

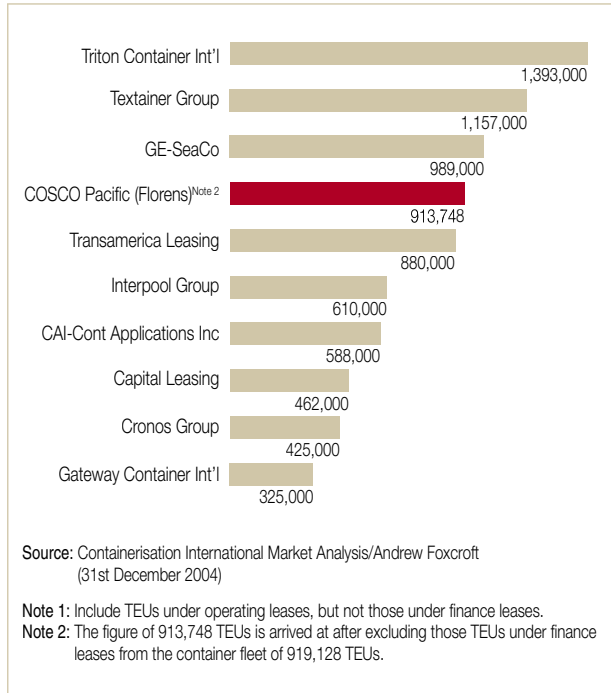
Container leasing

Review of the container leasing market In 2004, benefiting from the recovery of the global economy, the container leasing market continued to improve. By keeping its business development abreast of the times, the Group made great efforts to expand market reach and capture business opportunities through in-depth analysis of the market trends and changes as well as ongoing enhancement of services. Despite fierce competition, the market share of the Group has been on the rise, thereby enhancing its ranking to become the fourth largest container leasing company in the world during the year. This has reinforced the Group's leadership in the container leasing industry.

Driven by the global economic upturn and the ongoing economic growth in China mainland, 2004 saw thriving growth in global trade, a higher level of additional fleet capacity among the shipping liners, and a strong demand for containers, which was favourable to the development of the container leasing industry. Rental rates of the container leasing industry rose in tandem with the container prices during the year as a result of surge of steel price and the increase in market demand.

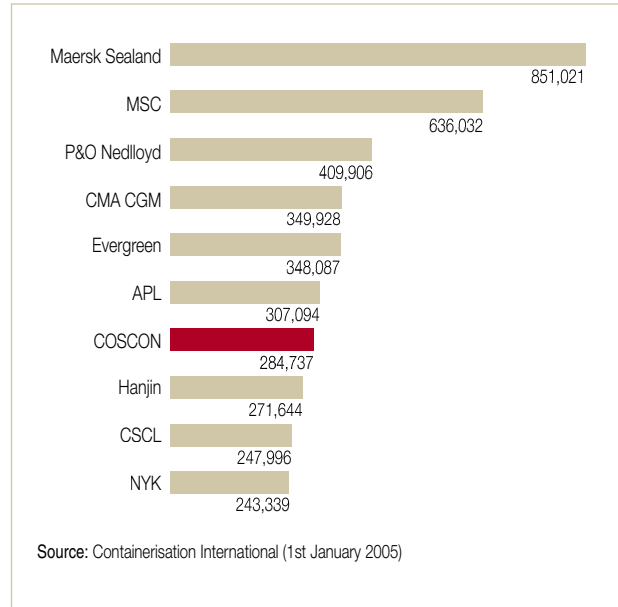
Top ten container leasing companies in 2004^{Note 1}

Unit: TEUs

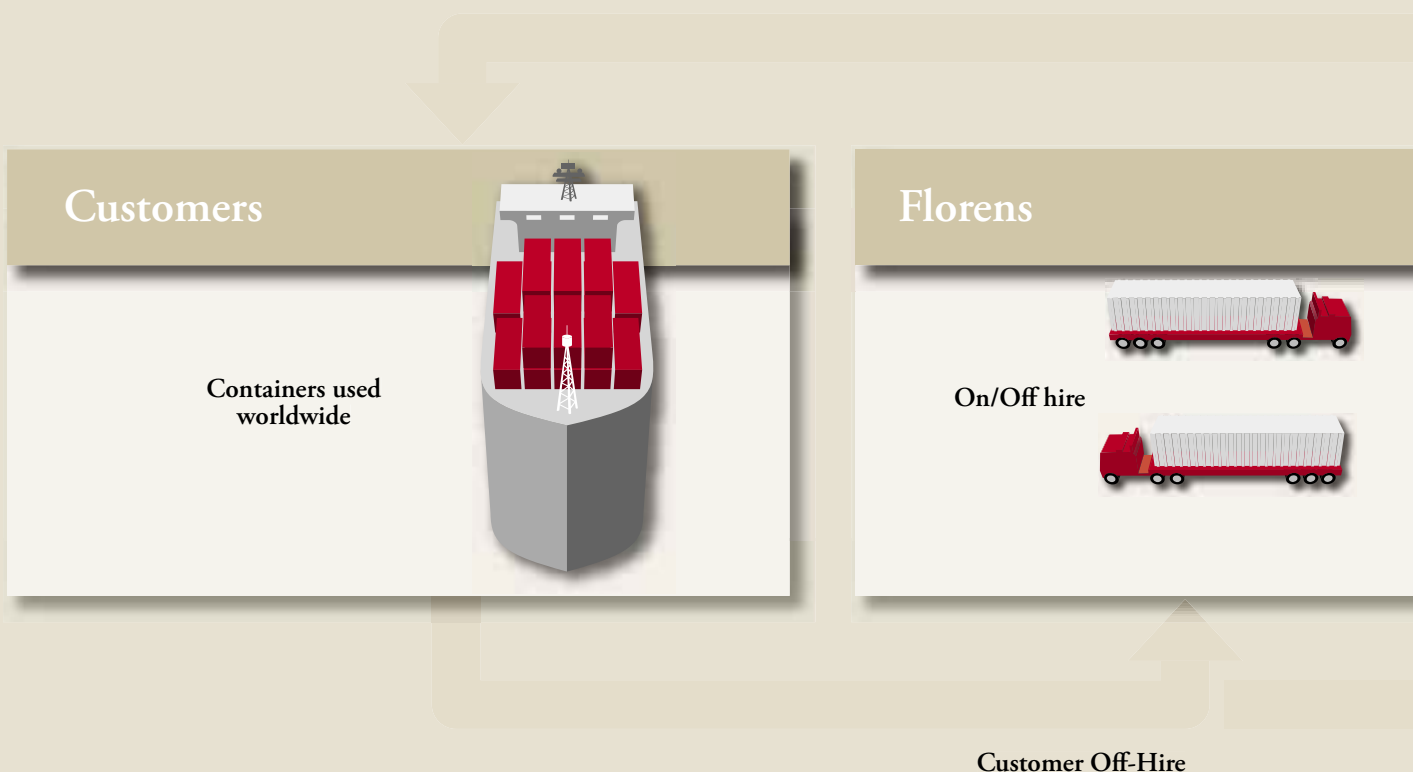


Top ten container shipping companies in 2004

Unit: TEUs



Container leasing

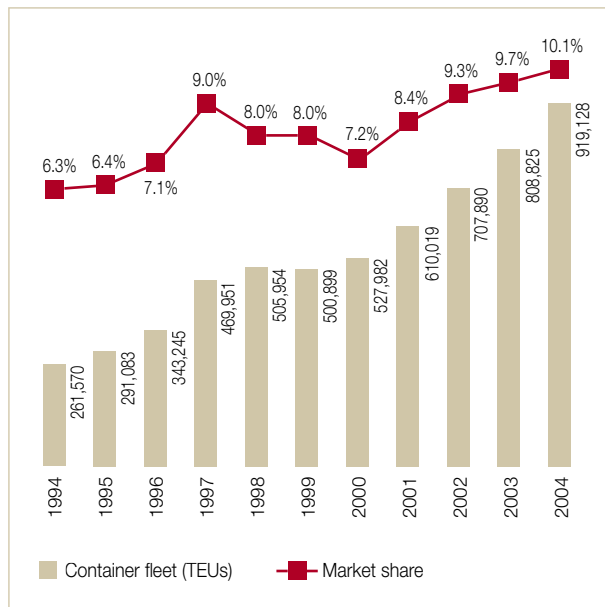


In 2004, Florens secured support from its target customer group by solidifying its efforts in market expansion and enhancing customer relationship. In line with customer demand, new containers of 155,526 TEUs (2003:142,218TEUs) were added during the year, accounting for approximately 13.0% of the new production of the container leasing industry in 2004 (2003: 12.9%). As at 31st December 2004, Florens had a container fleet of 919,128 TEUs (2003: 808,825 TEUs) after deducting 5,380 TEUs under finance leases (2003: 4,997 TEUs), accounting for approximately 10.1% (2003: 9.7%) of the global market share and an increase of 0.4 percentage points year-on-year.

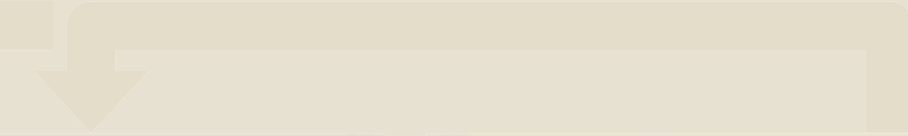
Expansion of customer base

Florens principally provides 10-year container leasing services to COSCON, the PRC's largest and the world's seventh largest container liner operator, and both long term and master lease container leasing services to other international customers ("International Customers"). As at 31st December 2004, the total number of customers was 218 (2003: 202 customers).

Compound annual growth rate of container fleet: 13.4%



Customer On-Hire



Movement & Control

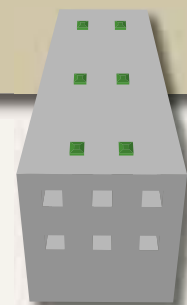


Vendors

192 depots worldwide



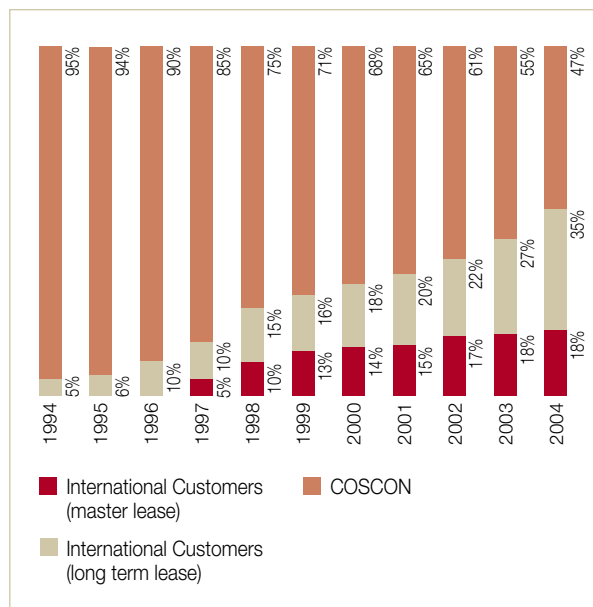
Manufacturers



Manufacturers build containers according to market demand



Analysis of rental income



Revenue of the container leasing business

The container leasing and related businesses made solid progress in 2004. Its turnover rose by 7.2% to US\$257,046,000 (2003: US\$239,689,000).

The container rental income from COSCON was US\$120,805,000 (2003: US\$130,567,000), accounting for 47.2% (2003: 54.6%) of Florens' container rental income. The container rental income from International Customers was US\$135,116,000 (2003: US\$108,479,000), representing 52.8% (2003: 45.4%) of Florens' container rental income, of which long term and master lease rentals were US\$88,010,000 (2003: US\$64,873,000) and US\$47,106,000 (2003: US\$43,606,000) respectively. The increase in rental income from International Customers was due to higher leasing volume.

As at 31st December 2004, Florens leased a total of 327,845 TEUs (2003: 310,444 TEUs) to COSCON, representing 35.7% (2003: 38.4%) of Florens' container fleet. Containers available to International Customers rose to 591,283 TEUs (2003: 498,381 TEUs), representing 64.3% (2003: 61.6%) of its total container fleet, of which long term and master leases accounted for 436,733 TEUs (2003: 326,608 TEUs) and 128,814 TEUs (2003: 121,959 TEUs) respectively.

Container fleet analysis

In 2004, container fleet increased by 13.6% to 919,128 TEUs (2003: 808,825 TEUs), with an average age of 4.3 years (2003: 4.3 years). During the year, Florens acquired new containers and sold or re-leased containers returned by COSCON upon expiry of their leases ("Returned Containers").

Container fleet movement (TEUs)	2004	2003
Total number of containers (as at 1st January)	808,825	707,890
New containers acquired	155,526	142,218
Returned Containers from COSCON		
Total	(38,055)	(27,729)
Re-leased	2,436	3,943
Disposed of and pending for disposal	(35,619)	(23,786)
Ownership transferred to customers upon expiry of finance leases	(508)	(12,779)
Defective containers written off	(259)	(503)
Total loss of containers declared and compensated by customers	(8,837)	(4,215)
Total number of containers (as at 31st December)	919,128*	808,825*

* Including 23,639 TEUs (2003: 16,680 TEUs) managed on behalf of a third party.

Container fleet analysis by type (TEUs)

31st December 2004	Total	COSCON	International Customers
Total number of containers	919,128	327,845	591,283
Dry	94.7%	92.0%	96.3%
Reefer	4.0%	7.4%	2.1%
Special	1.3%	0.6%	1.6%

31st December 2003	Total	COSCON	International Customers
Total number of 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%

Utilisation rates

During the year, the overall annual average utilisation rate of Florens rose to 97.0% (2003: 95.2%), above the industry average of around 92.0% (2003: 89.0%), while the utilisation rate for those containers leased to COSCON remained at 100%. The increase was primarily attributable to a strong demand driven by continued market improvement, as well as Florens' enhanced marketing efforts to capture market opportunities and improve customer service quality, which proved effective in securing the support from customers.

Handling of Returned Containers

Florens stepped up its efforts in handling Returned Containers. For the year ended 31st December 2004, a total of 38,055 TEUs (2003: 27,729 TEUs) of Returned Containers were received from COSCON and 39,488 TEUs (2003: 23,619 TEUs) (including certain Returned Containers received before 2004) were disposed of. Benefiting from the robust market demands, prices for new containers were on the rise while selling prices for Returned Containers were also higher. Net loss on disposal of the Returned Containers decreased significantly to US\$1,635,000 (2003: US\$4,349,000). The Group succeeded in mitigating the risks associated with the handling of Returned Containers by achieving solid results in the re-leasing market through enhanced efforts, alongside with the disposal of Returned Containers.

Risk management

During the year, Florens did not have any additional customer with credit problems. Besides, insurance policies for its container fleet were successfully renewed in November 2004. Owing to Florens' good record in risk management in recent years, there was no increase in insurance premium.

At the same time, the management of Florens strengthened the management of its overseas entities by exercising stringent risk control measures. Actions were taken successfully to fulfil the duties and functions of the risk management departments to the fullest extent and to strengthen risk awareness and responsibilities of marketing staff, as improvement was made in the supervision and management of their financial matters. In addition, Florens further enhanced various codes of practices and work procedures to facilitate better management.

Container leasing market outlook

As the trend of containerisation continues to spread rapidly, the outlook for the container leasing market remains optimistic. The container leasing market benefited from the fast growth of additional fleet capacity in container shipping and the enormous demand for containers. The Group will continue to pursue rapid and yet prudent development strategies to cope with the market demands.

Utilisation rate above industry average

