Management discussion and analysis

Results analysis

Overall analysis of results

Turnover of the Group for 2004 rose by 6.9% over last year to US$275,296,000 (2003: US$257,495,000). Profit attributable to shareholders was US$206,292,000, up 33.7% over US$154,331,000 for 2003. Basic earnings per share were US9.55 cents (2003: US7.19 cents). The significant increase of profit attributable to shareholders for the year was mainly attributed to satisfactory results attained by the Group's container leasing and container terminal businesses with the benefit of a continuously robust shipping market and thriving import and export trade in China mainland. Furthermore, most of the acquisitions and joint venture projects in terminals or logistics businesses entered into in the past two years generated profits in the year.

In the year, the Group sought to boost shareholders' return by increasing borrowings to finance the Group's capital expenditure which increased the return on shareholders' equity and total assets to 14.8% and 10.0% respectively (2003: 12.0% and 8.5% respectively). The Group was in a good financial position with a balanced investment return and liabilities.

Financial analysis

Turnover

Increase in turnover for 2004 mainly came from container leasing and related businesses which turnover was US$257,046,000 (2003: US$239,689,000), rose by 7.2%. Rental income from COSCON was US$120,805,000 (2003: US$130,567,000). As at 31st December 2004, the number of containers leased by COSCON was 327,845 TEUs (2003: 310,444 TEUs). Rental income from other International Customers was US$135,116,000 (2003: US$108,479,000). As the shipping market had great demand for containers in the year, average utilisation rate rose. Additionally, the Group further developed its market and actively expanded the number of its containers for International Customers to 591,283 TEUs (2003: 498,381 TEUs). Rental income from International Customers surged significantly by 24.6%. Interest income from finance leases increased by 18.4% to US$573,000 (2003: US$484,000), and income from container management was US$207,000 (2003: US$99,000), a surge of 109.1%. The full year income from the leasing of generator sets, a new activity launched in 2003 in response to market demands, was US$345,000 (2003: US$60,000).

By exploring domestic cargo, annual throughput at Zhangjiagang Win Hanverky Terminal grew by 32.7% to 328,199 TEUs (2003: 247,306 TEUs), whereas its turnover rose to US$11,050,000 (2003: US$9,045,000).

Plangreat Limited and its subsidiaries despite the slight increase in the wharf operation, there were different degrees of decrease in container storage and drayage at the depots. In 2004, the turnover amounted to US$7,200,000 (2003: US$8,761,000).

Cost of sales

Cost of sales grew slightly by 0.2% to US$112,639,000 in the year (2003: US$112,417,000), mainly comprised of depreciation, depot rental, maintenance and operating expenses. During the year, utilisation rate of containers continued to grow and the related depot rental expenses, lifting and repositioning charges dropped significantly by US$6,469,000. As the container fleet grew, depreciation increased to US$100,066,000 (2003: US$93,050,000), accounting for 88.8% (2003: 82.8%) of the cost of sales.

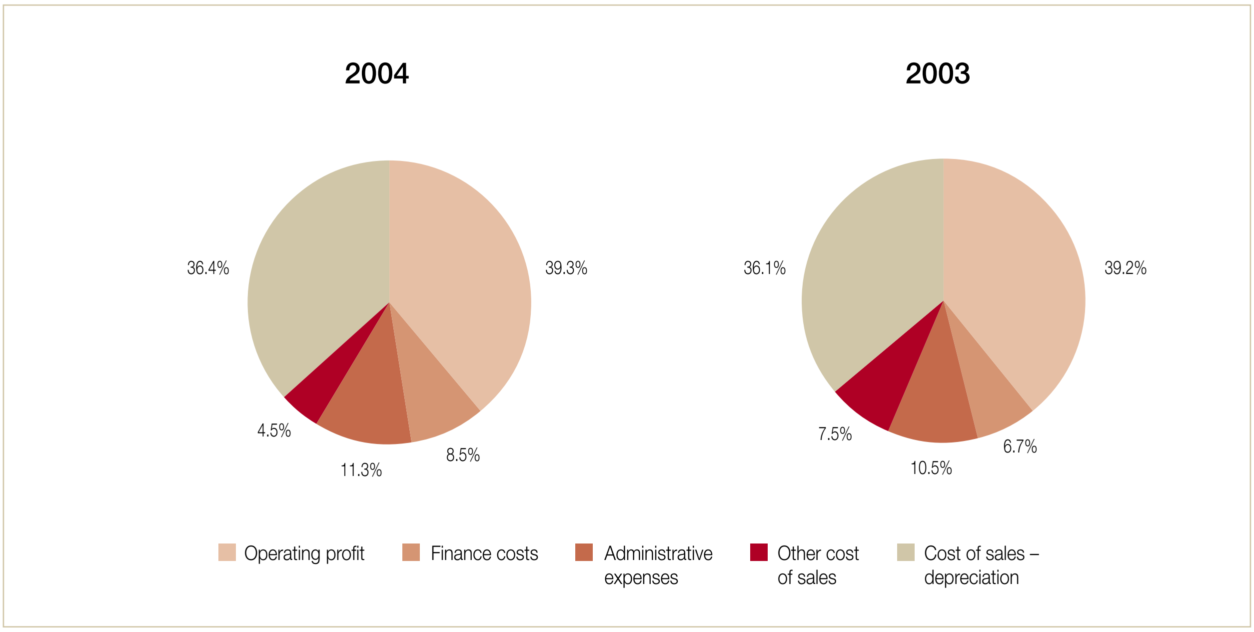
Other revenues

Other revenues increased by US$15,728,000 to US$49,307,000 (2003: US$33,579,000) in the year. It was mainly attributable to the increase in sales of Returned Containers from COSCON. During the year, 39,488 TEUs (2003: 23,619 TEUs) were sold, generating revenues of US$24,709,000 (2003: US$10,762,000). Yantian International Terminals declared a dividend of US$15,009,000 for 2004 (2003: US$14,483,000). Shekou Terminals declared a dividend of US$5,668,000 for 2004 (2003: US$5,754,000) and paid an additional dividend of US$398,000 for 2003. Interest income in 2004 was US$3,286,000 (2003: US$2,343,000).

Administrative expenses

Administrative expenses increased by 15.3% over 2003. During the year, human resources, professional consultation and traveling expenses increased as the Group continued to beef up its marketing and new projects development.

Cost analysis (expressed as percentage of turnover)



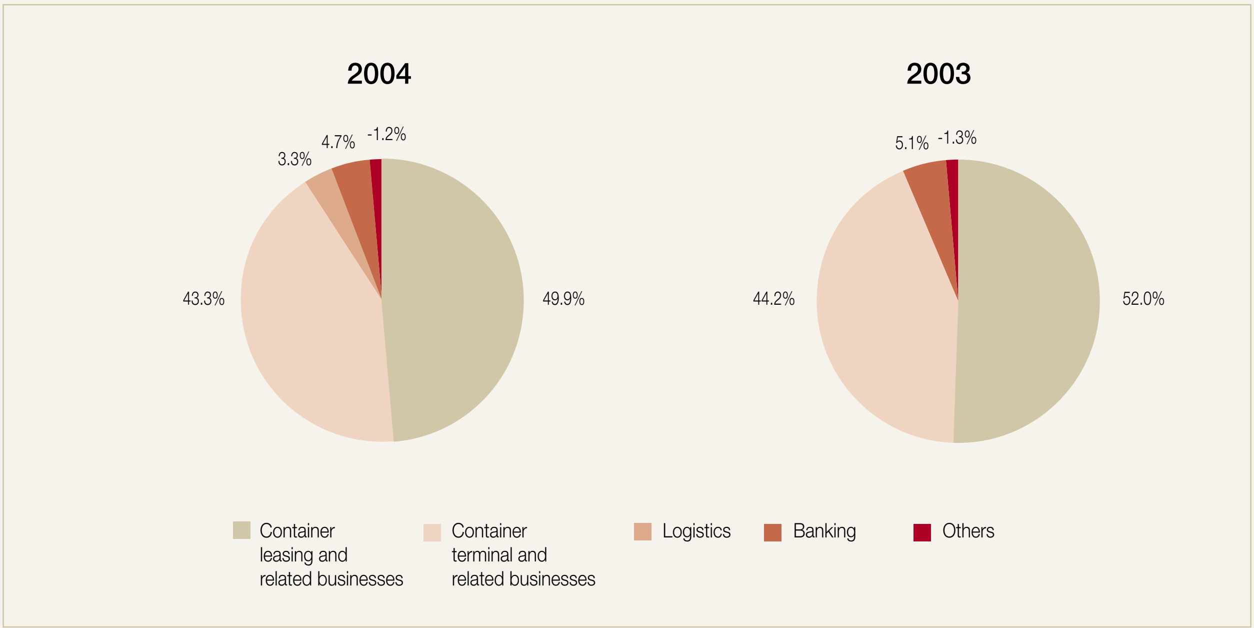
Other operating expenses (net)

Other net operating expenses amounted to US$24,382,000 (2003: US$25,511,000). During the year, the sale of Returned Containers increased to 39,488 TEUs (2003: 23,619 TEUs) and the carrying net book value of these containers increased by US$10,651,000 to US$23,973,000 (2003: US$13,322,000). Since the cost of steel stood high, the selling price of old containers continued to rise and the provision for impairment of containers decreased significantly to US$474,000 (2003: US$9,865,000). In addition, the Group recognised a loss of US$2,192,000 from the disposal of its 10% interest in River Trade Terminal Holdings Limited in 2003.

Finance costs

During the year, finance costs increased by 36.3% to US$23,371,000 (2003: US$17,149,000). The Group's average borrowing for 2004 increased to US$609,503,000 (2003: US$370,628,000), the increase of which was partially attributable to the issue of US$300,000,000 10-year fixed rate notes in September 2003. The Group's average loan interest rate, net of gain of US$3,835,000 (2003: loss of US$1,193,000) arising from the interest rates swap contracts, was 3.45% (2003: 3.22%). Interest rate started to rise in 2004 when the US Federal Reserve increased the interest rates in the middle of the year. As a result, the cost of borrowing increased gradually.

Breakdown of profit attributable to shareholders



Share of profits less losses of jointly controlled entities and associated companies

Profit contribution from jointly controlled entities, after goodwill amortisation charge, was US$41,956,000 (2003: US$6,711,000), representing a significant increase of 525.2%. Qingdao Qianwan Terminal, COSCO-PSA Terminal and COSCO Logistics contributed full year profit in 2004. Profits were also contributed by Yangzhou Yuanyang International Ports and Yingkou Terminals, which were established or acquired by the Group during the year. Shanghai CIMC Reefer Containers Co., Ltd. recorded a drop in profit due to price hikes in raw materials and market competition. Profit contributions from Shanghai CIMC Far East Container Co., Ltd. and Tianjin CIMC North Ocean Container Co., Ltd. increased over 2003. Amortisation of goodwill for 2004 amounted to US$2,507,000 (2003: Nil), comprising goodwill amortisation arising from the investment in Qingdao Qianwan Terminal, COSCO Logistics and Yingkou Terminals.

Profit contribution from associated companies amounted to US$69,497,000 (2003: US$64,915,000), representing an increase of 7.1%. Efforts of COSCO-HIT to explore new sources for business resulted in a record high throughput of 1,697,212 TEUs (2003: 1,513,559 TEUs), but profit contribution was slightly lower than last year due to changes in cargo mix. Throughput of Shanghai Terminals rose by 7.3% while the profit contribution increased by 13.8%. Shanghai Pudong International Terminals which started operations in March last year, achieved a throughput of 2,336,740 TEUs in 2004 (March to December 2003: 1,765,586 TEUs) and reported an increase of 34.4% in profit contribution. Liu Chong Hing Bank contributed profit of US$11,483,000 (2003: US$9,762,000) during the year. Antwerp Terminal acquired in 2004 was still under construction and had not yet commenced operation.

Taxation

Aggregate tax amount in 2004 amounted to US$35,784,000 (2003: US$24,424,000), mainly reflecting the increase in profit of the jointly controlled entities and the further provision for deferred tax in relation to the container leasing and related businesses.

Financial position

Cashflow

Cash inflows of the Group remained stable. During the year, net cash from operating activities amounted to US$266,188,000 (2003: US$217,757,000). The Group drew bank loans of US$252,950,000 (bank loans drew and notes issued in 2003: US$387,721,000) and repaid US$78,238,000 during 2004 (2003: US$330,097,000). New shares were issued upon the exercise of share options and net proceed of US$41,508,000 (2003: US$1,101,000) was received. In 2004, the Group participated in a number of major investments, and total cash outflow was US$377,056,000 (2003: US$100,355,000). These projects included COSCO Logistics (US$151,101,000), Qingdao Qianwan Terminal (US$61,131,000) and CIMC (US$127,514,000). Major cash outflow for investing activities in 2003 included Shanghai Pudong International Terminals (US$45,770,000), Qingdao Qianwan Terminal (US$14,800,000), COSCO-PSA Terminal (US$23,062,000) and Yantian International Terminals (Phase III) Limited (US$16,723,000). During the year, US$272,475,000 (2003: US$193,661,000) was paid for the purchase of new containers.

Financing activities and facilities

A subsidiary of the Group completed a six-year club loan of US$205,000,000 which was participated by seven international banks. The all-in costs were London Interbank Offered Rate ("LIBOR") plus 60 basis points. The proceeds were used for the purchase of new containers and for general working capital.

Antwerp Terminal, in which the Group had 25% equity interest, arranged to raise funds for development in 2004. A total of €143,400,000 will be raised with repayment term of up to 11 years. The loan agreement will be signed in March 2005.

As at 31st December 2004, the total cash on hand and unutilised bank facilities were US$100,578,000 and US$291,108,000 respectively (2003: US$283,835,000 and US$297,908,000 respectively), which was sufficient for the repayment of loans due in 2005 and meeting all capital commitments to be paid in 2005.

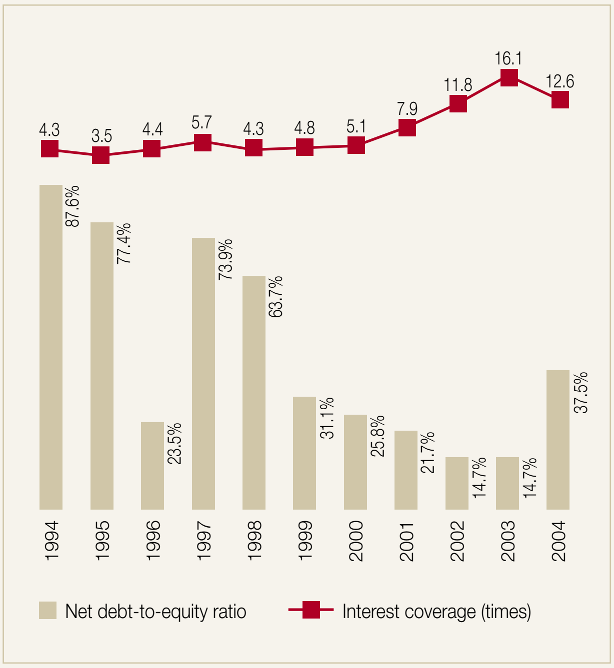
Assets and liabilities

As at 31st December 2004, the total assets of the Group was US$2,239,692,000 (2003: US$1,900,266,000). The total liabilities and minority interest amounted to US$766,885,000 (2003: US$579,102,000). The net assets value increased to US$1,472,807,000 (2003: US$1,321,164,000), mainly due to the increase in retained profits and the proceeds from new shares issued upon the exercise of share options. The net assets value per share was HK$5.261 (2003: HK$4.796), representing an increase of 9.7% over that of the last year.

As at 31st December 2004, cash balances of the Group amounted to US$100,578,000 (2003: US$283,835,000). Total indebtedness of the Group amounted to US$653,323,000 (2003: US$478,360,000), with a net debt-to-equity ratio of 37.5% (2003: 14.7%). Interest coverage was 12.6 times (2003: 16.1 times).

Certain of the Group's fixed assets with an aggregate net book value of US$331,647,000 (2003: US$318,976,000) and bank deposits of US$11,297,000 (2003: US$12,056,000) were pledged to various banks and financial institutions as securities against borrowings totalling US$176,392,000 (2003: US$177,523,000).

Net debt-to-equity ratio & interest coverage



Debt analysis

	As at 31st December 2004 US$	(%)	As at 31st December 2003 US$	(%)
By repayment term				
Within the first year	38,178,000	5.9	32,848,000	6.9
Within the second year	44,046,000	6.7	32,608,000	6.8
Within the third year	58,609,000	9.0	41,046,000	8.6
Within the fourth year	202,087,000	30.9	54,108,000	11.3
Within the fifth year and after	310,403,000*	47.5	317,750,000*	66.4
	653,323,000	100.0	478,360,000	100.0
By type of borrowings				
Secured borrowings	176,392,000	27.0	177,523,000	37.1
Unsecured borrowings	476,931,000	73.0	300,837,000	62.9
	653,323,000	100.0	478,360,000	100.0
By denomination of borrowings				
US dollar	649,795,000	99.5	475,686,000	99.4
RMB	3,528,000	0.5	2,674,000	0.6
	653,323,000	100.0	478,360,000	100.0

* Including the US$300,000,000 notes less discount which will mature on 3rd October 2013.

Contingent liabilities

As at 31st December 2004 and 2003, the Group had no significant contingent liabilities.

Treasury policy

The Group controls its exchange rate risks by raising funds in the denominations of its principal operating assets or cash revenue. The borrowings as well as the principal revenues and expenses of the container leasing and related businesses are denominated in US dollars. Hence, exposure to exchange rate risk is minimal.

In respect of associated companies and jointly controlled entities, such as COSCO-HIT, COSCO-PSA Terminal and Antwerp Terminal, all major borrowings were denominated in their respective local currencies to minimise their exchange rate risks.

The Group exercises stringent control over the use of derivatives for hedging against its interest rate risks. As at 31st December 2004 and 2003, the Group had the following outstanding interest rate swap contracts:

- notional principals of interest rate swap contracts amounted to US$100,000,000 at fixed interest rates ranging from 3.88% to 4.90% per annum payable by the Group.

- notional principals of interest rate swap contracts amounted to US$200,000,000 at floating rates ranging from 6-month LIBOR plus 105 to 116 basis points payable by the Group.

Through interest rate swap contracts and fixed rate borrowing arrangements, the ratio of fixed and floating rate borrowings is 31.0%:69.0% as at 31st December 2004 (2003: 42.0%:58.0%) of the Group's loan portfolio. The Group monitors the market trend and adjusts the mix of its fixed and floating rate borrowings accordingly.