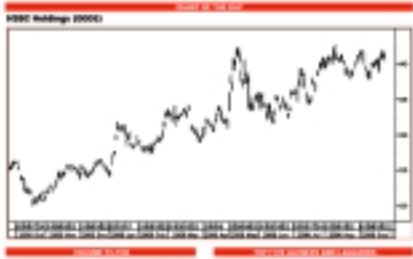


SOUTH CHINA TODAY

27 SEPTEMBER 2008

Contents: COSCO International (0217) – **STRONG BUY**
Current valuation is not far away from the trough

Calendar: Economic data, company events, results, announcements and new issues. 4



Company	Share Price	Change	Market Cap	P/E Ratio
HSBC Holdings	12.00	-1.00	100.00	10.00
Bank of China	4.50	-0.50	150.00	8.00
Industrial Bank of China	3.50	-0.50	120.00	7.00
Min Sheng Bank	2.50	-0.50	80.00	6.00
Shanghai Pudong Development Bank	1.50	-0.50	60.00	5.00
Wangjiang Bank	1.00	-0.50	40.00	4.00
Wen Chuan Bank	0.80	-0.50	30.00	3.00
Guangdong Rural Credit Bank	0.60	-0.50	20.00	2.00
Guangxi Rural Credit Bank	0.50	-0.50	15.00	1.50
Guangdong Rural Credit Bank	0.40	-0.50	10.00	1.00
Guangxi Rural Credit Bank	0.30	-0.50	8.00	0.80
Guangdong Rural Credit Bank	0.20	-0.50	6.00	0.60
Guangxi Rural Credit Bank	0.10	-0.50	4.00	0.40

LiberResearch | **Zhangyuan Group**

October 28, 2008

Hong Kong

Buyer's Name: (b) (6), (b) (7)(C)

Buyer's Address: (b) (6), (b) (7)(C)

Cosco International
0217.HK / 327.HK

BUY

HK\$2.89 (Oct 15, 2008)

Target price HK\$3.25 (+15%)
HK\$3.00 (+20%)

Re-affirming our belief

- Solid record built from core business:** Contributions from other trading entities to record 2008 levels, with strong orders of 100,000 in hand. Shipping industry experts to remain steady while open ports distribution should perform well. Sales of trading products could record six-digit increase of \$450m.
- Potential acquisition still in progress:** Negotiation is still underway with parent COSCO Group on certain assets related to its core operations. Possible targets include distribution network in the PRC and bunkering services. Company has about \$500m cash-and-cash equivalents to fund future purchase, after paying for interim acquisition.
- Property prices still deeply undervalued:** Moreover, the PRC market remains to be opened to open its full market potential this year. COSCO sold 12,000 units of QRS in 2008 and expects to acquire a major portion in 2009.
- Valuations reasonable, BUY rating unchanged:** Our research on P/E ratio average comparison for 2008 to reflect the strong earnings performance, especially from property sales. Our target price is HK\$3.25, based on better B/P of its properties in our initial estimates. Strong price valuations are potential asset acquisition and optimal of property assets.

Company Data:

Item	2008	2007	2006	2005	2004
Revenue	1,040	1,110	1,170	1,230	1,290
Profit	150	160	170	180	190
EPS	0.15	0.16	0.17	0.18	0.19
Dividend	0.05	0.06	0.07	0.08	0.09
P/E Ratio	19.3	18.8	18.3	17.8	17.3
D/P Ratio	3.3	3.6	4.1	4.4	4.7

Share Price Chart:

Hong Kong

Company Focus

0217 Group Research | Equity

10 October 2008

BUY HK\$2.48 (Oct 11, 2008)

Price Target: 1-year HK\$4.00 (100% P/E)
Market: Buyup Company Update
Financial Forecast: 10/28/08-10/28/08 (10/28/08-10/28/08)

COSCO Int'l

Value of COSCO Int'l: an update

- Strong COSCO International Q3 led unmet demand and financial details of its property controlled entity (PCE), two Chinese real estate development (CRED), to be better circular starting in the acquisition of additional 20% stake in COSCO from the parent.
- Price COSCO has an identified land bank of 3.7m sqm in metropolitan USA. Our estimated bank of land (BLB) for valuation is conservative given the possibility of further landbank and potential for higher property price in Beijing due to the Olympic games in 2008.
- Reference: With more details about its landbank, we updated our target price to HK\$2.48, with conservatively value 17% discount to HK\$2.85 as HK\$2.45 or HK\$2.75 based on a 20% discount to P/E. But we believe there is more upside potential if COSCO could fully utilize its hidden value via an IPO in the future.

Identified landbank of 3.7m sqm: From the circle, the identified landbank attributable to COSCO is about 3.7m sqm in metropolitan USA, comprising of 1.5m sqm under development and land for sale, 1.5m sqm for future development, and 0.7m sqm to be under construction. COSCO's landbank is not as large as we have under other property developers, which tend to build and sell in a 1.5m sqm timeline, we should not overstate the growth potential of COSCO's land, in view of its products are under development and land in active state of trading, where property price could be boosted by the 2008 Olympic games.

Identified earnings growth: According to the current development progress of 100,000sqm in total USA, we are confident for a strong contribution of 10% to the first nine months of this year. In the full year, we expect further to increase its sales and profit contribution from Q1 2008 under to COSCO is expected to double to maintain its P/E. The anticipated profit contribution should increase to 200% in P/E of the acquisition of the additional 20% stake in COSCO to complete by the end of 2008. COSCO and its P/E key-value above that 2008.07 average.

Market valuation: Based on 10% discount rate, we value COSCO's bank of land (BLB) as equivalent to a bank of land (BLB) of 100,000sqm, which is a 10% discount to land price average to COSCO's total valued company net comprehensive value (CV) 100,000sqm to COSCO at HK\$2.48, based on a 20% discount to P/E. This price is a 10% discount to P/E of HK\$2.85, which is 70% non-upside value comprising HK\$1.50m from property, HK\$1.50m from marine services and industrial services, and HK\$0.48m from cash, treasury and

COSCO International

www.dbwicken.com

Buyer's Name: (b) (6), (b) (7)(C)

Buyer's Address: (b) (6), (b) (7)(C)

Key Points & Our Views

- Blue Ocean Real Estate:** COSCO International (COSCO) stands to be a leader in Hong Kong market in real estate market. COSCO, holding total assets of 100,000 sqm, is engaged in the businesses of property development, office leasing, hotels and property management with its properties projects mostly in Beijing, Tangshan, Dalian, and Zhongshan.
- Strong Financial Performance:** COSCO record annual P/E ratio of 19.3 during FY08, resulting in a strong performance. The level of net profit does not reflect future earnings contribution from COSCO's property projects under development, which are scheduled to complete from 2007 onwards. Before an equity financing in the primary market, such financing are the main source of funding for COSCO's property development. Financing net profit ratio was quite high at 2008, and the company is being tremendous pressures to seek equity funding in the market.
- Principal developer & under construction projects:** COSCO's principal developer and property interests held by COSCO include 10 major developed or under development property projects. As at 30 June 2008, these 10 projects, upon completion, will cover an aggregate gross floor area of approximately 3.7m sqm. Of these 10 properties, (i) 11 are located in Beijing with 2.7m sqm, (ii) 1 is located in Tangshan with 0.7m sqm, (iii) 1 is located in Dalian with 0.2m sqm, and (iv) 1 is located in Zhongshan with 0.1m sqm.
- Development in terms of geographical locations:** Based on our initial valuation in view of the 0.7m of the properties currently under construction, Beijing accounts for 100%, Zhongshan 0%, and Tangshan and Dalian the remaining 0%. About 70% of the properties are for residential uses, 10% for office and retail, and the remaining 20% for apartment and hotel.
- Valuation of properties under construction - RMB6.1bn:** We estimate the expected B/P of COSCO's under construction property projects has increased to RMB6.1bn, or increased RMB5.75 per sqm. As compared with the net value earned on the balance sheet of RMB2.85bn, it implies our valuation, we currently adopt a third comparison method to come up with the property valuation, implying the prevailing market prices for completed properties.
- As for COSCO's office & retail properties in Beijing:** We have adopted an average valuation of RMB4.000sqm/m, the current selling price of Chinese International Center. Regarding the valuation of COSCO's residential projects in Beijing, we attach to the current market prices of comparable properties at RMB2,100-2,500/sqm. We estimate the apartment value in Beijing at RMB2,100/sqm. The prevailing market prices, calculated to 4.2% cap yield assuming RMB2.20/sqft and 87% occupancy rate.
- We estimate the value of properties in Tangshan RMB1,000-1,200/sqm for projects in Tangshan, Dalian and Zhongshan, according to the recent transaction prices of residential properties in these cities.**

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With its emphasis always on effective and thorough communications with its shareholders and investors, COSCO International ensures their timely access of information in regard to the development strategies and business operations of the Company so as to obtain the continuous support of its shareholders. In order to develop investor relations, the Company has, during the year, formulated the “Regulations for Investor Relations Management of COSCO International”, expressly specifying the aims, principles and scope of investor relations management. Subject to legal requirements, COSCO International fully safeguards the investors’ right to be informed and their legal rights, as well as takes initiative to communicate with them in a fair and equal manner through open, fair and just channels, aiming at increasing their understanding and recognition of the Company and thus enhancing the Company’s investment value.

In addition, a department has been established by the Company in 2006 for the planning and implementation of investor relations. Spearheaded by the management, the team has disclosed to its investors, analysts and fund managers the timely, accurate and complete information, which facilitated the effective valuation of the Company’s investment value. Through communications, the Company may also understand the anticipations and opinions of its shareholders and investors, thereby enhancing its corporate governance and transparency.

Various activities have been launched by COSCO International through different channels to develop investor relations, which include:

- Conducting press conferences and analysts presentation meetings to announce the Company’s interim and annual results and answering questions raised by the media and analysts. Videos of the press conferences have also been posted on the Company’s website to allow access by investors;
- Arranging regular meetings and conference calls with analysts and fund managers to introduce the operating conditions and future development strategies of the Company and its subsidiaries;
- Organising visits for analysts and fund managers to facilitate their understanding towards the business operations of its subsidiaries in the China Mainland and, thus the businesses of the Company and its subsidiaries;
- Participating in corporate presentation conferences organised by securities firms to present the development strategies and operating conditions of the Company to its investors from various regions;
- Adding the financial statistics for the recent years and the latest information of the Company in the investor relations section on the website of the Company; and
- Announcing to the media, analysts and investors, such as fund managers, the latest news of the Company through emails and also simultaneously posting the same information on the website of the Company to enhance its transparency.

With the above activities, the relationship between the Company and the investors has achieved remarkable progress. During the year, the management of the Company has had meetings with analysts, fund managers with a total number of 220 attendances, of which the number of attendances of fund manager and analysts was 118 and 102 respectively. Besides, there were 6 securities research institutes issued research reports on the Company during the year.

INVESTOR RELATIONS ACTIVITIES IN 2006

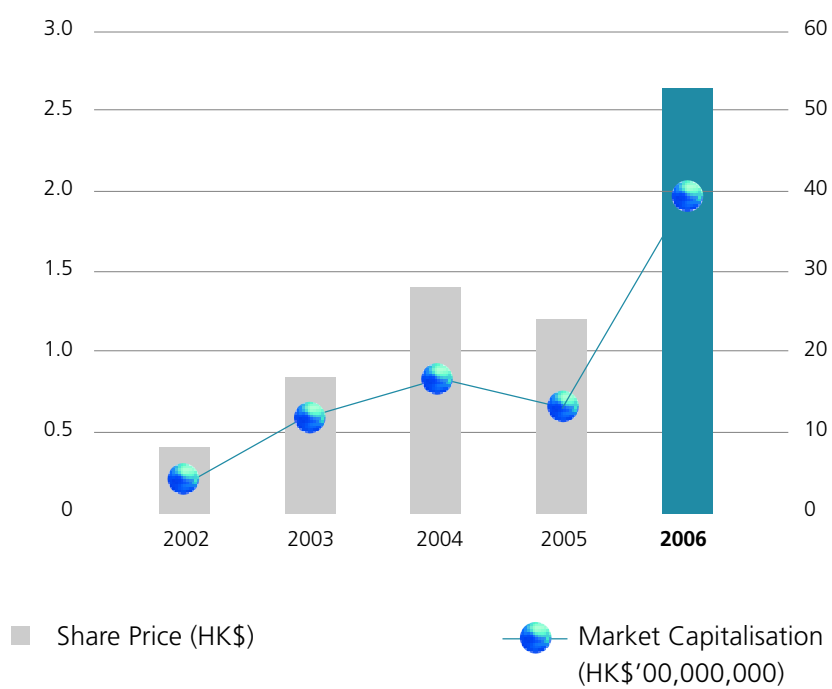
Date	Event
March	Announcement for 2005 annual results <ul style="list-style-type: none">• Results announcement press conference• Analyst presentation
July	Investor conference of Hong Kong Corporate Day organised by DBS Vickers in Singapore
September	Announcement for 2006 interim results <ul style="list-style-type: none">• Results announcement press conference• Analyst presentation 2006 interim results presentation organised by DBS Vickers
October	Site visit to the coatings production factory and real estate projects in China Mainland for analysts and fund managers

PERFORMANCE OF SHARE PRICES AND MARKET CAPITALISATION

At the end of December 2006, the closing price of the shares of COSCO International was HK\$2.75 per share with a total market capitalisation of HK\$3,988,939,000, representing an increase of 131% and 136% as compared to HK\$1.19 and HK\$1,687,707,000 respectively at the end of December 2005.

Table: Share Prices and Market Capitalisation of COSCO International for the Past Five Years

Year	2002	2003	2004	2005	2006
Share price (HK\$)	0.47	0.84	1.38	1.19	2.75
Market capitalisation (HK\$'00,000,000)	6.55	11.71	19.52	16.88	39.89



EARNINGS PER SHARE AND DIVIDEND PER SHARE

The basic earnings per share for 2006 has increased 22% to HK 42.90 cents, while the dividend per share is HK 5.30 cents, amounting to an increase of 18%. A stable dividend policy has been adopted by the

Company since 2004 to maintain a dividend payout ratio (on recurrent operating profits) of over 25%. The Board has recommended a final dividend of HK 4.30 cents per share for 2006, together with the paid interim dividend of HK 1.00 cent per share during the year, making a total dividend of HK 5.30 cents per share for the whole year.

BASIC EARNINGS PER SHARE, DIVIDEND PER SHARE AND DIVIDEND PAYOUT RATIO OF COSCO INTERNATIONAL FOR THE PAST THREE YEARS

Financial Year	2004	2005	2006
Dividend per share (HK cents)	2.50	4.50	5.30
Basic earnings per share (HK cents)	15.54	35.04	42.90
Dividend payout ratio			
– percentage to recurrent operating profits (%)	30.40%	35.00%	33.00%
– percentage to net profit (%)	16.10%	12.80%	12.40%

Looking forward, the Company will further strengthen investor relations management and maintain effective communications with its investors, analysts and fund managers. Accurate and clear information on the operation and development strategies will be provided to help investors fully understand the business

strategies and development of the Company, so as to maintain a high level of corporate governance and transparency, thereby further enhancing investment value of the Company and maximising returns to its shareholders.

FREQUENTLY ASKED QUESTIONS

Corporate positioning and development strategies

1. What are the future development strategies of COSCO International?

ANS: Looking forward to 2007, we will continue to keep an eye on the macroscopic situation and to keep abreast of the market changes. Leveraging on our edge of being a listed company, capital operations will be undertaken in order to continue our building up, realisation and expansion of the supply platform in regard to the ship trading and supplying services industry. Integration of our coatings businesses will be continued by redeploying our resources to expand the market share of our container coatings business in the Southern China. Besides, more effort will be made on the development of the industrial heavy-duty anti-corrosion coatings and the increase in share of the marine coatings products consumed by COSCO Group fleet, aiming at achieving further specialisation of various coatings products, and also grasping the opportunities arising from the liberation of the insurance market of the PRC so as to proactively explore the marine insurance brokerage business in China Mainland. Moreover, while continuing to seek the reorganisation of quality assets in relation to the ship trading and supplying services within COSCO Group, we will actively expand the supply network of ship trading and supplying services and products with an aim to become a professional, unique ship trading and supplying services provider.

2. COSCO International increased 24% interest in SORED in October 2006. Contributions from the profits of the properties investment and property development remained a considerable portion to the total net profits of the Company. Will there be any change on the direction focusing on ship trading and supplying services of COSCO International?

ANS: At present, apart from its shareholding in SORED, a jointly controlled entity, COSCO International owns the retail shops and certain car parking spaces in Fragrant Garden, Shanghai and some unsold residential units, retail shops and car parking spaces in COSCO Yihe Garden, Shenyang. It is expected that these projects will be completed in the coming two years. Upon such completions, instead of allocating resources to invest in other properties development projects, the Company will maintain its only property investment in China through its shareholdings in the quality asset, i.e. the jointly controlled entity SORED. Looking forward, as a long-term investment, the Company's focus will remain on the ship trading and supplying services business. In addition to the organic growth of the four ship trading and supplying services businesses, mergers and acquisitions in regard to other ship trading and supplying services related projects will be continued in order to further enhance profit contributions from these businesses. Thereafter, the proportion of profit contributions from the property investment and property development business to the total net profits will be gradually reduced.

Financial status

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

ANS: To fulfil its commitment to providing maximum returns to our shareholders, the Board is pleased to share our fruitful results with them. Our usual practice is to distribute not less than 25% of the recurrent operating profits as dividend. The payment of future dividend will be subject to the market changes and capital requirement of the development projects of the Company in the future.

Ship trading and supplying business

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

ANS: Currently, turnover from COSCO Group customers in the ship trading and supplying services business accounted for about 21% of the total turnover (2005: 27%), of which revenue from ship trading agency, sales of marine equipment and spare parts, and marine insurance brokerage businesses were derived mainly from COSCO Group. The coatings business, which has comparatively more customers from non COSCO Group, representing a larger share of the total revenue and thus, contributing to a higher proportion of revenue from non COSCO Group customers. The Company expects to expand its businesses and consolidate its clientele to further strengthen the Company's market share within COSCO Group.

5. What are the competitive edges of the core businesses of COSCO International? With varied natures among those businesses, how to achieve synergies? How does COSCO International identify opportunities among its businesses?

ANS: At present, the scope of our core ship trading and supplying services includes: ship trading agency, marine insurance brokerage, sales of marine equipment and spare parts, communications and navigation equipment, coatings production and sales. Though with their own specialisation and uniqueness, the target customers of the said businesses are all vessels. In addition to its professional service teams and quality products and services, the core competitiveness of such business of COSCO International derives from its strategic cooperation relationship with COSCO Group fleet. With the continuous expansion of COSCO Group fleet, the demand for the shipping related services and products is increasing accordingly. Capitalising on its rich resources, COSCO International hopes to build up a common platform to effectively integrate different features and resources of each ship trading and supplying services segment, whilst achieve synergies through a common customer network so as to enhance the core competitiveness and the overall strengths of the Company.

6. Among the current ship trading and supplying services businesses of the Company, which businesses will achieve higher growth in the coming years?

ANS: The ship trading and supplying services of the Company depends mainly on the demand of the shipping market. Given the aggressive expansion of their fleets by the global shipping companies, including COSCO Group, which lead to active sales and purchases of new vessels and tight schedules of dockyards, it is expected that the delivery of current orders will not be made until 2010. Accordingly, a relatively faster growth of the ship trading agency segment of COSCO International is anticipated. Besides, with the implementation of the Eleventh "Five-year Plan" by the Central Government, the infrastructure industry will be developed drastically, thereby bringing forth a rapid development prospect for the industrial heavy-duty anti-corrosion coatings.

7. Will the ship trading and supplying services business be affected by the cyclical changes of the shipping industry?

ANS: The cyclical changes of the shipping industry mainly involve the fluctuations on transportation fees which have no direct impact on the commission income of ship trading and supplying services. In addition, during the depression of the industry, some shipowners will order additional new vessels and replace equipment at lower prices so that, when the market restores, they will be well positioned to cope with the higher demand and expand market shares. Therefore, in principle, the demand of the shipping industry on ship trading and supplying services is relatively stable.

8. What kind of business risks are the Company exposed to?

ANS: Given a broad range of businesses, the Company is likely to be affected by the market changes and the policies of various industries, e.g. the fluctuation on the ship building industry, the volatility of oil and raw material prices and the changes on the policies of the property market. As such, the Company has been proactively keeping itself abreast of the ever-changing market by accessing the most up-to-date information, such as the monthly analysis prepared by COSCO Ship Trading on the ship trading market, and maintaining close relationship with each supplier and customer, aiming at maximising its professional advantages and maintaining the supply channels of raw materials and orders from major customers so that its exposure to market fluctuation could be minimised and a stable profit growth could be generated.

9. While the ship trading volume of COSCO International has been substantially increased in 2006, the commission income from ship trading agency services during the year recorded zero growth. What was the reason for such circumstance?

ANS: Agency commission is the major income of COSCO Ship Trading. Though agency commission income of COSCO Ship Trading is collected in stages based on the ship building schedule, agency commission on new vessel will only be recognised upon the delivery of the new vessels. Commission on trading of second-hand vessels is payable by the vendor to the buyer within a specified period commencing from the delivery of the vessels and will be booked by the end of that period. As such, although the ship trading volume of COSCO Ship Trading in 2006 increased substantially as compared to 2005, the commission income attributable to the trading of new vessels will only be gradually booked upon delivery of the new vessels in the coming years.

10. What is the prospect of the marine insurance market in China?

ANS: The marine insurance businesses registered in China Mainland are currently operating under traditional practice, i.e. insurance issues are being negotiated directly by the insurance companies with the shipowners, rather than through a more professional, independent insurance broker with stronger bargaining power as usually practising internationally. With the liberation of

the insurance market in China, the demand for insurance services is on the rise and the needs to seek advice in relation to vessels registered in China from the professional insurance brokers is increasing. Therefore, the liberating insurance market will bring forth tremendous opportunities for the development of the insurance brokerage business of COSCO International.

11. What is the business prospect of the insurance brokerage company newly established in China Mainland by COSCO International?

ANS: Officially commenced operations in the third quarter, SZ COSCO Insurance Brokers Limited, a company established by COSCO International last year, is primarily engaged in the provision of insurance brokerage services in China Mainland. Currently, over two-third of the vessels among COSCO Group fleets, and a large number of fleet owned by vessel owners are registered in the PRC. Therefore, the new company will strive to provide the PRC-registered vessels with professional insurance brokerage services other than those available in common insurance companies. We are confident that, with more shipowners accepting professional insurance brokerage services, the insurance brokerage company in China Mainland will enjoy larger room for profit growth.

12. During the year, what are the average selling prices of the container coatings products of COSCO International? What are the prospective changes on production cost and selling price in 2007?

ANS: Last year, the production cost of container coatings had been increased due to the rising price of raw materials. As such, COSCO Kansai Companies, one of the leading container coatings suppliers in China, had raised the selling price of the container coatings in 2006 in order to offset the impacts arising from the surging production costs. During 2006, the average selling prices of container coatings provided by COSCO Kansai Companies increased by about 30% as compared to those of 2005. Looking forward to 2007, depending on the supply and demand and the price of raw materials in the market, the selling prices of container coatings will be varied. COSCO Kansai Companies will continue to closely monitor the market changes, expand purchasing channels and adopt sales strategies which can cope with the prevailing situation so as to ensure a stable growth of the container coatings business.

13. What is the anticipated total production capacity of the coatings business of COSCO International upon the commencement of operation of the coatings plant in Zhuhai?

ANS: It is expected that the newly constructed coatings plant in Zhuhai of COSCO Kansai Companies will commence operation in July 2007 with a designed annual production capacity of 24,000 tonnes and will be expanded to 36,000 tonnes. The completion of the new plant will enable COSCO International to have its coating plants in three economic hubs namely "Pearl River Delta", "Yangtze River Delta" and "Bohai Rim area", reaching an annual total production capacity of over 100,000 tonnes.

14. What are the major customers of the industrial heavy-duty anti-corrosion coatings of COSCO Kansai Companies?

ANS: The industrial anti-corrosion coatings have been widely used by various customer groups, which mainly involves industries such as nuclear power plants, trailers, railcars, ports, oil, petroleum chemistry, power plants, metallurgy, bridges, steel structure processing plants, floorings, etc.

Investor Relations

FIVE-YEAR FINANCIAL STATISTICS

	2006	2005	2004	2003	2002
Total number of share issued (million)	1,451	1,418	1,414	1,394	1,394
Share price (as at 31st December) (HK\$)	2.75	1.19	1.38	0.84	0.47
Market capitalisation (as at 31st December) (HK\$ million)	3,989	1,688	1,952	1,171	655
Basic earnings/(loss) per share (HK cents)	42.90	35.04	15.54	(8.37)	(38.59)
Price/earning ratio (as at 31st December) (times)	6.40	3.40	8.88	–	–
Dividend per share (HK cents)	5.30	4.50	2.50	–	–
Dividend payout ratio (by net profit) (%)	12.4%	12.8%	16.1%	–	–
Dividend payout ratio (by recurrent operating profit) (%)	33.0%	35.0%	30.4%	–	–
Net asset value per share (HK\$)	1.52	1.12	0.79	0.64	0.72
Return on total assets (%)	18.9%	17.1%	8.2%	-4.8%	-18.1%
Return on shareholders' equity (%)	32.5%	36.6%	21.9%	-12.3%	-42.3%
Net debt-to-shareholders' equity ratio (%)	Net cash	Net cash	38.1%	42.4%	56.4%
Current ratio (times)	1.90	2.40	1.76	1.41	1.79
Quick ratio (times)	1.40	1.80	1.20	1.16	1.33
Interest coverage (times)	47.30	9.10	14.28	3.14	2.30

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