Management Discussion and Analysis

>> During the year, the global economic slowdown brought an unfavourable business environment. This inevitably affected the Group's core businesses, which experienced a setback in performance. However, by adopting stringent cost control, the Group was able to maintain steady performance in its overall results.

Financial Review

Turnover

Turnover for 2001 increased by 3.1% to US$224,671,000 (2000: US$217,893,000). The Group's turnover continued to derive from container leasing and container terminal and related businesses. Other operations carried out either through associated companies or jointly controlled entities, the turnover of which is not included in the Group's turnover.

Container leasing turnover rose 3.6% to US$209,343,000 (2000: US$202,143,000). Of the amount, US$135,959,000 (2000: US$136,766,000) was rental income received from COSCON, US$72,383,000 (2000: US$63,656,000) was rental income received from International Customers, and US$1,001,000 (2000: US$1,721,000) was hire purchase income. The increase in rental income from International Customers was due to higher leasing volume. As at 31st December 2001, containers available to International Customers amounted to 282,649 TEUs (2000: 224,004 TEUs).

As for the container terminal and related businesses, Zhangjiagang Win Hanverky Terminal achieved a throughput of 161,208 TEUs (2000: 136,778 TEUs), while its turnover rose by 8.8% to US$5,720,000 (2000: US$5,256,000). Turnover of Plangreat Limited and its subsidiaries from container stevedoring, container transport and storage, dropped 8.4% to US$9,608,000 (2000: US$10,494,000). The decline was due to decreased business volume.

Cost of Sales and Gross Profit

Cost of sales mainly includes depreciation, depot handling fees, maintenance costs and operating expenses. In 2001, cost of sales increased by 9.1% to US$95,395,000 (2000: US$87,453,000), of which depreciation rose 9.6% to US$78,733,000 (2000: US$71,827,000), reflecting mainly the growth in container fleet. Depot handling fees also increased to US$6,631,000 from US$3,564,000, whereas maintenance costs declined to US$1,801,000 from US$3,408,000 last year.

Gross profit margin for 2001 dropped to 57.5% (2000: 59.9%), which was due to increased competition in the container leasing market and the decline in the Group's container utilisation rate, from last year's 95.1% to 91.4%, caused by the global economic slowdown.

First row from left to right:

QIN Fuyan
Director (also Deputy General Manager of COSCO-HIT Terminals (Hong Kong) Limited)

WONG Tin Yau, Kelvin
Deputy Managing Director

SHI Qin
Managing Director

LU Chenggang
Director (also Chairman of Florens Container Services Company Limited)

Second row from left to right:

HUANG Kegong
Assistant to the General Manager

CHAN Hang, Ken
General Manager of the Corporate Development Department

WANG Zhi
Deputy General Manager

HUNG Man, Michelle
Legal Counsel and Company Secretary

QIU Jincheng
Managing Director of COSCO Container Services Limited

LI Wai Ho, Francis
Financial Controller

Other Revenues

Other revenues mainly included US$6,885,000 (2000: US$17,388,000) from the sale of Returned Containers, and US$5,178,000 (2000: US$12,191,000) of interest income. During the year, less Returned Containers were returned by COSCON compared to the year 2000, and therefore the disposal of Returned Containers fell to 12,151 TEUs (2000: 34,087 TEUs) resulting in the decline of resale revenue.

The fall in interest income was due to interest rate reductions during the year, and the smaller average amount of cash on hand in 2001 resulted from early repayment of bank loans at the end of 2000.

Administrative Expenses

Administrative expenses increased by 3.2% compared to 2000. Staff costs, office expenses and professional fees increased during the year, while travel expenses and depreciation decreased.

Other Operating Income / (Expenses) (Net)

This category recorded a net income of US$8,149,000 in 2001 against net expenses of US$16,144,000 in 2000, which was due to the following factors:

>> During the year, the Group took advantage of the rally in the China mainland stock market driven by liberalised government control and sold the entire 18,150,000 B shares of Shanghai Zhenhua. This generated a profit of US$14,137,000 (2000: US$Nil).

>> In 2001, the Group disposed of 12,151 TEUs (2000: 34,087 TEUs) of Returned Containers, which had a net book value of US$8,350,000 (2000: US$16,894,000).

>> Due to the adoption of new accounting standards effective in 2001, there were a reversal of provision for container repairs and maintenance expense, which amounted to US$6,156,000 (2000: US$Nil), and impairment losses of US$5,680,000 (2000: US$Nil) for certain containers and corporate properties.

>> The Group made a provision of US$3,450,000 (2000: US$4,600,000) against the shareholders' loan to River Trade Terminal.

Finance Costs

2001 saw the U.S. Federal Reserve cutting interest rates by 4.75 percentage point in 11 rounds at a row. Benefitted from the low interest rate environment, the Group's finance costs dropped significantly by 31.5% to US$29,524,000. Average interest cost was 5.35% for the year (2000: 7.47%).

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

Share of profits from jointly controlled entities for the year was US$9,421,000 (2000: US$6,656,000). All the six jointly controlled entities contributed higher profits to the Group, with Shanghai CIMC Reefer and Shanghai Kansai performed particularly well. Share of profits from associated companies decreased by 14.2% to US$56,812,000. Throughput at COSCO-HIT dropped by 7.8% from last year. However, with stringent cost control, the terminal recorded a smaller decline in profit contribution, which reflected its efficient operations. Throughput at Shanghai Terminals fell 11.5% and led to a decline in profit contribution. Liu Chong Hing Bank contributed a profit of US$9,007,000 (2000: US$15,390,000), a decline of 41.5%.

Taxation

The fall in taxation mainly reflected the decline in share of taxation attributable to two associated companies, COSCO-HIT and Liu Chong Hing Bank.

Profit Attributable to Shareholders

Profitable attributable to shareholders for the year reached a new high of US$154,340,000 (2000:US$142,546,000), an increase of 8.3%. Basic earnings per share amounted to US7.2081 cents (2000: US6.6634 cents).

Financial Position

Cash Flow

The cash flow of the Group remained strong. During the year, net cash inflow from operating activities amounted to US$207,558,000 (2000: US$209,463,000). Payment for capital expenditure on fixed assets totalled US$179,963,000 (2000: US$147,086,000), of which, US$175,377,000 (2000: US$143,460,000) was used to purchase new containers. The Group borrowed loans of US$231,197,000 (2000: US$85,185,000) and repaid loans of US$145,304,000 (2000: US$222,319,000). As at 31st December 2001, the Group had cash on hand of US$254,109,000 (2000: US$145,607,000). The increase in cash on hand was mainly due to early repayments for loans of US$98,735,000 in the fourth quarter of 2000. In addition, pending for the approval for Shanghai Waigaoqiao Terminal, the Group has reserved part of the proceeds from the issue of new shares in May 1999 for this project.

Assets and Liabilities

The Group continued to maintain a healthy balance sheet. As at 31st December 2001, total assets amounted to US$1,738,747,000 (2000: US$1,568,747,000), whereas total liabilities and minority interests amounted to US$538,453,000 (2000: US$467,768,000). Net assets amounted to US$1,200,294,000, an increase of 9.0% from the end of 2000. The increase was mainly the retained profit for the year.

Total cash on hand as at 31st December 2001 amounted to US$254,109,000 (2000: US$145,607,000). Total outstanding borrowings amounted to US$509,538,000 (2000: US$423,645,000). Net debt-to-equity ratio further improved to 21.3% (2000: 25.3%). With higher profit for the year, and lower interest expense due to interest rate cuts, interest coverage expanded to 7.9 times (2000: 5.1 times).

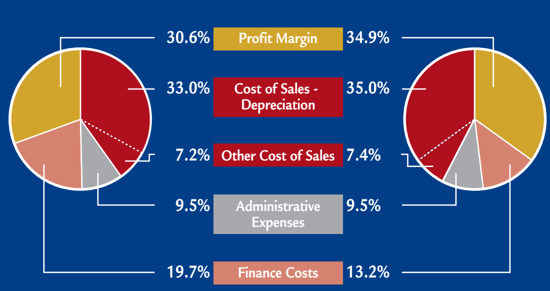
As at 31st December 2001, the Group's bank deposits of US$8,174,000 (2000: US$3,855,000), together with certain fixed assets with an aggregate net book value of US$253,778,000 (2000: US$210,911,000) were pledged to various banks and financial institutions for loans of US$162,532,000 (2000: US$105,349,000).

Contingent Liabilities

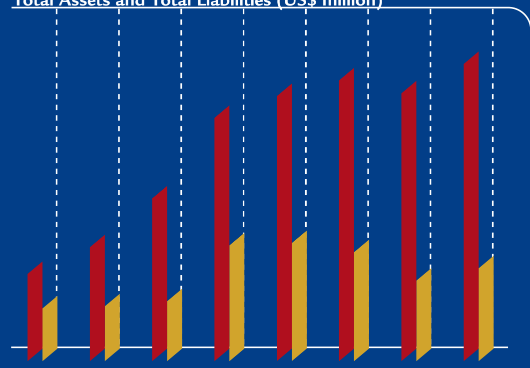
As at 31st December 2001, the Group granted guarantees of US$585,000 (2000: US$748,000) for securing the banking facilities of certain of its jointly controlled entities.

Depreciation and finance costs are the major operating costs of the Group.

Cost Analysis (Percentage of Turnover)



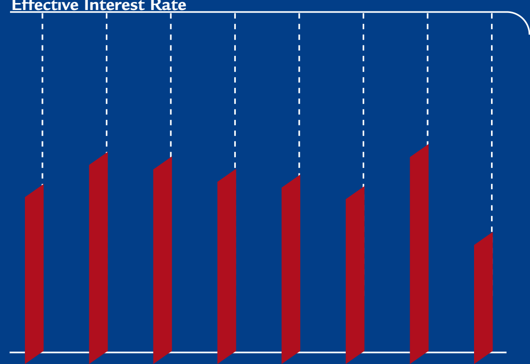
Total Assets and Total Liabilities (US$ million)



	94	95	96	97	98	99	00	01
Total Assets	540	666	947	1,427	1,555	1,642	1,569	1,739
Total Liabilities	306	311	350	673	688	631	468	538

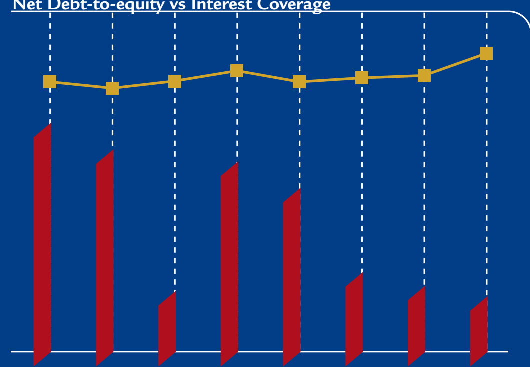
The level of interest in 2001 allowed the reduction of finance costs by US$13,589,000.

Effective Interest Rate



94	95	96	97	98	99	00	01
6.50%	7.28%	7.17%	6.87%	6.73%	6.45%	7.47%	5.35%

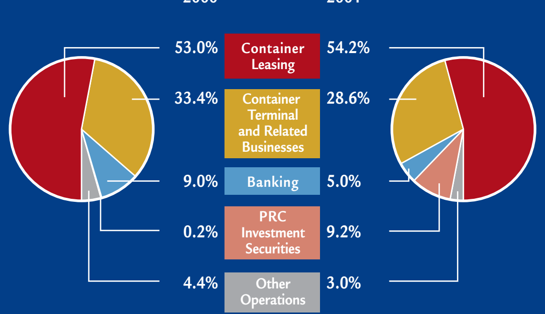
Net Debt-to-equity vs Interest Coverage



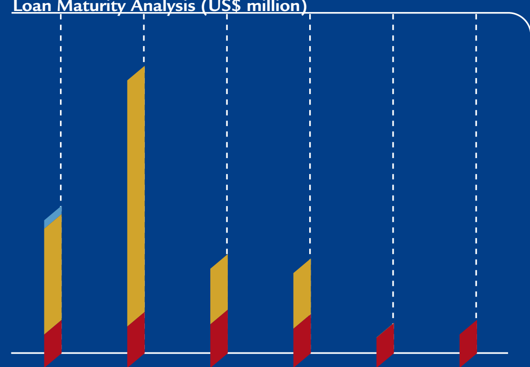
	94	95	96	97	98	99	00	01
Interest Coverage (x)	4.3	3.5	4.4	5.7	4.3	4.8	5.1	7.9
Net Debt-to-equity	87.6%	77.4%	23.3%	72.8%	62.7%	30.5%	25.3%	21.3%

Total profit contribution from leasing and terminal businesses has been always representing more than 80% of the total net profit. The Group will continue to focus on strengthening and expanding these two core businesses, especially on developing the terminal business.

Breakdown of Profit Attributable to Shareholders by Activities



Loan Maturity Analysis (US$ million)



	02	03	04	05	06	>06
Unsecured-revolver	6.2	–	–	–	–	–
Unsecured	77.8	180.9	40.9	40.9	0.2	–
Secured	24.5	30.4	32.1	28.8	22.2	24.6
Total	108.5	211.3	73.0	69.7	22.4	24.6

Financial Management

During the year, the Group completed financing arrangements for US$261,440,000 (2000: US$339,756,000), of which, US$160,476,000 (2000: US$205,000,000) was refinancing and the balance was for capital expenditure and as working capital.

The Group signed an agreement in April 2001 for a syndicated loan to finance its purchase of containers in 2001 and in the first half of 2002. The 6-year US$100,000,000 secured facility was well received. 19 banks joined the syndicate with a total subscription of over two times, reflecting the confidence and support of the banking community to the Group.

In order to further reduce borrowing costs and prepare for the loans maturing in 2002, the Group signed a 2-year agreement with another syndicate in December 2001 for refinancing the US$140,000,000 commercial paper facility maturing in May 2002. The facility was also well received by the banks and was completed in two months.

As at 31st December 2001, excluding the US$140,000,000 commercial paper facility, the Group had an aggregate amount of US$37,800,000 (2000: US$147,570,000) in committed facilities available from banks. This, together with the Group's cash on hand of US$254,109,000 (2000: US$145,607,000) and the expected cash inflow from operations in 2002, will provide adequate funds for repaying the loans maturing in 2002 and for financing most of the planned capital expenditure.

As at 31st December 2001, the Group's debt maturity profile for the next five years is as follows:

	2001		2000
Debts maturing	**Amount (US$)**	**%**	%
Within the first year	**108,481,000**	**21.3**	32.9
Within the second year	**211,330,000**	**41.5**	52.8
Within the third year	**72,987,000**	**14.3**	4.1
Within the fourth year	**69,763,000**	**13.7**	4.2
Within the fifth year and after	**46,977,000**	**9.2**	6.0
Total	**509,538,000**	**100.0**	100.0

The debts comprised:

	2001		2000
	Amount (US$)	**%**	%
Secured loans	**162,532,000**	**31.9**	24.9
Unsecured loans	**347,006,000**	**68.1**	75.1
	509,538,000	**100.0**	100.0

Analysis of the Group's borrowings by denominated currency as at 31st December 2001 is as follows:

	2001		2000
	Amount (US$)	**%**	%
U.S. Dollar	**495,470,000**	**97.2**	96.3
RMB	**14,068,000**	**2.8**	3.7
	509,538,000	**100.0**	100.0

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

The Group only uses derivatives for hedging purpose. As at 31st December 2001, the Group swapped US$19,825,000 (2000: US$54,600,000) floating rate borrowings to fixed rate borrowings through interest rate swap contracts. Excluding this, the Group's fixed interest borrowings amounted to US$45,671,000 (2000: US$59,493,000).

As interest rates have been dropping since early 2001, the Group has taken into account the lower interest rate risk and reduced fixed interest borrowings accordingly. The Group will take advantage of the current low interest rate environment to enter into interest rate swap contracts to reduce the risks of interest rate rises.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