

**Container leasing** The global container leasing industry experienced a year of challenges as well as opportunities in 2002. After a slow start at the beginning of the year, which followed the severe market downturn coming along with the impact from 9.11 terrorists attack in the U.S.A., the container leasing companies have since been kept quite busy because of improving situation of the global economic trade growth. Focusing on our profitability and building our presence in the market, we have been constantly evaluating our customer services so as to cope with the changing patterns of economy, trade, leasing industry and most importantly our customer needs. During the year, we did excellent jobs in marketing and achieved satisfactory operating performances.

**LU Chenggang**<sup>1</sup>

Executive Director, Deputy  
Managing Director (also the  
Chairman of Florens Container  
Services Company Limited (“FCS”))

**Tony KWOK**<sup>2</sup>

CEO of FCS

**WANG Ye**<sup>3</sup>

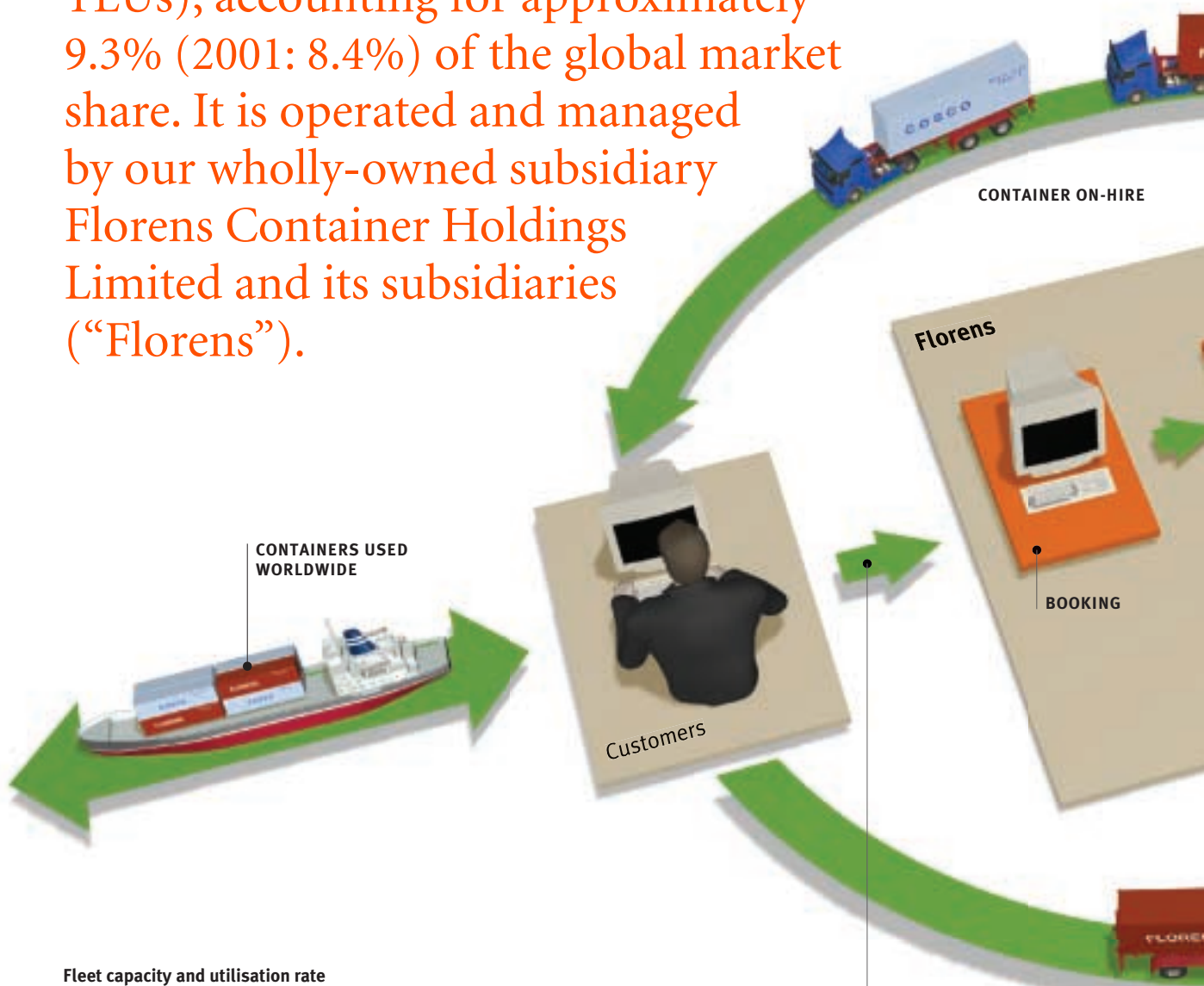
Vice President of FCS

**DING Weiming**<sup>4</sup>

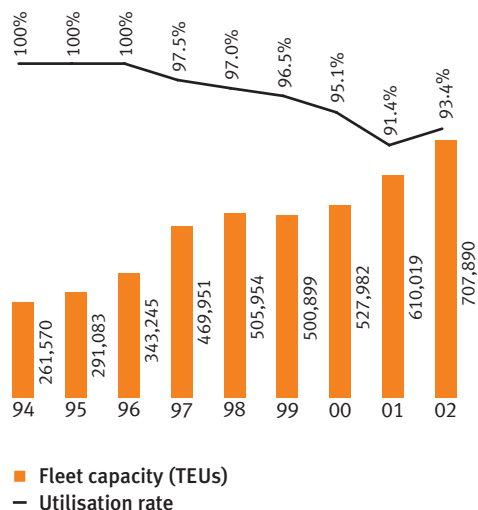
Financial Controller  
of FCS



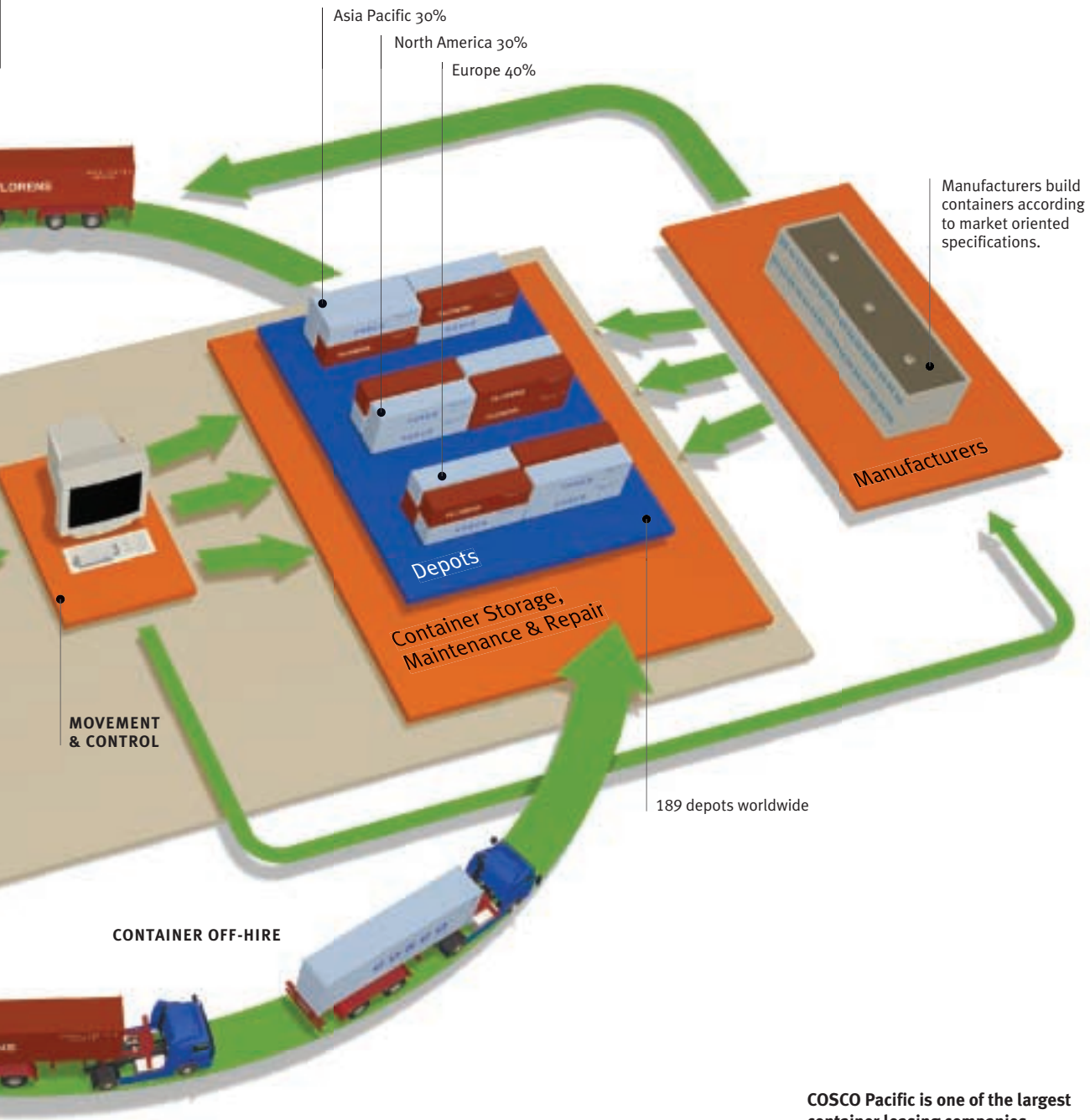
**Container leasing** COSCO Pacific owns the world's fifth largest container leasing company, with a fleet size of 707,890 TEUs as at 31st December 2002 (2001: 610,019 TEUs), accounting for approximately 9.3% (2001: 8.4%) of the global market share. It is operated and managed by our wholly-owned subsidiary Florens Container Holdings Limited and its subsidiaries ("Florens").



**Fleet capacity and utilisation rate**



- CUSTOMER CONTACT**
- Long Term Lease
  - Master Lease
  - Finance Lease



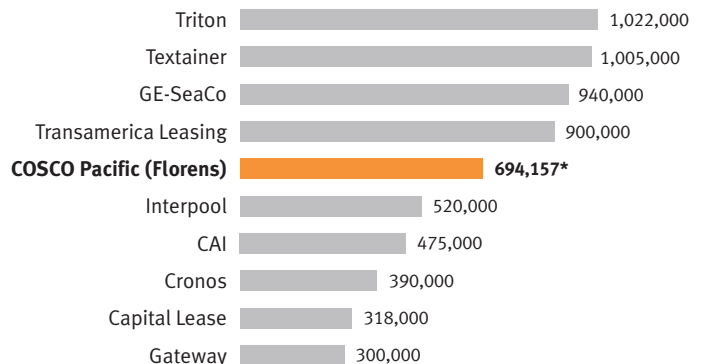
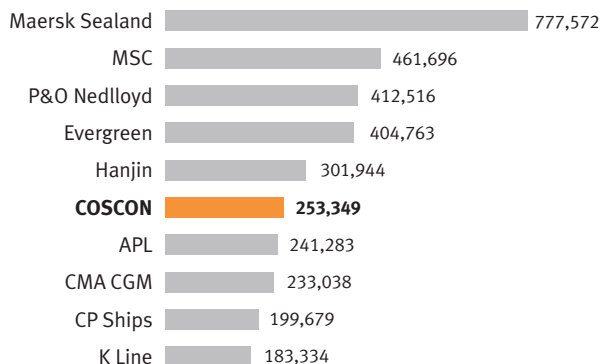
**COSCO Pacific's major customer  
COSCON – the world's sixth largest  
container shipping company (TEUs)**

\* Source: Containerisation International as of January 2003

**COSCO Pacific is one of the largest  
container leasing companies**

(excluding equipment under finance lease)  
\*COSCO Pacific total fleet capacity of 707,890 TEUs  
including finance lease

Source: Containerisation International as of January 2003



# Container leasing review

## EXPANDING CUSTOMERS BASE

COSCO Container Lines Company Limited (“COSCON”), the world’s 6th largest container ship operator, is the major customer of COSCO Pacific. The Group has been providing mainly 10-year container leasing services to COSCON. The Group also provides both long term and short term container leasing services for other international customers (“International Customers”). The total number of customers was 176 (2001: 155).

## CONTAINER LEASING REVENUE

The Group’s container leasing business made solid progress during 2002. Turnover rose by 7.5% to US\$225,004,000 (2001: US\$209,343,000). Profit after tax was US\$85,720,000 (2001: US\$83,618,000), accounting for 55.5% (2001: 54.2%) of the Group’s profit attributable to shareholders.

Rental income from COSCON was US\$136,110,000 (2001: US\$135,959,000), accounting for 60.6% (2001: 65.3%) of the Group’s container rental income. The rental income from International Customers was US\$88,330,000 (2001: US\$72,383,000), accounting for 39.4% (2001: 34.7%) of the Group’s container rental income, of which long term leases contributed US\$49,158,000 (2001: US\$40,454,000) and short term leases contributed US\$39,172,000 (2001: US\$31,929,000). The increase in rental income from International Customers was due to higher leasing volume.

As at 31st December 2002, the Group leased a total of 329,028 TEUs of containers (2001: 327,370 TEUs) to COSCON, which represented 46.5% (2001: 53.7%) of the Group’s total container fleet. Containers available to International Customers rose significantly to 378,862 TEUs (2001: 282,649 TEUs), representing 53.5% (2001: 46.3%) of the total container fleet.

## CONTAINER FLEET ANALYSIS

During the year, the Group’s container fleet increased by 16.0% to 707,890 TEUs, with an average container age of 4.4 years (2001: 4.3 years). New containers were acquired while the Group sold or re-leased containers returned by COSCON upon expiry of their leases (“Returned Containers”).

TEUs	2002	2001
Total containers (as at 1st January)	610,019	527,982
New containers purchased	119,466	96,953
Returned Containers from COSCON		
Total	(14,334)	(20,642)
Re-leased	695	9,000
Disposed of and pending for disposal	(13,639)	(11,642)
Ownership transferred to customers upon expiry of finance leases	(5,178)	(595)
Defective containers written off	(2,778)	(2,679)
Total containers (as at 31st December)	707,890*	610,019

\* Including 5,218 TEUs (2001: Nil) of containers managed on behalf of a third party

## CONTAINER FLEET ANALYSIS BY TYPE (BASED ON TEUs)

	Total	COSCON	Int'l Customers
<b>31st December 2002</b>			
Total containers (TEUs)	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%
<b>31st December 2001</b>			
Total containers (TEUs)	610,019	327,370	282,649
Dry	92.0%	91.4%	92.8%
Reefer	5.8%	7.5%	3.7%
Special	2.2%	1.1%	3.5%

## UTILISATION RATES

The overall annual average utilisation reached 93.4% (2001: 91.4%), well above the industry average of about 83% (2001: 75%), while containers leased to COSCON remained 100% utilised. While capturing opportunities of the improving market and providing customers with quality services that turn in trust that they placed in us, we successfully expanded our market share and achieved a higher utilisation rate during the year.

## HANDLING OF RETURNED CONTAINERS

In 2002, a total of 14,334 TEUs of Returned Containers was received from COSCON. The Group disposed of 15,710 TEUs of Returned Containers during the year, which included those returned by COSCON in 2002 and balance of remain unsold containers in 2001. The disposal recorded a net loss of US\$4,384,000 (2001: US\$2,476,000). The loss was due to the high net book value of the Returned Containers and a decline in disposal price.

In 2003, the Group expects to receive Returned Containers of about 27,504 TEUs from COSCON. The Group will continue to dispose of or re-lease the remaining Returned Containers.

## ENHANCEMENT OF CUSTOMER SERVICE

The Group has invested to serve our customers by providing reliable, comprehensive and value-added quality services. We dedicate to maintaining sufficient availability of container boxes supply and to enhancing functioning of on-line container leasing services. Operating in an increasingly competitive market, we recognise the importance to communicate with customers. We provide intensive training for our staff with the latest techniques and communication skills of our e-leasing platform.

## RISK MANAGEMENT

In order to protect the shareholders' interests, the Group implements a set of principles of risk management to evaluate customers' credit. We manage to focus our customer target on well-established shipping companies, especially those among the top 20 in the world. We did manage quite well. As at the end of 2002, 72.1% of the International Customers' container leasing rental income came from our top 20 customers, among which, 13 of those customers are within the top 20 global shipping companies.

We also manage to limit our risks by providing more long term leasing services. The advantages are that we could maintain a higher utilisation rate and reduce the cyclical market risks. As at the end of 2002, 60.6% of the total rental income came from COSCON long term leases and 21.9% of it from International Customers' long term leases, while the remaining 17.5% from short term leases.

## CONTAINER LEASING MARKET OUTLOOK IN 2003

It is expected that the container leasing market of 2003 should not be worse than 2002. The global economy and trades are expected to record higher growth in 2003 than in 2002. However, as there are still many unpredictable factors including the war between the USA and Iraq and potential conflicts in Middle East regions, the rising oil prices, South America financial crisis, the falling down of American consumer sentiment, the slowdown of economic recovery in Euro regions and Japan, all of these uncertainties may cause unpredictable impacts to the container leasing market.