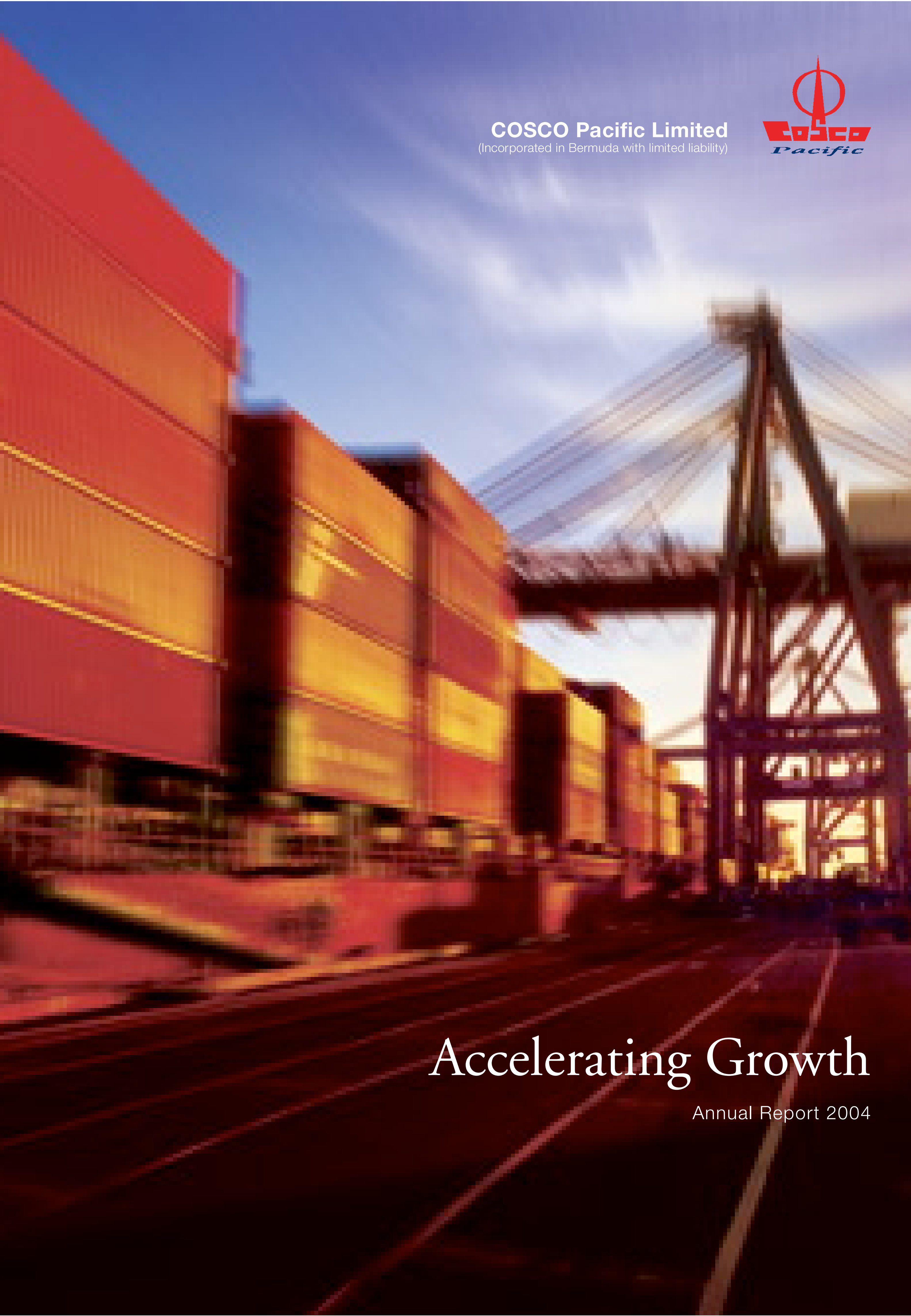


COSCO Pacific Limited
(Incorporated in Bermuda with limited liability)

Accelerating Growth

Annual Report 2004

Accelerating Growth Reviewing the past 10 years, COSCO Pacific has established a strong foundation in China. Aiming to become a leading player in our industry, we will seize every opportunity for future development. In 2004, COSCO Pacific was keen on seeking high-growth development projects, such as the acquisitions of domestic and overseas terminal projects and equity interests in COSCO Logistics Co., Ltd. and China International Marine Containers (Group) Co., Ltd. These acquisitions will further enrich our return to shareholders. In 2004, our share price outperformed the market. In future, the Company will secure more financing for projects to support its business growth and add value to its shareholders. Amid the continued boom in China trade, with the ongoing expansion of container vessel fleet capacity, our business is expected to sustain its prosperity.

Corporate 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.

1994

- Florens Group Limited listed on the Stock Exchange of Hong Kong Limited on 19th December.

1995

- Acquired from China Ocean Shipping (Group) Company ("COSCO") a 50% equity interest in COSCO-HIT Terminals (Hong Kong) Limited ("COSCO-HIT").
- COSCO-HIT throughput reached the one-million benchmark since operation.

1996

- Florens Group Limited changed its name to COSCO Pacific Limited to reflect the relationship between the Company and its ultimate holding company, COSCO.
- Became one of the Hang Seng Mid-cap Index constituent stocks.

1997

- Mr. LI Peng, Premier of the PRC State Council, visited COSCO-HIT.
- Acquired from COSCO four terminals' equity interests, Shanghai Container Terminals Limited (10%), Qingdao Cosport International Container Terminals Co., Ltd. (50%), Yantian International Container Terminals Limited (5%) and Zhangjiagang Win Hanverky Container Terminal Co., Ltd. ("Zhangjiagang Win Hanverky Terminal") (51%).
- Listed as the fifth best performing stock of Hang Seng China-Affiliated Corporations Index.

1998

- Mr. QIAO Shi, Chairman of the NPC Standing Committee, visited COSCO-HIT.
- Included as one of the Hang Seng Index 100 constituent stocks.
- Awarded Honourable Mention in the 1997 Best Annual Reports Awards by the Hong Kong Management Association.

1999

- Elected as one of the "Standard & Poor's Asia Pacific 100 Index" constituent stocks.
- Selected as one of the best managed Chinese companies by The Asset.
- Awarded Honourable Mention in the 1998 Best Annual Reports Awards by the Hong Kong Management Association.

2000

- Acquired 20% equity interest in Shanghai Pudong International Container Terminals Limited.
- Elected as the tenth "Best Managed Company", the seventh "Company with the Best Investor Relationship" and the third "Best Financial Management" in the "2000 Best Asian Managed Company" poll held by Asia Money.
- Awarded Honourable Mention in the 1999 Best Annual Reports Awards by the Hong Kong Management Association.

10-year milestor

2001

- Acquired 8% equity interest in Dalian Port Container Co., Ltd.
- Became one of the FTSE/Xinhua China 25 Index constituent stocks.

2002

- Became one of the Hong Kong and Asia Pacific Region constituent stocks of the "FTSE Global Style Index" Series.
- Included in one of the "Hang Seng Freefloat Mainland 25 Index" constituent stocks.

2003

- Mr. WEN Jiabao, Premier of the PRC State Council, attended the signing ceremony for COSCO Pacific's acquisition of Qingdao Qianwan Container Terminal Co., Ltd. ("Qingdao Qianwan Terminal").
- Admitted as Hang Seng Index constituent stocks.
- COSCO-PSA Terminal Private Limited commenced operation.
- Named as one of the best Chinese companies with the Best Corporate Governance by Finance Asia.
- Granted the "Significant Improvement Award" in the Best Corporate Governance Disclosure Awards by the Hong Kong Institute of Certified Public Accountants.
- Awarded Honourable Mention in the 2002 Best Annual Reports Awards by the Hong Kong Management Association.

2004

- Mr. WEN Jiabao, Premier of the PRC State Council, visited Qingdao Qianwan Terminal.
- Mr. HUANG Ju, Vice Premier of the PRC State Council, visited Zhangjiagang Win Hanverky Terminal.
- Acquired 49% equity interest in COSCO Logistics Co., Ltd.
- Acquired approximately 16.23% equity interest in China International Marine Containers (Group) Co., Ltd.
- Acquired from COSCO a 50% equity interest in Yingkou Container Terminals Company Limited.
- Invested 25% equity interest in Antwerp Gateway NV in Belgium.
- An opening ceremony for Qingdao Qianwan Terminal was held.
- Awarded Honourable Mention in the 2003 Best Annual Reports Awards by the Hong Kong Management Association.

nes 1994-2004

Contents

Financial highlights

Turnover of COSCO Pacific Limited ("COSCO Pacific" or the "Company") and its subsidiaries (the "Group") in 2004 was US$275,296,000 (2003: US$257,495,000), a year-on-year increase of 6.9%. Profit attributable to shareholders in 2004 was US$206,292,000, rose by 33.7% comparing with US$154,331,000 in 2003. Earnings per share were US9.55 cents (2003: US7.19 cents).

	2004	2003	+/-
Turnover[Note]	US$275,296,000	US$257,495,000	+6.9%
Operating profit after finance costs	US$133,067,000	US$108,987,000	+22.1%
Profit attributable to shareholders	US$206,292,000	US$154,331,000	+33.7%
Basic earnings per share	US9.55 cents	US7.19 cents	+32.8%
Dividend per share	HK42.0 cents	HK 31.8 cents	+32.1%
Dividend payout ratio	56.5%	56.7%	-0.2pp
Consolidated total assets	US$2,239,692,000	US$1,900,266,000	+17.9%
Consolidated total liabilities and minority interests	US$766,885,000	US$579,102,000	+32.4%
Consolidated net assets	US$1,472,807,000	US$1,321,164,000	+11.5%
Consolidated net debts	US$552,745,000	US$194,525,000	+184.2%
Net debt-to-equity ratio	37.5%	14.7%	+22.8pp
Interest coverage	12.6 times	16.1 times	-3.5 times

Note : The turnover of the Group is derived from Florens Container Holdings Limited and its subsidiaries, Zhangjiagang Win Hanverky Container Terminal Co., Ltd., and Plangreat Limited and its subsidiaries. This turnover did not include the turnover of the Group's associated companies and jointly controlled entities.

Corporate structure

China Ocean Shipping (Group) Company [1]

- 100% — COSCO Container Lines Company Limited [3]
- 100% — COSCO Pacific Investment Holdings Limited [2]

Independent Shareholders [5]

COSCO Pacific Investment Holdings Limited [2] — 52.34% — COSCO Pacific Limited [4]

Independent Shareholders [5] — 47.66% — COSCO Pacific Limited [4]

Container leasing

Florens Container Holdings Limited (100%)

Florens Container Services Company Limited (100%)

Branches in:
- Hong Kong
- San Francisco
- New York
- Sao Paulo
- London
- Hamburg
- Genoa
- Tokyo
- Shanghai
- Singapore
- Macau
- Sydney

Terminal and related businesses

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

Yantian International Container Terminals Ltd. (5%)

Yantian International Container Terminals (Phase III) Limited (4.45%)

Shekou Container Terminals Ltd. (17.5%)

Shanghai Container Terminals Limited (10%)

Shanghai Pudong International Container Terminals Limited (20%)

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

Yangzhou Yuanyang International Ports Co. Ltd. (55.59%)[6]

Zhenjiang Jinyuan Container Terminals Co., Ltd. (25%)[7]

Qingdao Qianwan Container Terminal Co., Ltd. (20%)[8]

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

Tianjin Five Continents International Container Terminal Co., Ltd. (14%)[9]

Yingkou Container Terminals Company Limited (50%)[10]

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

Dalian Automobile Terminal Co., Ltd. (30%)[11]

Dalian Port Container Terminal Co., Ltd. (20%)[12]

COSCO-PSA Terminal Private Limited (49%)

Antwerp Gateway NV (25%)[13]

Plangreat Limited (100%)

Logistics

COSCO Logistics Co., Ltd. (49%)[14]

Branches in:
- Beijing
- Dalian
- Qingdao
- Shanghai
- Ningbo
- Xiamen
- Guangzhou
- Wuhan

Representative offices in:
- Hong Kong
- Seoul
- Tokyo
- Athens
- Singapore

Container manufacturing and other investments

China International Marine Containers (Group) Co., Ltd. (16.23%)[15]

Shanghai CIMC Reefer Container Co., Ltd. (20%)

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

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

Liu Chong Hing Bank Limited (20%)

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

Note 1: China Ocean Shipping (Group) Company ("COSCO") is the ultimate holding company of COSCO Pacific Limited. It is the largest shipping company in China and one of the leading international shipping entities in the world. Currently, it owns and operates a fleet of 633 vessels with an aggregate capacity of 35,300,000 dead-weight tonnage. COSCO is one of the significant state-owned enterprises supervised by the State Council of China.

Note 2: COSCO Pacific Investment Holdings Limited is a wholly owned subsidiary of COSCO and it became the immediate controlling shareholder of COSCO Pacific on 27th January 2005. As at 28th February 2005, it directly and indirectly held a total of 1,144,166,411 shares, representing 52.34% of the total issued shares of COSCO Pacific.

Note 3: COSCO Container Lines Company Limited ("COSCON") is a subsidiary of COSCO. It is the largest container liner operator in China and the seventh largest in the world. It operates a fleet of container vessels with a carrying capacity of 284,737 TEUs. COSCON is a major customer of the container leasing and terminal operations of COSCO Pacific.

Note 4: COSCO Pacific was included as a constituent stock of the Hong Kong Hang Seng Index on 9th June 2003. It is the largest listed flagship of COSCO owning the fourth largest container leasing company in the world. It also holds various interests in 18 terminals and berths of 72 in total.

Note 5: According to the disclosure of interests published by the Stock Exchange of Hong Kong Limited, J.P. Morgan Chase & Co. was an independent shareholder holding 129,670,759 shares accounting for 5.93% of the total issued share capital of COSCO Pacific as at 28th February 2005.

Note 6: Yangzhou Yuanyang International Ports Co., Ltd. commenced operation on 1st March 2004.

Note 7: An agreement was signed on 17th June 2004 to acquire 25% equity interest in Zhenjiang Jinyuan Container Terminals Co., Ltd. It is pending for approval by relevant authorities in the PRC.

Note 8: The investment was completed in December 2003. The restructured Qingdao Qianwan Container Terminal Co., Ltd. started business on 1st January 2004.

Note 9: A joint venture agreement has been entered into in the second half of 2004 in respect of the establishment of Tianjin Five Continents International Container Terminal Co., Ltd. It is pending for approval by relevant authorities in the PRC.

Note 10: The acquisition of 50% equity interest in Yingkou Container Terminals Company Limited was completed on 30th June 2004.

Note 11: Dalian Automobile Terminal Co., Ltd. was established on 28th May 2004 and is expected to commence operation in late 2005.

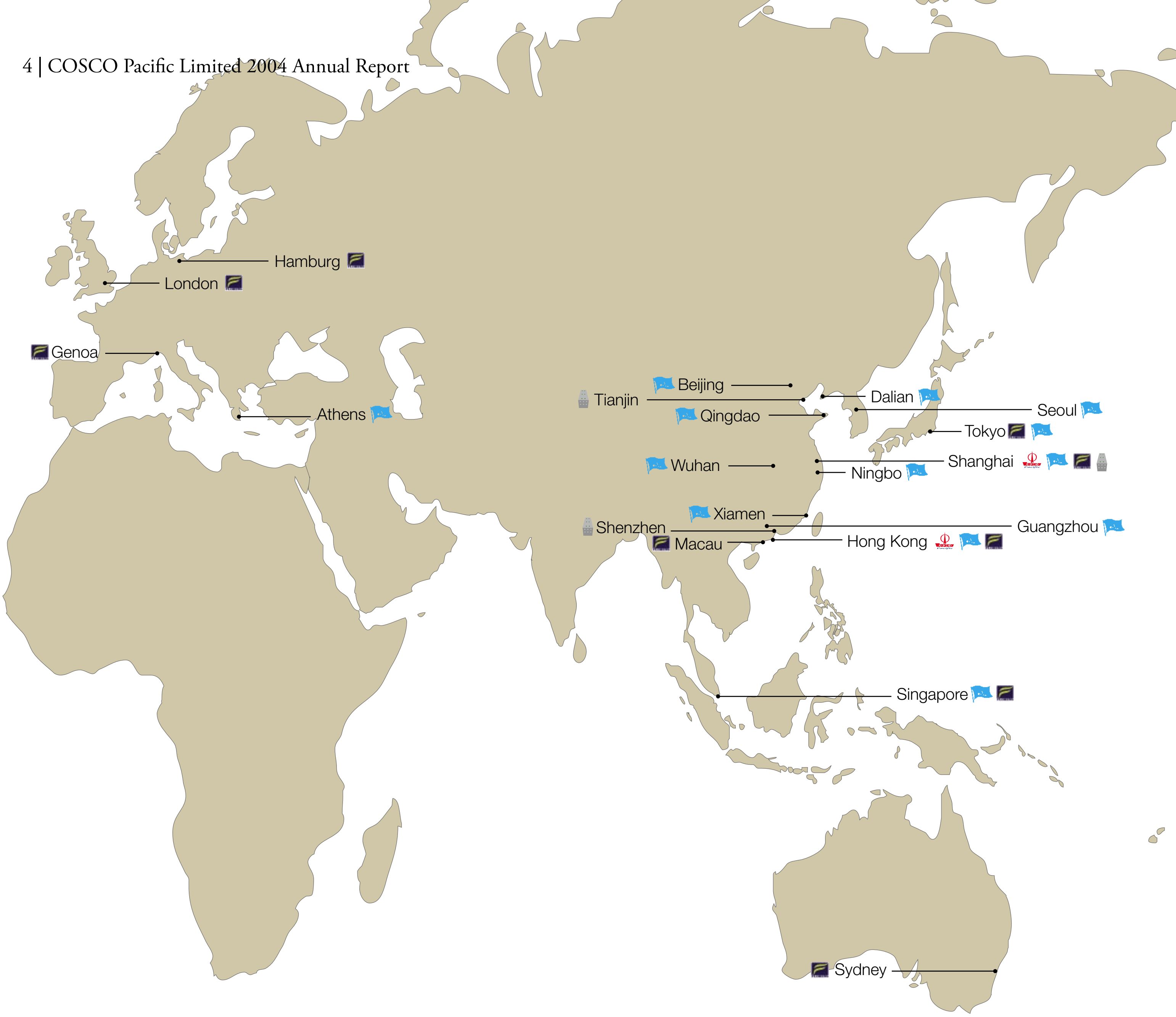
Note 12: An agreement was signed on 25th August 2004 to acquire 20% equity interest in Dalian Port Container Terminal Co., Ltd. which is expected to commence operation in July 2005.

Note 13: An agreement was signed on 16th November 2004 to acquire 25% equity interest in Antwerp Gateway NV ("Antwerp Terminal") which is expected to commence operation in July 2005.

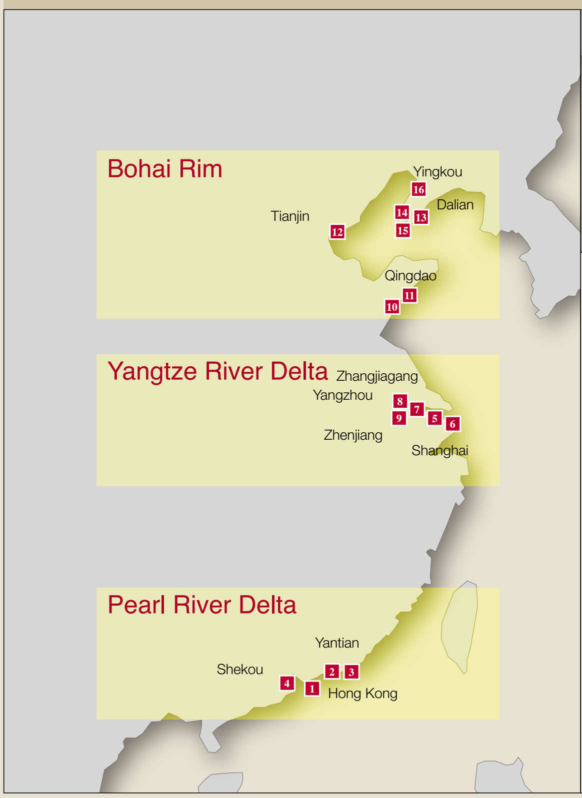
Note 14: In January 2004, the Group completed its acquisition of a 49% equity interest in COSCO Logistics Co., Ltd.

Note 15: An agreement was signed on 19th August 2004 to acquire from COSCO approximately 16.23% equity interest in China International Marine Containers (Group) Co., Ltd. The acquisition was completed at the end of December 2004.

As at 28th February 2005

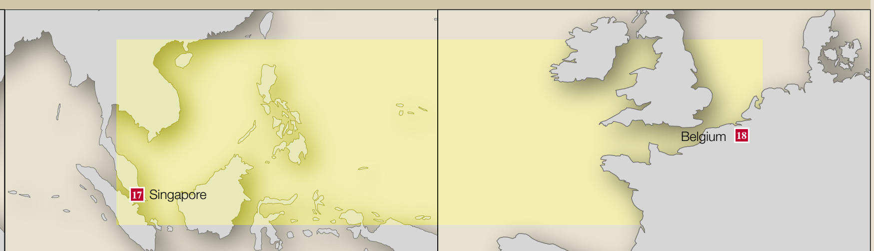


CHINA



ASIA

EUROPE



Pearl River Delta

(1) COSCO-HIT Terminals (Hong Kong) Limited
(2) Yantian International Container Terminals Limited
(3) Yantian International Container Terminals (Phase III) Limited
(4) Shekou Container Terminals Ltd.

Yangtze River Delta

(5) Shanghai Container Terminals Limited
(6) Shanghai Pudong International Container Terminals Limited
(7) Zhangjiagang Win Hanverky Container Terminal Co., Ltd.
(8) Yangzhou Yuanyang International Ports Co., Ltd.
(9) Zhenjiang Jinyuan Container Terminals Co., Ltd.

Bohai Rim

(10) Qingdao Qianwan Container Terminal Co., Ltd.
(11) Qingdao Cosport International Container Terminals Co., Ltd.
(12) Tianjin Five Continents International Container Terminal Co., Ltd.
(13) Dalian Port Container Co., Ltd.
(14) Dalian Automobile Terminal Co., Ltd.
(15) Dalian Port Container Terminal Co.,Ltd.
(16) Yingkou Container Terminals Company Limited

Overseas

(17) COSCO-PSA Terminal Private Limited
(18) Antwerp Gateway NV

Worldwide business network

- COSCO Pacific
- Branches of Florens
- Service centres and representative offices of COSCO Logistics
- Major container manufacturing plants
- Terminals

Florens

Depots: 192 in total

Americas: 57
Europe: 67
Asia Pacific: 68

COSCO Logistics

Logistics service centres: 313 in total

- Beijing: 39
- Dalian: 31
- Qingdao: 43
- Shanghai: 96
- Ningbo: 21
- Xiamen: 14
- Guangzhou: 68
- Wuhan: 1

Major events

7th January 2004

COSCO Pacific held its board meeting. This is the first time to hold the meeting by way of video conference in Beijing and Hong Kong.

9th January 2004

Qingdao Qianwan Container Terminal Co., Ltd. held its inauguration ceremony.

18th February 2004

COSCO Logistics Co., Ltd. held its joint venture's inauguration ceremony at the Great Hall of the People.

1st March 2004

Yangzhou Yuanyang International Ports Co., Ltd. held its inauguration ceremony.

25th March 2004

COSCO Pacific held its board meeting and announced results for 2003.

May 2004

COSCO Pacific was ranked among the "Top 10 Chinese Enterprises with the Best Dividend Policy" in the "Best Asia Companies Poll" conducted by Finance Asia.

21st May 2004

COSCO Pacific held its Annual General Meeting and Special General Meeting.

28th May 2004

Dalian Automobile Terminal Co., Ltd. held its contract signing and inauguration ceremony.

15th June 2004

Acquisition of its 50% equity interest in Yingkou Container Terminals Company Limited from COSCO.

17th June 2004

COSCO Pacific signed joint venture contract with Zhenjiang Port Co. Ltd. to jointly establish Zhenjiang Jinyuan Container Terminals Co., Ltd.

July 2004

COSCO Pacific was rated as a "Conglomerate Enterprise with the Best Investor Relations in Asia" by the Institutional Investor Research Group.

12th July 2004

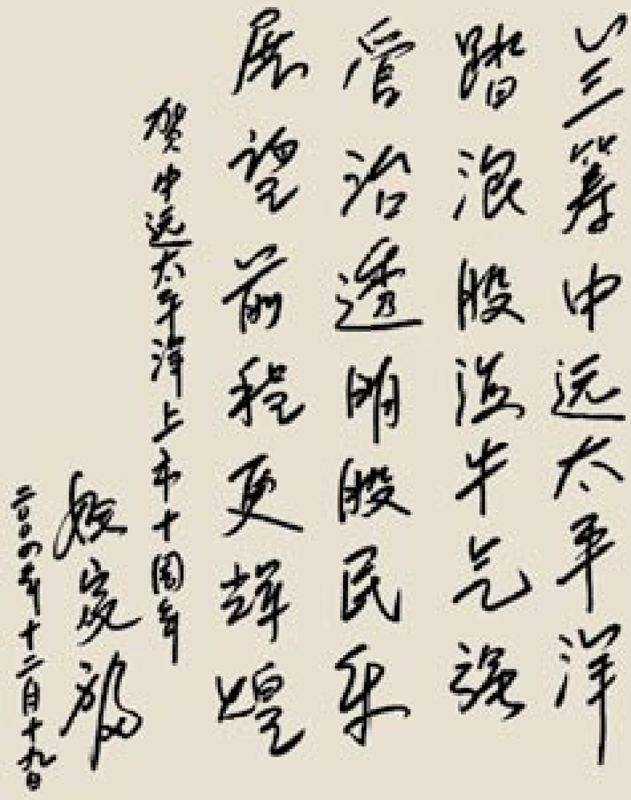
Contract signing ceremony held for a club loan facility of US$205,000,000 obtained by COSCO Pacific's wholly owned subsidiary, Florens Container, Inc. (2004).

22nd July 2004

COSCO Pacific held its board meeting.

19th August 2004

Acquisition of approximately 16.23% equity interest in China International Marine Containers (Group) Co., Ltd. from COSCO.



September 2004

COSCO Pacific was rated as one of the enterprises with the "Best Corporate Governance" among the Hang Seng Index constituent stocks by Standard & Poor's.

8th September 2004

COSCO Pacific held its board meeting and announced its 2004 interim results.

30th September 2004

Mr. LEE Yip Wah, Peter resigned as an independent non-executive director of COSCO Pacific.

8th October 2004

COSCO Pacific was included in the "FTSE/Xinhua China 25 Index", which has become a tracker of ETFs traded on the Amercian Stock Exchanges.

1st November 2004

Mr. LIU Guoyuan, Vice Chairman of the Company and Mr. WONG Tin Yau, Kelvin, Deputy Managing Director of the Company, were both granted the "Best Investor Relations Officer" award by the IR Magazine.

16th November 2004

An acquisition agreement was signed for the acquisition of 25% equity interest in Antwerp Gateway NV in Belgium from P&O Ports Euorpe NV to further expand COSCO Pacific's terminal business to Europe.

6th December 2004

COSCO Pacific received the Company's fifth Honorable Mention in the Best Annual Reports Awards by the Hong Kong Management Association.

31st December 2004

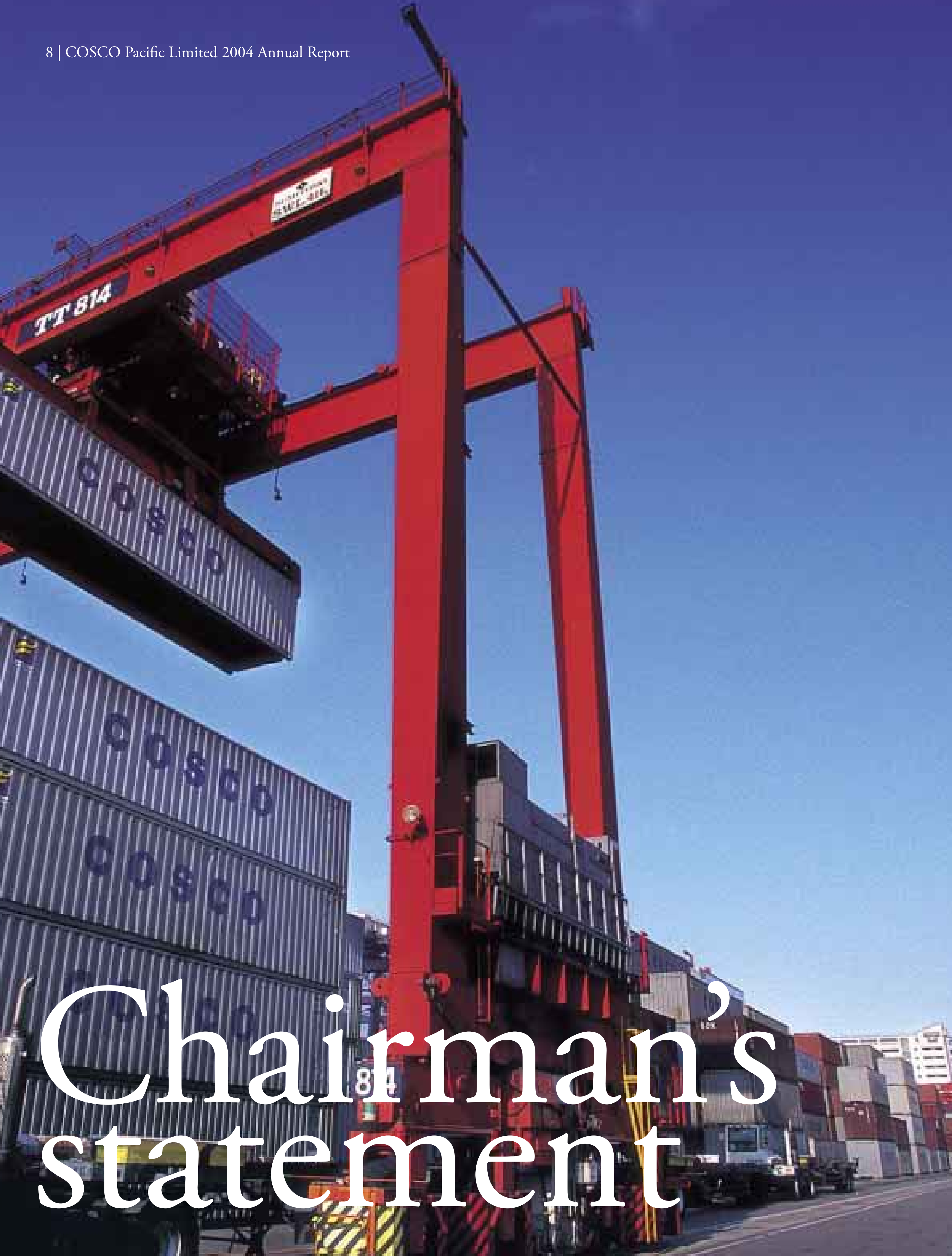
Completed the acquisition of approximately 16.23% equity interest in China International Marine Containers (Group) Co., Ltd.

January 2005

COSCO Pacific was included among the 30 selected global stocks picked by Standard & Poor's for 2005.

17th January 2005

COSCO Pacific held its board meeting.



Chairman's statement

Chairman's statement I am very pleased to report to our shareholders that COSCO Pacific achieved strong growth in 2004, with both container leasing and terminal operations performing strongly. The Company will keep its efforts and strive to develop into a leading container leasing and terminal operator in the world and a top-notch logistics enterprise in Hong Kong and China mainland.

In 2004, COSCO Pacific achieved robust growth in profits. Share price of the Company outperformed the market for two consecutive years, making our stock one of the strongest performers among the constituent stocks of the Hang Seng Index.

Last year, COSCO Pacific celebrated the tenth anniversary of its listing in Hong Kong by heralding the tremendous growth the Company has achieved in its operations and container fleet, along with the robust expansion in its market share of the container leasing sector and the throughput of its container terminals. While focusing on delivering accelerating growth, the Company will continue to explore new projects and to invest in related operations in line with its goal of becoming an international corporation.

Upward trend of the global economy

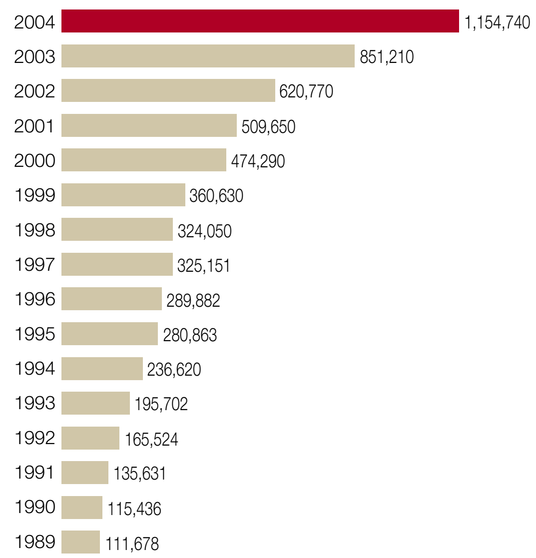
The global economy continued its rebound in 2004. Global economic growth in 2004 was primarily attributable to China and the United States. The economies of the two countries created synergies and provided a major driving force for global economic expansion. This upswing in the economy led to rapid growth of the global shipping market which in turn helped to fuel the development of container related businesses.

During the year, economic growth in China continued to perform strongly. According to the data released by the National Bureau of Statistics of China, the country's Gross Domestic Product ("GDP") rose by 9.5% (2003: 9.1%) while the consumer price index rose by 3.9% from the previous year. China economy remains a world focus due to this robust growth.

In addition, given a year-on-year growth of 35.7% to US$1,154,740,000,000 in aggregate import and export trade volume, China has become one of the world's three largest trading countries. According to the World Trade Organisation, it took 20 and 26 years respectively for the US and Germany to increase their import and export trade volume from US$100,000,000,000 to US$1,000,000,000,000, while China accomplished a similar growth in only 16 years. Indeed, the country's import and export trade volume has soared by 750 times over the last 55 years, making China the driving force of economic development around the globe.

China's import and export trade (1989-2004)

Unit: US$ million



Source: Customs General Administration, People's Republic of China

Focusing on the China market

The rapid development of China's economy fuelled a continuous expansion in foreign trade and increased terminal throughput in 2004. This in turn led to growth in the domestic container leasing and manufacturing sectors. Based on the latest statistics by the PRC's Ministry of Communications, it is estimated that China's total container throughput reached 61,800,000 TEUs in 2004, representing a year-on-year growth of 27%. In view of this growth in container throughput, it is expected that there is still vast room for expansion of the Chinese container terminal sector, and the container transportation sector of China is poised to become one of the hot spots in the global shipping industry.

Aggressive exploration of the global market

In 2004, ports in Europe and the US benefitted from the increase in exports from China. Major European hubs including Rotterdam, Hamburg and Antwerp experienced continued growth in throughput. During the year, the trade volume between Asia and the US rose steadily, leading to substantial market demand for North American ports.

Container leasing

Driven by the global economic rebound and China's strong economic growth, both the shipping and the container leasing markets experienced a substantial demand growth. The robust market demand has resulted in an increasing number of containers being purchased in the market during the year as compared with last year.

Taking advantage of the strong demand and the surge in container prices, COSCO Pacific expanded its fleet to enhance its competitiveness and cater for the growth in market demand. As at 31st December 2004, COSCO Pacific owned and managed a container fleet of 919,128 TEUs (2003: 808,825 TEUs) with a 10.1% (2003: 9.7%) global market share. The annual average utilisation rate was 97.0%, which represents an increase of approximately 2 percentage points from 95.2% in 2003.

With a view to establish a stable stream of revenue, COSCO Pacific has strengthened its customer base. At present, Florens Container Holdings Limited ("Florens"), through its subsidiaries, has 218 customers (including COSCON) (2003: 202 customers). As a result of consistent efforts in improving service quality and exploring market opportunities, Florens became the world's fourth largest container leasing company during the year.

Terminals

During the year, 13 of the 18 terminals of COSCO Pacific were in operation and achieved strong results, with throughputs hitting record highs. The total number of containers handled amounted to 23,492,425 TEUs for the year, representing a growth of 39.6% from 16,825,899 TEUs in 2003. In particular, Qingdao Qianwan Container Terminal Co., Ltd. received accolades as being among the "China Top Ten Throughput Container Terminals" and the "Best Berth Utilisation Rate Container Terminals in China".

According to a research report from Drewry Shipping Consultants Limited, a leading international shipping consultant, COSCO Pacific's ranking among global terminal operators has continued to improve over the years. Drewry estimates that COSCO Pacific's ranking stands to escalate one notch from sixth to fifth among the world's leading terminal operators in 2004.

During the year, COSCO Pacific forged ahead with the expansion of its terminal business by acquiring equity interests in four terminals, namely, Yangzhou Yuanyang International Ports Co. Ltd., Yingkou Container Terminals Company Limited, Dalian Port Container Terminal Co., Ltd. and Antwerp Gateway NV in Belgium. As a result of these acquisitions, the number of berths in which the Company has an equity interest rose from 51 in 2003 to 72 as at 28th February 2005. Accordingly, COSCO Pacific's aggregate annual throughput capacity will increase by 40.4% from 26,000,000 TEUs to 36,500,000 TEUs.

Driven by the robust growth of China's economy, the Pearl River Delta, Yangtze River Delta and Bohai Rim regions represent immense potentials. In view of this, COSCO Pacific has been actively expanding its market share in these regions. In conjunction with its domestic expansion initiatives, COSCO Pacific, with the support of COSCO, also invested in terminals in Singapore and Belgium in 2003 and 2004 respectively, thereby extending its business coverage from China to Asia Pacific and Europe.

Logistics

Following China's entry into the World Trade Organisation, China's logistics market will eventually open up to the rest of the world. It is estimated that the domestic logistics industry will flourish in the next ten to twenty years on the back of the country's strong economic growth. Further development of the logistics industry will depend upon the support of advanced technology and the investment of both capital and human resources. As the healthy economic environment fosters the growth of foreign and domestic enterprises in China, the domestic logistics market will develop further in terms of internationalisation, professionalism and standardisation.

COSCO Pacific acquired 49% equity interest in COSCO Logistics Co., Ltd. ("COSCO Logistics") from COSCO, with logistics thus becoming one of the Company's core businesses. COSCO Logistics is actively expanding its third party logistics services and has achieved satisfactory results in the fields of home appliances, automobiles, power supply, petrochemical, convention and exhibition services. It is expected that COSCO Logistics will make significant contribution to the profits of the Company as it takes advantage of COSCO's global network to drive forward its business development. In the "100 Top Logistics Operators in China" business survey, COSCO Logistics was named as a "Logistics Superpower", ranking in first place. This reflects the leading position of COSCO Logistics in China.

Container manufacturing business

In addition to further strengthening its core businesses, COSCO Pacific has been actively engaging in container manufacturing operations to create greater synergies. While investing in container terminals and logistics projects, the Company was also keen on exploring new but related projects. Toward this end, COSCO Pacific strategically invested in China International Marine Containers (Group) Co., Ltd. ("CIMC"), the largest container manufacturer in the world. The Company's extensive network in the container sector will prove beneficial for the Company's development in the container manufacturing business.

Pursuit of integrity

The corporate philosophy of COSCO Pacific is the continued pursuit of exceptional standards of integrity, entrepreneurship and professionalism. Despite the challenges of operating in changing economic and market conditions, COSCO Pacific is confident to attain all of its development goals. With the support of its shareholders, customers and business partners, and with the diligent efforts of its management team and staff, the Company is confident in gaining recognition for its strong performance among peers in the industry.

Emphasis on corporate governance

COSCO Pacific is committed to maximising shareholders' value, enhancing corporate profitability and maintaining high standard of corporate governance. In 2004, COSCO Pacific was named as one of the five enterprises with the "Best Corporate Governance" among the Hang Seng Index constituent stocks by Standard & Poor's. This has further boosted the confidence of the Company in moving forward into the next phase of its business success.

The Company espouses the core principles of corporate governance which are based on supervision and balance, and seeks to achieve the highest rate of return of shareholder's capital through balancing the interests of major and minority shareholders. The Board and the management of COSCO Pacific will continue to promote and practise the highest standards of corporate governance and act in the long-term interests of its shareholders and stakeholders so as to achieve better returns for its stakeholders who provide the source of capital.

Social responsibilities and obligations

It is our belief that the success of a company is measured beyond its financial returns. Factors such as environmental protection and social responsibilities and obligations have to be taken into consideration. In line with its mission of contributing for the betterment of society, COSCO Pacific donated RMB1,500,000 to Shanghai Maritime University as a scholarship for the training of its students in January 2005.

Economic outlook and operating risks

In 2004, the global economy continued to rebound and the Asia Pacific region remained one of the fastest growing economies and the China economy is likely to remain strong in 2005. However despite the steadily improving economic environment, there do exist some underlying risk factors which should not be ignored. These risk factors include terrorist attacks, the Middle East crisis, oil price volatility, interest rate movements and natural disasters. COSCO Pacific will closely monitor the development of these risk factors and take precautions to minimise its risk exposure whenever necessary.

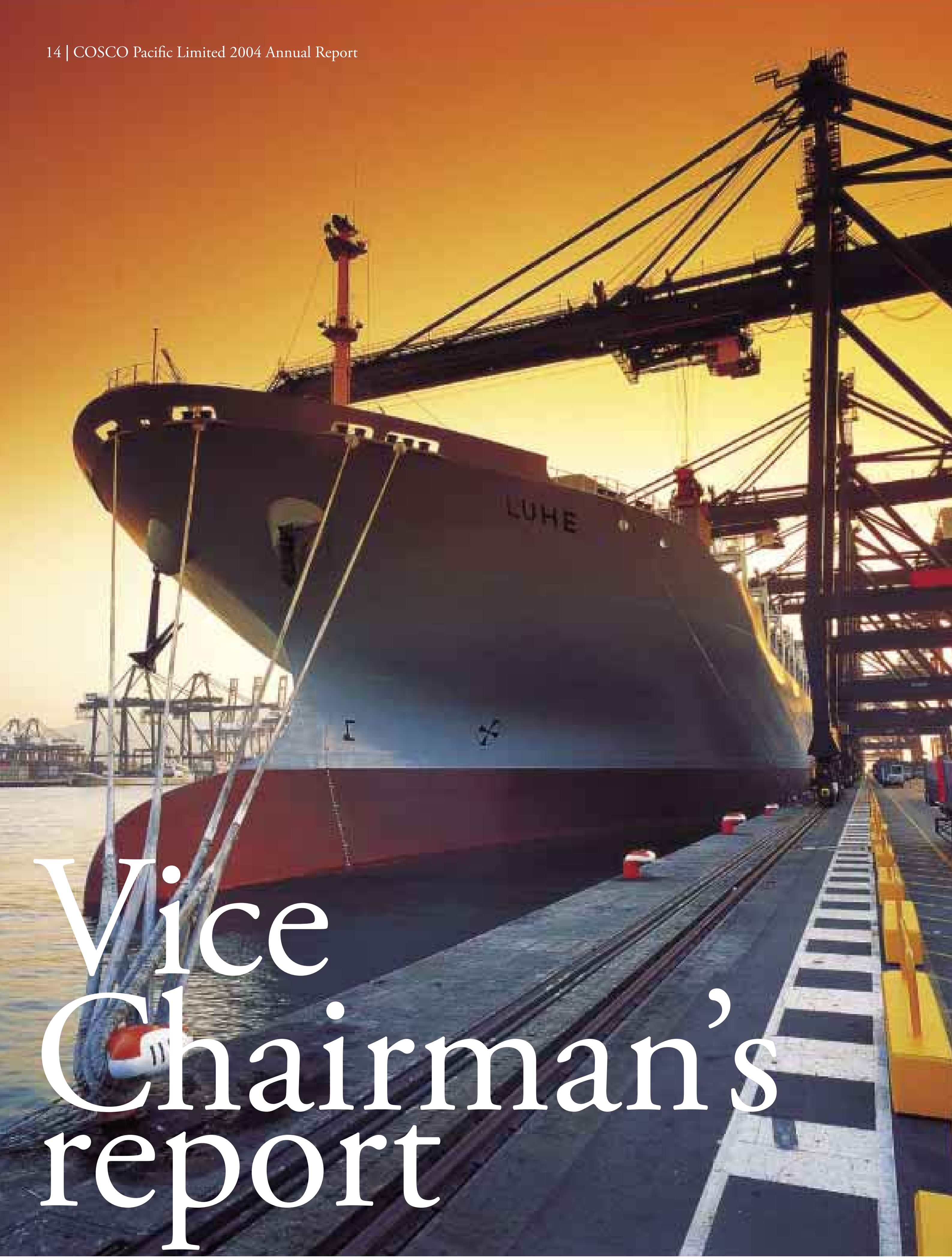
Outlook

COSCO Pacific is enjoying strong growth momentum on the back of a global economic recovery, a thriving international shipping market and continued robust economic growth in China. With the dedicated efforts and expertise of our management and staff, we believe that COSCO Pacific is well-positioned to achieve new heights in its performances.

We will continue to steer our long term strategy on the basis of the experience we have gained in the past decade as a listed company and our principal objective of transforming ourselves from a local operator into an international one. While further strengthening our market share in China, we will make dedicated efforts to tap the vast international market by diligently looking into opportunities for promising new projects. With our four core businesses of container leasing, terminal operations, logistics and container manufacturing currently in the stage of solid business growth, COSCO Pacific will seek to maintain its leadership in the industry by expanding its terminal operations in China and abroad as well as its container leasing fleet, and by further expanding into logistics and container manufacturing business, on the back of efficient financial management.

On behalf of the Board, I would like to take this opportunity to express my gratitude to our customers and shareholders for their support and to our employees for their dedication and contribution over the past decade.

WEI Jiafu
Chairman
4th March 2005

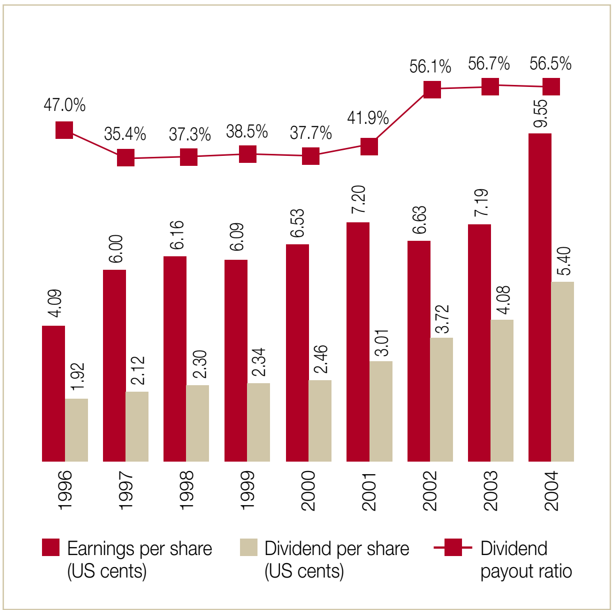


Vice Chairman's report

Vice Chairman's report In 2004, the shipping market continued its growth momentum on the back of the rapid recovery and globalisation of the world economy. This has provided a favourable operating environment for the Company's container leasing, terminal operation and related businesses.

The Company is committed to enhancing its enterprise value and providing a sustainable return to its shareholders. While a company's share price should reflect its enterprise value, the cash dividend forms an essential part of the investment return for shareholders. The Board recommended the payment of a final cash dividend of HK24.6 cents per share (2003: HK18.0 cents). Taking into account the interim dividend of HK17.4 cents per share paid in cash on 8th October 2004, the total cash dividend for 2004 would be HK42.0 cents per share (2003: HK31.8 cents), representing a dividend payout ratio of 56.5% (2003: 56.7%). As a result of its commitment in maintaining a stable dividend payout ratio, the Company has been recognised by Finance Asia as one of the "Top 10 Chinese Enterprises with the Best Dividend Policy". The Company will continue to leverage on its capital strength to enhance the investment return for shareholders.

Maintaining a steady dividend payout policy



Container leasing

Container leasing business made a substantial contribution to COSCO Pacific's profits in 2004. During the year, its turnover was US$257,046,000 (2003: US$239,689,000), representing an increase of 7.2% from the previous year. The increase was primarily due to growth of trading market globally, especially the PRC.

Florens has aggressively pursued the market development as well as stepped up its efforts to handle returned containers. At the end of 2004, a total of 38,055 TEUs of returned containers were received from COSCON and 39,488 TEUs (including certain returned containers upon expiry of their leases received before 2004) were disposed of.

Terminals

Currently COSCO Pacific has equity interests in 18 terminals. (Tianjin Five Continents International Container Terminal Co., Ltd. and Zhenjiang Jinyuan Container Terminals Co., Ltd. are pending for approval by relevant authorities in the PRC), of which 13 are in operation, with a total of 72 berths, including 2 for vehicles and 3 multi-purpose berths. During the year, the terminal business achieved strong performance. The total throughput was 23,492,425 TEUs (2003: 16,825,899 TEUs), representing a year-on-year increase of 39.6%. In particular, the performances of the Company's overseas terminals and those in the Bohai Rim region were outstanding, with these terminals recording an increase in throughput of 496.7% and 132.3% respectively. Terminals in the Yangtze River Delta registered an increase in throughput of 18.8%, while terminals in the Pearl River Delta achieved a growth in throughput of 11.3%.

Leveraging the extensive shipping route network of COSCON, COSCO Pacific will seize opportunities to invest in major overseas hub ports. In November 2004, the Company entered into an agreement to acquire 25% equity interest in Antwerp Terminal in Belgium. This marked the extension of COSCO Pacific's overseas terminal network into Europe.

Logistics

In January 2004, COSCO Pacific completed the acquisition of 49% equity interest in COSCO Logistics. During the year, both the business volume and revenue of COSCO Logistics increased significantly from 2003. This investment provided profit contribution of US$14,073,000 to COSCO Pacific in 2004, representing a growth of 24% when comparing with the pro-forma profit of 2003.

With its well-established brandname, business network and long operating history, COSCO Logistics will further develop its logistics business for a higher profit contribution.

Capital expenditure and financing

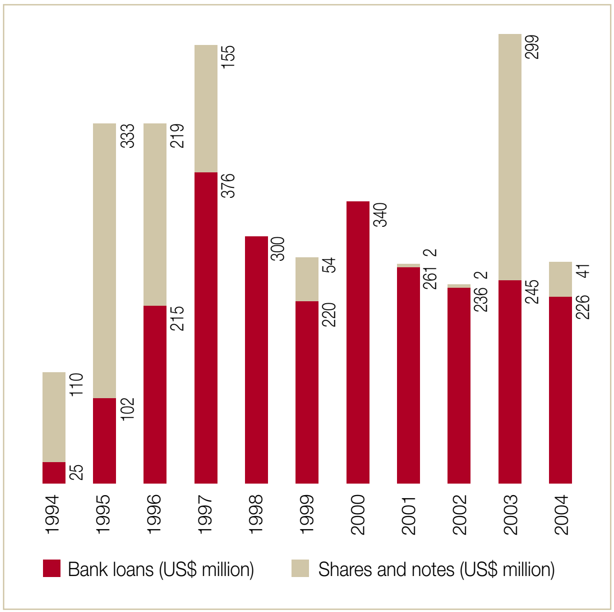
In 2004, COSCO Pacific made a total investment of US$676,101,000 (2003: US$300,764,000), including US$270,947,000 (2003: US$195,606,000) for the purchase of 155,526 TEUs (2003: 142,218 TEUs) of new containers, US$98,497,000 (2003: US$100,355,000) for investment in terminals, US$160,079,000 (2003: Nil) for the acquisition of 49% equity interest in COSCO Logistics and US$127,514,000 (2003: Nil) for the acquisition of approximately 16.23% equity interest in CIMC.

Two major fund raising exercises were undertaken during the year. A subsidiary of Florens raised a loan of US$205,000,000 on a club deal basis to finance the purchase of new containers and for general working capital.

In November 2004, the Company entered into an agreement to acquire 25% equity interest in Antwerp Terminal which is now in the course of arranging a loan of €143,400,000. This loan agreement will be signed in March 2005.

2004 saw an upward trend in the US interest rates and it is expected that the US Federal Reserve will continue to increase the interest rates in 2005. Currently, fixed rate loans account for 31.0% of the total outstanding loans of COSCO Pacific. The Company will continue to review market trends and will undertake interest rate swaps when necessary to control relevant risks.

Fund raising activities



Prospects

On the back of the strong growth of China's economy in 2004, the global shipping market is expected to maintain its pace of expansion in 2005. Capitalising on its established business strengths, COSCO Pacific will take an aggressive approach to enhance profitability through further expanding its market share in container leasing, terminals, logistics and container manufacturing sectors.

COSCO Pacific will further promote the growth and profitability of its container related business by expanding its asset base. In line with its current development strategies, COSCO Pacific will further expand its container leasing operation as well as open up more income streams by developing terminals and logistics services to meet changing market demands.

Given our aim of creating value for shareholders, I am confident that our management team will continue to explore new projects and improve COSCO Pacific's competitiveness and management efficiency, thereby further enhancing the operating efficiency and corporate value of the Company.

LIU Guoyuan
Vice Chairman
4th March 2005

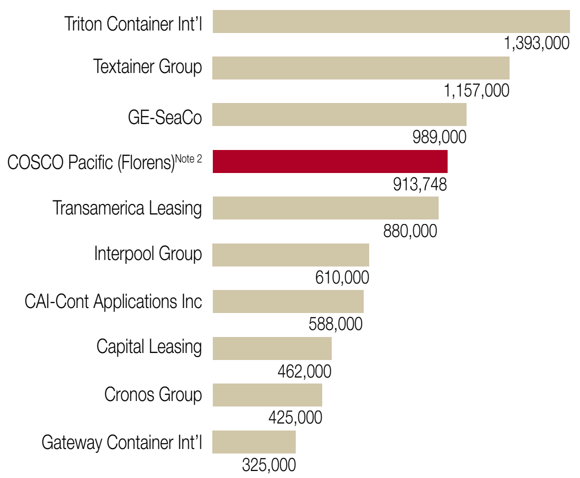
Container leasing

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

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

Top ten container leasing companies in 2004 [Note 1]

Unit: TEUs

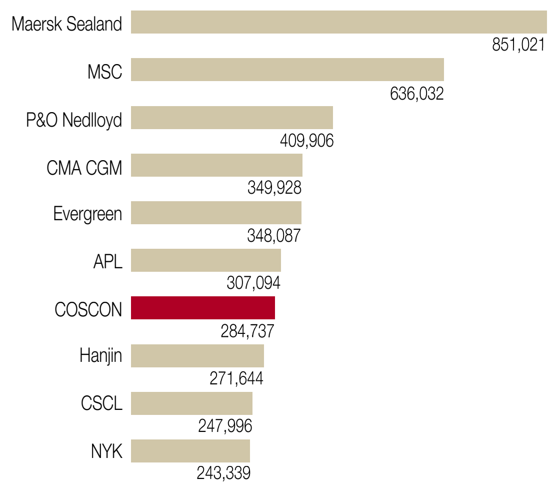


Source: Containerisation International Market Analysis/Andrew Foxcroft (31st December 2004)

Note 1: Include TEUs under operating leases, but not those under finance leases.
Note 2: The figure of 913,748 TEUs is arrived at after excluding those TEUs under finance leases from the container fleet of 919,128 TEUs.

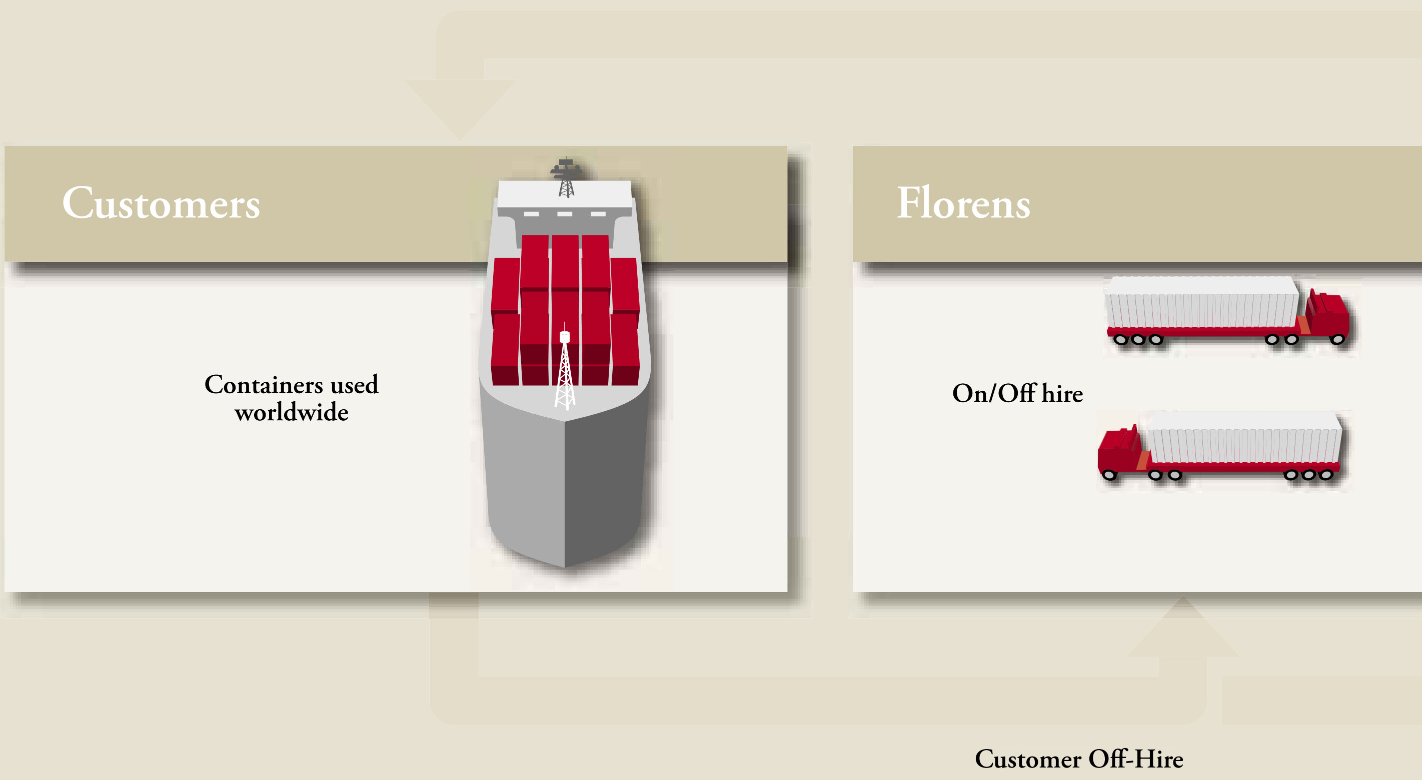
Top ten container shipping companies in 2004

Unit: TEUs



Source: Containerisation International (1st January 2005)

Container leasing

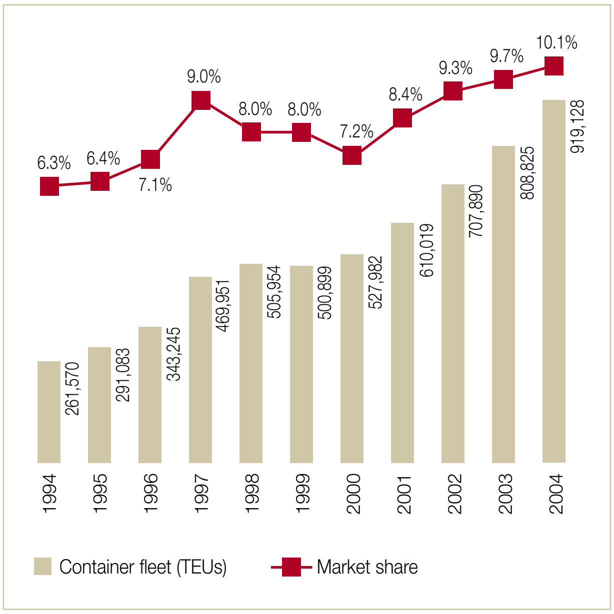


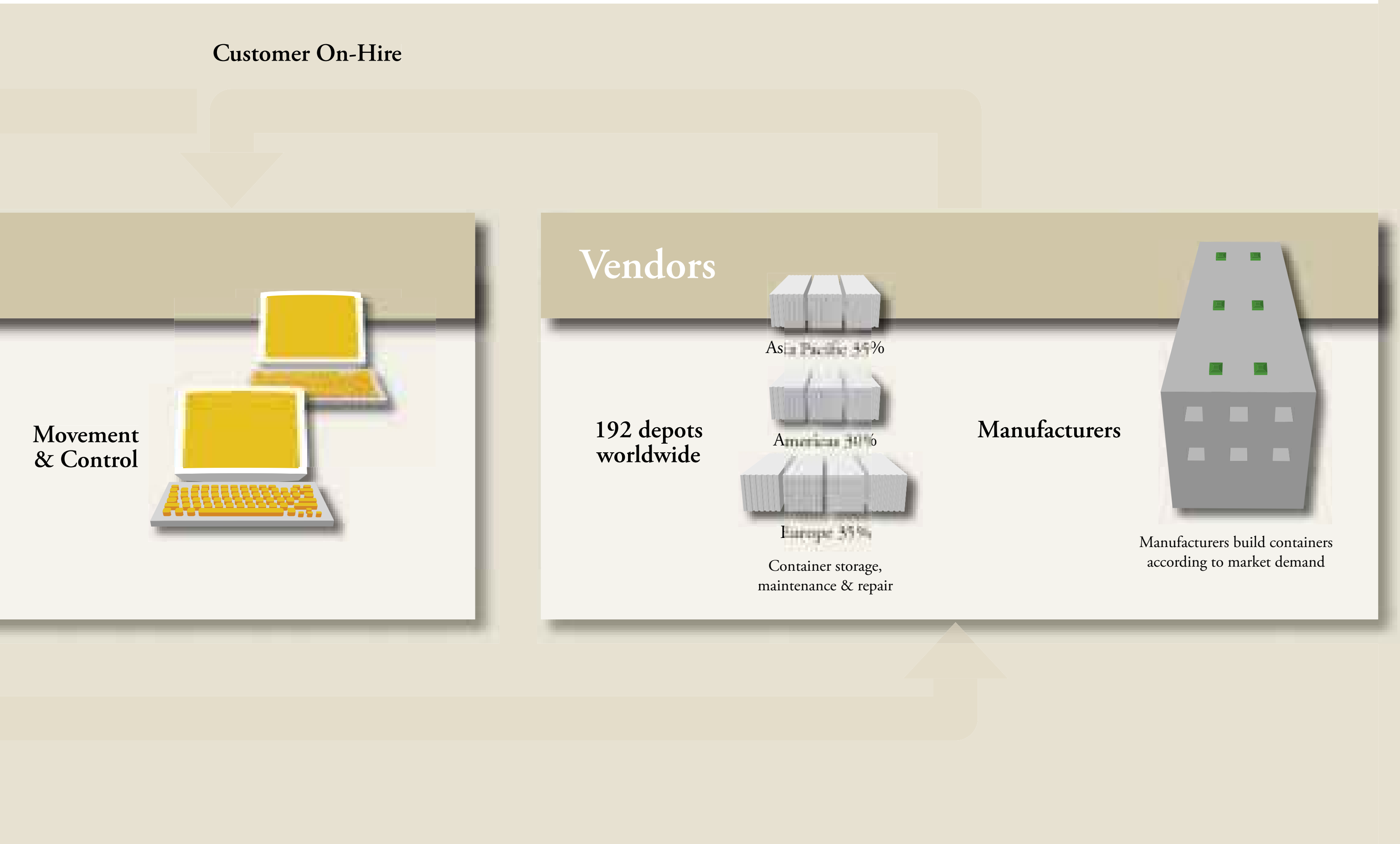
In 2004, Florens secured support from its target customer group by solidifying its efforts in market expansion and enhancing customer relationship. In line with customer demand, new containers of 155,526 TEUs (2003:142,218TEUs) were added during the year, accounting for approximately 13.0% of the new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

Expansion of customer base

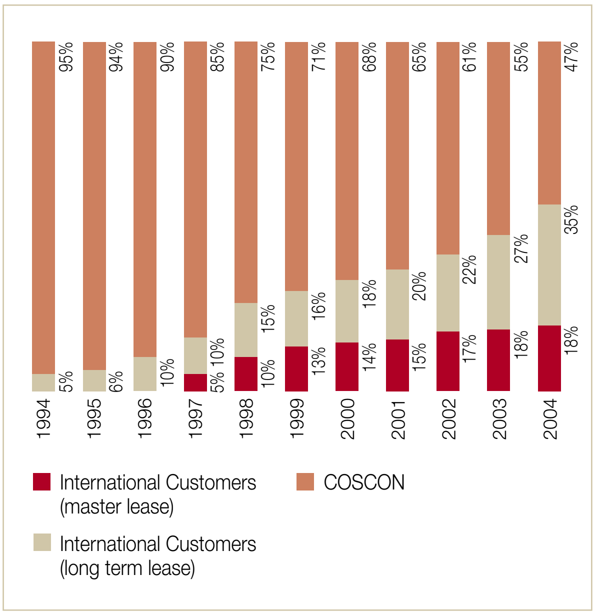
Florens principally provides 10-year container leasing services to COSCON, the PRC's largest and the world's seventh largest container liner operator, and both long term and master lease container leasing services to other international customers ("International Customers"). As at 31st December 2004,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

Compound annual growth rate of container fleet: 13.4%





Analysis of rental income



Revenue of the container leasing business

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

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

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

Container fleet analysis

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

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

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

Container fleet analysis by type (TEUs)

31st December 2004	Total	COSCON	International Customers
Total number of containers	919,128	327,845	591,283
Dry	94.7%	92.0%	96.3%
Reefer	4.0%	7.4%	2.1%
Special	1.3%	0.6%	1.6%
31st December 2003	**Total**	**COSCON**	**International Customers**
Total number of containers	808,825	310,444	498,381
Dry	93.8%	91.1%	95.5%
Reefer	4.6%	8.0%	2.5%
Special	1.6%	0.9%	2.0%

Utilisation rates

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

Handling of Returned Containers

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

Risk management

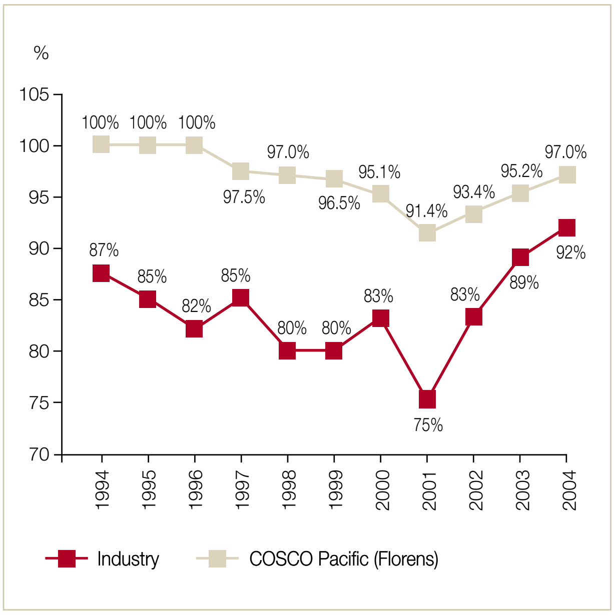
During the year, Florens did not have any additional customer with credit problems. Besides, insurance policies for its container fleet were successfully renewed in November 2004. Owing to Florens' good record in risk management in recent years, there was no increase in insurance premium.

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

Container leasing market outlook

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

Utilisation rate above industry average



Terminal and related businesses

Review of the container terminal industry The strong growth momentum in China's foreign trade brought about a substantial increase in the number of new containers used in outward-bound transportation. The robust growth in foreign trade, coupled with an improved trade environment, ensured a steady increase in the demand for container transportation. According to statistics released by China's Ministry of Communications, the volume of 2004 container transportation of China accounted for approximately 25% of the world's total, with China capturing a market share of 48% in exports via Asian and European routes. The container throughput of China's ports accounted for 12.5% of the world's total. In 2004, the total container throughput of the China mainland ports was 61,800,000 TEUs, representing a year-on-year growth of 27%. Driven by the buoyant trade and container transportation in China, container terminals around the globe showed strong performance in 2004. In particular, major ports in the US and Europe registered record-high throughput.

Business strategies

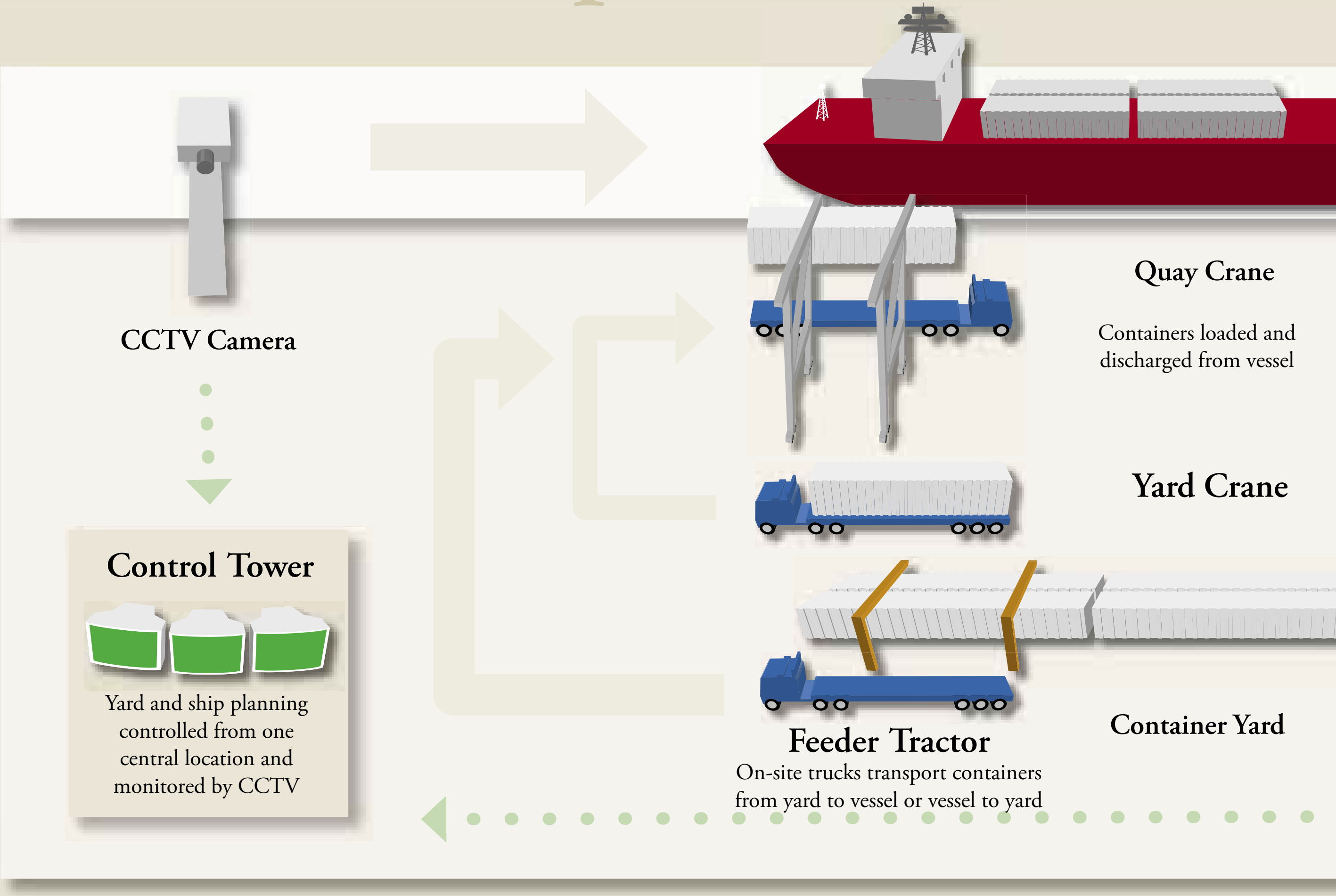
Operating upon solid foundations in China with full support from its parent company, COSCO, the largest shipping group in China, COSCO Pacific's goal as an international terminal operator has been coming into shape. While the focus of COSCO Pacific's future investment and development remains in China, the most promising country in the world in terms of potential demand for terminal services, the Company will also seize any opportunity presented by the development of the global container terminal industry to increase its investment in major overseas terminals, on the back of the expanding container shipping fleet of COSCO and other major shipping liners.

COSCO Pacific will ensure stable business volumes with growth potential and prospects for profitability for all terminals in its investment portfolio by enhancing existing partnerships with other major operators, including major liners, thereby capitalising on the complementary advantage.

While continuing with focused development and expansion of container terminals on the back of its expertise, COSCO Pacific will also explore, on the basis of in-depth research with an aim to secure return, the possibility of investing in and operating specialised bulk-cargo terminals with good business potentials, such as terminals that handle mineral ore, coal and grain, etc., thereby capitalising on the support of COSCO's versatile shipping fleet.

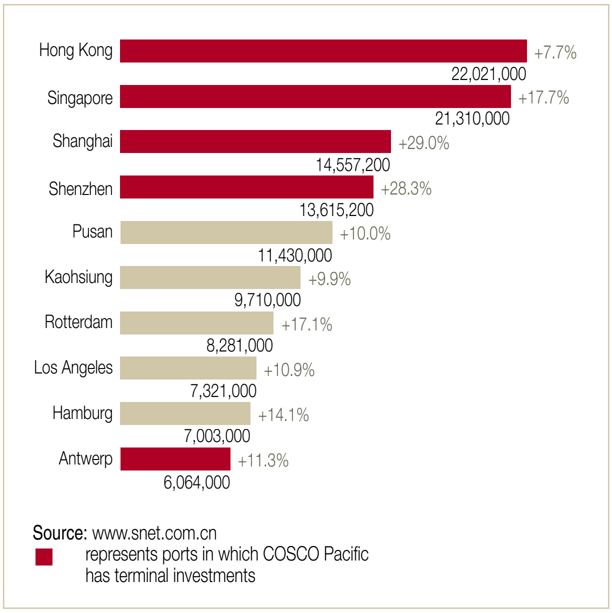
As a major international terminal operator, COSCO Pacific will continue to reinforce its position in the industry by upgrading its terminal operations and management capabilities in all areas.

Terminal operation



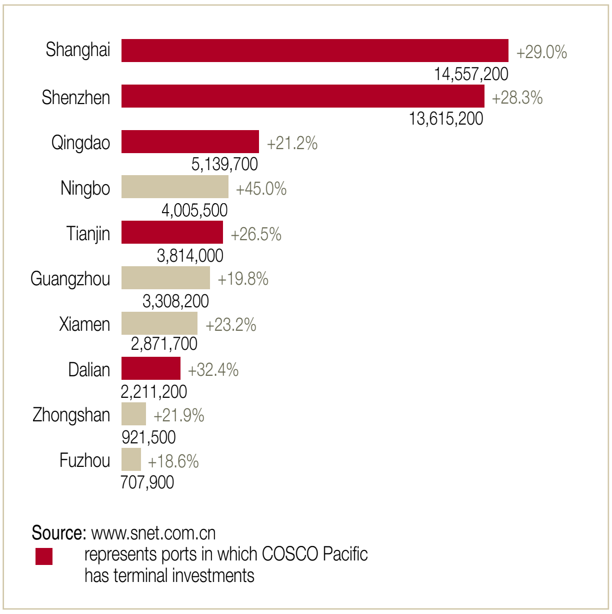
Throughput of the world's top ten container ports in 2004

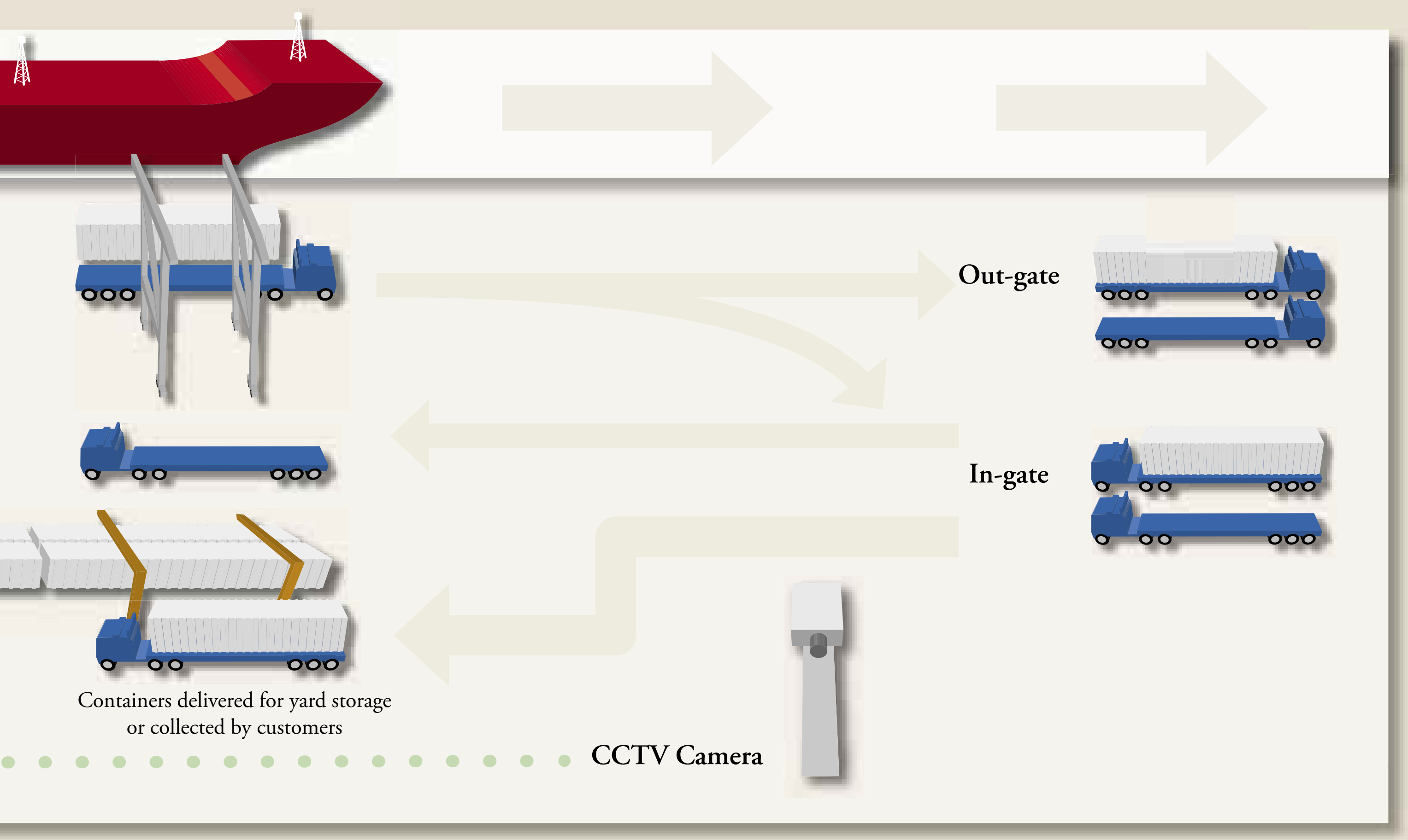
Unit: TEUs



Throughput of China's top ten container ports in 2004

Unit: TEUs





	Shareholding	Total area (square metres)	No. of berths (metres)	Quay length (metres)	Depth alongside (metres)	Annual handling capacity (TEUs)
PEARL RIVER DELTA			**13**			**11,200,000**
COSCO-HIT	50%	292,360	2	640+446*	15.5	1,800,000
Yantian International Terminal (Phase I, II)	5%	1,180,000	5	1,650+700*	14.0-15.5	4,500,000
Yantian International Terminal (Phase III)	4.45%	900,000	4	1,400	16	3,600,000
Shekou Terminals	17.5%	204,027	2	650	14	1,300,000
YANGTZE RIVER DELTA			**20**			**7,200,000**
Shanghai Terminals	10%	830,000	10	2,281	9.4-10.5	3,700,000
Shanghai Pudong International Terminals	20%	500,000	3	900	12	2,300,000
Zhangjiagang Win Hanverky Terminal	51%	251,585	2	505	10	500,000
Yangzhou Yuanyang International Ports	55.59%	350,000	4**	931+115*	11	500,000 4,700,000 tonnes bulk cargoes
Zhenjiang Jinyuan Terminals***	25%	105,000	1	233	13	200,000
BOHAI RIM			**31**			**13,600,000**
Qingdao Qianwan Terminal	20%	2,250,000	11	3,400	17.5	6,500,000
Qingdao Cosport Terminals	50%	186,800	1	349	13.5	600,000
Dalian Port Container Co.	8%	710,000	9	2,335	8.9-14.0	3,000,000
Dalian Automobile Terminal	30%	540,000	2	640	11	600,000 vehicles
Dalian Port Terminal	20%	250,000	2	652	13.5	1,000,000
Tianjin Five Continents International Terminal***	14%	516,000	4	1,202	15.7	1,500,000
Yingkou Terminals	50%	426,000	2	576	14	1,000,000
OVERSEAS			**8**			**4,500,000**
COSCO-PSA Terminal	49%	228,000	2	720	15	1,000,000
Antwerp Terminal	25%	1,263,000	6	2,450	17	3,500,000
Total number of berths in container terminals			**67**			**36,500,000**
Number of berths in the automobile terminal			**2**			**600,000 vehicles**
Number of berths in the multipurpose terminal			**3**			**4,700,000 tonnes bulk cargoes**

* : barges berth
** : 3 of them are multipurpose berths
*** : these projects are pending for approval by relevant authorities in the PRC

Business review

During the year, container terminal business achieved an excellent performance. The total throughput was 23,492,425 TEUs (2003: 16,825,899 TEUs), representing a year-on-year increase of 39.6%. In particular, the performances of terminals in overseas and Bohai Rim regions were outstanding. They recorded an increase of 496.7% and 132.3% respectively. The next best performers were terminals in the Yangtze River Delta, which registered an increase in throughput of 18.8%, followed by terminals in the Pearl River Delta with a growth rate of 11.3%. COSCO Pacific was expected to rank the fifth among global terminal operators as at the end of 2004 by Drewry Shipping Consultants Limited.

Throughput of Container Terminals (Note 1)

(Unit: TEUs)	Shareholding	2004	2003	+/–
PEARL RIVER DELTA (Note 2)		**9,006,145**	**8,094,900**	**+11.3%**
COSCO-HIT	50%	1,697,212	1,513,559	+12.1%
Yantian Internatinal Terminals (Phase I, II and III)	4.45%–5%	6,259,515	5,258,106	+19.0%
Shekou Terminals	17.5%	1,049,418	1,323,235	–20.7%
YANGTZE RIVER DELTA		**6,430,443**	**5,413,855**	**+18.8%**
Shanghai Terminals	10%	3,650,319	3,400,963	+7.3%
Shanghai Pudong International Terminals	20%	2,336,740	1,765,586	+32.3%
Zhangjiagang Win Hanverky Terminal	51%	328,199	247,306	+32.7%
Yangzhou Yuanyang International Ports	55.59%	115,185	N/A	N/A
BOHAI RIM		**7,483,974**	**3,221,314**	**+132.3%**
Qingdao Qianwan Terminal	20%	4,532,769	1,332,746	+240.1%
Qingdao Cosport Terminals	50%	385,856	244,159	+58.0%
Dalian Port Container Co.	8%	2,172,252	1,644,409	+32.1%
Yingkou Terminals	50%	393,097	N/A	N/A
OVERSEAS		**571,863**	**95,830**	**+496.7%**
COSCO-PSA Terminal	49%	571,863	95,830	+496.7%
Total throughput		**23,492,425**	**16,825,899**	**+39.6%**

Note 1: The data represents container throughput as from the effective date of the Group's acquisition of the respective equity interests.
Note 2: The disposal of a 10% equity interest in River Trade Terminal Holdings Limited ("RTT") was completed on 27th June 2003 and throughput of RTT in 2003 was not included above.

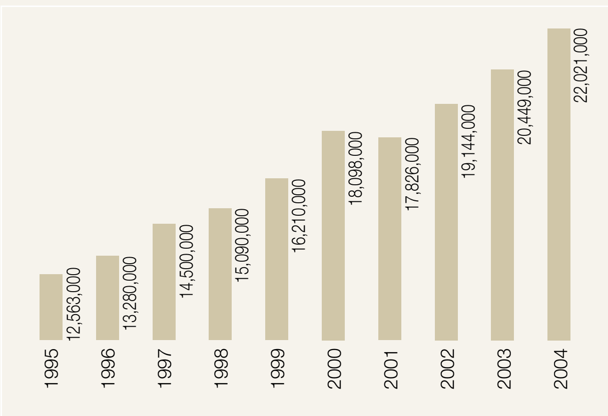
Pearl River Delta

Hong Kong

Situated at the mouth of the Pearl River and in close proximity to Shenzhen in the southern province of the Guangdong Province, Hong Kong's prime location and deep water harbour have made it the most important gateway for foreign trade into and out of China. The territory has grown into an international financial, information and shipping centre. In 2004, the annual container throughput of Hong Kong ranked the first in the world at 22,021,000 TEUs, representing a year-on-year increase of 7.7%. Known for its efficiency, superior international route connections and advanced information networks, Hong Kong continues to play an important role among the major container terminals in the southern China by providing efficient services for its phenomenal growth in container trade.

Container throughput of Hong Kong

Unit: TEUs

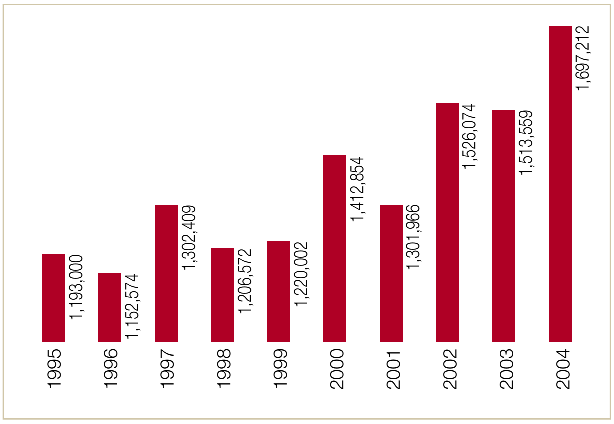


COSCO-HIT

In 2004, the throughput of COSCO-HIT Terminals (Hong Kong) Limited ("COSCO-HIT") increased by 12.1% to 1,697,212 TEUs (2003: 1,513,559 TEUs), representing a 12.6% (2003: 12.5%) market share of the total throughput of the Hong Kong Kwai Chung Terminals. The increase in throughput was mainly due to the rapid economic growth in southern China which in turn fueled an increase in the import and export of goods.

Container throughput of COSCO-HIT

Unit: TEUs



Handling and storage of containers

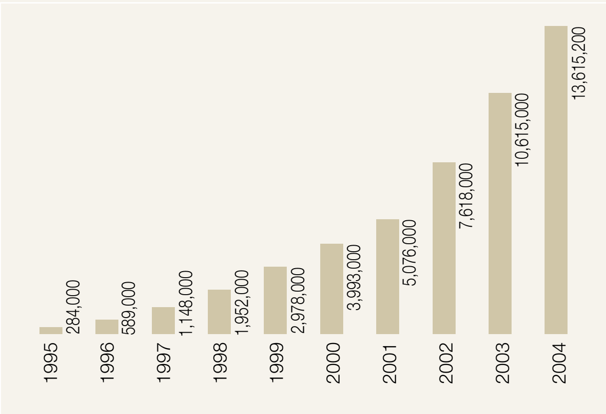
Plangreat Limited, a wholly owned subsidiary of the Company, and its subsidiaries are engaged in the provision of container handling, stevedoring, storage, repairs and transportation services. During the year, despite the slight increase in the wharf operation in Hong Kong, there was different degrees of decrease in the container storage and drayage at the depots in Hong Kong.

Shenzhen port

In 2004, the total throughput of Shenzhen port reached 13,615,200 TEUs, representing a year-on-year growth of 28.3% over 2003, making it the second busiest container port in China and the fourth busiest in the world. This growth has largely been due to the rapid economic growth in southern China and the resulting increase in imports and exports.

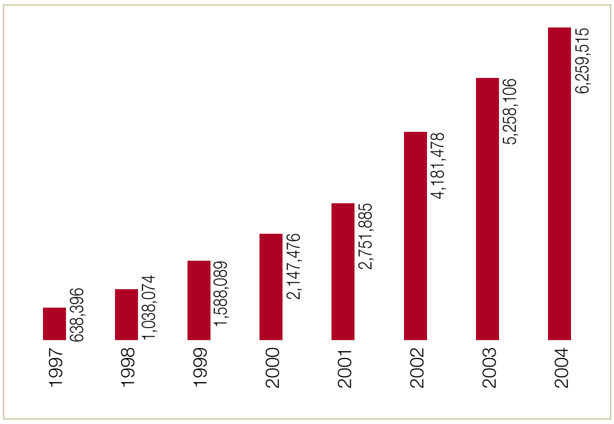
Container throughput of Shenzhen port

Unit: TEUs



Container throughput of Yantian International Terminals (Phase I, II & III)

Unit: TEUs



Shekou Terminals

During the year, the total throughput of Shekou Container Terminals Ltd. ("Shekou Terminals") was 1,049,418 TEUs (2003: 1,323,235 TEUs), representing a year-on-year decrease of 20.7% and accounting for 7.7% (2003: 12.5%) share of the total throughput of Shenzhen port.

Yantian International Terminals

During the year, the total throughput of Phase I, II and III of Yantian International Container Terminals Limited ("Yantian International Terminals") was 6,259,515 TEUs (2003: 5,258,106 TEUs), representing a growth of 19.0% and accounting for 46.0% (2003: 49.5%) share of the total throughput of Shenzhen port.

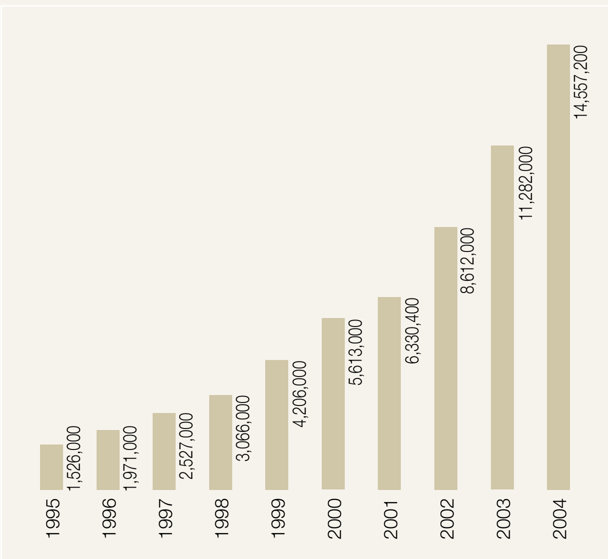
Yangtze River Delta

Shanghai port

In 2004, the throughput of Shanghai port reached 14,557,200 TEUs, a year-on-year growth of 29.0% over last year, making it the third busiest container port in the world. This growth was largely due to rapid economic growth in the Yangtze River Delta. Stimulated by the robust economy and trade, the throughput of Shanghai port increased rapidly and reached another record high.

Container throughput of Shanghai Port

Unit: TEUs

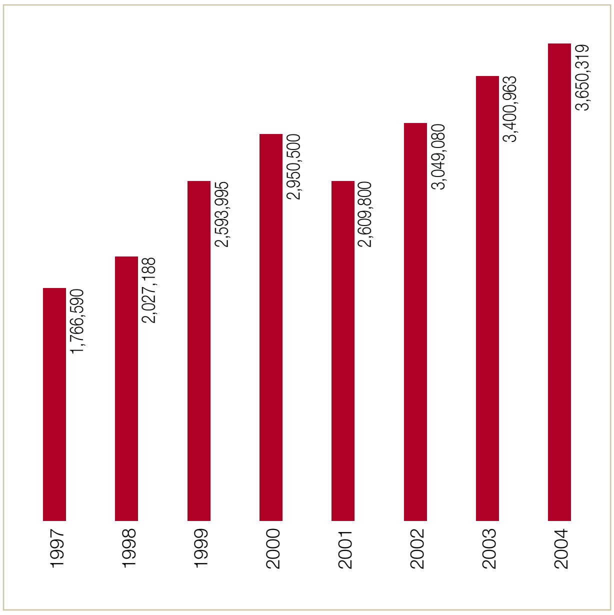


Shanghai Terminals

During 2004, Shanghai Container Terminals Limited ("Shanghai Terminals") handled 3,650,319 TEUs (2003: 3,400,963 TEUs), a year-on-year growth of 7.3% over last year, representing approximately 25.1% (2003: 30.1%) of Shanghai's overall throughput.

Container throughput of Shanghai Terminals

Unit: TEUs



Shanghai Pudong International Terminals

In 2004, Shanghai Pudong International Container Terminals Limited ("Shanghai Pudong International Terminals") handled a throughput 2,336,740 TEUs (2003: 1,765,586 TEUs), representing a year-on-year growth of 32.3% over last year and accounting for 16.1% (2003: 15.6%) of the aggregate throughput of the container terminals in Shanghai. Given its prime location in Shanghai, Shanghai Pudong International Terminals has a prosperous future.

Zhangjiagang port

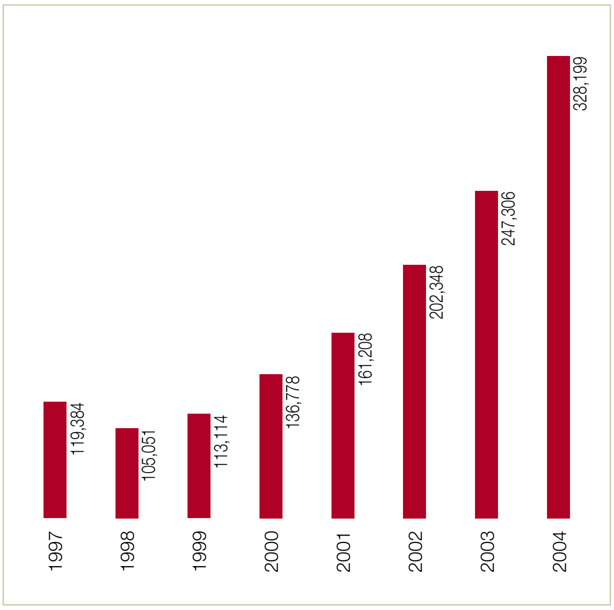
Zhangjiagang port is located at the southern shore of Fujiangsha, downstream from the Yangtze River, in Zhangjiagang, City of Suzhou. The port serves the shipping needs of 12 counties and 3 cities in Jiangsu Province including Suzhou, Wuxi, Changzhou, and other counties and cities to the north of the Yangtze River and to the opposite of the port across the river. Zhangjiagang Win Hanverky Terminal is the only container terminal in Zhangjiagang.

Zhangjiagang Win Hanverky Terminal

Zhangjiagang Win Hanverky Container Terminal Co., Ltd. ("Zhangjiagang Win Hanverky Terminal") has two container berths. During the year, the throughput of Zhangjiagang Win Hanverky Terminal increased by 32.7% to 328,199 TEUs (2003: 247,306 TEUs). With increased container cargo shipping along the Yangtze River, Zhangjiagang Win Hanverky Terminal's throughput is expected to maintain its growth momentum.

Container throughput of Zhangjiagang Win Hanverky Terminal

Unit: TEUs



Yangzhou port

Yangzhou port is 12 kilometres away from Yangzhou City, 305 kilometres east from Shanghai and 87 kilometres west from Nanjing. It is situated at the intersection of two major waterways, the Yangtze River and the Beijing-Hangzhou Grand Canal. Yangzhou port directly serves Yangzhou City and its seven counties, while it indirectly serves northern Jiangsu, Anhui, Henan and certain regions in Shandong. The port is equipped with three multi-purpose berths owned by Yangzhou Yuanyang International Ports with a combined capacity of handling over 10,000 tonnes of vessels and 4,700,000 tonnes of bulk cargo. A new berth is under construction which will be able to handle 300,000 TEUs throughput annually.

Yangzhou Yuanyang International Ports

During the year, Yangzhou Yuanyang International Ports Co. Ltd. ("Yangzhou Yuanyang International Ports") handled a total of 115,185 TEUs and 2,991,926 tonnes of bulk cargo. Since its commencement of operation, Yangzhou Yuanyang International Ports has handled all containers and bulk cargoes in Yangzhou Port.

Zhenjiang port

Zhenjiang port is at Dagang District, which is 25 kilometres away from the urban area. The port directly serves Zhenjiang City and those cities in Jiangsu lying along the Beijing-Hangzhou Grand Canal, including Changzhou, Yangzhou, Huaiyang, and western Yancheng. The port indirectly serves the areas along Dan River, Jing River, Li River and Cao River, southern Anhui, the basin of Huai River and all provinces lying along Yangtze River. The port currently has one container berth.

Zhenjiang Jinyuan Terminals

COSCO Ports (Zhenjiang) Limited, a wholly owned subsidiary of COSCO Pacific, entered into an agreement on 17th June 2004 to take up 25% equity interest in Zhenjiang Jinyuan Container Terminals Co., Ltd. ("Zhenjiang Jinyuan Terminals"). Zhenjiang Jinyuan Terminals will have a total investment and registered capital of RMB132,000,000 and RMB52,800,000 respectively and will manage and operate a container terminal situated at Zhenjiang, Jiangsu in the Yangtze River Delta. This project is currently pending for approval from relevant authorities in the PRC.

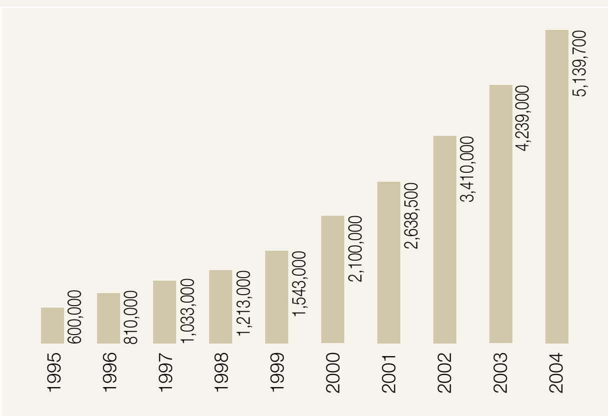
Bohai Rim

Qingdao port

Qingdao port was ranked the third largest container port in China after Shanghai and Shenzhen. With well established port facilities, efficient management and quality services, Qingdao is one of the most important hub ports in northern China with strong future growth potential. The total container throughput for 2004 amounted to approximately 5,139,700 TEUs, a year-on-year growth of 21.2%, mainly attributable to the remarkable economic growth in Shandong Province. In 2004, the province registered a year-on-year increase of 36.1% in both imports and exports. This has driven the increase in the container throughput of Qingdao port.

Container throughput of Qingdao Port

Unit: TEUs



Qingdao Qianwan Terminal

In July 2003, the Group entered into an agreement to acquire an equity interest in Qingdao Qianwan Terminal Phase II. Subsequently, COSCO Pacific formed a joint venture with Qingdao Port (Group) Co., Ltd., Denmark's A.P. Moller and the UK's P&O Group. The company officially opened for business on 1st January 2004 for both Phase II and Phase III. The Group holds 20% equity interest in the joint venture company.

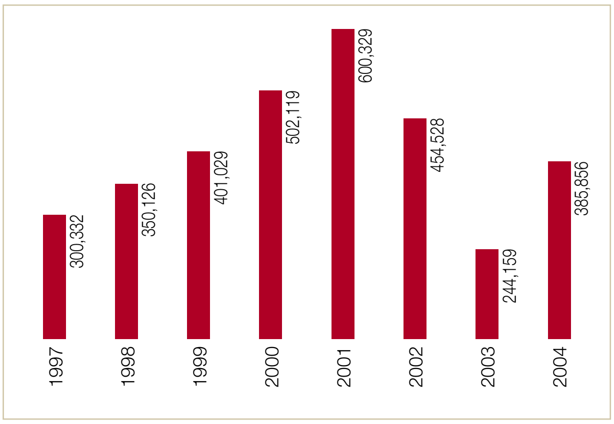
During the year, Qingdao Qianwan Terminal handled a throughput of 4,532,769 TEUs (2003: 1,332,746 TEUs), representing a year-on-year increase of 240.1% and accounting for 88.2% (2003: 31.4%) of the aggregate throughput of the terminals in Qingdao. The substantial increase in throughput was due to the sharp rise in the container throughput at Qingdao port. In addition, Qingdao Qianwan Terminal operated a total of 8 berths in Phase II and III in 2004, compared with only 3 berths in Phase II in 2003.

Qingdao Cosport Terminals

During the year, Qingdao Cosport International Container Terminals Co., Ltd. ("Qingdao Cosport Terminals") saw a 58.0% increase in its throughput to 385,856 TEUs (2003: 244,159 TEUs), representing 7.5% (2003: 5.8%) of the aggregate throughput in Qingdao.

Container throughput of Qingdao Cosport Terminals

Unit: TEUs

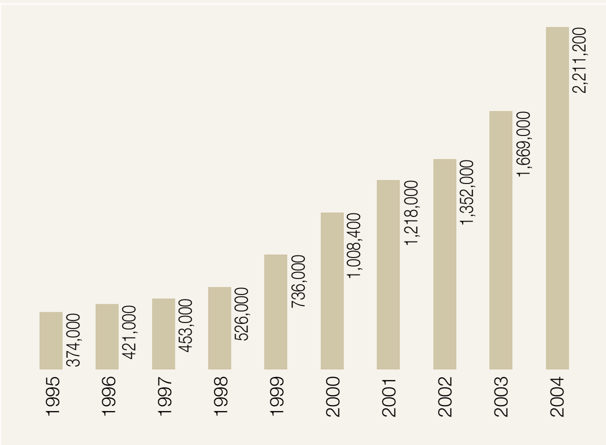


Dalian port

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 hinterland, the port has been expanded and restructured over the past few years. Dalian has become a large-scale integrated port providing sophisticated services and facilities. In October 2003, the PRC government announced the policy of "Re-energisation of the Northeastern Region", initiating rapid development of the northeastern economy. Against this backdrop, there is huge room for further development of the port. Dalian Port is also recognised as "Shipping Centre of Northeast Asia" by the State Council of the PRC.

Container throughput of Dalian Port

Unit: TEUs



Dalian Port Container Co.

During the year, the terminals operated by Dalian Port Container Co., Ltd. ("Dalian Port Container Co.") handled a throughput of 2,172,252 TEUs (2003: 1,644,409 TEUs), representing a year-on-year growth of 32.1% and accounting for 98.2% (2003: 98.5%) of the aggregate throughput of Dalian port. The increase is primarily attributable to the growth in production and transportation volume of containers in Dalian. The new foreign trade shipping services launched during the year are expected to facilitate further throughput growth of the joint venture terminals in the years to come. The Group holds 8% equity interest in Dalian Port Container Co., Ltd., which in turn holds 51% equity interest in Dalian Container Terminal Co., Ltd. and is also a substantial shareholder of Dalian Dagang China Shipping Container Terminal Co., Ltd. and Dalian Container Terminal Co., Ltd.

Dalian Automobile Terminal

On 29th January 2004, Dalian Automobile Terminal Co., Ltd. ("Dalian Automobile Terminal"), in which the Group has 30% equity interest, was established as a joint venture with Dalian Port Group Co., Ltd. and Nippon Yusen Kabushiki Kaisha. This terminal, situated at Dayaowan of Dalian, is COSCO Pacific's first investment in a roll-on/roll-off vehicle terminal. It is expected to commence operation at the end of 2005 with an annual handling capacity of 600,000 vehicles.

Dalian Port Terminal

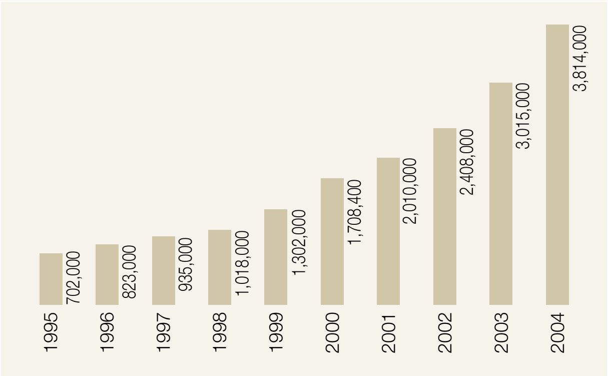
The Group has 20% equity interest in Dalian Port Container Terminal Co., Ltd. ("Dalian Port Terminal") which has a total investment of RMB720,000,000 and a registered capital of RMB240,000,000. Dalian Port Container Co. will take over two berths from Phase II of the Dalian Dayao Wan Terminal in the first half of 2005. In connection with this, Dalian Port Terminal will obtain the operating rights of these berths by way of a lease.

Tianjin port

Tianjin port is a major terminal hub along the coastline of northern China and is a major international trade and container port. Its container throughput has been growing rapidly since 1990. During the year, the port recorded a 26.5% increase in container throughput. With the expected economic growth and increased business development resulting from the 2008 Beijing Olympic Games, the throughput at Tianjin port is expected to maintain its strong growth momentum.

Container throughput of Tianjin Port

Unit: TEUs



Tianjin Five Continents International Terminal

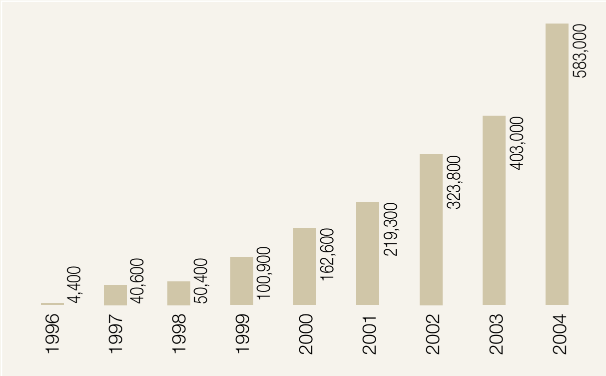
On 23rd December 2003, the Group entered into a joint venture contract with Tianjin Port (Group) Co., Ltd., CSX World Terminal New World (Tianjin) Limited, China Shipping Terminal Development Co., Ltd. and China Merchants International Terminals (Tianjin) Limited to jointly invest, manage and operate the Dongtudi Container Terminal in Tianjin. The Group holds 14% equity interest in the joint venture company. Due to changes in the shareholders of the joint venture company, the Group signed a revised joint venture contract with Tianjin Port Holdings Co., Ltd., NWS Ports Management Limited, China Shipping Terminal Development Co., Ltd. and China Merchants International Terminals (Tianjin) Limited on 16th December 2004 to form Tianjin Five Continents International Container Terminal Co., Ltd. ("Tianjin Five Continents International Terminal"). Except for slight changes in shareholders and a revised total investment amount of RMB2,378,000,000 as compared to RMB2,250,000,000 previously, the terms of the new joint venture contract were substantially the same as the 2003 joint venture contract. This project is pending for the approval from the relevant government authorities.

Yingkou port

Yingkou port is one of the most convenient ports in the north eastern China region. It is also one of the 20 major ports along the coast of China. It plays an essential role as a transportation hub in the PRC and enjoys unparalleled geographic advantages. Currently, Yingkou port's container throughput in respect of domestic trade ranks first among ports in north eastern China. As the trend of containerisation becomes more and more widespread in north eastern China, Yingkou port is expected to expand its container business. In 2004, the throughput of Yingkou port was 583,000 TEUs, an increase of 44.7% year on year.

Container throughput of Yingkou Port

Unit: TEUs



Yingkou Terminals

COSCO Pacific entered into an agreement with COSCO on 15th June 2004 regarding the acquisition of 50% equity interest in Yingkou Container Terminals Co., Ltd. ("Yingkou Terminals") for a cash consideration of RMB22,500,000. During the year, the terminal handled a throughput of 393,097 TEUs, accounting for 67.4% of the aggregate throughput of Yingkou port. It is currently the only terminal in Yingkou dedicated exclusively to the handling of container cargoes.

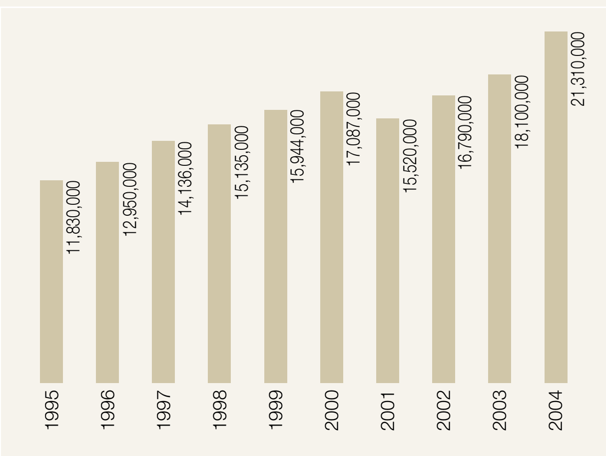
Overseas

Singapore Port

Singapore, a major hub in Southeast Asia, has been maintaining its position as the second busiest container port in the world for many years. It is also one of the most efficient ports around the globe. All leading international shipping lines operate shipping routes from or to Singapore. In 2004, the container throughput of Singapore reached 21,310,000 TEUs, a year-on-year growth of 17.7% over last year. Situated at the centre of the world's primary shipping routes and given the rapid growth and development potential of containerised trading in Southeast Asia, the port of Singapore has promising future prospects.

Container throughput of Singapore Port

Unit: TEUs



COSCO-PSA Terminal

COSCO-PSA Terminal Private Limited ("COSCO-PSA Terminal") is a joint venture between the Group and PSA Corporation Limited. The terminal will operate 2 berths in Pasir Panjang Terminals in the port of Singapore in two phases. The joint venture is currently operating one berth. The joint venture company will expand to operate two berths with a total annual handling capacity of 1,000,000 TEUs. During the year, the terminal recorded a throughput of 571,863 TEUs (2003: 95,830 TEUs), accounting for 2.7% (2003: 0.5%) of Singapore's total container throughput.

Antwerp, Belgium

Antwerp is one of the fastest growing container ports in Europe. It ranks as the third largest port in Europe and the tenth largest in the world. The total container throughput for 2004 amounted to 6,064,000 TEUs (2003: 5,450,000 TEUs), a year-on-year growth of 11.3%.

Antwerp Terminal

The Group entered into an agreement with P&O Ports Europe NV on 16th November 2004 to acquire 25% equity interest in Antwerp Gateway NV ("Antwerp Terminal") in order to participate in the development and operation of a container terminal situated in the east of Deurganckdock in Antwerp.

The project will be completed in three phases. Upon final completion, the terminal will have 6 berths providing an annual handling capacity of approximately 3,500,000 TEUs. Phase I, which includes 4 berths, is expected to be completed and commence operations by July 2005.

Logistics

(1) Shipping agency and freight forwarding

COSCO Logistics continued to expand its shipping agency and freight forwarding businesses in 2004. COSCO Logistics aims to maintain its leading position in the shipping agency market by introducing new services under its own brand name, enhancing its service quality and stepping up its marketing efforts.

The continued growth of foreign trade and domestic demand in the PRC will continue to drive the increase in demand for various shipping agency services. COSCO Logistics has established the general development strategy under which the company will transform from a booking agent to a non-vessel operating common carrier, and from a traditional shipping agent to an integrated shipping management service provider. A series of development policies have been formulated and actively pursued. In 2004, both the business volume and revenue of the shipping agency business of COSCO Logistics increased significantly from 2003.

(2) Home appliance logistics

2004 proved decisive as COSCO Logistics assumed leadership in the domestic market of logistics services for household appliances, underscoring further expansion of its strategic core customer base that includes companies such as Changhong, TCL and Hitachi. Meanwhile, an effective business pattern was established by utilising on a complementary basis both Qingdao Hisense and Attend Logistics Co., Ltd., two major platforms for household appliances logistics.

Through its relentless efforts, COSCO Logistics has established business relationships with most of the leading home appliance manufacturers in China. Having acquired key business resources in the home appliance sector, the biggest slice of the Chinese logistics market, COSCO Logistics has consolidated its leading position in the sector. As a result of years of effective development in the home appliance logistics segment, COSCO Logistics has achieved good results in building up a scalable logistics network through coordination and collaboration with the major platforms of Qingdao Hisense and Attend Logistics Co., Ltd. in southern and northern China. COSCO Logistics' extensive client base and network

Satisfactory results were accomplished by COSCO Logistics in the area of third party logistics in 2004, as the company carried its exploration of various target logistics markets to further depth while effectively consolidating achievements secured in the past two years. In November 2004, COSCO Logistics ranked the first in the "Top 100 PRC Logistics Companies" selected by eight industry associations including China Communications and Transportation Association and China Railway Society. In December 2004, COSCO Logistics topped the list again in the "Twenty Most Competitive Logistics Companies in 2004" selected by China Federation of Logistics and Purchasing.

in China provides an essential foundation from which it can tap into the international market and extend its services overseas.

(3) Automobile logistics

During the year under review, COSCO Logistics succeeded in expanding its market share in automobile logistics as increasing efforts were made to develop customised automobile logistics solutions on the back of complementary, asset-based cooperation with renowned domestic car manufacturers, leveraging its edge in overall system resources to capitalise on opportunities presented by China's fast-growing automobile industry.

(4) Power supply logistics

COSCO Logistics further consolidated its prestigious position in the market of power supply logistics during the year under review by making inroads in the development of power supply logistics solutions through consistent and effective marketing efforts on the back of its expertise in facilitating power supply logistics.

(5) Chemical product logistics

COSCO Logistics also made progress in the chemical sector during the year as it succeeded in developing logistics solutions with significant impact both in China and abroad, laying solid foundations for entering the market in 2005 in a more advantageous position.

(6) Convention and exhibition logistics

COSCO Logistics won several tenders in 2004 to provide international logistics solutions in connection with convention and exhibition activities as it continues to aim at raising its corporate profile and increasing public exposure. The professional, efficient and quality services subsequently offered by COSCO Logistics were highly commended by its customers.

As an overall strategy, COSCO Logistics will continue to pursue and achieve the goal of extensive business development with continuous rapid growth in the next five years, with logistics, shipping agency and freight forwarding as its principal businesses.

Container manufacturing and other investments

Container manufacturing

China International Marine Containers (Group) Co., Ltd. ("CIMC")

On 19th August 2004, the Group entered into an agreement to acquire approximately 16.23% equity interest in CIMC from COSCO. The transfer procedures of the legal ownership of the shares in the CIMC were completed at the end of 2004.

CIMC, a listed company on the Shenzhen Stock Exchange, is one of the first container manufacturers and Sino-foreign joint ventures established in the PRC. It principally engaged in the manufacturing and sale of modern traffic and transport equipment such as containers, modern road transport vehicles and airport ground equipment. CIMC has 18 production bases located in the southern, eastern and northern parts of China. Since 1996, it has been ranked the first among the container manufacturers in the world in terms of annual container output and sales volume. Its customers include world leading shipping companies and container leasing companies.

The investment in CIMC is beneficial to the Group in strengthening its foothold in the growing container manufacturing industry.

On the other hand, during the year, production of the three jointly controlled entities which engaged in container manufacturing business (each with CIMC as the major shareholder), directly invested in by the Group, all rose from last year due to the increase in market demand.

Container manufacturing plants	Shareholding	Production volume 2004 *(TEUs)*	Production volume 2003 *(TEUs)*	+/–
Shanghai CIMC Reefer Containers Co., Ltd.	20.0%	40,320	35,398	+13.9%
Shanghai CIMC Far East Container Co., Ltd.	20.0%	136,486	124,537	+9.6%
Tianjin CIMC North Ocean Container Co., Ltd.	22.5%	133,968	98,306	+36.3%

Other investments

Liu Chong Hing Bank

The Group has 20% equity interest in Liu Chong Hing Bank Limited ("Liu Chong Hing Bank"), which contributed US$11,483,000 (2003: US$9,762,000) to the Group's profit before taxation, an increase of 17.6% as compared with 2003.

Management discussion and analysis

Results analysis

Overall analysis of results

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

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

Financial analysis

Turnover

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

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

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

Cost of sales

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

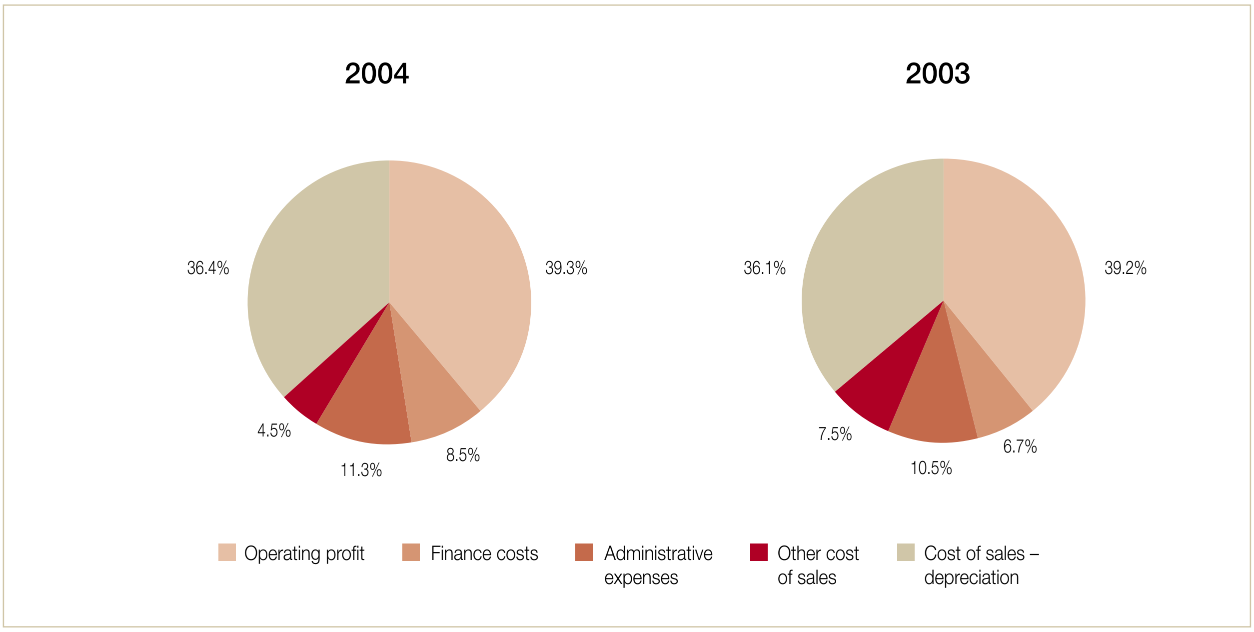
Other revenues

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

Administrative expenses

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

Cost analysis (expressed as percentage of turnover)



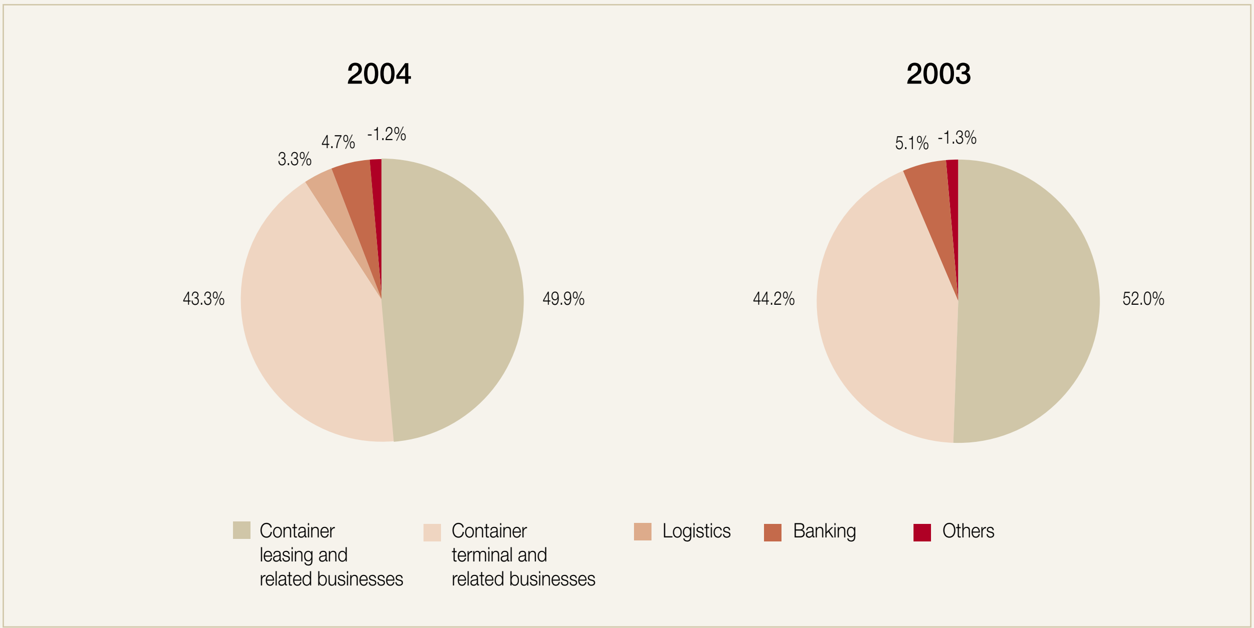
Other operating expenses (net)

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

Finance costs

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

Breakdown of profit attributable to shareholders



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

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

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

Taxation

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

Financial position

Cashflow

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

Financing activities and facilities

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

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

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

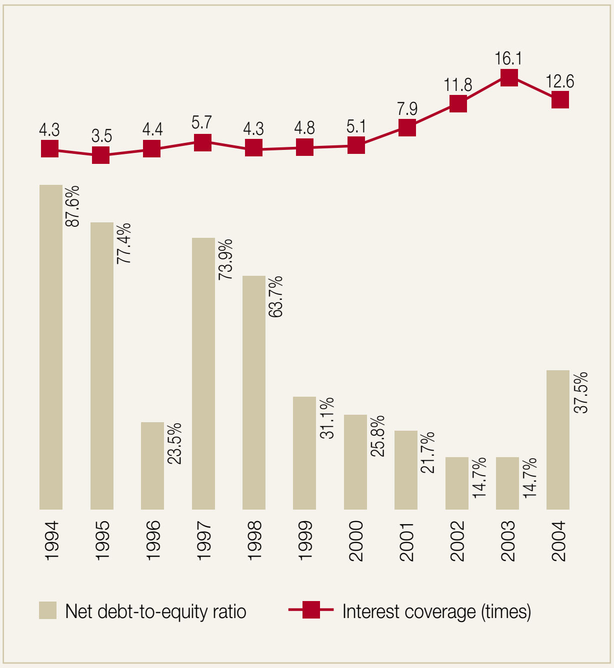
Assets and liabilities

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

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

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

Net debt-to-equity ratio & interest coverage



Debt analysis

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

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

Contingent liabilities

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

Treasury policy

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

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

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

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

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

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

Historical statistics summary

	1994	1995	1996	1997
PROFIT & LOSS ACCOUNT (US$ million)				
Turnover				
Container leasing and related businesses	104.2	124.1	144.6	167.9
Container handling and storage	–	–	–	12.0
Container terminal	–	–	–	3.6
	104.2	124.1	144.6	183.5
EBITDA	101.0	125.4	167.7	198.6
Depreciation & amortisation	(48.2)	(61.4)	(72.8)	(52.1)
EBIT	52.8	64.0	94.9	146.5
Interest expenses	(12.9)	(18.8)	(22.5)	(27.9)
Interest income	0.6	1.7	4.0	11.1
Profit before taxation	40.5	46.9	76.4	129.7
Operating profit after finance costs	40.5	44.5	45.2	85.5
Profit attributable to shareholders	40.3	46.3	70.8	121.2
Breakdown of profit attributable to shareholders				
Container leasing and related businesses	40.3	44.7	42.9	82.1
Container terminal and related businesses	–	2.0	26.0	38.7
Logistics	–	–	–	–
Other operations	–	–	–	2.2
Net corporate financial income/(expenses)	–	1.3	4.6	(0.3)
Net corporate income/(expenses)	–	(1.7)	(2.7)	(1.5)
	40.3	46.3	70.8	121.2
BALANCE SHEET (US$ million)				
Consolidated total assets	539.7	666.0	954.3	1,433.4
Consolidated total liabilities and minority interests	306.3	310.9	350.3	673.3
Consolidated net assets	233.4	355.1	604.0	760.1
Consolidated total debts	278.5	289.1	320.3	600.0
Cash balances	74.0	14.3	178.6	38.4
Consolidated net debts	204.5	274.8	141.7	561.6
STATISTICS				
Total number of shares issued (million)	1,020.0	1,659.1	1,917.5	2,051.8
Share price (as at 31st December) (US$)	0.340	0.647	1.154	0.808
(HK$)	2.650	5.050	9.000	6.300
Market capitalisation (as at 31st December, US$ million)	346.5	1,074.1	2,212.4	1,657.2
Weighted average number of ordinary shares issued (million)	777.6	1,100.6	1,730.2	2,019.1
Basic earnings per share (US cents)	–	4.21	4.09	6.00
P/E (as at 31st December, times)	–	15.4	28.2	13.5
Dividend per share (US cents)	0.26	1.83	1.92	2.12
Dividend payout ratio (%)	–	43.4	47.0	35.4
Net asset value per share (HK$)	1.785	1.669	2.457	2.889
Return on total assets (%)	7.5	7.7	8.7	10.2
Return on shareholders' equity (%)	17.3	15.8	14.8	17.8
Net debt-to-equity ratio (%)	87.6	77.4	23.5	73.9
Interest coverage (times)	4.3	3.5	4.4	5.7

1998	1999	2000	2001	2002	2003	2004
202.1	205.1	202.1	209.4	225.0	239.7	257.0
10.8	10.9	10.5	9.6	8.8	8.8	7.2
4.2	4.6	5.3	5.7	7.8	9.0	11.1
217.1	220.6	217.9	224.7	241.6	257.5	275.3
241.1	245.0	255.1	264.7	267.2	285.7	364.7
(66.8)	(70.6)	(74.8)	(81.0)	(87.7)	(95.5)	(102.5)
174.3	174.4	180.3	183.7	179.5	190.2	262.2
(41.7)	(37.1)	(38.1)	(24.0)	(15.5)	(11.9)	(21.0)
3.1	5.1	12.2	5.2	3.8	2.3	3.3
135.7	142.4	154.4	164.9	167.8	180.6	244.5
80.8	83.4	81.5	98.7	91.6	109.0	133.1
126.4	128.5	139.7	154.1	142.2	154.3	206.3
84.9	80.1	72.2	80.7	75.8	80.3	102.9
39.9	40.4	47.7	44.3	58.4	68.3	89.4
–	–	–	–	–	–	6.7
11.2	11.4	16.2	29.3	12.2	13.4	12.9
(6.2)	(0.5)	6.4	2.9	(0.8)	(2.1)	0.5
(3.4)	(2.9)	(2.8)	(3.1)	(3.4)	(5.6)	(6.1)
126.4	128.5	139.7	154.1	142.2	154.3	206.3
1,548.4	1,629.6	1,556.9	1,729.6	1,743.8	1,900.3	2,239.7
690.1	638.5	478.2	551.8	490.8	579.1	766.9
858.3	991.1	1,078.7	1,177.8	1,253.0	1,321.2	1,472.8
634.3	560.8	423.6	509.5	420.7	478.3	653.3
87.6	252.3	145.6	254.1	236.1	283.8	100.6
546.7	308.5	278.0	255.4	184.6	194.5	552.7
2,051.8	2,139.2	2,139.2	2,142.5	2,147.0	2,148.5	2,183.6
0.413	0.827	0.776	0.516	0.821	1.327	2.064
3.225	6.450	6.050	4.025	6.400	10.350	16.100
848.4	1,769.0	1,659.3	1,105.6	1,761.7	2,851.0	4,507.2
2,051.8	2,109.5	2,139.2	2,141.2	2,146.2	2,147.3	2,160.0
6.16	6.09	6.53	7.20	6.63	7.19	9.55
6.7	13.6	11.9	7.2	12.4	18.5	21.6
2.30	2.34	2.46	3.01	3.72	4.08	5.40
37.3	38.5	37.7	41.9	56.1	56.7	56.5
3.263	3.614	3.933	4.288	4.552	4.796	5.261
8.5	8.1	8.8	9.4	8.2	8.5	10.0
15.6	13.9	13.5	13.7	11.7	12.0	14.8
63.7	31.1	25.8	21.7	14.7	14.7	37.5
4.3	4.8	5.1	7.9	11.8	16.1	12.6

Historical statistics summary (continued)

	1994	1995	1996	1997
CONTAINER LEASING				
Turnover (US$ million)	104.2	124.1	144.6	167.9
Breakdown of rental income (US$ million)				
COSCON	98.9	114.4	126.0	138.6
International Customers (long term lease)	4.7	6.8	14.0	17.5
International Customers (master lease)	–	–	–	7.6
Fleet capacity (TEUs)	261,570	291,083	343,245	469,951
Breakdown of fleet capacity by customers				
COSCON (TEUs)	222,810	246,973	282,160	335,117
International Customers (TEUs)	38,760	44,110	61,085	134,834
COSCON (%)	85.2	84.8	82.2	71.3
International Customers (%)	14.8	15.2	17.8	28.7
Breakdown of fleet capacity by types				
Dry (TEUs)	251,910	274,178	323,680	432,734
Reefer (TEUs)	7,314	13,245	15,789	28,889
Special (TEUs)	2,346	3,660	3,776	8,328
Dry (%)	96.3	94.2	94.3	92.1
Reefer (%)	2.8	4.5	4.6	6.1
Special (%)	0.9	1.3	1.1	1.8
Capital expenditure on containers (US$ million)	171.1	148.7	137.2	348.3
Purchase of new containers (TEUs)	64,437	40,600	50,577	126,706
Disposal of Returned Containers (TEUs)	–	–	–	1,421
Fleet age (Year)	2.9	3.5	4.1	3.6
Utilisation rate (%)				
COSCO Pacific (Florens)	100.0	100.0	100.0	97.5
Industry average	87.0	85.0	82.0	85.0
Number of customers	5	20	38	86
CONTAINER TERMINALS				
Throughput (TEUs)				
COSCO-HIT	–	1,193,000	1,152,574	1,302,409
Yantian International Terminals (Phases I, II & III)	–	–	–	638,396
Shekou Terminals	–	–	–	–
Shanghai Pudong International Terminal	–	–	–	–
Shanghai Terminals	–	–	–	1,766,590
Zhangjiagang Win Hanverky Terminal	–	–	–	119,384
Yangzhou Yuanyang International Ports	–	–	–	–
Qingdao Qianwan Terminal	–	–	–	–
Qingdao Cosport Terminals	–	–	–	300,332
Dalian Port Container Co.	–	–	–	–
Yingkou Terminals	–	–	–	–
COSCO-PSA Terminal	–	–	–	–
Port's throughput (TEUs)				
Hong Kong	11,266,000	12,563,000	13,280,000	14,500,000
Shenzhen	179,000	284,000	589,000	1,148,000
Shanghai	1,200,000	1,526,000	1,971,000	2,527,000
Qingdao	430,000	600,000	810,000	1,033,000
Dalian	–	374,000	421,000	453,000
Tianjian	–	702,000	823,000	935,000
Singapore	10,400,000	11,830,000	12,950,000	14,136,000

1998	1999	2000	2001	2002	2003	2004
202.1	205.1	202.1	209.4	225.0	239.7	257.0
149.0	142.6	136.8	136.0	136.1	130.6	120.8
29.0	32.0	35.7	40.4	49.1	64.9	88.0
19.9	27.2	27.9	31.9	39.2	43.6	47.1
505,954	500,899	527,982	610,019	707,890	808,825	919,128
340,344	311,047	303,978	327,370	329,028	310,444	327,845
165,610	189,852	224,004	282,649	378,862	498,381	591,283
67.3	62.1	57.6	53.7	46.5	38.4	35.7
32.7	37.9	42.4	46.3	53.5	61.6	64.3
463,200	456,490	482,516	561,419	657,466	758,783	870,789
30,325	30,757	31,880	35,078	36,962	37,400	36,639
12,429	13,652	13,586	13,522	13,462	12,642	11,700
91.5	91.2	91.4	92.0	92.9	93.8	94.7
6.0	6.1	6.0	5.8	5.2	4.6	4.0
2.5	2.7	2.6	2.2	1.9	1.6	1.3
127.9	57.7	116.3	165.0	153.7	195.6	270.9
58,009	40,094	69,060	96,953	119,466	142,218	155,526
18,740	40,319	34,087	12,151	15,710	23,619	39,488
4.0	4.1	4.2	4.3	4.4	4.3	4.3
97.0	96.5	95.1	91.4	93.4	95.2	97.0
80.0	80.0	83.0	75.0	83.0	89.0	92.0
150	175	155	155	176	202	218
1,206,572	1,220,002	1,412,854	1,301,966	1,526,074	1,513,559	1,697,212
1,038,074	1,588,089	2,147,476	2,751,885	4,181,478	5,258,106	6,259,515
–	–	–	–	883,572	1,323,235	1,049,418
–	–	–	–	–	1,765,586	2,336,740
2,027,188	2,593,995	2,950,500	2,609,800	3,049,080	3,400,963	3,650,319
105,051	113,114	136,778	161,208	202,348	247,306	328,199
–	–	–	–	–	–	115,185
–	–	–	–	–	1,332,746	4,532,769
350,126	401,029	502,119	600,329	454,528	244,159	385,856
–	–	–	–	1,326,463	1,644,409	2,172,252
–	–	–	–	–	–	393,097
–	–	–	–	–	95,830	571,863
15,090,000	16,210,000	18,098,000	17,826,000	19,144,000	20,449,000	22,021,000
1,952,000	2,978,000	3,993,000	5,076,000	7,618,000	10,615,000	13,615,200
3,066,000	4,206,000	5,613,000	6,330,400	8,612,000	11,282,000	14,557,200
1,213,000	1,543,000	2,100,000	2,638,500	3,410,000	4,239,000	5,139,700
526,000	736,000	1,008,400	1,218,000	1,352,000	1,669,000	2,211,200
1,018,000	1,302,000	1,708,400	2,010,000	2,408,000	3,015,000	3,814,000
15,135,000	15,944,000	17,087,000	15,520,000	16,790,000	18,100,000	21,310,000

Frequently asked questions

Strategy

Q: What is COSCO Pacific's strategy for achieving accelerated growth over the next few years and why?

A: In the next few years, we expect the operating environment to be highly favourable, with a generally buoyant world economy, robust development of the global shipping market and continuous strong economic growth in China.

China will remain our base and our businesses will grow organically, but we will also consider further acquisitions and will leverage our experience to expand into the vast international market through strategic alliances and partnerships with global shipping liners.

We plan to increase capacity and market share in all our core businesses – container leasing, terminals, logistics, and our new focus area, container manufacturing.

Q: What are the keys to achieving faster growth?

A: A stable to steadily improving macroeconomic environment is important for accelerating business expansion through both organic growth and acquisitions.

In addition, we are strong believers in the value of business partnerships. We will continue to leverage our long-standing relationships with the world's first-tier shipping liners as part of our growth strategy.

In the container leasing business, these relationships have given us the ability to anticipate customer needs and to better meet their ever-changing requirements. Our partnerships have also earned us the continuing trust of customers based on a proven track record of performance. So we are well positioned to further benefit from the shipping industry's overall growth.

In the terminal business, we pro-actively manage the terminals we owned, in many cases in partnership with shipping liners as co-investors. Our relationships with the world's premier shipping liners have given us a deeper understanding of trends in the industry and of local conditions in overseas markets, which allows us to be very agile in adjusting our business plans to stay ahead of the curve and to capitalise on market opportunities.

Q: Will faster growth occur at the expense of earnings?

A: No. Our principle is to balance the effectiveness, returns and risks in business expansion. Whenever we consider any new investments or acquisition plans, we will be cautious in selecting investment or acquisition targets and ensure that they will bear good returns and that synergies are created to provide integrated service to customers. We are confident that we will improve earnings growth on the back of strong overall growth of the shipping industry and because of the unrivalled advantage we derive from our strategic partnerships with the world's major liners.

Q: The Company's objective is to become a "global corporation". What do you mean by this and how will you know when you have achieved this objective?

A: To us, being a global corporation means having partnerships with the top tier players in the global shipping industry, a foothold in major ports around the world, and meeting or setting global best practice in management and customer service in our core business segments. We have already met some of these objectives and will continue to build a global brand by improving our network, team and customer base.

Container leasing business

Q: How will the Group strengthen the customer base of the container leasing business to remain competitive and ensure a stable revenue stream?

A: Our proven reliability and high standards of customer service have won us the loyalty of our key customers. Last year, our container utilisation rate of 97% was the highest in the industry. In a competitive environment, however, we must improve continually if we are to continue to gain market share.

We value continual close dialogue with our key customers so that we can anticipate their needs and meet their ever-changing requirements.

We demonstrate our commitment to customers in concrete ways. The best illustration may be our long term commitment to our key customers, which includes a promise to meet their container needs in future years. This commitment will be particularly important over the next five years when new addition of vessel capacity is expected to increase more than 9% per year on average.

Q: How important is COSCON in your overall revenue mix?

A: Our objective is to be a preferred supplier to the leading shipping liners around the world. Hence, we are pleased to count among our key customers our sister company, COSCON, particularly at a time when it is pursuing an aggressive expansion of its fleet.

Terminal business

Q: Will the Group's terminal business continue to focus on China?

A: China is a critical market for any shipping-related business, and it will continue to be the Company's base and home market. To achieve accelerated growth and to become a global corporation, however, we must expand both in China and overseas.

In the foreseeable future, China's container terminal industry will continue to experience sustainable high growth and remain as the world's largest container terminal throughput country. In addition, we see an increasing trend of foreign direct investment into the sector in China through partnerships with local players. We are well-positioned to benefit from new opportunities created – firstly because we are the flagship terminal operator of COSCO, the country's largest shipping conglomerate, and secondly because of our existing strong partnerships with foreign shipping liners seeking to enter China's container terminal market.

Internationally, an important strategy is to bring our experience and business relationships to bear in actively managing terminals. Using this model, we expanded our terminal business to the port of Singapore in 2003 and to Antwerp in Belgium last year. We actively participate in the daily management of these terminals, working in partnership with shipping liners and other co-investors.

Logistics business

Q: What are the achievements of COSCO Logistics in 2004?

A: In 2004, leveraging our proven track record in the past two years, we further expanded our operations in the targeted business segments, with significant results. We are proud to be ranked No.1 in the "Top 100 China Logistics Companies" survey conducted by eight industry associations including China Communications & Transportation Association and China Railways Society in November 2004. In December, COSCO Logistics was again ranked No.1 in the "2004 The 20 Most Competitive Logistics Companies" study announced by China Logistics and Sourcing Association.

Q: What is the future development strategy of COSCO Logistics?

A: Logistics, shipping agency and freight forwarding operations will remain the core focuses of COSCO Logistics. We will take a step-by-step approach to aggressively expand our logistics business through organic growth and by entering selectively into alliances. At the same time, we aim to strengthen our leading position in the shipping agency and freight forwarding markets.

Container manufacturing business

Q: Why did the Group invest in the container manufacturing business – CIMC?

A: Container manufacturing offers synergies with our rapidly growing container leasing business. On its own, this business offers good profit margins given the strong growth forecast for the global shipping industry. We expect that the business will not only contribute sustainable earnings, but will add to our competitive advantage by allowing us to provide a more comprehensive and vertically integrated service to our key shipping liner customers. Having our own container manufacturing capability is fully in line with our strategy and commitment to deliver the highest-quality products and services to our customers.

Financial

Q: What are your earnings drivers going forward?

A: Container leasing business was the major earnings driver in 2004. We remain optimistic that the robust demand in the market will continue to fuel earnings.

In 2004, earnings growth of the container leasing business was the strongest it had been since 1997. Even between 1997 and 2003, when operating conditions were challenging, our container leasing business increased its market share. With the positive industry outlook going forward, we are confident that the container leasing business will continue to do well for us.

In our terminal business, our strategy of selective acquisition has helped us to achieve faster earnings growth. We plan to continue to increase capacity, market share and earnings.

An important part of our growth strategy in the terminal business is to focus on forming strategic partnerships with first tier shipping liners. We take a very active approach to managing our joint ventures, which puts us very close to the sources of cash flow generation. By working with our partners, we are able to monitor early and real-time changes in the frequency of calls, the structures of shipping fleets, and other key trends. We believe that this allows us to have a direct impact on earnings quality and cash flow in the joint ventures.

Q: What are your plans for funding the Company's expansion?

A: We will focus on debt to achieve an optimal capital structure.

Our capital structure remains healthy, and our borrowing capacity is strong. In 2004, our net gearing ratio was 37.5% with interest coverage at 12.6 times. The return on total assets and the return on shareholders' equity increased to 10.0% and 14.8% respectively. We will remain comfortable with our gearing as long as we maintain interest coverage greater than 5 times.

Q: Will a higher net debt-to-equity ratio affect the dividend policy of the Company?

A: We are committed to a stable dividend payout ratio. A stable dividend payout is a sign of good corporate governance, allowing better and more transparent use of the Company's cash flow. It is also beneficial for budgeting for future funds. Our loan repayment for the next three years are modest at US$140,833,000. The Company has no plans to change its present consistent dividend policy.

As our cash revenues keep on increasing year after year, we continue to maintain a stable dividend payout. In 2004, COSCO Pacific recorded an EBITDA of US$364,700,000 and an interest coverage of 12.6 times, while the net gearing ratio was 37.5%. As at the end of 2004, our average debt maturity period was about 6 years.

Investor relations

COSCO Pacific places strong emphasis on investor relations activities. We believe that sound investor relations can help to enhance our corporate governance and create value for shareholders. To enhance transparency and bring a better return to shareholders, the Company is committed to communicating with investors to ensure they fully understand the corporate management philosophy, the operating environment as well as the investment and development strategies.

Enhancing communication with investors

Our senior management is actively involved in the Company's investor relations activities. The cornerstone of our investor relations program is to enhance communication with investors through proactive, open and sincere interactions for the purpose of identifying and addressing any major areas of concern which in turn can further improve our communication with investors. Our investor relations program includes the following:

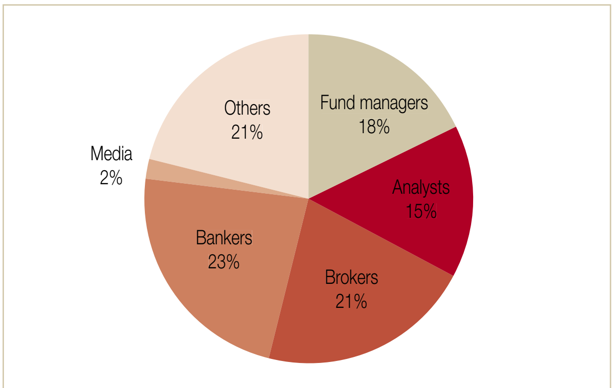
- Continuous tracking of market developments and identification of key investor concerns
- Regular one-on-one meetings and teleconferences with fund managers and analysts
- Holding press conferences twice a year in conjunction with the Company's interim and final results announcements, along with a Q&A session for the media
- Briefings for fund managers and analysts to present the operating position and future strategies of the Company
- Disclosure of the latest operating information of the Company to the media and the public via the corporate web site and regular emails
- Maintaining best practice in terms of disclosure of corporate information
- Maintaining a high standard of transparency

In 2004, our investor and stakeholder meetings had an attendance of 1,145, of which 482 were for one-on-one meetings. By category, 18% of such attendance was from fund managers, 15% from analysts, 21% from the securities sector, 23% from bankers, 2% from the media and 21% from other sectors. Besides, 17 roadshows and investor forums were carried out with an attendance of 663 during the year.

Investor and stakeholder meetings (Unit: No. of investors)

Year	One-on-one meeting	Roadshow and investor forum	Total
2004	482	663	1,145
2003	662	625	1,287
2002	581	615	1,196
2001	332	412	744
2000	317	643	960
1999	380	606	986
1998	538	677	1,215
1997	468	446	914

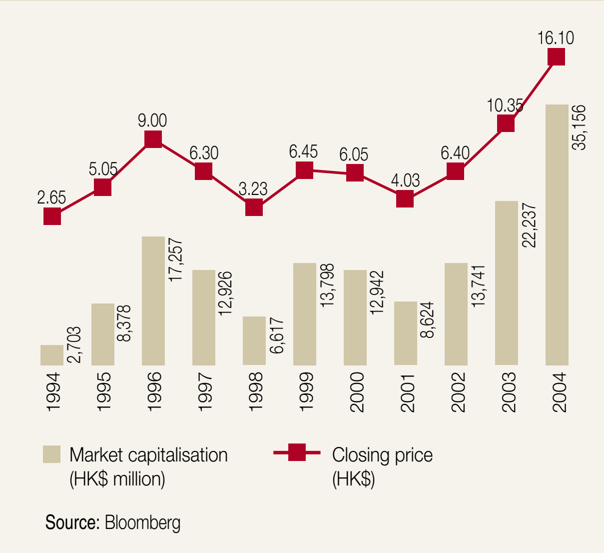
Analysis of stakeholders' one-on-one meeting in 2004



Market capitalisation

Since COSCO Pacific has become a constituent stock of the Hang Seng Index ("HSI") on 9th June 2003, its share price has outperformed the market with active trading due to its solid business performance, aggressive expansion strategies and sound relations with investors. As a result, COSCO Pacific's market capitalisation has been on the rise. On 31st December 2004, COSCO Pacific's closing share price was HK$16.10 (2003: HK$10.35) and its total number of shares in issue was 2,183,630,298 (2003: 2,148,542,298 shares), making market capitalisation of approximately HK$35,156,448,000 (2003: HK$22,237,413,000), representing an increase of 58.1% over the end of 2003. Accounting for 0.8% (2003: 0.6%) of the HSI at the end of 2004, COSCO Pacific was the 24th (2003: 29th) biggest constituent stock. As for the Hang Seng China-Affiliated Corporations Index ("HSCCI"), the stock accounted for 3.5% (2003: 2.5%) of the Index at the end of 2004 and ranked as the 4th (2003: 6th) biggest constituent stock.

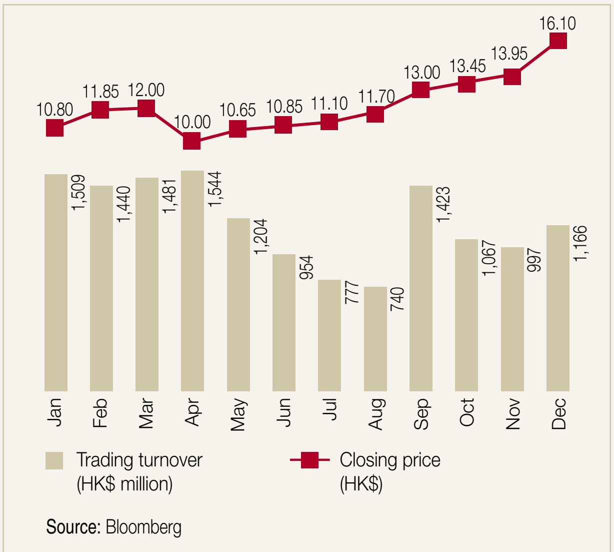
Market capitalisation of COSCO Pacific (1994-2004)



Share price performance

COSCO Pacific's share price outperformed the market in 2004. The closing price of COSCO Pacific at the end of 2004 was 55.6% above that as at the end of 2003. For the same period, the HSI rose by 13.2% and the HSCCI was up 9.1%. In terms of share price performance, COSCO Pacific ranked 2nd and 3rd among the consituent stocks of HSI and HSCCI respectively.

Share price performance and trading turnover of COSCO pacific in 2004



Market recognition

COSCO Pacific's endeavours to improve its corporate management systems, corporate governance and transparency have established for itself a corporate image of solid integrity and dedication to excellence in the capital market. As a result, it is well regarded by investors. In 2004, COSCO Pacific won a number of awards from various well-known international institutions. They include:

- Ranked among the "Top 10 Chinese Enterprises with the Best Dividend Policy" in the "Best Asia Companies Poll" conducted by Finance Asia
- Rated as a "Conglomerate Enterprise with the Best Investor Relations in Asia" by the Institutional Investor Research Group
- Rated as one of the enterprises with the "Best Corporate Governance" among the Hang Seng Index constituent stocks by Standard & Poor's
- Mr. LIU Guoyuan, Vice Chairman of the Company and Mr. WONG Tin Yau, Kelvin, Deputy Managing Director of the Company, were both granted the "Best Investor Relations Officer" award by the IR Magazine
- Received the Company's fifth Honourable Mention in the Best Annual Reports Awards by the Hong Kong Management Association

In 2004, COSCO Pacific was a top-pick stock among institutional investors given its satisfactory share price performance and growing market capitalisation. In March 2004, COSCO Pacific was selected as one of the constituent stocks of "Finance Asia 100 Blue Chips" by Finance Asia. In October, it was included in the "FTSE/Xinhua China 25 Index", which has become a tracker of ETFs traded on the American Stock Exchanges. In addition, COSCO Pacific was among the top thirty stock picks for 2005 in the analytic report published by Standard and Poor's in January 2005. These achievements reflect the recognition of the market and investing public of COSCO Pacific's efforts in enhancing its corporate management and governance. We will build on this solid foundation and work towards further excellence with the aim of meeting investors' expectations.

Investor relation activities

Date	Events
January 2004	Roadshow arranged by Deutsche Bank in Europe
February 2004	Roadshows arranged by Macquarie Securities in Hong Kong and Singapore
	Roadshow arranged by ABN AMRO Asia in Japan
	Access China Conference 2004 arranged by Deutsche Bank in Shanghai
March 2004	Announcement of 2003 final results: • Press conference • Panel discussion with analysts
	Teleconference and roadshow arranged by ABN AMRO Asia in Hong Kong
	Roadshow arranged by Goldman Sachs (Asia) in Singapore
May 2004	China Forum 2004 arranged by CLSA in Qingdao
	Luncheon investor forum arranged by BNP Paribas Peregrine Securities
June 2004	"ING HK/China Corporate Day" held by ING Financial Markets in Hong Kong
July 2004	Roadshow arranged by Daiwa Institute of Research in Japan
	Luncheon seminar held by Merrill Lynch (Asia Pacific)
September 2004	Announcement of 2004 interim results: • Press conference • Panel discussion with analysts
	Roadshow arranged by Goldman Sachs (Asia) in Hong Kong
	Teleconference with fund managers in Singapore, Europe and US arranged by Deutsche Bank
November 2004	The Third Annual China Investor Relations Conference organised by IR Magazine in Beijing
	China Corporate Day organised by Credit Suisse First Boston (Hong Kong) in Japan
January 2005	Briefing for analysts
	Greater China Conference organised by UBS Securities Asia in Shanghai
February 2005	Red Chips Conference organised by UBS Securities Asia in Hong Kong
	Luncheon organised by BOCI Research

Corporate culture

Core values

In addition to aggressive business expansion, COSCO Pacific takes high regard to building up a corporate culture, demonstrating our belief in "ensuring customer satisfaction, adding to shareholders' value", and creating a harmonious, dynamic and people-oriented work environment to enhance its staff's potential and capability. In 2004, the Company sought to cultivate the following core corporate values: trust; creativity; growth; communications; understanding; sound management; integrity and dedicated services. So far, it has already built up a shared corporate value in "ensuring customer satisfaction, adding to shareholders' value" amongst its staff.

Team spirit

In order to ensure the healthy and speedy development of its businesses, the Company has made great efforts in motivating team spirit and cultivating management staff as well as recruiting high-calibre professionals. In 2003, the Company started to take active measures in staff training to develop management professionals with the suitable skill-sets to facilitate our business development. In June 2004, our first terminal operation and management training course was organised under the solid support from COSCO. In mid 2004, the Company also organised a reading programme with the theme of "Diversity, Depth and Practice" to encourage life-long learning and to acquire new knowledge so as to enhance its management and professionalism.

COSCO Pacific continues to improve its remuneration policies and incentive packages based on fair principles. In 2004, the Board of the Company established the Remuneration and Assessment Committee and the Nomination Committee, which form a solid foundation for a modernised human resources management system. Apart from remuneration and bonus payments, share options of the Company are also granted to our employees, so as to motivate their performance and contribution to the Company's business development.

As at 31st December 2004, the Group had 422 employees in Hong Kong, China mainland, Macau, other Asian regions, America, Europe and Australia etc.

Social responsibilities

To answer our higher duty to the staff, shareholders, investors, customers, suppliers and society, COSCO Pacific always sticks to its principle of honesty and sincerity. We also take great care to ensure full compliance with the local law, regulations and environmental protection ordinances in managing and developing our businesses.

COSCO Pacific actively participates in social charity to contribute to society. Some senior management members of the Group were invited to give professional lectures on a voluntary basis to share their knowledge and practical experience at certain universities in China mainland and Hong Kong. In 2004, COSCO Pacific offered various internship positions to trainees under the Youth Pre-employment Training Programme of the Government of the HKSAR. In January 2005, COSCO Pacific donated RMB1,500,000 to Shanghai Maritime University. The fund will be used to set up a special scholarship for the purpose of encouraging students to study relevant subjects and join the shipping and logistics sectors and contribute to their continued development in China.

COSCO Pacific will continue to take civil responsibilities as an enterprise and improve society and environment to make the world a better one.

Corporate governance report

COSCO Pacific Limited (the "Company") is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interests in general. The Board of Directors (the "Board") and the senior management of the Company are committed to making sure that effective self-regulatory practices exist to protect the interests of the shareholders. These include a Board comprising high caliber members, Board Committees and effective internal audit and sound systems of internal controls.

The Company's commitment to high standard in corporate governance practices has achieved recognition from the market. In 2004, the Company was rated as one of the enterprises with the "Best Corporate Governance" among the Hang Seng Index constituent stocks by Standard & Poor's.

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("Corporate Governance Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices. This report describes the Company's corporate governance practices with specific reference to the Corporate Governance Code.

Board of directors

The Board is duty bound to manage the Group (the Company and its subsidiaries) in a responsible and effective manner and therefore every 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 Company and its shareholders. The Board currently consists of 22 members. Among them, 18 are executive directors, 3 are independent non-executive directors and 1 is non-executive director.

The posts of Chairman and Managing Director are separate and are not held by the same individual to ensure their independence, accountability and responsibility. The Managing Director, Mr. SUN Jiakang, supported by other board members and the senior management, is responsible for managing the Group's businesses, implementating major strategies, making day-to-day decision and co-ordinating overall business operations. The Chairman, Mr. WEI Jiafu, is responsible for overseeing the functioning of the Board and formulating overall strategies and policies of the Company.

The non-executive directors, a majority of whom are independent, with a term of three years each, are highly experienced professionals with a broad range of expertise and experience in areas such as accounting, finance and business. They ensure that the Board maintains high standards of financial and other mandatory reporting and provides adequate checks and balance to safeguard the interests of shareholders in general and the Company as a whole.

To assist the directors to discharge their duties to the Company, the Board has established written procedures to enable the directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

All directors, apart from the Chairman and Managing Director, are subject to retirement by rotation at the Annual General Meeting. To further enhance accountability, a proposal to amend the Company's Bye-laws to include the Chairman and Managing Director under the rotation arrangement will be put to shareholders for approval at the forthcoming Annual General Meeting.

Both the Board and the management have clearly defined authorities and responsibilities under various internal control and checks-and-balance mechanisms. The Board is responsible for establishing the strategic direction of the Group, setting objectives and business development plans, monitoring the performance of the senior management and assuming responsibility for corporate governance. The management, under the leadership of the Managing Director, is responsible for implementing these strategies and plans. To ensure effective discharge of the Board's responsibilities, the management submits reports on the Company's operations to the Board on a regular basis. The Board reviews and approves the Company's annual budget and business plans, which serves as an important yardstick in assessing and monitoring the performance of the management. Directors have access to management and are welcome to request for explanations, briefings or informal discussions on the Company's operations or business issues.

The Board held a total of 4 board meetings, all of which are regular board meetings, during the year. Of these, two meetings were held to approve the 2003 final results and 2004 interim results of the Company; the other two meetings were held to consider new investment opportunities and to review the strategic business directions and financial and operating performances of the Group. As the members of the Board are in both Hong Kong and the People's Republic of China, most of these meetings were conducted via video conferencing which is permitted under the Company's Bye-laws. The Financial Controller and Company Secretary also attended all board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial.

To illustrate the attention given by the Board to the oversight of the Company's affairs, we set out details of the directors' attendance at the board meetings during the year and the first quarter of 2005 in the following tables. All businesses transacted at the board meetings are well-documented and the records are maintained in accordance with applicable laws and regulations.

Date of board meeting	Total no. of directors	No. of directors present	Attendance rate
7/1/2004	25	22	88%
25/3/2004	25	19	76%
22/7/2004	25	19	76%
8/9/2004	25	15	60%
17/1/2005	22	19	86%
4/3/2005	22	20	91%

Directors	No. of board meetings attended/ held in 2004	No. of board meetings attended/ held in the first quarter of 2005
Executive Directors		
Mr. WEI Jiafu	2/4	1/2
Mr. LIU Guoyuan	4/4	2/2
Mr. ZHANG Fusheng	3/4	0/2
Mr. WANG Futian	3/4	2/2
Mr. CHEN Hongsheng	2/4	2/2
Mr. LI Jianhong	3/4	2/2
Mr. MA Zehua	1/4	2/2
Mr. MA Guichuan	3/4	1/2
Mr. LI Yunpeng	2/4	1/2
Ms. SUN Yueying	4/4	2/2
Mr. ZHOU Liancheng	3/4	2/2
Mr. SUN Jiakang	4/4	2/2
Mr. XU Lirong	3/4	2/2
Mr. HE Jiale	4/4	2/2
Mr. WONG Tin Yau, Kelvin	4/4	2/2
Mr. MENG Qinghui	3/4	2/2
Mr. LU Chenggang	4/4	2/2
Mr. QIN Fuyan	4/4	2/2
Mr. GAO Weijie (resigned on 13/10/2004)	1/4	N/A
Mr. LIANG Yanfeng (resigned on 13/10/2004)	1/4	N/A
Independent Non-executive Directors		
Dr. LI Kwok Po, David	3/4	2/2
Mr. LIU Lit Man	3/4	2/2
Mr. Alexander Reid HAMILTON	3/4	2/2
Mr. LEE Yip Wah, Peter (resigned on 30/9/2004)	4/4	N/A
Non-executive Director		
Mr. KWONG Che Keung, Gordon	4/4	2/2

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each regular board meeting. At least 14 days' notice of a regular board meeting is given to all directors to give them the opportunity to attend. Board papers are despatched to the directors at least 3 days before the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting. Senior management who are responsible for the preparation of the Board papers are usually invited to present their papers and to take any questions or address queries that the Board members may have on the papers. This enables the Board to have pertinent data and insight for a comprehensive and informed evaluation as part of the Board's decision-making process.

The proceedings of the Board at its meetings are conducted by the Chairman or the Vice Chairman of the Company who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and also equal opportunities are being given to directors to speak, express their views and share their concerns.

Directors/senior management's securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions. To ensure directors' dealing in the securities of the Company are conducted in accordance with the Model Code, a committee comprising the Chairman, the Vice Chairman, the Managing Director and Deputy Managing Director was set up to deal with such transactions.

In addition, the Board also established written guidelines on no less exacting terms than the Model Code for senior management of the Company in respect of their dealings in the securities of the Company.

Financial Controller

The Financial Controller is responsible for preparing interim and annual financial statements based on generally accepted accounting principles in Hong Kong and ensuring that the financial statements present fairly the results and the financial position of the Group and comply with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and other applicable laws and regulations. In addition, the Financial Controller is responsible for preparing the annual financial budget of the Company for approval by the Board. The Financial Controller is accountable to the Chairman of the Audit Committee and maintain regular communications with the external auditors. 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. All directors have easy access to the Company Secretary who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with. The Company Secretary is also responsible for providing advices to the Board on directors' obligations on disclosure of interests in securities, disclosure requirements of notifiable 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. The Company Secretary, being the primary channel of communications between the Company and the Stock Exchange of Hong Kong, also assists the Board to implement and strengthen corporate governance practices with a view to enhancing long term shareholders' value. In addition, on a timely basis, the Company Secretary will provide the directors with information, update and continuing professional development on legal, regulatory and other continuing compliance obligations for being directors of a listed company.

Board committees

To assist the Board in execution of its duties, the Board is supported by six board committees which consists of directors, members of senior management and management. Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee.

(1) Audit Committee

The Audit Committee, chaired by Mr. Alexander Reid HAMILTON, was established by the Board of the Company in August 1998. Other existing members are Dr. LI Kwok Po, David and Mr. LIU Lit Man. All the committee members are independent non-executive directors of the Company and are well-versed in the accounting and/or commercial areas. The terms of reference of the Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code. 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 met twice during the year. In August 2004, the Committee has resolved to meet four times 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, assure 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, review all significant business affairs managed by the executive directors in particular on connected transactions.

(2) Investment and Strategic Planning Committee

The Investment and Strategic Planning Committee comprises 10 members and is chaired by Mr. SUN Jiakang, Managing Director of the Company. It considers, evaluates, reviews and recommends to the Board the proposed major investments, acquisitions and disposals and conducts post-investment evaluation of the investment projects, reviews and considers the overall strategic direction and business developments of the Company.

(3) Corporate Governance Committee

The Corporate Governance Committee comprises 6 members and is chaired by Mr. WONG Tin Yau, Kelvin, Deputy Managing Director of the Company. It is responsible to the Board to review the corporate governance practice of the Company and the Company's disclosure systems so as to enhance the standard of corporate governance of the Company.

(4) Risk Management Committee

The Risk Management Committee comprises 8 members and is chaired by Mr. LU Chenggang, Deputy Managing Director of the Company. It provides independent support to the Board to identify the operational risks of the Company and monitor and manage these risks, set direction for the Group's risk management strategy and strengthen the system of risk management of the Group.

(5) Nomination Committee

The Nomination Committee comprises 3 members, a majority of whom are independent non-executive directors, and is chaired by Dr. LI Kwok Po, David, an independent non-executive director of the Company. It is responsible for nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on such appointments.

(6) Remuneration and Assessment Committee

The Remuneration and Assessment Committee comprises 5 members, a majority of whom are independent non-executive directors, and is chaired by Mr. LIU Lit Man, an independent non-executive director of the Company. It reviews and determines the policy for the remuneration of directors and senior management.

The above board committees have scheduled to meet regularly every year. The board committees report to the Board on a regular basis. All businesses transacted at the committee meetings are well recorded and the records are well maintained.

Internal control and internal audit

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

In order to establish a sound system of internal controls in safeguarding shareholders' interests and the Group's assets, the Company established an Internal Audit Department in September 2000, the key tasks of which include:

- review of all aspects of the Group's activities and internal controls with unrestricted right of access;
- conduct comprehensive audits of the practices and procedures, income and expenditure, and internal controls of all business units of the Group on a regular basis;
- conduct special reviews and investigations of areas of concern identified by management.

The head of the Internal Audit Department reports directly to the Managing Director and the Chairman of the Audit Committee and attends all audit committee meetings and brings appropriate matters identified during the course of audits to the Committee's attention. This reporting structure allows the Internal Audit Department to maintain its independence.

The internal audit plan, which is reviewed and approved by the Audit Committee, is based on the sizes and prevailing risks of all business units of the Group to establish audit scopes and frequencies. All internal audit works scheduled for the year of 2004 have been completed. All areas of concern reported by the Internal Audit Department have been monitored by the management until appropriate corrective measures are implemented.

Investor relations

The Company continues to promote and enhance investor relations and communications with its investors. An intensive communications channel has been maintained with the media, analysts and fund managers through one-on-one meetings, roadshows and conferences. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development.

In 2004, the Company's continuing commitment to enhancing investor relations and communication has gained further recognition from the wider business community. During the year, Mr. LIU Guoyuan and Mr. WONG Tin Yau, Kelvin, the Vice Chairman and Deputy Managing Director of the Company respectively, were both granted the "Best Investor Relations Officer" award by the IR Magazine and the Company was rated as a "Conglomerate Enterprise with the Best Investor Relations in Asia" by Institutional Investor Research Group.

Communication with shareholders

The Company attaches great priority to communicate with shareholders and investors. There is a regular dialogue with institutional shareholders and general presentations are made when the financial results are announced. To foster effective communications, the Company provides extensive information in its annual report, interim report, press releases and also disseminates information relating to the Group and its business electronically through its website at www.coscopac.com.hk.

The Company regards the Annual General Meeting ("AGM") as an important event as it provides an important opportunity for direct communications between the Board and the Company's shareholders. All directors and senior management will make an effort to attend. External auditors are also available at the AGM to address shareholders' queries. All shareholders will be given at least 21 days' notice of the AGM and they are encouraged to attend the AGM and other shareholders' meetings. The Company supports the Corporate Governance Code's principle to encourage shareholders participation. Questioning by the shareholders at such meetings are encouraged and welcomed.

Code of conduct

To enhance the ethical standards of employees, the Company has introduced a new version of employee handbook in 2004, setting out standards of professional and ethical conduct for all employees of the Group. The employees at all levels are expected to conduct themselves in an honest, diligent and responsible manner.

Conclusion

The Company believes that corporate governance principles and practices must remain relevant in a changing world, thus it continues its ongoing effort to review its corporate governance practices from time to time so as to meet the changing circumstances. It will try its best to maintain, strengthen and improve the standard and quality of the Company's corporate governance.

Directors and senior management profiles

Executive Directors

WEI Jiafu

Mr. WEI, aged 55, is the Chairman of the Company. He was appointed President & CEO of China Ocean Shipping (Group) Company in November 1998. Mr. WEI is also the Chairman of COSCO (Hong Kong) Group Limited, COSCO International Holdings Limited and COSCO Container Lines Company Limited. He was elected into the CPC Central Committee for Discipline Inspection in November 2002. As a former marine captain who served for more than a decade on COSCO's ocean-going ships, he is richly experienced in international shipping business. Mr. WEI is also Chairman of China Shipowners' Association, Executive Chairman of China Federation of Industrial Economics, Director of the Board of Bo'ao Forum for Asia, advisor of Harvard Business School and advisor of Panama Canal Authority. Mr. WEI obtained his Master of Shipping Management and Engineering degree from Dalian Maritime University and his Doctoral degree from Tianjin University. Before Mr. WEI was appointed President of China Ocean Shipping (Group) Company, he had held various senior positions within COSCO, including President of COSCO Investment (Singapore) Limited and Managing Director of Sino-Tanzania Joint Shipping Company, Tianjin Ocean Shipping Company and COSCO Bulk Carrier Company Limited. He joined the Company in June 2000 as Chairman of the Board of Directors and is responsible of formulating the overall strategy and policy of the Company.

WEI Jiafu LIU Guoyuan

LIU Guoyuan

Mr. LIU, aged 53, 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) Group Limited, the Vice Chairman of COSCO International Holdings Limited, 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 China Ocean Shipping (Group) Company at the same year. In August 1982, he earned the Master of Laws degree (LL.M) from the Law School of 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 China Ocean Shipping (Group) Company. 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 30 years' working experiences in COSCO Group. He is a member of Hong Kong Port and Maritime Board and the Hong Kong Logistics Development Council, a Council member of the Hong Kong General Chamber of Commerce and the Hong Kong Management Association, Vice Chairman of the Hong Kong Shipowners Association as well as Vice Chairman of the Hong Kong Chinese Enterprises Association.

ZHANG Fusheng

Mr. ZHANG, aged 54, has been a Director of the Company since September 2003. He is also the Secretary of the CPC Sub-Committee and the Executive Vice President of China Ocean Shipping (Group) Company. He graduated from Shanghai Maritime University and Wuhan University of Communications Science and obtained a Master degree in Transportation Management from Wuhan University of Communications Science. He had been a Deputy Director of the First Operation Division of Tianjin Port Authority, Deputy Director of Second Division of Organisation Department of Ministry of Communications ("MOC"), Director of First Division of Organisation Department of MOC, Division Head and Deputy Director of Personnel & Labour Department of MOC, Director of Institutional Reform & Regulatory Department of MOC, spokesman of MOC, Vice President of the Beijing branch of Bank of Communications and Party Secretary of COSCO Container Lines Company Limited. He has extensive experience in corporate management.

WANG Futian

Mr. WANG, aged 54, has been a Director of the Company since September 2003. He is also a Vice President of China Ocean Shipping (Group) Company. Mr. WANG graduated from Dalian Maritime University, majoring in Navigation, in 1976. Upon graduation, he started working in Guangzhou Ocean Shipping Company and Dalian Ocean Shipping Company. He had been Senior Marine Officer, Manager of Enterprise Planning Department, Chairman of the Labour Union of Dalian Ocean Shipping Company, Vice Chairman and Chairman of the Labour Union, Secretary of the Discipline Inspection Committee, Deputy Secretary of the Party Committee and Deputy Secretary of the CPC Sub-Committee of China Ocean Shipping (Group) Company.

CHEN Hongsheng

Mr. CHEN, aged 55, has been a Director of the Company since September 2003. He is also a Vice President of China Ocean Shipping (Group) Company. Mr. CHEN graduated from Sichuan Foreign Language College in 1975, majoring in English. After graduation, he started working for Penavico Tianjin. He was the Deputy General Manager of Penavico Nantong Branch Company, Manager of Shipping Department of Penavico, Head Office, General Manager of the Beijing Branch of COSCO International Freight Forwarding Co. Ltd., General Manager of COSCO International Freight Forwarding Co. Ltd. and Deputy General Manager of COSCO Container Lines Company Limited.

LI Jianhong

Mr. LI, aged 48, has been a Director of the Company since October 1997. He is also the Vice President of China Ocean Shipping (Group) Company and a Director of COSCO International Holdings Limited. Mr. LI graduated from the University of East London in the United Kingdom with a Master of Business Administration degree and holds a Master of Business Administration degree from Jilin University. He has been the Assistant to the President and Chief Commercial Officer of China Ocean Shipping (Group) Company, General Manager and Secretary of the Party Committee of COSCO Industry Co. Ltd., General Manager of COSCO Real Estate Company, General Manager of COSCO Property Group Ltd. and Chairman of the Board of Directors of China International Marine Containers (Group) Ltd. He currently holds the positions of Vice Chairman of China Youth Entrepreneur Association, General Director of China Containers Industry Association. He has more than 20 years of experience in corporate management.

ZHANG Fusheng WANG Futian CHEN Hongsheng LI Jianhong

MA Zehua

Mr. MA, aged 52, has been a Director of the Company since September 2003. He is also a Vice President of China Ocean Shipping (Group) Company. He graduated from Marine Department of Shanghai Maritime University in 1977 and started his career in the Shipping Department of China Ocean Shipping Company in the same year. He was then appointed as the Deputy Manager of the Shipping Department. He had been the Deputy General Manager of the Transportation Division of China Ocean Shipping Company, General Manager of COSCO UK Co., Ltd., General Manager of Development Division and Assistant President of China Ocean Shipping (Group) Company, the President of COSCO Americas, Inc., Deputy General Manager of Guangzhou Ocean Shipping Company and General Manager of Qingdao Ocean Shipping Company.

MA Guichuan

Mr. MA, aged 50, has been a Director of the Company since September 2003. He is also the Chairman of the Seaman Union of China Ocean Shipping (Group) Company. He graduated from Dalian Maritime University, majoring in Engineering Management, in 1978. He had been a Senior Marine Officer and Manager of the First Management Department of Qingdao Ocean Shipping Company and the Secretary of the Party Committee of Qingdao Ocean Mariner's College.

LI Yunpeng

Mr. LI, aged 46, has been a Director of the Company since September 2003. He is also Director of Party Disciplinary Inspection Office of China Ocean Shipping (Group) Company. He obtained a Master degree in Ship and Marine Engineering in Tianjin University in 2001. Before he was appointed as a Director of Administration Division of COSCO Bulk Carrier Co. Ltd., he worked in Tianjin Ocean Shipping Company and held various senior positions there. He was then appointed as the Deputy General Manager of Executive Division, Deputy Secretary of Discipline Inspection Committee, General Manager of Supervision Division, Director of Organization Division and Managing Director of Human Resources Division and Assistant to Executive President of China Ocean Shipping (Group) Company.

SUN Yueying

Ms. SUN, aged 46, has been a Director of the Company since March 2002. She is also the Chief Accountant of China Ocean Shipping (Group) Company and a Director of COSCO (Hong Kong) Group Limited. Ms. SUN was graduated from Shanghai Maritime University 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 China Ocean Shipping (Group) Company. She has extensive experience in financial management.

ZHOU Liancheng

Mr. ZHOU, aged 56, has been a Director of the Company since November 2000. He is also a Director and Vice President of COSCO (Hong Kong) Group Limited and a Director of COSCO International Holdings Limited. 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 experience in corporate management.

MA Zehua | MA Guichuan | LI Yunpeng | SUN Yueying | ZHOU Liancheng

SUN Jiakang

Mr. SUN, aged 45, is the Managing Director of the Company and the Chairman of the Investment and Strategic Planning Committee of the board of directors of the Company. He is also a Vice President of COSCO (Hong Kong) Group Limited, a Non-executive Director of Liu Chong Hing Bank Limited, a fellow member of the Hong Kong Institute of Directors, a member of International WHO'S WHO of Professionals and a visiting professor at Dalian Maritime University. 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 joined COSCO Group and had been the Assistant to the President and Spokesman of China Ocean Shipping (Group) Company. For the past 23 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 47, 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 thereafter. Mr. XU had been Second Chief Officer, Chief Officer and Captain on board the vessels of Shanghai Ocean Shipping Company. He had also been the Deputy Managing Director of Shanghai Ocean Shipping Company and the President of Shanghai Shipping Exchange. He has extensive experience in shipping and corporate management.

HE Jiale

Mr. HE, aged 50, has been a Director of the Company since November 2003. He is also the Financial Controller of COSCO (Hong Kong) Group Limited and a Director of COSCO International Holdings Limited. Mr. HE graduated from Shanghai Harbour School in 1974. He was then awarded the professional qualification of Senior Accountant by the Ministry of Communications in 1997. In 2003, Mr. HE had finished the Master Program of Management Science and Engineering in Shanghai University. He had been the Deputy Manager of Financial Division of Shanghai Ocean Shipping Company, Deputy General Manager of Finance Division of COSCO Container Lines Company Limited, Deputy General Manager of Finance Division of China Ocean Shipping (Group) Company and Chief Financial Officer of COSCO Container Lines Company Limited and Shanghai Ocean Shipping Company respectively. He is responsible for assisting the Company to formulate financial plans.

WONG Tin Yau, Kelvin

Mr. WONG, aged 44, is a Deputy Managing Director of the Company and the Chairman of the Corporate Governance Committee of the board of directors of the Company. He is also the Assistant to the President of COSCO (Hong Kong) Group Limited. Mr. WONG is an associate member of the Chartered Institute of Bankers, Deputy Chairman 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, a member of the National Investor Relations Institute in the USA and a council member of the Hong Kong Chinese Orchestra. He obtained his Master of Business Administration degree from Andrews University in Michigan, the USA in 1992. He has more than 20 years of working experience in the banking and securities industries. Mr. WONG is now an Independent Non-executive Director and Chairman of the Audit Committee of the board of directors of China Metal International Holdings Inc., a public listed company in Hong Kong. Mr. WONG held various senior positions in several listed companies in Hong Kong before he joined the Company in July 1996. He is now responsible for the overall management and investor relations of the Company.

SUN Jiakang

XU Lirong

HE Jiale

WONG Tin Yau, Kelvin

MENG Qinghui

Mr. MENG, aged 49, has been a Director of the Company since March 2002. He is also a Director of COSCO International Holdings Limited and the Managing Director of the Finance Division of COSCO (Hong Kong) Group Limited. Mr. MENG was graduated from Changsha Railway University in 1978 and was awarded the professional qualification of Accountant in China. He has 26 years of experience in financial management and accounting and is very familiar with corporate financial planning.

LU Chenggang

Mr. LU, aged 52, has been a Director of the Company since November 1999. He is also a Deputy Managing Director and the Chairman of the Risk Management Committee of the board of directors of the Company 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 52, 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 China Ocean Shipping (Group) Company 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 China Ocean Shipping (Group) Company for 30 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 66, has been an Independent Non-executive Director of the Company since February 1998. He is also the Chairman of the Nomination Committee of the board of directors of the Company. Dr. LI is now the Chairman and Chief Executive of The Bank of East Asia, Limited, 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.

MENG Qinghui LU Chenggang QIN Fuyan LI Kwok Po, David

LIU Lit Man, GBS, JP, FIBA

Mr. LIU, aged 75, has been an Independent Non-executive Director of the Company since September 1996. He is also the Chairman of the Remuneration and Assessment Committee of the board of directors of the Company. 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 and Asia Commercial Bank Limited. Mr. LIU was a Director of Tung Wah Group of Hospitals, the President of the Hong Kong Chiu Chow Chamber of Commerce (now Permanent Honorary President), a founder and a Permanent Honorary Chairman of the Chiu Chow Association Building (Property Holding) Limited, as well as the founder and first Chairman of Teochew International Convention (now Permanent Honorary Chairman). Presently he is a Permanent Honorary Chairman of The Chinese General Chamber of Commerce, Hong Kong, a founder and a Manager of Liu Po Shan Memorial College, a Director of New Asia College of Chinese University of Hong Kong and the founder and a Manager of Chiu Chow Association Secondary School. In 1975, he was appointed a Justice of the Peace and was elected Fellow of the 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.

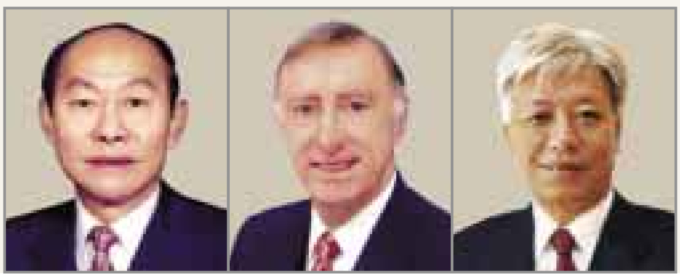
Alexander Reid HAMILTON

Mr. HAMILTON, aged 63, has been an Independent Non-executive Director of the Company since November 1994. He is also the Chairman of the Audit Committee of the board of directors of the Company. He is a Director of CITIC Pacific Limited, Esprit Holdings Limited, Shangri-La Asia 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 Institute of Certified Public 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.

Non-executive Director

KWONG Che Keung, Gordon

Mr. KWONG, aged 55, 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 currently an Independent Non-executive Director of a number of Hong Kong listed companies, including COSCO International Holdings Limited, Tianjin Development Holdings Ltd., Beijing Capital International Airport Co. Ltd., Vision Century Corporation Ltd., NWS Holdings Ltd., China Oilfield Services Ltd., Concepta Investments Ltd., China Chengtong Development Group Ltd., Global Digital Creations Holdings Ltd., Ping An Insurance (Group) Company of China, Ltd., Quam Limited, Tom Online Inc., China Power International Development Ltd., New World Mobile Holdings Ltd., Henderson Land Development Company Ltd., Henderson Investment Ltd. and Henderson China Holdings Ltd.. 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.



LIU Lit Man | **Alexander Reid HAMILTON** | **KWONG Che Keung, Gordon**

Senior Management

WANG Zhi

Mr. WANG, aged 42, 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 the management and investment of the container terminals and container-related industrial businesses of the Company.

LI Wai Ho, Francis

Mr. LI, aged 51, 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 Institute of Certified Public 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 35, 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 (Hons). 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 58, has been the Assistant to the Managing Director of the Company since January 2002. He has worked for China Ocean Shipping (Group) Company 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. He has been the Chief Representative of South America Representative Office of China Ocean Shipping (Group) Company and the Managing Director of COSCO Brazil S.A.. 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 47, 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 21 years of working experience in finance, securities, corporate strategic planning and management.

QIU Jincheng

Mr. QIU, aged 42, 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.

WANG Zhi | LI Wai Ho, Francis | HUNG Man, Michelle | HUANG Kegong | CHAN Hang, Ken | QIU Jincheng

Financial Report

CONTENTS

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 2004.

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 35 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 2004 are set out in the consolidated profit and loss account on page 99 of this annual report.

The directors declared an interim dividend of HK17.4 cents (equivalent to US2.231 cents) per share, totalling HK$377,426,000 (equivalent to US$48,388,000), which was paid on 8th October 2004.

The directors recommend the payment of a final dividend of HK24.6 cents (equivalent to US3.165 cents) per share, totalling HK$537,173,000 (equivalent to US$69,111,000), payable on or before 2nd June 2005.

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 168 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 102 and 103 of this annual report.

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

DONATIONS

Charitable and other donations made by the Group during the year amounted to US$2,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company 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 2004 calculated under Companies Act of Bermuda amounted to US$582,804,000.

BORROWINGS

Details of the borrowings of the Group are set out in note 23 to the accounts.

RETIREMENT BENEFIT SCHEMES

Details of retirement benefit schemes of the Group are set out in notes 1(n)(i) and 10 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. ZHANG Fusheng	
Mr. WANG Futian	
Mr. CHEN Hongsheng	
Mr. LI Jianhong	
Mr. MA Zehua	
Mr. MA Guichuan	
Mr. LI Yunpeng	
Ms. SUN Yueying	
Mr. ZHOU Liancheng	
Mr. SUN Jiakang *(Managing Director)*	
Mr. XU Lirong	
Mr. HE Jiale	
Mr. WONG Tin Yau, Kelvin	
Mr. MENG Qinghui	
Mr. LU Chenggang	
Mr. QIN Fuyan	
Mr. GAO Weijie	(resigned on 13th October 2004)
Mr. LIANG Yanfeng	(resigned on 13th October 2004)

Independent non-executive directors

Dr. LI Kwok Po, David	
Mr. LIU Lit Man	
Mr. Alexander Reid HAMILTON	
Mr. LEE Yip Wah, Peter	(resigned on 30th September 2004)

Non-executive director

Mr. KWONG Che Keung, Gordon

In accordance with Clause 87(1) and (2) of the Company's Bye-laws, Mr. ZHOU Liancheng, Mr. XU Lirong, Mr. WONG Tin Yau, Kelvin, Mr. MENG Qinghui, Mr. LIU Lit Man and Mr. KWONG Che Keung, Gordon retire by rotation at the forthcoming annual general meeting. Mr. ZHOU Liancheng and Mr. MENG Qinghui do not seek for re-election. Mr. XU Lirong, Mr. WONG Tin Yau, Kelvin, Mr. LIU Lit Man and Mr. KWONG Che Keung, Gordon, being eligible, offer themselves for re-election.

DIRECTORS (Continued)

The Company has received annual confirmation from each of the independent non-executive directors concerning their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management as at the date of this report are set out on pages 68 to 74 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 Group'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.

SHARE OPTIONS

At a special general meeting of the Company held on 23rd May 2003, the shareholders of the Company approved the adoption of a new share option scheme (the "2003 Share Option Scheme") and the termination of the share option scheme adopted by the shareholders of the Company on 30th November 1994 (the "1994 Share Option Scheme").

The following is a summary of the principal terms of these two share option schemes:

(i) 1994 Share Option Scheme

The 1994 Share Option Scheme was designed to motivate the employees to enhance their performance and contribution to the Group. Under the 1994 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 (each a "Share" or collectively the "Shares"), subject to the terms and conditions stipulated therein.

SHARE OPTIONS (Continued)

(i) 1994 Share Option Scheme (Continued)

Under the 1994 Share Option Scheme, the maximum number of 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 1994 Share Option Scheme.

The period within which an option may be exercised will be determined by the board of directors of the Company (the "Board") in its absolute discretion, save that the exercise period shall not be more than ten years from the date on which the option is granted. The consideration on acceptance of an offer of the grant 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 and will not be less than 80% of the average of the closing prices of the 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 share option or the nominal value of the Shares, whichever is higher.

The 1994 Share Option Scheme was terminated on 23rd May 2003. No further options shall thereafter be offered under the 1994 Share Option Scheme but the options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects the provisions of the 1994 Share Option Scheme shall remain in full force and effect.

As at the date of this report, a total of 2,342,000 Shares (representing approximately 0.11% of the existing issued share capital of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the 1994 Share Option Scheme.

(ii) 2003 Share Option Scheme

The 2003 Share Option Scheme is designed to attract, retain and motivate talented participants (the "Participants") (as defined in note 1 below) to strive for future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the Participants and for such other purposes as the Board may approve from time to time.

Under the 2003 Share Option Scheme, the Board may, at its discretion, invite any Participants to take up options. In determining the basis of eligibility of each Participant, the Board would mainly take into account the experience of the Participant on the Group's business, the length of service of the Participant with the Group or the length of business relationship the Participant has established with the Group and such other factors as the Board may at its discretion consider appropriate.

SHARE OPTIONS (Continued)

(ii) 2003 Share Option Scheme (Continued)

The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2003 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of the adoption of the 2003 Share Option Scheme (the "Scheme Mandate Limit") unless the Company seek approval of its shareholders in general meeting to refresh the Scheme Mandate Limit, such that the maximum number of Shares which may be issued upon exercise of all options to be granted under the 2003 Share Option Scheme or any other share option schemes of the Company under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of approval to refresh such limit. The Company may seek separate approval by its shareholders in general meeting for granting options beyond the 10% limit provided that the options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought. Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2003 Share Option Scheme and any other share option schemes of the Company (including the 1994 Share Option Scheme) shall not exceed 30% of the total number of Shares in issue from time to time (or such higher percentage as may be allowed under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")).

As at the date of this report, a total of 104,811,229 Shares (representing approximately 4.79% of the existing issued share capital of the Company) may be issued upon exercise of all options which may be granted under the 2003 Share Option Scheme and a total of 81,908,000 Shares (representing approximately 3.75% of the existing issued share capital of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the 2003 Share Option Scheme.

The maximum entitlement for any one Participant (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.

The period under which an option must be exercised shall be such period as the Board may in its absolute discretion determine at the time of grant, save that such period shall not be longer than ten years from the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme. The minimum period for which an option must be held before it can be exercised is determined by the Board upon the grant of an option. The amount payable on acceptance of an offer of the grant of an option is HK$1.00. The full amount of the exercise price for the subscription of Shares must be paid upon exercise of an option.

The exercise price in relation to each option shall be determined by the Board in its absolute discretion, but in any event shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date when an option is offered; (ii) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which an option is offered; and (iii) the nominal value of a Share.

The 2003 Share Option Scheme will expire on 22nd May 2013.

SHARE OPTIONS (Continued)

(ii) 2003 Share Option Scheme (Continued)

Notes:

(1) As defined in the 2003 Share Option Scheme, "Participants" include:

(i) any employee of the Group (including any executive director of the Group);

(ii) any management of COSCO (Hong Kong) Group Limited or China Ocean Shipping (Group) Company; and

(iii) any person seconded or nominated by the Group to represent the Group's interest in any of the Group's associated companies or jointly controlled entities (as defined in note 2 below), or any other company or organisation, as to whether a particular person falls within the definition of Participant it shall be determined by the Board in its absolute discretion.

(2) Under the 2003 Share Option Scheme, associated companies and jointly controlled entities refer to those companies and/or enterprises which have defined and/or disclosed as associates and/or associated companies and joint ventures and/or jointly controlled entities of the Company in the latest audited financial statements of the Company.

(iii) Movements of options under 1994 Share Option Scheme

Movements of the options, which have been granted under the 1994 Share Option Scheme, during the year are set out below:

		Number of share options					
Category	Exercise price HK$	Outstanding at 1st January 2004	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2004	Percentage of total issued share capital	Note
Directors							
Mr. WONG Tin Yau, Kelvin	8.80	5,000,000	(3,200,000)	–	1,800,000	0.082%	(2), (3)
Mr. QIN Fuyan	5.53	1,500,000	(1,500,000)	–	–	–	(1), (3)
Continuous contract employees	5.53	80,000	(80,000)	–	–	–	(1)
	8.80	5,600,000	(4,698,000)	–	902,000	0.041%	(2)
		12,180,000	(9,478,000)	–	2,702,000		

SHARE OPTIONS (Continued)

(iii) Movements of options under 1994 Share Option Scheme (Continued)

Notes:

(1) The share options were granted on 1st July 1996 under the 1994 Share Option Scheme. The options are exercisable at any time within ten years from the date of grant (i.e. on or before 30th June 2006), 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 Shares 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 1994 Share Option Scheme. The options are exercisable at any time within ten years from the date of grant (i.e. on or before 19th May 2007), 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) These options represent personal interest held by the relevant director as beneficial owner.

(4) The weighted average closing price of the Shares immediately before the date on which the options were exercised was HK$13.57.

(5) During the year, no share options were cancelled under the 1994 Share Option Scheme.

SHARE OPTIONS (Continued)

(iv) Movement of options under 2003 Share Option Scheme

Movements of the options, which have been granted under the 2003 Share Option Scheme, during the year are set out below:

		Number of share options							
Category	Exercise price HK$	Outstanding at 1st January 2004	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2004	Percentage of total issued share capital	Exercisable period	Note
Directors									
Mr. WEI Jiafu	9.54	1,000,000	–	–	–	1,000,000	0.046%	30.10.2003-29.10.2013	(1), (2), (3)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	3.12.2004-2.12.2014	
Mr. LIU Guoyuan	9.54	1,000,000	–	(900,000)	–	100,000	0.005%	28.10.2003-27.10.2013	(1), (2), (3), (4)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	29.11.2004-28.11.2014	
Mr. ZHANG Fusheng	9.54	800,000	–	–	–	800,000	0.037%	29.10.2003-28.10.2013	(1), (2), (3)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	3.12.2004-2.12.2014	
Mr. WANG Futian	9.54	800,000	–	–	–	800,000	0.037%	29.10.2003-28.10.2013	(1), (2), (3)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	3.12.2004-2.12.2014	
Mr. CHEN Hongsheng	9.54	800,000	–	–	–	800,000	0.037%	28.10.2003-27.10.2013	(1), (2), (3)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	3.12.2004-2.12.2014	
Mr. LI Jianhong	9.54	800,000	–	–	–	800,000	0.037%	29.10.2003-28.10.2013	(1), (2), (3)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	2.12.2004-1.12.2014	
Mr. MA Zehua	9.54	800,000	–	–	–	800,000	0.037%	30.10.2003-29.10.2013	(1), (2), (3)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	3.12.2004-2.12.2014	

Report of the Directors

SHARE OPTIONS (Continued)

(iv) Movement of options under 2003 Share Option Scheme (Continued)

		Number of share options							
Category	Exercise price HK$	Outstanding at 1st January 2004	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2004	Percentage of total issued share capital	Exercisable period	Note
Directors (Continued)									
Mr. MA Guichuan	9.54	800,000	–	–	–	800,000	0.037%	29.10.2003-28.10.2013	(1), (2), (3)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	3.12.2004-2.12.2014	
Mr. LI Yunpeng	9.54	800,000	–	–	–	800,000	0.037%	29.10.2003-28.10.2013	(1), (2), (3)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	3.12.2004-2.12.2014	
Ms. SUN Yueying	9.54	800,000	–	–	–	800,000	0.037%	29.10.2003-28.10.2013	(1), (2), (3)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	3.12.2004-2.12.2014	
Mr. ZHOU Liancheng	9.54	800,000	–	(400,000)	–	400,000	0.018%	29.10.2003-28.10.2013	(1), (2), (3), (4)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	29.11.2004-28.11.2014	
Mr. SUN Jiakang	9.54	1,000,000	–	(800,000)	–	200,000	0.009%	28.10.2003-27.10.2013	(1), (2), (3), (4)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	1.12.2004-30.11.2014	
Mr. XU Lirong	9.54	800,000	–	–	–	800,000	0.037%	31.10.2003-30.10.2013	(1), (2), (3)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	2.12.2004-1.12.2014	
Mr. HE Jiale	9.54	700,000	–	(624,000)	–	76,000	0.003%	31.10.2003-30.10.2013	(1), (2), (3), (4)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	30.11.2004-29.11.2014	
Mr. WONG Tin Yau, Kelvin	9.54	800,000	–	–	–	800,000	0.037%	28.10.2003-27.10.2013	(1), (2), (3)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	2.12.2004-1.12.2014	

SHARE OPTIONS (Continued)

(iv) Movement of options under 2003 Share Option Scheme (Continued)

		Number of share options							
Category	Exercise price HK$	Outstanding at 1st January 2004	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2004	Percentage of total issued share capital	Exercisable period	Note
Directors (Continued)									
Mr. MENG Qinghui	9.54	800,000	–	(800,000)	–	–	–	28.10.2003-27.10.2013	(1), (2), (3), (4)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	29.11.2004-28.11.2014	
Mr. LU Chenggang	9.54	800,000	–	(800,000)	–	–	–	29.10.2003-28.10.2013	(1), (2), (3), (4)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	29.11.2004-28.11.2014	
Mr. QIN Fuyan	9.54	800,000	–	(800,000)	–	–	–	30.10.2003-29.10.2013	(1), (2), (3), (4)
	13.75	–	1,000,000	–	–	1,000,000	0.046%	29.11.2004-28.11.2014	
Ex-directors									
Mr. GAO Weijie	9.54	800,000	–	(800,000)	–	–	–	29.10.2003-28.10.2013	(1), (3), (4)
Mr. LIANG Yanfeng	9.54	800,000	–	(800,000)	–	–	–	30.10.2003-29.10.2013	(1), (3), (4)
Continuous contract employees	9.54	23,140,000	–	(13,726,000)	(20,000)#	9,394,000	0.430%		(1), (2), (4)
	13.75	–	35,990,000	–	–	35,990,000	1.648%		
Others	9.54	6,180,000	–	(4,860,000)	–	1,320,000	0.060%		(1), (2), (4)
	13.75	–	10,050,000	(300,000)	–	9,750,000	0.447%		
		45,820,000	64,040,000	(25,610,000)	(20,000)	84,230,000			

\# The share options lapsed during the year due to a grantee ceased to be an employee of the Group.

SHARE OPTIONS (Continued)

(iv) Movement of options under 2003 Share Option Scheme (Continued)

Notes:

(1) The share options were granted during the period from 28th October 2003 to 6th November 2003 under the 2003 Share Option Scheme at an exercise price of HK$9.54. The options are exercisable at any time within ten years from the commencement date which is the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme (the "Commencement Date"). The Commencement Date of the options of the grantees was from 28th October 2003 to 6th November 2003.

(2) The share options were granted during the period from 25th November 2004 to 16th December 2004 under the 2003 Share Option Scheme at an exercise price of HK$13.75, which represents the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which an option is offered. The closing prices of the Shares immediately before the dates on which the options were granted were in the range of HK$13.60 to HK$14.75. The options are exercisable at any time within ten years from the Commencement Date. The Commencement Date of the options of the grantees was from 25th November 2004 to 16th December 2004.

The Company adopted Black-Scholes Options Pricing Model (a common valuation methodology for option) to calculate the value of share options. The fair value of the options was HK$4.56 at the dates of grant with assumptions as follows:

(i) Interest rate of 10-year Exchange Fund Notes of 3.58% per annum as the risk-free interest rate;

(ii) Expected life of 10 years;

(iii) Expected dividend yield of 3.89%, being the average dividend yield of the Company for the five years from 1999 to 2003; and

(iv) Expected volatility of 40.02%, being the annualised volatility of the closing price of the Shares from 25th November 2004 to 16th December 2004.

The value of the share options is subject to a number of assumptions and with regard to the limitation of the model. Therefore the value may be subjective and difficult to determine.

(3) These options represent personal interest held by the relevant director as beneficial owner.

(4) The weighted average closing price of the Shares immediately before the dates on which the options were exercised was HK$13.01.

(5) During the year, no share options were cancelled under the 2003 Share Option Scheme.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2004, the interests of the Company's directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(a) Long positions in shares of the Company

Name of director	Capacity	Nature of interest	Number of ordinary shares held	Percentage of total issued share capital
Mr. KWONG Che Keung, Gordon	Beneficial owner	Personal	250,000	0.011%
Dr. LI Kwok Po, David	Beneficial owner	Personal	258,000	0.012%

(b) Long positions in underlying shares of equity derivatives of the Company

Share options were granted to certain directors of the Company pursuant to the 1994 Share Option Scheme and the 2003 Share Option Scheme. Details of the directors' interests in share options granted by the Company are set out under the section headed "Share Options" of this report.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(c) Long positions in underlying shares of equity derivatives of associated corporation

Movements of the share options granted to the directors of the Company by an associated corporation during the year are set out below:

Name of associated corporation	Name of director	Capacity	Nature of interest	Exercise price HK$	Number of share options: Outstanding at 1st January 2004	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2004	Percentage of total issued share capital	Note
COSCO International Holdings Limited	Mr. WEI Jiafu	Beneficial owner	Personal	0.57	1,800,000	–	–	–	1,800,000	0.127%	(1)
				1.37	–	1,200,000	–	–	1,200,000	0.085%	(2)
	Mr. LIU Guoyuan	Beneficial owner	Personal	0.57	1,800,000	–	–	–	1,800,000	0.127%	(1)
				1.37	–	1,200,000	–	–	1,200,000	0.085%	(2)
	Mr. LI Jianhong	Beneficial owner	Personal	0.57	1,800,000	–	–	–	1,800,000	0.127%	(1)
				1.37	–	1,200,000	–	–	1,200,000	0.085%	(2)
	Mr. ZHOU Liancheng	Beneficial owner	Personal	0.57	1,800,000	–	–	–	1,800,000	0.127%	(1)
				1.37	–	1,200,000	–	–	1,200,000	0.085%	(2)
	Mr. SUN Jiakang	Beneficial owner	Personal	0.57	1,200,000	–	(300,000)	–	900,000	0.064%	(1)
				1.37	–	800,000	–	–	800,000	0.057%	(2)
	Mr. HE Jiale	Beneficial owner	Personal	0.57	1,800,000	–	–	–	1,800,000	0.127%	(1)
				1.37	–	1,200,000	–	–	1,200,000	0.085%	(2)
	Mr. WONG Tin Yau, Kelvin	Beneficial owner	Personal	0.57	800,000	–	–	–	800,000	0.057%	(1)
				1.37	–	500,000	–	–	500,000	0.035%	(2)
	Mr. MENG Qinghui	Beneficial owner	Personal	0.57	1,200,000	–	–	–	1,200,000	0.085%	(1)
				1.37	–	800,000	–	–	800,000	0.057%	(2)
	Ex-director										
	Mr. LIANG Yanfeng	Beneficial owner	Personal	0.57	1,200,000	–	–	–	1,200,000	0.085%	(1)
					13,400,000	8,100,000	(300,000)	–	21,200,000		

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(c) Long positions in underlying shares of equity derivatives of associated corporation (Continued)

Notes:

(1) The share options were granted by COSCO International Holdings Limited ("COSCO International"), a fellow subsidiary of the Company, on 26th November 2003 pursuant to the share option scheme approved by the shareholders of COSCO International on 17th May 2002 (the "Share Option Scheme of COSCO International"). The share options can be exercised at HK$0.57 per share at any time between 23rd December 2003 and 22nd December 2008.

(2) The share options were granted by COSCO International on 2nd December 2004 pursuant to the Share Option Scheme of COSCO International. The share options can be exercised at HK$1.37 per share at any time between 29th December 2004 and 28th December 2014.

Save as disclosed above, as at 31st December 2004, none of the directors or chief executives of the Company had any interest or short positions in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTEREST IN COMPETING BUSINESS

China Ocean Shipping (Group) Company ("COSCO") and its subsidiaries (excluding the Group) (collectively the "COSCO Group") carry on, among others, the businesses of shipping agency, freight forwarding and/or third party logistics and supporting services relating to the aforesaid services ("Logistics Businesses"), details of which are disclosed in the connected transactions circular issued by the Company dated 13th October 2003. Such businesses may be in competition with similar businesses carried on by COSCO Logistics Co., Ltd. ("COSCO LOGISTICS"), its subsidiaries, jointly controlled entities and associated companies (collectively the "COSCO LOGISTICS Group"). As at 31st December 2004, COSCO and the Group has 51% and 49% equity interest in COSCO LOGISTICS respectively.

As at 31st December 2004, Mr. WEI Jiafu, Mr. LIU Guoyuan, Mr. ZHANG Fusheng, Mr. WANG Futian, Mr. CHEN Hongsheng, Mr. LI Jianhong, Mr. MA Zehua, Mr. MA Guichuan, Mr. LI Yunpeng, Ms. SUN Yueying, Mr. ZHOU Liancheng, Mr. SUN Jiakang, Mr. XU Lirong, Mr. HE Jiale and Mr. MENG Qinghui, all being directors of the Company, held directorships and/or senior management posts in the COSCO Group and/or other companies which carry on the business of container terminal operations ("Container Terminal Business", which may be in competition with the container terminal operation business carried on by the Group).

Report of the Directors

DIRECTORS' INTEREST IN COMPETING BUSINESS (Continued)

The Board is of the view that the Group is capable of carrying on its businesses independently from the Logistics Businesses and/or the Container Terminal Business. When making decisions on the Logistics Businesses and/or the Container Terminal Business, the relevant directors, in the performance of their duties as directors of the Company, have acted and will continue to act in the best interests of the Group.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 2004, the interests of shareholders in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

			Number of ordinary shares/Percentage of total issued share capital						
Name	Capacity	Nature of interests	Long positions	%	Short positions	%	Lending pool	%	Note
COSCO Investments Limited	Beneficial owner	Beneficial interest	200,120,000	9.16	–	–	–	–	(1), (2)
COSCO (Hong Kong) Group Limited	Beneficial owner and interest of controlled corporation	Beneficial interest and corporate interest	1,144,166,411	52.39	–	–	–	–	(1), (2)
China Ocean Shipping (Group) Company	Interest of controlled corporation	Corporate interest	1,144,166,411	52.39	–	–	–	–	(1), (2)
COSCO Pacific Investment Holdings Limited	Beneficial owner and interest of controlled corporation	Beneficial interest and corporate interest	1,144,166,411	52.39	–	–	–	–	(2)
J.P. Morgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/ approved lending agent	Beneficial interest and corporate interest	128,628,509	5.89	–	–	58,430,047	2.68	(3)

Notes:

(1) Since COSCO Investments Limited ("COSCO Investments"), a then 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 were recorded as the interests of COSCO Hong Kong and the interests of COSCO Hong Kong were recorded as the interests of COSCO.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY (Continued)

(2) Due to an internal reorganisation of COSCO, as of 28th December 2004, COSCO Hong Kong and COSCO Pacific Investment Holdings Limited ("COSCO Pacific Investment"), a wholly owned subsidiary of COSCO, entered into an agreement (the "Agreement") pursuant to which COSCO Pacific Investment agreed to acquire from COSCO Hong Kong all its direct and indirect equity interest in the Company. The transfer of such equity interest was effected on 27th January 2005. The immediate controlling shareholder of the Company was changed from COSCO Hong Kong to COSCO Pacific Investment and COSCO Investments ceased to be a wholly owned subsidiary of COSCO Hong Kong and became a wholly owned subsidiary of COSCO Pacific Investment. Since the transfer of equity interest in the Company was not effected until 27th January 2005, therefore, COSCO Pacific Investment was regarded under the SFO as interested in the same batch of shares of 1,144,166,411 in which COSCO Hong Kong was interested as at 31st December 2004.

(3) The corporate interest of J.P. Morgan Chase & Co. was attributable on account through a number of its wholly owned subsidiaries and non-wholly owned subsidiaries, including, Robert Fleming Asset Management Ltd. (99.96% control), Robert Fleming Holdings Ltd. (96% control) and JF Asset Management Limited (99.99% control).

Save as disclosed above, as at 31st December 2004, the Company has not been notified of any interests and short positions in the Shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, as of the date of this report, there is sufficient public float of the Shares with not less than 25% of the total issued shares of the Company as required under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its Shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of Company's 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 which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

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	23.04%
Percentage of container purchases attributable to the Group's five largest suppliers	61.01%
Percentage of leasing income attributable to the Group's largest lessee, which is a subsidiary of COSCO	47.20%
Percentage of leasing income attributable to the Group's five largest lessees	64.03%

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

One of the Group's largest suppliers attributes 6.99% of container purchases of the Group. During the period from 1st January 2004 to 30th December 2004, COSCO has an equity interest of 17.18% in China International Marine Containers (Group) Co., Ltd. ("CIMC"), the shareholding company of the aforesaid supplier. On 31st December 2004, COSCO transferred its 16.23% equity interest in CIMC to the Group (note 30(j) to the accounts) and as at 31st December 2004, COSCO still has a 0.95% equity interest in CIMC.

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

CORPORATE GOVERNANCE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (which was in force prior to 1st January 2005) throughout the year ended 31st December 2004.

CONNECTED TRANSACTIONS

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

(i) Rental of office premises

On 12th January 2004, COSCO Pacific Management Company Limited ("COSCO Pacific Management") as tenant entered into two tenancy agreements with Wing Thye Holdings Limited ("Wing Thye") as landlord in respect of the leasing of office premises in 49th Floor of COSCO Tower, 183 Queen's Road Central, Hong Kong ("COSCO Tower") (the "4901 Tenancy Agreement" and the "4902A Tenancy Agreement" and collectively, the "Tenancy Agreements").

CONNECTED TRANSACTIONS (Continued)

(i) Rental of office premises (Continued)

Pursuant to the 4901 Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye a portion of the premises known as Unit 4901 situate at COSCO Tower ("Unit 4901") for a term of 23 months and 25 days commencing with retrospective effect from 4th December 2003 at a monthly rental of HK$267,564, exclusive of rates and management fees.

Pursuant to the 4902A Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye a portion of the premises known as Unit 4902A situate at COSCO Tower ("Unit 4902A") for a term of 24 months commencing with retrospective effect from 29th November 2003 at a monthly rental of HK$72,436, exclusive of rates and management fees.

COSCO Hong Kong provided two guarantees in the respective sums of HK$802,692 and HK$217,308 representing rentals for three months of Unit 4901 and Unit 4902A respectively to Wing Thye as security for the due payment of rentals and other monies payable by COSCO Pacific Management under the Tenancy Agreements (the "Guarantees").

The Company takes up Unit 4901 and Unit 4902A on a long term basis as the head office of itself and its subsidiaries and as its principal place of business in Hong Kong.

In negotiating the rentals under the Tenancy Agreements, the directors of the Company made reference to an independent opinion given by DTZ Debenham Tie Leung Limited, a professional valuer jointly engaged by the Company and COSCO International, that the total rentals agreed for Unit 4901 and Unit 4902A are at market levels and are fair and reasonable.

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 COSCO International and the then controlling shareholder of the Company. As COSCO Hong Kong, COSCO International, the Company, Wing Thye and COSCO Pacific Management are all connected persons, the transactions contemplated under the Tenancy Agreements and the Guarantees therefore constituted connected transactions of the Company under the Listing Rules.

Report of the Directors

CONNECTED TRANSACTIONS (Continued)

(ii) Acquisition of interest in Yingkou Container Terminals Company Limited

On 15th June 2004, COSCO Ports (Yingkou) Limited ("COSCO Ports Yingkou"), an indirect wholly owned subsidiary of the Company, as purchaser entered into a share transfer agreement (the "Agreement") with COSCO as vendor whereby upon the terms and conditions set out in the Agreement, COSCO Ports Yingkou agreed to acquire from COSCO its entire 50% equity interest in Yingkou Container Terminals Company Limited ("Yingkou CTL") at a cash consideration of RMB22,500,000 (equivalent to approximately US$2,710,000) (the "Acquisition"). Yingkou CTL, a limited liability company established in Yingkou, Liaoning, the People's Republic of China (the "PRC"), is primarily engaged in terminal related businesses such as loading and unloading of containers, transhipment, storage and transportation, vanning and devanning of containers, repair of containers, equipment leasing and business solicitation. Subsequent to the Acquisition, each of COSCO Ports Yingkou and Yingkou Port Group Corp., a limited liability company established in the PRC, have a 50% direct equity interest in Yingkou CTL.

COSCO is the ultimate parent company of the Company and is therefore a connected person of the Company. The Acquisition constituted a connected transaction of the Company under the Listing Rules.

(iii) Acquisition of interest in China International Marine Containers (Group) Co., Ltd.

On 19th August 2004, COSCO Container Industries Limited ("COSCO Container Industries"), a wholly owned subsidiary of the Company, as purchaser entered into an agreement with COSCO as vendor whereby COSCO Container Industries agreed to acquire from COSCO its 163,701,456 non-publicly tradable State-owned legal person shares(非流通國有法人股)in China International Marine Containers (Group) Co., Ltd. ("CIMC"), representing approximately 16.23% of the issued share capital of CIMC, at a consideration of RMB1,056,384,000 (equivalent to approximately US$127,240,000). CIMC, whose A shares (the RMB-denominated domestic A shares) and B shares (the domestically listed foreign shares) are listed and traded on the Shenzhen Stock Exchange, is primarily engaged in the manufacturing and sale of modern traffic and transport equipment such as containers, modern road transport vehicles and airport ground equipment.

COSCO is the ultimate parent company of the Company and is therefore a connected person of the Company. The acquisition of CIMC's equity interest from COSCO constituted a discloseable and connected transaction of the Company under the Listing Rules. A circular for the transaction had been despatched to shareholders of the Company. This transaction was approved by the shareholders of the Company in the special general meeting held on 5th October 2004, in which COSCO Hong Kong and its associates abstained from voting.

CONNECTED TRANSACTIONS (Continued)

(iv) 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 certain requirements 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	the COSCO Group 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	the COSCO Group and Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	15th April 1997
Short term container leasing (container leasing for a term less than 10 years)	the COSCO Group and the Group	12th September 2001

The independent non-executive directors of the Company reviewed the above continuing connected 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 three 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 2003;

(iii) the shipping related service transactions had been entered into in accordance with the terms of the agreements 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 2004;

Report of the Directors

CONNECTED TRANSACTIONS (Continued)

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

(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 2004; and

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

The auditors of the Company have performed certain procedures on the above continuing connected transactions and reported 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 three of the top ten independent container leasing companies;

(ii) the container related service transactions had been approved by the board of directors of the Company, conducted on terms no less favourable than terms available to independent third parties and the aggregate monetary value of the related transactions for the year did not exceed 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 2003;

(iii) the shipping related service transactions had been approved by the board of directors of the Company, entered into in accordance with the terms of the agreements governing the transactions and the aggregate monetary value of the related transactions did not exceed 5% of the gross consolidated turnover of the Group for the year ended 31st December 2004; and

(iv) the short term container leasing transactions had been approved by the board of directors of the Company, conducted in accordance with the pricing policy set by the Group and the aggregate rental of the related transactions for the year did not exceed 3% of the consolidated net tangible assets of the Group as at 31st December 2004.

DISCLOSURE UNDER RULE 13.22 OF CHAPTER 13 OF THE LISTING RULES

In relation to the financial assistance granted by the Group to certain affiliated companies, a proforma combined balance sheet of the affiliated companies as at 31st December 2004 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

	US$'000
Non-current assets	744,160
Current assets	53,576
Current liabilities	(124,243)
Non-current liabilities	(389,106)
Net assets	284,387
Share capital	200,589
Reserves	83,798
Capital and reserves	284,387

As at 31st December 2004, the Group's consolidated attributable interest in these affiliated companies amounted to US$105,489,000.

AUDIT COMMITTEE

The Company has an audit committee consisting of three independent non-executive directors. The committee reviews the systems of internal controls throughout the Group, the completeness and accuracy of its accounts and liaises on behalf of the Board with external auditors and the Group's internal auditors. The committee members met regularly with management, external auditors and the Group's internal auditors and reviewed the internal and external audit reports and the interim and annual accounts 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, 4th March 2005

Auditors' Report

AUDITORS' REPORT TO THE SHAREHOLDERS OF COSCO PACIFIC LIMITED

(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 99 to 167 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 solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 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 2004 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, 4th March 2005

Consolidated Profit and Loss Account

For the year ended 31st December 2004

	Note	2004 US$'000	2003 US$'000
Turnover	2	**275,296**	257,495
Cost of sales		**(112,639)**	(112,417)
Gross profit		**162,657**	145,078
Other revenues	2	**49,307**	33,579
Administrative expenses		**(31,144)**	(27,010)
Other operating expenses (net)		**(24,382)**	(25,511)
Operating profit	3	**156,438**	126,136
Finance costs	4	**(23,371)**	(17,149)
Operating profit after finance costs		**133,067**	108,987
Share of profits less losses of			
– jointly controlled entities	5	**41,956**	6,711
– associated companies		**69,497**	64,915
Profit before taxation		**244,520**	180,613
Taxation	6	**(35,784)**	(24,424)
Profit after taxation		**208,736**	156,189
Minority interests		**(2,444)**	(1,858)
Profit attributable to shareholders	7	**206,292**	154,331
Dividends	8	**117,662**	87,568
Earnings per share			
Basic earnings per share	9	**US9.55 cents**	US7.19 cents
Diluted earnings per share	9	**US9.51 cents**	US7.18 cents

Consolidated Balance Sheet

At 31st December 2004

	Note	2004 US$'000	2003 US$'000
Non-current assets			
Fixed assets	12	**1,237,014**	1,105,971
Jointly controlled entities	14	**333,503**	83,282
Associated companies	15	**419,092**	274,610
Investment securities	16	**69,500**	63,249
Finance lease receivables	17	**4,654**	4,994
Restricted bank deposits	29(c)	**11,297**	12,056
Deferred tax assets	24	**248**	196
		2,075,308	1,544,358
Current assets			
Inventories	18	**1,637**	2,600
Trade and other receivables	19	**73,423**	81,486
Tax prepaid		**43**	43
Time deposits	29(c)	**43,136**	248,574
Bank balances and cash	29(c)	**46,145**	23,205
		164,384	355,908
Current liabilities			
Trade and other payables	20	**51,414**	56,043
Short term bank loans		**2,658**	–
Current portion of long term liabilities	23	**35,520**	32,848
Tax payable		**834**	834
		90,426	89,725
Net current assets		**73,958**	266,183
Total assets less current liabilities		**2,149,266**	1,810,541
Representing:			
Share capital	21	**28,003**	27,553
Reserves		**1,375,693**	1,244,029
Proposed final dividend		**69,111**	49,582
Shareholders' funds		**1,472,807**	1,321,164
Minority interests		**9,441**	8,644
Non-current liabilities			
Deferred tax liabilities	24	**51,873**	35,221
Long term liabilities	23	**615,145**	445,512
		2,149,266	1,810,541

On behalf of the Board

SUN Jiakang
Managing Director

WONG Tin Yau, Kelvin
Director

Balance Sheet

As at 31st December 2004

	Note	2004 US$'000	2003 US$'000
Non-current assets			
Fixed assets	12	**423**	370
Subsidiaries	13	**1,180,346**	1,098,833
		1,180,769	1,099,203
Current assets			
Trade and other receivables	19	**273**	270
Time deposits		**13,026**	77,433
Bank balances and cash		**19,573**	614
		32,872	78,317
Current liabilities			
Trade and other payables	20	**(638)**	(194)
Net current assets		**32,234**	78,123
Total assets less current liabilities		**1,213,003**	1,177,326
Representing:			
Share capital	21	**28,003**	27,553
Reserves	22	**1,115,889**	1,100,191
Proposed final dividend	22	**69,111**	49,582
Shareholders' funds		**1,213,003**	1,177,326

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 2004

	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 2003	27,533	560,057	714	(658)	340	6,888	658,174	1,253,048
Net gains not recognised in consolidated profit and loss account								
– exchange differences arising on translation of the accounts of foreign subsidiaries and a jointly controlled entity	–	–	–	216	–	–	–	216
Profit for the year	–	–	–	–	–	–	154,331	154,331
Issue of shares on exercise of share options	20	1,081	–	–	–	–	–	1,101
Transfer of reserves	–	–	–	–	–	1,650	(1,650)	–
Dividends								
– 2002 final	–	–	–	–	–	–	(49,546)	(49,546)
– 2003 interim	–	–	–	–	–	–	(37,986)	(37,986)
At 31st December 2003	27,553	561,138	714	(442)	340	8,538	723,323	1,321,164
Representing:								
Share capital	27,553	–	–	–	–	–	–	27,553
Reserves	–	561,138	714	(442)	340	8,538	673,741	1,244,029
2003 final dividend proposed	–	–	–	–	–	–	49,582	49,582
	27,553	561,138	714	(442)	340	8,538	723,323	1,321,164
Retained by:								
Company and subsidiaries	27,553	561,138	714	(126)	–	998	661,170	1,251,447
Jointly controlled entities	–	–	–	147	340	4,185	4,479	9,151
Associated companies	–	–	–	(463)	–	3,355	57,674	60,566
At 31st December 2003	27,553	561,138	714	(442)	340	8,538	723,323	1,321,164

	Share capital US$'000	Share premium US$'000	Contributed surplus 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 2004	27,553	561,138	–	714	(442)	340	8,538	723,323	1,321,164
Net gains not recognised in consolidated profit and loss account – exchange differences arising on translation of the accounts of foreign subsidiaries, jointly controlled entities and associated companies	–	–	–	–	1,825	–	–	–	1,825
Share of reserve of an associated company	–	–	–	–	(67)	–	–	–	(67)
Release of reserves upon disposal of jointly controlled entities	–	–	115	–	104	(1)	(753)	753	218
Profit for the year	–	–	–	–	–	–	–	206,292	206,292
Issue of shares on exercise of share options	450	41,066	–	–	–	–	–	–	41,516
Share issue expenses	–	(8)	–	–	–	–	–	–	(8)
Transfer of reserves	–	–	–	–	–	–	1,171	(1,171)	-
Dividends									
– 2003 final	–	–	–	–	–	–	–	(49,745)	(49,745)
– 2004 interim	–	–	–	–	–	–	–	(48,388)	(48,388)
At 31st December 2004	28,003	602,196	115	714	1,420	339	8,956	831,064	1,472,807
Representing:									
Share capital	28,003	–	–	–	–	–	–	–	28,003
Reserves	–	602,196	115	714	1,420	339	8,956	761,953	1,375,693
2004 final dividend proposed	–	–	–	–	–	–	–	69,111	69,111
	28,003	602,196	115	714	1,420	339	8,956	831,064	1,472,807
Retained by:									
Company and subsidiaries	28,003	602,196	115	714	(164)	–	1,348	740,574	1,372,786
Jointly controlled entities	–	–	–	–	1,388	339	3,932	32,490	38,149
Associated companies	–	–	–	–	196	–	3,676	58,000	61,872
At 31st December 2004	28,003	602,196	115	714	1,420	339	8,956	831,064	1,472,807

Note:

As at 31st December 2004, goodwill and negative goodwill arising on acquisitions of subsidiaries, jointly controlled entities and associated companies prior to 1st January 2001 as included in reserves amounted to US$360,691,000 (2003: US$360,806,000) and US$24,497,000 (2003: US$24,497,000) respectively.

Consolidated Cash Flow Statement

For the year ended 31st December 2004

	Note	2004 US$'000	2003 US$'000
Cash flows from operating activities			
Cash generated from operations	29(a)	**265,566**	217,066
Interest received		**2,043**	1,812
Profits tax paid		**(1,421)**	(1,121)
Net cash from operating activities		**266,188**	217,757
Cash flows from investing activities			
Dividends received from jointly controlled entities		**5,989**	11,799
Dividends received from associated companies		**59,504**	57,679
Dividends received from investee companies		**21,346**	19,959
Purchase of fixed assets		**(278,523)**	(198,410)
Return of capital and distribution of reserves by an associated company		**51**	41,935
Loans advanced to a jointly controlled entity, associated companies and an investee company		**(38,076)**	(25,925)
Investment in investment securities		**(13,075)**	–
Compensation received for loss of containers		**316**	412
Sale of fixed assets		**19,103**	17,014
Repayment of loans by a jointly controlled entity, an associated company and an investee company		**21,956**	12,780
Decrease/(increase) in restricted bank deposits		**759**	(4,239)
Investments in jointly controlled entities and associated companies		**(338,980)**	(74,430)
Sale of investment securities		**–**	12,308
Proceeds on disposal of jointly controlled entities		**4,943**	–
Net cash used in investing activities		**(534,687)**	(129,118)
Cash flows from financing activities	29(b)		
Loans borrowed		**252,950**	89,620
Proceeds from issue of Notes		**–**	298,101
Issue of shares on exercise of share options		**41,516**	1,101
Share issue expenses		**(8)**	–
Repayments of loans		**(78,238)**	(330,097)
Dividends paid		**(98,131)**	(87,528)
Dividends paid to minority shareholders of subsidiaries		**(1,674)**	(1,528)
Interest paid		**(27,466)**	(9,448)
Other incidental borrowing costs paid		**(2,362)**	(5,169)
Net cash from/(used in) financing activities		**86,587**	(44,948)
Effect of foreign exchange rate changes		**(586)**	(216)
Net (decrease)/increase in cash and cash equivalents		**(182,498)**	43,475
Cash and cash equivalents at 1st January		**271,779**	228,304
Cash and cash equivalents at 31st December	29(c)	**89,281**	271,779

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 Institute of Certified Public Accountants (the "HKICPA"). 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 land and buildings are carried at valuation as at 31st December 1994 less accumulated depreciation and impairment losses.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(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 interest 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 dividend income.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Group accounting (Continued)

(ii) Jointly controlled entities
A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the venturers have their respective interests and establish a contractual arrangement among them to define joint control over the economic activity of the entity.

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 jointly controlled entity, 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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Fixed assets (Continued)

(ii) Fixed assets other than investment properties

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 Statement of Standard Accounting Practice 17 "Property, plant and equipment" issued by the HKICPA, 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 or 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 the lease on a straight line basis.

Containers and generator sets are depreciated at cost less accumulated impairment losses on a straight line basis over their estimated useful lives of 15 years and 12 years respectively, after taking into account of the residual value of 10% on cost.

Buildings, leasehold improvements and other fixed assets, which comprise motor vehicles, furniture, fixtures and equipment, computer systems and plant and machinery, 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 these fixed assets are summarised as follows:

Buildings	25 to 50 years
Leasehold improvements	5 years or the remaining period of the lease, whichever is shorter
Other fixed assets	5 to 20 years

No depreciation is provided for computer system under development and construction in progress.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Fixed assets (Continued)

(iv) Impairment of 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
Costs associated with developing or maintaining computer systems are expensed as incurred. However, costs which enhances or extends the performance of computer systems beyond their original specifications and have probable future economic benefits are recognised as assets. Direct costs, including staff costs, consultancy fees and an appropriate portion of relevant overheads, which related to development of computer systems are capitalised under computer system under development.

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.

The construction in progress and computer system under development are transferred to relevant categories of fixed assets upon the completion of their respective construction and development and depreciation will then be commenced accordingly.

(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, jointly controlled entities and associated companies acquired at the date of acquisition.

Goodwill on acquisitions of subsidiaries occurring on or after 1st January 2001 is included in intangible assets. Goodwill on acquisitions of associated companies or jointly controlled entities on or after 1st January 2001 is included in investments in associated companies or jointly controlled entities. Goodwill is amortised using the straight line method over its estimated useful life of not exceeding 20 years.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Goodwill/negative goodwill (Continued)

Negative goodwill represents the excess of the fair values ascribed to the net assets of subsidiaries, jointly controlled entities and associated companies acquired over the purchase consideration. For acquisition on or after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill.

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 lessors are accounted for as operating leases. Leases that substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as finance leases.

(i) Leases – where the company 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 company is the lessor

When the company 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 note 1(m)(i) and 1(m)(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 a 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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(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.

(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 company 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 company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) 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 company. 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 company.

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.

(m) Revenue recognition

The Group recognises revenue on the following bases:

(i) Revenue from leasing of containers and generator sets

Rental income from leasing of containers and generator sets under operating leases are 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 company's net investment in the lease in each period.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Revenue recognition (Continued)

(i) Revenue from leasing of containers and generator sets (Continued)
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 terminal operations
Revenue from 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 company'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, Macau and the United States of America. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government authorities in Germany, Italy, Japan, Australia, 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 government authorities 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.

The Group's contributions to the aforesaid defined contribution retirement schemes and 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

No compensation cost is recognised in the profit and loss account in connection with the share options being granted by the Company. 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 company 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

Discount on the issue of notes represents the difference between principal amount payable by the company on maturity of the notes and the proceeds received and is recognised in the profit and loss account using the effective yield method over the life of the notes.

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) Financial instruments

The Group employed interest rate swap contracts to manage its interest rate exposure. 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.

(q) 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, jointly controlled entities and associated companies 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 are dealt with as a movement in reserves.

(r) 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 net 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 jointly controlled entities, associated companies and investment securities. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

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:

	2004 US$'000	2003 US$'000
Turnover		
Operating lease rentals		
– containers	**255,921**	239,046
– generator sets	**345**	60
Finance lease income on containers	**573**	484
Container handling, transportation and storage income	**7,200**	8,761
Container terminal operation income	**11,050**	9,045
Container management income	**207**	99
	275,296	257,495
Other revenues		
Sale of inventories	**24,709**	10,762
Dividend income from unlisted investments	**21,260**	20,421
Interest income	**3,286**	2,343
Gross rental income from investment properties	**52**	53
	49,307	33,579
Total revenues	**324,603**	291,074

(a) Primary reporting format – business segments

The Group has categorised its businesses into the following segments:

(i) container leasing and related businesses
(ii) container terminal and related businesses
(iii) freight forwarding, logistics and related businesses
(iv) container manufacturing and related businesses
(v) banking businesses
(vi) corporate and other businesses

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

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

Segment turnover and results

	Year ended 31st December 2004						
	Container leasing and related businesses US$'000	Container terminal and related businesses US$'000	Freight forwarding, logistics and related businesses US$'000	Container manufacturing and related businesses US$'000	Banking businesses US$'000	Corporate and other businesses US$'000	Total US$'000
Turnover							
– total revenues	257,046	18,255	–	–	–	–	275,301
– inter-segment sales	–	(5)	–	–	–	–	(5)
External sales	257,046	18,250	–	–	–	–	275,296
Segment results	119,776	2,730	(5,122)	(53)	–	–	117,331
Dividend income from unlisted investments	–	21,260	–	–	–	–	21,260
Unallocated costs							
– net corporate expenses	–	–	–	–	–	(5,987)	(5,987)
– corporate finance costs	–	–	–	–	–	(512)	(512)
– corporate interest income	–	–	–	–	–	975	975
Operating profit/(loss) after finance costs	119,776	23,990	(5,122)	(53)	–	(5,524)	133,067
Share of profits less losses of							
– jointly controlled entities	–	19,948	18,738	3,270	–	–	41,956
– associated companies	–	58,014	–	–	11,483	–	69,497
Profit before taxation							244,520
Taxation							(35,784)
Profit after taxation							208,736
Minority interests							(2,444)
Profit attributable to shareholders							206,292

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

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

Segment turnover and results (Continued)

	Year ended 31st December 2003						
	Container leasing and related businesses US$'000	Container terminal and related businesses US$'000	Freight forwarding, logistics and related businesses US$'000	Container manufacturing and related businesses US$'000	Banking businesses US$'000	Corporate and other businesses US$'000	Total US$'000
Turnover							
– total revenues	239,689	17,853	–	–	–	–	257,542
– inter-segment sales	–	(47)	–	–	–	–	(47)
External sales	239,689	17,806	–	–	–	–	257,495
Segment results	91,896	4,288	–	–	–	–	96,184
Dividend income from unlisted investments	–	20,421	–	–	–	–	20,421
Unallocated costs							
– net corporate expenses	–	–	–	–	–	(5,543)	(5,543)
– corporate finance costs	–	–	–	–	–	(3,160)	(3,160)
– corporate interest income	–	–	–	–	–	1,085	1,085
Operating profit/(loss) after finance costs	91,896	24,709	–	–	–	(7,618)	108,987
Share of profits less losses of							
– jointly controlled entities	–	511	–	6,200	–	–	6,711
– associated companies	–	55,153	–	–	9,762	–	64,915
Profit before taxation							180,613
Taxation							(24,424)
Profit after taxation							156,189
Minority interests							(1,858)
Profit attributable to shareholders							154,331

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

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

Segment assets, liabilities and other information

	Container leasing and related businesses US$'000	Container terminal and related businesses US$'000	Freight forwarding, logistics and related businesses US$'000	Container manufacturing and related businesses US$'000	Banking businesses US$'000	Corporate and other businesses US$'000	Total US$'000
2004							
Segment assets	1,321,131	52,084	–	2,604	–	–	1,375,819
Jointly controlled entities	–	145,309	172,297	15,897	–	–	333,503
Associated companies	–	128,788	–	127,514	162,790	–	419,092
Investment securities	–	56,425	–	–	–	13,075	69,500
Unallocated assets							41,778
							2,239,692
Segment liabilities	(405,068)	(109,200)	(127,724)	(55,000)	–	–	(696,992)
Minority interests	–	(9,441)	–	–	–	–	(9,441)
Unallocated liabilities							(60,452)
							(766,885)
Capital expenditure	275,357	1,081	–	–	–	498	276,936
Additions to investment securities	–	–	–	–	–	13,075	13,075
Depreciation and amortisation	100,826	1,262	–	–	–	435	102,523
Impairment losses	474	–	–	–	–	–	474
Other non-cash expenses	1,511	88	98	1	–	6	1,704

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

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

Segment assets, liabilities and other information (Continued)

	Container leasing and related businesses US$'000	Container terminal and related businesses US$'000	Freight forwarding, logistics and related businesses US$'000	Container manufacturing and related businesses US$'000	Banking businesses US$'000	Corporate and other businesses US$'000	Total US$'000
2003							
Segment assets	1,208,517	50,964	–	–	–	–	1,259,481
Jointly controlled entities	7	61,036	–	22,239	–	–	83,282
Associated companies	–	116,201	–	–	158,409	–	274,610
Investment securities	–	63,249	–	–	–	–	63,249
Unallocated assets							219,644
							1,900,266
Segment liabilities	(362,431)	(45,785)	–	–	–	–	(408,216)
Minority interests	–	(8,644)	–	–	–	–	(8,644)
Unallocated liabilities							(162,242)
							(579,102)
Capital expenditure	197,905	466	–	–	–	2,038	200,409
Additions to investment securities	–	16,723	–	–	–	–	16,723
Depreciation and amortisation	94,041	1,169	–	–	–	307	95,517
Impairment losses	9,865	–	–	–	–	–	9,865
Other non-cash expenses	2,254	2,350	–	–	–	827	5,431

(b) Secondary reporting format – geographical segments

The Group's turnover and results are mainly contributed by its container leasing and related businesses. The movements of containers and generator sets 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 and generator sets except to the degree that the movements are restricted by the terms of the leases or where safety of the containers and generator sets is concerned. It is therefore impracticable to present segment turnover and results by geographical areas.

The Group's segment assets are primarily dominated by its containers and generator sets. The directors consider that the nature of the Group's businesses preclude a meaningful allocation of containers and generator sets and their related capital expenditure to specific geographical segments as defined under SSAP 26 "Segmental reporting". These containers and generator sets are primarily utilised across geographical markets for shipment of cargoes throughout the world. Accordingly, it is also impracticable to present segment assets and capital expenditure by geographical areas.

The activities of container terminal and related businesses; freight forwarding, logistics and related businesses; container manufacturing and related businesses; corporate and other businesses are carried out in Hong Kong, China mainland, Singapore and Belgium while that of banking businesses are predominantly carried out in Hong Kong.

3 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2004 US$'000	2003 US$'000
Crediting		
Gain on disposal of fixed assets	**1,802**	858
Profit on disposal of jointly controlled entities and dissolution of an associated company (net)	**387**	–
Revaluation surplus of investment properties (note 12(b))	**292**	–
Recovery of bad debts	**29**	1,047
Write-back of provision for bad and doubtful debts (net)	**22**	–
Charging		
Depreciation and amortisation		
– owned fixed assets leased out under operating leases	**98,992**	92,060
– other owned fixed assets	**3,531**	3,457
Impairment losses of containers (including in other operating expenses) (note 12)	**474**	9,865
Cost of inventories sold	**23,973**	13,322
Auditors' remuneration		
– current year	**876**	519
– over provision in prior years	**(3)**	–
Loss on disposal/write-off of fixed assets	**794**	769
Loss on compensation for loss of containers from a fellow subsidiary	**88**	37
Loss on disposal of an unlisted investment	**–**	2,192
Outgoings in respect of investment properties	**5**	8
Provision for bad and doubtful debts (net)	**–**	1,370
Provision for inventories	**295**	155
Write-off of inventories	**285**	–
Rental expense under operating leases		
– land and buildings leased from third parties	**2,476**	2,606
– land and buildings leased from fellow subsidiaries	**523**	796
– plant and machinery	**363**	373
Revaluation deficit of investment properties (note 12(b))	**–**	81
Total staff costs (including directors' emoluments and retirement benefit costs) (note)	**17,573**	15,769
Less: Amounts capitalised in computer system under development	**(168)**	(228)
	17,405	15,541

Note:

Total staff costs do not include the amounts of benefits in kind provided to the Company's directors and the Group's employees in respect of staff quarters and the Company's share options being granted and exercised. Details of the Company's share options are set out in note 21(b) to the accounts.

4 FINANCE COSTS

	2004 US$'000	2003 US$'000
Interest expense on		
– bank loans	**6,654**	4,355
– other loans wholly repayable within five years	**291**	1,831
– Notes not wholly repayable within five years	**17,625**	4,406
– loans from a minority shareholder of a subsidiary wholly repayable within five years	**47**	76
Amortised amount of discount on issue of Notes	**240**	62
Net (gain)/loss on interest rate swap contracts	**(3,835)**	1,193
	21,022	11,923
Other incidental borrowing costs	**2,349**	5,226
	23,371	17,149

5 SHARE OF PROFITS LESS LOSSES OF JOINTLY CONTROLLED ENTITIES

The share of profits less losses of jointly controlled entities includes the amortisation charge of goodwill on acquisition of US$2,507,000 (2003: US$Nil).

Notes to the Accounts

6 TAXATION

	2004 US$'000	2003 US$'000
Company and subsidiaries		
Current taxation		
– Hong Kong profits tax	**512**	526
– China mainland taxation	**828**	625
– Overseas taxation	**127**	106
– Over provision in prior years	**(46)**	(97)
	1,421	1,160
Deferred taxation relating to the origination and reversal of temporary differences	**16,600**	11,354
Deferred taxation resulting from an increase in Hong Kong profits tax rate	**–**	(12)
	18,021	12,502
Share of taxation attributable to:		
Jointly controlled entities		
– China mainland taxation	**6,565**	659
– Overseas taxation	**(43)**	75
– Deferred taxation	**841**	–
Associated companies		
– Hong Kong profits tax	**8,571**	9,025
– China mainland taxation	**1,820**	1,017
– Deferred taxation	**9**	1,146
	35,784	24,424

Hong Kong profits tax has been provided at a rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year.

Taxation on profits from a subsidiary operating in China mainland has been calculated at an effective tax rate of 15.0% (2003: 15.0%) on the estimated assessable profit for the year.

Taxation on overseas profits 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 China mainland sourced income from container leasing is currently exempt from income tax in China mainland in accordance with a notice granting temporary exemption of income tax on rental payments made to foreign companies for leasing of containers which are used in international transportation (Guo Shui Fa (1993) No. 49) issued by the State Administration of Taxation of the People's Republic of China (the "PRC") on 12th March 1993.

6 TAXATION (Continued)

The Group is also exempt from business tax currently on its China mainland sourced rental income earned in accordance with a notice granting exemption from business tax for foreign enterprises which has no establishment in China mainland earning rental income from leasing of movable properties (Guo Shui Fa (1997) No. 35) issued by the State Administration of Taxation of the PRC on 14th March 1997.

Below is a numerical reconciliation between tax expense in the consolidated profit and loss account and aggregate tax expense at the domestic rates applicable to profits in respective territories concerned:

	2004 US$'000	2003 US$'000
Profit before taxation	**244,520**	180,613
Aggregate tax at domestic rates applicable to profits in respective territories concerned	**46,425**	25,990
Income not subject to taxation	**(3,927)**	(1,851)
Expenses not deductible for taxation purposes	**2,087**	1,199
(Over)/under provision in prior years	**(241)**	36
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	**–**	1,208
Utilisation of previously unrecognised tax losses	**(187)**	(59)
Net income under tax exemption period/tax relief granted by the Tax Bureau in China mainland	**(5,573)**	(2,172)
Others	**(2,800)**	73
Taxation charge	**35,784**	24,424

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of US$92,302,000 (2003: US$84,320,000).

8 DIVIDENDS

	2004 US$'000	2003 US$'000
Interim, paid, of US2.231 cents (2003: US1.769 cents) per ordinary share	**48,090**	37,986
Final, proposed, of US3.165 cents (2003: US2.308 cents) per ordinary share	**69,111**	49,582
Additional dividends paid on shares issued due to the exercise of share options before the closure of register of members		
– 2003 final	**163**	–
– 2004 interim	**298**	–
	117,662	87,568

At a board meeting held on 4th March 2005, the directors proposed a final dividend of HK24.6 cents (equivalent to US3.165 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 2005.

9 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of US$206,292,000 (2003: US$154,331,000).

The basic earnings per share is based on the weighted average number of 2,160,041,074 (2003: 2,147,340,079) ordinary shares in issue during the year. The diluted earnings per share is based on the weighted average number of ordinary shares in issue during the year plus the weighted average of 10,080,534 (2003: 926,165) ordinary shares deemed to be issued at no consideration as if all outstanding share options had been exercised.

10 RETIREMENT BENEFIT COSTS

The retirement benefit costs charged to the consolidated profit and loss account represent contributions payable by the Group to the retirement benefit schemes and amounted to US$905,000 (2003: US$789,000). Contributions totalling US$37,000 (2003: US$26,000) were payable to the retirement benefit schemes as at 31st December 2004 and are included in trade and other payables. Forfeited contributions of US$8,000 (2003: US$129,000) were utilised during the year and no forfeited contributions were available as at 31st December 2004 and 2003 to reduce future contributions.

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:

	2004 US$'000	2003 US$'000
Fees	**357**	263
Salaries and other allowances	**1,353**	1,325
Benefits in kind	**6,849**	828
Bonuses	**39**	33
Contribution to retirement benefit schemes	**2**	2
	8,600	2,451

Directors' fees disclosed above include US$98,013 (2003: US$88,462) paid to independent non-executive directors.

Benefits in kind mainly included the difference between the aggregate amount of the market price of the Company's shares issued upon the date on which the directors exercise the share options and the amount paid by directors in exercising these share options.

As at 31st December 2004, none of the directors (2003: one director) of the Company had any share options (2003: 1,500,000 share options) which are exercisable at HK$5.53 per share granted by the Company on 1st July 1996 under the share option scheme adopted by the Company on 30th November 1994 (the "1994 Share Option Scheme").

As at 31st December 2004, a director (2003: one director) of the Company had 1,800,000 (2003: 5,000,000) share options which are exercisable at HK$8.80 per share granted by the Company on 20th May 1997 under the 1994 Share Option Scheme.

As at 31st December 2004, fifteen (2003: twenty) directors of the Company had 9,776,000 (2003: 16,500,000) share options which are exercisable at HK$9.54 per share granted by the Company under the share option scheme approved by the shareholders of the Company on 23rd May 2003 (the "2003 Share Option Scheme").

During the year, 18,000,000 share options, which are exercisable at HK$13.75, were granted to eighteen directors under the 2003 Share Option Scheme. The consideration paid by the directors for each offer of these share options granted was HK$1.00. The market price of each of the Company's shares at the respective dates of grant of these share options ranged from HK$13.90 to HK$14.50. As at 31st December 2004, none of the eighteen directors exercised these share options.

Notes to the Accounts

11 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

Details and movement of share options granted and exercised during the year are set out in note 21(b) to the accounts.

The directors' emoluments are analysed as follows:

	Number of directors	
	2004	2003
Emoluments band		
US$Nil-US$128,205 (HK$Nil-HK$1,000,000)	**15**	21
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)	**1**	–
US$256,411-US$320,513 (HK$2,000,001-HK$2,500,000)	**1**	2
US$320,514-US$384,616 (HK$2,500,001-HK$3,000,000)	**2**	–
US$384,617-US$448,718 (HK$3,000,001-HK$3,500,000)	**1**	–
US$512,821-US$576,923 (HK$4,000,001-HK$4,500,000)	**1**	–
US$641,026-US$705,128 (HK$5,000,001-HK$5,500,000)	**–**	1
US$705,129-US$769,230 (HK$5,500,001-HK$6,000,000)	**1**	–
US$769,231-US$833,333 (HK$6,000,001-HK$6,500,000)	**–**	1
US$1,089,744-US$1,153,846 (HK$8,500,001-HK$9,000,000)	**1**	–
US$2,051,282-US$2,115,385 (HK$16,000,001-HK$16,500,000)	**1**	–
US$2,243,590-US$2,307,692 (HK$17,500,001-HK$18,000,000)	**1**	–
	25	26

The above analysis includes three (2003: four) 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 two individuals (2003: an individual) whose emoluments were the highest in the Group and have not been included in the directors' emoluments above are set out below:

	2004 US$'000	2003 US$'000
Salaries and other allowances	**540**	347
Benefits in kind	**1,891**	–
Bonuses	**102**	55
Contributions to retirement benefit schemes	**3**	2
	2,536	404

Benefit in kind mainly included the difference between the aggregate amount of the market price of the Company's shares issued upon the date on which an individual exercises the share options and the amount paid by the individual in exercising these share options.

The emoluments of the highest paid individuals fell within the following bands:

	Number of individuals	
	2004	2003
Emoluments band		
US$384,616-US$448,718 (HK$3,000,001-HK$3,500,000)	**–**	1
US$833,333-US$897,436 (HK$6,500,001-HK$7,000,000)	**1**	–
US$1,602,564-US$1,666,667 (HK$12,500,001-HK$13,000,000)	**1**	–
	2	1

(c) 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.

Notes to the Accounts

12 FIXED ASSETS

Group

	Leasehold land and buildings in Hong Kong	Leasehold land and buildings outside Hong Kong	Investment properties in Hong Kong	Land use rights outside Hong Kong	Construction in progress	Containers	Generator sets	Leasehold improvements	Other fixed assets	Computer system under development	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Cost or valuation											
At 1st January 2004	23,024	12,105	744	1,856	–	1,628,911	973	1,111	26,134	1,322	1,696,180
Additions	–	–	–	403	367	270,947	3,113	7	1,041	1,058	276,936
Disposals/transfer/write-off	(1,302)	–	–	–	–	(125,666)	–	(20)	(596)	–	(127,584)
Revaluation surplus (note b)	–	–	292	–	–	–	–	–	–	–	292
Reclassification	154	–	(154)	–	(61)	–	–	–	360	(299)	–
Exchange differences	–	37	–	7	–	–	–	6	75	–	125
At 31st December 2004	**21,876**	**12,142**	**882**	**2,266**	**306**	**1,774,192**	**4,086**	**1,104**	**27,014**	**2,081**	**1,845,949**
Accumulated depreciation/ amortisation and impairment losses											
At 1st January 2004	7,121	2,823	–	444	–	565,179	30	867	13,745	–	590,209
Impairment losses for the year	–	–	–	–	–	474	–	–	–	–	474
Depreciation/amortisation charge for the year	549	405	–	84	–	98,832	160	93	2,400	–	102,523
Disposals/transfer/write-off											
– accumulated impairment losses	–	–	–	–	–	(8,225)	–	–	–	–	(8,225)
– accumulated depreciation	(30)	–	–	–	–	(75,494)	–	(8)	(576)	–	(76,108)
Exchange differences	–	14	–	2	–	–	–	4	42	–	62
At 31st December 2004	**7,640**	**3,242**	**–**	**530**	**–**	**580,766**	**190**	**956**	**15,611**	**–**	**608,935**
Net book value											
At 31st December 2004	**14,236**	**8,900**	**882**	**1,736**	**306**	**1,193,426**	**3,896**	**148**	**11,403**	**2,081**	**1,237,014**
At 31st December 2003	15,903	9,282	744	1,412	–	1,063,732	943	244	12,389	1,322	1,105,971
The analysis of cost or valuation of the above assets as at 31st December 2004 is as follows:											
At cost	**1,749**	**12,142**	**–**	**2,266**	**306**	**1,774,192**	**4,086**	**1,104**	**27,014**	**2,081**	**1,824,940**
At professional valuation											
– 1994	**19,973**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**19,973**
– 2003	**154**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**154**
– 2004	**–**	**–**	**882**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**882**
	21,876	**12,142**	**882**	**2,266**	**306**	**1,774,192**	**4,086**	**1,104**	**27,014**	**2,081**	**1,845,949**
The analysis of cost or valuation of the above assets as at 31st December 2003 is as follows:											
At cost	3,051	12,105	–	1,856	–	1,628,911	973	1,111	26,134	1,322	1,675,463
At professional valuation											
– 1994	19,973	–	–	–	–	–	–	–	–	–	19,973
– 2003	–	–	744	–	–	–	–	–	–	–	744
	23,024	12,105	744	1,856	–	1,628,911	973	1,111	26,134	1,322	1,696,180

12 FIXED ASSETS (Continued)

Company

	Other fixed assets US$'000
Cost	
At 1st January 2004	389
Additions for the year	138
At 31st December 2004	**527**
Accumulated depreciation	
At 1st January 2004	19
Depreciation charge for the year	85
At 31st December 2004	**104**
Net book value	
At 31st December 2004	**423**
At 31st December 2003	370

Notes:

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

	Group	
	2004 US$'000	2003 US$'000
In Hong Kong, held on leases of over 50 years	**15,118**	16,647
Outside Hong Kong, held on leases of between 10 to 50 years	**8,900**	9,282
	24,018	25,929

(b) The investment properties as at 31st December 2004 and 2003 were revalued on an open market value basis by DTZ Debenham Tie Leung Limited, an independent professional property valuer. The revaluation surplus for the year ended 31st December 2004 of US$292,000 (2003: revaluation deficit of US$81,000) was accounted for in the consolidated profit and loss account (note 3).

Notes to the Accounts

12 FIXED ASSETS (Continued)

(c) Certain leasehold land and buildings in Hong Kong as at 31st December 2004 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 2004 would have been US$12,186,000 (2003: US$12,591,000) had the leasehold land and buildings been carried at cost less accumulated depreciation/amortisation and impairment losses in the accounts.

(d) During the year, certain investment properties were transferred to leasehold land and buildings. The carrying amount of the properties amounted to US$154,000 (2003: US$Nil), representing their valuation as at 31st December 2003.

(e) The aggregate cost, accumulated depreciation and accumulated impairment losses as at 31st December 2004 of the leased assets other than investment properties, where the Group is a lessor, comprised containers and generator sets leased to fellow subsidiaries and third parties under operating leases and amounted to US$1,752,343,000 (2003: US$1,602,567,000), US$568,013,000 (2003: US$544,515,000) and US$12,943,000 (2003: US$20,694,000) respectively.

(f) The accumulated impairment losses of fixed assets as at 31st December 2004 amounted to US$15,600,000 (2003: US$23,351,000).

(g) As at 31st December 2004, certain containers and land use rights outside Hong Kong with an aggregate net book value of US$329,911,000 (2003: US$318,976,000) and US$1,736,000 (2003: US$Nil) respectively were pledged as securities for loan facilities granted by banks or third parties.

(h) During the year, the Group transferred containers with an aggregate net book value of US$23,596,000 (2003: US$13,493,000) to inventories.

(i) As at 31st December 2004, the accumulated staff costs capitalised in computer system under development amounted to US$389,000 (2003: US$230,000).

13 SUBSIDIARIES

	Company 2004 US$'000	Company 2003 US$'000
Unlisted investments, at cost	**167,150**	159,654
Amounts due from subsidiaries (note a)	**1,378,589**	1,164,643
Loan from a subsidiary (note b)	**(296,655)**	(177,800)
Amounts due to subsidiaries (note a)	**(3,960)**	(2,013)
Provision	**(64,778)**	(45,651)
	1,180,346	1,098,833

Notes:

(a) The amounts due from/(to) subsidiaries are unsecured and have no fixed terms of repayment. Except for an amount due from a subsidiary of US$22,236,000 (2003: US$Nil) which bears interest ranging from 2.830% to 5.125% per annum, the remaining balance is interest free.

(b) The loan from a subsidiary is unsecured, interest free and wholly repayable on or before 3rd October 2013.

(c) Details of the subsidiaries as at 31st December 2004 are shown in note 35 to the accounts.

14 JOINTLY CONTROLLED ENTITIES

	Group 2004 US$'000	Group 2003 US$'000
Share of net assets	**257,901**	67,662
Goodwill on acquisition less amortisation	**47,726**	5,643
	305,627	73,305
Loans to jointly controlled entities (note a)	**27,876**	9,396
Amount due from a jointly controlled entity (note b)	**–**	581
	333,503	83,282

14 JOINTLY CONTROLLED ENTITIES (Continued)

Notes:

(a) The loans to jointly controlled entities are unsecured. Except for an amount of US$9,790,000 (2003: US$9,396,000) which bears interest at 1.60% (2003: 1.60%) per annum above the applicable swap offer rate as determined by the Association of Banks in Singapore and is wholly repayable on or before October 2013, the remaining balance is interest free and has no fixed terms of repayment.

(b) The amount due from a jointly controlled entity was unsecured, interest free and fully repaid during the year.

(c) The Company has no directly owned jointly controlled entity as at 31st December 2004 and 2003. Details of the jointly controlled entities as at 31st December 2004 are shown in note 36 to the accounts.

15 ASSOCIATED COMPANIES

	Group	
	2004 **US$'000**	2003 US$'000
Share of net assets	**433,822**	274,605
Negative goodwill on acquisition	**(19,886)**	–
Goodwill on acquisition	**188**	–
	414,124	274,605
Loan to an associated company (note a)	**4,968**	–
Amount due from an associated company (note b)	**–**	5
	419,092	274,610
Investments, at cost		
Listed shares in Hong Kong	**219,189**	219,189
Unlisted shares	**479,024**	339,762
	698,213	558,951
Market value of listed shares	**130,960**	133,846

15 ASSOCIATED COMPANIES (Continued)

Notes:

(a) The loan to an associated company is unsecured, interest bearing and has no fixed terms of repayment. The loan bears interest at 2% per annum above the 10-year Belgium prime rate during the year.

(b) The amount due from an associated company was unsecured, interest free and had no fixed terms of repayment.

(c) The Company has no directly owned associated company as at 31st December 2004 and 2003. Details of the associated companies as at 31st December 2004 are shown in note 37 to the accounts.

16 INVESTMENT SECURITIES

	Group	
	2004 US$'000	2003 US$'000
Equity securities (note a)		
– listed investment in Hong Kong, at cost	**13,075**	–
– unlisted investment in Hong Kong, at cost	**1**	1
– unlisted investments in China mainland, at cost	**21,666**	21,666
Loan to an investee company (note b)	**34,758**	41,582
	69,500	63,249
Market value of listed shares	**12,785**	–

Notes:

(a) Listed investment represents equity interest in an entity which is principally engaged in the operation and management of international and domestic container marine transportation.

Unlisted investments mainly comprise of equity interests in entities which are involved in container terminal operations in Yantian, Shekou and Dalian of China mainland.

(b) Loan to an investee company is unsecured and has no fixed terms of repayment. Except for an amount of US$12,446,000 (2003: US$19,349,000) which bears interest at Hong Kong dollar prime rate (2003: Hong Kong dollar prime rate), the remaining balance is interest free.

Notes to the Accounts

17 FINANCE LEASE RECEIVABLES

Group

	2004			2003			
	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$'000	Provision US$'000	Present value of minimum lease payment receivable US$'000
Amounts receivable under finance leases:							
Current portion							
– not later than one year (note 19)	**1,803**	**(502)**	**1,301**	1,516	(532)	(37)	947
Non-current portion							
– later than one year and not later than five years	**4,706**	**(1,011)**	**3,695**	4,658	(1,238)	(29)	3,391
– later than five years	**1,025**	**(66)**	**959**	1,793	(190)	–	1,603
	5,731	**(1,077)**	**4,654**	6,451	(1,428)	(29)	4,994
	7,534	**(1,579)**	**5,955**	7,967	(1,960)	(66)	5,941

As at 31st December 2004, the Group entered into 20 (2003: 18) finance leases contracts for leasing of certain containers. The average term of the finance leases is 4 years (2003: 5 years).

The cost of assets acquired for the purpose of letting under finance leases amounted to US$7,849,000 (2003: US$10,147,000) as at 31st December 2004.

Unguaranteed residual values of assets leased under finance leases are estimated at approximately US$9,000 (2003: US$4,000).

18 INVENTORIES

As at 31st December 2004, inventories represent spare parts and consumables of US$167,000 (2003: US$193,000) and resaleable containers of US$1,470,000 (2003: US$2,407,000).

Spare parts and consumables are stated at cost. The carrying amount of resaleable containers that are carried at net realisable value amounted to US$1,060,000 (2003: US$2,341,000).

19 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004 US$'000	2003 US$'000	**2004 US$'000**	2003 US$'000
Trade receivables (note a)	**31,667**	28,862	**–**	–
Other receivables, deposits and prepayments	**15,204**	27,278	**273**	270
Current portion of finance lease receivables (note 17)	**1,301**	947	**–**	–
Amounts due from (notes a and b)				
– fellow subsidiaries	**22,560**	23,765	**–**	–
– related companies	**82**	634	**–**	–
– jointly controlled entities	**2,294**	–	**–**	–
– associated companies	**315**	–	**–**	–
	73,423	81,486	**273**	270

Notes:

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

The ageing analysis of the trade balances due from third parties (net of provision), fellow subsidiaries and related companies was as follows:

	Group	
	2004 US$'000	2003 US$'000
Within 30 days	**25,533**	23,793
31-60 days	**22,409**	21,258
61-90 days	**5,287**	5,925
Over 90 days	**1,080**	1,779
	54,309	52,755

(b) The amounts due from fellow subsidiaries, related companies, jointly controlled entities and associated companies are unsecured and interest free. Trading balances have credit periods ranging from 30 to 90 days while other balances have no fixed terms of repayment.

20 TRADE AND OTHER PAYABLES

	Group		Company	
	2004 US$'000	2003 US$'000	**2004 US$'000**	2003 US$'000
Trade payables (note a)	**1,967**	10,007	**–**	–
Other payables and accruals (note a)	**44,422**	26,521	**624**	182
Dividend payable	**14**	12	**14**	12
Amounts due to (notes a and b)				
– ultimate holding company	**–**	235	**–**	–
– fellow subsidiaries	**110**	136	**–**	–
– related companies	**–**	15,276	**–**	–
– minority shareholders of subsidiaries	**4,901**	3,856	**–**	–
	51,414	56,043	**638**	194

Notes:

(a) The ageing analysis of the trade balances due to third parties, fellow subsidiaries, related companies and minority shareholders of subsidiaries was as follows:

	Group	
	2004 US$'000	2003 US$'000
Within 30 days	**1,947**	24,528
31-60 days	**329**	295
61-90 days	**268**	1,097
Over 90 days	**14**	3
	2,558	25,923

Other payables and accruals include an amount of US$28,143,000 (2003: US$10,058,000) accrued for purchase of containers which were delivered to the Group prior to the year end. The amount has not been included in the ageing analysis above.

(b) The amounts due to ultimate holding company, fellow subsidiaries, related companies and minority shareholders of subsidiaries are unsecured and interest free. Trading balances have similar credit periods granted as those of other third party suppliers while the other balances have no fixed terms of repayment.

21 SHARE CAPITAL

	2004 **US$'000**	2003 US$'000
Authorised:		
3,000,000,000 ordinary shares of HK$0.10 each	**38,462**	38,462
Issued and fully paid:		
2,183,630,298 (2003: 2,148,542,298) ordinary shares of HK$0.10 each	**28,003**	27,533

(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 2003	2,147,012,298	27,533
Issued on exercising of share options (note b)	1,530,000	20
At 31st December 2003	2,148,542,298	27,553
At 1st January 2004	**2,148,542,298**	**27,553**
Issued on exercising of share options (note b)	**35,088,000**	**450**
At 31st December 2004	**2,183,630,298**	**28,003**

(b) Share options

Under the 1994 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, subject to the terms and conditions stipulated therein.

On 23rd May 2003, the shareholders of the Company approved the adoption of the 2003 Share Option Scheme and the termination of the 1994 Share Option Scheme.

No further options shall be granted under the 1994 Share Option Scheme after 23rd May 2003 but the outstanding share options which had been granted shall continue to be valid and exercisable in accordance with their terms and provisions under the 1994 Share Option Scheme.

Notes to the Accounts

21 SHARE CAPITAL (Continued)

(b) Share options (Continued)

Under the 2003 Share Option Scheme, the directors of the Company may, at their discretion, invite any participants, as defined under the 2003 Share Option Scheme to take up share options for subscribing the Company's shares, subject to the terms and conditions stipulated therein.

The consideration on acceptance of an offer of the grant of an option is HK$1.00.

Movements of the share options granted during the year are set out below:

			Number of share options						
Category	Note	Exercise price HK$	Outstanding at 1st January 2004	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2004	Vested percentage as at 31st December 2004	Vested percentage as at 31st December 2003
Directors	(i)	5.53	1,500,000	–	(1,500,000)	–	–	100%	100%
	(ii)	8.80	5,000,000	–	(3,200,000)	–	1,800,000	100%	100%
	(iii)	9.54	16,500,000	–	(6,724,000)	–	9,776,000	100%	100%
	(iv)	13.75	–	18,000,000	–	–	18,000,000	100%	N/A
Continuous contract employees	(i)	5.53	80,000	–	(80,000)	–	–	100%	100%
	(ii)	8.80	5,600,000	–	(4,698,000)	–	902,000	100%	100%
	(iii)	9.54	23,140,000	–	(13,726,000)	(20,000)	9,394,000	100%	100%
	(iv)	13.75	–	35,990,000	–	–	35,990,000	100%	N/A
Others	(iii)	9.54	6,180,000	–	(4,860,000)	–	1,320,000	100%	100%
	(iv)	13.75	–	10,050,000	(300,000)	–	9,750,000	100%	N/A
			58,000,000	64,040,000	(35,088,000)	(20,000)	86,932,000		

Notes:

(i) The share options were granted on 1st July 1996 under the 1994 Share Option Scheme and are exercisable on or before 30th June 2006, 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 Company's shares on The Stock Exchange of Hong Kong Limited at the date prior to the exercise of the options.

21 SHARE CAPITAL (Continued)

(b) Share options (Continued)

(ii) The share options were granted on 20th May 1997 (the "Offer Date") under the 1994 Share Option Scheme and are exercisable on or before 19th May 2007, 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.

For those share options granted on 20th May 1997 under the 1994 Share Option Scheme, all grantees may reserve their rights to exercise and accumulate their share options exercisable during their employment within the Group.

(iii) The share options were granted during the period from 28th October 2003 to 6th November 2003 under the 2003 Share Option Scheme. The options are exercisable at any time within ten years from the date on which an offer is accepted or deemed to be accepted by the grantee under the 2003 Share Option Scheme (the "Commencement Date"). The Commencement Date of these options granted started from 28th October 2003 to 6th November 2003.

20,000 (2003: Nil) share options were lapsed during the year due to a grantee ceased to be an employee of the Group.

(iv) The share options were granted during the period from 25th November 2004 to 16th December 2004 under the 2003 Share Option Scheme. The options are exercisable at any time within ten years from the Commencement Date. The Commencement Date of these options granted started from 25th November 2004 to 16th December 2004.

21 SHARE CAPITAL (Continued)

(b) Share options (Continued)

(v) During the year, 35,088,000 share options were exercised and a summary of which, analysed by exercise month, is set out below:

	Number of share options exercised				
Exercise month	At exercise price of HK$5.53 per share	At exercise price of HK$8.80 per share	At exercise price of HK$9.54 per share	At exercise price of HK$13.75 per share	Total
2004					
January	–	30,000	1,280,000	–	1,310,000
February	–	24,000	680,000	–	704,000
March	–	10,000	400,000	–	410,000
April	–	1,744,000	2,880,000	–	4,624,000
May	–	–	40,000	–	40,000
June	–	–	120,000	–	120,000
July	–	40,000	20,000	–	60,000
August	–	20,000	–	–	20,000
September	–	1,566,000	11,696,000	–	13,262,000
October	–	1,520,000	4,432,000	–	5,952,000
November	–	1,320,000	1,202,000	–	2,522,000
December	1,580,000	1,624,000	2,560,000	300,000	6,064,000
	1,580,000	7,898,000	25,310,000	300,000	35,088,000

The exercise of the 35,088,000 share options during the year yielded the proceeds, net of transaction costs of US$8,000, as follows:

	2004 US$'000	2003 US$'000
Ordinary share capital – at par	**450**	20
Share premium (net of share issue expenses)	**41,058**	1,081
Proceeds (net of share issue expenses)	**41,508**	1,101

The weighted average closing price of the Company's shares on the dates when the share options were exercised was HK$13.35 (2003: HK$9.51).

22 RESERVES

Company

	Share premium US$'000	Contributed surplus US$'000	Retained profits US$'000	Total US$'000
At 1st January 2003	560,057	414,214	177,633	1,151,904
Issue of shares on exercise of share options	1,081	–	–	1,081
Profit for the year	–	–	84,320	84,320
Dividends				
– 2002 final	–	–	(49,546)	(49,546)
– 2003 interim	–	–	(37,986)	(37,986)
At 31st December 2003	561,138	414,214	174,421	1,149,773
Representing:				
Reserves	561,138	414,214	124,839	1,100,191
2003 final dividend proposed	–	–	49,582	49,582
At 31st December 2003	561,138	414,214	174,421	1,149,773
At 1st January 2004	**561,138**	**414,214**	**174,421**	**1,149,773**
Issue of shares on exercise of share options	**41,066**	**–**	**–**	**41,066**
Share issue expenses	**(8)**	**–**	**–**	**(8)**
Profit for the year	**–**	**–**	**92,302**	**92,302**
Dividends				
– 2003 final	**–**	**–**	**(49,745)**	**(49,745)**
– 2004 interim	**–**	**–**	**(48,388)**	**(48,388)**
At 31st December 2004	**602,196**	**414,214**	**168,590**	**1,185,000**
Representing:				
Reserves	**602,196**	**414,214**	**99,479**	**1,115,889**
2004 final dividend proposed	**–**	**–**	**69,111**	**69,111**
At 31st December 2004	**602,196**	**414,214**	**168,590**	**1,185,000**

Notes to the Accounts

23 LONG TERM LIABILITIES

	Group	
	2004	2003
	US$'000	US$'000
Borrowings		
Secured	**176,392**	177,523
Unsecured	**474,273**	300,837
	650,665	478,360
Amounts due within one year included under current liabilities	**(35,520)**	(32,848)
	615,145	445,512

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

	Group	
	2004	2003
	US$'000	US$'000
Wholly repayable within five years		
Bank loans	**342,045**	166,553
Other loans (note d)	**10,217**	12,681
Loan from a minority shareholder of a subsidiary (note e)	**–**	963
	352,262	180,197
Notes not wholly repayable within five years (note f)	**298,403**	298,163
	650,665	478,360

23 LONG TERM LIABILITIES (Continued)

(b) Long term liabilities were repayable as follows:

	Group 2004 US$'000	Group 2003 US$'000
Bank loans		
Within one year	**32,867**	29,902
In the second year	**41,188**	29,474
In the third to fifth years inclusive	**267,990**	107,177
	342,045	166,553
Notes		
In more than five years	**298,403**	298,163
Other loans		
Within one year	**2,653**	2,464
In the second year	**2,858**	2,653
In the third to fifth years inclusive	**4,706**	7,564
	10,217	12,681
Loan from a minority shareholder of a subsidiary		
Within one year	**–**	482
In the second year	**–**	481
	–	963
	650,665	478,360

(c) Bank and other loans of US$176,092,000 (2003: US$177,523,000) and bank loans of US$300,000 (2003: US$Nil) were secured by certain of the Group's containers and land use rights respectively (note 12(g)). Bank and other loans of US$165,875,000 (2003: US$164,842,000) are also secured by the assignment of the container lease agreements and the rental income thereon, other assets and shares of certain subsidiaries.

Bank loan of a subsidiary of approximately US$266,000 (2003: US$1,108,000) was guaranteed by the minority shareholder of that subsidiary.

(d) Other loans of US$10,217,000 (2003: US$12,681,000) are repayable by quarterly instalment over a period of 32 quarters starting from 7th July 2000. Interest is charged on the outstanding balances at the rate of 1.125% (2003: 1.125%) per annum above the London Interbank Offered Rate ("LIBOR").

23 LONG TERM LIABILITIES (Continued)

(e) As at 31st December 2003, loans advanced to a non-wholly owned subsidiary by the Group and a minority shareholder of the subsidiary of US$1,128,000 and US$963,000 respectively were interest bearing, unsecured and fully repaid during the year ended 31st December 2004. Annual interest was calculated at prevailing market rate quoted by the State Development Bank of the PRC which ranged from 5.76% to 6.12% (2003: 5.76%) per annum.

(f) Details of the Notes as at 31st December 2004 are as follows:

	2004 **US$'000**	2003 US$'000
Principal amount	**300,000**	300,000
Discount on issue	**(1,899)**	(1,899)
Proceeds received	**298,101**	298,101
Accumulated amortised amount of discount on issue	**302**	62
	298,403	298,163

Notes with principal amount of US$300,000,000 were issued by a subsidiary of the Company to investors on 3rd October 2003. The Notes carried an interest yield of 5.96% per annum and were issued at a price of 99.367 per cent of their principal amount with a coupon rate of 5.875% per annum, resulting in a discount on issue of US$1,899,000. The Notes bear interest from 3rd October 2003, payable semi-annually in arrear on 3rd April and 3rd October of each year, commencing on 3rd April 2004. The Notes are guaranteed unconditionally and irrevocably by the Company and listed on the Singapore Exchange Securities Trading Limited.

Unless previously redeemed or repurchased by the Company, the Notes will mature on 3rd October 2013 at their principal amount. The Notes are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the Company at any time in the event of certain changes affecting the taxes of certain jurisdictions.

24 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using tax rates substantively enacted by the balance sheet date.

The movement on the net deferred tax liabilities account during the year is as follows:

	Group	
	2004 US$'000	2003 US$'000
At 1st January	**35,025**	23,683
Charged to consolidated profit and loss account (note 6)	**16,600**	11,342
At 31st December	**51,625**	35,025

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31st December 2004, the Group and the Company has unrecognised tax losses of US$3,944,000 (2003: US$3,758,000) and US$2,555,000 (2003: US$2,546,000) respectively, which have no expiry date, to carry forward.

As at 31st December 2004, deferred tax liabilities of US$24,643,000 (2003: US$14,402,000) have not been established for the withholding taxation that would be payable on the unremitted earnings of certain subsidiaries totalling US$82,145,000 (2003: US$48,008,000) as the directors considered that the timing of the reversal of the related temporary differences can be controlled and accordingly the temporary difference will not be reversed in the foreseeable future.

The movement in recognised deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

Group

	Accelerated tax depreciation		Others		Total	
	2004 US$'000	2003 US$'000	**2004 US$'000**	2003 US$'000	**2004 US$'000**	2003 US$'000
At 1st January	**90,904**	67,685	**3,136**	3,136	**94,040**	70,821
Charged/(credited) to consolidated profit and loss account	**21,597**	23,219	**(3,136)**	–	**18,461**	23,219
At 31st December	**112,501**	90,904	**–**	3,136	**112,501**	94,040

24 DEFERRED TAXATION (Continued)

Deferred tax assets

Group

	Tax losses		Others		Total	
	2004 US$'000	2003 US$'000	**2004 US$'000**	2003 US$'000	**2004 US$'000**	2003 US$'000
At 1st January	**56,068**	46,389	**2,947**	749	**59,015**	47,138
(Charged)/credited to consolidated profit and loss account	**(1,400)**	9,679	**3,261**	2,198	**1,861**	11,877
At 31st December	**54,668**	56,068	**6,208**	2,947	**60,876**	59,015

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004 US$'000	2003 US$'000
Deferred tax assets	**248**	196
Deferred tax liabilities	**51,873**	35,221

The amounts shown in the consolidated balance sheet include the following:

	2004 US$'000	2003 US$'000
Deferred tax assets to be recovered after 12 months	**230**	182
Deferred tax liabilities to be settled after 12 months	**51,866**	35,209

As at 31st December 2004 and 2003, the Company did not have any deferred tax assets and liabilities.

25 CONTINGENT LIABILITIES

	Group		Company	
	2004 US$'000	2003 US$'000	**2004 US$'000**	2003 US$'000
Guarantees for				
– Notes issued by a subsidiary (note 23(f))	**–**	–	**300,000**	300,000
– Other credit or loan facilities granted to subsidiaries	**–**	–	**351,092**	177,523
	–	–	**651,092**	477,523

26 CAPITAL COMMITMENTS

The Group has the following significant capital commitments as at 31st December 2004:

	Group	
	2004 US$'000	2003 US$'000
Authorised but not contracted for		
– Containers	**352,676**	147,816
– Generator sets	**6,600**	3,000
– Computer system under development	**956**	985
	360,232	151,801
Contracted but not provided for		
– Containers	**11,550**	22,329
– Investments (note a)	**351,103**	395,295
– Other fixed assets	**3,914**	254
	366,567	417,878
The Group's share of capital commitments of the jointly controlled entities themselves not included in the above are as follows:		
Authorised but not contracted for	**8,281**	–
Contracted but not provided for	**7,400**	–
	15,681	–

Notes to the Accounts

26 CAPITAL COMMITMENTS (Continued)

Notes:

(a) The Group's committed investments as at 31 December 2004 primarily included the investment in 14% equity interest in Tianjin Five Continents International Container Terminal Co., Ltd of approximately US$19,045,000 (2003: US$19,045,000) and the capital/loans contributions to Antwerp Gateway NV, an associated company of the Group, Qingdao Qianwan Container Terminal Co., Ltd and COSCO-PSA Terminal Private Limited, jointly controlled entities of the Group, of approximately US$176,249,000 (2003: US$Nil), US$106,880,000 (2003: US$168,011,000) and US$45,045,000 (2003: US$43,233,000) respectively.

The Group's committed investments as at 31st December 2003 also included the acquisition of 49% equity interest in COSCO Logistics Co., Ltd ("COSCO LOGISTICS") of approximately US$148,662,000 which was fully paid during the year ended 31st December 2004.

(b) The Company did not have any capital commitments as at 31st December 2004 and 2003.

27 LEASE ARRANGEMENTS/COMMITMENTS

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

At 31st December 2004, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	Group	
	2004 US$'000	2003 US$'000
Containers		
– not later than one year	**201,538**	176,306
– later than one year and not later than five years	**484,769**	426,121
– later than five years	**142,127**	78,167
	828,434	680,594
Generator sets		
– not later than one year	**745**	175
– later than one year and not later than five years	**2,575**	455
	3,320	630
Investment properties		
– not later than one year	**42**	38
– later than one year and not later than five years	**8**	9
	50	47
	831,804	681,271

The future lease receipts above do not include those lease contracts of which the amount of future lease receipts depends on the timing of pick up and drop off of containers by lessees during the lease period of the contracts.

27 LEASE ARRANGEMENTS/COMMITMENTS (Continued)

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

At 31st December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2004 **US$'000**	2003 US$'000
Land and buildings		
– not later than one year	**2,740**	2,614
– later than one year and not later than five years	**1,737**	2,818
– later than five years	**4,628**	4,917
	9,105	10,349
Plant and machinery		
– not later than one year	**275**	358
– later than one year and not later than five years	**42**	185
	317	543
	9,422	10,892

(c) The Company did not have any lease commitments as at 31st December 2004 and 2003.

28 FINANCIAL INSTRUMENTS AND COMMITMENTS

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 2004 were US$300,000,000 (2003: US$300,000,000). Interest rate swap contracts of notional amount of US$100,000,000 (2003: US$100,000,000) were committed with the fixed interest rates ranging from 3.88% to 4.90% (2003: 3.88% to 4.90%) per annum whereas the remaining interest rate swap contracts of notional amount of US$200,000,000 (2003: US$200,000,000) were committed with the interest rates ranging from 1.05% to 1.16% (2003: 1.05% to 1.16%) per annum above the LIBOR.

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2004 US$'000	2003 US$'000
Profit before taxation	**244,520**	180,613
Depreciation and amortisation	**102,523**	95,517
Interest expenses	**24,617**	10,668
Net (gain)/loss on interest rate swap contracts	**(3,835)**	1,193
Amortised amount of discount on issue of Notes	**240**	62
Other incidental borrowing costs	**2,349**	5,226
Impairment losses of containers	**474**	9,865
Provision for inventories	**295**	155
Write-off of inventories	**285**	–
Gain on disposal/write-off of fixed assets (net)	**(920)**	(52)
Revaluation (surplus)/deficit of investment properties	**(292)**	81
Share of profits less losses of jointly controlled entities	**(41,956)**	(6,711)
Share of profits less losses of associated companies	**(69,497)**	(64,915)
Dividend income from unlisted investments	**(21,260)**	(20,421)
Profit on disposal of jointly controlled entities and dissolution of an associated company (net)	**(387)**	–
Loss on disposal of an unlisted investment	**–**	2,192
Interest income	**(3,286)**	(2,343)
Recovery of bad debts	**(29)**	(1,047)
(Write-back of provision)/provision for bad and doubtful debts (net)	**(22)**	1,370
Operating profit before working capital changes	**233,819**	211,453
Decrease in net balance with jointly controlled entities	**7**	39
Decrease in finance lease receivables	**1,141**	3,156
Decrease in inventories	**23,979**	13,386
Increase in trade and other receivables, deposits and prepayments	**(1,971)**	(15,081)
Decrease/(increase) in amounts due from fellow subsidiaries	**1,205**	(1,146)
Decrease in amounts due from related companies	**552**	67
Increase in amount due from an associated company	**(310)**	–
Increase in trade and other payables and accruals	**6,503**	4,226
(Decrease)/increase in amount due to ultimate holding company	**(235)**	235
(Decrease)/increase in amounts due to fellow subsidiaries	**(26)**	111
(Decrease)/increase in amounts due to related companies	**(143)**	83
Increase in amounts due to minority shareholders of subsidiaries	**1,045**	537
Cash generated from operations	**265,566**	217,066

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) US$'000	Loans and Notes US$'000	Minority interests US$'000
At 1st January 2003	587,590	420,674	8,314
Issue of shares on exercise of share options	1,101	–	–
Minority interest share of profit for the year	–	–	1,858
Loans borrowed	–	89,620	–
Issue of Notes, net of discount	–	298,101	–
Amortised amount of discount on issue of Notes	–	62	–
Repayment of loans	–	(330,097)	–
Dividends paid to minority shareholders of subsidiaries	–	–	(1,528)
At 31st December 2003	588,691	478,360	8,644
At 1st January 2004	**588,691**	**478,360**	**8,644**
Issue of shares on exercise of share options (net of share issue expenses)	**41,508**	**–**	**–**
Minority interest share of profit for the year	**–**	**–**	**2,444**
Loans borrowed	**–**	**252,950**	**–**
Amortised amount of discount on issue of Notes	**–**	**240**	**–**
Repayment of loans	**–**	**(78,238)**	**–**
Dividends paid to minority shareholders of subsidiaries	**–**	**–**	**(1,674)**
Exchange differences	**–**	**11**	**27**
At 31st December 2004	**630,199**	**653,323**	**9,441**

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

	2004 US$'000	2003 US$'000
Total time deposits, bank balances and cash (note i)	**100,578**	283,835
Restricted bank deposits included in non-current assets (note ii)	**(11,297)**	(12,056)
	89,281	271,779
Representing:		
Time deposits	**43,136**	248,574
Bank balances and cash	**46,145**	23,205
	89,281	271,779

Notes:

(i) As at 31st December 2004, cash and cash equivalents of US$15,338,000 (2003: US$20,712,000) were denominated in Renminbi and United States dollars which are held by certain subsidiaries of the Group with bank accounts operating in the PRC where exchange controls apply.

(ii) Restricted bank deposits mainly include deposits of US$11,139,000 (2003: US$12,056,000) which are held as securities for repayment of bank loans of the Group and are restricted for the purpose of the related banking facilities.

30 RELATED PARTY TRANSACTIONS

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

	2004 US$'000	2003 US$'000
Transactions carried out by the Group		
Container rental income from fellow subsidiaries (note a)		
– long term leases	**120,711**	130,283
– short term leases	**1,860**	556
Handling and storage income from fellow subsidiaries (note b)	**5,545**	6,320
Net transportation income from fellow subsidiaries (note b)	**1,097**	1,939
Management fee income from an associated company (note c)	**2,564**	2,564
Container terminal handling fee received from subsidiaries and an associated company of a jointly controlled entity of the Group (note d)	**2,067**	1,767
Container freight charges to (note e)		
– jointly controlled entities	**(106)**	(230)
– subsidiaries of a jointly controlled entity of the Group	**(128)**	–
– Related Entities	**(989)**	(1,434)
Approved continuous examination program fee to a fellow subsidiary (note f)	**(2,200)**	(2,200)
Property rental expense paid to fellow subsidiaries under operating leases (note g)	**(523)**	(796)
Proceeds on disposal of investments in jointly controlled entities to a fellow subsidiary (note h)	**4,943**	–
Purchase of containers from (note i)		
– jointly controlled entities	**(6,197)**	(8,549)
– Related Entities	**(28,888)**	(58,892)
Considerations paid for the acquisition of equity interests in		
– an associated company (note j)	**(127,240)**	–
– jointly controlled entities (note k)	**(150,911)**	–
Transactions carried out by jointly controlled entities and an associated company of the Group		
Income for container terminal handling services from a fellow subsidiary (note l)	**74,529**	58,971
Income for logistics services from fellow subsidiaries (note m)	**8,118**	–
Transportation and related charges to fellow subsidiaries (note n)	**(61,169)**	–
Deposits placed with ultimate holding company and a fellow subsidiary (note o)	**81,455**	–

30 RELATED PARTY TRANSACTIONS (Continued)

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 2004, the Group entered into new long term container leasing arrangements 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 three of the top ten independent container leasing companies and in the ordinary and normal course of the business of the Group.

During the two years ended 31st December 2004, the Group entered into various short term container leasing arrangements (including the leases of certain containers returned from COSCON after the expiry of the long term leases) with certain subsidiaries of COSCO. These short term container leasing arrangements were conducted in accordance with the pricing policy of the Group.

(b) The handling and storage income and the transportation income received from fellow subsidiaries of the Company were conducted at terms as set out in the agreements entered into between the Group and these fellow subsidiaries.

(c) The Group provided advisory and management services to COSCO-HIT Terminals (Hong Kong) Limited ("COSCO HIT"), an associated company of the Group, during the year. Management fee was charged and agreed at HK$20,000,000 (2003: HK$20,000,000) per annum.

(d) During the year, a non-wholly owned subsidiary of the Group provided container terminal handling and storage services to subsidiaries and an associated company of a jointly controlled entity of the Group for cargoes shipped from/to Zhangjiagang port. The tariff rates charged by the Group were by reference to rates as set out by the Ministry of Communications of the PRC.

(e) During the year, the Group paid container freight charges to jointly controlled entities of the Group, subsidiaries of a jointly controlled entity of the Group and certain companies owned by China International Marine Containers (Group) Co., Ltd ("CIMC"), an associated company of the Group, which was acquired from COSCO in December 2004 (note 30(j)), (the "Related Entities") for container repositioning services rendered to the Group.

(f) Pursuant to an addendum of long term lease agreement dated 13th August 2004 entered between the Group and COSCON, the Group has agreed to pay and approved continuous examination program fee of US$2,200,000 (2003: US$2,200,000) to COSCON for the year.

30 RELATED PARTY TRANSACTIONS (Continued)

(g) During the year ended 31st December 2003, a subsidiary of the Group (the "Subsidiary") paid rental expenses of US$702,000 and US$94,000 to Wing Thye Holdings Limited ("Wing Thye") and COSCO Information & Technology (HK) Limited ("COSCO IT") respectively for the leases of certain office spaces pursuant to the tenancy agreements as entered into between the parties in concern. Both Wing Thye and COSCO IT are subsidiaries of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong"), the Company's then immediate holding company. The aforesaid tenancy agreements with Wing Thye and COSCO IT were expired on 4th December 2003 and 28th November 2003 respectively.

On 12th January 2004, the Subsidiary entered into two new tenancy agreements with Wing Thye for the leases of the above office spaces at monthly rentals of HK$267,564 and HK$72,436 respectively, exclusive of rates and management fees. These new tenancy agreements are for a term of 23 months and 25 days commencing with retrospective effect from 4th December 2003 and a term of 24 months commencing with retrospective effect from 29th November 2003 respectively. As at 31st December 2004, the guarantee provided by COSCO Hong Kong to Wing Thye as security for due payment of rental and other monies by the Subsidiary amounted to HK$1,020,000 (2003: HK$1,395,069).

The rentals for all the tenancy agreements as mentioned above were by reference to valuations conducted by DTZ Debenham Tie Leung Limited, a professional valuer.

(h) On 25th November 2003, the Group entered into agreements with COSCO International Limited, a listed fellow subsidiary, to dispose of its entire 20% equity interests in each of Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd., both were then jointly controlled entities of the Group, at aggregate cash considerations totalling RMB41,040,000 (equivalent of approximately US$4,943,000) (the "Disposals"). The Disposals were completed in January 2004 and the gain on Disposals amounted to US$388,000.

(i) The purchases of containers from Related Entities and jointly controlled entities of the Group were conducted at terms as set out in the agreements entered into between the Group and the parties in concern.

(j) On 19th August 2004, COSCO Container Industries Limited, a wholly owned subsidiary of the Company, entered into an agreement with COSCO to acquire its 163,701,456 non-publicly tradable State-owned legal person shares in CIMC, representing approximately 16.23% of the issued share capital of CIMC, at a cash consideration of RMB1,056,384,000 (equivalent of approximately US$127,240,000). CIMC, whose A shares and B shares are listed and traded on the Shenzhen Stock Exchange is primarily engaged in the manufacturing and sale of modern traffic and transport equipment such as containers, modern road transport vehicles and airport ground equipment.

The acquisition of CIMC was completed on 31st December 2004. Prior to the Group's acquisition of the equity interest in CIMC, COSCO invested in CIMC with equity interest of 17.18% and CIMC was classified as a related company of the Group in prior years.

30 RELATED PARTY TRANSACTIONS (Continued)

(k) (i) On 22nd September 2003, COSCO Pacific Logistics Company Limited ("CPLCL"), a wholly owned subsidiary of the Company, entered into agreements with COSCO to effect, subsequent to the fulfilment of certain conditions precedent, a capital increase and transfer of equity interest transaction for the acquisition of 49% equity interest in COSCO LOGISTICS, a then wholly owned subsidiary of COSCO, at an aggregate amount of RMB1,180,410,000 (equivalent of approximately US$142,179,000), comprising an amount payable to COSCO of RMB446,410,000 and capital contribution to COSCO LOGISTICS of RMB734,000,000.

CPLCL also agreed to pay COSCO an additional amount of RMB50,000,000 (equivalent of approximately US$6,022,000) (the "Additional Consideration") if the pro forma combined net profit of COSCO LOGISTICS for the year ended 31st December 2003 exceeds RMB200,000,000 (equivalent of approximately US$24,090,000). COSCO LOGISTICS is principally engaged in shipping agency, freight forwarding, third party logistics and supporting services in China mainland.

The acquisition was completed in January 2004 and the Additional Consideration was paid in September 2004.

(ii) Pursuant to an agreement dated 15th June 2004 entered into between COSCO and COSCO Ports (Yingkou) Limited ("COSCO Ports Yingkou"), an indirect wholly owned subsidiary of the Company, COSCO Ports Yingkou agreed to acquire from COSCO its entire 50% equity interest in a company established in the PRC which is principally engaged in the provision of container terminal business in Yingkou, at a cash consideration of RMB22,500,000 (equivalent of approximately US$2,710,000). The acquisition was completed in August 2004.

(l) COSCO-HIT and Qingdao Qingwan Container Terminal Co., Ltd ("QQCT"), a jointly controlled entity acquired by the Group in December 2003, provided container terminal handling and storage services to COSCON. The services rendered were charged at terms pursuant to the respective agreements with COSCON which governed the transactions. During the year ended 31st December 2004, the fee charged by COSCO-HIT and QQCT in respect of these services amounted to US$59,922,000 (2003: US$58,971,000) and US$14,607,000 (2003: US$Nil) respectively.

(m) COSCO LOGISTICS provided certain subsidiaries of COSCO (other than those within the Group) with logistics services including shipping agency, freight forwarding, third party logistics and supporting services. These services were charged at rates as agreed on a mutual basis.

(n) Certain subsidiaries of COSCO (other than those within the Group) provided COSCO LOGISTICS with transportation and related services at charges as agreed on a mutual basis.

(o) COSCO LOGISTICS placed deposits with COSCO and COSCO Finance Co., Ltd., a fellow subsidiary. These deposits carry interest at prevailing market rates quoted by the People's Bank of China.

31 SIGNIFICANT ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITY

A summary of the financial information of COSCO-HIT and Liu Chong Hing Bank Limited, significant associated companies of the Group, and COSCO LOGISTICS, a significant jointly controlled entity of the Group, after making adjustments by directors of the Company to conform with the Group's principal accounting policies, for the years ended 31st December 2004 and 2003 is set out as follows:

(a) COSCO-HIT

	2004 US$'000	2003 US$'000
Result for the year		
Turnover	**128,426**	127,918
Profit for the year	**63,545**	61,829
Net assets as at 31st December		
Non-current assets	**306,654**	315,539
Current assets	**38,910**	39,589
Current liabilities	**(20,157)**	(17,185)
Non-current liabilities	**(277,244)**	(276,350)
	48,163	61,593

31 SIGNIFICANT ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITY (Continued)

(b) Liu Chong Hing Bank Limited

	2004 US$'000	2003 US$'000
Result for the year		
Net interest income	**83,562**	85,920
Profit for the year	**48,898**	39,564
Assets		
Cash and short-term funds	**1,750,630**	1,538,704
Advances and other accounts	**2,604,796**	2,574,557
Tangible fixed assets and other assets	**1,086,416**	1,047,470
	5,441,842	5,160,731
Liabilities		
Deposits with customers	**4,368,116**	4,178,409
Certificates of deposit, deposits with other banks and financial institutions	**200,658**	132,743
Other liabilities	**59,118**	57,885
	4,627,892	4,369,037
Net assets as at 31st December	**813,950**	791,694

31 SIGNIFICANT ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITY (Continued)

(c) COSCO LOGISTICS

	2004 US$'000
Result for the year	
Turnover	**957,230**
Profit for the year	**28,720**
Net assets as at 31st December	
Non-current assets	**165,784**
Current assets	**536,412**
Current liabilities	**(401,602)**
Non-current liabilities	**(19,502)**
Minority interest	**(15,694)**
	265,398

COSCO LOGISTICS was acquired by the Group in January 2004 and therefore no comparative figure for the year ended 31st December 2003 is presented.

32 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.

33 COMPARATIVE FIGURES

Certain comparatives of segment information as disclosed in note 2 to the accounts have been reclassified or extended to conform with the current year's presentation.

34 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 4th March 2005.

Notes to the Accounts

35 DETAILS OF SUBSIDIARIES

Details of the subsidiaries as at 31st December 2004 are as follows:

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2004	Group equity interest 2003
[2] Allgood International Limited	British Virgin Islands	Hong Kong	Dormant	1 ordinary share of US$1	**100%**	100%
[1, 2] 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%
[1, 2] COSCO Container Industries Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	–
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%
[1, 2, 4] COSCO Pacific (China) Investments Co., Ltd.	PRC	PRC	Investment holding	US$37,496,000	**100%**	100%
[1] COSCO Pacific Finance (2003) Company Limited	British Virgin Islands	Hong Kong	Financing	1 ordinary share of US$1	**100%**	100%
[1, 2] COSCO Pacific Logistics Company Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
[1] 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%
[1, 2] COSCO Pacific Nominees Limited	British Virgin Islands	Hong Kong	Provision of nominee services	1 ordinary share of US$1	**100%**	100%

35 DETAILS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2004	2003
[2] COSCO Ports (Antwerp) NV	Belgium	Belgium	Investment holding	EURO 61,500 and is divided into 2 shares with no face value	**100%**	–
[2] COSCO Ports (Belgium) Limited	Hong Kong	Hong Kong	Investment holding	1 ordinary share of HK$1	**100%**	–
[2] COSCO Ports (Dalian) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	–
[2] COSCO Ports (Dalian RoRo) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
[2] COSCO Ports (Guangzhou) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	–
[1] COSCO Ports (Holdings) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
[2, 3] COSCO Ports (Hong Kong) Limited	British Virgin Islands	Hong Kong	Dormant	1 ordinary share of US$1	**100%**	–
[2, 3] COSCO Ports (Nansha) Limited	British Virgin Islands	Hong Kong	Dormant	1 ordinary share of US$1	**100%**	–
[2] COSCO Ports (Shekou) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
[2] COSCO Ports (Singapore) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
[2] COSCO Ports (Qianwan) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
[2] COSCO Ports (Qingdao) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
[2] COSCO Ports (Tianjin) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
[2] COSCO Ports (Yangzhou) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	–

Notes to the Accounts

35 DETAILS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2004	2003
[2] COSCO Ports (Yingkou) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	–
[2] COSCO Ports (Zhenjiang) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	–
[1] CPL Treasury Limited	British Virgin Islands	Hong Kong	Provision of treasury services	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%
[1, 2] Elegance Investment Limited	British Virgin Islands	Hong Kong	Investment holding and became dormant in 2004	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%
[2] Famous International Limited	British Virgin Islands	Worldwide	Investment holding and sale of old containers	1 ordinary share of US$1	**100%**	100%
[2] Fentalic Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
Florens Container (Macao Commercial Offshore) Limited	Macau	Worldwide	Sale of old containers and administration of marine shipping container activities	1 quota of MOP 100,000	**100%**	100%
Florens Container Corporation S.A.	Panama	Worldwide	Container leasing	100 ordinary shares of US$100 each	**100%**	100%
[1] Florens Container Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	22,014 ordinary shares of US$1 each	**100%**	100%

35 DETAILS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2004	2003
Florens Container Inc.	United States of America	United States of America	Container leasing	1 ordinary share of US$1	**100%**	100%
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%
[2, 3] Florens Container, Inc. (2002)	United States of America	United States of America	Dormant	1 ordinary share of US$1	**100%**	–
Florens Container, Inc. (2003)	United States of America	United States of America	Container leasing	1 ordinary share of US$1	**100%**	100%
[2] Florens Container, Inc. (2004)	United States of America	United States of America	Container leasing	1 ordinary share of US$1	**100%**	–
[2] Florens Container Services (Australia) Pty Limited	Australia	Australia	Provision of container management services	100 ordinary shares of AUD 1 each	**100%**	100%
Florens Container Services Company Limited	Hong Kong	Worldwide	Provision of container management services	100 ordinary shares of HK$1 each	**100%**	100%
[2] Florens Container Services (Deutschland) GmbH.	Germany	Germany	Provision of container management services	2 shares of EURO 12,782.30 each	**100%**	100%
[2] Florens Container Services (Italy) S.R.L.	Italy	Italy	Provision of container management services	20,000 quotas of EURO 0.52 each	**100%**	100%

35 DETAILS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2004	2003
[2] Florens Container Services (Japan) Co. Ltd.	Japan	Japan	Provision of container management services	200 ordinary shares of JPY 50,000 each	**100%**	100%
[2] Florens Container Services (UK) Limited	United Kingdom	United Kingdom	Provision of container management services	183,610 ordinary shares of GBP 1 each	**100%**	100%
[2] 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%
[1, 2] Florens Industrial Holdings Limited	Bermuda	Hong Kong	Investment holding and became dormant in 2004	12,000 ordinary shares of US$1 each	**100%**	100%
Florens Management Services (Macao Commercial Offshore) Limited	Macau	Macau	Provision of container management services	1 quota of MOP 100,000	**100%**	100%
Florens Shipping Corporation Limited	Bermuda	Worldwide	Container leasing	12,000 ordinary shares of US$1 each	**100%**	100%
[2] Florens U.S. Holdings, Inc.	United States of America	United States of America	Investment holding	1 ordinary share of US$1	**100%**	100%
[2] 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%
[1, 2] Hang Shing Investment Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	–
[2] Hero King Limited	British Virgin Islands	Hong Kong	Property holding	1 ordinary share of US$1	**100%**	100%
[2] Loson Investment Limited	British Virgin Islands	Hong Kong	Property holding and became dormant in 2004	1 ordinary share of US$1	**100%**	100%

35 DETAILS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest 2004	2003
[2] Plangreat Limited	British Virgin Islands	Hong Kong	Investment holding	100 ordinary shares of US$1 each	**100%**	100%
[1,2] 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%
[2,4] Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	PRC	PRC	Operation of container terminal	US$16,800,000	**51%**	51%

1 Shares held directly by the Company.

2 Subsidiaries not audited by PricewaterhouseCoopers.

3 These subsidiaries have not commenced operations as at 31st December 2004.

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

36 DETAILS OF JOINTLY CONTROLLED ENTITIES

Details of the jointly controlled entities as at 31st December 2004 are as follows:

Name	Place of establishment/ operation	Principal activities	Paid-up capital	Percentage of interest in ownership/ voting power/ profit sharing 2004	2003
COSCO Logistics Co., Ltd.	PRC	Shipping agency, freight forwarding, third party logistics and supporting services	RMB1,582,029,851	**49.00%/ 44.44%/ 49.00%**	– – –
COSCO-PSA Terminal Private Limited	Singapore	Operation of container terminal	SGD48,900,000	**49.00%/ 50.00%/ 49.00%**	49.00%/ 50.00%/ 49.00%

Notes to the Accounts

36 DETAILS OF JOINTLY CONTROLLED ENTITIES (Continued)

Name	Place of establishment/ operation	Principal activities	Paid-up capital	Percentage of interest in ownership/ voting power/ profit sharing 2004	2003
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%
Qingdao Qianwan Container Terminal Co., Ltd.	PRC	Operation of container terminal	US$169,925,000	**20.00%/ 18.18%/ 20.00%**	20.00%/ 18.18%/ 20.00%
Shanghai CIMC Far East Container Co., Ltd. (note)	PRC	Container manufacturing	US$9,480,000	**20.00%/ 20.00%/ 20.00%**	20.00%/ 20.00%/ 20.00%
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%
Tianjin CIMC North Ocean Container Co., Ltd. (note)	PRC	Container manufacturing	US$16,682,000	**22.50%/ 20.00%/ 22.50%**	22.50%/ 20.00%/ 22.50%
Yangzhou Yuanyang International Ports Co. Ltd.	PRC	Operation of container terminal	US$29,800,000	**55.59%/ 50.00%/ 55.59%**	– – –
Yingkou Container Terminals Company Limited	PRC	Operation of container terminal	RMB8,000,000	**50.00%/ 57.14%/ 50.00%**	– – –

Note:

The Group's share of results of its jointly controlled entities, Shanghai CIMC Far East Container Co., Ltd. and Tianjin CIMC North Ocean Container Co., Ltd. (collectively "Shanghai and Tianjin CIMC") were based on the guaranteed profits as stated in the relevant subcontracting agreements entered into with the venturer of Shanghai and Tianjin CIMC, which was a then related company of the Group (note 30(j)). The guaranteed profit arrangements for Shanghai and Tianjin CIMC were valid for the period from 1st January 2000 to 31st December 2004.

37 DETAILS OF ASSOCIATED COMPANIES

Details of the associated companies as at 31st December 2004 are as follows:

Name	Place of incorporation/ establishment/ operation	Principal activities	Issued share capital/registered capital	Group equity interest 2004	2003
Antwerp Gateway NV	Belgium	Operation of container terminal	EURO500,000	**25.00%**	–
COSCO-HIT Terminals (Hong Kong) Limited	Hong Kong	Operation of container terminal	2 "A" ordinary shares of HK$10 each and 2 "B" ordinary shares of HK$10 each	**50.00%**	50.00%
China International Marine Containers (Group) Co., Ltd.	PRC	Container manufacturing	RMB1,008,483,353 (363,781,013 non-publicly tradable shares, 302,933,219 "A" shares and 341,769,121 "B" shares), all of RMB1 each	**16.23%**	–
Dalian Automobile Terminal Co., Ltd.	PRC	Construction and operation of automobile terminals	RMB160,000,000	**30.00%**	–
Dalian Port Container Terminal Co., Ltd.	PRC	Operation of container terminal	RMB240,000,000	**20.00%**	–
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	**20.00%**	20.00%
Liu Chong Hing Bank Limited	Hong Kong	Banking and related financial services	435,000,000 ordinary shares of HK$0.5 each	**20.00%**	20.00%
Shanghai Pudong International Container Terminals Limited	PRC	Operation of container terminal	RMB1,900,000,000	**20.00%**	20.00%

Five-year Financial Summary

	For the year ended 31st December				
	2004 US$'000	2003 US$'000	2002 US$'000	2001 US$'000	2000 US$'000
Turnover	**275,296**	257,495	241,644	224,671	217,893
Operating profit after finance costs	**133,067**	108,987	91,562	98,684	81,479
Share of profits less losses of					
– jointly controlled entities	**41,956**	6,711	8,751	9,421	6,656
– associated companies	**69,497**	64,915	67,461	56,812	66,243
Profit before taxation	**244,520**	180,613	167,774	164,917	154,378
Taxation	**(35,784)**	(24,424)	(23,886)	(9,802)	(13,790)
Profit after taxation	**208,736**	156,189	143,888	155,115	140,588
Minority interests	**(2,444)**	(1,858)	(1,699)	(1,012)	(884)
Profit attributable to shareholders	**206,292**	154,331	142,189	154,103	139,704
Dividends	**117,662**	87,568	79,904	64,576	52,731
Basic earnings per share (US cents)	**9.55**	7.19	6.63	7.20	6.53
Dividend per share (US cents)	**5.40**	4.08	3.72	3.01	2.46

	As at 31st December				
	2004 US$'000	2003 US$'000	2002 US$'000	2001 US$'000	2000 US$'000
Total assets	**2,239,692**	1,900,266	1,743,797	1,729,580	1,556,890
Total liabilities	**(757,444)**	(570,458)	(482,435)	(544,258)	(470,908)
Minority interests	**(9,441)**	(8,644)	(8,314)	(7,511)	(7,250)
Net assets	**1,472,807**	1,321,164	1,253,048	1,177,811	1,078,732

Notes:

1 The consolidated results of the Group for the two years ended 31st December 2004 and the assets and liabilities of the Group as at 31st December 2004 have been extracted from the audited accounts of the Group as set out on pages 99 and 100 of the annual report.

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

Major analysts contact list

Company Name	Analyst	Telephone	Facsimile	e-mail address
1. ABN AMRO Asia Limited	Osbert TANG	8621 5049 6333*2102	8621 5049 6999	osbert.tang@cn.abnamro.com
2. BNP Paribas Peregrine Securities Limited	Jim WONG	2825 1888	2845 2232	jimmy.wong@peregrine.bnpparibas.com
3. BOCI Research Limited	Michael CHAN	2867 6333	2147 9513	michael.chan@bocigroup.com
4. China International Capital Corporation Limited	Michael YI	8610 6505 1166*1373	8610 6505 8157	yiqq@cicc.com.cn
5. Citigroup Global Markets Asia Limited	Charles de TRENCK	2501 2756	2521 5350	charles.detrenck@citigroup.com
6. CLSA Limited	Mike LU	2600 8888	2501 0903	mike.lu@clsa.com
7. Core Pacific-Yamaichi International (H.K.) Limited	Yvonne DUNN	2826 0700	2536 9916	yvonne.dunn@cpy.com.hk
8. Credit Suisse First Boston (Hong Kong) Limited	Karen CHAN	2101 6572	2284 6572	karen.chan@csfb.com
9. Daiwa Institute of Research (H.K.) Limited	Geoffrey CHENG	2525 0121	2845 2190	geoffrey.cheng@dir.com.hk
10. DBS Vickers (Hong Kong) Limited	Winnie CHIU	2820 4888	2521 1812	winnie_chiu@hk.dbsvickers.com
11. Deutsche Bank AG	Benjamin LO	2203 8888	2203 6921	benjamin.lo@db.com
12. Goldman Sachs (Asia) L.L.C.	Mike WARREN	2978 1383	2978 1346	mike.warren@gs.com
13. Guotai Junan Securities (Hong Kong) Limited	Alan LAM	2509 9118	2509 0030	alan.lam@gtjas.com.hk
14. J.P. Morgan Securities (Asia Pacific) Limited	Steven LI	2800 1000	2537 4319	steven.mh.li@jpmorgan.com
15. Macquarie Securities Limited	Peter SO	2823 3588	2823 3560	peter.so@macquarie.com
16. Merrill Lynch International Incorporated	David CUI	8621 5407 5088 *3102	8621 5407 5245	david_cui@ml.com
17. Morgan Stanley Dean Witter Asia Limited	Jim LAM	2848 5200	3407 5888	jim.lam@morganstanley.com
18. South China Research Ltd.	Byron YIU	2820 6333	2845 5868	byron.yiu@sctrade.com
19. Standard & Poor's	Christopher LEE	2532 8030	2532 8039	christopher_k_lee@standardandpoors.com
20. Sun Hung Kai Research Ltd.	Oscar CHOI	2822 5025	2822 5502	oscar.choi@shkco.com
21. Tai Fook Research Limited	CHO Fook Tat	2848 4333	2869 7737	ftcho@taifook.com
22. UBS Securities Asia Limited	Ingrid WEI	8621 5292 5556 *8825	8621 5292 5557	ingrid.wei@ubs.com
23. UOB Kay Hian (Hong Kong) Limited	ZHANG Xi	2236 6761	2845 1655	xi.zhang@uobkayhian.com.hk

Corporate information

BOARD OF DIRECTORS

Executive Directors
Mr. WEI Jiafu *(Chairman)*
Mr. LIU Guoyuan *(Vice Chairman)*
Mr. ZHANG Fusheng
Mr. WANG Futian
Mr. CHEN Hongsheng
Mr. LI Jianhong
Mr. MA Zehua
Mr. MA Guichuan
Mr. LI Yunpeng
Ms. SUN Yueying
Mr. ZHOU Liancheng
Mr. SUN Jiakang *(Managing Director)*
Mr. XU Lirong
Mr. HE Jiale
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

Non-executive Director
Mr. KWONG Che Keung, Gordon

QUALIFIED ACCOUNTANT
Mr. LI Wai Ho, Francis

COMPANY SECRETARY
Ms. HUNG Man, Michelle

PLACE OF INCORPORATION
Bermuda

REGISTERED OFFICE
Clarendon House
Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
49th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

AUDITORS
PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Hong Kong

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

PRINCIPAL BANKERS
ABN AMRO Bank N.V.
Bank of China (Hong Kong) Limited
ING Bank N.V.
Rabobank
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL REGISTRAR AND TRANSFER OFFICE IN BERMUDA
The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

HONG KONG BRANCH REGISTRAR 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 (Stock Code: 1199)

COSCO Pacific Limited
49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong
Telephone: (852) 2809-8188
Facsimile: (852) 2907-6088
E-mail: info@coscopac.com.hk
www.coscopac.com.hk