

Chairman's statement



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In 2004, COSCO Pacific achieved robust growth in profits. Share price of the Company outperformed the market for two consecutive years, making our stock one of the strongest performers among the constituent stocks of the Hang Seng Index.

Last year, COSCO Pacific celebrated the tenth anniversary of its listing in Hong Kong by heralding the tremendous growth the Company has achieved in its operations and container fleet, along with the robust expansion in its market share of the container leasing sector and the throughput of its container terminals. While focusing on delivering accelerating growth, the Company will continue to explore new projects and to invest in related operations in line with its goal of becoming an international corporation.

Upward trend of the global economy

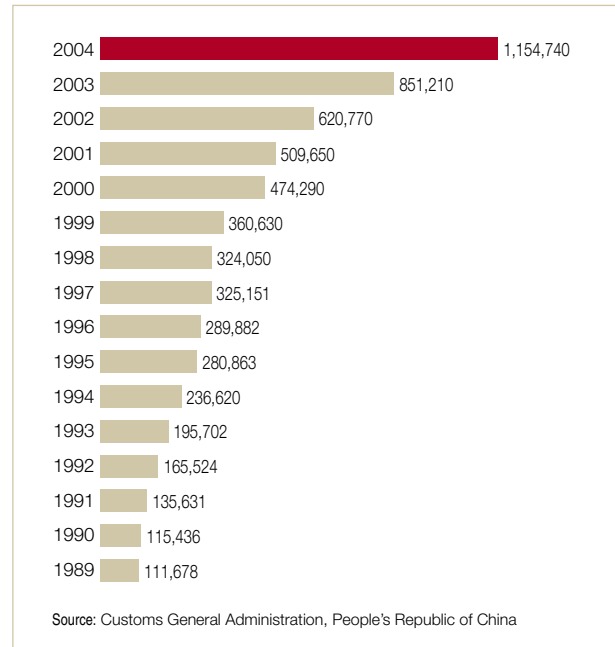
The global economy continued its rebound in 2004. Global economic growth in 2004 was primarily attributable to China and the United States. The economies of the two countries created synergies and provided a major driving force for global economic expansion. This upswing in the economy led to rapid growth of the global shipping market which in turn helped to fuel the development of container related businesses.

During the year, economic growth in China continued to perform strongly. According to the data released by the National Bureau of Statistics of China, the country's Gross Domestic Product ("GDP") rose by 9.5% (2003: 9.1%) while the consumer price index rose by 3.9% from the previous year. China economy remains a world focus due to this robust growth.

In addition, given a year-on-year growth of 35.7% to US\$1,154,740,000,000 in aggregate import and export trade volume, China has become one of the world's three largest trading countries. According to the World Trade Organisation, it took 20 and 26 years respectively for the US and Germany to increase their import and export trade volume from US\$100,000,000,000 to US\$1,000,000,000,000, while China accomplished a similar growth in only 16 years. Indeed, the country's import and export trade volume has soared by 750 times over the last 55 years, making China the driving force of economic development around the globe.

China's import and export trade (1989-2004)

Unit: US\$ million



Focusing on the China market

The rapid development of China's economy fuelled a continuous expansion in foreign trade and increased terminal throughput in 2004. This in turn led to growth in the domestic container leasing and manufacturing sectors. Based on the latest statistics by the PRC's Ministry of Communications, it is estimated that China's total container throughput reached 61,800,000 TEUs in 2004, representing a year-on-year growth of 27%. In view of this growth in container throughput, it is expected that there is still vast room for expansion of the Chinese container terminal sector, and the container transportation sector of China is poised to become one of the hot spots in the global shipping industry.

Aggressive exploration of the global market

In 2004, ports in Europe and the US benefitted from the increase in exports from China. Major European hubs including Rotterdam, Hamburg and Antwerp experienced continued growth in throughput. During the year, the trade volume between Asia and the US rose steadily, leading to substantial market demand for North American ports.

Container leasing

Driven by the global economic rebound and China's strong economic growth, both the shipping and the container leasing markets experienced a substantial demand growth. The robust market demand has resulted in an increasing number of containers being purchased in the market during the year as compared with last year.

Taking advantage of the strong demand and the surge in container prices, COSCO Pacific expanded its fleet to enhance its competitiveness and cater for the growth in market demand. As at 31st December 2004, COSCO Pacific owned and managed a container fleet of 919,128 TEUs (2003: 808,825 TEUs) with a 10.1% (2003: 9.7%) global market share. The annual average utilisation rate was 97.0%, which represents an increase of approximately 2 percentage points from 95.2% in 2003.

With a view to establish a stable stream of revenue, COSCO Pacific has strengthened its customer base. At present, Florens Container Holdings Limited ("Florens"), through its subsidiaries, has 218 customers (including COSCON) (2003: 202 customers). As a result of consistent efforts in improving service quality and exploring market opportunities, Florens became the world's fourth largest container leasing company during the year.

Terminals

During the year, 13 of the 18 terminals of COSCO Pacific were in operation and achieved strong results, with throughputs hitting record highs. The total number of containers handled amounted to 23,492,425 TEUs for the year, representing a growth of 39.6% from 16,825,899 TEUs in 2003. In particular, Qingdao Qianwan Container Terminal Co., Ltd. received accolades as being among the "China Top Ten Throughput Container Terminals" and the "Best Berth Utilisation Rate Container Terminals in China".

According to a research report from Drewry Shipping Consultants Limited, a leading international shipping consultant, COSCO Pacific's ranking among global terminal operators has continued to improve over the years. Drewry estimates that COSCO Pacific's ranking stands to escalate one notch from sixth to fifth among the world's leading terminal operators in 2004.

During the year, COSCO Pacific forged ahead with the expansion of its terminal business by acquiring equity interests in four terminals, namely, Yangzhou Yuanyang International Ports Co. Ltd., Yingkou Container Terminals Company Limited, Dalian Port Container Terminal Co., Ltd. and Antwerp Gateway NV in Belgium. As a result of these acquisitions, the number of berths in which the Company has an equity interest rose from 51 in 2003 to 72 as at 28th February 2005. Accordingly, COSCO Pacific's aggregate annual throughput capacity will increase by 40.4% from 26,000,000 TEUs to 36,500,000 TEUs.

Driven by the robust growth of China's economy, the Pearl River Delta, Yangtze River Delta and Bohai Rim regions represent immense potentials. In view of this, COSCO Pacific has been actively expanding its market share in these regions. In conjunction with its domestic expansion initiatives, COSCO Pacific, with the support of COSCO, also invested in terminals in Singapore and Belgium in 2003 and 2004 respectively, thereby extending its business coverage from China to Asia Pacific and Europe.

Logistics

Following China's entry into the World Trade Organisation, China's logistics market will eventually open up to the rest of the world. It is estimated that the domestic logistics industry will flourish in the next ten to twenty years on the back of the country's strong economic growth. Further development of the logistics industry will depend upon the support of advanced technology and the investment of both capital and human resources. As the healthy economic environment fosters the growth of foreign and domestic enterprises in China, the domestic logistics market will develop further in terms of internationalisation, professionalism and standardisation.

COSCO Pacific acquired 49% equity interest in COSCO Logistics Co., Ltd. ("COSCO Logistics") from COSCO, with logistics thus becoming one of the Company's core businesses. COSCO Logistics is actively expanding its third party logistics services and has achieved satisfactory results in the fields of home appliances, automobiles, power supply, petrochemical, convention and exhibition services. It is expected that COSCO Logistics will make significant contribution to the profits of the Company as it takes advantage of COSCO's global network to drive forward its business development. In the "100 Top Logistics Operators in China" business survey, COSCO Logistics was named as a "Logistics Superpower", ranking in first place. This reflects the leading position of COSCO Logistics in China.

Container manufacturing business

In addition to further strengthening its core businesses, COSCO Pacific has been actively engaging in container manufacturing operations to create greater synergies. While investing in container terminals and logistics projects, the Company was also keen on exploring new but related projects. Toward this end, COSCO Pacific strategically invested in China International Marine Containers (Group) Co., Ltd. ("CIMC"), the largest container manufacturer in the world. The Company's extensive network in the container sector will prove beneficial for the Company's development in the container manufacturing business.

Pursuit of integrity

The corporate philosophy of COSCO Pacific is the continued pursuit of exceptional standards of integrity, entrepreneurship and professionalism. Despite the challenges of operating in changing economic and market conditions, COSCO Pacific is confident to attain all of its development goals. With the support of its shareholders, customers and business partners, and with the diligent efforts of its management team and staff, the Company is confident in gaining recognition for its strong performance among peers in the industry.

Emphasis on corporate governance

COSCO Pacific is committed to maximising shareholders' value, enhancing corporate profitability and maintaining high standard of corporate governance. In 2004, COSCO Pacific was named as one of the five enterprises with the "Best Corporate Governance" among the Hang Seng Index constituent stocks by Standard & Poor's. This has further boosted the confidence of the Company in moving forward into the next phase of its business success.

The Company espouses the core principles of corporate governance which are based on supervision and balance, and seeks to achieve the highest rate of return of shareholder's capital through balancing the interests of major and minority shareholders. The Board and the management of COSCO Pacific will continue to promote and practise the highest standards of corporate governance and act in the long-term interests of its shareholders and stakeholders so as to achieve better returns for its stakeholders who provide the source of capital.

Social responsibilities and obligations

It is our belief that the success of a company is measured beyond its financial returns. Factors such as environmental protection and social responsibilities and obligations have to be taken into consideration. In line with its mission of contributing for the betterment of society, COSCO Pacific donated RMB1,500,000 to Shanghai Maritime University as a scholarship for the training of its students in January 2005.

Economic outlook and operating risks

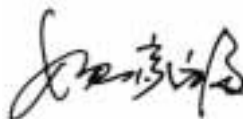
In 2004, the global economy continued to rebound and the Asia Pacific region remained one of the fastest growing economies and the China economy is likely to remain strong in 2005. However despite the steadily improving economic environment, there do exist some underlying risk factors which should not be ignored. These risk factors include terrorist attacks, the Middle East crisis, oil price volatility, interest rate movements and natural disasters. COSCO Pacific will closely monitor the development of these risk factors and take precautions to minimise its risk exposure whenever necessary.

Outlook

COSCO Pacific is enjoying strong growth momentum on the back of a global economic recovery, a thriving international shipping market and continued robust economic growth in China. With the dedicated efforts and expertise of our management and staff, we believe that COSCO Pacific is well-positioned to achieve new heights in its performances.

We will continue to steer our long term strategy on the basis of the experience we have gained in the past decade as a listed company and our principal objective of transforming ourselves from a local operator into an international one. While further strengthening our market share in China, we will make dedicated efforts to tap the vast international market by diligently looking into opportunities for promising new projects. With our four core businesses of container leasing, terminal operations, logistics and container manufacturing currently in the stage of solid business growth, COSCO Pacific will seek to maintain its leadership in the industry by expanding its terminal operations in China and abroad as well as its container leasing fleet, and by further expanding into logistics and container manufacturing business, on the back of efficient financial management.

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 decade.



WEI Jiafu
Chairman
4th March 2005