

Awards:

1997

- > By "Asiamoney" - One of the best managed Chinese companies

1998

- > By HKMA - Honourable mention of the best annual reports

1999

- > By "Asset" - One of the best managed Chinese companies
- > By HKMA - Honourable mention of the best annual reports

2000

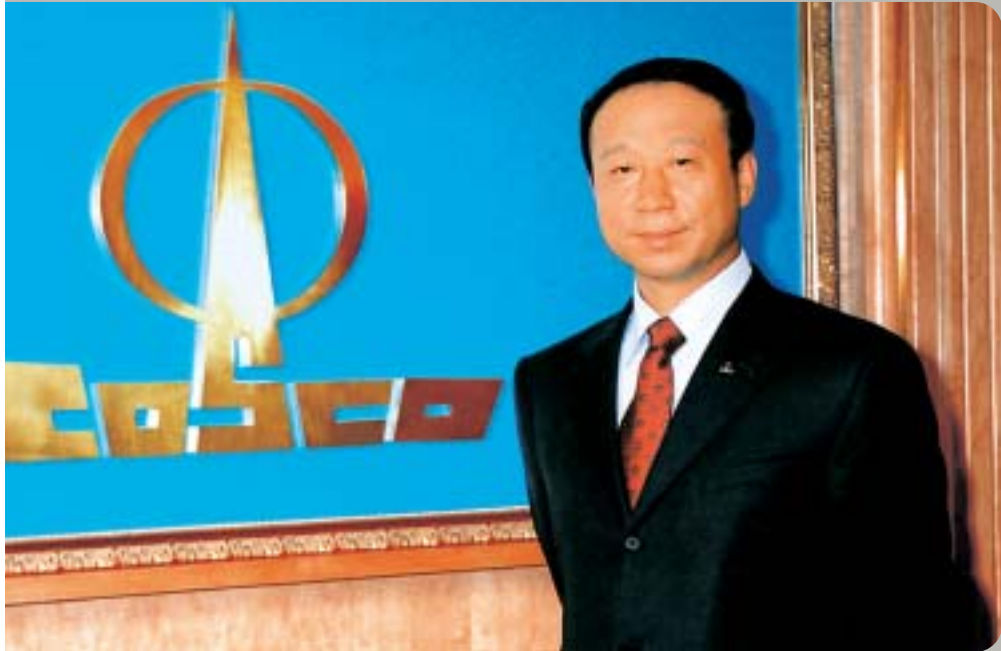
- > By "Asiamoney" - One of the best managed Chinese companies
- > By "HSBC Securities" - One of the Asian 100 leading corporates
- > By HKMA - Honourable mention of the best annual reports

2001

- > By "Finance Asia" - One of the best investor relations of Chinese companies
- > By "Capital" - One of the 100 Chinese enterprises in the new century

2002

- > By "Credit Lyonnaise Securities" - One of the best corporate governance of Chinese companies



>> I strongly believe that by continuously improving the quality of our corporate governance and providing sufficient communication channels to our stakeholders, COSCO Pacific is able to establish a mutual "understanding and trust" relationship between investors and the Company and our senior management as well.





COMMITMENT  
IN OUR MANAGEMENT

## Vice Chairman's Statement

>> The volatility of the global economy and the "9.11" event in the U.S. have resulted in a significant slowdown in the economic growth of major trading countries in 2001. Consumer confidence plunged and competition intensified across major industries. However, with the strong support from COSCO and our solid business foundation, COSCO Pacific is strong enough to withstand any market risks.

The Company has been able to maintain a healthy financial position and a solid growth in business. Profit attributable to shareholders for 2001 amounted to US\$154,340,000, an increase of 8.3% over last year.

### Profitability

Due to intensifying market competition, enterprises across the industries need to take effective measures to increase revenue, reduce costs, raise asset utilisation and improve operating profit margin in order to maximise profitability. To achieve this, the prerequisite is to attain economy-of-scale benefits at a considerable level. In addition, corporate development plans should be formulated in line with the operations, cash flows, business practices and financial benchmarks of a particular industry. Expanding the market share is also an essential means to increase the intrinsic value of an enterprise.

COSCO Pacific has been making efforts to improve its profitability ever since it was listed. With the strong support of the parent company, COSCO Pacific has expanded its business, broadened the revenue stream and strengthened the earnings base. As a result, the Company achieved an uninterrupted profit growth between 1994 and 2001, with profit attributable to shareholders recording a compound annual growth rate of 21.2%.

There is still much room for higher profitability in the Company's container leasing business. With its well established teams in administration, marketing, operation and technology, sophisticated computer systems and depot facilities, Florens has the capacity to operate and manage more containers for leasing. By systematically expanding its container leasing fleet while maintaining the utilisation rate above the industry average, Florens' marginal operating income will be higher than its marginal operating cost per container, which will enhance its profitability.

Container leasing is one of the Group's principal sources of income. In order to fully capitalise on the economy-of-scale benefits, the Group has been actively expanding the container leasing business. During the year, the Group's container leasing fleet increased by 15.5% to 610,019 TEUs. Newly purchased containers accounted for 96,953 TEUs, of which 97.0% has been leased. As at 31st December 2001, the Group leased out a total of 539,307 TEUs of containers, with rental income increased by 4.0% to US\$208,342,000. Profit contribution to the Group from the container leasing business also increased.

The Group has interests in five container terminals that are located in Hong Kong and China mainland. During the year, the aggregate throughput of these terminals rose 3.9% to 7,425,188 TEUs. This helped the container terminals to increase their profits. The Group's share of profits attributable to shareholders from the container terminals and related businesses accounted for 28.6% of the Group's total profit.

Supported by the sizeable shipping fleet of the parent company, COSCO Pacific has the competitive advantages to expand its market share in the China mainland container terminal sector. In December 2001, the Group joined in to promote and set up Dalian Port Container Co., Ltd. ("JV Co"), a joint stock limited company in China mainland, and subscribed for 8% of the equity interest in the JV Co. The JV Co holds a 51% interest in Dalian Container Terminal Co., Ltd. which owns Dalian's principal container terminal and is a major shareholder of all other container terminals in Dalian. The JV Co has great development potential and plans to seek for a listing on the China mainland stock market.

### **Market**

COSCO Pacific's core businesses are closely interrelated to the container cargo transportation market. In recent years, shipping companies have been actively expanding their fleet. As a result of the economic slowdown in 2001, there was a serious over supply in container cargo transportation capacity, which led to a decline in freight charges. Under these circumstances, shipping companies have tightened their cost controls, and have become more cautious in leasing containers for cargo transport.

In view of this, the Group has adopted a more prudent plan for new container purchase, with 50,000 TEUs - 60,000 TEUs of new containers scheduled for 2002. The Group will closely monitor the market situation. Should the economy or the market conditions recover, the Group will take immediate and appropriate measures to meet the demand of customers.

On the subject of investor relations, economic globalisation and market liberalisation will increase the free flow of capital. The world's capital markets will also gradually link together, and investors will have more choices in asset allocation for their investment portfolios. It is expected that investors will pay closer attention to the China capital markets, which are

undergoing a liberalisation process that could become more broadened and deepened in coming years. The rapid development of information technology will enable investors to become more sophisticated in selecting and evaluating investment risks and returns.

The management is committed to improving the quality of investor relations and building up mutual trust with the investors. In order to enable investors to have a full understanding of the Group's intrinsic and market value and to have confidence in the Group's prospects, the management has been actively carrying out corporate promotions, public relations and other activities to build up a good corporate image and to further strengthen investor communications.

### **Services**

With the completion of the second phase of its e-commerce platform on 2nd January 2002, the Group started to provide on-line container leasing as part of the enhancement of its customer service. The Group will continue to improve the service scope and capability of the platform, focusing on the needs of its customers and the market, in order to further enhance its container leasing services. The improvement will also include more intensive training on e-commerce for the staff and strengthening of communications with customers. The further enhancement of the platform will increase the competitiveness of the Group in the container leasing industry.

### **Management**

COSCO Pacific is well renowned in the market for its corporate management and has been adopting prudent financial management as a major guide. Between 1994 and 1997, the peak period of COSCO Pacific's acquisitions, substantial financing was required and the Group's net debt-to-equity ratio reached 88%. After 1997, the Group strived to improve its debt structure. Internal resources were used mainly for the repayment of debts, while new borrowings were mainly at a maturity of over five years. These efforts have alleviated the pressure on annual debt repayment. The Group also diversified its financing markets to include Hong Kong, the U.S. and China mainland, depending on the market environment, financing costs and terms. Various financial instruments were used to increase the flexibility of financing.

As a result, the Group's net debt-to-equity ratio continued to improve, dropping to 21.3% by the end of 2001. This provides the Group with much room in making further financing arrangements for new projects. It will also enable the Group to secure better terms in financing for the future business opportunities.

Corporate governance has become the hottest subject in capital markets. According to the McKinsey & Company 1999 research report, many investors considered corporate governance as a highly important yardstick for their company selections. This especially applied to their investments in the Asian region. In the same survey, when institutional investors were asked about the importance of a company's corporate governance versus its financial position, 75% considered that corporate governance was more or equally important as financial performance when they evaluated companies for investment. This to a great extent reflected the growing importance of corporate governance.

In a research report published by Credit Lyonnais Securities Limited ("Credit Lyonnais Securities") on corporate governance in February 2002, it was pointed out that an enterprise's financial performance was, to a considerable extent, related to its quality of corporate governance. An enterprise with good corporate governance also performed well in its financial results, and was regarded by investors as an enterprise that could increase the values of their investments.

I strongly believe that the quality of corporate governance reflects an enterprise's management and operation qualities. By emphasising prudence in capital expenditure, fairness in financial planning, and efficiency in administration and management, stringent corporate governance can safeguard the proper use of funds and allocation of resources thus protecting shareholders' interests.

The management has been taking a number of measures to strengthen the Group's corporate governance. These measures include adopting the budget system as the crux of financial management and business operations, improving capital management, arrangement and utilisation, reducing capital costs, and carrying out internal audit by the professional staff in the internal audit department based on a set of clear guidelines. The majority of the Group's investee

companies have adopted the internal audit system and the internal audit results are submitted to their respective board of directors as a means to improve their corporate governance.

The management of COSCO Pacific places great emphasis on the importance of corporate governance and has been improving the quality. The Company has adopted a systematic and well defined code of practice and a stringent and clear internal control system to protect the interests of shareholders and investors. In the report published by Credit Lyonnais Securities on corporate governance, COSCO Pacific was ranked fourth among the best Chinese companies in corporate governance.

### **Teamwork**

The success of COSCO Pacific is due to the teamwork and outstanding performance of the staff. Despite the unfavourable economic environment, the Group remains committed to providing high quality services for its customers. In order to achieve this, the Group arranges its staff to participate in a variety of training courses, and adopts effective human resources policy to improve its operations. At the same time, the Group offers favourable promotion opportunities and incentives to its staff to maximise the development and employment of their talents.

### **Prospects**

2002 is the first year following China's entry into the WTO. The pace of reform in the China mainland capital markets is set to quicken at full speed. The Chinese government is taking measures to build up an efficient financial system and healthy capital markets in order to provide financing channels and capital for both state owned and private enterprises. Designed to improve corporate governance and management quality, the listing rules have helped to increase the competitiveness of the enterprises. It is expected that the rapidly growing China mainland capital markets will provide Chinese enterprises with another major financing channel in the coming years. The growth of Chinese enterprises will be a major driving force to the China economy in entering into a new era.

Capital magazine, an Asian financial publication, published the "100 Chinese enterprises in the new century" analysis in September 2001, which listed the top 100 Chinese enterprises based on market value. COSCO Pacific was ranked 62nd in market capitalisation, 27th in return on assets, 35th in return on equity, and 62nd in turnover, and was the only Chinese enterprise among the 100 that was closely related to shipping. Listed Chinese enterprises play an important part of role in China economic growth. It is encouraging that COSCO Pacific is included in the top 100.

Market consensus has indicated that the U.S. and European economies may recover in 2002. Should this be the case, it will be a new impetus to China's foreign trade growth. The increase in China's imports and exports will provide COSCO Pacific with a favourable operating environment. COSCO Pacific will capitalise on its advantageous position in the capital markets to further strengthen its operations and increase its market share in the container leasing sector. It will also endeavour to expand its market share in the China mainland container terminal sector. By coordinating with the business developments of COSCO and taking China mainland as its primary market, COSCO Pacific will link its corporate development strategies with the capital market developments in China mainland. These measures will enable the Group to maximise its profits as well as the returns and values for shareholders.

On behalf of the management, Chairman WEI Jiafu and I would like to take this opportunity to express our high appreciation of the outstanding performance and teamwork of all staff. Let us hold our hands together to face the challenges ahead and contribute our best to the Group's future development.

**LIU Guoyuan**  
Vice Chairman

27th March 2002



COMMITMENT  
IN OUR SERVICES