



Logistics Review

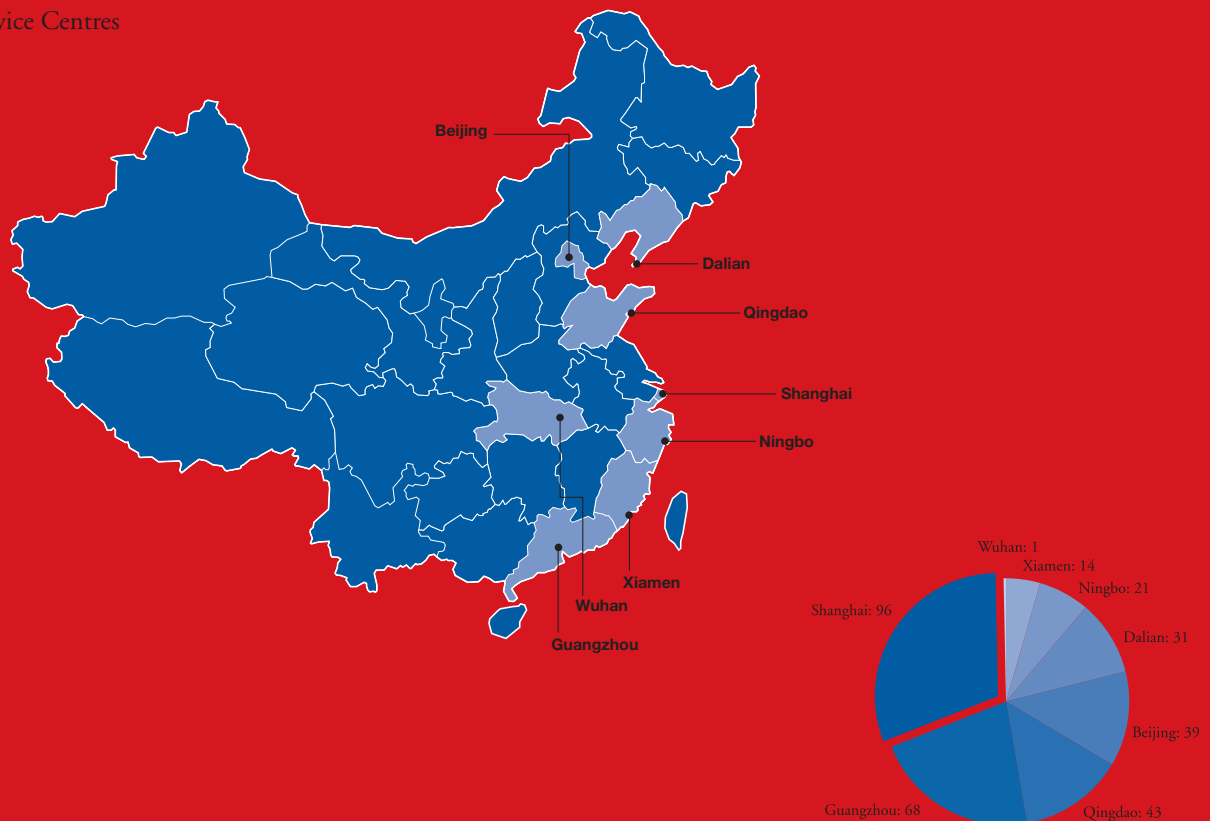


Acquisition of equity interest in COSCO LOGISTICS

On 22nd September 2003, COSCO Pacific and COSCO Group entered into an agreement to acquire a 49% equity interest in COSCO Logistics Co., Ltd. (“COSCO LOGISTICS”), a wholly-owned subsidiary of COSCO Group. The acquisition agreement was approved at the special general meeting of COSCO Pacific on 29th October 2003. Other necessary procedures concerning the acquisition of COSCO LOGISTICS were also completed in January 2004. The acquisition provides exciting opportunities for COSCO Pacific to tap into the robust growth of the China logistics sector. Under the COSCO Group brand name, the acquisition will create synergies between the container leasing, terminal and logistics operations of the Company.

Service network of COSCO LOGISTICS

Total: 313 Service Centres





中國遠洋物流有限公司
COSCO LOGISTICS



COSCO Pacific acquired the 49% equity interest in COSCO LOGISTICS for a consideration of RMB1,180,410,000 (equivalent to US\$142,600,000), representing implied price to earning ratios of about 9.1 or 13.1 times before and after the consideration respectively. These ratios were calculated based on the pro forma combined net profit of RMB183,829,000 for the year ended 31st December 2002.

The acquisition is effected in part by the acquisition of an equity interest in COSCO LOGISTICS from COSCO Group with cash of RMB446,410,000 and a direct injection of RMB734,000,000 into COSCO LOGISTICS. It is the intention of COSCO LOGISTICS to use the funds as follows:

- approximately 80% for developing distribution centres, warehouses, yards and information systems in economic zones such as Beijing, Dalian, Shanghai and Qingdao under the restructured COSCO LOGISTICS;
- approximately 16% for co-investment in logistics-related companies, enhancing the sales network and improving supporting assets owned by the restructured COSCO LOGISTICS; and
- the remainder as working capital and for other ordinary corporate purposes.

COSCO Pacific further agreed to pay COSCO Group an additional RMB50,000,000 provided that the pro forma combined net profit of COSCO LOGISTICS and its subsidiaries for the year ended 31st December 2003 was over RMB200,000,000. The acquisition was subsequently completed in January 2004 and the Company had paid a consideration of RMB1,180,410,000. As of the date of this report, the additional consideration of RMB50,000,000 remained unpaid as it is pending for the completion of the examination of the said pro forma combined net profit.

With an established nation-wide service network, companies under COSCO LOGISTICS enjoy a leading position in the provision of comprehensive logistics services, such as shipping, freight and relevant supporting services, to the major developed coastal regions of China mainland.

Companies under COSCO LOGISTICS are engaged in shipping, freight forwarding, third party logistics and supporting services (barge, warehouse, storage space, yard and truck transport). With an extensive service network spanning across China, the companies under COSCO LOGISTICS have established regional offices in Dalian, Beijing, Qingdao, Shanghai, Ningbo, Xiamen, Guangzhou and Wuhan, with representative offices in Hong Kong, Japan, South Korea, Singapore and Greece.

Major events

From July to December 2003, COSCO LOGISTICS participated in the bidding for the international tender regarding the logistics support for the Nanhai Petrochemical Construction Project of CNOOC and Shell, the largest joint venture enterprise in the PRC. It was the only China mainland logistics enterprise among the bidders. With its sophisticated proposal and reasonable bidding price, COSCO LOGISTICS finally won the recognition of the owners, the project manager and the imported equipment main contractor, and was awarded tranches 1 to 4 of the public tender contracts for the Nanhai Petrochemical Logistics Project. This achievement has been appraised by the industry peers inside and outside the PRC and marked the entry of COSCO LOGISTICS in the petrochemical logistics sector.

In August 2003, COSCO LOGISTICS won the bid for the logistics service for Hisense Group in Qingdao in relation to such quantity of electric appliance products representing 58% of its total sales of the refrigerators, air conditioners and colour television set of Hisense Group in Qingdao. This achievement has realised the development plan of COSCO LOGISTICS for developing the home appliances logistics platform in both Northern and Southern China. This, in turn, consolidated the leading position of COSCO LOGISTICS in the home appliance logistics market in the PRC.

In October 2003, COSCO LOGISTICS completed the Shenzhou V Re-entry Module Exhibition Logistics Project. During this assignment, COSCO LOGISTICS has established its image and gained wide exposure among the general public in China.

Also in October 2003, based on its success in developing Auto Import CKD Logistics services, COSCO LOGISTICS won the bid for the logistics contract from Beijing Jeep Corporation Ltd.. This was indicative of the achievement of COSCO LOGISTICS in extending for the first time the coverage of auto parts and components assembly distribution services. Since then, the auto procurement logistics operation of COSCO LOGISTICS has been moving ahead in delivering even more sophisticated logistics services to production centres in the PRC.

Development objectives and strategies

COSCO LOGISTICS will fully capitalise on its success in restructuring to achieve further breakthrough on all fronts on the basis of its achievements in 2003. It will continue to pursue the goal of “becoming the best logistics provider and the best shipping agent”. Equal emphasis will be placed on innovation and stable performance. Efforts will also be made in enhancing both corporate values and individual values. Through expanding its core businesses of logistics, shipping agency and freight forwarding, COSCO LOGISTICS will do its best to maximise the returns to shareholders and optimise its corporate values. Collective management will be applied throughout the organisation to take full advantage of the synergy effect of the whole group to scale up, enhance and strengthen its logistics, shipping agency and freight forwarding operations and speed up its efforts in enhancing the performance of its air freight forwarding and intermodal operations. Through efficient market segmentation and proactive identification of customer needs, development of operation and management staff in a creative manner, and enhancement of financial, business, supervisory and security management, COSCO LOGISTICS aims to become the best logistics operators in China mainland.

As one of the three core operations, the third party logistics operation is and will remain to be the key pursuits of COSCO LOGISTICS. Therefore, COSCO LOGISTICS will continue to concentrate its resources on expanding its third party logistics operation through organic growth and acquisitions. It will keep on developing its professional teams to enhance its operation and management in order to win more new customers with quality services. In other words, efforts will be made on both internal and external fronts to consolidate the strengths of COSCO LOGISTICS. In recent years, COSCO LOGISTICS has been developing rapidly and has built up the following six business segments:

1. Home appliance logistics
2. Automobile logistics
3. Electricity generation logistics
4. Chemical product logistics
5. Exhibition logistics
6. Retailing logistics

In future, on the foundation of the above six segments, COSCO LOGISTICS will continue to expand its logistics operation into the major growth centres and profit contributors of COSCO LOGISTICS.

The acquisition of COSCO LOGISTICS will create synergies between the businesses of COSCO Pacific and COSCO LOGISTICS. Since COSCO Pacific has substantial interests in the container terminals along the coastline of China, COSCO LOGISTICS may boost its competitiveness by entering into cooperation with these terminals to provide better logistics services. Through its investment in COSCO LOGISTICS, COSCO Pacific may offer comprehensive freight logistics services to enhance the attraction of its container terminals to its customers. COSCO Pacific believes that this investment will benefit shareholders and help to achieve the Company's goal of becoming the leading logistics service provider in China mainland and Hong Kong.