



COSCO Pacific Limited

(Incorporated in Bermuda with Limited Liability)

2003 Final Results

2003 heralded a year of fruitful harvest for COSCO Pacific Limited (“COSCO Pacific”) with a healthy growth in its overall results while achieving improvements in its business expansion, project development, capital management and corporate governance, all of which laid a solid foundation for future profit growth. As a PRC shipping related enterprise, COSCO Pacific not only earns the affinity and supports from its customers for a long period of time, but also the full supports from China Ocean Shipping (Group) Company (“COSCO Group”), COSCO (Hong Kong) Group Limited and our sister companies and the adherence to honesty and diligence of all our staff in actively expanding business and enhancing corporate governance. These have combined to secure market recognition for its management with added impetus to our mission of striving for creating wealth for our shareholders. Development of the PRC economy remains buoyant and stellar with unleashing swift development. Massive market demands for containerisation of freight transportation are beneficial to the development of container leasing, container terminal operations and logistics businesses of COSCO Pacific and its subsidiaries (the “Group”). We firmly believe that the driving force of our business development will primarily evolve from the highly potential PRC market.

- Profit attributable to shareholders rose by 8.5% to US\$154,331,000
- Proposed final cash dividend of HK18cents per share (2002 : HK18cents)
- Return on shareholders’ equity was 12.0%
- Container leasing fleet up 14.3% to 808,825 TEUs
- Aggregate container terminal throughput increased by 33.4% to 17,901,012 TEUs
- Acquired various interests in 2 China mainland terminals and 1 overseas terminal respectively and another China mainland terminal (Yantian International Terminals Phase III) started operation, our total container berths will increase from 31 to 51 and aggregate throughput capacity will increase by 88.4% to 26,000,000 TEUs
- Acquired a 49% interest in COSCO Logistics Co., Ltd.
- Issued US\$300,000,000 of 10-year fixed rate notes
- Admitted as a constituent stock of the Hang Seng Index
- Received 6 awards in corporate governance and investor relations

Container Leasing

2003 was a year of challenges and opportunities for container leasing market. Amidst a market environment of intense competition, the Group fully leveraged on its strength in seizing market opportunities, capitalizing chances, capturing markets and maintaining industry leadership by monitoring changes in market and global economy closely with in-depth analysis and understanding. COSCO Pacific owns the world's fifth largest container leasing company which is operated and managed by its wholly owned subsidiary, Florens Container Holdings Limited, and its subsidiaries (collectively referred to as "Florens").

In 2003, Florens secured supports of its target customer group by solidifying its efforts in market expansion and enhancing customer relationship. In line with customer demands, during the year, new containers of 142,218 TEUs (2002: 119,466 TEUs) were ordered and purchased, accounting for approximately 12.9% of the container leasing industry new production in 2003 (2002 : 12.9%). As at 31st December, 2003, Florens had a container fleet of 808,825 TEUs (2002: 707,890 TEUs), accounting for approximately 9.7% (2002 : 9.3%) of the global market share, an increase of 0.4% year-on-year, after deducting 4,997 TEUs (2002 : 13,733 TEUs) under finance leases.

Florens principally provides 10-year container leasing services for COSCON, the PRC's largest and the world's seventh largest container ship operator and both long term and master lease container leasing services for International Customers. As at 31st December, 2003, total number of customers of Florens was 202 (2002 : 176).

As at 31st December, 2003, the Group leased a total of 310,444 TEUs (2002: 329,028 TEUs) to COSCON, representing 38.4% (2002 : 46.5%) of the Group's total container fleet. Containers available to International Customers rose significantly to 498,381 TEUs (2002 : 378,862 TEUs), representing 61.6% (2002 : 53.5%) of the total container fleet, of which long term and master lease were 326,608 TEUs (2002: 221,063 TEUs) and 121,959 TEUs (2002: 116,178 TEUs) respectively.

In 2003, the Group's container fleet increased by 14.3% to 808,825 TEUs (2002: 707,890 TEUs) with an average ageing of 4.3 years (2002: 4.4 years). During the year, Florens purchased new containers and disposed of or re-leased returned containers.

Overall annual average utilisation rate of Florens further increased to 95.2% (2002 : 93.4%), well above the industry average of about 89% (2002 : 83%) while containers leased by COSCON remained 100% utilised. The increase was primarily attributable to market improvement and Florens' enhanced marketing effort to capture market opportunities and improve quality level of customer service in securing supports from International Customers.

Container Terminal and Related Businesses

In 2003, our global container terminal business sustained its growth trend. In particular, driven by both economic and trade growths of 9.1% and 37.1% respectively in the PRC, container terminal business in China mainland registered a throughput of 48,000,000 TEUs, an increase of 29.7% over 2002. Terminals, in which the Group held interests, located in the regions of Pearl River Delta, Yangtze River Delta and Bohai Rim, the most concentrated areas of container throughput in China mainland with highest potential, where the pace of growth in demands for containers were most spectacular. Leveraging on its competitive advantages of being present in the PRC market, the Group fostered the development of its container terminal projects in China mainland and became one of the front-runners in terminal operation within Asia.

COSCO Pacific holds differing interests in 10 container terminals on the coastal ports of China and in one container terminal operation in Singapore, total berths will increase from 31 in 2002 to 51 and total throughput capacity will increase to 26,000,000 TEUs (2002: 13,800,000 TEUs). Together with the River Trade Terminal, which was disposed of in June 2003, total throughput during the year amounted to 17,901,012 TEUs (2002 : 13,420,639 TEUs), an increase of 33.4% over last year.

	Shareholding %	Total area (sq.m.)	Number of berths	Water depth of berth (m.)	Annual capacity (TEUs)
COSCO-HIT	50	300,000	2	15.5	1,800,000
Yantian International Terminals	5	1,180,000	5	14.0–15.5	4,500,000
Yantian International Terminals Phase III	4.45	900,000	4	16	2,400,000
Shekou Terminals	17.5	234,000	2	14	1,300,000
Shanghai Terminals	10	830,000	10	9.4–10.5	3,500,000
Shanghai Pudong International Terminals	20	500,000	3	12	2,300,000
Zhangjiagang Win Hanverky Terminal	51	200,000	2	11	300,000
Qingdao Qianwan Terminal	20	2,250,000	11	17.5	6,500,000
Qingdao Cosport Terminals	50	250,000	1	13.5	600,000
Dalian Port Container Co., Ltd.	8	726,000	9	12.1–14.0	1,800,000
COSCO-PSA Terminal	49	228,000	2	15	1,000,000
Total			51		26,000,000

	2003⁽¹⁾	2002⁽¹⁾	
	Throughput	Throughput	
	(TEUs)	(TEUs)	+/-
COSCO-HIT	1,513,559	1,526,074	-0.8%
River Trade Terminal in Tuen Mun, Hong Kong ⁽²⁾	1,074,348	1,797,096	-40.2%
Yantian International Terminals Phases I, II and III ⁽³⁾	5,258,106	4,181,478	+25.7%
Shekou Terminals	1,323,235	883,572	+49.8%
Shanghai Terminals	3,400,963	3,049,080	+11.5%
Shanghai Pudong International Terminals ⁽⁴⁾	1,766,351	N/A	N/A
Zhangjiagang Win Hanverky Terminal	247,306	202,348	+22.2%
Qingdao Qianwan Terminal (Phase II) ⁽⁵⁾	1,332,746	N/A	N/A
Qingdao Cosport Terminals	244,159	454,528	-46.3%
Dalian Port Container Co., Ltd.	1,644,409	1,326,463	+24.0%
COSCO-PSA Terminal ⁽⁶⁾	95,830	N/A	N/A
Total throughput	17,901,012	13,420,639	+33.4%

Notes:

- (1) The data represent throughput as from the effective date of acquisition of the interests.
- (2) The 10% equity interest in the River Trade Terminal was disposed of on 27th June, 2003.
- (3) The first 2 berths of Yantian International Terminals Phase III became operational in October and November 2003 respectively, with the other 2 berths operational in 2004.
- (4) Shanghai Pudong International Terminals officially opened for business on 1st March, 2003.
- (5) The acquisition of 20% interests in Qingdao Qianwan Terminal (Phase II) by the Group was entered into in July 2003 and completed in December in the same year. Qingdao Qianwan Container Terminal Co., Ltd., restructured after the inclusion of Qingdao Qianwan Terminal Phases II and III officially opened for business on 1st January, 2004.
- (6) COSCO-PSA Terminal officially opened for business on 1st November, 2003. One berth was being operated during the year with planned expansion to two berths prior to 2008.
- (7) Cheer Hero Development Limited (“Cheer Hero Terminal”), a subsidiary of Plangreat Limited which is in turn a wholly owned subsidiary of the Group, registered a throughput of 56,597 TEUs (2002 : 65,935 TEUs). Taking this into account, the Group achieved a total throughput of 17,957,609 TEUs in 2003 (2002: 13,486,574 TEUs) or a 33.2% growth year-on-year.

COSCO Pacific achieved distinguished results in developing terminal projects. During the year, the following 3 new terminal projects that COSCO Pacific has interest became operational and another terminal project started operation:

Joint Venture	Date operational	Berths	Annual capacity (TEUs)
Yantian International Terminals			
Phase III (started operation)	October 2003	4	2,400,000
Shanghai Pudong International Terminals	March 2003	3	2,300,000
COSCO-PSA Terminal	November 2003	2	1,000,000
Qingdao Qianwan Terminal	January 2004	11	6,500,000
Total		20	12,200,000

Qingdao Qianwan Terminal

The agreement to acquire 20% interest in Qingdao Qianwan Terminal (Phase II), which was entered into in July 2003, was completed in December 2003. The Qingdao Qianwan Container Terminal Co., Ltd., a joint venture in which the Group injected approximately US\$180,000,000 and holds a 20% interest, officially opened for business on 1st January, 2004. The Company operates Qingdao Qianwan Terminal Phases II and III with 11 berths, of which 8 have commenced operations.

Dalian Automobile Terminal Co., Ltd.

On 28th December, 2003, COSCO Pacific entered into a joint venture agreement with Dalian Port Group Co., Ltd. and Nippon Yusen Kabushiki Kaisha for a joint investment in Dalian Automobile Terminal Co., Ltd., in which the Group injected approximately US\$2,900,000 and holds a 30% equity interest. The joint venture was duly incorporated upon completion of its incorporation procedures on 29th January 2004.

Tianjin Five Continents International Container Terminal Co., Ltd.

On 23rd December, 2003, the Group and Tianjin Port (Group) Co., Ltd., CSX World Terminals New World (Tianjin) Limited, China Shipping Terminal Development Co., Ltd. and China Merchants International Terminals (Tianjin) Limited entered into a joint venture agreement in Tianjin pursuant to which Tianjin Five Continents International Container Terminal Co., Ltd. (the ‘JV Company’) will be established to invest, manage and operate Tianjin Dongtudi Container Terminal. The Group injected approximately US\$19,000,000 and holds a 14% equity interest in the JV Company.

Investment in Terminals Abroad

Apart from its focus on expanding and operating container terminals in the PRC, the Group also strives for identifying potential container terminals, particularly those that is capable of bringing business to support the COSCO fleet in major hub ports worldwide in an attempt to tap the strong growth of global container transportation, expand and strengthen its terminal network and boost its competitiveness.

Given the key hub port role of Singapore in South-east Asia and its status as the second

largest container port worldwide, the Group established COSCO-PSA Terminal, a joint venture in which it holds a 49% equity interest, with PSA Corporation Limited. The first berth under the joint venture officially opened for business on 1st November, 2003, which hallmarked the first step of COSCO Pacific to expand its terminal business investment and operations abroad and to become a leading operator in container terminals in Asia.

Logistics

On 22nd September, 2003, COSCO Group and COSCO Pacific entered into an agreement to acquire a 49% interest in COSCO Logistics, a wholly owned subsidiary of COSCO Group. The said agreement was approved by a special general meeting of COSCO Pacific held on 29th October, 2003 with all conditions being fulfilled in January 2004. Acquiring COSCO Logistics not only provides a sound opportunity for COSCO Pacific to access the buoyant logistics industry developing in China mainland, but also to fully capitalise on the brand name effect of COSCO and to create synergies between container transportation and modern logistics industries.

Total consideration of RMB1,180,410,000 paid by COSCO Pacific for acquiring a 49% equity interest of COSCO Logistics represented implied pre- and post-consideration price earnings multiples of approximately 9.1 times and 13.1 times of the pro forma combined net profit of COSCO Logistics for the year ended 31st December, 2002. The acquisition comprised a cash payment of RMB446,410,000 to COSCO Group for part of the equity interest in COSCO Logistics and a direct cash contribution of RMB734,000,000 to COSCO Logistics.

With a nationwide service network through which it has established its leading position in shipping agency, freight forwarding, third party logistics and supporting services relating to the aforesaid services, COSCO Logistics offers its customers a wide range of comprehensive logistics services that spans the major coastal and economic areas in China mainland.

COSCO Pacific believes that the transaction can create synergies that benefit COSCO Logistics and the Group. Given that the Group already holds significant equity interests in container terminals located along major coastal areas in China mainland, COSCO Logistics can enhance its competitive advantages by partnering with these container terminals to provide better logistics services. Through investing in COSCO Logistics, the Group can enhance the attractiveness of its container terminals by offering integrated logistics services to its customers. The Group firmly believes that this investment will endow our shareholders with returns and will assist us in our target of becoming a leading logistics service provider in both China mainland and Hong Kong.

Container Production

In view of the increase in demand for containers, production volume of container related production companies, in which the Group invested, increased over that of 2002.

Container/Paint Factories	Shareholding %	2003 Production Volume(Estimated)	2002 Production Volume	+/-
Shanghai CIMC Reefer Containers	20	35,398 TEUs	33,582 TEUs	+5.4%
Shanghai CIMC Far East Container	20	124,537 TEUs	97,174 TEUs	+28.2%
Tianjin CIMC North Ocean Container	22.5	98,306 TEUs	79,506 TEUs	+23.6%
Shanghai COSCO Kansai Paint Factory	20	36,024 tonnes	20,641 tonnes	+74.5%
Tianjin COSCO Kansai Paint Factory	20	27,659 tonnes	24,233 tonnes	+14.1%

On 25th November, 2003, the Group entered into agreements to dispose of its equity interests of 20% each in Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. respectively to COSCO International Holdings Limited, a fellow subsidiary, and all procedures relating to the disposals were completed in January 2004.

Other Investment

Banking

Liu Chong Hing Bank, in which the Group held a 20% interest, made a pre-tax profit contribution of US\$9,762,000 (2002: US\$8,455,000), an increase of 15.5%.

Major Financing Arrangement

The global low interest rates environment in 2003 prompted bond investors to fricht for premium quality investments in view of surplus funds available in the international bond market. Capitalising on such opportunity, the Company appointed three investment banks, ABN AMRO Bank N.V., Citigroup Global Markets Limited and Goldman Sachs (Asia) L.L.C., as joint book-runners in arranging the issuance of 10-year fixed rate notes of US\$300,000,000 in September 2003. No credit ratings has been sought for in respect of the notes. The notes was offered and sold outside the United States in accordance with Regulation S under the United States Securities Act of 1933. Responses from investors in Europe, Hong Kong, China mainland, Singapore and other Asian regions were overwhelming with total subscriptions in excess of US\$1,620,000,000, or 5.4 times of the issued amount.

At an issue price of 99.367% and a coupon rate of 5.875%, the notes carried an interest yield of 5.96% (i.e. an equivalent of 10-year US Treasury Bill yield plus 185 basis points). The issue was well sought for by international investors with interest spreads narrowed in the secondary market, demonstrating investors' confidence in the creditworthiness of the Company.

Net proceeds of the notes, after deducting issuance expenses, were primarily deployed as investments in new terminal projects and for refinancing. Such fund raising exercise hallmarked the Company's success in exploring the international bond market as financing

channels, diversifying its sources of funds and enhancing its debt structure by extending the average maturity period from less than 3 years to 7.4 years. This has laid solid foundation for the Company's sustainable development and will help the Group in obtaining more favourable terms in future from the capital market.

In view of the fact that the Group's indebtedness stood at a relatively low level with strong repayment capability, the Group will continue to resort to increasing its indebtedness principally for financing capital expenditure in 2004. It is expected that the increase in the Group's gearing ratio should enhance return on shareholders' equity.

Corporate Governance

In order to ensure that the Group attains a higher standard of corporate governance, the Board and the senior management of the Company are committed to implementing consistently all key principles of corporate governance in the long term interest of shareholders and stakeholders by assuring that our financial services partners who provide funds for the Group will secure reasonable investment returns. Save for complying to the rules and regulations of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") continuously, the following measures were adopted by the Group during the year:

- (i) We strive for enhancing the efficiency of the Board and strengthen the monitoring of the management over different aspects of fairness, transparency, explanation and accountability. The Board has established various committees, including Investment and Strategic Planning Committee, Corporate Governance Committee, Risk Management Committee, Nomination Committee as well as Remuneration and Assessment Committee. Together with the long established Audit Committee, there are a total of six specialised committees monitoring the operation of the Company.
- (ii) Heads of COSCO Group have joined the Board as executive directors to provide full support to the business development of COSCO Pacific.
- (iii) At least four board meetings are scheduled each year in order to strengthen the functions of the Board.
- (iv) On the basis of delivering two results announcements annually, we take further initiatives in enhancing transparency by conducting quarterly meetings as well as discussion meetings with analysts to brief the operations of the Company and to consolidate our institutional investor base as well as to upgrade our competitiveness in capital markets.
- (v) An information disclosure system whereby monthly throughput of all terminals are posted in our website.

Investor Relations

We firmly believe that effective investor relations is beneficial for both investors and related parties to fully appreciate the intrinsic value of an enterprise, the market value of which will be reflected in its share price. Sound investor relations will not only benefit us in securing favourable financing channels amongst our peers, but also further create value for shareholders. COSCO Pacific strives for enhancing its management mechanism, upgrading governance standard and improving corporate transparency by establishing an honest and diligent corporate image for the attention of institutional investors.

2003 was a year of harvest for COSCO Pacific as it was endowed with 6 awards:

- (i) In Finance Asia's "Asia's Best Companies 2003" survey announced in March 2003, COSCO Pacific was ranked as one of the "Most Commitment to Shareholder Value", "Best Corporate Governance" and "Best Financial Management" enterprises in China.
- (ii) In CLSA's Corporate Governance Research Report published in April 2003, COSCO Pacific was once again assessed as one of the "Best Corporate Governance" PRC enterprises.
- (iii) In the most authoritative global Institutional Investor Research Group's annual report on Asian Equity Investment Report published in June 2003, COSCO Pacific was accredited as "The Conglomerate Enterprise with the Best Investor Relations in Asia".
- (iv) The Group's wholly owned subsidiary, COSCO Pacific (China) Investment Co., Ltd. was accredited by the PRC Ministry of Commerce as one of the "Top 100 Model Units of China Foreign Trade Enterprises in Creditability System Construction".
- (v) In the "Best Corporate Governance Disclosure Awards" released by Hong Kong Society of Accountants on 11th November, 2003, COSCO Pacific became the first PRC company to have won the "Significant Improvement Award" in the Hang Seng Index Category.
- (vi) COSCO Pacific's 2002 Annual Report was awarded "Honourable Mention of the Best Annual Reports Awards" by the Hong Kong Management Association for the fourth time.

Prospects

Global economic and trade recovery is set to accelerate in 2004, while China's economy and foreign trade are expected to sustain rapid growth. Likewise, a continuous growth trend is expected for the international shipping market. China is expecting an economic growth of

approximately 7% for 2004. Driven by growing demand for shipping as China's foreign trade begins to pick up on the back of domestic economic growth and global economic recovery, together with the increasing investment in China by transnational corporations. China's container cargo volume is expected to grow steadily.

COSCO Pacific is determined to give full play to the notion of "going global". It will on the one hand make every effort to procure cooperation with international partners in constructing and promoting China's economic development leveraging on its strong presence in the Chinese market, and on the other hand seek international business development opportunities in a timely manner to further develop its three core operations, namely container leasing, container terminal operation and logistics business in full utilisation of possible financing available from international capital markets, striving to achieve new benchmarks in management and performance in the capital market in a bid to create value for shareholders and live up to expectations for the Company.

Details of the annual results announcement will be available in our website (<http://www.coscopac.com.hk>), the South China Morning Post and Hong Kong Economic Times on 26th March 2004. For further inquiry, please contact our Mr. Raymond Yuan, General Manager of the Public Relations and Communications Department. (Tel. 2809-8188; Fax: 2907-6088; E-mail: yuanqing@coscopac.com.hk).