Trust & performance

Annual Report 2002

COSCO Pacific Limited

(Incorporated in Bermuda with limited liability)

Corporate structure

CHINA OCEAN SHIPPING (GROUP) COMPANY *Note 1*

- **COSCO CONTAINER LINES COMPANY LIMITED** *Note 3*
- 100%* — **COSCO (HONG KONG) GROUP LIMITED** *Note 2*
- 21.20%* — **CHINA INTERNATIONAL MARINE CONTAINERS (GROUP) CO., LTD.** *Note 8*

COSCO (HONG KONG) GROUP LIMITED — 54.87%* — **COSCO PACIFIC LIMITED** *Note 4*

INDEPENDENT SHAREHOLDERS — 45.13%* — COSCO PACIFIC LIMITED

CONTAINER LEASING

Florens Container Holdings Limited (100%)

Florens Container Services Company Limited (100%)

Offices and branches in:
- Hong Kong (Headquarters)
- San Francisco
- New York
- Sao Paulo
- London
- Hamburg
- Genoa
- Tokyo
- Shanghai (Office)

CONTAINER TERMINAL & RELATED BUSINESSES

COSCO-HIT Terminals (Hong Kong) Limited (50%)

River Trade Terminal Holdings Limited (10%)

Yantian International Container Terminals Ltd. (5%)

Yantian International Container Terminals (Phase III) Limited (4.45%) *Note 5*

Shekou Container Terminals Ltd. (17.5%)

Shanghai Container Terminals Limited (10%)

Shanghai Pudong International Container Terminals Ltd. (20%) *Note 6*

Zhangjiagang Win Hanverky Container Terminal Co., Ltd. (51%)

Qingdao Cosport International Container Terminals Co., Ltd. (50%)

Dalian Port Container Co., Ltd. (8%)

Plangreat Limited (100%)

Twinbridge Development Corp. (30%) *Note 7*

CONTAINER RELATED INDUSTRIES

Shanghai CIMC Reefer Containers Co., Ltd. (20%) *Note 8*

Shanghai CIMC Far East Container Co., Ltd. (20%) *Note 8*

Tianjin CIMC North Ocean Container Co., Ltd. (22.5%) *Note 8*

Shanghai Kansai Paint & Chemical Co., Ltd. (20%)

Tianjin Kansai Paint and Chemical Co., Ltd. (20%)

OTHER INVESTMENTS

COSCO Pacific (China) Investments Co., Ltd. (100%)

Liu Chong Hing Bank Limited (20%)

Note 1: China Ocean Shipping (Group) Company ("COSCO") is the ultimate parent company of COSCO Pacific Limited ("COSCO Pacific") and the largest shipping company in China with a global business network and subsidiaries around the world. COSCO is also one of the most significant state-owned enterprises being supervised by the State Council of China.

Note 2: COSCO (Hong Kong) Group Limited is the wholly owned and largest overseas subsidiary of COSCO. It is also the immediate controlling shareholder of COSCO Pacific.

Note 3: COSCO Container Lines Company Limited ("COSCON") is a subsidiary of COSCO and the 6th largest container liner operator in the world. It is also a major customer of COSCO Pacific.

Note 4: COSCO Pacific is largest listed flagship of COSCO.

Note 5: Yantian International Container Terminals (Phase III) Limited has completed all business registration processes by 24th December 2002. The terminals are under construction and the first two berths expected to be completed by the the end of 2003.

Note 6: Shanghai Pudong International Container Terminals Ltd. commenced operation on 1st March 2003.

Note 7: Twinbridge Development Corp. has disposed of its shareholding interests in Shanghai Yixian Road & Bridge Development Co., Ltd. during the year.

Note 8: China International Marine Containers (Group) Co., Ltd. has 72.0%, 47.6% and 70.76% equity interests in Shanghai CIMC Reefer Containers Co., Ltd., Shanghai CIMC Far East Container Co., Ltd. and Tianjin CIMC North Ocean Container Co., Ltd. respectively.

* As at 31st December 2002

Financial highlights

The Board of Directors of COSCO Pacific Limited ("COSCO Pacific" or the "Company") is pleased to announce the satisfactory consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December 2002. COSCO Pacific achieved a profit attributable to shareholders of US$154,560,000 representing a 0.1% increase over 2001. Excluding the major non-recurring profit items made in 2002 and 2001, the net profit should have been increased by 4.9% over 2001. During the year, despite the slow recovery of the global economy, the Group continued to expand its market shares, revenues and profits from container leasing and container terminal businesses, on the back of the robust China trade growth. Furthermore, the Company also strived to exercise stringent cost control programme in order to improve operating efficiency.

	2002	**2001**	**+/-**
Turnover	US$241,644,000	US$224,671,000	+7.6%
Operating profit after finance costs	US$91,562,000	US$98,684,000	-7.2%
Profit attributable to shareholders	US$154,560,000	US$154,340,000	+0.1%
Basic earnings per share	US7.2017 cents	US7.2081 cents	-0.1%
Dividend per share	HK29.0 cents	HK23.5 cents	+23.4%
Dividend payout ratio	51.6%	41.8%	+9.8pp
Consolidated total assets	US$1,755,376,000	US$1,738,747,000	+1.0%
Consolidated total liabilities and minority interests	US$467,474,000	US$538,453,000	-13.2%
Consolidated net assets	US$1,287,902,000	US$1,200,294,000	+7.3%
Consolidated net debts	US$184,553,000	US$255,429,000	-27.7%
Net debt-to-equity ratio	14.3%	21.3%	-7.0pp
Interest coverage	11.8 times	7.9 times	+3.9 times

Remarks:
The major non-recurring profit items in 2002 and 2001 include a profit of US$7,474,000 from Twinbridge Development Corp. disposing of its shareholding interests in Shanghai Yixian Road & Bridge Development Co., Ltd. in 2002, and the profit of US$14,137,000 from the disposal of the investment securities in 2001.

CONTENTS

Corporate structure
Financial highlights
10 Chairman's statement
18 Vice Chairman's report
24 Container leasing review
30 Container terminals review
35 Container related businesses and others
36 Management discussion and analysis
40 9-year statistical summary
42 Major events
44 Investor relations
46 Frequently asked questions
48 Corporate governance
52 Directors and senior management profiles
58 Report of the directors
69 Auditors' report
70 Consolidated profit and loss account
71 Consolidated balance sheet
72 Balance sheet
73 Consolidated statement of changes in equity
75 Consolidated cash flow statement
76 Notes to the accounts
124 Five-year financial summary
125 Notice of annual general meeting
126 Brokers contact list
128 Corporate information

Our mission Our mission is to build value for our shareholders and to provide superior service to our customers. The trust they both place in us is our motivation to succeed. We know what we want to be: our vision is to be a highly profitable, effectively managed, strategically balanced, independent, socially responsible and environmentally friendly enterprise, with leadership positions in all our core businesses.

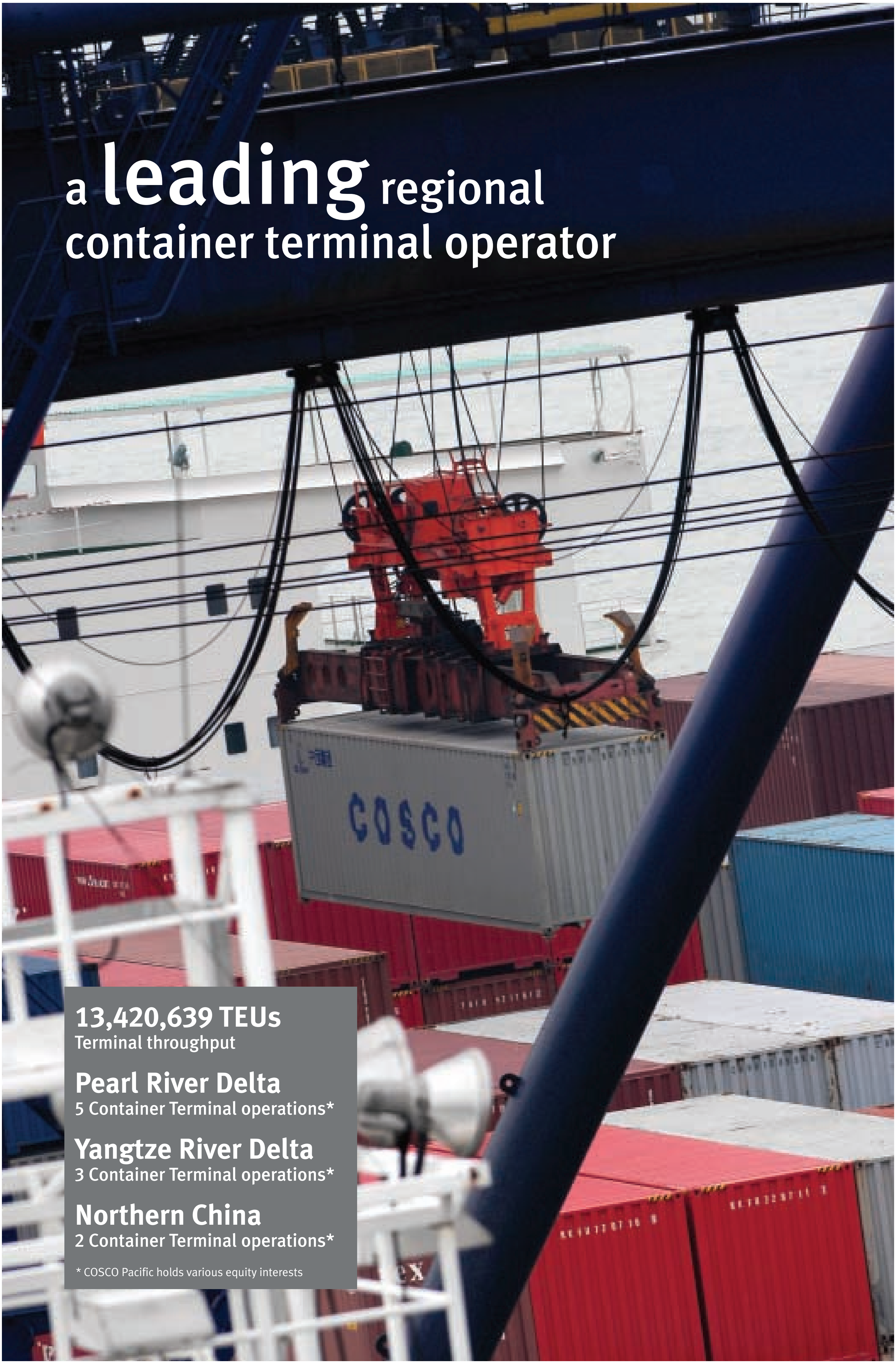
a leading player in global container leasing

707,890 TEUs
Container fleet

93.4%
Utilisation

US$225,004,000
Container leasing turnover

Our three objectives The objectives of COSCO Pacific are threefold: to be the global leader in container leasing, to be the regional leader in container terminal operations, and to be the leading logistics service provider in China mainland and Hong Kong. We believe our future success, in a competitive and changing environment, will be a direct result of our focus on these objectives, and our dedication to our customers' needs. To pursue these objectives, we will constantly analyse our markets, our services, and the regions we serve in order to strengthen our position.



a leading regional container terminal operator

13,420,639 TEUs
Terminal throughput

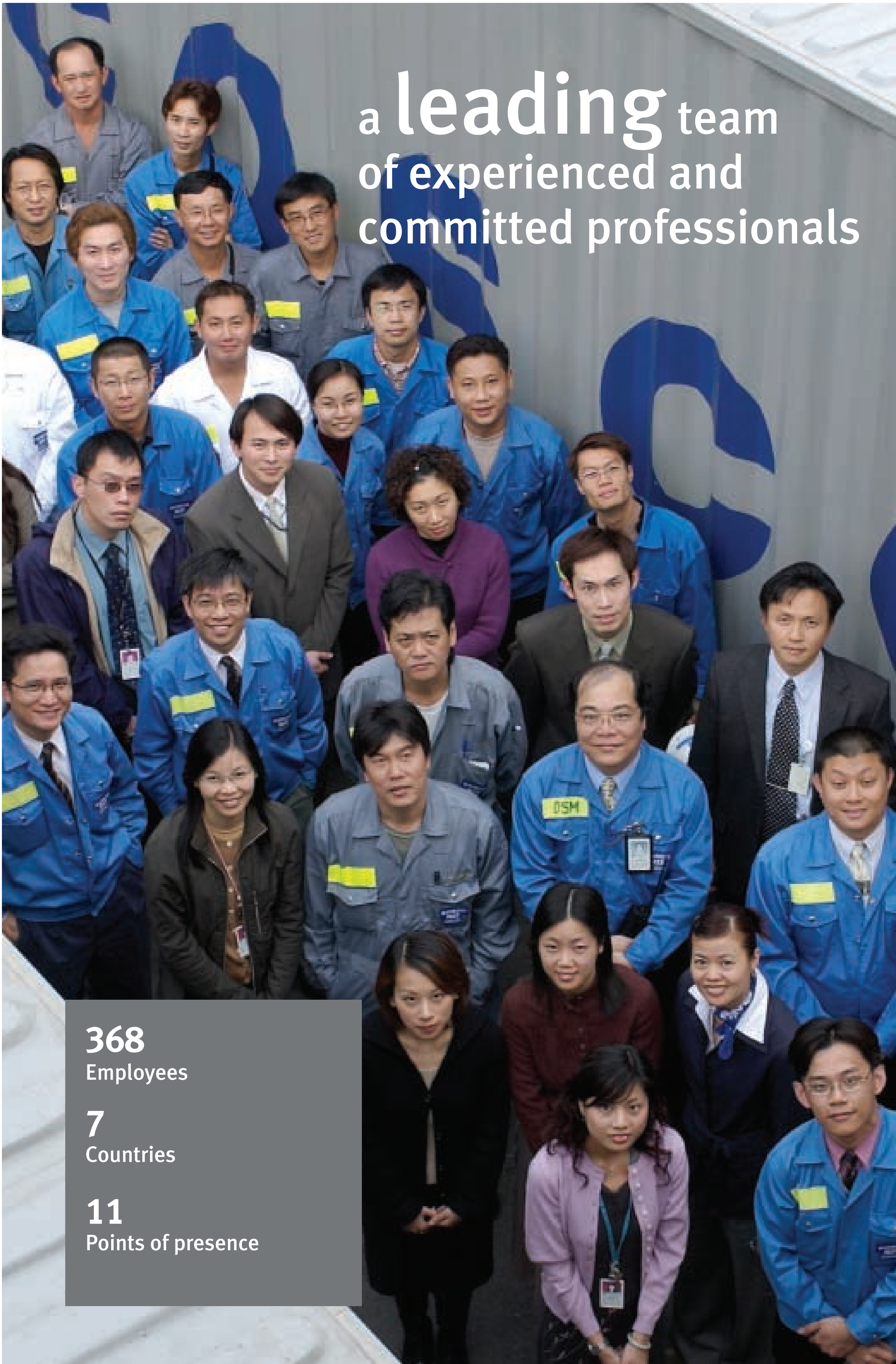
Pearl River Delta
5 Container Terminal operations*

Yangtze River Delta
3 Container Terminal operations*

Northern China
2 Container Terminal operations*

* COSCO Pacific holds various equity interests

Our goal We will continually monitor and improve our existing businesses to generate superior performance, and seek to acquire new businesses which will expand our capabilities within our core industries, and offer outstanding opportunities to grow profit. To achieve this goal, we will build our presence in the markets in which we already have strong competitive advantages. Our geographic and market expansion will be within Asia, particularly in China where COSCO Pacific, via our ultimate parent, COSCO, has a strong market position.



a leading team of experienced and committed professionals

368
Employees

7
Countries

11
Points of presence

Our people Our success is built upon people. Our commitment to provide quality service to our customers is delivered through their professionalism. We have the team and the presence to achieve our goals. We recognise the importance of human resources as a strategic resource in the continued growth of our businesses. In order to maintain their professionalism and motivation, COSCO Pacific is dedicated to providing its employees with rewarding scheme, training and continuing opportunities for personal growth.

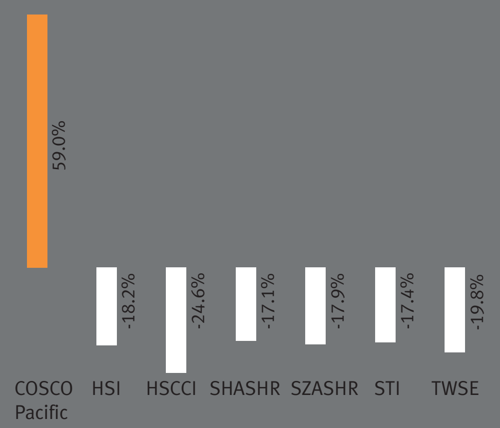
WEI Jiafu
Chairman

“I believe that the confidence and trust that we have built in our relationships with all our stakeholders have been fundamental to our ability to deliver solid performance consistently year after year, in both good and bad times.”

Chairman's statement I am very pleased to report to shareholders that COSCO Pacific delivered solid results in 2002, with outstanding performances achieved in both container leasing and container terminal businesses. The year was nevertheless both challenging and eventful. However, COSCO Pacific achieved a recorded net profit of US$154,560,000. After excluding the major non-recurring profit items in 2002 and 2001, the net profit increased by 4.9% over 2001. I am proud of the performance of the COSCO Pacific team in such a challenging environment.

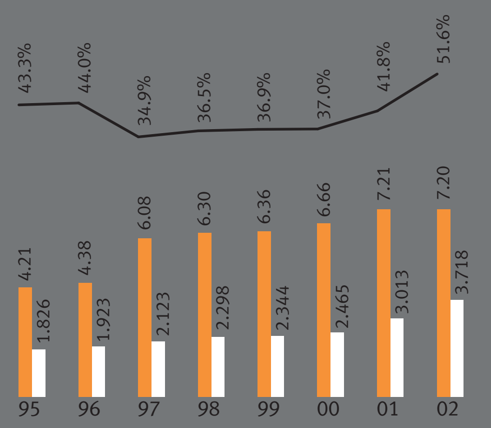
Chairman's statement

Outperforming the market indices
(31 Dec 2002 vs 31 Dec 2001)



HSI: Hang Seng Index
HSCCI: Hang Seng China-Affiliated Corporations Index
SHASHR: Shanghai A-share Stock Price Index
SZASHR: Shenzhen A-share Stock Price Index
STI: Straits Times Index
TWSE: Taiwan Weighted Index

Steady dividend payout ratio



Our share price reflected our strong performance during the year and achieved a 59.0% increase at the end of year over 2001. Its was mentioned as "stella performance" in Asia Pacific conglomerates universe.

We believe that the value created by the Company will be reflected both in the increase in share price and yearly dividends paid. Therefore, the board of directors propose a final cash dividend this year of HK18.0 cents (2001: HK14.0 cents) per share at the forthcoming annual general meeting. Together with the interim cash dividend of HK11.0 cents, this represents a full year cash dividend of HK29.0 cents (2001: HK23.5 cents) per share in 2002. The dividend payout ratio rose to 51.6% (2001: 41.8%). The Company has always been maintaining a stable dividend payout ratio for its long term interests. We propose a higher dividend payout ratio for the financial year to reflect our strong cash position, our confidence towards a prosperous future and our efforts to increase return on equity.

The details of the 2002 results will be covered in the Vice Chairman's report and the following sections of this annual report. However, the story behind our success is worth telling.

While the dramatic global slowdown has inevitably affected the shipping industry, I am proud to say that we have managed to navigate through these volatile economic times thanks to the initiatives we have taken since our inception and our core competencies.

One of those competitive strengths lies in COSCO, our ultimate holding company, who has been providing unrelenting support to COSCO Pacific since its establishment in 1994. It is on this solid foundation that we established our global container leasing network for international customers in 1997, and the growing number of container terminals in Hong Kong and China mainland we operate and have investments in reflects this heritage. But just as importantly, I believe that the confidence and trust we have built in our relationships with all our stakeholders – be they investors, customers, business partners, employees or the public – have been fundamental to our ability to deliver solid performance consistently year after year, in both good and bad times.

HOW ARE WE BUILDING TRUST?

Although once established, trust and performance can be a virtuous circle. There are three reasons why we have been able to build trust in the first place – our strategies, our governance, and our professionalism.

Strategically balanced

First of all, we have maintained focused and well-balanced corporate strategies over the years. This is important because it reflects the fundamental principles guiding COSCO Pacific and the way it is being managed. Senior management gives top priority to protect the long term interests of the Company and its shareholders without compromising the concerns of its stakeholders and interested parties including employees, customers, suppliers, bankers and the public interests. This approach is fundamental to establishing mutual trust.

Well governed

Secondly, we have always been striving for practising good corporate governance. In 1998, an audit committee composed of three independent non-executive directors was established. The role of this committee is to review and monitor integral financial and business strategies, including all significant corporate actions initiated by the Company to assure the long term interests of shareholders. Prior to that, COSCO Pacific has already been maintaining a relatively high level of transparency and disclosure of corporate information over the years. Our quality of investor relations has been regarded as one of the best managed among Chinese companies by institutional investors. This transparency and our well governed operations reinforce investors' trust in us.

Professionally managed

Thirdly, COSCO Pacific has a professional management team and talented staff who work cohesively together in the pursuit of both value growth and customer satisfaction. The senior management have consistently initiated effective business strategies designed to improve productivity and increase the transparency, accountability and efficiency of the Company and its subsidiaries, and our staff have been dedicated in executing them. We believe in our employees and they return that trust. This symbiosis between all levels of our employees is what lies behind our recognition as one of the best managed Chinese companies, and this in turn instills confidence in investors who are assured that we can run our businesses effectively.

WHY ARE WE TRUSTWORTHY?

COSCO Pacific has been building mutual trust with its stakeholders since its inception, which explains why we have been enjoying a good reputation in the capital market. This in turn enable us to raise capital as and when we need it. Since listing of the company in 1994, we have raised approximately US$2,950,000,000, both as working capital and as funding for the purchase of containers, the acquisition of container terminals, and other businesses. This has provided the necessary impetus to the development of COSCO Pacific, and has helped the Company achieve stable growth in the past.

	1994	1995	1996	1997	1998	1999	2000	2001	2002	CAGR
Turnover (US$'000)	104,210	124,084	144,588	183,526	217,130	220,638	217,893	224,671	241,644	11.1%
Profit attributable to shareholders (US$'000)	40,261	46,360	75,701	122,745	129,297	134,082	142,546	154,340	154,560	18.3%
Dividend payout ratio (%)	–	43.3	44.0	34.9	36.5	36.9	37.0	41.8	51.6	N/A

CAGR: Compound Annual Growth Rate

Awards

We have been the proud recipients of many awards, granted in recognition of our well-managed operations. Each award endorses the public's confidence in us, and this confidence in turn motivates us to set yet higher standards in our operations. But we do not take it for granted the trust our stakeholders place in us. We have therefore set ourselves new benchmarks in our accountability to shareholders and in our responsibility to the community around us which we believe will continue to build that trust.

OUR CONCRETE PLAN TO BUILDING TRUST

To be a leader in good corporate governance

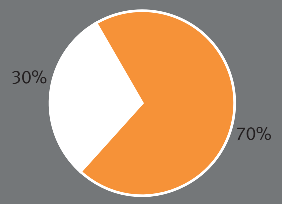
Corporate governance can be described as the way a company manages itself in order to generate fair and equitable returns to its stakeholders. It also refers to rules and incentives by which shareholders control and influence a company's management so as to maximise profits and the value of a corporation. Therefore, maintaining a high standard of corporate governance is crucial for improving both the quality of management and the value of the Company.

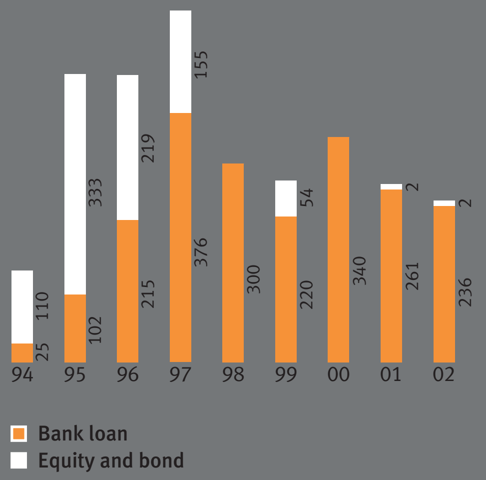
AWARDS

1997	**Asiamoney** One of Best Managed Chinese Companies
1998	**HKMA** Honourable Mention of Best Annual Report
1999	**The Asset** One of Best Managed Chinese Companies **HKMA** Honourable Mention of Best Annual Report
2000	**Asiamoney** One of Best Managed Chinese Companies **HKMA** Honourable Mention of Best Annual Report **HSBC** One of the HSBC's Asian 100 Leading Corporates
2001	**Finance Asia** One of the Best Chinese Companies in Investor Relations
2002	**CLSA** One of the Best Chinese Companies in Corporate Governance
2003	**Finance Asia** One of the Best Chinese Companies in • Most Committed to Creating Shareholder Value • Best Corporate Governance • Best Financial Management

HKMA = Hong Kong Management Association
HSBC = HSBC Securities (Asia) Ltd.
CLSA = CLSA Ltd.

FUND RAISING ACTIVITIES (US$MILLION)





Hence, the Board and its management are fully committed to ensuring a proactive culture of exemplary corporate governance practice. Maintaining sound corporate governance practices ensures that we secure respect from stakeholders and interested parties, and this invariably reassures stakeholders that we are operating our businesses to their best interest and benefit. We will make every effort to strengthen our Board's efficiency and its oversight of the management in terms of transparency, accountability, responsibility and fairness.

Improving board efficiency

Three committees have recently been established to further improve board efficiency, namely, the Investment and Strategic Planning Committee, the Corporate Governance Committee and the Risk Management Committee. Members of these committees include executive directors of the Board and respective professionals from our senior management team. We are also considering the establishment of a nomination committee and a remuneration committee to further strengthen the independence of the Board.

A commitment to social responsibility

We believe that a successful and well-respected company should commit to maintaining a high social responsibility, and this duty is an integral part of management's concerns. Our commitment to social responsibility is seen in our requirements to manufacturers regarding the standard and quality of containers being leased to customers. The container boxes have to be built in accordance with the international ISO approved standard. Our commitment is also reflected in the safety processes and the environmental regulations of container terminal operations.

In addition, we have been proactive about participating in charity and environmental activities within the community. On 19th December 2002, we held a tree plantation ceremony, Greening for the Chest, to celebrate our 8th anniversary of listing on The Stock Exchange of Hong Kong Limited. This event reflects our commitment and dedication to the well being of our environment. It also nurtures our staff the importance of social responsibility and environmental protection issues.

Outlook

The global economy experienced a mild slowdown in 2001, but despite terrorists' attacks in various countries, the global economy actually recovered to 2.8% in 2002. This recovery is expected to rise to 3.7% in 2003. Asia weathered the slowdown better than other regions and growth among the Asian industrialised countries (excluding Japan) is estimated to be 4.7% last year. This is anticipated to grow further to between 3.5% and 6% in 2003. China's vigorous growth performance, averaging between 7% and 8% in recent years, is expected to continue.

While grave concerns have been cast on geopolitical tensions that may derail global recovery and force oil prices to catastrophic heights, there are also reasons for optimism. These include the rebound of inventories; the continuing positive news about productivity growth; and the substantial monetary stimulus among major central bankers and the IMF.

Moreover, China's emergence as a major player in international trade and its accession to WTO is an important step forward for economic integration in the region. Reliance on trade has helped Asia immensely over the past two decades and we expect Asia to play an even more important role in trade, both beyond and within the region. While most Asian countries are maintaining an outward orientation as a core component of future development strategy, domestic demand is emerging in the region. This inward-oriented trade pattern will certainly play a more supportive role in trade growth which will generate sizeable benefits for both China and its trading partners. We are confident that we will be able to capitalise on the opportunities this represents, and therefore we remain cautiously optimistic about the year ahead of us.

Looking ahead, with strong support from our parent company, we believe that the strategic initiatives we have put in place will position COSCO Pacific well for long term growth. Furthermore, we will continue to implement a set of principles that will place COSCO Pacific at the leading edge of governance and transparency in our industry. Beyond achieving a set of financial goals, we will also incorporate environmental and social responsibilities that will ultimately help to shape our definition of success.

We are in the process of building a trustworthy, professional and promising enterprise that will maintain our record of long term growth through industry and economic cycles. The support we have received from our shareholders, customers, business partners, and talented and dedicated work force is our motivation to achieve the next level of success in the year ahead.

Our vision is to become a highly profitable, independent, large, effectively managed, strategically balanced, socially responsible and environmentally friendly enterprise, with leadership position in all our core businesses.

Our mission is to build value for our shareholders and to provide superior service to our customers. The trust they both place in us is our motivation to succeed. Our fundamental objectives are to maximise shareholder value over the long term through improving efficiency and maximising enterprise value, and to serve our customers better in order to turn trust into performance.

I look at the future with great optimism. Tough times and high standards nurture great companies. Taking this opportunity, I would like to thank all of our stakeholders for their support and to express my special thanks to my colleagues for their commitment and effort during this significant year.

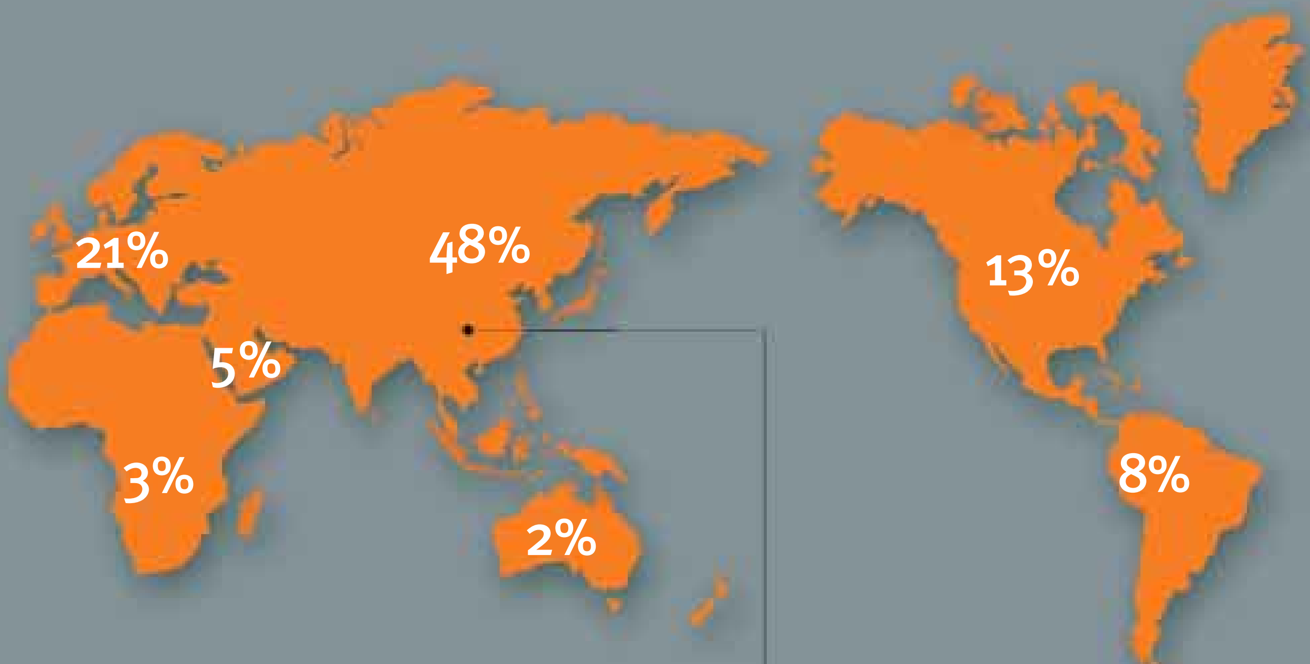
WEI Jiafu, Chairman
26th March 2003

Our objectives

To be the leading global player in the container leasing industry

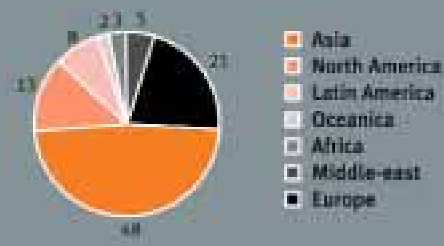
To be a regional leader in container terminal operations

To be a leading logistics service provider in China mainland and Hong Kong



Asia is the dominant region in regard to container port handling representing almost half of the world's total in 2002. China is expected to remain a high growth country within Asia.

Global container port handling 2002 (%)



Source: Drewry Shipping Consultants

LIU Guoyuan
Vice Chairman

"We are putting in place structures to be better governed and efficiently managed to limit our risks. We are acting to protect our shareholders' interests and we are building a trust relationship with all our stakeholders."

Vice Chairman's report In the past couple of years, the world economy experienced a period of slowdown that transferred a significant impact on those economically sensitive businesses such as the international trade transportation. Against a background of this difficult condition, COSCO Pacific has sought to strengthen and expand its existing businesses of container leasing and container terminal operations, and to explore new profit growth opportunities to further enhance the Company's profitability.

Vice Chairman's report

ACCELERATING GROWTH IN PROFITABILITY

Turnover increased 7.6% to US$241,644,000

Profit attributable to shareholders increased to US$154,560,000

Excluding major non-recurring profit items in 2002 and 2001, net profit increased by 4.9%

Earnings per share was US7.2017 cents (2001: US7.2081 cents)

Dividend per share for the year was HK29.0 cents (2001: HK23.5 cents)

Dividend payout ratio for the year increased to 51.6% (2001: 41.8%)

Return on equity was 12.4%

Net assets value per share up 7.1% to HK$4.68

ACCELERATING GROWTH IN MARKET SHARE

Container leasing fleet increased by 16.0% to 707,890 TEUs

Total container throughput rose 26.2% to 13,420,639 TEUs

Acquisition of 8% equity interest in Dalian Port Container Co., Ltd.

Acquisition of 17.5% equity interest in Shekou Container Terminals Ltd.

Acquisition of 4.45% equity interest in Yantian International Container Terminals (Phase III) Limited.

Shanghai Pudong International Container Terminals Ltd., in which COSCO Pacific holds 20% equity interest, commenced business on 1st March 2003

Our experienced and committed team delivered satisfactory results in 2002. During the year, we focused on our profitability so as to accelerate our profit growth. Meanwhile, our market oriented and customer-focused strategy widened our presence in the market. Furthermore, our quality management and professional working team demonstrated our depth of strength in exploring potential investments in the market.

To accelerate profit growth

Against a background of global economic uncertainty, COSCO Pacific has sought through various initiatives to strengthen and expand its existing businesses of container leasing and container terminal operations, and to explore new profit growth opportunities to enhance the Company's profitability. These initiatives aim at improving the market position of COSCO Pacific's core businesses and accelerating its profit growth. In 2002, we managed our businesses well in the volatile market and satisfactory results were achieved.

To build market dominance

On a macro level, we further strengthened our presence in the markets in which we already have a competitive advantages, within Asia, particularly in China where COSCO Pacific, via its ultimate parent, COSCO, has a strong market position. COSCO Pacific is the largest listed flagship of COSCO. We will further strengthen our core competencies and expand our container terminals business in China in the near future. For our container leasing business, we will continue to strengthen our trust relationship with customers, especially those among the top 20 largest container liners operators in the world.

In order to sustain our target, we are ready to move forward. We constantly analyse our markets, our services, and the regions we serve in order to strengthen our competitive positions. We continually monitor and improve our existing businesses to generate superior returns, and seek to acquire new businesses that will expand our capabilities within our core industries, and to offer outstanding opportunities to grow profit.

To be customer-focused
On a micro level, operating in an increasingly competitive and changing environment, we believe our future market leadership will be a direct result of our focus and dedication to our customers' needs. Meanwhile, we have to consider the needs of our shareholders, investors, business partners, bankers, suppliers, employees, professional institutions and the public. We strongly believe that our long term relationship with our customers and stakeholders will be one of the key factors for our next level of successful development as the forthcoming economic rebound.

To build a trusted management
In the current economic climate, we believe that it is time to be pragmatic and adopt a think-smarter management approach. We are reallocating our resources and making astute investments in better growth opportunities. We are planning for what we see, not what we hope. More importantly, we are putting in place structures to be better governed and efficiently managed to limit our risks. We are acting to protect our shareholders' interest and we are building a trust relationship with all our stakeholders.

We are better managing and monitoring our risks, calculating its effect on capital, on growth, on performance and related environmental and social issues. We are creating a risk aware culture, bringing considerations of risks into strategic decision-making and thereby developing COSCO Pacific into a centre of excellence for managing risks.

To build a strong team
Success is built upon people. Our commitment to providing quality service to our customers is delivered through their professionalism. With over 368 employees and 11 points of presence across 7 countries, we have the team and the presence to achieve our goals. We recognise the importance of human resources as a strategic resource in the continued growth of our businesses. In order to maintain their professionalism and motivation, COSCO Pacific is dedicated to providing its employees with rewarding work and continuing opportunities for personal growth.

Our future is inextricably linked to our people. To maintain and ambitiously grow the business, we are putting the right people in the right place at all levels, and building a culture of teamwork as the best way to capitalise on talent throughout the organisation. We are revamping our Company programs to bring out the best in our people including succession planning, skills training, safety procedures and a competitive compensation and benefits program. We are committed to establishing a work atmosphere that allows people to strive for excellence, developing leaders at all levels.

PROSPECTS

Economic and political uncertainties continue to cloud the business environment as we move into the new financial year. 2003 is hard to predict but is likely to continue with a high degree of economic and political uncertainty. However, we are confident of our ability to managing our businesses in volatile markets and we remain well positioned to exploit growth opportunities in China. By building on the opportunities we find around us, we are increasing the value of this unique Company for our stakeholders.

LIU Guoyuan, Vice Chairman
26th March 2003

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.

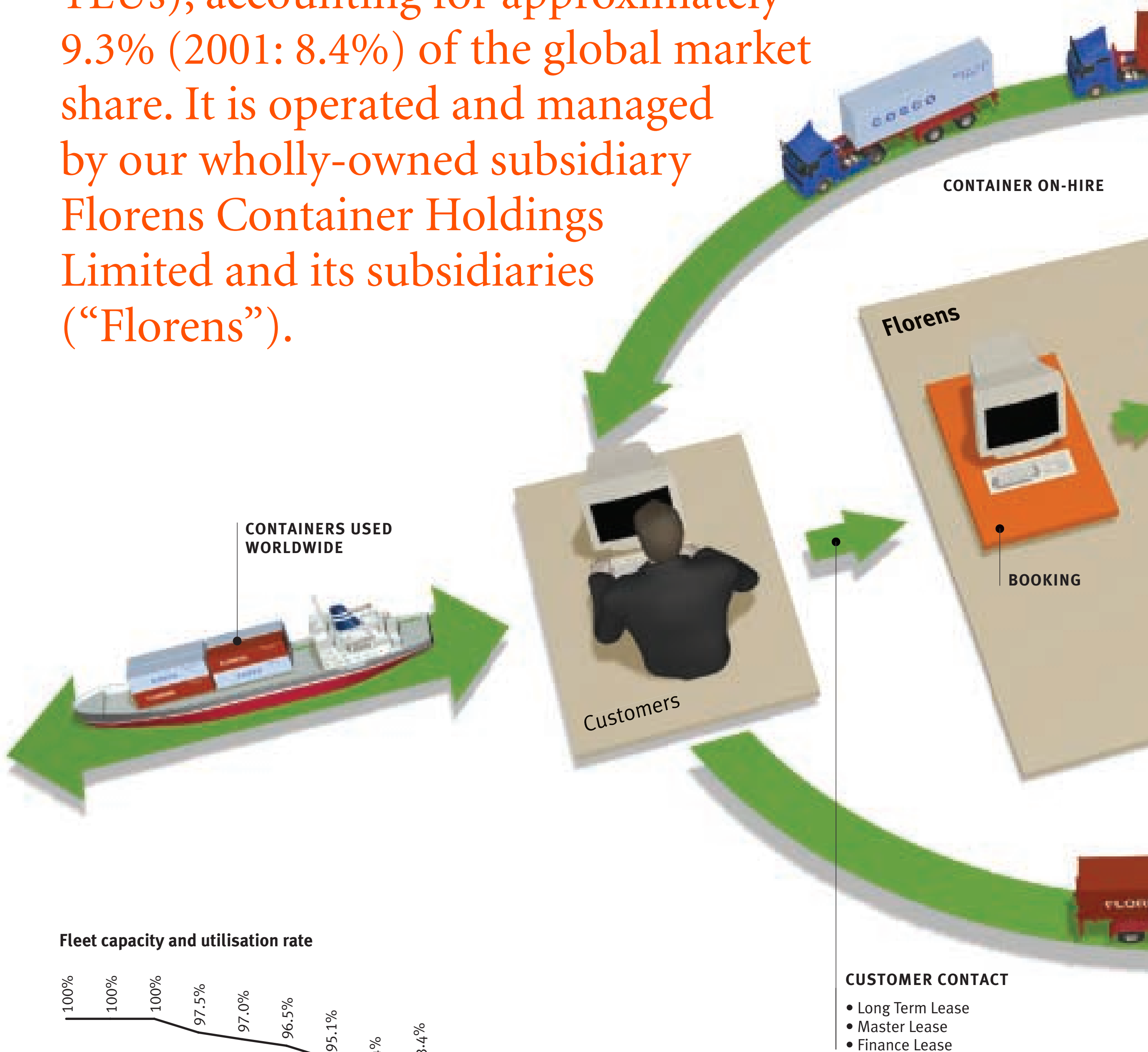
LU Chenggang 1
Executive Director, Deputy Managing Director (also the Chairman of Florens Container Services Company Limited ("FCS"))

Tony KWOK 2
CEO of FCS

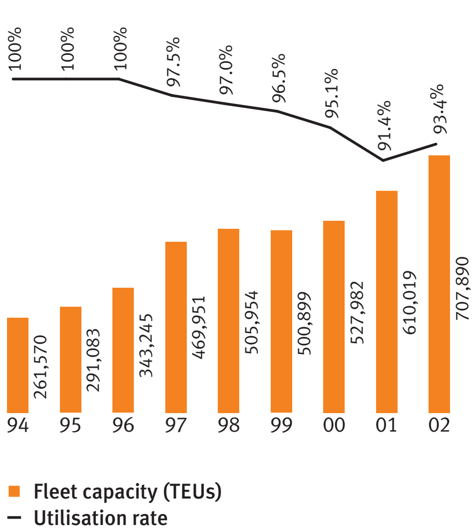
WANG Ye 3
Vice President of FCS

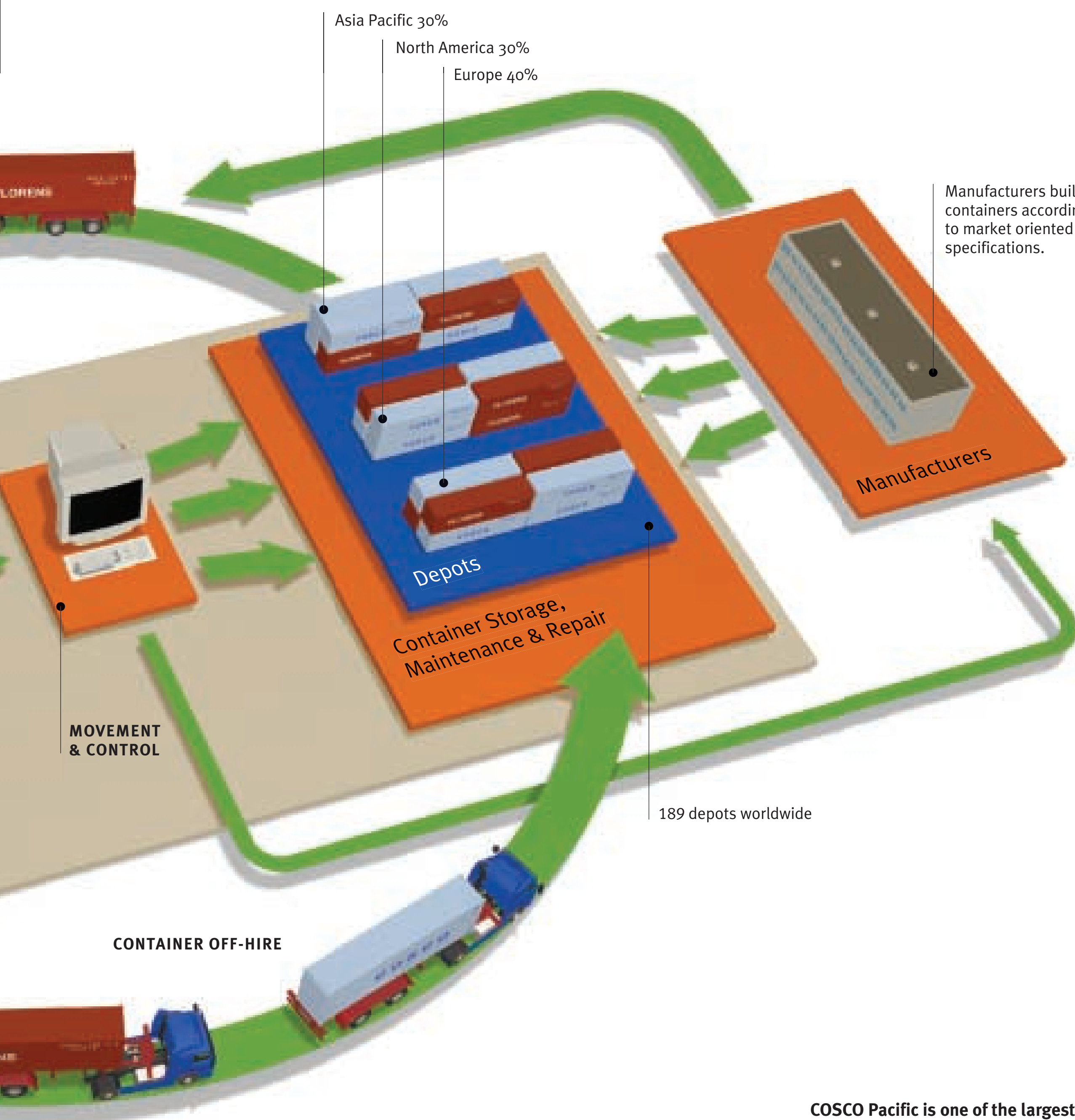
DING Weiming 4
Financial Controller of FCS

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").

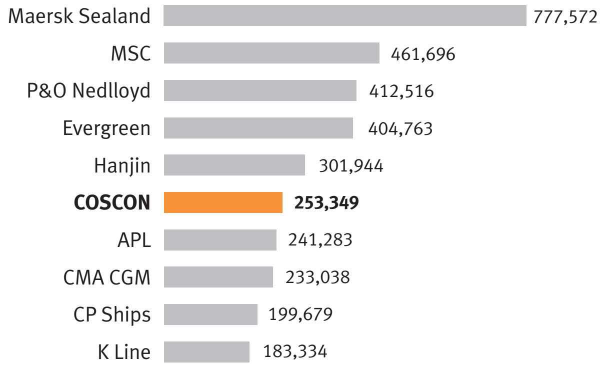


Fleet capacity and utilisation rate

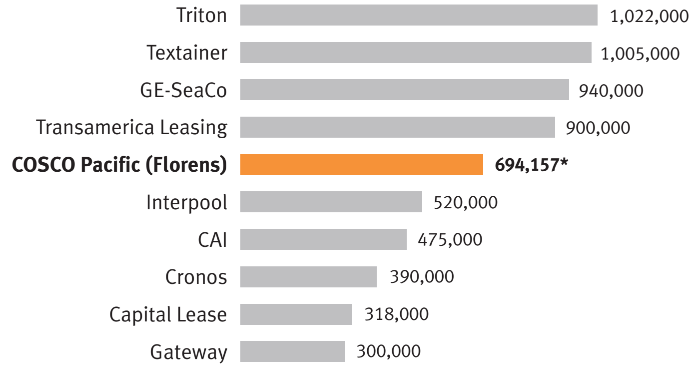




COSCO Pacific's major customer COSCON – the world's sixth largest container shipping company (TEUs)
* Source: Containerisation International as of January 2003



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: 327,370TEUs) 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**
31st December 2002			
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%
31st December 2001			
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.

Container terminals COSCO Pacific holds various interests in 10 container terminals strategically located at Hong Kong and Shenzhen in the Pearl River Delta, Shanghai and Zhangjiagang in the Yangtze River Delta, and Qingdao and Dalian in Northern China. Hong Kong and China mainland recorded a reputable growth in container throughput in 2002. Benefitting from the growth of China trade and transportation, COSCO Pacific recorded a 26.2% increase in aggregate throughput to 13,420,639 TEUs.

QIN Fuyan [1]
Director (also the Deputy General Manager of COSCO-HIT)

WANG Zhi [2]
Deputy Managing Director

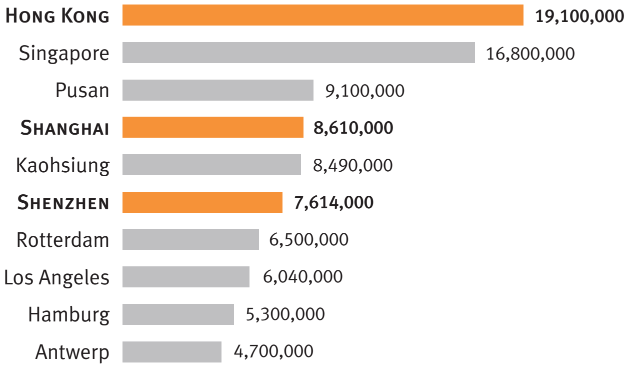
HUANG Kegong [3]
Assistant to the General Manager

Ken CHAN [4]
General Manager of Corporate Development Department

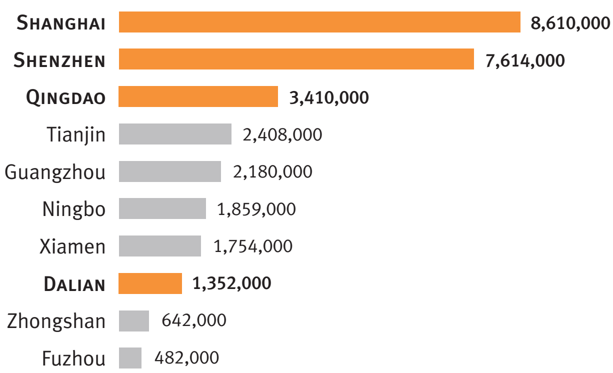
3 2 1 4

	TOTAL AREA (m²)	NO. OF BERTHS	DEPTH ALONGSIDE (m)	HANDLING CAPABILITY (TEUs)
COSCO-HIT	300,000	2	-15.5	1,800,000
River Trade Terminal	650,000	60	-6.0 – -8.0	4,200,000
Yantian International Terminals	1,180,000	5	-14.0 – -15.5	4,500,000
Yantian International Terminals (Phase III)	900,000	4	-16.0	2,400,000
Shekou Container Terminals (Phase I)	234,000	2	-14.0	1,200,000
Shanghai Terminals	830,000	10	-9.4 – -10.5	3,500,000
Shanghai Pudong International Terminals	500,000	3	-12.0	2,300,000
Zhangjiagang Win Hanverky Terminal	200,000	2	-11.0	300,000
Qingdao Cosport International Terminals	250,000	1	-13.5	600,000
Dalian Port Container Co.	726,000	9	-12.1 – -14.0	1,800,000

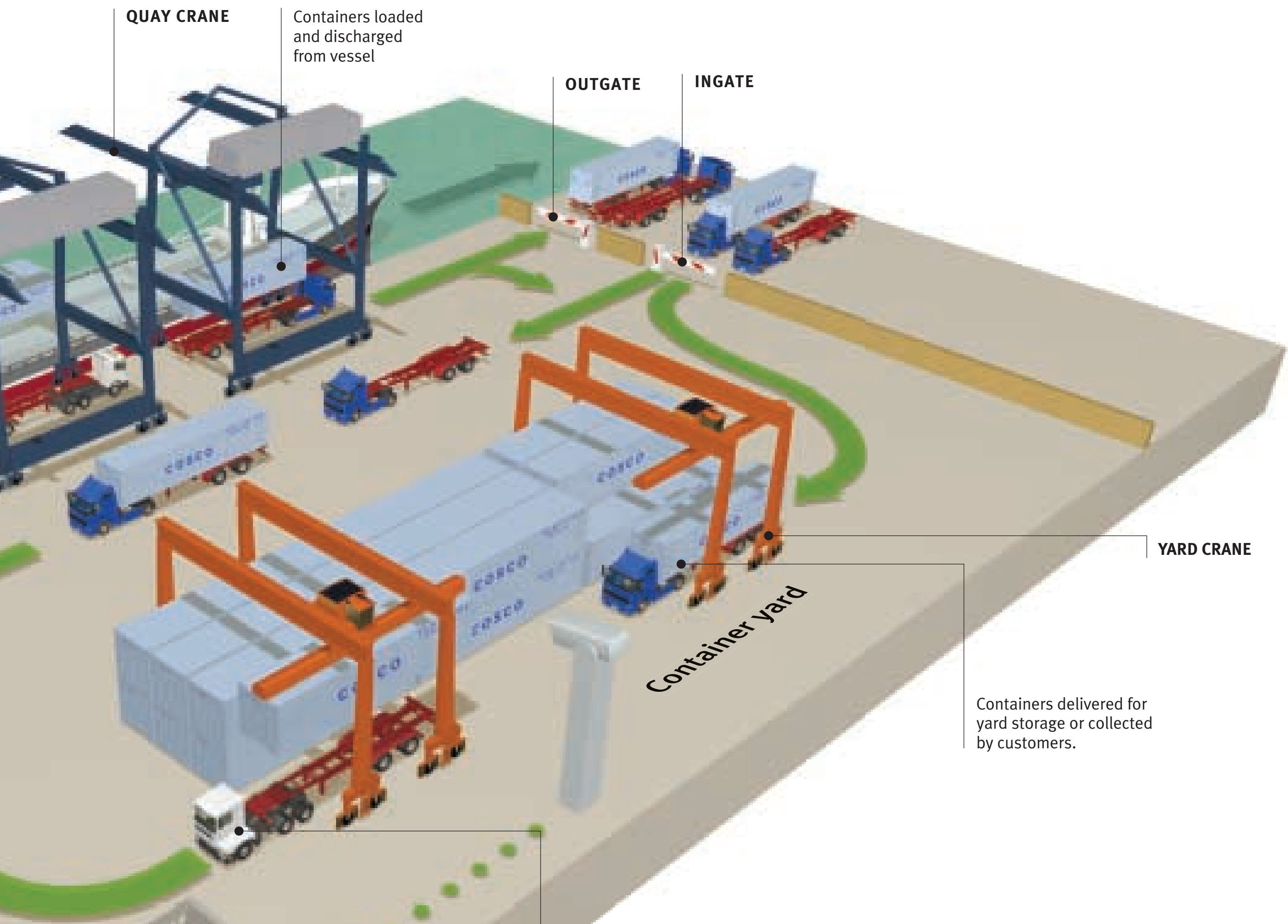
Top 10 world container ports (TEUs)
Source: Shipping Exchange Bulletin



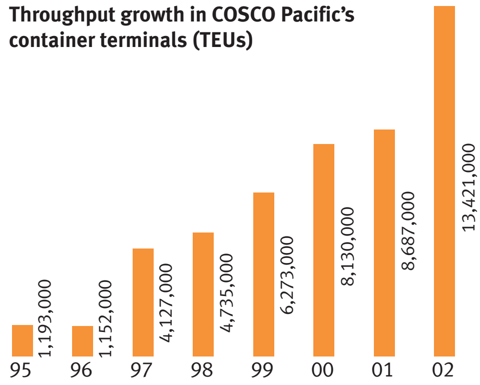
Top 10 China mainland container ports (TEUs)
Source: Shipping Exchange Bulletin



Container terminals COSCO Pacific has various interests in ten container terminals in the coastal area of China mainland and in Hong Kong, with a total throughput of 13,420,639 TEUs, endeavouring to be one of the leading container terminal operators in Asia.



Throughput growth in COSCO Pacific's container terminals (TEUs)



Container terminals review

THROUGHPUT OF TERMINAL			
Unit: TEUs	**2002**	**2001**	**+/-**
COSCO-HIT	1,526,074	1,301,966	**+17.2%**
River Trade Terminal	1,797,096	1,262,235	**+42.4%**
Yantian International Terminals	4,181,478	2,751,885	**+51.9%**
Shekou Container Terminals*	883,572	750,689	**+17.7%**
Shanghai Terminals	3,049,080	2,609,800	**+16.8%**
Zhangjiagang Win Hanverky Terminal	202,348	161,208	**+25.5%**
Qingdao Cosport International Terminals	454,528	600,329	**-24.3%**
Dalian Port Container Co.*	1,326,463	1,198,076	**+10.7%**
Total	13,420,639	10,636,188	**+26.2%**

*These two terminals were acquired by COSCO Pacific during 2002

PORT OF HONG KONG

Hong Kong is an international shipping centre and the most important entreport of China. The high growth rate of China's external trade is a major factor in the rise in handling volume of Hong Kong container terminals. Throughput of Hong Kong terminals rose by 7.1% to 19,100,000 TEUs in 2002, which reflected that Hong Kong has maintained its competitive edge by providing a high level of flexibility, convenient and efficient services, and a wide variety of international routings. These benefits allow Hong Kong and major container terminals in southern China to supplement each other and work together to exploit the huge growth in China container trade and transportation needs.

COSCO Pacific has various equity interests of the following two terminals in Hong Kong, namely COSCO-HIT and River Trade Terminal.

COSCO-HIT

COSCO Pacific has a 50% interest in COSCO-HIT Terminals (Hong Kong) Limited ("COSCO-HIT"). Located at Terminal 8 East in Kwai Chung, the terminal occupies an area of 300,000 square metres. It has a quay length of 640 metres and a water depth alongside of 15.5 metres. The berths of the terminal are equipped with 8 post-panamax quay cranes capable of handling two large container vessels simultaneously. Moreover, with berths of 350 metres designated for barges, all equipped with quay and harbour cranes, the berths provide dedicated services for river vessels and barges sailing across the Pearl River Delta. The terminal has a yard capacity for 25,000 TEUs, which is equipped with 696 reefer points, 32 yard cranes, 3 smaller cranes and other supporting facilities. The terminal operates 24 hours a day and 365 days a year. COSCO-HIT is committed to continuously upgrading its terminal facilities and improving its efficiency, including the use of advanced computer systems and communications equipment.

In 2002, throughput of COSCO-HIT rose by 17.2% to 1,526,074 TEUs (2001: 1,301,966 TEUs), whereas there was 5% growth of the total throughput of the Hong Kong Kwai Chung Terminals. Market share of the terminal also rose to 12.9% (2001: 11.5%) of the total throughput by Kwai Chung Terminals in 2002. Growth in China external trade is one of the main reasons for the increase in throughput of the COSCO-HIT. It is also due to the unceasing efforts of the company to improve the quality of services and efficient container processing to our

clients, which has earned their recognition. With its reputation for quality services and efficient operating standards, the terminal's prospects remain positive.

COSCO-HIT, Hongkong International Terminals Limited and Modern Terminals Limited formed a joint venture, OnePort Limited, in February 2003, in which COSCO-HIT has a 10% interest. The founding of OnePort Limited is a major collaboration in the terminal industry of Hong Kong as it is committed to provide clients with logistics related electronic information services, which is set to greatly increase the competitiveness of the industry.

River Trade Terminal

The Group has a 10% interest in River Trade Terminal Holdings Limited ("River Trade Terminal"). Located in Tuen Mun, Hong Kong, the terminal has an area of 65 hectares, with 60 berths on full completion and a designed annual handling capacity of 4,200,000 TEUs . The terminal provides container, cargo handling and related services for manufacturers transporting cargoes to and from the Pearl River Delta Region via Hong Kong. Its services include cargo loading, storage, transshipment, vanning and devanning, and container maintenance. The terminal handled 1,797,096 TEUs of containers in 2002, 42.4% up over 2001.

However, due to the competition of the market, the terminal recorded a loss in 2002. The Group has increased provision for its shareholder's loan by US$3,296,000.

PORT OF SHENZHEN

In 2002, the total throughput at Shenzhen port reached approximately 7,614,000 TEUs, representing a growth of 50.1% from 2001, making Shenzhen the second largest container port in China mainland and the sixth largest port in the world. Backed by fast-growing economy and strong export industry of the Pearl River Delta Region, the future throughput of the port is expected to increase continuously.

COSCO Pacific has various equity interests in the following 3 terminals in Shenzhen, namely Yantian International Terminals, Yantian International Terminals (Phase III) and Shekou Container Terminals.

Yantian International Terminals

The Group has a 5% interest in Yantian International Container Terminals Ltd. ("Yantian International Terminals"), which is located at Dapeng Bay in Shenzhen and is one of the major container terminals in southern China. Yantian International Terminals occupy a total area of 1,180,000 square metres, namely, Phase I and Phase II of Yantian Port. There are a total of five berths, with a quay length of 2,350 metres, a water depth alongside of 14 metres, and an annual handling capacity of 4,500,000 TEUs. In 2002, throughput at the terminal further increased 51.9% to 4,181,478 TEUs, accounting for 54.9% of aggregate throughput of Shenzhen port.

Yantian International Terminals (Phase III)

The Group has 4.45% interest in Yantian International Container Terminals (Phase III) Limited ("Yantian International Terminals (Phase III)"). With an area of 900,000 square metres, the terminal will have 4 berths with a quay length of 1,400 metres, a water depth alongside of 16 metres. Its annual capacity will be 2,400,000 TEUs. It is expected that the first two berths will be put into operation at the end of 2003 and another 2 berths will be completed in 2004 and 2005 respectively.

Shekou Container Terminals

The Group has a 17.5% interest in Shekou Container Terminals Ltd. ("Shekou Container Terminals"), which is located at the southwestern part of the Shenzhen Special Economic Zone with an area of 234,000 square metres. The terminals are equipped with 2 berths, a quay length of 650 metres, a water depth alongside of 14 metres capable of handling 1,200,000 TEUs annually. Its throughput reached 883,572 TEUs in 2002, a 17.7% increase over 2001.

PORT OF SHANGHAI

Shanghai is China mainland's largest container hub port. The Yangtze River Delta where it is located is one of the most developed areas in the country. For these reasons, throughput at Shanghai port increased swiftly to 8,610,000 TEUs in 2002, and it is now ranked the 4th largest container port in the world. With the tremendous growth in China's external trade, Shanghai port is expected to remain the busiest port in China mainland in 2003. Its aggregate throughput may increase to 10,000,000 TEUs.

COSCO Pacific has various equity interests in the following 2 terminals in Shanghai, namely Shanghai Terminals and SPICT.

Shanghai Terminals

The Group has a 10% interest in Shanghai Container Terminals Ltd. ("Shanghai Terminals"), which has three terminals located in Zhanghuabang, Jungonglu and Baoshan at the entry of Huangpujiang in Baoshan District, Shanghai. Shanghai Terminals has 10 berths with a quay length of 2,281 metres, a water depth alongside from 9.4 to 10.5 metres, and an area of 830,000 square metres that can accommodate 54,065 TEUs. Its current handling capacity is 3,500,000 TEUs .

During the year, Shanghai Terminals handled 3,049,080 TEUs, an increase of 16.8% from 2001, which represents 35.4% of Shanghai's overall throughput. The rise in throughput is mainly due to the position of Shanghai as the trading and shipping centre which benefits from the rapid growth of China's import and export trade. This strengthens its status as China mainland's hub port.

Shanghai Pudong International Container Terminals

The Shanghai Pudong International Container Terminals Limited ("SPICT") was opened on 1st March 2003. This is a joint venture company formed by Shanghai Waigaoqiao Free Trade Zone Stevedoring Company, Hutchison Ports Pudong Ltd., COSCO Pacific (China) Investments Co., Ltd. and S. I. Infrastructure Holdings Limited. SPICT manages and operates Phase I of the Shanghai Waigaoqiao Container Terminals.

COSCO Pacific (China) Investments Co., Ltd., a wholly owned subsidiary of COSCO Pacific, has invested about US$46,000,000 in cash for a 20% interest of SPICT. The purchase consideration is funded by internal sources. Located at Waigaoqiao free trade zone area A, the terminal is a well-equipped container terminal in Shanghai, capable of handling larger-sized container vessels. The 3-berth terminal has a 900-metre quay length. In 2002, it handled 1,790,000 TEUs, a 24% increase over 2001, representing about 21% of the aggregate throughput of container terminals in Shanghai. Located at an advantageous position in Shanghai, it is a terminal with a prosperous future.

PORT OF ZHANGJIAGANG

Located at the down stream of the Yangtze River, the terminal is one of the major ports along the river.

Zhangjiagang Win Hanverky Terminal
The Group has a 51% interest in Zhangjiagang Win Hanverky Container Terminal Co., Ltd. (“Zhangjiagang Win Hanverky Terminal”). It has two berths, with a quay length of 505 metres and a water depth alongside of 11 metres. It occupies an area of 200,000 square metres with an annual handling capacity of 300,000 TEUs. In 2002, throughput at the terminal increased 25.5% to 202,348 TEUs. The terminal is the only container terminal at Zhangjiagang. With cargo container shipping increasing along the Yangtze River, Zhangjiagang Win Hanverky Terminal is actively expanding the river trade business while continuously benefitting from foreign trade cargo growth.

PORT OF QINGDAO

In 2002, the total throughput at Qingdao port reached 3,410,000 TEUs, representing a growth of 29.6% from 2001, making Qingdao the third largest container port in China mainland following Shanghai and Shenzhen. With well established port facilities, management and services, it is believed that Qingdao will become one of the most important hub ports in northern China with remarkable growth potential in the future.

Qingdao Cosport International Terminals
The Group has a 50% interest in Qingdao Cosport International Container Terminals Co., Ltd. (“Qingdao Cosport International Terminals”), which is located at no. 47 berth in Qingdao port with an area of 250,000 square metres. The terminal has a berth with a quay length of 349 metres, and a water depth alongside of 13.5 metres, providing highly efficient services with an annual handling capacity of 600,000 TEUs of containers. During the year, owing to the decision by the Qingdao municipal government to relocate Qingdao Port's foreign trade cargo berthing to the new Qianwan area, Qingdao Cosport International Terminals is now repositioned as the terminal handling domestic containers. In 2002, throughput of the terminal dropped by 24.3% to 454,528 TEUs.

Starting from 2003, all domestic container businesses in Qingdao port are designated to Qingdao Cosport International Terminals.

PORT OF DALIAN

Dalian Port is located at the southern end of the Liaoning Eastern Peninsula and is presently one of the largest international container ports in northern China. With northeastern China and eastern Mongolia as its major economic hinderland, the port has been expanded and re-structured continually over the past few years. By now, the port has become a large-scale integrated port which provides sophisticated services and facilities to its clients. There is still plenty of room for the port to further develop in the near future.

Dalian Port Container Co.
In December 2001, the Group participated in the establishment of Dalian Port Container Co., Ltd. (“Dalian Port Container Co.”), a joint stock limited company in China mainland, and subscribed for 8% of the equity interest in this company. Dalian Port Container Co. holds a 51% interest in Dalian Container

Terminal Co., Ltd, Dalian's principal container terminal, and is a major shareholder of all other container terminals in Dalian. Dalian Port Container Co. has great development potential and plans to seek a listing on the Chinese stock market. During the year, the aggregate throughput of these terminals increased 10.7% to 1,326,463 TEUs.

PORT RELATED BUSINESSES

Container Handling and Storage

Our wholly owned subsidiary, Plangreat Limited, and its subsidiaries provide container handling, stevedoring, storage and repairing and transporting services to our clients. Its turnover decreased due to the shortage of empty containers in Hong Kong and the declining market demand for depot.

Shanghai Yixian Road

Twinbridge Development Corp. ("Twinbridge Corp."), in which COSCO Pacific has a 30% interest since 1997, participated in the Shanghai Yixian Road Project through a co-operative joint venture, Shanghai Yixian Road & Bridge Development Co., Ltd. ("SYRBL"), and was granted exclusive rights to collect tolls on three toll bridges, namely Wusong Toll Bridge, Wenchuan Toll Bridge and Jiangyang Toll Bridge.

As part of the urban transportation network in Shanghai which is under rapid development, the outer ring road and its tunnel have been completed and fully operational. Meanwhile, other roads and bridges in Shanghai are now toll-free. The People's Government of Baoshan District of Shanghai indicated its intention to terminate the exclusive operating rights for Shanghai Yixian Road. Following negotiations between Twinbridge Corp. and the People's Government of Baoshan District of Shanghai, it was agreed that the exclusive operating rights of Shanghai Yixian Road Project would be terminated. On 30th June 2002, an agreement was signed for disposal of the interests in SYRBL (the "Interests Assignment Agreement").

The interests assignment involves a transaction amount of RMB2,126,000,000, of which RMB1,930,000,000 being the investment recovered by and the compensation awarded to Twinbridge Corp., RMB26,000,000 as payments for all the taxes arising from the termination of the exclusive operating rights and RMB170,000,000 for repayment of bank loans due from SYRBL.

The Interests Assignment Agreement was approved by the relevant authorities on 26th August 2002. The one-time profit of US$7,474,000 arising from the interests assignment was recognised in this calendar year. In 2002, the combined traffic flow of Wusong Toll Bridge, Wenchuan Toll Bridge and Jiangyang Toll Bridge increased by 2.0% over the corresponding period of the previous year.

Container related businesses and others

CONTAINER RELATED BUSINESSES

Owing to growing demand for containers, production volume of the Group's container related manufacturing business increased dramatically in 2002.

Shanghai CIMC Reefer Containers Co., Ltd. ("Shanghai Reefer"), in which the Group holds a 20% interest, produced a total of 33,582 TEUs of refrigerated containers, up 31.0% over 2001.

The Group holds a 20% interest in Shanghai CIMC Far East Container Co., Ltd. ("Shanghai Far East") and a 22.5% interest in Tianjin CIMC North Ocean Container Co., Ltd. ("Tianjin North Ocean"). Shanghai Far East produced 97,174 TEUs of containers, an increase of 75.5% from 2001, and Tianjin North Ocean produced 79,506 TEUs of containers, a huge jump of 138.2% from 2001.

The Group also has a 20% interest in Shanghai Kansai Paint & Chemical Co., Ltd. ("Shanghai Kansai") and Tianjin Kansai Paint and Chemical Co., Ltd. ("Tianjin Kansai") respectively. Both companies are principally engaged in the production of paint for container and vessel uses. Shanghai Kansai produced 20,641 tons of paint in 2002, an increase of 57.2% over 2001, and Tianjin Kansai produced 24,233 tons of paint, up 56.6% from 2001.

OTHER INVESTMENT

Liu Chong Hing Bank Limited
The Group has a 20% interest in Liu Chong Hing Bank Limited ("Liu Chong Hing Bank"), which contributed US$6,848,000 to the Group's profit attributable to shareholders, representing a decrease of 11.8% compared to 2001.

HUMAN RESOURCES

The Company is responsible for developing the skills of employees towards the challenges presented by the market and new technology. Pay and working conditions are modified to suit competitive conditions in the individual market.

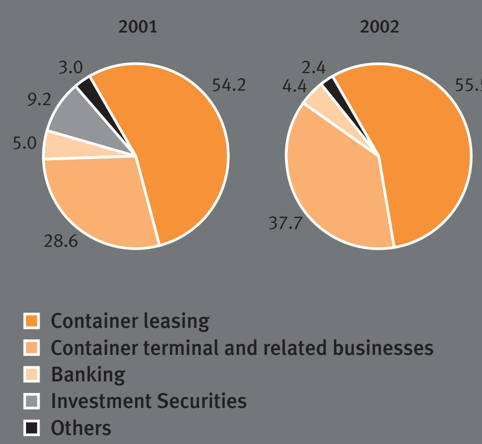
To promote performance and to cultivate an atmosphere of a organisation, we use a common mechanism for monitoring management performance and management development needs. The purpose of this is to create a close connection between the objectives of the enterprise, developed through annual business planning, and individual goals that can easily be followed up.

In addition, the performance of the management is assessed against COSCO Pacific's criteria: business and result focus, change and improvement orientation, employee development, communicative abilities, and values in the form of integrity, trust, respect for the individual and consideration for social responsibilities. In line with the strategy concerning increased emphasis on performance and value creation, the Group introduced an incentive scheme for the staff. The scheme consists of granting share options and an annual bonus linked to the attainment of the business plan.

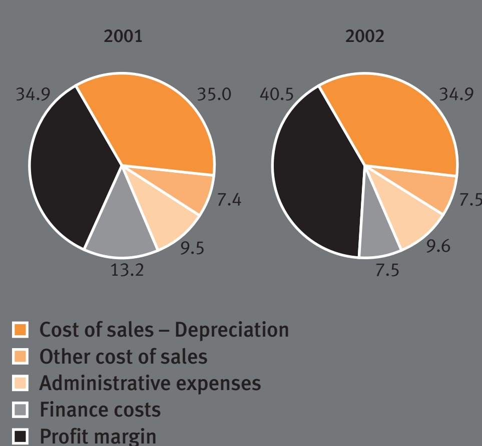
COSCO Pacific's mission is dedicated to building Trust in our stakeholders through our Performance. Our ambition is to develop COSCO Pacific as an attractive workplace for people. Our people in turn bring experience and creativity to the Company's ambitions for high performance, while we strive to create a sustainable future for COSCO Pacific as an excellent workplace through trust, innovation and knowledge.

Management discussion and analysis

Analysis of profit attributable to shareholders (%)



Cost analysis (% of turnover)



FINANCIAL REVIEW

Turnover

Turnover for 2002 increased by 7.6% to US$241,644,000 (2001:US$224,671,000). The Group's turnover continued to derive mainly from container leasing, Zhangjiagang Win Hanverky Terminal and Plangreat Limited and its subsidiaries, which operate container stevedoring, container transport and storage. Turnover derived from associated companies or jointly controlled entities is not included in the Group's turnover.

The performance of the container leasing business was satisfactory, which rose by 7.5% to US$225,004,000 (2001:US$209,343,000). Of that amount, US$136,110,000 (2001: US$135,959,000) was rental income received from COSCON, whereas US$88,330,000 (2001: US$72,383,000) was rental income received from International Customers, and US$545,000 (2001: US$1,001,000) was interest income from finance leases, and the income from the new activity of container management was US$19,000 (2001: US$ Nil). Although average leasing rates dropped during the year, rental income received from International Customers rose by 22.0%, the Group successfully expanded the container fleet for International Customers to 378,862 TEUs (2001: 282,649 TEUs).

Benefitting from growth of China's trade and transportation, annual throughput at Zhangjiagang Win Hanverky Terminal rose by 25.5% to 202,348 TEUs (2001: 161,208 TEUs), whereas its turnover rose to US$7,850,000 (2001: US$5,720,000).

Turnover of Plangreat Limited and its subsidiaries amounted to US$8,790,000 (2001: US$9,608,000). The cargo volume at its depot slightly decreased due to shortage of empty containers.

Cost of sales and gross profit

Cost of sales for the year amounted to US$102,520,000 (2001: US$ 95,395,000), which mainly included depreciation, depot handling charges, maintenance costs and operating expenses. During the year, depreciation increased to US$85,393,000 (2001: US$78,733,000), representing 83.3% of cost of sales (2001: 82.5%). The increase was due to the expansion of container fleet. Other costs of sales rose by 2.8% only to US$17,127,000 (2001: US$16,662,000), which was resulted from the cost reduction programs carried out by the Group during the year and the reduction in direct expenses resulting from the increase in container utilisation rate. Gross profit margin for 2002 rose slightly by 0.1 percentage point to 57.6% (2001: 57.5%).

Other revenues
Other revenues mainly included US$7,048,000 (2001: US$6,885,000) of the sales revenues of Returned Containers, US$3,794,000 (2001: US$5,178,000) of interest income, and US$5,003,000 (2001: US$ Nil) of dividend income.

During the year, the disposal of Returned Containers from COSCON was 15,710 TEUs, against 12,151 TEUs in 2001, and therefore resale revenue increased. The decrease in interest income was due to the low level of interest rates in 2002. The performance of Yantian International Terminals in which the Group has a 5% equity interest was satisfactory. The company declared a dividend during the year and our share was US$5,003,000 (2001: US$Nil).

Administrative expenses
Administrative expenses increased by 8.9% from 2001, which was mainly due to staff costs as additional staff were employed to strengthen the marketing and project development teams. Moreover, travelling expenses increased, but professional fees decreased.

Other operating (expenses)/ income (net)
This category recorded net expenses of US$22,223,000 in 2002 against net income of US$8,149,000 in 2001, which was due to the following factors:

- Impairment losses of certain containers and corporate properties charged to the profit and loss account increased from US$5,680,000 in 2001 to US$15,997,000.

- During the year, the net book value of the disposed Returned Containers from COSCON increased by US$ 579,000 to US$8,929,000 (2001: US$8,350,000).

- At 31st December 2002, the provision for Returned Containers pending disposal increased by US$832,000.

- During the year, bad debts recovered amounted to US$2,999,000 (2001: US$41,000) and net provision for bad and doubtful debts amounted to US$1,142,000 (2001: US$514,000).

- In 2001, the Group recognised a profit of US$14,137,000 from the disposal of the B shares of Shanghai Zhenhua Port Machinery Co., Ltd. and reversed the provision of container repairs and maintenance expenses of US$6,156,000.

Besides, the Group continued to make a provision of US$3,296,000 (2001: US$3,450,000) against the shareholders' loan to River Trade Terminal.

Finance costs
Finance costs decreased by 39.0%. In 2001, interest rates reduced successively and remained at a lower level in 2002. The U.S. Federal Reserve cut interest rate by a further 0.5% in the second half year. The Group's average borrowing interest rate (including the loss of US$1,454,000 (2001: US$204,000) incurred by interest rate swap contracts) was 3.40% for the year (2001: 5.35%). During the year, the repayment of high interest loans also helped to reduce interest expenses.

Share of profits less losses from jointly controlled entities and associated companies
Share of profits from the six jointly controlled entities for the year was US$8,751,000 (2001: US$9,421,000). Although production volume at Shanghai Reefer increased 31.0%, the profit contribution remained the same as last year due to the increase in the price of raw materials and a decrease in the selling price. The share

of profits from Shanghai Far East and Tianjin North Ocean were recognised according to the sub-contracting agreements signed in 2000 and 2001, and their profit contributions increased when compared with those of 2001. Due to intense competition, there was a decline in the overall profit contributions of two companies which produce special paints for containers and vessels. Throughput and profit of Qingdao Cosport International Terminals dropped due to the relocation of berthing of foreign trade cargo vessels.

As for the associated companies, the profit contribution for the year rose 18.7% to US$67,461,000 (2001: US$56,812,000). Throughput at COSCO-HIT achieved a record high in 2002. Its profit contribution increased significantly by 18.8%. Throughput at Shanghai Container Terminal rose by 16.8%. However profit declined due to the decrease in tariff rates. Twinbridge Corp. sold its interest in the Shanghai Yixian Road & Bridge Development Co., Ltd. during the year. Therefore its profit contribution from operations decreased, but the selling of the interest generated a one time profit of US$7,474,000. Liu Chong Hing Bank contributed a profit of US$8,455,000 (2001: US$9,007,000), a decline of 6.1%.

Taxation

The increase in taxation mainly reflected the increase in profit of COSCO-HIT and Zhangjiagang Win Hanverky Terminal.

Profit Attributable to shareholders

Profitable attributable to shareholders for the year increased to US$154,560,000 (2001: US$154,340,000). Basic earnings per share amounted to US7.2017 cents (2001: US7.2081 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$220,537,000 (2001: US$212,123,000). Payment for capital expenditure on fixed assets of US$137,998,000 (2001: US$179,963,000), of which US$135,022,000 (2001: US$175,377,000) was used to purchase new containers. Moreover, the Group invested US$4,519,000 and US$19,941,000 in acquiring an 8% interest in Dalian Port Container Co. and a 17.5% interest in Shekou Container Terminals respectively. The Group raised loans of US$95,604,000 (2001: US$231,197,000) and repaid loans of US$184,468,000 (2001: US$145,304,000). As at 31st December 2002, the Group had cash of US$236,121,000 (2001: US$254,109,000), of which US$30,000,000 was part of the proceeds from the issue of new shares in May 1999. This amount was remitted to the Shanghai Pudong International Container Terminals Ltd. in February 2003 as part of the payment of the Group's 20% investment in that company.

Assets and liabilities

The Group continued to maintain a healthy balance sheet. As at 31st December 2002, total assets amounted to US$1,755,376,000 (2001: US$1,738,747,000), whereas total liabilities and minority interests amounted to US$467,474,000 (2001: US$538,453,000). Net assets amounted to US$1,287,902,000 (2001: US$1,200,294,000), an increase of 7.3% over the previous year. The increase was mainly due to retained profit for the year.

Cash balance as at 31st December 2002 amounted to US$236,121,000 (2001: US$254,109,000). Total outstanding borrowings amounted to US$420,674,000 (2001: US$509,538,000). The net debt-to-equity ratio further reduced to 14.3% (2001: 21.3%). With reduced interest expenses due to the continuous interest rate cuts, interest coverage expanded to 11.8 times (2001: 7.9 times).

As at 31st December 2002, the Group's bank deposits of US$7,817,000 (2001: US$8,174,000), together with certain containers with an aggregate net book value of US$278,378,000 (2001: US$253,778,000) were pledged to various banks and financial institutions to secure borrowings of US$156,578,000 (2001: US$162,532,000).

Contingent liabilities

As at 31st December 2002, the Group had no significant contingent liabilities (2001: the Group granted guarantees of US$585,000 for securing the banking facility of a jointly controlled entity).

FINANCIAL MANAGEMENT

During the year, the Group completed two major financing exercises. In July 2002, the Group entered into an agreement with a syndicate for a 5.5 year secured loan facility of US$90,000,000. US$63,027,000 of the loan facility was used to purchase containers and the balance was utilised to refinance an early repayment of a fixed rate borrowing with high interest rates. The fund-raising exercise was well received and had exceeded its target, which further demonstrated the confidence and support of the banking sector in the Group. COSCO-HIT, an associated company of the Group, engaged four underwriting banks for the arrangement of a syndicated loan of HK$2,000,000,000, which was intended for refinance and working capital. The loan agreement was signed in August 2002 and was instrumental for COSCO-HIT to reduce its interest expenses.

As at 31st December 2002, the Group had an aggregate amount of US$96,329,000 (2001: US$37,800,000) in committed facilities available from banks. In January 2003, the Group arranged with banks for a 5-year syndication loan facility which was intended for working capital and refinance. The syndication was also well received and had exceeded its target. The loan agreement of US$ 175,000,000 was signed on 17th February 2003.

Through the above financing arrangement, together with the Group's cash balance of US$236,121,000 at the end of the year (2001: US$ 254,109,000) and the expected cash inflow from operations in 2003, the Group will have adequate funds for repaying loans maturing in 2003 and for financing part of the planned capital expenditure. The Group will consider other finance plans to increase cash reserves in due course.

As at 31st December 2002, debt analysis was as follows:

	2002 (US$'000)	2002 (%)	2001 (%)
By repayment term			
Within the first year	210,189	50.0	21.3
Within the second year	67,410	16.0	41.5
Within the third year	67,839	16.1	14.3
Within the fourth year	31,314	7.5	13.7
Within the fifth year and after	43,922	10.4	9.2
	420,674	100.0	100.0
By type of loan			
Secured loans	156,578	37.2	31.9
Unsecured loans	264,096	62.8	68.1
	420,674	100.0	100.0
By denomination of loan			
U.S. Dollar	416,579	99.0	97.2
RMB	4,095	1.0	2.8
	420,674	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 also mainly in U.S. dollars. Hence, foreign exchange risk is minimal.

The Group exercises stringent control over the use of derivatives for hedging purposes. During the year, the Group entered into interest rate swap contracts for US$100,000,000 to contain the risk of rising interest rates. As at 31st December 2002, the notional principal amounts of the outstanding interest rate swap contracts amounted to US$ 100,000,000 (2001: US$19,825,000), with the fixed interest rates ranging from 3.88% to 4.90% (2001: 5.70% to 5.80%). Besides, the Group made early repayment of part of the fixed rate borrowings carrying high interest rates. As at 31st December 2002, fixed rate borrowings of the Group amounted to US$4,095,000 (2001:US$ 45,671,000). The aforesaid interest rate swap contracts and fixed rate borrowings accounted for 24.7% of the Group's total borrowings in 2002 (2001: 12.9%).

9-year statistical summary

	94	95	96	97	98	99	00	01	02
PROFIT & LOSS									
Turnover (US$ million)									
Container leasing	104.2	124.1	144.6	167.9	202.1	205.1	202.1	209.4	225.0
Container handling and storage	–	–	–	12.0	10.8	10.9	10.5	9.6	8.8
Container terminal	–	–	–	3.6	4.2	4.6	5.3	5.7	7.8
	104.2	124.1	144.6	183.5	217.1	220.6	217.9	224.7	241.6
EBITDA (US$ million)	101.0	125.4	167.7	198.6	241.1	245.0	255.1	264.7	267.2
Depreciation & Amortisation (US$ million)	(48.2)	(61.4)	(72.8)	(52.1)	(66.8)	(70.6)	(74.8)	(81.0)	(87.7)
EBIT (US$ million)	52.8	64.0	94.9	146.5	174.3	174.4	180.3	183.7	179.5
Interest expenses (US$ million)	(12.9)	(18.8)	(22.5)	(27.9)	(41.7)	(37.1)	(38.1)	(24.0)	(15.4)
Interest income (US$ million)	0.6	1.7	4.0	11.1	3.1	5.1	12.2	5.2	3.7
Profit before taxation (US$ million)	40.5	46.9	76.4	129.7	135.7	142.4	154.4	164.9	167.8
Operating profit after finance costs (US$ million)	40.5	44.5	45.2	85.5	80.8	83.4	81.5	98.7	91.6
Profit attributable to shareholders (US$ million)	40.3	46.4	75.7	122.7	129.3	134.1	142.5	154.3	154.6
Breakdown of profit attributable to shareholders (US$ million)									
Container leasing	40.3	44.7	42.9	82.2	87.0	84.9	75.6	83.6	85.7
Container terminal and related businesses	–	2.0	30.9	40.1	40.8	41.5	47.5	44.2	58.2
Banking	–	–	–	1.0	9.0	9.3	12.9	7.8	6.8
Investment securities	–	–	–	–	0.1	0.2	0.3	14.1	–
Other operations	–	–	–	1.2	2.0	1.6	2.7	4.9	5.2
Net financial income/(expenses)	–	1.4	4.6	(0.3)	(6.2)	(0.5)	6.4	2.9	2.1
Net corporate income/(expenses)	–	(1.7)	(2.7)	(1.5)	(3.4)	(2.9)	(2.9)	(3.2)	(3.4)
	40.3	46.4	75.7	122.7	129.3	134.1	142.5	154.3	154.6
BALANCE SHEET									
Consolidated total assets (US$ million)	539.7	666.0	959.1	1,444.0	1,559.9	1,642.0	1,568.7	1,738.7	1,755.4
Consolidated total liabilities and minority interests (US$ million)	306.3	310.9	350.2	673.0	687.8	631.5	467.7	538.4	467.5
Consolidated net assets (US$ million)	233.4	355.1	608.9	771.0	872.1	1,010.5	1,101.0	1,200.3	1,287.9
Consolidated total debts (US$ million)	278.5	289.1	320.3	600.0	634.3	560.8	423.6	509.5	420.7
Cash balance (US$ million)	74.0	14.3	178.6	38.4	87.6	252.3	145.6	254.1	236.1
Consolidated net debts (US$ million)	204.5	274.8	141.7	561.6	546.7	308.5	278.0	255.4	184.6
STATISTICS									
Total number of shares issued (million)	1,020.0	1,659.1	1,917.5	2,051.8	2,051.8	2,139.2	2,139.2	2,142.5	2,147.0
Share price (as at 31st December) (US$)	0.340	0.647	1.154	0.808	0.413	0.827	0.776	0.516	0.821
(HK$)	2.650	5.050	9.000	6.300	3.225	6.450	6.050	4.025	6.400
Market capitalisation (as at 31st December) (US$ million)	346.5	1,074.1	2,212.4	1,657.2	848.4	1,769.0	1,659.3	1,105.6	1,761.7
Weighted average no. of shares issued (million)	777.6	1,100.6	1,730.2	2,019.1	2,051.8	2,109.5	2,139.2	2,141.2	2,146.2
Earnings per share (US cents)	–	4.2124	4.3752	6.0792	6.3016	6.3561	6.6634	7.2081	7.2017
P/E (as at 31st December) (Times)	–	15.4	26.4	13.3	6.6	13.0	11.6	7.2	11.4
Dividend per share (US cents)	0.256	1.826	1.923	2.123	2.298	2.344	2.465	3.013	3.718
Dividend payout ratio (%)	–	43.3	44.0	34.9	36.5	36.9	37.0	41.8	51.6
Net assets value per share (HK$)	1.785	1.669	2.477	2.931	3.315	3.685	4.014	4.370	4.679
Return on assets (%)	7.5	7.7	9.3	10.2	8.6	8.4	8.9	9.3	8.8
Return on equity (%)	17.3	15.8	15.7	17.8	15.7	14.2	13.5	13.4	12.4
Net debt-to-equity ratio (%)	87.6	77.4	23.3	72.8	62.7	30.5	25.3	21.3	14.3
Interest coverage (Times)	4.3	3.5	4.4	5.7	4.3	4.8	5.1	7.9	11.8

	94	95	96	97	98	99	00	01	02
CONTAINER LEASING									
Turnover (US$ million)	104.2	124.1	144.6	167.9	202.1	205.1	202.1	209.4	225.0
Breakdown of rental income									
COSCON (US$ million)	98.9	114.4	126.0	138.6	149.0	142.6	136.8	136.0	136.1
International Customers (long term) (US$ million)	4.7	6.8	14.0	17.5	29.0	32.0	35.7	40.4	49.1
International Customers (short term) (US$ million)	–	–	–	7.6	19.9	27.2	27.9	31.9	39.2
Fleet capacity (TEUs)	261,570	291,083	343,245	469,951	505,954	500,899	527,982	610,019	707,890
Breakdown of fleet capacity by customers									
COSCON (TEUs)	222,810	246,973	282,160	335,117	340,344	311,047	303,978	327,370	329,028
International Customers (TEUs)	38,760	44,110	61,085	134,834	165,610	189,852	224,004	282,649	378,862
COSCON (%)	85.2	84.8	82.2	71.3	67.3	62.1	57.6	53.7	46.5
International Customers (%)	14.8	15.2	17.8	28.7	32.7	37.9	42.4	46.3	53.5
Breakdown of fleet capacity by types									
Dry (TEUs)	251,910	274,178	323,680	432,734	463,200	456,490	482,516	561,419	657,466
Reefer (TEUs)	7,314	13,245	15,789	28,889	30,325	30,757	31,880	35,078	36,962
Special (TEUs)	2,346	3,660	3,776	8,328	12,429	13,652	13,586	13,522	13,462
Dry (%)	96.3	94.2	94.3	92.1	91.5	91.2	91.4	92.0	92.9
Reefer (%)	2.8	4.5	4.6	6.1	6.0	6.1	6.0	5.8	5.2
Special (%)	0.9	1.3	1.1	1.8	2.5	2.7	2.6	2.2	1.9
Capital expenditure on containers (US$ million)	171.1	148.7	137.2	348.3	127.9	57.7	116.3	165.0	153.7
New container purchase (TEUs)	64,437	40,600	50,577	126,706	58,009	40,094	69,060	96,953	119,466
Disposal of Returned Containers (TEUs)	–	–	–	1,421	18,740	40,319	34,087	12,151	15,710
Fleet age (Year)	2.9	3.5	4.1	3.6	4.0	4.1	4.2	4.3	4.4
Utilisation rate (%)									
COSCO Pacific	100.0	100.0	100.0	97.5	97.0	96.5	95.1	91.4	93.4
Industry average	87.0	85.0	82.0	85.0	80.0	80.0	83.0	75.0	83.0
No. of customers	5	20	38	86	150	175	155	155	176
CONTAINER TERMINALS									
Throughput (TEUs)									
COSCO-HIT	–	1,193,000	1,152,574	1,302,409	1,206,572	1,220,002	1,412,854	1,301,966	1,526,074
River Trade Terminal	–	–	–	–	8,075	356,846	980,759	1,262,235	1,797,096
Yantian International Terminals	–	–	–	638,396	1,038,074	1,588,089	2,147,476	2,751,885	4,181,478
Shekou Terminals	–	–	–	–	–	–	–	–	883,572
Shanghai Terminals	–	–	–	1,766,590	2,027,188	2,593,995	2,950,500	2,609,800	3,049,080
Zhangjiagang Win Hanverky Terminal	–	–	–	119,384	105,051	113,114	136,778	161,208	202,348
Qingdao Cosport International Terminals	–	–	–	300,332	350,126	401,029	502,119	600,329	454,528
Dalian Port Container Co.	–	–	–	–	–	–	–	–	1,326,463
Port (TEUs)									
Hong Kong	11,266,000	12,563,000	13,280,000	14,500,000	15,090,000	16,210,000	18,098,000	17,827,000	19,100,000
Shenzhen	179,000	284,000	589,000	1,148,000	1,952,000	2,978,000	3,993,000	5,076,000	7,614,000
Shanghai	1,200,000	1,526,000	1,971,000	2,527,000	3,066,000	4,206,000	5,613,000	6,330,400	8,610,000
Qingdao	430,000	600,000	810,000	1,033,000	1,213,000	1,543,000	2,100,000	2,638,500	3,410,000

Major events

Year 2002

JANUARY

2nd

CONTAINER LEASING

Florens container leasing platform was established to provide on-line leasing services

E-commerce Exploration Work (Phase II) started providing on-line leasing services to clients

18th

THE BOARD

Board Meetings of Shanghai Kansai and Tianjin Kansai

21st

THE BOARD

Board Meeting of Yantian International Container Terminals

21st – 23rd

CONTAINER LEASING

Florens Management Meeting in 2002

FEBRUARY

8th

INVESTOR RELATIONS

In the "Corporate Governance Report" published by CLSA Ltd., COSCO Pacific was ranked one of the Best Chinese Companies in Corporate Governance

25th

THE BOARD

Establishment of Dalian Port Container Co.

First Annual General Meeting and Board Meeting of Dalian Port Container Co.

MARCH

4th – 6th

CONTAINER LEASING

Global market review meeting of Florens

11th

PORT

Dalian Port Container Co. was officially registered in Dalian

14th

THE BOARD

Board Meeting of Liu Chong Hing Bank

14th – 16th

THE BOARD

Board Meetings of Shanghai Kansai and Tianjin Kansai

25th

THE BOARD

Audit Committee Meeting of COSCO Pacific

27th

THE BOARD

Board Meeting of COSCO Pacific

INVESTOR RELATIONS

Fund managers and analysts meeting and press conference of COSCO Pacific

APRIL

24th

COMMUNICATION WITH SHAREHOLDERS

Distribution of COSCO Pacific annual reports to all directors and shareholders

25th

THE BOARD

Board Meeting and Annual General Meeting of Liu Chong Hing Bank

26th

PUBLIC RELATIONS

Celebrated the Maiden Voyage of "COSCO Hong Kong" to Hong Kong at COSCO-HIT

29th

THE BOARD

Board Meetings of Shanghai Reefer and Shanghai Far East

30th

THE BOARD

Board Meeting of Tianjin North Ocean

MAY

2nd

THE BOARD

Board Meeting of Cheer Hero Development Limited

24th

ANNUAL GENERAL MEETING

Annual General Meeting of COSCO Pacific

JUNE

10th

THE BOARD

Board Meeting of Yantian International Container Terminals

21st

TERMINAL RELATED

Board meeting of Twinbridge Corp. approving the disposal of SYRBL

28th

COSCO Pacific signed the Four-Party Cooperation Memorandum for Qian Wan Terminal JV in Qingdao with Qingdao Port Authority and other partners

JULY

5th

CONTAINER LEASING

Florens successfully passed the ISO9001 (2000 Version) annual audit

9th

THE BOARD

Board Meetings of Shanghai Kansai and Tianjin Kansai

10th

THE BOARD

Directors' Guidance Meeting of Dalian Port Container Co. and the 2nd meeting of the First Board Meeting

11th

THE BOARD

Board Meeting of Liu Chong Hing Bank

12th

FINANCING

Signing Ceremony of US$90,000,000 syndicated loan agreement of Florens Container, Inc. (1998)

AUGUST

9th

FINANCING

Signing Ceremony of HK$2,000,000,000 of syndicated loan arrangement for COSCO-HIT

13th

APPOINTMENT

Mr. SUN Jiakang was appointed Vice President of COSCO Hong Kong

16th

THE BOARD

Board Meeting of COSCO-HIT

19th

THE BOARD

Board Meeting of Liu Chong Hing Bank

26th

THE BOARD

Audit Committee Meeting of COSCO Pacific

TERMINALS

The disposal of SYRBL by Twinbridge Corp. was approved by the relevant authorities in the PRC

SEPTEMBER

2th

APPOINTMENT

Mr. SUN Jiakang was appointed Executive Director of COSCO Pacific

5th

THE BOARD

Board Meeting of COSCO Pacific

INVESTOR RELATIONS

Fund mangers and analysts meeting and press conference of COSCO Pacific

15th

APPOINTMENT

Mr. SUN Jiakang was appointed Managing Director of COSCO Pacific following Mr. SHI Qin's resignation

16th

THE BOARD

Board Meeting of Florens Container Holdings Limited

17th

THE BOARD

Board Meeting of River Trade Terminal

OCTOBER

10th

THE BOARD

Board Meeting of Zhangjiagang Win Hanverky Container Terminal

18th

INVESTOR RELATIONS

COSCO Pacific was included as one of the Hong Kong and Pacific Region Constituent Stock of FTSE Style and regarded as a valued and growing company

19th – 20th

EMPLOYEE ACTIVITIES

Florens staff activities for team building

NOVEMBER

5th

THE BOARD

Board Meetings of Shanghai Kansai and Tianjin Kansai

8th

THE BOARD

Annual General Meeting of Dalian Port Container Co.

18th – 22nd

CONTAINER LEASING

Global Technology Operation Conference of Florens

21st

THE BOARD

Board Meeting of Liu Chong Hing Bank

26th

TERMINALS

Announcement of the acquisition of 17.5% equity interests of Shekou Container Terminals

DECEMBER

10th – 12th

CONTAINER LEASING

Florens participated in "Intermodal" Exhibition in Rotterdam, Holland

19th

PUBLIC RELATIONS

8th listing Anniversary of COSCO Pacific

"Greening for the chest" tree plantation ceremony

24th

TERMINALS

Yantian International Container Terminals (Phase III), in which COSCO Pacific has a 4.45% interests, completed all business registration procedures

26th

TERMINALS

COSCO Pacific completed the share transfer processes for equities in Shekou Container Terminals

Year 2003

JANUARY

20th

INVESTOR RELATIONS

COSCO Pacific was included in Hang Seng Free Floating China Mainland 25 Index

FEBRUARY

17th

FINANCING

Signing ceremony of US$175,000,000 syndicated loan agreement of Florens Containers Corporation S.A.

24th

TERMINALS

Establishment of OnePort Limited which COSCO-HIT held 10% interest

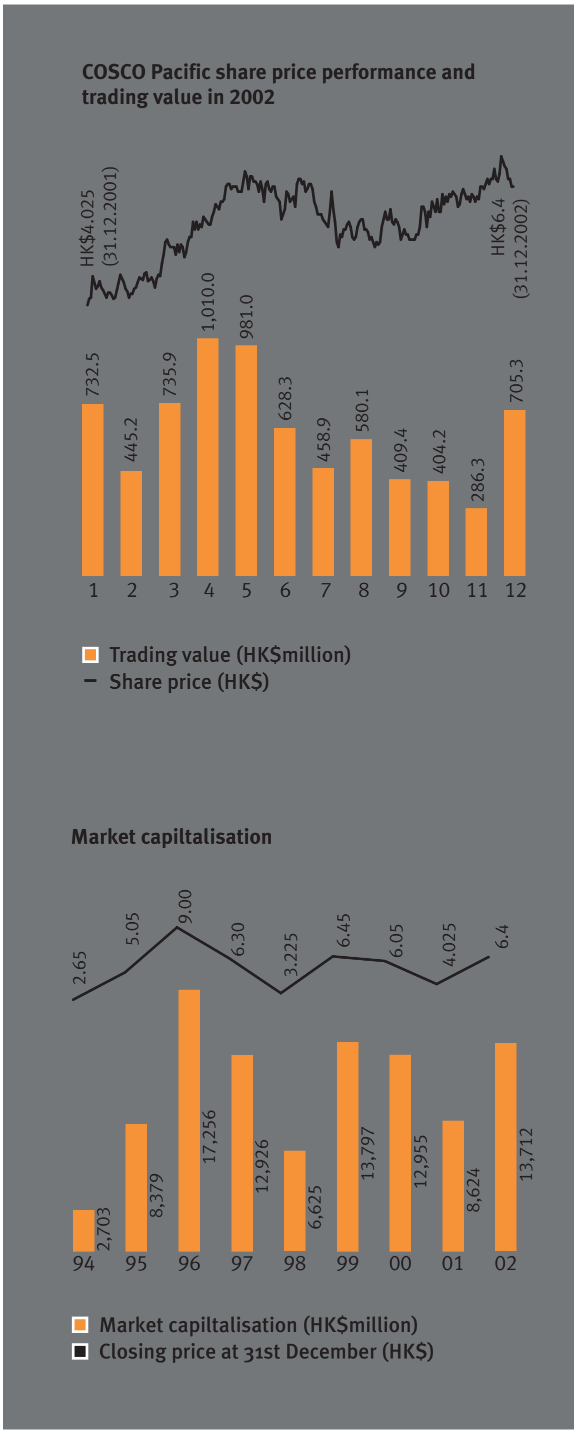
MARCH

1st

TERMINALS

Opening ceremony of Shanghai Pudong International Container Terminals Ltd.

Investor relations



INVESTOR RELATIONS CREATES SHAREHOLDERS VALUE

We believe that good investor relations plays an essential role in creating shareholders value. It is a corporate marketing activity combining the disciplines of communications and finance that aims to provide present and potential investors with an accurate portrayal of a company's performance and prospects. Conducted effectively, investor relations can have a positive effect on a company's total value relative to that of the overall market and a company's cost of capital.

Our investor relations activities include:

- Monitoring the market and investor's expectations and concerns
- Participating in investor forums
- Regularly meeting fund managers and analysts
- Regularly updating the public about our latest business operations
- Explaining our strategies to investors
- Keeping a high standard of transparency
- Maintaining best practice in terms of disclosure of corporate information
- Website updating allow us to disseminate information in an effective manner

OUR MARKET VALUE

Good investor relations can help our share price reflect the intrinsic value of our Company and its performance. COSCO Pacific's share price started to reflect our strong performance from March 2002 and was up 59.0% at the end of year, mentioned as a "stellar" performance in Asia Pacific conglomerates universe.

Market capitalisation

Our market capitalisation has been maintaining an overall upward trend since the beginning of 2003. As at 26th March 2003, our market capitalisation reached HK$15.2 billion representing about 5.6 times our value in 1994.

For the past several years, the capital market has experienced many unexpected impacts, such as the Asian financial crisis of 1997 and the "9·11" event in 2001. However, COSCO Pacific has been able to maintain a relatively stable stock performance in the market. Our dedication to maintaining good investor relations and high degree of transparency, are the key elements to support our stock performance which in turn positively affects our shareholders value.

COMMUNICATIONS

Our communications with investors are conducted and closely monitored by top management. We endeavour to provide sufficient and open channels for investors to communicate with our senior management on a frequent basis. We deliver precise, concise and accurate corporate information to investors and the public at large. In 2002, the total number of investors we met was 1,196.

No. of Investors	2002	2001	2000	1999	1998	1997
One-on-One meeting	581	332	317	380	538	468
Luncheon meeting	31	72	91	157	282	164
Roadshow	584	340	552	449	395	282
Total	1,196	744	960	986	1,215	914

With our outstanding performance, we will further reinforce our investor relations to secure their trust and investment.

INVESTOR RELATIONS ACTIVITIES

Month	Roadshow
Year 2002	
March	Release of 2001 Final Results: – Press Conference – Fund Managers and Analysts Conference – Analysts panel discussion – One-on-one meetings with institutional investors in Hong Kong
April	Salomon Smith Barney "HK Corporate Day"
May	JP Morgan "China Conference" in Singapore & Hong Kong
	"CLSA China Forum 2002" in Beijing
July	Deutsche Securities "Hong Kong/China Corporate Day" in Hong Kong and Singapore
	Lunch presentation arranged by Merrill Lynch
September	Release of 2002 Interim Results: – Press Conference – Fund Managers and Analysts Conference – Analysts panel discussion – One-on-one meetings with institutional investors in Hong Kong
	One-on-one meetings with institutional investors in Singapore arranged by ABN Amro Securities
October	Morgan Stanley "Asia Pacific Summit" in Singapore
December	One-on-one meetings with institutional investors in Europe arranged by Morgan Stanley
Year 2003	
January	One-on-one meetings with institutional investors in Singapore arranged by Salomon Smith Barney
March	UBS Wardburg "Asia Transport Conference 2003" in Singapore
	Release of 2002 Final Results: – Press Conference – Fund Managers and Analysts Conference – Analysts panel discussion – One-on-one meetings with institutional investors in Hong Kong

Frequently asked questions

Q: What is the Five-year Development Plan of COSCO Pacific?

A: Our management has conducted serious and detailed studies on the corporate strategies for the years 2003 - 2007 to ensure healthy and stable long term development. We have examined the operating environment, our internal resources and have formulated our strategies through corporate strategy selection process. In the coming five years, COSCO Pacific plans to establish its leading positions in a threefold dimension: container leasing, container terminal operations and logistics service. Among which, container terminal operations and logistics service contribute high-yield growth momentum while the container leasing business provides a steady income stream.

Q: The price and rental of containers have been falling for the past years, as an industry leader, how does COSCO Pacific view the long term development of the container leasing business?

A: Following the increase in supply of containers and the decline in container price due to the robust growth of container manufacturing business in China since 1990's, the leasing rate of container has also declined accordingly. The current container price has already reached a relatively low and stable level without much room for further downward adjustment. It is expected that the container price would go up as China's economy continue to develop rapidly, which results in a greater demand for containers. In view of the continuous growth of global trade and economy, container sea freight industry will also expand. The growth potential of the industry is enormous as it is estimated that only approximately 50% of maritime cargoes are containerised, with an increase of 5 – 6% each year in the coming few years. Container leasing industry is expanding its value-added services to shipping companies so as to achieve a win/win situation with their clients. At present, container leasing industry accounts for approximately 45% of the total volume in the world by TEU measurement and this ratio will remain stable at 45% level in the coming years. Accordingly, the container leasing industry should continue to grow steadily on a long term perspective.

Q: Both throughput and profits of the terminals of COSCO Pacific achieve better growth but COSCO Pacific does not have significant shareholdings in such terminals, can you explain your strategy in the investment of terminals?

A: COSCO Pacific invests, operates and manages terminals. We have accumulated extensive experience and gathered a team of excellent staff. For those terminals in which we have controlling shareholdings or major shareholdings (for example, Zhangjiagang Win Hanverky Terminal, COSCO-HIT and Qingdao Cosport International Terminals), we involve directly and extensively in the operation and management. For terminals with less shareholdings (for example, Shanghai Pudong International Container Terminals), we actively engage ourselves in their operation and management through appointment of our management staff. COSCO Pacific has been focusing on container terminals in China and overseas hub port projects. We intend to increase terminals with controlling shareholdings or equity interests not less than 20% and will attempt to participate more in the operation and management of all the terminals in which we have interests.

Q: COSCO Pacific has maintained a very low gearing ratio since the outbreak of Asian financial turmoil, how could COSCO Pacific increase its return on equity in future?

A: COSCO Pacific will continue to expand its core businesses. The container purchase plan for 2003 is 105,200 TEUs. Total investment is approximately US$156 million. In respect of the container terminal business, the Company completed the acquisition of 17.5% equity interests in Shekou Container Terminals in December 2002 and the acquisition of 20% equity interests in the Shanghai Pudong International Container Terminals in February 2003. To further strengthen our market share and earnings from container terminals, the Company is looking into various terminal investment projects in the Pearl River Delta, the Yangtze River Delta and the northern China. Upon completion of these acquisition plans, our net debt-to-equity ratio will be increased and the return on shareholders' equity will be enhanced.

Q: What is the purpose of establishing the three committees, namely, Investment and Strategic Planning Committee, Corporate Governance Committee and Risk Management Committee?

A: The establishment of these three committees aims to improve board efficiency. These committees are formed by executive directors of the Board and respective professionals within our management. We are also planning to set up Nomination Committee and Remuneration Committee to improve the monitoring of our Board.

In order to achieve a higher standard of corporate governance, our Board of Directors and management are committed to implementing a higher standard of corporate governance. This, we believe, should protect the long term interests of our shareholders.

Risk management is an important part for the operation of the Company. Our Board of Directors and management attach great importance to risk management and have formulated a series of internal review and control system for risk management. This system is directly under the control and management of the Managing Director. We have also set up various specific internal review and control systems for such risk factors as on operation, investment, finance and legal matters, which are under the control of the senior management.

Q: How does COSCO Pacific strengthen its investor relations?

A: We believe that good investor relations plays an essential part in creating shareholders' value. It is a corporate marketing activity combining the disciplines of communications and finance that aims to provide present and potential investors with an accurate portrayal of a company's performance and prospects. Conducted effectively, investor relations can have a positive effect on a company's total value relative to that of the overall market and a company's cost of capital.

We conducted investor relations by:

- monitoring the market and investors' expectations and concerns
- participating in investors forum to strengthen communication with investors and present our information to them
- regularly meeting with fund managers and analysts
- regularly updating the public about our latest business operations
- explaining our strategies to investors
- keeping a high standard of transparency
- maintaining best practice in terms of disclosure of corporate information

Good investor relations can help our share price to reflect the intrinsic value of our Company and its performance. COSCO Pacific's share price was up 59.0% at the end of the year, mentioned as a "stellar" performance in Asia Pacific conglomerates universe. As at 26th March 2003, our market capitalisation reached HK$15.2 billion, representing 5.6 times our value when listed in 1994.

Our communications with investors are conducted and closely monitored by top management. We endeavour to provide sufficient channels for investors to communicate with our senior management on a frequent basis. We deliver precise, concise and accurate corporate information to investors and the public at large. Starting from 2003, we plan to update fund managers and analysts about our latest business operations on a quarterly basis in addition to our interim and final results announcements.

Corporate governance

The Board of Directors and senior management of the Company are committed to maintaining a high standard of corporate governance and it remains as one of the Company's top priorities. We firmly believe that to maintain a good, solid and sensible framework of corporate governance will ensure the Company to run its business in the best interests of its shareholders and its stakeholders.

BOARD OF DIRECTORS

The Board of Directors (the "Board") of the Company consists of 13 executive directors, 4 independent non-executive directors and 1 non-executive director.

The Board is charged with leading the Group (the Company and its subsidiaries) in a responsible and effective manner. Each director has to carry out his/her duties in utmost good faith above and beyond any prevailing applicable laws and regulations and act in the best interests of the shareholders and stakeholders. The duties of the Board include establishing the strategic direction of the Group, setting objectives and monitoring the performance of the senior management.

To ensure their independence, accountability and responsibility, the roles of the Chairman and the Vice Chairman are separate from that of the Managing Director. The Managing Director, supported by other board members and the senior management, is responsible for managing the Group's business, implementation of major strategies, day-to-day decision making and co-ordination of overall business operations. The Chairman and the Vice Chairman are responsible for formulating the overall strategies and policies of the Company.

The independent non-executive directors, all of whom are independent of the management of the Company, are highly experienced professionals coming from a diversified industrial background. They ensure that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate check and balance to safeguard the interests of shareholders and the Company as a whole.

According to the bye-laws of the Company, one-third of the directors shall retire from office by rotation but shall be eligible for re-election at the Annual General Meeting. The Chairman and the Managing Director are not subject to retirement by rotation whilst holding office, but are subject to re-election by shareholders at the Annual General Meeting in their first year of appointment.

The full Board meets no less than twice a year to review the financial and operating performance of the Group. Financial Controller and Company Secretary also attend all board meetings to advise on statutory compliance, accounting and financial matters.

There were two board meetings held in the year of 2002 and the average attendance rate was 70.61% (please refer to the table below for the attendance record of the previous years). All businesses transacted at the above meetings are well-documented and maintained in accordance with applicable laws and regulations.

Date of Board Meeting	Total no. of Directors	No. of Directors Present	Attendance Rate
5th September 2002	19	11	57.89%
27th March 2002	18	15	83.33%
6th September 2001	16	9	56.25%
29th March 2001	16	14	87.50%
6th September 2000	15	10	66.66%
28th March 2000	15	14	93.33%

FINANCIAL CONTROLLER

The Financial Controller is responsible for the preparation of the interim and annual financial statements based on generally accepted accounting principles in Hong Kong. The Financial Controller has to ensure that the financial statements present fairly the results and the financial position of the Company and comply with the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. In addition, the Financial Controller is responsible for preparing the annual financial budget of the Company for approval by the Board of Directors. The Financial Controller also plays a role of reviewing and making recommendations to the Board on the Group's financial risk management.

COMPANY SECRETARY

The Company Secretary is responsible directly to the Board to ensure applicable laws and regulations are complied with and to ensure that the Board procedures are strictly followed. The Company Secretary is also responsible for providing advices to the Board on directors' obligations on disclosure of interests in securities, disclosure of discloseable transactions, connected transactions and price-sensitive information. The Company Secretary has to advise the Board on disclosure of information in a true, accurate, complete and timely manner in strict compliance with the requirements of the applicable laws, regulations and the Company's bye-laws.

BOARD COMMITTEES

The Board has approved and appointed a number of Board Committees.

(1) Audit Committee
The Audit Committee, chaired by Mr. Alexander Reid HAMILTON, was established by the Board of the Company in August 1998 with defined terms of reference. Other members are Dr. LI Kwok Po, David and Mr. LEE Yip Wah, Peter. All the committee members are independent non-executive directors of the Company and are well-versed in the accounting area. The Committee provides advice and recommendations to the Board and oversees all matters relating to the external auditors, thus it plays an important role in monitoring and safeguarding the independence of external auditors. Both the Financial Controller and the Internal Auditor are directly accountable to the Chairman of the Audit Committee.

The Committee meets no less than twice a year with the senior management and the internal and external auditors to review the accounting principles and practices adopted by the Group and other financial reporting matters, assures the completeness, accuracy and fairness of the financial statements of the Company, discuss the effectiveness of the systems of internal control throughout the Group and most importantly, reviews all significant business affairs managed by the executive directors in particular on connected transactions.

During the financial year 2002, the Committee met twice with an average attendance rate of 83.33% (please refer to the table below for the attendance record of the previous years). All businesses transacted at the above meetings are well-documented and maintained in accordance with applicable laws and regulations.

After each audit committee meeting, the Audit Committee Chairman will present to the Board a written report which highlights any significant issues discussed in the meeting during a board meeting.

(2) Other Committees
During the board meeting held on 26th March 2003, the Board has approved the establishment of three committees, namely, (i) Investment and Strategic Planning Committee (chaired by Mr. SUN Jiakang, the Managing Director of the Company), (ii) Corporate Governance Committee (chaired by Mr. WONG Tin Yau, Kelvin, Executive Director, Deputy Managing Director of the Company) (iii) Risk Management Committee (chaired by Mr. LU Chenggang, Executive Director, Deputy Managing Director of the Company). These three committees expect to have a meeting on a quarterly basis. They will report to the Board on their relevant matters as and when required.

Date of Audit Committee Meeting	Total no. of Audit Committee Members	No. of Committee Members Present	Attendance Rate
26th August 2002	3	2	66.66%
25th March 2002	3	3	100%
29th August 2001	3	2	66.66%
26th March 2001	3	3	100%
25th August 2000	3	3	100%
27th March 2000	3	3	100%

ANNUAL GENERAL MEETING

The Company regards the Annual General Meeting as an important event as it provides an important opportunity for direct communication between the Board and the Company's shareholders. All directors (including executive directors, independent non-executive directors and non-executive director) and senior management will make an effort to attend. All shareholders will be given at least 21 days' notice of the Annual General Meeting and they are encouraged to attend the Annual General Meeting and other shareholders' meetings. Questioning by the shareholders at such meetings are encouraged and welcomed.

INTERNAL CONTROL

The internal control and accounting systems of the Group are designed to provide reasonable assurance that assets are safeguarded against unauthorised use or disposition, that transactions are executed in accordance with management's authorisation and that the accounting records are reliable for preparing financial information used within the business or for publication and maintaining accountability for assets and liabilities.

To establish a sound system of internal controls and safeguard shareholders' interests and the Group's assets, the Company has established an Internal Audit Department since September 2000 which independently reviews the internal controls, evaluates their adequacy, effectiveness and compliance. It has unrestricted right to access to the information that allows it to review all aspects of the Group's activities and internal controls.

The key tasks of the Department is to provide an independent and objective appraisal of activity for the Managing Director and furnishes him with analyses, recommendations, and information concerning the activities reviewed; conduct regularly comprehensive audits of the practices, procedures, expenditure and internal controls of all business and support units and subsidiaries, both on regular and as-needed basis; conduct special reviews and/or investigations and produce an audit report on each assignment. All concerns which have been reported by the Internal Auditors are monitored by the management until appropriate corrective measures have been implemented. All recommendations for improvement suggested by the Internal Auditors have been taken by the management within an agreed time limit.

The head of the Internal Audit Department reports directly to the Managing Director and the Audit Committee Chairman. This reporting structure allows the Internal Audit Department to remain its independence and to report all items of significance to the Managing Director and the Audit Committee. The head of the Internal Audit Department attends all Audit Committee Meetings and brings appropriate matters to the Committee's attention.

MANAGEMENT MEETINGS

Senior management including all department heads within the Group meet together on a monthly basis to review, discuss and make decisions on financial and operational matters. These meetings, chaired by the Managing Director, can enhance and strengthen departmental communication and cooperation within the Group.

EMPLOYEE POLICIES

The Group has maintained an employee handbook to provide guidance to employees on matters such as employee dealing, ethical standards, the code of conduct of business and code of conduct of employees. The handbook applies to all employees of the Group and they have to ensure strict compliance with the policies therein.

INVESTOR RELATIONS AND COMMUNICATIONS

The Company continues to promote and enhance investor relations and communication with its investors. An intensive communications channel has been maintained with the media, analysts and fund managers through one-on-one meeting, roadshows and conferences.

To foster effective communication, the Company provides extensive information in its Annual Report, Interim Report and also disseminates information relating to the Group and its business electronically through its website (www.coscopac.com.hk) to the public.

TRANSPARENCY OF OWNERSHIP

All shareholders and potential investors are informed of the ownership structure of the Company through its Annual Report, Interim Report, website and public announcements. The list of shareholders is available for inspection through Secretaries Limited which serves as the Hong Kong Branch Registrars of the Company.

CODE OF BEST PRACTICE

Throughout the year, the Company has complied with Code of Best Practice contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

CONCLUSION

The Company strongly believes that the quality and standard of corporate governance reflects the quality of the management and the operations of the Company’s business. Good corporate governance can safeguard the proper use of funds and effective allocation of resources and to protect shareholders’ interests. The management wholeheartedly advocates of the good practice in corporate governance and will try our best to maintain, strengthen and improve the standard and quality of the Group's corporate governance.

Directors and senior management profiles

EXECUTIVE DIRECTORS

WEI Jiafu
Mr. WEI, aged 53, is the Chairman of the Company. He is also the President of China Ocean Shipping (Group) Company ("COSCO"), the Chairman of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong"), COSCO International Holdings Limited ("COSCO International") and COSCO Container Lines Company Limited. He has been elected as Member of the Central Disciplinary Committee of the CPC since November 2002. He is now the President of China Maritime Law Association and the Vice Chairman of China Enterprises Confederation. Mr. WEI had been a COSCO ship captain for many years and was awarded with the professional qualification of Senior Engineer. He obtained his Master of Shipping Management and Engineering degree from Dalian Maritime University and Doctoral degree from Tianjin University. Mr. WEI has 36 years of experience in the shipping industry. He had held various senior positions, including President of COSCO Investment (Singapore) Ltd. and Managing Director of Sino-Tanzanina Joint Shipping Co., Tianjin Ocean Shipping Co. and COSCO Bulk Carrier Co. Ltd. He joined the Company in June 2000 and is responsible for formulating the overall strategy and policy of the Company.

LIU Guoyuan
Mr. LIU, aged 51, joined the Company in November 2000, is the Vice Chairman of the Company. He is also the Executive Vice Chairman and President of COSCO Hong Kong, the Vice Chairman of COSCO International, the Chairman of COSCO (H.K.) Shipping Company Limited and COSCO (Hong Kong) Industry & Trade Holdings Limited. After graduating from Beijing Foreign Languages University in February 1975, he joined COSCO at the same year. In August 1982, he earned the Master of Laws degree (LL.M) from the Law School of the University of Washington, USA. Since 1984, Mr. LIU had been the General Manager of the Law & Policy Research Department, the Executive Division and the Planning & Project Division in COSCO Head Office. In 1990, he was awarded the qualification of Senior Economist by the Ministry of Communications of China. In 1991, Mr. LIU was promoted as the Senior Commercial Director of COSCO. Afterwards, he had been the Senior Deputy Managing Director of COSCO Tianjin, Senior Vice President and Vice Chairman and President of COSCO Europe GmbH. Mr. LIU has accumulated rich knowledge on corporate management, shipping business management, investment management and staff management from his over 28 years' working experiences in COSCO. He is the member of the Hong Kong Port and Maritime Board and the Hong Kong Logistics Development Council, the Council member of the Hong Kong General Chamber of Commerce and the Hong Kong Management Association as well as Secretary General of the Hong Kong Chinese Enterprises Association.

LI Jianhong
Mr. LI, aged 46, has been a Director of the Company since October 1997. He is also the Vice President of COSCO and a Director of COSCO International. Mr. LI graduated from the University of East London in the United Kingdom with a Master of Business Administration degree. He has more than 20 years of experience in corporate management.

SUN Yueying
Ms. SUN, aged 44, has been a Director of the Company since March 2002. She is also the Chief Accountant of COSCO and a Director of COSCO Hong Kong. Ms. SUN was graduated from Shanghai Maritime Transportation Institute in 1982 majoring in sea transportation, finance and accounting. She had been the Vice Director of the Finance Division of Tianjin Ocean Shipping Co., a Director of the General Affairs Division of COSCO Japan Co., Ltd. and the General Manager of the Finance Division of COSCO. She has extensive experience in financial management.

ZHOU Liancheng
Mr. ZHOU, aged 54, has been a Director of the Company since November 2000. He is also a Director


WEI Jiafu


LIU Guoyuan


LI Jianhong


SUN Yueying


ZHOU Liancheng

and Vice President of COSCO Hong Kong and a Director of COSCO International. Mr. ZHOU graduated from Dalian Maritime University. He had been the General Manager of China Ocean Shipping Agency, Nanjing and the Deputy General Manager of COSCO Asia Development Limited and COSCO (H.K.) Industry & Trade Holdings Limited. He has extensive experiences in enterprise management.

SUN Jiakang
Mr. SUN, aged 43, is the Managing Director of the Company and the Chairman of the Investment and Strategic Planning Committee. He is also a Vice President of COSCO Hong Kong and a Non-executive Director of Liu Chong Hing Bank Limited. Mr. SUN graduated from the Faculty of Navigation of Dalian Maritime Transportation Institute with a bachelor degree in shipping management in 1982 and obtained a bachelor degree in economic management of industrial enterprises from the People's University of China in 1987 and a master degree in management from Dalian Maritime University in 2001. After graduating from university in 1982, Mr. SUN has joined COSCO Group and had been the Assistant to the President and Spokesman of COSCO. For the past 20 years, Mr. SUN has committed to shipping management and has accumulated rich experiences in international shipping and logistics operations and has demonstrated excellent management skills. He joined the Company since September 2002 and is responsible for the overall strategic planning, corporate development, management and administration of the Company.

XU Lirong
Mr. XU, aged 45, has been a Director of the Company since March 2000. He is also the Managing Director of COSCO Container Lines Company Limited. Mr. XU graduated from Marine Navigation Department of the Adult Education College in Dalian Maritime University and obtained his Master of Business Administration degree from Shanghai Maritime University later. Mr. XU had been Second Chief Officer, Chief Officer and Captain on board the vessels of Shanghai Ocean Company Limited. He had also been the Deputy Managing Director of Shanghai Ocean Shipping Company Limited and the President of Shanghai Shipping Exchange. He has extensive experience in shipping and corporate management.

LU Zhiming
Mr. LU, aged 60, has been a Director of the Company since September 1994. He is also the Financial Controller of COSCO Hong Kong and a Director of COSCO International. He graduated from Shanghai Maritime Transportation Institute in 1963 and has more than 38 years of experience in financial management and accounting. He is responsible for assisting the Company to formulate financial plans.

LIANG Yanfeng
Mr. LIANG, aged 37, has been a Director of the Company since March 2002. He is also a Director of COSCO Hong Kong and COSCO International, and the General Manager of the Assets Management Division of COSCO. Mr. LIANG graduated from Tsinghua University with a Master Fellowship in Social Sciences in 1991. He had been the Deputy General Manager of the Personnel Division of COSCO and the General Manager of COSCO Human Resources Development Company. He has extensive experience in corporate management.

WONG Tin Yau, Kelvin
Mr. WONG, aged 42, is an Executive Director, Deputy Managing Director of the Company and the Chairman of the Corporate Governance Committee. He is also the Assistant to the President of COSCO Hong Kong. Mr. WONG is an associate member of the Chartered Institute of Bankers, council and fellow member of the Hong Kong Institute of Directors, a member of the Hong Kong Securities Institute, a member of the Chartered Institute of Marketing and a member of the National Investor Relations Institute in the USA. He obtained his Master of Business Administration degree from Andrews University in Michigan, the USA in 1992.


SUN Jiakang


XU Lirong


LU Zhiming


LIANG Yanfeng


WONG Tin Yau, Kelvin

He has more than 18 years of working experience in the banking and securities industries. Mr. WONG had held various senior positions in several listed companies in Hong Kong before he joined the Company in July 1996. He is responsible for the overall management and investor relations of the Company.

MENG Qinghui
Mr. MENG, aged 47, has been a Director of the Company since March 2002. He is also a Director of COSCO International and the Managing Director of the Finance Division of COSCO Hong Kong. Mr. MENG was graduated from Changsha Railway University in 1978 and was awarded the professional qualification of Accountant in China. He has 24 years of experience in financial management and accounting and is very familiar with corporate financial planning.

LU Chenggang
Mr. LU, aged 50, has been a Director of the Company since November 1999. He is also an Executive Director, Deputy Managing Director of the Company, the Chairman of the Risk Management Committee and the Chairman of Florens Container Services Company Limited. Mr. LU graduated from Changsha Railway University in 1975. He had further studies in Shanghai Maritime University and obtained a Master of Business Administration degree from Capital Economic and Trade University. He was awarded the qualification of senior economist by the Ministry of Communications of the PRC. He had been the Senior Vice President of COSCO Inc. USA, the Deputy Managing Director of COSCO International Freight Company Limited, the General Manager of COSCO Equipment Control Centre, the Vice Chairman of China Road Transportation Association and China Warehouse and Storage Association. Mr. LU has extensive experience in the container business and is currently responsible for corporate development, overall management and administration of Florens Container Services Company Limited.

QIN Fuyan
Mr. QIN, aged 50, has been a Director of the Company since March 1996. He is also the Deputy General Manager of COSCO-HIT Terminals (Hong Kong) Limited. Following his graduation from university in 1975, Mr. QIN joined COSCO and has been responsible for shipping management. In 1983, he joined the chartering department of Ocean Tramping Company Limited in Hong Kong. He has been serving COSCO for over 20 years and has extensive knowledge in shipping management, container terminal development and the worldwide shipping market. Mr. QIN was awarded the qualification of senior economist in shipping management by the Ministry of Communications of the PRC and obtained a diploma in container terminal management from the University of Wales in the United Kingdom.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LI Kwok Po, David
Dr. LI, aged 64, has been an Independent Non-executive Director of the Company since February 1998. He is the Chairman and Chief Executive of The Bank of East Asia, Limited. He is a member of the Legislative Council of the Hong Kong Special Administrative Region, the Chairman of the Chinese Banks' Association and a Non-executive Director of PCCW Limited. He was a Hong Kong Affairs Adviser to the PRC and a Convenor of the investment committee of the Hong Kong Special Administrative Region Government Land Fund Trust.

LIU Lit Man, GBS, JP
Mr. LIU, aged 73, has been an Independent Non-executive Director of the Company since September 1996. He is the Executive Chairman of Liu Chong Hing Bank Limited and the Chairman of both Liu Chong Hing Investment Limited and Liu Chong Hing Insurance Company Limited. Mr. LIU is also a Director of The Hong Kong and China Gas Company Limited, Asia Commercial Bank Limited and Shanghai Land Holdings Limited. Mr. LIU was a Director of Tung Wah Group of Hospitals, the President of the Hong Kong


MENG Qinghui


LU Chenggang


QIN Fuyan


WANG Zhi


LI Wai Ho, Francis

Chiu Chow Chamber of Commerce (now Permanent Honorary President) and founder and first Chairman of Teochew International Convention (now Permanent Honorary Chairman). Presently he is a Standing Committee Member of The Chinese General Chamber of Commerce, Hong Kong, the founder and the Manager of Liu Po Shan Memorial College, a Director of New Asia College of Chinese University of Hong Kong, a founding member of the Court of the Hong Kong Polytechnic University, and the founder and the Manager of Chiu Chow Association Secondary School. In 1975, he was appointed a Justice of the Peace and was elected Fellow of International Banker Association. He had been a Member of the Consultative Committee for the Basic Law from 1985 to 1990 and was a member of the Selection Committee of the First Government of the Hong Kong Special Administrative Region and a member of the First Election Committee constituted under the Chief Executive Election Ordinance. Mr. LIU was awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region in July 2001.

Alexander Reid HAMILTON
Mr. HAMILTON, aged 61, has been an Independent Non-executive Director of the Company since November 1994. He is also the Chairman of the Audit Committee. He is now a Director of COSCO International, CITIC Pacific Limited, Esprit Holdings Limited, Shangri-La Asia Limited, DBS Kwong On Bank Limited and a number of other Hong Kong companies. He is a member of the Institute of Chartered Accountants of Scotland, a fellow of the Hong Kong Society of Accountants and a fellow member of the Institute of Directors. He was a partner in Price Waterhouse for 16 years and has more than 20 years of audit and accounting experience.

LEE Yip Wah, Peter
Mr. LEE, aged 61, has been an Independent Non-executive Director of the Company since July 1999. Mr. LEE is a practising solicitor in Hong Kong and a partner of Messrs. Woo, Kwan, Lee & Lo. He is also an Independent Non-executive Director of a number of public listed companies in Hong Kong including Elec & Eltek International Holdings Limited and Shenzhen Investment Limited.

NON–EXECUTIVE DIRECTOR

KWONG Che Keung, Gordon
Mr. KWONG, aged 53, has been a Director of the Company since May 1998. Before his redesignation as a Non-executive Director in March 2003, Mr. KWONG served as an Executive Director. He graduated from The University of Hong Kong in 1972, qualifying as a chartered accountant in England in 1977. He was a partner of Price Waterhouse from 1984 to 1998. He is also a Non-executive Director of COSCO International Holdings Limited and Independent Non-executive Director of Tianjin Development Holdings Limited, Beijing Capital International Airport Company Limited, Vision Century Corporation Limited, NWS Holdings Limited and China Oilfield Services Limited. In the public sector services, he was a part-time panel member of the Hong Kong Government's Central Policy Unit from 1993 to 1995 and was an independent member of the Council of The Stock Exchange of Hong Kong Limited from 1992 to 1997. He was a member of the Panel of Inquiry appointed by the Financial Secretary on the Penny Stocks Incident in 2002.

SENIOR MANAGEMENT

WANG Zhi
Mr. WANG, aged 40, has been a Deputy Managing Director of the Company since April 2001. He graduated from Jimei Navigation College in 1980 and obtained an International Executive Master of Business Administration degree from International School of Management in France in 2000. He had more than 13 years of working experience in shipping industries with Guangzhou Ocean Shipping Company before he became the Deputy Chief Executive Officer of COSCO (UK) Limited and the Managing Director of Crystal Logistics Ltd. in 1993. He had been the Managing Director of COSCO France S.A. from October 1997 to March 2001. Mr. WANG is now responsible for


HUNG Man, Michelle


HUANG Kegong


CHAN Hang, Ken


QIU Jincheng

the management and investment of the container terminals and container-related industrial businesses of the Company.

LI Wai Ho, Francis
Mr. LI, aged 49, has been the Financial Controller of the Company since April 1998. He is a member of the Chartered Institute of Management Accountants and the Hong Kong Society of Accountants. He had worked for 10 years with an international audit firm and another 10 years with a listed group of companies before he joined the Company in 1998.

HUNG Man, Michelle
Miss HUNG, aged 33, has been the Legal Counsel and Head of the Legal Department of the Company since November 1996 and the Company Secretary of the Company since March 2001. She graduated from The University of Hong Kong with a Bachelor of Laws degree. She is a practicing solicitor of the High Court of the Hong Kong Special Administrative Region. She is also qualified in England and Wales. She is responsible for all legal, company secretarial and related matters of the Company.

HUANG Kegong
Mr. HUANG, aged 56, has been the Assistant to the General Manager of the Company since January 2002. He has worked for COSCO for 37 years and has been involved in various shipping operations. From 1986, he began to station and work in Central and South America for 10 years. In 1996, he returned to China mainland and engaged in management of terminal operations. Mr. HUANG is highly experienced with good management skills. He now assists to manage the daily operations and corporate planning of the Company.

CHAN Hang, Ken
Mr. CHAN, aged 45, has been the General Manager of the Corporate Development Department of the Company since September 1998. He obtained his Master of Business Administration degree from Dalhousie University in Canada in 1985 and continued his education in the University of Washington in the USA. Before joining the Company in 1998, he had held senior positions in a local bank and an international securities firm in Hong Kong. He has 19 years of working experience in finance, securities, corporate strategic planning and management.

QIU Jincheng
Mr. QIU, aged 40, has been the Managing Director of COSCO Container Services Limited, a subsidiary of the Company, since February 2001. Following his graduation from Dalian Maritime University in 1983, Mr. QIU has been engaging in the storage, transportation and management works concerning goods and containers. He is now responsible for the operations, management and corporate planning of container handling and storage operations businesses of COSCO Container Services Limited.

Financial report

CONTENTS

58 Report of the Directors
69 Auditors' Report
70 Consolidated Profit and Loss Account
71 Consolidated Balance Sheet
72 Balance Sheet
73 Consolidated Statement of Changes in Equity
75 Consolidated Cash Flow Statement
76 Notes to the Accounts
124 Five-year Financial Summary

Report of the Directors

The directors submit their report together with the audited accounts of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 13 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2002 are set out in the consolidated profit and loss account on page 70 of this annual report.

The directors declared an interim dividend of US1.410 cents (HK11 cents) per share, totalling US$30,278,000 (HK$236,171,000), which was paid on 4th October 2002.

The directors recommend the payment of a final dividend of US2.308 cents (HK18 cents) per share, totalling US$49,546,000 (HK$386,462,000), payable on or before 5th June 2003.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 124 of this annual report.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 73 to 74 of this annual report.

Movement in the reserves of the Company during the year are set out in note 22 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 12 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are shown in note 21 to the accounts.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company at 31st December 2002 calculated under Companies Act of Bermuda amounted to US$591,847,000 (2001: US$588,327,000).

DONATIONS

Charitable donation made by the Group during the year amounted to US$8,000.

RETIREMENT BENEFITS SCHEMES

Details of retirement benefit schemes of the Group are set out in note 10 to the accounts.

BORROWINGS

Details of the long term liabilities of the Group are set out in note 23 to the accounts.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. WEI Jiafu *(Chairman)*	
Mr. LIU Guoyuan *(Vice Chairman)*	
Mr. LI Jianhong	
Ms. SUN Yueying	(appointed on 12th March 2002)
Mr. ZHOU Liancheng	
Mr. SUN Jiakang *(Managing Director)*	(appointed as Executive Director on 2nd September 2002 and Managing Director on 15th September 2002)
Mr. XU Lirong	
Mr. LU Zhiming	
Mr. LIANG Yanfeng	(appointed on 12th March 2002)
Mr. WONG Tin Yau, Kelvin	
Mr. MENG Qinghui	(appointed on 12th March 2002)
Mr. LU Chenggang	
Mr. QIN Fuyan	
Mr. YANG Bin	(resigned on 12th March 2002)
Mr. SHI Qin	(resigned as Executive Director and Managing Director on 15th September 2002)

Independent Non-executive Directors

Mr. LI Kwok Po, David
Mr. LIU Lit Man
Mr. Alexander Reid HAMILTON
Mr. LEE Yip Wah, Peter

Non-executive Director

Mr. KWONG Che Keung, Gordon	(re-designated from Executive Director to Non-executive Director with effect from 13th March 2003)

In accordance with Clause 86(2) of the Company's Bye-laws, Mr. SUN Jiakang retires at the forthcoming annual general meeting, and being eligible, offers himself for re-election.

In accordance with Clause 87(1) and (2) of the Company's Bye-laws, Mr. ZHOU Liancheng, Mr. LU Zhiming, Mr. LU Chenggang, Mr. Alexander Reid HAMILTON and Mr. LEE Yip Wah, Peter retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management as at the date of this report are set out in pages 52 to 56 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. SUN Jiakang has entered into a service agreement with COSCO Pacific Management Company Limited, a wholly owned subsidiary of the Company, on 16th September 2002 for a term of three years commencing from 16th September 2002. The agreement is renewable automatically for successive terms of three years subject to termination by either party giving not less than three months' notice in writing to the other party terminating at the end of the initial term or any renewed term of the service agreement.

Mr. WONG Tin Yau, Kelvin has a service agreement with the Company commencing from 22nd July 1996. The agreement is terminable by either party giving to the other party not less than one month's prior notice in writing.

Save as disclosed above, none of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 31st December 2002, the interests of the Company's directors in the share capital and share options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Interests in ordinary shares of the Company

Name of director	Nature of interests	Number of ordinary shares held
Mr. KWONG Che Keung, Gordon	Personal	250,000
Mr. WONG Tin Yau, Kelvin	Personal	50,000
Dr. LI Kwok Po, David	Personal	258,000
Mr. LEE Yip Wah, Peter	Personal	100,000

Interests in share options granted by the Company

Details of the directors' interests in share options granted by the Company are set out under the section "Share Options" of this report.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS (Continued)

Interests in share options granted by associated corporation

Name of director	Name of associated corporation	Exercise price HK$	Number of share options: Outstanding at 1st January 2002	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2002
Mr. KWONG Che Keung, Gordon	COSCO International Holdings Limited ("COSCO International")	0.656	4,500,000	–	–	(4,500,000)	–

The share options were granted on 20th March 2000 under the share option scheme adopted by COSCO International, a fellow subsidiary of the Company, on 17th January 1992 and were exercisable at any time between the period from 20th March 2001 and 16th January 2002. These options, which were remained unexercised on the last day of the exercisable period, were lapsed on 16th January 2002.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above, as at 31st December 2002, none of the directors and chief executives had any interests in the share capital of the Company and its associated corporations required to be disclosed pursuant to the SDI Ordinance and the Model Code, and none of the directors and chief executives or their respective spouses or children under 18 years of age, had any right to subscribe for the shares of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, the following director has interests in the following businesses which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

Name of director	Name of company	Competing business	Nature of interest
Mr. Kwong Che Keung, Gordon	NWS Holdings Limited	Operation of container terminals and provision of container related business	Independent non-executive director
	Tianjin Development Holdings Limited	Provision of container related business	Independent non-executive director

As the board of directors of the Company is independent of the boards of the aforesaid companies, the Group is therefore capable of carrying on such businesses independently of, and at arm's length from, the businesses of such companies.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st December 2002, according to the register of substantial shareholders kept by the Company under Section 16(1) of the SDI Ordinance, the following companies had notified the Company that they were interested in 10% or more of the issued share capital of the Company:

Name of shareholder	Number of ordinary shares	Percentage of total issued shares
COSCO Investments Limited	220,120,000	10.25%
COSCO (Hong Kong) Group Limited*	1,178,166,411	54.87%
China Ocean Shipping (Group) Company*	1,178,166,411	54.87%

* Since COSCO Investments Limited ("COSCO Investments") is a wholly owned subsidiary of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") which is in turn a wholly owned subsidiary of China Ocean Shipping (Group) Company ("COSCO"), the interests of COSCO Investments are recorded as the interests of COSCO Hong Kong and in turn the interests of COSCO Hong Kong are recorded as the interests of COSCO.

Save as disclosed above, the Company has not been notified of any interests representing 10% or more of the issued share capital of the Company.

SHARE OPTIONS

On 30th November 1994, a share option scheme (the "Share Option Scheme") was approved by the shareholders of the Company under which the directors of the Company may, at their discretion, grant to any director, executive and/or employee who are in full time employment with any company in the Group, share options to subscribe for the Company's shares, subject to the terms and conditions stipulated therein.

The purpose of the Share Option Scheme is to motivate the employees to enhance their performance and contribution to the Group.

Under the Share Option Scheme, the maximum number of the Company's shares in respect of which options may be granted will not exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares issued to each employee or director in respect of which options may be granted shall not exceed 25% of the total shares in issue or to be issued under the Share Option Scheme.

The period within which an option may be exercised will be determined by the board of directors of the Company in its absolute discretion, save that the exercise period is not more than ten years from the date on which the option is granted. The consideration on acceptance of an option is HK$1.00 payable within 28 days from the offer date. The full amount of the subscription price for the shares must be paid upon exercise of an option.

The exercise price of an option is determined by the board of directors of the Company and will not be less than 80% of the average of the closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the share option or the nominal value of the Company's shares, whichever is higher.

The Share Option Scheme will expire on 30th November 2004.

SHARE OPTIONS (Continued)

The Stock Exchange has amended the requirements for share option schemes under the Listing Rules and the new requirements came into effect from 1st September 2001. The board of directors of the Company will recommend to the shareholders for approval of a new share option scheme which complies with the new requirements under the Listing Rules and the termination of the existing Share Option Scheme at a Special General Meeting to be convened immediately after the forthcoming Annual General Meeting. During the transitional period, the Company must nevertheless comply with the new requirements of the Listing Rules.

Movements of the share options, which have been granted under the Share Option Scheme, during the year are set out below:

		Number of share options					
	Exercise price HK$	Outstanding at 1st January 2002	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2002	Note
Directors							
Mr. LI Jianhong	3.584	250,000	–	–	(250,000)	–	(3)
Mr. SHI Qin	3.584	500,000	–	–	(500,000)	–	(3)
Mr. KWONG Che Keung, Gordon	3.584	250,000	–	(250,000)	–	–	(3)
Mr. XU Lirong	3.584	250,000	–	–	(250,000)	–	(3)
Mr. LU Zhiming	5.53	1,500,000	–	–	–	1,500,000	(1)
	3.584	250,000	–	–	(250,000)	–	(3)
Mr. WONG Tin Yau, Kelvin	8.80	5,000,000	–	–	–	5,000,000	(2)
	3.584	150,000	–	(150,000)	–	–	(3)
Mr. LU Chenggang	3.584	350,000	–	–	(350,000)	–	(3)
Mr. QIN Fuyan	5.53	1,500,000	–	–	–	1,500,000	(1)
	3.584	350,000	–	–	(350,000)	–	(3)
Mr. YANG Bin	3.584	250,000	–	–	(250,000)	–	(3)
Continuous contract employees	5.53	80,000	–	–	–	80,000	(1)
	8.80	7,550,000	–	–	(750,000)	6,800,000	(2)
	3.584	7,636,000	–	(4,070,000)	(3,566,000)	–	(3)

SHARE OPTIONS (Continued)

Notes:

(1) The share options were granted on 1st July 1996 under the Share Option Scheme. The options are exercisable at any time within ten years from the date of grant, subject to the following conditions:

Percentage of the total number of options granted to each grantee which can be exercised (including the options which have already been exercised)	Price level per share at which the options can be exercised*
20% of the options	HK$6.50 or above
40% of the options	HK$7.00 or above
60% of the options	HK$7.50 or above
80% of the options	HK$8.00 or above
100% of the options	HK$8.50 or above

* The price level refers to the closing price of the share of the Company on the Stock Exchange at the date prior to the exercise of the options.

(2) The share options were granted on 20th May 1997 (the "Offer Date") under the Share Option Scheme. The options are exercisable at any time within ten years from the date of grant, subject to the following conditions:

(i) For those grantees who have completed one year full-time service in the Group may exercise a maximum of 20% of share options granted in each of the first five anniversary years from the Offer Date.

(ii) For those grantees who have not completed one year full-time service in the Group as at the Offer Date, a maximum of 20% of options granted may be exercisable in each of the first five anniversary years of the Offer Date after completion of one year full-time service.

(3) The share options were granted on 6th April 2000 under the Share Option Scheme. The options were exercisable at any time from the first day of the thirteenth month from the date of grant to the last day of the twenty-fourth month from the date of grant. The share options of Mr. YANG Bin, a director of the Company, were lapsed on 12th March 2002 due to his resignation as a director of the Company on that day. Other options, which were remained unexercised on the last day of the exercisable period, were lapsed on 6th April 2002.

The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised during the year was HK$4.895.

As at the date of the annual report, a total of 13,880,000 shares (representing approximately 0.65% of the issued share capital of the Company) are available for issue under the Share Option Scheme.

During the year, no share options were cancelled.

Particulars and movements of the Company's share options during the year are also set out in note 21(b) to the accounts.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company has not redeemed any of its listed shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of Company's listed shares during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws in Bermuda.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

MAJOR SUPPLIERS AND LESSEES

The percentage of the Group's container purchases and leasing income attributable to major suppliers and lessees are as follows:

Percentage of container purchases attributable to the Group's largest supplier	24.3%
Percentage of container purchases attributable to the Group's five largest suppliers	51.7%
Percentage of leasing income attributable to the Group's largest lessee, which is a subsidiary of COSCO	60.6%
Percentage of leasing income attributable to the Group's five largest lessees	71.2%

None of the directors or their associates has interests in any of the suppliers or lessees of the Company.

COSCO, the ultimate holding company, has an equity interest of 21.2% in the shareholding company of the Group's three of the five largest suppliers which attribute 20.1% of container purchases of the Group.

Save as disclosed above, none of the shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has interest in any of the suppliers and lessees of the Company.

CORPORATE GOVERNANCE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December 2002.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14 of the Listing Rules, the following connected transactions of the Company require disclosure in the annual report of the Company:

(i) Rental of office premises

Pursuant to a tenancy agreement dated 7th March 2001 (the "Tenancy Agreement"), COSCO Pacific Management Company Limited ("COSCO Pacific Management") agreed to rent from Wing Thye Holdings Limited ("Wing Thye") a portion of the premises situate at 49th Floor of COSCO Tower, 183 Queen's Road Central, Hong Kong (the "Property") for a term of three years commencing with retrospective effect from 4th December 2000 at a monthly rental of HK$465,023.20, exclusive of rates and management fees. COSCO Hong Kong provided a guarantee in the sum of HK$1,395,069.60 representing rentals for three months to Wing Thye as security for the due payment of rental and other monies by COSCO Pacific Management. The Group takes up the Property as its head office and the principal place of business of the Company in Hong Kong.

CONNECTED TRANSACTIONS (Continued)

(i) Rental of office premises (Continued)

The rental payable under the Tenancy Agreement and the terms and conditions of the Tenancy Agreement were arrived at after arm's length negotiations. In negotiating the rental under the Tenancy Agreement, the directors of the Company made reference to an independent opinion given by DTZ Debenham Tie Leung Limited, a professional valuer engaged by the Company, that the rental agreed for the Property was at market level and was fair and reasonable at the time when the Tenancy Agreement was entered into.

Wing Thye is a wholly owned subsidiary of COSCO International. COSCO Pacific Management is a wholly owned subsidiary of the Company. COSCO Hong Kong is the controlling shareholder of both COSCO International and the Company. As COSCO Hong Kong, COSCO International, the Company, Wing Thye and COSCO Pacific Management are all connected persons, the transaction contemplated under the Tenancy Agreement therefore constituted a connected transaction of the Company under the Listing Rules.

(ii) Short term container leasing transactions

On 22nd August 2001, the Group entered into an arrangement with COSCO and its subsidiaries (other than the Group) ("COSCO Group") in respect of short term container leasing transaction whereby the Group agreed to lease the 10-year old containers to COSCO Group on a short term basis (for a term less than 10 years) (the "Short Term Leases") in addition to the existing 10-year leases with effect from 1st January 2002. Such transaction constituted a variation to the Undertaking provided by COSCO to the Company in 1994, in which COSCO undertook to the Group that it would extend any then existing container leasing contracts with the Group to a total term of 10 years and would enter into new container leasing contracts for fixed terms of 10 years (the "Undertaking").

As COSCO Group is a connected person within the meaning of the Listing Rules, a variation to the Undertaking in relation to the Short Term Leases constituted a connected transaction of the Company under the Listing Rules.

Since the Group will continue to enter into Short Term Leases with COSCO Group from time to time in future, the Company has applied to the Stock Exchange for a waiver, and the Stock Exchange has granted a waiver to the Company, subject to certain conditions, from strict compliance with the disclosure requirements as stipulated under Rule 14.25(1) of the Listing Rules in connection with the Short Term Leases on each occasion they arise. Details of the waiver are set out in note (v)iv below.

(iii) Formation of a joint stock limited company in China mainland

On 28th December 2001, the Company, through its wholly owned subsidiary, COSCO Pacific (China) Investments Co., Ltd. ("CPCI"), entered into a Promoters' Agreement (the "Promoters' Agreement") with China Dalian Ocean Shipping Agency ("DOSA"), an indirect wholly owned subsidiary of COSCO, Port of Dalian Authority, Shanghai Port Container Co. Ltd. and P.G. Logistics Group Co. Ltd. in relation to the promotion and setting up of a joint stock limited company, Dalian Port Container Co., Ltd. (the "JV Co."), in Dalian, China mainland, to engage in container terminal operations, container storage, vanning and devanning, transportation, transshipment, intermodal, freight forwarding, shipping agent and related business in Dalian.

The registered capital of the JV Co. is RMB320 million. The total investment is approximately RMB469 million. CPCI had subscribed for 8% and DOSA had subscribed for 0.5% of the equity interest in the JV Co. at approximately RMB37.52 million and approximately RMB2.35 million respectively.

The promotion and the establishment of the JV Co. and the execution of the Promoters' Agreement and other ancillary documents in relation thereto constituted a connected transaction of the Company under the Listing Rules as DOSA, an indirect wholly owned subsidiary of COSCO which is a controlling shareholder of the Company, is an associate of a connected person of the Company, and is also a promoter and shareholder of the JV Co.

(iv) Acquisition of interest in Shekou Container Terminals Ltd.

Pursuant to an agreement dated 25th November 2002 entered into between COSCO and COSCO Ports (Shekou) Limited ("COSCO Ports Shekou"), an indirect wholly owned subsidiary of the Company, COSCO Ports Shekou agreed to acquire from COSCO its entire 17.5% equity interest in Shekou Container Terminals Ltd. ("Shekou CTL"), an equity joint venture enterprise established in Shenzhen, China mainland, which provides container terminal related services at Shekou Container Terminal, at a cash consideration of HK$155,543,000. The registered capital of Shekou CTL is HK$618,201,150 and the total investment is HK$1,854,603,450.

The aforesaid acquisition of equity interest in Shekou CTL by the Company from COSCO constituted a connected transaction under the Listing Rules since COSCO, being the controlling shareholder of the Company, is a connected person of the Company.

(v) Connected transactions with waivers granted by the Stock Exchange

During the year, the following connected transactions have been entered into by the Company and its subsidiaries to which the Stock Exchange has, subject to certain conditions, granted waivers to the Company from compliance with the requirements stipulated in Chapter 14 of the Listing Rules to disclose details of such connected transactions by press notice and/or circular and/or to obtain prior independent shareholders' approval (the "Waivers").

Transaction	Parties to the transaction	Date on which the Waivers were granted by the Stock Exchange
Long term container leasing	COSCO and its subsidiary and the Group	14th December 1994
Container related services	COSCO Hong Kong and/or its subsidiaries and Plangreat Limited and/or its subsidiaries	13th December 1996
Shipping related services	COSCO and its subsidiaries and Zhangjiagang Win Hanverky Container Terminal Co. Ltd.	15th April 1997
Short term container leasing (container leasing for a term less than 10 years)	COSCO and its subsidiaries and the Group	12th September 2001

The independent non-executive directors of the Company reviewed the above transactions and opined that:

i. the long term container leasing transactions had been conducted in the ordinary course of business of the Group and using average market rates, i.e. based on the average leasing rates quoted from four of the top ten independent container leasing companies;

ii. the container related service transactions had been entered into in the ordinary and usual course of business of the Group and on terms no less favourable than terms available to (or from) independent third parties, and the aggregate monetary value of these transactions for the year had not exceeded 3% of the audited book value of the net tangible assets of the Company as disclosed in the audited accounts for the year ended 31st December 2001;

CONNECTED TRANSACTIONS (Continued)

(v) Connected transactions with waivers granted by the Stock Exchange (Continued)

iii. the shipping related service transactions had been entered into in accordance with the terms of the agreement governing the transactions and the amount of business of these transactions received therefrom had not exceeded 5% of the gross consolidated turnover of the Group for the year ended 31st December 2002;

iv. the short term container leasing transactions had been conducted in the ordinary and usual course of business of the Group and on terms no less favourable than terms available to or from independent third parties, and the aggregate rental of these transactions for the year had not exceeded 3% of the consolidated net tangible assets of the Group as at 31st December 2002; and

v. all the transactions as set out above were fair and reasonable so far as the independent shareholders of the Company were concerned.

AUDIT COMMITTEE

The Company has an audit committee consisting of three independent non-executive directors of the Company. The committee reviews the systems of internal controls throughout the Group, the completeness and accuracy of its financial statements and liaises on behalf of the board with external auditors and the Group's internal auditors. It met regularly with management, the external auditors and the internal auditors and reviewed the internal and external audit reports and the interim and annual financial statements of the Group.

AUDITORS

The accounts for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On Behalf of the Board

SUN Jiakang
Managing Director

Hong Kong, 26th March 2003

Auditors' Report

TO THE SHAREHOLDERS OF COSCO PACIFIC LIMITED

(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 70 to 123 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26th March 2003

Consolidated Profit and Loss Account

For the year ended 31st December 2002

	Note	2002 US$'000	2001 US$'000
Turnover	2	**241,644**	224,671
Cost of sales		**(102,520)**	(95,395)
Gross profit		**139,124**	129,276
Other revenues	2	**15,900**	12,114
Administrative expenses		**(23,220)**	(21,331)
Other operating (expenses)/income (net)		**(22,223)**	8,149
Operating profit	3	**109,581**	128,208
Finance costs	4	**(18,019)**	(29,524)
Operating profit after finance costs		**91,562**	98,684
Share of profits less losses of			
– jointly controlled entities		**8,751**	9,421
– associated companies	5	**67,461**	56,812
Profit before taxation		**167,774**	164,917
Taxation	6	**(11,515)**	(9,566)
Profit after taxation		**156,259**	155,351
Minority interests		**(1,699)**	(1,011)
Profit attributable to shareholders	7	**154,560**	154,340
Dividends	8	**79,904**	64,576
Earnings per share			
Basic earnings per share	9	**US7.2017 cents**	US7.2081 cents
Diluted earnings per share	9	**US7.2014 cents**	US7.1984 cents

Consolidated Balance Sheet

At 31st December 2002

	Note	2002 US$'000	2001 US$'000
Non-current assets			
Fixed assets	12	1,048,158	1,013,775
Investments in joint ventures	14	46,052	47,091
Investments in associated companies	15	296,411	331,756
Investment securities	16	66,876	37,299
Finance lease receivables	17	197	2,869
Restricted bank deposits	28(c)	7,817	8,174
		1,465,511	1,440,964
Current assets			
Inventories	18	2,648	3,278
Trade and other receivables	19	56,152	43,975
Tax prepaid		65	–
Current portion of finance lease receivables	17	2,696	4,595
Time deposits	28(c)	202,224	236,336
Bank balances and cash	28(c)	26,080	9,599
		289,865	297,783
Current liabilities			
Trade and other payables	20	36,999	20,093
Unsecured short term bank loans		482	16,356
Current portion of long term liabilities	23	209,707	92,125
Tax payable		1,489	1,313
		248,677	129,887
Net current assets		41,188	167,896
Total assets less current liabilities		1,506,699	1,608,860
Representing:			
Share capital	21	27,533	27,476
Reserves		1,210,823	1,134,362
Proposed final dividend		49,546	38,456
Shareholders' funds		1,287,902	1,200,294
Minority interests		8,312	7,509
Non-current liabilities			
Long term liabilities	23	210,485	401,057
		1,506,699	1,608,860

On behalf of the Board

SUN Jiakang
Managing Director

WONG Tin Yau, Kelvin
Director

Balance Sheet

At 31st December 2002

	Note	2002 US$'000	2001 US$'000
Non-current assets			
Investments in subsidiaries	13	1,047,993	1,060,966
Current assets			
Trade and other receivables	19	312	345
Tax prepaid		43	–
Bank balances and cash		131,240	112,773
		131,595	113,118
Current liabilities			
Trade and other payables	20	(151)	(273)
Net current assets		131,444	112,845
Total assets less current liabilities		1,179,437	1,173,811
Representing:			
Share capital	21	27,533	27,476
Reserves	22	1,102,358	1,107,879
Proposed final dividend	22	49,546	38,456
Shareholders' funds		1,179,437	1,173,811

On behalf of the Board

SUN Jiakang
Managing Director

WONG Tin Yau, Kelvin
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2002

	Share capital US$'000	Share premium US$'000	Other properties revaluation reserve US$'000	Exchange reserve US$'000	Capital reserve US$'000	Other reserves US$'000	Retained profits US$'000	Total US$'000
At 1st January 2001	27,433	556,528	1,127	(650)	422	4,356	511,763	1,100,979
Share of capital reserve of a jointly controlled entity and a subsidiary	–	–	–	–	(8)	–	–	(8)
Share of exchange reserve of an associated company	–	–	–	(3)	–	–	–	(3)
Impairment loss of leasehold land and buildings	–	–	(248)	–	–	–	–	(248)
Net losses not recognised in consolidated profit and loss account	–	–	(248)	(3)	(8)	–	–	(259)
Profit for the year	–	–	–	–	–	–	154,340	154,340
Issue of shares under the share option scheme (note 21(b)(iii))	43	1,480	–	–	–	–	–	1,523
Transfer of reserves	–	–	–	–	–	1,685	(1,685)	–
Dividends								
– 2000 final	–	–	–	–	–	–	(30,195)	(30,195)
– 2001 interim	–	–	–	–	–	–	(26,094)	(26,094)
	43	1,480	–	–	–	1,685	96,366	99,574
At 31st December 2001	27,476	558,008	879	(653)	414	6,041	608,129	1,200,294
Representing:								
Share capital	27,476	–	–	–	–	–	–	27,476
Reserves	–	558,008	879	(653)	414	6,041	569,673	1,134,362
2001 final dividend proposed	–	–	–	–	–	–	38,456	38,456
	27,476	558,008	879	(653)	414	6,041	608,129	1,200,294
Retained by:								
Company and subsidiaries	27,476	558,008	879	(108)	–	510	511,947	1,098,712
Jointly controlled entities	–	–	–	(87)	332	2,528	6,942	9,715
Associated companies	–	–	–	(458)	82	3,003	89,240	91,867
	27,476	558,008	879	(653)	414	6,041	608,129	1,200,294

Consolidated Statement of Changes in Equity

For the year ended 31st December 2002

	Share capital US$'000	Share premium US$'000	Other properties revaluation reserve US$'000	Exchange reserve US$'000	Capital reserve US$'000	Other reserves US$'000	Retained profits US$'000	Total US$'000
At 1st January 2002	27,476	558,008	879	(653)	414	6,041	608,129	1,200,294
Share of reserves in associated companies	–	–	–	(5)	(82)	–	–	(87)
Share of capital reserve of a jointly controlled entity	–	–	–	–	8	–	–	8
Impairment loss of leasehold land and buildings	–	–	(165)	–	–	–	–	(165)
Net losses not recognised in consolidated profit and loss account	–	–	(165)	(5)	(74)	–	–	(244)
Profit for the year	–	–	–	–	–	–	154,560	154,560
Issue of shares under the share option scheme (note 21(b)(iii))	57	2,051	–	–	–	–	–	2,108
Share issue expenses (note 21(b)(iii))	–	(2)	–	–	–	–	–	(2)
Transfer of reserves	–	–	–	–	–	847	(847)	–
Dividends								
– 2001 final	–	–	–	–	–	–	(38,536)	(38,536)
– 2002 interim	–	–	–	–	–	–	(30,278)	(30,278)
	57	2,049	–	–	–	847	84,899	87,852
At 31st December 2002	27,533	560,057	714	(658)	340	6,888	693,028	1,287,902
Representing:								
Share capital	27,533	–	–	–	–	–	–	27,533
Reserves	–	560,057	714	(658)	340	6,888	643,482	1,210,823
2002 final dividend proposed	–	–	–	–	–	–	49,546	49,546
	27,533	560,057	714	(658)	340	6,888	693,028	1,287,902
Retained by:								
Company and subsidiaries	27,533	560,057	714	(108)	–	681	595,874	1,184,751
Jointly controlled entities	–	–	–	(87)	340	3,123	5,792	9,168
Associated companies	–	–	–	(463)	–	3,084	91,362	93,983
	27,533	560,057	714	(658)	340	6,888	693,028	1,287,902

Note:

Goodwill and negative goodwill arising on acquisitions of subsidiaries, associated companies and jointly controlled entities prior to 1st January 2001 of US$356,370,000 and US$24,497,000 respectively as at 31st December 2002 and 2001 were taken to reserves.

Consolidated Cash Flow Statement

For the year ended 31st December 2002

	Note	2002 US$'000	2001 US$'000
Cash flows from operating activities			
Cash generated from operations	28(a)	**217,714**	207,558
Interest received		**3,783**	5,215
Profits tax paid		**(960)**	(650)
Net cash from operating activities		**220,537**	212,123
Cash flows from investing activities			
Dividends received from associated companies		**55,859**	49,167
Dividends received from joint ventures		**3,520**	6,073
Dividends received from an investee company		**2,626**	–
Purchase of fixed assets		**(137,998)**	(179,963)
Loans advanced to associated companies and investee companies		**(23,651)**	(17,454)
Purchase of investment securities		**(24,581)**	–
Compensation received for loss of containers		**278**	618
Sale of fixed assets		**8,576**	1,349
Repayment of loans advanced		**52,820**	14,689
Decrease/(increase) in restricted bank deposits		**357**	(4,319)
Capital injection to a jointly controlled entity		**–**	(1,823)
Sale of investment securities		**–**	21,353
Net cash used in investing activities		**(62,194)**	(110,310)
Cash flows from financing activities	28(b)		
Loans borrowed		**95,604**	231,197
Issue of shares		**2,108**	1,523
Share issue expenses		**(2)**	–
Repayment of loans		**(184,468)**	(145,304)
Dividends paid		**(68,814)**	(56,289)
Dividends paid to minority shareholders of subsidiaries		**(896)**	(749)
Interest paid		**(15,316)**	(24,123)
Other incidental borrowing costs paid		**(4,190)**	(3,885)
Net cash (used in)/from financing activities		**(175,974)**	2,370
Net (decrease)/increase in cash and cash equivalents		**(17,631)**	104,183
Cash and cash equivalents at 1st January		**245,935**	141,752
Cash and cash equivalents at 31st December	28(c)	**228,304**	245,935

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated accounts are set out below:

(a) Basis of preparation of the accounts

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (the "HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at fair value and certain leasehold buildings are carried at valuation as at 31st December 1994 less accumulated depreciation and impairment losses.

In the current year, the Group adopted the following new or revised Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34 (revised)	:	Employee benefits

The adoption of these new or revised accounting standards in this year did not have significant effect on the accounts for the year ended 31st December 2002 except for the reclassification of cash flows presented in the consolidated cash flow statement into operating, investing and financing activities and the presentation of consolidated statement of changes in equity.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends income.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Group accounting (Continued)

(ii) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill (net of accumulated amortisation) on acquisition.

(iii) Associated companies

An associated company is a company, not being a subsidiary and joint venture, in which an equity interest is held for long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill (net of accumulated amortisation) on acquisition.

(iv) Gain or loss on disposal

The gain or loss on the disposal of a subsidiary, a jointly controlled entity or an associated company represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill, including goodwill previously taken to reserves, which was not previously charged or recognised in the consolidated profit and loss account.

(c) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the operating profit. Any subsequent increases are credited to the operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(c) Fixed assets (Continued)

(ii) Other fixed assets
Fixed assets other than investment properties (note 1(c)(i)) are stated at cost or valuation less accumulated depreciation/amortisation and impairment losses.

Effective from 30th September 1995 no further revaluations of the Group's leasehold land and buildings have been carried out. The Group places reliance on paragraph 80 of SSAP 17 , "Property, plant and equipment", issued by the HKSA, which provides exemption from the need to make regular revaluations for such assets.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over the expected useful lives to the Group.

(iii) Depreciation
Investment properties held on leases with unexpired period of 20 years or less are depreciated over the remaining portion of the leases.

Leasehold land is amortised based on the cost/valuation less accumulated impairment losses over the remaining period of the lease on a straight line basis.

Land use rights represent amounts paid for use of land in China mainland under operating leases. Land use rights are amortised based on the cost less accumulated impairment losses over the remaining period of lease on a straight line basis.

Containers are depreciated at cost less accumulated impairment losses on a straight line basis over their estimated useful lives of 15 years, after taking into account of the residual value of 10% on cost.

Other fixed assets, other than leasehold land, land use rights and containers, are depreciated at rates sufficient to write off their cost or valuation less accumulated impairment losses over their estimated useful lives to their respective residual values estimated by the directors on a straight line basis. The estimated useful lives of other fixed assets are summarised as follows:

Buildings	25 to 50 years
Motor vehicles	5 years
Leasehold improvements	5 years or the remaining period of the lease, whichever is shorter
Furniture, fixtures and equipment	5 years
Plant and machinery	5 years

No depreciation is provided for computer system under development and construction in progress. Computer development costs recognised as assets are depreciated, upon completion of development, using the straight line method over their useful lives, not exceeding a period of 5 years.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Fixed assets (Continued)

(iv) Impairment of fixed assets
At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

(v) Gain or loss on sale of fixed assets
The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(vi) Capitalisation of fixed assets
All direct and indirect costs relating to the construction of plant and machinery including interest costs on related borrowed funds during the construction period and operating results prior to the commissioning date are capitalised as construction in progress.

A plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis.

Costs associated with developing or maintaining computer systems are recognised as an expense as incurred. However, costs that are directly associated with identifiable and unique computer systems controlled by the Group and have probable economic benefit exceeding the cost and beyond one year are recognised as assets. Direct costs include staff costs of the development team, consultancy fees and an appropriate portion of relevant overheads. Expenditure which enhances or extends the performance of computer systems beyond their original specification is recognised as a capital improvement and added to the original cost of the computer systems.

(d) Goodwill/negative goodwill

Goodwill represents the excess of purchase consideration over the fair value of the Group's share of the net assets of subsidiaries, associated companies and jointly controlled entities acquired at the date of acquisition.

Negative goodwill represents the excess of the fair values ascribed to the net assets of subsidiaries, associated companies and jointly controlled entities acquired over the purchase consideration.

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight line method over its estimated useful life of not exceeding 20 years. Goodwill/negative goodwill on acquisitions that occurred prior to 1st January 2001 was taken to reserves.

Where an indication of impairment exists, the carrying amount of goodwill, including goodwill previously taken to reserves, is assessed and written down immediately to its recoverable amount.

(e) Assets under leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases.

(i) Leases – where the Group is the lessee

Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

(ii) Leases – where the Group is the lessor

When the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(c)(iii) above. Revenue arising from assets leased out under operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in notes 1(m)(i) and (v) below.

Finance leases for assets leased out are leases of assets which contain a provision giving the lessee an option to acquire legal title to the assets upon the fulfillment of certain conditions stated in the contracts.

When assets are leased out under finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Revenue on containers leased out under finance leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(m)(i) below.

(f) Investments in securities

(i) Investment securities

Listed and unlisted investments which are intended to be held on a continuing basis are stated at cost less provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment is reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs and write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Inventories

Inventories, including spare parts, consumables and resaleable containers, are stated at the lower of cost and net realisable value. Costs are calculated on first-in first-out basis for spare parts and consumables and on weighted average basis for resaleable containers. Net realisable value of spare parts and consumables is the expected amount to be realised from use as estimated by the directors whereas that of resaleable containers is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet is stated net of such provision.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(l) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or receivable in the foreseeable future.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Revenue recognition

The Group recognises revenue on the following bases:

(i) Revenue from container leasing

Rental income from containers under operating leases is recognised on a straight line basis over the period of each lease. Direct costs or reimbursements from lessees relating to the lifting and storage of containers are included in cost of sales when incurred or occurred.

Revenue on containers leased out under finance leases is allocated to accounting period to give a constant periodic rate of return on the Group's net investment in the lease in each period. Direct costs relating to the negotiations and arrangement of a contract are written off in the profit and loss account when incurred.

(ii) Revenue from container handling, transportation and storage

Revenue from container handling and transportation is recognised when the services are rendered.

Revenue from container storage is recognised on a straight line basis over the period of storage.

(iii) Revenue from container terminal operations

Revenue from container terminal operations is recognised when the services rendered are complete and the vessel leaves the berth.

(iv) Container management income

Container management income is recognised when the services are rendered.

(v) Operating lease rental income from investment properties

Operating lease rental income from investment properties is recognised on a straight line basis over the period of each lease.

(vi) Revenue from sale of containers

Revenue from sale of containers is recognised on the transfer of risks and rewards on ownership, which generally coincides with the time when the containers are delivered to customers and title has passed. Direct costs relating to the lifting and storage of containers for sale are expensed as incurred.

(vii) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(viii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(ix) Income on sale of investment securities

Income on sale of investment securities is recognised when the title to the investments is passed to the purchaser.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Employee benefits

(i) Retirement benefit costs
The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong and the United States of America. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to these schemes are expensed as incurred.

Pursuant to the relevant regulations of the governments in Germany, Italy, Japan, the United Kingdom, the United States of America and China mainland, the subsidiaries of the Group in these countries participate in respective government benefit schemes (the "Schemes") whereby the subsidiaries are required to contribute to the Schemes for the retirement benefits of eligible employees. The subsidiaries in Japan and the United Kingdom also contribute to the Schemes for other benefits of eligible employees.

Contributions made to the Schemes are calculated either based on certain percentages of the applicable payroll costs or fixed sums that are determined with reference to salary scale as stipulated under the requirements of the respective countries. The governments of the respective countries are responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the Schemes is to pay the ongoing contributions required by the Schemes. Contributions to the Schemes are charged to the profit and loss account as incurred.

(ii) Employee leave entitlements
Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(iii) Equity compensation benefits
Share options are granted to directors and employees. No compensation cost is recognised in the consolidated profit and loss account in connection with share options granted. When the share options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(iv) Bonus entitlements
The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) Translation of foreign currencies

Transactions in currencies other than United States dollars are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in currencies other than United States dollars at the balance sheet date are translated at exchange rates ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries, associated companies and jointly controlled entities expressed in currencies other than United States dollars are translated at the exchange rates ruling at the balance sheet date whilst their profit and loss accounts expressed in currencies other than United States dollars are translated at the average exchange rates during the year. Exchange differences arising are dealt with as a movement in reserves.

In prior years, the profit and loss accounts of subsidiaries, associated companies and jointly controlled entities were translated at closing rates. This represents a change in accounting policy. However, the translation of the profit and loss accounts of subsidiaries, associated companies and jointly controlled entities expressed in currencies other than United States dollars in the prior year has not been restated as the effect of this change is not significant to the accounts.

(q) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format.

Unallocated costs represent corporate expenses and corporate finance costs less corporate interest income. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities, investments in joint ventures and associated companies. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

(r) Financial instruments

The Group manages interest rate exposure of the loans by interest rate swap contracts. Any differential to be paid or received on an interest rate swap contract is recognised as a component of interest expense over the period of the contract.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in container leasing, container handling and storage and container terminal operations. Revenues recognised during the year are as follows:

	2002 US$'000	2001 US$'000
Turnover		
Container rentals under operating leases	224,440	208,342
Finance lease income on containers	545	1,001
Container handling, transportation and storage income	8,790	9,608
Terminal operation income	7,850	5,720
Container management income	19	–
	241,644	224,671
Other revenues		
Sale of inventories	7,048	6,885
Interest income	3,794	5,178
Dividend income from unlisted investment	5,003	–
Gross rental income from investment properties	55	51
	15,900	12,114
Total revenues	257,544	236,785

(a) Primary reporting format – business segments

The Group has categorised its businesses into the following segments:

(i) container leasing
(ii) container terminal and related businesses
(iii) banking
(iv) other operations
(v) corporate
(vi) PRC investment securities

There are no sales or other transactions between the business segments for the years ended 31st December 2002 and 2001.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

Segment turnover and results

	2002						
	Container leasing US$'000	Container terminal and related businesses US$'000	Banking US$'000	Other operations US$'000	Corporate US$'000	PRC investment securities US$'000	Total US$'000
Turnover							
External sales	225,004	16,640	–	–	–	–	241,644
Segment results	86,358	6,641	–	–	–	–	92,999
Unallocated costs							
– net corporate expenses	–	–	–	–	(3,498)	–	(3,498)
– corporate finance costs	–	–	–	–	(638)	–	(638)
– corporate interest income	–	–	–	–	2,699	–	2,699
Operating profit/(loss) after finance costs	86,358	6,641	–	–	(1,437)	–	91,562
Share of profits less losses of							
– jointly controlled entities	–	2,890	–	5,861	–	–	8,751
– associated companies	–	59,005	8,456	–	–	–	67,461
Profit before taxation							167,774
Taxation							(11,515)
Profit after taxation							156,259
Minority interests							(1,699)
Profit attributable to shareholders							154,560

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

Segment turnover and results (Continued)

	2001						
	Container leasing US$'000	Container terminal and related businesses US$'000	Banking US$'000	Other operations US$'000	Corporate US$'000	PRC investment securities US$'000	Total US$'000
Turnover							
External sales	209,343	15,328	–	–	–	–	224,671
Segment results	83,857	1,009	–	–	–	14,137	99,003
Unallocated costs							
– net corporate expenses	–	–	–	–	(3,187)	–	(3,187)
– corporate finance costs	–	–	–	–	(743)	–	(743)
– corporate interest income	–	–	–	–	3,611	–	3,611
Operating profit/(loss) after finance costs	83,857	1,009	–	–	(319)	14,137	98,684
Share of profits less losses of							
– jointly controlled entities	–	3,801	–	5,620	–	–	9,421
– associated companies	–	47,805	9,007	–	–	–	56,812
Profit before taxation							164,917
Taxation							(9,566)
Profit after taxation							155,351
Minority interests							(1,011)
Profit attributable to shareholders							154,340

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

Segment balance sheet and other segment information

	Container leasing US$'000	Container terminal and related businesses US$'000	Banking US$'000	Other operations US$'000	Corporate US$'000	Total US$'000
2002						
Segment assets	1,140,061	34,649	–	–	–	1,174,710
Investments in joint ventures	(4,754)	24,576	–	26,230	–	46,052
Investments in associated companies	–	136,331	160,080	–	–	296,411
Investment securities	–	66,876	–	–	–	66,876
Unallocated assets						171,327
Total assets						1,755,376
Segment liabilities	(448,075)	(8,891)	–	–	–	(456,966)
Minority interests	–	(8,312)	–	–	–	(8,312)
Unallocated liabilities						(2,196)
Total liabilities						(467,474)
Capital expenditure	155,314	1,294	–	–	113	156,721
Depreciation and amortisation	86,230	1,173	–	–	279	87,682
Impairment losses recognised in						
– profit and loss account	15,997	–	–	–	–	15,997
– other properties revaluation reserve	165	–	–	–	–	165
Other non-cash expenses	2,531	3,280	–	–	5	5,816
2001						
Segment assets	1,136,689	37,366	–	–	–	1,174,055
Investments in joint ventures	481	25,022	–	21,588	–	47,091
Investments in associated companies	–	173,506	158,250	–	–	331,756
Investment securities	–	37,299	–	–	–	37,299
Unallocated assets						148,546
Total assets						1,738,747
Segment liabilities	(509,522)	(9,111)	–	–	–	(518,633)
Minority interests	–	(7,509)	–	–	–	(7,509)
Unallocated liabilities						(12,311)
Total liabilities						(538,453)
Capital expenditure	166,394	1,994	–	–	595	168,983
Depreciation and amortisation	79,504	1,217	–	–	239	80,960
Impairment losses recognised in						
– profit and loss account	5,680	–	–	–	–	5,680
– other properties revaluation reserve	248	–	–	–	–	248
Other non-cash (income)/expenses	(4,816)	3,450	–	–	36	(1,330)

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

(b) Secondary reporting format – geographical segments

The movements of containers under operating leases or finance leases are known through report from the lessees but the Group is not able to control the movements of containers except to the degree that the movements are restricted by the terms of the leases or where safety of the containers is concerned. It is therefore impracticable to present segment information by geographical areas.

The activities of container terminal and related businesses, other operations and corporate are carried out in Hong Kong and China mainland while that of banking operation is predominantly carried out in Hong Kong.

3 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2002 US$'000	2001 US$'000
Crediting		
Recovery of bad debts	**2,999**	41
Gross rental income under operating sublease	**426**	222
Profit on sale of listed investment	**–**	14,137
Reversal of provision for container repairs and maintenance expense	**–**	6,156
Charging		
Depreciation/amortisation		
– owned fixed assets leased out under operating leases	**84,384**	77,750
– other owned fixed assets	**3,298**	3,210
Impairment losses of (including in other operating expenses) (note 12)		
– containers	**15,056**	4,377
– leasehold land and buildings	**941**	1,303
Cost of inventories sold	**8,929**	8,350
Auditors' remuneration	**437**	451
Loss on disposal of fixed assets	**25**	215
Write-off of computer system development costs (note 12)	**436**	–
Loss on compensation for loss of containers from a fellow subsidiary	**25**	228
Outgoings in respect of investment properties	**6**	6
Provision for bad and doubtful debts, net	**1,142**	514
Provision for loan to an investee company (note 16)	**3,296**	3,450
Provision for inventories	**832**	265
Rental expense under operating leases		
– land and buildings leased from third parties	**2,965**	2,984
– land and buildings leased from a fellow subsidiary	**714**	714
– plant and machinery	**394**	449
Revaluation deficit of investment properties (note 12(b))	**60**	154
Total staff costs (including directors' emoluments)	**13,506**	12,216
Less: Amounts capitalised in computer system under development	**(176)**	(234)
	13,330	11,982

4 FINANCE COSTS

	2002 US$'000	2001 US$'000
Interest expense on		
– bank loans	10,786	16,273
– other loans wholly repayable within five years	2,639	6,356
– other loans not wholly repayable within five years	479	973
– loans from a minority shareholder of a subsidiary wholly repayable within five years	106	146
– trade payables	–	49
Loss on interest rate swap contracts	1,454	204
	15,464	24,001
Other incidental borrowing costs	2,555	5,523
	18,019	29,524

5 SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES

The share of profits less losses of associated companies in 2002 includes a gain of US$7,474,000 (2001: US$Nil) on disposal of entire interest in a co-operative joint venture owned by an associated company.

6 TAXATION

	2002 US$'000	2001 US$'000
Company and subsidiaries		
Hong Kong profits tax	723	260
China mainland taxation	257	139
Overseas taxation	106	239
Over provision in prior years	(15)	(6)
	1,071	632
Share of taxation attributable to:		
Jointly controlled entities		
China mainland taxation	1,049	1,129
Associated companies		
Hong Kong profits tax	8,505	7,012
China mainland taxation	890	793
	11,515	9,566

Hong Kong profits tax has been provided at a rate of 16% (2001: 16%) on the estimated assessable profit for the year. A substantial portion of the Group's profit neither arises in nor is derived from Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong profits tax.

Taxation on profits from container terminal operations in China mainland has been calculated at an effective tax rate of 7.5% (2001: 7.5%) on the estimated assessable profit for the year. The subsidiary in China mainland is eligible for a 50% relief from corporate income tax of 15% for five years since 1998.

6 TAXATION (Continued)

Taxation on overseas profit has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The Group's profits from container leasing are exempt from income tax in China mainland in accordance with a notice granting temporary exemption of income tax on rental payments made to foreign container leasing companies operating in international transportation (Guo Shui Fa (1993) No. 49) issued by the State Tax Bureau of the People's Republic of China (the "PRC") on 12th March 1993.

The Group is also exempt from business tax on its rental income in relation to the lease of containers and interest income earned in China mainland in accordance with a notice granting exemption from business tax for foreign enterprises earning such income but having no establishment in China mainland (Guo Shui Fa (1997) No. 35) issued by the State Tax Bureau of the PRC on 14th March 1997.

The deferred tax charge/(credit) for the year has not been provided in respect of the following:

	2002 US$'000	2001 US$'000
Accelerated depreciation allowances	**18,164**	14,470
Other timing differences	**61**	301
Tax losses	**(9,816)**	(11,545)
	8,409	3,226

Deferred tax on the revaluation surplus and deficit of the leasehold land and buildings and investment properties has not been quantified as this does not constitute a timing differences for deferred taxation purposes.

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of US$72,334,000 (2001: US$105,171,000).

8 DIVIDENDS

	2002 US$'000	2001 US$'000
Interim, paid, of US1.410 cents (2001: US1.218 cents) per ordinary share	**30,278**	26,091
Final, proposed, of US2.308 cents (2001: US1.795 cents) per ordinary share	**49,546**	38,456
Additional dividends paid on shares issued due to the exercise of share options before the closure of register of members		
– 2001/2000 final	**80**	26
– 2001 interim	**–**	3
	79,904	64,576

8 DIVIDENDS (Continued)

Note:

At a meeting held on 26th March 2003, the directors declared a final dividend of HK 18 cents (US 2.308 cents) per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts until it has been approved at the annual general meeting, but will be reflected as an appropriation of retained profits for the year ending 31st December 2003.

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of US$154,560,000 (2001: US$154,340,000) and on the weighted average number of 2,146,159,454 (2001: 2,141,192,588) ordinary shares in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for the year ended 31st December 2002 is calculated based on the profit attributable to shareholders of US$154,560,000 (2001: US$154,340,000) and the weighted average number of 2,146,159,454 (2001: 2,141,192,588) ordinary shares in issue during the year and the 80,810 (2001: 2,886,490) ordinary shares deemed to be issued at no consideration if all outstanding dilutive share options had been exercised.

10 RETIREMENT BENEFIT COSTS

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong and the United States of America and to the retirement benefit schemes operated by governments of Germany, Italy, Japan, the United Kingdom, the United States of America and China mainland (collectively the "Retirement Schemes").

The retirement benefit costs charged to the profit and loss account represent contributions paid and payable by the Group to the Retirement Schemes and amounted to US$706,000 (2001: US$620,000). Contributions totalling US$16,000 (2001: US$8,000) were payable to the Retirement Schemes as at 31st December 2002 and are included in trade and other payables. No forfeited contributions were utilised during the year (2001: US$7,000). Forfeited contributions available as at 31st December 2002 to reduce future contributions amounted to US$100,000 (2001: US$31,000).

The assets of the Retirement Schemes are held separately from those of the Group in independently administered funds.

11 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid to directors of the Company during the year are as follows:

	2002 US$'000	2001 US$'000
Fees	**256**	231
Salaries, housing and other allowances, benefits in kind	**1,464**	1,259
Bonuses	**74**	37
Retirement benefit costs	**2**	2
	1,796	1,529

11 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

The above amounts include directors' fees of US$88,462 (2001: US$88,462) paid to independent non-executive directors.

As at 31st December 2002, two directors of the Company had a total of 3,000,000 (2001: 3,000,000) share options granted by the Company on 1st July 1996 under the share option scheme adopted by the Company on 30th November 1994 (the "Share Option Scheme"). The options are exercisable at HK$5.53 per share at any time within ten years from the date of grant, subject to certain conditions as set out in note 21(b)(i) to the accounts.

As at 31st December 2002, one director of the Company had 5,000,000 (2001: 5,000,000) share options granted by the Company on 20th May 1997 under the Share Option Scheme. The options are exercisable at HK$8.80 per share at any time within ten years from the date of grant, subject to certain conditions as set out in note 21(b)(ii) to the accounts.

As at 1st January 2002, nine directors of the Company had a total of 2,600,000 (2001: 2,800,000) share options which were granted by the Company on 6th April 2000 under the Share Option Scheme. The options are exercisable at HK$3.584 per share at any time from the first date of the thirteenth month from the date of grant to the end of the twenty-fourth month from the date of grant. During the year, two (2001: one) directors exercised 400,000 (2001: 200,000) share options granted by the Company on 6th April 2000 under the Share Option Scheme. Benefits in kind included the difference between the aggregate amount of the market price of the Company's shares issued at the date of exercise of share options and the consideration paid by the directors under the Share Option Scheme during the year. Details of the movement of share options during the year are set out in note 21(b) to the accounts.

The consideration paid for each offer of share options by the directors was HK$1.00.

The directors' emoluments are analysed as follows:

		Number of directors	
		2002	2001
Emoluments band			
US$Nil – US$128,205	(HK$Nil – HK$1,000,000)	**16**	13
US$128,206 – US$192,308	(HK$1,000,001 – HK$1,500,000)	**1**	–
US$192,309 – US$256,410	(HK$1,500,001 – HK$2,000,000)	**–**	–
US$256,411 – US$320,513	(HK$2,000,001 – HK$2,500,000)	**2**	1
US$320,514 – US$384,615	(HK$2,500,001 – HK$3,000,000)	**–**	1
US$384,616 – US$448,718	(HK$3,000,001 – HK$3,500,000)	**–**	–
US$448,719 – US$512,821	(HK$3,500,001 – HK$4,000,000)	**–**	–
US$512,822 – US$576,923	(HK$4,000,001 – HK$4,500,000)	**–**	1
US$576,924 – US$641,025	(HK$4,500,001 – HK$5,000,000)	**–**	–
US$641,026 – US$705,128	(HK$5,000,001 – HK$5,500,000)	**–**	–
US$705,129 – US$769,230	(HK$5,500,001 – HK$6,000,000)	**1**	–
		20	16

The above analysis includes three (2001: three) individuals whose emoluments were among the five highest in the Group.

11 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (Continued)

(b) Management's emoluments

Details of the aggregate emoluments paid to the two (2001: two) individuals whose emoluments were the highest in the Group and have not been included in the directors' emoluments above are set out below:

	2002 **US$'000**	2001 US$'000
Salaries, housing and other allowances, benefits in kind	**694**	604
Bonuses	**34**	19
Retirement benefit costs	**15**	3
	743	626

The emoluments fell within the following bands:

		Number of individuals	
		2002	2001
Emoluments band			
US$Nil – US$128,205	(HK$Nil – HK$1,000,000)	**–**	–
US$128,206 – US$192,308	(HK$1,000,001 – HK$1,500,000)	**–**	–
US$192,309 – US$256,410	(HK$1,500,001 – HK$2,000,000)	**–**	–
US$256,411 – US$320,513	(HK$2,000,001 – HK$2,500,000)	**–**	1
US$320,514 – US$384,615	(HK$2,500,001 – HK$3,000,000)	**1**	1
US$384,616 – US$448,718	(HK$3,000,001 – HK$3,500,000)	**1**	–
		2	2

During the year, no emoluments had been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors waived or agreed to waive any emoluments during the year.

12 FIXED ASSETS

Group

	Leasehold land and buildings in Hong Kong US$'000	Leasehold land and buildings outside Hong Kong US$'000	Investment properties in Hong Kong US$'000	Land use rights outside Hong Kong US$'000	Construction in progress US$'000	Containers US$'000	Motor vehicles US$'000	Leasehold improvements US$'000	Furniture, fixtures and equipment US$'000	Plant and machinery US$'000	Computer system under development US$'000	Total US$'000
Cost or valuation												
At 1st January 2002	21,722	12,053	885	1,856	44	1,422,805	1,519	2,121	7,833	13,638	1,578	1,486,054
Additions	–	18	–	–	933	153,745	241	1	318	178	1,287	156,721
Revaluation deficit (note 12(b))	–	–	(60)	–	–	–	–	–	–	–	–	(60)
Disposals/transfer/write off	–	–	–	–	–	(48,100)	(166)	(3)	(821)	(165)	(436)	(49,691)
Reclassification	–	–	–	–	(321)	–	–	–	1,549	–	(1,228)	–
At 31st December 2002	21,722	12,071	825	1,856	656	1,528,450	1,594	2,119	8,879	13,651	1,201	1,593,024
Accumulated depreciation/amortisation and impairment losses												
At 1st January 2002	4,961	2,007	–	296	–	452,094	892	1,976	4,422	5,631	–	472,279
Impairment losses recognised in												
– consolidated profit and loss account	922	19	–	–	–	15,056	–	–	–	–	–	15,997
– other properties revaluation reserve	165	–	–	–	–	–	–	–	–	–	–	165
Depreciation/amortisation charge for the year	531	401	–	74	–	84,384	193	39	1,453	607	–	87,682
Disposals/transfer/write off												
– accumulated impairment losses	–	–	–	–	–	(1,488)	–	–	–	–	–	(1,488)
– accumulated depreciation	–	–	–	–	–	(28,699)	(149)	(2)	(807)	(112)	–	(29,769)
At 31st December 2002	6,579	2,427	–	370	–	521,347	936	2,013	5,068	6,126	–	544,866
Net book value												
At 31st December 2002	**15,143**	**9,644**	**825**	**1,486**	**656**	**1,007,103**	**658**	**106**	**3,811**	**7,525**	**1,201**	**1,048,158**
At 31st December 2001	16,761	10,046	885	1,560	44	970,711	627	145	3,411	8,007	1,578	1,013,775

12 FIXED ASSETS (Continued)

	Leasehold land and buildings in Hong Kong US$'000	Leasehold land and buildings outside Hong Kong US$'000	Investment properties in Hong Kong US$'000	Land use rights outside Hong Kong US$'000	Construction in progress US$'000	Containers US$'000	Motor vehicles US$'000	Leasehold improvements US$'000	Furniture, fixtures and equipment US$'000	Plant and machinery US$'000	Computer system under development US$'000	Total US$'000
The analysis of cost or valuation of the above assets as at 31st December 2002 is as follows:												
At cost	1,749	12,071	–	1,856	656	1,528,450	1,594	2,119	8,879	13,651	1,201	1,572,226
At professional valuation												
– 1994	19,973	–	–	–	–	–	–	–	–	–	–	19,973
– 2002	–	–	825	–	–	–	–	–	–	–	–	825
	21,722	12,071	825	1,856	656	1,528,450	1,594	2,119	8,879	13,651	1,201	1,593,024
The analysis of cost or valuation of the above assets as at 31st December 2001 is as follows:												
At cost	1,749	12,053	–	1,856	44	1,422,805	1,519	2,121	7,833	13,638	1,578	1,465,196
At professional valuation												
– 1994	19,973	–	–	–	–	–	–	–	–	–	–	19,973
– 2001	–	–	885	–	–	–	–	–	–	–	–	885
	21,722	12,053	885	1,856	44	1,422,805	1,519	2,121	7,833	13,638	1,578	1,486,054

12 FIXED ASSETS (Continued)

Notes:

(a) The Group's interests in investment properties and leasehold land and buildings at their net book values are analysed as follows:

	Group	
	2002	2001
	US$'000	US$'000
In Hong Kong, held on leases of over 50 years	**15,968**	17,646
Outside Hong Kong, held on leases of between 10 to 50 years	**9,644**	10,046
	25,612	27,692

(b) The investment properties as at 31st December 2002 and 2001 were revalued on an open market value basis by DTZ Debenham Tie Leung Limited, an independent professional property valuer. The revaluation deficit was accounted for in the consolidated profit and loss account (note 3).

(c) Certain leasehold land and buildings in Hong Kong as at 31st December 2002 were revalued in 1994 on an open market value basis by C.Y. Leung & Company Limited (now known as DTZ Debenham Tie Leung Limited), an independent professional property valuer.

The carrying amount of these leasehold land and buildings as at 31st December 2002 would have been US$13,009,000 (2001: US$14,563,000) had the leasehold land and buildings been carried at cost less accumulated depreciation/amortisation and impairment losses in the accounts.

(d) The aggregate cost, accumulated depreciation and accumulated impairment losses as at 31st December 2002 of the leased assets other than investment properties (note 12(b)), where the Group is the lessor, represented containers leased to a fellow subsidiary and third parties under operating leases and amounted to US$1,521,075,000 (2001: US$1,420,379,000), US$503,402,000 (2001: US$447,717,000) and US$17,945,000 (2001: US$4,377,000) respectively.

(e) The accumulated impairment losses of fixed assets as at 31st December 2002 amounted to US$20,602,000 (2001: US$5,928,000).

(f) Certain containers with an aggregate net book value of US$278,378,000 as at 31st December 2002 (2001: US$253,778,000) were pledged as security for loan facilities granted by banks and third parties.

(g) During the year, the Group transferred containers with an aggregate net book value of US$9,081,000 (2001: US$8,044,000) to inventories.

(h) As at 31st December 2002, the accumulated staff costs capitalised in computer system under development amounted to US$179,000 (2001: US$442,000).

13 INVESTMENTS IN SUBSIDIARIES

	Company 2002 US$'000	Company 2001 US$'000
Unlisted shares, at cost (note b)	**159,654**	159,654
Amounts due from subsidiaries (note a)	**936,159**	936,950
Amounts due to subsidiaries (note a)	**–**	(243)
Provision	**(47,820)**	(35,395)
	1,047,993	1,060,966

Notes:

(a) The amounts due from/(to) subsidiaries are unsecured and have no fixed terms of repayment. The balances were interest free except for an amount of US$897,000 due from a subsidiary as at 31st December 2001 which bore interest at a rate of 8% per annum and was repaid during the year.

(b) Details of the subsidiaries as at 31st December 2002 are as follows:

	Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2002	Group equity interest 2001
*	Allgood International Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
# *	Bauhinia 97 Ltd.	Cayman Islands	Hong Kong	Investment holding	2 ordinary shares of US$1 each	**100%**	100%
	Cheer Hero Development Limited	Hong Kong	Hong Kong	Container handling, storage and stevedoring	10,000 ordinary shares of HK$10 each	**75%**	75%
	COSCO Container Services Limited	Hong Kong	Hong Kong	Investment holding, depot handling, storage and container repairing	2 ordinary shares of HK$1 each	**100%**	100%
@ # *	COSCO Pacific (China) Investments Co., Ltd.	PRC	PRC	Investment holding	US$30,000,000	**100%**	100%
#	COSCO Pacific Management Company Limited	Hong Kong	Hong Kong	Investment holding and provision of management services	2 ordinary shares of HK$1 each	**100%**	100%
# *	COSCO Pacific Nominees Limited	British Virgin Islands	Worldwide	Provision of nominee services	1 ordinary share of US$1	**100%**	100%

13 INVESTMENTS IN SUBSIDIARIES (Continued)

	Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2002	Group equity interest 2001
*	COSCO Ports (Shekou) Limited (formerly known as Florens Investments Company Limited)	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
#	COSCO Ports (Holdings) Limited (formerly known as Florens Ports Investments Limited)	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
*	COSCO Qingdao Terminal Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
# *	CPL Treasury Limited	British Virgin Islands	Hong Kong	Dormant	1 ordinary share of US$1	**100%**	100%
	Crestway International Limited	British Virgin Islands	Hong Kong	Investment holding	50,000 ordinary shares of US$1 each	**100%**	100%
# *	Elegance Investment Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
	Fairbreeze Shipping Company Limited	Hong Kong	Hong Kong	Property investment	5,000 ordinary shares of HK$100 each	**100%**	100%
*	Famous International Limited	British Virgin Islands	Worldwide	Investment holding and sale of old containers	1 ordinary share of US$1	**100%**	100%
*	Fentalic Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
	Florens Container Corporation S.A.	Panama	Worldwide	Container leasing	100 ordinary shares of US$100 each	**100%**	100%
#	Florens Container Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	22,014 ordinary shares of US$1 each	**100%**	100%
	Florens Container Inc.	United States of America	United States of America	Container leasing	1 ordinary share of US$1	**100%**	100%

13 INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2002	Group equity interest 2001
Florens Container, Inc. (1998)	United States of America	United States of America	Container leasing	100 ordinary shares of US$1 each	**100%**	100%
Florens Container Inc. (1999)	United States of America	United States of America	Container leasing	100 ordinary shares of US$1 each	**100%**	100%
Florens Container, Inc. (2000)	United States of America	United States of America	Container leasing	100 ordinary shares of US$1 each	**100%**	100%
Florens Container, Inc. (2001)	United States of America	United States of America	Container leasing	1 ordinary share of US$1	**100%**	100%
Florens Container Services Company Limited	Hong Kong	Worldwide	Provision of container management services	100 ordinary shares of HK$1 each	**100%**	100%
* Florens Container Services (Deutschland) GmbH.	Germany	Germany	Provision of container management services	2 shares of EURO 12,782.30 each	**100%**	100%
* Florens Container Services (Italy) S.R.L.	Italy	Italy	Provision of container management services	20,000 quotas of EURO 0.52 each	**100%**	100%
* Florens Container Services (Japan) Co. Ltd.	Japan	Japan	Provision of container management services	200 ordinary shares of JPY 50,000 each	**100%**	100%
* Florens Container Services (UK) Limited	United Kingdom	United Kingdom	Provision of container management services	183,610 ordinary shares of GBP 1 each	**100%**	100%
* Florens Container Services (USA), Ltd.	United States of America	United States of America	Provision of container management services	1,000 ordinary shares of US$0.001 each	**100%**	100%
# * Florens Industrial Holdings Limited	Bermuda	PRC	Investment holding	12,000 ordinary shares of US$1 each	**100%**	100%
Florens Shipping Corporation Limited	Bermuda	Worldwide	Container leasing	12,000 ordinary shares of US$1 each	**100%**	100%

13 INVESTMENTS IN SUBSIDIARIES (Continued)

	Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2002	Group equity interest 2001
*	Florens U.S. Holdings, Inc.	United States of America	United States of America	Investment holding	1 ordinary share of US$1	**100%**	100%
*	Frosti International Limited	British Virgin Islands	Hong Kong	Investment holding	2 ordinary shares of US$1 each	**100%**	100%
	Greating Services Limited	Hong Kong	Hong Kong	Transportation of containers	250,000 ordinary shares of HK$1 each	**100%**	100%
*	Hero King Limited	British Virgin Islands	Hong Kong	Property holding	1 ordinary share of US$1	**100%**	100%
*	Plangreat Limited	British Virgin Islands	Hong Kong	Investment holding	100 ordinary shares of US$1 each	**100%**	100%
# *	Toplink Enterprises Limited (in liquidation)	British Virgin Islands	Hong Kong	Dormant	1 ordinary share of US$1	**100%**	100%
# *	Topview Investment Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
	Win Hanverky Investments Limited	Hong Kong	Hong Kong	Investment holding	10,000 ordinary shares of HK$10 each	**100%**	100%
@ *	Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	PRC	PRC	Operation of container terminal	US$16,800,000	**51%**	51%

Shares held directly by the Company

* Subsidiaries not audited by PricewaterhouseCoopers

@ COSCO Pacific (China) Investments Co., Ltd and Zhangjiagang Win Hanverky Container Terminal Co., Ltd are the wholly foreign-owned enterprise and the sino-foreign joint venture established in the PRC respectively.

The aggregate net assets, turnover and loss (2001: profit) before taxation of subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 3.8%, 3.2%, and 0.7% (2001: 3.5%, 2.5% and 0.8%) of the Group's net assets, turnover and profit before taxation respectively.

14 INVESTMENTS IN JOINT VENTURES

	Group 2002 US$'000	Group 2001 US$'000
Unlisted investments, at cost	**34,130**	33,530
Negative goodwill on acquisition taken to reserves	**1,472**	1,472
Share of undistributed post-acquisition reserves (note c)	**9,061**	9,608
Share of net assets (note c)	**44,663**	44,610
Amounts due from jointly controlled entities (note a)	**6,143**	2,500
Amounts due to jointly controlled entities (note a)	**(4,754)**	(19)
	46,052	47,091

Notes:

(a) The amounts due from/(to) jointly controlled entities are unsecured and interest free. Trading balances have normal commercial terms of settlement while the other balances have no fixed terms of repayment.

(b) The Company has no directly owned jointly controlled entities as at 31st December 2002 and 2001 . The following is a list of the jointly controlled entities, which are sino-foreign joint ventures established in the PRC, held by its wholly owned subsidiaries as at 31st December 2002.

Name	Place of establishment/ operation	Principal activities	Paid-up capital	Percentage of interest in ownership/voting power/profit sharing 2002	2001
Qingdao Cosport International Container Terminals Co., Ltd.	PRC	Operation of container terminal	RMB337,868,700	**50.00%/ 50.00%/ 50.00%**	50.00%/ 50.00%/ 50.00%
Shanghai CIMC Reefer Containers Co., Ltd.	PRC	Container manufacturing	US$31,000,000	**20.00%/ 21.40%/ 20.00%**	20.00%/ 21.40%/ 20.00%
Shanghai CIMC Far East Container Co., Ltd. (note c)	PRC	Container manufacturing	US$9,480,000	**20.00%/ 20.00%/ 20.00%**	20.00%/ 20.00%/ 20.00%
Shanghai Kansai Paint & Chemical Co., Ltd.	PRC	Production of container and marine paints	US$7,000,000	**20.00%/ 18.75%/ 20.00%**	20.00%/ 18.18%/ 20.00%
Tianjin Kansai Paint and Chemical Co., Ltd.	PRC	Production of container and marine paints	US$5,000,000	**20.00%/ 18.75%/ 20.00%**	20.00%/ 16.66%/ 20.00%
Tianjin CIMC North Ocean Container Co., Ltd. (note c)	PRC	Container manufacturing	US$16,682,000	**22.50%/ 20.00%/ 22.50%**	22.50%/ 20.00%/ 22.50%

14 INVESTMENTS IN JOINT VENTURES (Continued)

(c) Shanghai CIMC Far East Container Co., Ltd. and Tianjin CIMC North Ocean Container Co., Ltd. ("Tianjin CIMC"), both are the jointly controlled entities of the Group, entered into subcontracting agreements with China International Marine Containers (Group) Ltd. ("CIMC"), one of the venturers of these jointly controlled entities and an associated company of the Company's ultimate holding company, during 2000 and Tianjin CIMC entered into an amendment to the subcontracting agreement with CIMC during 2001 (collectively "the Agreements").

Pursuant to the Agreements, the operations of these two jointly controlled entities are sub-contracted to CIMC and CIMC, in return, provides guaranteed profits, the amounts of which are stipulated in the Agreements, to these jointly controlled entities for five years commencing from 1st January 2000.

The Group's share of profits from these two jointly controlled entities for the two years ended 31st December 2002 is calculated based on the amounts of guaranteed profits as set out in the Agreements.

15 INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2002	2001
	US$'000	US$'000
Investments, at cost		
– unlisted shares	**314,986**	314,986
– shares listed in Hong Kong	**219,189**	219,189
Goodwill on acquisition taken to reserves	**(341,597)**	(341,597)
Share of undistributed post acquisition reserves	**93,983**	91,867
Share of net assets	**286,561**	284,445
Loans to associated companies (note a)	**9,845**	47,306
Amount due from an associated company (note a)	**5**	5
	296,411	331,756
Market value of listed shares	**78,077**	80,308

15 INVESTMENTS IN ASSOCIATED COMPANIES (Continued)

Notes:

(a) Loans to and amount due from associated companies are unsecured, interest free and have no fixed terms of repayment.

(b) The Company has no directly owned associated company as at 31st December 2002 and 2001. The following is a list of the associated companies held by its wholly owned subsidiaries as at 31st December 2002.

Name	Place of incorporation/ operation	Principal activities	Issued share capital	Group equity interest 2002	Group equity interest 2001
COSCO-HIT Terminals (Hong Kong) Limited	Hong Kong	Operation, management and development of Container Terminal 8 (East)	2 "A" ordinary shares of HK$10 each and 2 "B" ordinary shares of HK$10 each	**50%**	50%
Dawning Company Limited	British Virgin Islands/ Hong Kong	Investment holding	200 "A" shares of US$1 each and 800 "B" shares of US$1 each	**20%**	20%
Liu Chong Hing Bank Limited	Hong Kong	Banking and related financial services	435,000,000 ordinary shares of HK$0.5 each	**20%**	20%
Twinbridge Development Corp.	British Virgin Islands/ Hong Kong	Dormant	10,000 shares of US$1 each	**30%**	30%

16 INVESTMENT SECURITIES

	Group 2002 US$'000	Group 2001 US$'000
Equity securities (note a)		
– unlisted investments in Hong Kong, at cost	**1**	1
– unlisted investments in China mainland, at cost	**24,581**	–
Loans to investee companies (note b)	**56,485**	48,193
Provision (note 3)	**(14,191)**	(10,895)
	66,876	37,299

Notes:

(a) Unlisted investments mainly represent equity interests in a river trade terminal in Hong Kong and container terminals in Yantian, Shekou and Dalian of China mainland.

(b) Loans to investee companies are unsecured and have no fixed terms of repayment. These loans are interest free except for a balance of US$2,625,000 as at 31st December 2002 (2001: US$Nil) which bears interest at Hong Kong dollar prime rate.

17 FINANCE LEASE RECEIVABLES

Group

	2002			2001		
	Gross receivables US$'000	Unearned finance income US$'000	Present value of minimum lease payment receivable US$'000	Gross receivables US$'000	Unearned finance income US$'000	Present value of minimum lease payment receivable US$'000
Amounts receivable under finance leases:						
– not later than one year	2,826	(130)	2,696	5,128	(533)	4,595
– later than one year and not later than five years	233	(36)	197	3,036	(167)	2,869
	3,059	(166)	2,893	8,164	(700)	7,464

As at 31st December 2002, the Group entered into 15 (2001: 15) finance lease contracts for leasing of certain containers. The average term of finance leases is 5 years (2001: 5 years).

The cost of assets acquired for the purpose of letting under finance leases as at 31st December 2002 amounted to US$19,023,000 (2001: US$22,475,000).

Unguaranteed residual values of assets leased under finance leases are estimated at approximately US$9,000 (2001: US$10,000).

18 INVENTORIES

As at 31st December 2002, inventories of the Group represent spare parts and consumables of US$269,000 (2001: US$274,000) and resaleable containers of US$2,379,000 (2001: US$3,004,000).

Spare parts and consumables are stated at cost. The carrying amount of resaleable containers that are carried at net realisable value amounted to US$2,308,000 (2001: US$1,954,000).

19 TRADE AND OTHER RECEIVABLES

	Group 2002 US$'000	Group 2001 US$'000	Company 2002 US$'000	Company 2001 US$'000
Trade receivables	**25,387**	20,542	**–**	–
Other receivables, deposits and prepayments	**7,445**	1,904	**312**	345
Amounts due from (note b)				
– fellow subsidiaries	**22,619**	20,929	**–**	–
– related companies	**701**	600	**–**	–
	56,152	43,975	**312**	345

Notes:

(a) The Group grants credit period of 30 to 90 days to its customers.

At 31st December 2002, the ageing analysis of the trade balances due from third parties (net of provision), fellow subsidiaries, related companies and jointly controlled entities was as follows:

	Group 2002 US$'000	Group 2001 US$'000
Within 30 days	**27,507**	21,082
31–60 days	**17,141**	15,888
61–90 days	**2,403**	3,318
Over 90 days	**982**	1,183
	48,033	41,471
Included under trade and other receivables	**48,033**	41,263
Included under investments in joint ventures (note 14)	**–**	208
	48,033	41,471

(b) The amounts due from fellow subsidiaries and related companies are unsecured and interest free. Trading balances have normal commercial terms of settlement while other balances have no fixed terms of repayment.

20 TRADE AND OTHER PAYABLES

	Group 2002 US$'000	Group 2001 US$'000	Company 2002 US$'000	Company 2001 US$'000
Trade payables (note a)	**5,333**	2,832	**–**	–
Other payables and accruals	**25,576**	14,279	**143**	273
Dividend payable	**8**	–	**8**	–
Amounts due to (note b)				
– ultimate holding company	**–**	49	**–**	–
– fellow subsidiaries	**25**	28	**–**	–
– related companies	**2,738**	136	**–**	–
– minority shareholders of subsidiaries	**3,319**	2,769	**–**	–
	36,999	20,093	**151**	273

Notes:

(a) At 31st December 2002, the ageing analysis of the trade balances due to third parties, ultimate holding company, fellow subsidiaries, related companies, minority shareholders of subsidiaries and jointly controlled entities was as follows:

	Group 2002 US$'000	Group 2001 US$'000
Within 30 days	**6,409**	7,954
31–60 days	**3,791**	232
61–90 days	**1,842**	66
Over 90 days	**1,519**	123
	13,561	8,375
Included under trade and other payables	**8,807**	8,356
Included under investments in joint ventures (note 14)	**4,754**	19
	13,561	8,375

(b) The amounts due to ultimate holding company, fellow subsidiaries, related companies and minority shareholders of subsidiaries are unsecured and interest free. Balances in relation to purchases of containers and provision of services have normal commercial terms of settlement while the other balances have no fixed terms of repayment.

21 SHARE CAPITAL

	2002 US$'000	2001 US$'000
Authorised:		
3,000,000,000 (2001: 3,000,000,000) ordinary shares of HK$0.10 each	**38,462**	38,462
Issued and fully paid:		
2,147,012,298 (2001: 2,142,542,298) ordinary shares of HK$0.10 each	**27,533**	27,476

(a) The movements of the issued share capital of the Company are summarised as follows:

	Number of ordinary shares	Nominal value US$'000
At 1st January 2001	2,139,228,298	27,433
Issued on exercising of share options	3,314,000	43
At 31st December 2001	2,142,542,298	27,476
At 1st January 2002	**2,142,542,298**	**27,476**
Issued on exercising of share options (note b)	**4,470,000**	**57**
At 31st December 2002	**2,147,012,298**	**27,533**

(b) Share options

Under the Share Option Scheme, the directors of the Company may, at their discretion, grant to any director, executive and/or employee who are in full time employment with any company in the Group, share options to subscribe for the Company's shares. The subscription price for the Company's shares under the Share Option Scheme is determined by the board of directors of the Company and will not be less than 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of offer of the options or the nominal value of the Company's shares, whichever is higher. The maximum number of shares over which options may be outstanding may not exceed 10% of the ordinary share capital in issue from time to time. The Share Option Scheme will expire on 30th November 2004. The consideration on acceptance of an option is HK$1.00.

21 SHARE CAPITAL (Continued)

(b) Share options (Continued)

Movements of the share options, which have been granted under the Share Option Scheme, during the year are set out below:

Category	Note	Exercise price HK$	Number of share options: Outstanding at 1st January 2002	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2002	Vested percentage as at 31st December 2002	Vested percentage as at 31st December 2001
Directors	(i)	5.53	3,000,000	–	–	–	3,000,000	0%	0%
	(ii)	8.80	5,000,000	–	–	–	5,000,000	100%	80%
	(iii)	3.584	2,600,000	–	(400,000)	(2,200,000)	–	–	100%
Continuous contract employees	(i)	5.53	80,000	–	–	–	80,000	0%	0%
	(ii)	8.80	7,550,000	–	–	(750,000)	6,800,000	100%	80%
	(iii)	3.584	7,636,000	–	(4,070,000)	(3,566,000)	–	–	100%

Notes:

(i) The share options granted on 1st July 1996 are exercisable at any time within ten years from the date of grant, subject to the following conditions:

Percentage of the total number of options granted to each grantee which can be exercised (including the options which have already been exercised)	Price level per share at which the options can be exercised*
20% of the options	HK$6.50 or above
40% of the options	HK$7.00 or above
60% of the options	HK$7.50 or above
80% of the options	HK$8.00 or above
100% of the options	HK$8.50 or above

* The price level refers to closing price of the share of the Company on the Stock Exchange at the date prior to the exercise of the options.

21 SHARE CAPITAL (Continued)

(b) Share options (Continued)

(ii) The share options granted on 20th May 1997 (the "Offer Date") are exercisable at any time within ten years from the date of the options granted subject to the following conditions:

1. For those grantees who have completed one year full-time service in the Group may exercise a maximum of 20% of share options granted in each of the first five anniversary years from the Offer Date.

2. For those grantees who have not completed one year full-time service in the Group as at the Offer Date, a maximum of 20% of options granted may be exercisable in each of the first five anniversary years of the Offer Date after completion of one year full-time service.

750,000 share options were lapsed during the year following the resignation of an employee.

(iii) The share options granted on 6th April 2000 were exercisable at any time from the first day of the thirteen month from the date of grant to the last day of the twenty-fourth month from the date of grant. 250,000 share options were lapsed following the resignation of a director. 5,516,000 share options, comprising of 1,950,000 share options of the directors and 3,566,000 share options of the employees, which were remained unexercised on the last day of the exercisable period, were lapsed on 6th April 2002.

4,470,000 options were exercised during the year, representing 400,000 share options of the directors and 4,070,000 share options of the employees, resulted in 4,470,000 shares (2001: 3,314,000 shares) being issued at HK$3.584 (2001: HK$3.584) per share, yielding the following proceeds, after transaction costs of US$2,000 (2001: US$Nil).

	2002	2001
	US$'000	US$'000
Ordinary share capital – at par	**57**	43
Share premium (net of issue expenses)	**2,049**	1,480
Proceeds (net of issue expenses)	**2,106**	1,523

(iv) The weighted average closing price of the shares of the Company on which the share options were exercised during the year was HK$4.959 (2001: HK$5.246).

(v) For those share options granted on 1st July 1996 and 20th May 1997, all grantees may reserve their rights to exercise and accumulate their share options exercisable during their employment with the Group.

22 RESERVES

Company

	Share premium US$'000	Contributed surplus US$'000	Retained profits US$'000	Total US$'000
At 1st January 2001	556,528	418,570	125,231	1,100,329
Premium on issue of shares under the Share Option Scheme	1,480	–	–	1,480
Release of contributed surplus arising from a group reorganisation (note)	–	(4,356)	–	(4,356)
Profit for the year	–	–	105,171	105,171
Dividends				
– 2000 final	–	–	(30,195)	(30,195)
– 2001 interim	–	–	(26,094)	(26,094)
At 31st December 2001	558,008	414,214	174,113	1,146,335
Representing:				
Reserves	558,008	414,214	135,657	1,107,879
2001 final dividend proposed	–	–	38,456	38,456
At 31st December 2001	558,008	414,214	174,113	1,146,335
At 1st January 2002	**558,008**	**414,214**	**174,113**	**1,146,335**
Premium on issue of shares under the Share Option Scheme	**2,051**	**–**	**–**	**2,051**
Share issue expenses	**(2)**	**–**	**–**	**(2)**
Profit for the year	**–**	**–**	**72,334**	**72,334**
Dividends				
– 2001 final	**–**	**–**	**(38,536)**	**(38,536)**
– 2002 interim	**–**	**–**	**(30,278)**	**(30,278)**
At 31st December 2002	**560,057**	**414,214**	**177,633**	**1,151,904**
Representing:				
Reserves	**560,057**	**414,214**	**128,087**	**1,102,358**
2002 final dividend proposed	**–**	**–**	**49,546**	**49,546**
	560,057	**414,214**	**177,633**	**1,151,904**

Note:

During the year ended 31st December 2001, the entire equity interest in Fairbreeze Shipping Company Limited ("Fairbreeze"), a directly owned subsidiary, was transferred by the Company to Florens Container Holdings Limited, a wholly owned subsidiary of the Company. The contributed surplus previously arising from the acquisition of Fairbreeze by the Company of US$4,356,000 was released upon the transfer.

23 LONG TERM LIABILITIES

	Group 2002 US$'000	Group 2001 US$'000
Loans (note c)		
Secured	156,578	162,532
Unsecured	263,614	330,650
	420,192	493,182
Amounts due within one year included under current liabilities	(209,707)	(92,125)
	210,485	401,057

(a) The analysis of the above is as follows:

	Group 2002 US$'000	Group 2001 US$'000
Wholly repayable within five years		
Bank loans	223,599	220,328
Other loans (note d)	140,000	143,463
Loans from a minority shareholder of a subsidiary (note e)	1,445	1,927
	365,044	365,718
Not wholly repayable within five years		
Bank loans	40,179	110,372
Other loans	14,969	17,092
	55,148	127,464
	420,192	493,182

23 LONG TERM LIABILITIES (Continued)

(b) The maturity of the long term liabilities is as follows:

	Group 2002 US$'000	Group 2001 US$'000
Bank loans		
Within one year	**66,937**	86,056
In the second year	**64,464**	68,560
In the third to fifth years inclusive	**124,342**	156,182
In more than five years	**8,035**	19,902
	263,778	330,700
Loans from a minority shareholder of a subsidiary		
Within one year	**482**	482
In the second year	**482**	482
In the third to fifth years inclusive	**481**	963
	1,445	1,927
Other loans		
Within one year	**142,288**	5,587
In the second year	**2,464**	142,288
In the third to fifth years inclusive	**8,590**	7,976
In more than five years	**1,627**	4,704
	154,969	160,555
	420,192	493,182

(c) Secured bank loans and other loans of US$156,578,000 (2001: US$162,532,000) were pledged by certain containers of the Group (note 12(f)). US$141,609,000 (2001: US$141,975,000) out of these loans were also secured by the assignment of the container lease agreements and the rental income thereon, other assets and shares of certain subsidiaries.

The bank loan of approximately US$1,566,000 (2001: US$2,024,000) was guaranteed by the minority shareholder of a subsidiary.

(d) A sum of US$140,000,000 US commercial notes (the "Notes") were issued to investors pursuant to an agreement dated 24th December 2001. The Notes are backed by a letter of credit issued by a bank (the "LOC") and guaranteed by the Company.

Each Note bears interest at prevailing market rates with a stated maturity date not exceeding 270 days. The Notes will be redeemed and reissued upon their respective maturity dates until the expiry of the LOC. The stated termination date of the LOC is two years from 24th December 2001.

23 LONG TERM LIABILITIES (Continued)

(e) As at 31st December 2002, loans to a non-wholly owned subsidiary by the Group and a minority shareholder of the subsidiary amounted to US$1,610,000 (2001: US$2,091,000) and US$1,445,000 (2001: US$1,927,000) respectively. These loans are unsecured and repayable in various annual instalments up to December 2004. Annual interest rate is calculated at prevailing market rate quoted by the State Development Bank of the PRC. The interest rate was at 6.21% per annum for the month of January 2002 and at 5.76% per annum for the period from February to December 2002 (2001: 6.21%).

(f) Other loan of US$14,969,000 (2001: US$17,092,000) not wholly repayable within five years is repayable by quarterly instalment over a period of 32 quarters starting from 7th July 2000. Interest is charged on the outstanding balance at the rate of 1.125% per annum over the London Interbank Offered Rate ("LIBOR") (2001: 1.125% per annum over LIBOR).

24 CONTINGENT LIABILITIES

	Group		Company	
	2002	2001	**2002**	2001
	US$'000	US$'000	US$'000	US$'000
Guarantees executed for securing banking facilities granted to:				
Subsidiaries	**–**	–	**416,577**	505,586
Jointly controlled entities	**–**	585	**–**	–
	–	585	**416,577**	505,586

25 CAPITAL COMMITMENTS

	Group	
	2002	2001
	US$'000	US$'000
Authorised but not contracted for:		
Containers	**155,977**	48,691
Contracted but not provided for:		
Containers	**468**	3,100
Investments (note a)	**76,086**	50,270
	76,554	53,370

25 CAPITAL COMMITMENTS (Continued)

Notes :

(a) As at 31st December 2002, the Group's committed investments included a 20% equity interest in Shanghai Putong International Container Terminal Limited ("Waigaoqiao") and Yantian International Container Terminals (Phase III) Limited of approximately US$45,908,000 (2001: US$45,770,000) and US$30,178,000 (2001: US$Nil) respectively.

As of the date of approval of the accounts, Waigaoqiao was established and the contribution paid by the Group was US$45,908,000.

(b) As at 31st December 2002 and 2001, there were no capital commitments relating to the Group's interest in the joint ventures included in the above.

As at 31st December 2002 and 2001, there were no capital commitments of the joint ventures themselves not included in the above.

26 LEASE COMMITMENTS

(a) Operating lease commitments – where the Group is the lessor

At 31st December 2002, the Group had future minimum lease payments receivable under non-cancellable operating leases in total and for each of the following periods:

	2002 US$'000	2001 US$'000
Containers		
– not later than one year	**176,300**	169,029
– later than one year and not later than five years	**472,250**	479,926
– later than five years	**139,816**	147,277
	788,366	796,232
Land and buildings		
– not later than one year	**41**	40
– later than one year and not later than five years	**11**	6
	52	46
	788,418	796,278

The future lease payment receivable under master lease contracts has not been included above as the amount of future lease payments receivable depends on the timing of pick up and drop off of containers by lessees during the lease period of the contracts.

26 LEASE COMMITMENTS (Continued)

(a) Operating lease commitments – where the Group is the lessor (Continued)

At 31st December 2001, the Group had future minimum sublease payments receivable under non-cancellable operating leases in total and for each of the following periods:

	2002 US$'000	2001 US$'000
Land and buildings		
– not later than one year	**–**	381
– later than one year and not later than five years	**–**	32
	–	413

(b) Operating lease commitments – where the Group is the lessee

At 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2002 US$'000	2001 US$'000
Land and buildings		
– not later than one year	**2,795**	2,997
– later than one year and not later than five years	**2,594**	3,681
– later than five years	**15**	–
	5,404	6,678
Plant and machinery		
– not later than one year	**293**	384
– later than one year and not later than five years	**90**	383
	383	767
	5,787	7,445

(c) The Company did not have any lease commitments at 31st December 2002 (2001: US$Nil).

27 DEFERRED TAXATION

The potential deferred tax liability/(asset) as at 31st December 2002 not provided for in the accounts amounted to:

	Group	
	2002 US$'000	2001 US$'000
Accelerated depreciation allowances	**67,450**	49,286
Tax losses	**(49,059)**	(39,243)
Other timing differences	**124**	63
	18,515	10,106

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to cash generated from operations

	2002 US$'000	2001 US$'000
Profit before taxation	**167,774**	164,917
Depreciation and amortisation	**87,682**	80,960
Interest expenses	**15,464**	24,001
Impairment losses of fixed assets	**15,997**	5,680
Provision for loan to an investee company	**3,296**	3,450
Other incidental borrowing costs	**2,555**	5,523
Loss on disposal/write-off of fixed assets	**486**	443
Provision for inventories	**832**	265
Revaluation deficit of investment properties	**60**	154
Share of profits less losses of associated companies	**(67,461)**	(56,812)
Share of profits less losses of jointly controlled entities	**(8,751)**	(9,421)
Dividend income from an unlisted investment	**(5,003)**	–
Interest income	**(3,794)**	(5,178)
Provision for bad and doubtful debts, net	**1,142**	514
Recovery of bad debts	**(2,999)**	(41)
Effect of foreign exchange rate changes	**(3)**	(5)
Profit on sale of listed investment	**–**	(14,137)
Reversal of provision for container repairs and maintenance expenses	**–**	(6,156)
Operating profit before working capital changes	**207,277**	194,157
Increase in amount due from an associated company	**–**	(5)
Decrease/(increase) in net balance with jointly controlled entities	**436**	(329)
Decrease in finance lease receivables	**4,584**	4,787
Decrease in inventories	**8,879**	8,350
Increase in trade and other receivables, deposits and prepayments	**(2,626)**	(626)
(Increase)/decrease in amounts due from fellow subsidiaries	**(1,690)**	1,531
(Increase)/decrease in amounts due from related companies	**(101)**	118
Increase/(decrease) in trade and other payables and accruals	**397**	(1,412)
(Decrease)/increase in amount due to ultimate holding company	**(49)**	49
Decrease in amounts due to fellow subsidiaries	**(3)**	(1,225)
Increase in amounts due to related companies	**60**	1,465
Increase in amount due to minority shareholders of subsidiaries	**550**	698
Cash generated from operations	**217,714**	207,558

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) US$'000	Loans US$'000	Minority interests US$'000	Dividend payable US$'000
Balance at 1st January 2001	583,961	423,645	7,247	–
Issue of shares under the Share Option Scheme	1,523	–	–	–
Minority interest's share of profit for the year	–	–	1,011	–
Loans borrowed	–	231,197	–	–
Repayment of loans	–	(145,304)	–	–
Proposed dividends	–	–	–	56,289
Dividends paid	–	–	(749)	(56,289)
Balance at 31st December 2001	585,484	509,538	7,509	–
Balance at 1st January 2002	**585,484**	**509,538**	**7,509**	**–**
Issue of shares under the Share Option Scheme	**2,108**	**–**	**–**	**–**
Share issue expenses	**(2)**	**–**	**–**	**–**
Minority interest's share of profit for the year	**–**	**–**	**1,699**	**–**
Loans borrowed	**–**	**95,604**	**–**	**–**
Repayment of loans	**–**	**(184,468)**	**–**	**–**
Proposed dividends	**–**	**–**	**–**	**68,814**
Dividends paid	**–**	**–**	**(896)**	**(68,814)**
Balance at 31st December 2002	**587,590**	**420,674**	**8,312**	**–**

(c) Analysis of the balances of cash and cash equivalents

	2002 US$'000	2001 US$'000
Total time deposits, bank balances and cash (note i)	**236,121**	254,109
Restricted bank deposits included in non-current assets (note ii)	**(7,817)**	(8,174)
	228,304	245,935
Representing:		
Time deposits	**202,224**	236,336
Bank balances and cash	**26,080**	9,599
	228,304	245,935

Notes:

(i) Included amounts of US$39,427,000 (2001: US$34,365,000) are held by certain subsidiaries of the Group which operate in the PRC where exchange controls apply.

(ii) Restricted bank deposits are deposits pledged as securities for repayment of bank loans of the Group and are restricted for the purpose of the related banking facilities.

29 RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions, in addition to those disclosed elsewhere in the accounts, which were carried out in the normal course of the Group's business:

	2002 US$'000	2001 US$'000
Container rental income from a fellow subsidiary (note a)		
– long term leases	135,636	135,959
– short term leases	474	–
Income for container terminal handling services rendered by an associated company of the Group to a fellow subsidiary (note b)	70,383	76,172
Handling and storage income from fellow subsidiaries (note c)	6,782	7,424
Net transportation income from fellow subsidiaries (note c)	1,637	1,777
Management fee income from an associated company (note d)	2,564	2,564
Container terminal handling fee received from a fellow subsidiary (note e)	1,257	936
Purchase of containers from (note f)		
– associated companies of ultimate holding company	(40,105)	(50,848)
– jointly controlled entities of the Group	(18,588)	(19,498)
Container freight charges to (note g)		
– associated companies of ultimate holding company	(2,241)	(1,763)
– jointly controlled entities of the Group	(357)	(392)
Approved continuous examination program fee to a fellow subsidiary (note h)	(2,200)	(2,600)
Property rental expense paid to a fellow subsidiary under operating lease (note i)	(714)	(714)
Acquisitions of equity interests in		
– Shekou Container Terminals Ltd. (note j)	(19,941)	–
– Dalian Port Container Co., Ltd. (note k)	(4,519)	–

Notes:

(a) The Group has conducted long term container leasing business with COSCO Container Lines Company Limited ("COSCON"), a subsidiary of China Ocean Shipping (Group) Company ("COSCO") which is the Company's ultimate holding company.

During the two years ended 31st December 2002, the Group entered into new long term container leasing arrangements and revised the terms of the existing container leasing contracts with COSCON. The Group's long term container leasing transactions with COSCON during the year have been conducted based on the average leasing rates quoted from four (2001: four) of the top ten independent container leasing companies and in the ordinary and normal course of the business of the Group.

On 22nd August 2001, the Group entered into short term container leasing arrangement with COSCON whereby COSCON has agreed to lease from the Group, on a short term basis, certain containers returned from COSCON after the expiry of the long term leases with effect from 1st January 2002. The short term container leasing arrangement with COSCON was conducted in accordance with the pricing policy of the Group.

29 RELATED PARTY TRANSACTIONS (Continued)

(b) COSCO-HIT Terminals (Hong Kong) Limited, an associated company of the Group, provided handling and storage services to COSCON for cargoes shipped to Container Terminal 8 (East) in Hong Kong. The services rendered were charged at terms pursuant to agreements entered into by COSCO-HIT Terminals (Hong Kong) Limited with COSCON for the year ended 31st December 2002.

(c) The handling and storage income and the transportation income received from fellow subsidiaries were conducted at terms no less favourable than terms available to independent third parties.

(d) The Group provided advisory and management services to COSCO-HIT Terminals (Hong Kong) Limited during the year. Management fee was charged and agreed at HK$20,000,000 (2001: HK$20,000,000) per annum.

(e) During the year, the Group provided handling and storage services to a fellow subsidiary for cargoes shipped to Zhangjiagang port. The tariff rates charged by the Group were determined by reference to the rates as set out by the Ministry of Communications of the PRC.

(f) The purchases of containers from associated companies of COSCO and jointly controlled entities of the Group were conducted in the normal course of the business at terms as set out in the agreements entered into between the Group and the related companies.

(g) During the year, the Group paid container freight charges of US$2,241,000 (2001: US$1,763,000) and US$357,000 (2001: US$392,000) to certain associated companies of COSCO and jointly controlled entities of the Group respectively for container repositioning services rendered to the Group.

(h) Pursuant to an addendum of long term lease agreement dated 21st August 2002 entered into between Group and COSCON, the Group has agreed to pay an approved continuous examination program fee of US$2,200,000 (2001: US$2,600,000) to COSCON for the year.

(i) On 7th March 2001, a subsidiary of the Group renewed the lease agreement with a fellow subsidiary, Wing Thye Holdings Limited ("Wing Thye"), a subsidiary of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") which is the Company's immediate holding company, for the lease of the office space for a period of 3 years commencing with retrospective effect from 4th December 2000 at a monthly rental of HK$465,023 exclusive of rates and management fees, which was then determined by reference to an independent opinion given by DTZ Debenham Tie Leung Limited, a professional valuer. COSCO Hong Kong provided a guarantee in the sum of HK$1,395,069 representing rentals for three months to Wing Thye as security for due payment of rental and other monies by the subsidiary.

(j) Pursuant to an agreement dated 25th November 2002 entered into between COSCO and COSCO Ports (Shekou) Limited ("COSCO Ports Shekou"), an indirect wholly owned subsidiary of the Company, COSCO Ports Shekou agreed to acquire from COSCO its entire 17.5% equity interest in Shekou Container Terminals Ltd. ("Shekou CTL"), which is an equity joint venture established in China mainland and engages in the provision of container terminal related services, at a cash consideration of HK$155,543,000 (equivalent of approximately US$19,941,000). The consideration was determined by reference to a valuation of the acquired interest of Shekou CTL as at 30th September 2002 conducted by DTZ Debenham Tie Leung Limited, an independent professional valuer.

(k) On 28th December 2001, the Group entered into a Promoters' Agreement with China Dalian Ocean Shipping Agency, an indirect wholly owned subsidiary of COSCO, and three other independent third parties in relation to the establishment of Dalian Port Container Co., Ltd. ("Dalian Port"), a joint stock limited company which engages in container terminal operations and related business in Dalian, China mainland. Total investment amounted to approximately RMB469,000,000. The Group's attributable share of the investment in Dalian Port was RMB37,516,200 (equivalent of approximately US$4,519,000), representing 8% equity interest in Dalian Port, and the investment amount was paid in cash during the year.

30 SIGNIFICANT ASSOCIATED COMPANIES

A summary of the audited financial information of COSCO-HIT Terminals (Hong Kong) Limited and Liu Chong Hing Bank Limited, two significant associated companies of the Group, after making adjustments by directors of the Company to conform with the Group's principal accounting policies, for the two years ended 31st December 2002 and 2001 is set out as follows:

(a) COSCO-HIT Terminals (Hong Kong) Limited

	2002 **US$'000**	2001 US$'000
Result for the year		
Turnover	**139,558**	127,168
Profit before taxation (note)	**83,170**	70,000
Taxation	**(13,795)**	(11,538)
Profit after taxation	**69,375**	58,462
Group's share of profit before taxation (note)	**41,585**	35,000
Net assets as at 31st December (note)		
Fixed assets	**326,927**	338,083
Current assets	**61,185**	32,144
Current liabilities	**(25,274)**	(46,763)
Long term liabilities	**(256,410)**	(206,923)
Deferred taxation	**(2,535)**	(2,535)
	103,893	114,006

Note:

Adjustments have been made to the deferred borrowing costs included in the accounts of COSCO-HIT Terminals (Hong Kong) Limited for the year ended 31st December 2002 to conform with the Group's principal accounting policies. As a result, the Group's share of profit before taxation of associated companies for the year ended 31st December 2002 has been decreased by US$84,000 (2001: increased by US$196,000) and the Group's share of net assets of associated companies as at 31st December 2002 has been decreased by US$656,000 (2001: US$572,000).

30 SIGNIFICANT ASSOCIATED COMPANIES (Continued)

(b) Liu Chong Hing Bank Limited

	2002 US$'000	2001 US$'000
Result for the year		
Net interest income	96,073	102,139
Profit before taxation (note)	42,276	45,033
Taxation	(8,038)	(6,213)
Profit after taxation	34,238	38,820
Group's share of profit before taxation (note)	8,455	9,007
Assets		
Cash and short-term funds	1,588,267	1,829,467
Advances and other accounts	2,511,436	2,427,065
Tangible fixed assets and other assets (note)	971,329	851,032
	5,071,032	5,107,564
Liabilities		
Deposits with customers	4,165,673	4,190,477
Certificates of deposit, deposits with other banks and financial institutions	53,954	69,770
Other liabilities	51,010	56,067
	4,270,637	4,316,314
Net assets as at 31st December	800,395	791,250
Contingent liabilities		
Direct credit substitutes and trade-related contingencies	161,830	75,127

Note:

Adjustments have been made to the tangible fixed assets and investments in securities included in the accounts of Liu Chong Hing Bank Limited for the year ended 31st December 2002 to conform with the Group's principal accounting policies. As a consequence, the Group's share of profit before taxation for the year ended 31st December 2002 has been decreased by US$1,088,000 (2001: US$1,105,000) and the Group's share of net assets has been increased by US$9,360,000 (2001: US$9,635,000) respectively.

31 FINANCIAL INSTRUMENTS

The Group has employed interest rate swaps to manage its interest rate exposure. These instruments are used solely to reduce or eliminate the interest rate risk associated with the Group's borrowings and not for trading or speculation purposes.

The notional principal amounts of the outstanding interest rate swap contracts as at 31st December 2002 were US$100,000,000 (2001: US$19,825,000).

As at 31st December 2002, the fixed interest rates under the outstanding interest rate swap contracts varied from 3.88% to 4.99% (2001: 5.7% to 5.8%) per annum.

32 COMPARATIVE FIGURES

The comparatives of the consolidated cash flow statement have been reclassified into operating, investing and financing activities as a result of the adoption of the SSAP 15 (revised), "Cash flow statements", issued by the HKSA, which became effective for accounting period commencing on or after 1st January 2002.

33 ULTIMATE HOLDING COMPANY

The directors regard China Ocean Shipping (Group) Company, a state-owned enterprise established in the People's Republic of China, as being the ultimate holding company.

34 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 26th March 2003.

Five-year Financial Summary

	For the year ended 31st December				
	2002	2001	2000	1999	1998
	US$'000	US$'000	US$'000	US$'000	US$'000
Turnover	**241,644**	224,671	217,893	220,638	217,130
Operating profit after finance costs	**91,562**	98,684	81,479	83,384	80,797
Share of profits less losses of					
– jointly controlled entities	**8,751**	9,421	6,656	4,106	4,254
– associated companies	**67,461**	56,812	66,243	54,871	50,639
Profit before taxation	**167,774**	164,917	154,378	142,361	135,690
Taxation	**(11,515)**	(9,566)	(10,946)	(7,612)	(5,896)
Profit after taxation	**156,259**	155,351	143,432	134,749	129,794
Minority interests	**(1,699)**	(1,011)	(886)	(667)	(497)
Profit attributable to shareholders	**154,560**	154,340	142,546	134,082	129,297
Dividends	**79,904**	64,576	52,731	51,275	47,135
Basic earnings per share (US cents)	**7.20**	7.21	6.66	6.36	6.30
Dividend per share (US cents)	**3.718**	3.013	2.465	2.344	2.298

	As at 31st December				
	2002	2001	2000	1999	1998
	US$'000	US$'000	US$'000	US$'000	US$'000
Total assets	**1,755,376**	1,738,747	1,568,747	1,642,051	1,559,876
Total liabilities	**(467,474)**	(538,453)	(467,768)	(631,503)	(687,795)
Net assets	**1,287,902**	1,200,294	1,100,979	1,010,548	872,081

Notes:

1. The consolidated results of the Group for the two years ended 31st December 2002 and the assets and liabilities of the Group as at 31st December 2002 have been extracted from the audited accounts of the Group as set out on pages 70 and 71 of the annual report.

2. The Company was incorporated in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 26th July 1994.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong on Friday, 23rd May 2003 at 2:30 p.m. for the following purposes:

1. To receive and consider the financial statements and the directors' and auditors' reports of the Company for the year ended 31st December 2002.

2. To declare a final dividend for the year ended 31st December 2002.

3. To re-elect the retiring directors and to fix the remuneration of directors.

4. To re-appoint auditors and to authorise the directors to fix their remuneration.

5. To transact any other business.

By Order of the Board
HUNG Man
Company Secretary

Hong Kong, 26th March 2003

Principal place of business:
49th Floor, COSCO Tower,
183 Queen's Road Central,
Hong Kong.

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company but must be present in person to represent the member.

2. To be valid, the proxy form, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the principal place of business of the Company at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

3. The register of members of the Company will be closed from Tuesday, 20th May 2003 to Friday, 23rd May 2003, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms with share certificates must be lodged with the Company's Hong Kong Registrar and Transfer Office, Secretaries Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 19th May 2003.

4. Where there are joint holders of any share in the Company, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

Brokers Contact List

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Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. WEI Jiafu (Chairman)
Mr. LIU Guoyuan (Vice Chairman)
Mr. LI Jianhong
Ms. SUN Yueying
Mr. ZHOU Liancheng
Mr. SUN Jiakang (Managing Director)
Mr. XU Lirong
Mr. LU Zhiming
Mr. LIANG Yanfeng
Mr. WONG Tin Yau, Kelvin
Mr. MENG Qinghui
Mr. LU Chenggang
Mr. QIN Fuyan

Independent Non-executive Directors
Dr. LI Kwok Po, David
Mr. LIU Lit Man
Mr. Alexander Reid HAMILTON
Mr. LEE Yip Wah, Peter

Non-executive Director
Mr. KWONG Che Keung, Gordon

COMPANY SECRETARY

Ms. HUNG Man

AUDIT COMMITTEE

Mr. Alexander Reid HAMILTON (Committee Chairman)
Dr. LI Kwok Po, David
Mr. LEE Yip Wah, Peter

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Bermuda

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SOLICITORS

Coudert Brothers
Holman, Fenwick & Willan
Woo, Kwan, Lee & Lo

PRINCIPAL BANKERS

Bank of America National Trust and Savings Association
Bank of China (Hong Kong) Limited
ING Bank N.V.
Rabobank
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL REGISTRARS AND TRANSFER OFFICE IN BERMUDA

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Ordinary shares (Code: 1199)

COSCO Pacific Limited
(Incorporated in Bermuda with limited liability)

49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong
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