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## COSCO International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 0517)

### CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 14 May 2004 in which the Company announced that, inter alia, the Company had entered into an agreement with, COSCO Hong Kong on 14 May 2004 whereby HK Insurance would provide the Services to COSCO Group for three financial years ending 31 December 2006 on normal commercial terms and on terms no less favourable than terms available to or from (as appropriate) independent third party.

On 10 November 2006, the Company, HK Insurance, SZ Insurance and COSCO Hong Kong entered into a conditional master agreement pursuant to which the Group will provide the Services to COSCO Group for three financial years ending 31 December 2009 on normal commercial terms and on terms no less favourable than terms available to or from (as appropriate) independent third party.

Being the ultimate holding company and intermediate holding company of the Company respectively, COSCO and COSCO Hong Kong together with their associates are connected persons of the Company. As the applicable percentage ratios for the Caps are expected to be higher than 2.5% on an annual basis, the Continuing Connected Transactions constitute non-exempt continuing connected transactions of the Company and the Caps, the Agreement and the transactions contemplated thereunder are subject to the disclosure and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

A circular containing, inter alia, (a) further information on the Agreement and the Caps; (b) the letter of advice from the independent financial adviser to the independent board committee of the Company and Independent Shareholders; (c) the recommendation from the independent board committee of the Company; and (d) a notice of the SGM will be dispatched to the Shareholders as soon as practicable.

#### BACKGROUND

Reference is made to the announcement of the Company dated 14 May 2004 in which the Company announced that, inter alia, the Company had entered into the Previous Agreement with, COSCO Hong Kong on 14 May 2004 whereby HK Insurance would provide the Services to COSCO Group for three financial years ending 31 December 2006 on normal commercial terms and on terms no less favourable than terms available to or from (as appropriate) independent third party. Further details of the Previous Agreement were disclosed in the circular of the Company dated 4 June 2004. The Previous Agreement and the transactions contemplated thereunder and the related caps were approved by the independent shareholders of the Company at the special general meeting of the Company held on 24 June 2004.

In view of the expiry of the Previous Agreement and the incorporation of SZ Insurance on 15 December 2005, the Company, HK Insurance, SZ Insurance and COSCO Hong Kong on 10 November 2006 entered into a conditional master agreement pursuant to which the Group will provide the Services to COSCO Group for three financial years ending 31 December 2009 on normal commercial terms and on terms no less favourable than terms available to or from (as appropriate) independent third party.

#### RELATIONSHIP BETWEEN THE COMPANY AND THE CONNECTED PERSONS

Being the ultimate holding company and intermediate holding company of the Company respectively, COSCO and COSCO Hong Kong together with their associates are connected persons of the Company and hence, the Continuing Connected Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

#### THE AGREEMENT

The principal terms of the Agreement are set out below:

<b>Date:</b>	10 November 2006
<b>Parties:</b>	The Company HK Insurance SZ Insurance COSCO Hong Kong
<b>Subject matter:</b>	Provision of marine and general insurance brokerage services by the Group to COSCO Group for three financial years ending 31 December 2009
<b>Term:</b>	From 1 January 2007 to 31 December 2009

The Agreement is conditional upon the approval of the Agreement and the Caps by the Independent Shareholders.

Under the Agreement, the parties agree that: –

- the Continuing Connected Transactions shall be on normal commercial terms and in particular: –
  - the members of the Group who are parties to the Continuing Connected Transactions shall be entitled to receive commission or other brokerage income for such transactions from the relevant insurance companies based on market rates or rates which are no less favourable than those offered for similar insurance brokerage services provided to independent third parties; and
  - the insurance premium payable by the members of COSCO Group to the insurance companies under the Continuing Connected Transactions shall be on normal commercial terms and negotiated on an arm's length basis.
- the turnover of the Group derived from the Continuing Connected Transactions in each of the financial years ending 31 December 2007, 31 December 2008 and 31 December 2009 will not exceed US\$5,740,000 (equivalent to approximately HK\$44,772,000), US\$6,320,000 (equivalent to approximately HK\$49,296,000) and US\$6,960,000 (equivalent to approximately HK\$54,288,000) respectively, being the proposed Caps.

COSCO Hong Kong will procure COSCO Group to comply with the provisions of the Agreement.

Under the Continuing Connected Transactions, the Group will act as insurance broker for COSCO Group. Upon the request of COSCO Group for a particular marine or general insurance coverage, the Group will source appropriate insurance companies, which are third parties independent of the Company, to provide their proposals for COSCO Group's consideration. If an agreement can be reached between COSCO Group and the relevant insurance company, the Group will be entitled to receive commission or other brokerage income from the insurance company for the transaction.

#### DETERMINATION OF THE PROPOSED CAPS

The following is a summary of the historical transaction amounts in respect of the Services for the two years ended 31 December 2005 and the nine months ended 30 September 2006: –

	For the financial year ended 31 December 2004* (US\$'000/HK\$'000)	For the financial year ended 31 December 2005 (US\$'000/HK\$'000)	For the nine months ended 30 September 2006 (US\$'000/HK\$'000)
Provision of the Services by HK Insurance	1,938/15,116	4,025/31,395	3,273/25,530
Provision of the Services by SZ Insurance	–	–	99/772
Total	1,938/15,116	4,025/31,395	3,372/26,302

\* based on the aggregate amount of transactions for the period commencing on the date when HK Insurance became the subsidiary of the Company to 31 December 2004

The transactions between SZ Insurance and the Company since 15 December 2005 have not exceeded the threshold of Rule 14A.33(3) of the Listing Rules. The commission received by SZ Insurance from 15 December 2005 to 30 September 2006 was approximately US\$99,000 (equivalent to approximately HK\$772,000) which was less than 0.1% of the Company's audited revenue for the year ended 31 December 2005, i.e. approximately HK\$1,510,000.

The proposed Caps of the Continuing Connected Transactions for each of the financial years ending 31 December 2007, 2008 and 2009 of the Group are set out below: –

	31 December 2007 (US\$'000/HK\$'000)	For the financial year ending 31 December 2008 (US\$'000/HK\$'000)	31 December 2009 (US\$'000/HK\$'000)
Caps	5,740/44,772	6,320/49,296	6,960/54,288

Note: The proposed Caps are denominated in US\$. The amounts expressed in HK\$ above are the approximate amounts calculated at the exchange rate of US\$1 to HK\$7.8 for reference only.

In determining the proposed Caps of the Continuing Connected Transactions for each of the financial years ending 31 December 2007, 2008 and 2009 of the Group, the Board has (a) examined and compared the most recent performance of HK Insurance during the year 2004, the year 2005 and the nine months ended 30 September 2006 as a base; (b) interviewed the management of HK Insurance and SZ Insurance to obtain opinion on the Continuing Connected Transactions turnover forecasts for the years of 2007 to 2009; and (c) considered the following factors: (i) business growth trend of HK Insurance's and SZ Insurance's provisions of the Services; (ii) recent growth trend of the price of ocean vessels – higher price required for higher insured sum; (iii) premium rate movement and trend quoted by insurance underwriters; (iv) new business opportunities expected to be brought by SZ Insurance since it only commenced operation in the second half of the year 2006; (v) expected keen demands for new vessels and charter boats in the coming years to the COSCO Group from 2007; (vi) overall forecast for the years of 2007 to 2009 on the number, age and size of vessels held by COSCO Group; and (vii) unaudited management accounts of HK Insurance and SZ Insurance for the nine months ended 30 September 2006.

If the aggregate amounts payable by COSCO Group for the Continuing Connected Transactions shall exceed the Caps or upon the expiry of the Caps or where there is a material change to the terms of the Continuing Connected Transactions, the Company will re-comply with all applicable requirements under the Listing Rules, including (where required) the obtaining of approval of the Independent Shareholders. The Company will also comply with the annual review and reporting requirements of Rule 14A.37 to Rule 14A.41 and Rule 14A.45 to Rule 14A.47 in relation to the Continuing Connected Transactions.

#### INFORMATION OF THE GROUP AND THE CONNECTED PERSONS

The Group is principally engaged in ship trading and supplying services and its other business operation includes property investment and development.

COSCO Group is one of the largest shipowners in the world.

#### REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Directors (including the independent non-executive Directors) confirm that the Continuing Connected Transactions will be conducted in the usual and ordinary course of business of the Group, and based on normal commercial terms and on terms no less favourable to the Group than terms available to other independent third parties. The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) are of the view that the Caps, the Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors consider it to be in the interest of the Company to continue engaging in the Continuing Connected Transactions as they would help to increase the market share of HK Insurance and SZ Insurance. The Directors have confirmed that the Continuing Connected Transactions contributed approximately 84% of the total turnover of HK Insurance and SZ Insurance for the nine months ended 30 September 2006 and COSCO Group remains the major customers in the market. As such, the Continuing Connected Transactions would secure HK Insurance's and SZ Insurance's market share.

#### IMPLICATIONS OF THE LISTING RULES

As the Continuing Connected Transactions constitute continuing connected transactions and the applicable percentage ratios for the Caps are expected to exceed 2.5%, the Continuing Connected Transactions constitute non-exempt continuing connected transactions of the Company and the Agreement and the Caps are subject to the reporting and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules. The SGM will be convened for the Independent Shareholders to approve the Caps, the Agreement and the transactions contemplated thereunder by poll.

In view of the interests of COSCO and COSCO Hong Kong in the Company, COSCO and COSCO Hong Kong and their respective associates will abstain from voting in relation to the resolutions to approve the Caps, the Agreement and the transactions contemplated thereunder.

An independent financial adviser will be appointed to advise the independent board committee of the Company and the Independent Shareholders regarding the Caps, the Agreement and the transactions contemplated thereunder. An independent board committee of the Company will also be appointed to advise the Independent Shareholders on whether or not the Caps, the Agreement and the transactions contemplated thereunder are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned.

#### GENERAL

A circular containing, inter alia, (a) further information on the Caps and the Agreement; (b) the letter of advice from the independent financial adviser to the independent board committee of the Company and Independent Shareholders; (c) the recommendation from the independent board committee of the Company; and (d) a notice of the SGM will be dispatched to the Shareholders as soon as practicable.

As at the date hereof, the Board comprises fourteen Directors of which Messrs. Wei Jiafu (Chairman), Liu Guoyuan (Vice Chairman), Li Jianhong, Jia Lianjun, Wang Xiaoming, Liang Yanfeng (Managing Director), Meng Qinghui, Chen Xuewen, Lin Libing, Wang Xiaodong and Lin Wenjin are executive directors; and Messrs. Chan Cheong Foon, Andrew, Kwong Che Keung, Gordon and Tsui Yiu Wa, Alec are independent non-executive directors.

**DEFINITIONS**

In this announcement, unless the context otherwise requires, the following terms have the meanings set opposite to them below:

“Agreement”	the conditional master agreement dated 10 November 2006 between the Company, HK Insurance, SZ Insurance, and COSCO Hong Kong for provision of Services by the Group to COSCO Group for three financial years ending 31 December 2009;
“associate(s)”	the meaning ascribed to it in the Listing Rules;
“Board” or “Director(s)”	the board of directors of the Company;
“Caps”	for the purpose of Chapter 14A of the Listing Rules, means US\$5,740,000 (equivalent to approximately HK\$44,772,000), US\$6,320,000 (equivalent to approximately HK\$49,296,000) and US\$6,960,000 (equivalent to approximately HK\$54,288,000), being the annual caps for each of the three financial years ending 31 December 2007, 2008 and 2009 respectively in respect of the Continuing Connected Transactions;
“Company”	COSCO International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange;
“connected person(s)”	the meaning ascribed to it in the Listing Rules;
“Continuing Connected Transactions”	the provision of the Services by the Group to COSCO Group under the Agreement;
“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 holding company of the Company;
“COSCO Group”	COSCO, COSCO Hong Kong and their subsidiaries and other associates (other than the Group);
“COSCO Hong Kong”	COSCO (Hong Kong) Group Limited, a company incorporated in Hong Kong with limited liability and the intermediate holding company of the Company;
“Group”	the Company and its subsidiaries;
“HK Insurance”	COSCO (Hong Kong) Insurance Brokers Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Shareholder(s)”	Shareholder(s) other than COSCO, COSCO Hong Kong and any of their respective associates;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
“Previous Agreement”	the agreement dated 14 May 2004 between, inter alia, COSCO Hong Kong and the Company for, inter alia, the provision of Services by HK Insurance to COSCO Group for three financial years ending 31 December 2006;
“Services”	marine and general insurance brokerage services to COSCO Group;
“SGM”	the special general meeting of the Company to be held to approve the Caps, the Agreement and transactions contemplated thereunder;
“Shareholder(s)”	the holder(s) of the shares of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“SZ Insurance”	深圳中遠保險經紀有限公司 (Shenzhen COSCO Insurance Brokers Limited#), a company incorporated in the PRC with limited liability and a 55% owned subsidiary of the Company;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong; and
“US\$”	United States dollars, the lawful currency of United States.

In this announcement, the exchange rate of US\$1 to HK\$7.8 is used for expressing amounts in HK\$ equivalents for amounts originally denominated in US\$.

# for identification purposes only

By Order of the Board  
**COSCO International Holdings Limited**  
**Liang Yanfeng**  
*Managing Director*

Hong Kong, 10 November 2006