



# COSCO Pacific Limited

(Incorporated in Bermuda with limited liability)

## CONNECTED TRANSACTIONS

On 22 September 2003, CPLCL, a wholly-owned subsidiary of the Company, entered into the Capital Increase and Transfer Agreement, the Joint Venture Contract, the Articles of Association and the Non-competition Deed with COSCO. Pursuant to the Capital Increase and Transfer Agreement, CPLCL has conditionally agreed to (i) pay an amount of RMB734.00 million (approximately HK\$692.5 million) to COSCO LOGISTICS comprising a contribution of an amount of RMB482,029,850.75 to the registered capital of COSCO LOGISTICS (amounting to approximately 30.47% of its enlarged registered capital) and an amount of RMB251,970,149.25 which will go to the capital reserve of COSCO LOGISTICS and (ii) acquire part of COSCO's equity interest in COSCO LOGISTICS amounting to approximately 18.53% of its enlarged registered capital for a consideration of RMB446.41 million (approximately HK\$421.1 million). Upon Completion, CPLCL will own 49.00% of the then enlarged registered capital of COSCO LOGISTICS and the total consideration for such 49.00% interest is RMB1,180.41 million (approximately HK\$1,113.6 million). CPLCL further agreed to pay COSCO an additional amount of RMB50.00 million (approximately HK\$47.2 million) if the Net Profit of the Reorganised COSCO LOGISTICS Group for the year ending 31 December 2003 exceeds RMB200.00 million. The Transactions will be funded by the Company's internal cash resources and banking facilities. The considerations payable by CPLCL for the Transactions were based on normal commercial terms and were determined through negotiations between the Company and COSCO. The Company has agreed with COSCO to (i) guarantee the due performance by CPLCL of its obligations pursuant to the agreements contemplated under the Transactions and (ii) to enter into the aforesaid agreements in its own name if it is so required by the PRC governmental authorities.

COSCO LOGISTICS, formerly named as 中國汽車運輸總公司 (China Road Transport Company\*) and established as a state-owned enterprise in 1965, was transferred from the Ministry of Communications of the PRC to COSCO in 1992 and adopted its present name since December 2001. It is in the process of conversion into a wholly state-owned limited liability company. Pursuant to the Transactions, COSCO LOGISTICS will be further converted into a sino-foreign equity joint venture company with its name changed to COSCO Logistics Co., Ltd.. COSCO LOGISTICS Group has been undergoing the Reorganisation, pursuant to which COSCO LOGISTICS will become the holding company of the group of Companies under Reorganised COSCO LOGISTICS and is positioned as COSCO Group's flagship logistics service provider. Pursuant to the Reorganisation, certain companies have been or are being transferred from COSCO Group to COSCO LOGISTICS and certain assets, liabilities and companies have been or are being transferred out or disposed of from COSCO LOGISTICS by transferring or selling them to CRTIFAC. Upon completion of all the transactions pursuant to the Reorganisation, the group of Companies under Reorganised COSCO LOGISTICS will be comprised of companies engaging in shipping agency, freight forwarding, third party logistics and supporting services including warehousing, storage, depot and trucking. The group of Companies under Reorganised COSCO LOGISTICS provides these services nationwide and currently has regional companies in Dalian, Beijing, Qingdao, Shanghai, Ningbo, Xiamen, Guangzhou and Wuhan regions in China mainland. The group of Companies under Reorganised COSCO LOGISTICS also has overseas representative offices in Hong Kong, Japan, South Korea, Singapore and Greece.

For the four months ended 30 April 2003, the Pro Forma combined turnover and Net Profit of the Reorganised COSCO LOGISTICS Group were approximately RMB1,749.6 million and RMB63.7 million respectively. For the year ended 31 December 2002, the Pro Forma combined turnover and Net Profit of the Reorganised COSCO LOGISTICS Group were approximately RMB4,607.7 million and RMB183.8 million respectively. The Pro Forma combined net asset values of the Reorganised COSCO LOGISTICS Group as at 31 December 2002 and 30 April 2003 were approximately RMB1,203.8 million and RMB1,267.4 million respectively.

COSCO (Hong Kong) a wholly-owned subsidiary of COSCO, directly and indirectly held approximately 53.29% of the issued share capital of the Company as at the Latest Practicable Date and accordingly COSCO is the Company's ultimate parent company. CPLCL is a wholly-owned subsidiary of the Company. Accordingly, the Transactions constitute connected transactions for the Company within the meaning of the Listing Rules, and are subject to approval by the Independent Shareholders.

The Company has appointed HSBC as its financial advisor in connection with the Transactions. The Independent Board Committee, comprising Dr. LI Kwok Po, David and Mr. Alexander Reid HAMILTON, has been appointed by the Board to advise the Independent Shareholders as to the fairness and reasonableness of the Transactions. Rothschild has been appointed as the independent financial advisor to provide its opinions to the Independent Board Committee in connection with the Transactions. A circular containing further information on the Transactions, the letter from Rothschild, the views of the Independent Board Committee and a notice convening the SGM will be despatched to the shareholders of the Company as soon as practicable.

### CAPITAL INCREASE AND TRANSFER AGREEMENT, JOINT VENTURE CONTRACT AND ARTICLES OF ASSOCIATION

#### Capital Increase and Transfer Agreement dated 22 September 2003

##### Parties

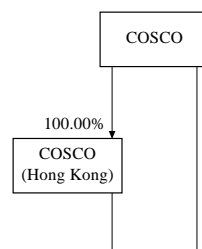
- COSCO, the ultimate beneficial owner holding approximately 53.29% of the issued share capital of the Company as at the Latest Practicable Date
- CPLCL, a wholly-owned subsidiary of the Company

##### Assets to be acquired

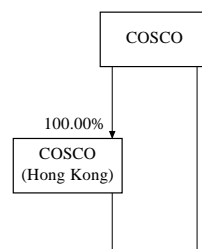
49.00% equity interest in the registered capital of COSCO LOGISTICS upon its conversion into a sino-foreign equity joint venture company (see the paragraph headed "The Joint Venture Contract and the Articles of Association" below).

Subject to the fulfilment of certain conditions precedent (see the sub-paragraph headed "Conditions Precedent" below) and based on the terms of the Capital Increase and Transfer Agreement, CPLCL has agreed to (i) pay an amount of RMB734.00 million (approximately HK\$692.5 million) to COSCO LOGISTICS comprising a contribution of an amount of RMB482,029,850.75 to the registered capital of COSCO LOGISTICS (amounting to approximately 30.47% of its enlarged registered capital) and an amount of RMB251,970,149.25 which will go to the capital reserve of COSCO LOGISTICS and (ii) acquire part of COSCO's equity interest in COSCO LOGISTICS amounting to approximately 18.53% of the enlarged registered capital of COSCO LOGISTICS for a consideration of RMB446.41 million (approximately HK\$421.1 million). Upon Completion, CPLCL will own 49.00% of the then enlarged registered capital of COSCO LOGISTICS and the total consideration for such 49.00% interest is RMB1,180.41 million (approximately HK\$1,113.6 million).

#### Structure before Completion



#### Structure after Completion



#### Undertakings by COSCO

Prior to Completion, the COSCO LOGISTICS Group has been undergoing the Reorganisation to create the group of Companies under Reorganised COSCO LOGISTICS as the COSCO Group's flagship logistics service provider. Pursuant to the Reorganisation, certain assets, liabilities and companies have been or are being transferred out or disposed of from COSCO LOGISTICS by transferring or selling them to CRTIFAC. The undertakings by COSCO to CPLCL include, but not limited to the following:

- (1) to assist and procure that the procedures and formalities for transferring those companies to be transferred to COSCO LOGISTICS pursuant to the Reorganisation will be completed on or before Completion in order to ensure that COSCO LOGISTICS will legally and/or beneficially own the interests and benefits in the group of Companies under Reorganised COSCO LOGISTICS;
- (2) to assist and procure that the procedures and formalities for transferring out all the Excluded Companies pursuant to the Reorganisation be completed on or before Completion, and to indemnify COSCO LOGISTICS or CPLCL for all losses and costs arising out of those of the Excluded Companies remaining in COSCO LOGISTICS Group at Completion;
- (3) for those companies to be transferred to the COSCO LOGISTICS Group and those of the Excluded Companies to be transferred out from the COSCO LOGISTICS Group which cannot complete the necessary transfer procedures and formalities at Completion, to continue to complete such procedures and formalities until these companies are legally transferred to COSCO LOGISTICS Group or transferred out from COSCO LOGISTICS Group and transferred to CRTIFAC (as the case may be);
- (4) for the land and buildings currently owned or used by the group of Companies under Reorganised COSCO LOGISTICS, to assist and procure that the authorisation by the Ministry of Land and Resources of the PRC required in respect of the leasing of those properties which are currently of the nature of allocated land is obtained, to use its best endeavours to obtain the land use rights certificates and building ownership certificates to the extent such are not yet in place, and to indemnify COSCO LOGISTICS or CPLCL for all losses arising out of its inability to use any land and buildings due to disputes in the right to use such properties and/or change in government city planning;
- (5) to procure that the relevant Excluded Companies to pay back to COSCO LOGISTICS the total receivable amount due from such Excluded Companies that are reflected on the Pro Forma combined financial information of the Reorganised COSCO LOGISTICS Group as at 30 April 2003 within two years from the date of Completion and to indemnify CPLCL or COSCO LOGISTICS for any loss suffered therefrom;
- (6) to indemnify COSCO LOGISTICS or CPLCL for any loss arising out of the liabilities transferred out as part of the Reorganisation in respect of certain borrowings used by the Excluded Companies;
- (7) to indemnify CPLCL or COSCO LOGISTICS for all liabilities arising out of litigation, arbitration, taxation and contingent liabilities involving the group of Companies under Reorganised COSCO LOGISTICS that happened on or before Completion, or which can be foreseen by COSCO and/or which are caused by deliberately concealed facts save and except to the extent that provisions have

The considerations for the Transactions have been determined through negotiations between the Company and COSCO based on various factors, including, but not limited to, general market conditions, especially in China mainland, potential growth in China mainland's logistics industry, competitiveness of China mainland's logistics industry notably in the light of CEPA, quality of the group of Companies under Reorganised COSCO LOGISTICS's operations, the financial results of the group of Companies under Reorganised COSCO LOGISTICS, the earnings potential of the group of Companies under Reorganised COSCO LOGISTICS, investment risks and potential synergies with the Company's operations.

According to the Reorganised COSCO LOGISTICS Group's Pro Forma combined financial information for the year ended 31 December 2002, an extract of which is set out in the section "Selected Financial Information of the Reorganised COSCO LOGISTICS Group" below, examined by PwC, the Company's reporting accountants, the Net Profit for the year ended 31 December 2002 was approximately RMB183.8 million and the Pro Forma combined net asset values as at 31 December 2002 was approximately RMB1,203.8 million. The total consideration of RMB1,180.41 million (approximately HK\$1,113.6 million) for 49.00% of the enlarged registered capital of COSCO LOGISTICS represents implied pre-money and post-money price earnings multiples of approximately 9.1 and 13.1 times of the Net Profit for the year ended 31 December 2002 respectively. It also represents 1.4 and 1.2 times of CPLCL's share of Pro Forma combined net asset values as at 31 December 2002 on pre-money and post-money basis respectively.

The Company has also made reference to the property valuation prepared by DTZ, a property valuer engaged by the Company, which values the Reorganised COSCO LOGISTICS Group's attributable property interests of companies in which Reorganised COSCO LOGISTICS Group holds not less than 50% equity interests, including open market values of the transferable properties and the depreciated replacement cost of the non-transferable building structures, at approximately RMB469 million as at 31 July 2003.

Upon Completion, the proceeds received by COSCO LOGISTICS will be RMB734.00 million (approximately HK\$692.5 million). The Company understands that it is the current intention of COSCO LOGISTICS to use the proceeds as follows:

- approximately 80% of the proceeds will be used to fund capital expenditure relating to the construction of regional distribution centres, warehouses and depots in major economic areas such as Beijing, Dalian, Shanghai and Qingdao and the development of information technology systems for the group of Companies under Reorganised COSCO LOGISTICS;
- approximately 16% of the proceeds will be used to fund co-investments in logistics related companies, enhance and develop the sales network as well as invest and upgrade logistics supporting assets for the group of Companies under Reorganised COSCO LOGISTICS;
- the balance to be used for working capital and other general corporate purposes.

Under the current regulatory environment, the Company is not allowed to own a majority equity interest in COSCO LOGISTICS. Furthermore, the Company has no current intention to further increase its equity interest in COSCO LOGISTICS from the 49.00% equity interest arising from the Transactions.

The Company believes that the Transactions are consistent with its long term business strategy of enhancing shareholders' value, and will expand the Company's earnings source within its pre-determined missions.

#### INFORMATION REGARDING COSCO LOGISTICS GROUP



#### Conditions Precedent

The completion of the Capital Increase and Transfer Agreement is conditional upon, among other things, the following conditions precedent being fulfilled:

- (1) the issue by the State Administration of Industry and Commerce of the PRC of a business licence to COSCO LOGISTICS stating the corporate nature as a wholly state-owned limited liability company with its name changed to COSCO Logistics Co., Ltd.;
- (2) completion of the real property and assets valuations of COSCO LOGISTICS required in connection with the Capital Increase and Transfer Agreement, and the authorisation by the Ministry of Land and Resources of the PRC of the use of land which are of the nature of allocated land and the approval/filing of the assets valuation report with the State-owned Assets Supervision and Administration Commission of the PRC;
- (3) completion of the internal approval procedures in respect of the entering into and the performance of obligations under the Capital Increase and Transfer Agreement by COSCO in accordance with its existing articles of association;
- (4) the granting of approval by the Stated-owned Assets Administration Commission of the PRC of the increase in registered capital and the transfer of equity interest in COSCO LOGISTICS contemplated under the Capital Increase and Transfer Agreement;
- (5) the obtaining by COSCO LOGISTICS of a business licence from the State Administration of Industries and Commerce of the PRC, and the obtaining of the approval or consent by the relevant PRC governmental authorities in charge of the industries to which the scope of business of COSCO LOGISTICS as stated in its business license relates;
- (6) the Capital Increase and Transfer Agreement, the Joint Venture Contract and the Articles of Association and all transactions contemplated thereunder are approved at the SGM in accordance with the requirements of the Listing Rules;
- (7) the execution by COSCO and CPLCL and other relevant parties of all agreements and other documents necessary for the transactions under the Capital Increase and Transfer Agreement, and the obtaining of all necessary PRC governmental approvals and consents to the increase in the registered capital of COSCO LOGISTICS and the transfer of equity interest in COSCO LOGISTICS to CPLCL and the conversion of COSCO LOGISTICS into a sino-foreign equity joint venture company (such approvals and consents to remain in full force and effect and not being withdrawn or cancelled on the date of Completion), including but not limited to the approval from the Ministry of Commerce of the PRC of the Transactions;
- (8) all the representations and warranties by COSCO under the Capital Increase and Transfer Agreement being true, accurate and there being no omission which would render any of them being misleading from the date of execution up to and including Completion;
- (9) the respective registered capitals of the group of Companies under Reorganised COSCO LOGISTICS having been fully paid up;
- (10) the issue of a PRC legal opinion by the PRC legal adviser engaged by CPLCL on matters in connection with and documents involved in the Transactions in such reasonable form approved by COSCO and CPLCL.

Under the Capital Increase and Transfer Agreement, COSCO shall procure COSCO LOGISTICS to submit the Capital Increase and Transfer Agreement, the Joint Venture Contract, the Articles of Association and other relevant documents to the approval authorities in the PRC to apply for approval of the increase in the registered capital and transfer of equity interest in COSCO LOGISTICS, and to apply to the State Administration of Industry and Commerce of the PRC for amendment of the registration of COSCO LOGISTICS.

In the event that any of the aforesaid conditions are not fulfilled on or before 31 January 2004 or such later date as COSCO and CPLCL may agree, COSCO and CPLCL shall enter into negotiations for the waiver of all or part of the conditions, extension of the time for fulfilment of the conditions or termination of the Capital Increase and Transfer Agreement. If no agreement can be reached on such negotiations within 15 working days of the deadline for fulfilment of conditions, the Capital Increase and Transfer Agreement shall terminate and none of COSCO and CPLCL shall have any claim against the others, save in respect of any antecedent breach.

#### Completion

Subject to fulfilment (or where relevant waiver) of the conditions precedent referred to in the sub-paragraph headed "Conditions Precedent" above:

- (i) CPLCL will be required to pay up its contribution to the capital of COSCO LOGISTICS in the amount of RMB734.00 million (approximately HK\$692.5 million), within seven working days from the date of issue of the business licence of COSCO LOGISTICS after its conversion into a sino-foreign equity joint venture company (or such later date permitted under the relevant laws and regulations as COSCO and CPLCL may agree in writing); and
- (ii) the amount of consideration of RMB446.41 million (approximately HK\$421.1 million), for the purchase of approximately 18.53% of the enlarged registered capital of COSCO LOGISTICS will be payable by CPLCL in cash to COSCO within one month from the date of issue of the business licence of COSCO LOGISTICS after its conversion into a sino-foreign equity joint venture company (or such later date permitted under the relevant laws and regulations as COSCO and CPLCL may agree in writing).

been made in the Pro Forma combined financial information of the Reorganised COSCO LOGISTICS Group for the year ended 31 December 2002 and for the four months ended 30 April 2002 and 2003;

- (8) to procure those companies which are wholly owned by COSCO or of which COSCO is a controlling shareholder or the single largest shareholder to use the trademarks (including "PENAVICO") owned by a subsidiary of COSCO LOGISTICS lawfully.

#### Further Payment by CPLCL

CPLCL further agreed that if the Net Profit of the Reorganised COSCO LOGISTICS Group for the year ending 31 December 2003 based on the examined accounts prepared in accordance with HK GAAP exceeds RMB200.00 million, it will pay COSCO an additional amount of RMB50.00 million (approximately HK\$47.2 million) within one month from the date of issue of the examined accounts of the Reorganised COSCO LOGISTICS Group for the year ending 31 December 2003, which shall be issued no later than 30 June 2004 or such later date as COSCO and CPLCL may agree.

#### Undertakings by the Company

The Company has agreed with COSCO to (i) guarantee the due performance by CPLCL of its obligations pursuant to the agreements contemplated under the Transactions to which CPLCL is a party and (ii) to enter into the aforesaid agreements in its own name if it is so required by the PRC governmental authorities.

#### The Joint Venture Contract and the Articles of Association

Parties: COSCO  
CPLCL

- Principal terms:
- (1) The scope of business of COSCO LOGISTICS following its conversion into a sino-foreign equity joint venture company will be shipping agency, freight forwarding, third party logistics and supporting services.
  - (2) The maximum total investment amount of COSCO LOGISTICS will be RMB4,746,089,552.24 whilst the registered capital of COSCO LOGISTICS will be RMB1,582,029,850.75. (According to the applicable PRC regulations, for a sino-foreign equity joint venture with a total investment of United States dollars 30.0 million or more, the amount of its registered capital should not be less than one-third of its total investment amount.) COSCO and CPLCL will contribute or will have contributed approximately RMB806.8 million and RMB775.2 million respectively, representing 51.00% and 49.00% of the registered capital of COSCO LOGISTICS respectively. Accordingly, COSCO and CPLCL shall have 51.00% and 49.00% direct equity interest in COSCO LOGISTICS respectively.
  - (3) CPLCL will make its capital contribution in cash in United States dollars and COSCO will be treated as having made its capital contribution in full by way of contribution of an amount equivalent to the appraised net assets of COSCO LOGISTICS as at 31 December 2002.
  - (4) The profit and loss of COSCO LOGISTICS will be shared between COSCO and CPLCL in accordance with the registered capital contributed by them respectively.
  - (5) The board of directors of COSCO LOGISTICS will comprise 9 directors, 5 and 4 of whom will be nominated by COSCO and CPLCL respectively. Quorum of board meetings shall be two-thirds or more of the directors of COSCO LOGISTICS, save that a postponed meeting held as a result of the original board meeting not having sufficient number of directors to form a quorum, the directors present will form a quorum.
  - (6) COSCO LOGISTICS will have a joint venture period of 30 years commencing on the date of issuance of its business licence. The parties may apply for an extension of the joint venture period within 6 months prior to the expiry of the original joint venture period for another 30 years (subject to approval by the relevant approval authority).

#### REASONS FOR THE TRANSACTIONS AND PRICING FACTORS

The Group is one of the world's leading container-related conglomerates, with an increasingly integrated range of activities spanning container leasing, container terminals and container-related industries. The Company's mission is to be a global leader in container leasing, a regional leader in container terminal operations, and a leading logistics service provider in China mainland and Hong Kong.

The Transactions allow the Company to participate in the expected strong growth of the logistics sector in China mainland via an established platform, thereby providing an additional growth engine for the Company's earnings. The Company believes the expected increase in China mainland's economic growth and trade volume, especially due to China mainland's accession to the WTO, will further enhance the growth in China mainland's transportation and logistics industries. With an extensive service network through which it has built up its presence in shipping agency, freight forwarding, third party logistics and supporting services, the group of Companies under Reorganised COSCO LOGISTICS offers its customers a wide range of logistics services that spans the major economic areas in China mainland.

COSCO has indicated to the Company that subsequent to the Transactions it will continue to position the group of Companies under Reorganised COSCO LOGISTICS as the COSCO's flagship logistics service provider and to provide support to enable the group of Companies under Reorganised COSCO LOGISTICS to become the leading logistics service provider in China mainland.

Furthermore, the Company believes the Transactions can create synergies that benefit the group of Companies under Reorganised COSCO LOGISTICS and itself. Given that the Company already holds significant equity interests in container terminals located at major coastal areas in China mainland, the group of Companies under Reorganised COSCO LOGISTICS can enhance its competitive advantage by partnering with these container terminals to provide better logistics services. Through investing in the group of Companies under Reorganised COSCO LOGISTICS, the Company can enhance the attractiveness of its container terminals by offering integrated sea freight logistics services to its shipping customers.

#### INFORMATION REGARDING COSCO LOGISTICS GROUP

With an extensive service network through which it has built up its strong presence in shipping agency, freight forwarding, third party logistics and supporting services, the group of Companies under Reorganised COSCO LOGISTICS offers its customers a wide range of logistics services that spans the major coastal and economic areas in China mainland.

COSCO's subsidiary, 中國外輪代理總公司 (China Ocean Shipping Agency\*) has been operating shipping agency business since 1953 under the brandname "PENAVICO". According to the China Association of Shipping Agency, up to 2002, the group of companies under 中國外輪代理總公司 (China Ocean Shipping Agency\*) was the largest shipping agency group in China mainland in terms of the number of vessel calls, total net registered tonnage of vessels and cargo volume handled.

COSCO LOGISTICS, formerly named as 中國汽車運輸總公司 (China Road Transport Company\*) was established as a state-owned enterprise in 1965 and was directly under the Ministry of Communications of the PRC. China Road Transport Company was transferred to COSCO as its wholly-owned subsidiary in 1992 and adopted its present name of COSCO Logistics Company with effect from December 2001. COSCO LOGISTICS will be converted into a sino-foreign equity joint venture company pursuant to the Transactions. COSCO LOGISTICS has been undergoing the Reorganisation prior to the Transactions. Pursuant to the Reorganisation, certain companies have been or are being transferred from the COSCO Group to COSCO LOGISTICS and certain assets, liabilities and companies have been or are being transferred out or disposed of from COSCO LOGISTICS by transferring or selling them to CRTIFAC in order to create the group of Companies under Reorganised COSCO LOGISTICS as COSCO Group's flagship logistics service provider. Upon the completion of the Reorganisation, the group of Companies under Reorganised COSCO LOGISTICS will be comprised of companies engaging in shipping agency, freight forwarding, third party logistics and supporting services including warehousing, storage, depot and trucking. The group of Companies under Reorganised COSCO LOGISTICS provides these services nationwide and currently has regional companies in Dalian, Beijing, Qingdao, Shanghai, Ningbo, Xiamen, Guangzhou and Wuhan regions in China mainland. The group of Companies under Reorganised COSCO LOGISTICS also has overseas representative offices in Hong Kong, Japan, South Korea, Singapore and Greece.

For the four months ended 30 April 2003, the Pro Forma combined turnover and Net Profit of the Reorganised COSCO LOGISTICS Group were approximately RMB1,749.6 million and RMB63.7 million respectively. For the year ended 31 December 2002, the Pro Forma combined turnover and Net Profit of the Reorganised COSCO LOGISTICS Group were approximately RMB4,607.7 million and RMB183.8 million respectively. (see the section headed "Selected Financial Information of the Reorganised COSCO LOGISTICS Group" for an extract of the Reorganised COSCO LOGISTICS Group's Pro Forma combined financial information.)

#### Competitive Strengths

The Company believes the competitive strengths of the group of Companies under Reorganised COSCO LOGISTICS include:

- Extensive service network in major and strategic economic areas in China mainland;
- Well established reputation, notably COSCO LOGISTICS Group's parent, COSCO, and COSCO LOGISTICS Group's "PENAVICO" brandname;
- Ability to provide a wide range of logistics services to its customers through its shipping agency, freight forwarding, third party logistics and supporting services;
- Large existing customer base consisting of domestic and multinational companies; and
- Continuing support from its parent, COSCO, to develop the group of Companies under Reorganised COSCO LOGISTICS into a leading logistics service provider in China mainland.

#### Industry Trends

The Company believes the expected increase in China mainland's economic growth and its trade volume especially due to China mainland's accession to the WTO will further enhance the growth in China mainland's transportation and logistics industries including shipping agency, freight forwarding and third party logistics industries. Although third party logistics industry is a relatively new one in China mainland, the Company believes that there has been a growing trend towards companies outsourcing their supply chain management to third party logistics service providers. According to a public report produced by Mercer Management Consulting Inc. in 2002, China mainland's overall logistics services are growing by about 7.5% annually and outsourced logistics services in China mainland are reported to be growing by 25% per year, leading both North America and the rest of the world.

#### Business Strategy

In the light of the industry's growth potential, the Company understands from COSCO and COSCO LOGISTICS Group that it is COSCO LOGISTICS Group's intention to develop the third party logistics services of the group of Companies under Reorganised COSCO LOGISTICS by further exploiting its competitive advantages in shipping agency, freight forwarding and supporting services. COSCO LOGISTICS Group has developed the following business strategies to pursue the objective:

- To continue to enhance and expand sales and service network
- To enhance information technology systems to achieve operational and management efficiency
- To invest in infrastructures so as to provide quality third party logistics services to the customers

#### Shipping Agency

The group of Companies under Reorganised COSCO LOGISTICS handled a total of approximately 95,529 vessel calls or approximately 59.7% of 160,000 vessel calls piloted by major shipping agencies in China mainland in 2002, based on The 2002 Report on China's Shipping Development. The group of Companies under Reorganised COSCO LOGISTICS primarily conducts its shipping agency business through its subsidiaries and through its joint ventures and associated companies with respective port bureaus. The Reorganised COSCO LOGISTICS Group and certain of its jointly controlled entities and associated companies operate their shipping agency businesses under the brandname "PENAVICO". The group of Companies under Reorganised COSCO LOGISTICS has well-established shipping agency operations at almost all international ports in China mainland including, among others, Dalian, Qinhuangdao, Tianjin, Qingdao, Lianyungang, Shanghai, Ningbo, Xiamen, Shenzhen, Haikou and Zhanjiang. The shipping agency services of the group of Companies under Reorganised COSCO LOGISTICS include attending to the

formalities of a vessel's entry into or departure from ports, arranging cargo space booking and shipping documentation on behalf of the vessel and arranging shipments and transhipment of cargoes and containers. The major customers of the group of Companies under Reorganised COSCO LOGISTICS include, among others, Maersk Sealand Container Line, "K" Line, MOL, Evergreen Marine, MSC, CMA-CGM, OOCL, KAMBARA, APL and NYK Line. In 2002, the Reorganised COSCO LOGISTICS Group handled a total net registered tonnage of vessels of approximately 251.0 million tonnes and cargo volume of approximately 171.2 million tonnes. For the four months ended 30 April 2003, the Reorganised COSCO LOGISTICS Group handled approximately 94.7 million net registered tonnage of vessels, a 12.3% increase from approximately 84.3 million handled in the same period in 2002, and approximately 66.9 million tonnes of cargo volume, a 15.3% increase from approximately 58.0 million tonnes handled in the same period in 2002. The shipping agency industry in China mainland is dominated by a few major shipping agents with a large number of small shipping agents. Due to the continuing deregulation of the industry and the increase in competition, shipping agency fees have been declining. The Directors understand from COSCO LOGISTICS that, although the shipping agency industry is becoming more competitive, COSCO LOGISTICS Group has been maintaining its market share in the shipping agency industry due to its marketing efforts and service quality.

The Company understands that COSCO LOGISTICS' goal is to continue to maintain the market share of the group of Companies under Reorganised COSCO LOGISTICS and has developed the following strategies:

- To enhance its shipping agency services by providing professional and customised services to its key shipping customers
- To improve and expand its marketing and sales network
- To improve operating efficiency and lower operating costs

#### Freight Forwarding

The group of Companies under Reorganised COSCO LOGISTICS provides a comprehensive range of sea, air, rail and road freight forwarding services for domestic and international customers, with sea freight forwarding services as its main freight forwarding business. The group of Companies under Reorganised COSCO LOGISTICS has an extensive service network covering major economic areas in China mainland namely Dalian, Beijing, Tianjin, Qingdao, Shanghai, Ningbo, Xiamen, Guangzhou, Shenzhen and Wuhan as well as other coastal and inland regions. The freight forwarding service of the group of Companies under Reorganised COSCO LOGISTICS is to arrange, on behalf of the cargo owner and/or agents, the transportation of cargoes from one location to the designated location, based on the cargo owner's instructions. The group of Companies under Reorganised COSCO LOGISTICS also provides ancillary services including, but not limited to, documentation preparation, consolidation and distribution, inland haulage, customs clearance and warehousing. In 2002, the Reorganised COSCO LOGISTICS Group handled approximately 565,379 TEUs of container cargo and approximately 51.3 million tonnes of bulk cargo. For the four months ended 30 April 2003, the Reorganised COSCO LOGISTICS Group handled approximately 253,197 TEUs of container cargo, a 52.0% increase from approximately 166,573 TEUs handled in the same period in 2002, and approximately 18.5 million tonnes of bulk cargo, a 94.7% increase from approximately 9.5 million tonnes handled in the same period in 2002.

The freight forwarding industry in China mainland is highly competitive with a large number of freight forwarding agents. Despite the competitiveness of the industry, the overall freight forwarding commission rates achieved by the group of Companies under Reorganised COSCO LOGISTICS have been maintained at a stable level due to the increase in ancillary service fees which compensates for the decline in basic commission rate.

To further develop its freight forwarding business, the Directors understand from COSCO LOGISTICS that the strategies of the group of Companies under Reorganised COSCO LOGISTICS are:

- To focus on key coastal regions, in particular Southern and Eastern parts of China mainland
- To better utilise the existing supporting resources of the group of Companies under Reorganised COSCO LOGISTICS to extend service coverage and enhance services

#### Third Party Logistics Services

The group of Companies under Reorganised COSCO LOGISTICS provides third party logistics services to domestic and international companies' operations in China mainland. The major customers of the group of Companies under Reorganised COSCO LOGISTICS include, among others, Haier, Kelon, Hisense, General Motors, Hyundai, Payless Shoes Source, Beijing Auchan, Beita Iron and Steel Group Co. Ltd, China National Nuclear Power Company, China Three Gorges Project and Nanjing BOC-YPC Gases. The services provided by the group of Companies under Reorganised COSCO LOGISTICS involve the planning and implementation of systems and processes, which are tailor made to individual customer's needs to ensure the efficient flow of goods and materials for the portion of the supply chain outsourced by the customer to the group of Companies under Reorganised COSCO LOGISTICS. The group of Companies under Reorganised COSCO LOGISTICS operates 17 regional distribution centres, located at major economic regions including Shanghai, Tianjin, Beijing, Lianyungang, Xiamen, Shenzhen and Dalian. In 2002, the Reorganised COSCO LOGISTICS Group's third party logistics business (excluding project logistics services provided to infrastructure and project related companies) handled approximately 2.7 million tonnes of goods and products. For the four months ended 30 April 2003, the Reorganised COSCO LOGISTICS Group's third party logistics business (excluding project logistics services provided to infrastructure and project related companies) handled approximately 1.2 million tonnes of goods and products, a 100.0% increase from approximately 0.6 million tonnes handled in the same period in 2002.

The third party logistics services industry has a large number of competitors from different backgrounds. These operators include traditional Chinese transportation companies, foreign logistics companies, emerging Chinese logistics companies and in-house logistics departments of Chinese companies.

To further develop its third party logistics services, the Directors understand from COSCO LOGISTICS that the strategies of the group of Companies under Reorganised COSCO LOGISTICS are:

- To leverage on the existing shipping agency, freight forwarding and support operations, nationwide service network and existing customer base of the group of Companies under Reorganised COSCO LOGISTICS
- To focus on industries which has strong logistics outsourcing potential in China mainland
- To invest in information technology systems, warehouses and others necessary to provide quality third party logistics services

medical and other pension benefits to retired employees of the companies comprising the Reorganised COSCO LOGISTICS Group to be assumed by COSCO as if the arrangement had been entered into on 1 January 2002.

All significant inter-company transactions and balances within the Reorganised COSCO LOGISTICS Group have been eliminated on combination.

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

Comparative figures for the year ended 31 December 2002 are not presented as management considers that it is impracticable to do so.

Because of the nature of the Pro Forma combined financial information, it may not give indicative financial positions or results of the Reorganised COSCO LOGISTICS Group had the Reorganisation actually been completed at the beginning of the earliest period presented.

The Pro Forma combined financial information is prepared solely for the purpose of proposed acquisition of the Reorganised COSCO LOGISTICS Group by CPLCL and should not be construed as indicative of the financial performance of the Reorganised COSCO LOGISTICS Group in any future period.

On the basis on which the Pro Forma combined financial information is prepared as described above, the principal accounting policies which have been adopted in arriving at the Pro Forma combined financial information conform with accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants.

The Pro Forma combined financial information has been prepared under the historical cost convention.

#### (2) Shipping agency and freight forwarding revenues

Shipping agency revenue is accounted for on a net basis. Freight forwarding revenue is accounted for on a gross basis where the Reorganised COSCO LOGISTICS Group effectively acts as a principal in arranging transportation of goods for customers, or net basis where the Reorganised COSCO LOGISTICS Group effectively acts as an agent for customers, as appropriate.

#### (3) Financial statistics and ratios

- Operating profit margin is calculated by dividing the operating profit by the turnover.
- Net Profit margin is calculated by dividing the profit for the year or period by the turnover.
- EBITDA represents profit before taxation less interest income plus interest expense, depreciation and amortisation.
- EBITDA margin is calculated by dividing EBITDA by the turnover.

#### Reorganisation of COSCO LOGISTICS Group

COSCO LOGISTICS Group has been undergoing the Reorganisation pursuant to which, certain companies have been or are being transferred from COSCO Group to COSCO LOGISTICS and certain assets, liabilities and companies have been or are being transferred out or disposed of from COSCO LOGISTICS by transferring or selling them to CRTIFAC, a wholly-owned subsidiary of COSCO. The assets, liabilities and companies that have been or are being transferred out from COSCO LOGISTICS are:

- Companies whose businesses are not related to COSCO LOGISTICS' core businesses, namely shipping agency, freight forwarding, third party logistics and supporting services;
- Logistics and/or supporting services companies which are to be wound down;
- Logistics and/or supporting services companies, which in the opinion of COSCO and COSCO LOGISTICS, have unsatisfactory business performances and/or legal defects; and
- Certain assets such as land and buildings with title defects and investments in securities and certain liabilities such as borrowings.

No members of the management team of CRTIFAC are the employees of the group of Companies under Reorganised COSCO LOGISTICS. Pursuant to the Non-competition Deed, COSCO undertakes not to (other than through COSCO LOGISTICS or CRTIFAC) further develop its logistics services (see further details in the paragraph headed "Non-competition Deed" below). The group of Companies under Reorganised COSCO LOGISTICS can lease CRTIFAC's existing logistics operations and assets on commercial terms to support the logistics businesses of the group of Companies under Reorganised COSCO LOGISTICS based on their business needs.

#### RELATIONSHIP BETWEEN THE GROUP OF COMPANIES UNDER REORGANISED COSCO LOGISTICS AND COSCO SUBSEQUENT TO COMPLETION

##### Non-competition Deed

After Completion, COSCO expects to retain interests in certain businesses primarily carried out by COSFRE, a subsidiary of COSCO, which may compete, to a certain extent, directly or indirectly with the shipping agency, freight forwarding and supporting services of the group of Companies under Reorganised COSCO LOGISTICS. COSCO has entered into a Non-competition Deed with COSCO LOGISTICS and CPLCL with respect to the businesses conducted by the group of Companies under Reorganised COSCO LOGISTICS, namely shipping agency, freight forwarding, third party logistics and supporting services.

COSCO will continue to engage in shipping agency, freight forwarding and supporting services primarily through COSFRE, which COSCO holds approximately 99% of its equity interest, and CRTIFAC, a wholly-owned subsidiary of COSCO holding Excluded Companies transferred out by COSCO LOGISTICS Group pursuant to the Reorganisation. (Please refer to section on "Reorganisation of COSCO LOGISTICS Group" above for further details on CRTIFAC.)

COSFRE is positioned by COSCO to provide shipping agency services to COSCON, a subsidiary of COSCO. COSFRE is also positioned by COSCO to provide shipping agency services to COSCO LOGISTICS Group.

#### THE SGM

The SGM will be convened as soon as practicable at which all necessary resolutions will be proposed to approve, among other things, the Capital Increase and Transfer Agreement, Joint Venture Contract, Articles of Association, Non-competition Deed and the implementation of the Transactions.

**In view of COSCO's interest in the Transactions, COSCO (Hong Kong) being its wholly-owned subsidiary, and its associates (as defined in the Listing Rules) will abstain from voting on the resolutions to be proposed at the SGM in respect of the Transactions.**

#### GENERAL

A circular containing, among other things, information on the Capital Increase and Transfer Agreement, Joint Venture Contract, Articles of Association, the letter from Rothschild containing its advice to the Independent Board Committee in relation to the Transactions, the views of the Independent Board Committee in relation to the Transactions and a notice convening the SGM referred to above will be despatched to the shareholders of the Company as soon as practicable.

#### DEFINITIONS

"APL"	American President Lines Co., Ltd.;
"Articles of Association"	the joint venture articles of association of COSCO LOGISTICS approved by the Board and signed by CPLCL and COSCO on 22 September 2003;
"Associate(s)"	has the meaning ascribed to it in the Listing Rules;
"Beijing Auchan"	Beijing Auchan Hypermarkets Co., Ltd.;
"Board"	the Board of Directors;
"Capital Increase and Transfer Agreement"	the agreement for increase in registered capital and transfer of equity interest in COSCO LOGISTICS entered into between CPLCL and COSCO on 22 September 2003;
"CEPA"	Mainland and Hong Kong Closer Economic Partnership Arrangement signed between the Government of Hong Kong and the Central People's Government of the PRC on 29 June 2003;
"China mainland" or "PRC"	the People's Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan;
"CMA-CGM"	Holding CMA CGM S.A.;
"Company"	COSCO Pacific Limited;
"Completion"	payment of the consideration for the equity interest in COSCO LOGISTICS to be transferred to CPLCL by COSCO and the payment of the capital to be injected by CPLCL to COSCO LOGISTICS, in each case pursuant to the Capital Increase and Transfer Agreement;
"COSCO"	China Ocean Shipping (Group) Company;
"COSCO Group"	COSCO, its subsidiaries, jointly controlled entities and associated companies from time to time (other than the Group);
"COSCO (Hong Kong)"	COSCO (Hong Kong) Group Limited;
"COSCO LOGISTICS"	COSCO Logistics Company (中國遠洋物流公司), a wholly-owned subsidiary of COSCO prior to Completion which will be converted into a sino-foreign equity joint venture company named as COSCO Logistics Co., Ltd. (中國遠洋物流有限公司) and directly owned by COSCO as to 51.00% and by CPLCL as to 49.00% upon Completion;
"COSCO LOGISTICS Group"	COSCO LOGISTICS, its subsidiaries, jointly controlled entities and associated companies prior to the completion of all the transactions pursuant to the Reorganisation;
"COSCON"	COSCO Container Lines Company Limited, subsidiary of COSCO which operates container vessels;
"COSFRE"	COSCO International Freight Company Limited, which COSCO holds approximately 99% of its equity interest;
"CPLCL"	COSCO Pacific Logistics Company Limited, a wholly-owned subsidiary of the Company which is incorporated in the British Virgin Islands
"CRTIFAC"	中國汽車運輸國際貨運代理公司 (China Road Transport International Forwarding Agency Company*), a wholly-owned subsidiary of COSCO, holding the Excluded Companies pursuant to the Reorganisation as described further in the section "Reorganisation of COSCO LOGISTICS Group";
"Directors"	the directors of the Company;
"DTZ"	DTZ Debenham Tie Leung Limited, a property valuer engaged by the Company;
"Evergreen Marine"	Evergreen Marine Corp.;
"Excluded Companies"	certain assets, liabilities and companies of COSCO LOGISTICS, which have been or are being transferred to CRTIFAC pursuant to the Reorganisation, as described further in the section headed "Reorganisation of COSCO LOGISTICS Group";
"General Motors"	Shanghai General Motors Corporation Ltd.;
"Group"	the Company and its subsidiaries from time to time;
"group of Companies under Reorganised COSCO LOGISTICS"	COSCO LOGISTICS, its subsidiaries, jointly controlled entities and associated companies immediately following the completion of all transactions for the purpose of and pursuant to the Reorganisation
"Haier"	Haier Group;
"Hisense"	Hisense Company Ltd.;

**Supporting Services**

Besides shipping agency, freight forwarding and third party logistics services, the group of Companies under Reorganised COSCO LOGISTICS also provides ancillary services to support the above-mentioned services. These supporting services include feeder services, warehousing, storage, depot and trucking. While these services are not the key profit contributors to the group of Companies under Reorganised COSCO LOGISTICS, such services support the shipping agency, freight forwarding and third party logistics services of the group of Companies under Reorganised COSCO LOGISTICS.

**SELECTED FINANCIAL INFORMATION OF THE REORGANISED COSCO LOGISTICS GROUP**

The following is an extract of the Pro Forma combined financial information of the Reorganised COSCO LOGISTICS Group for the year ended 31 December 2002 and for the four months ended 30 April 2002 and 2003 respectively (the "Relevant Periods") except for the information relating to Financial Statistics and Ratios and notes 2 and 3 below.

The Pro Forma combined financial information has been prepared to present the results and the assets and liabilities of the Reorganised COSCO LOGISTICS Group for the Relevant Periods as if the Reorganisation had been completed prior to 1 January 2002 and the group structure of the Reorganised COSCO LOGISTICS Group had been in existence throughout the Relevant Periods, and in accordance with the basis of preparation as set out in note 1 below. The Company's reporting accountants, PwC, have conducted an examination on the Pro Forma combined financial information in accordance with Standard on Assurance Engagements 200 "High level assurance engagements" issued by the Hong Kong Society of Accountants.

	Year ended	Four months ended	
	31 December	30 April	
	2002	2002	2003
	RMB'000	RMB'000	RMB'000
Turnover	4,607,710	1,216,431	1,749,611
Other revenues	53,219	14,619	15,973
Other operating income	7,700	3,208	23,343
Operating expenses	(4,533,177)	(1,199,758)	(1,748,890)
Operating profit	135,452	34,500	40,037
Finance costs	(7,712)	(2,005)	(1,573)
Share of profits less losses of			
— Jointly controlled entities	107,875	32,153	30,813
— Associated companies	52,592	17,035	19,096
Profit before taxation	288,207	81,683	88,373
Taxation	(95,810)	(26,301)	(24,210)
Profit after taxation	192,397	55,382	64,163
Minority interests	(8,568)	(1,319)	(459)
Profit for the year/period	183,829	54,063	63,704

**Financial Statistics and Ratios (note 3)**

Operating profit margin	2.9%	2.8%	2.3%
Net Profit margin	4.0%	4.4%	3.6%
EBITDA (RMB'000)	365,123	105,642	113,666
EBITDA margin	7.9%	8.7%	6.5%

	As at	As at 30 April	
	31 December	2002	2003
	2002	2002	2003
	RMB'000	RMB'000	RMB'000
Total assets	4,106,374	3,891,225	4,365,867
Total liabilities	(2,765,021)	(2,683,549)	(2,954,466)
Minority interests	(137,594)	(135,170)	(143,980)
Net assets	1,203,759	1,072,506	1,267,421

**Notes:**

- (1) Basis of preparation

For illustrative purposes only, the Pro Forma combined financial information presents the pro forma combined results of the Reorganised COSCO LOGISTICS Group for the Relevant Periods as if the Reorganisation had been completed prior to 1 January 2002 and the group structure of the Reorganised COSCO LOGISTICS Group had been in existence throughout the Relevant Periods. The pro forma combined financial positions of the Reorganised COSCO LOGISTICS Group as at 31 December 2002, 30 April 2002 and 30 April 2003 have been prepared to present the assets and liabilities of the Reorganised COSCO LOGISTICS Group at those dates as if the Reorganisation had been completed prior to 1 January 2002 and the group structure of the Reorganised COSCO LOGISTICS Group had been in existence at those dates.

The Pro Forma combined financial information has been prepared based on the management accounts of the companies comprising the Reorganised COSCO LOGISTICS Group, its jointly controlled entities and associated companies, after giving effect to the adjustments to (i) include the results, assets and liabilities of the companies which have been or are being transferred from COSCO Group pursuant to the Reorganisation, (ii) exclude the results, assets and liabilities of the Excluded Companies, and (iii) eliminate the obligations of the post employment supplementary

COSCO, which operates container transportation. COSFRE provides shipping agency services to shipping companies other than COSCON only when such shipping companies have slot-sharing arrangements with COSCON. In 2002, COSFRE handled vessels of approximately 88.9 million tonnes of total net registered tonnage, while approximately 251.0 million tonnes were handled by the Reorganised COSCO LOGISTICS Group, and COSFRE handled approximately 35.0 million tonnes of cargoes, while approximately 171.2 million tonnes were handled by the Reorganised COSCO LOGISTICS Group. COSFRE is also a freight forwarding agent on behalf of cargo owners who book COSCON's container capacity. COSFRE, on behalf of cargo owners, places orders to shipping companies other than COSCON when COSCON could not fulfil the orders of the cargo owners. In 2002, COSFRE handled approximately 1.4 million TEUs of container cargoes (of which approximately 95% were for COSCON), while approximately 565,379 TEUs of container cargoes were handled by the Reorganised COSCO LOGISTICS Group. COSFRE does not provide third party logistics services.

COSCO, the Company and COSCO LOGISTICS entered into a Non-competition Deed on 22 September 2003 and the aforementioned deed will take effect from the date of issue of the business licence of COSCO LOGISTICS as a sino-foreign equity joint venture company. The Non-competition Deed contains, among other things, the following non-competition undertakings by COSCO:

- COSCO undertakes to procure that COSFRE will only provide shipping agency services for COSCON, and will primarily provide freight forwarding services for COSCON;
- Except for the above mentioned arrangements regarding COSFRE, COSCO Group will not (other than through COSCO LOGISTICS and CRTIFAC) develop or operate businesses in competition with those of the group of Companies under Reorganised COSCO LOGISTICS;
- COSCO shall procure that except for COSFRE, all businesses in competition with the core businesses of the group of Companies under Reorganised COSCO LOGISTICS including those of the CRTIFAC, if not already disposed of by COSCO Group or acquired by the group of Companies under Reorganised COSCO LOGISTICS, will be terminated or wound up within three years from the date of the Non-competition Deed.
- COSCO has given COSCO LOGISTICS a five-year option to purchase from COSCO any businesses that may compete with or may be similar in nature to the core businesses of the group of Companies under Reorganised COSCO LOGISTICS at a fair market value and on fair and normal commercial terms;
- COSCO LOGISTICS shall, subject to any right of first refusal of third parties in accordance with applicable legal requirements, have a right of first refusal in respect of the sale by COSCO of any company or business that may be in competition with any business of the group of Companies under Reorganised COSCO LOGISTICS.

**Transactions with COSCO**

A number of transactions have been and will be entered into between the group of Companies under Reorganised COSCO LOGISTICS, on the one hand, and COSCO and its subsidiaries (other than the Group and the group of Companies under Reorganised COSCO LOGISTICS) on the other. The major transactions of such nature include:

- *Licensing of Trademarks*  
中國外輪代理總公司 (China Ocean Shipping Agency\*), a company within the Reorganised COSCO LOGISTICS Group, is the owner of a series of trademarks including the trademark "PENAVICO". 中國外輪代理總公司 (China Ocean Shipping Agency\*) has entered into a licence agreement with CRTIFAC to licence the use of the these trademarks to certain Excluded Companies which carry on the business of shipping at licence fees determined by commercial negotiations.
- *Property Rental*  
CRTIFAC has entered into a lease agreement with COSCO LOGISTICS on behalf of certain members of the group of Companies under Reorganised COSCO LOGISTICS pursuant to which such members of the group of Companies under Reorganised COSCO LOGISTICS have agreed to lease from CRTIFAC a total of approximately 40 properties in locations at which COSCO LOGISTICS Group currently operates. The lease term of these properties is for an initial term of five years with an option to extend for another five years, and thereafter to extend up to the maximum period permitted legally. Rental rates are determined based on market rates and are subject to review every five years in accordance with the rate of inflation officially published by the PRC government. The change in the rent in each review shall not exceed 10% of the previous amount.
- *Supporting Services*  
Based on the business needs of the group of Companies under Reorganised COSCO LOGISTICS, they may from time to time enter into agreements with CRTIFAC and/or the Excluded Companies to lease or use their existing logistics supporting operations and assets on commercial terms to support the logistics business as and when required.
- *Transactions carried out in the normal course of businesses*  
The Reorganised COSCO LOGISTICS Group also undertook and will continue to undertake transactions with related companies in its normal course of businesses of providing shipping agency, freight forwarding, third party logistics and supporting services.

**APPROVAL BY THE INDEPENDENT SHAREHOLDERS**

COSCO is the ultimate parent company of the Company, with COSCO's wholly-owned subsidiary COSCO (Hong Kong) holding approximately 53.29% of equity interest in the Company as at the Latest Practicable Date. CPLCL is a wholly-owned subsidiary of the Company. Accordingly, the Transactions constitute connected transactions for the Company within the meaning of the Listing Rules, and are subject to approval by the Independent Shareholders.

The Board has reviewed the Transactions. The Company has appointed HSBC as the financial adviser in connection with the Transactions. The Independent Board Committee, comprising Dr. LI Kwok Po, David and Mr. Alexander Reid HAMILTON, has been appointed by the Board to advise the Independent Shareholders as to the fairness and reasonableness of the Transactions. Rothschild has been appointed as the independent financial advisor to provide opinions to the Independent Board Committee in connection with the Transactions.

"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong;
"HK GAAP"	generally accepted accounting principles in Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"HSBC"	The Hongkong and Shanghai Banking Corporation Limited, a deemed registered institution for Types 1, 4, 6, 7 and 9 regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), being the financial adviser to the Company in connection with the Transactions;
"Hyundai"	Beijing Hyundai Motor Corp. Ltd.;
"Independent Board Committee"	an independent committee of the Board comprising Dr. LI Kwok Po, David and Mr. Alexander Reid HAMILTON;
"Independent Shareholders"	shareholders of the Company other than COSCO (Hong Kong) and its associates;
"Joint Venture Contract"	the joint venture contract in respect of COSCO LOGISTICS approved by the Board and signed by CPLCL and COSCO on 22 September 2003;
"KAMBARA"	Kambara Kisen Co., Ltd.;
"Kelon"	Kelon Group;
"K" Line"	Kawasaki Kisen Kaisha, Ltd.;
"Latest Practicable Date"	22 September 2003, being the latest practicable date prior to the printing of this announcement for ascertaining certain information contained herein;
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"MOL"	Mitsui O.S.K. Lines, Ltd.;
"MSC"	Mediterranean Shipping Company S.A.;
"Net Profit"	Pro Forma combined profit (after taxation and minority interests);
"Non-competition Deed"	the non-competition deed entered into by COSCO, CPLCL and COSCO LOGISTICS on 22 September 2003;
"NYK Line"	Nippon Yusen Kaisha;
"OOCL"	Orient Overseas Container Line;
"Payless Shoes Source"	Payless Shoes Source, Inc.;
"Pro Forma"	pro forma as if the Reorganisation had been completed prior to 1 January 2002;
"PwC"	PricewaterhouseCoopers, Hong Kong, Certified Public Accountants;
"Reorganisation"	a series of reorganisations of COSCO LOGISTICS Group pursuant to which certain companies have been or are being transferred from COSCO Group to COSCO LOGISTICS and certain assets, liabilities and companies have been or are being transferred out from COSCO LOGISTICS by transferring or selling them to CRTIFAC as further described in the section headed "Reorganisation of COSCO LOGISTICS Group";
"Reorganised COSCO LOGISTICS Group"	COSCO LOGISTICS and its subsidiaries immediately following the completion of all transactions for the purpose of and pursuant to the Reorganisation;
"RMB"	Renminbi, the lawful currency of the PRC;
"Rothschild"	N M Rothschild & Sons (Hong Kong) Limited, an authorised financial institution deemed to have been registered under section 119(1) of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) for Types 1, 4, 6 and 9 regulated activities from 1 April 2003 (previously an investment adviser registered with the Securities and Futures Commission)
"SGM"	the special general meeting of the Company to be held for the purpose of considering and passing resolutions to approve, inter alia, the Transactions;
"TEU"	twenty-foot equivalent unit, a standard unit of measurement of the volume of a container with a length of 20 feet, height of 8 feet and 6 inches and width of 8 feet;
"Transactions"	the transactions between CPLCL and COSCO contemplated under the Joint Venture Contract, the Articles of Association and the Capital Increase and Transfer Agreement;
"working days"	the days on which commercial banks in China mainland and Hong Kong are generally open for business;
"WTO"	the World Trade Organisation.

For the purpose of this announcement, the exchange rate at HK\$1 = RMB1.06 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount have been, could have been or may be exchanged.

\* This is the English name for identification purpose only.

By Order of the Board  
**COSCO Pacific Limited**  
SUN Jiakang  
Managing Director

Hong Kong, 22 September 2003