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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in doubt** as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in COSCO International Holdings Limited, you should at once hand this circular and the enclosed proxy form of the Company to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for shares of COSCO International Holdings Limited.

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## COSCO International Holdings Limited

*(Incorporated in Bermuda with limited liability)*

### CONNECTED TRANSACTIONS

**Independent Financial Adviser to the Independent Director**



**DBS ASIA CAPITAL LIMITED**

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A letter from the board of directors of the Company is set out on pages 6 to 21 of this circular and a letter from the independent director of the Company is set out on page 22 of this circular. A letter from DBS Asia Capital Limited containing its advice and recommendations to the independent director of the Company is set out on pages 23 to 28 of this circular.

The notice convening the special general meeting of the Company to be held at 10:00 a.m., on Tuesday, 23rd September 2003 at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong is set out on pages 41 to 43 of this circular. Shareholders are advised to read the notice and to complete and return the form of proxy for use at the special general meeting of the Company enclosed herewith in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the meeting to the office of the Company's branch share register in Hong Kong, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof (as the case may be) should you so wish.

2nd September 2003

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context otherwise requires:*

“Acquisitions”	the acquisition by the Company from the respective vendors of:—  (i) 34.19% of the equity interest of Shanghai Kansai;  (ii) 34.19% of the equity interest of Tianjin Kansai; and  (iii) 10% of the equity interest of Shanghai International,  pursuant to the Shanghai Kansai Agreement, the Tianjin Kansai Agreement and the Shanghai International Agreement respectively
“Agreements”	the Shanghai Kansai Agreement, the Tianjin Kansai Agreement and the Shanghai International Agreement
“Akzo Nobel”	Akzo Nobel (C) Holdings BV, a company incorporated under the laws of the Netherlands
“Anti-Corrosion Paint”	the anti-corrosion paint manufactured by the Paint Companies principally for use in heavy industries
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Bao Shan”	上海市寶山區顧村工業公司 (Shanghai Baoshan Gucun Industry Company), a company incorporated under the laws of the PRC
“Board”	the board of Directors
“China Shipbuilding”	中國船舶工業物資總公司 (China State Shipbuilding Equipment and Material Company), a company incorporated under the laws of the PRC
“Company”	COSCO International Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Container Paint”	the container paint manufactured by the Paint Companies for use in containers

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## DEFINITIONS

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“COSCO”	中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), a company incorporated in the PRC, and the ultimate beneficial owner holding approximately 59.48% of the issued share capital of the Company
“COSCO Group”	COSCO and its subsidiaries (other than the Group)
“COSCO Industry”	COSCO Industry Company, a company incorporated under the laws of the PRC and a wholly-owned subsidiary of COSCO
“COSCO Investments”	COSCO Investments Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of COSCO, which holds approximately 21.68% of the issued share capital of the Company
“COSCO Pacific”	COSCO Pacific (China) Investments Co., Ltd., a company incorporated under the laws of the PRC and a wholly-owned subsidiary of COSCO Pacific Limited which in turn is a subsidiary of COSCO
“DBS Asia”	DBS Asia Capital Limited, a deemed licensed corporation under the SFO permitted to engage in types 1, 4, 6 and 9 of the regulated activities as defined in the SFO, and is the independent financial adviser to the Independent Director
“Directors”	the directors of the Company
“Florens”	Florens Industrial Holdings Limited, a company incorporated under the laws of Bermuda and a wholly-owned subsidiary of COSCO Pacific Limited which in turn is a subsidiary of COSCO
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Kansai”	Kansai Paint H. K. Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Japan Kansai

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## DEFINITIONS

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“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Director”	Mr. Chan Cheong Foon, Andrew, being the independent non-executive Director, appointed to consider and make recommendations to the Independent Shareholders in relation to the Acquisitions
“Independent Shareholder(s)”	Shareholder(s) other than True Smart and COSCO Investments and any of their respective associates
“Independent Valuer”	Sallmanns (Far East) Limited, an independent valuer
“Japan Kansai”	Kansai Paint Co., Ltd., a company registered in Osaka, Japan
“Latest Practicable Date”	28th August 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Nissho Iwai”	Nissho Iwai Corporation, a company registered in Osaka, Japan
“Paint Companies”	Shanghai Kansai, Tianjin Kansai and Shanghai International
“PRC”	the People’s Republic of China which for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held at 10:00 a.m., on Tuesday, 23rd September 2003 at 49th Floor, COSCO Tower, 183 Queen’s Road Central, Hong Kong
“SGM Notice”	the notice convening the SGM as set out on pages 41 to 43 of this circular

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## DEFINITIONS

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“Shanghai Coatings”	上海塗料有限公司 (Shanghai Coatings Company Limited), a company incorporated under the laws of the PRC
“Shanghai International”	International Paint of Shanghai Co., Ltd., a sino-foreign equity joint venture enterprise established under the laws of the PRC which is owned, among others, as to 10% by COSCO Industry
“Shanghai International Agreement”	the conditional sale and purchase agreement dated 14th August 2003 entered into between COSCO Industry and the Company relating to the purchase of 10% equity interest in Shanghai International by the Company
“Shanghai Kansai”	上海中遠關西塗料化工有限公司 (Shanghai COSCO Kansai Paint & Chemicals Co., Ltd.), a sino-foreign equity joint venture enterprise established under the laws of the PRC which is owned, among others, as to 31.45% by COSCO Industry and 2.74% by Shen-John
“Shanghai Kansai Agreement”	the conditional sale and purchase agreement dated 14th August 2003 entered into by COSCO Industry, Shen-John and the Company relating to the purchase of in aggregate 34.19% equity interest in Shanghai Kansai by the Company
“Share(s)”	the share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shen-John”	Shen-John Investment Company L.L.C., a company incorporated in the United States which is owned as to 50% by COSCO
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	a company for the time being and from time to time a subsidiary (within the meaning of the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong) or the Companies Act 1981 of Bermuda (as amended)) or the local companies law, act and/or ordinance where the subject company was incorporated

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## DEFINITIONS

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“Tianjin Kansai”	Tianjin COSCO Kansai Paint & Chemicals Co., Ltd., a sino-foreign equity joint venture enterprise established under the laws of the PRC which is owned, among others, as to 31.45% by COSCO Industry and 2.74% by Shen-John
“Tianjin Kansai Agreement”	the conditional sale and purchase agreement dated 14th August 2003 entered into by COSCO Industry, Shen-John and the Company relating to the purchase of in aggregate 34.19% equity interest in Tianjin Kansai by the Company
“Tianjin Transport”	天津遠洋運輸公司 (COSCO Tianjin Ocean Shipping Company), a company incorporated under the laws of the PRC and a wholly-owned subsidiary of COSCO
“True Smart”	True Smart International Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of COSCO, which holds 37.80% of the issued share capital of the Company
“US\$”	United States dollars, the lawful currency of the United States
“Vessel Paint”	the vessel paint manufactured by the Paint Companies for use in vessels
“%”	per cent

*In this circular, the exchange rates of US\$1 to HK\$7.8 and HK\$1 to RMB1.0644 have been used for reference only.*

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## LETTER FROM THE BOARD

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### **COSCO International Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

*Executive Directors:*

Mr. Wei Jiafu (*Chairman*)  
Mr. Liu Guoyuan (*Vice-chairman*)  
Mr. Li Jianhong  
Mr. Zhou Liancheng  
Mr. Liu Hanbo (*Managing Director*)  
Mr. Lu Zhiming  
Mr. Liang Yanfeng  
Mr. Chen Pisen  
Mr. Meng Qinghui

*Non-Executive Director:*

Mr. Kwong Che Keung, Gordon

*Independent Non-Executive Directors:*

Mr. Chan Cheong Foon, Andrew  
Mr. Alexander Reid Hamilton

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Head Office and Principal*

*Place of Business in Hong Kong:*

47th Floor  
COSCO Tower  
183 Queen's Road Central  
Hong Kong

2nd September 2003

*To the Shareholders*

Dear Sir or Madam,

### **CONNECTED TRANSACTIONS**

#### **1. INTRODUCTION**

On 14th August 2003, the Company announced that it entered into the following agreements with, among others, COSCO Industry and Shen-John, both of whom are connected persons of the Company:

- (i) the Shanghai Kansai Agreement whereby the Company conditionally agreed to acquire from COSCO Industry and Shen-John in aggregate 34.19% equity interest in Shanghai Kansai for a total consideration of RMB28,804,466 (approximately HK\$27,061,693);

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## LETTER FROM THE BOARD

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- (ii) the Tianjin Kansai Agreement whereby the Company conditionally agreed to acquire from COSCO Industry and Shen-John in aggregate 34.19% equity interest in Tianjin Kansai for a total consideration of RMB30,036,524 (approximately HK\$28,219,207); and
- (iii) the Shanghai International Agreement whereby the Company conditionally agreed to acquire from COSCO Industry 10% equity interest in Shanghai International for a consideration of RMB17,138,000 (approximately HK\$16,101,090).

The total consideration of the Acquisitions amounts to RMB75,978,990 (approximately HK\$71,381,990) in cash which has been arrived at after arm's length negotiations between the parties involved and represents a 5.3% discount and a 6.5% discount to the respective business valuations of Shanghai Kansai and Tianjin Kansai as conducted by the Independent Valuer as at 31st July 2003 and 9.36% of the unaudited net tangible assets of Shanghai International as at 30th June 2003. The total consideration will be satisfied by internal resources of the Group.

The Company will enter into an agreement to amend the joint venture contract and an agreement to amend the articles of association of each of the Paint Companies with the other shareholders of the Paint Companies to effect the consequential changes of the structures of the Paint Companies resulting from the Acquisitions.

Upon completion of the Acquisitions, Shanghai Kansai and Tianjin Kansai will become jointly controlled entities of the Company and be equity accounted for in the consolidated accounts of the Company. The Company will treat its 10% equity interest in Shanghai International as a long term investment.

COSCO is the ultimate controlling shareholder of the Company. COSCO Industry and Shen-John are subsidiaries of COSCO. Thus, the Acquisitions constitute connected transactions for the Company under the Listing Rules and are subject to Independent Shareholders' approval.

The Independent Director, namely Mr. Chan Cheong Foon, Andrew has been appointed by the Board to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Agreements and the other transactions contemplated thereunder. DBS Asia has been appointed as the independent financial adviser to advise the Independent Director in this regard.

The purpose of this circular is to provide you with details of the Acquisitions, a letter from DBS Asia containing its advice to the Independent Director and the recommendations of the Independent Director in respect of the Acquisitions, and to give you the SGM Notice and other information required by the Listing Rules.

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## LETTER FROM THE BOARD

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Your attention is hereby specially drawn to pages 41 to 43 of this circular where you will find a notice dated 2nd September 2003 convening the SGM to be held at 10:00 a.m., on Tuesday, 23rd September 2003 at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong. **True Smart and COSCO Investments and their respective associates will abstain from voting on the resolutions approving the Acquisitions.**

### 2. THE SHANGHAI KANSAI AGREEMENT DATED 14TH AUGUST 2003

**Parties:** Purchaser: The Company

Vendors: COSCO Industry, a wholly-owned subsidiary of COSCO

Shen-John, a non wholly-owned subsidiary of COSCO

#### **Equity Interest to be acquired**

The Company shall purchase in aggregate 34.19% equity interest in Shanghai Kansai, of which 31.45% shall be from COSCO Industry and 2.74% shall be from Shen-John. Upon completion of the Shanghai Kansai Agreement, Shanghai Kansai will become a jointly controlled entity of the Company and be equity accounted for in the consolidated accounts of the Company. Under Chapter 14 of the Listing Rules, the Shanghai Kansai Agreement constitutes a connected transaction for the Company.

#### **Consideration**

The consideration for the purchases of the 31.45% and 2.74% equity interests in Shanghai Kansai are RMB26,496,065 (approximately HK\$24,892,958) and RMB2,308,401 (approximately HK\$2,168,735) respectively. The Company shall pay such consideration within 3 months from (i) the date of completion of the Shanghai Kansai Agreement; or (ii) the date of issuance of the new business licence of Shanghai Kansai; or (iii) the date of completion of all registration procedures at the competent authorities of the PRC relating to the corresponding changes in respect of Shanghai Kansai pursuant to the equity interest transfers under the Shanghai Kansai Agreement, whichever is the earliest. Such consideration has been determined after arm's length negotiation between the parties thereto and is based on 34.19% of the business valuation of Shanghai Kansai of RMB89 million (approximately HK\$83.62 million) as prepared by the Independent Valuer on a market value basis as at 31st July 2003. The valuation was premised on the principal assumption that there will not be any significant changes in the operating conditions and environment within which Shanghai Kansai functions after completion of the Shanghai Kansai Agreement. The consideration for the purchases of in aggregate 34.19% equity interest in Shanghai Kansai represents a 5.3% discount to the Independent Valuer's business valuation. Such consideration shall be paid by the Company in cash and will be funded by internal resources of the Group.

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## LETTER FROM THE BOARD

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### Conditions precedent

The Shanghai Kansai Agreement is conditional upon, among other things, the following conditions precedent being fulfilled or waived by the Company on or before 31st December 2003:

- a. the equity interest transfers having been approved unanimously by the board of directors of Shanghai Kansai;
- b. each of COSCO Industry, Shen-John and all other shareholders of Shanghai Kansai having issued documents agreeing to the transactions contemplated under the Shanghai Kansai Agreement, and waiving their respective pre-emptive rights;
- c. COSCO Industry and Shen-John having provided all documents relating to Shanghai Kansai at the Company's request and the Company having completed the due diligence review on Shanghai Kansai and confirmed its satisfaction of the result of such review in writing;
- d. all parties to the Shanghai Kansai Agreement and other relevant parties having executed all necessary contracts, agreements and other relevant documents relating to the equity interest transfers under the Shanghai Kansai Agreement and Shanghai Kansai having obtained all necessary governmental approvals, consents and permits relating to the equity interest transfers and the corresponding changes in respect of the sino-foreign equity joint venture enterprise pursuant thereto including the issuance of the new business licence of Shanghai Kansai (if any);
- e. the passing by the Independent Shareholders of an ordinary resolution approving the Shanghai Kansai Agreement and the transactions contemplated under the Shanghai Kansai Agreement including the entering into of the agreements to amend the joint venture contract and articles of association of Shanghai Kansai in accordance with the Listing Rules; and
- f. the issuing of a legal opinion by a firm of PRC lawyers designated by the Company relating to the transactions contemplated under the Shanghai Kansai Agreement and each document relating thereto to the satisfaction of the Company.

In the event that any of the aforesaid conditions precedent is not fulfilled or waived by the Company on or before 31st December 2003 or such later date as the parties to the Shanghai Kansai Agreement may agree in writing, the Shanghai Kansai Agreement shall terminate automatically and no party shall have any claim against the others, save in respect of any antecedent breach.

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## LETTER FROM THE BOARD

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### Completion

Completion of the Shanghai Kansai Agreement shall take place on the 15th working day after all the conditions precedent under the Shanghai Kansai Agreement have been fulfilled (unless waived by the Company) or such other date as the parties thereto may agree in writing.

### 3. THE TIANJIN KANSAI AGREEMENT DATED 14TH AUGUST 2003

**Parties:** Purchaser: The Company

Vendors: COSCO Industry, a wholly-owned subsidiary of COSCO  
Shen-John, a non wholly-owned subsidiary of COSCO

### Equity Interest to be acquired

The Company shall purchase in aggregate 34.19% equity interest in Tianjin Kansai, of which 31.45% shall be from COSCO Industry and 2.74% shall be from Shen-John. Upon completion of the Tianjin Kansai Agreement, Tianjin Kansai will become a jointly controlled entity of the Company and be equity accounted for in the consolidated accounts of the Company. Under Chapter 14 of the Listing Rules, the Tianjin Kansai Agreement constitutes a connected transaction for the Company.

### Consideration

The consideration for the purchases of 31.45% and 2.74% equity interests in Tianjin Kansai are RMB27,629,385 (approximately HK\$25,957,709) and 2,407,139 (approximately HK\$2,261,498) respectively. The Company shall pay such consideration within 3 months from (i) the date of completion of the Tianjin Kansai Agreement; or (ii) the date of issuance of the new business licence of Tianjin Kansai; or (iii) the date of completion of all registration procedures at the competent authorities of the PRC relating to the corresponding changes in respect of Tianjin Kansai pursuant to the equity interest transfers under the Tianjin Kansai Agreement, whichever is the earliest. Such consideration has been determined after arm's length negotiation between the parties thereto and is based on 34.19% of the business valuation of Tianjin Kansai of RMB94 million (approximately HK\$88.31 million) as prepared by the Independent Valuer on a market value basis as at 31st July 2003. The valuation was premised on the principal assumption that there will not be any significant changes in the operating conditions and environment within which Tianjin Kansai functions after completion of the Tianjin Kansai Agreement. The consideration for the purchases of in aggregate 34.19% equity interest in Tianjin Kansai represents a 6.5% discount to the Independent Valuer's business valuation. Such consideration shall be paid by the Company in cash and will be funded by internal resources of the Group.

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## LETTER FROM THE BOARD

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### Conditions precedent

The Tianjin Kansai Agreement is conditional upon, among other things, the following conditions precedent being fulfilled or waived by the Company on or before 31st December 2003:

- a. the equity interest transfers having been approved unanimously by the board of directors of Tianjin Kansai;
- b. each of COSCO Industry, Shen-John and all other shareholders of Tianjin Kansai having issued documents agreeing to the transactions contemplated under the Tianjin Kansai Agreement, and waiving their respective pre-emptive rights;
- c. COSCO Industry and Shen-John having provided all documents relating to Tianjin Kansai at the Company's request and the Company having completed the due diligence review on Tianjin Kansai and confirmed its satisfaction of the result of such review in writing;
- d. all parties to the Tianjin Kansai Agreement and other relevant parties having executed all necessary contracts, agreements and other relevant documents relating to the equity interest transfers under the Tianjin Kansai Agreement and Tianjin Kansai having obtained all necessary governmental approvals, consents and permits relating to the equity interest transfers and the corresponding changes in respect of the sino-foreign equity joint venture enterprise pursuant thereto including the issuance of the new business licence of Tianjin Kansai (if any);
- e. the passing by the Independent Shareholders of an ordinary resolution approving the Tianjin Kansai Agreement and the transactions contemplated under the Tianjin Kansai Agreement including the entering into of the agreements to amend the joint venture contract and articles of association of Tianjin Kansai in accordance with the Listing Rules; and
- f. the issuing of a legal opinion by a firm of PRC lawyers designated by the Company relating to the transactions contemplated under the Tianjin Kansai Agreement and each document relating thereto to the satisfaction of the Company.

In the event that any of the aforesaid conditions precedent is not fulfilled or waived by the Company on or before 31st December 2003 or such later date as the parties to the Tianjin Kansai Agreement may agree in writing, the Tianjin Kansai Agreement shall terminate automatically and no party shall have any claim against the others, save in respect of any antecedent breach.

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## LETTER FROM THE BOARD

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### **Completion**

Completion of the Tianjin Kansai Agreement shall take place on the 15th working day after all the conditions precedent under the Tianjin Kansai Agreement have been fulfilled (unless waived by the Company) or such other date as the parties thereto may agree in writing.

#### **4. THE SHANGHAI INTERNATIONAL AGREEMENT DATED 14TH AUGUST 2003**

**Parties:** Purchaser: The Company

Vendor: COSCO Industry, a wholly-owned subsidiary of COSCO

### **Equity Interest to be acquired**

The Company shall purchase 10% equity interest in Shanghai International from COSCO Industry. Upon completion of the Shanghai International Agreement, the Company will treat the 10% equity interest in Shanghai International as a long term investment.

### **Consideration**

The consideration for the purchase of the 10% equity interest in Shanghai International is RMB17,138,000 (approximately HK\$16,101,090). The Company shall pay such consideration within 3 months from (i) the date of completion of the Shanghai International Agreement; or (ii) the date of issuance of the new business licence of Shanghai International; or (iii) the date of completion of all registration procedures at the competent authorities of the PRC relating to the corresponding changes in respect of Shanghai International pursuant to the equity interest transfer under the Shanghai International Agreement, whichever is the earliest. Such consideration has been determined after arm's length negotiation between the parties thereto and is equivalent to 9.36% of the unaudited net tangible assets of Shanghai International as at 30th June 2003. The consideration shall be paid by the Company in cash and will be funded by internal resources of the Group.

### **Conditions precedent**

The Shanghai International Agreement is conditional upon, among other things, the following conditions precedent being fulfilled or waived by the Company on or before 31st December 2003:

- a. the equity interest transfer having been approved unanimously by the board of directors of Shanghai International;

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## LETTER FROM THE BOARD

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- b. each of COSCO Industry and all other shareholders of Shanghai International having issued documents agreeing to the transactions contemplated under the Shanghai International Agreement, and waiving their respective pre-emptive rights;
- c. COSCO Industry having provided all documents relating to Shanghai International at the Company's request and the Company having completed the due diligence review on Shanghai International and confirmed its satisfaction of the result of such review in writing;
- d. all parties to the Shanghai International Agreement and other relevant parties having executed all necessary contracts, agreements and other relevant documents relating to the equity interest transfer under the Shanghai International Agreement and Shanghai International having obtained all necessary governmental approvals, consents and permits relating to the equity interest transfer and the corresponding changes in respect of the sino-foreign equity joint venture enterprise pursuant thereto including the issuance of the new business licence of Shanghai International (if any);
- e. the passing by the Independent Shareholders of an ordinary resolution approving the Shanghai International Agreement and the transactions contemplated under the Shanghai International Agreement including the entering into of the agreements to amend the joint venture contract and articles of association of Shanghai International in accordance with the Listing Rules; and
- f. the issuing of a legal opinion by a firm of PRC lawyers designated by the Company relating to the transactions contemplated under the Shanghai International Agreement and each document relating thereto to the satisfaction of the Company.

In the event that any of the aforesaid conditions precedent is not fulfilled or waived by the Company on or before 31st December 2003 or such later date as the parties to the Shanghai International Agreement may agree in writing, the Shanghai International Agreement shall terminate automatically and no party shall have any claim against the other, save in respect of any antecedent breach.

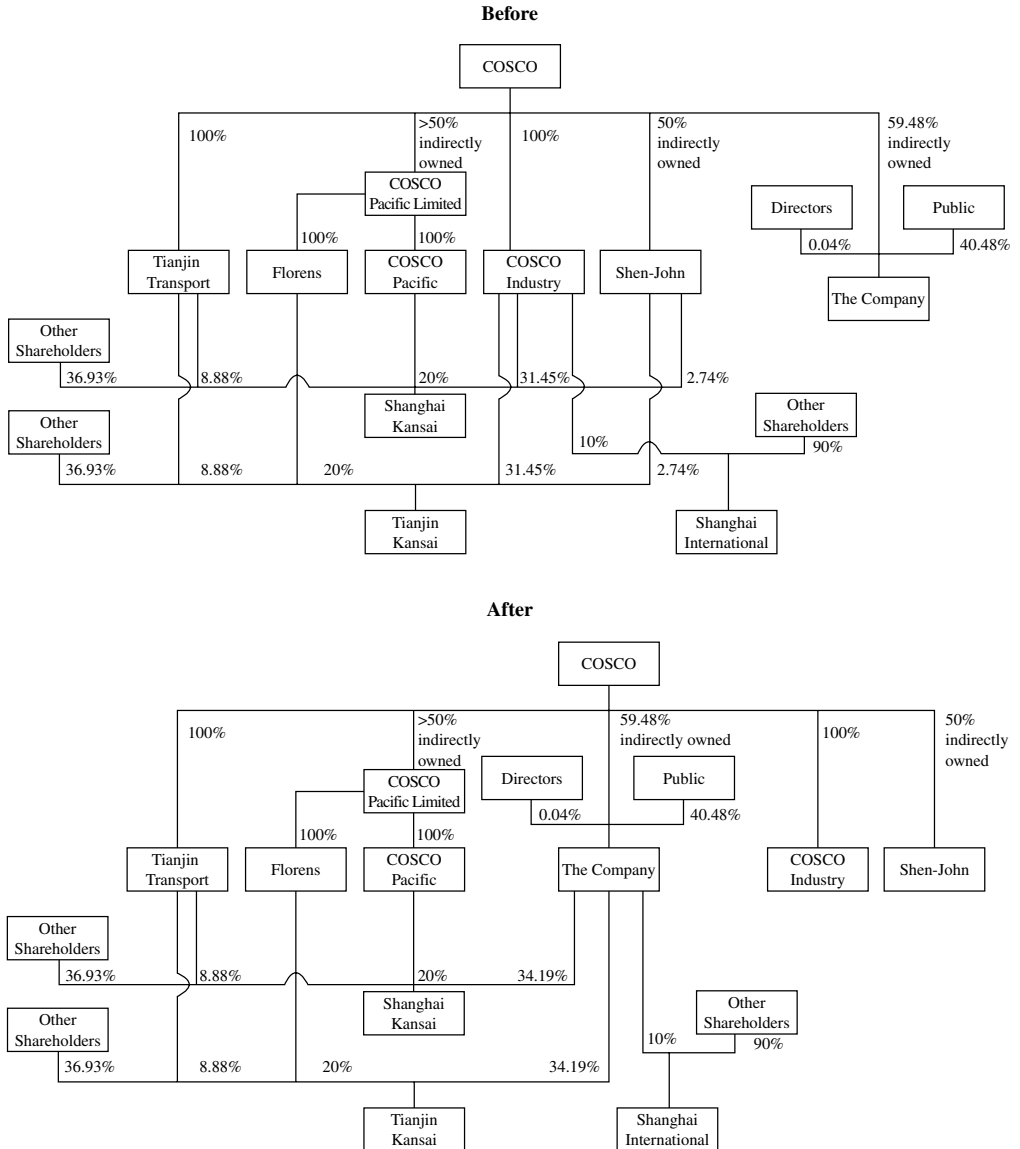
### **Completion**

Completion of the Shanghai International Agreement shall take place on the 15th working day after all the conditions precedent under the Shanghai International Agreement have been fulfilled (unless waived by the Company) or such other date as the parties thereto may agree in writing.

# LETTER FROM THE BOARD

## 5. STRUCTURE OF THE COMPANY

The following charts represent the simplified structure of the Company immediately before and after completion of the Acquisitions:—



## 6. INFORMATION ON THE PAINT COMPANIES

All of the Paint Companies are principally engaged in the manufacture and sale of Container Paint, Vessel Paint and Anti-Corrosion Paint in the Southern and Northern parts of the PRC.

As Shanghai Kansai is situated in an old urban district where a coastal economic open zone of the PRC is located, it has been enjoying a reduced profits tax rate of 24% of its taxable profits. Being part of the benefits given by the local government to sino-

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## LETTER FROM THE BOARD

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foreign joint venture enterprises, Shanghai Kansai also enjoyed the benefit of paying its profits tax at half of the applicable rate of taxation of 24% for the years 2000 to 2002. In addition to the aforesaid tax, Shanghai Kansai also has to pay local profits tax at the rate of 3% of its taxable profits to the local government starting from 2003.

Further, Tianjin Kansai and Shanghai International are situated in economic and technological development zones of the PRC and have been enjoying reduced profits tax rate of 15% of their taxable profits. In addition to the aforesaid tax, Tianjin Kansai and Shanghai International also have to pay local profits tax at the rate of 3% of their taxable profits to the local government.

The reduced profits tax rates applicable to the Paint Companies will be valid until any modification or re-enactments of the legislation “Income Tax Law of the People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises” or promulgation of any relevant new laws, rules or regulations or orders by the competent authorities of the PRC.

The COSCO Group is a major customer of both Shanghai Kansai and Tianjin Kansai. COSCO Group accounted for RMB191 million (approximately HK\$179 million) representing 39% and RMB165 million (approximately HK\$155 million) representing 51% of the total sales of Container Paint by Shanghai Kansai and Tianjin Kansai for the year ended 31st December 2002 respectively.

The COSCO Group also accounted for RMB50 million (approximately HK\$47 million) representing 49% and RMB52 million (approximately HK\$49 million) representing 14% of the total sales of Vessel Paint by Shanghai Kansai and Tianjin Kansai for the year ended 31st December 2002 respectively.

The COSCO Group also accounted for RMB0.52 million (approximately HK\$0.49 million) representing 3% of the total sales of Anti-Corrosion Paint by Shanghai Kansai and Tianjin Kansai for the year ended 31st December 2002.

The COSCO Group accounted for RMB241.5 million (approximately HK\$227 million) representing 40.23% of the total sales of paint products by Shanghai Kansai for the year ended 31st December 2002. The COSCO Group accounted for RMB217 million (approximately HK\$204 million) representing 30.27% of the total sales of paint products by Tianjin Kansai for the year ended 31st December 2002.

The COSCO Group is also a customer of Shanghai International but only accounted for less than RMB 40 million (approximately HK\$37.58 million) representing less than 1% of the total sales of paint products of Shanghai International for the year ended 31st December 2002.

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## LETTER FROM THE BOARD

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The financial statements of the Paint Companies were prepared in accordance with PRC generally accepted accounting principles (“PRC GAAP”) and audited by PRC certified public accountants for each of the years ended 31st December 2001 and 2002. The Company has engaged PricewaterhouseCoopers to perform a financial due diligence review on Shanghai Kansai and Tianjin Kansai. For the purpose of the Acquisitions, the financial statements of Shanghai Kansai and Tianjin Kansai prepared under PRC GAAP have been adjusted by the Company, with reference to the findings of the financial due diligence review and other relevant information available, to be in accordance with Hong Kong generally accepted accounting principles (“HK GAAP”). The table below sets out the profit before and after taxation for the Paint Companies for each of the two years ended 31st December 2001 and 2002 and their net tangible assets as at 31st December 2002 (based on the accounts prepared under PRC GAAP and audited by PRC certified public accountants for the years ended 31st December 2001 and 2002, as adjusted by the Company as per the information available and to be in accordance with HK GAAP in respect of the figures of Shanghai Kansai and Tianjin Kansai).

	<b>Year ended 31st December</b>			
	<b>2001</b>	<b>2001</b>	<b>2002</b>	<b>2002</b>
	<i>RMB million</i>	<i>HK\$ million</i>	<i>RMB million</i>	<i>HK\$ million</i>
<b>Shanghai Kansai</b>				
Profit before taxation	8.37	7.86	<b>24.41</b>	<b>22.93</b>
Profit after taxation	6.10	5.73	<b>21.14</b>	<b>19.86</b>
Net tangible assets	72.63	68.24	<b>78.01</b>	<b>73.29</b>
<b>Tianjin Kansai</b>				
Profit before taxation	21.25	19.96	<b>17.58</b>	<b>16.52</b>
Profit after taxation	16.51	15.51	<b>14.63</b>	<b>13.74</b>
Net tangible assets	87.78	82.47	<b>73.09</b>	<b>68.67</b>
<b>Shanghai International</b>				
Profit before taxation	36.87	34.64	<b>97.30</b>	<b>91.41</b>
Profit after taxation	31.22	29.33	<b>86.41</b>	<b>81.18</b>
Net tangible assets	116.07	109.05	<b>202.47</b>	<b>190.22</b>

Upon completion of the Acquisitions, the Company will nominate 3 directors (including the chairman) to each of the boards of directors of Shanghai Kansai and Tianjin Kansai.

The Company will enter into an agreement to amend the joint venture contract and an agreement to amend the articles of association of each of the Paint Companies with the other shareholders of the Paint Companies to effect the consequential changes of the structures of the Paint Companies resulting from the Acquisitions.

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## LETTER FROM THE BOARD

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### The equity joint venture contract of Shanghai Kansai immediately upon completion of the Shanghai Kansai Agreement

#### Principal terms:

Party	Registered capital contribution		Percentage of equity interest	No. of directors
	(US\$'000)	(HK\$'000)		
The Company	2,393.3	18,667.7	34.19%	3 (including the chairman)
Japan Kansai	1,656.9	12,923.8	23.67%	2 (including a vice-chairman)
COSCO Pacific	1,400.0	10,920.0	20.00%	2 ( including a vice-chairman)
Tianjin Transport	621.6	4,848.5	8.88%	1
Hong Kong Kansai	445.2	3,472.6	6.36%	1
Nissho Iwai	368.2	2,872.0	5.26%	1
Bao Shan	114.8	895.4	1.64%	1
<b>Total</b>	<b>7,000.0</b>	<b>54,600.0</b>	<b>100.00%</b>	<b>11</b>

- The scope of business of Shanghai Kansai is the manufacturing and sale of Vessel Paint, Container Paint and Anti-Corrosion Paint and the petro-chemical products in relation thereto.
- The total investment amount for Shanghai Kansai is US\$12.80 million (approximately HK\$99.84 million) whilst the registered capital is US\$7 million (approximately HK\$54.60 million). The registered capital of Shanghai Kansai has been fully paid up. The difference between the total investment amount and the registered capital will be financed by bank loans and/or shareholders' loans in the same proportion as the parties' equity interests in Shanghai Kansai.
- The Company, COSCO Pacific, Nissho Iwai, Japan Kansai and Hong Kong Kansai made their capital contribution in cash in foreign currency whilst Bao Shan made its capital contribution by land use rights in land, and Tianjin Transport made its capital contribution in cash partly in foreign currency and partly in Renminbi.
- Shanghai Kansai has a duration of 20 years commencing on the date of issuance of its business licence, i.e. 22nd December 1995. The parties may apply for an extension of the duration of Shanghai Kansai within 6 months of the expiry of the initial 20 years' term. Upon expiry of the term of operation of Shanghai Kansai, the remaining net assets of Shanghai Kansai will be distributed among the parties in proportion to their respective equity interests in Shanghai Kansai.

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## LETTER FROM THE BOARD

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### The equity joint venture contract of Tianjin Kansai immediately upon completion of the Tianjin Kansai Agreement

#### Principal terms:

Party	Registered capital contribution		Percentage of equity interest	No. of directors
	(US\$'000)	(HK\$'000)		
The Company	1,709.5	13,334.1	34.19%	3 (including the chairman)
Japan Kansai	1,183.5	9,231.3	23.67%	2 (including a vice-chairman)
Florens	1,000.0	7,800.0	20.00%	2 (including a vice-chairman)
Tianjin Transport	444.0	3,463.2	8.88%	1
Hong Kong Kansai	318.0	2,480.4	6.36%	1
Nissho Iwai	263.0	2,051.4	5.26%	1
Bao Shan	82.0	639.6	1.64%	1
<b>Total</b>	<b>5,000.0</b>	<b>39,000.0</b>	<b>100.00%</b>	<b>11</b>

- The scope of business of Tianjin Kansai is the manufacturing and sale of Vessel Paint, Container Paint and Anti-Corrosion Paint and the petro-chemical products in relation thereto.
- The total investment amount for Tianjin Kansai is US\$10.00 million (approximately HK\$78.00 million) whilst the registered capital is US\$5.00 million (approximately HK\$39.00 million). The registered capital of Tianjin Kansai has been fully paid up. The difference between the total investment amount and the registered capital will be financed by bank loans and/or shareholders' loans in the same proportion as the parties' equity interests in Tianjin Kansai.
- Each party made its capital contribution in cash in foreign currency.
- Tianjin Kansai has a duration of 15 years commencing on the date of issuance of its business licence, i.e. 24th January 1992. The parties may apply for an extension of the duration of Tianjin Kansai within 6 months of the expiry of the initial 15 years' term. The Directors' current intention is that the Company will request the other joint venture parties to apply for an extension of the duration of Tianjin Kansai in due course. Upon expiry of the term of operation of Tianjin Kansai, the remaining net assets of Tianjin Kansai will be distributed among the parties in proportion to their respective equity interests in Tianjin Kansai.

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## LETTER FROM THE BOARD

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### The equity joint venture contract of Shanghai International immediately upon completion of the Shanghai International Agreement

#### Principal terms:

Party	Registered capital contribution		Percentage of equity interest	No. of directors
	(RMB million)	(HK\$ million)		
The Company	5.20	4.88	10%	1
China Shipbuilding	5.20	4.88	10%	1
Shanghai Coatings	15.08	14.17	29%	3 (including the chairman)
Akzo Nobel	26.52	24.92	51%	5 (including the vice-chairman)
<b>Total</b>	<b>52.00</b>	<b>48.85</b>	<b>100%</b>	<b>10</b>

- The scope of business of Shanghai International is the manufacturing of marine, offshore and yacht paints and coatings.
- The total investment amount for Shanghai International is RMB130.00 million (approximately HK\$122.13 million) whilst the registered capital is RMB52.00 million (approximately HK\$48.85 million). The registered capital of Shanghai International has been fully paid up. The difference between the total investment amount and the registered capital will be financed by bank loans.
- Akzo Nobel made its capital contribution in cash partly in foreign currency and partly in Renminbi whilst the Company, China Shipbuilding and Shanghai Coatings made their capital contribution in cash in Renminbi.
- Shanghai International has a duration of 25 years commencing on the date of issuance of its business licence, i.e. 18th December 1989. The parties may apply for an extension of the duration of Shanghai International within 6 months of the expiry of the initial 25 years' term. Upon expiry of the term of operation of Shanghai International, the remaining net assets of Shanghai International will be distributed among the parties in proportion to their respective equity interests in Shanghai International.

## 7. REASONS FOR ENTERING INTO THE AGREEMENTS

The Group is principally engaged in property investment and development, ship trading and supplying services, building construction and civil engineering, infrastructure investment and high technology and environmental protection business. As stated in the 2002 annual report of the Company, one of the business focuses of the Group is to

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## LETTER FROM THE BOARD

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further develop the ship trading and supplying services. The total sales of ship trading and supplying services of the Group for the year ended 31st December 2002 was HK\$15.35 million which represented 2.63% of the total sales of the Group for that year. The total contribution of the ship trading and supplying services for the same period was HK\$4.60 million.

Given the reputation and performance of the Paint Companies, the Directors consider that the entering into of the Acquisitions is in line with the stated business plan of the Group and believe that the Acquisitions will broaden the Group's earning base. As for the investment in Shanghai International, the Directors consider it as a strategic investment given the expertise and reputation of Shanghai International's shareholders in the paint industry. The Directors consider that the Acquisitions will facilitate further co-operative opportunities between the Group and the other shareholders of the Paint Companies and thus the entering into of the Agreements is in the interests of the Company and the Shareholders as a whole.

Save for the equity interests to be acquired by the Company pursuant to the Agreements, the Group has no other equity interest in the Paint Companies. The Company will continue to increase its investment in the paint business and may increase its equity interests in the Paint Companies when opportunities arise.

### **8. CONNECTED TRANSACTIONS**

As COSCO Industry and Shen-John are subsidiaries of COSCO, they are connected persons of the Company under the Listing Rules. Thus, the entering into of the Agreements and other transactions contemplated thereunder constitute connected transactions for the Company under the Listing Rules which require approval by the Independent Shareholders.

Mr. Alexander Reid Hamilton, one of the two independent non-executive Directors, is also an independent non-executive director of COSCO Pacific Limited which in turn is the holding company of COSCO Pacific and Florens, thus only Mr. Chan Cheong Foon, Andrew has been appointed as the independent non-executive Director to advise the Independent Shareholders in respect of the Acquisitions.

### **9. SPECIAL GENERAL MEETING**

Set out on pages 41 to 43 of this circular is the SGM Notice convening the SGM to be held at 10:00 a.m., on Tuesday, 23rd September 2003 at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong at which ordinary resolutions will be proposed to approve the Agreements and other transactions contemplated thereunder. The Chairman of the SGM will demand that such resolutions be decided by poll.

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## LETTER FROM THE BOARD

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A proxy form for use at the SGM is enclosed with this circular. Whether or not you intend to attend the SGM in person, you are requested to complete and return the accompanying proxy form in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the proxy form will not preclude you from attending and voting at the SGM or any adjournment thereof (as the case may be) if you so wish.

**In view of COSCO's interest in the Agreements, True Smart, COSCO Investments, being its indirect wholly-owned subsidiaries, and their respective associates (as defined in the Listing Rules) will abstain from voting on the resolutions to be proposed at the SGM in respect of the Acquisitions.**

### 10. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Director set out on page 22 of this circular which contains its recommendation to the Independent Shareholders as to voting at the SGM regarding the Acquisitions. Your attention is also drawn to the letter of advice received from DBS Asia which contains, amongst other matters, its advice to the Independent Director in relation to the Acquisitions and the principal factors and reasons considered by it in arriving thereat. The text of the letter from DBS Asia is set out on pages 23 to 28 of this circular.

The Directors consider that the terms of the Acquisitions are fair and reasonable so far as the Company and the Shareholders are concerned. The Independent Director has considered the terms of the Acquisitions and the advice given by DBS Asia and is of the opinion that such terms are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders. Accordingly, the Directors recommend that the Independent Shareholders should vote in favour of the resolutions as set out in the SGM Notice.

### 11. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By order of the Board  
**COSCO International Holdings Limited**  
**LIU Hanbo**  
*Managing Director*

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## LETTER FROM THE INDEPENDENT DIRECTOR

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### **COSCO International Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

2nd September 2003

*To the Independent Shareholders*

Dear Sir or Madam,

#### **CONNECTED TRANSACTIONS**

I refer to the circular of the Company dated 2nd September 2003 (the “Circular”) to the Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context requires otherwise.

I have been appointed by the Board as the Independent Director to advise you as to whether, in my opinion, the terms of the Acquisitions are fair and reasonable so far as the Independent Shareholders are concerned.

DBS Asia has been appointed by the Company as the independent financial adviser to advise me regarding the terms of the Acquisitions. Details of its advice, together with the principal factors taken into consideration in arriving at such, are set out in its letter on pages 23 to 28 of the Circular.

Your attention is drawn to the letter from the Board set out on pages 6 to 21 of the Circular and the additional information set out in the appendices.

Having taken into account the terms of the Acquisitions, and the advice given by DBS Asia, I consider that the Acquisitions are in the interests of the Company and the Shareholders as a whole and that the terms thereof are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, I recommend that the Independent Shareholders vote in favour of the resolutions approving and confirming the entering into of the Agreements and all other agreements, deeds and any other documents in relation thereto by the Company to be proposed at the SGM.

Yours faithfully,  
**CHAN Cheong Foon, Andrew**  
*Independent Director*

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## LETTER FROM DBS ASIA

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DBS ASIA CAPITAL LIMITED

16th Floor, Man Yee Building, 68 Des Voeux Road Central, Hong Kong

2nd September 2003

The Independent Director  
COSCO International Holdings Limited

Dear Sir,

### THE ACQUISITIONS

We refer to our engagement as the independent financial adviser to the Independent Director in relation to the Acquisitions, details of which are contained in a circular (the “Circular”) to the Shareholders dated 2nd September 2003, of which this letter forms part. Expressions used in this letter have the same meanings as defined in the Circular.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular. We have also assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were made and continue to be so at the date of the dispatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular. We have also assumed that the valuations prepared by the Independent Valuer as contained in the Circular are fair and accurate.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company or Shanghai Kansai or Tianjin Kansai or Shanghai International or any of their respective subsidiaries or associates.

### THE ACQUISITIONS

In arriving at our opinion for the Acquisitions, we have considered the following principal factors and reasons:

#### **Background and reasons**

The Group is principally engaged in property investment and development, ship trading and supplying services, building construction and civil engineering, infrastructure investment

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## LETTER FROM DBS ASIA

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and high technology and environmental protection business. As noted from the Company's 2002 annual report, apart from consolidating and developing its property business, the Group has been actively exploring further shipping service opportunities. Given the business nature of the companies underlying the Acquisitions, we note that the Acquisitions represent a further step for the Company in expanding this business segment. Further, each of Shanghai Kansai and Tianjin Kansai (together the "Kansai Paint Companies") has an established track record and both are major paint suppliers of the COSCO Group. Although sales attributable to COSCO Group accounted for a significant amount of sales of the Kansai Paint Companies, we note that the sales terms offered by the Kansai Paint Companies to members of the COSCO Group are based on prevailing market conditions and are comparable with those offered to other independent customers. Whilst for the investment in Shanghai International, we have been advised by the Directors that Shanghai International specialises in large-scale vessel paint, which is different from those paint products manufactured by the Kansai Paint Companies. The controlling shareholder of Shanghai International is also a European-based renowned and experienced paint manufacturer. Despite the fact that the investment in Shanghai International is a minority stake, the Directors consider that such investment is of strategic significance to the Group for it to fortify its market position in the paint industry in the PRC and to facilitate future expansion in terms of market share and paint technology.

Having taken into account the above reasons and factors, we consider that the Acquisitions are in line with the stated business focus of the Group and is in the interests of the Company and the Shareholders as a whole.

### *The Acquisitions*

The basis of the consideration for the Acquisitions was arrived at after arm's length negotiation with reference to the respective business valuations (the "Valuations") prepared by the Independent Valuer on the Kansai Paint Companies as at 31st July 2003 and the unaudited net tangible assets of Shanghai International as at 30th June 2003.

### *The Kansai Paint Companies*

The consideration for 34.19% equity interest in Shanghai Kansai of approximately RMB28.8 million (HK\$27.1 million) and 34.19% equity interest in Tianjin Kansai of approximately RMB30.0 million (HK\$28.2 million) represents a discount of approximately 5.3% and 6.5% to the respective Valuations of Shanghai Kansai and Tianjin Kansai. In assessing the fairness and reasonableness of the consideration payable for acquiring interests in the Kansai Paint Companies, we have reviewed and discussed with the Independent Valuer on the methodology, and the underlying bases and assumptions adopted in arriving at the Valuations.

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## LETTER FROM DBS ASIA

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### *Methodology*

We note that in determining the market value of the Kansai Paint Companies, the Independent Valuer has made reference to the business enterprise value concept and adopted the income approach technique known as the discount cash flow (“DCF”) method, which we consider is a common business valuation method. Under this method, the value of the business arrived at is dependent on the present worth of future economic benefits to be derived from the projected revenues. Indications of value have been developed by discounting projected net future cash flow available for payment of shareholders’ interest to their present worth at market derived rates of return which the Independent Valuer considers to be appropriate.

### *Bases and assumptions*

We were advised by the Independent Valuer that it has taken into consideration all relevant and pertinent factors, including the business scope, market conditions, historical performance, cash flow projections, price trend of the paint products and the relevant risks relating to the business of the Kansai Paint Companies in arriving at the Valuations. In ascertaining the fairness and reasonableness of the bases and assumptions underlying the Valuations, we have reviewed and discussed with the Independent Valuer, on a limited scope basis, the related projected revenues and expenses of the Kansai Paint Companies.

The Independent Valuer considers that the 3-year revenue and cash flow projections of the Kansai Paint Companies have been prepared by the management of Kansai Paint Companies after due care and consideration. We understand from the Independent Valuer that based on its analyses on the historical performance of the Kansai Paint Companies, the industry overview and the production capacity of each of the Kansai Paint Companies, the Independent Valuer considers that the information and projections provided to it by Kansai Paint Companies’ management is fair and reasonable. In its DCF model, the Independent Valuer adopted a rate of 18% (the “Discount Rate”) to discount the estimated 3-year net cash flow of Kansai Paint Companies to arrive at the Valuations. The Discount Rate is equivalent to the required rate of return on capital, which was derived at using the Capital Asset Pricing Model which takes into account, among other things, the market expected rate of investment return for the similar type of industry. We note that the Independent Valuer has taken into consideration the general market expected rate of return on investment, return on risk free investment and the discount required for the specific risks pertaining to the business of the Kansai Paint Companies. Having taken into account these relevant factors, the Independent Valuer considers the Discount Rate to be fair and reasonable. Based on the above and our review of the analyses and market references used by the Independent Valuer in determining the Discount Rate, we also have no reason to doubt the fairness and reasonableness of such rate.

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## LETTER FROM DBS ASIA

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Further, the Independent Valuer has based on the Discount Rate to arrive at the terminal value multiple of 6 times in determining the terminal value of the Kansai Paint Companies's business in the DCF model. We understand that such terminal value multiple is equivalent to the price-earnings multiple of the Kansai Paint Companies. We note that the Independent Valuer has taken into account the earnings prospects, the indebtedness and the production capacity of the Kansai Paint Companies and consider that the Kansai Paint Companies would be able to maintain consistent earnings. Given this and based on the Discount Rate, the Independent Valuer considers the 6 times terminal value multiple to be fair and reasonable for valuing the future earnings prospects of Kansai Paint Companies. As reference (but not for direct comparison), we note that as at the Latest Practicable Date, the price-earnings multiple for the Hang Seng Commerce and Industrial Index and the Hang Seng Mid Cap Index are approximately 16.1 times and 18.0 times respectively. Having considered the above, we have no reason to doubt the fairness and reasonableness of the terminal value multiple adopted by the Independent Valuer to arrive at the Valuations.

We note that the consideration represents approximately 4.8 times the consolidated aggregate net profits of the Kansai Paint Companies for the year ended 31st December 2002 of approximately RMB35.8 million (approximately HK\$33.6 million) (based on the accounts of the Kansai Paint Companies prepared under PRC GAAP and audited by PRC certified public accountants, as adjusted by the Company as per information available and to be in accordance with HK GAAP).

We note that this 4.8 times earnings multiple is derived based on the historical results of the Kansai Paint Companies whereas the terminal value multiple of 6 times used in the Valuations as mentioned above is based on prospective earnings of the Kansai Paint Companies. As the Independent Valuer considers the 6 times terminal value multiple to be fair and reasonable and that the reference to (but not on direct comparison) the price-earnings multiple for the Hang Seng Commerce and Industrial Index and the Hang Seng Mid Cap Index of approximately 16.1 times and 18.0 times respectively as stated above, we regard that the historical 4.8 times earnings multiple implied by the aggregate consideration for the Kansai Paint Companies further supports the fairness and reasonableness of the aggregate consideration payable for the 34.19% equity interest in both Kansai Paint Companies. Given the unique business nature of the Kansai Paint Companies, no straight listed comparable is identified on the Stock Exchange for ascertaining the fairness of the consideration from the price-earnings multiple perspective. The consideration for each of Shanghai Kansai and Tianjin Kansai represents a discount of approximately 9.0% and 2.3% to the respective latest unaudited net tangible assets of Shanghai Kansai and Tianjin Kansai as at 30th June 2003 based on the accounts of the Kansai Paint Companies prepared under PRC GAAP, as adjusted by the Company as per information available and to be in accordance with HK GAAP. Nonetheless, since the consideration has been determined based on the Valuations, we have, as aforesaid, assessed the fairness and reasonableness of the consideration for the Kansai Paint Companies based on the Valuations.

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## LETTER FROM DBS ASIA

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### *Views*

Having considered the above analyses on the Valuations, we consider that the bases and assumptions adopted in arriving at the Valuations are fair and reasonable and thus form a fair and reasonable basis for the determination of the consideration for the Kansai Paint Companies. Further, when taking into account the discount of such consideration to the Valuations, we also regard the consideration for the Kansai Paint Companies to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### ***Shanghai International***

For the acquisition of the 10% equity interest in Shanghai International, we note that the Company has conducted a limited financial due diligence on the latest financial position of Shanghai International up to 30th June 2003. Given the acquisition is for a minority interest, we consider it appropriate to determine the consideration based on net tangible assets of Shanghai International as against earnings multiple. The consideration for the 10% equity interest in Shanghai International of approximately RMB17.1 million (HK\$16.1 million) represents a discount of approximately 6.4% to the 10% attributable interest in the unaudited net tangible assets of Shanghai International as at 30th June 2003. As further reference, such consideration also represents a price-earnings multiple of approximately 2 times the audited net profit of Shanghai International for the year ended 31st December 2002. We have been advised by the Directors and note that Shanghai International maintains high dividend payout ratio with an average of approximately 78% since 2000, which translates into annual dividend yield of approximately 26% for the past three years. Assuming this trend to continue, the payback period for the investment in 10% equity interest in Shanghai International would be approximately four years.

Having taken into account the above, particularly with regard to the trend of the annual dividend yield of Shanghai International, we consider both the basis of determination and the consideration for the investment in 10% equity interest in Shanghai International to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### **PRO FORMA FINANCIAL EFFECT**

#### **Earnings**

We understand from the Company that following completion of the Acquisitions, the Company will treat each of the Kansai Paint Companies as jointly controlled entity and equity account for its 34.19% equity interest therein whilst dividend income receives from investment in Shanghai International will be treated as other income. The Group recorded a net loss for the year ended 31st December 2002. Nonetheless, when taking into account the track record of the Kansai Paint Companies and Shanghai International, the Directors believe that the Acquisitions will have a positive contribution to the Group's overall earnings base.

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## LETTER FROM DBS ASIA

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### **Working capital**

The Acquisitions will be financed by the internal resources of the Group. The Group has had a cash and bank balances of approximately HK\$486.1 million as at 31st December 2002. The Directors consider that barring unforeseen circumstances, given the Group's current working capital position and its expected capital expenditure commitment, the Group would have sufficient internal resources to meet such capital requirement without affecting the normal operations of the Group.

### **Net asset value**

Given the fact that the consideration for the Acquisitions is principally equivalent to the latest net tangible assets of the Kansai Paint Companies and Shanghai International, the adjusted consolidated net asset value of the Group would substantially remain unchanged following completion of the Acquisitions.

### **RECOMMENDATION**

Having considered the principal factors and reasons referred to the above, we are of the opinion that the Acquisitions are in the interests of the Company and the Shareholders as a whole and that the terms thereof are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we advise the Independent Director to advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Acquisitions.

Yours faithfully,

For and on behalf of

**DBS ASIA CAPITAL LIMITED**

**Alex Lau                  Flavia Hung**

*Managing Director          Director*



Corporate valuation and consultancy  
www.sallmanns.com



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165-171 Wanchai Road  
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Fax: (852) 2528 5079

2nd September 2003

The Directors  
COSCO International Holdings Limited  
47th Floor, COSCO Tower  
183 Queen's Road Central  
Central  
Hong Kong

Dear Sirs,

In accordance with the instructions of COSCO International Holdings Limited (“COSCO International”), we have undertaken a valuation to determine the market value of a 100 per cent equity interest in Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. (“Tianjin Kansai”) and Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. (“Shanghai Kansai”) (collectively the “Kansai Paint Companies”) as at 31st July 2003 (the “Valuation Date”). This letter summarises the principal conclusions stated in our valuation report dated 2nd September 2003.

We understand that the purpose of this valuation is to express an independent opinion of the market value of the Kansai Paint Companies as at the Valuation Date for transaction reference.

Our valuation was carried out on a market value basis. Market value is defined as “*the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion*”.

## **BASIS OF OPINION**

We have conducted our valuation in accordance with International Valuation Standard issued by International Valuation Standard Committee. The valuation procedures employed include the review of physical and economic condition of the subject asset, an assessment of key assumptions, estimates, and representations made by the proprietor or the operator of the subject asset. All matters essential to the proper understanding of the valuation are disclosed in the valuation report.

The following factors form an integral part of our basis of opinion:

- Assumptions on the market and the subject asset that are considered to be fair and reasonable;
- Financial performance that shows a consistent trend of the operation;
- Consideration and analysis on the micro and macro economy affecting the subject asset;
- Analysis on tactical planning, management standard and synergy of the subject asset;
- Analytical review of the subject asset; and
- Assessment of the leverage and liquidity of the subject asset.

We planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject asset. We believe that the valuation procedures we employed provide a reasonable basis for our opinion.

#### **TIANJIN KANSAI AND SHANGHAI KANSAI**

Tianjin Kansai and Shanghai Kansai are affiliated companies of COSCO Pacific Limited, a limited liability company listed on the Main Board of The Stock Exchange of Hong Kong Limited. Tianjin Kansai and Shanghai Kansai were incorporated as joint venture companies in the PRC on 24th January 1992 and 22nd December 1995 respectively. Currently, the Kansai Paint Companies have common shareholders and same shareholding structure. The main activities of the Kansai Paint Companies are production and distribution of industrial coatings and paints.

One of the joint venture partners of the Kansai Paint Companies is Kansai Paint Co., Ltd. (“Kansai Paint”), a paint manufacturer listed on the Stock Exchange of Tokyo. Tianjin Kansai is the first PRC joint venture establishment invested by Kansai Paint. Kansai Paint provides Tianjin Kansai and Shanghai Kansai with industrial paint technologies (including vessel paints, container paints and anti-corrosion paints) as well as the necessary technical supports. Kansai Paint also allows the Kansai Paint Companies to use the brand name “ALESCO” on the coatings and paint products approved by Kansai Paint. COSCO Pacific Limited is responsible for supporting Tianjin Kansai and Shanghai Kansai with access to global market opportunities and financial resources.

According to the financial statements of the Kansai Paint Companies audited by PRC certified public accountants from 2000 to 2002, sales were relatively steady for the past three years. The table below sets out the performance of the Kansai Paint Companies for the financial years ended 31st December 2000 to 2002:

	Tianjin Kansai (RMB)			Shanghai Kansai (RMB)		
	2000	2001	2002	2000	2001	2002
Sales	244,235,691	255,332,961	241,766,765	189,691,199	180,246,953	187,715,822
Profit after tax	22,990,713	28,426,623	22,638,985	10,427,060	10,511,123	11,895,830
A/R	92,409,999	92,705,210	96,025,693	63,741,696	76,402,057	75,031,689
Provision (BS)	(2,635,189)	(2,082,367)	(2,078,111)	(320,109)	(382,010)	(1,900,879)
Inventory	69,100,376	38,824,744	62,944,117	48,453,362	34,673,309	75,795,212

Based on our discussion with management of the Kansai Paint Companies, Tianjin Kansai has reached its production capacity whilst Shanghai Kansai is still operating below capacity. With the expected decrease in product prices faced by both Kansai Paint Companies due to market competition, the positive financial effect of the planned increase in production volume in respect of Shanghai Kansai will be largely neutralized, leaving the total income of the Kansai Paint Companies relatively stable for the coming years.

## VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three common approaches to value. They are market approach, cost approach and income approach. In this valuation, the market approach is not appropriate as there are insufficient comparable transactions from which to form an opinion of value. The cost approach is inappropriate for valuing this type of company since it does not directly incorporate information about the amount of economic benefits associated with ownership of the company. We are of opinion the income approach can be applied to this valuation. Under the income approach, we have used the discounted cashflow approach in determining the value of the Kansai Paint Companies.

The valuation of the Kansai Paint Companies requires consideration of all relevant factors affecting the operation of the business and their abilities to generate future investment returns. The factors considered in the valuation included, but were not limited to, the following:

- the nature of the business;
- the financial condition of the business and the economic outlook in general;
- the compliance with terms of the contracts and agreements entered into by the Kansai Paint Companies;
- the projected operating results; and

- the financial and business risk of the enterprise including the continuity of income and the projected future results.

In determining the net present value of cash flows for the operations included in the valuation, we have taken into account a number of factors including the current market condition and the underlying risk inherent in the business, such as specific business risk, liquidity risk, etc. All such risk factors were considered in determining the appropriate discount rate for the valuation.

When evaluating the appropriate discount rate for the Kansai Paint Companies, we have used the Capital Assets Pricing Model (the “CAPM”). Under CAPM, the appropriate rate of return is the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the rate of returns of the Kansai Paint Companies are expected to be affected by factors that are independent of the general market. This variability of the rate of return is referred to as the specific risk.

In this valuation, we have used a risk free rate of 3%, being the yield of T-notes in the US market; a risk premium of 8%, being the difference between US S&P 500 return and the indicated risk free rate and a nominal beta of 0.9, being the average beta of US paint manufacturing companies.

To allow for liquidity risk, business risk and country risk related to the valuation of the Kansai Paint Companies, we have considered 8% as the specific risk premium (inclusive of 2% country risk premium).

We have concluded that the discount rate of 18% is appropriate for the valuation of the Kansai Paint Companies.

## VALUATION ASSUMPTIONS AND COMMENTS

In determining the value of the Kansai Paint Companies, we have made the following key assumptions. These assumptions have, where appropriate, been re-evaluated and validated in order to provide a more accurate and reasonable basis for our assessed value.

- In order to realise the growth potential of the business and maintain a competitive edge, additional manpower, equipment and facilities are necessary to be employed. For this valuation exercise, we have assumed that all proposed facilities and systems will work properly and will be sufficient for future expansion.
- We have been provided with copies of the operating licences and company incorporation documents. We have assumed such information to be reliable and legitimate. We have relied to a considerable extent on such information provided in arriving at our opinion of value.

- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic condition which may adversely affect the business of the Kansai Paint Companies.
- Operational and contractual terms bound by contracts and agreements will be honoured.
- Its competitive advantages and disadvantages do not change significantly during the operating period.
- We have assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

We have reviewed the legal, financial and operational information of the Kansai Paint Companies from several sources. We have also conducted interviews and discussions with senior management of the Kansai Paint Companies and have relied to a considerable extent on information provided in arriving at our opinion of value.

Please note that in arriving at our assessed value, we have only considered the revenue and expenses relevant to core business of the Kansai Paint Companies. Therefore, we have not made provision for other non-operating cash flow items such as interest income, exchange rate gain/loss, etc. in the valuation model.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Kansai Paint Companies and Sallmanns (Far East) Limited.

We do not intend to express any opinion on matters which require legal or other specialised expertise or knowledge, beyond that customarily employed by valuers. Our conclusions assume continuation of prudent management of the Kansai Paint Companies over whatever period of time is reasonable and necessary to maintain the character and integrity of the assets valued.

**CONCLUSION**

Based on the results of investigation and analysis carried out, it is our opinion that as at 31st July 2003, the aggregated market value of a 100 per cent interest in the Kansai Paint Companies was reasonably stated at the amount of **RMB183 million (RENMINBI ONE HUNDRED EIGHTY THREE MILLION ONLY)**, of which Shanghai Kansai was reasonably stated at the amount of **RMB89 million (RENMINBI EIGHTY NINE MILLION ONLY)** and Tianjin Kansai was reasonably stated at the amount of **RMB94 million (RENMINBI NINETY FOUR MILLION ONLY)**.

Yours faithfully,  
For and on behalf of  
**Sallmanns (Far East) Limited**  
**Vincent T. B. Chong**  
ACA FHKSA FTIHK CPA  
*Managing Director*

**RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

**EXPERTS**

The following are the qualifications of the experts who have given opinions or advice contained in this circular:

<b>Name</b>	<b>Qualifications</b>
DBS Asia	A deemed licensed corporation under the SFO permitted to engage in types 1, 4, 6 and 9 of the regulated activities as defined in the SFO
The Independent Valuer	Registered professional surveyor

Both DBS Asia and the Independent Valuer have given and have not withdrawn their respective written consent to the issue of this circular with the inclusion of the texts of its letter and references to its name, in the form and context in which it appears.

**DISCLOSURE OF INTERESTS****(a) Disclosure of interests by the Directors**

As at the Latest Practicable Date, the interests of each Director and chief executive of the Company in the equity or debt securities of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352

of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

(i) *Directors' interests in Shares*

Name of director	Number of Shares held	
	Personal interests	Percentage
Mr. Chen Pisen	500,000	0.04%

(ii) *Directors' interests in shares of associated corporations*

Name of associated corporation	Name of director	Number of shares held	
		Personal interests	Percentage
COSCO Pacific Limited	Mr. Kwong Che Keung, Gordon	250,000	0.01%

(iii) *Directors' interests in share options granted by associated corporations*

Name of associated corporation	Name of director	Number of share options
COSCO Pacific Limited	Mr. Lu Zhiming	1,500,000

*Note:* The share options were granted by COSCO Pacific Limited on 1st July 1996 and are exercisable at HK\$5.53 per share at any time between 1st July 1996 and 30th June 2006.

Save as disclosed in this circular, as at the Latest Practicable Date, none of Director and chief executive of the Company was interested in the equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

- (b) As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

- (c) As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.
- (d) As at the Latest Practicable Date, DBS Asia did not have any shareholding in any member of the Group and neither of them has any right or option to subscribe for or nominate persons to subscribe for shares in any member of the Group.
- (e) As at the Latest Practicable Date, none of the Directors nor DBS Asia had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to the Company, or was proposed to be acquired, or disposed of by, or leased to the Company, since 31st December, 2002, the date to which the latest published audited consolidated financial statements of the Company was made up.

### SUBSTANTIAL SHAREHOLDERS

- (a) As at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company, the persons, other than a Director or chief executive of the Company, who had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Ordinary Shares held	Percentage of total issued shares
COSCO	829,360,511	59.48%
COSCO (Hong Kong) Group Limited ( <i>Note</i> )	829,360,511	59.48%
True Smart ( <i>Note</i> )	527,060,904	37.80%
COSCO Investments ( <i>Note</i> )	302,299,607	21.68%

*Note:* These companies were wholly-owned subsidiaries of COSCO and their interests in the shares were included in the interest held by COSCO

Save as disclosed above, there was no person known to the Directors or the chief executive of the Company, other than the Directors or the chief executive of the Company, who, as at the Latest Practicable Date, had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

- (b) As at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company, the persons, other than a Director or chief executive of the Company, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group (other than the Company) and the amount of such persons' interests in such securities were as follows:

<b>Name of subsidiary of the Company</b>	<b>Name of substantial shareholder</b>	<b>Interest in the share capital/equity interest</b>	<b>Percentage</b>
Cash Rich Enterprises Limited	Honour Capital International Limited	1,415 shares	14.15%
COSCO International Ship Trading Company Limited	中遠國際貿易有限公司 (COSCO International Trading Company)	200,000 shares	40.00%
Henan Xin Zhong Yi Electric Power Co., Limited	河南省建設投資總公司 (Henan Province Construction Investment General Company)	RMB40,000,000	10.00%
Henan Xin Zhong Yi Electric Power Co., Limited	New Central Development Co., Ltd.	RMB144,000,000	36.00%
New Central International Enterprises Co., Ltd.	COSCO (H.K.) Industry & Trade Holdings Ltd.	100,000 shares	10.00%
Shanghai COSCO Honour Property Development Limited	Honour Capital International Limited	(Note)	14.00%
Shenyang COSCO Yihe Property Development Co., Ltd.	廣州遠洋建設實業公司 (COSCO Guangzhou Construction Industry Company)	RMB29,000,000	29.00%

Name of subsidiary of the Company	Name of substantial shareholder	Interest in the share capital/equity interest	Percentage
Shenyang COSCO Yihe Property Development Co., Ltd.	廣州頤和投資發展有限公司 (Guangzhou Yihe Investment & Development Co., Ltd.)	RMB20,000,000	20.00%

*Note:* Honour Capital International Limited was indirectly interested in approximately 14% equity interest of Shanghai COSCO Honour Property Development Limited through its approximately 14.15% interest in Cash Rich Enterprises Limited, which owned 99% equity interest in Shanghai COSCO Honour Property Development Limited.

Save as disclosed above, there was no person known to the Directors or the chief executive of the Company, other than the Directors or the chief executive of the Company, who, as at the Latest Practicable Date, was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

## MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31st December, 2002 (being the date of which the latest published audited accounts of the Company were made up).

## LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or arbitration of material importance is pending or threatened against the Company or any of its subsidiaries.

## GENERAL

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (b) The principal registrars of the Company is Codan Services Limited at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (c) The Hong Kong branch registrars of the Company is Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

- (d) The secretary of the Company is Ms. Wai Ching Sum, a qualified chartered secretary designated as FCIS, FCS and holds a Master of Science Degree in Financial Economics and a Master of Laws Degree in Chinese and Comparative Law.
- (e) The English text of this circular shall prevail over the Chinese text.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the offices of Heller Ehrman White & McAuliffe at 35th Floor, One Exchange Square, 8 Connaught Place, Central, Hong Kong up to and including 22nd September 2003 and at the SGM:

- (a) the Shanghai Kansai Agreement;
- (b) the Tianjin Kansai Agreement;
- (c) the Shanghai International Agreement;
- (d) the letter of advice from DBS Asia to the Independent Director, the text of which is set out on pages 23 to 28 in this circular;
- (e) the letter from the Independent Valuer, the text of which is set out on pages 29 to 34 in this Circular;
- (f) the letter of recommendation from the Independent Director to the Independent Shareholders, the text of which is set out on page 22 in this circular;
- (g) the written consent from DBS Asia as referred to in the paragraph headed “Experts” above; and
- (h) the written consent from the Independent Valuer as referred to in the paragraph headed “Experts” above.

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## NOTICE OF SPECIAL GENERAL MEETING

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### **COSCO International Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

**NOTICE IS HEREBY GIVEN** that a Special General Meeting of COSCO International Holdings Limited (the “Company”) will be held at 10:00 a.m., on Tuesday, 23rd September 2003 at 49th Floor, COSCO Tower, 183 Queen’s Road Central, Hong Kong for the purpose of considering and, if thought fit, passing (with or without modifications) each of the following resolutions as an ordinary resolution of the Company:—

#### **ORDINARY RESOLUTIONS**

1. **“THAT** the conditional agreement (a copy of which marked “A” has been produced to the meeting and signed by the Chairman for the purpose of identification) made between the Company, COSCO Industry Company (“COSCO Industry”) and Shen-John Investment Company L.L.C. (“Shen-John”) dated 14th August 2003 (the “Shanghai Kansai Agreement”) in relation to the Company’s purchases of in aggregate 34.19% equity interest in 上海中遠關西塗料化工有限公司 (Shanghai COSCO Kansai Paint & Chemicals Co., Ltd.) (“Shanghai Kansai”) (details of which are set out in the circular of the Company dated 2nd September 2003 to its shareholders (the “Circular”)) and all transactions contemplated thereby be and are hereby approved, ratified and confirmed, and **THAT** the entering into of the Shanghai Kansai Agreement and all other agreements, deeds and any other documents in relation thereto by the Company including the agreement to amend the joint venture contract of Shanghai Kansai and the agreement to amend the articles of association of Shanghai Kansai be approved, ratified and confirmed.”
2. **“THAT** the conditional agreement (a copy of which marked “B” has been produced to the meeting and signed by the Chairman for the purpose of identification) made between the Company, COSCO Industry and Shen-John dated 14th August 2003 (the “Tianjin Kansai Agreement”) in relation to the Company’s purchases of in aggregate 34.19% equity interest in Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. (“Tianjin Kansai”) (details of which are set out in the Circular) and all transactions contemplated thereby be and are hereby approved, ratified and confirmed, and **THAT** the entering into of the Tianjin Kansai Agreement and all other agreements, deeds and any other documents in relation thereto including the agreement to amend the joint venture contract of Tianjin Kansai and the agreement to amend the articles of association of Tianjin Kansai by the Company be approved, ratified and confirmed.”

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## NOTICE OF SPECIAL GENERAL MEETING

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3. “**THAT** the conditional agreement (a copy of which marked “C” has been produced to the meeting and signed by the Chairman for the purpose of identification) made between the Company and COSCO Industry dated 14th August 2003 (the “Shanghai International Agreement”) in relation to the Company’s purchase of 10% equity interest in International Paint of Shanghai Co., Ltd. (“Shanghai International”) (details of which are set out in the Circular) and all transactions contemplated thereby be and are hereby approved, ratified and confirmed, and **THAT** the entering into of the Shanghai International Agreement and all other agreements, deeds and any other documents in relation thereto by the Company including the agreement to amend the joint venture contract of Shanghai International and the agreement to amend the articles of association of Shanghai International be approved, ratified and confirmed.”
4. “**THAT** the Directors be and are hereby authorized to do all such things and execute all such documents as they in their absolute discretion deem fit or appropriate to give effect to the Shanghai Kansai Agreement, the Tianjin Kansai Agreement and the Shanghai International Agreement and the implementation of all transactions contemplated thereunder.”

By order of the Board  
**COSCO International Holdings Limited**  
**WAI Ching Sum**  
*Company Secretary*

Hong Kong, 2nd September 2003

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## NOTICE OF SPECIAL GENERAL MEETING

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*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Head Office and Principal Place of Business in Hong Kong:*

47th Floor  
COSCO Tower  
183 Queen's Road Central  
Hong Kong

*Notes:*

1. The ordinary resolutions to be considered at the Special General Meeting will be decided by poll. On voting by poll, each shareholder of the Company shall have one vote for each share held in the Company.
2. A shareholder of the Company entitled to attend and vote at the Special General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead in accordance with the Company's bye-laws. A proxy need not be a shareholder of the Company.
3. A form of proxy for use at the Special General Meeting is enclosed herewith.
4. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged at the branch share registrars of the Company in Hong Kong, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the appointed time for holding the Special General Meeting or any adjournment thereof (as the case may be) and in default thereof the form of proxy and such power or authority shall not be treated as valid.
5. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the Special General Meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.