



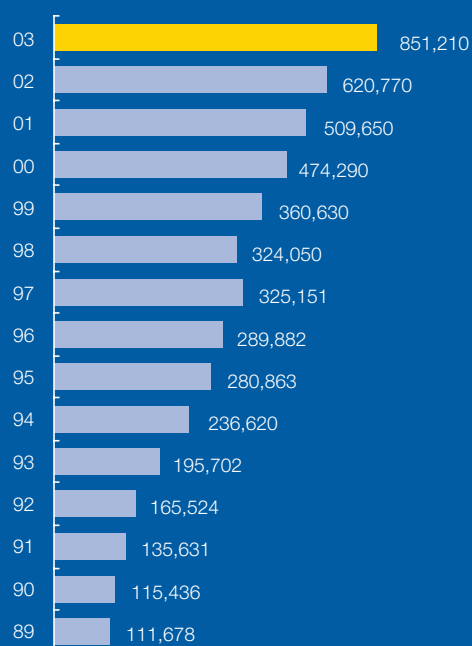
# Chairman's statement

## Gateway to China

I am very pleased to report to our shareholders that COSCO Pacific achieved solid growth in 2003. Significant achievements were made in the areas of business expansion, new project development, financial efficiency and corporate governance. The Company has built a strong foundation for future earnings growth. Looking ahead, we believe that the vast potential of the China market will drive further the development of our businesses.

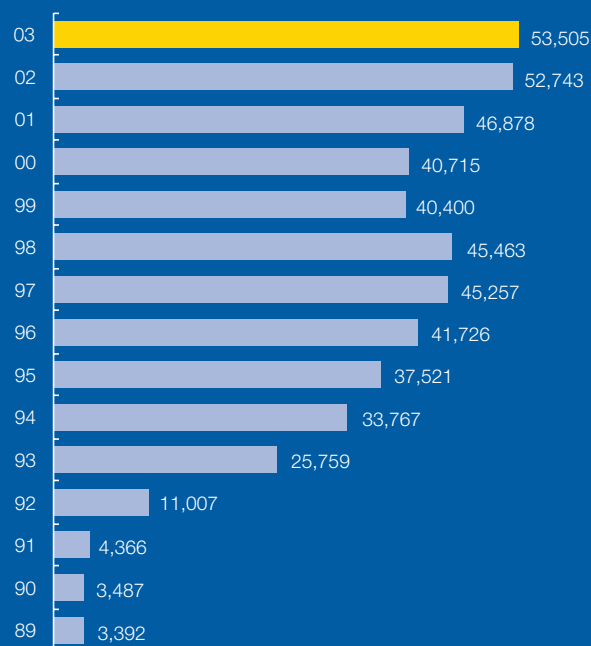
### China's import and export trade (1989-2003)

Unit: US\$ million



### Foreign direct investment in China (1989-2003)

Unit: US\$ million



### Results highlights in 2003:

- Turnover rose by 6.6% to US\$257,495,000.
- Profit attributable to shareholders was up 8.5% to US\$154,331,000.
- Basic earnings per share increased 8.5% to US7.1871 cents.
- Normalised earnings per share (excluding the major non-recurring items) increased 16.2% to US7.2892 cents.
- A final cash dividend of HK18.0 cents per share was proposed. Together with the interim cash dividend of HK13.8 cents per share, total dividend in 2003 will be HK31.8 cents per share and the payout ratio will be 56.7% in 2003 (2002: 56.1%).
- Return on equity was 12.0% (2002: 11.7%).
- Container leasing fleet was expanded by 14.3% to 808,825 TEUs, representing a global market share of approximately 9.7% (2002: 9.3%) and achieved an average utilisation rate of 95.2% (2002: 93.4%).
- Aggregate container terminal throughput increased by 33.4% to 17,901,012 TEUs.
- Various interests of two container terminals in China mainland and one overseas terminal were acquired. Another container terminal, Yantian International Terminals (Phase III) Limited, started its operation during the year. Total number of berths will increase from 31 to 51, expanding the aggregate handling capacity by 12,200,000 TEUs to 26,000,000 TEUs.
- Acquisition of 49% interests in COSCO Logistics Co., Ltd. was proposed in September 2003 and completed in January 2004.
- US\$300,000,000 of 10-year fixed rate notes were issued with total subscription in excess of 5.4 times of the issued amount.
- COSCO Pacific was admitted as a constituent stock of the Hang Seng Index.
- The Company achieved 6 awards for our excellence in corporate governance and investor relations.

We have dedicated our efforts to expanding our businesses while maintaining transparency and good corporate governance practice. These efforts have won market recognition. Our mission is to enhance value for our shareholders and to provide superior services to our customers. The trust that our shareholders and stakeholders place in us motivates us to succeed.

### The China market remains a bright spot amidst a challenging global economy

2003 was a challenging year for the global economy. The slow recovery of the US economy and the severe impact of Severe Acute Respiratory Syndrome (“SARS”) on the Asian and global economies, together with the tense political situation in the Middle East and the spreading fears of terrorism, created significant uncertainties in the market. However, the third quarter saw a pickup in global economic growth led by the US. Indeed, the US’s Gross Domestic Product (“GDP”) growth rose to 4.8% in 2003 with 1 percentage point increase over 2002. Driven by the re-bounce of the US economy, the global marine transport sector also gathered strength, creating a positive backdrop for the container transport industry.

Despite the challenging global economic environment, China continued its robust growth, achieving a GDP growth of 9.1% (2002: 8.0%). In particular, import and export trade posted strong gains, making China the fourth biggest importer and exporter in the world, following the US, Germany and Japan. In 2003, China foreign trade reached US\$851,210,000,000 with a year-on-year increase of 37.1%. China’s exports amounted to US\$438,370,000,000, with imports of US\$412,840,000,000, representing growth rates of 34.6% and 39.9% respectively over 2002. Indeed, China plays a significant role in driving the world economic growth.

## Foreign direct investment accelerates trade development in China

According to the Foreign Direct Investment (‘FDI’) Confidence Index Report published by A.T. Kearney in September 2003, China surpassed the United States as the most attractive destination for global FDI for the first time in 2002. Despite the outbreak of SARS, China managed to strengthen its FDI attractiveness lead in 2003. Given its immense growth potential, China’s economic development has become the focal point of the world.

In 2003, China recorded a FDI of US\$53,505,000,000 into its economy, a 1.4% increase over 2002. This figure made China the largest recipient of FDI among developing countries and the second largest recipient in the world, after the United States. The global economic recovery provides a better earnings outlook for multinational corporations. Mergers and acquisitions become more active in the capital markets. Investors maintain higher confidence for a positive economic outlook. It is expected that they will invest more aggressively in the coming years. On the other hand, the booming economy of China and its expanding domestic market provide more investment opportunities for foreign investors. China will definitely continue to be the most attractive destination for foreign investments. The growth in FDI is expected to further stimulate the

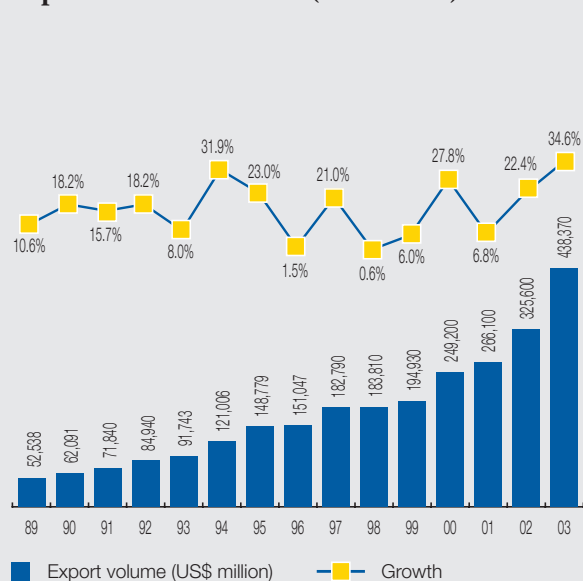
economic development in China. Furthermore, the induction of the latest management skills and practices will facilitate China to integrate into the international markets.

## COSCO Pacific’s competitive advantages in China

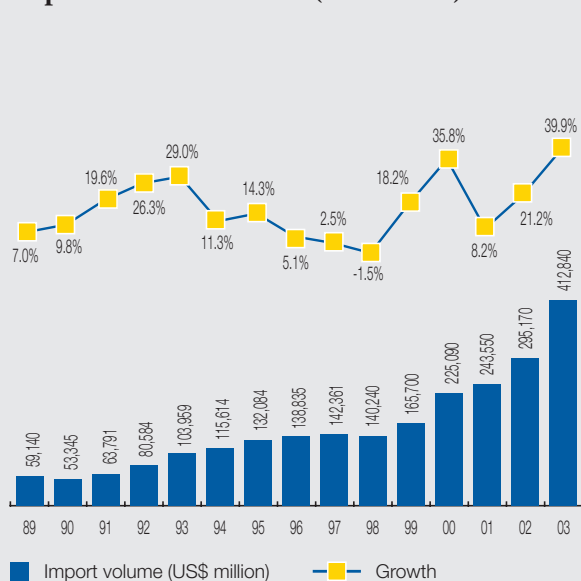
The core businesses of COSCO Pacific are intertwined with China’s economy and its foreign trade position. Thanks to the China’s economic development and growing domestic consumption, the demand for container transport services is increasing. This is beneficial for the development of our three pillars of business, namely container leasing, container terminal operations and logistics services.

In 2003, the shipping sector began to turnaround as demand increased steadily. Despite this, competition remained intense in the container leasing market and among container terminals. It was inevitable that our core businesses faced considerable pressure. However, under the aegis of COSCO Group, COSCO Pacific continues to enjoy unique competitive advantages in the China market.

Export volume of China (1989-2003)



Import volume of China (1989-2003)



Founded in 1961, COSCO Group is the largest shipping enterprise in China. The COSCO Group owns and operates a fleet of 566 vessels with a total carrying capacity of 28,110,000 dead-weight tonnage. In 2003, COSCO Group transported approximately 93,760,000 tons of marine cargos, accounting for approximately 11% of China's foreign seaborne trade. COSCO Group owns China's largest and the world's seventh largest container liner operator, COSCO Container Lines Company Limited ("COSCON"). COSCON operates and manages 115 container vessels calling at 120 ports around the world. Its fleet capacity is about 257,000 TEUs. With a customer base spanning the globe, COSCO Group plays an essential role in facilitating trade between China and the rest of the world.

### **Worldwide leader in container leasing**

COSCON is the largest customer of the container leasing operations of COSCO Pacific. As at 31st December 2003, COSCO Pacific leased a total of 310,444 TEUs to COSCON, representing 38.4% of COSCO Pacific's container fleet. The services were mainly provided through 10-year leasing arrangements with 100% utilisation, thereby generating a stable source of revenue to COSCO Pacific. COSCON is actively expanding its fleet capacity by a newbuilding plan of 16 container vessels to be delivered in services from 2004 to 2006. At the end of 2006, COSCON's fleet capacity will be expanded to about 400,000 TEUs.

Since 1997, COSCO Pacific has been successfully expanding its customer base and providing leasing services to an increasing number of international customers. Total number of customers was 202 as at 31st December 2003. With its container leasing operations growing rapidly in recent years, COSCO Pacific has become the world's fifth largest container leasing company, accounting for approximately 9.7% of the global market share.

### **Leading container terminal operator in Asia**

Stimulated by the rapid growth in import and export trade, shipping volumes in China have been on the rise. In 2003, the aggregate throughput of ports in China mainland was 48,000,000 TEUs, up 29.7% year-on-year. This performance was outstanding when compared with a 7.5% growth in the aggregate global throughput of 293,200,000 TEUs. During the year, Hong Kong and Singapore maintained their respective rankings as the first and second busiest ports in the world. Most of the ports in China mainland have improved their global rankings in terms of throughput. In particular, the rankings of Shanghai and Shenzhen rose to third and fourth place respectively.

Our strategy is to strengthen our position as the leading terminal gateway to China. We aim to build an efficient terminal portfolio so as to provide quality services to customers. We have a strong presence in the key regions of the Bohai Rim, the Yangtze River Delta and the Pearl River Delta. We will increasingly turn our attention to the high-growth areas of the Yangtze River Delta and Bohai Rim while maintaining a strong focus on the Pearl River Delta area. Furthermore, COSCO Pacific will also capture the robust growth of the global container transport industry by enhancing its competitiveness and strengthening its overseas terminal networks.

According to a research report published in July 2003 by Drewry Shipping Consultants Ltd., a leading international shipping consultant, COSCO Group was ranked as the eighth largest global terminal operator in 2002. Its terminals portfolio is mainly operated by COSCO Pacific.

Currently, the global container terminal operators can be divided into three categories. The first category is the global carrier with container shipping being its prime focus of business. It provides containers to be handled by terminals. The second category is the global stevedore with terminal operation being its prime focus of their business. The third one is other investors that contribute capital to invest in terminal business. Among these three operators, the global carrier has the most competitive advantages in terminal investments. It is because its vessels call at terminals to handle its containers.

## Container throughputs of top ten global operators in 2002

Global operator <sup>1</sup>	TEUs <sup>2</sup>	Percentage of the total	Forecast CAGR for 2002-2008 <sup>3</sup>
HPH	36,700,000	13.3%	4.2%
PSA	26,200,000	9.5%	4.1%
APM Terminals	17,200,000	6.2%	5.7%
P&O Ports	12,800,000	4.6%	7.5%
Eurogate	9,500,000	3.5%	4.2%
Evergreen	5,700,000	2.1%	3.5%
DPA	5,300,000	1.9%	7.5%
COSCO	4,700,000	1.7%	6.8%
Hanjin	4,700,000	1.7%	9.4%
SSA Marine	4,400,000	1.6%	9.6%

**Note 1:** Global operators are those that have terminal investments in more than one region.

**Note 2:** Calculated in proportion to the attributable shareholding in the relevant terminals, excluding those terminals in which global operators have less than a 10% interest.

**Note 3:** Only contracted development projects are included.

Source: Annual Review of Global Container Terminal Operators of Drewry Shipping Consultants Limited, July 2003

The terminals of global operators account for an increasingly significant proportion of aggregate global terminal throughput. According to the Drewry report, the total terminal throughput of 23 global operators was approximately 160,000,000 TEUs in 2002 (2001: 131,800,000 TEUs), accounting for 58.0% (2001: 53.2%) of aggregate global throughput. The privatisation of ports and the expansion of existing port facilities have provided remarkable investment opportunities for investors. However, the subsequent growth in handling capacity has intensified competition in the terminal industry, with port operators vying to attract shipping lines to their terminals. To survive in this competitive environment, many port operators have entered into partnerships with large shipping lines or other similar entities to invest in terminal operations. These shipping lines shift their routes to their invested terminals, thereby enhancing the terminals' income and achieving a win-win situation for both themselves and the port operators.

The ports along the coast of China have been in particularly high demand by international shipping lines. In 2003, COSCO Pacific expanded its terminal operations through various investments by joint ventures. Our partners include port authorities in Shanghai, Shenzhen, Qingdao, Tianjin and Dalian, and global operators including Hutchison Whampoa Limited, PSA Corporation Limited, A.P. Moller and P&O Ports. All of these acquisitions are quality terminal investments. The terminals provide comprehensive services to customers. With the strong strategic partnership of global carriers that help to provide stable sources of income to terminals, these terminals have prosperous future.

COSCO Pacific is the only terminal flagship of COSCO Group. COSCO Pacific's success in developing into one of Asia's leading terminal operators reflects the strong support of its parent company, as well as being supported by a leading global carrier that reinforces our unique position as the "Gateway to China".

### **Expanding into the rapidly growing logistics sector**

Due to the rapid development of the international trade, companies are looking for ways to streamline their organisations for profitability. They are looking for ways to grow without losing their competitive edges. Consequently, outsourcing has become a powerful tool for achieving both streamlined productivity and competitive customer service. This provides great opportunity for the logistics industry. The rapid development of information technology allows the logistics sector to provide comprehensive and value-added services to cargo owners so as to reduce their expenditure in logistics.

In the US, the national amount spent on logistics as a proportion to GDP has gradually declined to around 10% due to the efficient services provided by transportation sector, especially by the logistics and shipping industries. In China, according to the China Federation of Logistics and Purchasing, the national amount spent on logistics accounts for approximately 20% of GDP and this proportion is even higher in certain provinces. Therefore, providing efficient services to lower customers' logistics expenditure provides an opportunity of the Chinese logistics industry.

The rapidly growing Chinese economy has created a favourable environment for the development of the logistics industry. As the foreign investment in China grows, multinational corporations are increasingly shifting their operations to China mainland. These multinational corporations, together with local Chinese companies are seeking to lower operating costs by outsourcing logistics services to professional contractors. As a result, the demand for comprehensive logistics service providers will definitely be on the rise.

During the year, COSCO Pacific entered the logistics sector through its acquisition of a 49% equity interest in COSCO Logistics Co., Ltd. ("COSCO LOGISTICS") from COSCO Group. With the well-established customer network of the COSCO Group and the terminals network of COSCO Pacific, COSCO LOGISTICS will leverage off its competitive edge and expand rapidly in logistics industry in China.

### **Strong market performance**

China is gradually integrating into the globalisation of international trade and the benefits of reforms in the state-owned sector are beginning to emerge. The business performance of state-owned enterprises have improved. During the year, share prices of Chinese listed companies in Hong Kong outperformed the market index. COSCO Pacific's share price outperformed the market and was up by 61.7% in 2003.

The increase in market value of COSCO Pacific was primarily attributable to our efforts to conduct our business with integrity and continuously pursue improvement initiatives, thereby winning the trust and support of our shareholders and stakeholders. The positive investment community sentiment has facilitated our fund raising activities in the capital markets. From 1994 to 2003, the Group raised an aggregate of US\$3,494,000,000 for the funding of various business development initiatives.



## Market recognition

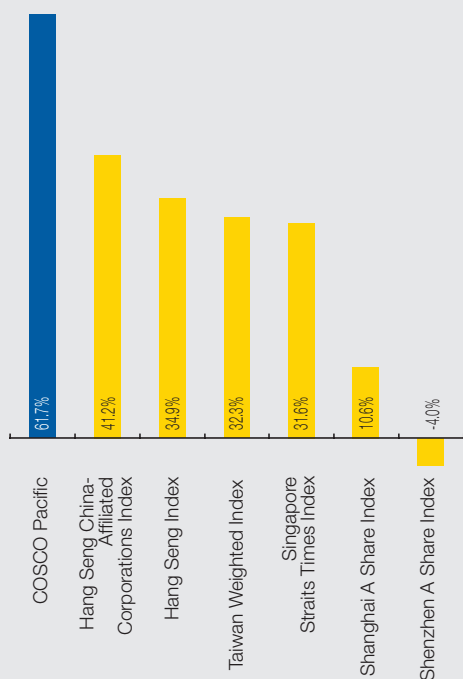
On 9th June 2003, COSCO Pacific was admitted as a constituent stock of the Hang Seng Index, becoming the first Chinese shipping-related company to be recognised as a blue chip. We are very proud of this significant development, particularly since it validates our past performance and achievements. I specially wrote a poem for this historic moment: "Hang Seng Thirty-Three, At the Top of the Tree, Ten Years Sowing Seeds, A Blue Chip COSCO Succeeds". At COSCO Pacific, we are committed to creating value for our shareholders and delivering high quality services to our customers. The trust placed in COSCO Pacific by our shareholders and customers has led to the Company's strong performance.

## Pursuit of integrity

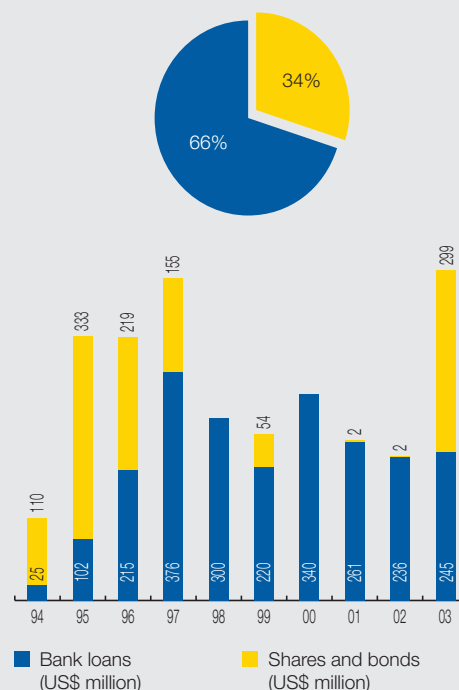
The successful relationships established between COSCO Pacific and its shareholders, customers, business partners, investors, employees and the general public have contributed to the steady development of the Company. The integrity with which we have built our business has won market recognition. We will continue to enhance corporate governance and to fulfill our social responsibilities. We will also work to increase investor confidence through our commitment to quality management and high levels of transparency. Over the long term, our objective is to develop into a large-scale enterprise with sound earnings potential and effective management.

### Share price of COSCO Pacific outperformed the Hang Seng Index

(Comparison of share prices as at 31st December 2003 and 2002)



### Funds raising activities





## Committed to enhancing corporate governance

The board of directors (the “Board”) implement constantly all the key principles of corporate governance in the long term interests of shareholders and stakeholders and the management of COSCO Pacific are committed to balancing the long term interests of stakeholders. In addition to complying with the requirements of The Stock Exchange of Hong Kong Limited, the Company implemented the following initiatives during the year to further enhance corporate governance:

- We aimed to improve the efficiency of the Board, strengthen the monitoring of management, and enhance fairness, transparency, accountability and responsibility. In addition to the Audit Committee established in 1998, Investment and Strategic Planning Committee, Corporate Governance Committee, Risk Management Committee, Nomination Committee and Remuneration and Assessment Committee were formed. There are a total of six specialised committees monitoring the operations of the Group.
- The senior management of COSCO Group was appointed to the Board as executive directors to ensure that COSCO Group provides full support to the development of COSCO Pacific.
- The Board meeting will be held four times each year to further strengthen their monitoring function.
- To further improve transparency. In addition to results announcements which take place twice a year, we also conducted quarterly investor forums and analyst conferences to enhance communication with the investment community.
- We increased disclosure by publishing on our website the monthly throughputs of terminals operated by the Company.

## Social responsibility

We believe that the success of a company should be measured in terms of the fulfillment of its environmental protection duties and social responsibilities as well as its financial performance. In December 2002, in commemoration of its eighth anniversary of being listed, the Company hosted a plantation function in Tai Po Waterfront Park, Hong Kong, which was attended by all members of staff. The purpose of this event was to increase the staff’s awareness of environmental protection. The Company has also made a donation of HK\$500,000 in May 2003 for the purchase of insurance for frontier medical staff fighting against the SARS in Beijing.

## Economic outlook and risk factors

Despite the favourable outlook for the global economy and market in 2004, the following risk factors may affect the development of shipping-related enterprises:

- China adjusted its policy on export tax rebates and this may slow down the growth of the country’s foreign trade.
- As China implements certain agreements it entered into as a member of the World Trade Organisation, and as the US-China maritime agreement being reached, further deregulation is expected in the domestic freight forwarding and inland logistics transport markets. As such, competition in China market is expected to increase. In addition, trade frictions may escalate between China and other countries, in particular the US.
- Several uncertainties such as the general elections in the US, geopolitical instabilities and oil price fluctuations may affect the growth of world trade.

In spite of the above, the global economic and trade recovery is expected to accelerate in 2004. The economy of China and the international shipping market are expected to maintain their growth momentum. As such, the above risks may be mitigated by proper prevention measures.

### **Clear signs of a global economic recovery**

The US economic recovery is expected to sustain in 2004. The Euro zone and Japan are showing positive signs, and other Asian economies are also likely to maintain their rapid growth. According to the International Monetary Fund, the global economy is forecast to further grow by 4.1% in 2004. Stimulated by the strong global economy, the growth rate of global commodity trading is expected to reach 5.4% in 2004, 2.5 percentage points higher than in 2003.

### **Booming economic development of China**

China's economy is forecast to grow by approximately 7% in 2004. The strength of the domestic economy and the recovery of the global economy are expected to boost China's foreign trade activities. Given the increasing inbound investment in China and the growing demand for shipping services, it is estimated that in 2004 China's containerised exports will continue to grow steadily.

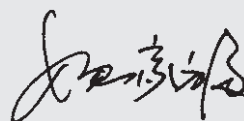
### **Further improvement in the peripheral foreign trade environment**

From 2004, a number of provisions under the China-ASEAN Free Trade Area Agreement and the Closer Economic Partnership Arrangement will start to take effect. Accordingly, import tariffs on certain major commodities will be reduced to zero. The trade incentives will not only trigger the import growth of certain commodities, but will also have a positive effect on expanding exports. The rapid growth in China's foreign trade is likely to be characterised by a stronger growth in imports than in exports as it was in 2003, which will be conducive to improving the balance between outbound and inbound shipping.

### **Outlook**

Looking ahead, COSCO Pacific will pursue its strategy of "capturing global opportunities". The Company will leverage its solid foundation in China and actively pursue business development opportunities around the world. Meanwhile, it will also work with international partners to jointly seize the business opportunities in China through investing in its three core business segments of container leasing, container terminal and logistics operations. Our aim is to improve the effectiveness of management and the Company's market performance so as to add value to shareholders and to meet the expectations of our stakeholders.

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



WEI Jiafu

Chairman

25th March 2004