



Chairman's Statement



- COSCO International persisted in their efforts to thoroughly implement the strategies set out in early 2002 of focusing on the development of ship trading and supplying services and strengthened the property development in China Mainland which formed major direction of COSCO International in 2003. Based on the present corporate positioning, COSCO International shall grasp the opportunities and push the business step forward.
- The Company aims to become a specialist niche quality stock in Hong Kong and these strategies include:
 - actively strengthening its ship trading and supplying services and expanding the scope of ship trading and supplying services, such as ship relevant insurance, ship spares and accessories, as well as other ship trading and supplying services related businesses, so as to develop the “COSCO ship trading and supplying services” brand;
 - striving to become a leading enterprise in the paint industry by establishing the COSCO paint business platform, seeking technical partners and utilising synergies to help further develop paint business;
 - consolidating its core businesses in property development through enhancement in project management to ensure project progress meet with schedules, boosting up sales effort and looking for high margins projects to enhance the income base; and
 - consolidating its existing infrastructure business and seeking new projects to gain benefits.



COSCO International maintained its efforts to thoroughly implement the strategies set out in early 2002 of focusing on the development of ship trading and supplying services and strengthening the property development in China Mainland which formed its major direction in 2003. During the year, the Company completed a series of acquisitions on one hand and strengthened the management of existing projects on the other, thus optimising its business structure. It was very encouraging to see significant improvements in the overall asset quality of COSCO International during the year, which set a milestone for the future prosperity.

Restructuring for Betterment of Asset Quality

To enhance the quality of its assets and to develop a clearer development direction, during the year COSCO International disposed of its entire interests in its non-core businesses in Ark Pioneer Microelectronics (Shenzhen) Limited and COSCO Network Limited. Besides, in these few years COSCO International and its subsidiaries have been dealing with those issues left since the 1997 Asian financial crises as well as other historical issues. Taken reference to the advice of the professional valuers and the circumstances of this year, the Company and its subsidiaries made further provisions for certain businesses. Today, with the revived macroeconomy and the past operational achievements of COSCO International, we are optimistic to say that if there are no adverse changes in the economic situation, COSCO International had gone through the most difficult period. The overall quality of the assets of the Company has been properly adjusted and improved after years of hard work. It is expected that the operating performance of the above efforts will be fully reflected in the 2004 financial statements.

In accordance with the statutory requirements, the Company is not permitted to pay dividends to the shareholders while there are accumulated losses. With a view to dealing with the appropriation of distributable profits and after taking business progress into account to recommend dividend payment as and when it is appropriate to do so, which in turn will bring genuine returns to shareholders, the board of directors of the Company (the "Board") has proposed to apply part of the amount standing to the credit of the share premium account of the Company as at 31st December 2003 to offset its entire accumulated losses and to transfer the remaining credit of the share premium account to its contributed surplus account and to have the shareholders' funds adjusted once for all to show our determination to turn over a new leaf. The transaction would also increase our capabilities in negotiation





for new investment targets so as to arouse the investors' and the institutional investors' interest in investing in the Company.

The mere offsetting the accumulated losses cannot completely solve the problem. Rather, we shall rely on our quality businesses to upgrade the overall performance of the Company. As such, COSCO International shall further develop ship trading and supplying services businesses and consolidate our property development business in China Mainland. With appropriate adjustment made to the structure of shareholders' funds, the quality assets coupled with the rapid development of core businesses, the Company is confident that the long-term future will be bright.

Ship Trading and Supplying Services Bringing in Fruitful Results

With the support from its ultimate parent company, China Ocean Shipping (Group) Company ("COSCO"), who has a competitive edge in the shipping businesses, the Company is well placed to develop ship trading and supplying services businesses. The ship trading and supplying services industry refers to the provision of the services and trades related to the ship industry. They include ship trading, bareboat charter, ship relevant insurance, as well as ship spares and accessories supply and paint supply services. The scope of this industry is very wide and the demand is huge. Taking paint industry as an example — at present the demand in China has reached 2.2 million tones per annum, and is increasing at an annual rate of 6%. In view of the abundant room of business opportunities and good prospect for ship trading and supplying services, the Company aims at promptly entering as well as broadening its market share in the relevant industry.

Steady Progress in Property Development

Apart from developing the ship trading and supplying services sector, COSCO International has also been actively consolidating its business in property development in China Mainland. During the year under review, certain wholly owned subsidiaries of the Company explored property development in Shenyang and completed the acquisition of a 20% of the enlarged registered capital in COSCO Real Estate Company Limited (“CRED”). COSCO International will actively seek property development projects with reasonable profit margin to enhance its profitability in 2004.

Towards a Brighter Future in View of the Recovering Economy

Looking ahead in 2004, the external business environment is expected to improve following a particular gloomy year. According to the latest forecast released by the International Monetary Fund, the world economy will recover and the growth rate will be 4.6% for the world and 8.5% for China. The Hong Kong SAR government in its latest budget forecast an economy growth rate of 6% for Hong Kong in 2004. It is generally expected that all industries in China will perform well with the economy. Based on the present corporate positioning, the Company shall grasp the opportunities and push the business step forward.

Strategies for Attaining Higher Profitability

Leveraging on its unique business development advantages and the support of the parent company COSCO, COSCO International aims to become a specialist niche quality stock in Hong Kong. To achieve this, the Company will adopt a series of strategies to enhance its competitiveness and improve its results while exploring new investment projects and opportunities to improve the quality of its assets. These strategies include:

- actively strengthening its ship trading and supplying services and expanding the scope of ship trading and supplying services, such as ship relevant insurance, ship spares and accessories, as well as other ship trading and supplying services related businesses, so as to develop the “COSCO ship trading and supplying services” brand;
- striving to become a leading enterprise in the paint industry by establishing the COSCO paint business platform, seeking technical partners and utilising synergies to help further develop paint business;
- consolidating its core businesses in property development through enhancement in project management to ensure project progress meeting with schedules, boosting up sales effort and looking for high margins projects to enhance the income base; and
- consolidating its existing infrastructure business and seeking new projects to gain benefits.

Adhering to Guiding Principles to Accomplish Objectives

In line with the overall guiding principles of COSCO, the Company will pursue the development strategy of “one principal (transportation), two cores (shipping and logistics), and five pillars (trading, industry, finance, information technology and listed companies)”, aiming to become an efficient and quality enterprise with the following business objectives:

- To create benefits and to provide substantial and continuing returns for shareholders;

- To raise the level of corporate governance and develop a strong corporate culture with high transparency and accountability to protect the interests of shareholders;
- To strengthen financial and risk management and to actively control costs in order to maintain its competitiveness in the capital market;
- To perfect its internal control systems to enhance operational efficiencies; and
- To enhance the productivity of staff and build up a management team that is capable, professional, rich in initiatives, intelligent, committed, united and responsible.

Conclusion

Finally, on behalf of the Board, I would like to express our heartfelt thanks to the Company's entire staff for their efforts and hard work during the year. I hope they will continue to work hard to strive for the greatest benefits for the shareholders. In addition, I would like to express our gratitude to the Company's customers, business partners, banks, suppliers, advisors and shareholders for their unfailing support and trust towards COSCO International. Looking forward, we will continue to make every effort to bring in the best possible results to reward our shareholders.

WEI Jiafu

Chairman

Beijing, 16th April 2004



COSCO
International