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## IMPORTANT

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, 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 transfer** all your shares in COSCO International Holdings Limited, you should at once hand this circular and the accompanying form of proxy 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 securities of COSCO International Holdings Limited.

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## COSCO International Holdings Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 0517)**

### CONTINUING CONNECTED TRANSACTIONS

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



**G.K. Goh Securities (H.K.) Limited**

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A letter from the Board is set out on pages 4 to 12 of this circular and a letter from the Independent Board Committee is set out on page 13 of this circular. A letter from G.K. Goh, the independent financial adviser, containing its advice in respect of the Continuing Connected Transactions to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 23 of this circular.

A notice convening a special general meeting of the Company to be held at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong on 21st July 2005 at 10:00 a.m. is set out on pages 33 to 36 of this circular. Whether or not you are able to attend, you are requested to complete and return the enclosed form of proxy as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting 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. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

15th June 2005

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## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	COSCO International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Continuing Connected Transactions”	the continuing connected transactions between the Kansai Companies and the Kansai Group and the COSCO Group respectively as set out in the paragraph headed “Continuing Connected Transactions”
“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 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
“Directors”	the directors of the Company
“G.K. Goh”	G.K. Goh Securities (H.K.) Limited, a licensed corporation for types 1 (Dealing in Securities), 4 (Advising on Securities) and 6 (Advising on Corporate Finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors Mr. Chan Cheong Foon, Andrew, Mr. Kwong Che Keung, Gordon and Mr. Tsui Yiu Wa, Alec
“Independent Shareholder(s)”	(a) Shareholder(s) other than COSCO, True Smart and any of their respective associates, in relation to the Continuing Connected Transactions with the COSCO Group; or (b) All Shareholder(s), in relation to the Continuing Connected Transactions with the Kansai Group;

whichever is the case.

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## DEFINITIONS

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“Japan Kansai”	Kansai Paint Co., Ltd. (日本關西塗料株式會社), a company registered in Osaka, Japan, beneficial owner of 35.29% equity interest in each of Shanghai Kansai and Tianjin Kansai
“Kansai Companies”	Shanghai Kansai and Tianjin Kansai
“Kansai Group”	Japan Kansai, its subsidiaries and its associates
“Latest Practicable Date”	8th June 2005, 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
“NKM”	NKM Coatings Co. Ltd., a company registered in Kyoto, Japan and Japan Kansai held more than 30% of its equity interest
“PRC”	the People’s Republic of China which for the purpose of this circular, exclude Hong Kong, Macau Special Administrative Region and Taiwan Region
“Previous Waiver”	the waiver granted by the Stock Exchange on 18th February 2004 to the Company in respect of the ongoing connected transactions between the Kansai Companies and the Kansai Group and the COSCO Group
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Kansai”	Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. (上海中遠關西塗料化工有限公司), a sino-foreign equity joint venture enterprise under the laws of the PRC which is owned, among others, as to 63.07% equity interest by the Company and 35.29% equity interest by Japan Kansai
“Shares”	ordinary share(s) of HK\$0.10 each in the share capital of the Company (or such other nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time)
“Shareholder(s)”	the holder(s) of the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Special General Meeting”	a special general meeting of the Company to be held at 49th Floor, COSCO Tower, 183 Queen’s Road Central, Hong Kong on 21st July 2005 at 10:00 a.m. (notice of which is set out on pages 33 to 36 of this circular), including any adjournment thereof

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## DEFINITIONS

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“Tianjin Kansai”                    Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. (天津中遠關西塗料化工有限公司), a sino-foreign equity joint venture enterprises established under the laws of the PRC which is owned, among others, as to 63.07% equity interest by the Company and 35.29% equity interest by Japan Kansai

“True Smart”                        True Smart International Limited, a company incorporated under the laws of British Virgin Islands and a wholly-owned subsidiary of COSCO, which holds 58.53% equity interest in the Company

\* *For identification purpose only*

*In this circular, for reference purpose only and unless otherwise stated, translation of RMB into HK\$ is calculated by using an exchange rate of HK\$1.00 = RMB1.0644.*

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## LETTER FROM THE BOARD

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### COSCO International Holdings Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 0517)**

*Executive Directors:*

Mr. Wei Jiafu (*Chairman*)  
Mr. Liu Guoyuan (*Vice-chairman*)  
Mr. Li Jianhong  
Mr. Zhou Liancheng  
Mr. Liu Hanbo (*Managing Director*)  
Mr. He Jiale  
Mr. Guo Huawei  
Mr. Chen Pisen  
Mr. Meng Qinghui  
Mr. Zhao Kaiji  
Mr. Lin Libing

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Head Office and*

*Principal Place of Business:*

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

*Independent Non-executive Directors:*

Mr. Chan Cheong Foon, Andrew  
Mr. Kwong Che Keung, Gordon  
Mr. Tsui Yiu Wa, Alec

15th June 2005

*To the Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTIONS**

#### **1. INTRODUCTION**

Reference is made to the announcement of the Company dated 25th November 2003 and the circular of the Company dated 12th December 2003 containing details of the continuing connected transactions under the Previous Waiver. It was further announced in the announcement of the Company dated 24th February 2005 that the Stock Exchange has stated that the Previous Waiver has been revoked in all respects.

On 25th May 2005, the Directors announced that the Kansai Companies, both being subsidiaries of the Company entered into written agreements in respect of the Continuing Connected Transactions with the Kansai Group and the COSCO Group respectively.

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## LETTER FROM THE BOARD

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As the Continuing Connected Transactions for the Kansai Companies constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules, they will be subject to the reporting requirements under Rules 14A.45 and 14A.46 of the Listing Rules, the annual review requirement under Rules 14A.37 to 14A.41 of the Listing Rules and are subject to independent shareholders' approval at general meeting by way of poll under Rule 14A.35(4) of the Listing Rules.

The Independent Board Committee, comprising the independent non-executive Directors Mr. Chan Cheong Foon, Andrew, Mr. Kwong Che Keung, Gordon and Mr. Tsui Yiu Wa, Alec, has been appointed by the Board to consider the terms of the Continuing Connected Transactions. G.K. Goh has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and the terms thereof are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

The purpose of this circular is (i) to provide the Shareholders with further information on the Continuing Connected Transactions, (ii) to set out the recommendation of the Independent Board Committee, (iii) to set out the letter of advice from G.K. Goh to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions, and (iv) to give the Shareholders the notice of the Special General Meeting and other information required by the Listing Rules.

So far as the Board is aware, save for its interests in the Kansai Companies, Japan Kansai and its associates (as defined under the Listing Rules) have no interests in any shares of the Company or its subsidiaries. Accordingly, COSCO, True Smart and their respective associates will be entitled to vote on the ordinary resolution no. 1 to be proposed at the Special General Meeting in respect of the Continuing Connected Transactions with the Kansai Group.

However, as True Smart is a wholly-owned subsidiary of COSCO and True Smart holds approximately 58.53% equity interest in the Company and therefore have a material interest in the Continuing Connected Transactions with the COSCO Group, COSCO, True Smart and their respective associates will be required to abstain from voting under the Listing Rules on the ordinary resolution no. 2 to be proposed at the Special General Meeting in respect of the Continuing Connected Transactions with the COSCO Group.

## **2. CONTINUING CONNECTED TRANSACTIONS**

The Directors wish to announce that the Kansai Companies entered into the following Continuing Connected Transactions with the Kansai Group and the COSCO Group. The transactions will continue on an ongoing basis.

### **I. Continuing connected transactions with the Kansai Group**

#### *1. Technology transfer contracts*

On 19th January 1996, Japan Kansai entered into a technology transfer contract with Shanghai Kansai whereby Japan Kansai agreed to provide all necessary technology and know-how relating to the manufacture of container coatings, marine coatings and anti-corrosion coatings to Shanghai Kansai in return for fees to be paid by Shanghai Kansai. Such technology transfer contract shall remain in force during the subsistence of the equity joint venture contract of Shanghai Kansai which is due to expire in 2015. The fees

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## LETTER FROM THE BOARD

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to be paid by Shanghai Kansai consist of a one-off initial technology transfer fee and an annual technology usage fee. The annual technology usage fee for the years 2003 to 2007 and 2008 to 2015 shall respectively be charged at the rates of 0.75% and 0.5% of the net sales revenue of Shanghai Kansai. The Directors believe that such rate is at the lower-end of the prevailing rate in the market.

On 18th December 1991, Japan Kansai entered into a technology transfer contract with Tianjin Kansai whereby Japan Kansai agreed to provide all necessary technology and know-how relating to the manufacture of container coatings, marine coatings and anti-corrosion coatings to Tianjin Kansai in return for fees to be paid by Tianjin Kansai. Such technology transfer contract shall remain in force during the subsistence of the equity joint venture contract of Tianjin Kansai which is due to expire in 2007. The fees to be paid by Tianjin Kansai consist of a one-off initial technology transfer fee and an annual technology usage fee. The technology usage fee for the years 2003 to 2007 shall be charged at the rate of 0.5% of the net sales revenue of Tianjin Kansai. The Directors believe that such rate is at the lower-end of the prevailing rate in the market.

In order to ensure that the Kansai Companies have the necessary technology to manufacture coatings throughout the term of the joint venture, the Kansai Companies entered into technology transfer contracts for terms of more than three years. Since Japan Kansai's technology and technical information is patented, it has been normal market practice for the Kansai Companies to enter into the technology transfer contracts for the whole duration of the term of the respective joint venture contracts. The Directors consider that the long duration of the technology transfer contracts are in the interests of the Company and the Shareholders as a whole because the current technology usage fee rate is in normal market condition and its longer term of contract is necessary for the Kansai Companies to ensure its right to produce and sell the products by making use of the required technology during the whole term of joint venture contract. An independent financial adviser has been appointed to opine on the terms of the technology transfer contracts. Further announcements will be made in respect of the annual technology usage fees for the period from 2008 to 2015 for the technology transfer contract with Shanghai Kansai.

Conditional upon the requisite resolution being passed by the Independent Shareholders at the SGM to approve the transaction contemplated under this agreement, Japan Kansai shall continue to provide such technology and know-how and the annual technology usage fee shall not exceed the proposed annual cap amounts for the three years ending 31st December 2005, 2006 and 2007.

The aggregate annual technology usage fees payable by the Kansai Companies to Japan Kansai, for the year ended 31st December 2004 is approximately RMB6,158,000 (approximately HK\$5,780,000), which exceeded the annual cap of HK\$4,000,000 for the year 2004 for the purpose of the Previous Waiver.

### 2. *Purchase of raw materials from the Kansai Group*

Shanghai Kansai and Tianjin Kansai have been purchasing raw materials involved in the production of container coatings, marine coatings and anti-corrosion coatings from members of the Kansai Group since 1997 and 1993 respectively.

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## LETTER FROM THE BOARD

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In order to comply with the requirements under the Listing Rules, the Kansai Companies entered into a conditional master purchase agreement with Japan Kansai on 25th May 2005 and the Kansai Companies entered into a conditional master purchase agreement with NKM on 31st March 2005 respectively. Conditional upon the requisite resolution being passed by the Independent Shareholders at the SGM to approve the said purchase agreements, the Kansai Companies agreed to purchase raw materials from Japan Kansai and NKM for a term of 3 years commencing on the date of signing of the relevant master purchase agreement respectively. The purchase price of the raw materials shall be determined after arms' length negotiations between the parties to the agreements. All such purchases by Shanghai Kansai and Tianjin Kansai of raw materials from Japan Kansai or NKM shall be conducted in the ordinary and usual course of businesses of Shanghai Kansai and Tianjin Kansai and on normal commercial terms.

Purchases of raw materials from the Kansai Group accounted for RMB7,238,000 (approximately HK\$6,800,000) representing 1.0% of the total purchases of raw materials by the Kansai Companies for the year ended 31st December 2004. The cap amount for purchases of raw materials under the Previous Waiver was HK\$45,000,000.

### 3. *Introduction of business by NKM*

In the course of their ordinary business, NKM will from time to time make recommendations to their customers of the products manufactured by the Kansai Companies.

In order to comply with the requirements under the Listing Rules, the Kansai Companies entered into a conditional master introduction agreement with NKM on 25th May 2005. Conditional upon the requisite resolution being passed by the Independent Shareholders at the SGM to approve the said agreement, NKM agreed that NKM will introduce businesses to the Kansai Companies and each of Shanghai Kansai and Tianjin Kansai in turn pays commission to NKM for the businesses successfully introduced by them. The term shall be 3 years commencing on 1st January 2005. The rate of such commission payable to NKM shall be 4% of the value of the order for coatings while commission payable to other independent third party introducer for coatings is usually 3%–6% for container coatings and 10% for marine coatings depending on the size of the order.

Total commission payable by the Kansai Companies to the Kansai Group amounts to RMB1,814,000 (approximately HK\$1,700,000) representing approximately 4.3% of the total commission paid by the Kansai Companies for the year ended 31st December 2004. The cap amount for commissions payable by the Kansai Companies to the Kansai Group under the Previous Waiver was HK\$5,000,000.

### 4. *Sale of container coatings and marine coatings to NKM*

The Kansai Companies will from time to time sell container coatings and marine coatings manufactured by them to NKM. In order to comply with the requirements under the Listing Rules, a conditional master sales agreement was entered into between the Kansai Companies and NKM on 25th May 2005. Conditional upon the requisite resolution being passed by the Independent Shareholders at the SGM to approve the said agreement, the Kansai Companies agreed to sell container coatings and marine coatings to NKM for a term of 10 months commencing on 1st March 2005. The container coatings and marine

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## LETTER FROM THE BOARD

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coatings will be sold to NKM by the Kansai Companies at preferential rates. Such preferential rates also apply to sales to other independent third parties except for odd size orders. In the event that the services were to be provided by the Kansai Companies to NKM for the use of such container coatings and marine coatings for the repairs of ships at the docks, the Kansai Companies will also charge a further 2% of the total costs of repairs of ships at the docks for such services. Usually, the Kansai Companies do not levy charge on such kind of services provided to other independent third parties.

The Kansai Companies did not sell any coatings to NKM during the year ended 31st December 2004. Such sales were not covered by the Previous Waiver.

### **II. Continuing connected transactions with the COSCO Group**

#### *1. Sale of container coatings and marine coatings to the COSCO Group and introduction of business by the COSCO Group*

Since 1997, Shanghai Kansai and Tianjin Kansai have been selling container coatings and marine coatings manufactured by them to members of the COSCO Group and members of the COSCO Group will from time to time make recommendations to their customers of the products manufactured by the Kansai Companies.

In order to comply with the requirements under the Listing Rules, the Kansai Companies entered into a conditional master agreement with COSCO Hong Kong on 25th May 2005. Conditional upon the requisite resolution being passed by the Independent Shareholders at the SGM to approve the said agreement, (i) the Kansai Companies agreed to sell container coatings and marine coatings to members of the COSCO Group; and (ii) members of the COSCO Group will introduce businesses to the Kansai Companies and each of Shanghai Kansai and Tianjin Kansai in turn pays commission to such members of the COSCO Group for the businesses successfully introduced by them for a term of 3 years commencing on 1st January 2005. The prices of container coatings and marine coatings shall be determined by reference to the market price of container coatings and marine coatings from time to time. Depending on the categories and quantities of coatings sold under each separate agreement and invoice, the rates of commission payable by the Kansai Companies to the members of the COSCO Group which successfully introduced businesses to the Kansai Companies vary from 3% to 10% of the values and the nature of the order for coatings. Usually, rates of commission in the range of 3%–6% for container coatings and up to 10% for marine coatings are payable by the Kansai Companies to independent third parties.

All such sales of container coatings and marine coatings have been conducted in the ordinary and usual course of business of Shanghai Kansai and Tianjin Kansai and were on normal commercial terms.

Sales to the COSCO Group by the Kansai Companies accounted for RMB19,006,000 (approximately HK\$17,856,000) representing approximately 2.0% of the total revenue of the Kansai Companies for the year ended 31st December 2004. Total commission payable by the Kansai Companies to the COSCO Group amounts to RMB1,269,000 (approximately HK\$1,192,000) representing approximately 3.0% of the total commission paid by the Kansai Companies for the year ended 31st December 2004.

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## LETTER FROM THE BOARD

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### 3. HISTORICAL AMOUNTS AND PROPOSED ANNUAL CAP AMOUNTS AND BASIS OF THE RELEVANT CAP AMOUNTS

The following table summarizes the actual amounts for the Continuing Connected Transactions for each of the three financial years ended 31st December 2004 and the period between 1st January 2005 and 23rd May 2005 and the proposed annual cap amounts for each of the three financial years ending 31st December 2007:

	Financial Year ended 31st December 2002 <i>RMB</i>	Financial Year ended 31st December 2003 <i>RMB</i>	Financial Year ended 31st December 2004 <i>RMB</i>	The period between 1st January 2005 and 23rd May 2005 <i>RMB</i>	Financial Year ending 31st December 2005, 2006 and 2007 <i>RMB</i>
Technology usage fee payable by the Kansai Companies to Japan Kansai ( <i>Note 1</i> )	3,386,000	3,609,000	6,158,000	2,421,000	8,000,000
Purchase of raw materials by the Kansai Companies from Japan Kansai and NKM ( <i>Note 2</i> )	26,575,000	31,109,000	7,238,000	2,798,000	52,000,000
Commission payable by the Kansai Companies to NKM for the introduction of businesses ( <i>Note 3</i> )	9,274,000	6,412,000	1,814,000	536,000	9,000,000
Sale of container coatings and marine coatings to NKM ( <i>Note 4</i> )	0	0	0	2,427,000	10,000,000 (for the financial year ending 31st December 2005 only)
Sale of container coatings and marine coatings by the Kansai Companies to the COSCO Group ( <i>Note 5</i> )	30,208,000	7,335,000	19,006,000	4,093,000	29,000,000
Commission payable by the Kansai Companies to the COSCO Group for the introduction of businesses ( <i>Note 6</i> )	8,611,000	980,000	1,269,000	82,000	4,000,000

*Notes:*

- (1) The increase in the technology usage fee in the year ended 31st December 2004 was due to the growth in sales of paint by the Kansai Companies. The proposed annual cap amount is based on the forecast on usage fee which is arrived from multiplying the forecast on the turnover of the Kansai Companies for the 3 years ending 31st December 2007 by the usage fee rate. The increase of technology usage fee is attributable to the anticipated growth in sales of coatings due to the plan of the Kansai Companies to expand its production capacity in 2006.
- (2) The amount of raw materials purchased decreased in the year ended 31st December 2004 because the Kansai Companies shifted to source certain percentage, being approximately 5% of the total raw materials purchased from other third parties at competitive prices. However, since it is expected that Japan Kansai and NKM are prepared to offer more competitive prices to get back the orders, when forecasting the percentage of total purchases from Japan Kansai and NKM in 2005–2007, the said percentage of raw materials purchased from other third parties is added back to the actual percentage, being approximately 1% in 2004. The proposed annual cap amount is arrived based on the forecast of such amount as well as the total raw materials purchased by the Kansai Companies, which is expected to increase in line with growth in sales, in each of the 3 years ending 2007.

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## LETTER FROM THE BOARD

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- (3) Total amount of commission paid to NKM was particularly low for the years ended 31st December 2003 and 2004 because the Kansai Companies opt for other customers not referred by NKM. After discussions between NKM and the management of the Kansai Companies, it is expected that referrals from NKM will resume a higher level in the coming 3 years as a result of the effect of recent booming in shipping industry and shipbuilding industry and the expansion of NKM's client base. The management of the Kansai Companies expected that total commission will reach approximately 15-18% of the total sales of the Kansai Companies. The proposed annual cap amount is arrived based on those forecast sales referrals amount multiplying by the commission rate.
- (4) No sales of container coatings and marine coatings were previously made to NKM, the proposed annual cap amount was arrived based on the forecast of the amount of such type of transaction for the years ending 31st December 2007 taking into account the actual purchase orders of NKM during the period between 1st January 2005 to 23rd May 2005 in the amount of RMB2,427,000 (approximately HK\$2,280,000).
- (5) Sales of container coatings and marine coatings decreased in the year ended 31st December 2003 due to the reduction of orders from the COSCO Group. However, this kind of sales rebounded in 2004 and it is anticipated that sales will increase in line with the growth of the industry in the coming years. The proposed cap amount was arrived taking into account the actual sales of coatings during the first four months of 2005 and upcoming possible orders during 2005-2007.
- (6) Commission paid to the COSCO Group decreased in the years ended 31st December of 2003 and of 2004 due to the reduction in referrals of businesses by the COSCO Group. It is however expected that commission to the COSCO Group will increase as a result of the effect of recent booming in shipping industry and shipbuilding industry. The proposed annual cap amount was arrived based on the estimated sales in the coming 3 years taking into account that coating sales for new build ships is expected to increase.

In determining the respective annual cap amounts for each of the three years ending 2005, 2006 and 2007, the Company has (i) examined and compared the audited accounts of the Kansai Companies for the year ended 31st December 2003 and the audited accounts of the Kansai Companies for the year ended 31st December 2004; (ii) discussed with the management of the Kansai Companies on the forecasts of the annual cap for the Continuing Connected Transactions; and (iii) taken into account the potential growth and the possible expansion of the production capacity of the Kansai Companies. In order to ensure that the total consideration of the Continuing Connected Transactions will not exceed the 2.5% threshold under the Listing Rules, the Company has been monitoring the total consideration in respect of the Continuing Connected Transactions for the period between 1st January 2005 and 23rd May 2005. It is expected that the volume of the Continuing Connected Transactions will increase substantially after the Company has obtained Independent Shareholders' approval at the SGM.

Since April 2005, the total consideration for all such Continuing Connected Transaction that has taken place has exceeded the 0.1% threshold under Rule 14A.33 of the Listing Rules but not exceeded the 2.5% threshold of under Rule 14A.34 of the Listing Rules. The Stock Exchange informed the Company that it is of the view that the Company may have breached Rule 14A.32 of the Listing Rules since April 2005 and reserves its right to take appropriate action against the Company and/or its directors on the matter.

#### **4. REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS**

By entering into the Continuing Connected Transactions, the Group will benefit in securing a reliable source of supply of technology and know-how in relation to the coatings production of the Kansai Companies and high quality raw materials. Relying on the recommendations and long term customers of container coatings and marine coatings of the Kansai Group and the COSCO Group, the Group will be able to gain advantage to the sales network of both the COSCO Group and the Kansai Group. The Directors believe that the Continuing Connected Transactions are conducted in the usual

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## LETTER FROM THE BOARD

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and ordinary course of business of each of the Kansai Companies, and are based on normal commercial terms. The Directors consider that the terms of the Continuing Connected Transactions are fair and reasonable and in the best interest of the Company and the Shareholders as a whole.

### 5. INFORMATION ON THE PARTIES

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

The Kansai Companies are principally engaged in the manufacturing and sale of marine coatings, container coatings, anti-corrosion coatings and the petro-chemical products in relation thereto.

Japan Kansai is principally engaged in coatings business worldwide and listed on the Stock Exchange of Tokyo. By virtue of Japan Kansai's more than 10% equity interests in the Kansai Companies, Japan Kansai is a connected person of the Company. So far as the Board is aware, save for its interests in the Kansai Companies, Japan Kansai and its associates (as defined under the Listing Rules) have no interests in any shares of the Company or its subsidiaries.

NKM is principally engaged in the provision of technologies and environmental-friendly products relating to marine coating business worldwide.

### 6. LISTING RULES REQUIREMENTS

As COSCO is the ultimate controlling Shareholder and COSCO Hong Kong being the controlling Shareholder and Japan Kansai having 35.29% equity interest in each of the Kansai Companies, the transactions between the Kansai Companies and members of the Kansai Group and the COSCO Group constitute continuing connected transactions for the Company under the Listing Rules.

As the Continuing Connected Transactions for the Kansai Companies constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules, they will be subject to the reporting requirements under Rules 14A.45 and 14A.46 of the Listing Rules, the annual review requirement under Rules 14A.37 to 14A.41 of the Listing Rules and are subject to independent shareholders' approval at general meeting by way of poll under Rule 14A.35(4) of the Listing Rules. The Company will seek approval from the Independent Shareholders of the Continuing Connected Transactions and their respective caps for a period of three financial years ending 31st December 2007.

### 7. SPECIAL GENERAL MEETING

It is set out on pages 33 to 36 of this circular a notice convening the Special General Meeting to be held at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong on 21st July 2005 at 10:00 a.m., at which ordinary resolutions will be proposed and, if thought fit, passed to approve the Continuing Connected Transactions. As resolutions to approve such Continuing Connected Transactions under the Listing Rules will be considered at the Special General Meeting, the Chairman of the Special General Meeting will demand that the resolutions to be proposed be decided by poll.

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## LETTER FROM THE BOARD

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A form of proxy for use at the Special General Meeting is enclosed. Whether or not you are able to attend the Special General Meeting in person, you are requested to complete and return the accompanying form of proxy 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 holding the Special General Meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the Special General Meeting or at any adjourned meeting (as the case may be) should you so wish.

As mentioned in the paragraph above headed "Introduction", COSCO, True Smart and their respective associates will be entitled to vote on the ordinary resolution no. 1 to be proposed at the Special General Meeting in respect of the Continuing Connected Transactions with the Kansai Group but will be required to abstain from voting under the Listing Rules on the ordinary resolution no. 2 to be proposed at the Special General Meeting in respect of the Continuing Connected Transactions with the COSCO Group.

### **8. RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE**

Your attention is drawn to (i) the letter from the Independent Board Committee which is set out on page 13 of this circular containing the recommendation from the Independent Board Committee to the Independent Shareholders concerning the Continuing Connected Transactions and (ii) the letter from G.K. Goh which is set out on pages 14 to 23 of this circular containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions.

Having taken into account the advice from G.K. Goh and in particular the principal factors set out in the letter of advice from G.K. Goh, the Independent Board Committee considers that the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and the terms thereof are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Special General Meeting in respect of the Continuing Connected Transactions.

### **9. ADDITIONAL INFORMATION**

Your attention is drawn to the letter from the Independent Board Committee and the letter from G.K. Goh, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, and general information set out in the appendix to this circular.

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



## COSCO International Holdings Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 0517)**

15th June 2005

*To the Independent Shareholders*

Dear Sir and Madam,

### **CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company dated 15th June 2005 (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.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

G.K. Goh has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the Continuing Connected Transactions. Details of its advice, together with the principal factors taken into consideration in arriving at such, are set out in its letter on pages 14 to 23 of the Circular.

Your attention is drawn to the letter from the Board set out on pages 4 to 12 of the Circular and the general information set out in the appendix.

Having taken into account the terms of the Continuing Connected Transactions and the advice given by G.K. Goh, we consider that the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and the terms thereof are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders should vote in favour of the resolutions approving the Continuing Connected Transactions to be proposed at the Special General Meeting.

Yours faithfully,  
**CHAN Cheong Foon, Andrew**  
**KWONG Che Keung, Gordon**  
**TSUI Yiu Wa, Alec**  
*Independent Board Committee*

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## LETTER FROM G.K. GOH

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**G.K. Goh Securities (H.K.) Limited**

Suite 1808  
Alexandra House  
16–20 Chater Road  
Central  
Hong Kong

15th June 2005

*To the Independent Board Committee and the Independent Shareholders of  
COSCO International Holdings Limited*

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS**

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions and the annual caps relating thereto, details of which are contained in a circular (the “Circular”) to the Shareholders dated 15th June 2005, of which this letter forms part. Expressions used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

An independent board committee comprising Messrs. Chan Cheong Foon, Andrew, Kwong Che Keung, Gordon and Tsui Yiu Wa, Alec, being the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Continuing Connected Transactions and the annual caps relating thereto. Any vote of the Independent Shareholders at the Special General Meeting shall be taken by poll. COSCO and True Smart and their respective associates will abstain from voting in relation to the ordinary resolution no. 2 approving the Continuing Connected Transactions in respect of the COSCO Group and the annual caps relating thereto.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular. The Directors have declared in a responsibility statement set out in the Appendix to the Circular that they jointly and severally accept full responsibility for the accuracy of the information contained 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 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 Japan Kansai or NKM or any of their respective subsidiaries or associates.

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## LETTER FROM G.K. GOH

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion for the Continuing Connected Transactions and the annual caps relating thereto, we have considered the following principal factors and reasons:

#### **Background and reasons**

The Group is principally engaged in ship trading and supplying services, property investment and development, infrastructure investment and building construction. Each of the Kansai Companies is a non-wholly owned subsidiary of the Company principally engaged in the manufacturing and sale of marine coatings, container coatings, anti-corrosion coatings and petro-chemical products in relation thereto.

Japan Kansai which is a substantial shareholder of each of the Kansai Companies is principally engaged in coatings business worldwide and listed on the Stock Exchange of Tokyo.

The Kansai Companies have, in their usual and ordinary course of business, in the past engaged and will continue to engage in the following Continuing Connected Transactions with the respective members of the COSCO Group and the Kansai Group:

- (i) procure from Japan Kansai all necessary technology and know-how relating to the manufacture of container coatings, marine coatings and anti-corrosion coatings;
- (ii) purchase raw materials involved in the production of container coatings, marine coatings and anti-corrosion coatings from members of the Kansai Group;
- (iii) sale of container coatings and marine coatings to the members of the COSCO Group and NKM; and
- (iv) pay commission to the members of the COSCO Group and NKM for business referrals on a success basis.

We note that by entering into the Continuing Connected Transactions, the Group will continue to benefit from securing a reliable source of supply of technology and know-how in relation to the coatings production of the Kansai Companies as well as to secure quality raw materials for its production. With the recommendations of the Kansai Group and the COSCO Group made to their respective customers of container coatings and marine coatings, the Group will also be able to tap into the sales network of both the COSCO Group and the Kansai Group to pursue other potential business opportunities.

Given the above and in particular the fact that the nature of the Continuing Connected Transactions falls within the principal scope of business of the Kansai Companies and the Continuing Connected Transactions will be conducted on normal commercial terms, we consider that the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole.

#### **Previous Waiver**

We note that the material terms of the relevant agreements governing the Continuing Connected Transactions are substantially the same as the terms of the relevant agreements under the Previous Waiver, except for the conditional master sales agreement for sale of

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## LETTER FROM G.K. GOH

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container coatings and marine coatings to NKM, which only commenced in 2005. We also note that for the year ended 31st December 2004, all the conditions imposed by the Stock Exchange on the Previous Waiver have been complied with, except that the aggregate annual technology usage fees payable by the Kansai Companies to Japan Kansai had exceeded the annual cap of HK\$4,000,000 as reported in the Company's announcement dated 24th February 2005.

In complying with the conditions under the Previous Wavier, we particularly note from the Company's 2004 annual report that the independent non-executive Directors were of the opinion that the continuing connected transactions for the year ended 31st December 2004 had been entered into by the Group in the ordinary and usual course of its business and conducted on terms that are fair and reasonable so far as the Shareholders are concerned and that the auditors of the Company was instructed to perform specific procedures and reported on the actual finding of those procedures that certain of the continuing connected transactions (the "Selected Transactions") for the year ended 31st December 2004 had been checked and ensured that they were entered into in accordance with the terms of the relevant agreements governing the Selected Transactions.

### **Basis of the Continuing Connected Transactions**

#### **1. *Technology Transfer Contracts***

Pursuant to the technology transfer contracts entered into between Japan Kansai and each of the Kansai Companies respectively (collectively, hereinafter referred to as the "Technology Transfer Contracts"), each of the Kansai Companies will pay to Japan Kansai an one-off initial technology transfer fee and an annual technology usage fee for (i) the years 2003 to 2007 and 2008 to 2015 at fixed rates of 0.75% and 0.5% respectively (for Shanghai Kansai); and (ii) the years 2003 to 2007 at a fixed rate of 0.5% (for Tianjin Kansai) of the net sales revenue of Shanghai Kansai and Tianjin Kansai, respectively. The Directors consider that such rates are at the lower-end of the prevailing rate in the market. We have reviewed information provided by the Directors relating to technology usage fee charged by other overseas independent paint manufacturers to similar joint ventures in the PRC and note that the technology usage fee payable by the Kansai Companies to Japan Kansai is comparable to those charged by the independent paint manufacturers.

Pursuant to the Technology Transfer Contracts, Japan Kansai agreed to provide all necessary technology and know-how relating to the manufacture of container coatings, marine coatings and anti-corrosion coatings to the Kansai Companies up to the expiry of the respective joint venture contracts of the Kansai Companies. The Directors consider that the long duration of the Technology Transfer Contracts are in the interests of the Company and the Shareholders as a whole because the longer term of contracts is necessary for the Kansai Companies to ensure their right to produce and sell the products by making use of the required technology during the whole term of their respective joint venture contracts.

Pursuant to Rule 14A.35 of the Listing Rules, the duration of the Technology Transfer Contracts must not exceed three years. Although there are no straight comparables can be identified for the Technology Transfer Contracts, in order 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, we have made references to, so far as we are aware of, the following similar technology and trademark licensing arrangements as announced by other Hong Kong listed companies in 2003 and 2004 (the "Comparables"). Given the similar nature in terms of the licensing arrangements

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## LETTER FROM G.K. GOH

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of the Technology Transfer Contracts and the Comparables, we consider that references of the Comparables can be used in assessing the duration of the Technology Transfer Contracts. The table below summarises the terms of the relevant agreements of the Comparables:

<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
	Trademark license	approximately 3 years & 3 months
Hang Ten Group Holdings Limited	Trademark license	10 years
TCL International Holdings Limited	Patent license	5 years
	Trademark license	20 years
Vedan International (Holdings) Limited	Trademark license	7 years

Having considered:

- (i) the long term co-operation relationship established among Japan Kansai and each of the Kansai Companies;
- (ii) the long duration of similar technology and trademark licensing arrangements of the Comparables; and
- (iii) the long term benefits of the Technology Transfer Contracts concurred and to be concurred to the Kansai Companies whereby they 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 their respective joint venture contracts;

we are of the views that the long duration of the Technology Transfer Contracts (to be co-terminus with those of the Kansai Companies) is a normal business practice for contracts of this type to be of such duration.

### ***2. Purchase of raw materials from the Kansai Group***

We note that (i) the purchase price of the raw materials shall be determined after arms' length negotiations between the parties involved; and (ii) all such purchases by the Kansai Companies of raw materials from Japan Kansai or NKM shall be conducted in the ordinary and usual course of businesses of the Kansai Companies and on normal commercial terms and at no less favourable terms than those quoted by other independent suppliers. On such basis, we consider that the basis of determination of the terms of the purchase of raw materials from Japan Kansai and NKM is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### ***3. Sale of container coatings and marine coatings to NKM and to members of the COSCO Group***

We understand from the Directors that the Kansai Companies commenced to sell container coatings and marine coatings to NKM since 2005 at preferential rates, which has also been applied to sales of products to other independent third parties except for odd size orders. We note that there will be an additional charge of 2% of the total costs of repairs of ships at the

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## LETTER FROM G.K. GOH

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docks whenever the services were to be provided by the Kansai Companies to NKM for the use of such container coatings and marine coatings for the repairs of ships at the docks, however, Kansai Companies do not levy charge on such kind of services provided to other independent third parties.

In respect of sale of container coatings and marine coatings to the COSCO Group, we note that the prices of container coatings and marine coatings shall be determined by reference to the prevailing market price of container coatings and marine coatings from time to time.

As the Kansai Companies shall be selling container coatings and marine coatings to members of the COSCO Group and to NKM at prevailing market price, i.e. at no more favourable terms than those made available to other independent customers and, in addition, the Kansai Companies is able to levy an additional charge of 2% of the total costs of repairs of ships to NKM, we consider that the basis of determination of the terms of the sale of container coatings and marine coatings to NKM and to members of the COSCO Group is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

#### ***4. Commissions payable to members of the COSCO Group and NKM for business referral***

We understand from the Directors that it is a common practice in the PRC paint industry to pay commission on business referrals. We note that the commission rates payable by the Kansai Companies to members of the COSCO Group and NKM vary from 3% to 10% of the value of the order for coatings depending on the categories and quantities of coatings sold under each separate agreements and invoices, which, as confirmed by the Directors, are in line with the market rates.

We have reviewed the analysis of the commission payable by the Kansai Companies to other independent third parties for similar business referrals prepared by the Company together with the relevant commission agreements entered into by the Kansai Companies with other independent third parties. We noted that the commission rates payable by Kansai Companies to independent third parties are usually ranging from 3% to 6% for container coatings and up to 10% for marine coatings depending on the size order and product type, which on average is in line with commission rates payable by the Kansai Companies to members of the COSCO Group and to NKM.

#### *Views*

Having taking into account the above, we consider that the basis of determination of each type of the Continuing Connected Transactions as aforesaid is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

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**LETTER FROM G.K. GOH**

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**Annual cap**

The following is a summary of the historical transaction amounts for each type of the Continuing Connected Transactions for the three financial years ended 31st December 2004 and the period between 1st January 2005 and 23rd May 2005 as well as the respective cap amount for each of the three financial years ending 31st December 2007 (collectively, hereinafter referred to as the “Cap Amounts”):

Type of Continuing Connected Transactions	Amount of the Continuing Connected Transactions			Cap Amount	
	For the year ended 31st December			For the period between 1st January 2005 and 23rd May 2005	for each of the three years ending 31st December 2007
	2002	2003	2004	2005	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Technology usage fee payable to Japan Kansai	3,386	3,609	6,158	2,421	8,000
Purchase of raw materials from Japan Kansai and NKM	26,575	31,109	7,238	2,798	52,000
Sale of container coatings and marine coatings to NKM	0	0	0	2,427	10,000 (for the financial year ending 31st December 2005 only)
Sale of container coatings and marine coatings to the COSCO Group	30,208	7,335	19,006	4,093	29,000
Commission payable to NKM for business referral	9,274	6,412	1,814	536	9,000
Commission payable to the COSCO Group for business referral	8,611	980	1,269	82	4,000

We understand from the Directors that in determining the Cap Amounts for the Continuing Connected Transactions, they have (i) reviewed the financial performance of the Kansai Companies for the two years ended 31st December 2004 to assess the impact of the fluctuations in the annual amount for the Continuing Connected Transactions in these two years; (ii) projected the future business and financial forecasts of the Kansai Companies; and (iii) taken into account the potential growth and the possible expansion of the production capacity of the Kansai Companies in near future.

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## LETTER FROM G.K. GOH

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We note the significant increases in the Cap Amounts as compared to the historical transaction amounts of the Continuing Connected Transactions for the year ended 31st December 2004, except for sale of container coatings and marine coatings to NKM, which only commenced in 2005. In this regard, we have reviewed and/or discussed with the Company's management of the following information:

### **1. *Technology Transfer Contracts***

The technology usage fee paid to Japan Kansai in 2004 increased by approximately 70.6% was due to the growth in sales of coating products by the Kansai Companies. We have reviewed the projected transaction amounts for the three years ending 31st December 2007 and discussed with the Company's management on the underlying basis (including the estimated total sales projected by Kansai Companies for the relevant periods and the possible expansion of Kansai Companies' production capacity).

In determining the relevant cap amount of RMB8 million, we understand from the Company's management that the management of the Kansai Companies has taken into account the fact that they were able to achieve a significant growth in sales of coating products in 2004 after the Kansai Companies acquired by the Group and has factored in the anticipated growth in the business for the three years ending 31st December 2007.

To cope with the anticipated growth in the business, we understand that the Kansai Companies is planning to expand its production capacity in 2006 and a feasibility study has already been carried out in this regard.

Although the relevant cap amount represents a significant increase as compared to the actual transaction amount for the period from 1st January 2005 to 23rd May 2005 (the "Period"), we consider that the relevant cap amount is fair and reasonable based on the above analysis and the fact that the relevant cap amount reflects not only the anticipated growth in the Kansai Companies' sales of coating products in 2005 but has also accounted for the anticipated growth for the two years ending 31st December 2006 and 2007.

### **2. *Purchase of raw materials from the Kansai Group***

The significant decrease in the transaction amount of approximately 76.7% in 2004 as compared to that in 2003 was because the Kansai Companies shifted to source certain percentage of raw materials from other independent third parties at competitive prices. We understand from the Company's management that the Kansai Group has already indicated to offer its raw materials to the Kansai Companies at more competitive prices which are not higher than those prices offered by other independent third parties so as to restore the purchase orders from the Group in the coming years. To assess whether the basis of the relevant cap amount of RMB52 million is fair and reasonable, we have reviewed the projected transaction amounts for the three years ending 31st December 2007 and discussed with the Company's management on the underlying basis. We understand that in determining the relevant cap amount, the Company has assumed that the percentage of purchase of raw materials from the Kansai Group will increase to approximately the previous level of approximately 6% of the total purchase for the year ended 31st December 2003 upon successful negotiation with the Kansai Group to obtain more competitive prices and the anticipated increase in the purchase amount of raw materials in accordance with the anticipated growth in sales in each of the three years ending 31st December 2007. In this regard, we have received written representation from

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## LETTER FROM G.K. GOH

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the Kansai Companies that the negotiation with the Kansai Group on the purchase price of raw materials is still ongoing as at the Latest Practicable Date. Based on our review and discussion with the Company's management, we consider that it is reasonable for the Company to expect that the percentage of purchase of raw materials from the Kansai Group will increase, and to determine the relevant cap amount based on such expectation. As the Kansai Companies' sales of coating products are expected to increase during the three years ending 31st December 2007, the overall purchase of raw materials of the Kansai Companies and hence the purchase amount from the Kansai Group are also expected to increase accordingly.

Although the relevant cap amount represents a significant increase as compared to the actual transaction amount for the Period, we consider that the relevant cap amount is fair and reasonable based on the above analysis and the fact that the relevant cap amount reflects not only the anticipated growth in the Kansai Companies' purchases of raw materials in 2005 but has also accounted for the anticipated growth for the two years ending 31st December 2006 and 2007.

### ***3. Sale of container coatings and marine coatings to NKM and to members of the COSCO Group***

#### *NKM*

We understand from the Company's management that since sale of coating products to NKM only commenced in 2005, the relevant cap amount of RMB10 million for the year ending 31st December 2005 is determined taking into account the actual sales amount for the Period and based on the assumption that sales to NKM will increase during the remaining term of the relevant agreement.

Based on the actual sales amount of approximately RMB2.4 million for the Period, the estimated total transaction amount for the year ending 31st December 2005 is approximately RMB5.8 million on an annualised basis, representing approximately 58% of the relevant cap amount. We understand from the Company's management that in determining the relevant cap amount, the management of the Kansai Companies has reserved a buffer to cater for the potential increase in purchase orders from NKM in the second half of 2005. We consider that the buffer of approximately RMB4.2 million is insignificant as compared to the total sales of the Kansai Companies as a whole. Furthermore, given that the Kansai Companies shall be selling coating products to NKM at no more favourable terms than those made available to other independent customers, we consider that the interests of the Company and the Shareholders will be adequately protected.

Although the relevant cap amount represents a significant increase as compared to the actual transaction amount for the Period, we consider that the relevant cap amount is fair and reasonable based on the above analysis.

#### *Members of the COSCO Group*

In determining the relevant cap amount of RMB29 million for sale of container coatings and marine coatings to members of the COSCO Group, we understand that the management has anticipated that sales to members of the COSCO Group will

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## LETTER FROM G.K. GOH

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increase in line with the anticipated growth in sales of coating products by the Kansai Companies during the three years ending 31st December 2007. In this regard, we have reviewed the projected transaction amounts for the three years ending 31st December 2007 and discussed with the Company's management on the underlying basis. Based on the information provided by the Company, the aggregate of the sales to members of the COSCO Group during the Period and the indicative demand from a member of the COSCO Group has already represented approximately 48.6% of the relevant cap amount of RMB29 million.

Therefore, although the relevant cap amount represents a significant increase as compared to the actual transaction amount for the Period, we consider that the relevant cap amount is fair and reasonable based on the above analysis and in particular the fact that the relevant cap amount reflects not only the anticipated growth in purchase orders from members of the COSCO Group in 2005 but has also accounted for the anticipated growth for the two years ending 31st December 2006 and 2007. In addition, the relevant cap amount is less than the actual sales amount to members of the COSCO Group for the year ended 31st December 2002. We consider that, from the historical track record point of view, the relevant cap amount is not unreasonable.

**4. *Commissions payable to members of the COSCO Group and NKM for business referral***

*Members of the COSCO Group*

To assess whether the basis of the relevant cap amount of RMB4 million for the commission payable to the COSCO Group is fair and reasonable, we have reviewed the projected commission amounts payable to the COSCO Group for the three years ending 31st December 2007 and discussed with the Company's management on the underlying basis. In determining the relevant cap amount for the three years ending 31st December 2007, the Kansai Companies' management has taken into account the anticipated increase in sales referral from the COSCO Group as a result of anticipated growth in sales of coating products by the Kansai Companies.

Although the relevant cap amount represents a significant increase as compared to the actual transaction amount for the Period, we consider that the relevant cap amount is fair and reasonable based on the above analysis and in particular the fact that sales referral from the COSCO Group is of revenue nature, which is beneficial to the Kansai Companies and hence the Company and the relevant cap amount reflects not only the anticipated growth in sales referral from the COSCO Group in 2005 but has also accounted for the anticipated growth for the two years ending 31st December 2006 and 2007. In addition, the relevant cap amount is less than the actual commission paid to the COSCO Group for the year ended 31st December 2002. We consider that, from the historical track record point of view, the relevant cap amount is not unreasonable.

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## LETTER FROM G.K. GOH

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*NKM*

To assess whether the basis of the relevant cap amount of RMB9 million for the commission payable to NKM is fair and reasonable, we have reviewed the projected commission amounts payable to NKM for the three years ending 31st December 2007 and discussed with the Company's management on the underlying basis. In determining the relevant cap amount for the three years ending 31st December 2007, the Kansai Companies' management has taken into account the anticipated increase in sales referral from NKM as a result of anticipated growth in sales of coating products by the Kansai Companies and the expansion of NKM's client base.

Although the relevant cap amount represents a significant increase as compared to the actual transaction amount for the Period, we consider that the relevant cap amount is fair and reasonable based on the above analysis and in particular the fact that sales referral from NKM is of revenue nature, which is beneficial to the Kansai Companies and hence the Company and the relevant cap amount reflects not only the anticipated growth in sales referral from NKM in 2005 but has also accounted for the anticipated growth for the two years ending 31st December 2006 and 2007. In addition, the relevant cap amount is less than the actual commission paid to NKM for the year ended 31st December 2002. We consider that, from the historical track record point of view, the relevant cap amount is not unreasonable.

Having taken into account the above analyses, we consider that the Cap Amounts for each type of the Continuing Connected Transactions is fair and reasonable so far as the Company and the Independent Shareholders are concerned. However, the Shareholders should note that the Cap Amounts relate to future events and they do not represent forecasts of turnover to be generated and fee/purchase cost/commission to be incurred from the Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual turnover to be generated and the actual fee/purchase cost/commission to be incurred under the Continuing Connected Transactions correspond with the Cap Amounts.

### **RECOMMENDATION**

Having considered the principal factors and reasons referred to the above, we consider that the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and the terms thereof are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Special General Meeting to approve the Continuing Connected Transactions.

Yours faithfully,  
For and on behalf of

**G.K. Goh Securities (H.K.) Limited**

**Alex Lau**  
*Executive Vice President*

**Flavia Hung**  
*Senior Vice President*

**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 enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

**EXPERT**

The following is the qualification of the expert who has given an opinion or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
G.K. Goh	a licensed corporation for types 1 (Dealing in Securities), 4 (Advising on Securities) and 6 (Advising on Corporate Finance) regulated activities under the SFO

G.K. Goh has given and has not withdrawn its 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 they respectively appear.

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

As at the Latest Practicable Date, the interests of each of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV 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 or short positions which they are taken or deemed to have under such provisions of the SFO), or (b) which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

**(i) Directors' interests in share options granted by the Company**

	Exercise Price HK\$	Number of share options		Outstanding as at the Latest Practicable Date	Percentage of total issued share capital	Exercisable period	Notes
		Outstanding as at 1st January 2005	Exercised from 1st January 2005 to the Latest Practicable Date				
<b>Directors</b>							
Mr. Wei Jiafu	0.57	1,800,000	—	1,800,000	0.127%	23.12.2003–22.12.2008	(1), (3), (4)
	1.37	1,200,000	—	1,200,000	0.085%	29.12.2004–28.12.2014	(2), (3), (4)

	Exercise Price HK\$	Number of share options			Percentage of total issued share capital	Exercisable period	Notes
		Outstanding as at 1st January 2005	Exercised from 1st January 2005 to the Latest Practicable Date	Outstanding as at the Latest Practicable Date			
<b>Directors</b>							
Mr. Liu Guoyuan	0.57	1,800,000	—	1,800,000	0.127%	23.12.2003–22.12.2008	(1), (3), (4)
	1.37	1,200,000	—	1,200,000	0.085%	29.12.2004–28.12.2014	(2), (3), (4)
Mr. Li Jianhong	0.57	1,800,000	—	1,800,000	0.127%	23.12.2003–22.12.2008	(1), (3), (4)
	1.37	1,200,000	—	1,200,000	0.085%	29.12.2004–28.12.2014	(2), (3), (4)
Mr. Zhou Liancheng	0.57	1,800,000	—	1,800,000	0.127%	23.12.2003–22.12.2008	(1), (3), (4)
	1.37	1,200,000	—	1,200,000	0.085%	29.12.2004–28.12.2014	(2), (3), (4)
Mr. Liu Hanbo	0.57	1,800,000	—	1,800,000	0.127%	23.12.2003–22.12.2008	(1), (3), (4)
	1.37	1,200,000	—	1,200,000	0.085%	29.12.2004–28.12.2014	(2), (3), (4)
Mr. He Jiale	0.57	1,800,000	—	1,800,000	0.127%	23.12.2003–22.12.2008	(1), (3), (4)
	1.37	1,200,000	—	1,200,000	0.085%	29.12.2004–28.12.2014	(2), (3), (4)
Mr. Chen Pisen	0.57	1,200,000	—	1,200,000	0.085%	23.12.2003–22.12.2008	(1), (3), (4)
	1.37	800,000	—	800,000	0.057%	29.12.2004–28.12.2014	(2), (3), (4)
Mr. Meng Qinghui	0.57	1,200,000	—	1,200,000	0.085%	23.12.2003–22.12.2008	(1), (3), (4)
	1.37	800,000	—	800,000	0.057%	29.12.2004–28.12.2014	(2), (3), (4)
Mr. Zhao Kaiji	0.57	1,200,000	—	1,200,000	0.085%	23.12.2003–22.12.2008	(1), (3), (4)
	1.37	800,000	—	800,000	0.057%	29.12.2004–28.12.2014	(2), (3), (4)
Mr. Lin Libing	0.57	1,200,000	—	1,200,000	0.085%	23.12.2003–22.12.2008	(1), (3), (4)
	1.37	800,000	—	800,000	0.057%	29.12.2004–28.12.2014	(2), (3), (4)

*Notes:*

- (1) Pursuant to the share option scheme of the Company adopted on 17th May 2002 (“Share Option Scheme of the Company”), these share options were granted on 26th November 2003 and are exercisable at HK\$0.57 per share at any time between 23rd December 2003 and 22nd December 2008.
- (2) These share options were granted pursuant to the Share Option Scheme of the Company on 2nd December 2004 and are exercisable at HK\$1.37 per share at any time between 29th December 2004 and 28th December 2014.
- (3) These share options represent personal interest held by the relevant participants as beneficial owner.
- (4) From 1st January 2005 to the Latest Practicable Date, none of the share options of the above Directors were cancelled or lapsed.

(ii) *Director's long position in shares of associated corporation of the Company*

Name of associated corporation	Name of director	Number of shares held Personal interests	Percentage of total issued share capital
COSCO Pacific Limited	Mr. Kwong Che Keung, Gordon	250,000	0.011%

*Note:* COSCO holds more than 50% of the existing share capital of Cosco Pacific Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange.

(iii) *Directors' long positions in underlying shares of equity derivatives of associated corporation of the Company*

Name of associated corporation	Director	Exercise Price HK\$	Number of share options			Percentage of total issued share capital	Exercisable Period	Notes
			Outstanding as at 1st January 2005	Exercised from 1st January 2005 to the Latest Practicable Date	Outstanding as at 31st December 2004			
COSCO Pacific Limited	Mr. Wei Jiafu	9.54	1,000,000	—	1,000,000	0.046%	30.10.2003–29.10.2013	(1), (3), (4)
		13.75	1,000,000	—	1,000,000	0.046%	3.12.2004–2.12.2014	(2), (3), (4)
COSCO Pacific Limited	Mr. Liu Guoyuan	9.54	100,000	(100,000)	0	0%	28.10.2003–27.10.2013	(1), (3), (4)
		13.75	1,000,000	—	1,000,000	0.046%	29.11.2004–28.11.2014	(2), (3), (4)
COSCO Pacific Limited	Mr. Li Jianhong	9.54	800,000	—	800,000	0.036%	29.10.2003–28.10.2013	(1), (3), (4)
		13.75	1,000,000	—	1,000,000	0.046%	2.12.2004–1.12.2014	(2), (3), (4)
COSCO Pacific Limited	Mr. Zhou Liancheng	9.54	400,000	(206,000)	194,000	0.009%	29.10.2003–28.10.2013	(1), (3), (4)
		13.75	1,000,000	—	1,000,000	0.046%	29.11.2004–28.11.2014	(2), (3), (4)
COSCO Pacific Limited	Mr. Liu Hanbo	9.54	700,000	—	700,000	0.032%	6.11.2003–5.11.2013	(1), (3), (4)
		13.75	800,000	—	800,000	0.036%	30.11.2004–29.11.2014	(2), (3), (4)
COSCO Pacific Limited	Mr. He Jiale	9.54	76,000	(76,000)	0	0%	31.10.2003–30.10.2013	(1), (3), (4)
		13.75	1,000,000	(500,000)	500,000	0.02%	30.11.2004–29.11.2014	(2), (3), (4)
COSCO Pacific Limited	Mr. Chen Pisen	9.54	50,000	—	50,000	0.002%	29.10.2003–28.10.2013	(1), (3), (4)
		13.75	600,000	—	600,000	0.027%	6.12.2004–5.12.2014	(2), (3), (4)
COSCO Pacific Limited	Mr. Meng Qinghui	13.75	1,000,000	—	1,000,000	0.046%	29.11.2004–28.11.2014	(2), (3), (4)

*Notes:*

- (1) Pursuant to the share option scheme of COSCO Pacific Limited (“Share Option Scheme of COSCO Pacific Limited”) adopted on 23rd May 2003, these share options were granted during the period from 28th October 2003 to 6th November 2003 and are exercisable at HK\$9.54 per share for 10 years from their respective date of grant of the share options.
- (2) These share options were granted pursuant to the Share Option Scheme of COSCO Pacific Limited during the period from 29th November 2004 to 6th December 2004 and are exercisable at HK\$13.75 per share at any time within ten years from their respective date of grant of the share options.
- (3) These share options represent personal interest held by the relevant participants as beneficial owner.
- (4) From 1st January 2005 to the Latest Practicable Date, none of the share options of the above Directors were cancelled or lapsed.

Save as disclosed herein, as at the Latest Practicable Date none of the Directors and the chief executive of the Company had any interest or short positions in the shares or underlying shares or interest in debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which 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 or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which 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 date of this circular 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, neither of the Directors nor G.K. Goh had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31st December 2004, the date to which the latest published audited consolidated financial statements of the Company were made up.
- (e) As at the date of this circular, G.K. Goh had no shareholding in any member of the Group and had no right or option to subscribe for or nominate persons to subscribe for shares in any member of the Group.

## SUBSTANTIAL SHAREHOLDERS

- (a) So far as was known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the persons (other than the Directors or chief executive of the Company) having interests or short positions in the Shares and underlying Shares which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	Number of shares/Percentage of total issued share capital					
	Long position (Note)	%	Short position	%	Lending pool	%
COSCO	829,360,511	58.53	—	—	—	—
COSCO Hong Kong	829,360,511	58.53	—	—	—	—
True Smart	829,360,511	58.53	—	—	—	—

*Note:* Since True Smart is a wholly-owned subsidiary of COSCO Hong Kong which is in turn a wholly-owned subsidiary of COSCO, the interests of True Smart are recorded as the interests of COSCO Hong Kong and in turn the interests of COSCO Hong Kong are recorded as the interests of 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 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:

Name of subsidiary of the Company	Name of substantial Shareholder	Interest in the share capital/equity interest	Percentage of total issued share capital
Cash Rich Enterprises Limited	Dragon Eagle Investments Limited	1,415 ordinary shares	14.15%
COSCO International Ship Trading Company Limited	中遠國際貿易公司 (COSCO International Trading Company*)	200,000 ordinary shares	40.00%
New Central International Enterprises Co., Ltd.	COSCO (H.K.) Industry & Trade Holdings Ltd.	100,000 ordinary shares	10.00%

Name of subsidiary of the Company	Name of substantial Shareholder	Interest in the share capital/equity interest	Percentage of total issued share capital
Shanghai COSCO Honour Property Development Limited	Dragon Eagle Investments 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*)	registered capital of RMB29,000,000 (equivalent to approximately HK\$27,245,000)	29.00%
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.*)	registered capital of RMB20,000,000 (equivalent to approximately HK\$18,790,000)	20.00%
Shanghai COSCO Kansai Paint & Chemicals Co., Ltd.	Kansai Paint Co., Ltd.	registered capital of US\$2,470,300 (equivalent to approximately HK\$19,268,000)	35.29%
Tianjin COSCO Kansai Paint & Chemicals Co., Ltd.	Kansai Paint Co., Ltd.	registered capital of US\$1,764,500 (equivalent to approximately HK\$13,763,000)	35.29%

*Note:* Dragon Eagle Investments 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 herein, 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.

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the Latest Practicable Date, the following directors of the Company (including their respective associates) are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules, particulars of which are set out below:

<b>Name of director</b>	<b>Name of businesses which are considered to compete or likely to compete with the businesses of the Group</b>	<b>Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group</b>	<b>Nature of director's interest in the entity</b>
Mr. Wei Jiafu	Companies controlled by COSCO	— Property investment and development — Ship trading and supplying services	Director
Mr. Liu Guoyuan	COSCO Hong Kong and its associated companies	— Property investment and development — Ship trading and supplying services	Director
Mr. Li Jianhong	Companies controlled by COSCO	— Property investment and development — Ship trading and supplying services	Director
Mr. Zhou Liancheng	COSCO Hong Kong and its associated companies	— Property investment and development — Ship trading and supplying services	Director
Mr. Liu Hanbo	Soundwill Holdings Limited	— Property investment and development	Non-executive Vice-chairman
Mr. He Jiale	COSCO Hong Kong and its associated companies	— Property investment and development — Ship trading and supplying services	Director
Mr. Guo Huawei	Companies controlled by COSCO	— Property investment and development — Ship trading and supplying services	Director
Mr. Chen Pisen	Companies controlled by COSCO Hong Kong	— Property investment and development — Ship trading and supplying services	Director
Mr. Meng Qinghui	Soundwill Holdings Limited	— Property investment development	Non-executive Director

**MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December 2004 (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.

**PROCEDURE FOR DEMANDING A POLL AT THE SPECIAL GENERAL MEETING**

In accordance with the bye-laws of the Company, a poll may be demanded at the Special General Meeting by:

- (a) the chairman of the Special General Meeting;
- (b) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the Special General Meeting; or
- (c) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the Special General Meeting; or
- (d) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding Shares conferring a right to vote at the Special General Meeting being Shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

**GENERAL**

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (b) The principal registrar of the Company is Codan Services Limited at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (c) The Hong Kong branch registrar 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 Law and Comparative Law.
- (e) The qualified accountant of the Company is Mr. Pak Wai Keung, Martin, a member of Hong Kong Institute of Certified Public Accountants.
- (f) 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 at the offices of Woo, Kwan, Lee & Lo, 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including 21st July 2005:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the technology transfer contract entered between Japan Kansai and Tianjin Kansai dated 18th December 1991;
- (c) the technology transfer contract entered between Japan Kansai and Shanghai Kansai dated 19th January 1996;
- (d) the master purchase agreements between each of the Kansai Companies and Japan Kansai dated 25th May 2005;
- (e) the master purchase agreements between each of the Kansai Companies and NKM dated 31st March 2005;
- (f) the master introduction agreement between the Kansai Companies and NKM dated 25th May 2005;
- (g) the master sales agreement between the Kansai Companies and NKM dated 25th May 2005;
- (h) the master agreement between the Company and COSCO Hong Kong dated 25th May 2005;
- (i) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 13 in this circular;
- (j) the letter from G.K. Goh, the text of which is set out on pages 14 to 23 in this circular; and
- (k) the written consent referred to in this appendix.

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## NOTICE OF SPECIAL GENERAL MEETING

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### COSCO International Holdings Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 0517)**

**NOTICE IS HEREBY GIVEN** that a Special General Meeting of COSCO International Holdings Limited (the “Company”) will be held at 49th Floor, COSCO Tower, 183 Queen’s Road Central, Hong Kong on 21st July 2005 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions as ordinary resolutions of the Company:

#### **ORDINARY RESOLUTIONS**

1. (i) **“THAT** proposed annual caps in relation to the transactions contemplated under the technology transfer contracts between Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. (上海中遠關西塗料化工有限公司) (“Shanghai Kansai”), Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. (天津中遠關西塗料化工有限公司) (“Tianjin Kansai”) (Shanghai Kansai and Tianjin Kansai collectively the “Kansai Companies”) with Kansai Paint Co., Ltd. (日本關西塗料株式會社) (“Japan Kansai”) in respect of the technology usage fee payable by the Kansai Companies to Japan Kansai (the “Technology Transfer Contracts”) for each of the three financial years ended 31st December 2007 being RMB8,000,000 be and are hereby approved and the directors of the Company be and are hereby authorised on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their discretion consider necessary or desirable or expedient to implement and/or to give effect to the Technology Transfer Contracts and the annual caps and the transactions thereby contemplated.”
- (ii) **“THAT:**
  - (a) a conditional master purchase agreement dated 25th May 2005 entered into between the Kansai Companies and Japan Kansai in respect of the purchase of raw materials by the Kansai Companies from Japan Kansai, a copy of which marked “A” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

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## NOTICE OF SPECIAL GENERAL MEETING

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(b) a conditional master purchase agreement dated 31st March 2005 entered into between the Kansai Companies and NKM Coatings Co. Ltd. (“NKM”) in respect of the purchase of the raw materials by the Kansai Companies from NKM, a copy of which marked “B” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(a) and (b) collectively the “Purchase Agreements”)

(c) the proposed annual caps in relation to the transactions contemplated under the Purchase Agreements for each of the three financial years ended 31st December 2007 being RMB52,000,000 be and are hereby approved,

and the directors of the Company be and are hereby authorised on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their discretion consider necessary or desirable or expedient to implement and/or to give effect to the Purchase Agreements and the annual caps and the transactions thereby contemplated.”

(iii) **“THAT:**

(a) a conditional master introduction agreement dated 25th May 2005 (the “Introduction Agreement”) entered into between the Kansai Companies and NKM in respect of the commission payable by the Kansai Companies to NKM for the introduction of businesses, a copy of which marked “C” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) the proposed annual caps in relation to the transactions contemplated under the Introduction Agreement for each of the three financial years ended 31st December 2007 being RMB9,000,000 be and are hereby approved,

and the directors of the Company be and are hereby authorised on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their discretion consider necessary or desirable or expedient to implement and/or to give effect to the Introduction Agreement and the annual caps and the transactions thereby contemplated.”

(iv) **“THAT:**

(a) a conditional master sales agreement dated 25th May 2005 (the “Sales Agreement”) entered into between the Kansai Companies and NKM in respect of the sale of container coatings and marine coatings to NKM, a copy of which marked “D” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

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## NOTICE OF SPECIAL GENERAL MEETING

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- (b) the proposed annual caps in relation to the transactions contemplated under the Sales Agreement for the financial year ended 31st December 2005 being RMB10,000,000 be and are hereby approved,

and the directors of the Company be and are hereby authorised on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their discretion consider necessary or desirable or expedient to implement and/or to give effect to the Sales Agreement and the annual caps and the transactions thereby contemplated.”

2. **“THAT:**

- (a) a conditional master agreement dated 25th May 2005 (the “Master Agreement”) entered into between the Kansai Companies and COSCO (Hong Kong) Group Limited (“COSCO Hong Kong”) in respect of the sale of container coatings and marine coatings by the Kansai Companies to 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company) and its subsidiaries (“COSCO Group”) and the commission payable by the Kansai Companies to the COSCO Group for the introduction of businesses, a copy of which marked “E” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (b) the proposed annual caps in relation to the sale of container coatings and marine coatings by the Kansai Companies to the COSCO Group as contemplated under the Master Agreement for each of the three financial years ended 31st December 2007 being RMB29,000,000 be and are hereby approved;
- (c) the proposed annual caps in relation to the commission payable by the Kansai Companies to the COSCO Group for the introduction of businesses as contemplated under the Master Agreement for each of the three financial years ended 31st December 2007 being RMB4,000,000 be and are hereby approved,

and the directors of the Company be and are hereby authorised on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their discretion consider necessary or desirable or expedient to implement and/or to give effect to the Master Agreement and the annual caps and the transactions thereby contemplated.”

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

Hong Kong, 15th June 2005

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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 member shall have one vote for each share held in the Company.
- 2 A member of the Company entitled to attend and vote is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy. A proxy need not be a member of the Company.
- 3 A proxy form for use at the Special General Meeting is enclosed herewith.
- 4 To be valid, the proxy form, 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 registrar 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 proxy form 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.



# COSCO International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 0517)

## PROXY FORM FOR SPECIAL GENERAL MEETING TO BE HELD ON 21ST JULY 2005

I/We<sup>1</sup> \_\_\_\_\_ (name) of \_\_\_\_\_ (address) being the registered holder(s) of<sup>2</sup> \_\_\_\_\_ shares of HK\$0.10 each in the capital of **COSCO International Holdings Limited** (the "Company") hereby appoint<sup>3</sup> the Chairman of the Meeting or \_\_\_\_\_ (name) of \_\_\_\_\_ (address) as my/our proxy to vote for me/us on my/our behalf at the special general meeting (the "Meeting") of the Company to be held at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong on 21st July 2005 at 10:00 a.m. (or at any adjournment thereof) for the purpose of considering and, if thought fit, passing (with or without modifications) the ordinary resolutions as set out in the notice convening the Meeting and at the Meeting (or at any adjournment thereof) to vote for me/us and in my/our name(s) in respect of such resolution as hereunder indicated, and, if no such indication is given, as my/our proxy thinks fit. My/Our proxy will also be entitled to vote on any matter properly put to the Meeting in such manner as he/she thinks fit.

	FOR <sup>4</sup>	AGAINST <sup>4</sup>
Ordinary Resolution No. 1		
Ordinary Resolution No. 2		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2005 Signature<sup>5</sup> \_\_\_\_\_

### Notes:

1. Full name(s) and address(es) must be inserted in BLOCK LETTERS. The names of all joint registered holders should be stated.
2. Please insert the number of shares registered in your name(s) to which this proxy relates. If no number is inserted, this proxy form will be deemed to relate to all the shares in the capital of the Company registered in your name(s).
3. If any proxy other than the Chairman of the Meeting is preferred, strike out "the Chairman of the Meeting" and insert the name and address of the proxy desired in the space provided. **ANY ALTERATION MADE TO THIS PROXY FORM MUST BE INITIALED BY THE PERSON WHO SIGNS IT.**
4. **IMPORTANT:** If you wish to vote for a resolution, tick in the box marked "For". If you wish to vote against a resolution, tick in the box marked "Against". If no direction is given, your proxy may vote or abstain as he/she thinks fit in respect of that resolution. Your proxy will also be entitled to vote at his/her discretion on any resolution properly put to the Meeting other than those referred to in the notice convening the Meeting.
5. This proxy form must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be either under its common seal or under the hand of an officer or attorney duly authorised to sign the same.
6. The full text of these resolutions appear in the notice of the Meeting dated 15th June 2005, a copy of which is set out on pages 33 to 36 of the circular of the Company dated 15th June 2005.
7. The ordinary resolutions to be considered at the Meeting will be decided by poll. On voting by poll, each member shall have one vote for each share held in the Company.
8. In order to be valid, this proxy form 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 with the office of 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, not less than 48 hours before the time appointed for holding the Meeting or the adjourned Meeting (as the case may be).
9. In case of the joint registered holders of any shares, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint holders be present at the Meeting, either personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall be accepted to the exclusion of the votes of the other joint registered holders.
10. The proxy need not be a member of the Company but must attend the Meeting in person to represent you.
11. Completion and return of this proxy form will not preclude you from attending and voting at the Meeting if you so wish. If you attend and vote at the Meeting, the authority of your proxy will be revoked.
12. Members who are directly or indirectly interested in the continuing connected transactions set out in the ordinary resolutions should abstain from voting the ordinary resolutions.