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HONG KONG RESEARCH**4th June 2004****Analyst: Vincent Leung****Main-Board H-share Listing - Research**

中海集裝箱運輸股份有限公司

China Shipping Container Lines Company Limited [Stock Code: 2866]

Sole Global Coordinator & Sole Sponsor : BNP Paribas Peregrine
Joint Bookrunners & Joint Lead Managers : BNP Paribas Peregrine Morgan Stanley
Sector : Transportation
Business : Operation and management of container-shipping businesses

<p>Total share offer: <u>2,420,000,000</u> shares (40.13% of the enlarged share capital)</p> <p>IPO: 121,000,000 shares (5%) Placing: *2,299,000,000 shares (95%) - 2,079,000,000 new shares - 220,000,000 sale shares</p> <p>Greenshoe: 363,000,000 shares</p>	<p><u>Business of China Shipping Container Lines</u></p> <p>Founded in August 1997, China Shipping Container Lines (CSCL) is principally engaged in the operation and management of international and Chinese domestic container-shipping businesses. The Company is the sister company of China Shipping Development (Stock code 1138), which is principally engaged in the transportation of bulk cargo and oil.</p> <p>Currently, the Company operates 113 vessels (35 self-owned and 78 chartered) and provides international shipping services along 44 trade lanes. Its total operating capacity amounts to 215,691 TEUs, making it the world's 10th-largest container-shipping operator. CSCL has placed orders for a further 24 vessels and agreed to charter another 13 (to be delivered during 2004-2007) so as to increase its fleet size to 144 vessels with its total capacity to be boosted to about 434,000 TEUs by the end of 2007,</p> <p>The Company focuses on the international container-shipping business, which accounted for about 90% of its total revenue in 2003, while domestic Chinese container shipping represented about 6.8%.</p>
<p>Price: HK\$3.175 – HK\$4.175 per share H-share Market Cap.: HK\$7.7 bln – HK\$10.1 bln Forecast FY2004 P/E: 6.5x-8.5x (fully-diluted) Adjusted NTA per share: HK\$1.61-1.96 (before the over-allotment option is exercised) Staffing: 2,785</p>	
<p>Book opens: 24th May 2004 Book closes: 9th June 2004 IPO commences: 4th June 2004 IPO ends: 9th June 2004</p> <p>Receiving banks: Standard Chartered Bank, Bank of China (Hong Kong), Hang Seng Bank</p> <p>Share registrar: Computershare Hong Kong Investor Services Ltd</p> <p>Listing date: 16th June 2004</p>	

**Hutchison Whampoa (Stock code: 0013), Cheung Kong (Holdings) (Stock code: 0001) and Chow Tai Fook Enterprises have agreed to subscribe an aggregate of 17.59% of the total offered shares (or 18.52% of the placing shares) as part of the Placing, assuming the over-allotment option is not exercised and an assumed offer price of HK\$3.675 per H share. These shareholders will be subject to a 6-month lock-up period after the listing of CSCL shares.*

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

1. China Shipping (Group) Company	59.867%
2. Hutchison Whampoa Limited <i>10.52% of the placing shares (241,758,000 shares) or 9.99% of the total issued H-share capital</i>	4.009%
3. Cheung Kong (Holdings) Limited <i>5.26% of the placing shares (120,879,000 shares) or 4.995% of the total issued H-share capital</i>	2.005%
4. Chow Tai Fook Enterprises Limited <i>Approximately 2.74% of the placing shares (some 63 million shares) or some 2.6% of the total issued H-share capital</i>	1.045%
	<u>66.926%</u>

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$6,741.4 million-HK\$8,886.1 million.
(Assuming the over-allotment option is not exercised)

	HK\$ million
To acquire vessels	2,358
To acquire containers	472
To be injected into the Company's 50%-owned Shanghai Puhai Maritime Transport as additional capital to strengthen the Company's shipping capability	472
To repay part of its outstanding bank loans	2,830
To serve as the Company's general working capital	balance

Financial Highlights

	Year ended 31 st December		
	2003 RMB million	2002 RMB million	2001 RMB million
Turnover			
Container liner (see Note)	15,042	10,387	7,648
Chartering	234	135	147
	<u>15,276</u>	<u>10,522</u>	<u>7,795</u>
Operating profit/(loss)	<u>1,859</u>	<u>(226)</u>	<u>(1,081)</u>
Net profit/(loss)	<u>1,383</u>	<u>(597)</u>	<u>(1,338)</u>
Dividend	-	-	-
Earnings/(Loss) per share	<u>RMB0.46</u>	<u>(RMB0.32)</u>	<u>(RMB0.74)</u>

Note: Geographical breakdown of the container-liner turnover:

	Year ended 31 st December					
	2003		2002		2001	
	RMB 'million	%	RMB 'million	%	RMB 'million	%
North America	6,801	45.2	5,291	50.9	2,742	35.9
Europe/Mediterranean	4,726	31.4	1,689	16.3	1,911	25.0
Australia	712	4.7	419	4.0	390	5.1
East and Southeast Asia	1,231	8.2	1,438	13.9	1,394	18.2
Other international markets	539	3.6	560	5.4	338	4.4
Domestic market	<u>1,033</u>	<u>6.9</u>	<u>990</u>	<u>9.5</u>	<u>873</u>	<u>11.4</u>
Total	<u>15,042</u>	<u>100.0</u>	<u>10,387</u>	<u>100.0</u>	<u>7,648</u>	<u>100.0</u>



Strengths/Opportunities

- ✓ Since its inception in 1997, CSCL has grown to become the world's 10th-largest container-shipping operator by capacity, while it is ranked China's No. 2, just behind COSCO Container Lines.
- ✓ Given its plan to increase its fleet size to 143 vessels and total capacity to about 434,000 TEUs by 2007, the Company is currently on the high growth stage. In fact, the Company targets to become one of the world's top 3 container-shipping operators by 2010.
- ✓ The Company should be able to benefit from the worldwide ports-throughput growth in 2004 and 2005, which are estimated at annual growth rates of approximately 9.3% and 7.6% respectively.
- ✓ CSCL can be classified as a low-cost carrier, with operating- and net-profit margins of 12.2% and 9.1% respectively for FY2003, versus the average of 7.3% and 3.5% respectively for the regional mainline container-shipping companies.
- ✓ The Company intends to distribute about 25% of its net profit as dividends, translating to an estimated FY2004 dividend yield of 2.9%-3.9%.

Weaknesses/Threats

- × The international container-shipping industry, from which over 90% of CSCL's turnover is derived, is highly competitive with more than 450 carriers operating worldwide.
- × The Company has a weak balance sheet, with net debts of RMB6.45 billion and a net debt-to-equity ratio of 178% at the end of 2003. Although proceeds from the IPO should help reduce the gearing ratio, the Company has budgeted capital expenditure of some RMB8.0 billion and RMB7.5 billion for 2004 and 2005 respectively. It will be inevitable that it will incur new debts to finance its operations, and the gearing of the Company should remain high.
- × The financial performance of the container-shipping industry has been historically cyclical, with volatility in profitability resulting from the fluctuation of the freight rates. In fact, the cyclical nature of the industry was one of the major contributing factors to its operating losses in certain years since its establishment in 1997 (except in 2000 and 2003).
- × Medium-term profitability of the Company would be overcast by the high oil prices as marine fuel cost accounted for about 13.7% and 15.7% of its total operating costs in 2002 and 2003 respectively.
- × Shares of CSCL being offered are valued at a forecast FY2004E P/E of 6.5x-8.5x on a fully-diluted basis. Valuation of CSCL seems not very attractive when compared with its regional peers' average FY2004E P/E of some of 6.7x.

Recommendation: Trading Buy