"Prudent financial management has been a consistent principle at COSCO Pacific. Tight control is exercised over all operational and other expenses, to help improve efficiency. This has not only supported current operations, but provides a useful foundation for future development."

FINANCIAL REVIEW

Turnover

The Group's turnover during the year derived from the container leasing division, the Zhangjiagang Win Hanverky Terminal and the Plangreat Limited and its subsidiaries. Other operations were carried out either through associated companies, jointly controlled entities or other investees, the turnover of which is not included in the Group's turnover.

In 2000, COSCO Pacific's core businesses performed steadily. Turnover was US$217,893,000 (1999: US$220,638,000), declined slightly by 1.2% over a year ago.

The container leasing turnover dipped slightly by 1.4% to US$202,143,000. This is due to the decrease in rental income from COSCON which leased less containers during 2000. As at 31st December 2000, containers leased to COSCON was 303,978 TEUs (1999: 311,047 TEUs).

The Zhangjiagang Win Hanverky Terminal achieved a 20.9% throughput growth to 136,778 TEUs in 2000. The container terminal turnover was therefore increased by 14.7% to US$5,256,000.

Turnover of the container handling and storage business decreased by 4.1% to US$10,494,000 due to the decline of handling charges and increased competition in the market.

Cost of Sales and Gross Profit

Cost of sales mainly includes depreciation, depot rental and maintenance expenses, among which, depreciation of containers accounted for 81.2% of cost of sales (1999: 77.9%). The rise in cost of sales was due to the rise in depreciation of containers.

The fall in turnover and increase in cost of sales caused a decline in gross profit with the gross profit margin declining slightly to 59.6% (1999: 60.7%).

Operating Profit

During the year, the Group's operating profit was US$124,592,000 (1999: US$123,690,000), rising by only 0.7% compared with 1999.

The operating profit was mainly affected by the following factors in 2000:

> Net profit from the disposal of containers returned by COSCON upon expiry of 10-year leases decreased US$6,150,000. This fall was due to the decrease in disposal volume, the decline in disposal price and the high net book value of containers.

> The Group has made an additional provision of US$4,600,000 (1999: US$2,845,000) against the shareholders loans to River Trade Terminal.

BREAKDOWN OF TURNOVER	2000 (US$)	1999 (US$)	+/-
Container Leasing	202,143,000	205,115,000	-1.4%
Container Terminal Operations	5,256,000	4,581,000	+14.7%
Container Handling and Storage	10,494,000	10,942,000	-4.1%

> Higher interest income received during the year amounted to US$12,191,000 (1999: US$5,068,000).

> The dividend income from investments and other income also increased.

> The provision for bad and doubtful debts decreased.

Finance costs

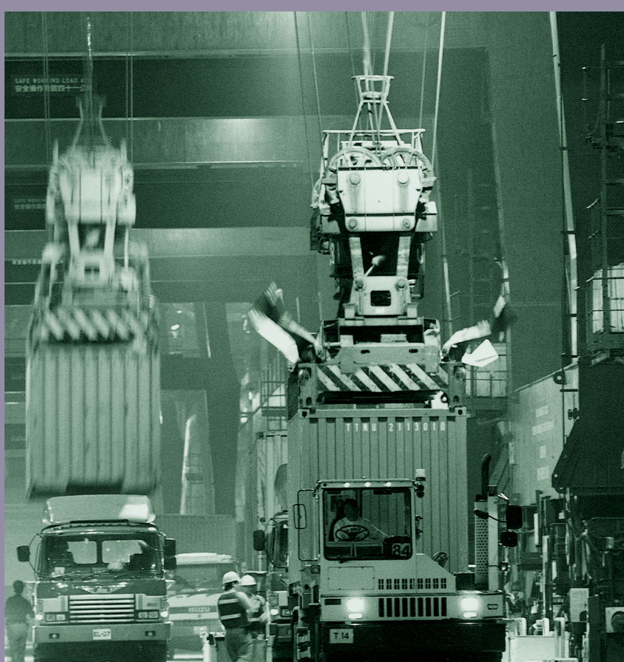
In 2000 interest expense increased by 2.7%. Despite the decrease in average loan balance, interest expense rose to US$38,082,000 mainly due to the increase in the London Interbank Offered Rate. The rise of other incidental borrowing costs was due to more facilities being arranged during 2000.

Share of Profits Less Losses from Jointly Controlled Entities and Associated Companies

Share of profits less losses of associated companies for the year was US$66,243,000 (1999: US$54,871,000), and that of jointly controlled entities was US$6,656,000 (1999: US$4,106,000). Profit contributions from these companies increased mainly due to satisfactory performances from the container terminal operations, Shanghai Yixian Road project and Liu Chong Hing Bank Limited.

Taxation

The increase in taxation mainly reflected the increased profit from the associated companies and the adjustment of deferred tax made by an associated company in 1999.



Profit attributable to shareholders

Despite the fall in profit from container leasing due to a decrease in rental, increase in container depreciation and drop in profit from disposal of returned containers, other operations including the container terminals and Liu Chong Hing Bank Limited and interest income achieved satisfactory growth. As a result, profit attributable to shareholders rose by 6.3% from a year ago to US$142,546,000.

Assets and Liabilities

As at 31st December 2000, total assets of the Group amounted to US$1,568,747,000, a decrease of 4.5% compared to US$1,642,051,000 a year ago. Total liabilities of the Group were US$497,937,000, a decline of 24.6% compared to US$660,393,000 in 1999.

The Group's net assets amounted to US$1,070,810,000, an increase of 9.1% over 1999. The increase mainly constituted profit retained for the year.

During the fourth quarter of 2000, the Group repaid bank borrowings amounted to US$98,735,000 in order to reduce the interest expenses. Total cash on hand as at 31st December 2000 decreased to US$145,607,000

BREAKDOWN OF PROFIT ATTRIBUTABLE TO SHAREHOLDERS BY ACTIVITIES	2000 (US$)	1999 (US$)	+/-
Container Leasing	75,578,000	84,887,000	-11.0%
Container Terminal Operations	49,544,000	41,825,000	+18.5%
Container Handling and Storage	2,729,000	2,535,000	+7.6%
Container-related Industries	2,685,000	1,657,000	+62.0%
Other Investments	12,871,000	9,287,000	+38.6%
Corporate Finance Costs	(853,000)	(2,514,000)	-66.1%
Net Corporate Expenses	(8,000)	(3,595,000)	-99.8%
Total	142,546,000	134,082,000	+6.3%

(1999: US$ 252,335,000). Total outstanding borrowings fell to US$423,645,000 (1999: US$560,787,000). Net debt-to-equity ratio improved to 26.0%, against 31.4% in 1999. Interest coverage was 5.1 times, against 4.8 times in 1999. These improvements have increased the Group's ability to finance its operations in a flexible manner.

As at 31st December 2000, the Group's bank deposit of US$3,855,000 (1999: US$1,303,000), together with containers and certain leasehold land and buildings in Hong Kong with an aggregate net book value of US$210,911,000 (1999: US$272,302,000) were pledged to banks for loan facilities of US$105,349,000 (1999: US$132,204,000).

Cash Flow

The cash flow of the Group remained strong. The Group's net cash inflow from operating activities was US$209,993,000 (1999: US$207,948,000). Capital expenditure totalled US$122,931,000 (1999: US$83,511,000), of which, US$116,290,000 was used to purchase new containers (1999: US$57,702,000). In addition, the Company has reserved part of the proceeds received from the issue of new shares in May 1999 to invest in container terminals in China Mainland. During the year, the Group borrowed US$85,185,000 (1999: US$144,454,000) and repaid US$222,319,000 (1999: US$218,003,000). As at 31st December 2000, the Group had cash on hand US$145,607,000 (1999: US$252,335,000).

Financing

The Group successfully raised an aggregate of US$340,000,000 (1999: US$142,000,000) in 2000 primarily through the following three major fund-raising exercises. The proceeds were used for the purchase of containers and as working capital.

Month	Amount (US$)	Duration	Type	Purpose
April	140 million	2 years	Commercial Paper	Mainly for the refinancing for commercial papers of US$130 million, due in May 2000
September	50 million	6 years	Syndicated Loan	For the purchase of containers
November	120 million	5 years	Syndicated Loan	For the purchase of containers and as working capital

During the year, the Group took advantages of its favourable conditions in the capital market to arrange fund raising activities with longer maturity and lower interest rates. These loan facilities also allowed the Group to get well prepared for the funding requirement in 2001. As at the end of the year, the Group had committed facilities of US$147,570,000 (1999: nil) available from banks, which will help to meet working capital and part of the capital expenditure requirements for 2001. The Group expects that major capital expenditure will amount to approximately US$201,468,000 in 2001 for the purchase of new containers and as investment in the Shanghai Waigaoqiao Container Terminal (Phase I).

As at 31st Decemeber 2000, short-term loans accounted for 32.9% of the Group's total debts. The Group's debt maturity profile was as follows:

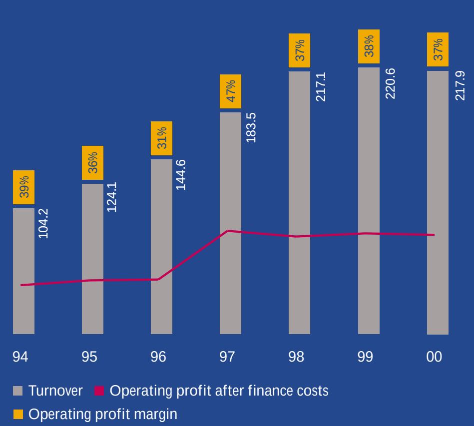
Debt Maturing in	Amount (US$)	% of Total Debt
2001	139,369,000	32.9%
2002	223,865,000	52.8%
2003	17,237,000	4.1%
2004	18,016,000	4.2%
2005 and after	25,158,000	6.0%
Total	423,645,000	100%

Use of Derivatives

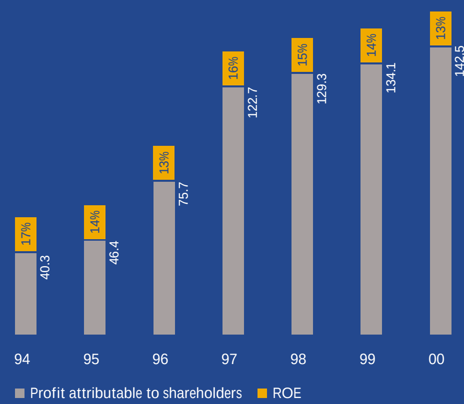
The majority of the Group's borrowings are denominated in U.S. Dollars and used primarily for container leasing, while revenues and expenses of which are mainly in U.S. Dollars. Hence the foreign exchange risk is very minimal.

The Group only uses derivatives for hedging purpose. As at 31st December 2000, the Group swapped US$54,600,000 (1999: US$89,350,000) floating rate borrowings to fixed rate borrowings through interest rate swap contracts. Moreover, the Group's fixed interest borrowings amounted to US$59,493,000 (1999: US$72,600,000).

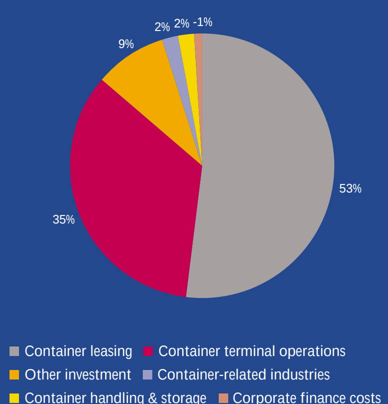
Turnover / Operating Profit Margin (US$ Million)



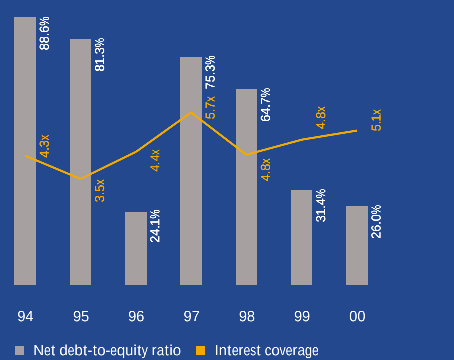
Net Profit vs Return on Equity (US$ Million)



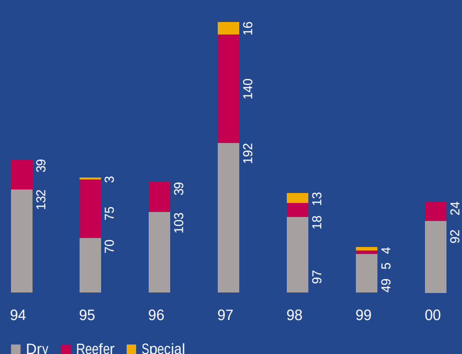
Breakdown of Profit Attributable to Shareholders by Activities (2000)



Net Debt-to-Equity Ratio (%) **vs Interest Coverage** (x)



Capital Expenditure on Containers (US$ Million)



Loan Maturity Analysis (US$ Million)