

COSCO Pacific Limited

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COSCO Pacific Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1199)

CONNECTED TRANSACTION

ACQUISITION OF 50 PER CENT. INTEREST IN YINGKOU CONTAINER TERMINALS COMPANY LIMITED

Summary

On 15th June 2004, COSCO Ports Yingkou, a wholly-owned subsidiary of the Company, conditionally agreed to acquire from COSCO of its entire 50 per cent. equity interest in the PRC Company at a cash consideration of RMB22,500,000.00 (equivalent to approximately HK\$21,138,669.67), representing an implied price earnings multiple of approximately 3.66 times of the profit after taxation, extraordinary items and minority interests of the PRC company for the year ended 31st December 2003.

COSCO is the ultimate controlling shareholder of the Company. Thus, the Acquisition constitutes a connected transaction of the Company under the Listing Rules. The Acquisition is subject to disclosure by way of press announcement under Rule 14A.32 of the Listing Rules. Details of the Acquisition will be disclosed in the next annual report and accounts of the Company.

1. THE ACQUISITION

(a) Date of the Agreement

15th June 2004

(b) Parties to the Agreement

(i) Purchaser : COSCO Ports Yingkou, a wholly-owned subsidiary of the Company

(ii) Vendor : COSCO

(c) Interest to be Acquired

50 per cent. equity interest in the PRC Company

(d) Consideration

The consideration is RMB22,500,000.00 (equivalent to approximately HK\$21,138,669.67). Subject to, among other things, all the conditions precedent as set out in clause 4 of the Agreement (details of which are summarised in paragraph 1(e) below headed “Conditions Precedent”) having been fulfilled or waived by both parties to the Agreement in writing, the consideration is payable in cash in United States dollars within 15 days from the receipt by the PRC Company of the new business licence relating to the Acquisition or such later day as COSCO and COSCO Ports Yingkou may agree which is within the time limit permissible by any applicable laws and regulations of the PRC. The consideration was arrived at after arm’s length negotiations between COSCO Ports Yingkou and COSCO determined with reference to:–

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- (i) the audited net asset value of the PRC Company as at 31st December 2003 (which were prepared in accordance with the PRC generally accepted accounting principles) amounted to RMB44,338,452.74 (equivalent to approximately HK\$41,655,818.06); and
- (ii) the price earnings multiple of approximately 3.66 times of the profit after taxation, extraordinary items and minority interests of the PRC company for the year ended 31st December 2003, which is within the range of market comparables by reference to various companies in similar industries as the PRC Company.

The consideration will be funded by internal resources of the Group.

COSCO warrants that after 30th April 2004, the PRC Company will not distribute any of its retained profits to COSCO or Yingkou Port prior to the completion of the Acquisition. COSCO Ports Yingkou shall share the profit of, and bear the loss incurred by, the PRC Company from and including 1st July 2004 according to its shareholding interest in the PRC Company.

The audited profit before taxation, extraordinary items and minority interests and the profit after taxation, extraordinary items and minority interests of the PRC Company for the three years ended 31st December 2003 (which were prepared in accordance with PRC generally accepted accounting principles) were as follows:—

	Year ended 31st December		
	2003	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation, extraordinary items and minority interests	18,417#	31,917	18,085
Profit after taxation, extraordinary items and minority interests	12,291#	21,337	12,306

Remark:

Due to two out of the three quay cranes having totally collapsed on 6th August 2003 during a violent destructive wind-storm and the carrying value of such two quay cranes of RMB11,438,989.35 (equivalent to approximately HK\$10,746,889.66) as at 6th August 2003 having been written off, the profit of PRC

Company was seriously affected in the second half of 2003. The compensation under the relevant insurance policy of such two quay cranes in the sum of approximately RMB9,200,000.00 (equivalent to approximately HK\$8,643,367.16) has been received by the PRC Company. From 1st April 2004 onwards, the PRC company was relocated to a new terminal with new equipments including six quay cranes installed. Thereafter its operation resumed to normal status. The current designed container handling capacity is 1,000,000 TEUs per annum whilst the original capacity was 350,000 TEUs. The PRC Company currently is the only container terminal operator in the port of Yingkou, which was ranked number ten so far in 2004 amongst all ports in the PRC in terms of container throughput (according to China Shipping Gazette as at 19th May 2004).

The aggregate investment contributed by COSCO to the PRC Company since the establishment of the PRC Company amounted to RMB4,080,000.00 (equivalent to approximately HK\$3,833,145.43) and the carrying value of such investment of COSCO as at 31st December 2003 was RMB22,612,610.90 (equivalent to approximately HK\$21,244,467.21).

(e) Conditions Precedent

The Agreement is conditional upon certain conditions precedent being fulfilled or waived by both parties to the Agreement in writing. These conditions are summarised as follows:

- (i) the valuation of the assets of the PRC Company conducted by China Tong Cheng Assets Appraisal Co., Limited**, (an independent valuer not connected with the Company, the directors, chief executive, substantial shareholders of the Company, or its subsidiaries or their respective associates appointed by COSCO), having been completed and the relevant valuation report having been filed/approved by the State-owned Assets Supervision and Administration Commission of the PRC;
- (ii) the Acquisition having been approved by COSCO in accordance with its articles of association;
- (iii) the Acquisition having been approved by the State-owned Assets Supervision and Administration Commission of the PRC;

- (iv) the shareholders' meeting of the PRC Company having approved the Acquisition and Yingkou Port having presented the consent letter to waive the pre-emption rights.
 - (v) the PRC Company having obtained the new business licence relating to the Acquisition with the permitted scope of business of the PRC Company remaining substantially the same as the existing scope;
 - (vi) both parties to the Agreement and other relevant parties having executed the Agreement (including annexures thereto), the joint venture contract and the articles of association in relation to the PRC Company, and other relevant documents relating to the Acquisition and all necessary governmental approvals, consents and permits in respect of the Acquisition and the conversion of the PRC Company into a sino-foreign equity joint venture enterprise having been obtained and remaining in full force and effect and not being withdrawn or cancelled on the Completion Date;
 - (vii) the PRC legal advisers engaged by COSCO Ports Yingkou having issued a legal opinion on matters and documents in relation to the Acquisition acceptable to both parties to the Agreement; and
 - (viii) all the representations and warranties given by COSCO under the Agreement being true and accurate and there being no omission which would render any of them being misleading from the date of the Agreement up to and including the Completion Date.
- ** Such valuation is a requirement under the laws of the PRC to show whether there exists a situation that the consideration of the Acquisition is less than the relevant portion of the value of the assets of the PRC Company as assessed by valuers acceptable for such purpose.

In the event that any of the conditions precedent are not fulfilled on or before 30th June 2004 or such later date as COSCO and COSCO Ports Yingkou may agree, COSCO and COSCO Ports Yingkou shall enter into negotiations for the waiver of all or part of the conditions, extension of the time for fulfillment of the conditions or termination of the Agreement. If no agreement can be reached on such negotiations within 6 months from the deadline for fulfillment of conditions and unless otherwise decided by the parties, the Agreement shall terminate and none of COSCO and COSCO Ports Yingkou shall have any claim against the other, save in respect of any antecedent breach or otherwise provided in the Agreement.

2. INFORMATION ABOUT THE PRC COMPANY

The PRC Company is a limited liability company established on 15th October 1996 in Yingkou, Liaoning, the PRC. It is primarily engaged in terminal related businesses such as loading and unloading of containers, transshipment, storage and transportation, vanning and devanning of containers, repair of container, equipment leasing, business solicitation. The PRC Company has a registered capital of RMB8,000,000.00 (equivalent to approximately HK\$7,515,971.44), which has been fully paid up, and an investment amount of RMB11,400,000.00 (equivalent to approximately HK\$10,710,259.30). Prior to the Acquisition, 50 per cent. of the equity interest of the PRC Company is owned by COSCO and the remaining 50 per cent. of the equity interest of the PRC Company is owned by Yingkou Port. The PRC Company will be converted into a sino-foreign equity joint venture enterprise by virtue of the Acquisition.

3. THE JOINT VENTURE CONTRACT AND THE ARTICLES OF ASSOCIATION OF THE PRC COMPANY

COSCO Ports Yingkou and Yingkou Port has entered into a joint venture contract and signed the articles of association in relation to the PRC Company, both of which shall take effect after the same are approved by the relevant authorities in the PRC. The contents of the joint venture contract and the articles of association are summarised below.

Parties: COSCO Ports Yingkou
Yingkou Port

Principal terms: (a) The scope of business of the PRC Company following its conversion into a sino-foreign equity

joint venture enterprise will be loading and unloading of container vessels, transshipment of international containers, storage, vanning and devanning of containers, repair and cleaning of containers, equipment leasing, business solicitation, loading and unloading of break-bulk vessels and other terminal related businesses.

- (b) The total investment amount of the PRC Company is RMB11,400,000.00 (equivalent to approximately HK\$10,710,259.30) whilst the registered capital of the PRC Company is RMB8,000,000.00 (equivalent to approximately HK\$7,515,971.44). The registered capital has been fully paid up. Yingkou Port is treated as having contributed RMB4,000,000.00 (equivalent to approximately HK\$3,757,985.72) and COSCO Ports Yingkou, subject to the conditions for payment of consideration under the Agreement having been fulfilled, will contribute RMB4,000,000.00 (equivalent to approximately HK\$3,757,985.72) in United States dollars by way of acquiring 50 per cent. equity interest in the PRC Company from COSCO, each representing 50 per cent. of the registered capital of the PRC Company. Accordingly, each of COSCO Ports Yingkou and Yingkou Port shall have 50 per cent. direct equity interest in the PRC Company.
- (c) The difference between the total investment amount and the amount of registered capital shall be met by either bank loans or shareholders' loan. If such difference is to be satisfied by shareholders' loan, the amounts to be contributed by Yingkou Port and COSCO Ports Yingkou shall be in accordance with the percentage of the registered capital contributed by them respectively and in a manner which is permissible under PRC laws.

- (d) The profit of the PRC Company will be shared between COSCO Ports Yingkou and Yingkou Port in accordance with the percentage of the registered capital contributed by them to the PRC Company respectively.
- (e) The board of directors of the PRC Company will comprise 7 directors including chairman and vice chairman of the board of directors. The term of directors including chairman and vice chairman of the board of directors is four years. During a term, one party is entitled to appoint 4 directors including the chairman of the board of directors and the other party is entitled to appoint 3 directors including the vice chairman of board of directors. Both parties take turns for the above arrangement upon expiry of a term. For the first term of the directors after the completion of the Acquisition, COSCO Ports Yingkou is entitled to appoint 4 directors including the chairman of the board of directors and Yingkou Ports is entitled to appoint 3 directors including the vice chairman of the board of directors. Quorum of board meetings shall be 5 directors of the PRC Company.
- (f) The PRC Company will have a joint venture period of 20 years commencing on the date of issuance of its new business licence relating to the Acquisition. The parties may apply for an extension of the joint venture period within 6 months prior to the expiry of the same.

4. REASONS FOR ENTERING INTO THE AGREEMENT

The Group is principally engaged in the businesses of container terminals, container leasing, logistics, container related business and other investments. The Board is of the view that the Acquisition represents an excellent opportunity for the Group to further expand its container terminal business in the Bohai Rim region where growth has been strong.

The Board is of the opinion that the terms and conditions of the Agreement, including the consideration, are fair and reasonable to the Company and its shareholders taken as a whole. The independent non-executive directors of the Company have concurred with such opinion of the Board.

5. GENERAL

COSCO is the ultimate controlling shareholder of the Company holding, as at the date hereof, 53.08 per cent. of the issued share capital of the Company, and therefore is a connected person of the Company. COSCO is a diversified service company focusing mainly on the businesses of shipping and logistics. The Acquisition constitutes a connected transaction of the Company under the Listing Rules and is subject to disclosure by way of press announcement under Rule 14A.32 of the Listing Rules. Details of the Acquisition as required under Rule 14A.45 of the Listing Rules will be disclosed in the next annual report and accounts of the Company.

As at the date of this announcement, the executive directors of the Company are Capt. WEI Jiafu (Chairman), Mr. LIU Guoyuan (Vice Chairman), Mr. ZHANG Fusheng, Mr. WANG Futian, Mr. GAO Weijie, Mr. CHEN Hongsheng, Mr. LI Jianhong, Mr. MA Zehua, Mr. MA Guichuan, Ms. SUN Yueying, Mr. LI Yunpeng, Mr. ZHOU Liancheng, Mr. SUN Jiakang (Managing Director), Mr. XU Lirong, Mr. HE Jiale, Mr. LIANG Yanfeng, Mr. WONG Tin Yau, Kelvin, Mr. MENG Qinghui, Mr. LU Chenggang, and Mr. QIN Fuyan; the independent non-executive directors are Dr. LI Kwok Po, David, Mr. LIU Lit Man, Mr. Alexander Reid HAMILTON, Mr. LEE Yip Wah, Peter and the non-executive director is Mr. KWONG Che Keung, Gordon.

6. DEFINITION

Expression

“Acquisition”

“Agreement”

Meaning

the transaction contemplated under the Agreement
the conditional agreement dated 15th June 2004 entered into between COSCO as vendor and COSCO Ports Yingkou as purchaser in relation to, among others, the transfer of 50 per cent. equity interest in the PRC Company

COSCO Pacific Limited

“Board”	the board of executive directors of the Company
“Company”	COSCO Pacific Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on The Stock Exchange of Hong Kong Limited
“Completion Date”	the date on which COSCO Ports Yingkou has paid in full the consideration under the Agreement after all the conditions precedent as set out in clause 4.1 of the Agreement (details of which are summarised in paragraph 1(e) above headed “Conditions Precedent”) have been fulfilled (or waived by both parties to the Agreement in writing)
“COSCO”	China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司), a company incorporated in the PRC and the ultimate controlling shareholder of the Company
“COSCO Ports Yingkou”	COSCO Ports (Yingkou) Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan

COSCO Pacific Limited

“PRC Company”	Yingkou Container Terminals Company Limited (營口集裝箱碼頭有限公司), a limited liability company established in the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“TEU”	twenty-foot equivalent unit
“Yingkou Port”	Yingkou Port Group Corp.* (營口港務集團有限公司), a limited liability company established in the PRC, an independent third party not connected with the Company, the directors, chief executive, substantial shareholders of the Company, or its subsidiaries or their respective associates

In this announcement, unless otherwise stated, certain amounts denominated in RMB have been converted into HK\$ using an exchange rate of HK\$1.00 : RMB1.0644 and vice versa, for information only.

* *The English name is an informal English translation of its Chinese name.*

By Order of the Board
COSCO Pacific Limited
SUN Jiakang
Managing Director

Hong Kong, 16th June 2004

Please also refer to the published version of this announcement in South China Morning Post dated 17 June 2004.