



Vice-chairman's

Statement





Fulfilling Our Commitment to Reward Our Shareholders

In 2004, business performance of the Group generated sound revenues. The total turnover amounted to HK\$1,688 million, increased by 80% over the previous year; the profit attributable to shareholders amounted to HK\$219 million and basic earnings per share was HK\$15.54 cents. To share the fruits of annual results with the shareholders, the Board recommended to pay a final dividend of HK2.5 cents per share. We believe that COSCO International has been on the path to healthy development with resurgent vitality.

Mr. LIU Guoyuan
Vice-Chairman

For the year ended 31st December 2004, the Group's total turnover recorded HK\$1,688 million (2003 : HK\$940 million), representing a rise of 80% as compared with the previous year; the profit attributable to shareholders amounted to HK\$219 million (2003 : loss of HK\$117 million); basic earnings per share HK15.54 cents (2003 : loss of HK8.37 cents). In retrospect of the previous year, COSCO International has successfully stepped out from the difficulties and marched at full speed in the direction of developing ship trading and supplying services. To briefly review the business results of 2004, about 57% of the turnover was derived from the ship trading and supplying services business segment, reflecting the Group's success in its development strategy to actively expand the core business. The Company reckoned that 2004 was its most fruitful year since establishment and the most significant year following the strategic positioning on ship trading and supplying services. Taking into account the Company's future business development, liquidity and the best interests of the shareholders, the Board recommended to pay a final dividend of HK2.5 cents per share for the year ended 31st December 2004 (2003 : nil).

During the year under review, the upsurge of COSCO International's turnover was mainly derived from the sales of paint products, the commission income from marine insurance brokerage and the sales of Phase I of Shenyang COSCO Yihe Garden. In terms of profits streams, the operating profits before other expenses amounted to HK\$213 million, increased by 241% as compared with the previous year. The increase was mainly due to the contribution of the gross profit of paint products and insurance brokerage fee as well as the increase in selling price of Phase II of Fragrant Garden in Shanghai and ship trading commission income, together with a write back of HK\$156 million owing to the increase in market value after re-evaluation of three floors of COSCO Tower.

Although the Group has invested in and developed a series of new projects throughout 2004, the bank loans over the assets is 32% (2003 : 40%), a decrease of 8% and



Ship trading and supplying services segment accounted for 57% of the total turnover of the Group

cash in hand amounted to HK\$563 million (2003 : HK\$555 million), comparable to the previous year.

Enhancing our Corporate Image in the Capital Market

During the year, the Group not only reached a new high in profits stream but also improved its corporate image in the capital market and well received extensive attention and recognition in the market. During the year, the share price of COSCO International jumped from HK\$0.84 per share in early 2004 to the highest level of HK\$1.65 per share. Its closing price of HK\$1.38 per share for the year ended 31st December 2004 was 64.28% higher than that on the same day in the previous year, indicating that market investors, funds managers, and analysts basically had a positive response to the business positioning and development prospects of COSCO International. It also reflected that the Company had regained shareholders' confidence and support, revealed its vitality in the capital market and repositioned itself to be on the track for healthy development again.

Getting Rid of Historical Burdens to Resume Vitality

In 2004, COSCO International has achieved good business performance so far and totally resolved its historical problems. Of all the achievements, the greatest one was the shareholders' approval at the special general meeting held on 3rd June 2004 to apply the credit amount of HK\$2.37 billion share premium to offset the accumulated losses of HK\$1.68 billion and transfer the remaining credit amount to the contributed surplus account. The passed resolution signified that COSCO International had regained its vitality and resumed its ability to pay dividends so as to realise its biggest goal of rewarding the shareholders. The Group also capitalised on the revival of the property market and grasped the opportunity to sell the detached house at No. 3 Mei Wo Circuit in Shatin for a cash consideration of HK\$23 million. Looking forward, COSCO International is expected to regain its vigour and unleash its energy to expand its core business in full stride and recreate excellent results for the Company's sustainable development.

Strategic Development Based on Core Business

Agency Services as the Starting Point

During the past two years, COSCO International has been actively consolidating its business positioning, exploring ship trading agency service and coating businesses in stages through a number of acquisitions. In 2004, given the conditions of forecasting the continual growth in demand for foreign trade in the China Mainland and the shipping market, COSCO International grasped the opportunity to actively seek and acquire other ship related services projects by utilising existing ship trading agency service resources. On 14th May 2004, COSCO International successfully signed the agreement to acquire 100% share capital of COSCO (Hong Kong) Insurance Brokers Limited ("COSCO Insurance"), which officially became a wholly-owned subsidiary of the Company on 1st July. The acquisition successfully explored the professional marine insurance brokerage service market.

On 28th December 2004, with the cooperation and support from COSCO Hong Kong and fellow subsidiaries, the Group signed a share transfer agreement for the acquisition of the entire equity interest of Yuantong Marine Services Company Limited ("Yuantong") which specialized in the provision of marine equipment and spare parts agency services. The resolution was passed at the special general meeting held on 24th February 2005. The results contributed from Yuantong will be reflected in the interim results of the financial year of 2005.

After a series of acquisitions, the Group has initially established a business supply platform with ship agency service as the starting point. By acting as a pioneer in the business, the Group provides various agency services like the trading of vessels, marine spare parts and supplies, marine insurance brokerage, marine technology, financing and valuation, etc., catering for the needs of shipowners and leasees. This formed the foundation for building a long-term close partnership with shipowners and shipyards. At the same time, the Company also fully capitalised on and utilised its competitive advantages by linking up various ship trading and supplying services resources to generate synergy so as to achieve greater economic efficiency.



Marine insurance brokers provide vessels with properties and liabilities intermediary service

Network System as the Crucial Point

Shipping is a boundless worldwide industry. To establish a solid platform providing ship trading and supplying service, it is important to build a cross-regional service resources network system providing safe, reliable and highly efficient shipping service. The Group foresees that there will be a strong demand for ship trading and supplying services. Therefore, following the acquisition of an aggregate 63.07% equity interest in Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. and Shanghai COSCO Kansai Paint Chemicals Co., Ltd. ("COSCO Kansai Companies"), the Group further acquired 49% equity interest in Guangzhou Jotun Ocean Paints Co., Ltd. ("JOP") during the year, a joint venture between Guangzhou Economy & Technology Development Zone COSCO Marine Service Co. Limited and Jotun Group in Norway, successfully tapping the supply and sales markets of marine coatings and container paints in the China Mainland. With COSCO Group's competitive edge of owning large ship fleets and numerous containers, COSCO International will aim at integrating the professional expertise and network resources of its international business partners, actively establishing a supply network providing efficient ship trading and supplying services for the ports in China as well as worldwide, so as to provide an all-round supply service for fleets in different areas of the world.



Marine equipment and spare parts supply has tremendous room for growth

Joint Venture Products as the Growth Point

Other than providing agency services, ship trading and supplying services cover the production and sales of ship related products; including marine coatings, container coatings, supply of marine equipment and spare parts, marine consumables, navigation system machineries and instruments, etc. Since 2003, the global container manufacturing industry has been very active, with 90% of the world's produced containers coming from China. In 2004, the global container production amounted to 2.55 million TEUs, up by 15% in comparison to the same period of the previous year. With regard to marine coatings, 2004 was a peak year of the global shipping and ship building markets. The consumption of marine coatings reached a new high of more than 500,000 tonnes.

Based on the current foundation of marine products, the Group will further take advantages of being a listed company to establish a cross-regional marine products supply platform through cooperating with domestic and foreign multinational corporations. The Group will also introduce advanced production technologies in manufacturing and selling high quality, efficient and environmentally-friendly marine products, like coating products, marine spare parts and machineries, which will become the selling point of the Group in the market and enhance the Group's profits.



Marine coatings

Prospects

It is expected that the shipping market will still maintain a healthy development trend in 2005. China is the world's third largest ship builder. The ship building industry is also anticipated to keep on growing and a greater demand for related shipping services will be generated, including the buying and selling of vessel, coatings, equipment and spare parts and related products.



Colour cards for coating



Quality control test on paint products



Demand for marine coatings increases coupled with the thriving ship building industry

Looking ahead, COSCO International will continue to implement its strategic positioning, consolidate and expand its core business. Under the development strategy of exploring more markets externally and strengthening our management internally, the Group can leverage full its strengths to capture every opportunity to turn the existing resources to become unlimited resource for outward expansion by capitalising on synergy. Through enhancing the capabilities for sustainable development and core competitive advantages, we will endeavour to establish a cross-regional and multi-business shipping service supply platform, striving to become the focus of the market and creating a higher efficiency for the Group to generate the greatest values for the shareholders.

Mr. LIU Guoyuan

Vice-chairman

Hong Kong, 3rd March 2005