





Vice-Chairman's Statement

- COSCO International and its subsidiaries recorded a turnover of HK\$940 million, representing an increase of 61% as compared to that of the previous year. The surge in turnover was mainly attributable to revenues generated from construction contracts, sales of Shanghai Fragrant Garden and income from ship trading and supplying services. Among this, income from ship trading reached HK\$41.75 million, an increase of 172% as compared to that of the previous year. Sales revenue from Shanghai Fragrant Garden was HK\$216 million, an increase of 22%.

Operating profit before other charges for the year was doubled to HK\$62.53 million when compared to the previous year, due to the profit contribution from ship trading and supplying services and property development and investment. COSCO International made significant improvements in its financial position in 2003, as compared to that in 2002. This demonstrates that COSCO International has been making steady growth.

- In order to solve the consequence accruing from the presence of accumulated losses of the Company, to get rid of the historical burden and to generate returns to its shareholders more flexibly, and in accordance with the relevant rules and regulations, the Board put forward a proposal to apply its share premium amounting to HK\$2.357 billion to offset its accumulated losses and to transfer the remaining balance to the contributed surplus account. Upon shareholders' approval of this proposal, the Board will be in a flexible manner to deal with the retained distributable profits and to recommend the distribution of dividends according to its business performance. With past few years' effort, the asset quality of COSCO International has remarkably improved. It is expected that the performance from respective businesses will be reflected in 2004 and its target on maximising returns to shareholders can be achieved.



I hereby report COSCO International's annual results for the financial year ended 31st December 2003. COSCO International and its subsidiaries recorded a turnover of HK\$940 million, representing an increase of 61% as compared to that of the previous year. The surge in turnover was mainly attributable to revenues generated from construction contracts, sales of Shanghai Fragrant Garden and income from ship trading and supplying services. Among this, income from ship trading reached HK\$41.75 million, an increase of 172% as compared to that of the previous year. Sales revenue from Shanghai Fragrant Garden was HK\$216 million, an increase of 22%. Operating profit for the year was doubled to HK\$62.53 million when compared to the previous year, due to the profit contribution from ship trading and supplying services and property development.

With reference to the advice of professional valuers and circumstances of this year, the Group made provisions of HK\$136 million on certain of its businesses. Among them include loss arising from the revaluation deficit of investment properties, provision for completed properties held for sale, provision for diminution in value of investment in security, provision for claims on certain construction contracts and an impairment loss on fixed assets. Excluding these provisions due to historical burdens, COSCO International made significant improvement in its financial position in 2003, as compared to that in 2002. For instance, cash in hand amounted to HK\$555 million, 14% higher than the same period in the previous year. Deducting the HK\$110 million cash payment for acquiring Shanghai Kansai and Tianjin Kansai in early 2004, and adding in the US\$45 million non-guaranteed bank loan facility signed in early 2004 and the existing bank loan facility, COSCO International and its subsidiaries' available cash and unused bank loans facilities amounted to HK\$900 million, 40% of its total assets, 4% less than that of 44% in 2002. This demonstrates that COSCO International has been making steady growth.

Due to market operating conditions and lots of historical factors, COSCO International accumulated losses of HK\$1.67 billion as at 31st December 2003. In order to solve the consequences accruing from the presence of accumulated losses, to get rid of historical burden and to generate returns to its shareholders more flexibly, and in accordance with the relevant rules and regulations, the Board put forward a proposal to apply its share premium amounting to HK\$2.357 billion to offset its accumulated losses and to transfer the remaining balance to the contributed surplus account. Upon shareholders' approval of this proposal, the Board will be in a flexible manner to deal with the retained distributable profits and to recommend the distribution of dividends according to its business performance. With the past few years' effort, the asset quality of COSCO International has remarkably improved. It is expected that the performance from respective businesses will be reflected in 2004 and its target on maximising returns to shareholders can be achieved.



After the meeting, the Board does not recommend the distribution of a final dividend for the year ended 31st December 2003 (2002: nil).

Business Review

COSCO International had achieved remarkable results in expanding its business grounds in 2003, with over 61% increase in turnover. Having announced its completely new business positioning in the beginning of 2002 — exploring into the ship trading and supplying services business and strengthening its property business development, COSCO International has been progressing to the directions of these two business areas. COSCO International had made great effort in carrying out several acquisitions of new projects and consolidating its existing businesses in 2003.

Properties

During the year, the Hong Kong property market had not yet fully recovered. The SARS outbreak in the first half of 2003 dampened the economy and the office rental market likewise was affected, resulting in a decline in rental rate of grade-A commercial buildings. Despite these difficulties, COSCO International was able to maintain the 100% occupancy rate of COSCO Tower. During the year, the tenancy agreements for the five storeys of COSCO Tower let to COSCO Hong Kong Group were due. With the support of companies under the umbrella of COSCO Hong Kong Group, COSCO International's subsidiaries successfully signed 11 new tenancies with nine companies of COSCO Hong Kong Group. The majority of the rental rate under these new tenancies are more favourable than the market rate and are expected to bring in an aggregate rental income of over HK\$87 million in the following three years.

The overall property market in China Mainland continues to flourish, with the industry index of Shanghai and Beijing property markets rising substantially as compared to the previous year. The residential project in Shanghai, Fragrant Garden Phase II, commenced sales in April 2003. Over 410 units had been sold at the end of the year. The Phase I and II of this residential project have a cash inflow totalling RMB800 million for COSCO International and its subsidiaries, as at 31st December 2003.



On the other hand, to enhance and consolidate our strategic position in the property industry, one of COSCO International's wholly owned subsidiaries acquired the rights of a development project located at Beita Xin Cun, Yu Hung District, Shenyang in mid June 2003. The project is developing by Shenyang COSCO, one of COSCO International's subsidiaries. The site is situated within the inner ring of Shenyang City with a gross area of 200,000 square meters. The entire project, requiring a total project investment of approximately RMB590 million, is expected to be completed in two phases within a period of three and a half year. The pre-sale is expected to launch in the second quarter of 2004 at the earliest. Currently, the Shenyang Municipal government is in the process of city planning and reforming the census registration system, which has stimulated the demand for properties. COSCO International believes that substantial returns will be generated from this new development project.

In late January, 2003, COSCO International announced to acquire 20% of enlarged registered capital of CRED and was ranked as one of its largest shareholders with COSCO and China National Chemicals Import and Export Corporation. After the acquisition, COSCO International will co-manage and cooperate with other shareholders on CRED's projects. CRED currently has a land reserve including Ocean Yuquan Garden, project situated on the west of Changan Avenue namely Kai Xuan Square, construction of infrastructure in CBD and interests in other properties in Beijing.

Ship Trading and Supplying Services

In 2003, the global shipping market performed satisfactorily, stimulating an increased demand for vessels and a rapid growth in the new and second-hand vessels market. As at 31st December 2003, vessels successfully traded under COSCO International Ship Trading Company Limited ("COSCO Ship Trading") during the year were 3.72 million tonnes, a rise of 154.8% as compared to the previous year. Being the sole window company under COSCO that provides COSCO's vessels with ship trading and agency services, COSCO Ship Trading offers a full spectrum of services including the trading of new and second-hand vessels, the bareboat charter business, the trading of marine equipment for new shipbuilding projects and the provision of consultancy services in shipping technologies, business and trade, professional consultancy services on market analysis, ship valuations and financing. During the year, COSCO Ship Trading had successfully assisted in three bareboat charter of 5,600TEU super-panamax container vessels and assisted the ship owner in the manufacture of two 175,000 tonnes Capesizes.

To enlarge the market share in ship trading business, COSCO Ship Trading actively developed the non-COSCO ship trading business and successfully obtained certain business volume every year. During 2003 in review, COSCO Ship Trading successfully traded seven non-COSCO second-hand





vessels and scrap boats, with profit contribution from non-COSCO ship trading businesses being increased to 10%.

Due to the great and steady demand for paints like vessel paint and container paint within COSCO Group, COSCO International entered into conditional agreements with COSCO's subsidiaries to acquire an aggregate 63.07% equity interest in each of Shanghai Kansai and Tianjin Kansai in mid August and late November 2003 respectively and 10% equity interest in Shanghai International. Shanghai Kansai and Tianjin Kansai reported satisfactory results in 2003 with an aggregate turnover and profit before tax amounted to HK\$610 million and HK\$80 million respectively. Riding on the current development of the country and COSCO International's running on holistic management, contribution from these acquisitions will be reflected in the 2004 financial statements of COSCO International as a new engine of profit growth. Through the construction of the COSCO paint business platform, they will bring in long-term and steady income for COSCO International and its subsidiaries.

Infrastructure

Looking back 2003, Henan XZY made persistent efforts to implement capital management strategies, prudent budgetary control and independent financial management measures, to pursue continuous corporate development and to put emphasis on the importance of safety management, with an aim to strike a balance between stable development and efficiency of profitability. On 1st October 2003, Henan XZY took over the entire financial management of its plant to strengthen cost control and enhance profitability. The operations of Henan Power Plant improved significantly and successfully achieved the key economic and technical objectives as set out in the beginning of the year. On the whole, Henan Power Plant was in a good operating condition. Compared to the previous year, its power supply increased by 2% to reach 2,200,000,000kWh and sales revenue was up 2.2% to RMB498 million. Profit before taxation amounted to RMB100 million while profit attributable to shareholders of Henan Power Plant was RMB81.03 million, an increase of 16% as compared to the previous year.

Building Construction

SSCE constructed "The Sky Tower", a large residential project located at To Kwa Wan, for well known developers in Hong Kong. The project occupies 14,180 square meters with a gross floor area of 173,075 square meters. The whole project is scheduled to be completed in 2004.

During the year, SSCE secured a number of school improvement projects from the Architectural Services Department. These were extension works for six schools in the New Territories, which were all completed in the third quarter of 2003. Additionally, SSCE also procured repairs and maintenance service contracts for vacant units in Shun On Estate, Lei Yu Mun Estate Phase I and

Ngau Tau Kok Upper Village Phase I from the Hong Kong Housing Authority. These projects are scheduled for completion by the end of 2004.

In conclusion, SSCE was still affected by the slump of the construction market and the challenges resulted from the government's policy on stabilising the property market in the past year. Under this difficult business environment, SSCE will strive to enhance its monitoring in projects, strengthen its management and cost control measures.

Corporate Governance

COSCO International strongly believes that a good corporate governance will bring a positive influence to corporate economic efficiencies as a whole. With reference to international best practices and applicable rules of the Stock Exchange, our principle is to maximise shareholders' value. The Board is responsible for formulating visionary and constructive strategies and monitoring the performance of the senior management. The Audit Committee, taking the role in assisting the Board, approves important accounting policies and reviews the financial statements of COSCO International and its subsidiaries. To enhance corporate transparency, COSCO International also makes use of various channels such as press releases and press announcements to ensure the timely and accurate disclosure of information in relation to major events and connected transactions in accordance with the requirements of applicable laws and the Listing Rules. All information mentioned above is open to access to all shareholders and the public at COSCO International's website and COSCO Hong Kong's website for our latest development. A special team has been set up to handle enquiries from investors and media about COSCO International.

Human Resources Management

COSCO International has always placed a strong emphasis on fostering a positive corporate culture and enhancing staff quality to maximise performance of its staff at all levels. As such, every staff receives a copy of the Staff Handbook ("The Handbook"), which provides guidance to employees on employee dealings, ethical standards, code of business conduct and code of conduct for employees. The Handbook applies to all employees and they have to ensure strict compliance with the rules stated therein.

Through the establishment of a performance charter for COSCO International's senior executives, appropriate appraisal mechanisms and the setting up of share option scheme, COSCO International has been able to align the interests of its senior management and the entire staff with its growth and performance, thus providing appropriate incentives to its senior management and the staff and attracting and retaining the key executives. COSCO International also focused on the establishment of an optimal corporate culture. With the full support of its senior management, COSCO





International established a corporate culture that is in compliance with the Listing Rules and that is considered appropriate to its characters by identification, design and implementation, thereby ensuring that effective human resources management is maintained at all levels.

Future Prospects

Properties

The implementation of the articles in the Closer Economic Partnership Arrangement and the admission of tourists from China Mainland to enter the ambit of the HKSAR without restriction, are expected to bring in more business opportunities. COSCO International believes that the office rental market will gradually revive, which will result in an upsurge in rents. COSCO International will keep abreast of market trends by conducting market surveys and research. It will strive to attract more tenants, aiming to maintain a 90% occupancy rate in COSCO Tower which will bring stable income for COSCO International and its subsidiaries.

As the fixed asset investments in China Mainland reached RMB560 billion in 2003, energy supply, transportation and power industries were buoyed accordingly. The Central Government is thus imposing stringent controls on these industries by issuing the No. 18 policy document which provides guidelines that the rapid, persistent and healthy growth of the property market should be made at a pace within the range from 20% to 30%. Currently, property investment accounts for 20% to 23% of national fixed asset investment, showing that China Mainland's property market is still in a healthy condition in terms of quantity, scale and prices. COSCO International will closely monitor the project progress by improving its management system, and will capture opportunities to boost up sales of its property projects in Beijing, Shanghai and Shenyang. COSCO International will also explore new property projects whenever opportunities arise for stable and reasonable returns.

Ship Trading and Supplying Services

With the recovery of world economy, prospects for the shipping industry are optimistic. Orders from Korea, Japan and China for new ship buildings have been fully booked till early 2007. Prices for new ship buildings will continue to go up and remain at a high level. The price index of vessels will differentiate with reference to the vessel's types and sizes.

In the second-hand vessel market, the prices will be kept at a high level with active trading, in view of the optimistic shipping industry and high new ship building prices. Bulk cargo vessels will also maintain their uptrend with Good Cape model recording the highest price surge. Prices of oil tankers will remain stable, as there is an oversupply of new oil tankers coming into operation. In the second half of 2004, there will be more large scale container vessels coming into service, therefore the price of container vessels will remain steady.

Looking forward, COSCO Ship Trading will be active in the ship trading business from COSCO and its subsidiaries (“COSCO Group”) while continuing to explore new markets outside COSCO Group and strengthening its internal management. It will also improve its information analysis and communication abilities by using advanced information technology, in addition to consolidating resources and skills for new ship building, sale and purchase of second-hand vessels as well as ship financing and leasing. As such, COSCO Ship Trading will enhance its core competitiveness by providing value-added services.

COSCO International will strengthen its management over the paint business by adhering to the operating principle of “Creating shareholders’ and customers’ values by utilising all resources that are market-oriented, technology-supported and funds-protected”. COSCO International will also capitalise on COSCO Group’s advantages in the global shipping industry, ship trading and container market, to develop strategies for three paints — container paint, vessel paint and anti-corrosion paint. COSCO International will accelerate the development of potential markets, strengthen the management, enhance corporate quality to create higher efficiencies. Through actively establishing the COSCO paint business platform and exploring further opportunities, COSCO International is committed to becoming a leading enterprise in the paint industry.

Infrastructure

In 2004, demand for electricity supply in Henan Province will keep on growing at a higher rate. Power production in Henan Province is expected to increase by 12% to 112.2 billion kWh, while the power consumption is expected to increase by 13% to 116.9 billion kWh. Due to the continuous implementation of different electricity pricing systems during on-peak and off-peak hours, pricing competition between power plants remains fierce. It is foreseeable that such difficult operating environment will continue due to limited supply of coal resources and an upsurge in coal prices. Facing the year with full variables and challenges, Henan XZY will fully capture the opportunities arising from the market and strengthen its financial controls and operational management systems. Reform in the management system and stringent cost controls will be in place to strive for profit maximisation.

Due to robust economic growth in China Mainland as well as increasing domestic demand, COSCO International is optimistic towards the prospects of infrastructure business. In view of the enormous development potential of the domestic infrastructure market, COSCO International will grasp every infrastructure investment opportunity with instant profits and satisfactory returns to enlarge COSCO International and its subsidiaries’ earnings base and cash inflows.

Building Construction

The construction market in 2004 is expected to be far better than that in 2003. The revived property market will drive overall economic growth and the construction industry out of the gloomy period.

Conclusion

Looking ahead, COSCO International will continue to practise COSCO Hong Kong's operational mottos: "Maximising corporate profits, market-oriented strategy, qualified service, well-trimmed management, strong team work among staff", while actively expanding the ship trading and supplying services related business and consolidating its property business. COSCO International will strengthen its core competitiveness and work to achieve the "new start, new height and new outcome" target. It will optimise the management system and upgrade the management quality, as well as improve its risk and financial management and enhance its capabilities in capital operation. Through the gradual building of the brandnames — "COSCO painting" and "COSCO ship trading and supplying services", COSCO International will be able to boost up its profitability and sustainability, bringing in favourable returns for shareholders.

LIU Guoyuan

Vice-Chairman

Hong Kong, 16th April 2004

