



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").

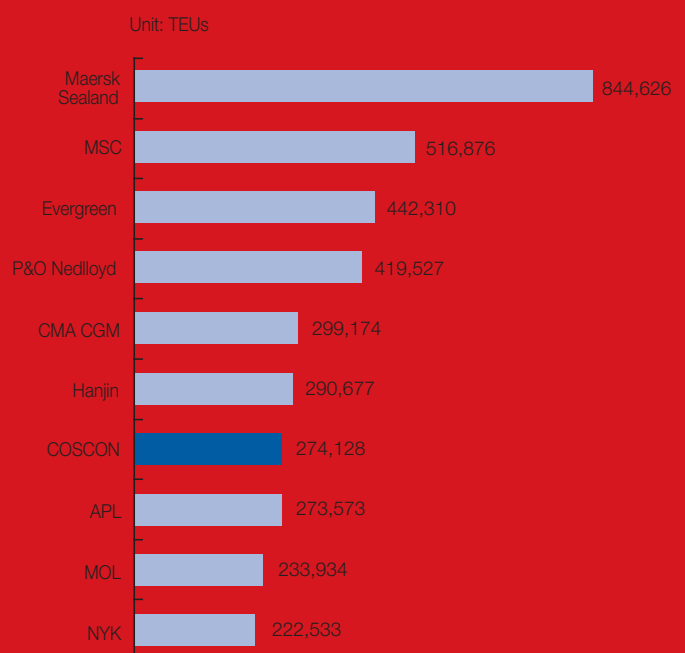
Top ten container leasing companies in the world in 2003



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 Used Worldwide

Containers On-hire

Containers Off-hire



Customer Contact

- Long term Lease
- Master Lease
- Finance Lease

Florens



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.





Depots

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

Manufacturers

- Manufacture containers according to specifications



Container Management

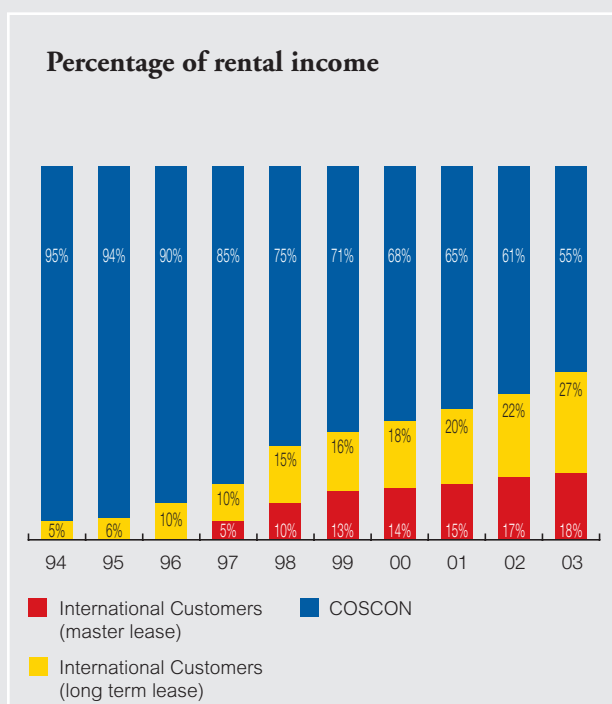
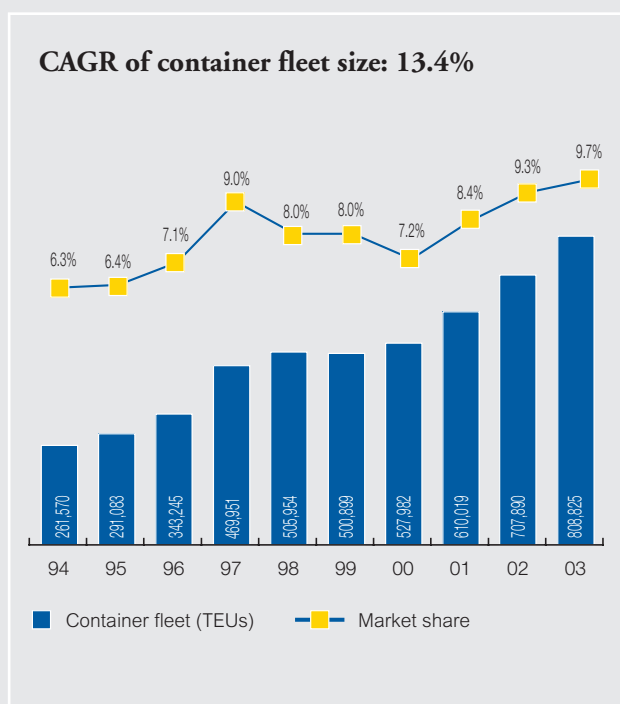
In 2003, Florens secured supports of its target customer group by solidifying its efforts in market expansion and enhancing customer relationship. In line with customer demands, new containers of 142,218 TEUs (2002: 119,466 TEUs) were ordered and purchased during the year, accounting for approximately 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.



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	International	
		COSCON	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	International	
		COSCON	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

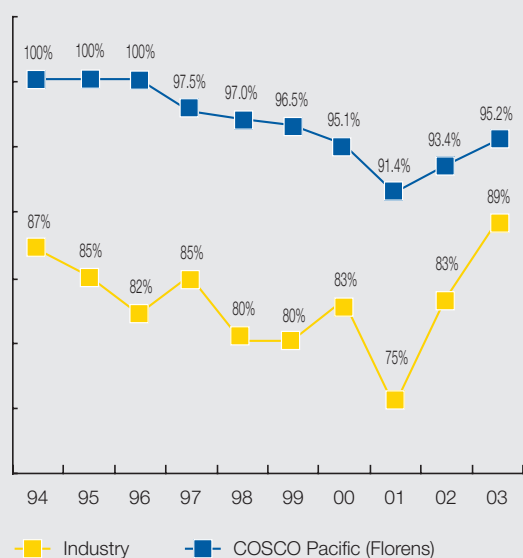
Overall annual average utilisation rate of Florens further increased to 95.2% (2002: 93.4%), well above the industry average of about 89% (2002: 83%), while containers leased to COSCON remained 100% utilised. The increase was primarily attributable to market improvement and Florens' enhanced marketing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

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.

Utilisation rate above industry average



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.