

**BEA securities**

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HONG KONG RESEARCH**15th June 2005****Main Board H-share Listing – Research**

中遠控股有限公司

CHINA COSCO HOLDINGS COMPANY LIMITED [Stock Code: 1919]

Joint Global Coordinators and Joint Sponsors : The Hongkong and Shanghai Banking Corporation Limited
UBS Investment Bank

Joint Bookrunners, and Joint Lead Managers : The Hongkong and Shanghai Banking Corporation Limited
UBS Investment Bank
JPMorgan

Sector : Transportation**Business** : Container shipping services

Total share offer: 2,244,000,000 H shares
(36.5% of the enlarged share capital)

Public Offer: 224,400,000 H shares (10%)**Placing:** 2,019,600,000 H shares (90%)**Greenshoe:** 336,600,000 H shares**Price:** HK\$4.25 – HK\$5.75 per H share**Market Cap.:** HK\$26.1 billion – HK\$35.3 billion**FY2005 P/E:** 6.7x – 9.1x (pro forma)**Adjusted NTA per H share:** RMB2.58 – RMB3.09**Staffing:** 8,329 (as of 31st December 2004)**Book opens:** 13th June 2005**Book closes:** 24th June 2005**HK Public Offer period:**20th June 2005 – 24th June 2005**Receiving banks:**

The Hongkong and Shanghai Banking Corp.

Bank of China (Hong Kong)

Share registrar: Computershare Hong Kong
Investor Service Limited**Listing date:** 30th June 2005**Business of China COSCO Holdings**

China COSCO Holdings is one of the leading global providers of integrated container shipping services to international and domestic customers. It principally engaged in the provision of container shipping, container terminal, container leasing and freight forwarding and shipping agency services.

China COSCO conducts container shipping business via its 100%-owned subsidiary, COSCO Container Lines Company Limited (COSCON). It operated a fleet of 119 container vessels with a total capacity of 303,197 TEUs, ranking No. 1 in the PRC and 7th worldwide as of 1st January 2005. For container terminals and container leasing business, China COSCO operates mainly via its 52.2%-owned subsidiary, COSCO Pacific (HKEx: 1199).

As of 31st December 2004, China COSCO's vessel fleet called at over 100 ports in more than 30 countries, serving 60 international trade lanes, 14 international feeder service routes, 8 PRC coastal service routes and 44 Pearl River Delta and Yangtze River feeder service routes

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

China Ocean Shipping (Group) Company, or COSCO

63.5%

63.5%

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$9,736 million

(Assuming the over-allotment option is not exercised, no new shares are issued pursuant to the HSBC Price Adjustment Top-Up, and at an issue price of HK\$5.00 each, which is the mid-point of the indicative price range)

	HK\$ million
For capital expenditures with a focus on the expansion of its vessel fleet by direct purchase of vessels or acquisitions of equity interests in other shipping companies.	4,234
For enhancement of the Group's "door-to-door" services systems, in order to improve the quality of its integrated container shipping services.	941
For the repayment of loans*.	4,234
For working capital and general corporate purposes.	Any remaining balance

Remarks (*): The RMB4,500 million loan was originally scheduled to be repaid before the year-end, of which RMB1,242 million were for acquisition of COSCO Pacific, RMB2,711 million for vessel financing and RMB563 million for working capital.

Financial Highlights

	Year ended 31 st December		
	2002 RMB million	2003 RMB million	2004 RMB million
Turnover	20,926	25,853	32,189
Operating profit / (loss)	(146)	2,719	5,025
Share of profits less losses of jointly controlled entities and associated companies	526	592	1,005
Net profit / (loss)	(1,196)	1,742	4,158

Breakdown of Revenue by Business Segments

	Year ended 31 st December					
	2002		2003		2004	
	RMB (million)	%	RMB (million)	%	RMB (million)	%
Container shipping	17,689	84.5	22,040	85.3	27,320	84.9
Container terminals	70	0.3	82	0.3	99	0.3
Container leasing	736	3.5	901	3.5	1,128	3.5
Freight forwarding and shipping agency	2,431	11.6	2,830	10.9	3,642	11.3
Total turnover	20,926	100.0	25,853	100.0	32,189	100.0

Selected Financial Ratios

	Year ended 31 st December		
	2002	2003	2004
Gross profit margin	5.09%	14.68%	19.99%
Operating profit margin	-	10.52%	15.61%
Net profit margin	-	6.74%	12.92%
Return on average shareholders' equity	-	137.0%	88.5%
Return on average asset	-	6.8%	15.7%
Net debt/equity ratio	322%	225%	97%
Gearing ratio	62%	61%	40%

**Strengths/Opportunities**

- ✓ The Group is the top container shipping liner in China, while its 52.2%-owned subsidiary COSCO Pacific (HKEx: 1199) is also one of the leading port operators and container leasers in the world. Leveraging with this well-established logistics platform, the Group should be well positioned to grasp business opportunities arising from China's fast -growing economy as well as rising international trade upon joining the WTO.
- ✓ In 2004, container throughput in the mainland reached 61.6 million TEUs, accounting for 17.3% of the world's total and ranking the first in the world.
- ✓ The Group is not only engaged in the provision of container shipping services, it also provides container leasing, freight forwarding and shipping agency services and operates major container terminals in the mainland. With capabilities in providing integrated or "one-stop" services, the Group should be competent in winning business from rivals.
- ✓ With its market capitalisation of some HK\$30 billion, there are high chance for China COSCO to be included in the Hang Seng China Enterprises Index (HSCEI) or H-share index in near term.

Weaknesses/Threats

- × Container shipping industry is cyclical. Demand for shipping services may vary from years to years. Some market watchers said the global shipping industry may have reached a peak, citing a drop in freight rates. As of 14th June 2005, the Baltic Exchange Dry Index, an index of rates for global dry bulk carriers, and the Baltic Exchange Panamax Index, an index of rates for global grain & mineral freighter, have dropped more than 50% from their peaks set in 4Q2004. However, the chairman and CEO of China COSCO insisted that the cycle is still in an uptrend, given strong economic growth in China.
- × The WTO entry of China may bring business opportunities in the shipping industry, but it would also trigger trade dispute between major trade partners. For instance, the strong growth of textile imports from the mainland has raised concerns in both the US and the EU. Trade restrictions and sanctions caused by such dispute may hinder the demand for container shipping services and hurt the growth prospect of the industry.
- × China COSCO is going to price its shares at 6.7x - 9.1x FY2005E P/E, which would be at a premium to its peers like China Shipping Container Line (CSCL) (HKEx: 2866) and Orient Overseas (International) (OOIL) (HKEx: 0316), which are trading at 4x and 3.6x FY2005E P/E respectively. According to sponsors, China COSCO's shipping business would be priced at 3x - 6x forward P/E, if its 52.2% owned COSCO Pacific (HKEx: 1199) is excluded from the valuations. Nevertheless, the valuation would remain at a slight premium to its peers.

Recommendation: ***Trading Buy (any orders for the placement shares shall be limited to the price at the lower end of the price range)***