



MANAGING DIRECTOR'S REPORT

We are pleased to announce that COSCO International Holdings Limited (the "Company") and its subsidiaries (the "Group") achieved operating profit amounted to HK\$26,065,000 in the first half of 2003 despite the sluggish global economy and the outbreak of atypical pneumonia.

During the period, the Group achieved steady growth by positioning itself in properties and actively exploring the business opportunities of ship trading and supplying services. During the period, the Group acquired 20% equity interests in a property development and investment company, COSCO Real Estate Development Co., Ltd. ("CRED"). In addition, the Group successfully bid for a piece of land situated at Beita Xin Cun, Shenyang which will be developed into a mid to high class residential area, COSCO Yihe Garden. Thereafter, the Group will keep its efforts to explore more lucrative projects relating to the core businesses of China Ocean Shipping (Group) Company ("COSCO"), striving to become a major conglomerate of COSCO.

Properties

Owing to the adverse impact of the conflict between the United States and Iraq as well as the outbreak of atypical pneumonia, local economy remained uncertain. Declining office rents and occupancy rate of grade-A commercial office, with completion of new commercial buildings in the same district, further intensified the market competition. Despite all these, eight storeys in COSCO Tower owned by the Group recorded an occupancy rate of over 97% during the period under review, providing the Group with stable income.

Basically all units of Phase I of Fragrant Garden in Shanghai Hongkou District developed by the Group were sold out and delivered. Pre-sale of Phase II was launched as scheduled. As at the end of June 2003, over 40% of the units were either subscribed or sold. Construction of Phase II was in good progress and expected to complete by the end of second quarter in 2004.

In early 2003, the Group announced the acquisition of 20% of the enlarged share capital of CRED. The transaction had already completed in July 2003. The Group also announced to sell its entire 49% equity interests in Beijing Tian Lin Property Development Co., Ltd. to



Yuan Kun Property Development Co., a subsidiary of CRED, which will be completed by end of the third quarter in 2003.

In order to further capture the China Mainland's property market, the Company entered into an agreement with Guangzhou Yihe Investment & Development Co., Ltd. and COSCO Guangzhou Construction Industry Company, a subsidiary of COSCO, to establish a sino-foreign equity joint venture, Shenyang COSCO Yihe Property Development Co., Ltd. ("Shenyang COSCO Yihe") on 12th June 2003. The transaction was approved at the special general meeting held on 22nd July 2003 and completed on the same day. Shenyang COSCO Yihe was formally established on 16th July 2003. It will develop a residential estate namely "COSCO Yihe Garden", at the site situated within the inner ring of Shenyang City with a total area of 72,600 square meters in the Yu Hung District, Shenyang. The gross floor area is 200,000 square meters. The whole project is expected to complete in two phases within three and a half years. Pre-sale of Phase I is expected to be launched at the earliest in 2004.

Ship Trading and Supplying Services

After becoming one of the subsidiaries of the Group on 1st July 2002, COSCO International Ship Trading Company Limited ("COSCO Ship Trading") has been one of the main sources of profit driver for the Group. As one of the largest professional shipbrokers and providers of commercial and technical consulting services in Hong Kong, the principal activities of COSCO Ship Trading include sale and purchase of new and second-hand vessels (including scrap vessels), bareboat charter, marine equipments for new shipbuilding projects and provision of consulting services in ship techniques, business and trade, shipping market analysis, ship valuation and finance. During the period, COSCO Ship Trading achieved satisfactory results, realising profits before taxation of approximately HK\$17,140,000.

During the period, COSCO Ship Trading not only improved the quality of human resources by offering more staff training, but also enhanced the development of information system by upgrading the operation interface for its new vessel database and interface for its statistics and output functions. It intends to develop an information platform on which an electronic networking system with a centralised database will be established.



Building Construction

During the period, the Government of HKSAR announced to further suspend building flats under Home Ownership Scheme. In view of the reduction in building public housing estates, the number of government projects will remain at a relatively low level in the foreseeable future. In addition, private property market has not yet revived and only few private construction projects were contracted out during the period. In response to fierce market competition, Shun Shing Construction & Engineering Company, Limited ("SSCE"), a wholly owned subsidiary of the Group, actively tendered for a number of maintenance and improvement works in private and public sectors during the period. By bidding for projects including construction, maintenance and improvement works in both private and public sectors, SSCE strive to diversify its contracted works to provide clients with "one-stop" construction and engineering services, maintaining stable income amongst the poor economic environment.

During the period, SSCE strengthened its control over construction cost, construction quality and works progress, and strictly implemented the safety measures. Our senior management had regular on-site inspections to construction sites during the period and set up safety guidelines for all frontline foremen and site workers to follow. With a view to familiarising its workers with safety measures, SSCE also carried out fire drills and strong wind precautions. In addition, SSCE implemented Occupational Health and Safety Management System and obtained OHSAS 18001 certification issued by Hong Kong Quality Assurance Agency in early 2003, evidencing that SSCE attained international recognition in this aspect. During the period, SSCE improved its communication with subcontractors, ensuring the working schedule, construction quality and safety management were up to standard.

The Sky Tower, a large residential project located at To Kwa Wan, the first move of SSCE to the private property development market, is scheduled to complete in early 2004. The whole project with a gross floor area of 173,075 square meters had a contract value of HK\$867,000,000.

Infrastructure

During the period, Henan Xinzongyi Electric Power Co., Ltd ("Henan Power Plant") adopted a series of management measures in order to strengthen its control and



monitoring over the operation of power plant. With the rapid development of macro economy and the persistently hot weather in the China Mainland during the first half of 2003, electricity supply was under pressure and a number of power plants had to restrict the supply during peak hours. The Central Government therefore introduced a reform policy on power supply system, regulating the operation of the power market. The reform also proposed to separate the operation of power grids from power plants, and stressed the awareness of safety management. Coupled with the changes in the operating environment induced by the reform, Henan Power Plant will continue its efforts in cost control and strive for more saleable power rationing. It will also seek the opportunities to implement "self-run, self-regulated" management measures so as to enhance the overall management standard. The Group is confident that with its continuous improvement in management, in depth research and analysis, together with its flexible contingency plan, profit contributions from Henan Power Plant to the Group can be sustained.

Future Outlook

Looking ahead, the Group will continue to develop and consolidate its existing businesses. The Group will seek to invest any business with promising prospects and related to the core businesses of COSCO.

Most of the tenancy agreements in COSCO Tower will be expired by the end of 2003, reflecting that the current rental market has little impact on the rental income of the Group for the year ending 2003. The Company will keep a close eye on the latest development of the rental market and initiate negotiation of tenancy renewal with existing tenants for a stable rental income for the Group.

According to the latest market research, the economy of the China Mainland is thriving rapidly with a robust growth rate between 6.5% and 7% in the second quarter. In relation to the property market, the Central Government promulgated new laws and regulations monitoring individual loan credits in mid 2003. The property market is expected to sustain solid growth after self-adjustment and elimination of competitors with poor performance. With the accession of China into World Trade Organization, Beijing's 2008 Olympic Games and 2010 World Expo to be held in Shanghai, these factors are favorable to further fuel the economic development in China. Besides, the Closer Economic Partnership Arrangement signed by the Central Government and the Government of



HKSAR will boost the flow of human resources and goods across the border. In the long run, economic growth in Hong Kong and the China Mainland is anticipated and the demand for houses is increasing. The Group will tap every chance and make well preparation so as to position property development as one of its principal businesses.

As to the ship trading and supplying services sector, market demand for new vessels and shipbuilding projects is expected to increase steadily. Apart from performing as a window company of COSCO in ship trading business and as a sole shipping agent of the COSCO group, the Group will actively explore non-COSCO businesses to add growth to profits and achieve better economic efficiency. In addition, the Group had been actively studied the possibility of developing paint business, which is related to the core businesses of COSCO. On 14th August 2003, the Company announced the acquisition of 34.19% equity interests in Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. respectively, and 10% equity interests in International Paint of Shanghai Co., Ltd. at a total consideration of RMB75,980,000. As the respective vendors, COSCO Industry Company Ltd. and Shen-John Investment Company L.L.C. are subsidiaries of COSCO, a special general meeting will be convened on 23rd September 2003 to seek approval of independent shareholders of the Company. It is expected that the Company will further develop business in ship trading and supplying services sector through the integration of paint business within the COSCO group.

CONCLUSION

In tandem with its emphasis on profitability, market awareness, quality services, solid management and team spirit, the Group will continue to strive for improved results in the second half of the year, standing ready to overcome any difficulties that may arise.

On behalf of the board of directors (the "Board") of the Company, I would like to express my most sincere gratitude to our business partners, bankers, clients, suppliers and shareholders for their unfailing support and trust. Appreciation is also due to our dedicated staff for their commitment and hard work.

By the order of the Board

LIU Hanbo

Managing Director

Hong Kong, 4th September 2003