



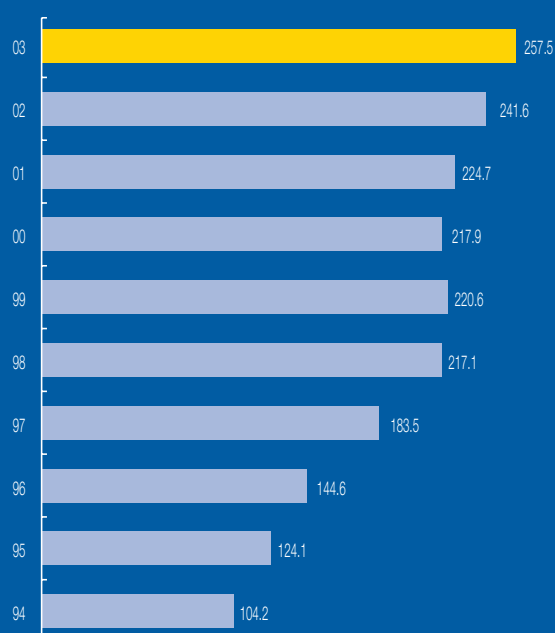
Vice Chairman's report

Performance and value

Despite the challenging business environment in 2003, with the efforts and dedication of our staff, COSCO Pacific achieved all of its operational and financial targets. In 2003, the overall performance of the Company was solid, with a profit attributable to shareholders of US\$154,331,000, representing an annual increase of 8.5% over 2002 or 16.2% without taking into account the major non-recurring items in 2002 and 2003.

Turnover

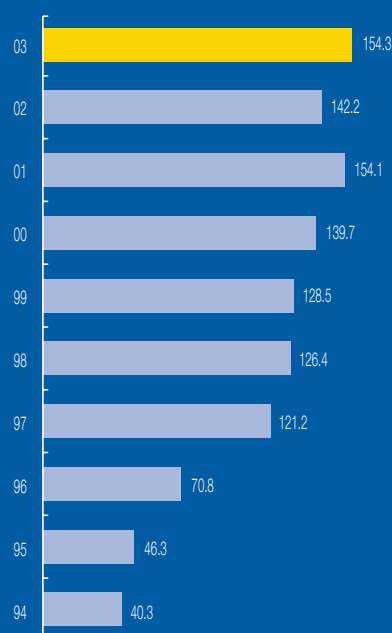
Unit: US\$ million



Profit attributable to shareholders

(1994 to 2002, restated as appropriate)

Unit: US\$ million



The Company is committed to enhancing its corporate value and providing a sustainable return to its shareholders. While the market value of an enterprise is embodied by its share price, dividend payments form an integral part of investment returns for shareholders. The Board recommended the payment of a final cash dividend of HK18.0 cents per share (2002: HK18.0 cents). Taking into account the interim dividend of HK13.8 cents per share paid in cash on 20th October 2003, the total cash dividend for 2003 will be HK31.8 cents per share (2002: HK29.0 cents), representing a dividend payout ratio of 56.7% (2002: 56.1%, as restated). The Group is very optimistic about its future prospects. On the basis of its strong cash position, the Company maintains an appropriate dividend policy to enhance the return to its shareholders.

During the year, COSCO Pacific continued to add value for its shareholders by implementing its management philosophy of “Cost Effectiveness, Market Orientation, Quality Service, Strong Management and Team Spirit”. With particular emphasis on cost effectiveness, we put in place stringent management measures and made aggressive efforts in market expansion to pave the way for the implementation of various major initiatives. Apart from seeking steady growth in our existing three core businesses, active efforts were made in developing new growth centres. During the course of the year, we also made strides in enhancing corporate governance, thereby winning the appreciation of the market. Finally, we are also pleased to see that the development of new projects progressed well in 2003.

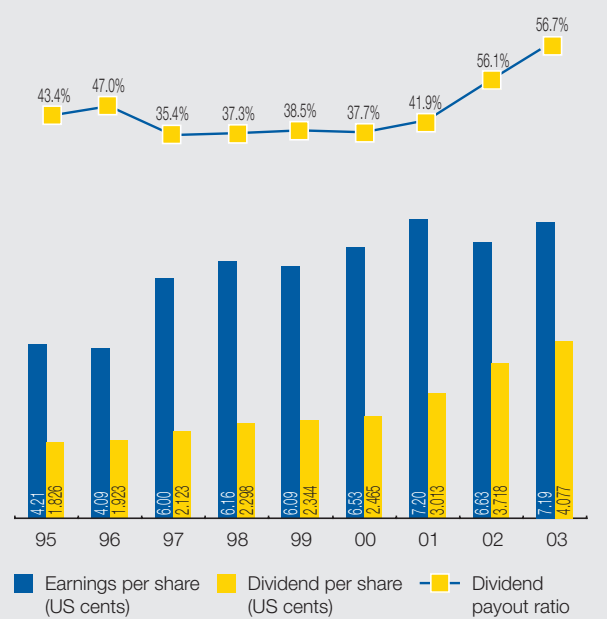
Strengthening project investment

The growth of COSCO Pacific accelerated substantially in 2003. The total capital expenditure during the year was US\$300,764,000, a record high since 1997. Of this figure, US\$195,606,000 (2002: US\$153,745,000) was spent on the purchase of 142,218 TEUs (2002: 119,466 TEUs) of new containers. Investment in new terminals was US\$100,355,000 (2002: US\$35,035,000).

Steady growth in container leasing operations

With the container fleet growing by 14.3% to 808,825 TEUs, our market share rose to approximately 9.7% (2002: 9.3%), making the Company the fifth largest container leasing company in the world. The Company’s annual average utilisation rate reached 95.2% (2002: 93.4%), well above the industry average of approximately 89% (2002: 83%). The steady growth in container leasing operations provided a substantial income and solid earnings basis for the Company.

Maintaining a steady dividend payout policy



Investing and expanding terminal operations

COSCO Pacific has interests in ten China mainland terminals and one Singapore container terminal. The total number of berths will be increased to 51 (2002: 31 berths), with an aggregate handling capacity of 26,000,000 TEUs. Aggregate throughput increased by 33.4% year-on-year to 17,901,012 TEUs.

The Company primarily expanded its container terminal operations through three means:

- Participation in the expansion of existing terminal;
- Acquisition of other existing terminal; and
- Participation in the construction and operation of new terminal.

During the year, three terminals were acquired which were all operational, and one other terminal started operation, providing a total of 20 berths and an annual handling capacity of 12,200,000 TEUs. The Company also entered into agreements for the acquisition of a 14% equity interest in Tianjian Five Continents International Container Terminal Co., Ltd. and a 30% equity interest in Dalian Automobile Terminal Co., Ltd. While focusing on the investment and operation of container terminals in China, the Company will also explore investments in specific terminals with attractive potential and return, such as automobile terminal, so as to leverage its existing strength in terminal operation and to diversify its business and to add profit growth engine.

In addition to its China container terminal business, COSCO Pacific aims to capture the robust growth of the global container transport industry by enhancing its competitiveness and strengthening its overseas terminal network. To this end, the Company will explore developing container terminals in overseas hub ports, particularly where COSCO Group's fleet has substantial container handling demand.

The Company's first overseas expansion was in Singapore, the world's second largest container port and a major port in South East Asia. During the year, COSCO Pacific and PSA Corporation Limited jointly established COSCO-PSA Terminal Private Limited, in which the Company holds a 49% equity interest. The first berth of the terminal commenced operation on 1st November 2003. This investment was an important step taken by COSCO Pacific towards overseas expansion and developing into a leading Asian container terminal operator.

Given the close linkage between COSCO Pacific's container terminal operation and logistics businesses, the Group will strive for developing both in such a way as to maximise synergies and enhance competitiveness.

Terminal	Commencement of operation	Number of berths	Annual throughput (TEUs)
Shanghai Pudong International Terminal	March 2003	3	2,300,000
Yantian International Terminals			
Phase III (started operation)	October 2003	4	2,400,000
COSCO-PSA Terminal	November 2003	2	1,000,000
Qingdao Qianwan Terminal	January 2004	11	6,500,000
Total		20	12,200,000

Acquisition of the logistics operation platform

On 22nd September 2003, COSCO Group and COSCO Pacific entered into an agreement to acquire a 49% interest in COSCO Logistics Co., Ltd. (“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 and the acquisition process has been completed in January 2004. The opening ceremony was held on 18th February 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 Group and to create synergies between container transportation and modern logistics industries. COSCO Pacific believes that the acquisition will add value for shareholders and bring the Company closer towards achieving its goal of becoming a leading logistics service provider in China mainland and Hong Kong.

The competitive advantages of COSCO LOGISTICS include the following:

- an extensive and closely-knit service network covering all strategic economic regions in the PRC;
- the solid reputation of COSCO LOGISTICS and its holding company, COSCO Group;
- provision of comprehensive logistics services to customers through its shipping agency, freight forwarding, third party logistics and supporting services;
- extensive customer base covering various local and multinational companies; and
- continued strong support from its holding company, COSCO Group, which has been dedicated to developing the restructured COSCO LOGISTICS group into a leading logistics service provider in China mainland.

Enhancing capital efficiency

In September 2003, COSCO Pacific issued US\$300,000,000 of 10-year notes. The market reaction was very overwhelming and the total subscription were 5.4 times of the issued amount. Investors came from Europe, Hong Kong, China mainland, Singapore and other Asian regions. This financing exercise diversified the Company's fund raising channels and improved its debt maturity profile. The average debt maturity period was extended from less than 3 years to 7.4 years, providing a solid foundation for the continued development of the Company.

In addition, a subsidiary of the Company, obtained a five-year syndicate loan of US\$175,000,000 on 17th February 2003 for general working capital and re-financing purposes. Apart from being oversubscribed with very favourable terms, this fund raising exercise further reflected the Group's sound creditstanding and its supports from the banking community.

Improvement of risk controls

In addition to nurturing new profit centres, reducing costs and enhancing operational efficiency are also long term business strategies of the Company. Indeed, risk management is a fundamental concern when a business is running at full speed.

COSCO Pacific adopted a prudent financial policy by regularly reviewing its financial risks, gearing ratio, cash flow and asset quality. The same prudent approach was also taken in developing new business and controlling investment risk. In addition, an investment approval mechanism and economic efficiency indices for operation and investment projects were established and strictly enforced. Investment and Strategic Planning Committee, Corporate Governance Committee and Risk Management Committee were established by the Board to strengthen the management of operational and investment risks.

The road forward for 2004

The economic outlook for 2004 is likely to improve from 2003. It is expected that the aggregate throughput of global container terminals will continue to grow at a fast pace, presenting ample opportunities for the Company. Our strategy will focus on further strengthening the Company's leadership position in the container leasing market as well as strengthening its terminal operations so as to capture the robust economic growth in China and the expected demand for container leasing and terminal services from large shipping corporations. The Company will also continue to explore opportunities in the logistics sector.

It is my strong belief that with the concerted efforts of COSCO Pacific's staff, we will be successful in exploring new projects, enhancing market competitiveness and improving the effectiveness of management. Through these dedicated efforts, we aim to maximise the overall value and operations efficiency of the Company to create a better return for our shareholders.



LIU Guoyuan

Vice Chairman

25th March 2004