enterprises which have defined and/or disclosed as associates and/or associated companies and joint ventures and/or jointly controlled entities of the Company in the latest audited financial statements of the Company.

SHARE OPTIONS (Continued)

(iii) Movement of options under 1994 Share Option Scheme

Movements of the options, which have been granted under the 1994 Share Option Scheme, during the year are set out below:

Category	Exercise price HK$	Number of share options: Outstanding at 1st January 2003	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2003	Percentage of total issued share capital	Note
Directors							
Mr. LU Zhiming	5.53	1,500,000	(1,500,000)	–	–	–	(1), (3), (4)
Mr. WONG Tin Yau, Kelvin	8.80	5,000,000	–	–	5,000,000	0.233%	(2), (3)
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	6,800,000	–	(1,200,000) #	5,600,000	0.261%	(2)
		14,880,000	(1,500,000)	(1,200,000)	12,180,000		

\# The share options lapsed during the year following the resignations of two employees.

Notes:

(1) The share options were granted on 1st July 1996 under the 1994 Share Option Scheme. The options are exercisable at any time within ten years from the date of grant (i.e. on or before 30th June 2006), subject to the following conditions:

Percentage of the total number of options granted to each grantee which can be exercised (including the options which have already been exercised)	**Price level per Share at which the options can be exercised ***
20% of the options	HK$6.50 or above
40% of the options	HK$7.00 or above
60% of the options	HK$7.50 or above
80% of the options	HK$8.00 or above
100% of the options	HK$8.50 or above

* The price level refers to the closing price of the Share on the Stock Exchange at the date prior to the exercise of the options.

SHARE OPTIONS (Continued)

(iii) Movement of options under 1994 Share Option Scheme (Continued)

(2) The share options were granted on 20th May 1997 (the "Offer Date") under the 1994 Share Option Scheme. The options are exercisable at any time within ten years from the date of grant (i.e. on or before 19th May 2007), subject to the following conditions:

(i) For those grantees who have completed one year full-time service in the Group may exercise a maximum of 20% of share options granted in each of the first five anniversary years from the Offer Date.

(ii) For those grantees who have not completed one year full-time service in the Group as at the Offer Date, a maximum of 20% of options granted may be exercisable in each of the first five anniversary years of the Offer Date after completion of one year full-time service.

(3) These options represent personal interest held by the relevant director as beneficial owner.

(4) The weighted average closing price of the Shares immediately before the date on which the options were exercised was HK$9.60.

(5) During the year, no share options were cancelled under the 1994 Share Option Scheme.

(iv) Movement of options under 2003 Share Option Scheme

Movements of the options, which have been granted under the 2003 Share Option Scheme, during the year are set out below:

		Number of share options							
Category	Exercise price HK$	Outstanding at 1st January at 2003	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2003	Percentage of total issued share capital	Exercisable period	Note
Directors									
Mr. WEI Jiafu	9.54	–	1,000,000	–	–	1,000,000	0.047%	30.10.2003 – 29.10.2013	(1), (3)
Mr. LIU Guoyuan	9.54	–	1,000,000	–	–	1,000,000	0.047%	28.10.2003 – 27.10.2013	(1), (3)
Mr. ZHANG Fusheng	9.54	–	800,000	–	–	800,000	0.037%	29.10.2003 – 28.10.2013	(1), (3)
Mr. WANG Futian	9.54	–	800,000	–	–	800,000	0.037%	29.10.2003 – 28.10.2013	(1), (3)
Mr. GAO Weijie	9.54	–	800,000	–	–	800,000	0.037%	29.10.2003 – 28.10.2013	(1), (3)

SHARE OPTIONS (Continued)

(iv) Movement of options under 2003 Share Option Scheme (Continued)

Category	Exercise price HK$	Number of share options: Outstanding at 1st January at 2003	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2003	Percentage of total issued share capital	Exercisable period	Note
Directors (Continued)									
Mr. CHEN Hongsheng	9.54	–	800,000	–	–	800,000	0.037%	28.10.2003 – 27.10.2013	(1), (3)
Mr. LI Jianhong	9.54	–	800,000	–	–	800,000	0.037%	29.10.2003 – 28.10.2013	(1), (3)
Mr. MA Zehua	9.54	–	800,000	–	–	800,000	0.037%	30.10.2003 – 29.10.2013	(1), (3)
Mr. MA Guichuan	9.54	–	800,000	–	–	800,000	0.037%	29.10.2003 – 28.10.2013	(1), (3)
Ms. SUN Yueying	9.54	–	800,000	–	–	800,000	0.037%	29.10.2003 – 28.10.2013	(1), (3)
Mr. LI Yunpeng	9.54	–	800,000	–	–	800,000	0.037%	29.10.2003 – 28.10.2013	(1), (3)
Mr. ZHOU Liancheng	9.54	–	800,000	–	–	800,000	0.037%	29.10.2003 – 28.10.2013	(1), (3)
Mr. SUN Jiakang	9.54	–	1,000,000	–	–	1,000,000	0.047%	28.10.2003 – 27.10.2013	(1), (3)
Mr. XU Lirong	9.54	–	800,000	–	–	800,000	0.037%	31.10.2003 – 30.10.2013	(1), (3)
Mr. HE Jiale	9.54	–	700,000	–	–	700,000	0.033%	31.10.2003 – 30.10.2013	(1), (2), (3)
Mr. LIANG Yanfeng	9.54	–	800,000	–	–	800,000	0.037%	30.10.2003 – 29.10.2013	(1), (3)
Mr. WONG Tin Yau, Kelvin	9.54	–	800,000	–	–	800,000	0.037%	28.10.2003 – 27.10.2013	(1), (3)

SHARE OPTIONS (Continued)

(iv) Movement of options under 2003 Share Option Scheme (Continued)

Category	Exercise price HK$	Number of share options: Outstanding at 1st January at 2003	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2003	Percentage of total issued share capital	Exercisable period	Note
Directors (Continued)									
Mr. MENG Qinghui	9.54	–	800,000	–	–	800,000	0.037%	28.10.2003 – 27.10.2013	(1), (3)
Mr. LU Chenggang	9.54	–	800,000	–	–	800,000	0.037%	29.10.2003 – 28.10.2013	(1), (3)
Mr. QIN Fuyan	9.54	–	800,000	–	–	800,000	0.037%	30.10.2003 – 29.10.2013	(1), (3)
Continuous contract employees	9.54	–	23,150,000	(10,000)	–	23,140,000	1.077%		(1), (4)
Others	9.54	–	6,200,000	(20,000)	–	6,180,000	0.288%		(1), (4)
		–	45,850,000	(30,000)	–	45,820,000			

Notes:

(1) The share options were granted during the period from 28th October 2003 to 6th November 2003 under the 2003 Share Option Scheme at an exercise price of HK$9.54, which represents the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which an option is offered. The closing prices of the Shares immediately before the dates on which the options were granted were in the range of HK$10.00 to HK$10.55. The options are exercisable at any time within ten years from the commencement date which is the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme (the "Commencement Date"). The Commencement Date of the options of the grantees was from 28th October 2003 to 6th November 2003.

(2) Mr. HE Jiale was appointed as an executive director of the Company with effect from 27th November 2003. The options granted to him on 31st October 2003 were included in the category of "Directors" during the year.

(3) These options represent personal interest held by the relevant director as beneficial owner.

SHARE OPTIONS (Continued)

(iv) Movement of options under 2003 Share Option Scheme (Continued)

(4) The weighted average closing price of the Shares immediately before the dates on which the options were exercised was HK$10.32.

(5) The Company adopted Black-Scholes Options Pricing Model (a common valuation methodology for option) to calculate the value of share options. The fair value of the options was HK$6.04 at the date of grant with assumptions as follows:

(i) Interest rate of 10-year Exchange Fund Notes of 4.398% per annum as the risk-free interest rate;

(ii) Expected life of 10 years; and

(iii) Expected volatility of 36.77%, being the annualised volatility of the closing price of the Shares from 28th October 2002 to 6th November 2003.

The value of the share options is subject to a number of assumptions and with regard to the limitation of the model. Therefore the value may be subjective and difficult to determine.

(6) During the year, no share options were cancelled under the 2003 Share Option Scheme.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2003, the interests of the Company's directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(a) Long positions in shares of the Company

Name of director	Capacity	Nature of interest	Number of ordinary shares held	Percentage of total issued share capital
Mr. KWONG Che Keung, Gordon	Beneficial owner	Personal	250,000	0.012%
Dr. LI Kwok Po, David	Beneficial owner	Personal	258,000	0.012%
Mr. LEE Yip Wah, Peter	Beneficial owner	Personal	150,000	0.007%

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(b) Long positions in underlying shares of equity derivatives of the Company

Share options were granted to certain directors of the Company pursuant to the 1994 Share Option Scheme and the 2003 Share Option Scheme. Details of the directors' interests in share options granted by the Company are set out under the section headed "Share Options" of this report.

(c) Long positions in underlying shares of equity derivatives of associated corporation

Movement of the share options granted to the directors of the Company by an associated corporation during the year are set out below:

				Number of share options					
Name of associated corporation	Name of director	Capacity	Nature of interest	Outstanding at 1st January 2003	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2003	Percentage of total issued share capital
COSCO International Holdings Limited*	Mr. WEI Jiafu	Beneficial owner	Personal	–	1,800,000	–	–	1,800,000	0.129%
	Mr. LIU Guoyuan	Beneficial owner	Personal	–	1,800,000	–	–	1,800,000	0.129%
	Mr. LI Jianhong	Beneficial owner	Personal	–	1,800,000	–	–	1,800,000	0.129%
	Mr. ZHOU Liancheng	Beneficial owner	Personal	–	1,800,000	–	–	1,800,000	0.129%
	Mr. SUN Jiakang	Beneficial owner	Personal	–	1,200,000	–	–	1,200,000	0.086%
	Mr. HE Jiale	Beneficial owner	Personal	–	1,800,000	–	–	1,800,000	0.129%
	Mr. LIANG Yanfeng	Beneficial owner	Personal	–	1,200,000	–	–	1,200,000	0.086%
	Mr. WONG Tin Yau, Kelvin	Beneficial owner	Personal	–	800,000	–	–	800,000	0.057%
	Mr. MENG Qinghui	Beneficial owner	Personal	–	1,200,000	–	–	1,200,000	0.086%

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(c) Long positions in underlying shares of equity derivatives of associated corporation (Continued)

* The share options were granted by COSCO International Holdings Limited ("COSCO International"), a fellow subsidiary of the Company, on 26th November 2003 under the share option scheme approved by the shareholders of COSCO International on 17th May 2002 and are exercisable at HK$0.57 per share at any time between 23rd December 2003 and 22nd December 2008.

Save as disclosed above, as at 31st December 2003, none of the directors or chief executives of the Company had any interest or short positions in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year, the following director has interests in the following business which is considered to compete or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules:

Name of director	Name of company	Competing business	Nature of interest
Mr. GAO Weijie	Yingkou COSCO Container Terminal Co., Ltd.	Container terminal operation	Managing director

As the Board is independent from the board of the aforesaid company, the Group is therefore capable of carrying on such business independently of, and at arm's length from, the business of such company.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

So far as was known to any director of the Company, as at 31st December 2003, the interests of shareholders in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

			Number of shares/Percentage of total issued share capital						
Name	Capacity	Nature of interests	Long positions	%	Short positions	%	Lending pool	%	Note
COSCO Investments Limited	Beneficial owner	Beneficial interest	200,120,000	9.31	–	–	–	–	(1)
COSCO (Hong Kong) Group Limited	Beneficial owner and interest of controlled corporation	Beneficial interest and corporate interest	1,144,166,411	53.25	–	–	–	–	(1)
China Ocean Shipping (Group) Company	Interest of controlled corporation	Corporate interest	1,144,166,411	53.25	–	–	–	–	(1)
J.P. Morgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/approved lending agent	Beneficial interest and corporate interest	220,461,411	10.26	–	–	86,554,582	4.03	(2)

Notes:

(1) Since COSCO Investments Limited ("COSCO Investments") is a wholly owned subsidiary of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") which is in turn a wholly owned subsidiary of China Ocean Shipping (Group) Company ("COSCO Group"), the interests of COSCO Investments are recorded as the interests of COSCO Hong Kong and in turn the interests of COSCO Hong Kong are recorded as the interests of COSCO Group.

(2) The corporate interest of J.P. Morgan Chase & Co. was attributable on account through a number of its wholly owned subsidiaries and non-wholly owned subsidiaries, including, Robert Fleming Asset Management Ltd. (99.96% control), Robert Fleming Holdings Ltd. (96% control) and JF Asset Management Limited (99.99% control).

Save as disclosed above, as at 31st December 2003, the Company has not been notified of any interests and short positions in the Shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its Shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws in Bermuda which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

MAJOR SUPPLIERS AND LESSEES

The percentage of the Group's container purchases and leasing income attributable to major suppliers and lessees are as follows:

Percentage of container purchases attributable to the Group's largest supplier	20.9%
Percentage of container purchases attributable to the Group's five largest suppliers	57.6%
Percentage of leasing income attributable to the Group's largest lessee, which is a subsidiary of COSCO Group	54.6%
Percentage of leasing income attributable to the Group's five largest lessees	69.2%

None of the directors or their associates has interests in any of the suppliers or lessees of the Group.

The Group's two largest suppliers attribute 18.69% of container purchases of the Group. During the year, COSCO Group, the ultimate holding company, has an equity interest of 21.22% in the shareholding company of those suppliers for the period from 1st January 2003 to 19th November 2003 and of 17.18% for the period from 20th November 2003 to 31st December 2003.

Save as disclosed above, none of the shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has interest in any of the suppliers and lessees of the Group.

CORPORATE GOVERNANCE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December 2003.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14 of the Listing Rules, the following connected transactions of the Company require disclosures in the annual report of the Company:

(i) **Acquisition of interest in COSCO Logistics Co., Ltd.**

On 22nd September 2003, COSCO Pacific Logistics Company Limited ("CPLCL"), a wholly owned subsidiary of the Company, entered into agreements with COSCO Group to effect, subsequent to the fulfillment of certain conditions precedent, a capital increase and transfer of equity interest transaction for the acquisition of a 49% equity interest in COSCO Logistics Co., Ltd. ("COSCO LOGISTICS") (formerly COSCO Logistics Company), a wholly owned subsidiary of COSCO Group, at a total consideration of RMB1,180,410,000 (the "Acquisition"). CPLCL also agreed to pay COSCO Group an additional amount of RMB50,000,000 if the pro forma combined net profit of COSCO LOGISTICS and its subsidiaries for the year ended 31st December 2003 exceeded RMB200,000,000. The Acquisition was subsequently completed in January 2004.

COSCO LOGISTICS and its subsidiaries operate businesses including shipping agency, freight forwarding, third party logistics and supporting services.

COSCO Group is the ultimate parent company of the Company. CPLCL is a wholly owned subsidiary of the Company. Accordingly, the transactions constituted connected transactions for the Company under the Listing Rules.

(ii) **Disposal of interests in Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd.**

On 25th November 2003, COSCO Pacific (China) Investments Co., Ltd. ("COSCO Pacific China") and Florens Industrial Holdings Limited ("Florens Industrial"), both are wholly owned subsidiaries of the Company, disposed of their 20% equity interests in Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. ("Shanghai Kansai") and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. ("Tianjin Kansai"), jointly controlled entities of the Group, respectively to COSCO International (the "Disposals"). The considerations received in cash by COSCO Pacific China and Florens Industrial were RMB19,959,000 and RMB21,081,000 respectively. The Disposals were subsequently completed in January 2004.

COSCO International, a subsidiary of COSCO Group which in turn is the controlling shareholder of the Company, is a connected person of the Company. Therefore, the disposal of interests in Shanghai Kansai and Tianjin Kansai by COSCO Pacific China and Florens Industrial respectively to COSCO International constituted connected transactions of the Company under the Listing Rules.

CONNECTED TRANSACTIONS (Continued)

(iii) Rental of office premises

Subsequent to the tenancy agreement entered into between COSCO Pacific Management Company Limited ("COSCO Pacific Management") as tenant and Wing Thye Holdings Limited ("Wing Thye") as landlord dated 7th March 2001 in respect of the leasing of 49th Floor of COSCO Tower, 183 Queen's Road Central, Hong Kong ("COSCO Tower") for a term of three years commencing with retrospective effect from 4th December 2000 at a monthly rental of HK$465,023, exclusive of rates and management fees, COSCO Pacific Management and Wing Thye entered into two more tenancy agreements on 12th January 2004 (the "4901 Tenancy Agreement" and the "4902A Tenancy Agreement" and collectively, the "Tenancy Agreements").

Pursuant to the 4901 Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye a portion of the premises known as Unit 4901 situate at COSCO Tower, ("Unit 4901") for a term of 23 months and 25 days commencing with retrospective effect from 4th December 2003 at a monthly rental of HK$267,564, exclusive of rates and management fees.

Pursuant to the 4902A Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye a portion of the premises known as Unit 4902A situate at COSCO Tower ("Unit 4902A") for a term of 24 months commencing with retrospective effect from 29th November 2003 at a monthly rental of HK$72,436, exclusive of rates and management fees.

COSCO Hong Kong provided two guarantees in the respective sums of HK$802,692 and HK$217,308 representing rentals for three months of Unit 4901 and Unit 4902A respectively to Wing Thye as security for the due payment of rentals and other monies payable by COSCO Pacific Management under the Tenancy Agreements (the "Guarantees").

The Company takes up Unit 4901 and Unit 4902A on a long term basis as the head office of itself and its subsidiaries and as its principal place of business in Hong Kong.

In negotiating the rentals under the Tenancy Agreements, the directors of the Company made reference to an independent opinion given by DTZ Debenham Tie Leung Limited, a professional valuer jointly engaged by the Company and COSCO International, that the total rentals agreed for Unit 4901 and Unit 4902A are at market levels and are fair and reasonable.

Wing Thye is a wholly owned subsidiary of COSCO International. COSCO Pacific Management is a wholly owned subsidiary of the Company. COSCO Hong Kong is the controlling shareholder of both COSCO International and the Company. As COSCO Hong Kong, COSCO International, the Company, Wing Thye and COSCO Pacific Management are all connected persons, the transactions contemplated under the Tenancy Agreements and the Guarantees therefore constituted connected transactions of the Company under the Listing Rules.

CONNECTED TRANSACTIONS (Continued)

(iv) Connected transactions with waivers granted by the Stock Exchange

During the year, the following connected transactions have been entered into by the Company and its subsidiaries to which the Stock Exchange has, subject to certain conditions, granted waivers to the Company from compliance with the requirements stipulated in Chapter 14 of the Listing Rules to disclose details of such connected transactions by press notice and/or circular and/or to obtain prior independent shareholders' approval (the "Waivers").

Transaction	Parties to the transaction	Date on which the Waivers were granted by the Stock Exchange
Long term container leasing	COSCO Group and its subsidiary and the Group	14th December 1994
Container related services	COSCO Hong Kong and/or its subsidiaries and Plangreat Limited and/or its subsidiaries	13th December 1996
Shipping related services	COSCO Group and its subsidiaries and Zhangjiagang Win Hanverky Container Terminal Co. Ltd.	15th April 1997
Short term container leasing (container leasing for a term less than 10 years)	COSCO Group and its subsidiaries and the Group	12th September 2001

The independent non-executive directors of the Company reviewed the above transactions and opined that:

(i) the long term container leasing transactions had been conducted in the ordinary course of business of the Group and using average market rates, i.e. based on the average leasing rates quoted from three of the top ten independent container leasing companies;

(ii) the container related service transactions had been entered into in the ordinary and usual course of business of the Group and on terms no less favourable than terms available to (or from) independent third parties, and the aggregate monetary value of these transactions for the year had not exceeded 3% of the audited book value of the net tangible assets of the Company as disclosed in the audited accounts for the year ended 31st December 2002;

(iii) the shipping related service transactions had been entered into in accordance with the terms of the agreement governing the transactions and the amount of business of these transactions received therefrom had not exceeded 5% of the gross consolidated turnover of the Group for the year ended 31st December 2003;

CONNECTED TRANSACTIONS (Continued)

(iv) Connected transactions with waivers granted by the Stock Exchange (Continued)

(iv) the short term container leasing transactions had been conducted in the ordinary and usual course of business of the Group and on terms no less favourable than terms available to or from independent third parties, and the aggregate rental of these transactions for the year had not exceeded 3% of the consolidated net tangible assets of the Group as at 31st December 2003; and

(v) all the transactions as set out above were fair and reasonable so far as the independent shareholders of the Company were concerned.

AUDIT COMMITTEE

The Company has an audit committee consisting of three independent non-executive directors of the Company. The committee reviews the systems of internal controls throughout the Group, the completeness and accuracy of its accounts and liaises on behalf of the Board with external auditors and the Group's internal auditors. The committee members met regularly with management, external and internal auditors and reviewed the internal and external audit reports and the interim and annual accounts of the Group.

AUDITORS

The accounts for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

SUN Jiakang
Managing Director

Hong Kong, 25th March 2004

Auditors' Report

AUDITORS' REPORT TO THE SHAREHOLDERS OF COSCO PACIFIC LIMITED

(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 118 to 183 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25th March 2004

Consolidated Profit and Loss Account

For the year ended 31st December 2003

	Note	2003 US$'000	2002 US$'000 (Restated)
Turnover	2	**257,495**	241,644
Cost of sales		**(112,417)**	(102,520)
Gross profit		**145,078**	139,124
Other revenues	2	**33,579**	15,900
Administrative expenses		**(27,010)**	(23,220)
Other operating expenses (net)		**(25,511)**	(22,223)
Operating profit	3	**126,136**	109,581
Finance costs	4	**(17,149)**	(18,019)
Operating profit after finance costs		**108,987**	91,562
Share of profits less losses of			
– jointly controlled entities		**6,711**	8,751
– associated companies	5	**64,915**	67,461
Profit before taxation		**180,613**	167,774
Taxation	6	**(24,424)**	(23,886)
Profit after taxation		**156,189**	143,888
Minority interests		**(1,858)**	(1,699)
Profit attributable to shareholders	7	**154,331**	142,189
Dividends	8	**87,568**	79,904
Earnings per share			
Basic earnings per share	9	**US7.1871 cents**	US6.6253 cents
Diluted earnings per share	9	**US7.1840 cents**	US6.6250 cents

Consolidated Balance Sheet

At 31st December 2003

	Note	2003 US$'000	2002 US$'000 (Restated)
Non-current assets			
Fixed assets	12	**1,105,971**	1,048,158
Jointly controlled entities	14	**83,282**	46,052
Associated companies	15	**274,610**	284,570
Investment securities	16	**63,249**	66,876
Finance lease receivables	17	**4,994**	197
Restricted bank deposits	29(c)	**12,056**	7,817
Deferred tax assets	24	**196**	262
		1,544,358	1,453,932
Current assets			
Inventories	18	**2,600**	2,648
Trade and other receivables	19	**80,539**	56,152
Tax prepaid		**43**	65
Current portion of finance lease receivables	17	**947**	2,696
Time deposits	29(c)	**248,574**	202,224
Bank balances and cash	29(c)	**23,205**	26,080
		355,908	289,865
Current liabilities			
Trade and other payables	20	**56,043**	36,999
Short term bank loans – unsecured		**–**	482
Current portion of long term liabilities	23	**32,848**	209,707
Tax payable		**834**	817
		89,725	248,005
Net current assets		**266,183**	41,860
Total assets less current liabilities		**1,810,541**	1,495,792
Representing:			
Share capital	21	**27,553**	27,533
Reserves		**1,244,029**	1,175,969
Proposed final dividend		**49,582**	49,546
Shareholders' funds		**1,321,164**	1,253,048
Minority interests		**8,644**	8,314
Non-current liabilities			
Deferred tax liabilities	24	**35,221**	23,945
Long term liabilities	23	**445,512**	210,485
		1,810,541	1,495,792

On behalf of the Board

SUN Jiakang
Managing Director

WONG Tin Yau, Kelvin
Director

Balance Sheet

As at 31st December 2003

	Note	2003 US$'000	2002 US$'000
Non-current assets			
Fixed assets	12	370	–
Subsidiaries	13	1,098,833	1,047,993
		1,099,203	1,047,993
Current assets			
Trade and other receivables	19	270	312
Tax prepaid		–	43
Time deposits		77,433	131,088
Bank balances and cash		614	152
		78,317	131,595
Current liabilities			
Trade and other payables	20	(194)	(151)
Net current assets		78,123	131,444
Total assets less current liabilities		1,177,326	1,179,437
Representing:			
Share capital	21	27,553	27,533
Reserves	22	1,100,191	1,102,358
Proposed final dividend	22	49,582	49,546
Shareholders' funds		1,177,326	1,179,437

On behalf of the Board

SUN Jiakang
Managing Director

WONG Tin Yau, Kelvin
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2003

	Share capital US$'000	Share premium US$'000	Other properties revaluation reserve US$'000	Exchange reserve US$'000	Capital reserve US$'000	Other reserves US$'000	Retained profits US$'000	Total US$'000
At 1st January 2002, as previously reported	27,476	558,008	879	(653)	414	6,041	608,129	1,200,294
Change in the accounting policy on deferred taxation (note 1(a))	–	–	–	–	–	–	(22,483)	(22,483)
At 1st January 2002, as restated	27,476	558,008	879	(653)	414	6,041	585,646	1,177,811
Share of capital reserve of a jointly controlled entity	–	–	–	–	8	–	–	8
Share of reserves in associated companies	–	–	–	(5)	(82)	–	–	(87)
Impairment loss on leasehold land and buildings	–	–	(165)	–	–	–	–	(165)
Net losses not recognised in consolidated profit and loss account	–	–	(165)	(5)	(74)	–	–	(244)
Profit for the year, as restated	–	–	–	–	–	–	142,189	142,189
Issue of shares on exercise of share options	57	2,051	–	–	–	–	–	2,108
Share issue expenses	–	(2)	–	–	–	–	–	(2)
Transfer of reserves	–	–	–	–	–	847	(847)	–
Dividends – 2001 final	–	–	–	–	–	–	(38,536)	(38,536)
– 2002 interim	–	–	–	–	–	–	(30,278)	(30,278)
	57	2,049	–	–	–	847	72,528	75,481
At 31st December 2002, as restated	27,533	560,057	714	(658)	340	6,888	658,174	1,253,048
Representing:								
Share capital	27,533	–	–	–	–	–	–	27,533
Reserves	–	560,057	714	(658)	340	6,888	608,628	1,175,969
2002 final dividend proposed	–	–	–	–	–	–	49,546	49,546
	27,533	560,057	714	(658)	340	6,888	658,174	1,253,048
Retained by:								
Company and subsidiaries	27,533	560,057	714	(108)	–	681	568,497	1,157,374
Jointly controlled entities	–	–	–	(87)	340	3,123	5,792	9,168
Associated companies	–	–	–	(463)	–	3,084	83,885	86,506
At 31st December 2002, as restated	27,533	560,057	714	(658)	340	6,888	658,174	1,253,048

Consolidated Statement of Changes in Equity

For the year ended 31st December 2003

	Share capital US$'000	Share premium US$'000	Other properties revaluation reserve US$'000	Exchange reserve US$'000	Capital reserve US$'000	Other reserves US$'000	Retained profits US$'000	Total US$'000
At 1st January 2003, as previously reported	27,533	560,057	714	(658)	340	6,888	693,028	1,287,902
Change in the accounting policy on deferred taxation (note 1(a))	–	–	–	–	–	–	(34,854)	(34,854)
At 1st January 2003, as restated	27,533	560,057	714	(658)	340	6,888	658,174	1,253,048
Net gains not recognised in consolidated profit and loss account								
– exchange differences arising on translation of the accounts of foreign subsidiaries and a jointly controlled entity	–	–	–	216	–	–	–	216
Profit for the year	–	–	–	–	–	–	154,331	154,331
Issue of shares on exercise of share options	20	1,081	–	–	–	–	–	1,101
Transfer of reserves	–	–	–	–	–	1,650	(1,650)	–
Dividends – 2002 final	–	–	–	–	–	–	(49,546)	(49,546)
– 2003 interim	–	–	–	–	–	–	(37,986)	(37,986)
	20	1,081	–	–	–	1,650	65,149	67,900
At 31st December 2003	**27,553**	**561,138**	**714**	**(442)**	**340**	**8,538**	**723,323**	**1,321,164**
Representing:								
Share capital	27,553	–	–	–	–	–	–	27,553
Reserves	–	561,138	714	(442)	340	8,538	673,741	1,244,029
2003 final dividend proposed	–	–	–	–	–	–	49,582	49,582
	27,553	561,138	714	(442)	340	8,538	723,323	1,321,164
Retained by:								
Company and subsidiaries	27,553	561,138	714	(126)	–	998	661,170	1,251,447
Jointly controlled entities	–	–	–	147	340	4,185	4,479	9,151
Associated companies	–	–	–	(463)	–	3,355	57,674	60,566
At 31st December 2003	**27,553**	**561,138**	**714**	**(442)**	**340**	**8,538**	**723,323**	**1,321,164**

Note:

As at 31st December 2003, goodwill and negative goodwill arising on acquisition of subsidiaries, jointly controlled entities and associated companies prior to 1st January 2001 as included in reserves amounted to US$360,806,000 (2002: US$360,806,000, as restated) and US$24,497,000 (2002: 24,497,000) respectively.

Consolidated Cash Flow Statement

For the year ended 31st December 2003

	Note	2003 US$'000	2002 US$'000
Cash flows from operating activities			
Cash generated from operations	29(a)	217,066	217,717
Interest received		1,812	3,783
Profits tax paid		(1,121)	(960)
Net cash from operating activities		217,757	220,540
Cash flows from investing activities			
Dividends received from associated companies		57,679	55,859
Dividends received from jointly controlled entities		11,799	3,520
Dividends received from investee companies		19,959	2,626
Purchase of fixed assets		(198,410)	(137,998)
Return of capital and distribution of reserves by an associated company	15(b)	41,935	–
Loans advanced to a jointly controlled entity, an associated company and investee companies		(25,925)	(23,651)
Purchase of investment securities		–	(24,581)
Compensation received for loss of containers		412	278
Sale of fixed assets		17,014	8,576
Repayment of loans by associated companies and investee companies		12,780	52,820
(Increase)/decrease in restricted bank deposits		(4,239)	357
Investments in a jointly controlled entity and an associated company		(59,630)	–
Purchase of a jointly controlled entity		(14,800)	–
Sale of investment securities		12,308	–
Net cash used in investing activities		(129,118)	(62,194)
Cash flows from financing activities	29(b)		
Loans borrowed		89,620	95,604
Proceeds from issue of Notes		298,101	–
Issue of shares on exercise of share options		1,101	2,108
Share issue expenses		–	(2)
Repayments of loans		(330,097)	(184,468)
Dividends paid		(87,528)	(68,814)
Dividends paid to minority shareholders of subsidiaries		(1,528)	(896)
Interests paid		(9,448)	(15,316)
Other incidental borrowing costs paid		(5,169)	(4,190)
Net cash used in financing activities		(44,948)	(175,974)
Effect of foreign exchange rate changes		(216)	(3)
Net increase/(decrease) in cash and cash equivalents		43,475	(17,631)
Cash and cash equivalents at 1st January		228,304	245,935
Cash and cash equivalents at 31st December	29(c)	271,779	228,304

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated accounts are set out below:

(a) Basis of preparation of the accounts

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (the "HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at fair value and certain leasehold land and buildings are carried at valuation as at 31st December 1994 less accumulated depreciation and impairment losses.

In the current year, the Group adopted the new Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" issued by HKSA which is effective for accounting periods commencing on or after 1st January 2003. The adoption of the new SSAP 12 resulted in a change to the Group's accounting policy on deferred taxation and such change has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy. The effect of the adoption of the new SSAP 12 is to decrease the opening retained profits as at 1st January 2003 and 2002 by US$34,854,000 and US$22,483,000 respectively and to decrease the profit attributable to shareholders for the year ended 31st December 2002 by US$12,371,000. Details of the change in the accounting policy on deferred taxation, as a result of the adoption of the new SSAP 12, are set out in note 1(k) below.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interest of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Group accounting (Continued)

(ii) Jointly controlled entities
A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the venturers have their respective interests and establish a contractual arrangement among them to define joint control over the economic activity of the entity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill (net of accumulated amortisation) on acquisition.

(iii) Associated companies
An associated company is a company, not being a subsidiary and jointly controlled entity, in which an equity interest is held for long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill (net of accumulated amortisation) on acquisition.

(iv) Gain or loss on disposal
The gain or loss on the disposal of a subsidiary, a jointly controlled entity or an associated company represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill, including goodwill previously taken to reserves, which was not previously charged or recognised in the consolidated profit and loss account.

(c) Fixed assets

(i) Investment properties
Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the operating profit. Any subsequent increases are credited to the operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Fixed assets (Continued)

(ii) Fixed assets other than investment properties
Fixed assets other than investment properties (note 1(c)(i)) are stated at cost or valuation less accumulated depreciation/amortisation and impairment losses.

Effective from 30th September 1995, no further revaluations of the Group's leasehold land and buildings have been carried out. The Group places reliance on paragraph 80 of SSAP 17 "Property, plant and equipment" issued by the HKSA which provides exemption from the need to make regular revaluations for such assets.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over the expected useful lives to the Group.

(iii) Depreciation
Investment properties held on leases with unexpired period of 20 years or less are depreciated over the remaining portion of the leases.

Leasehold land is amortised based on the cost/valuation less accumulated impairment losses over the remaining period of the lease on a straight line basis.

Land use rights represent amounts paid for use of land in China mainland under operating leases. Land use rights are amortised based on the cost less accumulated impairment losses over the remaining period of the lease on a straight line basis.

Containers and generator sets are depreciated at cost less accumulated impairment losses on a straight line basis over their estimated useful lives of 15 years and 12 years respectively, after taking into account of the residual value of 10% on cost.

Buildings, leasehold improvements and other fixed assets, which comprise motor vehicles, furniture, fixtures and equipment, computer systems and plant and machinery, are depreciated at rates sufficient to write off their cost or valuation less accumulated impairment losses over their estimated useful lives to their respective residual values estimated by the directors on a straight line basis. The estimated useful lives of these fixed assets are summarised as follows:

Buildings	25 to 50 years
Leasehold improvements	5 years or the remaining period of the lease, whichever is shorter
Other fixed assets	5 to 20 years

No depreciation is provided for computer system under development and construction in progress.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Fixed assets (Continued)

(iv) Impairment of fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

(v) Gain or loss on sale of fixed assets

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(vi) Capitalisation of fixed assets

Costs associated with developing or maintaining computer systems are expensed as incurred. However, costs which enhances or extends the performance of computer systems beyond their original specifications and have probable future economic benefits are recognised as assets. Direct costs, including staff costs, consultancy fees and an appropriate portion of relevant overheads, which related to development of computer systems are capitalised under computer system under development.

All direct and indirect costs relating to the construction of plant and machinery including interest costs on related borrowed funds during the construction period and operating results prior to the commissioning date are capitalised as construction in progress.

A plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis.

The construction in progress and computer system under development are transferred to relevant categories of fixed assets upon the completion of their respective construction and development and depreciation will then be commenced accordingly.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Goodwill/negative goodwill

Goodwill represents the excess of purchase consideration over the fair value of the Group's share of the net assets of subsidiaries, jointly controlled entities and associated companies acquired at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January 2001 is amortised using the straight line method over its estimated useful life of not exceeding 20 years.

Negative goodwill represents the excess of the fair values ascribed to the net assets of subsidiaries, jointly controlled entities and associated companies acquired over the purchase consideration. For acquisition on or after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill.

Goodwill/negative goodwill on acquisitions that occurred prior to 1st January 2001 was taken to reserves.

Where an indication of impairment exists, the carrying amount of goodwill, including goodwill previously taken to reserves, is assessed and written down immediately to its recoverable amount.

(e) Assets under leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Leases that substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as finance leases.

(i) Leases – where the company is the lessee

Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

(ii) Leases – where the company is the lessor

When the company leases out assets under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(c)(iii) above. Revenue arising from assets leased out under operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(m)(i) and 1(m)(v) below.

Finance leases for assets leased out are leases of assets which contain a provision giving the lessee an option to acquire legal title to the assets upon the fulfillment of certain conditions stated in the contracts.

When assets are leased out under a finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Revenue on containers leased out under finance leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(m)(i) below.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Investments in securities

(i) Investment securities
Listed and unlisted investments which are intended to be held on a continuing basis are stated at cost less provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment is reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs and write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Other investments
Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(g) Inventories

Inventories, including spare parts, consumables and resaleable containers, are stated at the lower of cost and net realisable value. Costs are calculated on first-in first-out basis for spare parts and consumables and on weighted average basis for resaleable containers. Net realisable value of spare parts and consumables is the expected amount to be realised from use as estimated by the directors whereas that of resaleable containers is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet is stated net of such provision.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Provisions

Provisions are recognised when the company has a present legal or constructive obligation 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. Where the company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Deferred taxation

In accordance with new SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts only to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

(l) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the company.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Revenue recognition

The Group recognises revenue on the following bases:

(i) Revenue from leasing of containers and generator sets
Rental income from leasing of containers and generator sets under operating leases are recognised on a straight line basis over the period of each lease. Direct costs or reimbursements from lessees relating to the lifting and storage of containers are included in cost of sales when incurred or occurred.

Revenue on containers leased out under finance leases is allocated to accounting period to give a constant periodic rate of return on the company's net investment in the lease in each period.

Direct costs relating to the negotiations and arrangement of a contract are written off in the profit and loss account when incurred.

(ii) Revenue from container handling, transportation and storage
Revenue from container handling and transportation is recognised when the services are rendered.

Revenue from container storage is recognised on a straight line basis over the period of storage.

(iii) Revenue from container terminal operations
Revenue from container terminal operations is recognised when the services rendered are complete and the vessel leaves the berth.

(iv) Container management income
Container management income is recognised when the services are rendered.

(v) Operating lease rental income from investment properties
Operating lease rental income from investment properties is recognised on a straight line basis over the period of each lease.

(vi) Revenue from sale of containers
Revenue from sale of containers is recognised on the transfer of risks and rewards on ownership, which generally coincides with the time when the containers are delivered to customers and title has passed. Direct costs relating to the lifting and storage of containers for sale are expensed as incurred.

(vii) Interest income
Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(viii) Dividend income
Dividend income is recognised when the company's right to receive payment is established.

(ix) Income on sale of investment securities
Income on sale of investment securities is recognised when the title to the investments is passed to the purchaser.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Employee benefits

(i) Retirement benefit costs

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong and the United States of America. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government authorities in Germany, Italy, Japan, Australia, the United Kingdom, the United States of America and China mainland, the subsidiaries of the Group in these countries participate in respective government benefit schemes (the "Schemes") whereby the subsidiaries are required to contribute to the Schemes for the retirement benefits of eligible employees. The subsidiaries in Japan and the United Kingdom also contribute to the Schemes for other benefits of eligible employees.

Contributions made to the Schemes are calculated either based on certain percentages of the applicable payroll costs or fixed sums that are determined with reference to salary scale, as stipulated under the requirements of the respective countries. The government authorities of the respective countries are responsible for the entire benefit obligation payable to the retired employees. The only obligation of the Group with respect to the Schemes is to pay the ongoing contributions required by the Schemes.

The Group's contributions to the aforesaid defined contribution retirement schemes and the Schemes are charged to the profit and loss account as incurred.

(ii) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(iii) Equity compensation benefits

Share options are granted to directors and employees of the Group. As there is no specific accounting guidance issued by the HKSA on the accounting for employee share options, no compensation cost is recognised in the profit and loss account in connection with share options granted. When the share options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(iv) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the company has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Borrowing costs

Discount on the issue of notes represents the difference between principal amount payable by the company on maturity of the notes and the proceeds received and is recognised in the profit and loss account using the effective yield method over the life of the notes.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) Financial instruments

The Group manages interest rate exposure of the loans by interest rate swap contracts. Any differential to be paid or received on an interest rate swap contract is recognised as a component of interest expense over the period of the contract.

(q) Translation of foreign currencies

Transactions in currencies other than United States dollars are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in currencies other than United States dollars at the balance sheet date are translated at exchange rates ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries, jointly controlled entities and associated companies expressed in currencies other than United States dollars are translated at the exchange rates ruling at the balance sheet date whilst their profit and loss accounts expressed in currencies other than United States dollars are translated at the average exchange rates during the year. Exchange differences are dealt with as a movement in reserves.

(r) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format.

Unallocated costs represent net corporate expenses and corporate finance costs less corporate interest income. Segment assets consist primarily of fixed assets, investment securities, inventories, receivables and operating cash, and mainly exclude investments in jointly controlled entities and associated companies. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to investment securities and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in container leasing, container handling and storage and container terminal operations. Revenues recognised during the year are as follows:

	2003 US$'000	2002 US$'000
Turnover		
Operating leases rentals		
– containers	239,046	224,440
– generator sets	60	–
Finance lease income on containers	484	545
Container handling, transportation and storage income	8,761	8,790
Container terminal operation income	9,045	7,850
Container management income	99	19
	257,495	241,644
Other revenues		
Sale of inventories	10,762	7,048
Interest income	2,343	3,794
Dividend income from unlisted investments	20,421	5,003
Gross rental income from investment properties	53	55
	33,579	15,900
Total revenues	291,074	257,544

(a) **Primary reporting format – business segments**

The Group has categorised its businesses into the following segments:

(i) container leasing and related business
(ii) container terminal and related businesses
(iii) banking
(iv) other operations
(v) corporate

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

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

Segment turnover and results

	For the year ended 31st December 2003					
	Container leasing and related business US$'000	Container terminal and related businesses US$'000	Banking US$'000	Other operations US$'000	Corporate US$'000	Total US$'000
Turnover						
Total revenues	239,689	17,853	–	–	–	257,542
Inter-segment sales	–	(47)	–	–	–	(47)
External sales	239,689	17,806	–	–	–	257,495
Segment results	91,896	24,709	–	–	–	116,605
Unallocated costs						
– net corporate expenses	–	–	–	–	(5,543)	(5,543)
– corporate finance costs	–	–	–	–	(3,160)	(3,160)
– corporate interest income	–	–	–	–	1,085	1,085
Operating profit/(loss) after finance costs	91,896	24,709	–	–	(7,618)	108,987
Share of profits less losses of						
– jointly controlled entities	–	511	–	6,200	–	6,711
– associated companies	–	55,153	9,762	–	–	64,915
Profit before taxation						180,613
Taxation						(24,424)
Profit after taxation						156,189
Minority interests						(1,858)
Profit attributable to shareholders						154,331

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

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

Segment turnover and results (Continued)

	For the year ended 31st December 2002 (Restated)					
	Container leasing and related business US$'000	Container terminal and related businesses US$'000	Banking US$'000	Other operations US$'000	Corporate US$'000	Total US$'000
Turnover						
External sales	225,004	16,640	–	–	–	241,644
Segment results	86,358	6,641	–	–	–	92,999
Unallocated costs						
– net corporate expenses	–	–	–	–	(3,498)	(3,498)
– corporate finance costs	–	–	–	–	(638)	(638)
– corporate interest income	–	–	–	–	2,699	2,699
Operating profit/(loss) after finance costs	86,358	6,641	–	–	(1,437)	91,562
Share of profits less losses of						
– jointly controlled entities	–	2,890	–	5,861	–	8,751
– associated companies	–	59,005	8,456	–	–	67,461
Profit before taxation						167,774
Taxation						(23,886)
Profit after taxation						143,888
Minority interests						(1,699)
Profit attributable to shareholders						142,189

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

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

Segment assets, liabilities and other information

	Container leasing and related business US$'000	Container terminal and related businesses US$'000	Banking US$'000	Other operations US$'000	Corporate US$'000	Total US$'000
2003						
Segment assets	1,208,517	114,213	–	–	–	1,322,730
Jointly controlled entities	7	61,036	–	22,239	–	83,282
Associated companies	–	116,201	158,409	–	–	274,610
Unallocated assets						219,644
						1,900,266
Segment liabilities	(362,431)	(45,785)	–	–	–	(408,216)
Minority interests	–	(8,644)	–	–	–	(8,644)
Unallocated liabilities						(162,242)
						(579,102)
Capital expenditure	197,905	17,189	–	–	2,038	217,132
Depreciation and amortisation	94,041	1,169	–	–	307	95,517
Impairment loss recognised in consolidated profit and loss account	9,865	–	–	–	–	9,865
Other non-cash expenses	2,254	2,350	–	–	827	5,431

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

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

Segment assets, liabilities and other information (Continued)

	Container leasing and related business US$'000	Container terminal and related businesses US$'000	Banking US$'000	Other operations US$'000	Corporate US$'000	Total US$'000
2002 (Restated)						
Segment assets	1,140,061	101,525	–	–	–	1,241,586
Jointly controlled entities	(4,754)	24,576	–	26,230	–	46,052
Associated companies	–	128,497	156,073	–	–	284,570
Unallocated assets						171,589
						1,743,797
Segment liabilities	(447,404)	(8,890)	–	–	–	(456,294)
Minority interests	–	(8,314)	–	–	–	(8,314)
Unallocated liabilities						(26,141)
						(490,749)
Capital expenditure	155,314	36,449	–	–	113	191,876
Depreciation and amortisation	86,230	1,173	–	–	279	87,682
Impairment loss recognised in						
– consolidated profit and loss account	15,997	–	–	–	–	15,997
– other properties revaluation reserve	165	–	–	–	–	165
Other non-cash expenses	2,531	3,280	–	–	5	5,816

(b) Secondary reporting format – geographical segments

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

The activities of container terminal and related businesses, other operations and corporate segments are carried out in Hong Kong, China mainland and Singapore 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:

	2003 US$'000	2002 US$'000
Crediting		
Recovery of bad debts	1,047	2,999
Gain on disposal of fixed assets	858	213
Gross rental income under operating sublease	–	426
Charging		
Depreciation and amortisation		
– owned fixed assets leased out under operating leases	92,060	84,384
– other owned fixed assets	3,457	3,298
Impairment loss (including in other operating expenses) (note 12)		
– containers	9,865	15,056
– leasehold land and buildings	–	941
Cost of inventories sold	13,322	8,929
Auditors' remuneration		
– current year	519	477
– over provision in prior years	–	(40)
Loss on disposal/write-off of fixed assets	769	238
Write-off of computer system development costs	–	436
Loss on compensation for loss of containers from a fellow subsidiary	37	25
Loss on disposal of an unlisted investment (note 16)	2,192	–
Outgoings in respect of investment properties	8	6
Provision for bad and doubtful debts, net	1,370	1,142
Provision for loan to an investee company	–	3,296
Provision for inventories	155	832
Rental expense under operating leases		
– land and buildings leased from third parties	2,606	2,965
– land and buildings leased from fellow subsidiaries	796	714
– plant and machinery	373	394
Revaluation deficit of investment properties (note 12(b))	81	60
Total staff costs (including directors' emoluments and retirement benefit costs) (note)	15,769	13,506
Less: Amounts capitalised in computer system under development	(228)	(176)
	15,541	13,330

Note:

Total staff costs do not include the amounts of benefits in kind provided to the Company's directors and the Group's employees in respect of staff quarters and the Company's share options being granted and exercised. Details of the Company's share options are set out in note 21(b) to the accounts.

4 FINANCE COSTS

	2003 US$'000	2002 US$'000
Interest expense on		
– bank loans	4,355	10,786
– other loans wholly repayable within five years	1,831	2,639
– other loans not wholly repayable within five years	–	479
– Notes not wholly repayable within five years	4,406	–
– loans from a minority shareholder of a subsidiary wholly repayable within five years	76	106
Amortised amount of discount on issue of Notes	62	–
Net loss on interest rate swap contracts	1,193	1,454
	11,923	15,464
Other incidental borrowing costs	5,226	2,555
	17,149	18,019

5 SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES

The share of profits less losses of associated companies in 2002 included a gain of US$7,474,000 on disposal of entire interest in a co-operative joint venture owned by an associated company of the Group.

6 TAXATION

	2003 US$'000	2002 US$'000 (Restated)
Company and subsidiaries		
Current taxation		
Hong Kong profits tax	**526**	723
China mainland taxation	**625**	257
Overseas taxation	**106**	106
Over provision in prior years	**(97)**	(15)
	1,160	1,071
Deferred taxation relating to the origination and reversal of temporary differences	**11,354**	9,858
Deferred taxation resulting from an increase in Hong Kong profits tax rate	**(12)**	–
	12,502	10,929
Share of taxation attributable to:		
Jointly controlled entities		
China mainland taxation	**659**	1,049
Overseas taxation	**75**	–
Associated companies		
Hong Kong profits tax	**9,025**	8,505
China mainland taxation	**1,017**	890
Deferred taxation	**1,146**	2,513
	24,424	23,886

Hong Kong profits tax has been provided at a rate of 17.5% (2002: 16.0%) on the estimated assessable profit for the year. In 2003, the Hong Kong government enacted a change in profits tax rate from 16.0% to 17.5% for fiscal year of 2003/2004.

Taxation on profits from a subsidiary operating in China mainland has been calculated at an effective tax rate of 15.0% (2002: 7.5%) on the estimated assessable profit for the year. The subsidiary was eligible for a 50% relief from corporate income tax of 15.0% for five years since 1998 and up to 2002.

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

6 TAXATION (Continued)

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

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

Below is a numerical reconciliation between tax expense in the consolidated profit and loss account and aggregate tax expense at the domestic rates applicable to profits in respective territories concerned:

	2003 **US$'000**	2002 US$'000
Profit before taxation	**180,613**	167,774
Aggregate tax at domestic rates applicable to profits in respective territories concerned	**25,990**	22,566
Income not subject to taxation	**(1,851)**	(2,301)
Expenses not deductible for taxation purposes	**1,199**	899
Under/(over) provision in prior years	**36**	(28)
Decrease in opening deferred tax assets arising from expiry of tax losses	**–**	1,191
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	**1,208**	–
Utilisation of previously unrecognised tax losses	**(59)**	(23)
Net income under tax exemption period/tax relief granted by the Tax Bureau in China mainland	**(2,172)**	(1,874)
Others	**73**	3,456
Taxation charge	**24,424**	23,886

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of US$84,320,000 (2002: US$72,334,000).

8 DIVIDENDS

	2003 **US$'000**	2002 US$'000
Interim, paid, of US1.769 cents (2002: US1.410 cents) per ordinary share	**37,986**	30,278
Final, proposed, of US2.308 cents (2002: US 2.308 cents) per ordinary share	**49,582**	49,546
Additional 2001 final dividend paid on shares issued due to the exercise of share options before the closure of register of members	**–**	80
	87,568	79,904

Note:

At a board meeting held on 25th March 2004, the directors proposed a final dividend of HK18.0 cents (equivalent to US2.308 cents) per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts until it has been approved at the annual general meeting, but will be reflected as an appropriation of retained profits for the year ending 31st December 2004.

9 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of US$154,331,000 (2002: US$142,189,000, as restated).

The basic earnings per share is based on the weighted average number of 2,147,340,079 (2002: 2,146,159,454) ordinary shares in issue during the year. The diluted earnings per share is based on the weighted average number of ordinary shares in issue during the year plus the weighted average of 926,165 (2002: 80,810) ordinary shares deemed to be issued at no consideration as if all outstanding share options had been exercised.

10 RETIREMENT BENEFIT COSTS

The retirement benefit costs charged to the consolidated profit and loss account represent contributions payable by the Group to the retirement benefit schemes and amounted to US$789,000 (2002: US$706,000). Contributions totalling US$26,000 (2002: US$16,000) were payable to the retirement benefit schemes as at 31st December 2003 and are included in trade and other payables. Forfeited contributions of US$129,000 (2002: US$Nil) were utilised during the year and no forfeited contributions were available as at 31st December 2003 to reduce future contributions (2002: US$100,000).

11 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid to directors of the Company during the year are as follows:

	2003 US$'000	2002 US$'000
Fees	263	256
Salaries, housing and other allowances, benefits in kind	2,153	1,464
Bonuses	33	74
Contributions to retirement schemes	2	2
	2,451	1,796

Directors' fees disclosed above include US$88,462 (2002: US$88,462) paid to independent non-executive directors.

As at 31st December 2003, a director (2002: two directors) of the Company had 1,500,000 (2002: 3,000,000) share options which are exercisable at HK$5.53 per share granted by the Company on 1st July 1996 under the share option scheme adopted by the Company on 30th November 1994 (the "1994 Share Option Scheme").

Benefits in kind included the difference between the aggregate amount of the market price of the Company's shares issued at the date of exercise of these share options and the amount paid by the director in exercising these share options. During the year, a director exercised 1,500,000 (2002: Nil) share options at HK$5.53 per share. The market price per share at the exercise date was HK$9.50.

As at 31st December 2003 and 2002, a director of the Company had 5,000,000 share options which are exercisable at HK$8.80 per share granted by the Company on 20th May 1997 under the 1994 Share Option Scheme.

As at 31st December 2003, twenty directors (2002: not applicable) of the Company had 16,500,000 share options which are exercisable at HK$9.54 per share granted by the Company under the share option scheme approved by the shareholders of the Company on 23rd May 2003 (the "2003 Share Option Scheme").

The consideration paid by the directors for each offer of share options granted was HK$1.00.

Details and movement of share options granted and exercised during the year are set out in note 21(b) to the accounts.

11 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

The directors' emoluments are analysed as follows:

	Number of directors 2003	2002
Emoluments band		
US$Nil – US$128,205 (HK$Nil – HK$1,000,000)	21	16
US$128,206 – US$192,308 (HK$1,000,001 – HK$1,500,000)	1	1
US$256,411 – US$320,513 (HK$2,000,001 – HK$2,500,000)	2	2
US$641,026 – US$705,128 (HK$5,000,001 – HK$5,500,000)	1	–
US$705,129 – US$769,230 (HK$5,500,001 – HK$6,000,000)	–	1
US$769,231 – US$833,333 (HK$6,000,001 – HK$6,500,000)	1	–
	26	20

The above analysis includes four (2002: three) individuals whose emoluments were among the five highest in the Group.

(b) Management's emoluments

Details of the aggregate emoluments paid to an individual (2002: two individuals) whose emoluments were the highest in the Group and have not been included in the directors' emoluments above are set out below:

	2003 US$'000	2002 US$'000
Salaries, housing and other allowances, benefits in kind	347	694
Bonuses	55	34
Contributions to retirement benefit schemes	2	15
	404	743

11 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (Continued)

(b) Management's emoluments (Continued)

The emoluments of the highest paid individuals fell within the following bands:

	Number of individuals 2003	2002
Emoluments band		
US$320,514 – US$384,615 (HK$2,500,001 – HK$3,000,000)	–	1
US$384,616 – US$448,718 (HK$3,000,001 – HK$3,500,000)	1	1
	1	2

(c) During the year, no emoluments had been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors waived or agreed to waive any emoluments during the year.

12 FIXED ASSETS

Company

	Other fixed assets US$'000
Cost	
Additions for the year and at 31st December 2003	389
Accumulated depreciation	
Charge for the year and at 31st December 2003	(19)
Net book value	
At 31st December 2003	370

12 FIXED ASSETS (Continued)

Group

	Leasehold land and buildings in Hong Kong US$'000	Leasehold land and buildings outside Hong Kong US$'000	Investment properties in Hong Kong US$'000	Land use rights outside Hong Kong US$'000	Containers US$'000	Generator sets US$'000	Leasehold improvements US$'000	Other fixed assets US$'000	Computer system under development US$'000	Construction in progress US$'000	Total US$'000
Cost or valuation											
At 1st January 2003	21,722	12,071	825	1,856	1,528,450	–	2,119	24,124	1,201	656	1,593,024
Additions	1,302	–	–	–	195,606	973	207	1,029	1,101	191	200,409
Disposals/transfer/write-off	–	(10)	–	–	(95,145)	–	(1,225)	(833)	–	–	(97,213)
Revaluation deficit (note b)	–	–	(81)	–	–	–	–	–	–	–	(81)
Reclassification	–	44	–	–	–	–	–	1,783	(980)	(847)	–
Exchange differences	–	–	–	–	–	–	10	31	–	–	41
At 31st December 2003	**23,024**	**12,105**	**744**	**1,856**	**1,628,911**	**973**	**1,111**	**26,134**	**1,322**	**–**	**1,696,180**
Accumulated depreciation/ amortisation and impairment losses											
At 1st January 2003	6,579	2,427	–	370	521,347	–	2,013	12,130	–	–	544,866
Impairment loss recognised in consolidated profit and loss account	–	–	–	–	9,865	–	–	–	–	–	9,865
Depreciation/amortisation charge for the year	542	403	–	74	92,030	30	68	2,370	–	–	95,517
Disposals/transfer/write-off											
– accumulated impairment losses	–	–	–	–	(7,116)	–	–	–	–	–	(7,116)
– accumulated depreciation	–	(7)	–	–	(50,947)	–	(1,222)	(784)	–	–	(52,960)
Exchange differences	–	–	–	–	–	–	8	29	–	–	37
At 31st December 2003	**7,121**	**2,823**	**–**	**444**	**565,179**	**30**	**867**	**13,745**	**–**	**–**	**590,209**
Net book value											
At 31st December 2003	**15,903**	**9,282**	**744**	**1,412**	**1,063,732**	**943**	**244**	**12,389**	**1,322**	**–**	**1,105,971**
At 31st December 2002	15,143	9,644	825	1,486	1,007,103	–	106	11,994	1,201	656	1,048,158

12 FIXED ASSETS (Continued)

Group

	Leasehold land and buildings in Hong Kong US$'000	Leasehold land and buildings outside Hong Kong US$'000	Investment properties in Hong Kong US$'000	Land use rights outside Hong Kong US$'000	Containers US$'000	Generator sets US$'000	Leasehold improvements US$'000	Other fixed assets US$'000	Computer system under development US$'000	Construction in progress US$'000	Total US$'000
The analysis of cost or valuation of the above assets as at 31st December 2003 is as follows:											
At cost	**3,051**	**12,105**	**–**	**1,856**	**1,628,911**	**973**	**1,111**	**26,134**	**1,322**	**–**	**1,675,463**
At professional valuation											
– 1994	**19,973**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**19,973**
– 2003	**–**	**–**	**744**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**744**
	23,024	**12,105**	**744**	**1,856**	**1,628,911**	**973**	**1,111**	**26,134**	**1,322**	**–**	**1,696,180**
The analysis of cost or valuation of the above assets as at 31st December 2002 is as follows:											
At cost	1,749	12,071	–	1,856	1,528,450	–	2,119	24,124	1,201	656	1,572,226
At professional valuation											
– 1994	19,973	–	–	–	–	–	–	–	–	–	19,973
– 2002	–	–	825	–	–	–	–	–	–	–	825
	21,722	12,071	825	1,856	1,528,450	–	2,119	24,124	1,201	656	1,593,024

12 FIXED ASSETS (Continued)

Notes:

(a) The Group's interests in investment properties and leasehold land and buildings at their net book values are analysed as follows:

	Group	
	2003	2002
	US$'000	US$'000
In Hong Kong, held on leases of over 50 years	16,647	15,968
Outside Hong Kong, held on leases of between 10 to 50 years	9,282	9,644
	25,929	25,612

(b) The investment properties as at 31st December 2003 and 2002 were revalued on an open market value basis by DTZ Debenham Tie Leung Limited, an independent professional property valuer. The revaluation deficit was accounted for in the consolidated profit and loss account (note 3).

(c) Certain leasehold land and buildings in Hong Kong as at 31st December 2003 were revalued in 1994 on an open market value basis by C.Y. Leung & Company Limited (now known as DTZ Debenham Tie Leung Limited), an independent professional property valuer.

The carrying amount of these leasehold land and buildings as at 31st December 2003 would have been US$12,591,000 (2002: US$13,009,000) had the leasehold land and buildings been carried at cost less accumulated depreciation/amortisation and impairment losses in the accounts.

(d) The aggregate cost, accumulated depreciation and accumulated impairment losses as at 31st December 2003 of the leased assets other than investment properties, where the Group is a lessor, comprised containers and generator sets leased to fellow subsidiaries and third parties under operating leases and amounted to US$1,602,567,000 (2002: US$1,521,075,000), US$544,515,000 (2002: US$503,402,000) and US$20,694,000 (2002: US$17,945,000) respectively.

(e) The accumulated impairment losses of fixed assets as at 31st December 2003 amounted to US$23,351,000 (2002: US$20,602,000).

(f) Certain containers with an aggregate net book value of US$318,976,000 (2002: US$278,378,000) as at 31st December 2003 were pledged as security for loan facilities granted by banks and third parties.

(g) During the year, the Group transferred containers with an aggregate net book value of US$13,493,000 (2002: US$9,081,000) to inventories.

(h) As at 31st December 2003, the accumulated staff costs capitalised in computer system under development amounted to US$230,000 (2002: US$179,000).

13 SUBSIDIARIES

	Company 2003 US$'000	2002 US$'000
Unlisted investments, at cost	**159,654**	159,654
Amounts due from subsidiaries (note a)	**1,164,643**	936,159
Loan due to a subsidiary (note b)	**(177,800)**	–
Amounts due to subsidiaries (note a)	**(2,013)**	–
Provision	**(45,651)**	(47,820)
	1,098,833	1,047,993

Notes:

(a) The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(b) The loan due to a subsidiary is unsecured and wholly repayable on or before 3rd October 2013. The balance was interest free for the year as agreed with the subsidiary.

(c) Details of the subsidiaries as at 31st December 2003 are shown in note 35 to the accounts.

14 JOINTLY CONTROLLED ENTITIES

	Group 2003 US$'000	2002 US$'000
Share of net assets	**67,662**	44,663
Goodwill on acquisition	**5,643**	–
	73,305	44,663
Loan to a jointly controlled entity (note a)	**9,396**	–
Amounts due from jointly controlled entities (note b)	**581**	6,143
Amounts due to jointly controlled entities (note b)	**–**	(4,754)
	83,282	46,052

Notes:

(a) The loan to a jointly controlled entity is unsecured and bears interest at 1.60% per annum above the applicable swap offer rate as determined by the Association of Banks in Singapore. The loan is wholly repayable on or before October 2013.

(b) The amounts due from/(to) jointly controlled entities are unsecured and interest free. Balances in relation to normal course of business have credit periods similar to those of third parties while the other balances have no fixed terms of repayment.

14 JOINTLY CONTROLLED ENTITIES (Continued)

(c) The Group's share of the results of its jointly controlled entities, Shanghai CIMC Far East Container Co., Ltd. and Tianjin CIMC North Ocean Container Co., Ltd. (collectively "Shanghai and Tianjin CIMC"), were based on the guaranteed profits as stated in the relevant subcontracting agreements entered into with the venturer of Shanghai and Tianjin CIMC, which is a related company of the Group (note 30(f)). The guaranteed profit arrangements for Shanghai and Tianjin CIMC are for a term of five years commencing from 1st January 2000.

(d) The Company has no directly owned jointly controlled entity as at 31st December 2003 and 2002. Details of the jointly controlled entities held by the Company's wholly owned subsidiaries as at 31st December 2003 are shown in note 36 to the accounts.

15 ASSOCIATED COMPANIES

	Group	
	2003	2002
	US$'000	US$'000
		(Restated)
Share of net assets	**274,605**	274,720
Amount due from an associated company (note a)	**5**	5
Loan to an associated company (notes a and b)	**–**	9,845
	274,610	284,570
Investments, at cost		
Listed shares in Hong Kong	**219,189**	219,189
Unlisted shares	**339,762**	314,986
	558,951	534,175
Market value of listed shares	**133,846**	78,077

Notes:

(a) Loan to and amount due from associated companies are unsecured, interest free and have no fixed terms of repayment.

(b) On 17th March 2003, the directors of the Twinbridge Development Corp. ("Twinbridge"), an associated company of the Group, resolved to wind up Twinbridge and submitted the plan of dissolution to Twinbridge's shareholders for their approval (the "Dissolution"). Upon the application of the Dissolution, Twinbridge has paid the Group an aggregate amount of US$51,780,000, representing the repayment of the loan advanced by the Group to Twinbridge of US$9,845,000 and the return of the Group's investment costs in Twinbridge and its share of the distributable reserves of Twinbridge totalling US$41,935,000. The Dissolution was subsequently completed in January 2004.

(c) The Company has no directly owned associated company as at 31st December 2003 and 2002. Details of the associated companies held by the Company's wholly owned subsidiaries as at 31st December 2003 are shown in note 37 to the accounts.

16 INVESTMENT SECURITIES

	Group 2003 US$'000	Group 2002 US$'000
Equity securities (note a)		
– unlisted investments in Hong Kong, at cost	1	1
– unlisted investments in China mainland, at cost	21,666	24,581
Loans to investee companies (note b)	41,582	56,485
Provision	–	(14,191)
	63,249	66,876

Notes:

(a) Unlisted investments as at 31st December 2003 represent equity interests in entities which are involved in container terminal operations in Yantian, Shekou and Dalian of China mainland. The unlisted investments as at 31st December 2002 also included an equity interest in river trade terminal operation in Hong Kong which was disposed of during the year and resulted in a loss of US$2,192,000 (note 3).

(b) Loans to investee companies are unsecured and have no fixed terms of repayment. These loans are interest free except for a balance of US$19,349,000 as at 31st December 2003 (2002: US$2,625,000) which bears interest at Hong Kong dollar prime rate.

17 FINANCE LEASE RECEIVABLES

Group

	2003				2002		
	Gross receivables US$'000	Unearned finance income US$'000	Provision US$'000	Present value of minimum lease payment receivable US$'000	Gross receivables US$'000	Unearned finance income US$'000	Present value of minimum lease payment receivable US$'000
Amounts receivable under finance leases:							
Current portion							
– not later than one year	1,516	(532)	(37)	947	2,826	(130)	2,696
Non-current portion							
– later than one year and not later than five years	4,658	(1,238)	(29)	3,391	233	(36)	197
– later than five years	1,793	(190)	–	1,603	–	–	–
	7,967	(1,960)	(66)	5,941	3,059	(166)	2,893

17 FINANCE LEASE RECEIVABLES (Continued)

As at 31st December 2003, the Group entered into 18 (2002: 15) finance leases contracts for leasing of certain containers. The average term of finance leases is 5 years (2002: 5 years).

The cost of assets acquired for the purpose of letting under finance leases amounted to US$10,147,000 (2002: US$19,023,000) as at 31st December 2003.

Unguaranteed residual values of assets leased under finance leases are estimated at approximately US$4,000 (2002: US$9,000).

18 INVENTORIES

As at 31st December 2003, inventories of the Group represent spare parts and consumables of US$193,000 (2002: US$269,000) and resaleable containers of US$2,407,000 (2002: US$2,379,000).

Spare parts and consumables are stated at cost. The carrying amount of resaleable containers that are carried at net realisable value amounted to US$2,341,000 (2002: US$2,308,000).

19 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	**2003**	2002
	US$'000	US$'000	**US$'000**	US$'000
Trade receivables (note a)	**28,862**	25,387	**–**	–
Other receivables, deposits and prepayments	**27,278**	7,445	**270**	312
Amounts due from (notes a and b)				
– fellow subsidiaries	**23,765**	22,619	**–**	–
– related companies	**634**	701	**–**	–
	80,539	56,152	**270**	312

19 TRADE AND OTHER RECEIVABLES (Continued)

Notes:

(a) The Group grants credit period of 30 to 90 days to its customers.

At 31st December 2003, the ageing analysis of the trade balances due from third parties (net of provision), fellow subsidiaries and related companies was as follows:

	Group	
	2003	2002
	US$'000	US$'000
Within 30 days	**23,793**	27,507
31-60 days	**21,258**	17,141
61-90 days	**5,925**	2,403
Over 90 days	**1,779**	982
	52,755	48,033

(b) The amounts due from fellow subsidiaries and related companies are unsecured and interest free. Trading balances have credit periods ranging from 30 days to 90 days while other balances have no fixed terms of repayment.

20 TRADE AND OTHER PAYABLES

	Group		Company	
	2003	2002	**2003**	2002
	US$'000	US$'000	**US$'000**	US$'000
Trade payables (note a)	**10,007**	5,333	**–**	–
Other payables and accruals	**26,521**	25,576	**182**	143
Dividend payable	**12**	8	**12**	8
Amounts due to (notes a and b)				
– ultimate holding company	**235**	–	**–**	–
– fellow subsidiaries	**136**	25	**–**	–
– related companies	**15,276**	2,738	**–**	–
– minority shareholders of subsidiaries	**3,856**	3,319	**–**	–
	56,043	36,999	**194**	151

20 TRADE AND OTHER PAYABLES (Continued)

Notes:

(a) At 31st December 2003, the ageing analysis of the trade balances due to third parties, ultimate holding company, fellow subsidiaries, related companies, minority shareholders of subsidiaries and jointly controlled entities was as follows:

	Group 2003 US$'000	2002 US$'000
Within 30 days	24,528	6,409
31-60 days	295	3,791
61-90 days	1,097	1,842
Over 90 days	3	1,519
	25,923	13,561
Included under trade and other payables	25,923	8,807
Included under jointly controlled entities	–	4,754
	25,923	13,561

(b) The amounts due to ultimate holding company, fellow subsidiaries, related companies and minority shareholders of subsidiaries are unsecured and interest free. Balances in relation to purchases of containers have similar credit periods granted as those of other third party suppliers while the other balances have no fixed terms of repayment.

21 SHARE CAPITAL

	2003 US$'000	2002 US$'000
Authorised:		
3,000,000,000 ordinary shares of HK$0.10 each	38,462	38,462
Issued and fully paid:		
2,148,542,298 (2002: 2,147,012,298) ordinary shares of HK$0.10 each	27,553	27,533

21 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 2002	2,142,542,298	27,476
Issued on exercise of share options	4,470,000	57
At 31st December 2002	2,147,012,298	27,533
At 1st January 2003	**2,147,012,298**	**27,533**
Issued on exercise of share options (note b)	**1,530,000**	**20**
At 31st December 2003	**2,148,542,298**	**27,553**

(b) Share options

Under the 1994 Share Option Scheme, the directors of the Company may, at their discretion, grant to any director, executive and/or employee who are 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.

On 23rd May 2003, the shareholders of the Company approved the adoption of the 2003 Share Option Scheme and the termination of the 1994 Share Option Scheme.

No further options shall be granted under the 1994 Share Option Scheme after 23rd May 2003 but the outstanding share options which had been granted shall continue to be valid and exercisable in accordance with their terms and provisions under the 1994 Share Option Scheme.

Under the 2003 Share Option Scheme, the directors of the Company may, at their discretion, invite any participants, as defined under the 2003 Share Option Scheme to take up share options for subscribing the Company's shares, subject to the terms and conditions stipulated therein.

The consideration on acceptance of an offer of the grant of an option is HK$1.00.

21 SHARE CAPITAL (Continued)

(b) Share options (Continued)

Movements of the share options granted during the year are set out below:

Category	Note	Exercise price HK$	Number of share options: Outstanding at 1st January 2003	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December 2003	Vested percentage as at 31st December 2003	Vested percentage as at 31st December 2002
Directors	(i)	5.53	3,000,000	–	(1,500,000)	–	1,500,000	100%	0%
	(ii)	8.80	5,000,000	–	–	–	5,000,000	100%	100%
	(iii)	9.54	–	16,500,000	–	–	16,500,000	100%	N/A
Continuous contract employees	(i)	5.53	80,000	–	–	–	80,000	100%	0%
	(ii)	8.80	6,800,000	–	–	(1,200,000)	5,600,000	100%	100%
	(iii)	9.54	–	23,150,000	(10,000)	–	23,140,000	100%	N/A
Others	(iii)	9.54	–	6,200,000	(20,000)	–	6,180,000	100%	N/A
			14,880,000	45,850,000	(1,530,000)	(1,200,000)	58,000,000		

Notes:

(i) The share options were granted on 1st July 1996 under the 1994 Share Option Scheme and are exercisable on or before 30th June 2006, subject to the following conditions:

Percentage of the total number of options granted to each grantee which can be exercised (including the options which have already been exercised)	Price level per share at which the options can be exercised#
20% of the options	HK$6.50 or above
40% of the options	HK$7.00 or above
60% of the options	HK$7.50 or above
80% of the options	HK$8.00 or above
100% of the options	HK$8.50 or above

\# The price level refers to the closing price of the Company's share on The Stock Exchange of Hong Kong Limited at the date prior to the exercise of the options.

On 14th October 2003, 1,500,000 share options were exercised by a director.

21 SHARE CAPITAL (Continued)

(b) Share options (Continued)

(ii) The share options were granted on 20th May 1997 (the "Offer Date") under the 1994 Share Option Scheme and are exercisable on or before 19th May 2007, subject to the following conditions:

(1) For those grantees who have completed one year full-time service in the Group may exercise a maximum of 20% of share options granted in each of the first five anniversary years from the Offer Date.

(2) For those grantees who have not completed one year full-time service in the Group as at the Offer Date, a maximum of 20% of options granted may be exercisable in each of the first five anniversary years of the Offer Date after completion of one year full-time service.

Following the resignations of two employees, 1,200,000 (2002: 750,000) share options were lapsed during the year.

(iii) The share options were granted during the period from 28th October 2003 to 6th November 2003 under the 2003 Share Option Scheme. The options are exercisable at any time within ten years from the date on which an offer is accepted or deemed to be accepted by the grantee under the 2003 Share Option Scheme (the "Commencement Date"). The Commencement Date of the options granted started from 28th October 2003 to 6th November 2003.

10,000 and 20,000 share options were exercised by an employee of the Group and an employee of COSCO (Hong Kong) Group Limited, the Company's immediate holding company, on 6th November 2003 and 3rd December 2003 respectively.

(iv) 1,500,000 shares at HK$5.53 per share and 30,000 shares at HK$9.54 per share were issued upon the exercise of 1,530,000 share options during the year which yielded the following proceeds, after transaction costs of US$78:

	2003 **US$'000**	2002 US$'000
Ordinary share capital – at par	**20**	57
Share premium (net of issue expenses)	**1,081**	2,049
Proceeds (net of issue expenses)	**1,101**	2,106

The weighted average closing price of the Company's shares on the dates when the share options were exercised was HK$9.51 (2002: HK$4.96).

(v) For those share options granted on 1st July 1996 and 20th May 1997 under the 1994 Share Option Scheme, all grantees may reserve their rights to exercise and accumulate their share options exercisable during their employment within the Group.

22 RESERVES

Company	Share premium US$'000	Contributed surplus US$'000	Retained profits US$'000	Total US$'000
At 1st January 2002	558,008	414,214	174,113	1,146,335
Issue of shares on exercise of share options	2,051	–	–	2,051
Share issue expenses	(2)	–	–	(2)
Profit for the year	–	–	72,334	72,334
Dividends – 2001 final	–	–	(38,536)	(38,536)
– 2002 interim	–	–	(30,278)	(30,278)
At 31st December 2002	560,057	414,214	177,633	1,151,904
Representing:				
Reserves	560,057	414,214	128,087	1,102,358
2002 final dividend proposed	–	–	49,546	49,546
At 31st December 2002	560,057	414,214	177,633	1,151,904
At 1st January 2003	560,057	414,214	177,633	1,151,904
Issue of shares on exercise of share options	1,081	–	–	1,081
Profit for the year	–	–	84,320	84,320
Dividends – 2002 final	–	–	(49,546)	(49,546)
– 2003 interim	–	–	(37,986)	(37,986)
At 31st December 2003	561,138	414,214	174,421	1,149,773
Representing:				
Reserves	561,138	414,214	124,839	1,100,191
2003 final dividend proposed	–	–	49,582	49,582
At 31st December 2003	561,138	414,214	174,421	1,149,773

23 LONG TERM LIABILITIES

	Group 2003 US$'000	Group 2002 US$'000
Borrowings		
Secured	177,523	156,578
Unsecured	300,837	263,614
	478,360	420,192
Amounts due within one year included under current liabilities	(32,848)	(209,707)
	445,512	210,485

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

	Group 2003 US$'000	Group 2002 US$'000
Wholly repayable within five years		
Bank loans	166,553	223,599
Other loans (notes e and f)	12,681	140,000
Loans from a minority shareholder of a subsidiary (note g)	963	1,445
	180,197	365,044
Not wholly repayable within five years		
Bank loans	–	40,179
Other loans (note e)	–	14,969
Notes (note d)	298,163	–
	298,163	55,148
	478,360	420,192

23 LONG TERM LIABILITIES (Continued)

(b) Long term liabilities were repayable as follows:

	Group 2003 US$'000	Group 2002 US$'000
Bank loans		
Within one year	**29,902**	66,937
In the second year	**29,474**	64,464
In the third to fifth years inclusive	**107,177**	124,342
In more than five years	**–**	8,035
	166,553	263,778
Notes		
In more than five years	**298,163**	–
Other loans		
Within one year	**2,464**	142,288
In the second year	**2,653**	2,464
In the third to fifth years inclusive	**7,564**	8,590
In more than five years	**–**	1,627
	12,681	154,969
Loans from a minority shareholder of a subsidiary		
Within one year	**482**	482
In the second year	**481**	482
In the third to fifth years inclusive	**–**	481
	963	1,445
	478,360	420,192

(c) Secured bank loans and other loans of US$177,523,000 (2002: US$156,578,000) were secured by certain containers of the Group (note 12(f)). These loans of amounts of US$164,842,000 (2002: US$141,609,000) were also secured by the assignment of the container lease agreements and the rental income thereon, other assets and shares of certain subsidiaries.

Bank loan of a subsidiary of approximately US$1,108,000 (2002: US$1,566,000) was guaranteed by the minority shareholder of that subsidiary.

23 LONG TERM LIABILITIES (Continued)

(d) Details of the Notes as at 31st December 2003 are as follows:

	2003 US$'000	2002 US$'000
Principal amount	300,000	–
Discount on issue	(1,899)	–
Proceeds received	298,101	–
Accumulated amortised amount of discount on issue	62	–
	298,163	–

Notes with principal amount of US$300,000,000 were issued by a subsidiary of the Company to investors on 3rd October 2003. The Notes carried an interest yield of 5.96% and were issued at a price of 99.367 per cent of their principal amount with a coupon rate of 5.875%, resulting in a discount on issue of US$1,899,000. The Notes bear interest from 3rd October 2003, payable semi-annually in arrear on 3rd April and 3rd October of each year, commencing on 3rd April 2004. The Notes are guaranteed unconditionally and irrevocably by the Company and listed on the Singapore Exchange Securities Trading Limited.

Unless previously redeemed or repurchased by the Company, the Notes will mature on 3rd October 2013 at their principal amount. The Notes are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the Company at any time in the event of certain changes affecting the taxes of certain jurisdictions.

(e) Other loan of US$12,681,000 (2002: US$14,969,000) is repayable by quarterly instalment over a period of 32 quarters starting from 7th July 2000. Interest is charged on the outstanding balance at the rate of 1.125% per annum over the London Interbank Offered Rate ("LIBOR") (2002: 1.125% per annum over LIBOR).

(f) As at 31st December 2002, other loans included a sum of US$140,000,000 US commercial notes (the "Commercial Notes") which were issued to investors pursuant to an agreement dated 24th December 2001. The Commercial Notes were backed by a letter of credit issued by a bank and guaranteed by the Company. Each Commercial Note bore interest at prevailing market rates. The Commercial Notes were fully repaid during the year.

(g) As at 31st December 2003, loans to a non-wholly owned subsidiary by the Group and a minority shareholder of the subsidiary amounted to US$1,128,000 (2002: US$1,610,000) and US$963,000 (2002: US$1,445,000) respectively. These loans are unsecured and repayable in various annual instalments up to December 2005. Annual interest rate is calculated at prevailing market rate quoted by the State Development Bank of the PRC during the year. The interest rate was at 5.76% per annum for the year ended 31st December 2003 while the interest rate ranged from 5.76% to 6.21% for the year ended 31st December 2002.

24 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using tax rates substantively enacted by the balance sheet date.

The movement on the net deferred tax liabilities during the year is as follows:

	Group	
	2003	2002
	US$'000	US$'000
At 1st January	**23,683**	13,825
Charged to consolidated profit and loss account	**11,342**	9,858
At 31st December	**35,025**	23,683

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31st December 2003, the Group and the Company has unrecognised tax losses of US$3,758,000 (2002: US$3,610,000) and US$2,546,000 (2002: US$2,546,000) respectively, which have no expiry date, to carry forward.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) of the Group during the year is as follows:

Deferred tax liabilities

	Accelerated tax depreciation		Others		Total	
	2003	2002	**2003**	2002	**2003**	2002
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
At 1st January	**67,685**	49,733	**3,136**	2,698	**70,821**	52,431
Charged to consolidated profit and loss account	**23,219**	17,952	**–**	438	**23,219**	18,390
At 31st December	**90,904**	67,685	**3,136**	3,136	**94,040**	70,821

Deferred tax assets

	Tax losses		Others		Total	
	2003	2002	**2003**	2002	**2003**	2002
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
At 1st January	**46,389**	37,915	**749**	691	**47,138**	38,606
Credited to consolidated profit and loss account	**9,679**	8,474	**2,198**	58	**11,877**	8,532
At 31st December	**56,068**	46,389	**2,947**	749	**59,015**	47,138

24 DEFERRED TAXATION (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2003	2002
	US$'000	US$'000
Deferred tax assets	**196**	262
Deferred tax liabilities	**35,221**	23,945

The amounts shown in the consolidated balance sheet include the following:

	2003	2002
	US$'000	US$'000
Deferred tax assets to be recovered after more than 12 months	**182**	194
Deferred tax liabilities to be settled after more than 12 months	**35,209**	23,927

As at 31st December 2003, the Company did not have any deferred tax assets and liabilities (2002: US$Nil).

25 CONTINGENT LIABILITIES

	Group		**Company**	
	2003	2002	**2003**	2002
	US$'000	US$'000	**US$'000**	US$'000
Guarantees for				
– Notes issued by a subsidiary (note 23(d))	**–**	–	**300,000**	–
– other credit or loan facilities granted to subsidiaries	**–**	–	**177,523**	416,577
	–	–	**477,523**	416,577

26 CAPITAL COMMITMENTS

The Group has the following significant capital commitments:

	Group 2003 US$'000	2002 US$'000
Authorised but not contracted for:		
Containers	147,816	155,977
Generator sets	3,000	–
Computer system under development	985	–
	151,801	155,977
Contracted but not provided for:		
Containers	22,329	468
Investments (note a)	395,295	76,086
Other fixed assets	254	–
	417,878	76,554

Notes:

(a) The Group's committed investments as at 31st December 2003 primarily included the acquisitions of 49% equity interest in COSCO Logistics Co., Ltd. ("COSCO LOGISTICS") and 14% equity interest in Tianjin Five Continents International Container Terminal Co., Ltd. of approximately US$148,662,000 and US$19,045,000 respectively. The committed investments as at 31st December 2003 also mainly included the contributions to Qingdao Qianwan Container Terminal Co., Ltd ("QQCT") and COSCO-PSA Terminal Private Limited, both are jointly controlled entities of the Group, of approximately US$168,011,000 and US$43,233,000 respectively.

As of the date of approval of the accounts, the consideration paid for the acquisition of COSCO LOGISTICS and the contribution made to QQCT amounted to US$142,615,000 and US$61,131,000 respectively.

The Group's committed investment as at 31st December 2002 represented investment in Shanghai Pudong International Container Terminal Limited and Yantian International Container Terminal (Phase III) Limited of US$45,908,000 and US$30,178,000 respectively.

(b) The Company did not have any capital commitments as at 31st December 2003 (2002: US$Nil).

27 LEASE ARRANGEMENTS/COMMITMENTS

(a) Operating lease arrangements – where the Group is the lessor

At 31st December 2003, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	Group 2003 US$'000	Group 2002 US$'000
Containers		
– not later than one year	**176,306**	176,300
– later than one year and not later than five years	**426,121**	472,250
– later than five years	**78,167**	139,816
	680,594	788,366
Generator sets		
– not later than one year	**175**	–
– later than one year and not later than five years	**455**	–
	630	–
Investment properties		
– not later than one year	**38**	41
– later than one year and not later than five years	**9**	11
	47	52
	681,271	788,418

The future lease receipts above do not include those lease contracts which the amount of future lease receipts depends on the timing of pick up and drop off of containers by lessees during the lease period of the contracts.

27 LEASE ARRANGEMENTS/COMMITMENTS (Continued)

(b) Operating lease commitments – where the Group is the lessee

At 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2003	2002
	US$'000	US$'000
Land and buildings		
– not later than one year	**2,614**	3,095
– later than one year and not later than five years	**2,818**	3,799
– over five years	**4,917**	5,232
	10,349	12,126
Plant and machinery		
– not later than one year	**358**	293
– later than one year and not later than five years	**185**	90
	543	383
	10,892	12,509

(c) The Company did not have any lease commitments as at 31st December 2003 (2002: US$Nil).

28 FINANCIAL INSTRUMENTS AND COMMITMENTS

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

The notional principal amounts of the outstanding interest rate swap contracts as at 31st December 2003 were US$300,000,000 (2002: US$100,000,000). Interest rate swap contracts of notional amount of US$100,000,000 (2002: US$100,000,000) were committed with the fixed interest rates ranging from 3.88% to 4.90% (2002: 3.88% to 4.90%) per annum whereas the remaining interest rate swap contracts of notional amount of US$200,000,000 (2002: US$Nil) were committed with the interest rates ranging from 1.05% to 1.16% per annum above the LIBOR.

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to cash generated from operations

	2003 US$'000	2002 US$'000
Profit before taxation	180,613	167,774
Depreciation and amortisation	95,517	87,682
Interest expenses	11,861	15,464
Amortised amount of discount on issue of Notes	62	–
Other incidental borrowing costs	5,226	2,555
Impairment losses of fixed assets	9,865	15,997
Provision for loan to an investee company	–	3,296
Net (gain)/loss on disposal/write-off of fixed assets	(52)	486
Provision for inventories	155	832
Revaluation deficit of investment properties	81	60
Share of profits less losses of jointly controlled entities	(6,711)	(8,751)
Share of profits less losses of associated companies	(64,915)	(67,461)
Dividend income from unlisted investments	(20,421)	(5,003)
Loss on disposal of an unlisted investment	2,192	–
Interest income	(2,343)	(3,794)
Provision for bad and doubtful debts, net	1,370	1,142
Recovery of bad debts	(1,047)	(2,999)
Operating profit before working capital changes	211,453	207,280
Decrease in net balance with jointly controlled entities	39	436
Decrease in finance lease receivables	3,156	4,584
Decrease in inventories	13,386	8,879
Increase in trade and other receivables, deposits and prepayments	(15,081)	(2,626)
Increase in amounts due from fellow subsidiaries	(1,146)	(1,690)
Decrease/(increase) in amounts due from related companies	67	(101)
Increase in trade and other payables and accruals	4,226	397
Increase/(decrease) in amount due to ultimate holding company	235	(49)
Increase/(decrease) in amounts due to fellow subsidiaries	111	(3)
Increase in amounts due to related companies	83	60
Increase in amounts due to minority shareholders of subsidiaries	537	550
Cash generated from operations	217,066	217,717

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) US$'000	Loans and Notes US$'000	Minority interests US$'000 (Restated)
At 1st January 2002	585,484	509,538	7,511
Issue of shares on exercise of share options	2,108	–	–
Share issue expenses	(2)	–	–
Minority interests' share of profit for the year	–	–	1,699
Loans borrowed	–	95,604	–
Repayment of loans	–	(184,468)	–
Dividends paid to minority shareholders	–	–	(896)
At 31st December 2002	587,590	420,674	8,314
At 1st January 2003	**587,590**	**420,674**	**8,314**
Issue of shares on exercise of share options	**1,101**	**–**	**–**
Minority interests' share of profit for the year	**–**	**–**	**1,858**
Loans borrowed	**–**	**89,620**	**–**
Proceeds on issue of Notes	**–**	**298,101**	**–**
Amortised amount of discount on issue of Notes	**–**	**62**	**–**
Repayment of loans	**–**	**(330,097)**	**–**
Dividends paid to minority shareholders	**–**	**–**	**(1,528)**
At 31st December 2003	**588,691**	**478,360**	**8,644**

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Analysis of the balances of cash and cash equivalents

	2003 US$'000	2002 US$'000
Total time deposits, bank balances and cash (note i)	283,835	236,121
Restricted bank deposits included in non-current assets (note ii)	(12,056)	(7,817)
	271,779	228,304
Representing:		
Time deposits	248,574	202,224
Bank balances and cash	23,205	26,080
	271,779	228,304

Notes:

(i) As at 31st December 2003, cash and cash equivalents of US$20,712,000 (2002: US$39,427,000) were denominated in Renminbi which are held by certain subsidiaries of the Group with bank accounts operating in the PRC where exchange controls apply.

(ii) Restricted bank deposits are deposits pledged as securities for repayment of bank loans of the Group and are restricted for the purpose of the related banking facilities.

30 RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the accounts, the following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

	2003	2002
	US$'000	US$'000
Container rental income from fellow subsidiaries (note a)		
– long term leases	**130,283**	135,636
– short term leases	**556**	474
Income for container terminal handling services rendered by an associated company of the Group to a fellow subsidiary (note b)	**58,971**	70,383
Handling and storage income from fellow subsidiaries (note c)	**6,320**	6,782
Net transportation income from fellow subsidiaries (note c)	**1,939**	1,637
Management fee income from an associated company (note d)	**2,564**	2,564
Container terminal handling fee received from fellow subsidiaries and an associated company of the ultimate holding company (note e)	**1,767**	1,257
Purchase of containers from (note f)		
– Related Entities	**(58,892)**	(40,105)
– jointly controlled entities of the Group	**(8,549)**	(18,588)
Container freight charges to (note g)		
– Related Entities	**(1,434)**	(2,241)
– jointly controlled entities of the Group	**(230)**	(357)
Approved continuous examination program fee to a fellow subsidiary (note h)	**(2,200)**	(2,200)
Property rental expense paid to fellow subsidiaries under operating leases (note i)	**(796)**	(714)
Purchase of equity interests in investment securities (note j)	**–**	(24,460)

Notes:

(a) The Group has conducted long term container leasing business with COSCO Container Lines Company Limited ("COSCON"), a subsidiary of China Ocean Shipping (Group) Company ("COSCO Group") which is the Company's ultimate holding company.

During the two years ended 31st December 2003, the Group entered into new long term container leasing arrangements with COSCON. The Group's long term container leasing transactions with COSCON during the year have been conducted based on the average leasing rates quoted from three of the top ten independent container leasing companies and in the ordinary course of the business of the Group.

During the two years ended 31st December 2003, the Group entered into short term container leasing arrangements with certain subsidiaries of COSCO Group whereby those fellow subsidiaries have agreed to lease from the Group, on a short term basis, certain containers returned from COSCON after the expiry of the long term leases. The short term container leasing arrangements with those fellow subsidiaries were conducted in accordance with the pricing policy of the Group.

30 RELATED PARTY TRANSACTIONS (Continued)

(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 from/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 for the year ended 31st December 2003.

(c) The handling and storage income and the transportation income received from fellow subsidiaries of the Company were conducted at terms as set out in the agreements entered into between the Group and these fellow subsidiaries.

(d) The Group provided advisory and management services to COSCO-HIT during the year. Management fee was charged and agreed at HK$20,000,000 (2002: HK$20,000,000) per annum.

(e) During the year, the Group provided handling and storage services to fellow subsidiaries and an associated company of COSCO Group for cargoes shipped from/to Zhangjiagang port. The tariff rates charged by the Group were by reference to rates as set out by the Ministry of Communications of the PRC.

(f) The purchases of containers from certain companies owned by a related company (the "Related Entities") and jointly controlled entities of the Group were conducted at terms as set out in the agreements entered into between the Group and the parties in concern. During the year, COSCO Group invested in the related company with equity interest of 21.22% for the period from 1st January 2003 to 19th November 2003 and of 17.18% for the period from 20th November 2003 to 31st December 2003.

(g) During the year, the Group paid container freight charges of US$1,434,000 (2002: US$2,241,000) and US$230,000 (2002: US$357,000) to the Related Entities and jointly controlled entities of the Group respectively for container repositioning services rendered to the Group.

(h) An approved continuous examination program fee of US$2,200,000 to COSCON in connection with the containers leased to COSCON on a long term basis was agreed between the Group and COSCON for the year ended 31st December 2003 (2002: US$2,200,000).

(i) On 7th March 2001, a subsidiary of the Group (the "Subsidiary") entered into a lease agreement with a fellow subsidiary, Wing Thye Holdings Limited ("Wing Thye"), a subsidiary of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") which is the Company's immediate holding company, for the lease of its office space for a period of 3 years commencing with retrospective effect from 4th December 2000 at a monthly rental of HK$465,023, exclusive of rates and management fees. COSCO Hong Kong provided a guarantee of HK$1,395,069 representing rentals for three months to Wing Thye (the "Guarantee") as security for due payment of rental and other monies by the Subsidiary.

On 7th August 2003, the Subsidiary entered into a sub-tenancy agreement with COSCO Information & Technology (HK) Limited ("COSCO IT"), a subsidiary of COSCO Hong Kong, for the sub-lease of additional office space from COSCO IT with retrospective effect for the period from 27th January 2003 to 28th November 2003 at a monthly rental of HK$72,749, exclusive of rates and management fees. Wing Thye, the landlord of the premise, has given its consent to this sub-tenancy agreement.

30 RELATED PARTY TRANSACTIONS (Continued)

On 12th January 2004, the Subsidiary entered into new tenancy agreements with Wing Thye for the lease of the above office spaces at monthly rentals of HK$267,564 and HK$72,436 respectively, exclusive of rates and management fees. The new tenancy agreements are for a term of 23 months and 25 days commencing with retrospective effect from 4th December 2003 and a term of 24 months commencing with retrospective effect from 29th November 2003 respectively. The Guarantee provided by COSCO Hong Kong to Wing Thye for the subsidiary in connection with these new tenancy agreements amounted to HK$1,020,000 in total.

The rentals for all the tenancy agreements as mentioned above were by reference to valuations conducted by DTZ Debenham Tie Leung Limited, an independent professional valuer.

(j) Pursuant to an agreement dated 25th November 2002 entered into between COSCO Group and COSCO Ports (Shekou) Limited ("COSCO Ports Shekou"), an indirect wholly owned subsidiary of the Company, COSCO Ports Shekou agreed to acquire from COSCO Group's entire 17.5% equity interest in Shekou Container Terminals Ltd ("Shekou CTL), which is an equity joint venture established in the PRC and engages in the provision of container terminal business, at a cash consideration of HK$155,543,000 (equivalent to approximately US$19,941,000). The consideration was determined by reference to a valuation of the acquired interest of Shekou CTL as at 30th September 2002 conducted by DTZ Debenham Tie Leung Limited, an independent professional valuer.

On 28th December 2001, the Group entered into a Promoters' Agreement with China Dalian Ocean Shipping Agency, an indirect wholly owned subsidiary of COSCO Group, and three other independent third parties in relation to the establishment of Dalian Port Container Co., Ltd. ("Dalian Port"), a joint stock limited company which engages in container terminal operations and related business in Dalian, China mainland. The Group acquired 8% equity interest in Dalian Port at cash considerations of RMB37,516,200 (equivalent to approximately US$4,519,000) and the considerations were paid in 2002.

(k) On 22nd September 2003, COSCO Pacific Logistics Company Limited ("CPLCL"), a wholly owned subsidiary of the Company, entered into agreements with COSCO Group to effect, subsequent to the fulfilment of certain conditions precedent, a capital increase and transfer of equity interest transaction for the acquisition of 49% equity interest in COSCO Logistics Co., Ltd ("COSCO LOGISTICS") (formerly COSCO Logistics Company), a then wholly owned subsidiary of COSCO Group, at a total consideration of RMB1,180,410,000 (equivalent to approximately US$142,615,000) (the "Acquisition"). CPLCL also agreed to pay COSCO Group an additional amount of RMB50,000,000 (equivalent to approximately US$6,047,000) if the pro forma combined net profit of COSCO LOGISTICS (as if its group reorganisation had been completed) for the year ended 31st December 2003 exceeds RMB200,000,000 (equivalent to approximately US$24,190,000). COSCO LOGISTICS principally engages in shipping agency, freight forwarding, third party logistics and supporting services in China mainland.

The Acquisition was subsequently completed in January 2004.

(l) On 25th November 2003, the Group entered into agreements with COSCO International Holdings Limited, a fellow subsidiary, to dispose of its entire 20% equity interests in each of Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd., both were then jointly controlled entities of the Group, at aggregate considerations in cash totalling RMB41,040,000 (equivalent to approximately US$4,943,000) (the "Disposals"). The Disposals were completed in January 2004 and the gain on Disposals was not significant.

31 SIGNIFICANT ASSOCIATED COMPANIES

A summary of the audited financial information of Liu Chong Hing Bank Limited and COSCO-HIT Terminals (Hong Kong) Limited, two significant associated companies of the Group, after making adjustments by directors of the Company to conform with the Group's principal accounting policies, for the years ended 31st December 2003 and 2002 is set out as follows:

(a) **Liu Chong Hing Bank Limited**

	2003 US$'000	2002 US$'000 (Restated)
Result for the year		
Net interest income	**85,920**	96,073
Profit for the year	**39,564**	35,041
Assets		
Cash and short-term funds	**1,538,704**	1,588,267
Advances and other accounts	**2,574,557**	2,511,436
Tangible fixed assets and other assets	**1,047,470**	971,329
	5,160,731	5,071,032
Liabilities		
Deposits with customers	**4,178,409**	4,165,673
Certificates of deposit, deposits with other banks and financial institutions	**132,743**	53,954
Other liabilities	**57,885**	71,040
	4,369,037	4,290,667
Net assets as at 31st December	**791,694**	780,365

31 SIGNIFICANT ASSOCIATED COMPANIES (Continued)

(b) COSCO – HIT Terminals (Hong Kong) Limited

	2003 US$'000	2002 US$'000 (Restated)
Result for the year		
Turnover	127,918	139,558
Profit for the year	61,829	69,746
Net assets as at 31st December		
Fixed assets	315,539	326,927
Current assets	39,589	61,185
Current liabilities	(17,185)	(25,274)
Non-current liabilities	(276,350)	(274,612)
	61,593	88,226

32 COMPARATIVE FIGURES

The comparative figures of the taxation charge, deferred tax assets and liabilities, share of the results and net assets of associated companies and minority interests have been restated as a result of the adoption of the new SSAP 12 (note 1(a)).

33 ULTIMATE HOLDING COMPANY

The directors regard China Ocean Shipping (Group) Company, a state-owned enterprise established in the People's Republic of China, as being the ultimate holding company.

34 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 25th March 2004.

35 DETAILS OF SUBSIDIARIES

Details of the subsidiaries as at 31st December 2003 are as follows:

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2003	2002
[2] Allgood International Limited	British Virgin Islands	Hong Kong	Dormant	1 ordinary share of US$1	**100%**	100%
[1, 2] Bauhinia 97 Ltd.	Cayman Islands	Hong Kong	Investment holding	2 ordinary shares of US$1 each	**100%**	100%
Cheer Hero Development Limited	Hong Kong	Hong Kong	Container handling, storage and stevedoring	10,000 ordinary shares of HK$10 each	**75%**	75%
COSCO Container Services Limited	Hong Kong	Hong Kong	Investment holding, depot handling, storage and container repairing	2 ordinary shares of HK$1 each	**100%**	100%
[1, 2, 4] COSCO Pacific (China) Investments Co., Ltd.	PRC	PRC	Investment holding	US$30,000,000	**100%**	100%
[1] COSCO Pacific Finance (2003) Company Limited	British Virgin Islands	Hong Kong	Financing	1 ordinary share of US$1	**100%**	–
[1, 2] COSCO Pacific Logistics Company Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	–
[1] COSCO Pacific Management Company Limited	Hong Kong	Hong Kong	Investment holding and provision of management services	2 ordinary shares of HK$1 each	**100%**	100%
[1, 2] COSCO Pacific Nominees Limited	British Virgin Islands	Worldwide	Provision of nominee services	1 ordinary share of US$1	**100%**	100%

35 DETAILS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2003	Group equity interest 2002
[2] COSCO Ports (Dalian RoRo) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	–
[2] COSCO Ports (Shekou) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
[2] COSCO Ports (Singapore) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	–
[1] COSCO Ports (Holdings) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
[2] COSCO Ports (Qianwan) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	–
[2] COSCO Ports (Qingdao) Limited (formerly COSCO Qingdao Terminal Holdings Limited)	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
[2] COSCO Ports (Tianjin) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	–
[1, 2] CPL Treasury Limited	British Virgin Islands	Hong Kong	Provision of treasury services	1 ordinary share of US$1	**100%**	100%
Crestway International Limited	British Virgin Islands	Hong Kong	Investment holding	50,000 ordinary shares of US$1 each	**100%**	100%
[1, 2] Elegance Investment Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%

35 DETAILS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2003	Group equity interest 2002
Fairbreeze Shipping Company Limited	Hong Kong	Hong Kong	Property investment	5,000 ordinary shares of HK$100 each	**100%**	100%
[2] Famous International Limited	British Virgin Islands	Worldwide	Investment holding and sale of old containers	1 ordinary share of US$1	**100%**	100%
[2] Fentalic Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
[3] Florens Container (Macao Commercial Offshore) Limited	Macau	Worldwide	Sale of old containers and administration of marine shipping container activities	1 quota of MOP 100,000	**100%**	–
Florens Container Corporation S.A.	Panama	Worldwide	Container leasing	100 ordinary shares of US$100 each	**100%**	100%
[1] Florens Container Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	22,014 ordinary shares of US$1 each	**100%**	100%
Florens Container Inc.	United States of America	United States of America	Container leasing	1 ordinary share of US$1	**100%**	100%
Florens Container, Inc. (1998)	United States of America	United States of America	Container leasing	100 ordinary shares of US$1 each	**100%**	100%
Florens Container Inc. (1999)	United States of America	United States of America	Container leasing	100 ordinary shares of US$1 each	**100%**	100%

35 DETAILS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2003	Group equity interest 2002
Florens Container, Inc. (2000)	United States of America	United States of America	Container leasing	100 ordinary shares of US$1 each	**100%**	100%
Florens Container, Inc. (2001)	United States of America	United States of America	Container leasing	1 ordinary share of US$1	**100%**	100%
[2] Florens Container, Inc. (2003)	United States of America	United States of America	Container leasing	1 ordinary share of US$1	**100%**	–
[2, 3] Florens Container Services (Australia) Pty Limited	Australia	Australia	Provision of container management services	100 ordinary shares of AUD 1 each	**100%**	–
Florens Container Services Company Limited	Hong Kong	Worldwide	Provision of container management services	100 ordinary shares of HK$1 each	**100%**	100%
[2] Florens Container Services (Deutschland) GmbH.	Germany	Germany	Provision of container management services	2 shares of EURO 12,782.30 each	**100%**	100%
[2] Florens Container Services (Italy) S.R.L.	Italy	Italy	Provision of container management services	20,000 quotas of EURO 0.52 each	**100%**	100%
[2] Florens Container Services (Japan) Co. Ltd.	Japan	Japan	Provision of container management services	200 ordinary shares of JPY 50,000 each	**100%**	100%
[2] Florens Container Services (UK) Limited	United Kingdom	United Kingdom	Provision of container management services	183,610 ordinary shares of GBP 1 each	**100%**	100%

35 DETAILS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2003	Group equity interest 2002
[2] Florens Container Services (USA), Ltd.	United States of America	United States of America	Provision of container management services	1,000 ordinary shares of US$0.001 each	**100%**	100%
[1, 2] Florens Industrial Holdings Limited	Bermuda	PRC	Investment holding	12,000 ordinary shares of US$1 each	**100%**	100%
[3] Florens Management Services (Macao Commercial Offshore) Limited	Macau	Macau	Provision of container management services	1 quota of MOP 100,000	**100%**	–
Florens Shipping Corporation Limited	Bermuda	Worldwide	Container leasing	12,000 ordinary shares of US$1 each	**100%**	100%
[2] Florens U.S. Holdings, Inc.	United States of America	United States of America	Investment holding	1 ordinary share of US$1	**100%**	100%
[2] Frosti International Limited	British Virgin Islands	Hong Kong	Investment holding	2 ordinary shares of US$1 each	**100%**	100%
Greating Services Limited	Hong Kong	Hong Kong	Transportation of containers	250,000 ordinary shares of HK$1 each	**100%**	100%
[2] Hero King Limited	British Virgin Islands	Hong Kong	Property holding	1 ordinary share of US$1	**100%**	100%
[2] Loson Investment Limited	British Virgin Islands	Hong Kong	Property holding	1 ordinary share of US$1	**100%**	–
[2] Plangreat Limited	British Virgin Islands	Hong Kong	Investment holding	100 ordinary shares of US$1 each	**100%**	100%

35 DETAILS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2003	Group equity interest 2002
[1, 2] Topview Investment Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
Win Hanverky Investments Limited	Hong Kong	Hong Kong	Investment holding	10,000 ordinary shares of HK$10 each	**100%**	100%
[2, 4] Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	PRC	PRC	Operation of container terminal	US$16,800,000	**51%**	51%

[1] Shares held directly by the Company

[2] Subsidiaries not audited by PricewaterhouseCoopers

[3] These subsidiaries have not commenced operations as of 31st December 2003.

[4] COSCO Pacific (China) Investments Co., Ltd and Zhangjiagang Win Hanverky Container Terminal Co., Ltd are wholly foreign-owned enterprise and sino-foreign equity joint venture established in the PRC respectively.

36 DETAILS OF JOINTLY CONTROLLED ENTITIES

Details of the jointly controlled entities as at 31st December 2003 are as follows:

Name	Place of establishment/ operation	Principal activities	Paid-up capital	Percentage of interest in ownership/voting power/profit sharing 2003	2002
Qingdao Cosport International Container Terminals Co., Ltd.	PRC	Operation of container terminal	RMB337,868,700	**50.00%/ 50.00%/ 50.00%**	50.00%/ 50.00%/ 50.00%
Shanghai CIMC Reefer Containers Co., Ltd.	PRC	Container manufacturing	US$31,000,000	**20.00%/ 21.40%/ 20.00%**	20.00%/ 21.40%/ 20.00%
Shanghai CIMC Far East Container Co., Ltd. (note 14(c))	PRC	Container manufacturing	US$9,480,000	**20.00%/ 20.00%/ 20.00%**	20.00%/ 20.00%/ 20.00%
Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. (formerly Shanghai Kansai Paint & Chemical Co., Ltd.) (note 30(l))	PRC	Production of container and marine paints	US$7,000,000	**20.00%/ 18.75%/ 20.00%**	20.00%/ 18.75%/ 20.00%
Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. (formerly Tianjin Kansai Paint and Chemical Co., Ltd.) (note 30(l))	PRC	Production of container and marine paints	US$5,000,000	**20.00%/ 18.75%/ 20.00%**	20.00%/ 18.75%/ 20.00%
Tianjin CIMC North Ocean Container Co., Ltd. (note 14(c))	PRC	Container manufacturing	US$16,682,000	**22.50%/ 20.00%/ 22.50%**	22.50%/ 20.00%/ 22.50%
Qingdao Qianwan Container Terminal Co., Ltd.	PRC	Operation of container terminal	US$29,750,000	**20.00%/ 18.18%/ 20.00%**	–/ –/ –
COSCO-PSA Terminal Private Limited	Singapore	Operation of container terminal	SGD48,900,000	**49.00%/ 50.00%/ 49.00%**	–/ –/ –

37 DETAILS OF ASSOCIATED COMPANIES

Details of the associated companies as at 31st December 2003 are as follows:

Name	Place of incorporation/ establishment/ operation	Principal activities	Issued share capital/registered capital	Group equity interest 2003	2002
COSCO-HIT Terminals (Hong Kong) Limited	Hong Kong	Operation, management and development of Container Terminal 8 (East)	2 "A" ordinary shares of HK$10 each and 2 "B" ordinary shares of HK$10 each	**50%**	50%
Dawning Company Limited	British Virgin Islands/ Hong Kong	Investment holding	200 "A" shares of US$1 each and 800 "B" shares of US$1 each	**20%**	20%
Liu Chong Hing Bank Limited	Hong Kong	Banking and related financial services	435,000,000 ordinary shares of HK$0.5 each	**20%**	20%
Twinbridge Development Corp. (note 15(b))	British Virgin Islands/ Hong Kong	In the process of dissolution	10,000 shares of US$1 each	**30%**	30%
Shanghai Pudong International Container Terminals Limited	PRC	Operation of container terminal	RMB1,900,000,000	**20%**	–

Five-year Financial Summary

	For the year ended 31st December				
	2003 US$'000	2002 US$'000 (Restated)	2001 US$'000 (Restated)	2000 US$'000 (Restated)	1999 US$'000 (Restated)
Turnover	**257,495**	241,644	224,671	217,893	220,638
Operating profit after finance costs	**108,987**	91,562	98,684	81,479	83,384
Share of profits less losses of					
– jointly controlled entities	**6,711**	8,751	9,421	6,656	4,106
– associated companies	**64,915**	67,461	56,812	66,243	54,871
Profit before taxation	**180,613**	167,774	164,917	154,378	142,361
Taxation	**(24,424)**	(23,886)	(9,802)	(13,790)	(13,197)
Profit after taxation	**156,189**	143,888	155,115	140,588	129,164
Minority interests	**(1,858)**	(1,699)	(1,012)	(884)	(666)
Profit attributable to shareholders	**154,331**	142,189	154,103	139,704	128,498
Dividends	**87,568**	79,904	64,576	52,731	51,275
Basic earnings per share (US cents)	**7.19**	6.63	7.20	6.53	6.09
Dividends per share (US cents)	**4.08**	3.72	3.01	2.46	2.34

	As at 31st December				
	2003 US$'000	2002 US$'000 (Restated)	2001 US$'000 (Restated)	2000 US$'000 (Restated)	1999 US$'000 (Restated)
Total assets	**1,900,266**	1,743,797	1,729,580	1,556,890	1,629,651
Total liabilities	**(570,458)**	(482,435)	(544,258)	(470,908)	(631,629)
Minority interests	**(8,644)**	(8,314)	(7,511)	(7,250)	(6,877)
Net assets	**1,321,164**	1,253,048	1,177,811	1,078,732	991,145

Notes:

1 The consolidated results of the Group for the two years ended 31st December 2003 and the assets and liabilities of the Group as at 31st December 2003 have been extracted from the audited accounts of the Group as set out on pages 118 and 119 of the annual report.

2 The comparative figures of the results of the Group for the years ended 31st December 2002, 2001, 2000 and 1999 and the assets and liabilities of the Group as at 31st December 2002, 2001, 2000 and 1999 have been restated as a result of the adoption of the new Statement of Standard Accounting Practice 12 "Income taxes" issued by the Hong Kong Society of Accountants.

3 The Company was incorporated in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 26th July 1994.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong on Friday, 21st May 2004 at 2:30 p.m. for the following purposes:

1. To receive and consider the financial statements and the directors' and auditors' reports of the Company for the year ended 31st December 2003.

2. To declare a final dividend for the year ended 31st December 2003.

3. To re-elect the retiring directors and to fix the amount of remuneration of directors.

4. To re-appoint auditors and to authorise the directors to fix their remuneration.

5. To transact any other business.

By Order of the Board
HUNG Man
Company Secretary

Hong Kong, 25th March 2004

Principal place of business:
49th Floor, COSCO Tower,
183 Queen's Road Central,
Hong Kong.

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company but must be present in person to represent the member.

2. To be valid, the proxy form, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the principal place of business of the Company at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

3. The register of members of the Company will be closed from Tuesday, 18th May 2004 to Friday, 21st May 2004, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms with share certificates must be lodged with the Company's Hong Kong Registrar and Transfer Office, Secretaries Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 17th May 2004.

4. Where there are joint holders of any share in the Company, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

Broker Contact List

Company Name	Analyst	Telephone	Facsimile	e-mail address
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ICEA Securities Asia Ltd.	Silas CHU	2231 8000	2525 8473	schu@icea.com.hk
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Merrill Lynch (Asia Pacific) Ltd.	Grace MAK	2536 3888	2536 3435	grace_mak@ml.com
Morgan Stanley Dean Witter Asia Ltd.	Jim LAM	2848 5200	3407 5888	jim.lam@morganstanley.com
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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. WEI Jiafu *(Chairman)*
Mr. LIU Guoyuan *(Vice Chairman)*
Mr. ZHANG Fusheng
Mr. WANG Futian
Mr. GAO Weijie
Mr. CHEN Hongsheng
Mr. LI Jianhong
Mr. MA Zehua
Mr. MA Guichuan
Ms. SUN Yueying
Mr. LI Yunpeng
Mr. ZHOU Liancheng
Mr. SUN Jiakang *(Managing Director)*
Mr. XU Lirong
Mr. HE Jiale
Mr. LIANG Yanfeng
Mr. WONG Tin Yau, Kelvin
Mr. MENG Qinghui
Mr. LU Chenggang
Mr. QIN Fuyan

Independent Non-executive Directors

Dr. LI Kwok Po, David
Mr. LIU Lit Man
Mr. Alexander Reid HAMILTON
Mr. LEE Yip Wah, Peter

Non-executive Director

Mr. KWONG Che Keung, Gordon

COMPANY SECRETARY

Ms. HUNG Man, Michelle

AUDIT COMMITTEE

Mr. Alexander Reid HAMILTON
(Committee Chairman)
Dr. LI Kwok Po, David
Mr. LEE Yip Wah, Peter

PLACE OF INCORPORATION

Bermuda

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

49th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Hong Kong

SOLICITORS

Coudert Brothers
Holman, Fenwick & Willan
Linklaters
Woo, Kwan, Lee & Lo

PRINCIPAL BANKERS

ABN AMRO Bank N.V.
Bank of China (Hong Kong) Limited
ING Bank N.V.
Rabobank
The Hongkong and Shanghai Banking
Corporation Limited

PRINCIPAL REGISTRARS AND TRANSFER OFFICE IN BERMUDA

The Bank of Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Ordinary shares (Code: 1199)

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