

Managing Director's Report

I am pleased to announce that COSCO International Holdings Limited ("COSCO International" or the "Company") and its subsidiaries (the "Group") recorded a satisfactory performance in the first half of 2004 and achieved a turnover of HK\$906,390,000, double of that as compared with the same period last year. Profit attributable to shareholders amounted to HK\$43,297,000 (2003: HK\$831,000) and basic earnings per share were HK3.08 cents (2003: HK0.06 cents), representing an increase of 51 times and 50 times compared to the same period last year respectively.

Through our endeavour during the past two years, the Group was successful in expanding its business in ship trading and supplying services as well as strengthening its existing businesses. During the first half of 2004, more than half of the profit was derived from ship trading and supplying services, underpinning the Group's development towards a specialist niche quality stock specialising in ship trading and supplying services.

Foreseeing the growth trend of the Group and with a view to the flexible applications of the Group's reserves down the road, the Company applied part of the amount standing to the credit of its share premium account to offset its entire accumulated losses and transferred the remaining balance of credit to its contributed surplus account, with the approval of the shareholders at the special general meeting held on 3rd June 2004. This move will enable the Board to apply the distributable profits in a more flexible manner, which is conducive to the long-term and sustainable development of the Group as a whole.

BUSINESS REVIEW

Ship Trading and Supplying Services

With the global economic recovery and the robust economic growth of China Mainland in the first half of 2004, in addition to the rallying support of our ultimate holding company, China Ocean Shipping (Group) Company ("COSCO") and its subsidiaries (the "COSCO Group"), COSCO International has gradually established itself as a business platform within COSCO Group based principally on ship trading and supplying services. During the period under review, the ship trading and supplying services segment accounted for 52.14% and 59.80% of the Group's turnover and profitable segments results respectively, underpinning initial success of the strategic positioning of the Group on ship trading and supplying services.

In early January 2004, the Group acquired interests in Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd., (collectively "COSCO Kansai Companies"). COSCO Kansai Companies then became subsidiaries of the Company. COSCO Kansai Companies are equity joint ventures owned by the Company and Kansai Paint Co., Ltd., a renowned international paint manufacturer. They are also one of the ten largest paint manufacturers in China Mainland and recorded a turnover of HK\$444,553,000 in the period under review. Given the remarkable results achieved by COSCO Kansai Companies during the period under review which made them become the main profit contributors of the Group, they represented another successful acquisition of the Group.

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During the period under review, COSCO International also completed the acquisition of 10% equity interest in International Paint of Shanghai Co., Ltd., one of the largest paint companies in China Mainland, which is controlled by Akzo Nobel (C) Holdings BV, an international paint manufacturer.

To further enlarge its business segment in ship trading and supplying services, the Group entered into a sale and purchase agreement with COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") and G.W. Maritime Pte. Ltd. in mid May 2004 to acquire 100% equity interest in COSCO (Hong Kong) Insurance Brokers Limited ("COSCO Insurance"), one of the largest marine insurance brokerage services providers in Hong Kong. The total consideration for the acquisition was HK\$47,240,000. With the approval from the independent shareholders at the special general meeting held on 24th June 2004 and the fulfillment of the conditions precedent, COSCO Insurance became the wholly owned subsidiary of the Company with effect from 1st July 2004. Being the first insurance broker accredited by the Llyod's of London in Hong Kong and the only marine insurance broker within COSCO Group, COSCO Insurance enjoys competitive edge in the provision of professional marine insurance brokerage services, including price negotiation and claims submission to ship owners. Due to increasing awareness among ship owners on marine insurance, the Group is confident that COSCO Insurance will bring an expected return to the Group and could further strengthen the corporate positioning of the Group.

Besides the new members, COSCO International Ship Trading Company Limited ("COSCO Ship Trading") also provided a stable income to the Group. Being the sole agent of the COSCO Group in respect of the provision of the shipping agency services, the businesses of COSCO Ship Trading include facilitating the conclusion of the sale and purchase of new and second-hand vessels (including scrap vessels), bareboat charter business, sale and purchase of marine equipment for new shipbuilding projects and provision of consultancy services in ship techniques, business and trade, shipping market analysis, ship valuation and financing. In the first half of 2004, COSCO Ship Trading achieved a turnover of HK\$28,044,000, a 4.76% increase as compared with the same period last year. Besides, COSCO Ship Trading has also succeeded in exploring non-COSCO Group business by facilitating the conclusion of five second-hand vessels transactions representing 15% of the turnover of COSCO Ship Trading.

Property Investment and Development

The rental market for A-class office started to pick up in tandem with a resurgent local property market, as Hong Kong reaped benefits of the Closer Economic Partnership Arrangement and permission for individual tourists from China Mainland to visit Hong Kong. In January 2004, the Group entered into eleven new tenancy agreements with COSCO Hong Kong and its subsidiaries ("COSCO Hong Kong Group"), providing a secured and stable rental income to the Group. During the period under review, the Group achieved approximately 75.3% occupancy rate of its eight storeys in COSCO Tower in Hong Kong and anticipated a steady increase following the revival of the office rental market in the second half year.

The macro-economy control measures adopted by the Central Government in 2004 had succeeded in bridling over-expanding in certain industries, including the property development sector, where appropriate adjustments were seen. Nonetheless, property prices were still on a stable growth

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trend. According to the recent market index of the private property market released by the Central Government, the average selling price of private residential properties in China Mainland in the first half of 2004 recorded a rise of 11.6% as compared with the corresponding period of the previous year. To tap opportunities in the flourishing property market, the Group geared up the sales of its residential properties in China Mainland, including Fragrant Garden in Shanghai and Yihe Garden in Shenyang. In Shanghai, the sales of Fragrant Garden have reached its final stage and the last batch of 109 residential units put up for sale in mid June 2004 has recorded satisfactory sales performance.

The construction of Yihe Garden in Shenyang has commenced since September 2003 and the project is being developed in two phases within a period of three and a half years. With its unique and remarkable landscape design, Yihe Garden was named a "China Landscape Model Residential Building" by a professional panel of adjudicators in the industry, out of more than 400 premium real estate projects in "Creativity Blitz — 2004 Recommendation of Quality Residential Buildings in China" in early June 2004. The competition was co-organised by famous construction-related magazines and supported by the Ministry of Communications. Upon completion, Yihe Garden, with a total gross construction area of 200,000 square meters, shall consist of 14 blocks together with a clubhouse and provide approximately 1,400 residential units. The pre-sale of Phase I was launched in the end of May 2004 and had received an overwhelming response.

During the period under review, COSCO Real Estate Development Co., Ltd. ("CRED"), a jointly controlled entity of the Company, was engaged in the development of an array of property projects in Beijing, including Ocean Landscape, Ocean Prospects, Kai Xuen Square as well as infrastructure construction projects located in Central Business District, etc. With the substantial increase in the demand for infrastructure projects driven by Beijing's hosting of the 2008 Olympic Games, CRED also produced solid business performance to the satisfaction of the shareholders.

Infrastructure Investment

In view of the shortage of power supply in China Mainland, the Group's Henan Power Plant would continue to proceed with full production capacity to generate more power so as to meet the market demand. During the period, coal prices remained high. Nonetheless Henan Xinzhongyi Electric Power Co., Ltd. had implemented proactive and yet prudent cost controls and independent financial management measures with a view to reducing operating costs. At the same time, it engaged in proactive negotiations with relevant parties and had so far achieved targeted operating efficiency. During the period under review, Henan Power Plant generated electricity of 1.275 billion kWh, an increase of 6.3% as compared with the same period of the previous year. The electricity supported for the power grid achieved 1.146 billion kWh, a 5.14% rise as compared with the same period last year.

Building Construction

In the first half of 2004, Shun Shing Construction & Engineering Company, Limited has speeded up the construction of its private residential project with a gross floor area of 173,075 square meters, namely the Sky Tower, in Tokwawan. The project is scheduled for completion in 2004.

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FUTURE PROSPECTS

According to the latest estimation by the National Bureau of Statistics, in the first half of 2004, the gross domestic product in China Mainland reached RMB5,880 billion, up 9.7% over the same period last year at comparable prices while total imports and exports recorded RMB523 billion, a rise of 40%. The Consumer Price Index surged by 3.6% as compared with the same period last year. Coupled with the implementation of macro-economy control measures by the Central Government, the rapid development of certain industries has gradually slowed down, which is conducive to the healthy development of the economy. We believe that the increasing domestic demand of China Mainland will continue to contribute to the growth in shipping industry and related businesses. The Group will continue to adhere to its corporate positioning by seeking more business opportunities, so as to build up a comprehensive ship trading and supplying services supply chain within COSCO Group and is heading forward to becoming a specialist niche quality stock in the Hong Kong capital market.

On one hand, the Group will be developing and consolidating ship trading and supplying services, strengthening the management structure and enhancing its governance of various projects in relation to the business of ship trading and supplying services; utilising synergies with the competitive edges of various businesses so as to make more room for development of the Group. In addition, we will strive to develop other aspects within ship trading and supplying services segment by implementing the strategy of "developing external market and enhancing internal management", so as to strengthen the competitive edge of existing businesses. On the other, the Group will further implement the development strategy of paint business by maintaining the leading position in container paint market and exploring the market shares of vessel paint. We will also seize the opportunity to cooperate with renowned paint manufacturers and complement our competitive edges, aiming to become a well-known paint supplier worldwide.

The Group believes that the above strategies could be carried out with the enormous support of COSCO Group and our shareholders, as well as the collaborative efforts and hard work of our dedicated staff.

By the Order of the Board
LIU Hanbo
Managing Director

Hong Kong, 16th September 2004