



## **COSCO Pacific Limited**

(Incorporated in Bermuda with Limited Liability)

### **ANNOUNCEMENT OF 1998 RESULTS**

Although 1998 was a difficult year for the Asian economies, COSCO Pacific Limited (the "Company") achieved solid growth by maintaining a clear focus on our core businesses -- container leasing, container terminals and container-related industries. Fuelled by our long-standing industry expertise, a growing container fleet, forward-looking management and successful global expansion, the Company operated profitably in 1998 and strengthened the foundations for future growth in 1999 and beyond.

- Turnover up 18.3 percent to US\$217.1 million.
- Profit attributable to shareholders up 5.3 percent to US\$ 129.3 million.
- Container fleet size increased by 7.7 percent to 505,954 TEUs.
- Combined throughput grew 14.5% to 4,727,011 TEUs in container terminal operations.
- Container related industries achieved satisfactory performance.

## **RESULTS**

The board of directors of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 1998, together with the comparative figures for the previous year, as follows:

1998	1997	Increase/(Decrease)
<i>US\$ 000</i>	<i>US\$ 000</i>	%

Turnover (Note 1)	<b>217,130</b>	<b>183,526</b>	<b>18.3</b>
Operating profit	80,797	85,522	(5.5)
Share of profits less losses of:			
Associated companies	50,639	41,592	21.8
Jointly controlled entities	4,254	2,593	64.1
Profit before taxation	135,690	129,707	4.6
Taxation (Note 2)	5,896	6,264	(5.9)
Profit after taxation	129,794	123,443	5.1
Minority interest	497	698	(28.8)
Profit attributable to shareholders	129,297	122,745	5.3
Dividends (Note 3)	47,135	45,066	4.6
Profit for the year retained	<b>82,162</b>	<b>77,679</b>	<b>5.8</b>
Profit for the year retained by :			
Company and subsidiaries	51,239	39,244	
Associated companies	28,219	36,661	
Jointly controlled entities	2,704	1,774	
	<b>82,162</b>	<b>77,679</b>	
Earnings per share (Note 4)			
Basic earnings per share	<b>6.30 cents</b>	<b>6.08 cents</b>	<b>3.6</b>
Fully diluted earnings per share	<b>N/A</b>	<b>6.04 cents</b>	

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## Notes:

### 1. Turnover

Turnover represents gross income from container leasing, container handling and storage and container terminal operations.

	1998	1997
	<i>US\$ 000</i>	<i>US\$ 000</i>
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Container leasing	202,071	167,876
Container handling and storage	10,804	12,059
Container terminal operations	4,255	3,591
	<hr/>	<hr/>
	217,130	183,526
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### 2. Taxation

	1998	1997
	<i>US\$ 000</i>	<i>US\$ 000</i>
	<hr/>	<hr/>
Company and subsidiaries:		
Hong Kong profits tax	323	1,261
Overseas taxation	292	58
Over provision in prior years	(488)	--
	<hr/>	<hr/>
	127	1,319
Share of taxation attributable to ::		
Jointly controlled entities :		
Overseas taxation	184	14

(a) Basic earnings per share is calculated based on the profit attributable to shareholders of US\$129,297,000

Associated companies:		
Hong Kong profits tax	6,598	6,222
Overseas taxation	278	---
Deferred taxation	(1,291)	(1,291)
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	5,896	6,264
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Hong Kong profits tax has been provided at a rate of 16 percent (1997:16.5percent) on the estimated assessable profit for the year. A substantial portion of the Group's profit neither arises in nor is derived from Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong profits tax. Taxation on overseas profit has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

No provision for income tax in the People's Republic of China ("PRC") has been made as the Group's profits from container leasing are exempt in accordance with a notice granting temporary exemption of income tax on rental payments made to foreign container leasing companies operating in international transportation (Guo Shui Fa(1993) No.49) issued by the State Tax Bureau of the PRC on 12th March, 1993.

The Group is also exempt from business tax on its rental income and interest income earned in the PRC in accordance with a notice granting exemption from business tax for foreign enterprises earning such income but having no establishment in the PRC (Guo Shui Fa(1997)No. 35) issued by the State Tax Bureau of the PRC on 14th March, 1997.

Deferred taxation of the Group in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts has not been accounted for as the amount involved is not material. Deferred tax on the revaluation surplus and deficit of the leasehold land and buildings and investment properties has not been quantified as this does not constitute a timing difference for deferred taxation purposes.

(1997:US\$122,745,000)and on the weighted average number of 2,051,826,526 (1997:2,019,098,411) shares in issue during the year.

- (b) As the exercise price of the share options outstanding during the year ended 31st December 1998 was greater than the average market price of the Company's share, there was no dilution effect on earnings per share.

Diluted earnings per share for the year ended 31st December, 1997 was calculated based on the profit attributable to shareholders of US\$122,745,000 and 2,030,651,116 shares which is the weighted average number of shares in issue during the year plus the weighted average of 11,552,705 shares deemed to be issued at no consideration if all outstanding options under share Option Scheme had been exercised.

### 3. Dividends

	1998	1997
	<i>US\$ 000</i>	<i>US\$ 000</i>
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Interim dividend, paid, of US 1.007 cents (HK 7.8 cents)		
(1997: US 0.897cents) per ordinary share	20,655	18,414
Final dividend, proposed, of US 1.291 cents (HK 10.0 cents)		
(1997: US1.226 cents) per ordinary share	26,480	25,156
Additional 1996 final dividend paid on shares issued		
due to the exercise of conversion rights attached to convertible bonds, subscription under share option scheme and the share placement before the closure of the register of members	--	1,496
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	47,135	45,066
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### 4. Earnings per Share

### 5. Comparative figures

Comparative figure of share of results of associated companies has been partly reclassified as share of results of jointly

controlled entities following the implementation of the Hong Kong Statment of Standard Accounting Practices 2.121 "Accounting for interest in joing ventures" on 1st January 1998.

## REVIEW OF OPERATIONS

During the year, profit attributable to shareholders rose 5.3% to US\$129,297,000 on a 18.3% increase in turnover to US\$217,130,000. Earnings per share for 1998 rose 3.6% to US6.3 cents per share. Operating profit for the year totalled US\$80,797,000, a decrease of 5.5% on 1997 levels. In light of the regional economic situation, capital expenditure for the year was cautiously controlled, totalling US\$145,311,000 (1997:US\$626,784,000), the majority of which was spent on expanding our container fleet.

At the forthcoming annual general meeting, the directors will recommend a final dividend of HK10.0cents. Combined with the interim dividend of HK7.8 cents per share paid on 5th October 1998, this provides an annual dividend of HK17.8 cents, an increase of 7.9% on 1997 levels.

At 31st December 1998, COSCO Pacific's consolidated net asset value was US\$845,601,000, a 13.4% increase on the previous year. Underscoring our prudent financial management policy, we have been maintaining a well-balanced financial position. Net debt-to-equity ratio at year-end further reduced to 64.7% against 75.3% in 1997. Interest coverage was 4.3 times against 5.7 times a year ago. These are far better than the industry norm.

### Container Leasing

Our container leasing business benefited from our excellent long-term leasing arrangement with China Ocean Shipping (Group) Company ("COSCO Group") and achieved the highest utilisation of 97.0% (1997:97.5%) within the industry. These long-term leases, in addition to providing stable earnings flows, acted as a cushion to protect us from much of the trade imbalance aggravated by the regional economic crisis in 1998.

The Group's container leasing business put in another year of steady growth, with turnover rising to US\$202,071,000, a 20.4% increase on the previous year and accounting for 67.1% (1997:67.7%) of the profit attributable to shareholders.

The Group's fleet size continued to grow. After purchases of new containers of 58,009 TEUs (1997:126,706 TEUs) and disposals of used containers returned by

COSCO Group upon the expiry of 10-year leases, the net fleet size grew 7.7% by the end of the year to 505,954 TEUs. By category, dry containers accounted for 91.6% of the fleet, reefers 6.0% and specialised containers such as open-tops and flat-racks 2.4%. These compare with 1997 levels of 92.1%, 6.2% and 1.7% respectively.

The Group's professional team responsible for the disposal of containers after the expiry of their contracts was able to capitalise on rising prices for used containers during the year. Through our global network, we were able to efficiently dispose of returned containers at advantageous prices. During the year, we derived a profit of US\$9,219,000 from the disposal of 18,740 returned containers. In 1999, about 45,000 TEUs of containers are scheduled to be returned by COSCO Group when the contracts expire.

During the year, COSCO Group leased a total of 340,344 TEUs (1997:335,117 TEUs), accounting for 67.3% (1997:71.3%) of our total fleet as at the end of 1998. The lower on-lease proportion for COSCO Group's leased containers reflects our successful client expansion in the long and short-term leasing market. Other international clients accounted for 29.7% of our total TEUs (1997:26.2% of total TEUs).

Of COSCO Group's demand, dry containers accounted for 92.3%, reefers 6.6% and other specialised containers 1.1%, compared with 92.0%, 6.9% and 1.1% respectively in 1997. Among the TEUs leased to non-COSCO Group customers, dry containers accounted for 93.2%, reefers 3.6% and other specialised containers 3.2%, compared with 93.8%, 3.5% and 2.7% respectively in 1997. The utilisation rate for COSCO Group remained at 100% in 1998. Overall, the utilisation rate ended the year at 97.0% (1997:97.5%), still well above the industry average of approximately 80%.

Leasing rates across the board remained under pressure during the year, mainly due to the deterioration of new container prices, increase competition in the shipping market, regional economic downturn and the exuberant imbalances in international trade. In view of this situation, the Group made the strategic move of revising the lease mix between long and short-term leases. As a result, our average leasing rates ended 1998 at levels similar to those of end-1997.

Solid headway was made in expanding the Group's customer base by placing a high emphasis on customer services. Following the successful 1997 launch of the overseas sales network, with offices in San Francisco, New York, Sao Paulo, London, Hamburg, Genoa and Tokyo, we increased the number of long and short-term master leasing customers to 150 from 86 in 1997. To provide customers with more

flexibility, we expanded the portfolio of our international container depots where customers can on-hire and off-hire container. We also provided master-leasing clients with a comprehensive range of quality services such as sophisticated in-house developed software for tracking containers.

### Terminal Operations

Despite the effects of the regional economic downturn, our container terminal activities performed satisfactorily, achieving an aggregate throughput of 4,727,011 TEUs, a 14.5% gain on 1997. Although throughput at COSCO-HIT Terminals (Hong Kong) Limited ("COSCO-HIT") fell by 7.4% to 1,206,572 TEUs, our four PRC container terminals in Shanghai, Qingdao, Yantian and Zhangjiagang, recorded a 24.6% overall increase in throughput to 3,520,439 TEUs. Across our container terminal operations, steady progress was made in enhancing efficiency and productivity, leading to lower operating costs for our customers. Boding well for the future of our container terminal activities is the fact that the Group has interests in the top three PRC container terminals -- Shanghai, Yantian and Qingdao.

Terminals	Throughput (TEUs)		Increase (Decrease)
	1998	1997	%
COSCO-HIT	1,206,572	1,302,409	(7.4)
Shanghai Container Terminals Ltd.	2,027,188	1,766,590	14.8
Yantian International Container Terminals Ltd.	1,038,074	638,396	62.6
Qingdao Cosport International Container Terminals Co. Ltd.	350,126	300,332	16.6
Zhangjiagang Win Hanverky Container Terminal Co. Ltd.	105,051	119,384	(12.0)
<b>Total</b>	<b>4,727,011</b>	<b>4,127,111</b>	<b>14.5</b>

### River Trade Terminals Co. Ltd.

The Company has a 10% interest in the Hong Kong River Trade Terminal. Located in Tuen Mun, the terminal launched its first phase of the 60-berth facility in October, 1998. Full completion of the terminal is expected by the end of 1999.

### Container-related Industries

Our container-related industries achieved satisfactory results during the year, providing an increased level of vertical integration and synergy for the Group's operations. Shanghai CIMC Reefer Containers Co., Ltd., in which a 20% interest is held, operated profitably, producing a total of 11,088 TEUs, up 25.3% from 1997. The Company has a 20% interest respectively in Shanghai Kansai Paint & Chemicals Co., Ltd. and Tianjin Kansai Paint & Chemicals Co., Ltd. The two companies produce paint for vessels and containers. During the year, Tianjin Kansai Paint & Chemicals Co., Ltd. produced 7,356 tonnes of paint, whereas Shanghai Kansai Paint & Chemicals Co., Ltd. in its first full-year operation produced 9,783 tonnes of paint. In addition, the Company has a 20% interest in Shanghai Far East Container Co., Ltd. and a 22.5% interest in Tianjin North Ocean Container Co., Ltd. During the year, Shanghai Far East Container Co., Ltd. produced 60,036 TEUs, up 11.3% from 1997. Production of Tianjin North Ocean Container Co., Ltd. amounted to 38,993 TEUs, an increase of 22.1% in 1997.

#### Container handling and storage

Wholly owned Plangreat Limited, which provides container handling, stevedoring, storage and container transport and repair services, still generated satisfactory profit despite deteriorating market conditions.

#### Shanghai Yixian Road

The Company has invested a 30% interest in Twinbridge Development Corp. ("Twinbridge") which participates in a Sino-foreign co-operative joint venture to redevelop a primary road linking to port of Shanghai, including the construction of an 8km elevated road in Yixian Road, in exchange for the exclusive rights to operate and receive toll receipts from the Wusong Toll Bridge and Wenchang Toll Bridge. These arrangements took effect in September, 1997 and contributed a profit to the Group in 1998.

#### Liu Chong Hing Bank Limited

The Company maintains a 20% interest in Liu Chong Hing Bank Limited ("LCHB"). This investment provided the Group with an attributable profit of US\$8,983,000 in 1998 (1997: US\$1,009,000 for the post-acquisition period). During 1998, the Hong Kong economy suffered a negative growth, resulting a very difficult operating environment for the banking sector. As such, LCHB recorded a significant rise in bad and doubtful debt provisions and a decline in net interest income. Notwithstanding the difficulties,

LCHB managed to sustain a strong balance sheet. Its capital adequacy ratio stood at 22.9% in end-1998, which is a relatively high level by industry standard.

#### THE YEAR 2000 ISSUE

The Year 2000 issue has arisen from a long-standing computer programming practice of using only two digits to represent a year. When these computer systems encounter Year 2000, they are unable to correctly identify and handle the dates of Year 2000 and the years beyond. The Year 2000 issue might affect the Group's companies causing malfunctions in their information systems. As such, the Group has formulated a compliance plan with reference to the PD2000-1 guidelines issued by the British Standards Institution.

The Group has carried out review, compliance tests and relevant amendment on its major computer systems equipment. The Management is also satisfied with the progress of the compliance plan and the expenses incurred. There has been no serious delay in carrying out the plan and no major problem has been encountered. The information included herein represents a general disclosure by the Group on the handling of the Year 2000 issue. Further details are contained in the Group's 1998 annual report.

#### PROSPECTS

With its many competitive advantages, the Group is well-positioned to achieve long-term prosperity. We enjoy an excellent strategic relationship with COSCO Group, a growing customer base and an experienced management team focused on enhancing shareholder value.

Over the short term, although container leasing rates and volumes are forecast to remain under pressure, enhanced productivity and heightened cost-control will strengthen our competitiveness.

In our container terminal operations, it is expected that the throughput levels at COSCO-HIT will remain stable, whereas the PRC container terminals are expected to achieve satisfactory volume growth. Steady earnings are also expected from our growing range of container-related activities.

The PRC's admission to the World Trade Organisation is becoming more imminent. Once admitted, the PRC is likely to see a significant growth in its foreign trade. Being the PRC's largest shipping company, COSCO Group is poised to directly

benefit from this development; in turn the Group will be provided with more opportunities for its further growth. On the other hand, the Group will further benefit from the growing international trend towards containerisation, particularly in the PRC. Reflecting industry trends, rising numbers of importers and exporters are containerising their cargoes to improve efficiency. As the pace of containerisation accelerates, it is expected to create sustainable demand for container leasing, handling and terminal operations.

By having a firm grasp of the challenging business climate in which we operate and maintaining a strong financial position, the Group is confident to move forward solidly in 1999 and enhance the return for our shareholders.

#### FINAL DIVIDEND

The board of directors proposes a final dividend of HK10.0 cents (1997:HK9.5 cents) subject to approval of the shareholders at the annual general meeting to be held on 18th May, 1999. The proposed final dividend is payable on or before 31st May, 1999, to shareholders whose names appear on the register of members of the Company on 18th May, 1999.

#### CLOSURE OF REGISTERS OF MEMBERS

The registers of members of the Company will be closed from Wednesday, 12th May, 1999 to Tuesday, 18th May, 1999, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms with share certificates must be lodged with the Company's Hong Kong Registrar and Transfer Office, Secretaries Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on Tuesday, 11th May, 1999.

#### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

By Order of the Board

**SHI Qin**

*Managing Director*

Hong Kong, 25th March, 1999