

Frequently Asked Questions

COMPANY POSITIONING AND DEVELOPMENT STRATEGY

1 : What is the strategic positioning of COSCO International? How is it different from that of the other listed companies under COSCO Group?

Answer : According to the positioning set for COSCO International by COSCO, COSCO International has been developing the ship trading and supplying services as its core business. In addition to serving COSCO's fleet, COSCO International has been also expanding its ship trading and supplying services supply platform to strengthen its position as a competitive, professional and unique ship trading and supplying services provider.

Other than COSCO International, COSCO also has two other listed companies in Hong Kong: China COSCO Holdings Company Limited and COSCO Pacific Limited. Whilst the businesses of all three companies are shipping related, there are fundamental differences amongst the three. The other two companies mainly engage in ocean going container liner services, container terminal and container leasing, whilst COSCO International focuses on providing ship trading and supplying services which include ship trading, marine insurance brokerage, sales of marine equipment, spare parts, communications and navigation equipment, and coating businesses such as container coatings, marine coatings and industrial anti-corrosion coatings. The Company also invests in and operates other shipping related businesses. Capitalising on China's continual economic growth and increasing imports and exports volume, businesses relevant to shipping are all enjoying a promising development outlook.

2 : What is the strategy of COSCO International in future?

Answer : Looking forward to 2006, we will continue to closely monitor changes in the market and the macro environment. As a listed company, we shall continue to leverage the capital market to construct, enrich and expand our supply platform in ship trading and supplying services. We will continue to restructure our coating business through the redeployment of resources. With the goal of adopting specialisation in various coating products, our container coating businesses will be expanded to southern China. Furthermore, we will fully expand the industrial anti-corrosion coating business and strive to increase the usage of our marine coating products versus other brands by COSCO's vessel fleets. We will consider the expansion of our supplying network while capturing the opportunities raised by the increasingly accessible insurance market on the China Mainland to actively develop the marine insurance brokerage business.

FINANCIAL SITUATION

3 : What is COSCO International's policy on dividend payout? Does it have a standing dividend payout ratio or does it depend on the business situation?

Answer : COSCO International is committed to providing maximum returns to our shareholders. The Board has decided to award shareholders with a portion of the proceeds derived from our profits. Our dividend policy is to distribute 20% to 40% of the net operating profits. The distribution of future dividends will depend on market changes and capital requirements for further development.



4 : How much are the long term and the short term debts of the Company respectively? What is the current state of the balance sheet?

Answer : As of 31st December 2005, the Company and its subsidiaries, loans with a repayment period of over one year totalling HK\$96,090,000. The current portion of the repayable loans is approximately HK\$10,570,000. The ratio of total liabilities over total assets dropped significantly from 56% at the end of 2004 to 34% in 2005, mainly attributable to the positive results from various capital restructuring exercises.

5 : How much is COSCO International's cash and cash equivalents ? Does it have sufficient working capital? Is there any need to raise funds in the short term?

Answer : As of 31st December 2005, the Company's cash in hand amounted to HK\$1,274,085,000. Current assets were 2.6 times over current liabilities and thus, the Company have sufficient working capital. Future requirements for fund raising will be dependent upon the future investment plans.

SHIP TRADING AND SUPPLYING BUSINESSES

6 : Amongst ship trading and supplying services, what is the income proportion from non COSCO Group customers? Will there be any changes in such proportion in future?

Answer : During the year, income from COSCO Group customers in the ship trading and supplying services business accounts for about 27% of the total turnover of the Company and its subsidiaries (2004: 9%), of which a larger proportion was derived from ship trading, marine equipment and spare parts, and marine insurance brokerage businesses. The coating business, which has comparatively more non COSCO Group customers, represented a large share of the total revenue and as a result, contributed to a higher proportion of income from non COSCO Group customers. The Company expects a reasonable adjustment in this proportion whilst expanding our businesses and consolidating our clientele to further strengthen the Company's market share within COSCO Group.

7 : The various businesses in ship trading and supplying services are quite different. How can COSCO International achieve synergies and how can it identify business opportunities among these businesses?

Answer : The scope of our core ship trading and supplying services include: ship trading, marine insurance brokerage, marine equipment and spare parts, communications and navigation equipment, coating production and sales. The target customers are all vessels. The Company hopes to build a common platform for synergies through leveraging the strengths of various businesses, effectively consolidating various resources and developing a common customer network.

8 : What is the impact of the cycle of the shipping industry on the Company as a whole?

Answer : The change in shipping industry cycle mostly results in the change in shipping freight costs. As the Company is mainly engaged in the provision of various services for vessels, the change in freight costs has no direct relationship with the Company's businesses. This should not have a great impact on our overall performance.

9 : Does the ship trading and supplying services industry have a high threshold for entry? Is competition in the industry fierce?

Answer : Having a large vessel fleet as a client source is important to an all round ship trading and supplying services provider in securing a good market share. COSCO Group has more than 600 various vessels with a total dead weight tonnage of 35 million. Therefore, to compete with COSCO International, a player in the industry should have equivalent market support. In regard to competition, any industry with development prospects will attract new entrants. At present, there remains significant development potential in the market for the Company and thus, there are many competitors. Nevertheless, the Company's core competence and competitiveness are unrivalled in the industry. Therefore, COSCO International believes its goal to become the leader in ship trading and supplying services industry is achievable.

10 : What is the relation between the total ship transaction tonnage and commission income?

Answer : Basically, the commission income in ship trading is calculated on the value of the vessel. It is not relevant to the ship transacted tonnage or freight costs.

11 : What is COSCO International's competitive edge in marine insurance brokerage?

Answer : COSCO Insurance is the only insurance agency in COSCO Group. As the company is registered in Hong Kong, at present it can only provide insurance consultancy services to vessels not flying PRC flags in COSCO fleets. The reason for setting up a joint venture company on the China Mainland in 2005 was to take advantage of an opening insurance market on the China Mainland to expand its insurance brokerage services to vessels flying PRC flags. In addition, to ensure the quality of service, HK COSCO Insurance Brokers will only refer the fleets to insurance companies with a credit rating of BBB or above.

12 : What is the outlook of the marine insurance industry on the China Mainland? How is competition?

Answer : Despite the fierce competition in the marine insurance industry on the China Mainland, the market promises considerable potential. Therefore, we see ample opportunities for the expansion of insurance brokerage services on the China Mainland.

13 : Does Yuantong provide only marine equipment or spare parts products? Does it also offer total solutions?

Answer : Yuantong sells products and also provides comprehensive solutions for spare part applications and equipment after sales, testing and commissioning, as well as repair services. It also supplies equipment and offers after sales services to new vessels.

14 : What are the reasons for the drop in the sales for container coatings in 2005? What is the outlook in 2006?

Answer : Starting from the end of 2004, there was an increasing demand for new containers because of the backlog of containers stored in Northern America and Europe, etc. arising from port congestion in these areas. Due to market anticipation that the same situation would recur at an earlier time in 2005, and that prices of steel prices and container prices would further increase, container orders increased substantially in early 2005. This has led to a considerable increase in container coating sales in the first half of 2005. However, as a result of a shorter container recovery time beyond expectation due to relieved port congestion as well as decreasing steel prices since the second quarter of 2005, the prices of and demand for containers dropped significantly in the second half of 2005. Accordingly, the sales of container coatings was directly affected.

It is anticipated that more container vessels will be launched in 2006. This will boost the demand for containers and thus, we expect a higher demand for container coatings in 2006 than in 2005.

15 : Will the soaring oil prices have an impact on the production cost for coatings? What will COSCO International do to counteract this? Does the Company have cost control measures in place?

Answer : About 80% of the raw material for the production of coatings comes from crude oil. Therefore, the surge in oil prices has an impact on the cost of production. The price of crude oil in 2005 was 45% higher than that in the end of 2004. However, the Company's raw material costs in 2005 have risen by only 23.6% compared to 2004. This was the result of a series of cost control measures, such as broadening our procurement channels to lower the raw material costs and researching and developing new raw material substitutes. Looking forward, we will adjust our prices according to the market situation to improve the overall gross profit margin.



16 : What is the relationship of the demand of container and marine coatings to the shipping market cycle?

Answer : In general, there is a time lag of about a year for the demand of container and marine coatings to react to any changes in the shipping market.

17 : What are the production capacities of various coating plants?

Answer :

Coating Companies (Equity Percentage)	Annual Production Capacity
Shanghai & Tianjin COSCO	63,000 tonnes
Kansai Paint and Chemicals Co., Ltd (63.07%)	
Jotun COSCO Marine Coatings (HK) Limited (50%)	14,300 tonnes

19 : Does COSCO International has any plan to handle other operations?

Answer : COSCO International has successfully transformed itself into a listed company with its core business in ship trading and supplying services. The Company has significantly scaled down other non core businesses. With regard to the future of these non core businesses, the Company is considering various options according to the principle of protecting the shareholders' interests. The Company shall take into consideration of market changes and deal with these businesses, when appropriate, so as to ensure minimal impact on the Company's operations.

OTHER OPERATIONS

18 : There is little synergy between the Company's property businesses and its core business. What are COSCO International's plans for the property businesses going forward?

Answer : COSCO International now has a strong and growing ship trading and supplying services business and we will approach the property businesses only from an investment perspective. At present, the Company is scaling down its investments in properties, leaving only a development property project in Shengyang, Liaoning Province, China, a few retail properties in Shanghai and 20% equity interest in the jointly controlled entity SORED as a long term investment. The future of the Company's property portfolio will hinge on the progress of its investment projects and market changes. The Company shall consider all viable options before making a decision.