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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 28 November 2005 in relation to, inter alia, the formation of Zhuhai JV by the Company and Japan Kansai.

Pursuant to the terms of the Zhuhai JV Agreement, Zhuhai JV and Japan Kansai have entered into the Technology Transfer Agreement on 28 February 2006 whereby, inter alia, Japan Kansai has agreed to provide necessary technology and know-how in producing certain container coatings and heavy-duty anti-corrosion coatings to Zhuhai JV. The Technology Transfer Agreement shall remain in force during the subsistence of the Zhuhai JV Agreement which is due to expire on 24 February 2026.

In addition, in view of the expected commencement of Zhuhai JV's production within the next two months, Zhuhai JV on 16 August 2007 entered into the following agreements with Japan Kansai and COSCO Hong Kong respectively for a period commencing from 1 August 2007 and expiring on 31 December 2007, namely:–

- (a) the JK Agreement with Japan Kansai in relation to the purchase of raw materials and semi-finished products by Zhuhai JV from Japan Kansai; and
- (b) the COSCO Agreement with COSCO Hong Kong in relation to the introduction of business to Zhuhai JV by members of the COSCO Group in return for commission payable to such members for business successfully introduced by them.

Zhuhai JV is owned as to 64.71% by the Company and 35.29% by Japan Kansai. As Japan Kansai is a substantial shareholder of Zhuhai JV and the Kansai Companies, all being non-wholly owned subsidiaries of the Company, Japan Kansai is a connected person of the Company. Further, being the ultimate holding company and the intermediate holding company of the Company respectively, COSCO, COSCO Hong Kong and their respective associates (other than the Group) are connected persons of the Company. Accordingly, the Continuing Connected Transactions constitute continuing connected transactions of the Company under the Listing Rules.

For the purpose of the Listing Rules, the respective annual caps of the consideration involved for transactions contemplated under each of the Technology Transfer Agreement, the JK Agreement and the COSCO Agreement for the financial year ending 31 December 2007 (covering the period from 1 August 2007 to 31 December 2007) are set at RMB1.5 million, RMB2 million and RMB6 million respectively.

As the applicable percentage ratios of the Continuing Connected Transactions are expected to be less than 2.5% but more than 0.1% on an aggregate basis as required under Rule 14A.25 of the Listing Rules, the Continuing Connected Transactions are only subject to the reporting and announcement requirements and are exempt from the independent Shareholders' approval requirement pursuant to Rule 14A.34 of the Listing Rules.

Reference is made to the announcement of the Company dated 28 November 2005 in relation to, inter alia, the formation of Zhuhai JV by the Company and Japan Kansai.

## **CONTINUING CONNECTED TRANSACTIONS**

### **(a) The Technology Transfer Agreement**

As disclosed in the announcement of the Company dated 28 November 2005, it is a term of the Zhuhai JV Agreement that Zhuhai JV and Japan Kansai would enter into a technology transfer agreement whereby Japan Kansai would provide necessary technology and know-how in producing certain container coatings and heavy-duty anti-corrosion coatings to Zhuhai JV and permit Zhuhai JV to use Japan Kansai's related trademarks in return for fees to be payable by Zhuhai JV during the subsistence of the Zhuhai JV Agreement.

In accordance with the terms of the Zhuhai JV Agreement, Zhuhai JV and Japan Kansai have entered into the Technology Transfer Agreement on 28 February 2006, whereby, inter alia, Japan Kansai has agreed that,

- (i) Japan Kansai shall provide to Zhuhai JV necessary technology and know-how in relation to the production of certain container coatings and heavy-duty anti-corrosion coatings listed out in a schedule to the Technology Transfer Agreement;
- (ii) Zhuhai JV shall have the right to:–
  - (a) produce such container coatings and heavy-duty anti-corrosion coatings by using the technology and know-how provided by Japan Kansai on an exclusive basis in the Zhuhai region, the PRC and on a non-exclusive basis outside the Zhuhai region, the PRC;
  - (b) sell such container coatings and heavy-duty anti-corrosion coatings; and
  - (c) use Japan Kansai's related trademarks.

The Technology Transfer Agreement shall remain in force during the subsistence of the Zhuhai JV Agreement which is due to expire on 24 February 2026.

Under the Technology Transfer Agreement, a technology usage fee at the rate of 0.75% of the net sales revenue of Zhuhai JV (in respect of the period since Zhuhai JV commences production up to 30 June 2007) and the rate of 0.5% of the net sales revenue of Zhuhai JV (in respect of the period commencing from 1 July 2007 to the expiry of the duration of the Zhuhai JV Agreement) shall be payable by Zhuhai JV to Japan Kansai. The technology usage fee (after deducting income tax imposed on Japan Kansai which will be settled by Zhuhai JV on its behalf) shall be payable by Zhuhai JV to Japan Kansai in cash on an annual basis. As Zhuhai JV has not yet commenced its production, no technology usage fee was payable by Zhuhai JV to Japan Kansai for the period from February 2006 to July 2007.

The rate of technology usage fee is determined on the basis of prevailing rate in the market and the Directors believe that Zhuhai JV will be paying at the lower-end of the prevailing market rate.

Subject to written confirmation by the parties or at the election of Japan Kansai, other existing or new coatings products developed by Japan Kansai may also be included in the list of products covered by the Technology Transfer Agreement in future without extra charge save that where the newly added coatings products involved the use of certain newly developed technology of Japan Kansai, the parties shall further negotiate and agree on the consideration and other terms for the provision of such technology.

#### *Duration of the Technology Transfer Agreement*

In order to ensure that Zhuhai JV has the technology necessary for its production process throughout the term of the joint venture, the Technology Transfer Agreement has been entered into for a term of more than three years. Since Japan Kansai's technology and technical information is patented, it has been normal market practice for technology transfer agreements of this type to be entered into for the duration of the equity joint venture.

Other members of the Group (the Kansai Companies) have previously entered into similar long term arrangements with Japan Kansai pursuant to the Tianjin Technology Agreement and the Shanghai Technology Agreement.

Under the Tianjin Technology Agreement, the arrangements shall remain in force during the subsistence of the equity joint venture contract of Tianjin Kansai (that is, currently for a total period of approximately 23 years after the extension of the duration of the equity joint venture contract). The current annual technology usage fee payable by Tianjin Kansai to Japan Kansai thereunder is 0.5% of the net sales revenue of Tianjin Kansai. Under the Shanghai Technology Agreement, the arrangements shall remain in force during the subsistence of the equity joint venture contract of Shanghai Kansai (that is, currently for a period of approximately 20 years). The current annual technology usage fee payable by Shanghai Kansai to Japan Kansai thereunder is 0.75% of the net sales revenue of Shanghai Kansai.

The Directors consider that the long duration of the Technology Transfer Agreement is in the interests of the Company and the Shareholders as a whole because the current technology usage fee rate is at the lower-end of the prevailing market rate and a longer term is necessary for Zhuhai JV to ensure its right to produce and sell the products by making use of the necessary technology throughout the duration of the Zhuhai JV Agreement.

Pursuant to Rule 14A.35(1) of the Listing Rules, CIMB-GK Securities (HK) Limited (“**CIMB-GK**”) has been appointed by the Board as independent financial adviser to advise the Directors on whether the term of the Technology Transfer Agreement exceeding three years is normal for agreements of this type.

According to the letter of advice given by CIMB-GK to the Board dated 16 August 2007, CIMB-GK notes that other members of the Group (the Kansai Companies) have also entered into similar long term technology transfer agreements with Japan Kansai for the provision of similar technology transfer services contemplated under the Technology Transfer Agreement. Although no direct independent listed comparables can be identified for the Technology Transfer Agreement in the public domain, to assess whether or not it is a normal business practice for contracts of this type to be of a duration longer than three years, CIMB-GK has made references to, so far as CIMB-GK is aware of, certain similar licensing arrangements entered into by other companies whose shares are listed on the Stock Exchange (the “**Comparable(s)**”), the summary of which are as follows:–

<b>Name of Comparable</b>	<b>Nature of agreement</b>	<b>Terms</b>
China Life Insurance Company Limited	Trademark license	4 years
China Resources Logic Limited	Technology license	10 years
Hang Ten Group Holdings Limited	Trademark license	10 years
TCL Multimedia Technology Holdings Limited	Trademark license	7 years
Vedan International (Holdings) Limited	Trademark license	7 years
Win Hanverky Holdings Limited	Trademark license	10 years

Given the similar nature in terms of the licensing arrangements of the Technology Transfer Agreement and those of the Comparables, CIMB-GK considers that references of the Comparables can be used in assessing the duration of the Technology Transfer Agreement.

Having considered:

- (i) the Group’s long term co-operation and business relationship established with Japan Kansai;
- (ii) the existing similar long term arrangements entered into by other members of the Group (the Kansai Companies) with Japan Kansai pursuant to the Tianjin Technology Agreement and the Shanghai Technology Agreement;
- (iii) the long duration of similar licensing arrangements noted in the Comparables; and

- (iv) the long term benefits of the Technology Transfer Agreement to be conferred to the Zhuhai JV whereby it can continue to secure the right to produce and sell the products by the provision of all necessary technology and know-how developed or patented by Japan Kansai to manufacture coatings for sale throughout the term of the joint venture contract,

CIMB-GK is of the view that it is normal business practice for agreements of this type to be of a duration longer than three years.

**(b) The JK Agreement**

In view of the expected commencement of Zhuhai JV's production within the next two months, Zhuhai JV on 16 August 2007 entered into the JK Agreement with Japan Kansai in relation to the purchase of raw materials and semi-finished products by Zhuhai JV from Japan Kansai for a period commencing from 1 August 2007 and expiring on 31 December 2007 for the production of container coatings and heavy-duty anti-corrosion coatings.

Pursuant to the terms of the JK Agreement with Japan Kansai, the particulars of the sales and purchases, including without limitation, the price, quantity and manner of payment, are to be determined after negotiations between the parties. Upon Zhuhai JV issuing the purchase order(s) setting out the terms of the sales and purchases to Japan Kansai and the acceptance of the same by Japan Kansai in writing, it will constitute separate purchase agreement(s) between the parties. Accordingly, the sales and purchases of the raw materials and the semi-finished products shall be subject to the JK Agreement and such separate agreement(s) between the parties.

**(c) The COSCO Agreement**

In view of the expected commencement of Zhuhai JV's production within the next two months, Zhuhai JV on 16 August 2007 entered into the COSCO Agreement with COSCO Hong Kong. Under the COSCO Agreement, for a period commencing from 1 August 2007 and expiring on 31 December 2007, members of the COSCO Group will introduce business to Zhuhai JV in return for commission payable to such members for business successfully introduced by them.

Pursuant to the terms of the COSCO Agreement, with respect to such introduction of business, the relevant parties shall enter into separate agreement(s) to be agreed from time to time. Accordingly, the parties shall be subject to the COSCO Agreement and such separate agreement(s) in this regard.

Subject to the cap amount of RMB6 million, the rate of commission payable by Zhuhai JV will vary from 3% to 10% of the value of the order as stipulated in the separate agreement(s) and in line with the then prevailing market rate.

**ANNUAL CAPS**

As Zhuhai JV has not yet commenced its production, the Company has discussed with the management of Zhuhai JV on the determination of the annual caps for the Continuing Connected Transactions and has examined and compared the performance of the Kansai Companies, being two other joint venture enterprises owned by the Company and Japan Kansai which are conducting similar business and have entered into similar continuing connected transactions (which have been approved by the independent Shareholders at a special general meeting of the Company on 21 July 2005) with Japan Kansai and the COSCO Group. As a result, for the purpose of the Listing Rules, the respective annual caps of the consideration involved for transactions contemplated under each of the Technology Transfer Agreement, the JK Agreement and the COSCO Agreement for the financial year ending 31 December 2007 (covering the period from 1 August 2007 to 31 December 2007) are set at RMB1.5 million, RMB2 million and RMB6 million

respectively. The Board has particularly considered the following in determining the annual caps for each of the Continuing Connected Transactions:–

- (a) in respect of the Technology Transfer Agreement, the projection on technology usage fee which is arrived at by multiplying the projection on the net sales revenue of Zhuhai JV for the year ending 31 December 2007 with the usage fee rate of 0.5%;
- (b) in respect of the JK Agreement, the projection on the quantities and price of raw materials and semi-finished products to be purchased from Japan Kansai; and
- (c) in respect of the COSCO Agreement, the value and size of the business referrals by members of the COSCO Group and the expected commission rate.

If it is anticipated that the annual consideration payable under any of the Continuing Connected Transactions will exceed the relevant caps, the Company will comply with all applicable requirements under the Listing Rules, including the making of further announcement and (where required) the obtaining of approval from its independent Shareholders in advance. The Company will also comply with all applicable requirements under the Listing Rules in relation to transactions contemplated under the Technology Transfer Agreement for the period from 1 January 2008 up to the expiry of the Zhuhai JV Agreement. In particular, the Company intends to determine the annual caps of the Technology Transfer Agreement, together with the annual caps of the technology transfer agreements for the Kansai Companies, for the next three financial years 2008, 2009 and 2010 and re-comply with all applicable requirements under the Listing Rules and (where required) to obtain approval from its independent Shareholders, by the end of this year when the existing annual caps of the technology transfer agreements for the Kansai Companies expire.

## **REASONS FOR THE TRANSACTIONS**

By entering into the Continuing Connected Transactions, the Group will benefit in securing a reliable source of supply of (a) technology and know-how in relation to the coatings production of Zhuhai JV and (b) high quality raw materials from Japan Kansai. Further, relying on the recommendations and long term customers of the COSCO Group and its introduction of business, the Group will be able to gain advantage of the sales networks and clientele of the COSCO Group.

The Directors, including the independent non-executive Directors, consider that the Technology Transfer Agreement, the JK Agreement and the COSCO Agreement have been arrived at, and the Continuing Connected Transactions will be conducted after, arm's length negotiation between the parties, on normal commercial terms and are in the ordinary and usual course of business of the Group. The Directors are also of the view that the terms of the Technology Transfer Agreement, the JK Agreement, the COSCO Agreement, the Continuing Connected Transactions and the relevant caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole and are on terms no less favourable to the Group than those that can be received from independent third parties.

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

Zhuhai JV is owned as to 64.71% by the Company and 35.29% by Japan Kansai. As Japan Kansai is a substantial shareholder of Zhuhai JV and the Kansai Companies, all being non-wholly owned subsidiaries of the Company, Japan Kansai is a connected person of the Company. Further, being the ultimate holding company and the intermediate holding company of the Company respectively, COSCO, COSCO Hong Kong and their respective associates (other than the Group) are connected persons of the Company. Accordingly, the Continuing Connected Transactions constitute continuing connected transactions of the Company under the Listing Rules.

## **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.

It is the current intention that Zhuhai JV will be principally engaged in the manufacturing and sale of container coatings, heavy-duty anti-corrosion coatings and petro-chemical products in relation thereto.

The principal business operations of Japan Kansai, a company whose securities are listed on the Stock Exchange of Tokyo, include the provision of technology, manufacture and sales of paints and/or coatings.

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

## **LISTING RULES IMPLICATIONS**

As the Technology Transfer Agreement, the JK Agreement and the COSCO Agreement all relate to the operation of Zhuhai JV, the same are aggregated pursuant to Rule 14A.25 of the Listing Rules. As the applicable percentage ratios of the Continuing Connected Transactions are expected to be less than 2.5% but more than 0.1% on an aggregate basis as required under Rule 14A.25 of the Listing Rules, the Continuing Connected Transactions are only subject to the reporting and announcement requirements and are exempt from the independent Shareholders' approval requirement pursuant to Rule 14A.34 of the Listing Rules.

The Board comprises fifteen Directors with Mr. Wei Jiafu (Chairman), Mr. Liu Guoyuan (Vice Chairman), Mr. Li Jianhong, Mr. Wang Futian, Mr. Jia Lianjun, Mr. Wang Xiaoming, Mr. Liang Yanfeng (Managing Director), Mr. Meng Qinghui, Mr. Chen Xuwen, Mr. Lin Libing, Mr. Wang Xiaodong, Mr. Lin Wenjin as executive Directors and Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec and Mr. Jiang, Simon X. as independent non-executive Directors.

## **DEFINITIONS**

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

“associate”	the meaning ascribed to it in the Listing Rules;
“Board” or “Directors”	the board of directors of the Company;
“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”	the meaning ascribed to it in the Listing Rules;
“Continuing Connected Transactions”	the continuing connected transactions between Zhuhai JV and each of Japan Kansai and the COSCO Group as contemplated under the Technology Transfer Agreement, the JK Agreement and the COSCO Agreement;

“COSCO”	中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company <sup>#</sup> ), a company incorporated in the PRC and the ultimate holding company of the Company;
“COSCO Agreement”	the master agreement dated 16 August 2007 entered into between Zhuhai JV and COSCO Hong Kong in relation to the introduction of business by members of the COSCO Group to Zhuhai JV, for a period commencing from 1 August 2007 and expiring on 31 December 2007;
“COSCO Group”	COSCO and its subsidiaries;
“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;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Japan Kansai”	Kansai Paint Co., Ltd. (關西塗料株式會社), a company registered in Osaka, Japan and listed on the Stock Exchange of Tokyo, the beneficial owner of 35.29% equity interest in Zhuhai JV;
“JK Agreement”	the master agreement dated 16 August 2007 entered into between Zhuhai JV and Japan Kansai in relation to the purchase of raw materials and semi-finished products by Zhuhai JV from Japan Kansai for a period commencing from 1 August 2007 and expiring on 31 December 2007;
“Kansai Companies”	Shanghai Kansai and Tianjin Kansai;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“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 under the laws of the PRC which is owned, among others, as to 63.07% by the Company and 35.29% by Japan Kansai;
“Shanghai Technology Agreement”	the technology transfer agreement entered into between Japan Kansai and Shanghai Kansai on 19 January 1996 for the provision of necessary technology and know-how relating to the manufacture of container coatings, marine coatings and heavy-duty anti-corrosion coatings by Japan Kansai to Shanghai Kansai (as disclosed in the announcement and circular of the Company dated 25 May 2005 and 15 June 2005 respectively);
“Shareholder(s)”	the holder(s) of the shares of the Company;

“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	the meaning ascribed to it in the Listing Rules;
“Technology Transfer Agreement”	the technology transfer agreement dated 28 February 2006 entered into between Zhuhai JV and Japan Kansai whereby, inter alia, Japan Kansai agreed to provide necessary technology and know-how in producing certain container coatings and heavy-duty anti-corrosion coatings to Zhuhai JV;
“Tianjin Kansai”	天津中遠關西塗料化工有限公司 (Tianjin COSCO Kansai Paint & Chemicals Co., Ltd), a sino-foreign equity joint venture enterprise under the laws of the PRC which is owned, among others, as to 63.07% by the Company and 35.29% by Japan Kansai;
“Tianjin Technology Agreement”	the technology transfer agreement entered into between Japan Kansai and Tianjin Kansai on 18 December 1991 for the provision of necessary technology and know-how relating to the manufacture of container coatings, marine coatings and heavy-duty anti-corrosion coatings by Japan Kansai to Tianjin Kansai (as disclosed in the announcement and circular of the Company dated 25 May 2005 and 15 June 2005 respectively);
“Zhuhai JV”	珠海中遠關西塗料化工有限公司 (Zhuhai COSCO Kansai Paint & Chemicals Co., Ltd.), a wholly foreign owned enterprise established under the laws of the PRC owned as to 64.71% by the Company and 35.29% by Japan Kansai;
“Zhuhai JV Agreement”	a joint venture agreement entered into between the Company and Japan Kansai in relation to the setting up and operation of Zhuhai JV dated 28 November 2005;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong; and
“RMB”	Renminbi, the lawful currency of the PRC.

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

# *for identification purpose only*

Hong Kong, 16 August 2007