

**If you are in doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional advisor.

**If you have sold or otherwise transferred** all your shares in COSCO Pacific Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank or stockbroker or other agent through whom the sale was effected for transmission to the purchaser(s) or the transferee(s).

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## **COSCO Pacific Limited**

*(Incorporated in Bermuda with limited liability)*

### **CONNECTED TRANSACTIONS**

**Financial Advisor to COSCO Pacific Limited**



**THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED**

**Independent financial adviser to the Independent Board Committee**



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A letter from the Chairman of COSCO Pacific Limited (the "Company") is set out on pages 5 to 27 of this circular. A letter from the Independent Board Committee is set out on pages 28 to 29 of this circular.

**A notice convening a special general meeting of the Company to be held at 2:30 p.m. on Wednesday, 29 October 2003 at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong, is set out on pages 66 to 67 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof.**

Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

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# CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Chairman</b>	
1. Introduction .....	5
2. Capital Increase and Transfer Agreement, Joint Venture Contract and Articles of Association .....	7
3. Reasons for the Transactions and Pricing Factors .....	13
4. Financial effects of the Transactions .....	15
5. Information regarding COSCO LOGISTICS Group .....	16
6. Selected Financial Information of the Reorganised COSCO LOGISTICS Group ..	21
7. Reorganisation of COSCO LOGISTICS Group .....	23
8. Relationship between the Group of Companies under Reorganised COSCO LOGISTICS and COSCO subsequent to Completion .....	24
9. Approval by the Independent Shareholders .....	26
10. The SGM .....	26
11. Recommendation .....	27
12. Other Information .....	27
<b>Letter from the Independent Board Committee</b> .....	28
<b>Letter from Rothschild</b> .....	30
<b>Appendix I — Property Valuation Report</b> .....	44
<b>Appendix II — General Information</b> .....	59
<b>Notice of Special General Meeting</b> .....	66

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## DEFINITIONS

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*In this document, unless the context otherwise requires, the following expressions have the meanings set out below:*

“APL”	American President Lines Co., Ltd.;
“Articles of Association”	the joint venture articles of association of COSCO LOGISTICS approved by the Board and signed by CPLCL and COSCO on 22 September 2003;
“associate(s)”	has the meaning ascribed to it in the Listing Rules;
“Beijing Auchan”	Beijing Auchan Hypermarkets Co., Ltd.;
“Board”	the board of Directors;
“Capital Increase and Transfer Agreement”	the agreement for increase in registered capital and transfer of equity interest in COSCO LOGISTICS entered into between CPLCL and COSCO on 22 September 2003;
“CEPA”	Mainland and Hong Kong Closer Economic Partnership Arrangement signed between the Government of Hong Kong and the Central People’s Government of the PRC on 29 June 2003;
“China mainland” or “PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
“CMA-CGM”	Holding CMA CGM S.A.;
“Company”	COSCO Pacific Limited;
“Completion”	payment of the consideration for the equity interest in COSCO LOGISTICS to be transferred to CPLCL by COSCO and the payment of the capital to be injected by CPLCL to COSCO LOGISTICS, in each case pursuant to the Capital Increase and Transfer Agreement;
“COSCO”	China Ocean Shipping (Group) Company;
“COSCO Group”	COSCO, its subsidiaries, jointly controlled entities and associated companies from time to time (other than the Group);
“COSCO Hong Kong”	COSCO (Hong Kong) Group Limited;
“COSCO LOGISTICS”	中國遠洋物流公司 (COSCO Logistics Company*), a wholly-owned subsidiary of COSCO prior to Completion which will be converted into a sino-foreign equity joint venture company named as COSCO Logistics Co., Ltd. (中國遠洋物流有限公司) and directly owned by COSCO as to 51.00% and by CPLCL as to 49.00% upon Completion;
“COSCO LOGISTICS Group”	COSCO LOGISTICS, its subsidiaries, jointly controlled entities and associated companies prior to the completion of all the transactions pursuant to the Reorganisation;

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## DEFINITIONS

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“COSCON”	COSCO Container Lines Company Limited, a subsidiary of COSCO which operates container vessels;
“COSFRE”	COSCO International Freight Company Limited, which COSCO holds approximately 99% of its equity interest;
“CPLCL”	COSCO Pacific Logistics Company Limited, a wholly-owned subsidiary of the Company which is incorporated in the British Virgin Islands
“CRTIFAC”	中國汽車運輸國際貨運代理公司 (China Road Transport International Forwarding Agency Company*), a wholly-owned subsidiary of COSCO, holding the Excluded Companies pursuant to the Reorganisation as described further in the section headed “Reorganisation of COSCO LOGISTICS Group”;
“Directors”	the directors of the Company;
“DTZ”	DTZ Debenham Tie Leung Limited, a property valuer engaged by the Company;
“Evergreen Marine”	Evergreen Marine Corp.;
“Excluded Companies”	certain assets, liabilities and companies of COSCO LOGISTICS, which have been or are being transferred out or disposed of to CRTIFAC pursuant to the Reorganisation, as described further in the section headed “Reorganisation of COSCO LOGISTICS Group”;
“General Motors”	Shanghai General Motors Corporation Ltd.;
“Group”	the Company and its subsidiaries from time to time;
“group of Companies under Reorganised COSCO LOGISTICS”	COSCO LOGISTICS, its subsidiaries, jointly controlled entities and associated companies immediately following the completion of all the transactions for the purpose of and pursuant to the Reorganisation;
“Haier”	Haier Group;
“Hisense”	Hisense Company Ltd;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“HK GAAP”	generally accepted accounting principles in Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HSBC”	The Hongkong and Shanghai Banking Corporation Limited, a deemed registered institution for Types 1, 4, 6, 7 and 9 regulated activities under the SFO and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), being the financial advisor to the Company in connection with the Transactions;

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## DEFINITIONS

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“Hyundai”	Beijing Hyundai Motor Corp. Ltd.;
“Independent Board Committee”	an independent committee of the Board comprising Mr. Alexander Reid HAMILTON and Dr. LI Kwok Po, David;
“Independent Shareholders”	shareholders of the Company other than COSCO Hong Kong and its associates;
“Joint Venture Contract”	the joint venture contract in respect of COSCO LOGISTICS approved by the Board and signed by CPLCL and COSCO on 22 September 2003;
“KAMBARA”	Kambara Kisen Co., Ltd.;
“Kelon”	Kelon Group;
““K” Line”	Kawasaki Kisen Kaisha, Ltd.;
“Latest Practicable Date”	8 October 2003, being the latest practicable date prior to the publication of this circular for ascertaining certain information contained herein;
“Letter of Guarantee”	the letter of guarantee dated 22 September 2003 given by the Company in favour of COSCO containing certain undertakings and guarantee by the Company in relation to the due performance by CPLCL of its obligations pursuant to the Capital Increase and Transfer Agreement, the Joint Venture Contract and the Articles of Association;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“MOL”	Mitsui O.S.K. Lines, Ltd.;
“MSC”	Mediterranean Shipping Company S.A.;
“Net Profit”	Pro Forma combined profit (after taxation and minority interests);
“Non-competition Deed”	the non-competition deed entered into by COSCO, CPLCL and COSCO LOGISTICS on 22 September 2003;
“NYK Line”	Nippon Yusen Kaisha;
“OOCL”	Orient Overseas Container Line;
“Payless Shoes Source”	Payless Shoes Source, Inc.;
“Pro Forma”	pro forma as if the Reorganisation had been completed prior to 1 January 2002;
“Prohibited Businesses”	shipping agency, freight forwarding and third party logistics and supporting services relating to the aforesaid services;
“PwC”	PricewaterhouseCoopers, Certified Public Accountants, Hong Kong;

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## DEFINITIONS

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“Reorganisation”	a series of reorganisations of COSCO LOGISTICS Group pursuant to which certain companies have been or are being transferred from COSCO Group to COSCO LOGISTICS and certain assets, liabilities and companies have been or are being transferred out or disposed of from COSCO LOGISTICS to CRTIFAC as further described in the section headed “Reorganisation of COSCO LOGISTICS Group”;
“Reorganised COSCO LOGISTICS Group”	COSCO LOGISTICS and its subsidiaries immediately following the completion of all transactions for the purpose of and pursuant to the Reorganisation;
“RMB”	Renminbi, the lawful currency of the PRC;
“Rothschild ”	N M Rothschild & Sons (Hong Kong) Limited, an authorised financial institution deemed to have been registered under section 119(1) of the SFO for Types 1, 4, 6 and 9 regulated activities from 1 April 2003 (previously an investment advisor registered with the Securities and Futures Commission);
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
“SGM”	the special general meeting of the Company to be held at 2:30 p.m. on 29 October 2003 at 49th Floor, COSCO Tower, 183 Queen’s Road Central, Hong Kong for the purpose of considering and passing a resolution to approve, inter alia, the Transactions;
“Shares”	ordinary shares of HK\$0.10 each in the capital of the Company;
“TEU”	twenty-foot equivalent unit, a standard unit of measurement of the volume of a container with a length of 20 feet, height of 8 feet and 6 inches and width of 8 feet;
“Transactions”	the transactions contemplated under the Capital Increase and Transfer Agreement, the Joint Venture Contract, the Articles of Association, the Non-competition Deed and the Letter of Guarantee;
“US\$”	United States dollars, the lawful currency of United States;
“working days”	the days on which commercial banks in China mainland and Hong Kong are generally open for business;
“WTO”	the World Trade Organisation.

*Note: For the purpose of this circular, the exchange rates at HK\$1 = RMB1.06 and US\$1 = HK\$7.80 have been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged.*

*\* This is the English name for identification purpose only.*



**COSCO Pacific Limited**

*(Incorporated in Bermuda with limited liability)*

*Executive Directors:*

Mr. 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. LU Zhiming  
Mr. LIANG Yanfeng  
Mr. WONG Tin Yau, Kelvin  
Mr. MENG Qinghui  
Mr. LU Chenggang  
Mr. QIN Fuyan

*Principal Place of Business:*

49th Floor, COSCO Tower,  
183 Queen's Road Central,  
Hong Kong.

*Independent Non-executive Directors:*

Dr. LI Kwok Po, David  
Mr. LIU Lit Man, GBS, JP  
Mr. Alexander Reid HAMILTON  
Mr. LEE Yip Wah, Peter

*Non-executive Director:*

Mr. KWONG Che Keung, Gordon

*Company Secretary:*

Ms. HUNG Man

13 October 2003

*To the Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTIONS**

**1. INTRODUCTION**

On 22 September 2003, the Board announced that CPLCL, a wholly-owned subsidiary of the Company, entered into the Capital Increase and Transfer Agreement, the Joint Venture Contract, the Articles of Association and the Non-competition Deed with COSCO. Pursuant to the Capital

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## LETTER FROM THE CHAIRMAN

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Increase and Transfer Agreement, CPLCL has conditionally agreed to (i) pay an amount of RMB734.00 million (approximately HK\$692.5 million) to COSCO LOGISTICS comprising a contribution of an amount of RMB482,029,850.75 to the registered capital of COSCO LOGISTICS (amounting to approximately 30.47% of its enlarged registered capital) and an amount of RMB251,970,149.25 which will go to the capital reserve of COSCO LOGISTICS and (ii) acquire part of COSCO's equity interest in COSCO LOGISTICS amounting to approximately 18.53% of its enlarged registered capital for a consideration of RMB446.41 million (approximately HK\$421.1 million). Upon Completion, CPLCL will own 49.00% of the then enlarged registered capital of COSCO LOGISTICS and the total consideration for such 49.00% interest is RMB1,180.41 million (approximately HK\$1,113.6 million). CPLCL has also agreed to pay COSCO an additional amount of RMB50.00 million (approximately HK\$47.2 million) if the Net Profit of the Reorganised COSCO LOGISTICS Group for the year ending 31 December 2003 exceeds RMB200.00 million. The Transactions will be funded by the Company's internal cash resources and banking facilities. The considerations payable by CPLCL for the Transactions were based on normal commercial terms and were determined through negotiations between the Company and COSCO. The Company has given the Letter of Guarantee in favour of COSCO to (i) guarantee the due performance by CPLCL of its obligations pursuant to the Capital Increase and Transfer Agreement, the Joint Venture Contract and the Articles of Association and (ii) to enter into the aforesaid agreements in its own name if it is so required by the PRC governmental authorities.

COSCO LOGISTICS, formerly named as 中國汽車運輸總公司 (China Road Transport Company\*) and established as a state-owned enterprise in 1965, was transferred from the Ministry of Communications of the PRC to COSCO in 1992 and adopted its present name since December 2001. It is in the process of conversion into a wholly state-owned limited liability company. Pursuant to the Transactions, COSCO LOGISTICS will be further converted into a sino-foreign equity joint venture company with its name changed to COSCO Logistics Co., Ltd.. COSCO LOGISTICS Group has been undergoing the Reorganisation, pursuant to which COSCO LOGISTICS will become the holding company of the group of Companies under Reorganised COSCO LOGISTICS and is positioned as COSCO Group's flagship logistics service provider. Pursuant to the Reorganisation, certain companies have been or are being transferred from COSCO Group to COSCO LOGISTICS and certain assets, liabilities and companies have been or are being transferred out or disposed of from COSCO LOGISTICS to CRTIFAC. Upon completion of all the transactions pursuant to the Reorganisation, the group of Companies under Reorganised COSCO LOGISTICS will be comprised of companies engaging in shipping agency, freight forwarding, third party logistics and supporting services including feeder service, warehousing, storage, depot and trucking. The group of Companies under Reorganised COSCO LOGISTICS provides these services nationwide and currently has regional companies in Dalian, Beijing, Qingdao, Shanghai, Ningbo, Xiamen, Guangzhou and Wuhan regions in China mainland. The group of Companies under Reorganised COSCO LOGISTICS also has overseas representative offices in Hong Kong, Japan, South Korea, Singapore and Greece.

For the four months ended 30 April 2003, the Pro Forma combined turnover and Net Profit of the Reorganised COSCO LOGISTICS Group were approximately RMB1,749.6 million and RMB63.7 million respectively. For the year ended 31 December 2002, the Pro Forma combined turnover and Net Profit of the Reorganised COSCO LOGISTICS Group were approximately RMB4,607.7 million and RMB183.8 million respectively. The Pro Forma combined net asset values of the Reorganised COSCO LOGISTICS Group as at 31 December 2002 and 30 April 2003 were approximately RMB1,203.8 million and RMB1,267.4 million respectively.



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## LETTER FROM THE CHAIRMAN

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COSCO Hong Kong, a wholly-owned subsidiary of COSCO, directly and indirectly held approximately 53.29% of the issued share capital of the Company as at the Latest Practicable Date and accordingly COSCO is the Company's ultimate parent company. CPLCL is a wholly-owned subsidiary of the Company. Accordingly, the Transactions constitute connected transactions for the Company within the meaning of the Listing Rules, and are subject to approval by the Independent Shareholders.

The Company has appointed HSBC as its financial advisor in connection with the Transactions. The Independent Board Committee, comprising Mr. Alexander Reid HAMILTON and Dr. LI Kwok Po, David, has been appointed by the Board to advise the Independent Shareholders as to the fairness and reasonableness of the Transactions. Rothschild has been appointed as the independent financial advisor to provide its opinions to the Independent Board Committee in connection with the Transactions.

**The purpose of this circular is to provide you with further information in relation to the Transactions, including the Capital Increase and Transfer Agreement, the Joint Venture Contract, the Articles of Association, the Non-competition Deed and the Letter of Guarantee, and to set out the recommendation of the Independent Board Committee, to give the shareholders of the Company the notice of the SGM and other information required by the Listing Rules.**

**COSCO Hong Kong and its associates will abstain from voting on the resolution to be proposed at the SGM in respect of the Transactions.**

## **2. CAPITAL INCREASE AND TRANSFER AGREEMENT, JOINT VENTURE CONTRACT AND ARTICLES OF ASSOCIATION**

### **Capital Increase and Transfer Agreement dated 22 September 2003**

#### *Parties*

- COSCO, the ultimate beneficial owner holding approximately 53.29% of the issued share capital of the Company as at the Latest Practicable Date
- CPLCL, a wholly-owned subsidiary of the Company

#### *Assets to be acquired*

49.00% equity interest in the registered capital of COSCO LOGISTICS upon its conversion into a sino-foreign equity joint venture company (see the paragraph headed "The Joint Venture Contract and the Articles of Association" below).

Subject to the fulfilment of certain conditions precedent (see the sub-paragraph headed "Conditions Precedent" below) and based on the terms of the Capital Increase and Transfer Agreement, CPLCL has agreed to (i) pay an amount of RMB734.00 million (approximately HK\$692.5 million) to COSCO LOGISTICS comprising a contribution of an amount of RMB482,029,850.75 to the registered capital of COSCO LOGISTICS (amounting to approximately 30.47% of its enlarged registered capital) and an amount of RMB251,970,149.25 which will go to the capital reserve of COSCO LOGISTICS and (ii) acquire part of COSCO's equity interest in COSCO LOGISTICS amounting to approximately 18.53% of the enlarged registered capital of COSCO LOGISTICS for a consideration of

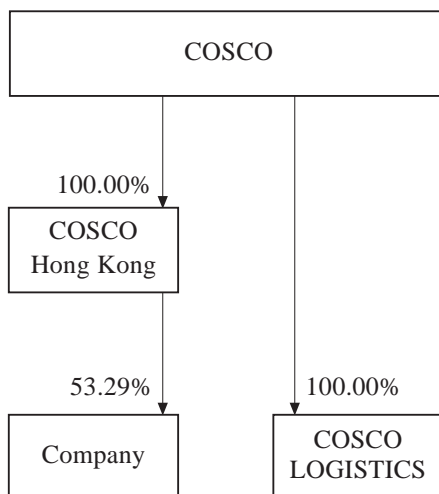
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## LETTER FROM THE CHAIRMAN

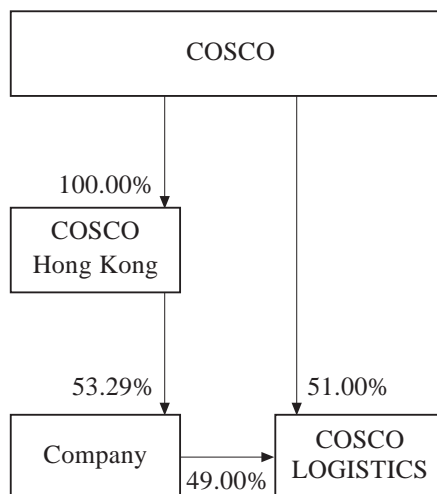
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RMB446.41 million (approximately HK\$421.1 million). Upon Completion, CPLCL will own 49.00% of the then enlarged registered capital of COSCO LOGISTICS and the total consideration for such 49.00% interest is RMB1,180.41 million (approximately HK\$1,113.6 million). The following diagrams show the simplified shareholding structures of COSCO LOGISTICS before and after Completion respectively:

### Structure before Completion



### Structure after Completion



### *Conditions Precedent*

The completion of the Capital Increase and Transfer Agreement is conditional upon, among other things, the following conditions precedent being fulfilled:

- (1) the issue by the State Administration of Industry and Commerce of the PRC of a business licence to COSCO LOGISTICS stating the corporate nature as a wholly state-owned limited liability company with its name changed to COSCO Logistics Co., Ltd.;
- (2) completion of the land and assets valuations of COSCO LOGISTICS required in connection with the Capital Increase and Transfer Agreement, and the authorisation by the Ministry of Land and Resources of the PRC of the use of land which are of the nature of allocated land and the approval/filing of the assets valuation report with the State-owned Assets Supervision and Administration Commission of the PRC;
- (3) completion of the internal approval procedures in respect of the entering into and the performance of obligations under the Capital Increase and Transfer Agreement by COSCO in accordance with its existing articles of association;
- (4) the granting of approval by the State-owned Assets Administration Commission of the PRC of the increase in registered capital and the transfer of equity interest in COSCO LOGISTICS contemplated under the Capital Increase and Transfer Agreement;

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## LETTER FROM THE CHAIRMAN

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- (5) the obtaining by COSCO LOGISTICS of a business licence from the State Administration of Industries and Commerce of the PRC, and the obtaining of the approval or consent by the relevant PRC governmental authorities in charge of the industries to which the scope of business of COSCO LOGISTICS as stated in its business licence relates;
- (6) the Capital Increase and Transfer Agreement, the Joint Venture Contract, the Articles of Association and all transactions contemplated thereunder are approved at the SGM in accordance with the requirements of the Listing Rules;
- (7) the execution by COSCO and CPLCL and other relevant parties of all agreements and other documents necessary for the transactions under the Capital Increase and Transfer Agreement, and the obtaining of all necessary PRC governmental approvals and consents to the increase in the registered capital of COSCO LOGISTICS and the transfer of equity interest in COSCO LOGISTICS to CPLCL and the conversion of COSCO LOGISTICS into a sino-foreign equity joint venture company (such approvals and consents to remain in full force and effect and not being withdrawn or cancelled on the date of Completion), including but not limited to the approval from the Ministry of Commerce of the PRC of the Capital Increase and Transfer Agreement and other documents;
- (8) all the representations and warranties by COSCO under the Capital Increase and Transfer Agreement being true, accurate and there being no omission which would render any of them being misleading from the date of execution up to and including Completion;
- (9) the respective registered capitals of the group of Companies under Reorganised COSCO LOGISTICS having been fully paid up; and
- (10) the issue of a PRC legal opinion by the PRC legal advisor engaged by CPLCL on matters in connection with and documents involved in the Transactions in such reasonable form approved by COSCO and CPLCL.

Under the Capital Increase and Transfer Agreement, COSCO shall procure COSCO LOGISTICS to submit the Capital Increase and Transfer Agreement, the Joint Venture Contract, the Articles of Association and other relevant documents to the approval authorities in the PRC to apply for approval of the increase in the registered capital and transfer of equity interest in COSCO LOGISTICS, and to apply to the State Administration of Industry and Commerce of the PRC for amendment of the registration of COSCO LOGISTICS.

In the event that any of the aforesaid conditions are not fulfilled on or before 31 January 2004 or such later date as COSCO and CPLCL may agree in writing, COSCO and CPLCL shall enter into negotiations for the waiver of all or part of the conditions, extension of the time for fulfilment of the conditions or termination of the Capital Increase and Transfer Agreement. If no agreement can be reached on such negotiations within 15 working days of the deadline for fulfilment of conditions, the Capital Increase and Transfer Agreement shall terminate and none of COSCO and CPLCL shall have any claim against the other, save in respect of any antecedent breach.

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## LETTER FROM THE CHAIRMAN

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### *Completion*

Subject to fulfilment (or, where relevant, waiver) of the conditions precedent referred to in the sub-paragraph headed “Conditions Precedent” above:

- (1) CPLCL will be required to pay up its contribution to the capital of COSCO LOGISTICS in the equivalent amount of RMB734.00 million (approximately HK\$692.5 million) in cash in United States dollars, within seven working days from the date of issue of the business licence of COSCO LOGISTICS after its conversion into a sino-foreign equity joint venture company (or such later date permitted under the relevant laws and regulations as COSCO and CPLCL may agree in writing); and
- (2) the amount of consideration of RMB446.41 million (approximately HK\$421.1 million) for the purchase of approximately 18.53% of the enlarged registered capital of COSCO LOGISTICS will be payable by CPLCL in cash to COSCO within one month from the date of issue of the business licence of COSCO LOGISTICS after its conversion into a sino-foreign equity joint venture company (or such later date permitted under the relevant laws and regulations as COSCO and CPLCL may agree in writing).

### *Undertakings by COSCO*

Prior to Completion, the COSCO LOGISTICS Group has been undergoing the Reorganisation to create the group of Companies under Reorganised COSCO LOGISTICS as the COSCO Group’s flagship logistics service provider. Pursuant to the Reorganisation, certain assets, liabilities and companies have been or are being transferred out or disposed of from COSCO LOGISTICS to CRTIFAC. The undertakings by COSCO to CPLCL include, but are not limited to, the following:

- (1) to assist and procure that the procedures and formalities for transferring those companies to be transferred to COSCO LOGISTICS pursuant to the Reorganisation will be completed on or before Completion in order to ensure that COSCO LOGISTICS will legally and/or beneficially own the interests and benefits in the group of Companies under Reorganised COSCO LOGISTICS;
- (2) to assist and procure that the procedures and formalities for transferring out all the Excluded Companies pursuant to the Reorganisation be completed on or before Completion, and to indemnify COSCO LOGISTICS or CPLCL for all losses and costs arising out of those of the Excluded Companies remaining in COSCO LOGISTICS Group at Completion;
- (3) for those companies to be transferred to the COSCO LOGISTICS Group and those of the Excluded Companies to be transferred out from the COSCO LOGISTICS Group which cannot complete the necessary transfer procedures and formalities at Completion, to continue to complete such procedures and formalities until these companies are legally transferred to COSCO LOGISTICS Group or transferred out from COSCO LOGISTICS Group and transferred to CRTIFAC (as the case may be);

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## LETTER FROM THE CHAIRMAN

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- (4) for the land and buildings currently owned or used by the group of Companies under Reorganised COSCO LOGISTICS, to assist and procure that the authorisation by the Ministry of Land and Resources of the PRC required in respect of the leasing of those properties which are currently of the nature of allocated land is obtained, to use its best endeavours to obtain the land use rights certificates and building ownership certificates to the extent such are not yet in place, and to indemnify COSCO LOGISTICS or CPLCL for all losses arising out of its inability to use any land and buildings due to disputes in the right to use such properties and/or change in government city planning;
- (5) to procure that the relevant Excluded Companies to pay back to COSCO LOGISTICS the total receivable amount due from such Excluded Companies that are reflected on the Pro Forma combined financial information of the Reorganised COSCO LOGISTICS Group as at 30 April 2003 within two years from the date of Completion and to indemnify CPLCL or COSCO LOGISTICS for any loss suffered therefrom;
- (6) to indemnify COSCO LOGISTICS or CPLCL for any loss arising out of the liabilities to be transferred out as part of the Reorganisation in respect of certain borrowings used by the Excluded Companies;
- (7) to indemnify CPLCL or COSCO LOGISTICS for all liabilities arising out of litigation, arbitration, taxation and contingent liabilities involving the group of Companies under Reorganised COSCO LOGISTICS that happened on or before Completion, or which can be foreseen by COSCO and/or which are caused by deliberately concealed facts save and except to the extent that provisions have been made in the Pro Forma combined financial information of the Reorganised COSCO LOGISTICS Group for the year ended 31 December 2002 and for the four months ended 30 April 2002 and 2003; and
- (8) to procure those companies which are wholly owned by COSCO or of which COSCO is a controlling shareholder or the single largest shareholder to use the trademarks (including "PENAVICO") owned by a subsidiary of COSCO LOGISTICS lawfully.

### *Further Payment by CPLCL*

CPLCL further agreed that if the Net Profit of the Reorganised COSCO LOGISTICS Group for the year ending 31 December 2003 based on the accounts prepared in accordance with HK GAAP exceeds RMB200.00 million, it will pay COSCO an additional amount of RMB50.00 million (approximately HK\$47.2 million) within one month from the date of issue of the accounts of the Reorganised COSCO LOGISTICS Group for the year ending 31 December 2003, which shall be issued by no later than 30 June 2004 or such later date as COSCO and CPLCL may agree. The accounts will be audited or examined in accordance with generally accepted auditing standards in Hong Kong by certified public accountants recognised by CPLCL.

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## LETTER FROM THE CHAIRMAN

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### *Undertakings by the Company*

Pursuant to the letter of guarantee dated 22 September 2003 given by the Company in favour of COSCO, the Company has guaranteed and undertaken to COSCO in relation to, amongst other things, the following matters:

- (1) that after the Ministry of Commerce of the PRC has approved the Capital Increase and Transfer Agreement, the Joint Venture Contract and the Articles of Association and the conditions for payment under the Capital Increase and Transfer Agreement have been fulfilled, CPLCL will duly perform its duties and obligations pursuant to these agreements; and
- (2) in the event that the relevant PRC governmental authorities require the Company to be a party to the Capital Increase and Transfer Agreement, the Joint Venture Contract and the Articles of Association during the approval process, the Company shall enter into the relevant agreements in its own name with COSCO in so far as it is in compliance with the legislation and rules imposed by the regulatory authority (including The Stock Exchange of Hong Kong Limited) applicable to the Company.

The Letter of Guarantee will take effect upon the approval of the transactions under the Capital Increase and Transfer Agreement by the shareholders of the Company in accordance with the requirements under the Listing Rules.

### **The Joint Venture Contract and the Articles of Association**

Parties:     COSCO  
              CPLCL

- Principal terms: (1) The scope of business of COSCO LOGISTICS following its conversion into a sino-foreign equity joint venture company will be shipping agency, freight forwarding, third party logistics and supporting services.
- (2) The maximum total investment amount of COSCO LOGISTICS will be RMB4,746,089,552.24 whilst the registered capital of COSCO LOGISTICS will be RMB1,582,029,850.75. (According to the applicable PRC regulations, for a sino-foreign equity joint venture with a total investment of US\$30.0 million or more, the amount of its registered capital should not be less than one-third of its total investment amount.) COSCO and CPLCL will contribute or will have contributed approximately RMB806.8 million and RMB775.2 million respectively, representing 51.00% and 49.00% of the registered capital of COSCO LOGISTICS respectively. Accordingly, COSCO and CPLCL shall have 51.00% and 49.00% direct equity interest in COSCO LOGISTICS respectively.

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## LETTER FROM THE CHAIRMAN

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- (3) CPLCL will make its capital contribution in cash in United States dollars and COSCO will be treated as having made its capital contribution in full by way of contribution of an amount equivalent to the appraised net assets of COSCO LOGISTICS as at 31 December 2002.
- (4) The profit and loss of COSCO LOGISTICS will be shared between COSCO and CPLCL in accordance with the registered capital contributed by them respectively.
- (5) The board of directors of COSCO LOGISTICS will comprise 9 directors, 5 and 4 of whom will be nominated by COSCO and CPLCL respectively. Quorum of board meetings shall be two-thirds or more of the directors of COSCO LOGISTICS, save that for a postponed meeting held as a result of the original board meeting not having sufficient number of directors to form a quorum, the directors present will form a quorum.
- (6) COSCO LOGISTICS will have a joint venture period of 30 years commencing on the date of issuance of its business licence. The parties may apply for an extension of the joint venture period within 6 months prior to the expiry of the original joint venture period for another 30 years (subject to approval by the relevant approval authority).

### 3. REASONS FOR THE TRANSACTIONS AND PRICING FACTORS

The Group is one of the world's leading container-related conglomerates, with an increasingly integrated range of activities spanning container leasing, container terminals and container-related industries. The Company's mission is to be a global leader in container leasing, a regional leader in container terminal operations, and a leading logistics service provider in China mainland and Hong Kong.

The Transactions allow the Company to participate in the expected strong growth of the logistics sector in China mainland via an established platform, thereby providing an additional growth engine for the Company's earnings. The Company believes the expected increase in China mainland's economic growth and trade volume, especially due to China mainland's accession to the WTO, will further enhance the growth in China mainland's transportation and logistics industries. With an extensive service network through which it has built up its presence in shipping agency, freight forwarding, third party logistics and supporting services, the group of Companies under Reorganised COSCO LOGISTICS offers its customers a wide range of logistics services that spans the major economic areas in China mainland.

COSCO has indicated to the Company that subsequent to the Transactions it will continue to position the group of Companies under Reorganised COSCO LOGISTICS as the COSCO's flagship logistics service provider and to provide support to enable the group of Companies under Reorganised COSCO LOGISTICS to become the leading logistics service provider in China mainland.

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## LETTER FROM THE CHAIRMAN

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Furthermore, the Company believes the Transactions can create synergies that benefit the group of Companies under Reorganised COSCO LOGISTICS and the Group. Given that the Group already holds significant equity interests in container terminals located at major coastal areas in China mainland, the group of Companies under Reorganised COSCO LOGISTICS can enhance its competitive advantage by partnering with these container terminals to provide better logistics services. Through investing in the group of Companies under Reorganised COSCO LOGISTICS, the Group can enhance the attractiveness of the Group's container terminals by offering integrated logistics services to its customers.

The considerations for the Transactions have been determined through negotiations between the Company and COSCO based on various factors, including, but not limited to, general market conditions, especially in China mainland, potential growth in China mainland's logistics industry, competitiveness of China mainland's logistics industry notably in the light of CEPA, the operations of the group of Companies under Reorganised COSCO LOGISTICS, the financial results of the group of Companies under Reorganised COSCO LOGISTICS, the earnings potential of the group of Companies under Reorganised COSCO LOGISTICS, investment risks and potential synergies with the Group's operations.

According to the Reorganised COSCO LOGISTICS Group's Pro Forma combined financial information for the year ended 31 December 2002, an extract of which is set out in the section headed "Selected Financial Information of the Reorganised COSCO LOGISTICS Group" below, examined by PwC, the Company's reporting accountants, the Net Profit of the Reorganised COSCO LOGISTICS Group for the year ended 31 December 2002 was approximately RMB183.8 million and the Pro Forma combined net asset value of the Reorganised COSCO LOGISTICS Group as at 31 December 2002 was approximately RMB1,203.8 million. The total consideration of RMB1,180.41 million (approximately HK\$1,113.6 million) for 49.00% of the enlarged registered capital of COSCO LOGISTICS represents implied pre-money (excluding CPLCL's capital contribution of RMB734.00 million to COSCO LOGISTICS) and post-money (including CPLCL's capital contribution of RMB734.00 million to COSCO LOGISTICS) price earnings multiples of approximately 9.1 times and 13.1 times of the Net Profit of the Reorganised COSCO LOGISTICS Group for the year ended 31 December 2002 respectively. It also represents 1.4 times and 1.2 times of CPLCL's share of Pro Forma combined net asset values of the Reorganised COSCO LOGISTICS Group as at 31 December 2002 on pre-money and post-money basis respectively.

The Company has also made reference to the property valuation report by DTZ, a property valuer engaged by the Company, which values the Reorganised COSCO LOGISTICS Group's attributable property interests of companies in which Reorganised COSCO LOGISTICS Group holds not less than 50% equity interests, including open market values of the transferable properties and property contracted to be acquired and the depreciated replacement cost of the non-transferable building structures, at approximately RMB469.4 million (being the aggregate amount of the values shown in the right most column as set out in the "Summary of valuations" in Appendix I to this circular) as at 31 July 2003. The extract of the summary section of the property valuation report is set out in Appendix I to this circular.



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## LETTER FROM THE CHAIRMAN

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Upon Completion, the proceeds received by COSCO LOGISTICS will be RMB734.00 million (approximately HK\$692.5 million). The Company understands that it is the current intention of COSCO LOGISTICS to use the proceeds as follows:

- approximately 80% of the proceeds will be used to fund capital expenditure relating to the construction of regional distribution centres, warehouses and depots in major economic areas such as Beijing, Dalian, Shanghai and Qingdao and the development of information technology systems for the group of Companies under Reorganised COSCO LOGISTICS;
- approximately 16% of the proceeds will be used to fund co-investments in logistics related companies, enhance and develop the sales network as well as invest and upgrade logistics supporting assets for the group of Companies under Reorganised COSCO LOGISTICS;
- the balance will be used for working capital and other general corporate purposes.

Under the current PRC regulatory environment, the Company is not allowed to own a majority equity interest in COSCO LOGISTICS. Furthermore, the Company has no current intention to further increase its equity interest in COSCO LOGISTICS from the 49.00% equity interest pursuant to the Transactions.

The Company believes that the Transactions are consistent with its long term business strategy of enhancing shareholders' value, and will expand the Company's earnings source within its pre-determined missions.

#### 4. FINANCIAL EFFECTS OF THE TRANSACTIONS

##### **Profit**

For the year ended 31 December 2002, the Group's audited consolidated profit attributable to shareholders amounted to approximately US\$154.6 million (approximately HK\$1,205.9 million). Based on the Pro Forma combined financial information of the Reorganised COSCO LOGISTICS Group and assuming that the Transactions had been completed prior to 1 January 2002, the Group's consolidated profit for the year ended 31 December 2002 would have increased by approximately 4.6% to approximately US\$161.7 million (approximately HK\$1,261.3 million). Based on the Company's weighted average number of Shares in issue for the year ended 31 December 2002, the Group's earnings per Share for the year ended 31 December 2002 would have increased from approximately US\$0.0720 to approximately US\$0.0753, representing an increase of approximately 4.6%.

##### **Net asset value**

As at 31 December 2002, the audited consolidated net asset value of the Group amounted to approximately US\$1,287.9 million (approximately HK\$10,045.6 million). Based on the Pro Forma combined financial information of the Reorganised COSCO LOGISTICS Group and assuming that the Transactions had been completed prior to 1 January 2002, the Group's consolidated net asset value as at 31 December 2002 would have increased by approximately 0.3% to approximately US\$1,291.4 million (approximately HK\$10,072.9 million). Based on the Company's weighted average number of Shares in issue for the year ended 31

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## LETTER FROM THE CHAIRMAN

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December 2002, the consolidated net asset value per Share would have increased from approximately US\$0.600 to approximately US\$0.602, representing an increase of approximately 0.3%.

### Net Gearing Ratio

As at 31 December 2002, (i) the audited consolidated shareholders' equity of the Group amounted to approximately US\$1,287.9 million (approximately HK\$10,045.6 million) and (ii) the audited consolidated net debt of the Group was approximately US\$184.6 million (approximately HK\$1,439.9 million), representing approximately 14.3% of the consolidated shareholders' equity ("Net Gearing Ratio"). As the Transactions will be funded by the Company's internal cash resources and banking facilities and based on the Pro Forma combined financial information of the Reorganised COSCO LOGISTICS Group and assuming that the Transactions had been completed prior to 1 January 2002, the Group's consolidated shareholders' equity and consolidated net debt as at 31 December 2002 would have been approximately US\$1,291.4 million (approximately HK\$10,072.9 million) and US\$326.8 million (approximately HK\$2,549.0 million). The Net Gearing Ratio would have increased from approximately 14.3% to approximately 25.3%, representing an increase of 11.0 percentage points.

## 5. INFORMATION REGARDING COSCO LOGISTICS GROUP

With an extensive service network through which it has built up its strong presence in shipping agency, freight forwarding, third party logistics and supporting services relating to the aforesaid services, the group of Companies under Reorganised COSCO LOGISTICS offers its customers a wide range of logistics services that spans the major coastal and economic areas in China mainland.

COSCO's subsidiary, 中國外輪代理總公司 (China Ocean Shipping Agency\*) has been operating shipping agency business since 1953 under the brandname of "PENAVICO". According to the China Association of Shipping Agency, up to 2002, the group of companies under 中國外輪代理總公司 (China Ocean Shipping Agency\*) was the largest shipping agency group in China mainland in terms of the number of vessel calls, total net registered tonnage of vessels and cargo volume handled.

COSCO LOGISTICS, formerly named as 中國汽車運輸總公司 (China Road Transport Company\*) was established as a state-owned enterprise in 1965 and was directly under the Ministry of Communications of the PRC. 中國汽車運輸總公司 (China Road Transport Company\*) was transferred to COSCO as the latter's wholly-owned subsidiary in 1992 and adopted its present name of 中國遠洋物流公司 (COSCO Logistics Company\*) with effect from December 2001. COSCO LOGISTICS will be converted into a sino-foreign equity joint venture company pursuant to the Transactions. COSCO LOGISTICS has been undergoing the Reorganisation prior to the Transactions. Pursuant to the Reorganisation, certain companies have been or are being transferred from the COSCO Group to COSCO LOGISTICS and certain assets, liabilities and companies have been or are being transferred out or disposed of from COSCO LOGISTICS by transferring or selling them to CRTIFAC in order to create the group of Companies under Reorganised COSCO LOGISTICS as COSCO Group's flagship logistics service provider. Upon the completion of the Reorganisation, the group of Companies under Reorganised COSCO LOGISTICS will be comprised of companies engaging in shipping agency, freight forwarding, third party logistics and supporting services including feeder services, warehousing, storage, depot and trucking. The group of Companies under Reorganised COSCO LOGISTICS provides these services nationwide

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## LETTER FROM THE CHAIRMAN

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and currently has regional companies in Dalian, Beijing, Qingdao, Shanghai, Ningbo, Xiamen, Guangzhou and Wuhan regions in China mainland. The group of Companies under Reorganised COSCO LOGISTICS also has overseas representative offices in Hong Kong, Japan, South Korea, Singapore and Greece.

For the four months ended 30 April 2003, the Pro Forma combined turnover and Net Profit of the Reorganised COSCO LOGISTICS Group were approximately RMB1,749.6 million and RMB63.7 million respectively. For the year ended 31 December 2002, the Pro Forma combined turnover and Net Profit of the Reorganised COSCO LOGISTICS Group were approximately RMB4,607.7 million and RMB183.8 million respectively. (See the section headed "Selected Financial Information of the Reorganised COSCO LOGISTICS Group" for an extract of the Reorganised COSCO LOGISTICS Group's Pro Forma combined financial information.)

### **Competitive Strengths**

The Company believes the competitive strengths of the group of Companies under Reorganised COSCO LOGISTICS include:

- Extensive service network in major and strategic economic areas in China mainland;
- Well established reputation, notably COSCO LOGISTICS Group's parent, COSCO, and COSCO LOGISTICS Group's "PENAVICO" brandname;
- Ability to provide a wide range of logistics services to its customers through its shipping agency, freight forwarding, third party logistics and supporting services;
- Large existing customer base consisting of domestic and multinational companies; and
- Continuing support from its parent, COSCO, to develop the group of Companies under Reorganised COSCO LOGISTICS into a leading logistics service provider in China mainland.

### **Industry Trends**

The Company believes the expected increase in China mainland's economic growth and its trade volume especially due to China mainland's accession to the WTO will further enhance the growth in China mainland's transportation and logistics industries including shipping agency, freight forwarding and third party logistics industries. Although third party logistics industry is a relatively new one in China mainland, the Company believes that there has been a growing trend towards companies outsourcing their supply chain management to third party logistics service providers. According to a public report produced by Mercer Management Consulting Inc. in 2002, China mainland's overall logistics services were growing by about 7.5% annually and outsourced logistics services in China mainland were reported to be growing by 25% per year, leading both North America and the rest of the world.

### **Business Strategy**

In light of the industry's growth potential, the Company understands from COSCO and COSCO LOGISTICS Group that it is COSCO LOGISTICS Group's intention to develop the third party logistics services of the group of Companies under Reorganised COSCO

LOGISTICS by further exploiting its competitive advantages in shipping agency, freight forwarding and supporting services. COSCO LOGISTICS Group has developed the following business strategies to pursue the objective:

- To continue to enhance and expand sales and service network
- To enhance information technology systems to achieve operational and management efficiency
- To invest in infrastructures so as to provide quality third party logistics services to the customers

### **Shipping Agency**

The group of Companies under Reorganised COSCO LOGISTICS handled a total of approximately 95,529 vessel calls or approximately 59.7% of 160,000 vessel calls piloted by major shipping agencies in China mainland in 2002, based on The 2002 Report on China's Shipping Development published by the Ministry of Communications of the PRC. The group of Companies under Reorganised COSCO LOGISTICS primarily conducts its shipping agency business through its subsidiaries and through its joint ventures and associated companies with respective port bureaus. The Reorganised COSCO LOGISTICS Group and certain jointly controlled entities and associated companies of Reorganised COSCO LOGISTICS operate their shipping agency businesses under the brandname "PENAVICO". The group of Companies under Reorganised COSCO LOGISTICS has well-established shipping agency operations at almost all international ports in China mainland including, among others, Dalian, Qinhuangdao, Tianjin, Qingdao, Lianyungang, Shanghai, Ningbo, Xiamen, Shenzhen, Haikou and Zhanjiang. The shipping agency services of the group of Companies under Reorganised COSCO LOGISTICS include attending to the formalities of a vessel's entry into or departure from ports, arranging cargo space booking and shipping documentation on behalf of the vessel and arranging shipments and transshipment of cargoes and containers. The major customers of the group of Companies under Reorganised COSCO LOGISTICS include, among others, Maersk Sealand Container Line, "K" Line, MOL, Evergreen Marine, MSC, CMA-CGM, OOCL, KAMBARA, APL and NYK Line. In 2002, the Reorganised COSCO LOGISTICS Group handled a total net registered tonnage of vessels of approximately 251.0 million tonnes and cargo volume of approximately 171.2 million tonnes. For the four months ended 30 April 2003, the Reorganised COSCO LOGISTICS Group handled approximately 94.7 million net registered tonnage of vessels, a 12.3% increase from approximately 84.3 million net registered tonnage of vessels handled in the same period in 2002, and approximately 66.9 million tonnes of cargo volume, a 15.3% increase from approximately 58.0 million tonnes of cargo volume handled in the same period in 2002. The shipping agency industry in China mainland is dominated by a few major shipping agents with a large number of small shipping agents. Due to the continuing deregulation of and the increase in competition in the industry in the PRC, shipping agency fees have been declining. The Directors understand from COSCO LOGISTICS that, although the shipping agency industry in the PRC is becoming more competitive, COSCO LOGISTICS Group has been maintaining its market share in the shipping agency industry in the PRC due to its marketing efforts and service quality.

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## LETTER FROM THE CHAIRMAN

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The Company understands that COSCO LOGISTICS' goal is to continue to maintain the market share of the group of Companies under Reorganised COSCO LOGISTICS and has developed the following strategies:

- To enhance its shipping agency services by providing professional and customised services to its key shipping customers
- To improve and expand its marketing and sales network
- To improve operating efficiency and lower operating costs

### **Freight Forwarding**

The group of Companies under Reorganised COSCO LOGISTICS provides a comprehensive range of sea, air, rail and road freight forwarding services for domestic and international customers, with sea freight forwarding services as its main freight forwarding business. The group of Companies under Reorganised COSCO LOGISTICS has an extensive service network covering major economic areas in China mainland namely Dalian, Beijing, Tianjin, Qingdao, Shanghai, Ningbo, Xiamen, Guangzhou, Shenzhen and Wuhan as well as other coastal and inland regions. The freight forwarding service of the group of Companies under Reorganised COSCO LOGISTICS is to arrange, on behalf of cargo owners and/or their agents, the transportation of cargoes from one location to the designated location, based on the instructions from the cargo owners and/or their agents. The group of Companies under Reorganised COSCO LOGISTICS also provides ancillary services including, but not limited to, documentation preparation, consolidation and distribution, inland haulage, customs clearance and warehousing. In 2002, the Reorganised COSCO LOGISTICS Group handled approximately 565,379 TEUs of container cargoes and approximately 51.3 million tonnes of bulk cargoes. For the four months ended 30 April 2003, the Reorganised COSCO LOGISTICS Group handled approximately 253,197 TEUs of container cargoes, a 52.0% increase from approximately 166,573 TEUs handled in the same period in 2002, and approximately 18.5 million tonnes of bulk cargoes, a 94.7% increase from approximately 9.5 million tonnes handled in the same period in 2002.

The freight forwarding industry in China mainland is highly competitive with a large number of freight forwarding agents. Despite the competitiveness of the industry, the overall freight forwarding commission rates achieved by the group of Companies under Reorganised COSCO LOGISTICS have been maintained at a stable level due to the increase in ancillary service fees which compensates for the decline in basic commission rate.

To further develop its freight forwarding business, the Directors understand from COSCO LOGISTICS that the strategies of the group of Companies under Reorganised COSCO LOGISTICS are:

- To focus on key coastal regions, in particular Southern and Eastern parts of China mainland
- To better utilise the existing supporting resources of the group of Companies under Reorganised COSCO LOGISTICS to extend service coverage and enhance services

### **Third Party Logistics Services**

The group of Companies under Reorganised COSCO LOGISTICS provides third party logistics services to domestic and international companies' operations in China mainland. The major customers of the group of Companies under Reorganised COSCO LOGISTICS include, among others, Haier, Kelon, Hisense, General Motors, Hyundai, Payless Shoes Source, Beijing Auchan, Beitai Iron and Steel Group Co. Ltd, China National Nuclear Power Company Limited, China Three Gorges Project Corp. and Nanjing BOC-YPC Gases Co. Ltd.. The services provided by the group of Companies under Reorganised COSCO LOGISTICS involve the planning and implementation of systems and processes, which are tailor made to individual customer's needs to ensure the efficient flow of goods and materials for the portion of the supply chain outsourced by the customer to the group of Companies under Reorganised COSCO LOGISTICS. The group of Companies under Reorganised COSCO LOGISTICS operates 17 regional distribution centres, located at major economic regions including Shanghai, Tianjin, Beijing, Lianyungang, Xiamen, Shenzhen and Dalian. In 2002, the Reorganised COSCO LOGISTICS Group's third party logistics business (excluding project logistics services provided to infrastructure and project related companies) handled approximately 2.7 million tonnes of goods and products. For the four months ended 30 April 2003, the Reorganised COSCO LOGISTICS Group's third party logistics business (excluding project logistics services provided to infrastructure and project related companies) handled approximately 1.2 million tonnes of goods and products, a 100.0% increase from approximately 0.6 million tonnes handled during the same period in 2002.

The third party logistics services industry has a large number of competitors from different backgrounds. These operators include traditional Chinese transportation companies, foreign logistics companies, emerging Chinese logistics companies and in-house logistics departments of Chinese companies.

To further develop its third party logistics services, the Directors understand from COSCO LOGISTICS that the strategies of the group of Companies under Reorganised COSCO LOGISTICS are:

- To leverage on the existing shipping agency, freight forwarding and support operations, nationwide service network and existing customer base of the group of Companies under Reorganised COSCO LOGISTICS
- To focus on industries which has strong logistics outsourcing potential in China mainland
- To invest in information technology systems, warehouses and others necessary to provide quality third party logistics services

### **Supporting Services**

Besides shipping agency, freight forwarding and third party logistics services, the group of Companies under Reorganised COSCO LOGISTICS also provides ancillary services to support the above-mentioned services. These supporting services include feeder services, warehousing, storage, depot and trucking. While these services are not the key profit contributors to the group of Companies under Reorganised COSCO LOGISTICS, such services support the shipping agency, freight forwarding and third party logistics services of the group of Companies under Reorganised COSCO LOGISTICS.

## LETTER FROM THE CHAIRMAN

### 6. SELECTED FINANCIAL INFORMATION OF THE REORGANISED COSCO LOGISTICS GROUP

The following is an extract of the Pro Forma combined financial information of the Reorganised COSCO LOGISTICS Group for the year ended 31 December 2002 and for the four months ended 30 April 2002 and 2003 respectively (the “Relevant Periods”) except for the information relating to Financial Statistics and Ratios and notes 2 and 3 below.

The Pro Forma combined financial information has been prepared to present the results and the assets and liabilities of the Reorganised COSCO LOGISTICS Group for the Relevant Periods as if the Reorganisation had been completed prior to 1 January 2002 and the group structure of the Reorganised COSCO LOGISTICS Group had been in existence throughout the Relevant Periods, and in accordance with the basis of preparation as set out in note 1 below. The Company’s reporting accountants, PwC, have conducted an examination on the Pro Forma combined financial information in accordance with Standard on Assurance Engagements 200 “High level assurance engagements” issued by the Hong Kong Society of Accountants.

	<b>Year ended 31 December 2002 RMB'000</b>	<b>Four months ended 30 April 2002      2003 RMB'000    RMB'000</b>	
Turnover	4,607,710	1,216,431	1,749,611
Other revenues	53,219	14,619	15,973
Other operating income	7,700	3,208	23,343
Operating expenses	<u>(4,533,177)</u>	<u>(1,199,758)</u>	<u>(1,748,890)</u>
Operating profit	135,452	34,500	40,037
Finance costs	(7,712)	(2,005)	(1,573)
Share of profits less losses of			
— Jointly controlled entities	107,875	32,153	30,813
— Associated companies	<u>52,592</u>	<u>17,035</u>	<u>19,096</u>
Profit before taxation	288,207	81,683	88,373
Taxation	<u>(95,810)</u>	<u>(26,301)</u>	<u>(24,210)</u>
Profit after taxation	192,397	55,382	64,163
Minority interests	<u>(8,568)</u>	<u>(1,319)</u>	<u>(459)</u>
Profit for the year/period	<u><u>183,829</u></u>	<u><u>54,063</u></u>	<u><u>63,704</u></u>
Profit distribution to owner	<u><u>(165,872)</u></u>	<u><u>(165,872)</u></u>	<u><u>—</u></u>

# LETTER FROM THE CHAIRMAN

## Financial Statistics and Ratios (note 3)

	<b>Year ended 31 December 2002</b>	<b>Four months ended 30 April 2002</b>	<b>2003</b>
Operating profit margin	2.9%	2.8%	2.3%
Net Profit margin	4.0%	4.4%	3.6%
EBITDA (RMB'000)	365,123	105,642	113,666
EBITDA margin	7.9%	8.7%	6.5%

	<b>As at 31 December 2002 RMB'000</b>	<b>As at 30 April 2002 RMB'000</b>	<b>2003 RMB'000</b>
Total assets	4,106,374	3,891,225	4,365,867
Total liabilities	(2,765,021)	(2,683,549)	(2,954,466)
Minority interests	<u>(137,594)</u>	<u>(135,170)</u>	<u>(143,980)</u>
<b>Net assets</b>	<b><u>1,203,759</u></b>	<b><u>1,072,506</u></b>	<b><u>1,267,421</u></b>

*Notes:*

(1) Basis of preparation

For illustrative purposes only, the Pro Forma combined financial information presents the pro forma combined results of the Reorganised COSCO LOGISTICS Group for the Relevant Periods as if the Reorganisation had been completed prior to 1 January 2002 and the group structure of the Reorganised COSCO LOGISTICS Group had been in existence throughout the Relevant Periods. The pro forma combined financial positions of the Reorganised COSCO LOGISTICS Group as at 31 December 2002, 30 April 2002 and 30 April 2003 have been prepared to present the assets and liabilities of the Reorganised COSCO LOGISTICS Group at those dates as if the Reorganisation had been completed prior to 1 January 2002 and the group structure of the Reorganised COSCO LOGISTICS Group had been in existence at those dates.

The Pro Forma combined financial information has been prepared based on the management accounts of the companies comprising the Reorganised COSCO LOGISTICS Group, its jointly controlled entities and associated companies, after giving effect to the adjustments to (i) include the results, assets and liabilities of the companies which have been or are being transferred from COSCO Group pursuant to the Reorganisation, (ii) exclude the results, assets and liabilities of the Excluded Companies, and (iii) eliminate the obligations of the post employment supplementary medical and other pension benefits to retired employees of the companies comprising the Reorganised COSCO LOGISTICS Group to be assumed by COSCO as if the arrangement of assuming the obligations by COSCO had been entered into on 1 January 2002.

All significant inter-company transactions and balances within the Reorganised COSCO LOGISTICS Group have been eliminated on combination.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Comparative figures for the year ended 31 December 2002 are not presented as management considers that it is impracticable to do so.



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## LETTER FROM THE CHAIRMAN

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Because of the nature of the Pro Forma combined financial information, it may not give indicative financial positions or results of the Reorganised COSCO LOGISTICS Group had the Reorganisation actually been completed at the beginning of the earliest period presented.

The Pro Forma combined financial information is prepared solely for the purpose of proposed acquisition of the Reorganised COSCO LOGISTICS Group by CPLCL and should not be construed as indicative of the financial performance of the Reorganised COSCO LOGISTICS Group in any future period.

On the basis on which the Pro Forma combined financial information is prepared as described above, the principal accounting policies which have been adopted in arriving at the Pro Forma combined financial information conform with accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants.

The Pro Forma combined financial information has been prepared under the historical cost convention.

(2) Shipping agency and freight forwarding revenues

Shipping agency revenue is accounted for on a net basis. Freight forwarding revenue is accounted for on a gross basis where the Reorganised COSCO LOGISTICS Group effectively acts as a principal in arranging transportation of goods for customers or net basis where the Reorganised COSCO LOGISTICS Group effectively acts as an agent for customers, as appropriate.

(3) Financial statistics and ratios

- (i) Operating profit margin is calculated by dividing the operating profit by the turnover.
- (ii) Net Profit margin is calculated by dividing the profit for the year or period by the turnover.
- (iii) EBITDA represents profit before taxation less interest income plus interest expense, depreciation and amortisation.
- (iv) EBITDA margin is calculated by dividing EBITDA by the turnover.

## 7. REORGANISATION OF COSCO LOGISTICS GROUP

COSCO LOGISTICS Group has been undergoing the Reorganisation, pursuant to which certain companies have been or are being transferred from COSCO Group to COSCO LOGISTICS and certain assets, liabilities and companies have been or are being transferred out or disposed of from COSCO LOGISTICS by transferring or selling them to CRTIFAC, a wholly-owned subsidiary of COSCO. The assets, liabilities and companies that have been or are being transferred out or disposed of from COSCO LOGISTICS are:

- Companies whose businesses are not related to COSCO LOGISTICS' core businesses, namely shipping agency, freight forwarding, third party logistics and supporting services;
- Logistics and/or supporting services companies which are to be wound down;
- Logistics and/or supporting services companies, which in the opinion of COSCO and COSCO LOGISTICS, have unsatisfactory business performances and/or legal defects; and
- Certain assets such as land and buildings with title defects and investments in securities and certain liabilities such as borrowings.

No members of the management team of CRTIFAC are the employees of the group of Companies under Reorganised COSCO LOGISTICS. Pursuant to a letter of undertaking dated 8 October 2003, COSCO has undertaken with CPLCL and the Company that the general manager or vice-managers of CRTIFAC shall not also act as the general manager or vice-managers of COSCO LOGISTICS and that all wages, bonus, benefits and other expenses in respect of the respective management team and other staff of CRTIFAC and the Excluded Companies shall be borne by CRTIFAC and the Excluded Companies respectively, and that the terms of any management service or support to be provided by COSCO LOGISTICS to CRTIFAC and/or the Excluded Companies in the future shall be determined according to fair and reasonable market principles.

Pursuant to the Non-competition Deed, COSCO undertakes not to (other than through COSCO LOGISTICS or CRTIFAC) further develop its logistics services (see further details in the paragraph headed "Non-competition Deed" below). The group of Companies under Reorganised COSCO LOGISTICS can lease CRTIFAC's existing logistics operations and assets on commercial terms to support the logistics businesses of the group of Companies under Reorganised COSCO LOGISTICS based on their business needs.

### **8. RELATIONSHIP BETWEEN THE GROUP OF COMPANIES UNDER REORGANISED COSCO LOGISTICS AND COSCO SUBSEQUENT TO COMPLETION**

#### **Non-competition Deed**

After Completion, COSCO expects to retain interests in certain businesses primarily carried out by COSFRE, a subsidiary of COSCO, which may compete, to a certain extent, directly or indirectly with the shipping agency, freight forwarding and supporting services of the group of Companies under Reorganised COSCO LOGISTICS. COSCO has entered into a Non-competition Deed with COSCO LOGISTICS and CPLCL with respect to the businesses conducted by the group of Companies under Reorganised COSCO LOGISTICS, namely shipping agency, freight forwarding, third party logistics and supporting services.

COSCO will continue to engage in shipping agency, freight forwarding and supporting services through COSFRE, which COSCO holds approximately 99% of its equity interest, and CRTIFAC, a wholly-owned subsidiary of COSCO holding the Excluded Companies transferred out by COSCO LOGISTICS Group pursuant to the Reorganisation. (Please refer to section on "Reorganisation of COSCO LOGISTICS Group" above for further details on CRTIFAC.)

COSFRE is positioned by COSCO to provide shipping agency services to COSCON, a subsidiary of COSCO, which operates container transportation. COSFRE provides shipping agency services to shipping companies other than COSCON only when such shipping companies have slot-sharing arrangements with COSCON. In 2002, COSFRE handled vessels of approximately 88.9 million tonnes of total net registered tonnage, while approximately 251.0 million tonnes were handled by the Reorganised COSCO LOGISTICS Group, and COSFRE handled approximately 35.0 million tonnes of cargoes, while approximately 171.2 million tonnes were handled by the Reorganised COSCO LOGISTICS Group. COSFRE is also a freight forwarding agent on behalf of cargo owners who book COSCON's container capacity. COSFRE, on behalf of cargo owners, places orders to shipping companies other than COSCON when COSCON could not fulfil the orders of the cargo owners. In 2002, COSFRE handled approximately 1.4 million TEUs of container cargoes (of which approximately 95% were for COSCON), while approximately 565,379 TEUs of container cargoes were handled by the Reorganised COSCO LOGISTICS Group. COSFRE does not provide third party logistics services.

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## LETTER FROM THE CHAIRMAN

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COSCO, CPLCL and COSCO LOGISTICS entered into a Non-competition Deed on 22 September 2003 and the aforementioned deed will take effect from the date of issue of the business licence of COSCO LOGISTICS as a sino-foreign equity joint venture company. The Non-competition Deed contains, among other things, the following non-competition undertakings by COSCO:

- COSCO undertakes to procure that COSFRE will only provide shipping agency services for COSCON, and will provide freight forwarding services primarily for COSCON;
- Except for the above mentioned arrangements regarding COSFRE, COSCO Group will not (other than through COSCO LOGISTICS and CRTIFAC) develop or operate Prohibited Businesses in competition with those of the group of Companies under Reorganised COSCO LOGISTICS;
- COSCO shall procure that except for COSFRE, all Prohibited Businesses in competition with the core businesses of the group of Companies under Reorganised COSCO LOGISTICS including those of the CRTIFAC, if not already disposed of by COSCO Group or acquired by the group of Companies under Reorganised COSCO LOGISTICS, will be terminated or wound up within three years from the date of the Non-competition Deed;
- COSCO has given COSCO LOGISTICS a five-year option (subject to any right of first refusal of third parties in accordance with applicable legal requirements) to purchase from COSCO any businesses that may compete with or may be similar in nature to the core businesses of the group of Companies under Reorganised COSCO LOGISTICS at a fair market value and on fair and normal commercial terms;
- COSCO LOGISTICS shall, subject to any right of first refusal of third parties in accordance with applicable legal requirements, have a right of first refusal in respect of the sale by COSCO of any company or business that may be in competition with any business of the group of Companies under Reorganised COSCO LOGISTICS.

### Transactions with COSCO

A number of transactions have been and will be entered into between the group of Companies under Reorganised COSCO LOGISTICS, on the one hand, and COSCO and its subsidiaries (other than the Group and the group of Companies under Reorganised COSCO LOGISTICS) on the other. The major transactions of such nature include:

- *Licencing of Trademarks*

中國外輪代理總公司 (China Ocean Shipping Agency\*), a company within the Reorganised COSCO LOGISTICS Group, is the owner of a series of trademarks including the trademark of "PENAVICO". 中國外輪代理總公司 (China Ocean Shipping Agency\*) has entered into a licence agreement with CRTIFAC (on behalf of certain Excluded Companies) to licence the use of these trademarks to such Excluded Companies which carry on the business of shipping at licence fees determined by commercial negotiations.

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## LETTER FROM THE CHAIRMAN

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- *Property Rental*

CRTIFAC has entered into a lease agreement with COSCO LOGISTICS on behalf of certain members of the group of Companies under Reorganised COSCO LOGISTICS pursuant to which such members of the group of Companies under Reorganised COSCO LOGISTICS have agreed to lease from CRTIFAC a total of 40 properties in locations at which COSCO LOGISTICS Group currently operates. The lease term of these properties is for an initial term of five years with an option to extend for another five years, and thereafter to extend up to the maximum period permitted legally. Rental rates are determined based on market rates and are subject to review every five years in accordance with the rate of inflation officially published by the PRC government. The change in the rent in each review shall not exceed 10% of the previous amount.

- *Supporting Services*

Based on the business needs of the group of Companies under Reorganised COSCO LOGISTICS, they may from time to time enter into agreements with CRTIFAC and/or the Excluded Companies to lease or use their existing logistics supporting operations and assets on commercial terms to support the logistics business as and when required.

- *Transactions carried out in the normal course of businesses*

The Reorganised COSCO LOGISTICS Group also undertook and will continue to undertake transactions with related companies in its normal course of businesses of providing shipping agency, freight forwarding, third party logistics and supporting services.

### **9. APPROVAL BY THE INDEPENDENT SHAREHOLDERS**

COSCO is the ultimate parent company and a substantial shareholder of the Company, with COSCO's wholly-owned subsidiary COSCO Hong Kong holding approximately 53.29% of equity interest in the Company as at the Latest Practicable Date. CPLCL is a wholly-owned subsidiary of the Company. Accordingly, the Transactions constitute connected transactions for the Company within the meaning of the Listing Rules, and are subject to approval by the Independent Shareholders.

The Board has reviewed the Transactions. The Company has appointed HSBC as the financial advisor in connection with the Transactions. The Independent Board Committee, comprising Mr. Alexander Reid HAMILTON and Dr. LI Kwok Po, David, has been appointed by the Board to advise the Independent Shareholders as to the fairness and reasonableness of the Transactions. Rothschild has been appointed as the independent financial advisor to provide opinions to the Independent Board Committee in connection with the Transactions.

### **10. THE SGM**

Set out on pages 66 to 67 of this circular is the notice convening the SGM to be held at 2:30 p.m., on Wednesday, 29 October 2003 at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong at which an ordinary resolution will be proposed to approve the Transactions.

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## LETTER FROM THE CHAIRMAN

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A proxy form for use at the SGM is enclosed with this circular. Whether or not you intend to attend the SGM in person, you are requested to complete and return the accompanying proxy form in accordance with the instructions printed thereon to the Company's branch share registrars in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM. Completed and return of the proxy form will not preclude you from attending and voting at the SGM or any adjournment thereof (as the case may be) if you so wish.

**In view of COSCO's interest in the Transactions, COSCO Hong Kong, being its wholly-owned subsidiary, and its other associates will abstain from voting on the resolution to be proposed at the SGM in respect of the Transactions.**

### 11. RECOMMENDATION

According to the requirements of the Listing Rules, the Independent Board Committee will advise the Independent Shareholders in connection with the Transactions. Rothschild has been appointed as the independent financial advisor to advise the Independent Board Committee with respect to the fairness and reasonableness of the Transactions.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 28 to 29 of this circular which contains its recommendation to the Independent Shareholders as to voting at the SGM regarding the Transactions. Your attention is also drawn to the letter of advice received from Rothschild which contains, amongst other matters, its advice to the Independent Board Committee in relation to the Transactions and the principal factors and reasons considered by it in arriving thereat. The text of the letter from Rothschild is set out on pages 30 to 43 of this circular.

The Independent Board Committee, having taken into account the advice of Rothschild, consider the terms of the Capital Increase and Transfer Agreement, the Joint Venture Contract, the Articles of Association, the Non-competition Deed and the Letter of Guarantee to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the resolution to approve the Transactions, the Capital Increase and Transfer Agreement, the Joint Venture Contract, the Articles of Association, the Non-competition Deed and the Letter of Guarantee at the SGM.

### 12. OTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices of this circular.

Yours faithfully,  
For and on behalf of  
**COSCO Pacific Limited**  
**WEI Jiafu**  
*Chairman*



**COSCO Pacific Limited**

*(Incorporated in Bermuda with limited liability)*

13 October 2003

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTIONS**

We refer to the circular dated 13 October 2003 issued by the Company of which this letter forms part (the "Circular"). Terms defined in the Circular shall have the same meaning when used in this letter unless the context requires otherwise.

On 22 September 2003, the Board announced that CPLCL, a wholly-owned subsidiary of the Company, entered into the Capital Increase and Transfer Agreement, the Joint Venture Contract, the Articles of Association and the Non-competition Deed with COSCO. The Company has also given the Letter of Guarantee in favour of COSCO.

The Independent Board Committee was formed to make recommendation to the Independent Shareholders as to whether, in its view, the terms of the Transactions are fair and reasonable so far as the Independent Shareholders are concerned. Rothschild has been appointed as the independent financial advisor to advise the Independent Board Committee on the fairness and reasonableness of the terms of the Transactions.

The terms and reasons for the Transactions are summarised in the "Letter from the Chairman" set out on pages 5 to 27 of the Circular. As referred to in the "Letter from the Chairman" in the Circular, COSCO Hong Kong and its associates will abstain from voting on the ordinary resolution to be proposed at the SGM in respect of the Transactions.

**Recommendation**

As the Independent Board Committee, we have discussed with the management the reasons for the Transactions. We have also discussed with Rothschild as to the basis upon which its advice has been given to us. You are strongly urged to read Rothschild's letter to the Independent Board Committee, which is set out on pages 30 to 43 of the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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The Independent Board Committee, after taking into account the advice of Rothschild, concurs with the views of Rothschild and considers that the terms of the Transactions are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution set out in the “Notice of Special General Meeting” at the end of the Circular.

Yours faithfully,  
For and on behalf of  
The Independent Board Committee

**Alexander Reid HAMILTON**  
*Independent non-executive director*

**LI Kwok Po, David**  
*Independent non-executive director*

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## LETTER FROM ROTHSCHILD

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*The following is the text of a letter of advice received from Rothschild in connection with the fairness and reasonableness of the terms of the Transactions to the Independent Board Committee which has been prepared for the purpose of incorporation into this circular.*



13 October 2003

*To the Independent Board Committee of  
COSCO Pacific Limited*

Dear Sirs,

### **CONNECTED TRANSACTIONS**

We refer to the Transactions, details of which are contained in the circular dated 13 October 2003 issued by the Company (the "Circular") of which this letter forms part. Rothschild has been appointed as the independent financial adviser to advise the Independent Board Committee as to whether or not the terms of the Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

The terms used in this letter shall have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

Pursuant to the Listing Rules, the Transactions constitute connected transactions of the Company and accordingly, are subject to the approval of the Independent Shareholders at the SGM. COSCO Hong Kong, a wholly-owned subsidiary of COSCO, directly and indirectly holding approximately 53.29% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting on the ordinary resolution to approve the Transactions at the SGM.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company and have assumed that any information and representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have also assumed that all information, representations and opinions contained or referred to in the Circular are fair and reasonable and have relied on them.

We have been advised by the Directors that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have reviewed sufficient information to reach an informed view in order to provide a

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reasonable basis for our advice. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company or any of its subsidiaries or jointly controlled entity.

## PRINCIPAL FACTORS AND REASONS

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

### 1. Background and rationale

The Group is one of the world's leading container-related conglomerates, with an increasingly integrated range of activities spanning container leasing, container terminals and container-related industries. We note that the Company's mission is to be a global leader in container leasing, a regional leader in container terminal operations, and a leading logistics service provider in China mainland and Hong Kong. As such, the Transactions will provide an opportunity for the Company to diversify into the logistics sector in China mainland via an established platform.

The Company believes the expected increase in China mainland's economic growth and trade volume, especially due to China mainland's accession to the WTO, will further enhance the growth in China mainland's transportation and logistics industries. Although third party logistics industry is a relatively new industry in China mainland, the Company believes that there has been a growing trend towards companies outsourcing their supply chain management to third party logistics service providers. According to a public report produced by Mercer Management Consulting Inc., in 2002 China mainland's overall logistics services were growing by about 7.5% annually and outsourced logistics services in China mainland were reported to be growing by 25.0% per year, leading both North America and the rest of the world. The prospects of the economic growth and trade growth in China mainland is expected to continue on the basis that China mainland has consistently recorded growth in gross domestic product ("GDP") in excess of 7.0% since 1991 and the Chinese Academy of Social Sciences has projected China mainland's GDP growth to be 8.0% for 2003. In addition, both the import and export volume growth in China mainland are projected to be higher than 15.0% in 2003 and 2004 (*Source: Economic Focus — China by ABN AMRO Research, 27 March 2003*).

The Company also believes the Transactions can create synergies that benefit the group of Companies under Reorganised COSCO LOGISTICS and the Group. Given the Group already holds significant equity interests in container terminals located at major coastal areas in China mainland, the group of Companies under Reorganised COSCO LOGISTICS can enhance its competitive advantage by partnering with these container terminals to provide better logistics services. Through investing in the group of Companies under Reorganised COSCO LOGISTICS, the Group can enhance the attractiveness of the Group's container terminals by offering comprehensive and integrated logistics services to its shipping customers. We noted that the Company has equity interests in container terminals located in Shanghai, Yantian, Qingdao, Zhangjiagang, Dalian, Shekou and Waigaoqiao Phase 1 (Shanghai) and that the total throughput for the first eight months of 2003, as published by the Company, reached 9.07 million TEUs, representing approximately 23.5% increase over the same period last year. In addition, the Company also has a 50% equity



interest in a joint venture which operates the Kwai Chung Container Terminal 8 (East) in Hong Kong. For the first eight months of 2003, the total throughput handled by Kwai Chung Container Terminal 8 (East) totalled approximately 957,300 TEUs, approximately the same as last year.

Based on the foregoing, we are of the view that the Transactions will complement the Company's existing business by providing its customers with comprehensive and integrated logistics services (comprising sea, rail, road and air transportation) and enabling the Company to broaden its revenue mix as well as allowing the Company to participate in the strong growth as expected by the Directors in this sector.

## **2. The Capital Increase and Transfer Agreement**

### **(a) *Assets to be acquired***

The Company (through CPLCL) has conditionally agreed to acquire 49.0% equity interest in the registered capital of COSCO LOGISTICS upon its conversion into a sino-foreign equity joint venture company. Under the current regulatory environment in China mainland, the Company is not allowed to own a majority equity interest in COSCO LOGISTICS. As part of the Transactions, the Company has given the Letter of Guarantee in favour of COSCO which will take effect upon the approval of the transactions under the Capital Increase and Transfer Agreement. For background information on COSCO LOGISTICS and its current Reorganisation, please refer to the "Letter from the Chairman" in the Circular for further details.

Upon completion of all the transactions pursuant to the Reorganisation, the group of Companies under Reorganised COSCO LOGISTICS will be comprised of companies engaging in shipping agency, freight forwarding, third party logistics and supporting services including feeder service, warehousing, storage, depot and trucking. COSCO has provided certain undertakings to CPLCL in connection with the Reorganisation; please refer to the paragraph headed "Capital Increase and Transfer Agreement, Joint Venture Contract and Articles of Association — Capital Increase and Transfer Agreement dated 22 September 2003 — Undertakings by COSCO" in the "Letter from the Chairman" in the Circular for further details.



As noted in the paragraph headed “Selected financial information of the Reorganised COSCO Logistics Group” in the “Letter from the Chairman” in the Circular, the Company’s reporting accountants, PwC, have conducted an examination on the Pro Forma combined financial information in accordance with the Standard on Assurance Engagements 200 “High level assurance engagements” issued by the Hong Kong Society of Accountants. The table below shows the Pro Forma combined turnover, Pro Forma combined operating profit and Net Profit of the Reorganised COSCO LOGISTICS Group for the year ended 31 December 2002 and for the four months ended 30 April 2002 and 2003, respectively (the “Relevant Periods”):

	<b>Year ended</b> <b>31 December 2002</b> <i>RMB'000</i>	<b>Four months</b> <b>ended</b> <b>30 April 2002</b> <i>RMB'000</i>	<b>Four months</b> <b>ended</b> <b>30 April 2003</b> <i>RMB'000</i>
Turnover	4,607,710	1,216,431	1,749,611
Operating profit	135,452	34,500	40,037
Net Profit	183,829	54,063	63,704

Based on our discussions with the management of the Company, we understand that the Reorganised COSCO LOGISTICS Group has identified third party logistics as its key growth driver going forward whilst the more traditional shipping agency and freight forwarding services are expected to have steady performance.

*Shipping agency*

The group of Companies under Reorganised COSCO LOGISTICS primarily conducts its shipping agency business through its subsidiaries and through its joint ventures and associated companies with respective port bureaus. The group of Companies under Reorganised COSCO LOGISTICS has shipping agency operations at almost all international ports in China mainland including, among others, Dalian, Qinhuangdao, Tianjin, Qingdao, Lianyungang, Shanghai, Ningbo, Xiamen, Shenzhen, Haikou and Zhangjiagang. The shipping agency industry in China mainland is dominated by a few major shipping agents with a large number of small shipping agents.

In 2002, the Reorganised COSCO LOGISTICS Group handled a total net registered tonnage of vessels of approximately 251.0 million tonnes and cargo volume of approximately 171.2 million tonnes. For the four months ended 30 April 2003, the Reorganised COSCO LOGISTICS Group handled approximately 94.7 million net registered tonnage of vessels, an approximately 12.3% increase from approximately 84.3 million handled in the same period in 2002, and approximately 66.9 million tonnes of cargo volume, an approximately 15.3% increase from approximately 58.0 million tonnes handled in the same period in 2002.

Based on the information provided by and our discussions with the management of the Company, we understand that the shipping agency business of COSCO LOGISTICS is a business with higher profit margin in comparison with its freight forwarding business



and was an important segment to the Reorganised COSCO LOGISTICS Group during the Relevant Periods. The business currently faces increasing competition from continuing deregulation which resulted in declining shipping agency fees and COSCO LOGISTICS has plans to improve operating efficiency and lower operating costs with a view to maintaining its market share.

### *Freight forwarding*

The group of Companies under Reorganised COSCO LOGISTICS provides a comprehensive range of sea, air, rail and road freight forwarding services for domestic and international customers, with sea freight forwarding services as its main freight forwarding business. The group of Companies under Reorganised COSCO LOGISTICS has service network covering major economic areas in China mainland namely Dalian, Beijing, Tianjin, Qingdao, Shanghai, Ningbo, Xiamen, Guangzhou, Shenzhen and Wuhan as well as other coastal and inland regions. The freight forwarding industry in China mainland is highly competitive with a large number of freight forwarding agents.

In 2002, the Reorganised COSCO LOGISTICS Group handled approximately 565,379 TEUs of container cargo and approximately 51.3 million tonnes of bulk cargo. For the four months ended 30 April 2003, the Reorganised COSCO LOGISTICS Group handled approximately 253,197 TEUs of container cargoes, a 52.0% increase from approximately 166,573 TEUs handled in the same period in 2002, and approximately 18.5 million tonnes of bulk cargoes, an approximately 94.7% increase from approximately 9.5 million tonnes handled in the same period in 2002.

Based on the information provided by and our discussions with the management of the Company, we understand that freight forwarding business of COSCO LOGISTICS is a business with lower profit margin in comparison with its shipping agency business as a result of a very competitive environment during the Relevant Periods. In order to remain competitive, COSCO LOGISTICS intends to focus its business on key coastal regions in the Southern and Eastern parts of China mainland and the Reorganised COSCO LOGISTICS Group plans to extend its service coverage and to enhance its services.

### *Third party logistics services*

The group of Companies under Reorganised COSCO LOGISTICS provides third party logistics services to domestic and international companies' operations in China mainland. The group of Companies under Reorganised COSCO LOGISTICS operates 17 regional distribution centres, located at major economic regions including Shanghai, Tianjin, Beijing, Lianyungang, Xiamen, Shenzhen and Dalian.

In 2002, the Reorganised COSCO LOGISTICS Group's third party logistics business (excluding project logistics services provided to infrastructure and project related companies) handled approximately 2.7 million tonnes of goods and products. For the four months ended 30 April 2003, the Reorganised COSCO LOGISTICS Group's third party logistics business (excluding project logistics services provided to infrastructure



and project related companies) handled approximately 1.2 million tonnes of goods and products, a 100.0% increase from approximately 0.6 million tonnes handled in the same period in 2002.

The third party logistics services industry has a large number of competitors from different backgrounds. These operators include traditional Chinese transportation companies, foreign logistics companies, emerging Chinese logistics companies and in-house logistics departments of Chinese companies.

Based on the information provided by and our discussions with the management of the Company, we understand that third party logistics services will be the key growth driver for the Reorganised COSCO LOGISTICS Group's earnings going forward. Third party logistics is a relatively new industry in China mainland but the number of new players, both domestic and overseas, is expected to increase in light of the expected increase in demand for third party logistics services as a result of China mainland's entry into the WTO and CEPA. COSCO LOGISTICS intends to grow the business by leveraging on the existing shipping agency, freight forwarding and support operations, nationwide service network and existing customer base of the group of Companies under Reorganised COSCO LOGISTICS and upgrading its facilities including information technology systems to attract additional clients.

### *Supporting services*

In addition to the above-mentioned activities, the group of Companies under Reorganised COSCO LOGISTICS also provides ancillary services to support the above-mentioned services. These supporting services include feeder service, warehousing, storage, depot and trucking. Whilst these services are not the key profit contributors to the group of Companies under Reorganised COSCO LOGISTICS, such services support the shipping agency, freight forwarding and third party logistics services of the group of Companies under Reorganised COSCO LOGISTICS.

### **(b) Consideration**

The total consideration for the 49.0% equity interest in the registered capital of COSCO LOGISTICS upon its conversion into a sino-foreign equity joint venture company is RMB1,180.41 million (equivalent to approximately HK\$1,113.6 million), of which:

- (i) RMB734.00 million (equivalent to approximately HK\$692.5 million) represents CPLCL's contribution to the registered capital of COSCO LOGISTICS (being an amount of RMB482,029,850.75, representing approximately 30.47% of its enlarged registered capital) and to the capital reserve of COSCO LOGISTICS (being an amount of RMB251,970,149.25); and
- (ii) RMB446.41 million (equivalent to approximately HK\$421.1 million) represents CPLCL's acquisition of 18.53% of the enlarged registered capital of COSCO LOGISTICS from COSCO.



In the event that the Net Profit of the Reorganised COSCO LOGISTICS Group for the year ending 31 December 2003 based on the accounts prepared in accordance with HK GAAP exceeds RMB200.0 million, CPLCL has agreed to pay COSCO an additional amount of RMB50.0 million. The accounts will be audited or examined in accordance with generally accepted auditing standards in Hong Kong by certified public accountants recognised by CPLCL.

The Transactions will be funded by the Company's internal cash resources and banking facilities. The total consideration of RMB1,180.41 million (equivalent to approximately HK\$1,113.6 million) represents implied pre-money (i.e. excluding CPLCL's capital contribution of RMB734.00 million to COSCO LOGISTICS) and post-money (i.e. including CPLCL's capital contribution of RMB734.00 million to COSCO LOGISTICS) price earnings ratio ("PER") of approximately 9.1 times and 13.1 times the Net Profit of the Reorganised COSCO LOGISTICS Group for the year ended 31 December 2002 respectively. The total consideration also represents approximately 1.4 times and 1.2 times CPLCL's share of Pro Forma combined net asset values of the Reorganised COSCO LOGISTICS Group as at 31 December 2002 on pre-money and post-money basis respectively. We note that the considerations for the Transactions have been determined through negotiations between the Company and COSCO based on various factors, including, but not limited to, general market conditions, especially in China mainland, potential growth in China mainland's logistics industry, competitiveness of China mainland's logistics industry notably in the light of CEPA, the operations of the group of Companies under Reorganised COSCO LOGISTICS, the financial results of the group of Companies under Reorganised COSCO LOGISTICS, the earnings potential of the group of Companies under Reorganised COSCO LOGISTICS, investment risks and potential synergies with the Group's operations.

COSCO LOGISTICS will receive RMB734.00 million (equivalent to approximately HK\$692.5 million) of proceeds from the capital increase exercise, representing approximately 62.2% of the total consideration of RMB1,180.41 million. It is the current intention of COSCO LOGISTICS (with which the Company also agrees) to use the proceeds as follows:

- (i) approximately 80.0% of the proceeds will be used to fund capital expenditure relating to the construction of regional distribution centres, warehouses and depots in major economic areas such as Beijing, Dalian, Shanghai and Qingdao and the development of information technology systems for the group of Companies under Reorganised COSCO LOGISTICS;
- (ii) approximately 16.0% of the proceeds will be used to fund co-investments in logistics related companies, enhance and develop the sales network as well as invest and upgrade logistics supporting assets for the group of Companies under Reorganised COSCO LOGISTICS; and
- (iii) the balance will be used for working capital and other general corporate purposes.



## (c) *Valuation considerations*

In order to formulate an independent view in relation to the basis in arriving at the consideration for the 49.0% equity interest in COSCO LOGISTICS, we have considered, as more fully set out below: (i) trading multiples of listed companies with similar businesses to COSCO LOGISTICS (the “Comparable Companies”); and (ii) a discounted cash flow analysis. In addition, we have also attempted to identify precedent transactions for reference purposes. We are of the view that the above methodologies are appropriate for the purpose of providing our opinion set out herein as they are the most commonly used methodologies by the market to value companies in the logistics sector.

### (i) *Trading multiples of the Comparable Companies*

In assessing the reasonableness of the consideration, we have reviewed the trading multiples such as PER, EV/EBITDA<sup>1</sup> multiple, and price to book multiple (“P/B”) of Comparable Companies which are listed. In respect of EV/EBITDA multiple, it should be noted that it takes into consideration the differences in accounting treatment for depreciation and amortisation expenses and the tax effects as well as the differences in capital structure. In assessing the EV/EBITDA multiple of the Transactions, we have taken into consideration the working capital requirements and the amount of cash held by COSCO LOGISTICS.

In selecting the Comparable Companies, we have taken into account their respective size, business activities and market exposures. From our review of the Comparable Companies we have identified and considered Sinotrans Limited (“Sinotrans”), which is listed on the Stock Exchange, to be the most comparable to COSCO LOGISTICS. The core services of Sinotrans are similar to that of COSCO LOGISTICS as they include sea, air, road and rail freight forwarding and shipping agency, with the exception of express services. In addition, we believe that COSCO LOGISTICS and Sinotrans share similar market exposure, both being subject to overall growth characteristics of economy and trade as both companies are operating in China mainland.

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<sup>1</sup> EV is defined as the equity value plus external borrowings less cash and cash equivalents and EBITDA is defined as earnings before interest, tax, depreciation and amortisation.



For reference purposes, we have also reviewed other major quoted regional and global logistics and freight forwarding companies and have identified five companies which can be considered to be comparable to COSCO LOGISTICS. However, these regional and global logistics and freight forwarding companies do not have the same business lines as those of COSCO LOGISTICS; for example, such regional and global logistics and freight forwarding companies do not engage in shipping agency. In addition, these regional and global logistics and freight forwarding companies are operating in different geographical areas. By reason of the above, we consider these regional and global logistics and freight forwarding companies to be less comparable than Sinotrans. The respective trading multiples of the Comparable Companies at the Latest Practicable Date are summarised in the table below:

	2002 PER (Times)	2002 EV/EBITDA (Times) (Note 4)	2002 P/B (Times) (Note 5)	2002 P/B (Times)
Sinotrans	14.9	5.8	5.8	4.6
Average of regional and global logistics and freight forwarding companies	23.7	12.3	11.7	5.2
<b>The Transactions (Notes 1 and 2)</b>	<b>9.1</b>	<b>2.3</b>	<b>1.3</b>	<b>1.4</b>
<b>The Transactions (Notes 1 and 3)</b>	<b>9.4</b>	<b>2.6</b>	<b>1.4</b>	<b>1.4</b>

Sources: Bloomberg, annual reports and market estimates

Notes:

- (1) The multiples of the Transactions represent implied pre-money multiples.
- (2) It is assumed that CPLCL will not pay COSCO an additional amount of RMB50.0 million in computing the implied multiples for the Transactions.
- (3) It is assumed that CPLCL will pay COSCO an additional amount of RMB50.0 million in computing the implied multiples for the Transactions.
- (4) Exclusive of share of profits less losses of jointly controlled entities and associated companies.
- (5) Inclusive of share of profits less losses of jointly controlled entities and associated companies.

We have noted that if the Net Profit of the Reorganised COSCO LOGISTICS Group for the year ending 31 December 2003 exceeds RMB200.0 million, the amount payable from CPLCL to COSCO in respect of COSCO's equity interest in COSCO LOGISTICS will be increased by RMB50.0 million. However, we have evaluated the multiple of the Transactions on an overall valuation basis. As such, the payment by CPLCL to COSCO of the additional amount of RMB50.0 million will increase the implied pre-money 2002 historical PER for the Transactions from 9.1 times to 9.4 times by reference to the Net Profit of the Reorganised COSCO LOGISTICS Group for the year ended 31 December





2002. We have also noted that the 2003 PER will not be higher than approximately 8.6 times if the Reorganised COSCO LOGISTICS Group achieves a Net Profit exceeding RMB200.0 million for the year ending 31 December 2003 .

From the above analysis and taking into consideration PER, EV/EBITDA multiple and P/B, the implied pre-money multiples of the Transactions, regardless of whether or not CPLCL will pay the additional RMB50.0 million to COSCO, are substantially below the trading multiples of the Comparable Companies. Given that COSCO LOGISTICS is a private company, we believe such discount to the trading multiple of the Comparable Companies to be appropriate.

(ii) *Discounted cash flow analysis ("DCF")*

DCF analysis is a common valuation tool used to determine the value of a business such as COSCO LOGISTICS as it reflects the future cash flow generating capability, which takes into account the characteristics of the markets, competition in the sector, the cost structure as well as the capital expenditure requirements. In assessing the value of COSCO LOGISTICS for the purposes of the Transactions, we have taken into account of a DCF analysis provided by the Company, which indicated a range of values for COSCO LOGISTICS. The DCF analysis relied on, among other things, business and financial projections provided by the management of COSCO LOGISTICS and discussions amongst the managements of COSCO LOGISTICS and the Company with regard to the characteristics of the business sector in which COSCO LOGISTICS operates, the competitive landscape and growth profile of the sector and the businesses of COSCO LOGISTICS, the cost structure, the earnings and cash flow potential of COSCO LOGISTICS as well as the capital expenditure requirements to meet the growth objectives of COSCO LOGISTICS. The discount rate used in the DCF analysis is based on the weighted average cost of capital of COSCO LOGISTICS using the Capital Asset Pricing Model which takes into account the cost of funding and the risks associated with COSCO LOGISTICS' business. The valuation range of COSCO LOGISTICS derived from the DCF analysis is in line with the consideration.

We have conducted research and have attempted to identify precedent transactions in the sector that are similar to the Transactions.

There is one precedent transaction in China mainland that can be considered as a similar precedent transaction. In May 2002, Shanghai Industrial Holdings Limited ("SIHL"), a company quoted on The Stock Exchange of Hong Kong Limited, announced that it would increase its stake in EAS International Transportation Limited ("EAS") in stages. Since EAS is a private company, there is limited public information available on EAS. However, we note that the core businesses of EAS include air and sea freight forwarding, international and domestic express and exhibition transportation service with most of its operations based in China mainland. We also note that, according to an article from Dow Jones International News published on 29 May 2002, it was stated that the management of SIHL indicated that the acquisition price was about 15.0 times of EAS's EBITDA. Assuming that the management of SIHL was referring to a historical 2001 EBITDA, the EV/EBITDA multiple of the EAS transaction is substantially higher



that of the Transactions. It should be highlighted that there are differences between the business operations of EAS and COSCO LOGISTICS. EAS does not operate shipping agency and COSCO LOGISTICS does not operate international and domestic express services.

We have not identified any precedent transactions which can be considered truly comparable to the Transactions. In this respect, we consider making reference to precedent transactions not a primary tool for the purpose of providing our opinion set out herein.

On the above basis, we consider the consideration payable under the Capital Increase and Transfer Agreement to be fair and reasonable so far as the Independent Shareholders are concerned.

#### **(d) Conditions**

The Capital Increase and Transfer Agreement is conditional upon the satisfaction or waiver of the conditions precedent as contained in the Capital Increase and Transfer Agreement on or before 31 January 2004 or such later date as COSCO and CPLCL may agree in writing, COSCO and CPLCL shall enter into negotiations for the waiver of all or part of the conditions, extension of the time for fulfilment of the conditions or termination of the Capital Increase and Transfer Agreement. If no agreement can be reached on such negotiations within 15 working days of the deadline for fulfilment of conditions, the Capital Increase and Transfer Agreement shall terminate and none of COSCO and CPLCL shall have any claim against the other, save in respect of any antecedent breach.

Please refer to the section headed “Conditions precedent” in the “Letter from the Chairman” in the Circular for further details of the conditions precedent.

### **3. The Joint Venture Contract and the Articles of Association**

The principal terms of the Joint Venture Contract and the Articles of Association have been summarised in the “Letter from the Chairman” in the Circular. Following its conversion into a sino-foreign equity joint venture company, the scope of business of COSCO LOGISTICS will be shipping agency, freight forwarding, third party logistics and supporting services. COSCO LOGISTICS will have a joint venture term of 30 years commencing on the date of issuance of its business licence. The parties may apply for an extension of the joint venture period within six months prior to the expiry of the original joint venture period for another 30 years. The profit and loss of COSCO LOGISTICS will be shared between COSCO and CPLCL in accordance with the registered capital contributed by them respectively. The board of directors of COSCO LOGISTICS will comprise nine directors, four of whom will be nominated by CPLCL. Based on our discussions with the management of the Company, we understand that all the directors to be nominated by CPLCL to the board of COSCO LOGISTICS must possess the necessary sector and operational experience. We are of the view that such selection criteria are reasonable.



## 4. Non-competition Deed

After Completion, COSCO will continue to engage in the Prohibited Businesses through COSFRE (an approximately 99% owned subsidiary of COSCO) and CRTIFRA (a wholly-owned subsidiary of COSCO holding the Excluded Companies transferred out by COSCO LOGISTICS Group pursuant to the Reorganisation). Pursuant to the Non-competition Deed, COSCO has provided, amongst other things, the following non-competition undertakings:

- (a) Save as mentioned in sub-paragraph (b) below, COSCO Group will not (other than through COSCO LOGISTICS and CRTIFAC) develop or operate the Prohibited Businesses in competition with those of the group of Companies under Reorganised COSCO LOGISTICS;
- (b) COSCO undertakes to procure that COSFRE will only provide shipping agency services for COSCON, and will provide freight forwarding services primarily for COSCON;
- (c) COSCO shall procure that except for COSFRE, all the Prohibited Businesses in competition with the core businesses of the group of Companies under Reorganised COSCO LOGISTICS including those of the CRTIFAC, if not already disposed of by COSCO Group or acquired by the group of Companies under Reorganised COSCO LOGISTICS, will be terminated or wound up within three years from the date of the Non-competition Deed;
- (d) COSCO has given COSCO LOGISTICS a five-year option (subject to any right of first refusal of third parties in accordance with applicable legal requirements) to purchase from COSCO any businesses that may compete with or may be similar in nature to the core businesses of the group of Companies under Reorganised COSCO LOGISTICS at a fair market value and on fair and normal commercial terms; and
- (e) COSCO LOGISTICS shall, subject to any right of first refusal of third parties in accordance with applicable legal requirements, have a right of first refusal in respect of the sale by COSCO of any company or business that may be in competition with any business of the group of Companies under Reorganised COSCO LOGISTICS.

It is noted in the Non-Competition Deed that COSCO has indicated to the Company that subsequent to the Transactions, it will continue to position the group of Companies under Reorganised COSCO LOGISTICS as COSCO's flagship logistics service provider and to provide support to enable the group of Companies under Reorganised COSCO LOGISTICS to become the leading logistics service provider in China mainland. Based on the foregoing, we consider that the Non-competition Deed has sufficiently addressed the potential intra-company competition issue that may arise post Completion.

## 5. Financial effects of the Transactions

Following Completion, the results of COSCO LOGISTICS will be equity accounted for in the consolidated accounts of the Group.

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# LETTER FROM ROTHSCHILD

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For illustrative purposes, summarised in the table below are the Pro Forma financial effects of the Transactions on the Group, assuming the Transactions were completed on 1 January 2002 and based on the Pro Forma combined financial information of the Reorganised COSCO LOGISTICS Group:

	Year ended 31 December 2002		Comments
	(Actual)	(Pro Forma)	
Net profit	US\$154.6 million	US\$161.7 million	Increased by approximately 4.6% as a result of contribution of profit from Reorganised COSCO LOGISTICS Group
Net asset value	US\$1,287.9 million	US\$1,291.4 million	Increased by approximately 0.3%
Net gearing <sup>(Note)</sup>	14.3%	25.3%	Increased by 11 percentage points as a result of the increase in indebtedness

*Note:* Gearing is calculated by dividing net debt (being interest bearing borrowings less cash) by the shareholders' equity.

## SUMMARY

Having considered the above principal factors and reasons, we draw your attention to the following key factors in arriving at our conclusions:

- (a) The Transactions provide an opportunity for the Company to diversify into the logistics sector in China mainland via an established platform and is expected to complement the Group's existing business by providing its customers with comprehensive and integrated logistics services (comprising sea, rail, road and air transportation) and enabling the Group to broaden its revenue mix as well as allowing the Group to participate in the strong growth as expected by the Directors in this sector.
- (b) The trading multiples of the Comparable Companies are substantially higher than the multiples implied by the consideration for the 49.0% equity interest in COSCO LOGISTICS.
- (c) Although COSCO will continue to engage in the Prohibited Businesses through COSFRE and CRTIFAC following Completion, COSCO Group has provided, amongst other things, an undertaking pursuant to the Non-Competition Deed that it will not (other than through



COSCO LOGISTICS and CRTIFAC) develop or operate the Prohibited Businesses in competition with those of the group of Companies under Reorganised COSCO LOGISTICS.

- (d) Following Completion, the results of COSCO LOGISTICS will be equity accounted for in the consolidated accounts of the Group. The Transactions will have an overall positive Pro Forma financial effect on the Group (except for gearing, as part of the consideration will be satisfied by external borrowings).

## RECOMMENDATION

Having considered the above principal factors and reasons, we consider the terms of the Transactions to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Transactions as detailed in the “Notice of Special General Meeting” which is set out at the end of the Circular.

Yours very truly,  
For and on behalf of  
**N M Rothschild & Sons (Hong Kong) Limited**

**Jackson Woo**  
*Director*

*The following is the text of a letter and summary of valuations extracted from the property valuation report dated 13 October 2003 from an independent valuer, DTZ Debenham Tie Leung Limited, prepared for the purpose of incorporation in this circular, in connection with their valuations of certain property interests of the Reorganised COSCO LOGISTICS Group.*



Formerly C Y Leung & Company  
原梁振英測量師行

13 October 2003

The Directors  
COSCO Pacific Limited  
49th Floor, COSCO Tower  
183 Queen's Road Central  
Hong Kong

Dear Sirs,

### **Re: Portfolio Valuations**

#### **Instructions, Purpose & Date of Valuation**

In accordance with the instructions of COSCO Pacific Limited ("COSCO Pacific") for us to value the property interests in the People's Republic of China (the "PRC") (as per the "Summary of Valuations" attached below) held by 中國遠洋物流公司 (COSCO Logistics Company) ("COSCO LOGISTICS") and certain companies in which not less than 50% equity interest is currently held or, where applicable, is proposed to be acquired in connection with the connected transactions as described in a circular issued by COSCO Pacific on 13 October 2003 by COSCO LOGISTICS (the "COSCO LOGISTICS Group of Companies"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of these property interests as at 31 July 2003 (the "date of valuation") for the purpose of incorporation into the aforesaid circular.

#### **Definition of Open Market Value**

Our valuation of each of the properties represents our opinion of its open market value which we would define as intended to mean "the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

- (d) that no account is taken of any additional bid by a purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

### **Valuation Bases & Assumption**

Our valuations have been made on the assumption that the owners sell the property interests on the open market without the benefit of a deferred terms contract, leaseback, management agreement, or any similar arrangement which would serve to increase the value of the such property interests.

In undertaking our valuation of the properties situated in the PRC, we have, unless otherwise stated, valued them on the bases that transferable land use rights in respect of the properties for respective specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have also assumed that the grantees or users of the respective properties have free and uninterrupted rights to use or to assign the respective properties for the whole of the respective unexpired terms as granted. We have relied on the advice given by COSCO Pacific’s legal advisor on PRC law, Commerce & Finance Law Offices, regarding the titles to the respective properties.

The opinion of COSCO Pacific’s legal advisor on PRC law states that COSCO LOGISTICS Group of Companies has obtained legal title to each of the properties (except for the property contracted to be acquired by COSCO LOGISTICS Group of Companies) by virtue of obtaining the relevant title certificates. With reference to the legal opinion, we have categorized the properties that COSCO LOGISTICS Group of Companies is entitled to occupy, transfer, lease and/or mortgage into Group I, and the properties that COSCO LOGISTICS Group of Companies is entitled to occupy, lease and/or mortgage but not to transfer into Group II. In respect of a property that contracted to be acquired by COSCO LOGISTICS Group of Companies and that COSCO LOGISTICS Group of Companies is not entitled to occupy, transfer, lease and/or mortgage before obtaining the relevant title certificate of it, we have categorized it into Group III.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect value.

### **Method of Valuation**

In forming our opinion of value in respect of the properties in Group I and Group III, we have valued each of them by the Direct Comparison Approach by making reference to the comparable sale prices in the relevant locality. We have also taken into consideration the specific type and nature of certain properties and adopted the Depreciated Replacement Cost Approach by taking into account the current reinstatement cost of the building structures with due allowance for the physical and functional obsolescence of the same.

We have ascribed no commercial value to the properties in Group II due to the fact that these properties are not freely transferable in the open market. However, COSCO LOGISTICS Group of Companies has the right to occupy the land comprising these properties and has the legal title to the buildings of the properties. We have, therefore, valued the building element of these properties by Depreciated Replacement Cost Approach by taking into account the current reinstatement cost of

the building structures with due allowance for the physical and functional obsolescence of the same. The Depreciated Replacement Cost of each of these properties represents our opinion of the financial costs of the building element and is for reference only.

### **Source of Information**

We have relied to a very considerable extent on the information given by the COSCO LOGISTICS Group of Companies and have accepted advice given to us on such matters as planning approval or statutory notices, easements, tenure, particulars of occupancy, completion date of buildings, site and floor areas and all other relevant matters.

Dimension, measurements and areas included in the valuation certificate attached are based on information provided to us and are therefore only approximation. We have had no reason to doubt the truth and accuracy of the information provided to us by the COSCO LOGISTICS Group of Companies which is material to the valuation. We were also advised by the COSCO LOGISTICS Group of Companies that no material facts have been omitted from the information provided.

### **Title Investigation**

We have been provided with copies of documents in relation to the titles to the respective properties. However, we have not been able to carry out searches to verify the ownership of the respective properties or to ascertain any amendment which may not appear on the copies handed to us.

### **Site Inspection**

We have inspected each of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report that the properties are free of rot, infestation or other structural defects. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

### **Currency & Exchange Rate**

Unless otherwise stated, all money amounts stated herein are in Renminbi ("RMB") which is the lawful currency of the PRC. For reference purpose, the approximate exchange rate prevailing as at the date of valuation was HK\$1=RMB1.06 and there has been no significant fluctuation in such rate between that date and the date of this letter.

Our valuations are summarized below and the valuation certificate is attached.

Yours faithfully,  
For and on behalf of  
**DTZ Debenham Tie Leung Limited**  
**Andrew K. F. Chan**  
*MSc., R.P.S.(GP), M.H.K.I.S., M.R.I.C.S.*  
*Director*

*Note:* Mr. Andrew K. F. Chan is a Registered Professional Surveyor who has over 13 years of experience in valuation of properties in the PRC.



## SUMMARY OF VALUATIONS

Property	Capital value in existing state as at 31 July 2003 <i>RMB</i>	Interest attributable to COSCO LOGISTICS %	Capital value in existing state attributable to COSCO LOGISTICS as at 31 July 2003 <i>RMB</i>
<b>Group I — Property interests of transferable nature held by COSCO LOGISTICS Group of Companies</b>			
1. Level 3, No. 36-10 Xue Yuan Road, Lubei District, Tangshan City, Hebei Province	1,783,000	100	1,783,000
2. Block No. 2, Shao Yao Ju, Tai Yang Gong, Chaoyang District, Beijing City	22,452,000	100	22,452,000
3. Units 1001–1029, Level 10, Xin Heng Ji International Tower, No. 3 Mai Zi Dian West Road, Chaoyang District, Beijing City	37,276,000	100	37,276,000
4. Office Building, Zone No. 9, Dalian Development Zone, Dalian City, Liaoning Province	7,760,000	100	7,760,000
5. Office and Warehouse situated in Warehouse Processing Zone, Dalian Free Trade Zone, Dalian City, Liaoning Province	32,310,000	55	17,770,500
6. Level 10–12, Shen Ye Building, Gang Wan Street, Zhongshan District, Dalian City, Liaoning Province	40,290,000	100	40,290,000
7. No. 21 Shan Ping Garden, Zhongshan District, Dalian City, Liaoning Province	600,000	55	330,000
8. Unit No. 103, Level 1, No. 16 of Zone B, Yan Jiang Development Zone, Zhenxing District, Dandong City, Liaoning Province	500,000	100	500,000

Property	Capital value in existing state as at 31 July 2003 <i>RMB</i>	Interest attributable to COSCO LOGISTICS %	Capital value in existing state attributable to COSCO LOGISTICS as at 31 July 2003 <i>RMB</i>
9. Office Building and Warehouse, Yao Lei Road, Nan Guan Ling Village, Dalian City, Liaoning Province	10,720,000	56.93	6,102,896
10. Office Block 2, Lu Yin Zhuang, Heng Shan Road, Longhu District, Shantou City, Guangdong Province	4,310,000	100	4,310,000
11. Unit No. 404, Level 4, Block 18, Hua Mei Garden, Hua Mei Zhuang, Longhu District, Shantou City, Guangdong Province	262,000	100	262,000
12. Units 308 and 309, Level 3, Block 6, Cheng De Garden, Cheng Bei 5th Road, Chaoyang District, Shantou City, Guangdong Province	221,000	100	221,000
13. Unit 302, Level 3, Block 1, Zhong Xin Garden, south of Mei Yang Road and east of Huang Qi Shan Avenue, Jieyang City, Guangdong Province	229,000	100	229,000
14. Units 301, 302 and Garage, Block A1, Yang Bin Garden, Xin Yang Road, Chaozhou City, Guangdong Province	242,000	100	242,000
15. South Lodge, Level 6, Zhong Ran Building, No. 151 Guang Hua South Road, Maoming City, Guangdong Province	1,359,000	100	1,359,000
16. Shop No. 4, Block B, Tong Chuang Apartment, No. 1460 Yue Xiu North Road, Jiaxing City, Zhejiang Province	601,000	100	601,000

Property	Capital value in existing state as at 31 July 2003 <i>RMB</i>	Interest attributable to COSCO LOGISTICS %	Capital value in existing state attributable to COSCO LOGISTICS as at 31 July 2003 <i>RMB</i>
17. Units 6A and 7A, Zhong An Commercial Centre, Jing Yan Si Street, He Xing Road, Jiaxing City, Zhejiang Province	2,202,000	85	1,871,700
18. Unit 303, Yue Xiu Road Block 2, Jiaxing City, Zhejiang Province	132,000	100	132,000
19. West unit and car park, Level 5, East Stair, Hai Yan Lane, Zha Pu Town, Pinghu City, Zhejiang Province	204,000	100	204,000
20. Units 401 and 402, Level 4, Block E, Yun Hai Building, No. 42 Jie Fang North Road, Jiaojiang District, Taizhou City, Zhejiang Province	1,404,000	100	1,404,000
21. Office Building, Dormitory Building, Warehouse and other ancillary buildings, No. 29 Da Gang 5th Road, Xin Yan Town, Beilun District, Ningbo City, Zhejiang Province	19,583,000	70	13,708,100
22. Unit 4-202, 4-203 of No. 491 and Unit 4-202 of No. 493, Zhong Shan North Road, Xiacheng District, Hangzhou City, Zhejiang Province	1,072,000	100	1,072,000
23. Level 9–14, COSCO LOGISTICS Tower, No. 36 Huai Shu Road, Jiangbei District, Ningbo City, Zhejiang Province	31,664,000	100	31,664,000
24. Units 8–16 and 8–19, Level 8, COSCO LOGISTICS Tower, No. 36 Huai Shu Road, Jiangbei District, Ningbo City, Zhejiang Province	2,321,000	50	1,160,500

Property	Capital value in existing state as at 31 July 2003 <i>RMB</i>	Interest attributable to COSCO LOGISTICS %	Capital value in existing state attributable to COSCO LOGISTICS as at 31 July 2003 <i>RMB</i>
25. Unit 105, Level 1, No. 33 He Cheng Road, Jiangdong District, Ningbo City, Zhejiang Province	155,000	100	155,000
26. Unit 609, Level 6, No. 153 Lane 299, Cang Song Road, Haishu District, Ningbo City, Zhejiang Province	357,000	100	357,000
27. Garage D-1, Block 2, No. 11 and Garages D-12 and D-14, Block 2, No. 14, Lane 38, Huai Shu Road, Jiangbei District, Ningbo City, Zhejiang Province	294,000	100	294,000
28. Level 3, United Office Block 1, United Zone K1, Ningbo Development Zone, Beilun District, Ningbo City, Zhejiang Province	153,000	100	153,000
29. Unit 302, Level 3, No. 1 Lane 115, Zheng Da Road, Jiangbei District, Ningbo City, Zhejiang Province	195,000	100	195,000
30. Units 102, 202 and 402, Block 6, Gang Wu Er Cun, Jin Gang Road, Beilun District, Ningbo City, Zhejiang Province	333,000	100	333,000
31. Unit 5D, Level 5, Block B, Zhi Cheng Building, Yan An East Road, Yunyan District, Guiyang City, Guizhou Province	294,000	100	294,000
32. Units 102 and 402, Block 5, Jin Long Minor District, Yong An Road, Panlong District, Kunming City, Yunnan Province	271,000	100	271,000
33. Industrial Warehouse, Bang Hai Central Road, Sifang District, Qingdao City, Shandong Province	19,868,000	51	10,132,680

<b>Property</b>	<b>Capital value in existing state as at 31 July 2003</b> <i>RMB</i>	<b>Interest attributable to COSCO LOGISTICS</b> %	<b>Capital value in existing state attributable to COSCO LOGISTICS as at 31 July 2003</b> <i>RMB</i>
34. No. 3 Nan Hai Road, Shinan District, Qingdao City, Shandong Province	24,726,000	51	12,610,260
35. Office Building and Stacking Area, Xue Jia Dao Si Cun, Qingdao Economic and Technological Development Zone, Qingdao City, Shandong Province	43,770,000	51	22,322,700
36. Block No. 1, 2 and 3, Feng Huang Ling, Laoshan District, Qingdao City, Shandong Province	30,889,000	51	15,753,390
37. No. 106 Huang Hai 1st Road, Shi Jiu, Rizhao City, Shandong Province	16,053,000	100	16,053,000
38. Stacking Area, No. 89 Huang Hai 3rd Road, Shi Jiu, Rizhao City, Shandong Province	10,639,000	100	10,639,000
39. Nos. 901–905, Level 9, No. 309 Fu Shan Road, Pudong New District, Shanghai City	3,597,000	100	3,597,000
40. Villa No. 10, Venice Garden, 5th Street, No. 8600 Hu Qing Ping Road, Qingpu District, Shanghai City	1,752,000	100	1,752,000
41. Villa No. 14, Xing Long Villas, No. 1405 Lu Chao Gang Road, Nanhui District, Shanghai City	500,000	100	500,000
42. Unit 20C, Level 20, Lai Ke Building, No. 1548 Da Lian Road, Yangpu District, Shanghai City	874,000	100	874,000
43. A site situated at No. 76 Dong Wu Road, Jingkou District, Zhenjiang City, Jiangsu Province	2,342,000	100	2,342,000

Property	Capital value in existing state as at 31 July 2003 <i>RMB</i>	Interest attributable to COSCO LOGISTICS %	Capital value in existing state attributable to COSCO LOGISTICS as at 31 July 2003 <i>RMB</i>
44. West Block, No. 76 Dong Wu Road, Jingkou District, Zhenjiang City, Jiangsu Province	3,130,000	100	3,130,000
45. Units 101 and 102, Block 34, Zone 6, Da Gang Gang Zhong Xin Cun, New District, Zhenjiang City, Jiangsu Province	335,000	100	335,000
46. No. 260 Chang Jiang Central Road, Chongchuan District, Nantong City, Jiangsu Province	10,718,000	100	10,718,000
47. No. 49 Chong Chuan Road, Chongchuan District, Nantong City, Jiangsu Province	12,200,000	52.8	6,441,600
48. A warehouse situated at Chang Jiang Central Road, Gang Qu Town, Zhangjiagang City, Jiangsu Province	2,043,000	100	2,043,000
49. Unit 204, Level 2, Block 2, Cheng Bei New Village, Yang She Town, Zhangjiagang City, Jiangsu Province	220,000	100	220,000
50. Units 201 and 202, Block 3, Hui Yang Er Cun, Cheng Xiang Town, Taicang City, Jiangsu Province	520,000	100	520,000
51. Unit 501, Block 54, Bei Zhi Street, Tianning District, Changzhou City, Jiangsu Province	250,000	55	137,500
52. Office and Warehouse, No. 66 Xin Gang Road, Economic and Technological Development Zone, Yan Zi Ji Town, Qixia District, Nanjing City, Jiangsu Province	16,663,000	50	8,331,500
53. No. 87 Hai Tang South Road, Xu Gou Town, Lianyung District, Lianyungang City, Jiangsu Province	3,750,000	60	2,250,000

Property	Capital value in existing state as at 31 July 2003 <i>RMB</i>	Interest attributable to COSCO LOGISTICS %	Capital value in existing state attributable to COSCO LOGISTICS as at 31 July 2003 <i>RMB</i>
54. Unit 1-503, Block No. 9, Bai Yun Xiang, Yu Lin Road, Daquan District, Anqing City, Anhui Province	61,000	100	61,000
55. Unit 4-104, Jian Kang Apartment, Jian Kang Road, Yingjiang District, Anqing City, Anhui Province	58,000	100	58,000
56. Units 119, 122 and 124, Block 2, Chang Ying Xin Cun, Ji He South Road, Xinwu District, Wuhu City, Anhui Province	2,578,000	60	1,546,800
57. West Zone, Zhong Shan Men Minor District, No. 23 Shang Qin Road, Xincheng District, Xian City, Shaanxi Province	360,000	60	216,000
58. Unit 2-704, Block 4, Wen Quan Garden, Ren Min Road, Quandu District, Kunming City, Yunnan Province	138,000	60	82,800
<b>Total:</b>	<b><u>429,583,000</u></b>		<b><u>327,423,926</u></b>

Property	Capital value in existing state as at 31 July 2003 <i>RMB</i>	Interest attributable to COSCO LOGISTICS %	Capital value in existing state attributable to COSCO LOGISTICS as at 31 July 2003 <i>RMB</i>
<b>Group II — Property interests of non-transferable nature held by COSCO LOGISTICS Group of Companies</b>			
59. Levels 1–3 of an office building situated on the north side of Huang Hai 1st Road, Shi Jiu, Rizhao City, Shandong Province	No commercial value (950,000)	100	No commercial value (950,000)
60. Office, dormitory and garage situated on the north side of Lanshan East Road, Rizhao City, Shandong Province	No commercial value (2,127,000)	100	No commercial value (2,127,000)
61. Unit 3 of Block 29, Blocks 35 and 36, Port Affairs Bureau 1st Amenity Zone, Rizhao City, Shandong Province	No commercial value (2,512,000)	100	No commercial value (2,512,000)
62. Basement to Level 1 and Levels 10–17, No. 21 Wu Xia Road, Shinan District, Qingdao City, Shandong Province	No commercial value (14,029,000)	100	No commercial value (14,029,000)
63. Nos. 37 and 39 Guan Tao Road, Shibei District, Qingdao City, Shandong Province	No commercial value (2,014,000)	100	No commercial value (2,014,000)
64. No. 101 Huang He East Road, Huangdao District, Qingdao City, Shandong Province	No commercial value (8,715,000)	100	No commercial value (8,715,000)
65. Unit 401, Block 5, Huan Cheng Composite Building, Tang Dao Wan Zone A, Qingdao Development District, Qingdao City, Shandong Province	No commercial value (337,000)	51	No commercial value (171,870)
66. Unit 402, Block 5, Huan Cheng Composite Building, Tang Dao Wan Zone A, Qingdao Development District, Qingdao City, Shandong Province	No commercial value (337,000)	100	No commercial value (337,000)



<b>Property</b>	<b>Capital value in existing state as at 31 July 2003</b> <i>RMB</i>	<b>Interest attributable to COSCO LOGISTICS</b> %	<b>Capital value in existing state attributable to COSCO LOGISTICS as at 31 July 2003</b> <i>RMB</i>
67. No. 13A Guang Dong Road, Shibei District, Qingdao City, Shandong Province	No commercial value (563,000)	100	No commercial value (563,000)
68. Unit Nos. 2218–2221, Level 22, COSCO Plaza. Hebei District, Tianjin City	No commercial value (695,000)	100	No commercial value (695,000)
69. A factory situated at No. 10 Tang Han Road, Tanggu District, Tianjin City	No commercial value (46,637,000)	100	No commercial value (46,637,000)
70. No. 2 Min Cheng Street, Zhongshan District, Dalian City, Liaoning Province	No commercial value (33,000)	100	No commercial value (33,000)
71. A site situated at Da Dong Kang, Dandong City, Liaoning Province	No commercial value (0)	100	No commercial value (0)
72. No. 32 Zhen Si Street, Zhenxing District, Dandong City, Liaoning Province	No commercial value (1,020,000)	100	No commercial value (1,020,000)
73. No. 142 Sheng Xin Road, Yuhong District, Shenyang City, Liaoning Province	No commercial value (0)	100	No commercial value (0)
74. No. 489 Yun Chuan Road, Yang Xing Town, Baoshan District, Shanghai City	No commercial value (6,935,000)	75	No commercial value (5,201,250)
75. No. 8 Wai Ma Road (formerly No. 10 Wai Ma Road), Shengping District, Shantou City, Guangdong Province	No commercial value (648,000)	100	No commercial value (648,000)
76. No. 20 Xi Cao Ma Road, Jiangbei District, Ningbo City, Zhejiang Province	No commercial value (2,772,000)	100	No commercial value (2,772,000)

Property	Capital value in existing state as at 31 July 2003 <i>RMB</i>	Interest attributable to COSCO LOGISTICS %	Capital value in existing state attributable to COSCO LOGISTICS as at 31 July 2003 <i>RMB</i>
77. Unit 601, Level 6, No. 109 Zheng Da Road, Jiangbei District, Ningbo City, Zhejiang Province	No commercial value (41,000)	100	No commercial value (41,000)
78. No. 15 You Yi Avenue, Gangkou District, Fangchenggang City, Guangxi Zhuangzu Autonomous Region	No commercial value (5,592,000)	60	No commercial value (3,355,200)
79. Car park Nos. 7 and 8 and Garage Nos. 26 and 27, Shi Fa Building, No. 11 Wen Dong Street, Maoming City, Guangdong Province	No commercial value (96,000)	100	No commercial value (96,000)
80. No. 7 Ren Min East 1st Road, Xiashan District, Zhanjiang City, Guangdong Province	No commercial value (3,966,000)	100	No commercial value (3,966,000)
81. Level 5, Yi Cheng Building, No. 497 Ren Min Road, Yingjiang District, Anqing City, Anhui Province	No commercial value (456,000)	100	No commercial value (456,000)
82. Nos. 126–130, Block 9, Ji Xian Men, No. 110 Bei Cheng Street, Dagan District, Anqing City, Anhui Province	No commercial value (93,000)	100	No commercial value (93,000)
83. No. 531 Wu Song Road, Hongkou District, Shanghai City	No commercial value (25,248,000)	100	No commercial value (25,248,000)
84. Unit Nos. 101 and 102, No. 48 Lin Chao 3rd Village, Jinshan District, Shanghai City	No commercial value (98,000)	100	No commercial value (98,000)
85. West Portion, Level 3, Cheng Zhong Market, Cheng Jiang Town, Jiangyin City, Jiangsu Province	No commercial value (128,000)	100	No commercial value (128,000)
86. No. 215 Hong Qiao North Road, Jiangyin City, Jiangsu Province	No commercial value (1,480,000)	100	No commercial value (1,480,000)

Property	Capital value in existing state as at 31 July 2003 <i>RMB</i>	Interest attributable to COSCO LOGISTICS %	Capital value in existing state attributable to COSCO LOGISTICS as at 31 July 2003 <i>RMB</i>
87. No. 330 Zhong Shan North Road, Xiaguan District, Nanjing City, Jiangsu Province	No commercial value (4,377,000)	100	No commercial value (4,377,000)
88. Unit 203, No. 21 Ying Chun Road, Taizhou City, Jiangsu Province	No commercial value (52,000)	100	No commercial value (52,000)
89. Unit 402, Block 1, Nian Si New Village, Yangtze River North Road, Yangzhou City, Jiangsu Province	No commercial value (49,000)	100	No commercial value (49,000)
90. East Block, No. 76 Dong Wu Road, Jinkou District, Zhenjiang City, Jiangsu Province	No commercial value (751,000)	100	No commercial value (751,000)
91. No. 5 Wai Huan West Road, Chongchuan District, Nantong City, Jiangsu Province	No commercial value (4,319,000)	100	No commercial value (4,319,000)
92. Unit Nos. 101, 103, 104, 202, 203, 204, 302, 403, 404, 501, 502, 503 and 504, Block 14, Bao Ling Xin Cun, Zhangjiagang City, Jiangsu Province	No commercial value (562,000)	100	No commercial value (562,000)
93. Units 1-101, 1-102, 1-802, 2-101, 2-102 and 2-801, No. 23-1 Hai Tang South Road, Xu Gou Town, Lianyung District, Lianyungang City, Jiangsu Province	No commercial value (373,000)	60	No commercial value (223,800)
94. Unit 4-401, Yin Tie Chang Composite Block, Xuzhou City, Jiangsu Province	No commercial value (83,000)	60	No commercial value (49,800)
95. An office block situated at Xiang Shan Road, Shigang District, Zhangjiagang City, Jiangsu Province	No commercial value (5,214,000)	100	No commercial value (5,214,000)

Property	Capital value in existing state as at 31 July 2003 <i>RMB</i>	Interest attributable to COSCO LOGISTICS %	Capital value in existing state attributable to COSCO LOGISTICS as at 31 July 2003 <i>RMB</i>
96. Block 4, Kai Shun Minor District, No. 243 Shishi Road, Chengxiang District, Putian City, Fujian Province	No commercial value (708,000)	100	No commercial value (708,000)
97. Unit 04 and Storeroom, Level 6, Block No. 12, Yan Bei Xin Qu, Yan An North Road, Xiangcheng District, Zhangzhou City, Fujian Province	No commercial value (62,000)	100	No commercial value (62,000)
<b>Total:</b>	<b><u>(144,072,000)</u></b>		<b><u>(139,753,920)</u></b>

**Group III — Property interest contracted to be acquired by COSCO LOGISTICS Group of Companies**

98. A site situated in Dalian Export Processing Zone, Dalian City, Liaoning Province	4,000,000	55	2,200,000
<b>Total:</b>	<b><u>4,000,000</u></b>		<b><u>2,200,000</u></b>

*Notes:*

- (i) We have ascribed no commercial value to the properties in Group II due to the fact that these properties are not freely transferable in the open market. The value in brackets represents our opinion of the Depreciated Replacement Cost of the building element of each of these properties.
- (ii) The open market values of the properties of transferable nature and the property contracted to be acquired and the Depreciated Replacement Costs of the properties of non-transferable nature attributable to COSCO LOGISTICS amount to RMB469,377,846.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interests of the Directors in the shares and underlying shares or debentures of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

### (i) Long Position in Shares (Note 1)

Name of Directors	Capacity	Nature of Interest	No. of Shares held	Percentage of total issued share capital
Mr. KWONG Che Keung, Gordon	Beneficial owner	Personal	250,000	0.012%
Dr. LI Kwok Po, David	Beneficial owner	Personal	258,000	0.012%
Mr. LEE Yip Wah, Peter	Beneficial owner	Personal	150,000	0.007%

*Note 1:* These interests do not include those in the underlying shares of equity derivatives of the Company. These interests need to be aggregated with those set out in sub-paragraph (ii) below (if applicable) to give the Directors' total interest in shares comprised in the relevant share capital of the Company within the meaning of the SFO.

**(ii) Long Position in Underlying Shares of Equity Derivatives of the Company**

Share options were granted to certain Directors pursuant to the share option scheme adopted by the shareholders of the Company on 30 November 1994 (the "Share Option Scheme") with details as follows:

Name of Directors	Exercise Price (HK\$)	Number of share options outstanding as at the Latest Practicable Date	Percentage of total issued share capital	Note
Mr. LU Zhiming	5.53	1,500,000	0.070%	(1)
Mr. WONG Tin Yau, Kelvin	8.80	5,000,000	0.233%	(2)
Mr. QIN Fuyan	5.53	1,500,000	0.070%	(1)

*Notes:*

- (1) These share options were granted on 1 July 1996 under the Share Option Scheme. The options are exercisable at any time within ten years from the date of grant, subject to the following conditions:

Percentage of the total number of options granted to each grantee which can be exercised (including the options which have already been exercised)	Price level per share at which the options can be exercised*
20% of the options	HK\$6.50 or above
40% of the options	HK\$7.00 or above
60% of the options	HK\$7.50 or above
80% of the options	HK\$8.00 or above
100% of the options	HK\$8.50 or above

- \* The price level refers to the closing price of the Shares on the Stock Exchange at the date prior to the exercise of the options.

- (2) These share options were granted on 20 May 1997 (the "Offer Date") under the Share Option Scheme. The options are exercisable at any time within ten years from the date of grant, subject to the following conditions:
- (i) Grantees who have completed one year full-time service in the Group may exercise a maximum of 20% of share options granted in each of the first five anniversary years from the Offer Date.
  - (ii) Grantees who have not completed one year full-time service in the Group as at the Offer Date, a maximum of 20% of options granted may be exercisable in each of the first five anniversary years of the Offer Date after completion of one year full-time service.

- (b) As at the Latest Practicable Date, so far as was known to the Directors, the interest of the persons (not being a Director or chief executive of the Company) in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Capacity	Nature of Interests	Number of Shares/Percentage of total issued share capital						Note
			Long Position	%	Short Position	%	Lending Pool	%	
COSCO Investments Limited	Beneficial owner	Beneficial interest	200,120,000	9.32	—	—	—	—	(1)
COSCO Hong Kong	Beneficial owner and interest of controlled corporation	Beneficial interest and corporate interest	1,144,166,411	53.29	—	—	—	—	(1)
COSCO	Interest of controlled corporation	Corporate interest	1,144,166,411	53.29	—	—	—	—	(1)
J.P. Morgan Chase & Co.	Beneficial owner, investment manager and other	Beneficial interest and corporate interest	235,654,411	10.98	—	—	89,767,582	4.18	(2)

*Notes:*

- (1) Since COSCO Investments Limited (“COSCO Investments”) is a wholly-owned subsidiary of COSCO Hong Kong which is in turn a wholly-owned subsidiary of COSCO, the interests of COSCO Investments are recorded as the interests of COSCO Hong Kong and in turn the interests of COSCO Hong Kong are recorded as the interests of COSCO.
- (2) The corporate interest of J.P. Morgan Chase & Co. was attributable on account through a number of its wholly-owned subsidiaries and non wholly-owned subsidiaries, including, Robert Fleming Asset Management Ltd. (99.96% control), Robert Fleming Holdings Ltd. (96.00% control), JF Asset Management Limited (99.99% control) and J.P. Morgan Securities Ltd. (90.00% control).

- (c) So far as was known to the Directors, as at the Latest Practicable Date, the persons (other than members of the Group) directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the following members of the Group (other than the Company) and the amount of each of such person's interest were as follows:

<b>Name of member of the Group</b>	<b>Name of substantial shareholder</b>	<b>Interest in share capital/ equity interest</b>	<b>Percentage of shareholding</b>
Cheer Hero Development Limited	China Railway (Hong Kong) Holdings Limited	2,300 ordinary shares	23%
Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	張家港港務集團有限公司 (Zhangjiagang Port Group Co. Ltd.)	Registered capital in the amount of US\$8,232,000	49%

- (d) Save as disclosed above, as at the Latest Practicable Date:

- (i) so far as was known to the Directors, none of the Directors or chief executive of the Company had any interest or short positions in any shares or underlying shares or interest in debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.
- (ii) there was no person known to the Directors who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group, or any options in respect of such capital.

### 3. DIRECTORS' INTERESTS IN CONTRACTS

- (a) Mr. SUN Jiakang has entered into a service agreement with COSCO Pacific Management Company Limited, a wholly-owned subsidiary of the Company, on 16 September 2002 for a term of three years commencing from 16 September 2002. The agreement is renewable automatically for successive terms of three years subject to termination by either party giving not less than three months' notice in writing to the other party terminating at the end of the initial term or any renewed term of the service agreement.



- (b) Mr. WONG Tin Yau, Kelvin has a service agreement with the Company commencing from 22 July 1996. The agreement is terminable by either party giving to the other party not less than one month's prior notice in writing.
- (c) Mr. LEE Yip Wah, Peter, an independent non-executive Director, is a partner of Woo, Kwan, Lee & Lo, the Company's legal advisors on Hong Kong laws in relation to the Transactions, which firm will receive normal professional fees in connection with the Transactions.
- (d) Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.
- (e) Save as disclosed herein, as at the Latest Practicable Date none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2002, (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by, or leased to the Company or any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.
- (f) Save as disclosed herein none of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

#### 4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2002 (being the date to which the latest published audited accounts of the Company were made up).

#### 5. EXPERTS

- (a) The qualifications of the experts who have given opinion or advice contained in this circular are set out as follow:

<b>Name</b>	<b>Qualifications</b>
Rothschild	Restricted licence bank and deemed registered institution
PwC	Certified Public Accountants
DTZ	Registered Professional Surveyors
Commerce & Finance Law Offices	Legal advisors to the Company on PRC law

- (b) (i) As at the Latest Practicable Date, none of Rothschild, PwC, DTZ and Commerce & Finance Law Offices had any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.
- (ii) As at the Latest Practicable Date, none of Rothschild, PwC, DTZ and Commerce & Finance Law Offices had any direct or indirect interest in any assets which have been since 31 December 2002 (being the date to which the latest published audited

accounts of the Group were made up) acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any member of the Group.

- (iii) Each of Rothschild, PwC, DTZ and Commerce & Finance Law Offices has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter, statement and/or report and the references to its name included herein in the form and context in which they respectively appear.

## 6. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or arbitration of material importance was pending or threatened against the Company or any of its subsidiaries.

## 7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at 49/F, COSCO Tower, 183 Queen's Road Central, Hong Kong during normal business hours up to and including 28 October, 2003:

- (a) the Capital Increase and Transfer Agreement;
- (b) the Joint Venture Contract;
- (c) the Articles of Association;
- (d) the Non-competition Deed;
- (e) the Letter of Guarantee;
- (f) the letter from Rothschild, the text of which is set out in this circular;
- (g) the letter, summary of valuations and valuation certificate from DTZ, the extract of the text of the letter and summary of valuations of which is set out in Appendix I to this circular;
- (h) the service agreements referred to in the paragraph headed "Directors' Interests in Contracts" of this appendix; and
- (i) the written consents referred to in the paragraph headed "Experts" of this appendix.

## 8. MISCELLANEOUS

- (a) The registered office of the Company is at Clarendon House, Church Street, Hamilton HM 11, Bermuda.
- (b) The Hong Kong branch share registrars and transfer office of the Company is Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

- (c) The Company Secretary of the Company is Ms. Hung Man, a practising solicitor in Hong Kong.
- (d) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

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# NOTICE OF SPECIAL GENERAL MEETING

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## COSCO Pacific Limited

*(Incorporated in Bermuda with limited liability)*

**NOTICE IS HEREBY GIVEN** that a special general meeting (the "**Special General Meeting**") of COSCO Pacific Limited (the "**Company**") will be held at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong on Wednesday, 29 October 2003 at 2:30 p.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without modifications as ordinary resolution of the Company:

### ORDINARY RESOLUTION

**"THAT:**

- (a) the agreement between COSCO Pacific Logistics Company Limited ("CPLCL"), a wholly-owned subsidiary of the Company, and China Ocean Shipping (Group) Company ("COSCO") dated 22 September 2003 (the "**Capital Increase and Transfer Agreement**") for the increase in registered capital and transfer of equity interest in 中國遠洋物流公司 (COSCO Logistics Company) which will be converted into a sino-foreign equity joint venture enterprise named as 中國遠洋物流有限公司 (COSCO Logistics Co., Ltd.) upon completion of the Capital Increase and Transfer Agreement (a copy of which has been produced at this meeting and marked as "Exhibit-A" and signed by the chairman of the meeting for the purpose of identification and details of which are set out in the circular (the "**Circular**") of the Company dated 13 October 2003 to its shareholders) and all transactions contemplated thereby be and are hereby approved;
- (b) the joint venture contract (the "**Joint Venture Contract**") and the articles of association (the "**Articles of Association**") of COSCO Logistics Co., Ltd. between CPLCL and COSCO dated 22 September 2003 in relation to the formation of COSCO Logistics Co., Ltd. as a sino-foreign equity joint venture enterprise (a copy of each of which has been produced at this meeting and marked as "Exhibit-B" and "Exhibit-C" respectively and each being signed by the chairman of the meeting for the purpose of identification and details of which are set out in the Circular) and all transactions contemplated thereby be and are hereby approved;
- (c) the non-competition deed between COSCO, COSCO Logistics Co., Ltd. and CPLCL dated 22 September 2003 containing certain non-competition undertakings by COSCO (the "**Non-competition Deed**") (a copy of which has been produced at this meeting and marked as "Exhibit-D" and signed by the chairman of the meeting for the purpose of identification and details of which are set out in the Circular) and all transactions contemplated thereby be and are hereby approved;
- (d) the letter of guarantee dated 22 September 2003 given by the Company in favour of COSCO (the "**Letter of Guarantee**") containing certain undertakings and guarantee by the Company (a copy of which has been produced at this meeting and marked as "Exhibit-E" and signed by the chairman of the meeting for the purpose of identification and details of which are set out in the Circular) and all transactions contemplated thereby be and are hereby approved;

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## NOTICE OF SPECIAL GENERAL MEETING

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- (e) the entering into of each of the Capital Increase and Transfer Agreement, the Joint Venture Contract, the Articles of Association and the Non-competition Deed, the giving of the Letter of Guarantee and the entering into of all other agreements, deeds and any other documents in relation to any of the foregoing or any transactions contemplated by any of the foregoing by the Company and/or CPLCL be and are hereby approved, confirmed and ratified; and
- (f) the directors of the Company be and are hereby authorized to do all such things and sign, seal, execute, perfect, perform and deliver all such documents as they may in their absolute discretion consider necessary or desirable or expedient to give effect to the Capital Increase and Transfer Agreement, the Joint Venture Contract, the Articles of Association, the Non-competition Deed, the Letter of Guarantee and the implementation of all transactions contemplated thereunder.”

By Order of the Board  
**HUNG Man**  
Company Secretary

Hong Kong, 13 October 2003

*Registered Office:*  
Clarendon House  
Church Street  
Hamilton HM11  
Bermuda

*Principal Place of Business:*  
49th Floor, COSCO Tower  
183 Queen's Road Central  
Hong Kong

### Notes:

1. A shareholder of the Company entitled to attend and vote at the Special General Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead in accordance with the Company's Bye-laws. A proxy need not be a shareholder of the Company.
2. A form of proxy for use at the Special General Meeting is enclosed herewith.
3. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged at the branch share registrars of the Company in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the appointed time for holding the Special General Meeting or any adjournment thereof (as the case may be) and in default thereof the form of proxy and such power or authority shall not be treated as valid.
4. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the Special General Meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed revoked.
5. Where there are joint holders of any shares in the Company, any one of such joint holders may vote at the Special General Meeting, either in person or by proxy, in respect of such shares as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.