COSCO Pacific Limited
(Incorporated in Bermuda with limited liability)

49th Floor, COSCO Tower,
183 Queen's Road Central, Hong Kong
Telephone: +852 2809 8188
Facsimile: +852 2907 6088
E-mail: info@coscopac.com.hk
Website: www.coscopac.com.hk

COSCO Pacific Limited

ANNUAL REPORT 2006

COSCO Pacific Limited
(Incorporated in Bermuda with limited liability)

STRENGTHENED BUSINESS MODELS

Annual Report 2006

Stock Code: 1199

CONTENTS

MAJOR EVENTS

2006

JANUARY

- The board meeting of COSCO Pacific was held on 10th January 2006.

MARCH

- COSCO Pacific donated RMB2,000,000 to Beijing Huayu Education Fund.
- The board meeting of COSCO Pacific was held on 23rd March 2006.
- COSCO Pacific announced 2005 Final Results on 23rd March 2006.
- The Company participated in the Hong Kong and Singapore roadshows arranged by ABN AMRO Asia Limited from 24th to 30th March 2006.

APRIL

- The Company participated in the Japan roadshow arranged by ABN AMRO Asia Limited from 12th to 16th April 2006.
- COSCO Pacific was included as one of the Forbes Global 2000 Enterprises for the second consecutive year.
- COSCO Pacific acquired an additional 10% equity interest in Shanghai Pudong International Container Terminals Limited from S. I. Infrastructure Holdings Limited. The Share Transfer Agreement was signed on 19th April 2006.
- The Company joined the UK and US roadshows arranged by BNP Paribas Peregrine Securities Limited from 20th April to 5th May 2006.
- The China International Marine Containers (Group) Co., Ltd. ("CIMC") Share Reform Proposal was approved by more than two-thirds of CIMC Tradable A-Share shareholders on 28th April 2006. The CIMC Tradable A-Share Shareholders were granted in the proportion of seven Put Options for every ten CIMC Tradable A-Shares held with an exercise price of RMB8.868 per share.

MAY

- The annual general meeting of COSCO Pacific was held on 18th May 2006.
- On 25th May 2006, COSCO Pacific CIMC Put Options was listed in the Shenzhen Stock Exchange and began trading at the price of RMB 2.65. The Put Options will expire on 23rd November 2007.

JUNE

- COSCO Logistics Co., Ltd. ("COSCO Logistics") was ranked first in the China Road Transport Top 100 by the China Road Transport Association.
- On 6th June 2006, COSCO Pacific signed a joint venture agreement to acquire a 30% equity interest in Tianjin Port Euroasia International Container Terminal Co., Limited to construct, manage and operate three berths at Tianjin North Port.
- On 8th June 2006, COSCO Pacific acquired a 20% equity interest in Ningbo Yuan Dong Terminals Limited to construct, manage and operate five berths at Beilun Phases IV and V in Ningbo.
- On 20th June 2006, COSCO Pacific entered into a Sales Agreement with a buyer for disposal of 600,082 TEUs of containers (the "Sold Assets") and subsequently, Administrative Services Agreements for provision of administrative and management services for the Sold Assets to the buyer.
- On 29th June 2006, COSCO Logistics was named the "Third Party Logistics Provider of the Year" in Lloyd's FTB Asia China Logistics Awards organised by Lloyd's FTB Asia, the China Federation of Logistics and Purchasing and IBC Asia.

JULY

- Dalian Automobile Terminal Co., Ltd., in which COSCO Pacific holds a 30% equity interest, commenced operations on 6th July 2006.
- The board meeting of COSCO Pacific was held on 10th July 2006.
- COSCO Pacific disposed of a 20% equity interest in Shanghai CIMC Far East Container Co., Ltd. to CIMC Holdings (B.V.I.) Limited on 17th July 2006.

AUGUST

- On 8th August 2006, COSCO Pacific acquired a 71.43% equity interest in Quanzhou Pacific Container Terminal Co., Limited to manage and operate six berths in Quanzhou.
- On 22nd August 2006, A.P. Moller-Maersk Group subscribed a 33.9% equity interest in COSCO Port (Nansha) Limited, a then wholly owned subsidiary of COSCO Pacific. COSCO Port (Nansha) Limited holds a 59% equity interest in Guangzhou South China Oceangate Container Terminal Co., Ltd. to construct, manage and operate six berths at Guangzhou Nansha Port Phase II.
- COSCO Pacific was nominated a Finalist in the "Shipping In-House Team of the Year" in the ALB Hong Kong Law Awards organised by Asian Legal Business, a prestigious legal magazine.

SEPTEMBER

- The board meeting of COSCO Pacific was held on 7th September 2006.
- COSCO Pacific announced 2006 Interim Results on 7th September 2006.
- The Company conducted the Hong Kong roadshow arranged by Macquarie Securities Limited in Hong Kong from 8th to 12th September 2006.
- The Company attended the "Nomura Asia Day" in Japan organised by Nomura International (Hong Kong) Limited from 27th to 28th September 2006.
- On 28th September 2006, COSCO Pacific announced that Zhangjiagang Win Hanverky Container Terminal Co. Ltd. increased its registered capital and acquired berth no.17 from Zhangjiagang Port Group Co. Ltd.

OCTOBER

- On 19th October 2006, COSCO Logistics took first place for the third consecutive year in the "China Logistics Top 100".
- The Company attended the "Greater China Conference 2006" in Macau organised by Citigroup Global Market Asia Limited from 25th to 26th October 2006.
- The Rotary Club of Hong Kong Sunrise visited COSCO-HIT Terminals (Hong Kong) Limited on 27th October 2006.

NOVEMBER

- 21st November 2006, The Board of COSCO Pacific was honoured to be presented the "Directors of The Year" awards by The Hong Kong Institute of Directors.
- 27th November 2006, COSCO Pacific was selected as one of the "Hong Kong Outstanding Enterprises" by Economic Digest for the second consecutive year.

DECEMBER

- COSCO Pacific signed the "CLEAN AIR Charter" to join the campaign for improving air quality in the Greater Pearl River Delta, organised by Hong Kong General Chamber of Commerce and the Business Coalition on the Environment.
- The Company participated in the "School-Company Partnership Programme" organised by The Young Entrepreneurs Development Council to foster the entrepreneurial spirit in teenagers.
- On 8th December 2006, Guangzhou South China Oceangate Container Terminal Co., Ltd. held an opening ceremony to mark the commencement of the trial operation of berth No.5 and 6 at Guangzhou Nansha Port Phase II.
- On 21st December 2006, COSCO Pacific entered into an Memorandum of Understanding with Kawasaki Kisen Kaisha Limited, Yang Ming Marine Transport Corporation, Hanjin Shipping Company Ltd. and Europe Container Terminals B.V. to construct and operate Euromax Terminal in Maasvlakte at the port of Rotterdam in the Netherlands.
- COSCO Pacific received the highly commended award of "Best Investor Relations" from IR Magazine.

2007

JANUARY

- COSCO Pacific was included as one of the Top 10 Enterprises by China Shipping Gazette.
- The board meeting of COSCO Pacific was held on 15th January 2007 and 23rd January 2007 respectively.
- On 24th January 2007, Mr. XU Minjie was appointed as an Executive Director, Vice Chairman and Managing Director, and an authorized representative of COSCO Pacific.

MARCH

- The board meeting of COSCO Pacific was held on 22nd March 2007.
- COSCO Pacific announced 2006 Final Results on 22nd March 2007.

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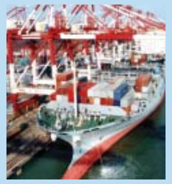
STRENGTHENED BUSINESS MODELS

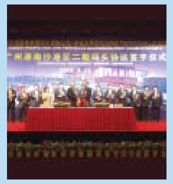
Our mission is to create long-term and sustainable value for our shareholders by providing superior services to our customers through a well-balanced portfolio and network with a major focus on ports and terminals. Our vision is to transform our business model by becoming a leading global port operator and by focusing on ports as the principal earnings driver, through further investment by taking majority stakes, thereby maximising enterprise value on the basis of controlling rights. We aim to improve our business model by converting container leasing into an asset light business.

In 2006, COSCO Pacific bolstered its global business network by further expanding its presence in China and worldwide. This clear and consistent strategy, supported by our enhanced business models, efficient capital investment, rigorous value-management and strict corporate governance, allows us to provide more comprehensive services to our customers and to create long-term enterprise value. For both customers and investors alike, COSCO Pacific is building a larger platform for future growth based on its strengthened business models.

FROM MINORITY TO MAJORITY

COSCO Pacific has recalibrated its acquisition strategy to focus on progressively assuming majority stakes in the ports and terminals where the Company operates, particularly those along the coastal areas of China.

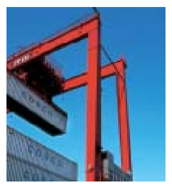
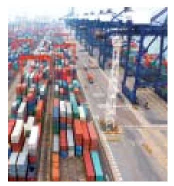




FROM

TERMINAL INVESTMENT TO PORT OPERATOR

No longer simply an investor in container terminals, we aim to become a port operator through our controlling interests in ports and terminals in order to capture greater development opportunities.


FROM
OWNERSHIP TO
MANAGEMENT

COSCO Pacific is expanding its market share by rebalancing the ownership and management of container leasing to improve its risk-reward profile and provide a stable yield.

A MISSION TO MAXIMISE

ENTERPRISE VALUE

We believe that a continuous increase in "EVA" (Economic Value Added), through obtaining controlling rights in future terminal investments and rebalancing the ownership and management of container leasing, will create sustained growth of shareholder wealth and larger enterprise value.

CORPORATE STRUCTURE

China Ocean Shipping (Group) Company Note 1

63.83%

China COSCO Holdings Company Limited Note 2

100% — COSCO Container Lines Company Limited Note 3

51.34% — COSCO Pacific Limited

Independent Shareholders — 48.66%

Terminal and related business

Terminals in Bohai Rim

Qingdao Qianwan Container Terminal Co., Ltd. (20%)

Qingdao Cosport International Container Terminals Co., Ltd. (50%)

Dalian Port Container Co., Ltd. (8.13%)

Dalian Port Container Terminal Co., Ltd. (20%)

Dalian Automobile Terminal Co., Ltd. (30%) Note 4

Tianjin Five Continents International Container Terminal Co., Ltd. (14%)

Tianjin Port Euroasia International Container Terminal Co., Limited (30%) Note 5

Yingkou Container Terminals Company Limited (50%)

Terminals in Yangtze River Delta

Shanghai Container Terminals Limited (10%)

Shanghai Pudong International Container Terminals Limited (30%) Note 6

Shanghai Xiangdong International Container Terminal Company Limited (10%) Note 7

Ningbo Yuan Dong Terminals Limited (20%) Note 8

Zhangjiagang Win Hanverky Container Terminal Co., Ltd. (51%)

Yangzhou Yuanyang International Ports Co., Ltd. (55.59%)

Nanjing Port Longtan Container Co., Ltd. (20%)

Zhenjiang Jinyuan Container Terminals Co., Ltd. (25%) Note 9

Terminals in Pearl River Delta

COSCO- HIT Terminals (Hong Kong) Limited (50%)

Yantian International Container Terminals Ltd. (5%)

Yantian International Container Terminals (Phase III) Limited (4.45%)

Guangzhou South China Oceangate Container Terminal Co., Limited (39%) Note 10

Quanzhou Pacific Container Terminal Co., Ltd. (71.43%) Note 11

Terminals at Overseas

COSCO-PSA Terminal Private Limited (49%)

Antwerp Gateway NV (20%)

Suez Canal Container Terminal S.A.E. (20%) Note 12

Terminal related services

Plangreat Limited (100%)

Container leasing and management business

Florens Container Holdings Limited (100%)

Florens Container Services Company Limited (100%)

Branches:

Asia-Pacific
- Hong Kong
- Shanghai
- Tianjin
- Macau
- Singapore
- Sydney
- Tokyo

Americas
- San Francisco
- New York
- Sao Paulo

Europe
- London
- Hamburg
- Genoa

Logistics business

COSCO Logistics Co., Ltd. (49%)

Regional headquarters:
- Beijing (Headquarter)
- Dalian
- Qingdao
- Shanghai
- Ningbo
- Xiamen
- Guangzhou
- Wuhan

Representative offices:
- Hong Kong
- Seoul
- Tokyo
- Athens
- Singapore

Container related business and other investments

China International Marine Containers (Group) Co., Ltd. (16.23%)

Shanghai CIMC Reefer Containers Co., Ltd. (20%)

Tianjin CIMC North Ocean Container Co., Ltd. (22.5%)

COSCO Pacific (China) Investments Co., Ltd. (100%)

Chong Hing Bank Limited (20%)

as at 31st December 2006

Note 1: China Ocean Shipping (Group) Company ("COSCO") is the ultimate holding company of COSCO Pacific Limited. It is China's largest shipping company and one of the world's leading international shipping entities. Currently, COSCO owns and operates a fleet of 715 vessels with an aggregate capacity of 42,190,000 dead weight tonnage.

Note 2: China COSCO Holdings Company Limited ("China COSCO") is a subsidiary of COSCO. It indirectly held 1,144,166,411 shares of COSCO Pacific representing 51.34% of the total issued share capital of the Company as at 31st December 2006.

Note 3: COSCO Container Lines Company Limited ("COSCON") is a subsidiary of China COSCO. As at 31st December 2006, COSCON is the largest container liner operator in China and the fifth largest in the world. COSCON owns and operates a fleet of 139 container vessels with a carrying capacity of approximately 400,000 TEUs. COSCON is a major customer of COSCO Pacific's container leasing and terminal operations.

Note 4: Dalian Automobile Terminal Co., Ltd. commenced operations on 6th July 2006.

Note 5: On 6th June 2006, COSCO Pacific signed a joint venture agreement to acquire a 30% equity interest in Tianjin Port Euroasia International Container Terminal Co., Limited to construct, manage and operate three berths at Tianjin North Port.

Note 6: COSCO Pacific acquired an additional 10% equity interest in Shanghai Pudong International Container Terminals Limited from S. I. Infrastructure Holdings Limited. The Share Transfer Agreement was signed on 19th April 2006.

Note 7: A joint venture agreement was signed on 19th December 2005 to acquire a 10% equity interest in Shanghai Xiangdong International Container Terminal Company Limited to develop and operate Shanghai Yangshan Port Phase II, pending for government approval.

Note 8: On 8th June 2006, COSCO Pacific acquired a 20% equity interest in Ningbo Yuan Dong Terminals Limited to construct, manage and operate five berths at Beilun Phases IV and V in Ningbo.

Note 9: A joint venture agreement was signed on 17th June 2004 to acquire a 25% equity interest in Zhenjiang Jinyuan Container Terminals Co., Ltd. The set up of the joint venture company is not finalised, pending for government approval.

Note 10: Guangzhou South China Oceangate Container Terminal Co., Ltd. commenced trial run on 8th December 2006.

Note 11: On 8th August 2006, COSCO Pacific acquired a 71.43% equity interest in Quanzhou Pacific Container Terminal Co., Ltd. to manage and operate six berths in Quanzhou. The joint venture company commenced operations in September 2006.

Note 12: A share purchase agreement was signed on 19th December 2005 to acquire a 20% equity interest in Suez Canal Container Terminal S.A.E. and this transaction was agreed in principle by the Egyptian government in December 2006.

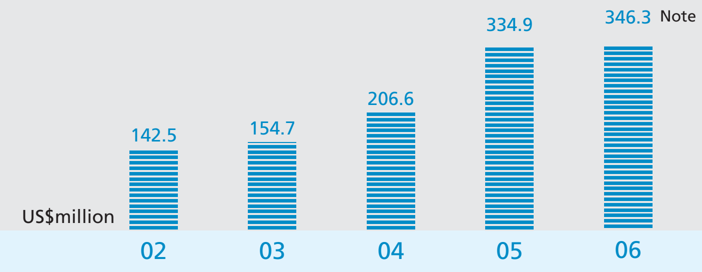
FINANCIAL HIGHLIGHTS

COSCO Pacific Limited ("COSCO Pacific" or the "Company") and its subsidiaries (the "Group") reported a solid performance in 2006. During the year, before the CIMC Put Options non-cash expense, profit attributable to equity holders was US$346,263,000 which was a 3.4% increase over the previous year, and earnings per share were US15.63 cents (2005: US15.28 cents).

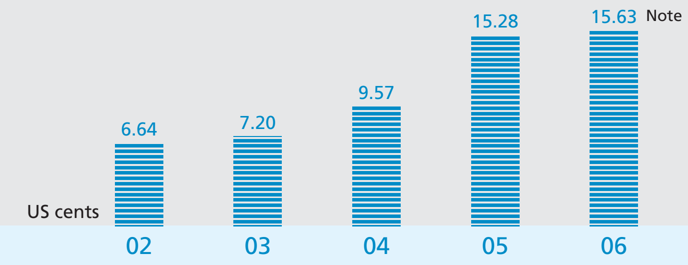
	2006	2005	y-o-y
Revenue Note 1	US$253,960,000	US$295,648,000	-14.1%
Operating profit before finance income and finance costs	US$201,124,000	US$237,093,000	-15.2%
Share of profits less losses of jointly controlled entities and associates	US$174,112,000	US$155,289,000	+12.1%
Profit attributable to equity holders of the Company before CIMC Put Options non-cash expense	US$346,263,000	US$334,937,000	+3.4%
Profit attributable to equity holders of the Company after CIMC Put Options non-cash expense	US$291,082,000	US$334,937,000	-13.1%
Basic earnings per share before CIMC Put Options non-cash expense	US15.63 cents	US15.28 cents	+2.3%
Basic earnings per share after CIMC Put Options non-cash expense	US13.14 cents	US15.28 cents	-14.0%
Dividend per share	US8.847 cents	US8.650 cents	+2.3%
- interim dividend	US3.526 cents	US3.614 cents	-2.4%
- interim special dividend	US1.174 cents	US1.453 cents	-19.2%
- final dividend	US4.147 cents	US3.583 cents	+15.7%
Dividend payout ratio (before CIMC Put Options non-cash expense)	56.6%	56.6%	–
Total equity	US$2,208,201,000	US$1,890,343,000	+16.8%
Capital and reserves attributable to the equity holders of the Company	US$2,172,634,000	US$1,879,948,000	+15.6%
Consolidated total assets	US$2,987,155,000	US$2,855,150,000	+4.6%
Consolidated total liabilities	US$778,954,000	US$964,807,000	-19.3%
Consolidated net assets	US$2,208,201,000	US$1,890,343,000	+16.8%
Consolidated net debts	US$306,930,000	US$656,338,000	-53.2%
Return on equity holders of the Company			
– before CIMC Put Options non-cash expense	17.1%	20.0%	-2.9pp
– after CIMC Put Options non-cash expenses	14.4%	20.0%	-5.6pp
Return on net assets			
– before CIMC Put Options non-cash expense	16.9%	19.8%	-2.9pp
– after CIMC Put Options non-cash expense	14.2%	19.8%	-5.6pp
Net debt-to-equity ratio	13.9%	34.7%	-20.8pp
Interest coverage	8.8x	11.1x	-2.3x

Note 1: The Group's revenue was generated from Florens Container Holdings Limited and its subsidiaries, Zhangjiagang Win Hanverky Container Terminal Co., Ltd., Quanzhou Pacific Container Terminal Co., Ltd. and Plangreat Limited and its subsidiaries.

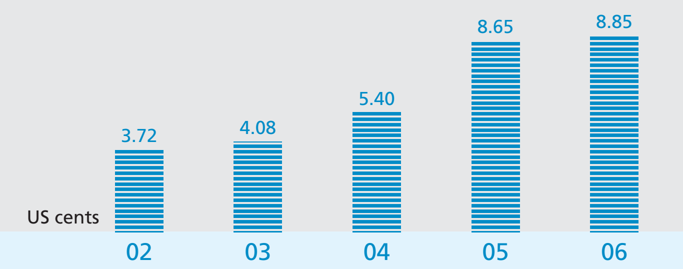
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



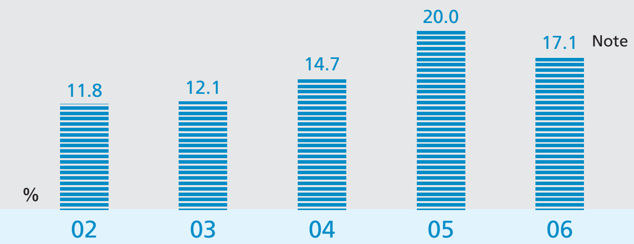
EARNINGS PER SHARE



DIVIDEND PER SHARE

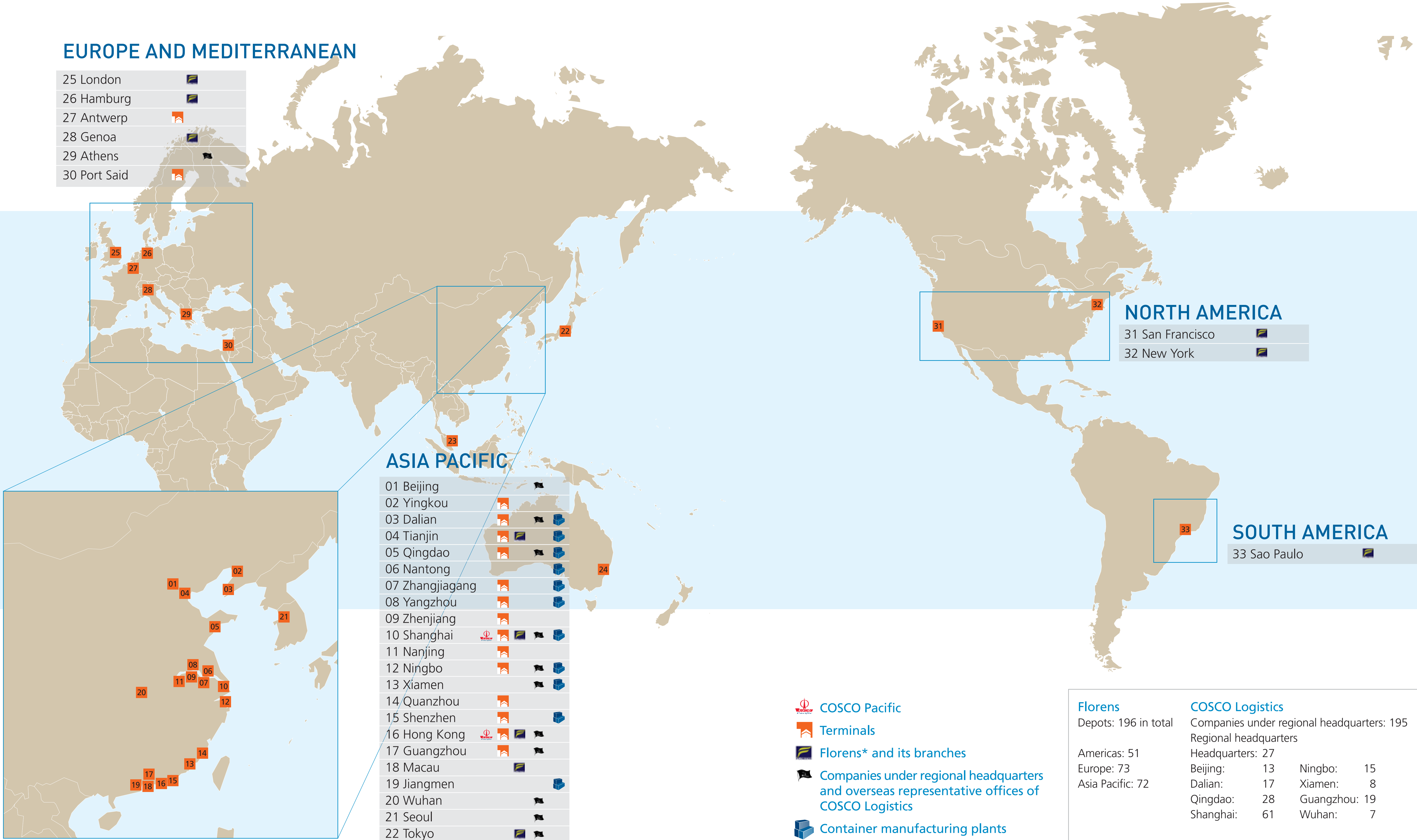


RETURN ON EQUITY HOLDERS OF THE COMPANY



Note: Before CIMC Put Options non-cash expense of US$55,181,000.

WORLDWIDE BUSINESS NETWORK



EUROPE AND MEDITERRANEAN

25 London
26 Hamburg
27 Antwerp
28 Genoa
29 Athens
30 Port Said

NORTH AMERICA

31 San Francisco
32 New York

SOUTH AMERICA

33 Sao Paulo

ASIA PACIFIC

01 Beijing
02 Yingkou
03 Dalian
04 Tianjin
05 Qingdao
06 Nantong
07 Zhangjiagang
08 Yangzhou
09 Zhenjiang
10 Shanghai
11 Nanjing
12 Ningbo
13 Xiamen
14 Quanzhou
15 Shenzhen
16 Hong Kong
17 Guangzhou
18 Macau
19 Jiangmen
20 Wuhan
21 Seoul
22 Tokyo
23 Singapore
24 Sydney

COSCO Pacific
Terminals
Florens* and its branches
Companies under regional headquarters and overseas representative offices of COSCO Logistics
Container manufacturing plants

* Florens is a wholly owned subsidiary of COSCO Pacific Limited.

Florens
Depots: 196 in total

Americas: 51
Europe: 73
Asia Pacific: 72

COSCO Logistics
Companies under regional headquarters: 195
Regional headquarters
Headquarters: 27

Beijing:	13	Ningbo:	15
Dalian:	17	Xiamen:	8
Qingdao:	28	Guangzhou:	19
Shanghai:	61	Wuhan:	7

Overseas representative offices: 5

Our vision is to maximise enterprise value on the basis of controlling rights in terminal investments and converting container leasing into an asset light business. The value of the Company depends on the future profits expected by investors exceeding the cost of capital. A sustained increase in "EVA" (Economic Value Added) will bring about an increase in the market value of a company. We believe that controlling rights in our future investments are especially important for the increase of our EVA, thereby resulting in continuous growth in shareholder value. We aim to re-focus our objectives from profit maximisation to maximisation of enterprise value.

"WE AIM FOR THE MAXIMISATION OF ENTERPRISE VALUE."

SOLID PERFORMANCE

I am pleased to report that the overall performance of COSCO Pacific was satisfactory in 2006. The solid profit growth was once more led by strong performances of container terminals and supported by container leasing and management, logistics and container manufacturing.

During the year, excluding the CIMC Put Options non-cash expense, the Company achieved net profit of US$346,263,000 [Note], an increase of 3.4% over the previous year, and earnings per share of US15.63 cents (2005: US15.28 cents). The full year dividend per share was US8.847 cents per share (2005: US8.650 cents) with a dividend payout ratio of 56.6% (2005: 56.6%) of profit attributable to equity holders of the Company before the CIMC Put Options non-cash expense.

COSCO Pacific's solid performance in 2006 reflected the Company's ongoing efforts to build future profit streams through the decisive strengthening of our business models with a strategic focus on becoming a port operator through holding a controlling interest in more ports and terminals and with an "asset light" approach to our container leasing business.

The accumulated momentum of growth that our new and existing investments is generating, particularly in container terminals, combined with the rebalancing of the management and ownership of container leasing and management division, is likely to result in a "harvesting" of earnings and the "optimising" of risk in the medium to long term.

At the same time, as one of the world's leading container terminal operators and container leasing companies, we continue to benefit from the strong growth in the supporting areas of logistics and container manufacturing. For details of results performance in 2006, please refer to the Vice Chairman's report, operational and financial reviews of this annual report.

MAJOR TRANSACTIONS

In 2006, COSCO Pacific continued to expand its global ports network through strategic alliances with leading port authorities, global shipping lines and terminal operators. In China, the Group signed joint venture contracts to capitalise on investments in the Quanzhou, Tianjin and Ningbo terminals and obtained a 71.43% equity interest in Quanzhou Pacific Container Terminal Co., Ltd., a 30% equity interest in Tianjin Port Euroasia International Container Terminal Co., Limited, as well as a 20% equity interest in Ningbo Yuan Dong Terminals Limited. In addition, the Group acquired a further 10% equity interest in Shanghai Pudong International Container Terminals Limited to obtain a total of 30% equity interest.

We continued to focus most of our resources in China while selectively expanding our global terminal network. In December 2005, the Group signed a share purchase agreement to acquire 20% interest in the Suez Canal Container Terminal S.A.E. at Port Said, Egypt. This transaction was agreed in principle by the Egyptian government in December 2006.

COSCO PACIFIC'S SOLID PERFORMANCE REFLECTED THE COMPANY'S ONGOING EFFORTS TO BUILD FUTURE PROFIT STREAMS

Note: After taking into account, the CIMC Put Options non-cash expense, profit attributable to equity holders of the Company declined to US$291,082,000 representing a decrease of 13.1% over 2005.

In order to minimise our business risk in the container leasing and management business and to transform our business model into an asset light one, the Group completed a transaction for the disposal of 600,082 TEUs of containers in June 2006, while maintaining our management role for the same. The total amount received from the buyer amounted to US$869,203,000.

Pursuant to the guidelines and other relevant documents in relation to the equity division reform of listed companies issued by the People's Republic of China, COSCO Pacific granted 424,106,507 put options to holders of the CIMC tradable A-Shares in 2006, as a compensation for their approval to convert the Company's holding of 360,143,203 non-tradable A-Shares to be tradable, representing 16.23% of the total shares outstanding of CIMC. The net effect of the Put Options on the Company's 2006 consolidated income statement was a non-cash expense of approximately US$55,181,000. The exercise price of the Put Options is RMB8.868 [Note]. The expiry date of the CIMC Put Options will be on 23rd November 2007. The closing price of CIMC tradable A-Shares was RMB18.84 on 31st December 2006. We have confidence in the outlook for CIMC and the potential value gain of our holdings in CIMC upon completion of the share reform.

OPERATING ENVIRONMENT

In 2006, China was once more at the forefront of global growth, registering a 10.7% rise in GDP. China's total exports and imports reached US$1,761 billion, a 23.8% rise from the previous year, representing a compound annual growth of 29.8% for the period from 2002 to 2006.

According to the latest study of the Ministry of Communications of the People's Republic of China, the Pearl River Delta, the Yangtze River Delta and the Bohai Rim will continue to be the powerhouse drivers for the economic development of China. The Ministry expected that substantial investments in Bohai Rim are likely to be approved by the Chinese Government since port facilities in that area are not sufficient to cope with the strong container transportation demand deriving from the significant economic growth of the hinterland. The Ministry forecasts that container throughput will increase from 93 million TEUs in 2006 to 140 million TEUs in 2010.

During the year, COSCO Pacific continued to strengthen its investments in the major ports along the coastal areas in China, including Qingdao, Dalian, Tianjin, Shanghai, Ningbo, Shenzhen, Guangzhou and Quanzhou. Moreover, we captured the opportunities offered by the rapid increase in China's river trade through our existing investments in a number of feeder ports, including Zhangjiagang, Yangzhou and Nanjing.

As at 31st December 2006, the annual handling capacity of our terminal portfolio including the development plans of some newly invested terminals, reached 61.0 million TEUs with a total of 115 berths, of which 103 berths capable of handling 54.3 million TEUs annually are located in China and Hong Kong.

The ongoing merger and acquisition activities in the global container terminal industry, the increasing containerisation and intensifying competition, as well as the growing size and capacity of container fleets, all underline the importance of building a worldwide network. As a leading global operator, COSCO Pacific intends to capitalise on these opportunities by extending and intensifying its global network. Our terminal investments in Singapore and Antwerp have proved to be a successful model for our future development in global terminal operations. The Company will continue to study the feasibility of and capture opportunities for investments in global major hub ports.

STRATEGY FOR THE FUTURE

COSCO Pacific's strategy is to maintain and enhance its position as the global industry leader. We intend to further strengthen our container terminal network by means of organic growth and new investments in both China and overseas. Our carrier-terminal partnerships remain key to this strategy, providing market knowledge, local experience, common business interests and future development opportunities.

China Ocean Shipping (Group) Company ("COSCO") and China COSCO Holdings Company Limited ("China COSCO"), the ultimate and intermediate shareholders of COSCO Pacific respectively, will provide strong support to the Company in its drive to capture terminal investment opportunities.

Note: The original exercise price of the CIMC Put Options was RMB10 which was adjusted to RMB8.868 on 20th July 2006.

COSCO Container Lines Company Limited ("COSCON"), the wholly owned subsidiary of China COSCO, is the world's fifth largest container shipping company, managing and operating 139 vessels with an aggregate capacity of approximately 400,000 TEUs. COSCON is engaged in an expansion programme to increase the fleet capacity to 560,000 TEUs by 2010. This well-equipped container fleet, together with its shipping alliance with Kawasaki Kisen Kaisha, Ltd. ("K Line"), Yang Ming Marine Transport Corporation ("Yang Ming") and Hanjin Shipping Company Ltd. ("Hanjin"), should allow the Company to enhance synergies and efficiency along the container transport chain as well as to enlarge the platform for our ports and terminals expansion so as to maximise profitability and return on capital.

In terms of container leasing, the strategy for the future will reflect the success of the sale and management transaction of containers as we expand our market share with an asset light model. As at 31st December 2006, the fleet capacity continued to expand by 19.9% to 1,250,609 TEUs.

After the sale and management transaction, the container leasing and management division consists mainly of three segments:

(1) COSCON 10-year long-term leasing;
(2) International customers long-term and short-term leasing; and
(3) Container management services.

The benefits of this divestment transaction are clear. COSCON 10-year long-term leases with a 100% utilisation rate are providing the Company with a very stable revenue stream. We continue to fully utilise our expertise to lease containers to COSCON and other international customers, and we provide container management services to our customers while building up a well-balanced business model based on risk-reward profile and stable yield.

Going forward, we will seek further opportunities to expand our container management business with a view to further strengthen our capital investment based on this successful model.

ENHANCING CORPORATE GOVERNANCE

The corporate philosophy of COSCO Pacific is the continuous pursuit of higher standards of integrity, transparency and professionalism whatever may be the current economic and market conditions. While being committed to maximising shareholders' value and improving corporate profitability, the Company is also determined to ensure the highest standards of corporate governance. In maintaining a high level of transparency and accountability to the shareholders, the Board believes that good corporate governance should benefit our stakeholders.

In 2006, the Company was the proud recipient of awards granted in recognition of our well-governed and well-managed operations. The Board of COSCO Pacific was honoured to be presented the "Directors of The Year" awards organised by the Hong Kong Institute of Directors. We were also awarded the "Hong Kong Outstanding Enterprise" by the Economic Digest for the second consecutive year. Moreover, the Company was cited as one of the "Forbes 2000 leading companies in the world" as well as one of the "China Shipping Gazette top 10 enterprises". We were nominated as a Finalist in the "Shipping In-House Team of the Year" in the ALB Hong Kong Law Awards organised by Asian Legal Business, a widely circulated magazine amongst the legal professional in 2006. Finally, the Company was given a highly commended award for our investor relations by IR Asia Magazine.

Each award endorses the public's confidence in the Company, and this confidence in turn motivates us to set yet higher governance standards. The Company espouses the core principles of corporate governance, which are based on the checks and balances system, and seeks to maximise shareholders' investment returns through balancing the interests of our shareholders. The Board and the management of COSCO Pacific will continue to follow these principles and to act in the long-term interests of its shareholders and stakeholders.

RESPONSIBILITY TO THE COMMUNITY AND SOCIETY

As a good corporate citizen, COSCO Pacific believes that involvement in the community and environmental awareness are essential for the future progress and sustainable development of the societies where the Company operates.

During the year, COSCO Pacific signed up to "Project CLEAN AIR", a programme organised by the Hong Kong General Chamber of Commerce, the Hong Kong Business Coalition on the Environment, and various environmental agencies in Guangdong to encourage businesses to implement appropriate measures to combat air pollution and improve air quality in the Pearl River Delta. More pro-active measures are likely to be taken in 2007 in connection with our terminal investments in this region.

CHANGE OF DIRECTORSHIP AND AUTHORISED REPRESENTATIVE

On 24th January 2007, Mr. XU Minjie was appointed as the Executive Director, Vice Chairman, Managing Director and an authorised representative of the Company. While welcoming Mr. XU to the Board, I would also like to express my deepest gratitude to his predecessor Dr. SUN Jiakang for his outstanding contribution to the Company. I have every confidence that our new Vice Chairman will unchart an even greater success in the years to come.

OUTLOOK

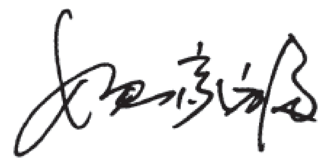
We have a positive outlook for 2007 based on the continuing recovery of the shipping industry, lower oil prices and a potential reduction in the U.S. interest rates, which will provide a favourable stimulus for the business environment. Rising demand driven by domestic consumption in China will boost its imports to achieve a higher growth rate. Moreover, it is expected that China's economic growth will remain strong and that the global economy will expand at an even more impressive rate than in 2006. This continued strength of the global economy is positive for all of our businesses including container terminal, container leasing and management, logistics and container manufacturing.

In the container terminal business, we are expecting further robust growth. Our terminal throughput will continue to grow strongly. In addition, we believe that container leasing will show renewed growth by further expanding its market share due to a transformation of our business model from ownership to a model with a combination of ownership and management of containers. Both our logistics and container manufacturing businesses are likely to register further profit improvements as complementary businesses to our core operations.

MISSION

COSCO Pacific's mission remains to create value for our shareholders and to provide superior service through the strengthening of our business models, becoming a leading global port operator with controlling rights that enhance enterprise value while transforming container leasing into an asset light business. This vision continues to be based on high profitability, strategic balance, excellent management, entrepreneurship, social responsibility, concern for the environment, and the attainment of leadership positions in all of our core businesses. It gives me great pride to say that COSCO Pacific's operations and performance in 2006 once more reflected our strong commitment to these values.

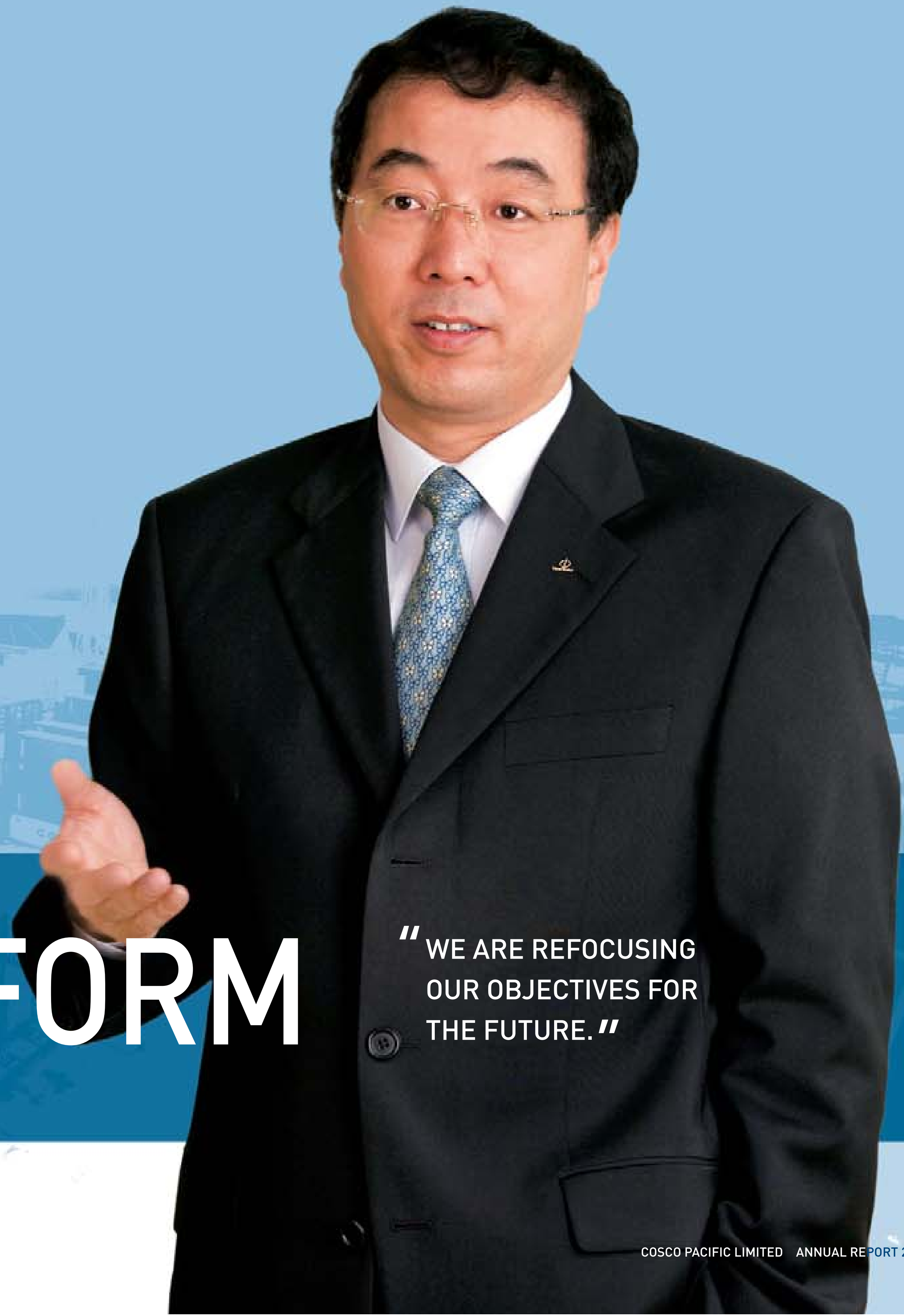
Finally, I would like to take this opportunity to express my heartfelt thanks to our Board, management and employees for their contributions for the awards attained in 2006, and particularly for the Hong Kong Institute of Directors award that recognised our dedication to establishing a well-managed Board, high standards of corporate governance and increasing transparency. The Group continues to flourish because of the energy, commitment and resourcefulness of the COSCO Pacific team at all levels. I would also like to express my deepest gratitude to our business partners and above all our shareholders for the trust they have placed in our vision, and for driving the Group towards realising the full potential of its strengthened business models.



WEI Jiafu
Chairman
22nd March 2007

Focusing on ports as the key earnings driver, we aim to further strengthen our terminal business by transforming our business model from an investment-based model to a controlling rights model; from a strategic emphasis on the China market to the global market with a primary focus on China; from a container terminals to a diversified terminals portfolio; and from maximisation of profit to maximisation of enterprise value.

BUILDING PLAT FORM



"WE ARE REFOCUSING OUR OBJECTIVES FOR THE FUTURE."

COSCO Pacific's strategy of leveraging on its value creation platform for future profit is supported by each of its business divisions. This strategy will help the Company maintain its position as a global industry leader.

On 24th January 2007, I was honoured to be appointed as the Executive Director, Vice Chairman and Managing Director of COSCO Pacific. During my more than 30 years of experience in the shipping industry, much of which has been spent with COSCO Group, I have had the opportunity to accumulate at first hand knowledge and experience of how the industry works. I hope to bring this expertise to bear on the Company's strategic development, corporate governance and financial management.

I would like to take this opportunity to thank Dr. SUN Jiakang, my predecessor, for his clear and consistent strategy in guiding COSCO Pacific. The future success of the Company will be closely linked to the strengthened business models he has introduced.

TERMINALS

In 2006, COSCO Pacific ranked as the fifth largest container terminal operator in the world. The Group's container terminal business continued to grow strongly with throughput up 25.7% to 32,791,713 TEUs. During the year, COSCO Pacific further bolstered its global network by acquiring interests in new terminals and increasing its investment in existing terminals. The Group's total number of berths increased by 15 to 115 in 2006, of which its annual handling capacity rose from 54,900,000 TEUs to 61,000,000 TEUs.

The profit contribution from terminal division (excluding profit on disposal of Shekou Container Terminals Ltd. of US$61,875,000 in 2005) amounted to US$90,520,000 increased by 2.8% over the last year. Among which, Qingdao Qianwan Container Terminal Co., Ltd. recorded a high throughput of 6,770,003 TEUs and provided substantial profit contribution. The replacement of four quay cranes by COSCO-HIT Terminals (Hong Kong) Limited during the first half of the year directly affected terminal throughput, which dropped by 8.3% while profit contribution also decreased. The replacement of the cranes has enhanced the terminal to be capable to handle larger and more sophisticated vessels with capacity of over 8,000 TEUs.

In April 2006, the Group acquired an additional 10% equity interest in Shanghai Pudong International Container Terminals Limited and therefore its profit contribution rose significantly during the year.

We remain positive for the outlook for COSCO Pacific's operating environment in 2007. Robust growth is forecast for China's foreign trade, both imports and exports. In the Yangtze River Delta, throughput at the Group's feeder ports such as Zhangjiagang, Yangzhou and Nanjing, is expected to grow rapidly because of the dramatic increase in river trade to support international shipping through Shanghai.

Newly acquired stakes in terminals that are already in operation and newly built terminals commencing operations will provide a platform for ongoing container throughput and profit growth, especially in the medium term. This is in addition to increasing capacity and organic growth at existing terminals.

CONTAINER LEASING AND MANAGEMENT

COSCO Pacific's container leasing business ranked third in the world and continued to perform well last year. As at 31st December 2006, the Group's container fleet reached 1,250,609 TEUs, up 19.9% on the previous year. Average utilisation rate rose to 96.2% in 2006 (2005: 95.5%), well above the industry average of around 91.8% (2005: 90.9%).

As a result of a strategic disposal of 600,082 TEUs of containers in June 2006, our owned fleet reduced to 620,728 TEUs as at 31st December 2006 (2005: 1,008,249 TEUs). The disposal generated a net gain of approximately US$50 million and a finder fee income of approximately US$15 million. A total of approximately US$65 million in exceptional income boosted the net profit contribution from our container leasing and management division by 43.7% to US$166,353,000.

With the growth of shipping fleets, massive new shipbuilding orders, further industry consolidation and a positive outlook for containerised trade in 2007, we continue to be confident of the future prospects of our container leasing and management operations.

LOGISTICS

The Group has 49% interest in COSCO Logistics while China COSCO holds the other 51% interest. As the dynamic economic environment continues to encourage the growth of foreign and domestic enterprises in China, the domestic logistics market is developing further in terms of internationalisation, professionalism and standardisation. COSCO Logistics is actively expanding its third party logistics in the fields of home appliances, automobiles, power supply, petrochemical, convention and exhibition services. Net profit contribution from the logistics business rose 21.5% to US$11,136,000 in 2006.

For the third consecutive year, COSCO Logistics ranked Number 1 in "China's Logistics 100" in recognition of its logistics achievements in China. For the future, our strategy remains to grow our logistics business to support the growth of the Group as a whole.

CONTAINER MANUFACTURING

The Group has 16.23% interest in CIMC, 20.0% interest in Shanghai CIMC Reefer Containers Co., Ltd. and 22.5% interest in Tianjin CIMC North Ocean Container Co., Ltd.

At the beginning of 2006, sales volume and prices of containers were low. However, the subsequent rebound in the market helped the net profit contribution from our container manufacturing business (excluding CIMC Put Options non-cash expense) to increase by 24.1% to US$69,715,000 in 2006.

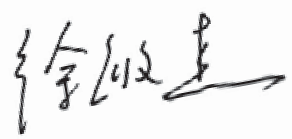
We continue to expect stable growth with new and larger vessels coming on stream and an increase in the containerisation rate in China being the major growth drivers.

FUTURE PROSPECTS

Looking ahead to 2007, there are good prospects for continued sustainable growth of the world economy. As the logistics and river trades growth of the hinterlands of the Pearl River Delta, the Yangtze River Delta and the Bohai Rim have been accelerating, we believe that the effects for COSCO Pacific will be positive.

OUR MANAGEMENT TEAM WILL CONTINUE TO BUILD ON OUR VALUE CREATION PLATFORM IN ORDER TO SUPPORT AND ENHANCE COSCO PACIFIC'S POSITION AS A GLOBAL INDUSTRY LEADER.

The Group's accumulated-growth momentum for the container terminal business, with throughput driven by both organic growth and new investments, is expected to reap continuous earnings growth by the end of 2007 and beyond. The main engine for the growth of COSCO Pacific will be led by the profit growth of our terminal business and supported by the stable yield of our container leasing and management business. Our container manufacturing and logistics businesses are set to contribute to the growth of the Group's profits as a whole. With our well-balanced portfolio and strengthened business models, our management team will continue to build on our value creation platform in order to support and enhance COSCO Pacific's position as a global industry leader.



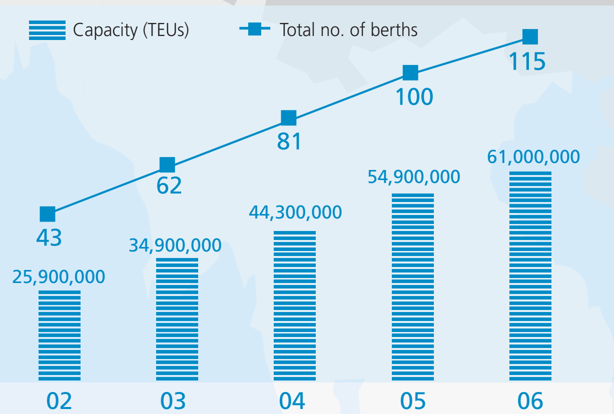
XU Minjie
Vice Chairman and Managing Director
22nd March 2007

OPERATIONAL REVIEW

TERMINALS

During the year, COSCO Pacific built further on its strengthened business model in order to achieve medium to long-term growth. We will continue to focus substantial resources on the three major regions of China, namely Pearl River Delta, Yangtze River Delta, and Bohai Rim, while strategically and selectively expanding our global terminal network through alliances with major liner operators.

ACCUMULATED GROWTH MOMENTUM



MAJOR TERMINALS INVESTMENT

- Yantian Phase III
- Qingdao Qianwan
- Dalian Automobile
- Tianjin Five Continents
- COSCO-PSA
- Yangzhou Yuanyang
- Zhenjiang Jinyuan
- Dalian Port
- Yingkou
- Antwerp
- Guangzhou Nansha Port Phase II
- Nanjing Port Longtan
- Shanghai Yangshan Port Phase II
- Suez Canal
- Ningbo Yuan Dong
- Tianjin Port Euroasia
- Quanzhou Pacific

COSCO Pacific Terminal Portfolio	Shareholding (%)	No. of berths	Depth (Meter)	Quay length (Meter)	Annual handling capacity (TEUs)
BOHAI RIM		**38**			**18,600,000**
Qingdao Qianwan Container Terminal Co., Ltd. Note 1	20%	11	17.5	3,400	6,500,000
Qingdao Cosport International Container Terminals Co., Ltd.	50%	1	13.5	349	600,000
Dalian Port Container Co., Ltd.	8.13%	9	8.9-14.0	2,335	3,000,000
Dalian Port Container Terminal Co., Ltd.	20%	6	13.5-17.8	2,096	4,200,000
Dalian Automobile Terminal Co., Ltd.	30%	2	11.0	550	600,000 vehicles
Tianjin Five Continents International Container Terminal Co., Ltd.	14%	4	15.7	1,202	1,500,000
Tianjin Port Euroasia International Container Terminal Co., Ltd.	30%	3	15.5	1,100	1,800,000
Yingkou Container Terminals Company Limited	50%	2	14.0	576	1,000,000
YANGTZE RIVER DELTA		**36**			**14,200,000**
Shanghai Container Terminals Limited	10%	10	9.4-10.5	2,281	3,700,000
Shanghai Pudong International Container Terminals Limited	30%	3	12.0	940	2,300,000
Shanghai Xiangdong International Container Terminal Company Limited	10%	4	15.0	1,400	3,200,000
Ningbo Yuan Dong Terminals Limited Note 2	20%	5	15.0	1,610	2,100,000
Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	51%	3	10.0	722	1,000,000
Yangzhou Yuanyang International Ports Co., Ltd.	55.59%	2	11.0	1,346	700,000
		3			+4.7 million tons of break-bulk cargo
Nanjing Port Longtan Container Co., Ltd.	20%	5	12.0	910	1,000,000
Zhenjiang Jinyuan Container Terminals Co., Ltd.	25%	1	13.0	233	200,000
PEARL RIVER DELTA		**29**			**21,500,000**
COSCO-HIT Terminals (Hong Kong) Limited	50%	2	15.5	1,086	1,800,000
Yantian International Container Terminals Ltd. (I, II)	5%	5	14.0-15.5	1,650	4,500,000
Yantian International Container Terminals (Phase III) Ltd.	4.45%	10	16.0	3,297	9,000,000
Guangzhou South China Oceangate Container Terminal Co., Ltd.	39%	6	14.5	2,100	4,200,000
Quanzhou Pacific Container Terminal Co., Ltd. Note 3	71.43%	5	10.0-15.0	1,475	2,000,000
		1			+1.0 million tons of break-bulk cargo
OVERSEAS		**12**			**6,700,000**
COSCO-PSA Terminal Private Limited	49%	2	15.0	720	1,000,000
Antwerp Gateway NV	20%	6	17.0	2,450	3,500,000
Suez Canal Container Terminal S.A.E.	20%	4	16.5	1,200	2,200,000
TOTAL NO. OF TERMINAL BERTHS		**115**			
Total no. of container terminal berths / annual handling capacity		109			61,000,000
Total no. of automobile terminal berths / vehicles		2			600,000 vehicles
Total no. of multi-purpose termial berths / tons Note 4		4			5.7 million tons of break-bulk cargo

Note 1: Include 11 berths in Phases II & III of Qingdao Qianwan Terminal
Note 2: Include berth No.7-11 of Ningbo Yuan Dong Terminals
Note 3: Quanzhou Pacific Terminal located at the South-east coastal area in China was included in the Pearl River Delta.
Note 4: Include 1 multi-purpose berth in Quanzhou Pacific Terminal and another 3 berths in Yangzhou Yuanyang Terminal

PORT INDUSTRY REVIEW

In 2006, China ranked number one in global container throughput for the fourth consecutive year with 93,000,000 TEUs passing through its ports, a 23% increase over 2005. The increase was driven by a 23.8% rise in China imports and exports.

The globalisation of terminal operations continues at a rapid pace, with global carriers dedicated to enhancing the efficiency of the transport chain to remain competitive. Port operators are more than ever committed to pursuing profit maximisation, growth and additional market share, while carrier alliances and terminal operators are increasingly emerging (and merging) to invest in the global terminal network. Against this background, COSCO Pacific continues to forge strong partnerships with global port operators and liners and to maintain good relationships with local port authorities. The increasing cooperation between liners, such as slot exchange, joint services and carrier alliance should enhance the utilisation rate of liners, port efficiency and also profitability.

CHINA THROUGHPUT CAGR: 25.7%

	2002	2003	2004	2005	2006
China throughput ('000TEUs)	37,210	48,670	61,600	75,640	93,000
y-o-y	+35.4%	+30.8%	+26.6%	+22.8%	+23.0%

Source: Ministry of Communications of the People's Republic of China

TOP 10 GLOBAL CONTAINER TERMINAL OPERATORS IN 2006

Ranking	Operator	Market Share
1	HPH	13.0%
2	APM Terminals	10.1%
3	PSA	10.1%
4	P&O Ports	6.0%
5	**COSCO Pacific**	**3.7%**
6	DP World	3.2%
7	Eurogate	3.0%
8	Evergreen	2.2%
9	MSC	2.0%
10	SSA Marine	1.8%

Source: Drewry Shipping Consultants Ltd (Aug 2006)

TOP 10 CHINA PORTS IN 2006

Ranking	Port	Throughput (TEUs)	y-o-y
1	Shanghai	21,710,000	+20.1%
2	Shenzhen	18,469,000	+14.0%
3	Qingdao	7,702,000	+22.1%
4	Ningbo	7,068,000	+35.7%
5	Guangzhou	6,600,000	+40.9%
6	Tianjin	5,950,000	+23.9%
7	Xiamen	4,019,000	+20.2%
8	Dalian	3,212,000	+21.2%
9	Lianyungang	1,302,000	+30.0%
10	Zhongshan	1,173,000	+9.1%

Source: www.portcontainer.cn

TERMINAL PERFORMANCE IN 2006

According to the "Annual Review of Global Container Terminal Operators 2006" published by Drewry Shipping Consultants, COSCO Pacific ranked the world's fifth largest container terminal operator with a 3.7% market share in 2006. Total container terminal throughput increased by 25.7% to 32,791,713 TEUs in 2006. Net profit contribution from the terminals and related businesses (excluding the profit on disposal of Shekou Terminal of US$61,875,000 in 2005) rose 2.8% to US$90,520,000 in 2006.

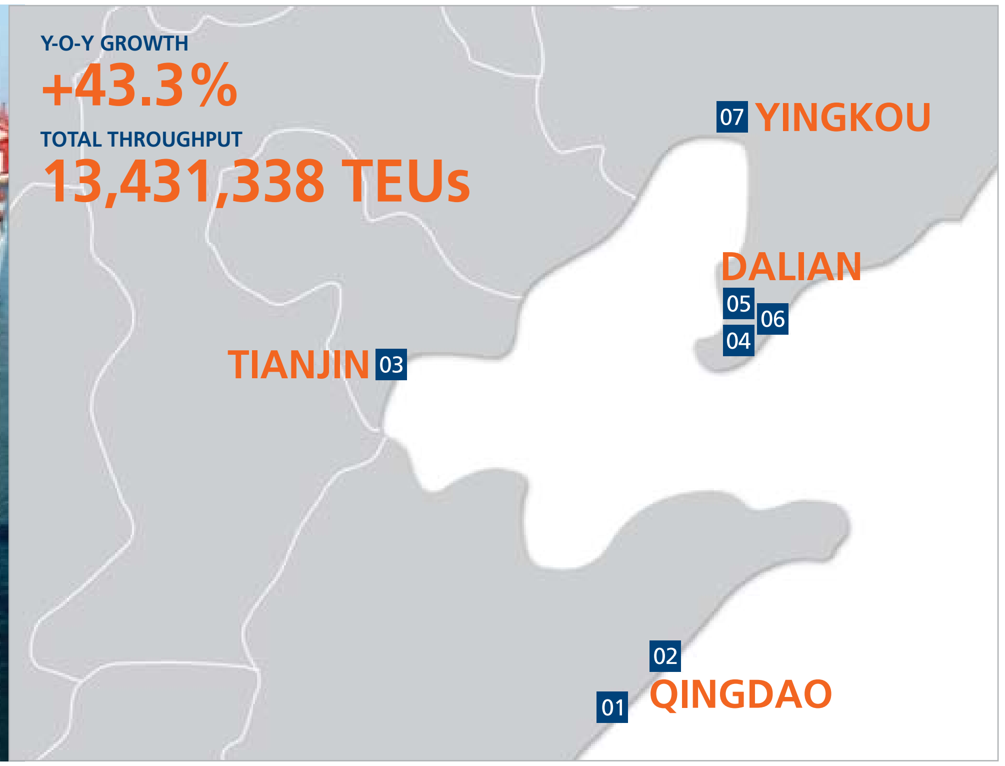
Container Terminal Throughput	2006 (TEUs)	2005 (TEUs)	y-o-y
Bohai Rim	13,431,338	9,370,361	+43.3%
Yangtze River Delta	7,732,423	6,831,502	+13.2%
Pearl River Delta	10,400,888	9,196,652	+13.1%
Overseas	1,227,064	681,097	+80.2%
Total throughput	**32,791,713**	**26,079,612**	**+25.7%**

BOHAI RIM

The Group's terminal business in Bohai Rim region performed very well, with aggregate container terminal throughput rose by 43.3% to 13,431,338 TEUs during the year. Boosted by the growing economy in the region, throughput of Qingdao Qianwan Terminal achieved a year-on-year growth of 24.4% to 6,770,003 TEUs. Throughput of Dalian Port Container Co., Ltd. increased 16.9% to 2,885,276 TEUs. At Yingkou Terminal, throughput increased 32.2% to 837,574 TEUs. Following commencement of operations at Tianjin Five Continents Terminal in November 2005, throughput reached 1,773,141 TEUs for the full year operation in 2006.

Container Terminal Throughput	2006 (TEUs)	2005 (TEUs)	y-o-y
Bohai Rim	**13,431,338**	**9,370,361**	**+43.3%**
Qingdao Qianwan Container Terminal Co., Ltd.	6,770,003	5,443,086	+24.4%
Qingdao Cosport International Container Terminals Co., Ltd.	744,276	605,791	+22.9%
Dalian Port Container Co., Ltd.	2,885,276	2,467,465	+16.9%
Dalian Port Container Terminal Co., Ltd.	421,068	132,984	+216.6%
Tianjin Five Continents International Container Terminal Co., Ltd.	1,773,141	87,462	+1,927.3%
Yingkou Container Terminals Company Limited	837,574	633,573	+32.2%

01 Qingdao Qianwan Terminal
02 Qingdao Cosport Terminal
03 Tianjin Five Continents Terminal
04 Dalian Port Container Co., Ltd.
05 Dalian Automobile Terminal
06 Dalian Port Container Terminals
07 Yingkou Terminal



YANGTZE RIVER DELTA

In the Yangtze River Delta, the Group's terminal business achieved outstanding performance. Aggregate container terminal throughput growth was 13.2% on a year-on-year basis to 7,732,423 TEUs. Both Shanghai Terminal and Shanghai Pudong Terminal continued to operate at full capacity. With the purchase of another 10% equity interest in the Shanghai Pudong Terminal that increased the Company's shareholding from 20% to 30%, the terminal's profit is set to increase. At Zhangjiagang Win Hanverky Terminal, throughput rose 20.9% to 455,946 TEUs. At Yangzhou Yuanyang Terminal, throughput rose 41.9% to 222,912 TEUs. Nanjing Longtan Terminal's throughput surged 291.8% to 700,098 TEUs largely due to a significant increase in trade volume along the Yangtze River.

Container Terminal Throughput	2006 (TEUs)	2005 (TEUs)	y-o-y
Yangtze River Delta	**7,732,423**	**6,831,502**	**+13.2%**
Shanghai Container Terminals Limited	3,703,460	3,646,732	+1.6%
Shanghai Pudong International Container Terminals Limited	2,650,007	2,471,840	+7.2%
Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	455,946	377,121	+20.9%
Yangzhou Yuanyang International Ports Co., Ltd.	222,912	157,123	+41.9%
Nanjing Port Longtan Container Co., Ltd.	700,098	178,686	+291.8%

Note: Ningbo Yuan Dong Terminals commenced trial-run in December 2006.

08 Shanghai Pudong Terminal
09 Shanghai Terminal
10 Zhangjiagang Win Hanverky Terminal
11 Yangzhou Yuanyang Terminal
12 Nanjing Longtan Terminal
13 Ningbo Yuan Dong Terminals

PEARL RIVER DELTA

In the Pearl River Delta, the Group's terminal business performed satisfactorily. Aggregate throughput growth was 13.1% on a year-on-year basis to 10,400,888 TEUs. Throughput at Yantian Terminal Phases I, II and III increased by 15.2% to 8,470,919 TEUs with new operational berths added in Phase III. At COSCO-HIT Terminal in Hong Kong, throughput decreased by 8.3%. It was mainly affected by the construction and replacement of four quay cranes during the first half of the year which disrupted the terminal's normal operation for a certain period of time. The situation had been improved in the second half of the year. The replacement of the cranes has enhanced the terminal's capability to handle larger and more sophisticated vessels with a capacity of over 8,000 TEUs.

14 COSCO-HIT Terminal
15 Yantian Terminal (Phases I, II & III)
16 Guangzhou Nansha Port Phase II
17 Quanzhou Pacific Terminal

Y-O-Y GROWTH
+13.1%

TOTAL THROUGHPUT
10,400,888 TEUs

Container Terminal Throughput	2006 (TEUs)	2005 (TEUs)	y-o-y
Pearl River Delta	**10,400,888**	**9,196,652**	**+13.1%**
COSCO-HIT Terminals (Hong Kong) Ltd.	1,688,697	1,841,193	-8.3%
Yantian International Container Terminals Ltd. (Phase I, II, III)	8,470,919	7,355,459	+15.2%
Quanzhou Pacific Container Terminal Co., Ltd.	241,272	–	–

Note: Two berths at Guangzhou Nansha Port Phase II commenced its trial run in December 2006.

OVERSEAS

The aggregate container terminal throughput of overseas rose 80.2% on year-on-year basis to 1,227,064 TEUs. COSCO-PSA Terminal in Singapore recorded a throughput growth of 2.8% to 627,894 TEUs. In Belgium, Antwerp Terminal saw growth of throughput of 754.9% to 599,170 TEUs for the full year operation in 2006 after commencing operations in September 2005.

Container Terminal Throughput	2006 (TEUs)	2005 (TEUs)	y-o-y
Overseas	**1,227,064**	**681,097**	**+80.2%**
COSCO-PSA Terminal Private Limited	627,894	611,013	+2.8%
Antwerp Gateway NV	599,170	70,084	+754.9%

Y-O-Y GROWTH
+80.2%

TOTAL THROUGHPUT
1,227,064 TEUs

18 COSCO-PSA Terminal
19 Antwerp Terminal

TERMINAL BUSINESS INVESTMENTS IN 2006

During 2006, COSCO Pacific further bolstered its global network by investing in new terminals and increasing its shareholding in existing terminals through a process of organic growth with some projects awaiting government approval. The Group's total number of berths increased from 100 to 115 and the annual handling capacity grew from 54,900,000 TEUs to 61,000,000 TEUs.

In the Bohai Rim, Tianjin Port Euroasia Terminal, for which the Group signed a joint venture agreement in 2006 for a 30% equity interest, is currently under construction with a total of three berths and will commence operation in 2008. Therefore a total of three berths will be added in this region.

In the Yangtze River Delta, the Company purchased another 10% equity interest in the Shanghai Pudong Terminal at a cost of RMB465,000,000 to increase the Group's shareholding from 20% to 30%. In addition, the Group signed a joint venture agreement to construct, operate and manage five berths of Ningbo Yuan Dong Terminals, in which COSCO Pacific holds a 20% equity interest. Together with the expansion of one berth in Yangzhou Yuanyang Terminal, a total of six berths will be added in this region.

In the Pearl River Delta, the Company signed a joint venture agreement to construct, operate and manage six berths of Quanzhou Pacific Terminal, in which COSCO Pacific holds a 71.43% equity interest. Four berths are already in operation.

At overseas, COSCO Pacific is committed to enhancing its global network. In line with this strategy, the Group entered into an agreement to acquire a 20% equity interest in the Suez Canal Terminal at Port Said, Egypt in December 2005. The Egyptian government agreed in principle with the purchase of shares in December 2006. The acquisition has tremendous potential for future growth due to the terminal's excellent location at the northern entrance of the Suez Canal and on all major shipping routes between Asia and Europe via the Mediterranean.

During the year, COSCO Pacific further expanded its global terminal portfolio by investing in a major hub port at overseas. On 21st December 2006, COSCO Pacific, Kawasaki Kisen Kaisha, Ltd., Yang Ming Marine Transport Corporation, Hanjin Shipping Company Ltd. and Europe Container Terminals B.V. entered into a memorandum of understanding to jointly construct, develop and operate Euromax Terminal in Maasvlakte at the port of Rotterdam in the Netherlands.

OUTLOOK

COSCO Pacific continues to be confident about the ongoing prospects for container terminal operations. The increasing efficiency and professionalism of our terminal services management and business operations as well as the continuing robust growth of global trade encourage us in this view. In China, despite a possible modest reining in of the economy, the strong growth of imports and exports is expected to continue. Our strategic and timely investments in termnals are set to result in relatively high returns in the medium to long term.

The Chinese Central Government's 11th Five-Year Plan underlined the powerhouse role of the Pearl River Delta, Yangtze River Delta and Pan-Bohai Economic Zone for the development of the hinterland. The Bohai Rim shows the highest development potential, with dynamic economic growth expected to continue, particularly in foreign trade.

Two more berths at Dalian Port Container Terminal commenced operations in 2006, joining the two new ones that came on stream in 2005. Dalian Automobile Terminal came on stream in 2006 with two new berths. Tianjin Five Continents Terminal commenced full operations in 2006. As a result, handling capacity at the Group's terminal in the Bohai Rim is set to steadily grow. In addition, the business performance and profitability of our terminal investments in this region are expected to accelerate its growth in the coming years.

Dynamic economic growth in the Yangtze River Delta is driving a dramatic increase in transportation demand along the river, especially following the opening of operations of terminals at the port of Yangshan in Shanghai. There is no doubt that transport to and from Yangshan along the Yangtze River is more cost effective and provides better value than land transport. This is already driving rapid growth in throughput at feeder ports such as Nanjing Longtan Terminal, Zhangjiagang Win Hanverky Terminal and Yangzhou Yuanyang Terminal. Among which, Nanjing Longtan Terminal has great potential being the only one container terminal in the port of Nanjing, which is the largest river port in the Yangtze River Delta.

In the Pearl River Delta, container throughput is forecast to show sustainable growth. Due to rising demand for terminal services, new berths at Yantian Terminal Phase III commenced operation in 2006. Container throughput is set to rise at Yantian Terminal. Meanwhile, a stable growth is expected at COSCO-HIT Terminal. The Pearl River Delta is the leading manufacturing centre in China. Once manufacturers choose to ship their goods through Nansha Port, which is located at a prominent position in the region, it is likely that Nansha will become a major port in the Western Pearl River Delta. Therefore, the Group believes that our investment in the Guangzhou Nansha Port Phase II will have a prosperous future.

In overseas operations, the rapid rise in container throughput in Antwerp Terminal has already begun following the launch of our operations there in September 2005. We continue to forecast stable growth of throughput at COSCO-PSA Terminal in Singapore. Following the potential acquisition by the end of 2007 of a second berth located nearby the existing one, the terminal should be able to achieve a stronger throughput growth. The Group's purchase of a 20% shareholding in the Suez Canal Terminal at Port Said should complete in 2007.

ABBREVIATION

Company name	Abbreviation
BOHAI RIM	
Qingdao Qianwan Container Terminal Co., Ltd.	Qingdao Qianwan Terminal
Qingdao Cosport International Container Terminals Co., Ltd.	Qingdao Cosport Terminal
Dalian Port Container Terminal Co., Ltd.	Dalian Port Container Terminal
Dalian Automobile Terminal Co., Ltd.	Dalian Automobile Terminal
Tianjin Five Continents International Container Terminal Co., Ltd.	Tianjin Five Continents Terminal
Tianjin Port Euroasia International Container Terminal Co., Limited	Tianjin Port Euroasia Terminal
Yingkou Container Terminals Company Limited	Yingkou Terminal
YANGTZE RIVER DELTA	
Shanghai Container Terminals Limited	Shanghai Terminal
Shanghai Pudong International Container Terminals Limited	Shanghai Pudong Terminal
Shanghai Xiangdong International Container Terminal Company Limited	Shanghai Yangshan Port Phase II
Ningbo Yuan Dong Terminals Limited	Ningbo Yuan Dong Terminals
Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	Zhangjiagang Win Hanverky Terminal
Yangzhou Yuanyang International Ports Co., Ltd.	Yangzhou Yuanyang Terminal
Nanjing Port Longtan Container Co., Ltd.	Nanjing Longtan Terminal
Zhenjiang Jinyuan Container Terminals Co., Ltd.	Zhenjiang Jinyuan Terminal
PEARL RIVER DELTA	
COSCO-HIT Terminals (Hong Kong) Limited	COSCO-HIT Terminal
Yantian International Container Terminals Ltd. (I, II)	Yantian Terminal Phases I & II
Yantian International Container Terminals (Phase III) Limited	Yantian Terminal Phase III
Guangzhou South China Oceangate Container Terminal Company Limited	Guangzhou Nansha Port Phase II
Quanzhou Pacific Container Terminal Co., Ltd.	Quanzhou Pacific Terminal
Shekou Container Terminals Ltd.	Shekou Terminal
OVERSEAS	
COSCO-PSA Terminal Private Limited	COSCO-PSA Terminal
Antwerp Gateway NV	Antwerp Terminal
Suez Canal Container Terminal S.A.E.	Suez Canal Terminal

CONTAINER LEASING AND MANAGEMENT

COSCO Pacific continued to focus on long-term leases, to expand market share and to find the optimum balance between ownership and management of our containers based on our refocused "asset light" business model. Successful marketing and increasing flexibility meant that we ended the year with a satisfactory performance. Rising demand for larger container fleets, growing containerisation in China and a higher utilisation rate are likely to be the growth drivers of our container leasing business.

MARKET REVIEW

According to Containerisation International Market Analysis 2006, the worldwide container fleet capacity was approximately 23,170,000 TEUs in 2006, of which approximately 10,195,000 TEUs representing 44% were owned by container leasing companies. The ten largest container leasing companies including our Group owned and managed an aggregate of approximately 8,756,000 TEUs, representing 86% of the total fleet owned by container leasing companies. The increase in shipbuilding orders is likely to stimulate further strong demand for container leasing services from the shipping industry.

In 2006, container leasing rates for all categories continued to be affected by the changing seasonal conditions of the market, the cost of containers and intensifying competition. Due to the market demand from the increased shipping capacity of new vessels and the increased cost of raw materials, the price of new containers as per 20' dry container rose to US$2,000 from April to August in 2006. However, due to the changes of the cost of raw materials and the market demand, the price of new containers dropped by the end of third quarter, and then rose to around US$1,900 by the end of fourth quarter.

TOP 10 CONTAINER LEASING COMPANIES IN 2006

Ranking	Company	Fleet capacity (TEUs)	Market share
1	Textainer	1,525,000	15.0%
2	Triton Container	1,390,000	13.7%
3	**COSCO Pacific (Florens)**[Note]	**1,250,609**	**11.9%**
4	TAL International	940,000	9.3%
5	GE SeaCo	930,000	9.2%
6	Interpool Group	750,000	7.4%
7	CAI	670,000	6.6%
8	Capital Lease	520,000	5.2%
9	Cronos Group	405,000	4.0%
10	Gold Container	375,000	3.7%

Source: Containerisation International Market Analysis/Andrew Foxcroft Container Data UK, February 2007
Note: The fleet size of Florens as at 31st December 2006

TOP 10 GLOBAL CONTAINER LINERS IN 2006

Ranking	Shipping company	Fleet capacity (TEUs)
1	Maersk Line	1,573,551
2	MSC	1,019,725
3	CMA CGM	517,213
4	Hapag-Lloyd	454,526
5	**COSCON**	**399,237**
6	CSCL	387,168
7	Evergreen	377,334
8	APL	342,461
9	Hanjin	337,378
10	NYK	283,109

Source: www.ci-online.co.uk

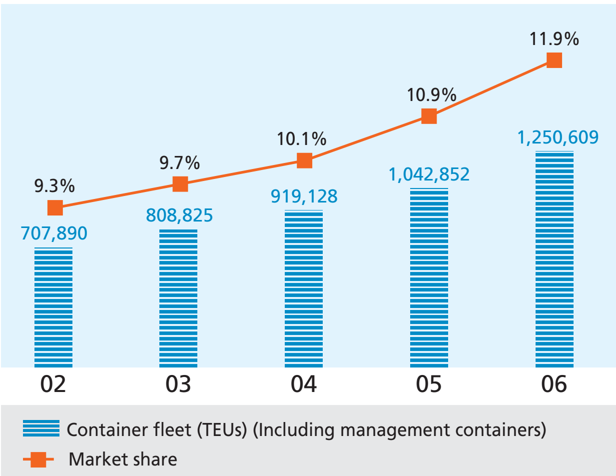
BUSINESS REVIEW

During the year, our container leasing and management business achieved satisfactory performance by enhancing our business model and capital structure. The Group continued to focus on long-term leases, to expand market share and to find the optimum balance between ownership and management of our containers. Successful marketing and increasing flexibility of management enabled us to further strengthen our container leasing and management business.

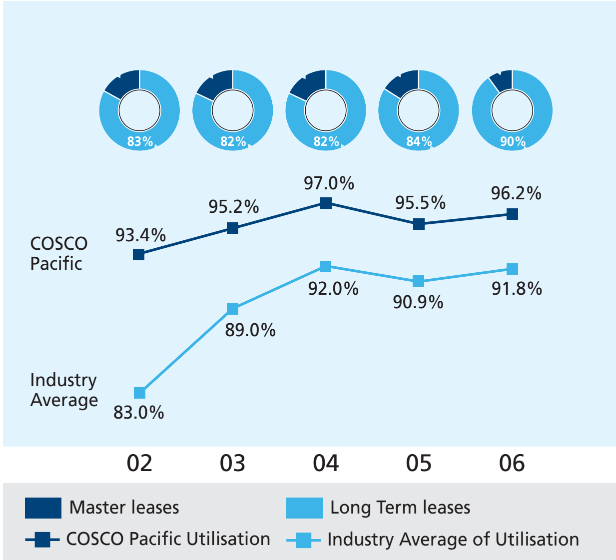
COSCO Pacific's container leasing and management business are being operated and managed by Florens[Note] which is ranked the third in the world, continued to perform well this year. As at 31st December 2006, the Group's container fleet including management containers reached 1,250,609 TEUs, up 19.9% on the previous year. The average utilisation rate of Florens' containers rose to 96.2% in 2006 (2005: 95.5%), well above the industry average of approximately 91.8% (2005: approximately 90.9%). Net profit contribution from container leasing and management business rose by 43.7% to US$166,353,000 in 2006.

Note: Florens Container Holdings Limited, a wholly owned subsidiary of COSCO Pacific, and its subsidiaries are collectively referred to as "Florens".

GROWING FLEET CAPACITY



FOCUS ON LONG-TERM LEASING AND HIGH UTILISATION RATES



As at 31st December 2006, Florens leased 456,877 TEUs (2005: 377,324 TEUs) of containers to COSCON and 163,851 TEUs (2005: 630,925 TEUs) of containers to international customers. The reduction in leasing containers to international customers was due to the strategic disposal of 600,082 TEUs of containers in June 2006 while maintaining our management role. The total number of management containers rose significantly from 34,603 TEUs at the end of 2005 to 629,881 TEUs at the end of 2006.

By category of various types, 95.9% of the fleet was dry containers, 3.3% was reefer containers and 0.8% was specialised containers such as open-tops and flat racks. The fleet age remained young at an average of four years old.

FLEET CAPACITY MOVEMENT

	2006 TEUs	2005 TEUs	y-o-y
Fleet capacity as of 1st January	1,042,852	919,128	+13.5%
New containers purchased	268,236	168,592	+59.1%
Containers returned from COSCON upon expiry of leases			
Total	(43,981)	(26,354)	+66.9%
Re-leased	648	344	+88.4%
Disposed of and pending for disposal	(43,333)	(26,010)	+66.6%
Ownership transferred to customers upon expiry of finance leases	(172)	(629)	-72.7%
Defective containers written off	(11)	(4)	+175.0%
Total loss of containers declared and compensated by customers	(16,963)	(18,225)	-6.9%
Fleet capacity as of 31st December	1,250,609	1,042,852	+19.9%

FLEET CAPACITY BREAKDOWN BY TYPE OF CONTAINERS

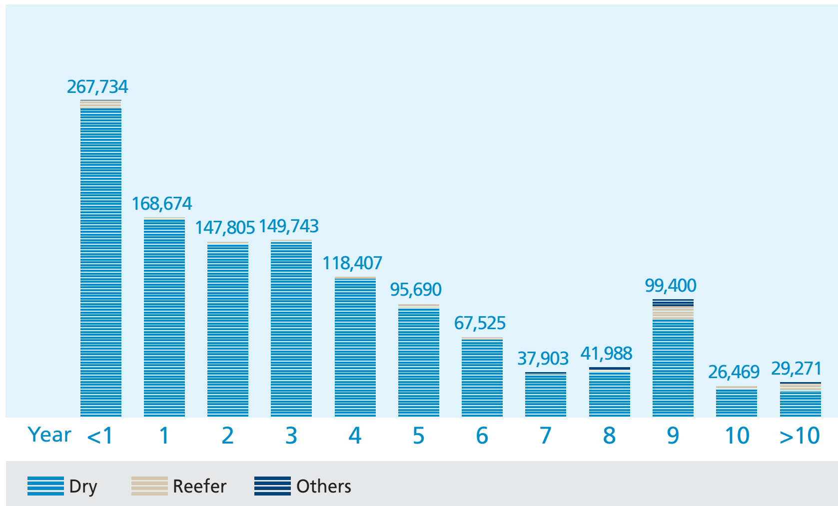
31st December 2006		Total	COSCON	International customers	Management containers
Total number of containers	TEUs	1,250,609	456,877	163,851	629,881
	%	100.0	36.5	13.1	50.4
Dry	%	95.9	93.2	99.3	96.9
Reefer	%	3.3	6.5	0.1	1.9
Special	%	0.8	0.3	0.6	1.2

31st December 2005		Total	COSCON	International customers	Management containers
Total number of containers	TEUs	1,042,852	377,324	630,925	34,603
	%	100.0	36.2	60.5	3.3
Dry	%	95.3	92.8	96.5	100.0
Reefer	%	3.6	6.8	2.0	-
Special	%	1.1	0.4	1.5	-

FLEET CAPACITY BREAKDOWN

31st December		2006	2005	y-o-y
COSCON	TEUs	456,877	377,324	+21.1%
	%	36.5	36.2	+0.3pp
International customers	TEUs	163,851	630,925	-74.0%
	%	13.1	60.5	-47.4pp
Management containers	TEUs	629,881	34,603	+1,720.3%
	%	50.4	3.3	+47.1pp
Total	TEUs	1,250,609	1,042,852	+19.9%

FLEET AGE ANALYSIS (BY TEUs)



During the year, Florens was the largest buyer and purchased 268,236 TEUs of new containers representing 24.6% of the total purchases of approximately 1,090,000 TEUs within the container leasing industry. As a result of this, our market share rose from about 10.9% in 2005 to approximately 11.9% in 2006. Most of our new containers were under long-term leases to COSCON and other international container shipping liners. The number of customers amounted to 270 as at 31st December 2006 (2005: 256).

DISPOSAL OF RETURNED CONTAINERS

In 2006, COSCON returned a total of 43,981 TEUs (2005: 26,354 TEUs) of containers upon expiry of the leases ("Returned Containers"). Florens disposed of 47,624 TEUs (2005: 26,838 TEUs) of Returned Containers and the disposal generated a net profit of US$8,794,000 (2005: US$6,122,000).

STRATEGIC DISPOSAL OF CONTAINERS

In June 2006, Florens completed the sale of 600,082 TEUs of containers together with container leasing agreements covering those containers ("Sold Assets") and the total amount received from the buyer amounted to US$869,203,000. Upon completion of transferring the ownership of the Sold Assets to the buyer, Florens retained a managerial role in respect of the Sold Assets under an administrative services agreement.

Florens will receive the administrative fee annually from the buyer based on the rates as follows:

(1) 4% of net operating income under the contracts for long-term leases;
(2) 8% of net operating income under the contracts for master leases;
(3) 2% of net sales proceeds for resale of containers; and
(4) 2% of net operating income under contracts for finance leases and other leases

The aggregate amount of US$869,203,000 received included the net book value of the Sold Assets as at 30th June 2006 plus a premium of 12% totalled US$846,524,000, an upfront administration fee of US$7,439,000 and a finder fee of US$15,240,000.

The sales proceeds were used to repay loan facilities relating to those Sold Assets, to make related tax payments, and to make provision for funding the purchase of new containers. The remaining balance was for working capital and other investments. Florens will continue to purchase new containers and lease them to COSCON and other international customers.

OUTLOOK

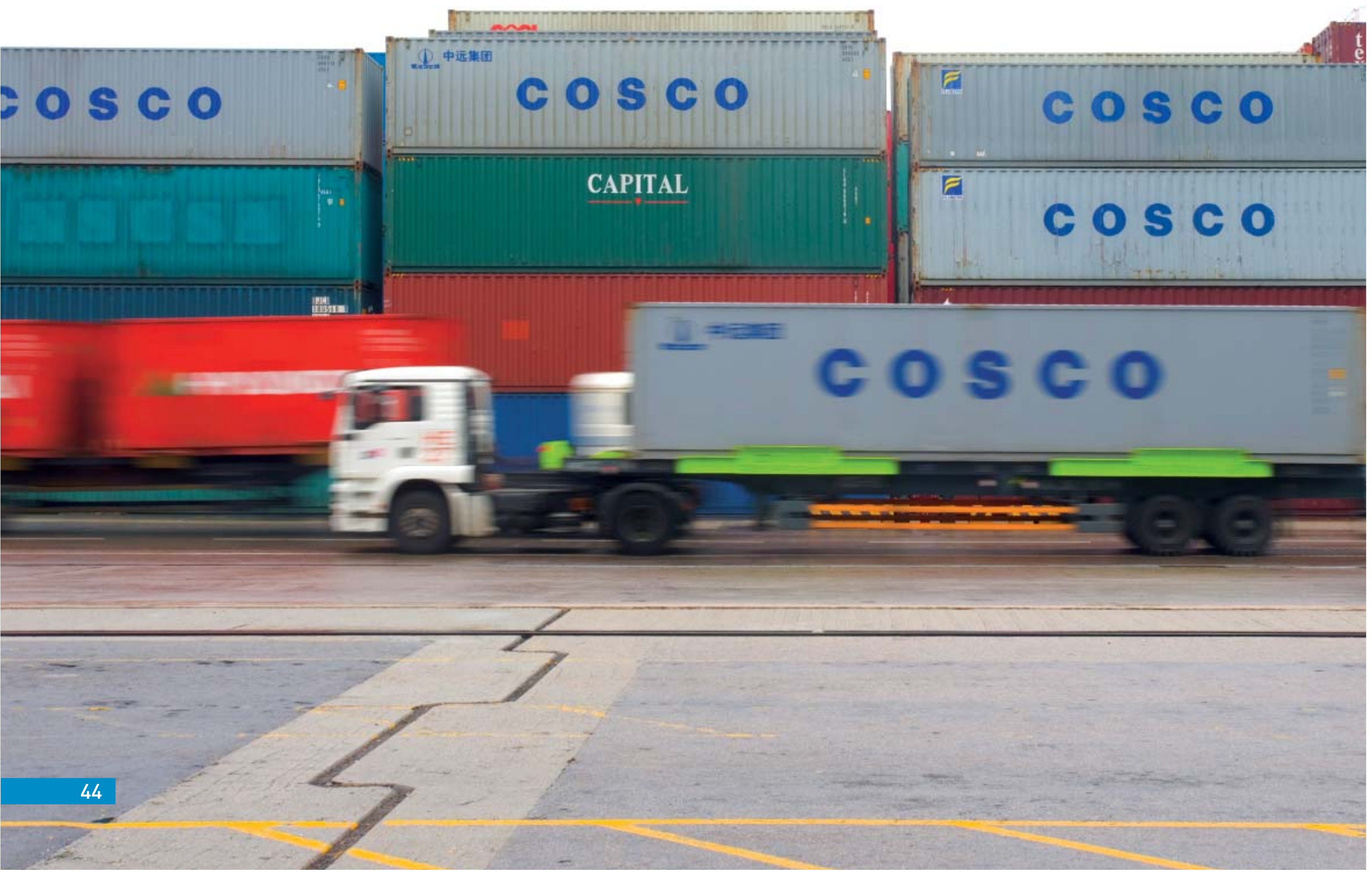
With the growth of shipping fleets, massive new shipbuilding orders, further industry consolidation and a positive outlook for containerised trade in 2007, the Group will continue to expand its market share by purchasing new containers for leasing business. Meanwhile, we will also consider increasing our container management business so as to further expand our revenue stream. While strengthening the business relationship with our top 20 international customers, we will also expand our customer network in Eastern Europe, Russia, India and Vietnam. Moreover, we project that our market share and container leasing business in China which will further expand on the back of an increased containerisation rate in the region. We are confident about the solid performance of our container leasing and management division.

LOGISTICS

The Group has 49% interest in COSCO Logistics while China COSCO holds the other 51% interest. With the dynamic economic environment continuing to foster the growth of foreign and domestic enterprises in China, the domestic logistics market is developing further in terms of internationalisation, professionalism and standardisation. COSCO Logistics is actively expanding its third party logistics in the fields of home appliances, automobiles, power supply, petrochemical, convention and exhibition services.

The shipping agency handled 135,087 vessels in 2006, an increase of 0.2% over 2005, freight forwarding registered 128,763,073 tons, a rise of 25.7% over the previous year. Third party logistics (3PL)-Home appliance handled 30,716,640 units, and 3PL-Motor handled 562,484 vehicles, a growth rate of 36.0% and 433.2% respectively over 2005. Net profit contribution from the logistics business rose 21.5% to US$11,136,000 in 2006.

COSCO Logistics was ranked Number 1 in "China's Logistics 100" for the third consecutive year in recognition of its logistics achievements in China. For the future, our strategy remains to expand our logistics business to support the growth of the Group as a whole.



CONTAINER MANUFACTURING AND OTHER INVESTMENT

CONTAINER MANUFACTURING

The Group has 16.23% equity interest in China International Marine Containers (Group) Co., Ltd. ("CIMC"), 20.0% equity interest in Shanghai CIMC Reefer Containers Co. Ltd. ("Shanghai CIMC Reefer") and 22.5% equity interest in Tianjin CIMC North Ocean Container Co. Ltd. ("Tianjin CIMC North Ocean").

At the beginning of 2006, sales volume and prices of containers were low as the container manufacturing plant remained exposed to market factors subsisting at the end of 2005. Subsequently, the rebound of the container manufacturing market helped CIMC to maintain a profit contribution of US$57,727,000 to the Group. The sale of Shanghai CIMC Far East Container Co., Ltd. generated a profit of US$5,470,000. The net profit contribution from our container manufacturing business (excluding CIMC Put Options non-cash expense) increased by 24.1% to US$69,715,000 in 2006.

We continue to expect stable growth with new vessels coming on stream and an increase in the containerisation rate in China being the major growth drivers.

OTHER INVESTMENT

The Group has 20% equity interest in Chong Hing Bank, which contributed a net profit of US$12,778,000 to the Group, an increase of 27.4% from the previous year.

OVERALL ANALYSIS OF RESULTS

The Group's profit attributable to equity holders (excluding the non-cash effect of the Put Options associated with the CIMC Share Reform [Note]) would have reached US$346,263,000, a 3.4% increase from the US$334,937,000 recorded in 2005. Although the disposal of containers of 600,082 TEUs in June 2006 had reduced the Group's revenue to US$253,960,000 for the year, a 14.1% drop from US$295,648,000 in 2005, the disposal combined with the replenishment of new containers was considered as a strategic action in that the Group had re-deployed its container fleet to optimise the business model and capital structure of its container leasing operation, while expanding business opportunities by providing its container management expertise to clients to help them manage their container portfolio. Furthermore, the disposal had contributed a non-recurring net profit of approximately US$65 million for the year which consisted of approximately US$50 million as gain on disposal and approximately US$15 million as finder fee income (which was related to services rendered for the entire transaction prior to the completion of the disposal). With such profit contribution from the strategic disposal, the net profit contribution from the container leasing and container management businesses amounted to US$166,353,000, a 43.7% increase over the amount of US$115,733,000 in 2005.

Note: The Group granted 424,106,507 Put Options to the CIMC Tradable A-Share Shareholders in May 2006 in connection with the conversion of the CIMC non-tradable A-Shares held by the Group into tradable A-Shares of CIMC. The Put Options will expire on 23rd November 2007.

With the continuous robust growth in China's import and export trade and the worldwide shipping market, the Group was able to reap the benefits of its strategic efforts to expand the container terminal location network in China and other parts of the world either through investments in joint ventures or establishing subsidiaries with controlling stakes. Net profit contributions from container terminal operations for the year increased by 2.8% to US$90,520,000 as compared to the last year's profit contributions of US$88,089,000 (excluding the non-recurring item of the profit amount of US$61,875,000 on disposal of the 17.5% equity interest in Shekou Terminal in 2005). This was due to the Group's strategic investment in the terminal location network, which began to show profit generation momentum, despite a drop in profit contribution from COSCO-HIT Terminal for the year, which was caused by the replacement of four quay cranes.

The acquisition of a 16.23% equity interest in CIMC in 2004 provided the Group with a steady and growing stream of profits for both 2005 and 2006. Taking out the exceptional effect caused by the Put Options during the year, the net profit contribution from container manufacturing business should be US$69,715,000, a 24.1% increase over the net profit of US$56,176,000 in 2005. Although the net profit contribution from CIMC dropped temporarily for the first half-year period as compared to 2005, the subsequent business pick-up triggered by improved market conditions fueled growth in profit streams from this business segment. However, due to the CIMC Share Reform in which the Group had granted 424,106,507 Put Options to the CIMC Tradable A-Share Shareholders, the net effect of the Put Options to the Group's consolidated income statement in 2006 was an exceptional net charge of US$55,181,000.

Both the logistics business and banking business provided the Group with very satisfactory net profit contributions for the year and the combined total of which amounted to US$23,914,000 in 2006, an increase of 24.6% from US$19,191,000 in 2005.

After taking into account the exceptional effect caused by the Put Options, the net profit contribution for the Group was US$291,082,000 for the year, a 13.1% drop from US$334,937,000 in 2005. With the continuous efforts to achieve a high return on capital through strategic acquisitions and repositioning the Group's business portfolio, the Group achieved a return on equity holders of 14.4% as compared to 20.0% in 2005. The return on net assets was 14.2% versus 19.8% in 2005. The drops in return on equity holders and return on net assets were mainly due to the exceptional effect of the Put Options, which caused a net charge of US$55,181,000 against the consolidated income statement for the year and thus lowered both the return on equity holders and the return on net assets by 2.7 percentage points. In addition, the strategic disposal of containers of 600,082 TEUs during the year brought in total cash proceeds of US$869,203,000 out of which approximately US$340 million were applied for repaying bank loans, payment of capital gain tax of approximately US$112 million and the remaining balance was invested in the acquisitions of new containers and new terminal projects. Such newly made investments either require a time-gap before the newly purchased containers can be made available for generating leasing income, or require a ramp-up period before the full scale of operation can be achieved for the newly invested container terminals.

New investments were made in the Ningbo Yuan Dong Terminals, Tianjin Port Euroasia Terminal and Quanzhou Pacific Terminal during the year. Quanzhou Pacific Terminal only commenced operations in September 2006 while Guangzhou Nansha Port Phase II and Ningbo Yuan Dong Terminals are still in the preparatory stage. Nevertheless, as the newly purchased containers gradually start to contribute their leasing income and the newly invested container terminals begin their operations, it would be expected that the business performance will gradually improve.

FINANCIAL ANALYSIS

REVENUE

Revenue of the Group were US$253,960,000 for the year, down by 14.1% from US$295,648,000 in 2005. The drop in revenue was mainly due to the decrease in container leasing revenue after the disposal of containers of 600,082 TEUs in June 2006. Although the container leasing revenue dropped for the year by US$54,910,000 or 20.0% down to US$219,566,000 as a result of the strategic deployment action, the drop was considered as temporary since the container replenishment action will continue in 2007 in order to gradually increase the revenue base for container leasing in subsequent years. Meanwhile, revenue from container management rose dramatically to US$4,061,000 (2005: US$342,000) for the year as a result of migrating into the asset light business model triggered by the strategic deployment action. Taking the self-owned and management containers together, the Group's container fleet rose by 19.9% to 1,250,609 TEUs from 1,042,852 TEUs in 2005. Average utilisation rate increased by 0.7 percentage point to 96.2%. Revenue from leasing of reefer-container generator sets also increased significantly to US$1,368,000, which was a 42.1% increase over US$963,000 in 2005. In addition to rental income from leasing, the interest income from finance leases amounted to US$492,000 for the year and was comparable with the figures in 2005 of US$532,000.

Revenue from container terminal operations showed very strong growth for the year. With the operational commencement of Quanzhou Pacific Terminal in September 2006, the newly acquired terminal contributed throughput volume of 241,272 TEUs and revenue of US$5,867,000 for the year. In addition, Zhangjiagang Win Hanverky Terminal, with the newly acquired additional berth no.17 to commence operation during the year and with the continuous efforts in exploring new business opportunities and improving operational efficiency, achieved a significant growth of 20.9% in its throughput volume of 455,946 TEUs as compared with 377,121 TEUs in 2005. Its revenue recorded a corresponding increase to US$15,048,000, a 20.4% rise over US$12,496,000 in 2005.

Business volume of the container handling, storage, repairs and drayage operations, which were handled by Plangreat Limited and its subsidiaries, increased during the year with revenue achieved at US$7,558,000 for the current year versus US$6,839,000 in 2005.

COST OF SALES

Cost of sales, mainly comprising depreciation, depot expenses, repairs and maintenance and operating expenses, was US$100,686,000, a drop of 12.9% from US$115,551,000 in 2005. The drop was mainly due to the strategic disposal of containers, which resulted in a reduction in depreciation of US$19,694,000 for the year, a 18.6% drop from US$105,933,000 in 2005. The depreciation expense accounted for 85.7% of cost of sales versus 91.7% in 2005. Other cost of sales rose by 50.2% to US$14,447,000 from US$9,618,000 in 2005. The operational commencement of Quanzhou Pacific Terminal in September 2006 and the increased business throughput volume handled by Zhangjiagang Win Hanverky Terminal drove up the operating expenses.

OTHER INCOME

Other income, comprising mainly dividend income, increased by 19.0% or US$3,154,000 over 2005 to US$19,747,000. Among others, Yantian Terminal declared dividend of US$18,154,000, a rise of 20.4% or US$3,082,000 as compared to US$15,072,000 in 2005. In addition, Dalian Port Container Co., Ltd declared dividend of US$1,073,000 for 2006 (2005: US$186,000).

ADMINISTRATIVE EXPENSES

Administrative expenses were US$33,806,000, an increase of 7.6% or US$2,382,000 over the 2005 total of US$31,424,000. Increases were mainly on human resources, traveling and office rental expenses. Also, commencement of Quanzhou Pacific Terminal's operation in September 2006 had also triggered additional administrative expenses.

NET OTHER OPERATING INCOME

Net other operating income was US$32,636,000 for the year, a significant increase of US$22,684,000 or 227.9% over the amount of US$9,952,000 in 2005. The increase mainly comprised a finder fee income of approximately US$15 million, which was related to the services provided to complete the strategic disposal of containers of 600,082 TEUs. Increase in the net profit on disposal of containers returned from COSCON upon the expiry of leases also helped to increase the net other operating income by US$2,672,000. The number of containers returned by COSCON upon expiry of lease and disposed of during the year was 47,624 TEUs as compared to 26,838 TEUs in 2005. Furthermore, the sale of Shanghai CIMC Far East Container Co., Ltd. contributed a gain of approximately US$5,470,000 as other operating income.

PROFIT ON DISPOSAL OF CONTAINERS

The Group completed the disposal of containers of 600,082 TEUs (excluding the disposal of containers returned from COSCON upon the expiry of leases) in June 2006 (the "Disposal"), which generated profit before taxes of approximately US$84,454,000.

PROFIT ON DISPOSAL OF AN AVAILABLE-FOR-SALE FINANCIAL ASSET

There was no disposal of such category in 2006 whereas in 2005, the disposal of the 17.5% equity interest in Shekou Terminal was accounted for as an available-for-sale financial asset which resulted in a profit of US$61,875,000.

FINANCE INCOME

Finance income principally represented interest income. During the year, the disposal of containers of 600,082 TEUs, increased the Group's cash balances and therefore earning more interest income. As a result, interest income increased significantly to US$12,621,000 for the year, up 189.4% from US$4,361,000 in 2005.

FINANCE COSTS

Finance costs increased to US$44,203,000 from US$36,362,000 in 2005, a rise of 21.6%, which was mainly due to the persistent increase in interest rate. The Group's average borrowing for the year amounted to US$664,431,000, a decrease of 9.2% from the average borrowing amount of US$731,565,000 in 2005. The Group's average cost of borrowing, including amortisation of transaction costs on bank loans and notes but before the write-off of unamortised transaction costs upon the early repayment of bank loans, was an average 6-month London Interbank Offer Rate ("LIBOR") plus 100 basis points as compared to the 2005 average of LIBOR plus 120 basis points.

SHARE OF PROFITS LESS LOSSES OF JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Net profit contribution from jointly controlled entities amounted to US$85,070,000 in 2006, an increase of 16.6% or US$12,101,000 from US$72,969,000 in 2005. Continuous efforts in improving operational efficiency to cope with the robust growth in business volume delivered improved profit performance as evidenced by the result achievements in various terminal locations.

COSCO PACIFIC'S SOLID PERFORMANCE IN 2006 REFLECTED THE COMPANY'S ONGOING EFFORTS TO BUILD FUTURE PROFIT STREAMS THROUGH THE DECISIVE STRENGTHENING OF OUR BUSINESS MODELS.

Throughput at Qingdao Qianwan Terminal increased by 24.4% to 6,770,003 TEUs, as compared to the 2005 level of 5,443,086 TEUs, and the net profit contribution increased to US$26,429,000, which was 24.5% higher than that of 2005. Throughput of Nanjing Longtan Terminal increased dramatically by 291.8% to 700,098 TEUs, as compared to the 2005 level of 178,686 TEUs, driving a performance turnaround to have profit contribution for the year from a loss in 2005. An improvement occurred in Qingdao Cosport Terminal and its throughput increased by 22.9% to 744,276 TEUs from the 2005 level of 605,791 TEUs.

Similar growth momentum in net profit contributions occurred at Yingkou Terminal as well as at COSCO-PSA Terminal. Throughput at Yingkou Terminal increased by 32.2% to 837,574 TEUs from the level of 633,573 TEUs in 2005. This resulted in a corresponding increase in profit contribution by 38.8% over 2005. Although the throughput of COSCO-PSA Terminal only increased by 2.8% to 627,894 TEUs as compared to the 2005 level of 611,013 TEUs, net profit contributions increased significantly by 29.0% over that in 2005 due to the rise in average revenue per container handled.

Due to the necessity of replacing four quay cranes in COSCO-HIT Terminal during the year in order to accommodate the super vessels and strive for better operational efficiency, its throughput dropped by 8.3% to 1,688,697 TEUs from the 2005 level of 1,841,193 TEUs. Net profit contribution amounted to US$23,751,000, a 15.1% drop from US$27,981,000 in 2005 as a result of the interruptions to operations caused by the quay crane replacements.

Net profit contribution for the COSCO Logistics increased to US$18,351,000 in 2006, a growth of 21.8% over that of 2005. The shipping agency handled 135,087 vessels in 2006, an increase of 0.2% over 2005, freight forwarding registered 128,763,073 tons, a rise of 25.7% over the previous year. Third party logistics (3PL) – Home appliance handled 30,716,640 units, and 3PL-Motor handled 562,484 vehicles, a growth rate of 36.0% and 433.2% respectively over 2005.

Net profit contribution from associates amounted to US$89,042,000 for the year, an increase of 8.2% or US$6,722,000 from the 2005 level of US$82,320,000. At the beginning of 2006, sales volume and prices of containers were low as the container manufacturing plant remained exposed to market factors subsisting at the end of 2005. Subsequently, the rebound of the container manufacturing market helped CIMC to increase slightly its profit contribution to the Group to US$57,727,000, a 3.8% increase over US$55,636,000 in 2005. Throughput at Shanghai Pudong Terminal increased to 2,650,007 TEUs, a 7.2% increase from the 2005 level of 2,471,840 TEUs. Combined with the Group's action of acquiring an additional 10% equity interest during the year, the profit contribution from Shanghai Pudong Terminal amounted to US$15,439,000 which increased dramatically by 55.0% or US$5,476,000 from the 2005 level of US$9,963,000.

Although the throughput of Shanghai Terminal achieved an increase of 1.6% to the level of 3,703,460 TEUs for the year as compared to 3,646,732 TEUs in 2005, its profit contribution dropped by 22.5% to US$6,831,000 from the 2005 level of US$8,815,000 as a result of volume mix changes. Antwerp Terminal, being acquired at the end of 2004, recorded a loss for the year as its operations are still in the start-up phase despite throughput increasing to 599,170 TEUs for the year from the 2005 level of 70,084 TEUs. On the other hand, Chong Hing Bank increased its net profit contribution by 27.4% during the year to US$12,778,000 from US$10,026,000 in 2005.

INCOME TAX EXPENSES

Aggregate income tax expenses increased to US$49,196,000 for the year from the 2005 level of US$22,426,000. The increase mainly represented a net charge which arose from the capital gain tax in relation to the Disposal and the write back of related deferred tax liabilities.

FINANCIAL POSITION

CASH FLOW
The Disposal increased the cash inflow of the Group significantly. During the year, net cash from operating activities amounted to US$210,318,000 (2005: US$276,382,000). The Group drew bank loans of US$517,103,000 (2005: US$321,119,000) and repaid US$889,986,000 (2005: US$128,385,000) in 2006. Net proceeds from new shares issued upon the exercise of share options amounted to US$49,085,000 (2005: US$21,823,000). During the year, cash outflow for major terminal investments of the Group totalled US$143,891,000 (2005: US$89,125,000), including US$57,973,000 for additional 10% equity interests in Shanghai Pudong Terminal, US$34,336,000 in Guangzhou Nansha Port Phase II, US$20,195,000 in Qingdao Qianwan Terminal, US$9,087,000 in Yantian Terminal Phase III, US$9,196,000 in Dalian Port Container Co., Ltd., US$9,827,000 in Ningbo Yuan Dong Terminals and US$3,277,000 in Antwerp Terminal. In 2005, the cash outflow for major terminal investments included US$20,781,000 in Nanjing Longtan Terminal, US$12,082,000 in Qingdao Qianwan Terminal, US$19,516,000 in Tianjin Five Continents Terminal, US$15,894,000 in Antwerp Terminal, US$15,052,000 in Yantian Terminal Phase III and US$5,800,000 in Dalian Automobile Terminal. During the year, cash payments for property, plant and equipment amounted to US$438,923,000 (2005: US$350,785,000), out of which US$391,813,000 (2005: US$342,200,000) was for new container purchases. In addition, capital injections in the subsidiaries of the Group – Quanzhou Pacific Terminal and Zhangjiagang Win Hanverky Terminal were US$35,644,000 and US$10,200,000 respectively.

FINANCING AND CREDIT FACILITIES
In June 2006, the Group entered into a short-term bridging bank loan contract of US$500,000,000 with a bank for a term of six months and the costs were LIBOR plus 37 basis points. This short-term bridging bank loan expired in December 2006.

As at 31st December 2006, cash balances and banking facilities available but unused amounted to US$224,668,000 and US$40,000,000 respectively (2005:US$179,315,000 and US$320,000,000 respectively) and taking into account the Group's operating cash flow and sound borrowing capacity, the Group is expected to have sufficient funding to cover all the payables that fall due in 2007.

DEBT ANALYSIS

	As at 31st December 2006		As at 31st December 2005	
	US$	(%)	US$	(%)
By repayment term				
Within the first year	12,666,000	2.4	87,036,000	10.4
Within the second year	189,840,000	35.7	79,167,000	9.5
Within the third year	10,821,000	2.0	233,908,000	28.0
Within the fourth year	11,526,000	2.2	62,956,000	7.5
Within the fifth year and after	306,745,000	57.7	372,586,000	44.6
	531,598,000*	100.0	835,653,000*	100.0
By type of borrowings				
Secured borrowings	500,000	0.1	345,618,000	41.4
Unsecured borrowings	531,098,000	99.9	490,035,000	58.6
	531,598,000	100.0	835,653,000	100.0
By denomination of borrowings				
US dollar	464,622,000	87.4	830,326,000	99.4
RMB	66,976,000	12.6	5,327,000	0.6
	531,598,000	100.0	835,653,000	100.0

* Net of unamortised discount on notes and transaction costs on borrowings and notes.

ASSETS AND LIABILITIES
As at 31st December 2006, total assets of the Group were US$2,987,155,000 (2005: US$2,855,150,000). Total liabilities amounted to US$778,954,000 (2005: US$964,807,000). Net asset value increased to US$2,208,201,000 from US$1,890,343,000 a year ago, mainly due to an increase in retained profits and proceeds from new shares issued upon the exercise of share options. The net asset value per share was US99.08 cents (2005: US85.97 cents) representing an increase of 15.3% over last year.

As at 31st December 2006, cash balances of the Group amounted to US$224,668,000 (2005: US$179,315,000). After the Disposal, part of the sales proceeds was used to repay bank loans of approximately US$340,000,000, thus total indebtedness of the Group as at 31st December 2006 decreased to US$531,598,000 from US$835,653,000 a year ago. Net debt-to-equity ratio decreased from 34.7% to 13.9% and interest coverage was 8.8 times as compared with 11.1 times last year.

Certain land use rights with a net book value of US$1,645,000 (2005: property, plant and equipment and land use rights of US$512,957,000) were pledged to banks and financial institutions by the Group to secure loans with an aggregate amount of US$500,000 (2005: US$345,618,000). As the secured loans had been substantially repaid during the year, the majority of pledged bank deposits in relation thereto were released and the pledged balance reduced to US$158,000 (2005: US$21,978,000).

FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES
As at 31st December 2006, the Group provided guarantees on a loan facility granted to an associate of US$25,304,000 (2005: US$21,920,000) and the Group did not have any significant contingent liabilities.

TREASURY POLICY
The Group contained foreign exchange risk by conducting borrowings as far as possible in currencies that match the Group's functional currency used for transacting the Group's major cash receipts and underlying assets. Borrowings for the container leasing business were conducted mainly in US dollars, which match with the US dollar revenue and expenses of the Group's container leasing business, minimising any potential foreign exchange exposure.

In regard to the financing activities of jointly controlled entities and associates, such as COSCO-HIT Terminal, COSCO-PSA Terminal and Antwerp Terminal, all material borrowings were denominated in the respective functional currencies, with corresponding hedging policies being effective.

The Group continued to exercise stringent control over the use of financial derivatives to hedge against its interest rate exposure. As at 31st December 2006 and 2005, outstanding interest rate swap contracts comprised:

- Notional principals of contracts amounting to US$200,000,000 in total, whereby the Group agreed to pay floating interest rates ranging from 105 basis points to 116 basis points above 6-month LIBOR to the banks in return for receiving from the banks a fixed interest rate of 5.875% per annum.
- Notional principal of contracts amounting to US$100,000,000 in total, whereby the Group agreed to pay fixed interest rates ranging from 3.88% to 4.90% per annum to banks for the receipts of interest rate at 3-month LIBOR.

As at 31st December 2006, after adjusting the fixed rate borrowings for the effect of the interest rate swap contracts, the Group's ratio of fixed rate to floating rate borrowings was 35.7% : 64.3% (2005: 22.9% : 77.1%). The Group continued to monitor and adjust its fixed and floating debt portfolio from time to time in light of market conditions, the objective of which is to reduce potential interest rate risk exposure.

INVESTOR RELATIONS

COSCO Pacific strongly believes that good investor relations play an essential role in creating shareholder value. This corporate activity combines the disciplines of communications and finance, thereby providing stakeholders with an accurate portrayal of the Company's performance and prospects. Effective investor relations have a positive effect on shareholder value relative to that of the overall market and reduce our cost of capital.

ROLE OF INVESTOR RELATIONS

The expanding role of COSCO Pacific's investor relations is driven by increased disclosure and reporting requirements. While investor relations officers are providing a greater contribution to the board of directors' decision making processes, there is a growing recognition among senior management of the strategic role of the investor relations function.

TWO-WAY COMMUNICATIONS CHANNEL

COSCO Pacific endeavours to develop an effective two-way communications process between the financial community and senior management. Investor relations manages the dissemination of financial, strategic and legal information to stakeholders including institutional and retail investors, financial analysts, stockbrokers, regulatory bodies and the media.

Our communication process includes:

- Establishing and updating senior management regarding the most up-to-date disclosure policies and practices, while being aware of developments in corporate governance and disclosure regulations locally and internationally.

- Providing senior management and board of directors with a clear understanding of the market's views and why those views are held.

- Communicating clear, accurate, credible and consistent corporate information to the financial community with the aim of ensuring all investors are fully and fairly informed about all material information, thereby enabling them to make rational decisions that should result in the Company's securities trading at fair value over the long term.

- Analysing the Company's ownership structure, including regular analysis of the securities register to determine the identity and mix of institutional and retail securities holders.

- Building a high quality shareholder base to ensure long-term access to diversified sources of capital at the lowest possible cost.

- Developing trust and credibility for the Company in the capital markets.

ANNUAL INVESTOR RELATIONS CYCLE

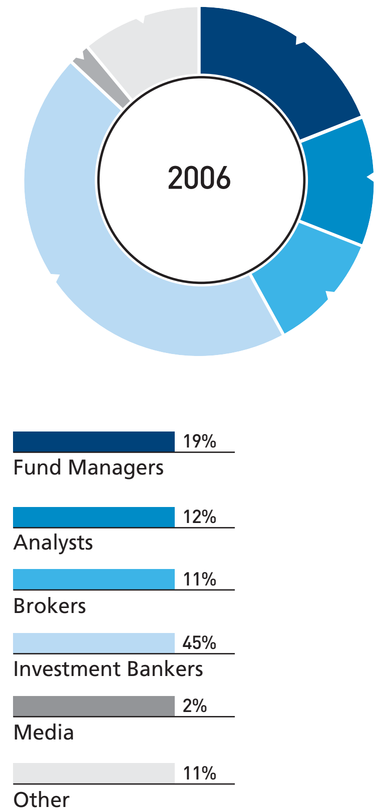
Key events in the annual investor relations cycle include an examination of what is required from a statutory view point and of recommended practices that assist in successfully communicating the Company's message to the public.

The investor relations cycle includes the following corporate activities with our stakeholders:

(1) Briefings of the Company's interim and final results announcements
(2) Public announcements
(3) Delivery of annual and interim reports
(4) Annual general meetings or extraordinary shareholders meetings
(5) One-on-one meeting, group briefings and conference calls
(6) Domestic and international roadshows
(7) Terminal site visits
(8) Web-based communication

COSCO Pacific endeavours to establish an investor relations cycle with activities well beyond and above the statutory requirements. The Company releases monthly terminal throughput on its corporate website and this is recognised as a very useful operational update for both the financial market and media. The Company also sends the latest updates, corporate news, press releases, announcements, interim and annual reports to analysts, fund managers, media and the public by email alert.

SEGMENTS OF ONE-ON-ONE MEETING IN 2006



INVESTOR RELATIONS CALENDAR IN 2006

A number of activities were arranged for the interim and final results announcements respectively including media briefing, fund managers and analyst briefing, telephone conferences, luncheon presentations, as well as domestic and international roadshows.

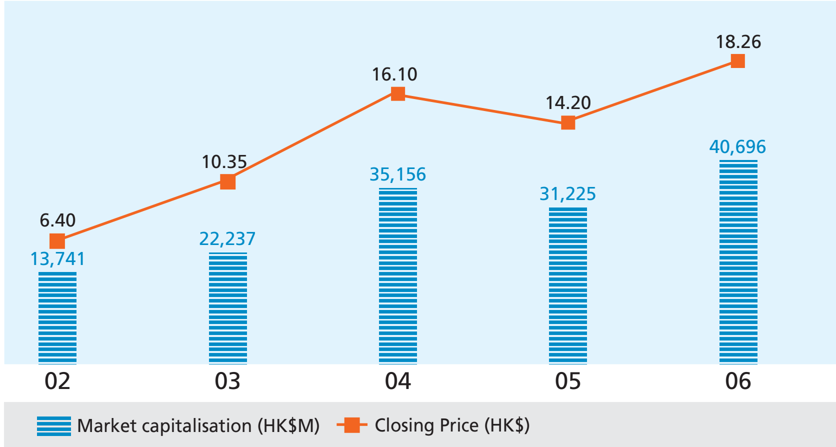
In 2006, the Company participated in 5 investor forums, organised 5 roadshows in Hong Kong, 4 overseas roadshows, 2 press conferences, 161 one-on-one meetings with analysts, investors and bankers, and 14 terminals site visits for investors.

More and more investors approach senior management through electronic communications including conference calls and emails. COSCO Pacific prepares comprehensive presentation materials to investors in order to ensure that our electronic communications are effectively conducted.

Months	Investor relations activities
January	"Greater China Conference 2006" in Shanghai organised by UBS Securities Asia Limited
February	"Access China Conference 2006" in Beijing organised by Deutsche Bank AG
March	Announcement of 2005 final results of COSCO Pacific – Press conference – Fund managers and analysts panel discussion
	Hong Kong and Singapore roadshows arranged by ABN AMRO Asia Limited
April	Japan roadshow arranged by ABN AMRO Asia Limited
	United Kingdom and U.S. roadshows arranged by BNP Paribas Peregrine Securities Limited
May	"11th Annual CLSA China Forum" held in Shanghai by CLSA Limited
July	Luncheon presentation in Hong Kong, organised by J.P. Morgan Securities (Asia Pacific) Limited
September	Announcement of 2006 interim results of COSCO Pacific – Press conference – Fund managers and analysts panel discussion
	Telephone conference with investors in Singapore, arranged by Macquarie Securities Limited
	Telephone conference with investors in Europe and U.S., arranged by J.P. Morgan Securities (Asia Pacific) Limited
	Hong Kong roadshow arranged by Macquarie Securities Limited
	"Nomura Asia Day" in Japan organised by Nomura International (Hong Kong) Limited
October	"Greater China Conference 2006" in Macau organised by Citigroup Global Markets Asia Limited

MARKET RECOGNITION

During the year, COSCO Pacific was proud to receive the prestigious award of "Best Investor Relations" from IR Asia Magazine. While being committed to maximising shareholder value and improving corporate profitability, the Company is also determined to ensure the highest standards of corporate governance, transparency and accountability.



SHARE PRICE PERFORMANCE

		2006	2005
Share price			
Highest	HK$	18.65	17.90
Lowest	HK$	14.20	12.15
Average	HK$	16.37	15.28
Last as of 31st December	HK$	18.26	14.20
Monthly average trading volume	Share	114,698,900	119,048,954
Monthly average trading turnover	HK$	1,845,173,958	1,798,106,300
Share outstanding	Share	2,228,684,298	2,198,966,298
Market capitalisation as of 31st December	HK$	40,695,775,000	31,225,321,000

CORPORATE SOCIAL RESPONSIBILITY

Investors increasingly consider non-financial aspects in their assessment of the companies in their portfolios. Among these intangible factors, corporate social responsibility (CSR) has received a particular amount of attention. The Company receives more and more enquiries about our performance and management philosophy in regard to CSR. While we interact with investors to show how the Company is tackling CSR issues, we educate senior management about investor sentiment towards corporate social responsibility.

COSCO Pacific believes that high standards of environmental awareness and solutions, of corporate social responsibility and of economic performance are not conflicting targets but complementary to each other. They make good business sense. This is particularly important as the Company makes further strategic moves to expand our global industry platform.

ANALYSTS CONTACT LIST

	Company	Name	Telephone No.	Fax	Email
1	ABN AMRO Asia Limited	Osbert TANG	86 21 5049 6333*2102	86 21 5049 6999	osbert.tang@cn.abnamro.com
2	BNP Paribas Securities (Asia) Limited	Jim WONG	2825 1888	2845 2232	jimmy.wong@asia.bnpparibas.com
3	BOCI Research Limited	Jimmy LAM	2867 6333	2147 9513	jimmy.lam@bocigroup.com
4	China International Capital Corporation Limited	ZHENG Dong	86 10 6505 1166*1249	86 10 6505 8157	zhengd@cicc.com.cn
5	Citigroup Global Markets Asia Limited	Charles de TRENCK	2501 2756	2521 5350	charles.detrenck@citigroup.com
6	Credit Suisse (Hong Kong) Limited	Karen CHAN	2101 6572	2284 6572	karen.chan@credit-suisse.com
7	Daiwa Institute of Research (H.K.) Ltd.	Geoffrey CHENG	2525 0121	2845 2190	geoffrey.cheng@dir.com.hk
8	DBS Vickers (Hong Kong) Limited	Oscar CHOI	2820 4888	2521 1812	oscar_choi@hk.dbsvickers.com
9	Deutsche Bank AG	Emilie CHAU	2203 8888	2203 6921	emilie.chau@db.com
10	Evolution Securities China Limited	Matthew GILLMOUTH	86 21 5049 8908*216	86 21 5049 9166	matthew.gillmouth@evosecurities.com
11	Goldman Sachs (Asia) L.L.C.	Mike WARREN	2978 1383	2978 1346	mike.warren@gs.com
12	Guotai Junan Securities (Hong Kong) Limited	Alan LAM	2509 9118	2509 7793	alan.lam@gtjas.com.hk
13	J.P. Morgan Securities (Asia Pacific) Limited	Christie JU	2800 1000	2537 4319	christie.y.ju@jpmorgan.com
14	Lehman Brothers Asia Limited	Andrew LEE	2252 6197	2372 5197	andrewkw.lee@lehman.com
15	Macquarie Securities Limited	Anderson CHOW	2823 3588	2823 3560	anderson.chow@macquarie.com
16	Merrill Lynch International Incorporated	David CUI	86 21 5407 5088*3102	86 21 5407 5245	david_cui@ml.com
17	Morgan Stanley Dean Witter Asia Limited	Jim LAM	2848 5200	3407 5888	jim.lam@morganstanley.com
18	Standard & Poor’s	Belinda CHAN	2532 8030	2532 8039	belinda_chan@standardandpoors.com
19	Sun Hung Kai Securities Limited	Kitty CHEUNG	3761 1390	3761 1500	kitty.cheung@shkco.com
20	Tai Fook Research Limited	CHO Fook Tat	2848 4333	2869 7737	ftcho@taifook.com
21	UBS Securities Asia Limited	Ingrid WEI	86 21 6103 3168	86 21 6103 3132	ingrid.wei@ubs.com
22	UOB Kay Hian (Hong Kong) Limited	ZHANG Xi	2236 6761	2845 1655	xi.zhang@uobkayhian.com.hk

CORPORATE SOCIAL RESPONSIBILITIES

COSCO Pacific considers commitment to corporate social responsibilities (CSR) to be an essential way for business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.

CORE VALUE

Our mission at COSCO Pacific is to continuously enhance shareholder value. Our corporate philosophy is built on business aggressiveness, stakeholder trust and strong performance. We cultivate a harmonious working environment for our staff, putting the right people in the right place at all levels while encouraging our employees in lifelong learning and creativity. We believe that the building of a culture of teamwork is the best way to capitalise on talent throughout the organisation. By improving efficiency and enhancing enterprise value, the Company's fundamental aim remains to maximise shareholder value over the long term.

TEAM BUILDING

COSCO Pacific has a professional, highly organised and efficient working team operating around the world. As of 28th February 2007, COSCO Pacific had 1,028 employees in China, Asia, America, Europe and Australia. The team has been growing over the years as the Company's business continues to expand.

The Company is committed to providing continual professional development opportunities for its staff. It organises various communication activities and training sessions to enhance the professional and management standards of executives, as well as to inspire them with innovative thinking, thereby stimulating the business development of the Company.

The Company firmly believes that a reasonable and competitive remuneration policy is key to the success of an enterprise, and has established a remuneration and bonus mechanism on the basis of equity and fairness. The issue of share options to the staff in recent years has been pivotal in strengthening their sense of belonging.

SOCIAL RESPONSIBILITIES

COSCO Pacific is highly aware of its responsibilities towards society and the environment. While striving to create value for shareholders, it also seeks to contribute to society by actively participating in social welfare activities.

In March 2006, COSCO Pacific donated the amount of RMB2 million to Beijing Huayu Education Fund through COSCO Charity to help underprivileged students in China to continue their higher education and contribute to society in the future.

In 2006, COSCO Pacific participated in the "Business for CLEAN AIR" campaign co-organised by the Hong Kong General Chamber of Commerce and the Hong Kong Business Coalition on the Environment. The overall aim was to implement "Project CLEAN AIR" in the business sector and to improve air quality in the Pearl River Delta Region.

During the year, COSCO Pacific also participated in the "School-Company Partnership Programme" organised by the Hong Kong Young Entrepreneurs Development Council. This programme provides Hong Kong teenagers with an opportunity to communicate with entrepreneurs and to acquire some understanding of the economic sector as well as to enhance their ability to cope with challenges.

In addition, the senior management of COSCO Pacific continued to deliver leadership and entrepreneurship lectures to students at universities in both mainland China and Hong Kong while the Company welcomed guests to our offices and port facilities from high schools and all sectors who would like to learn about and exchange views on our business.

COSCO Pacific is committed to fulfilling our social responsibilities as a corporate entity, focusing on environmental protection and community culture, and actively supporting and participating in public welfare activities, thereby helping to improve both the society and environment in which we are living.

CORPORATE GOVERNANCE REPORT

The Board of Directors (the "Board") of COSCO Pacific Limited (the "Company") is committed to achieving high standards of corporate conduct and places great importance on corporate governance processes and systems so as to ensure greater transparency and protection of shareholders' interests. We consider good corporate governance to be the cornerstone of a well managed organisation.

The Company's continuous effort to promote excellence and high standards of corporate governance practices and investor relations in 2006 continued to earn market recognition from different stakeholders. In 2006, our board was honoured by the Hong Kong Institute of Directors as a recipient of the "Directors of The Year Awards 2006" for its excellence in the board composition and competencies of directors and in recognition of the Board's efforts in promoting the importance of good corporate governance practices. In addition, the Company was named one of the "Hong Kong Outstanding Enterprises" by the Economic Digest, selected as one of the "Forbes 2000 leading companies in the world", one of the "China Shipping Gazette top 10 enterprises" and was nominated as a Finalist in the "Shipping In-House Team of the Year" in the ALB Hong Kong Law Awards organised by Asian Legal Business.

CORPORATE GOVERNANCE PRACTICES

The Company adopted the code provisions set out in the Code on Corporate Governance Practices (the "Corporate Governance Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices in January 2005. Long before the implementation of the Corporate Governance Code, the Company had taken its own initiative to disclose its corporate governance practices in its annual reports commencing from the year ended 31st December 2002.

We believe that commitment to good corporate governance is essential to the sustainability of the Company's businesses and performances and are pleased to confirm that the Company has complied with the code provisions of the Corporate Governance Code for the year ended 31st December 2006 except for the following deviation:

Code provision E.1.2

The code provision E.1.2 of the Corporate Governance Code provides that the Chairman of the Board shall attend the annual general meeting of the Company. Due to unexpected business commitment, Dr. WEI Jiafu, the Chairman of the Board who resides in Beijing, was unable to attend the annual general meeting of the Company held on 18th May 2006 in Hong Kong. This constitutes a deviation from the code provision E.1.2 of the Corporate Governance Code.

Outlined below are the policies, processes and practices adopted by the Company in compliance with the principles and spirit of the Corporate Governance Code.

BOARD OF DIRECTORS

BOARD COMPOSITION

The Board is responsible for the leadership and control of the Group (the Company and its subsidiaries) and is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board should ensure compliance with applicable laws and regulations and every board member should act in good faith, exercise due diligence and care and act in the best interests of the Group and its shareholders.

The Board currently consists of 14 members. Among them, 7 are executive directors, 4 are independent non-executive directors and 3 are non-executive directors. The directors, as at the date of this report, are Dr. WEI Jiafu[2] (Chairman), Mr. CHEN Hongsheng[1], Mr. LI Jianhong[1], Mr. XU Lirong[2], Ms. SUN Yueying[1], Mr. XU Minjie[1] (Vice Chairman and Managing Director), Dr. SUN Jiakang[2], Mr. WONG Tin Yau, Kelvin[1], Mr. WANG Zhi[1], Mr. QIN Fuyan[1], Dr. LI Kwok Po, David[3], Mr. LIU Lit Man[3], Mr. CHOW Kwong Fai, Edward[3] and Mr. Timothy George FRESHWATER[3] .

1 Executive Director

2 Non-executive Director

3 Independent Non-executive Director

Biographical details of the directors are set out in the "Directors and Senior Management Profiles" section of this annual report and the Company's website at www.coscopac.com.hk.

SEPARATION OF CHAIRMAN AND MANAGING DIRECTOR

To ensure independence, accountability and responsibility, the posts of Chairman and Managing Director are separated and each of them plays a distinctive role. As at the date of this report, the Chairman, Dr. WEI Jiafu, who is a non-executive director, is responsible for setting the Group's strategy and business directions and ensuring that the Board is functioning properly and with good corporate governance practices and procedures, whilst Vice Chairman and the Managing Director, Mr. XU Minjie [Note], who is an executive director, supported by other board members and the senior management, is responsible for managing the Group's business, including implementation of major strategies set by the Board, making day-to-day decisions and co-ordinating overall business operations. In addition, he guides and motivates the senior management towards achieving the Group's objectives.

Note: Dr. SUN Jiakang resigned as Vice Chairman and Managing Director and re-designated from Executive Director to Non-executive Director with effect from 24th January 2007. Mr. XU Minjie was appointed as an Executive Director, Vice Chairman and Managing Director with effect from 24th January 2007.

NON-EXECUTIVE DIRECTORS (INCLUDING INDEPENDENT NON-EXECUTIVE DIRECTORS)

The Company has three non-executive directors and four independent non-executive directors who are not involved in the day-to-day conduct of the Group's businesses. The three non-executive directors are richly experienced in container shipping business and corporate management. These experiences, expertise and skills would facilitate the process of formulating the Company's strategy. The four independent non-executive directors have substantial experience in areas such as accounting, legal, finance and business. Their mix of skills and business experience is a major contribution to the future development of the Company and the check-and-balance of the Board. They ensure that matters are fully debated and that no individual or group of individuals dominates the Board's decision-making processes. In addition, they facilitate the Board to maintain a high standard of financial and other mandatory reporting and provide adequate check and balance to safeguard the interests of shareholders in general and the Company as a whole.

Each of the non-executive directors and independent non-executive directors has entered into an appointment letter with the Company pursuant to which each of them is appointed for service with the Company for a term of three years, subject to the rotational retirement provision of the Bye-laws of the Company. The appointment shall terminate on the earlier of either (i) the date of expiry of the 3-year period, or (ii) the date on which the director ceases to be a director for any reasons pursuant to the Bye-laws of the Company or any other applicable laws.

The Board has received from each independent non-executive director a written annual confirmation of his independence and is satisfied of his independence up to the date of this report in accordance with the Listing Rules.

In 2006, our Nomination Committee has conducted an annual review of the independence of all independent non-executive directors of the Company and confirmed that all the independent non-executive directors satisfied the criteria of independence, as set out in the Listing Rules.

BOARD MEETINGS

The Board held a total of 4 regular board meetings during the financial year ended 31st December 2006, at quarterly intervals, and the average attendance rate was 86.15%. Additional meetings will be arranged as and when required. Of these, two meetings were held to approve the 2005 final results and 2006 interim results of the Company; the other two meetings were held to consider new investment opportunities and to review the strategic business directions, financial and operating performances of the Group. As the members of the Board are either in Hong Kong or in the People's Republic of China, all of these meetings were conducted by video conferencing which is permitted under the Company's Bye-laws. The Financial Controller and the Company Secretary also attended all board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial aspects.

Before each regular board meeting, the Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group, in addition to the minutes of the board meetings and board committee meetings. At least 14 days' notice of a regular board meeting is given to all directors to provide them with an opportunity to attend and all directors are given an opportunity to include matters in the agenda for a regular meeting. Board papers are despatched to the directors at least 3 days before the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting. When directors are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Senior management who are responsible for the preparation of the Board papers are invited to present their papers and to take any questions or address queries that the Board members may have on the papers. This enables the Board to have pertinent data and insight for a comprehensive and informed evaluation as part of the Board's decision-making process.

The Chairman or the Vice Chairman of the Company conducts the proceedings of the Board at all board meetings. They ensure that sufficient time is allocated for discussion and consideration of each item on the agenda and that equal opportunities are given to the directors to speak and express their views and share their concerns. Minutes of the board meetings record in sufficient detail the matters considered by the Board and the decisions reached, including any concerns raised by the directors. Draft minutes of each board meeting are sent to all the directors for comments within a reasonable time after the date on which the board meeting is held. All directors have access to the Company Secretary who is responsible for ensuring that the board procedures are complied with and advising the Board on compliance matters.

Set out below are the details of all directors' attendance at the regular board meetings during the financial year ended 31st December 2006 which illustrate the attention given by the Board in overseeing the Company's affairs:

ATTENDANCE OF INDIVIDUAL MEMBERS AT REGULAR BOARD MEETINGS

Name of Directors	No. of meetings attended/ held in the financial year 2006	Attendance Rate
Dr. WEI Jiafu[2] (Chairman)	4/4	100%
Mr. CHEN Hongsheng[1]	4/4	100%
Mr. LI Jianhong[1]	2/4	50%
Mr. XU Lirong[2]	3/4	75%
Ms. SUN Yueying[1]	4/4	100%
Dr. SUN Jiakang[1] (Vice Chairman and Managing Director)[Note]	4/4	100%
Mr. WONG Tin Yau, Kelvin[1]	4/4	100%
Mr. WANG Zhi[1]	4/4	100%
Mr. QIN Fuyan[1]	3/4	75%
Dr. LI Kwok Po, David[3]	2/4	50%
Mr. LIU Lit Man[3]	3/4	75%
Mr. CHOW Kwong Fai, Edward[3]	4/4	100%
Mr. Timothy George FRESHWATER[3]	2/4	50%

1 Executive Director
2 Non-executive Director
3 Independent Non-executive Director

Note: Dr. SUN Jiakang resigned as Vice Chairman and Managing Director and re-designated from Executive Director to Non-executive Director with effect from 24th January 2007. Mr. XU Minjie has been appointed as an Executive Director, Vice Chairman and Managing Director with effect from 24th January 2007.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The Company follows a formal, considered and transparent procedure for the appointment of new directors. The Nomination Committee, chaired by an independent non-executive director, comprising a majority of independent non-executive directors, has formulated a nomination policy and is responsible for identifying and nominating suitable candidates for the Board's consideration, recommendation to the shareholders for election at annual general meetings and nominating candidates to fill casual vacancy on the Board.

Details of the selection process of new directors and a summary of work performed by the Nomination Committee during 2006 are set out under the section "Nomination Committee" below.

At each annual general meeting, one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years.

PROCEDURE TO ENABLE DIRECTORS TO SEEK INDEPENDENT PROFESSIONAL ADVICE

To assist the directors to discharge their duties to the Company, the Board has established written procedures to enable the directors, upon reasonable request, to seek independent professional advice, at the Company's expense, in appropriate circumstances. No request was made by any director for such independent professional advice in 2006.

RESPONSIBILITIES OF DIRECTORS

The Company has in place a clear corporate governance process to ensure that all directors fully appreciate their roles and responsibilities.

The Company Secretary, who is responsible directly to the Board, is responsible for keeping directors updated on all relevant regulatory changes of which she is aware, including organising appropriate continuing development programme for directors. All newly appointed directors will undergo a comprehensive programme which includes management presentations on the Group's businesses and strategic plans and objectives and receive a comprehensive orientation package on appointment which includes policies on disclosure of interest in securities, prohibitions on dealing in the Company's securities and restrictions on disclosure of price sensitive information. They are also updated from time to time on changes in relevant laws and regulations. Directors may request further explanations, briefings or informal discussions on any aspect of the Group's operations or business issues from the management.

The Company has arranged for liability insurance to indemnify its directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed by the Company on an annual basis.

DIRECTORS/SENIOR MANAGEMENT'S SECURITIES TRANSACTIONS

All directors are obliged to observe the requirements as stipulated in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as the Company has adopted the Model Code as the Company's code of conduct and rules governing dealings by its directors in the securities of the Company. In addition, the Board also established written guidelines on no less exacting terms than the Model Code for the senior management of the Company in respect of their dealings in the securities of the Company. A committee comprising the Chairman, Vice Chairman and Managing Director and Deputy Managing Director was set up to deal with such transactions.

Specific confirmation has been obtained from directors and senior management to confirm their compliance with the Model Code and the aforesaid mentioned guidelines respectively for 2006. No incident of non-compliance was noted by the Company in 2006.

FINANCIAL CONTROLLER

The Financial Controller is responsible for preparing interim and annual financial statements based on generally accepted accounting principles in Hong Kong and ensuring that the financial statements present fairly the results and the financial position of the Group and comply with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and other applicable laws and regulations. In addition, the Financial Controller is responsible for preparing the annual financial budget of the Company for approval by the Board. The Financial Controller is accountable to the Chairman of the Audit Committee and maintains regular communications with the external auditors. The Financial Controller also plays a role in reviewing and making recommendations to the Board regarding the Group's financial risk management and reviewing the effectiveness of the Company's system of internal control.

COMPANY SECRETARY

The Company Secretary is responsible directly to the Board. All directors have access to the Company Secretary who is responsible for ensuring that board procedures are followed and that applicable laws and regulations are complied with. The Company Secretary is also responsible for providing advice to the Board in relation to the directors' obligations regarding disclosure of interests in securities, disclosure requirements in respect of notifiable transactions, connected transactions and price-sensitive information. The Company Secretary has to advise the Board on disclosure of information in a true, accurate, complete and timely manner in strict compliance with the requirements of the applicable laws, regulations and the Company's Bye-laws.

The Company Secretary is the alternate authorised representative of the Company and the primary channel of communications between the Company and The Stock Exchange of Hong Kong Limited. She assists the Board in implementing and strengthening corporate governance practices with a view to enhancing long term shareholders' value. In addition, the Company Secretary will, on a timely basis, provide the directors with updated information regarding the directors' continuing legal, regulatory and compliance obligations.

DELEGATION BY THE BOARD

MANAGEMENT FUNCTIONS

The Board delegates day-to-day operations of the Group to the management. Both the Board and the management have clearly defined authorities and responsibilities under various internal control and check-and-balance mechanisms. The Board is responsible for establishing the strategic direction of the Group, setting objectives and business development plans, monitoring the performance of the senior management and assuming primary responsibility for establishing a good corporate governance culture. The management, under the leadership of the Managing Director (who is also the Vice Chairman), is responsible for implementing these strategies and plans. To ensure effective discharge of the Board's responsibilities, the management submits reports on the Company's operations to the Board on a regular basis. The Board reviews and approves the Company's annual budget and business plans, which serves as an important benchmark in assessing and monitoring the performance of the management. Directors have access to management and are welcome to request for explanations, briefings or discussions on the Company's operations or business issues.

BOARD COMMITTEES

To assist the Board in execution of its duties and to facilitate effective management, certain functions of the Board have been delegated by the Board to various board committees, which review and make recommendations to the Board on specific areas. The Board has established a total of seven board committees, details of which are set out below, which consist of directors, members of senior management and management. Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee. These committees have the authority to examine particular issues and report back to the Board with their recommendations, where appropriate. The ultimate responsibility for the final decision on all matters, however, lies with the Board.

The terms of reference of the board committees setting out their roles and the authority delegated to them by the Board have been posted on the Company's website: www.coscopac.com.hk. It is the Company's policy to ensure that the committees are provided with sufficient resources to discharge their duties. They have scheduled to meet regularly every year and will report to the Board on a regular basis. All businesses transacted at the committee meetings are well recorded and the records are well maintained and minutes of meetings are circulated to the Board for information.

(1) Executive Committee

The Executive Committee consists of all executive directors of the Company who are principally based in Hong Kong. The purpose of establishing this committee is to smoothen the daily operations of the Company. As most of the directors of the Company are fully engaged in their major responsibilities and/or stationed in different cities such as Beijing, Shanghai and Hong Kong, it may, in practice, be practically difficult and inconvenient to convene a full board meeting or arrange all the directors to sign a written resolution on a frequent basis. Hence, the Board delegates powers to the Executive Committee to conduct and supervise the business of the Company and its staff.

During the year ended 31st December 2006, the Executive Committee held a total of 133 meetings. All the matters considered and decided by the Executive Committee at the committee meetings had been recorded in details by minutes. A committee member will present a summary report of the businesses transacted at the committee meetings to the board members at board meetings. All directors of the Company could inspect the minutes of the committee meetings at any time and upon request, the Company Secretary will provide a copy of the minutes of the committee meetings to the directors.

(2) Audit Committee

The Audit Committee, chaired by an independent non-executive director, consists of four members, all of whom are independent non-executive directors of the Company. All committee members are well-versed in the accounting, legal, banking and/or commercial areas. The committee is authorised by the Board to investigate any activity within its terms of reference. It has unrestricted access to information relating to the Group, to both the internal and external auditors, and to the management and staff. Its terms of reference are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code.

The Audit Committee, in addition to providing advice and recommendations to the Board, also oversees all matters relating to the external auditors. It therefore, plays an important role in monitoring and safeguarding the independence of the external auditors. Both the Financial Controller and the Internal Auditor are directly accountable to the Chairman of the Audit Committee.

Regular meetings of the Audit Committee are held normally four times a year on a quarterly basis, with additional meetings arranged, as and when required. During the year ended 31st December 2006, a total of 5 meetings were held and the average attendance rate was 80%. A special meeting was held during the year at the request of the Chairman of the Audit Committee for the purpose of discussing certain alternative accounting treatment for the put options issued by the Company to the holders of the tradable A-share shareholders of China International Marine Containers (Group) Co., Ltd. ("CIMC Put Options") pursuant to the CIMC Share Reform Proposal in May 2006. After thorough discussion among the audit committee members, the external auditors and the senior management, the accounting treatment for the CIMC Put Options under the current accounting standards was determined.

The key matters deliberated on by the Audit Committee in 2006 included the following:-

– reviewed the accounting principles and practices adopted by the Group and other financial reporting matters
– reviewed the draft annual report and interim report and assuring the completeness, accuracy and fairness of the financial statements of the Company
– reviewed the results of external audit and discussion with the external auditors on any significant findings and audit issues
– reviewed the internal audit plan and the internal audit reports
– discussed the implementation of internal control requirements (as to principles, practice, reporting and disclosures) as set out in Appendix 23 of the Listing Rules
– discussed the effectiveness of the systems of internal controls throughout the Group, including financial, operational and compliance controls, and risk management policies and systems established by the management
– discussed a proposal for the conversion of Hong Kong Financial Reporting Standards to International Financial Reporting Standards for the financial reporting of the Company
– discussed certain alternatives of the accounting treatment for the CIMC Put Options issued by the Company
– reviewed all continuing connected transactions of the Company and provided an opinion thereon

ATTENDANCE OF INDIVIDUAL MEMBERS AT AUDIT COMMITTEE MEETINGS

Name of Members	No. of meetings attended/ held in the financial year 2006	Attendance Rate
Mr. CHOW Kwong Fai, Edward[1] (Chairman)	5/5	100%
Dr. LI Kwok Po, David[1]	4/5	80%
Mr. LIU Lit Man[1]	3/5	60%
Mr. Timothy George FRESHWATER[1]	4/5	80%

1 Independent Non-executive Director

(3) Remuneration Committee

The Remuneration Committee, led by an independent non-executive director, comprises 5 members, the majority of whom are independent non-executive directors of the Company. It formulates the Group's remuneration policy of directors and senior management, reviews and determines their remuneration packages and makes recommendations to the Board on the directors' fee and annual salary of directors. If necessary, it will engage professional advisers to assist and/or provide professional advice on relevant issues.

The Remuneration Committee considers several factors such as the salaries paid by comparable companies, time commitment, job responsibilities, performance of the individual and performance of the Company before determining the remuneration packages (which comprise salaries, bonus, benefits in kind, etc.). The Committee will also review and approve performance-based remuneration by reference to the corporate goals and objectives resolved by the Board from time to time.

The following is a summary of the work of the Committee during 2006:

- reviewed the remuneration of directors and senior management
- reviewed the remuneration packages of all executive directors and senior management
- made recommendations to the Board of the remuneration of non-executive directors
- discussed long term incentive arrangements

ATTENDANCE OF INDIVIDUAL MEMBERS AT REMUNERATION COMMITTEE MEETINGS

Name of Members	No. of meetings attended/ held in the financial year 2006	Attendance Rate
Mr. CHOW Kwong Fai, Edward[1] (Chairman)	5/5	100%
Dr. LI Kwok Po, David[1]	5/5	100%
Mr. LIU Lit Man[1]	4/5	80%
Dr. SUN Jiakang[2]	5/5	100%
Mr. LI Bing	5/5	100%

1 Independent Non-executive Director

2 Executive Director, Vice Chairman of the Board and Managing Director (Dr. SUN Jiakang resigned as Vice Chairman and Managing Director and re-designated from Executive Director to Non-executive Director with effect from 24th January 2007.)

Remuneration policy

The remuneration policy of the Company for non-executive directors is to ensure that they are sufficiently yet not excessively compensated for their efforts and time dedicated to the Company and that for the employees, including the executive directors and senior management, is to ensure that the remuneration offered is appropriate for the duties and in line with market practice. The remuneration policy is to ensure that the pay levels are competitive and effective in attracting, retaining and motivating employees. No director, or any of his associates, is involved in deciding his own remuneration.

The key components of the Company's remuneration package include basic salary plus other allowances, discretionary cash bonus and mandatory provident fund. Cash bonus is tied to the performance of individual employee. As a long-term incentive plan and with the aim at motivating employees in the continued pursuit of the Company's goal and objectives, the Company has granted share options to subscribe for the shares of the Company to the employees of the Company based on their performance and contribution to the Company under the 1994 Share Option Scheme (terminated on 23rd May 2003) and 2003 Share Option Scheme.

(4) Nomination Committee

The Nomination Committee, led by an independent non-executive director, comprises 3 members, the majority of whom are independent non-executive directors. It is responsible for nominating potential candidates for directorship, reviewing the nomination of directors, assessing the independence of independent non-executive directors and making recommendations to the Board on such appointments.

During the financial year ended 31st December 2006, the work performed by the Committee includes the following:-

– reviewed the adequacy of the size and composition of the Board
– made recommendations to the Board on relevant matters relating to the appointment and re-appointment of directors
– made recommendations to the Board on relevant matters relating to the appointment of senior management and committee members
– conducted an annual review of the independence of the independent non-executive directors

All new appointment of directors and nomination of directors for re-election at the annual general meeting are first considered by the Nomination Committee. The recommendations of the Nomination Committee will then be put to the Board for decision. New directors appointed by the Board are subject to re-election by shareholders at the next following general meeting or annual general meeting pursuant to the Bye-laws of the Company. In considering the new appointment or nomination of directors for re-election, the Nomination Committee will assess the candidate or incumbent on criteria such as integrity, independent mindedness, experience, skill and the ability to commit time and effort to carry out his duties and responsibilities effectively etc.

In March 2007, the Nomination Committee nominated and the Board recommended Mr. LI Jianhong, Ms. SUN Yueying, Mr. WONG Tin Yau, Kelvin, Dr. LI Kwok Po, David and Mr. LIU Lit Man to retire at the 2007 annual general meeting and Mr. XU Minjie to retire at the forthcoming general meeting and stand for re-appointment by shareholders of the Company at such meetings.

ATTENDANCE OF INDIVIDUAL MEMBERS AT NOMINATION COMMITTEE MEETINGS

Name of Members	No. of meetings attended/ held in the financial year 2006	Attendance Rate
Dr. LI Kwok Po, David[1] (Chairman)	8/8	100%
Mr. LIU Lit Man[1]	8/8	100%
Dr. SUN Jiakang[2]	8/8	100%

1 Independent Non-executive Director

2 Executive Director, Vice Chairman of the Board and Managing Director (Dr. SUN Jiakang resigned as Vice Chairman and Managing Director and re-designated from Executive Director to Non-executive Director with effect from 24th January 2007.)

(5) Investment and Strategic Planning Committee

The Investment and Strategic Planning Committee, led by an executive director, comprises 10 members (including executive directors, members of senior management and management). It considers, evaluates, reviews and recommends to the Board the proposed major investments, acquisitions and disposals, conducts post-investment evaluation of the investment projects, reviews and considers the overall strategic direction and business developments of the Company.

ATTENDANCE OF INDIVIDUAL MEMBERS AT INVESTMENT AND STRATEGIC PLANNING COMMITTEE MEETINGS

Name of Members	No. of meetings attended/ held in the financial year 2006	Attendance Rate
Members		
Dr. SUN Jiakang[2] (Chairman)	4/4	100%
Mr. WANG Zhi[1]	3/4	75%
Mr. QIN Fuyan[1]	3/4	75%
Mr. CHAN Hang, Ken	4/4	100%
Ms. YANG Jianjian	3/4	75%
Mr. DING Weiming	2/4	50%
Mr. YING Haifeng	2/4	50%
Mr. LI Wei (appointed on 30th August 2006)	0/2	0%
Mr. HUNG Chun, Johnny (appointed on 28th June 2006)	3/3	100%
Mr. FAN Chih Kang, Ken	4/4	100%
Ex-members		
Mr. WONG Tin Yau, Kelvin[1] (resigned on 30th August 2006)	1/2	50%
Mr. LAU Tai Ming, Eddy (deceased on 28th June 2006)	1/1	100%

1 Executive Director

2 Executive Director, Vice Chairman of the Board and Managing Director (Dr. SUN Jiakang resigned as Vice Chairman and Managing Director and re-designated from Executive Director to Non-executive Director with effect from 24th January 2007.)

(6) Corporate Governance Committee

The Corporate Governance Committee, led by an executive director, comprises 6 members (including an executive director, members of senior management and management). It reviews the corporate governance practice and disclosure systems of the Company and introduces relevant principles concerning corporate governance so as to enhance the standard of corporate governance of the Company.

ATTENDANCE OF INDIVIDUAL MEMBERS AT CORPORATE GOVERNANCE COMMITTEE MEETINGS

Name of Members	No. of meetings attended/ held in the financial year 2006	Attendance Rate
Members		
Mr. WONG Tin Yau, Kelvin[1] (Chairman)	4/4	100%
Ms. HUNG Man, Michelle	4/4	100%
Mr. YING Haifeng	4/4	100%
Mr. FAN Chih Kang, Ken	4/4	100%
Mr. LI Wei (appointed on 28th June 2006)	0/3	0%
Ms. LIU Mei Wan, May (appointed on 8th August 2006)	3/3	100%
Ex-members		
Mr. YUAN Qing (resigned on 8th August 2006)	1/1	100%
Mr. LAU Tai Ming, Eddy (deceased on 28th June 2006)	1/1	100%

1 Executive Director

(7) Risk Management Committee

The Risk Management Committee, led by an executive director, comprises 8 members (including an executive director, members of senior management and management). It provides support to the Board by identifying and minimising the operational risks of the Company, sets the direction for the Group's risk management strategy and strengthens the Group's system of risk management.

ATTENDANCE OF INDIVIDUAL MEMBERS AT RISK MANAGEMENT COMMITTEE MEETINGS

Name of Members	No. of meetings attended/ held in the financial year 2006	Attendance Rate
Members		
Mr. WANG Zhi[1] (Chairman)	4/4	100%
Ms. HUNG Man, Michelle	4/4	100%
Ms. YANG Jianjian	2/4	50%
Mr. DING Weiming	4/4	100%
Mr. YING Haifeng (appointed on 28th June 2006)	2/2	100%
Mr. LI Wei	3/4	75%
Mr. SHI Jingmin (appointed on 30th August 2006)	1/1	100%
Mr. FAN Chih Kang, Ken	4/4	100%
Ex-members		
Mr. WONG Tin Yau, Kelvin[1] (resigned on 30th August 2006)	3/3	100%
Mr. LAU Tai Ming, Eddy (deceased on 28th June 2006)	2/2	100%

1 Executive Director

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The following statement, which sets out the responsibilities of the directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Independent Auditor's Report on page 105 which acknowledges the reporting responsibilities of the Group's auditors.

Annual Report and Financial Statements

The directors acknowledge their responsibility for preparing the financial statements for each financial year which give a true and fair view of the results and the state of affairs of the Group.

Accounting Policies

The directors consider that in preparing the financial statements, the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

Accounting Records

The directors are responsible for ensuring that the Group keeps accounting records which disclose, with reasonable accuracy, the financial position and results of the Group and which enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance, Listing Rules and applicable accounting standards.

Safeguarding Assets

The directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

INTERNAL CONTROL

The Group has in place an internal control system that has been set up within the areas of the Group's control environment, risk areas, control and monitoring activities, and information and communication. The internal control system makes reference to the COSO framework developed by the Committee of Sponsoring Organisations of the Treadway Commission and also the Guide on Internal Control and Risk management issued by the Hong Kong Institute of Certified Public Accountants.

Control Environment

The maintenance of a high standard of control environment has been and remains a top priority of the Group. Therefore, the Group is dedicated to its enhancement and improvement on a continuous basis.

Recognising the importance of various values, including management's integrity, ethics, operating philosophy and commitment to organisational competence (quality of personnel), the Board has set out a direction for the internal control system in order to ensure achievement of the Group's objectives and identify discrepancies so that corrective actions could be taken in an efficient manner.

The management is primarily responsible for the design, implementation, and maintenance of the Group's internal control system with a view to providing sound and effective controls to safeguard shareholders' investment and the Company's assets. The internal control system covers all major and material controls, including financial, operational and compliance as well as risk management.

The Board is ultimately responsible for the effectiveness of the internal control and risk management system. The Audit Committee assists the Board to review the effectiveness of the internal control and risk management system through annually reviewing the underlying mechanism and functioning of the Group's internal control system and discussing their opinion with the Board as to the system effectiveness.

As the control environment is the foundation for all of the other components of the internal control system, the Group has defined a Group-wide structure of and has set up a procedure manual to regulate business processes and activities.

Risk Assessment

The Group is principally engaged in activities on container terminal, container leasing and management, logistics, container manufacturing and related businesses. The activities of the Group is exposed to a variety of risks which are categorised as financial risk, operational risk and compliance risk factors as shown below:

Major financial risk factors

In the rapid expansion of it's container fleet size and scale of terminal operations, the Group has maintained a certain leverage level to fund the need of the Group's large amount of capital expenditure. Changes in market interest rates can significantly affect the financial performance of the Group.

Following the expansion into the global market, the operating environment of the Group is increasingly complex and geographically diversified while the taxation environment is also an area of concern. As the businesses of the Group are predominantly carried out in China Mainland, the United States, Europe and Hong Kong, the Group is subject to risks which change as the system of taxation change in these regions.

The Group conducts business and operations internationally and is thus exposed to foreign exchange risk arising from various currency exposures. For the container leasing business, the primary currency involved is the US dollar while for the container terminal business, the primary currencies involved are Renminbi and EURO.

Major operational risk factors

The volume, current purchasing price and per diem rates for the container leasing business fluctuate in response to the changes in the supply and demand for leased containers. These fluctuations affect the performance of the Group.

Another operational risk factor encountered by the Group is credit risk on accounts receivable.

Major compliance risk factors

As the Group has been investing in China and gradually to overseas, these new investments may be exposed to various foreign legal and regulatory regimes of which involve different levels of transparency and compliance. Where necessary, the Group has sought independent professional advice regarding foreign jurisdictions in order to protect its interest. Regulatory changes designed to heighten transparency and raise the profile of compliance expose the Group to risks of satisfying diverse legal and regulatory requirements in a multitude of jurisdictions.

The Group is continuously expanding its business partnership network for container terminal business and, in particular, the number of container terminal joint venture companies which constitute subsidiaries of the Company under the existing Listing Rules is constantly increasing. This has resulted in an increase in connected transactions with (1) China COSCO Holdings Company Limited, an intermediate holding company of the Company, and COSCO Group; and (2) the Maersk Group, the DP World Group and various Port Authorities, which are respectively regarded as connected persons of the Group under the existing Listing Rules.

By the very nature of the Group business activities, transactions with these connected persons are necessary. However, the identification of connected persons and the updating of the non-exhaustive list of connected persons may prove to be difficult and the volume of such transactions may cause the identification, authorisation, recording and disclosure of such transactions expose the Group to compliance risk.

The Group is increasingly involved in new projects of significant size, which are often required to be disclosed or being made subject to shareholders' approval under the Listing Rules. Timely and strict compliance with the relevant regulatory requirements expose the Group to compliance risk.

To identify and analyse the relevant risks in achieving the Company's objectives, the internal control system is designed to provide reasonable, but not absolute, assurance against material misstatements and to manage rather than completely eliminate the risk of system failure in this regard. In addition to safeguarding the assets of the Company, the systems design also pays regard to the basis for determining control activities (fundamentally include financial, operational and compliance controls) and to ensure a high level of operational efficiency; to ensure the reliability of financial reporting; and to ascertain the compliance of laws, regulations and any other defined procedures.

For the purpose of better risk management, the Company assesses the likelihood and potential impact of each particular risk. It emphasises on changing operational behaviour and regards the internal control system as an early warning mechanism which would trigger the call for quick response. Monitoring and control procedures are derived thereon.

The Group's risk assessment process considers the entire organisation where significant relationships and portfolio of relationships such as fraud, going concern, internal and external reporting, and accounting in accordance with generally accepted accounting principles have been performed. When risks are identified, existing controls are examined to determine if there has been a failure in control, and if so, to determine the reason for such failure.

Control Activities and Monitoring

A sound system of internal controls requires a defined organisational and policy framework. The framework of the Company's internal control activities includes the following:

(1) To allow delegation of authority, proper segregation of duties as well as to increase accountability, a clear organisational structure exists which details lines of authority and control responsibilities in each business unit of the Group. Certain specific matters are not delegated and are subject to the Board's decision. These include, among others, the approval of annual and interim results, annual budgets, distribution of dividends, board structure, and the board's composition and succession.

(2) To assist the Board in execution of its duties, the Board is supported by seven Board Committees, namely, Executive Committee, Audit Committee, Remuneration Committee, Nomination Committee, Investment and Strategic Planning Committee, Corporate Governance Committee and Risk Management Committee. These committees make recommendations to the Board on relevant matters within their terms of reference, or make decisions under appropriate circumstances within the power delegated by the Board.

(3) Systems and procedures are set up to identify, measure, manage and control risks including but not limited to legal, credit, concentration, operational, environmental, behavioral and systematic risk that may have an impact on the Group.

(4) A comprehensive management accounting system is in place providing financial and operational performance measurement indications to the management and relevant financial information for reporting and disclosure purposes. Variances against actual performances and targets are prepared, analysed and explained. Appropriate actions are also taken to rectify the identified deficiencies, if necessary. This helps the management of the Group monitor business operations closely and enables the Board to formulate and, if necessary, revise strategic plan timely and prudently.

The Group places great importance on the internal audit functions. The internal audit's roles include assisting the management and the Audit Committee to ensure the Group maintains an effective system of internal control by reviewing all aspects of the Group's activities with unrestricted right of access and conducting comprehensive audits of all practices and procedures on a regular basis. Additional attention is paid to control activities which are considered being of higher risk, include, amongst others, income, expenditures and other areas of concern being highlighted by management. The internal auditor, as head of the internal audit function, has free access to the Audit Committee and his reports go directly to the Managing Director and the Chairman of the Audit Committee. He attends meetings of the Audit Committee and brings matters identified during the course of internal audit to the Audit Committee. This reporting structure allows the internal auditor to stay independent and effective.

During the year, the internal audit function adopted a risk-based auditing approach that focuses on material internal controls, including financial, operational and compliance controls. Audits were carried out on all significant business units in the Group. All internal audit reports are submitted to the Audit Committee for review and approval. The internal auditor's summary of findings, recommendations and follow reviews of previous audit findings are discussed at the Audit Committee meetings.

The yearly internal audit plan, which is reviewed and approved by the Audit Committee, is based on the sizes and prevailing risks of all business units of the Group to establish audit scopes and frequencies. All internal audit works scheduled for the year of 2006 have been completed. All areas of concern reported by the internal auditor have been monitored by the management until appropriate corrective measures are taken or implemented.

(5) The Board established the Audit Committee in August 1998. The Audit Committee assists the Board by providing independent review and supervision of financial reporting, and satisfying themselves as to the effectiveness of the Group's internal controls and the adequacy of the external and internal audits.

(6) The management, Financial Controller, General Counsel and Company Secretary and internal auditor conduct reviews of the effectiveness of the Company's system of internal control, including financial, operational and compliance controls and risk management function and the Audit Committee reviews the findings and opinion of the internal auditor and management on the effectiveness of the Company's system of internal control twice a year and reports annually to the Board on such reviews.

(7) In consideration of those identified major risk factors, the Group imposed various internal control risk measures to mitigate the impact of financial risk, operational risk and compliance risk.

Major financial risk measures:

- To reduce the interest rate risk exposure, the Group uses the diversified debt profiles (including different combination of bank borrowings and notes, different maturity profiles and different combination of fixed and floating interest rates debts) and, where considered necessary, hedging instruments. The effectiveness of the hedging relationship is assessed continuously and annually by reference to the Group's risk management objective and strategy.

- To ensure the tax risk is understood and properly controlled, management reviews and assesses the global tax impact to the Group annually and conducts an annual Group tax planning exercise after seeking advices from different external consultants.

- The Group controls foreign exchange risk by conducting borrowings as far as possible in currencies that match with the Group's functional currency used for transacting the Group's major cash receipts and underlying assets. Borrowings for the container leasing business were conducted mainly in US dollars, which match well with the US dollar revenue and expenses of the leasing business, in order to minimise any potential foreign exchange risk. For those jointly controlled entities and associates for the container terminal business, all material borrowings were denominated in the respective functional currencies.

Major operational risk measures:

- Management meetings among department heads and senior managements are held on a monthly basis to analyse and discuss the performance of each business segment and the response to the changes of business environment, market conditions and operational issues. For container leasing business, management holds weekly meetings with their operational managers to discuss the current leasing rate and current market price for containers and to convey the Group's strategies on market changes.

- For container leasing business, the Credit Committee establishes the maximum credit limit for each customer. The system would suspend the provision of services to those customers whose transactions exceed the defined credit limits.

- To ensure the stability and reliability of computer systems, those in relation to container leasing and terminal businesses are operated by trained professional, frequently checked and upgraded when necessary. Backup of all data are prepared timely. For security purpose, disaster recovery plan is developed.

Major compliance risk measures:

- The General Counsel and Company Secretary of the Company formulates the overall strategies and mechanisms in relation to the Group's legal compliance. Upon becoming aware of any material development in the legal environment, the Legal Department will communicate such updated information to the Board and disseminate the information within the Group if and when appropriate. The General Counsel coordinates the engagement of Hong Kong and foreign lawyers to provide professional advice on specialised and geographically diverged legal issues.

- A non-exhaustive list of connected persons is prepared and updated on a regular basis. In order to effectively assess and report any potential "connected transactions", all originating departments are required to obtain and report the shareholding structure of respective new customers and business partners. If a customer is classified as a new "connected person", both finance department and operation department will closely monitor the transaction amounts on a monthly basis. Management meetings are held regularly and on a quarterly basis to review the nature and amount of all connected transactions. Contract negotiation and conclusion in relation to connected transactions are cautiously authorised by appropriate level of management to ensure adherence to the Group's pricing policy. Disclosures made to the public are continuously compared against the evolving disclosure requirements to ensure compliance with respective rules and regulations.

- The code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules are adopted by the Company.

Information and Communications

(1) The Company has a policy of open communication which allows strong access to both internally and externally generated information. Pertinent information is identified, captured and communicated in a timely manner.

(2) To promote corporate governance and provide the shareholders with timely information about the financial performance of the Group, there is a regular dialogue with institutional shareholders and general presentations are made when the financial results are announced. To foster effective communications, the Company provides extensive information in its annual reports, interim reports, press releases and also disseminates information relating to the Group and its business electronically through its website at www.coscopac.com.hk. Shareholders are also welcome to raise enquiries at the Annual General Meeting where directors are available for direct communication.

(3) The Company attaches great priority to fair disclosure as it is considered as a key means to enhance corporate governance standards and provide necessary information to shareholders and other stakeholders for their formation of own judgments as well as provision of feedback. The Company also understands that the integrity of the information provided is essential in building market confidence.

(4) With respect to procedures and internal controls for handling and dissemination of price-sensitive information, the Company,

- is well aware of its obligations under the Listing Rules and the overriding principle that information which is considered price-sensitive should be announced promptly after it is the subject of a decision;

- conducts its affairs with close regard to the "Guide on Disclosure of Price-sensitive Information" issued by The Stock Exchange of Hong Kong Limited;

- has included in its Code of Conduct a strict prohibition on the unauthorised use of confidential, sensitive or insider information; and has communicated it to all staff; and

- has established and implemented procedures for responding to external enquiries about the Company's affairs. Only directors and delegated management of the Company can act as the Company's spokesperson and respond to enquiries in allocated areas of issues.

The Board considered that the system of internal controls in place during the year is effective for the current business scope and operations of the Group. No significant areas of concern which might affect shareholders' interest were identified.

AUDITOR'S REMUNERATION

For the year ended 31st December 2006, the auditor's remuneration paid or payable in respect of the auditing and other non-audit service provided by the auditor to the Company were as follows:

Nature of service	2006 US$	2005 US$
Audit service	615,000	726,000
Audit related service	128,000	323,000
Non-audit services:		
– Tax related services	655,000	262,000
– Circular related services	59,000	–
– Due diligence related services	35,000	–

INVESTOR RELATIONS

The Company continues to promote and enhance investor relations and communications with its investors. Our dedicated investor relations team supports designated executive director and senior management in maintaining regular dialogue with institutional investors and analysts to keep them abreast of the Company's development and attend to any queries promptly. An intensive communications channel has been maintained with the media, analysts and fund managers through one-on-one meetings, roadshows and conferences. Press and analysts conferences are held at least twice a year subsequent to the interim and final results announcements at which the executive directors are available to answer questions regarding the Group's operational and financial performances.

COMMUNICATION WITH SHAREHOLDERS

The Company believes regular and timely communication with shareholders as part of the Group's effort to help our shareholders understand our business better. The Company embraces and commits to fair, transparent and timely disclosure policy and practices. All price-sensitive information or data are publicly released, prior to individual sessions held with investors or analysts. There is a regular dialogue with institutional shareholders and general presentations are made when the financial results are announced. To foster effective communications, the Company provides extensive information in its annual report, interim report, press releases and also disseminates information relating to the Group and its business electronically through its website at www.coscopac.com.hk. Shareholders and investors are welcome to raise enquiries through our Investor Relations Department whose contact details are available on the Company's website.

The Company views the Annual General Meeting ("AGM") as an opportune forum for shareholders to meet the Board and senior management. All directors and senior management will make an effort to attend. External auditors are also available at the AGM to address shareholders' queries. The Chairmen of the audit, nomination and remuneration committees are normally available at AGMs to take any relevant questions. All shareholders will be given at least 21 days' notice of the AGM and they are encouraged to attend the AGM and other shareholders' meetings. The Company supports the Corporate Governance Code's principle to encourage shareholders' participation. Questioning by the shareholders at such meetings are encouraged and welcomed.

Shareholders holding not less than one-tenth of the issued capital of the Company may deposit a requisition to the Board or the Company Secretary of the Company to convene a special general meeting and state the purpose therefor at the Company's principal place of business in Hong Kong at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong. To facilitate enforcement of shareholders' rights, substantially separate issues at general meetings are dealt with under separate resolutions.

SHAREHOLDINGS AND SHAREHOLDERS INFORMATION

SHARE CAPITAL

(as at 31st December 2006)

Authorised share capital	HK$300,000,000 divided into 3,000,000,000 shares of a par value of HK$0.1 each
Issued and fully paid-up capital	HK$222,868,429.80 comprising 2,228,684,298 shares of HK$0.1 each

TYPES OF SHAREHOLDERS

(as at 31st December 2006)

Type of shareholders	No. of shares held	% of the issued share capital
COSCO Pacific Investment Holdings Limited and its subsidiary	1,144,166,411	51.34
Other corporate shareholders	133,968,295	6.01
Individual shareholders	950,549,592	42.65
Total	2,228,684,298	100.00

LOCATION OF SHAREHOLDERS

(as at 31st December 2006)

Location of shareholders (Note 1)	No. of shareholders	No. of shares held
Hong Kong	509	2,228,622,298 (Note 2)
Macau	1	2,000
United Kingdom	1	56,000
People's Republic of China	1	4,000
Total	512	2,228,684,298

Notes:

1 The location of shareholders is prepared according to the address of shareholders registered in the register of members of the Company.

2 These shares include 1,263,205,485 shares registered in the name of HKSCC Nominees Limited which may hold these shares on behalf of its clients in or outside Hong Kong.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

DIRECTORS

WEI Jiafu

NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE BOARD

Dr. WEI, aged 57, is the Chairman of the Board of the Company. He joined the Company in June 2000 as Executive Director and Chairman of the Board and was redesignated as Non-executive Director and Chairman of the Board in June 2005. He is currently the President and CEO of China Ocean Shipping (Group) Company, the Chairman of China COSCO Holdings Company Limited, COSCO International Holdings Limited, COSCO (Hong Kong) Group Limited, COSCO Corporation (Singapore) Limited, COSCO Container Lines Company Limited and COSCO Bulk Carrier Co. Limited and the Vice Chairman of China Merchants Bank Co., Ltd. He was elected into the 16th CPC Central Committee for Discipline Inspection in November 2002. Dr. WEI is also the Chairman of China Shipowners' Association, China Shipowner's Mutual Assurance Association, China Group Companies Promotion Association, China Federation of Industrial Economics, Vice Chairman of China Enterprise Confederation and China Enterprise Directors Association and Director of the Board of Bo'ao Forum for Asia, advisor of Panama Canal Authority, member of executive committee of Baltic and International Maritime Conference, committee member of International Committee of American Bureau of Shipping, member of International Advisory Council of PSA Corporation and advisor of Harvard Business School. Dr. WEI joined China Ocean Shipping (Group) Company in 1967 and had been the marine captain, the General Manager of Sino-Tanzania Joint Shipping Company, Tianjin Ocean Shipping Company and COSCO Bulk Carrier Co. Limited as well as the President of COSCO Holding (Singapore) Pte Ltd. Dr. WEI obtained his Doctoral degree from Tianjin University and Master of Transportation Planning and Management degree from Dalian Maritime University. He is also a senior engineer. Dr. WEI has extensive experience in international shipping management and capital operation.

CHEN Hongsheng

EXECUTIVE DIRECTOR

Mr. CHEN, aged 57, has been a Director of the Company since September 2003. He is also an Executive Vice President of China Ocean Shipping (Group) Company, a Director and the President of China COSCO Holdings Company Limited and a Director of COSCO Container Lines Company Limited. Mr. CHEN graduated from Sichuan Foreign Language College, majoring in English and Capital University of Economics and Business in postgraduate studies in business administration. He had been the Deputy General Manager of Penavico Nantong Branch Company, General Manager of Shipping Department of Penavico, General Manager of COSCO Beijing International Freight Forwarding Company, Managing Director of COSCO International Freight Forwarding Co., Ltd. and Deputy General Manager of COSCO Container Lines Company Limited. He is currently a Vice Chairman of China Enterprise Confederation and China Enterprise Directors Association. Mr. CHEN is one of the experienced experts engaging in the container shipping and logistics business at its initial stage in the PRC. He has 30 years of experience in shipping industry with extensive experience in enterprise operation and management.

LI Jianhong

EXECUTIVE DIRECTOR

Mr. LI, aged 50, has been a Director of the Company since October 1997. He is also an Executive Vice President of China Ocean Shipping (Group) Company, a Director of China COSCO Holdings Company Limited, COSCO International Holdings Limited and COSCO Corporation (Singapore) Limited and Chairman of the Board of Directors of China International Marine Containers (Group) Co., Ltd., COSCO Shipyard Group, COSCO International Ship Trading Company Limited and Sino-Tanzania Joint Shipping Company. Mr. LI graduated from the University of East London in the United Kingdom with a Master of Business Administration degree and holds a Master of Business Administration degree from Jilin University. He is a senior economist. He is also the Vice Chairman of China's Society of Naval Architecture & Marine Engineering and China Association of the Shipbuilding Trade. He had been the General Manager of Nantong Shipyard and Managing Director of COSCO Industry Co., Ltd. and COSCO Property Ltd., Assistant to the President and Chief Commercial Officer of China Ocean Shipping (Group) Company. He has more than 20 years of experience in corporate management and over 10 years of experience in shipping enterprise management. He also has extensive experience in corporate governance and capital operation.

XU Lirong

NON-EXECUTIVE DIRECTOR

Mr. XU, aged 49, has been a Director of the Company since March 2000. Before his redesignation as a Non-executive Director in June 2005, he served as an Executive Director. He is now the Executive Vice President of China Ocean Shipping (Group) Company. Mr. XU graduated from Marine Navigation Department of the Adult Education College in Dalian Maritime University and obtained his Master of Business Administration degree from a joint programme by Shanghai Maritime University and the Maastricht School of Management in the Netherlands. Mr. XU had been the Executive Vice President of China COSCO Holdings Company Limited, the Managing Director of COSCO Container Lines Company Limited, the Marine Captain and Deputy Director of the first management department of COSCO Shanghai, the General Manager of Shanghai International Freight Forwarding Company, the Deputy Managing Director of COSCO Shanghai and the President of Shanghai Shipping Exchange. He has extensive experience in container shipping business management and corporate management.

SUN Yueying

EXECUTIVE DIRECTOR

Ms. SUN, aged 48, has been a Director of the Company since March 2002. She is currently the Chief Financial Officer of China Ocean Shipping (Group) Company and a Director of China COSCO Holdings Company Limited, COSCO (Hong Kong) Group Limited, COSCO Container Lines Company Limited and COSCO Corporation (Singapore) Limited. Ms. SUN graduated from Shanghai Maritime University in 1982 majoring in shipping finance and accounting. She is a certified accountant and a senior accountant. She had been the Vice Director of the Finance Division of Tianjin Ocean Shipping Co., Finance Manager of COSCO Japan Co., Ltd. and the General Manager of the Finance and Capital Division of and the Deputy Chief Financial Officer of China Ocean Shipping (Group) Company. She has extensive experience in the shipping industry and corporate financial management.

XU Minjie

EXECUTIVE DIRECTOR, VICE CHAIRMAN OF THE BOARD AND MANAGING DIRECTOR

Mr. XU, aged 48, is the Vice Chairman of the Board and the Managing Director of the Company. He is also the Chairman of the Investment and Strategic Planning Committee and a member of the Executive Committee, Nomination Committee and Remuneration Committee of the Company. He is currently a director of COSCO (Hong Kong) Group Limited. Mr. XU graduated from the Marine Navigation Department of Qingdao Ocean Shipping Mariners College and obtained his Master of Business Administration degree from Shanghai Maritime University and also obtained a Master Degree in Management from Maastricht School of Management in the Netherlands（荷蘭馬斯特里赫特商學院）. Mr. XU joined COSCO Group in 1980 and was appointed as Managing Director of COSCO Shanghai International Freight Company Limited in November 1998. He was the Vice Chairman of Shanghai City Freight Forwarders Association（上海市貨運代理協會）during the period from December 1998 to September 2003 and was appointed as the General Manager of the Transportation Division of China Ocean Shipping (Group) Company in September 2003. He had been a former marine captain on COSCO's ocean-going ships, General Manager of the Container Division, Operation Division, Export Division of Shanghai Ocean Shipping Company and Deputy Managing Director of Shanghai International Freight Forwarding Company. During the period from June 2005 to January 2007, Mr. XU was an Executive Committee member of China Communications and Transportation Association（中國交通運輸協會）. Mr. XU has accumulated around 30 years of experience in the shipping industry and has demonstrated excellent enterprise operation and management skills. His outstanding vision and management power has been highly appreciated by the industry. After joining the Company in January 2007 as the Vice Chairman and Managing Director, he leads the Company's overall management, strategic development, corporate governance and financial management.

SUN Jiakang

NON-EXECUTIVE DIRECTOR

Dr. SUN, aged 47, has been a Director of the Company since September 2002. Before his redesignation as a Non-executive Director in January 2007, he served as a Vice Chairman and Managing Director. He is an Executive Vice President of China COSCO Holdings Company Limited, a Non-executive Director of Chong Hing Bank Limited (formerly: Liu Chong Hing Bank Limited), a director of China International Marine Containers (Group) Co., Ltd., a fellow member of the Hong Kong Institute of Directors, a member of International WHO'S WHO of Professionals and a visiting professor at Dalian Maritime University. Dr. SUN graduated from the Faculty of Navigation of Dalian Maritime Transportation Institute with a bachelor degree in shipping management in 1982 and obtained a bachelor degree in economic management of industrial enterprises from the People's University of China in 1987, a master degree in management from Dalian Maritime University in 2001 and a doctor of philosophy (PhD) degree in management from Preston University, USA in 2005. After graduating from university in 1982, Dr. SUN joined COSCO Group and had been the Assistant to the President and Spokesman of China Ocean Shipping (Group) Company. For the past 24 years, Dr. SUN has been committed to shipping management and has accumulated rich experiences in international shipping and logistics operations and has demonstrated excellent management skills.

WONG Tin Yau, Kelvin

EXECUTIVE DIRECTOR

Mr. WONG, aged 46, is a Deputy Managing Director of the Company. He is also the Chairman of the Corporate Governance Committee and a member of the Executive Committee of the Company. Mr. WONG is a Deputy Chairman, Chairman of the Corporate Governance Committee and fellow member of the Hong Kong Institute of Directors, Chairman and council member of the Hong Kong Chinese Orchestra Limited, a member of the China Trade Advisory Committee of the Hong Kong Trade Development Council, a member of the Auditing and Assurance Standards Committee of the Hong Kong Institute of Certified Public Accountants and a member of the OECD/World Bank Asian Corporate Governance Roundtable. He obtained his Master of Business Administration degree from Andrews University in Michigan, USA in 1992. He is an associate member of the Chartered Institute of Bankers, a member of the Hong Kong Securities Institute, a member of the Chartered Institute of Marketing and a member of the National Investor Relations Institute in the USA. He has more than 22 years of working experience in management, banking and securities industries. Currently, Mr. WONG is an Independent Non-executive Director and Chairman of the Audit Committee of China Metal International Holdings Inc., an Independent Non-executive Director and Chairman of both the Audit Committee and Remuneration Committee of Tradelink Electronic Commerce Limited and an Independent Non-executive Director of CIG Yangtze Ports PLC, all of these companies are listed on The Stock Exchange of Hong Kong Limited. Mr. WONG held various senior positions in several listed companies in Hong Kong before he joined the Company in July 1996. He is responsible for overall management, corporate governance and investor relations of the Company.

WANG Zhi

EXECUTIVE DIRECTOR

Mr. WANG, aged 44, is a Deputy Managing Director of the Company. He is also the Chairman of the Risk Management Committee and a member of the Executive Committee and the Investment and Strategic Planning Committee of the Company and the President & CEO of Florens Container Services Company Limited, a wholly owned subsidiary of the Company. He joined the Company in April 2001 and was appointed as an Executive Director of the Company in July 2005. He is also a Non-executive Director of Chong Hing Bank Limited (formerly: Liu Chong Hing Bank Limited). He graduated from Jimei Navigation College in 1980. He then further his studies in Shanghai Maritime University and obtained an International Executive Master of Business Administration degree from International School of Management in Paris in 2000. Prior to joining the Company, he worked in COSCO Guangzhou in 1980 and gained more than 13 years of working experience in shipping industries there. Since 1993, he had been the Deputy Chief Executive Officer of COSCO (UK) Limited, the Managing Director of Crystal Logistics Ltd. and the Managing Director of COSCO France S.A. Mr. WANG is responsible for corporate development, overall management and administration of Florens Container Services Company Limited and strategic development and investment of some of the container terminal business of the Company.

QIN Fuyan

EXECUTIVE DIRECTOR

Mr. QIN, aged 54, has been a Director of the Company since March 1996. He is also a member of the Executive Committee and Investment and Strategic Planning Committee of the Company. Following his graduation from university in 1975, Mr. QIN joined China Ocean Shipping (Group) Company and has been responsible for shipping management. In 1983, he joined the chartering department of Ocean Tramping Company Limited in Hong Kong. He has been serving China Ocean Shipping (Group) Company for 30 years and has extensive knowledge in shipping management, container terminal development and the worldwide shipping market. Mr. QIN was awarded the qualification of senior economist in shipping management by the Ministry of Communications of the PRC and obtained a diploma in container terminal management from the University of Wales in the United Kingdom. Mr. QIN is responsible for management and investment of the container terminals and container-related industrial businesses of the Company.

LI Kwok Po, David *GBS, OBE, JP*

INDEPENDENT NON-EXECUTIVE DIRECTOR

Dr. LI, aged 68, has been an Independent Non-executive Director of the Company since February 1998. He is also the Chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. Dr. LI is the Chairman and Chief Executive of The Bank of East Asia, Limited, and a director of numerous other companies in Hong Kong and overseas. He is a member of both the Executive Council and the Legislative Council of Hong Kong. He is the Chairman of The Chinese Banks' Association, Limited and the Hong Kong Management Association. He is also a member of the Banking Advisory Committee and the Council of the Treasury Markets Association.

LIU Lit Man *GBS, JP, FIBA*

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. LIU, aged 77, has been an Independent Non-executive Director of the Company since September 1996. He is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is the Executive Chairman of Chong Hing Bank Limited (formerly: Liu Chong Hing Bank Limited) and the Chairman of both Liu Chong Hing Investment Limited and Chong Hing Insurance Company Limited. Mr. LIU is also a Director of The Hong Kong and China Gas Company Limited. Mr. LIU was a Director of Tung Wah Group of Hospitals, the President of the Hong Kong Chiu Chow Chamber of Commerce (now Permanent Honorary President), a founder and a Permanent Honorary Chairman of the Chiu Chow Association Building (Property Holding) Limited, a founder and the first Chairman of Teochew International Convention (now Permanent Honorary Chairman). Presently, he is a Permanent Honorary Chairman of The Chinese General Chamber of Commerce, Hong Kong, the founder and the Manager of Liu Po Shan Memorial College, a Director of New Asia College of The Chinese University of Hong Kong and the founder of Chiu Chow Association Secondary School. In 1975, he was appointed a Justice of the Peace and was elected Fellow of the International Banker Association. He had been a member of the Consultative Committee for the Basic Law from 1985 to 1990 and was a member of the Selection Committee of the First Government of the Hong Kong Special Administrative Region and a member of the First Election Committee constituted under the Chief Executive Election Ordinance. Mr. LIU was awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region in July 2001.

CHOW Kwong Fai, Edward

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. CHOW, aged 54, has been an Independent Non-executive Director of the Company since June 2005. He is also the Chairman of the Audit Committee and the Remuneration Committee of the Company. Mr. CHOW is a fellow member of The Institute of Chartered Accountants in England and Wales and a past president of the Hong Kong Institute of Certified Public Accountants (HKICPA). Before elected president, he chaired the HKICPA's Corporate Governance Committee and Professional Accountants in Business (PAIB) Committee. He is also Chairman of the PAIB Committee of the International Federation of Accountants (IFAC), a core member of the OECD/World Bank Asian Corporate Governance Roundtable and a Deputy Chairman of both the Hong Kong Institute of Directors and the Business and Professionals Federation of Hong Kong. He is also a member of The Chinese People's Political Consultative Conference – Zhejiang Province and The Election Committee of Hong Kong SAR. Mr. CHOW is currently the Chairman of China Infrastructure Group and CIG Yangtze Ports PLC, listed in Hong Kong. He is also an independent director of the China Merchants Bank Co., Ltd., which is listed on the stock exchanges of Hong Kong and Shanghai. Between 1988 and 1996, he was the Managing Director of a conglomerate which had companies listed on the stock exchanges of Hong Kong and Thailand. Prior to entering the commercial sector, Mr. CHOW spent 11 years working for two major accounting firms, Deloitte Haskins & Sells and Price Waterhouse (as they were then known), respectively in London and Hong Kong.

Timothy George FRESHWATER

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. FRESHWATER, aged 62, has been an Independent Non-executive Director of the Company since June 2005. He is also a member of the Audit Committee of the Company. He is a Vice Chairman of Goldman Sachs (Asia) L.L.C. Before joining Goldman Sachs in 2001, he was the Chairman of Jardine Fleming. Mr. FRESHWATER is admitted as a solicitor in England & Wales and Hong Kong. After graduating from the University of Cambridge, he joined the international law firm Slaughter and May in 1967 and remained with them for 29 years before joining the Jardine Fleming group in 1996. He became a partner of Slaughter and May in 1975 and worked in their Hong Kong office for seven years between 1978 and 1985. He was the head of Slaughter and May's worldwide corporate practice from 1993 until 1996 and is an ex-President of the Hong Kong Law Society. Mr. FRESHWATER is currently an Independent Non-executive Director of Pacific Century Insurance Holdings Limited and a Non-executive Director of Chong Hing Bank Limited (formerly: Liu Chong Hing Bank Limited).

SENIOR MANAGEMENT

CHAN Hang, Ken

DEPUTY MANAGING DIRECTOR

Mr. CHAN, aged 49, is the Deputy Managing Director of the Company and a member of the Investment and Strategic Planning Committee of the Company. From 1998 to 2006, Mr. CHAN was the General Manager of the Corporate Development Department (name has been changed to Strategy and Development Department) of the Company. He obtained his Master of Business Administration degree from Dalhousie University in Canada in 1985 and continued his education in the University of Washington in the USA. Before joining the Company in September 1998, he had held senior positions in a local bank and an international securities firm in Hong Kong. He has over 20 years of working experience in finance, securities, corporate strategic planning and management. Mr. Chan is in charge of the Company's strategic planning and port and other business development.

YIN Weiyu

DEPUTY MANAGING DIRECTOR

Mr. YIN, aged 40, is a Deputy Managing Director of the Company since October 2006. He obtained his Master of Science degree major in Applied Mathematics from Graduate School of Sun Yat-Sen University in 1990. Before joining the Company, he has been the Managing Director of COSCO Guangzhou International Freight Co., Ltd. and Deputy General Manager of South China COSCO International Freight Co., Ltd. Mr. YIN is responsible for audit and supervision and terminals development of the group.

HUI Sin Hing, Brian

ASSISTANT FINANCIAL CONTROLLER

Mr. HUI Sin Hing, Brian, aged 45, was appointed Assistant Financial Controller of the Company since January 2007. He is a member of the Hong Kong Institute of Certified Public Accountants and a member of CPA - Australia. He also has a Master Degree in Business Administration from the University of Wisconsin – Madison in the United States and a Master of Arts Degree in Law from the University of Sheffield in the United Kingdom. Prior to joining the Company, he had the experience of being the Financial Controller and Assistant CFO for companies listed on the Hong Kong Stock Exchange. In addition, he also had years of working experience with the U.S. multinational corporations including working as the Director of Finance and Human Resources for the Asia Pacific Region with a power conversion product manufacturing corporation listed on NASDAQ.

HUNG Man, Michelle

GENERAL COUNSEL & COMPANY SECRETARY

Ms. HUNG, aged 37, has been the General Counsel of the Group since November 1996 and the Company Secretary of the Company since March 2001. She is also a member of the Corporate Governance Committee and Risk Management Committee of the Company. She graduated from The University of Hong Kong with a Bachelor of Laws degree (Hons). She is a practicing solicitor of the High Court of the Hong Kong Special Administrative Region. She is also qualified in England and Wales. She is a member of the Executive Committee of the Hong Kong Corporate Counsel Association. She was named among the top 25 "in-house high flyers" and "the best in Asia" by Asian Legal Business Magazine. She is responsible for all legal, corporate governance, compliance, company secretarial and related matters for the Group.

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

REPORT OF THE DIRECTORS

The directors submit their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 43 to the consolidated financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2006 are set out in the consolidated income statement on page 106 of this annual report.

The directors declared an interim dividend of HK27.4 cents (equivalent to US3.526 cents) per share and a special dividend of HK9.1 cents (equivalent to US1.174 cents) per share, totalling HK$810,437,000 (equivalent to US$104,278,000), which was paid on 6th October 2006.

The directors recommend the payment of a final dividend of HK32.2 cents (equivalent to US4.147 cents) per share, totalling HK$718,602,000 (equivalent to US$92,424,000), payable on or before 31st May 2007.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 191 of this annual report.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 110 and 111 of this annual report.

Movements in the reserves of Company during the year are set out in note 33 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to US$249,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 19 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are shown in note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company at 31st December 2006 calculated under Companies Act of Bermuda amounted to US$550,719,000.

BORROWINGS

Details of the borrowings of the Group are set out in note 34 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Details of retirement benefit schemes of the Group are set out in notes 3.20 and 17 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Dr. WEI Jiafu[2] *(Chairman)*	
Mr. CHEN Hongsheng[1]	
Mr. LI Jianhong[1]	
Mr. XU Lirong[2]	
Ms. SUN Yueying[1]	
Mr. XU Minjie[1] *(Vice Chairman and Managing Director)*	(appointed on 24th January 2007)
Dr. SUN Jiakang[2]	(re-designated from executive director to non-executive director and resigned as Vice Chairman and Managing Director with effect from 24th January 2007)
Mr. WONG Tin Yau, Kelvin[1]	
Mr. WANG Zhi[1]	
Mr. QIN Fuyan[1]	
Dr. LI Kwok Po, David[3]	
Mr. LIU Lit Man[3]	
Mr. CHOW Kwong Fai, Edward[3]	
Mr. Timothy George FRESHWATER[3]	

1 Executive Director
2 Non-executive Director
3 Independent Non-executive Director

In accordance with Clause 86(2) of the Company's Bye-laws, Mr. XU Minjie retires at the forthcoming general meeting and, being eligible, offers himself for re-election.

In accordance with Clauses 87(1) and (2) of the Company's Bye-laws, Mr. LI Jianhong, Ms. SUN Yueying, Mr. WONG Tin Yau, Kelvin, Dr. LI Kwok Po, David and Mr. LIU Lit Man retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received annual confirmation from each of the independent non-executive directors concerning their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management as at the date of this report are set out on pages 78 to 84 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. XU Minjie has entered into a service agreement with COSCO Pacific Management Company Limited ("COSCO Pacific Management"), a wholly owned subsidiary of the Company, on 24th January 2007 for a term of three years commencing from 24th January 2007. The agreement is renewable automatically for successive terms of three years subject to termination by either party giving not less than three months' notice in writing to the other party pursuant to the terms of the service agreement.

Mr. WONG Tin Yau, Kelvin has a service agreement with the Company commencing from 22nd July 1996. The agreement is terminable by either party giving to the other party not less than one month's prior notice in writing.

Mr. WANG Zhi has an employment contract with COSCO Pacific Management commencing from 1st April 2001. Such contract is terminable by either party by giving to the other party not less than one month's prior notice in writing.

Save as disclosed above, none of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTIONS

At a special general meeting of the Company held on 23rd May 2003, the shareholders of the Company approved the adoption of a new share option scheme (the "2003 Share Option Scheme") and the termination of the share option scheme adopted by the shareholders of the Company on 30th November 1994 (the "1994 Share Option Scheme").

On 5th December 2005, the shareholders of the Company approved the amendments to the 2003 Share Option Scheme at a special general meeting. The definitions of "Participant" and "relevant company" in paragraph 1 of the 2003 Share Option Scheme were amended by deleting all references to COSCO (Hong Kong) Group Limited and replacing them by China COSCO Holdings Company Limited ("China COSCO"), an intermediate holding company of the Company, and paragraph 8(e) of the 2003 Share Option Scheme was changed to allow a grantee who ceases to be an employee or an executive director of the relevant company (as defined in the 2003 Share Option Scheme) by reason of voluntary resignation from his employment, directorship, secondment or nomination to exercise the option up to his entitlement at the date of cessation within a period of three months following the date of such cessation pursuant to paragraph 7.3(a) of the 2003 Share Option Scheme. These amendments came into effect on 28th February 2006 after the approval of the shareholders of China COSCO at the general meeting held on the same date.

SHARE OPTIONS (CONTINUED)

The following is a summary of the principal terms of these share option schemes:

(i) 1994 Share Option Scheme

The 1994 Share Option Scheme was designed to motivate the employees to enhance their performance and contribution to the Group. Under the 1994 Share Option Scheme, the directors of the Company may, at their discretion, grant to any director, executive and/or employee who are in full time employment with any company in the Group, share options to subscribe for the Company's shares (each a "Share" or collectively the "Shares"), subject to the terms and conditions stipulated therein.

Under the 1994 Share Option Scheme, the maximum number of Shares in respect of which options may be granted will not exceed 10% of the issued share capital of the Company from time to time. The maximum number of Shares issued to each employee or director in respect of which options may be granted shall not exceed 25% of the total Shares in issue or to be issued under the 1994 Share Option Scheme.

The period within which an option may be exercised will be determined by the board of directors of the Company (the "Board") in its absolute discretion, save that the exercise period shall not be more than ten years from the date on which the option is granted. The consideration on acceptance of an offer of the grant of an option is HK$1.00 payable within 28 days from the offer date. The full amount of the subscription price for the Shares must be paid upon exercise of an option.

The exercise price of an option is determined by the Board and will not be less than 80% of the average of the closing prices of the Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of offer of the share option or the nominal value of the Shares, whichever is higher.

The 1994 Share Option Scheme was terminated on 23rd May 2003. No further options shall thereafter be offered under the 1994 Share Option Scheme but the options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects the provisions of the 1994 Share Option Scheme shall remain in full force and effect.

As at the date of this report, a total of 322,000 Shares (representing approximately 0.014% of the existing issued share capital of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the 1994 Share Option Scheme.

(ii) 2003 Share Option Scheme

The 2003 Share Option Scheme is designed to attract, retain and motivate talented participants (the "Participants" or a "Participant") (as defined in note 1 below) to strive for future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the Participants and for such other purposes as the Board may approve from time to time.

Under the 2003 Share Option Scheme, the Board may, at its discretion, invite any Participants to take up options. In determining the basis of eligibility of each Participant, the Board would mainly take into account the experience of the Participant on the Group's business, the length of service of the Participant with the Group or the length of business relationship the Participant has established with the Group and such other factors as the Board may at its discretion consider appropriate.

SHARE OPTIONS (CONTINUED)

(ii) 2003 Share Option Scheme (Continued)

The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2003 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of the adoption of the 2003 Share Option Scheme (the "Scheme Mandate Limit") unless the Company seeks approval of its shareholders in general meeting to refresh the Scheme Mandate Limit, such that the maximum number of Shares which may be issued upon exercise of all options to be granted under the 2003 Share Option Scheme or any other share option schemes of the Company under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of approval to refresh such limit. The Company may seek separate approval by its shareholders in general meeting for granting options beyond the 10% limit provided that the options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought. Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2003 Share Option Scheme and any other share option schemes of the Company (including the 1994 Share Option Scheme) shall not exceed 30% of the total number of Shares in issue from time to time (or such higher percentage as may be allowed under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")).

As at the date of this report, a total of 104,811,229 Shares (representing approximately 4.68% of the existing issued share capital of the Company) may be issued upon exercise of all options which may be granted under the 2003 Share Option Scheme and a total of 31,787,000 Shares (representing approximately 1.42% of the existing issued share capital of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the 2003 Share Option Scheme.

The maximum entitlement for any one Participant (including both exercised, cancelled and outstanding options) in any twelve months' period shall not exceed 1% of the total number of Shares in issue.

The period under which an option must be exercised shall be such period as the Board may in its absolute discretion determine at the time of grant, save that such period shall not be longer than ten years from the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme. The minimum period for which an option must be held before it can be exercised is determined by the Board upon the grant of an option. The amount payable on acceptance of an offer of the grant of an option is HK$1.00. The full amount of the exercise price for the subscription of Shares must be paid upon exercise of an option.

The exercise price in relation to each option shall be determined by the Board in its absolute discretion, but in any event shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date when an option is offered; (ii) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which an option is offered; and (iii) the nominal value of a Share.

The 2003 Share Option Scheme will expire on 22nd May 2013.

SHARE OPTIONS (CONTINUED)

(ii) 2003 Share Option Scheme (Continued)

Notes:

(1) As defined in the 2003 Share Option Scheme (as amended), "Participants" include:

(i) any employee of the Group (including any executive director of the Group);

(ii) any management of China COSCO, or China Ocean Shipping (Group) Company, the Company's parent company; and

(iii) any person seconded or nominated by the Group to represent the Group's interest in any of the Group's associated companies or jointly controlled entities (as defined in note 2 below), or any other company or organisation.

As to whether a particular person falls within the definition of Participants, it shall be determined by the Board in its absolute discretion.

(2) Under the 2003 Share Option Scheme, associated companies and jointly controlled entities refer to those companies and/or enterprises which have defined and/or disclosed as associates and/or associated companies and joint ventures and/or jointly controlled entities of the Company in the latest audited financial statements of the Company.

(iii) Movements of options under 1994 Share Option Scheme

Movements of the options, which have been granted under the 1994 Share Option Scheme, during the year are set out below:

Category	Exercise price HK$	Number of share options: Outstanding at 1st January 2006	Exercised during the year	Outstanding at 31st December 2006	% of total issued share capital of the Company	Note
Director						
Mr. WONG Tin Yau, Kelvin	8.80	900,000	(600,000)	300,000	0.013%	(1), (2), (3)
Continuous contract employees	8.80	254,000	(232,000)	22,000	0.001%	(1), (3)
		1,154,000	(832,000)	322,000		

Notes:

(1) The share options were granted on 20th May 1997 (the "Offer Date") under the 1994 Share Option Scheme. The options are exercisable at any time within ten years from the date of grant (i.e. on or before 19th May 2007), subject to the following conditions:

(i) For those grantees who have completed one year full-time service in the Group may exercise a maximum of 20% of share options granted in each of the first five anniversary years from the Offer Date.

(ii) For those grantees who have not completed one year full-time service in the Group as at the Offer Date, a maximum of 20% of options granted may be exercisable in each of the first five anniversary years of the Offer Date after completion of one year full-time service.

(2) These share options represent personal interest held by the director as beneficial owner.

(3) The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK$16.87.

(4) During the year, no share options were cancelled or lapsed under the 1994 Share Option Scheme.

SHARE OPTIONS (CONTINUED)

(iv) Movements of options under 2003 Share Option Scheme

Movements of the options, which have been granted under the 2003 Share Option Scheme, during the year are set out below:

		Number of share options							
Category	Exercise price HK$	Outstanding at 1st January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2006	% of total issued share capital	Exercisable period	Note
Directors									
Dr. WEI Jiafu	9.54	500,000	–	(100,000)	–	400,000	0.018%	30.10.2003-29.10.2013	(1), (2), (3), (4)
	13.75	1,000,000	–	–	–	1,000,000	0.045%	3.12.2004-2.12.2014	
Mr. CHEN Hongsheng	9.54	400,000	–	(100,000)	–	300,000	0.013%	28.10.2003-27.10.2013	(1), (2), (3), (4)
	13.75	1,000,000	–	–	–	1,000,000	0.045%	3.12.2004-2.12.2014	
Mr. LI Jianhong	9.54	400,000	–	(100,000)	–	300,000	0.013%	29.10.2003-28.10.2013	(1), (2), (3), (4)
	13.75	1,000,000	–	–	–	1,000,000	0.045%	2.12.2004-1.12.2014	
Mr. XU Lirong	13.75	1,000,000	–	(1,000,000)	–	–	–	2.12.2004-1.12.2014	(2), (3), (4)
Ms. SUN Yueying	9.54	400,000	–	(100,000)	–	300,000	0.013%	29.10.2003-28.10.2013	(1), (2), (3), (4)
	13.75	1,000,000	–	–	–	1,000,000	0.045%	3.12.2004-2.12.2014	
Dr. SUN Jiakang	9.54	200,000	–	(200,000)	–	–	–	28.10.2003-27.10.2013	(1), (2), (3), (4)
	13.75	1,000,000	–	–	–	1,000,000	0.045%	1.12.2004 - 30.11.2014	
Mr. WONG Tin Yau, Kelvin	9.54	800,000	–	–	–	800,000	0.036%	28.10.2003-27.10.2013	(1), (2), (3)
	13.75	1,000,000	–	–	–	1,000,000	0.045%	2.12.2004-1.12.2014	
Mr. WANG Zhi	13.75	800,000	–	(100,000)	–	700,000	0.031%	29.11.2004-28.11.2014	(2), (3), (4)
Mr. QIN Fuyan	13.75	1,000,000	–	(800,000)	–	200,000	0.009%	29.11.2004-28.11.2014	(2), (3), (4)
		11,500,000	–	(2,500,000)	–	9,000,000			
Continuous contract employees	9.54	6,794,000	–	(2,816,000)	–	3,978,000	0.178%	(refer to note 1)	(1), (2), (4)
	13.75	31,044,000	–	(10,826,000)	(20,000)	20,198,000	0.906%	(refer to note 2)	
Others	9.54	3,104,000	–	(2,104,000)	–	1,000,000	0.045%	(refer to note 1)	(1), (2), (4)
	13.75	18,000,000	–	(10,640,000)	–	7,360,000	0.330%	(refer to note 2)	
		58,942,000	–	(26,386,000)	(20,000)	32,536,000			
		70,442,000	–	(28,886,000)	(20,000)	41,536,000			

SHARE OPTIONS (CONTINUED)

(iv) Movements of options under 2003 Share Option Scheme (Continued)

Notes:

(1) The share options were granted during the period from 28th October 2003 to 6th November 2003 under the 2003 Share Option Scheme at an exercise price of HK$9.54. The options are exercisable at any time within ten years from the commencement date which is the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme (the "Commencement Date"). The Commencement Date of the options of the grantees was from 28th October 2003 to 6th November 2003.

(2) The share options were granted during the period from 25th November 2004 to 16th December 2004 under the 2003 Share Option Scheme at an exercise price of HK$13.75. The options are exercisable at any time within ten years from the Commencement Date. The Commencement Date of the options of the grantees was from 25th November 2004 to 16th December 2004.

(3) These options represent personal interest held by the relevant directors as beneficial owners.

(4) The weighted average closing price of the Shares immediately before the dates on which the options were exercised was HK$17.03.

(5) During the year, no share options were cancelled under the 2003 Share Option Scheme.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2006, the interests of the Company's directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(a) Long positions in the shares of the Company

Name of director	Capacity	Nature of interest	Number of ordinary shares held	% of total issued share capital of the Company
Dr. LI Kwok Po, David	Beneficial owner	Personal	258,000	0.012%
Mr. Timothy George FRESHWATER	Beneficial owner	Personal	30,000	0.001%

(b) Long positions in underlying shares of equity derivatives of the Company

Share options were granted to certain directors of the Company pursuant to the 1994 Share Option Scheme and the 2003 Share Option Scheme. Details of the directors' interests in share options granted by the Company are set out under the section headed "Share Options" of this report.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

(c) Long positions in the shares of associated corporations

Name of associated corporation	Name of director	Capacity	Nature of interest	Number of shares held	% of total issued share capital of the relevant associated corporation	Note
China COSCO Holdings Company Limited	Mr. WONG Tin Yau, Kelvin	Beneficial owner	Personal	1,000,000	0.045%	
COSCO Corporation (Singapore) Limited	Dr. WEI Jiafu	Beneficial owner	Personal	1,900,000	0.086%	(1)
	Mr. LI Jianhong	Beneficial owner	Personal	1,300,000	0.059%	(1)
	Ms. SUN Yueying	Beneficial owner	Personal	1,400,000	0.063%	(1)

Note:

(1) Adjustments were made to the number of shares held by these directors as the sub-division of every 1 ordinary share of S$0.20 each divided into 2 ordinary shares of S$0.10 each was approved by the shareholders of COSCO Corporation (Singapore) Limited on 17th January 2006.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

(d) Long positions in underlying shares of equity derivatives of associated corporations

Movements of the share options granted to the directors of the Company by associated corporations during the year are set out below:

					Number of share options					
Name of associated corporation	Name of director	Capacity	Nature of interest	Exercise price	Outstanding at 1st January 2006	Granted during the year	Exercised during the year	Outstanding at 31st December 2006	% of total issued share capital of the relevant associated corporation	Note
COSCO International Holdings Limited	Dr. WEI Jiafu	Beneficial owner	Personal	HK$0.57	1,800,000	–	–	1,800,000	0.124%	(1)
				HK$1.37	1,200,000	–	–	1,200,000	0.083%	(2)
	Mr. LI Jianhong	Beneficial owner	Personal	HK$0.57	1,800,000	–	–	1,800,000	0.124%	(1)
				HK$1.37	1,200,000	–	–	1,200,000	0.083%	(2)
	Dr. SUN Jiakang	Beneficial owner	Personal	HK$0.57	900,000	–	–	900,000	0.062%	(1)
				HK$1.37	800,000	–	–	800,000	0.055%	(2)
	Mr. WONG Tin Yau, Kelvin	Beneficial owner	Personal	HK$0.57	800,000	–	–	800,000	0.055%	(1)
				HK$1.37	500,000	–	–	500,000	0.034%	(2)
COSCO Corporation (Singapore) Limited	Dr. WEI Jiafu	Beneficial owner	Personal	S$0.807	900,000	–	(900,000)	–	–	(3)
				S$1.23	–	1,100,000	–	1,100,000	0.050%	(5)
	Mr. LI Jianhong	Beneficial owner	Personal	S$0.807	600,000	–	(600,000)	–	–	(3)
				S$1.23	–	700,000	–	700,000	0.032%	(5)
	Mr. XU Lirong	Beneficial owner	Personal	S$0.807	400,000	–	–	400,000	0.018%	(4)
	Ms. SUN Yueying	Beneficial owner	Personal	S$0.807	600,000	–	(600,000)	–	–	(3)
				S$1.23	–	700,000	–	700,000	0.032%	(5)

Notes:

(1) The share options were granted by COSCO International Holdings Limited ("COSCO International"), an associated corporation of the Company and a company listed on the Stock Exchange, on 26th November 2003 pursuant to the share option scheme approved by the shareholders of COSCO International on 17th May 2002 (the "Share Option Scheme of COSCO International"). The share options are exercisable at an exercise price of HK$0.57 per share at any time between 23rd December 2003 and 22nd December 2008.

(2) The share options were granted by COSCO International on 2nd December 2004 pursuant to the Share Option Scheme of COSCO International. The share options are exercisable at an exercise price of HK$1.37 per share at any time between 29th December 2004 and 28th December 2014.

(3) The share options were granted by COSCO Corporation (Singapore) Limited ("COSCO Corporation (Singapore)"), an associated corporation of the Company and a company listed on the Singapore Exchange Securities Trading Limited, on 6th April 2005 and are exercisable at any time between 6th April 2006 and 5th April 2010. Adjustments were made to the exercise price and the number of share options held by these directors as the sub-division of every 1 ordinary share of S$0.20 each divided into 2 ordinary shares of S$0.10 each was approved by the shareholders of COSCO Corporation (Singapore) on 17th January 2006. In this respect, the exercise price was adjusted from S$1.614 to S$0.807 and the number of share options of Dr. WEI Jiafu, Mr. LI Jianhong and Ms. SUN Yueying was adjusted from 450,000 to 900,000, 300,000 to 600,000 and 300,000 to 600,000 respectively with effect from 17th January 2006.

(4) The share options were granted by COSCO Corporation (Singapore) on 6th April 2005 and are exercisable at any time between 6th April 2007 and 5th April 2010. Adjustments were made to the exercise price and the number of share options held by the director as the sub-division of every 1 ordinary share of S$0.20 each divided into 2 ordinary shares of S$0.10 each was approved by the shareholders of COSCO Corporation (Singapore) on 17th January 2006. In this respect, the exercise price was adjusted from S$1.614 to S$0.807 and the number of share options of Mr. XU Lirong was adjusted from 200,000 to 400,000 with effect from 17th January 2006.

(5) The share options were granted by COSCO Corporation (Singapore) on 21st February 2006 and are exercisable at any time between 21st February 2007 and 20th February 2011.

(6) During the year, no share options mentioned above were lapsed or cancelled.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

(d) Long positions in underlying shares of equity derivatives of associated corporations (Continued)

Movements of the share appreciation rights granted to the directors of the Company by an associated corporation during the year are set out below:

Name of associated corporation	Name of director	Capacity	Nature of interest	Exercise price	Number of units of share appreciation rights: Outstanding at 1st January 2006	Granted during the year	Exercised during the year	Outstanding at 31st December 2006	% of total issued share capital of the associated corporation	Note
China COSCO Holdings Company Limited	Dr. WEI Jiafu	Beneficial owner	Personal	HK$3.195	900,000	–	–	900,000	0.040%	(1)
				HK$3.588	–	900,000	–	900,000	0.040%	(2)
	Mr. CHEN Hongsheng	Beneficial owner	Personal	HK$3.195	700,000	–	–	700,000	0.031%	(1)
				HK$3.588	–	700,000	–	700,000	0.031%	(2)
	Mr. LI Jianhong	Beneficial owner	Personal	HK$3.195	600,000	–	–	600,000	0.027%	(1)
				HK$3.588	–	600,000	–	600,000	0.027%	(2)
	Mr. XU Lirong	Beneficial owner	Personal	HK$3.195	500,000	–	–	500,000	0.022%	(1)
				HK$3.588	–	500,000	–	500,000	0.022%	(2)
	Ms. SUN Yueying	Beneficial owner	Personal	HK$3.195	600,000	–	–	600,000	0.027%	(1)
				HK$3.588	–	600,000	–	600,000	0.027%	(2)
	Dr. SUN Jiakang	Beneficial owner	Personal	HK$3.195	500,000	–	–	500,000	0.022%	(1)
				HK$3.588	–	500,000	–	500,000	0.022%	(2)

Notes:

(1) The share appreciation rights were granted by China COSCO (incorporated on 3rd March 2005), an associated corporation of the Company and a company listed on the Stock Exchange, in units with each unit representing one H share of China COSCO, on 16th December 2005 pursuant to the share appreciation rights plan adopted by China COSCO (the "Plan"). Under the Plan, no shares will be issued. The share appreciation rights are exercisable at HK$3.195 per unit at any time between 16th December 2007 and 15th December 2015.

(2) The share appreciation rights were granted by China COSCO in units with each unit representing one H share of China COSCO on 5th October 2006 pursuant to the Plan. Under the Plan, no shares will be issued. The share appreciation rights are exercisable at HK$3.588 per unit at any time between 5th October 2008 and 4th October 2016.

(3) During the year, no share appreciation rights mentioned above were lapsed or cancelled.

Save as disclosed above, as at 31st December 2006, none of the directors or chief executives of the Company had any interests or short positions in any shares or underlying shares or interests in debentures of the Company or any of 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 were 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, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

China Ocean Shipping (Group) Company ("COSCO") and its subsidiaries (excluding the Group) (collectively the "COSCO Group") (excluding the COSCO Logistics Group as defined below) carry on, among others, the businesses of shipping agency, freight forwarding and/or third party logistics and supporting services relating to the aforesaid services ("Logistics Businesses"), details of which are disclosed in the connected transactions circular issued by the Company dated 13th October 2003. The core of such businesses is unlikely to be in competition with the businesses carried on by COSCO Logistics Co., Ltd. ("COSCO Logistics"), its subsidiaries, jointly controlled entities and associates (collectively the "COSCO Logistics Group"). As at 31st December 2006, China COSCO, a subsidiary of COSCO, and the Group has 51% and 49% equity interest in COSCO Logistics respectively.

As at 31st December 2006, Dr. WEI Jiafu, Mr. CHEN Hongsheng, Mr. LI Jianhong, Mr. XU Lirong, Ms. SUN Yueying and Dr. SUN Jiakang, all being directors of the Company, held directorships and/or senior management posts in the COSCO Group (excluding the COSCO Logistics Group) and/or other companies which have interests in container terminals ("Container Terminal Interests").

The Board is of the view that the Group is capable of carrying on its businesses independently from the Logistics Businesses and/or the Container Terminal Interests. When making decisions on the logistics business and/or the container terminal business of the Group, the relevant directors, in the performance of their duties as directors of the Company, have acted and will continue to act in the best interests of the Group.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 2006, the interests of shareholders in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Capacity	Nature of interests	Number of ordinary shares/Percentage of total issued share capital: Long positions	%	Short positions	%	Note
COSCO Investments Limited	Beneficial owner	Beneficial interest	200,120,000	8.98	–	–	(1)
COSCO Pacific Investment Holdings Limited	Beneficial owner and interest of controlled corporation	Beneficial interest and corporate interest	1,144,166,411	51.34	–	–	(1)
China COSCO Holdings Company Limited	Interest of controlled corporation	Corporate interest	1,144,166,411	51.34	–	–	(1)
China Ocean Shipping (Group) Company	Interest of controlled corporation	Corporate interest	1,144,166,411	51.34	–	–	(1)

Note:

(1) The 1,144,166,411 shares relate to the same batch of shares in the Company. COSCO Investments Limited ("COSCO Investments") is a wholly owned subsidiary of COSCO Pacific Investment Holdings Limited ("COSCO Pacific Investment"). Accordingly, the 200,120,000 shares of the Company held by COSCO Investments are also included as part of the COSCO Pacific Investment's interests in the Company. COSCO Pacific Investment is a wholly owned subsidiary of China COSCO and it itself holds 944,046,411 shares of the Company beneficially. Accordingly, COSCO Pacific Investment's interests in relation to the 1,144,166,411 shares of the Company are also recorded as China COSCO's interests in the Company. China Ocean Shipping (Group) Company ("COSCO") holds 63.83% interest of the issued share capital of China COSCO as at 31st December 2006, and accordingly, COSCO is deemed to have the interests of 1,144,166,411 shares of the Company held by COSCO Pacific Investment.

Save as disclosed above, as at 31st December 2006, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, there is sufficient public float of the shares of the Company with not less than 25% of the total issued shares of the Company as required under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its Shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws in Bermuda which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

MAJOR SUPPLIERS AND LESSEES

The percentage of the Group's container purchases and leasing income attributable to major suppliers and lessees are as follows:

Percentage of container purchases attributable to the Group's largest supplier	11.39%
Percentage of container purchases attributable to the Group's five largest suppliers	35.34%
Percentage of leasing income attributable to the Group's largest lessee, which is a subsidiary of COSCO	61.96%
Percentage of leasing income attributable to the Group's five largest lessees	75.30%

None of the directors or their associates has interests in any of the suppliers or lessees of the Group.

Two of the Group largest suppliers attribute 12.93% of container purchases of the Group. During the year ended 31st December 2006, the Group and COSCO have equity interest in China International Marine Containers (Group) Co., Ltd., the holding company of the aforesaid two suppliers of the Group.

Save as disclosed above, none of the shareholders (which to the knowledge of the directors owns more than 5% of the Company's shares) has interest in any of the suppliers and lessees of the Group.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interests. The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules for the year ended 31st December 2006 except the code provision E.1.2 in respect of the attendance of the Chairman of the Board at the annual general meeting of the Company.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 60 to 77 of this annual report.

CONNECTED TRANSACTIONS

During the year, the following connected transaction/continuing connected transactions of the Company were entered into by the Group:

(a) Connected transaction

Acquisition of berth assets at Zhangjiagang Port

On 28th September 2006, Zhangjiagang Port Group Co. Ltd. (the "Vendor"), Win Hanverky Investments Limited ("WH Investments", a wholly owned subsidiary of the Company), and Zhangjiagang Win Hanverky Container Terminal Co., Ltd. (the "Purchaser", a sino-foreign equity joint venture established in the People's Public of China ("PRC") and owned by WH Investments and the Vendor as to 51% and 49% respectively), entered into an agreement (the "Agreement") in relation to the increase in the registered capital of the Purchaser from US$16,800,000 to US$36,800,000 (the "Capital Increase") and the acquisition of the certain berth assets (the "Sale Assets") (with value equivalent to the value of the land use rights, berth terminal projects, roads and storage yards, water supply and drainage, electrical engineering and ancillary works and other construction in progress in respect of berth no. 17 of the Zhangjiagang Port in the PRC (the "Berth Assets") less the agreed capital injection to be made by the Vendor into the Purchaser under the Capital Increase of US$9,800,000).

For the Capital Increase, WH Investments and the Vendor contributed in proportion to their existing shareholding. The contribution of US$10,200,000 by WH Investments was made in cash, with part of it coming from the WH Investments' entitlement in the undistributed profits of the Purchaser for the years ended 31st December 2004 and 2005 of RMB37,811,919, in aggregate. The contribution into the Purchaser of US$9,800,000 was settled by the Vendor by injecting part of the Berth Assets with equivalent value of the same amount (the "Injected Assets").

The amounts payable by the Purchaser in relation to the acquisition of Sale Assets comprised the following:

1. RMB171,081,967 (being the adjusted value of the Berth Assets determined by a valuer appointed by the Vendor) less the value of the Injected Assets of US$9,800,000 (being the contribution required to be made by the Vendor pursuant to the Capital Increase);

2. the agreed cost of funds of the Vendor (representing the appreciation in value of the Sale Assets since the reference date of the valuation of the Berth Assets as agreed between the Vendor and the Purchaser) calculated on the amount under item 1 at the interest rate of 5.022% per annum for the period from 1st November 2005 to 30th April 2006 and 5.265% per annum for the period from 1st May 2006 to the day immediately before the date of receipt of the relevant amount (with interest) by the Vendor;

3. subsequent expenses in respect of the Berth Assets incurred from November 2005 (i.e. immediately after the reference date of the valuation of the Berth Assets referred to below) to July 2006 in the aggregate amount of RMB13,611,143; and

4. interest on such subsequent expenses calculated at the same interest rates referred to in item 2 from the months in which the respective expenses were incurred up to the day immediately before the date of receipt of the relevant amount (with interest) by the Vendor.

Such amounts payable to the Purchaser was fully settled before the year end of 2006.

As the Vendor is a substantial shareholder of the Purchaser, the Vendor is therefore a connected person of the Company. Accordingly, the acquisition of Berth Assets constituted a connected transaction of the Company under the Listing Rules.

Investment in such berth is expected to boost the container throughput of the Group and the competitiveness of Zhangjiagang in the Yangtze region, ultimately consolidating the integrated terminal capability of the Group in such region.

CONNECTED TRANSACTIONS (CONTINUED)

(b) Continuing connected transactions

(a) Rental of office premises

On 27th March 2006, COSCO Pacific Management Company Limited (''COSCO Pacific Management") as tenant entered into two tenancy agreements with Wing Thye Holdings Limited ("Wing Thye") as landlord in respect of the leasing of certain office premises situated at 49th Floor of COSCO Tower, 183 Queen's Road Central, Hong Kong ("COSCO Tower") (the "4901 and 4902A Tenancy Agreement" and the "4903 Tenancy Agreement", collectively the "Tenancy Agreements").

Pursuant to the 4901 and 4902A Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye portions of the premises known as Unit 4901 and Unit 4902A situate at COSCO Tower ("Units 4901 and 4902A") for a term of three years commencing with retrospective effect from 29th November 2005 at a monthly rental of HK$420,000, exclusive of rates and management fees payable by COSCO Pacific Management. The monthly management fees payable to Wing Thye is HK$50,747. The maximum aggregate annual value of the rental and the management fees is HK$5,648,959.

Pursuant to the 4903 Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye a portion of the premises known as Unit 4903 situate at COSCO Tower ("Unit 4903") for a term of two years ten months and thirteen days commencing with retrospective effect from 16th January 2006 at a monthly rental of HK$150,000 (including rent-free period from 16th January 2006 to 15th March 2006 (both days inclusive)) exclusive of rates and management fees payable by COSCO Pacific Management. The monthly management fees payable to Wing Thye is HK$18,170. The maximum aggregate annual value of the rental and the management fees is HK$2,018,040.

The Company intended to continue to occupy Units 4901 and 4902A and Unit 4903 on a long term basis as the head office of itself and its subsidiaries and as its principal place of business in Hong Kong. In negotiating the rentals under the Tenancy Agreements, the directors of the Company made reference to the professional opinion given by DTZ Debenham Tie Leung Limited, an independent professional valuer engaged by COSCO Pacific Management and Wing Thye, that the monthly rental agreed for Units 4901 and 4902A and the monthly rental agreed for Unit 4903 were at market levels and were fair and reasonable.

Wing Thye is a wholly owned subsidiary of COSCO (Hong Kong) Group Limited (''COSCO Hong Kong''). COSCO Pacific Management is a wholly owned subsidiary of the Company. COSCO is a controlling shareholder of both the Company and COSCO Hong Kong. Accordingly, COSCO, COSCO Hong Kong and Wing Thye are all connected persons of the Company. The Tenancy Agreements and the transactions contemplated thereunder constituted continuing connected transactions of the Company under the Listing Rules.

(b) Container related services, shipping related services and short term container leasing transactions

The Stock Exchange, subject to certain conditions, granted waivers on 13th December 1996, 15th April 1997 and 12th September 2001 (the "Waivers") for an indefinite period to the Company from strict compliance with the connected transactions requirements of the Listing Rules in force prior to 31st March 2004 in respect of certain continuing connected transactions between COSCO and its subsidiaries and the Group in relation to container related services, shipping related services and short term container leasing transactions respectively. After commencement of certain new Listing Rules effective 31st March 2004, the Waivers had lapsed and compliance with the new Listing Rules is required. In view of the changes to the Listing Rules in relation to continuing connected transactions, the Group has entered into the following master agreements on 3rd June 2005 for a term of three years up to 31st December 2007 (the "Master Agreements") in accordance with the new requirements.

CONNECTED TRANSACTIONS (CONTINUED)

(b) Continuing connected transactions (Continued)

(b) Container related services, shipping related services and short term container leasing transactions (Continued)

COSCO is the ultimate controlling shareholder of the Company. COSCO Container Lines Company Limited ("COSCON") is a subsidiary of COSCO. Accordingly, COSCO and its associates and COSCON are connected persons (as defined in the Listing Rules) of the Company. Each of the Master Agreements and the transactions contemplated thereunder constituted continuing connected transactions (the "Continuing Connected Transactions") for the purpose of the Listing Rules and are subject to the reporting and announcement requirements (but are exempt from the independent shareholders' approval requirements) set out in Chapter 14A of the Listing Rules as one or more of the relevant percentage ratios in relation to each category of the Continuing Connected Transactions are 0.1% or more but less than 2.5%. The Company had accordingly published a press announcement in respect of the Continuing Connected Transactions dated 3rd June 2005. In addition, in view of the value of the container related services transactions being higher than previously anticipated, the Company published a further announcement dated 28th December 2006 to revise the annual caps of those transactions for 2006 and 2007 (details as below).

(1) The Container Services Master Agreement entered into between COSCO, COSCON and Plangreat Limited ("Plangreat"), a wholly owned subsidiary of the Company, in respect of provision of the container related services by Plangreat and its subsidiaries to COSCO and its associates (excluding the Group but including COSCON) for a term of three years from 1st January 2005 to 31st December 2007 at rates no less favourable than that at which Plangreat and its subsidiaries charge independent third parties for the relevant services. As stated in the Company's announcement dated 3rd June 2005, the annual cap of the container related services transactions for each of the years ended/ending 31st December 2005, 2006 and 2007 is US$6,642,000. As stated in the Company's announcement dated 28th December 2006, the Company has revised the annual cap for the container related services transactions for each of the year ended 31st December 2006 and the year ending 31st December 2007 from US$6,642,000 to US$7,375,000. The total amount of the aforesaid transactions for the year ended 31st December 2006 was US$7,234,000.

(2) The Shipping Services Master Agreement entered into between COSCO, COSCON, COSCO Ports (Holdings) Limited ("COSCO Ports"), a wholly owned subsidiary of the Company, and Zhangjiagang Win Hanverky Container Terminal Co., Ltd. ("Zhangjiagang Win Hanverky"), a company owned as to 51% by the Group and 49% by Zhangjiagang Port Group Co. Ltd., in respect of provision of the shipping related services provided by COSCO Ports and its subsidiaries to COSCO and its associates (excluding the Group but including COSCON) for a term of three years from 1st January 2005 to 31st December 2007 at rates no less favourable than that at which COSCO Ports and its subsidiaries charge independent third parties for the relevant services. The annual cap of the shipping related services transactions for the years ended/ending 31st December 2005, 2006 and 2007 is US$3,478,000, US$4,076,000 and US$4,691,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2006 was US$2,905,000.

(3) The Short Term Container Leasing Master Agreement entered into between COSCO, COSCON and Florens Container Holdings Limited ("Florens"), a wholly owned subsidiary of the Company in respect of provision of the short term container leases (container leasing for a term less than 10 years) granted by Florens and its subsidiaries to COSCO and its associates (excluding the Group but including COSCON) for a term of three years from 1st January 2005 to 31st December 2007 at rates no less favourable than that at which Florens and its subsidiaries charge independent third parties for the relevant leases. The annual cap of the short term container leasing transactions for the years ended/ending 31st December 2005, 2006 and 2007 is US$2,700,000, US$3,100,000 and US$3,500,000 respectively. The total amount of the aforesaid transactions for the year ended 31st December 2006 was US$213,000.

CONNECTED TRANSACTIONS (CONTINUED)

(b) Continuing connected transactions (Continued)

(c) Shipping related services provided by Quanzhou Pacific Container Terminal Co., Ltd.

Quanzhou Pacific Container Terminal Co., Ltd. ("Quanzhou Pacific"), a subsidiary of the Company which first commenced its operation in September 2006, has provided shipping related services to COSCO and COSCON and their respective associates since September 2006. The service fees charged by Quanzhou Pacific were at rates no less favourable than that at which Quanzhou Pacific charged independent third parties for the relevant services. The total amount of the aforesaid transactions for the year ended 31st December 2006 was US$559,000. During the year, no master agreement in respect of the transactions was signed and no annual caps of the transactions for subsequent years had been set.

As COSCO and COSCON and their respective associates are connected persons of the Company, the provision of shipping related services by Quanzhou Pacific to them constituted continuing connected transactions of the Company.

(d) Logistics services provided by Yangzhou Ports Modern Logistics Centre

Yangzhou Yuanyang International Ports Co. Ltd. ("Yangzhou Yuanyang"), a jointly controlled entity of the Group (and has been considered by the Stock Exchange to be a subsidiary of the Company under the Listing Rules), entered into Ancillary Loading and Unloading Transportation Services Agreements with Yangzhou Ports Modern Logistics Centre ("Yangzhou Ports Modern Logistics"), a wholly owned subsidiary of Yangzhou Ports (Group) Limited which holds 40% equity interest in Yangzhou Yuanyang, on 28th February 2004 and 1st January 2005 in respect of the provision of logistics services by Yangzhou Ports Modern Logistics to Yangzhou Yuanyang for the periods from 1st March 2004 to 28th February 2007 and 1st January 2005 to 28th February 2007 respectively. The service fees charged by Yangzhou Ports Modern Logistics were at rates no less favourable to Yangzhou Yuanyang than that at which independent third parties charged Yangzhou Yuanyang for the relevant services. The total amounts of the aforesaid transactions for the years ended 31st December 2004, 2005 and 2006 were US$2,451,038, US$3,861,925 and US$4,452,972 respectively.

As Yangzhou Ports Modern Logistics is a connected person of the Company, its provision of logistic services to Yangzhou Yuanyang constituted continuing connected transactions of the Company.

(e) Shipping related services provided by Yangzhou Yuanyang

Yangzhou Yuanyang has been providing shipping related services to COSCO and COSCON and their respective associates (excluding the Group) since 2004. The service fees charged by Yangzhou Yuanyang on COSCO and COSCON were at rates no less favourable to Yangzhou Yuanyang than that at which Yangzhou Yuanyang charged independent third parties for the relevant services. The total amounts of the aforesaid transactions for the years ended 31st December 2004, 2005 and 2006 were US$315,012, US$437,460 and US$653,642 respectively.

As COSCO and COSCON and their respective associates are connected persons of the Company, the provision of shipping related services by Yangzhou Yuanyang to them constituted continuing connected transactions of the Company.

(f) Long term container leasing transactions (with waiver granted by the Stock Exchange)

During the year, long term container leasing transactions were entered into between COSCO Group and the Group in respect of the provision of long term container leases by the Group to COSCO Group to which the Stock Exchange had, subject to certain conditions, granted waiver dated 14th December 1994 to the Company from strict compliance with the requirements stipulated in the then Chapter 14 of the Listing Rules to disclose details of such connected transactions by press notice and/or circular and/or to obtain prior independent shareholders' approval. The total consideration of the aforesaid transactions for the year ended 31st December 2006 amounted to US$136,889,000. In the opinion of the directors of the Company, the aforesaid transactions were conducted in the ordinary course of business of the Group and using average market rates by reference to the average of the available leasing rates quoted from four of the top ten independent container leasing companies.

CONNECTED TRANSACTIONS (CONTINUED)

(b) Continuing connected transactions (Continued)

(1) Opinion from the independent non-executive directors on the continuing connected transactions

Pursuant to the conditions of the waiver in relation to long term container leasing transactions and Rule 14A.37 of the Listing Rules, the independent non-executive directors of the Company have reviewed the above continuing connected transactions and opined that:

(i) the long term container leasing transactions had been conducted in the ordinary course of business of the Group and using average market rates by reference to the average of the available leasing rates quoted from four of the top ten independent container leasing companies and were fair and reasonable so far as the shareholders of the Company were concerned; and

(ii) the rental of the office premises transactions, container related service transactions, shipping related service transactions (including the services provided by Quanzhou Pacific and Yangzhou Yuanyang), short term container leasing transactions and logistics service transactions were:

- entered into in the ordinary and usual course of the Group's businesses;
- entered into on terms no less favourable to the Group than terms available from/to independent third parties; and
- entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

(2) Report from the auditor on the continuing connected transactions

For the purposes of the conditions of the waiver in relation to long term container leasing transactions and Rule 14A.38 of the Listing Rules in relation to the other continuing connected transactions, the board of directors of the Company (the "Board") engaged the auditor of the Company to perform certain agreed-upon procedures on the above continuing connected transactions as identified by the management for the year ended 31st December 2006 (the "Relevant Year") in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants and the auditor reported that:

(i) the long term container leasing transactions for the Relevant Year had been conducted in the ordinary course of business of the Group and by reference to the average of the available leasing rates quoted from four of the top ten independent container leasing companies; and

(ii) the rental of the office premises transactions, container related service transactions, shipping related service transactions (including the services provided by Quanzhou Pacific and Yangzhou Yuanyang), short term container leasing transactions and logistics service transactions for the Relevant Year:

- had been approved by the Board;
- had been conducted in accordance with the pricing policies of the Group, if applicable (for the samples selected);
- had been entered into in accordance with the terms of the relevant agreements governing the other continuing connected transactions (for the samples selected); and
- had not exceeded the respective annual caps or the estimated service fee/transaction amounts as set out in the Company's announcements dated 3rd June 2005, 27th March 2006, 28th December 2006 and 11th January 2007 or the estimated service fee/transaction amounts.

DISCLOSURE UNDER RULE 13.22 OF CHAPTER 13 OF THE LISTING RULES

In relation to the financial assistance granted by the Group to certain affiliated companies, a proforma combined balance sheet of the affiliated companies as at 31st December 2006 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

	US$'000
Non-current assets	644,370
Current assets	75,541
Current liabilities	(200,823)
Non-current liabilities	(404,712)
Net assets	114,376
Share capital	75,871
Reserves	38,505
Capital and reserves	114,376

As at 31st December 2006, the Group's attributable interests in these affiliated companies amounted to US$93,365,000.

AUDIT COMMITTEE

The Company has an audit committee consisting of four independent non-executive directors. The committee reviews the systems of internal controls throughout the Group, the completeness and accuracy of its financial statements and liaises on behalf of the Board with external auditors and the Group's internal auditors. The committee members met regularly with management, external auditors and the Group's internal auditors and reviewed the internal and external audit reports and the interim and annual consolidated financial statements of the Group.

AUDITORS

The consolidated financial statements for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

XU Minjie
Vice Chairman and Managing Director

Hong Kong, 22nd March 2007

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF COSCO PACIFIC LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of COSCO Pacific Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 106 to 190, which comprise the consolidated and company balance sheets as at 31st December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22nd March 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2006

	Note	2006 US$'000	2005 US$'000
Revenue	6	**253,960**	295,648
Cost of sales		**(100,686)**	(115,551)
Gross profit		**153,274**	180,097
Other income		**19,747**	16,593
Administrative expenses		**(33,806)**	(31,424)
Other operating income	7	**78,817**	35,344
Other operating expenses		**(46,181)**	(25,392)
Profit on disposal of containers	8	**84,454**	–
Profit on disposal of an available-for-sale financial asset	9	**–**	61,875
Initial recognition of put options granted in connection with share reform of an associate	10	**(140,064)**	–
Fair value gain on put options granted	10	**84,883**	–
		(55,181)	–
Operating profit	11	**201,124**	237,093
Finance income	12	**12,621**	4,361
Finance costs	12	**(44,203)**	(36,362)
Operating profit after finance income and costs		**169,542**	205,092
Share of profits less losses of			
– jointly controlled entities		**85,070**	72,969
– associates		**89,042**	82,320
Profit before income tax		**343,654**	360,381
Income tax expenses	13	**(49,196)**	(22,426)
Profit for the year		**294,458**	337,955
Profit attributable to:			
Equity holders of the Company	14	**291,082**	334,937
Minority interests		**3,376**	3,018
		294,458	337,955
Dividends	15	**197,370**	190,333
Earnings per share for profit attributable to equity holders of the Company			
– basic	16	**US13.14 cents**	US15.28 cents
– diluted	16	**US13.07 cents**	US15.19 cents

The accompanying notes on pages 113 to 190 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At 31st December 2006

	Note	2006 US$'000	2005 US$'000
Non-current assets			
Property, plant and equipment	19	**1,108,852**	1,400,120
Investment properties	20	**1,540**	1,383
Leasehold land and land use rights	21	**34,401**	16,597
Intangible assets	22	**3,839**	3,803
Jointly controlled entities	24	**476,764**	403,486
Associates	25	**619,590**	483,514
Available-for-sale financial assets	26	**376,589**	275,595
Finance lease receivables	27	**2,989**	3,747
Deferred income tax assets	35	**162**	246
Restricted bank deposits	40(c)	**158**	21,978
		2,624,884	2,610,469
Current assets			
Inventories held for sale	29	**3,553**	2,336
Trade and other receivables	30	**133,629**	84,283
Derivative financial assets	28	**579**	725
Bank balances and cash	40(c)	**224,510**	157,337
		362,271	244,681
Current liabilities			
Trade and other payables	31	**172,728**	53,628
Derivative financial liabilities	28	**55,181**	–
Current income tax liabilities		**7,676**	820
Current portion of long term borrowings	34	**2,421**	84,558
Short term bank loans – unsecured		**10,245**	2,478
		248,251	141,484
Net current assets		**114,020**	103,197
Total assets less current liabilities		**2,738,904**	2,713,666
Non-current liabilities			
Derivative financial liabilities	28	**4,362**	2,007
Deferred income tax liabilities	35	**2,202**	72,699
Long term borrowings	34	**518,932**	748,617
Other long term liabilities	36	**5,207**	–
		530,703	823,323
Net assets		**2,208,201**	1,890,343

CONSOLIDATED BALANCE SHEET

At 31st December 2006

	Note	2006 US$'000	2005 US$'000
Capital and reserves attributable to the equity holders of the Company			
Share capital	32	**28,583**	28,200
Reserves		**2,051,627**	1,772,959
Proposed final dividend		**92,424**	78,789
		2,172,634	1,879,948
Minority interests		**35,567**	10,395
Total equity		**2,208,201**	1,890,343

On behalf of the Board

XU Minjie
Vice Chairman and Managing Director

WONG Tin Yau, Kelvin
Director

The accompanying notes on pages 113 to 190 are an integral part of these consolidated financial statements.

BALANCE SHEET

As at 31st December 2006

	Note	2006 US$'000	2005 US$'000
Non-current assets			
Property, plant and equipment	19	**213**	318
Subsidiaries	23	**1,328,294**	1,324,607
		1,328,507	1,324,925
Current assets			
Other receivables	30	**191,416**	227,712
Bank balances and cash	40(c)	**126,743**	77,282
		318,159	304,994
Current liabilities			
Other payables	31	**43,004**	100,029
Derivative financial liabilities	28	**55,181**	–
		98,185	100,029
Net current assets		**219,974**	204,965
Total assets less current liabilities		**1,548,481**	1,529,890
Non-current liability			
Loan due to a subsidiary	23	**296,655**	296,655
Net assets		**1,251,826**	1,233,235
Capital and reserves attributable to the equity holders of the Company			
Share capital	32	**28,583**	28,200
Reserves	33	**1,130,819**	1,126,246
Proposed final dividend	33	**92,424**	78,789
Total equity		**1,251,826**	1,233,235

On behalf of the Board

XU Minjie
Vice Chairman and Managing Director

WONG Tin Yau, Kelvin
Director

The accompanying notes on pages 113 to 190 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2006

	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	Contributed surplus US$'000	Investment revaluation reserve US$'000	Other properties revaluation reserve US$'000	Exchange reserve US$'000	Other reserves US$'000	Retained profits US$'000	Total reserves US$'000	Minority interests US$'000	Total US$'000
At 1st January 2006	**28,200**	**623,822**	**1,121**	**115**	**192,051**	**714**	**9,595**	**22,857**	**1,001,473**	**1,851,748**	**10,395**	**1,890,343**
Exchange differences arising on translation of financial statements of foreign subsidiaries, jointly controlled entities and associates	**–**	**–**	**–**	**–**	**–**	**–**	**26,159**	**–**	**–**	**26,159**	**514**	**26,673**
Fair value gain on available-for-sale financial assets	**–**	**–**	**–**	**–**	**88,952**	**–**	**–**	**–**	**–**	**88,952**	**–**	**88,952**
Share of reserves of jointly controlled entities and associates	**–**	**–**	**79**	**–**	**25,035**	**–**	**(4,839)**	**984**	**–**	**21,259**	**–**	**21,259**
Release of reserves upon disposal of a jointly controlled entity	**–**	**–**	**(107)**	**–**	**–**	**–**	**(9)**	**(217)**	**217**	**(116)**	**–**	**(116)**
Net gain/(loss) recognised directly in equity	**–**	**–**	**(28)**	**–**	**113,987**	**–**	**21,311**	**767**	**217**	**136,254**	**514**	**136,768**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**291,082**	**291,082**	**3,376**	**294,458**
Total recognised profit/(loss) for 2006	**–**	**–**	**(28)**	**–**	**113,987**	**–**	**21,311**	**767**	**291,299**	**427,336**	**3,890**	**431,226**
Issue of shares on exercise of share options	**383**	**48,715**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**48,715**	**–**	**49,098**
Share issue expenses	**–**	**(13)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(13)**	**–**	**(13)**
Asset injection to a non-wholly owned subsidiary by a minority shareholder of the subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,800**	**9,800**
Establishment of a non-wholly owned subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**14,256**	**14,256**
Transfer of reserves	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,446**	**(4,446)**	**–**	**–**	**–**
Dividend paid to minority shareholders of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,774)**	**(2,774)**
Dividends paid to equity holders of the Company												
– 2005 final	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(79,457)**	**(79,457)**	**–**	**(79,457)**
– 2006 interim	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(78,230)**	**(78,230)**	**–**	**(78,230)**
– 2006 special interim	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(26,048)**	**(26,048)**	**–**	**(26,048)**
	383	**48,702**	**(28)**	**–**	**113,987**	**–**	**21,311**	**5,213**	**103,118**	**292,303**	**25,172**	**317,858**
At 31st December 2006	**28,583**	**672,524**	**1,093**	**115**	**306,038**	**714**	**30,906**	**28,070**	**1,104,591**	**2,144,051**	**35,567**	**2,208,201**
Representing:												
Share capital	**28,583**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**		
Reserves	**–**	**672,524**	**1,093**	**115**	**306,038**	**714**	**30,906**	**28,070**	**1,012,167**	**2,051,627**		
2006 final dividend proposed	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**92,424**	**92,424**		
	28,583	**672,524**	**1,093**	**115**	**306,038**	**714**	**30,906**	**28,070**	**1,104,591**	**2,144,051**		

	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	Contributed surplus US$'000	Investment revaluation reserve US$'000	Other properties revaluation reserve US$'000	Exchange reserve US$'000	Other reserves US$'000	Retained profits US$'000	Total reserves US$'000	Minority interests US$'000	Total US$'000
At 1st January 2005	28,003	602,196	1,071	115	237,674	714	1,420	11,629	858,546	1,713,365	9,441	1,750,809
Exchange differences arising on translation of financial statements of foreign subsidiaries, jointly controlled entities and associates	–	–	–	–	–	–	12,722	–	–	12,722	148	12,870
Fair value gain on available-for-sale financial assets	–	–	–	–	15,406	–	–	–	–	15,406	–	15,406
Share of reserves of a jointly controlled entity and associates	–	–	50	–	836	–	(4,547)	(127)	–	(3,788)	–	(3,788)
Release of reserve upon disposal of an available-for-sale financial asset	–	–	–	–	(61,865)	–	–	–	–	(61,865)	–	(61,865)
Net gain/(loss) recognised directly in equity	–	–	50	–	(45,623)	–	8,175	(127)	–	(37,525)	148	(37,377)
Profit for the year	–	–	–	–	–	–	–	–	334,937	334,937	3,018	337,955
Total recognised profit/(loss) for 2005	–	–	50	–	(45,623)	–	8,175	(127)	334,937	297,412	3,166	300,578
Issue of shares on exercise of share options	197	21,646	–	–	–	–	–	–	–	21,646	–	21,843
Share issue expenses	–	(20)	–	–	–	–	–	–	–	(20)	–	(20)
Transfer of reserves	–	–	–	–	–	–	–	11,355	(11,355)	–	–	–
Dividend paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	(2,212)	(2,212)
Dividends paid to equity holders of the Company												
– 2004 final	–	–	–	–	–	–	–	–	(69,183)	(69,183)	–	(69,183)
– 2005 interim	–	–	–	–	–	–	–	–	(79,506)	(79,506)	–	(79,506)
– 2005 special interim	–	–	–	–	–	–	–	–	(31,966)	(31,966)	–	(31,966)
	197	21,626	50	–	(45,623)	–	8,175	11,228	142,927	138,383	954	139,534
At 31st December 2005	28,200	623,822	1,121	115	192,051	714	9,595	22,857	1,001,473	1,851,748	10,395	1,890,343
Representing:												
Share capital	28,200	–	–	–	–	–	–	–	–	–		
Reserves	–	623,822	1,121	115	192,051	714	9,595	22,857	922,684	1,772,959		
2005 final dividend proposed	–	–	–	–	–	–	–	–	78,789	78,789		
	28,200	623,822	1,121	115	192,051	714	9,595	22,857	1,001,473	1,851,748		

The accompanying notes on pages 113 to 190 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2006

	Note	2006 US$'000	2005 US$'000
Cash flows from operating activities			
Cash generated from operations	40(a)	**310,637**	269,527
Interests received		**11,683**	5,844
Net cash received from interest rate swap contracts		**751**	2,623
Tax refunded		**58**	–
Taxation paid		**(112,811)**	(1,612)
Net cash from operating activities		**210,318**	276,382
Cash flows from investing activities			
Dividends received from jointly controlled entities		**43,986**	48,942
Dividends received from associates		**40,979**	32,248
Dividends received from available-for-sale financial assets		**10,633**	22,225
Purchase of property, plant and equipment		**(438,923)**	(350,785)
Investments in jointly controlled entities		**(15,842)**	(30,900)
Investments in associates		**(58,903)**	–
Investments in available-for-sale financial assets		**(9,195)**	(19,516)
Loans advanced to jointly controlled entities, associates and an investee company		**(59,951)**	(38,709)
Repayment of loans by jointly controlled entities and an investee company		**34,704**	19,495
Sale of an available-for-sale financial asset		**–**	78,902
Sale of property, plant and equipment		**855,021**	33,694
Proceeds on disposal of a subsidiary		**–**	1,558
Proceeds on partial disposal of an associate		**–**	1,439
Compensation received for loss of containers		**809**	747
Net cash from/(used in) investing activities		**403,318**	(200,660)
Cash flows from financing activities	40(b)		
Loans borrowed		**517,103**	321,119
Loans repaid		**(889,986)**	(128,385)
Issue of shares on exercise of share options		**49,098**	21,843
Share issue expenses		**(13)**	(20)
Dividends paid		**(183,735)**	(180,651)
Dividends paid to minority shareholders of subsidiaries		**(2,774)**	(2,212)
Interests paid		**(36,095)**	(36,238)
Other incidental borrowing costs paid		**(783)**	(2,273)
Net cash used in financing activities		**(547,185)**	(6,817)
Effect of foreign exchange rate changes		**722**	(849)
Net increase in cash and cash equivalents		**67,173**	68,056
Cash and cash equivalents at 1st January		**157,337**	89,281
Cash and cash equivalents at 31st December	40(c)	**224,510**	157,337

The accompanying notes on pages 113 to 190 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

COSCO Pacific Limited (the "Company") and its subsidiaries (collectively the "Group") are principally engaged in the businesses of managing and operating container terminals, container leasing, container management, logistics, container manufacturing, banking and their related businesses. The Company is a limited liability company incorporated in Bermuda and its registered office is Clarendon House, Church Street, Hamilton, HM 11, Bermuda.

The intermediate holding company of the Company is China COSCO Holdings Company Limited ("China COSCO"), a company established in the People's Republic of China (the "PRC") and listed in Hong Kong. The parent company of China COSCO is China Ocean Shipping (Group) Company ("COSCO"), a state-owned enterprise established in the PRC.

These consolidated financial statements have been approved for issue by the Board of Directors on 22nd March 2007.

2 BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). These consolidated financial statements have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, available-for-sale financial assets, derivative financial instruments and investment properties are carried at fair value and certain buildings are carried at valuation as at 31st December 1994 less accumulated depreciation and impairment losses.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

Adoption of new and revised HKFRSs

The HKICPA has issued certain new and revised HKFRSs which are mandatory for the Group's accounting periods on or after 1st January 2006 (the "New HKFRSs"). Except for the change in the accounting policy in respect of financial guarantees, the adoption of the New HKFRSs in the current year did not result in any significant changes to the Group's significant accounting policies and the presentation of the Group's financial statements. Details of the change in the accounting policy in respect of financial guarantees are as follows:

In prior years, financial guarantees issued by the Group or the Company were only disclosed as contingent liabilities and no provisions were made in respect of these guarantees unless it was more likely than not that the guarantees would be called upon. Upon the adoption of the Amendments to Hong Kong Accounting Standard ("HKAS") 39 and HKFRS 4 "Financial Guarantee Contracts" (the "Amendments"), financial guarantees are accounted for as financial liabilities under HKAS 39 "Financial Instruments: Recognition and Measurement" and measured initially at fair value and subsequently stated at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount of the provision, if any, that should be recognised in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The adoption of the Amendments did not have any material impact on the financial statements of the Group and the Company for the years ended 31st December 2006 and 2005.

2 BASIS OF PREPARATION (CONTINUED)

New or revised HKFRSs and interpretations that are not yet effective

The HKICPA has issued the following new or revised HKFRSs and interpretations which are not yet effective for the year ended 31st December 2006 and may be relevant to the Group's operations:

		Effective for accounting periods beginning on or after
HK(IFRIC)-Int 8	Scope of HKFRS 2	1st May 2006
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives	1st June 2006
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment	1st November 2006
HKFRS 7	Financial Instruments: Disclosures	1st January 2007
HKAS 1 (Amendments)	Presentation of Financial Statements: Capital Disclosures	1st January 2007

The Group has not early adopted the above new or revised HKFRSs and interpretations in the consolidated financial statements for the year ended 31st December 2006. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether any substantial changes to Group's accounting policies and presentation of the consolidated financial statements will be resulted.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

3.1 Group accounting

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement. Investment in a jointly controlled entity/an associate is accounted for using the equity method from the date on which it becomes a jointly controlled entity/an associate. The measurement and recognition of goodwill is the same as that of goodwill arising from the acquisition of subsidiaries. Goodwill relating to a jointly controlled entity/an associate is included in the carrying amount of the investment. Appropriate adjustments to the Group's share of the profits or losses after acquisition are made to the consolidated financial statements based on the fair values of the assets and liabilities acquired at date of acquisition.

The consolidated income statement includes the Group's share of the results of jointly controlled entities and associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and associates and goodwill (net of any accumulated impairment losses) on acquisition.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Group accounting (Continued)

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Inter-company transactions and balances between group companies are eliminated. Unrealised gains on transactions between group companies and between the Group and its jointly controlled entities and associates to the extent of the Group's interest are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of subsidiaries, jointly controlled entities and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend income.

(b) Jointly controlled entities

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the venturers have their respective interests and establish a contractual arrangement among them to define joint control over the economic activity of the entity.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

3.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in United States dollars ("US dollar"), which are the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Foreign currency translation (Continued)

(b) Transactions and balances (Continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences relating to the changes in amortised cost are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to Group's total equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Property, plant and equipment

Property, plant and equipment are stated at cost or 1994 valuation less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Effective from 30th September 1995, no further revaluations of certain of the Group's buildings have been carried out. The Group places reliance on paragraph 80A of HKAS 16 "Property, Plant and Equipment", which provides exemption from the need to make regular revaluations for such assets.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to the residual values of respective property, plant and equipment over their estimated useful lives, as follows:

Containers	15 years
Generator sets	12 years
Buildings	25 to 50 years
Leasehold improvements	5 years or the remaining period of the lease, whichever is shorter
Other property, plant and equipment	5 to 20 years

No depreciation is provided for construction in progress. Construction in progress are transferred to relevant categories of property, plant and equipment upon the completion of the related construction works and depreciation will then be commenced accordingly.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal of property, plant and equipment is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

3.4 Leasehold land and land use rights

Leasehold land and land use rights represent prepaid operating lease payments for land less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method to allocate the prepaid operating lease payments for land over the remaining lease term.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Investment properties

Property that is held for long term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by external valuers.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

3.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/jointly controlled entity/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of jointly controlled entities and associates is included in investments in jointly controlled entities and associates respectively. Goodwill is tested for impairment annually and where there is indication for impairment, and is carried at cost less accumulated impairment losses. Impairment loss on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash generating units for the purpose of impairment testing.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful lives of 5 years on a straight-line basis.

Costs associated with developing or maintaining computer software programmes which do not generate economic benefits exceeding costs beyond one year are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer systems under development are transferred to computer software upon the completion of the respective development and amortisation will then be commenced accordingly over the estimated useful lives of 5 years on a straight-line basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Impairment of assets

Assets that have an indefinite useful life or are not subject to depreciation or amortisation are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.8 Available-for-sale financial assets

The Group classifies its investments as available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

Available-for-sale financial assets are non-derivatives and they are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investments.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market input and relying as little as possible on entity-specific input.

The Group assesses at each balance sheet date whether there is objective evidence that available-for-sale financial assets are impaired. A significant or prolonged decline in the fair value of the securities below its cost is considered as an indicator that the securities are impaired. If any such evidence exists the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

3.9 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedge of the fair value of a recognised liability.

The Group documents the relationship between hedging instruments and hedged items at the inception of the transaction, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of the hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining hedged item is more than 12 months, and as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Derivative financial instruments and hedging activities (Continued)

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within finance costs. The gain or loss relating to the ineffective portion is recognised in the income statement within other operating income/expenses. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognised in the income statement within finance costs. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

3.10 Inventories held for sale

Resaleable containers are classified as inventories held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. Inventories held for sale are stated at the lower of carrying amount and fair value less costs to sell.

3.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other operating expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against other operating income in the income statement.

3.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

3.13 Assets under leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Leases that substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as finance leases.

(a) Leases – where the Group is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease periods.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Assets under leases (Continued)

(b) Leases – where the Group is the lessor

When the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in 3.3 above. Revenue arising from assets leased out under operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in notes 3.21(a) and 3.21(e) below.

Finance leases for assets leased out are leases of assets which contain a provision giving the lessee an option to acquire legal title to the assets upon the fulfillment of certain conditions stated in the contracts.

When assets are leased out under a finance lease, the present value of the minimum lease payments is recognised as a receivable. Revenue on containers leased out under finance leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 3.21(a) below.

3.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

3.15 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.16 Financial guarantee contracts

Financial guarantee contacts are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurred because a specified debtor failed to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair value, and subsequently measured at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount required to be settled by the guarantor in respect of the financial guarantee contracts at the balance sheet date.

3.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3.20 Employee benefits

(a) Retirement benefit costs

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong, Macau and the United States of America. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government authorities in different territories where the Group has employees, the Group participates in respective government benefit schemes whereby the Group is required to contribute to the schemes for the retirement benefits of eligible employees. The government authorities of the respective countries are responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the schemes is to pay the ongoing contributions required by the schemes.

Contributions made to the schemes are calculated either based on certain percentages of the applicable payroll costs or fixed sums that are determined with reference to salary scale as stipulated under the requirements of the respective countries.

The Group's contributions to the aforesaid defined contribution retirement schemes are charged to the income statement as incurred.

(b) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Employee benefits (Continued)

(c) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(d) Share-based compensation

The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

3.21 Recognition of revenue and income

The Group recognises revenue and income on the following bases:

(a) Revenue from leasing of containers and generator sets

Rental income from leasing of containers and generator sets under operating leases are recognised on a straight-line basis over the period of each lease.

Revenue on containers leased out under finance leases is allocated to accounting period to give a constant periodic rate of return on the net investments in the lease in each period.

(b) Revenue from terminal operations

Revenue from terminal operations is recognised when the services rendered are complete and the vessel leaves the berth.

(c) Revenue from container handling, transportation and storage

Revenue from container handling and transportation is recognised when the services are rendered.

Revenue from container storage is recognised on a straight-line basis over the period of storage.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Recognition of revenue and income (Continued)

(d) Revenue from container management

Revenue from container management is recognised when the related management and administrative services are rendered.

(e) Operating lease rental income from investment properties

Operating lease rental income from investment properties is recognised on a straight-line basis over the period of each lease.

(f) Income from sale of containers

Income from sale of containers is recognised on the transfer of risks and rewards on ownership, which generally coincides with the time when the containers are delivered to customers and title has passed. Direct costs relating to the lifting and storage of containers for sale are expensed as incurred.

Finder fee received from the buyer in connection with container sale transactions are recognised when the related services are rendered.

(g) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(h) Dividend income

Dividend income is recognised when the right to receive payment is established and are recognised in the consolidated income statement within other income.

(i) Income on sale of investments

Income on sale of investments is recognised when the risks and rewards associated with ownership of the related investment have been transferred to the purchaser.

3.22 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

3.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Renminbi and Euro. Foreign exchange risk mainly arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(ii) Price risk

The Group is exposed to price risk because (i) certain of the Group's investments are classified as available-for-sale financial assets; and (ii) the Group has issued certain put options (note 10), which are both required to be stated at their fair values (see fair value estimation below).

The Group is not exposed to any significant commodity price risk.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets (other than bank balances and cash and loans to jointly controlled entities and associates), the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group raises long-term borrowings at floating rates as well as fixed rates, based upon the capital market conditions and the Group's internal requirements. Interest rate swaps with financial institutions are used to achieve the optimum ratio between fixed and floating rates and to manage the related interest rate exposure.

(b) Credit risk

The carrying amounts of bank balances and cash, trade and other receivables, and finance lease receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade and finance lease receivables relate to container leasing rental income receivable from COSCO Container Lines Company Limited ("COSCON"), a fellow subsidiary, and third party customers which are operating in the container shipping industry. COSCON accounted for approximately 54% of the Group's revenue and most of balance receivable from COSCON are aged less than 60 days (which is within the credit period granted by the Group of 90 days).

There is no concentration of credit risk with respect to trade and finance lease receivables from third party customers as the Group has a large number of customers which are internationally dispersed. No individual third party customers accounted for greater than 10% of the Group's revenue. The Group limits its exposure to credit risk through performing credit reviews and monitoring the financial strength of its major customers and generally does not require collateral on trade receivables. The Group has also insured the recoverability for majority of its third party trade receivable balances.

The Group has policies that limit the amount of credit exposure to any financial institution.

No other financial assets carry a significant exposure to credit risk.

(c) Liquidity risk

The Group adopts prudent liquidity risk management which implies maintaining sufficient cash and bank balances, having available funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

4.2 Fair value estimation

The fair values of the Group's available-for-sale financial assets are determined by reference to the methods below:

- the quoted market price when the related investment is traded in an active market;
- valuation techniques (including pricing models or discounted cash flow models); and
- the price for similar recent transactions, with adjustment for the difference in market conditions and circumstances.

For major unlisted investments, the Group will determine the fair value of available-for-sale financial assets by reference to valuation report of an independent professional valuer.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2 Fair value estimation (Continued)

The fair value of the Put Options (note 10) are determined based on the quoted market price.

The fair value of interest rate swap contracts is calculated as the present value of the estimated future cash flows.

The fair value of financial guarantee contracts is determined by reference to the fees charged in an arm's length transaction for similar services or the interest rate differentials charged by lenders on the related borrowings with and without the guarantees granted by the Group.

The nominal value less impairment provision (as applicable) of receivables and payables are assumed to approximate their fair values. The fair values of financial liabilities for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Group for similar financial instruments.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of containers

Containers represent the Group's major operating assets. The Group tests whether containers have suffered any impairment in accordance with the accounting policy stated in note 3.7. The recoverable amounts of containers have been determined based on value-in-use calculations. These calculations require the use of estimates on the projections of cash inflows from the continual use of containers (including the amount to be received for the disposal of containers) and discount rate.

If the estimated future income stream from the use and subsequent resale of the containers had been 10% lower than the management's estimates as adopted in the value-in-use calculations, the Group would have recognised an additional impairment loss and a reduction of carrying amount of the property, plant and equipment of US$1,171,000.

If the estimated pre-tax discount rate applied to the value-in-use calculations had been 10% higher than management's estimates, the Group does not have to recognise any additional impairment loss.

(b) Useful lives and residual values of containers

Management determines the estimated useful lives of containers by reference to the Group's business model, its assets management policy and industry practice. The change in these factors can significantly affect the estimation of useful lives of containers and depreciation expense will change when useful lives are different from the previous estimates.

Management determines the residual values of containers based on all relevant factors (including the use of the current scrap value of steel in an active market as a reference value) at each measurement date. The depreciation expenses will change where the residual values are different from the previous estimates.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

5.1 Critical accounting estimates and assumptions (Continued)

(b) Useful lives and residual values of containers (Continued)

The directors have reviewed the residual values and useful lives of property, plant and equipment as at 1st January 2006. The depreciation charge of containers for the year ended 31st December 2006 has been calculated based on the revised estimated residual values. This represents a change in an accounting estimate and has been accounted for prospectively. The overall effect of this change is to decrease the depreciation charge by approximately US$2,426,000 and decrease the deferred income tax credit by approximately US$366,000 for the year ended 31st December 2006.

If the estimated useful lives of containers had been 10% shorter than the management's estimates adopted, the Group would have recognised an additional depreciation charge for the year of US$18,214,000, an increase in profit on disposal of containers of US$5,731,000 and a reduction of the carrying amount of property, plant and equipment of US$12,483,000.

If the estimated residual values of containers had been 10% lower than the management's estimates adopted, the Group would have recognised an additional depreciation charge for the year of US$2,362,000, an increase in profit on disposal of containers of US$796,000 and a reduction of the carrying amount of the property, plant and equipment of US$1,566,000.

(c) Fair value estimation of available-for-sales financial assets

If information on current or recent prices of available-for-sale financial assets is not available, the fair values of available-for-sale financial assets are determined using valuation technique (including price/earnings multiple model or discounted cash flow model). The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

If the price/earnings ratio as used for the fair value estimation had been 10% lower than the management's estimates adopted, the Group's total equity and the carrying amount of available-for-sale financial assets would have been decreased by US$37,000,000.

(d) Impairment of goodwill and other assets

The Group tests annually whether goodwill and other assets have suffered any impairment in accordance with accounting policies stated in note 3.7. Other assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations which require the use of assumptions and estimates.

If the future cash flow from respective investments had been 10% lower than the management's estimates as adopted in the value-in-use calculations or the estimated pre-tax discount rate applied to the value-in-use calculations had been 10% higher than management's estimates, the Group does not have to recognise any impairment losses.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

5.2 Critical judgement in applying the Group's accounting policies

(a) Income taxes

Deferred income tax liabilities have not been established for the withholding taxation that would be payable on the undistributed earnings of certain subsidiaries in the United States of America (the "US") as the directors consider that the timing of the reversal of related temporary differences can be controlled (note 35).

If 10% of those undistributed earnings of the US subsidiaries are considered to be repatriated out of the US, the Group has to recognise deferred income tax charge and deferred income tax liability of US$5,875,000.

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

6 REVENUE AND SEGMENT INFORMATION

Revenue (representing turnover of the Group) recognised during the year are as follows:

	2006 US$'000	2005 US$'000
Operating lease rentals on		
– containers	**219,566**	274,476
– generator sets	**1,368**	963
Finance lease income on containers	**492**	532
Container terminal operation income	**20,915**	12,496
Container handling, transportation and storage income	**7,558**	6,839
Container management income	**4,061**	342
	253,960	295,648

(a) Primary reporting format – business segments

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format and the main business segments of the Group, its jointly controlled entities and associates include:

(i) container terminal and related businesses;
(ii) container leasing, container management and related businesses;
(iii) logistics and related businesses;
(iv) container manufacturing and related businesses; and
(v) banking businesses.

6 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format – business segments (Continued)

Unallocated costs represent net corporate expenses and corporate finance costs less corporate interest income. Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land and land use rights, intangible assets, inventories held for sale, receivables and operating cash, and mainly exclude deferred income tax assets and investments in jointly controlled entities, associates and available-for-sale financial assets. Segment liabilities comprise operating liabilities and primarily exclude items such as current and deferred income tax liabilities and corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment, investment properties, leasehold land and land use rights and intangible assets, including additions resulting from acquisitions through business combinations.

Segment revenue, results and other information

	Year ended 31st December 2006						
	Container terminal and related businesses US$'000	Container leasing, container management and related businesses US$'000	Logistics and related businesses US$'000	Container manufacturing and related businesses US$'000	Banking businesses US$'000	Corporate and other businesses US$'000	Total US$'000
Revenue							
– total revenue	28,474	225,487	–	–	–	–	253,961
– inter-segment sales	(1)	–	–	–	–	–	(1)
External sales	28,473	225,487	–	–	–	–	253,960
Segment results	(36)	129,245	(7,215)	3,106	–	–	125,100
Dividend income from							
– a listed investment	–	–	–	–	–	476	476
– unlisted investments	19,227	–	–	–	–	–	19,227
Profit on disposal of containers (note 8)	–	84,454	–	–	–	–	84,454
Initial recognition of put options granted in connection with share reform of an associate (note 10)	–	–	–	(140,064)	–	–	(140,064)
Fair value gain on put options granted (note 10)	–	–	–	84,883	–	–	84,883
Unallocated costs							
– net corporate expenses	–	–	–	–	–	(9,571)	(9,571)
– corporate interest income	–	–	–	–	–	5,037	5,037
Operating profit/(loss) after finance income and costs	19,191	213,699	(7,215)	(52,075)	–	(4,058)	169,542
Share of profits less losses of							
– jointly controlled entities	57,837	–	18,351	8,882	–	–	85,070
– associates	18,537	–	–	57,727	12,778	–	89,042
Profit before income tax							343,654
Income tax expenses							(49,196)
Profit for the year							294,458
Capital expenditure	131,350	483,557	–	–	–	2,312	617,219
Depreciation and amortisation	2,880	84,832	–	–	–	407	88,119
Impairment loss of							
– containers	–	2,533	–	–	–	–	2,533
– trade receivables, net	16	1,369	–	–	–	–	1,385
Amortised amount of discount on issue of notes and transaction costs on bank loans and notes	207	3,741	154	56	–	–	4,158

6 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format – business segments (Continued)

Segment revenue, results and other information (Continued)

	Year ended 31st December 2005						
	Container terminal and related businesses US$'000	Container leasing, container management and related businesses US$'000	Logistics and related businesses US$'000	Container manufacturing and related businesses US$'000	Banking businesses US$'000	Corporate and other businesses US$'000	Total US$'000
Revenue							
– total revenue	19,338	276,313	–	–	–	–	295,651
– inter-segment sales	(3)	–	–	–	–	–	(3)
External sales	19,335	276,313	–	–	–	–	295,648
Segment results	4,765	137,233	(5,899)	(2,540)	–	–	133,559
Dividend income from							
– a listed investment	–	–	–	–	–	768	768
– unlisted investments	15,769	–	–	–	–	–	15,769
Profit on disposal of an available-for-sale financial asset (note 9)	61,875	–	–	–	–	–	61,875
Unallocated costs							
– net corporate expenses	–	–	–	–	–	(9,162)	(9,162)
– corporate finance costs	–	–	–	–	–	(15)	(15)
– corporate interest income	–	–	–	–	–	2,298	2,298
Operating profit/(loss) after finance income and costs	82,409	137,233	(5,899)	(2,540)	–	(6,111)	205,092
Share of profits less losses of							
– jointly controlled entities	54,825	–	15,064	3,080	–	–	72,969
– associates	16,658	–	–	55,636	10,026	–	82,320
Profit before income tax							360,381
Income tax expenses							(22,426)
Profit for the year							337,955
Capital expenditure	4,435	337,333	–	–	–	49	341,817
Depreciation and amortisation	1,313	105,938	–	–	–	415	107,666
Impairment loss of							
– containers	–	2,327	–	–	–	–	2,327
– trade receivables, net	–	1,375	–	–	–	–	1,375
Amortised amount of discount on issue of notes and transaction costs on bank loans and notes	160	1,555	190	82	–	11	1,998

6 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format – business segments (Continued)

Segment assets and liabilities

	Container terminal and related businesses US$'000	Container leasing, container management and related businesses US$'000	Logistics and related businesses US$'000	Container manufacturing and related businesses US$'000	Banking businesses US$'000	Corporate and other businesses US$'000	Total US$'000
At 31st December 2006							
Segment assets	**218,191**	**1,149,465**	**–**	**80**	**13**	**–**	**1,367,749**
Jointly controlled entities	**250,743**	**–**	**202,186**	**23,835**	**–**	**–**	**476,764**
Associates	**188,918**	**–**	**–**	**255,729**	**174,943**	**–**	**619,590**
Available-for-sale financial assets	**368,000**	**–**	**–**	**–**	**–**	**8,589**	**376,589**
Unallocated assets							**146,463**
							2,987,155
Segment liabilities	**224,876**	**334,860**	**109,769**	**94,623**	**–**	**–**	**764,128**
Unallocated liabilities							**14,826**
							778,954
At 31st December 2005							
Segment assets	52,403	1,554,198	–	14	–	–	1,606,615
Jointly controlled entities	201,266	–	183,980	18,240	–	–	403,486
Associates	120,224	–	–	193,343	169,947	–	483,514
Available-for-sale financial assets	264,523	–	–	–	–	11,072	275,595
Unallocated assets							85,940
							2,855,150
Segment liabilities	127,692	578,132	127,725	55,000	–	–	888,549
Unallocated liabilities							76,258
							964,807

(b) Secondary reporting format – geographical segments

In respect of container leasing, container management and related businesses, the movements of containers and generator sets of the Group and those managed on behalf of third parties under operating leases or finance leases are known through report from the lessees but the Group is not able to control the movements of containers and generator sets except to the degree that the movements are restricted by the terms of the leases or where safety of the containers and generator sets is concerned. It is therefore impracticable to present segment revenue by geographical areas for the related businesses.

The Group's segment assets are primarily dominated by its containers and generator sets. The directors consider that the nature of the Group's business precludes a meaningful allocation of containers and generator sets and their related capital expenditure to specific geographical segments as defined under HKAS 14 "Segment Reporting". These containers and generator sets are primarily utilised across geographical markets for shipment of cargoes throughout the world. Accordingly, it is impractical to present segment assets and capital expenditure by geographical areas.

The activities of the container terminal and related businesses as conducted by certain subsidiaries of the Group are predominantly carried out in China mainland and Hong Kong.

The activities of the Group's jointly controlled entities and associates are predominantly carried out in the following geographical areas:

Business segments	**Geographical areas**
Container terminal and related businesses	Hong Kong, China mainland, Singapore and Belgium
Logistics and related businesses	China mainland
Container manufacturing and related businesses	China mainland
Banking businesses	Hong Kong

7 OTHER OPERATING INCOME

	2006 US$'000	2005 US$'000
Proceeds from sale of inventories (note 11(c))	**43,513**	22,618
Finder fee (note 8)	**15,240**	–
Profit on disposal of a jointly controlled entity	**5,470**	–
Management fee and other service income	**6,300**	3,184
Others	**8,294**	9,542
	78,817	35,344

8 DISPOSAL OF CONTAINERS

In June 2006, the Group disposed of containers with an aggregate net book value of approximately US$762,070,000 (the "Sold Containers") to a third party (the "Purchaser") for a cash consideration of approximately US$846,524,000 (the "Disposal"). The gain on Disposal before income taxes amounted to approximately US$84,454,000.

The Group has also received a finder fee from the Purchaser of approximately US$15,240,000 in respect of its services rendered for the entire transaction prior to the completion of the Disposal. The finder fee has been recognised and included in the consolidated income statement as other operating income.

9 DISPOSAL OF AN AVAILABLE-FOR-SALE FINANCIAL ASSET

The amount recognised in the prior year represented the gain on disposal of the 17.5% equity interest in Shekou Container Terminals Ltd. to China Merchants Holdings (International) Limited in March 2005.

10 SHARE REFORM

On 25th May 2006, the Company issued 424,106,507 put options (the "Put Options") to holders of the A-shares not having trading restrictions (the "CIMC Tradeable A-Shares") of China International Marine Containers (Group) Co., Ltd. ("CIMC"), an associate of the Group listed on the Shenzhen Stock Exchange, as consideration for the former's approval of the removal of the trading restrictions on the CIMC shares held by the Group. The Put Options are listed on the Shenzhen Stock Exchange. The holders of the Put Options are entitled to require the Company to buy from them 1.128 CIMC Tradable A-Shares at an exercise price of RMB8.868 per share during the 5 trading days immediately prior to and including 23rd November 2007. If all the Put Options are exercised in full, the Company will have to pay a total sum of approximately RMB4,241,000,000 (equivalent to approximately US$543,112,000) in cash and the Group's equity interest in CIMC will be increased from 16.23% to approximately 37% after the acquisition.

The Put Options are derivative financial instruments as defined under HKAS 39 "Financial Instruments: Recognition and Measurement" ("HKAS 39"). Accordingly, upon issuance of the Put Options, the Group recognised a liability in the amount of US$140,064,000, the fair value of the Put Options, and recognised a debit of the same amount in the consolidated income statement. The Put Options have been carried in the balance sheet at their fair value in accordance with HKAS 39. The subsequent decrease in fair value of the Put Options of US$84,883,000, from the initial recognition of US$140,064,000 to that of US$55,181,000 as at 31st December 2006, has been credited to the consolidated income statement for the current year.

11 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2006 US$'000	2005 US$'000
Crediting		
Dividend income from listed and unlisted investments (note a)	**19,703**	16,537
Exchange gain, net	**567**	166
Fair value gain on interest rate swap contracts not qualified as hedges	**605**	3,984
Profit on disposal of property, plant and equipment		
(excluding the Sold Containers (note 8))	**632**	1,664
Profit on disposal of		
– a jointly controlled entity (note 41(a)(vii))	**5,470**	–
– partial interest in an associate	**–**	178
Revaluation surplus of investment properties (note 20)	**157**	501
Reversal of provision for impairment of trade receivables	**1,676**	14
Charging		
Amortisation of		
– leasehold land and land use rights	**167**	146
– intangible assets (note b)	**781**	666
Depreciation of		
– owned property, plant and equipment leased out under operating leases	**83,642**	104,835
– other owned property, plant and equipment	**3,529**	2,019
Impairment loss of containers	**2,533**	2,327
Cost of inventories sold (note c)	**32,965**	15,836
Auditors' remuneration		
– current year	**550**	904
– over provision in prior year	**(178)**	–
Outgoings in respect of investment properties	**6**	4
Provision for impairment of trade and finance lease receivables	**3,061**	1,389
Provision for inventories	**143**	–
Rental expense under operating leases of		
– buildings leased from third parties	**1,695**	1,804
– buildings leased from fellow subsidiaries	**833**	535
– buildings leased from a jointly controlled entity	**33**	34
– leasehold land and land use rights leased from minority shareholders of subsidiaries	**1,068**	871
– plant and machinery leased from third parties	**373**	254
– plant and machinery leased from a minority shareholder of a subsidiary	**25**	100
Total staff costs (including directors' emoluments and retirement benefit costs) (note d)	**22,599**	19,915
Less: Amounts capitalised in intangible assets	**(74)**	(163)
	22,525	19,752

11 OPERATING PROFIT (CONTINUED)

Notes:

(a) Dividend income is included in other income in the consolidated income statement.

(b) Amortisation of intangible assets is included in administrative expenses in the consolidated income statement.

(c) Cost of inventories sold is included in other operating expenses. The related proceeds from sale have been included in other operating income in the consolidated income statement (note 7).

(d) Total staff costs do not include the amounts of benefits in kind provided to the Company's directors and the Group's employees in respect of staff quarters and the Company's share options granted prior to 2005. Details of the Company's share options are set out in note 32(b) to the consolidated financial statements.

12 FINANCE INCOME AND COSTS

	2006 US$'000	2005 US$'000
Finance income		
Interest income on		
– bank balances and deposits	**11,480**	3,623
– loans to a jointly controlled entity and associates	**1,141**	738
	12,621	4,361
Finance costs		
Interest expenses on		
– bank loans	**(20,795)**	(17,041)
– other loans wholly repayable within five years	**(8)**	(378)
– notes not wholly repayable within five years	**(18,547)**	(16,222)
– amount due to a minority shareholder of a subsidiary (note 41(a)(x))	**(658)**	–
Amortised amount of		
– discount on issue of notes	**(214)**	(227)
– transaction costs on bank loans and notes	**(3,944)**	(1,771)
	(44,166)	(35,639)
Less: amount capitalised in construction in progress	**789**	–
	(43,377)	(35,639)
Other incidental borrowing costs and charges	**(826)**	(723)
	(44,203)	(36,362)

13 INCOME TAX EXPENSES

	2006 US$'000	2005 US$'000
Current income tax		
– Hong Kong profits tax	**230**	187
– China mainland taxation	**1,332**	989
– Overseas taxation	**117,912**	598
– Under/(over) provision in prior years	**135**	(176)
	119,609	1,598
Deferred income tax (credit)/charge (note 35)	**(70,413)**	20,828
	49,196	22,426

The Group's shares of income tax expenses of jointly controlled entities and associates of US$12,243,000 (2005: US$12,384,000) and US$4,717,000 (2005: US$3,505,000) are included in the Group's shares of profits less losses of jointly controlled entities and associates respectively.

Hong Kong profits tax has been provided at a rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. The overseas taxation charged for the current year included the estimated capital gain tax provision in connection with the disposal of containers as set out in note 8.

Below is a numerical reconciliation between tax expense in the consolidated income statement and aggregate tax expense at the domestic rates applicable to profits in respective territories concerned:

	2006 US$'000	2005 US$'000
Profit before income tax	**343,654**	360,381
Less: share of profits less losses of jointly controlled entities and associates	**(174,112)**	(155,289)
	169,542	205,092
Aggregate tax at domestic rates applicable to profits in respective territories concerned	**47,236**	37,676
Income not subject to income tax	**(6,328)**	(14,954)
Expenses not deductible for income tax purposes	**342**	8
Under/(over) provision in prior years	**135**	(173)
Utilisation of previously unrecognised tax losses	**(1,377)**	–
Tax losses for which no deferred income tax asset was recognised	**623**	379
Others	**8,565**	(510)
Income tax expenses	**49,196**	22,426

14 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of US$153,241,000 (2005: US$179,064,000).

15 DIVIDENDS

	2006 US$'000	2005 US$'000
Interim dividend paid of US3.526 cents (2005: US3.614 cents) per ordinary share	**78,213**	79,253
Special interim dividend paid of US1.174 cents (2005: US1.453 cents) per ordinary share	**26,042**	31,871
Final dividend proposed of US4.147 cents (2005: US3.583 cents) per ordinary share	**92,424**	78,789
Additional dividends paid on shares issued due to the exercise of share options before the closure of register of members:		
– 2005/2004 final	**668**	72
– 2006/2005 interim	**17**	253
– 2006/2005 special interim	**6**	95
	197,370	190,333

Note:

At a meeting held on 22nd March 2007, the directors proposed a final dividend of HK32.2 cents (equivalent to US4.147 cents) per ordinary share. This proposed dividend is not reflected as dividend payable in these consolidated financial statements until it has been approved at the annual general meeting, but will be reflected as an appropriation of retained profits for the year ending 31st December 2007.

16 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	2005
Profit attributable to equity holders of the Company	**US$291,082,000**	US$334,937,000
Weighted average number of ordinary shares in issue	**2,214,684,013**	2,192,078,336
Basic earnings per share	**US13.14 cents**	US15.28 cents
Basic earnings per share – excluding the impact on the initial recognition and subsequent fair value gain on put options granted (note 10) *(for information only)*	**US15.63 cents**	N/A

16 EARNINGS PER SHARE (CONTINUED)

(b) Diluted

Diluted earnings per share is calculated based on the profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the year, after adjusting for the number of dilutive potential ordinary shares deemed to be issued at no considerations as if all outstanding share options granted by the Company had been exercised.

	2006	2005
Profit attributable to equity holders of the Company	**US$291,082,000**	US$334,937,000
Weighted average number of ordinary shares in issue	**2,214,684,013**	2,192,078,336
Adjustments for assumed issuance of shares on exercise of share options	**11,604,078**	13,180,650
Weighted average number of ordinary shares for diluted earnings per share	**2,226,288,091**	2,205,258,986
Diluted earnings per share	**US13.07 cents**	US15.19 cents
Diluted earnings per share – excluding the impact on the initial recognition and subsequent fair value gain on put options granted (note 10) *(for information only)*	**US15.55 cents**	N/A

17 RETIREMENT BENEFIT COSTS

The retirement benefit costs charged to the consolidated income statement represent contributions payable by the Group to the retirement benefit schemes and amounted to US$1,125,000 (2005: US$1,112,000). Contributions totalling US$63,000 (2005: US$47,000) were payable to the retirement benefit schemes as at 31st December 2006 and were included in trade and other payables. No forfeited contributions were available as at 31st December 2006 and 2005 to reduce future contributions.

18 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid to directors of the Company during the year are set out as follows:

	2006 US$'000	2005 US$'000
Fees	**229**	299
Salaries, housing and other allowances	**1,388**	1,103
Benefits in kind	**33**	6
Bonuses	**141**	66
Contributions to retirement benefit schemes	**2**	2
	1,793	1,476

Directors' fees disclosed above include US$135,000 (2005: US$127,000) paid to independent non-executive directors.

As at 31st December 2006, a director of the Company had 300,000 (2005: 900,000) share options which are exercisable at HK$8.80 per share granted by the Company on 20th May 1997 under the share option scheme adopted by the Company on 30th November 1994 (the "1994 Share Option Scheme").

As at 31st December 2006, five (2005: six) directors of the Company had 2,100,000 (2005: 2,700,000) share options which are exercisable at HK$9.54 per share granted by the Company under the share option scheme approved by the shareholders of the Company on 23rd May 2003 (the "2003 Share Option Scheme").

As at 31st December 2006, eight (2005: nine) directors of the Company had 6,900,000 (2005: 8,800,000) share options which are exercisable at HK$13.75 per share granted by the Company under the 2003 Share Option Scheme.

During the year ended 31st December 2006, 3,100,000 (2005: 4,282,000) share options were exercised by the directors. The directors' emoluments as disclosed above do not include the difference between the aggregate amount of the market price of the Company's shares issued at the date of exercise of these share options and the amount paid by the directors in exercising these share options, of US$2,111,000 (2005: US$2,309,000).

Details and movement of share options granted and exercised during the year are set out in note 32(b) to the consolidated financial statements.

18 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (Continued)

The directors' emoluments are analysed as follows:

Name of directors	Note	Fees US$'000	Salaries, housing and other allowances US$'000	Benefits in kind US$'000	Bonuses US$'000	Contributions to retirement benefit schemes US$'000	Total US$'000
		Year ended 31st December 2006					
Dr. WEI Jiafu		19	–	–	–	–	19
Mr. CHEN Hongsheng		15	–	–	–	–	15
Mr. LI Jianhong		15	–	–	–	–	15
Ms. SUN Yueying		15	–	–	–	–	15
Dr. SUN Jiakang	(v)	–	707	30	51	–	788
Mr. XU Lirong		15	–	–	–	–	15
Mr. WONG Tin Yau, Kelvin		–	278	–	39	2	319
Mr. WANG Zhi		–	267	3	51	–	321
Mr. QIN Fuyan		15	136	–	–	–	151
Dr. LI Kwok Po, David		37	–	–	–	–	37
Mr. LIU Lit Man		35	–	–	–	–	35
Mr. CHOW Kwong Fai, Edward		36	–	–	–	–	36
Mr. Timothy George FRESHWATER		27	–	–	–	–	27
		229	1,388	33	141	2	1,793

18 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (Continued)

Name of directors	Note	Fees US$'000	Salaries, housing and other allowances US$'000	Benefits in kind US$'000	Bonuses US$'000	Contributions to retirement benefit schemes US$'000	Total US$'000
		Year ended 31st December 2005					
Dr. WEI Jiafu		19	–	–	–	–	19
Mr. LIU Guoyuan	(i)	–	164	–	–	–	164
Mr. ZHANG Fusheng	(i)	8	–	–	–	–	8
Mr. WANG Futian	(i)	8	–	–	–	–	8
Mr. CHEN Hongsheng		15	–	–	–	–	15
Mr. LI Jianhong		15	–	–	–	–	15
Mr. MA Zehua	(i)	8	–	–	–	–	8
Mr. MA Guichuan	(i)	8	–	–	–	–	8
Ms. SUN Yueying		15	–	–	–	–	15
Mr. LI Yunpeng	(i)	8	–	–	–	–	8
Mr. ZHOU Liancheng	(ii)	7	–	–	–	–	7
Dr. SUN Jiakang	(v)	–	479	–	–	–	479
Mr. XU Lirong		15	–	–	–	–	15
Mr. HE Jiale	(i)	8	–	–	–	–	8
Mr. WONG Tin Yau, Kelvin		–	275	–	39	2	316
Mr. WANG Zhi	(iii)	–	122	–	–	–	122
Mr. MENG Qinghui	(ii)	7	–	–	–	–	7
Mr. LU Chenggang	(i)	–	63	6	27	–	96
Mr. QIN Fuyan		15	–	–	–	–	15
Dr. LI Kwok Po, David		37	–	–	–	–	37
Mr. LIU Lit Man		36	–	–	–	–	36
Mr. Alexander Reid HAMILTON	(i)	17	–	–	–	–	17
Mr. KWONG Che Keung, Gordon	(iv)	15	–	–	–	–	15
Mr. CHOW Kwong Fai, Edward	(iii)	21	–	–	–	–	21
Mr. Timothy George FRESHWATER	(iii)	17	–	–	–	–	17
		299	1,103	6	66	2	1,476

Notes:

(i) resigned during the year ended 31st December 2005

(ii) did not seek for re-election as director and retired at the annual general meeting held on 20th May 2005

(iii) appointed during the year ended 31st December 2005

(iv) resigned on 1st January 2006

(v) resigned as Vice Chairman and Managing Director and appointed as a non-executive director on 24th January 2007

The above analysis includes three (2005: two) directors whose emoluments were among the five highest in the Group.

18 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (CONTINUED)

(b) Management's emoluments

Details of the aggregate emoluments paid to two (2005: three) individuals whose emoluments were the highest in the Group and have not been included in the directors' emoluments above are set out below:

	2006 US$'000	2005 US$'000
Salaries and other allowances	394	537
Bonuses	130	190
Benefits in kind	–	1
Contributions to retirement benefit schemes	3	18
	527	746

During the year ended 31st December 2006, 400,000 (2005: Nil) share options were exercised by one (2005: Nil) highest paid individual. The management's emoluments as disclosed above do not include the difference between the aggregate amount of the market price of the Company's shares issued at the date of exercise of these share options and the amount paid by that individual in exercising these share options, of US$212,500 (2005: Not applicable).

The emoluments of the highest paid individuals fell within the following bands:

	Number of individuals 2006	2005
Emolument bands		
US$193,436 – US$257,915 (HK$1,500,001 – HK$2,000,000)	1	2
US$257,915 – US$322,393 (HK$2,000,001 – HK$2,500,000)	1	1
	2	3

(c) During the year, no emolument had been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors waived or agreed to waive any emoluments during the year.

19 PROPERTY, PLANT AND EQUIPMENT

Group

	Containers US$'000	Generator sets US$'000	Buildings in Hong Kong US$'000	Buildings outside Hong Kong US$'000	Construction in progress US$'000	Leasehold improvements US$'000	Other property, plant and equipment US$'000	Total US$'000
Cost or valuation								
At 1st January 2006	1,990,700	6,403	2,503	12,122	–	1,104	25,012	2,037,844
Exchange differences	–	–	–	1,332	432	11	1,687	3,462
Additions/transfer	481,275	1,962	184	45,321	21,076	410	49,234	599,462
Disposals/transfer	(1,193,512)	(57)	–	(128)	–	–	(1,532)	(1,195,229)
Reclassification	–	–	–	924	(9,176)	–	8,252	–
At 31st December 2006	1,278,463	8,308	2,687	59,571	12,332	1,525	82,653	1,445,539
Accumulated depreciation and impairment losses								
At 1st January 2006	619,828	591	1,356	3,631	–	1,024	11,294	637,724
Exchange differences	–	–	–	133	–	10	293	436
Impairment loss for the year	2,533	–	–	–	–	–	–	2,533
Depreciation charge for the year	83,059	583	109	738	–	86	2,596	87,171
Disposals/transfer								
– accumulated impairment losses	(10,196)	–	–	–	–	–	–	(10,196)
– accumulated depreciation	(379,831)	(7)	–	(32)	–	–	(1,111)	(380,981)
At 31st December 2006	315,393	1,167	1,465	4,470	–	1,120	13,072	336,687
Net book value								
At 31st December 2006	963,070	7,141	1,222	55,101	12,332	405	69,581	1,108,852
The analysis of cost or valuation of the above assets as at 31st December 2006 is as follows:								
At cost	1,278,463	8,308	248	59,571	12,332	1,525	82,653	1,443,100
At 1994 professional valuation	–	–	2,439	–	–	–	–	2,439
	1,278,463	8,308	2,687	59,571	12,332	1,525	82,653	1,445,539

19 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (Continued)

	Containers US$'000	Generator sets US$'000	Buildings in Hong Kong US$'000	Buildings outside Hong Kong US$'000	Construction in progress US$'000	Leasehold improvements US$'000	Other property, plant and equipment US$'000	Total US$'000
Cost or valuation								
At 1st January 2005	1,774,192	4,086	4,251	11,921	306	1,104	19,735	1,815,595
Exchange differences	–	–	–	300	8	(9)	324	623
Additions	333,584	2,564	–	–	4,055	23	862	341,088
Disposals/transfer/write-off	(117,076)	(247)	(1,748)	(99)	–	(14)	(278)	(119,462)
Reclassification	–	–	–	–	(4,369)	–	4,369	–
At 31st December 2005	1,990,700	6,403	2,503	12,122	–	1,104	25,012	2,037,844
Accumulated depreciation and impairment losses								
At 1st January 2005	580,766	190	1,446	3,170	–	956	10,024	596,552
Exchange differences	–	–	–	82	–	(8)	136	210
Impairment losses for the year	2,327	–	–	–	–	–	–	2,327
Depreciation charge for the year	104,421	414	117	403	–	89	1,410	106,854
Disposals/transfer/write-off								
– accumulated impairment losses	(4,642)	–	–	–	–	–	–	(4,642)
– accumulated depreciation	(63,044)	(13)	(207)	(24)	–	(13)	(276)	(63,577)
At 31st December 2005	619,828	591	1,356	3,631	–	1,024	11,294	637,724
Net book value								
At 31st December 2005	1,370,872	5,812	1,147	8,491	–	80	13,718	1,400,120
The analysis of cost or valuation of the above assets as at 31st December 2005 is as follows:								
At cost	1,990,700	6,403	64	12,122	–	1,104	25,012	2,035,405
At 1994 professional valuation	–	–	2,439	–	–	–	–	2,439
	1,990,700	6,403	2,503	12,122	–	1,104	25,012	2,037,844

19 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Other property, plant and equipment 2006 US$'000	2005 US$'000
Cost		
At 1st January and at 31st December	**527**	527
Accumulated depreciation		
At 1st January	**209**	104
Depreciation charge for the year	**105**	105
At 31st December	**314**	209
Net book value		
At 31st December	**213**	318

Notes:

(a) Certain buildings in Hong Kong with carrying amount of US$990,000 (2005: US$1,089,000) were revalued in 1994 on an open market value basis by C.Y. Leung & Company Limited (now known as DTZ Debenham Tie Leung Limited), an independent professional property valuer.

The carrying amount of these buildings as at 31st December 2006 would have been US$900,000 (2005: US$990,000) had the buildings been carried at cost less accumulated depreciation and impairment losses in the consolidated financial statements.

(b) The aggregate cost, accumulated depreciation and accumulated impairment losses as at 31st December 2006 of the leased assets (where the Group is a lessor) which comprised containers and generator sets and were leased to fellow subsidiaries and third parties under operating leases amounted to US$1,161,481,000 (2005: US$1,883,373,000), US$313,595,000 (2005: US$609,791,000) and US$2,965,000 (2005: US$10,628,000) respectively.

(c) The accumulated impairment losses of property, plant and equipment as at 31st December 2006 amounted to US$5,622,000 (2005: US$13,285,000).

(d) As at 31st December 2005, certain containers with an aggregate net book value of US$511,272,000 were pledged as securities for loan facilities granted by banks or third parties.

(e) During the year, the Group transferred containers with an aggregate net book value of US$32,314,000 (2005: US$16,302,000) to inventories held for sale.

20 INVESTMENT PROPERTIES

	Group 2006 US$'000	2005 US$'000
At 1st January	**1,383**	882
Revaluation surplus (note a)	**157**	501
At 31st December	**1,540**	1,383

Notes:

(a) The investment properties as at 31st December 2006 and 2005 were revalued on an open market value basis by Sallmanns (Far East) Limited, an independent professional property valuer. Valuations were based on current prices in an active market for all properties. The revaluation surplus for the year ended 31st December 2006 of US$157,000 (2005: US$501,000) was accounted for in the consolidated income statement (note 11).

(b) The Group's interests in investment properties situated in Hong Kong are held on leases of over 50 years.

21 LEASEHOLD LAND AND LAND USE RIGHTS

	Group 2006 US$'000	2005 US$'000
At 1st January	**16,597**	16,696
Exchange differences	**388**	47
Additions	**17,583**	–
Amortisation	**(167)**	(146)
At 31st December	**34,401**	16,597

21 LEASEHOLD LAND AND LAND USE RIGHTS (CONTINUED)

Notes:

(a) The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group 2006 US$'000	2005 US$'000
In Hong Kong, held on leases of over 50 years	**16,251**	14,762
Outside Hong Kong, held on leases of between 10 to 50 years	**18,150**	1,835
	34,401	16,597

(b) As at 31st December 2006, land use rights outside Hong Kong with net book value of US$1,645,000 (2005: US$1,685,000) were pledged as security for loan facility granted by a bank.

22 INTANGIBLE ASSETS

Group

	Computer software 2006 US$'000	Computer software 2005 US$'000	Computer systems under development 2006 US$'000	Computer systems under development 2005 US$'000	Total 2006 US$'000	Total 2005 US$'000
Cost						
At 1st January	**8,034**	7,279	**2,010**	2,081	**10,044**	9,360
Additions	**53**	20	**764**	709	**817**	729
Write-off	**–**	(12)	**–**	(33)	**–**	(45)
Transfer	**631**	747	**(631)**	(747)	**–**	–
At 31st December	**8,718**	8,034	**2,143**	2,010	**10,861**	10,044
Accumulated amortisation						
At 1st January	**6,241**	5,587	**–**	–	**6,241**	5,587
Amortisation for the year	**781**	666	**–**	–	**781**	666
Write-off	**–**	(12)	**–**	–	**–**	(12)
At 31st December	**7,022**	6,241	**–**	–	**7,022**	6,241
Net book value						
At 31st December	**1,696**	1,793	**2,143**	2,010	**3,839**	3,803

23 SUBSIDIARIES

	Company 2006 US$'000	2005 US$'000
Unlisted investments, at cost	**167,150**	167,150
Amounts due from subsidiaries (note a)	**1,217,786**	1,214,099
Provision	**(56,642)**	(56,642)
	1,328,294	1,324,607
Loan due to a subsidiary (note b)	**296,655**	296,655

Notes:

(a) The amounts due from subsidiaries are unsecured and have no fixed terms of repayment. Except for amounts due from subsidiaries of US$45,579,000 (2005: US$23,831,000) which bear interests ranging from 0.61% to 6.7% (2005: 0.61% to 5.95%) per annum, the remaining balances are interest free.

(b) The loan due to a subsidiary is unsecured, interest free and wholly repayable on or before 3rd October 2013. The carrying amount of the loan due to a subsidiary approximates its fair value.

(c) Details of the subsidiaries as at 31st December 2006 are set out in note 43 to the consolidated financial statements.

24 JOINTLY CONTROLLED ENTITIES

	Group 2006 US$'000	2005 US$'000
Share of net assets	**382,211**	329,810
Goodwill on acquisitions (note a)	**52,259**	52,259
	434,470	382,069
Loans to jointly controlled entities (note b)	**42,294**	21,417
	476,764	403,486
Investments, at cost		
Unlisted investments	**599,452**	585,916

24 JOINTLY CONTROLLED ENTITIES (CONTINUED)

Notes:

(a) The carrying amount of goodwill on acquisitions of jointly controlled entities mainly represented the goodwill on acquisitions of equity interests in COSCO Logistics Co., Ltd., Qingdao Qianwan Container Terminal Co., Ltd. and Nanjing Port Longtan Containers Co., Ltd. of US$42,251,000 (2005: US$42,251,000), US$5,362,000 (2005: US$5,362,000) and US$4,533,000 (2005: US$4,533,000) respectively.

(b) The loans to jointly controlled entities are unsecured. Except for loan to a jointly controlled entity of US$7,965,000 (2005: US$9,606,000) which bears interest at 1.60% (2005: 1.60%) per annum above the applicable swap offer rate as determined by the Association of Banks in Singapore and is wholly repayable on or before October 2013, the remaining balances are interest free and have no fixed terms of repayment.

(c) The Company has no directly owned jointly controlled entity as at 31st December 2006 and 2005. Details of the jointly controlled entities as at 31st December 2006 are set out in note 44 to the consolidated financial statements.

(d) The financial information below, after making necessary adjustments to conform to the Group's significant accounting policies, represents the Group's interests in respective jointly controlled entities:

	Non-current assets US$'000	Current assets US$'000	Non-current liabilities US$'000	Current liabilities US$'000	Revenue US$'000	Expenses US$'000	Profits less losses after income tax US$'000
2006							
COSCO-HIT Terminals (Hong Kong) Limited	**148,450**	**28,491**	**(10,557)**	**(145,905)**	**61,737**	**(37,986)**	**23,751**
COSCO Logistics Co., Ltd.	**120,758**	**302,752**	**(18,264)**	**(236,694)**	**640,433**	**(620,987)**	**18,351**
Others	**500,728**	**93,172**	**(158,275)**	**(209,816)**	**183,797**	**(140,789)**	**42,968**
	769,936	**424,415**	**(187,096)**	**(592,415)**	**885,967**	**(799,762)**	**85,070**
2005							
COSCO-HIT Terminals (Hong Kong) Limited	146,737	29,115	(138,522)	(13,505)	66,158	(38,177)	27,981
COSCO Logistics Co., Ltd.	95,733	263,241	(15,072)	(193,640)	541,972	(616,835)	15,064
Others	245,273	66,655	(79,395)	(68,277)	282,172	(153,788)	29,924
	487,743	359,011	(232,989)	(275,422)	890,302	(808,800)	72,969

25 ASSOCIATES

	Group 2006 US$'000	2005 US$'000
Share of net assets	**569,386**	469,265
Goodwill on acquisitions (note a)	**31,522**	87
	600,908	469,352
Loans to associates (note b)	**18,682**	14,162
	619,590	483,514
Investments, at cost		
Shares listed		
– in Hong Kong	**219,189**	219,189
– outside Hong Kong (note c)	**137,601**	–
Unlisted shares	**119,761**	198,458
	476,551	417,647
Market value of listed shares (note c)	**1,062,718**	137,997

Notes:

(a) The carrying amount of goodwill on acquisitions of associates mainly represented the goodwill on acquisition of the additional 10% equity interest in Shanghai Pudong International Container Terminals Limited in June 2006 of US$31,435,000 (2005: US$ Nil).

(b) Loans to associates are unsecured. Balance of US$12,535,000 (2005: US$8,214,000) bears interest at 2% (2005: 2%) per annum above the 10-year Belgium prime rate and has no fixed terms of repayment. The remaining balance of US$6,147,000 (2005: US$5,948,000) bears interest at Tokyo Interbank Offered Rate ("TIBOR") plus 0.5% (2005: TIBOR plus 0.5%) per annum and is wholly repayable on 24th April 2008.

(c) With the completion of the share reform of CIMC during the year (note 10), the Group's investment in CIMC has been redesignated as a listed investment. The Group cannot freely place or trade all these shares of CIMC until the expiry of certain trading restrictions after 3 years from the implementation date of the share reform of CIMC (the "Trading Restrictions"). The market value of these shares of CIMC of US$868,915,000 as included in the disclosure above has not taken into account these Trading Restrictions.

25 ASSOCIATES (CONTINUED)

(d) The financial information below, after making necessary adjustments to conform to the Group's significant accounting policies, represents the Group's interests in respective associates:

	Total assets US$'000	Total liabilities US$'000	Revenue US$'000	Expenses US$'000	Profits less losses after income tax US$'000
2006					
Chong Hing Bank Limited (formerly known as Liu Chong Hing Bank Limited)	**1,645,486**	**(1,470,543)**	**70,561**	**(57,783)**	**12,778**
China International Marine Containers (Group) Co., Ltd.	**485,024**	**(211,279)**	**676,192**	**(614,745)**	**57,727**
Others	**196,682**	**(57,968)**	**41,686**	**(23,149)**	**18,537**
	2,327,192	**(1,739,790)**	**788,439**	**(695,677)**	**89,042**
2005					
Liu Chong Hing Bank Limited	1,308,398	(1,138,451)	49,810	(39,784)	10,026
China International Marine Containers (Group) Co., Ltd.	342,299	(130,913)	613,112	(554,699)	55,636
Others	151,756	(45,781)	31,242	(14,584)	16,658
	1,802,453	(1,315,145)	694,164	(609,067)	82,320

(e) The Company has no directly owned associate as at 31st December 2006 and 2005. Details of the associates as at 31st December 2006 are set out in note 45 to the consolidated financial statements.

26 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group 2006 US$'000	2005 US$'000
At 1st January	**275,595**	303,811
Exchange differences	**80**	702
Additions	**11,962**	34,568
Disposals	**–**	(78,892)
Net fair value gain recognised in equity	**88,952**	15,406
At 31st December	**376,589**	275,595
Available-for-sale financial assets include the following:		
Investment listed in Hong Kong (note b)	**8,589**	11,072
Unlisted investments (note c)	**368,000**	264,523
	376,589	275,595

Notes:

(a) Available-for-sale financial assets as at 31st December 2006 and 2005 comprise investments in equity securities of the investee companies and the shareholders' loans advanced to an investee company with the nominal value of US$52,617,000 (2005: US$49,936,000). The loan advanced to an investee company is unsecured, interest free and has no fixed terms of repayment.

(b) Listed investment represents equity interest in an entity which is principally engaged in the operation and management of international and domestic container marine transportation.

(c) Unlisted investments mainly comprise equity interests in entities which are involved in container terminal operations in Yantian, Tianjin and Dalian of China mainland.

27 FINANCE LEASE RECEIVABLES

	Group 2006 Gross receivables US$'000	2006 Unearned finance income US$'000	2006 Provision US$'000	2006 Present value of minimum lease payment receivable US$'000	2005 Gross receivables US$'000	2005 Unearned finance income US$'000	2005 Present value of minimum lease payment receivable US$'000
Amounts receivable under finance leases:							
Current portion (note 30)	**1,866**	**(364)**	**(60)**	**1,442**	1,704	(421)	1,283
Non-current portion							
– later than one year and not later than five years	**3,453**	**(453)**	**(11)**	**2,989**	4,187	(692)	3,495
– later than five years	**–**	**–**	**–**	**–**	257	(5)	252
	3,453	**(453)**	**(11)**	**2,989**	4,444	(697)	3,747
	5,319	**(817)**	**(71)**	**4,431**	6,148	(1,118)	5,030

As at 31st December 2006, the Group entered into 19 (2005: 19) finance leases contracts for leasing of certain containers. The average term of the finance lease contracts is 3 years (2005: 3 years).

The cost of assets acquired for the purpose of letting under finance leases amounted to US$8,097,000 (2005: US$8,177,000) as at 31st December 2006.

Unguaranteed residual values of assets leased under finance lease contracts are estimated at approximately US$7,000 (2005: US$9,000).

28 DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
	2006		2005	
	Assets US$'000	Liabilities US$'000	Assets US$'000	Liabilities US$'000
Interest rate swap contracts				
– cash flow hedges (note a)	579	–	725	–
– fair value hedges (note b)	–	4,362	–	2,007
Put Options (note 10)	–	55,181	–	–
Total	579	59,543	725	2,007
Less: non-current portion				
Interest rate swap contracts – fair value hedges	–	(4,362)	–	(2,007)
	579	55,181	725	–

	Company			
	2006		2005	
	Assets US$'000	Liabilities US$'000	Assets US$'000	Liabilities US$'000
Put Options (note 10)	–	55,181	–	–

Notes:

(a) The notional principal amounts of the related interest rate swap contracts amounted to US$100,000,000 (2005: US$100,000,000) which were committed with fixed interest rates ranging from 3.88% to 4.90% (2005: 3.88% to 4.90%) per annum. These derivative financial instruments do not qualify for hedge accounting.

(b) The notional principal amount of the related interest rate swap contracts amounted to US$200,000,000 (2005: US$200,000,000) which were committed with interest rates ranging from 1.05% to 1.16% (2005: 1.05% to 1.16%) per annum above the London Interbank Offered Rate ("LIBOR"). These interest rate swap contracts have been designated as a hedge of the fair value of the notes issued by the Group.

29 INVENTORIES HELD FOR SALE

Inventories held for sale of the Group represent resaleable containers of US$3,553,000 (2005: US$2,336,000).

30 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 US$'000	2005 US$'000	2006 US$'000	2005 US$'000
Trade receivables (note a)				
– third parties	19,927	40,717	–	–
– fellow subsidiaries (notes b and c)	24,375	25,224	–	–
– related companies (note b)	185	268	–	–
	44,487	66,209	–	–
Less: provision for impairment	(4,477)	(3,056)	–	–
	40,010	63,153	–	–
Other receivables, deposits and prepayments	15,731	12,706	396	374
Rent receivable collected on behalf of owners of managed containers (note d)	36,459	–	–	–
Current portion of finance lease receivable (note 27)	1,442	1,283	–	–
Amounts due from (notes b and e)				
– subsidiaries (net of provision)	–	–	191,020	227,338
– jointly controlled entities	30,072	7,071	–	–
– associates	845	70	–	–
– an investee company	9,070	–	–	–
	133,629	84,283	191,416	227,712

Notes:

(a) The Group grants credit periods of 30 to 90 days to its customers.

The ageing analysis of the trade receivables (net of provision) was as follows:

	Group	
	2006 US$'000	2005 US$'000
Within 30 days	18,573	31,132
31 – 60 days	15,764	25,869
61 – 90 days	3,825	5,340
Over 90 days	1,848	812
	40,010	63,153

30 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) The amounts due from subsidiaries, jointly controlled entities, associates, fellow subsidiaries, an investee company and related companies are unsecured and interest free. Trading balances have credit periods ranging from 30 to 90 days while other balances have no fixed terms of repayment.

(c) The balance mainly represented container leasing income receivable from fellow subsidiaries and included a receivable balance from COSCON of US$21,779,000 (all are aged less than 60 days) (2005: US$22,522,000 (out of which US$20,115,000 are aged less than 60 days)). During the year ended 31st December 2006, the container leasing income from COSCON and the other fellow subsidiaries amounted to US$136,889,000 (2005: US$126,400,000) and US$213,000 (2005: US$849,000) respectively.

(d) The balance represented the unsettled billings to be collected by the Group in respect of the leases of those containers managed on behalf of third parties.

(e) The amounts due from jointly controlled entities and an investee company represented dividend income receivable from the respective jointly controlled entities and investee company.

(f) The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
US dollar	**82,352**	68,524	**181,482**	226,030
Renminbi	**38,227**	12,218	**–**	–
Hong Kong dollar	**11,902**	2,460	**9,331**	1,369
Euro	**429**	764	**219**	77
Other currencies	**719**	317	**384**	236
	133,629	84,283	**191,416**	227,712

(g) The carrying amounts of trade and other receivables approximate their fair values.

31 TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Trade payables				
– third parties	**39,774**	3,638	**–**	–
– jointly controlled entities (notes a and b)	**2,935**	3,360	**–**	–
– a minority shareholder of a subsidiary (note a)	**36**	437	**–**	–
– subsidiaries of an associate (notes a and b)	**30,024**	16,766	**–**	–
– related companies (note a)	**14**	–	**–**	–
	72,783	24,201	**–**	–
Other payables and accruals	**62,083**	29,059	**1,072**	627
Payable to owners of managed containers (note c)	**34,909**	–	**–**	–
Current portion of other long term liabilities (note 36)	**1,488**	–	**–**	–
Dividend payable	**20**	18	**20**	18
Amounts due to (note a)				
– subsidiaries	**–**	–	**41,912**	99,384
– fellow subsidiaries	**270**	350	**–**	–
– minority shareholders of subsidiaries	**1,175**	–	**–**	–
	172,728	53,628	**43,004**	100,029

Notes:

(a) The amounts due to subsidiaries, fellow subsidiaries, jointly controlled entities, minority shareholders of subsidiaries, subsidiaries of an associate and related companies are unsecured and interest free. Trading balances have similar credit periods granted as those of other third party suppliers while the other balances have no fixed terms of repayment.

(b) The balances represented the amounts payable to jointly controlled entities and subsidiaries of an associate of the Group of US$2,935,000 (2005: US$3,360,000) and US$30,024,000 (2005: US$16,766,000) respectively in respect of the purchases of containers (note 41(a)(ix)).

(c) The balance represented the rental income of the managed containers collected, net of the direct operating expenses of the managed containers paid by the Group on behalf of third parties and the management fee income.

31 TRADE AND OTHER PAYABLES (CONTINUED)

(d) The ageing analysis of the trade balances due to third parties, jointly controlled entities, a minority shareholder of a subsidiary, subsidiaries of an associate and related companies was as follows:

	Group	
	2006	2005
	US$'000	US$'000
Within 30 days	**1,192**	6,179
31 – 60 days	**15,347**	312
61 – 90 days	**45,155**	17,670
Over 90 days	**11,089**	40
	72,783	24,201

(e) Other payables and accruals include an amount of US$36,049,000 (2005: US$871,000) accrued for purchase of containers which were delivered to the Group prior to the year end. The amount has not been included in the ageing analysis above.

(f) The carrying amounts of trade and other payables are denominated in the following currencies:

	Group		Company	
	2006	2005	2006	2005
	US$'000	US$'000	US$'000	US$'000
US dollar	**159,593**	43,621	**19,647**	93,222
Renminbi	**9,003**	6,725	**19,807**	169
Hong Kong dollar	**3,956**	3,276	**3,550**	6,638
Other currencies	**176**	6	**–**	–
	172,728	53,628	**43,004**	100,029

(g) The carrying amounts of trade and other payables approximate their fair values.

32 SHARE CAPITAL

	2006	2005
	US$'000	US$'000
Authorised:		
3,000,000,000 ordinary shares of HK$0.10 each	**38,462**	38,462
Issued and fully paid:		
2,228,684,298 (2005: 2,198,966,298) ordinary shares of HK$0.10 each	**28,583**	28,200

(a) The movements of the issued share capital of the Company are summarised as follows:

	Number of ordinary shares	Nominal value US$'000
At 1st January 2006	2,198,966,298	28,200
Issued on exercising of share options (note b)	29,718,000	383
At 31st December 2006	2,228,684,298	28,583
At 1st January 2005	2,183,630,298	28,003
Issued on exercising of share options (note b)	15,336,000	197
At 31st December 2005	2,198,966,298	28,200

(b) Share options

Under the 1994 Share Option Scheme, the directors of the Company may, at their discretion, grant to any director, executive and/or employee who are in full time employment with any company in the Group, share options to subscribe for the Company's shares, subject to the terms and conditions stipulated therein.

On 23rd May 2003, the shareholders of the Company approved the adoption of the 2003 Share Option Scheme and the termination of the 1994 Share Option Scheme. No further options shall be granted under the 1994 Share Option Scheme after 23rd May 2003 but the outstanding share options which had been granted shall continue to be valid and exercisable in accordance with their terms and provisions under the 1994 Share Option Scheme.

32 SHARE CAPITAL (CONTINUED)

(b) Share options (Continued)

On 5th December 2005, amendments to certain terms of the 2003 Share Option Scheme were approved by the shareholders of the Company (the "Amended 2003 Share Option Scheme"). Under the Amended 2003 Share Option Scheme, the directors of the Company may, at their discretion, invite any participants, as defined under the Amended 2003 Share Option Scheme, to take up share options for subscribing the Company's shares, subject to the terms and conditions stipulated therein.

The consideration on acceptance of an offer of the grant of an option is HK$1.00.

Movements of the share options granted during the year ended 31st December 2006 and 2005 are set out below:

			For the year ended 31st December 2006 Number of share options				
Category	Note	Exercise price HK$	Outstanding at 1st January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31st December 2006
Directors	(ii)	8.80	900,000	–	(600,000)	–	300,000
	(iii)	9.54	2,700,000	–	(600,000)	–	2,100,000
	(iv)	13.75	8,800,000	–	(1,900,000)	–	6,900,000
Continuous Contract Employees	(ii)	8.80	254,000	–	(232,000)	–	22,000
	(iii)	9.54	6,794,000	–	(2,816,000)	–	3,978,000
	(iv)	13.75	31,044,000	–	(10,826,000)	(20,000)	20,198,000
Others	(iii)	9.54	3,104,000	–	(2,104,000)	–	1,000,000
	(iv)	13.75	18,000,000	–	(10,640,000)	–	7,360,000
			71,596,000	–	(29,718,000)	(20,000)	41,858,000

32 SHARE CAPITAL (CONTINUED)

(b) Share options (Continued)

			For the year ended 31st December 2005 Number of share options					
Category	Note	Exercise price HK$	Outstanding at 1st January 2005	Granted during the year	Exercised during the year	Transfer (to)/ from other category during the year (note v)	Lapsed during the year	Outstanding at 31st December 2005
Directors	(ii)	8.80	1,800,000	–	(900,000)	–	–	900,000
	(iii)	9.54	9,776,000	–	(2,882,000)	(4,194,000)	–	2,700,000
	(iv)	13.75	18,000,000	–	(500,000)	(8,700,000)	–	8,800,000
Continuous Contract Employees	(ii)	8.80	902,000	–	(648,000)	–	–	254,000
	(iii)	9.54	9,394,000	–	(2,600,000)	–	–	6,794,000
	(iv)	13.75	35,990,000	–	(4,146,000)	(800,000)	–	31,044,000
Others	(iii)	9.54	1,320,000	–	(2,410,000)	4,194,000	–	3,104,000
	(iv)	13.75	9,750,000	–	(1,250,000)	9,500,000	–	18,000,000
			86,932,000	–	(15,336,000)	–	–	71,596,000

Notes:

(i) All the outstanding options were vested and exercisable as at 31st December 2006 and 2005. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

(ii) The share options were granted on 20th May 1997 (the "Offer Date") under the 1994 Share Option Scheme and are exercisable on or before 19th May 2007. The grantees may exercise a maximum of 20% of share options granted in each of the first five anniversary years from the Offer Date and all grantees may reserve their rights to exercise and accumulate their share options exercisable during their employment within the Group.

(iii) The share options were granted during the period from 28th October 2003 to 6th November 2003 under the 2003 Share Option Scheme at an exercise price of HK$9.54. The options are exercisable at any time within ten years from the date on which an offer is accepted or deemed to be accepted by the grantee under the 2003 Share Option Scheme from 28th October 2003 to 6th November 2003.

(iv) The share options were granted during the period from 25th November 2004 to 16th December 2004 under the 2003 Share Option Scheme at an exercise price of HK$13.75. The options are exercisable at any time within ten years from the date on which an offer is accepted or deemed to be accepted by the grantee under the 2003 Share Option Scheme from 25th November 2004 to 16th December 2004.

(v) Certain directors resigned or did not seek for re-election during the year ended 31st December 2005, and accordingly, the options granted to these ex-directors were reclassified from the category of "Directors" to the category of "Others". Those options exercised by them subsequent to their resignation or retirement were grouped thereon accordingly.

In addition, the options granted to an executive director who was appointed on 29th July 2005 had been reclassified from the category of "Continuous Contract Employees" to the category of "Directors" during the year ended 31st December 2005.

32 SHARE CAPITAL (CONTINUED)

(b) Share options (Continued)

(vi) The exercise of the 29,718,000 (2005: 15,336,000) share options during the year yielded the proceeds, net of transaction costs of US$13,000 (2005: US$20,000), as follows:

	Company 2006 US$'000	2005 US$'000
Ordinary share capital – at par	**383**	197
Share premium (net of issue expenses)	**48,702**	21,626
Proceeds (net of issue expenses)	**49,085**	21,823

(vii) Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price HK$	Number of share options 2006	2005
20th May 2007	8.80	**322,000**	1,154,000
28th October 2013 to 6th November 2013	9.54	**7,078,000**	12,598,000
25th November 2014 to 16th December 2014	13.75	**34,458,000**	57,844,000
		41,858,000	71,596,000

(viii) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2006 Average exercise price per share HK$	2006 Number of share options	2005 Average exercise price per share HK$	2005 Number of share options
At 1st January	**12.93**	**71,596,000**	12.60	86,932,000
Granted	**N/A**	**–**	N/A	–
Exercised	**12.97**	**(29,718,000)**	11.08	(15,336,000)
Lapsed	**13.75**	**(20,000)**	N/A	–
At 31st December	**13.00**	**41,858,000**	12.93	71,596,000

The weighted average closing market price of the Company's shares on the dates when the share options were exercised was HK$17.31 (2005: HK$15.73) per share.

33 RESERVES

Company

	Share premium US$'000	Contributed surplus (note) US$'000	Retained profits US$'000	Total US$'000
At 1st January 2006	**623,822**	**414,214**	**166,999**	**1,205,035**
Issue of shares on exercise of share options	**48,715**	**–**	**–**	**48,715**
Share issue expenses	**(13)**	**–**	**–**	**(13)**
Profit for the year	**–**	**–**	**153,241**	**153,241**
Dividends				
– 2005 final	**–**	**–**	**(79,457)**	**(79,457)**
– 2006 interim	**–**	**–**	**(78,230)**	**(78,230)**
– 2006 special interim	**–**	**–**	**(26,048)**	**(26,048)**
At 31st December 2006	**672,524**	**414,214**	**136,505**	**1,223,243**
Representing:				
Reserves	**672,524**	**414,214**	**44,081**	**1,130,819**
2006 final dividend proposed	**–**	**–**	**92,424**	**92,424**
At 31st December 2006	**672,524**	**414,214**	**136,505**	**1,223,243**
At 1st January 2005	602,196	414,214	168,590	1,185,000
Issue of shares on exercise of share options	21,646	–	–	21,646
Share issue expenses	(20)	–	–	(20)
Profit for the year	–	–	179,064	179,064
Dividends				
– 2004 final	–	–	(69,183)	(69,183)
– 2005 interim	–	–	(79,506)	(79,506)
– 2005 special interim	–	–	(31,966)	(31,966)
At 31st December 2005	623,822	414,214	166,999	1,205,035
Representing:				
Reserves	623,822	414,214	88,210	1,126,246
2005 final dividend proposed	–	–	78,789	78,789
At 31st December 2005	623,822	414,214	166,999	1,205,035

Note:

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued share capital and the net asset value of the subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended), the contribution surplus is distributable to shareholders.

34 LONG TERM BORROWINGS

	Group 2006 US$'000	2005 US$'000
Borrowings		
– Secured	**500**	345,618
– Unsecured	**520,853**	487,557
	521,353	833,175
Amounts due within one year included under current liabilities	**(2,421)**	(84,558)
	518,932	748,617

(a) The analysis of the above is as follows:

	Group 2006 US$'000	2005 US$'000
Wholly repayable within five years		
– Bank loans	**221,395**	534,885
– Other loan	**–**	7,562
	221,395	542,447
Not wholly repayable within five years		
– Bank loans	**10,245**	–
– Notes (note e)	**289,713**	290,728
	299,958	290,728
	521,353	833,175

34 LONG TERM BORROWINGS (CONTINUED)

(b) The maturity of borrowings is as follows:

	Group 2006 US$'000	2005 US$'000
Bank loans (notes c and d)		
Within one year	**2,421**	81,700
Between one and two years	**189,840**	76,089
Between two and five years	**30,927**	377,096
Over five years	**8,452**	–
	231,640	534,885
Notes		
Over five years	**289,713**	290,728
Other loans (note f)		
Within one year	**–**	2,858
Between one and two years	**–**	3,078
Between two and five years	**–**	1,626
	–	7,562
	521,353	833,175

(c) As at 31st December 2006, bank loan of US$500,000 (2005: US$1,000,000) was secured by certain land use right of the Group.

As at 31st December 2005, bank and other loans of US$344,618,000 were also secured by certain containers of the Group, the assignment of the container lease agreements and the rental income thereon, other assets and shares of certain subsidiaries. These bank and other loans were fully repaid during the year ended 31st December 2006.

(d) The Group has established a non-wholly owned subsidiary (the "Subsidiary") with a third party (the "Partner") in August 2006. For the establishment of the Subsidiary, the Partner has injected certain assets and liabilities to the Subsidiary, including bank loans. As of 31st December 2006, the necessary procedures for changing the Subsidiary as the borrower of the bank loans of US$16,648,000 have not yet been completed. As the Subsidiary undertakes these bank loans with effect from the date of its establishment, the directors have accounted for the related loans as the Group's bank loans as at the balance sheet date.

34 LONG TERM BORROWINGS (CONTINUED)

(e) Details of the notes as at 31st December 2006 are as follows:

	Group 2006 US$'000	2005 US$'000
Principal amount	**300,000**	300,000
Discount on issue	**(1,899)**	(1,899)
Notes issuance cost	**(1,800)**	(1,800)
Net proceeds received	**296,301**	296,301
Accumulated amortised amounts of		
– discount on issue	**743**	529
– notes issuance cost	**704**	501
	297,748	297,331
Effect of fair value hedge	**(8,035)**	(6,603)
	289,713	290,728

Notes with principal amount of US$300,000,000 were issued by a subsidiary of the Company to investors on 3rd October 2003. The notes carried an interest yield of 5.96% per annum and were issued at a price of 99.367 per cent of their principal amount with a coupon rate of 5.875% per annum, resulting in a discount on issue of US$1,899,000. The notes bear interest from 3rd October 2003, payable semi-annually in arrear on 3rd April and 3rd October of each year, commencing on 3rd April 2004. The notes are guaranteed unconditionally and irrevocably by the Company and listed on the Singapore Exchange Securities Trading Limited.

Unless previously redeemed or repurchased by the Company, the notes will mature on 3rd October 2013 at their principal amount. The notes are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the Company at any time in the event of certain changes affecting the taxes of certain jurisdictions.

(f) As at 31st December 2005, other loans included a balance of US$7,562,000 which was repayable by quarterly instalment over a period of 32 quarters starting from 7th July 2000. Interest was charged on the outstanding balance at the rate of 1.125% per annum above the LIBOR. These other loans were fully repaid during the year ended 31st December 2006.

34 LONG TERM BORROWINGS (CONTINUED)

(g) The exposure of Group's borrowings to interest rate changes and the contractual repricing dates are as follows:

	Less than 1 year US$'000	1 - 5 years US$'000	Over 5 years US$'000	Total US$'000
At 31st December 2006				
Total borrowings	**176,829**	**46,359**	**298,165**	**521,353**
Effect of interest rate swaps qualified as hedges	**–**	**–**	**(200,000)**	**(200,000)**
	176,829	**46,359**	**98,165**	**321,353**
At 31st December 2005				
Total borrowings	539,345	3,102	290,728	833,175
Effect of interest rate swaps qualified as hedges	–	–	(200,000)	(200,000)
	539,345	3,102	90,728	633,175

(h) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2006 US$'000	2005 US$'000
US dollar	**464,622**	830,326
Renminbi	**56,731**	2,849
	521,353	833,175

The effective interest rates per annum at the balance sheet date were as follows:

	2006 US$	2006 RMB	2005 US$	2005 RMB
Bank loans	**6.2%**	**5.8%**	5.1%	5.3%
Notes	**6.0%**	**N/A**	6.0%	N/A
Other loans	**N/A**	**N/A**	5.7%	N/A

34 LONG TERM BORROWINGS (CONTINUED)

(i) The carrying amounts and fair value of the Group's non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Bank loans	**229,219**	453,185	**231,719**	444,718
Notes	**289,713**	290,728	**307,662**	311,518
Other loans	**–**	4,704	**–**	4,578
	518,932	748,617	**539,381**	760,814

The fair values are determined based on cash flows discounted using a weighted average borrowing rate of 5.4% (2005: 5.2%) per annum.

(j) As at 31st December 2006, the Group has the following committed and undrawn borrowing facilities:

	2006	2005
	US$'000	US$'000
Facilities at floating rates		
– expiring within one year	**40,000**	300,000
– expiring after more than one year	**–**	20,000
	40,000	320,000

35 DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using tax rates substantively enacted by the balance sheet date.

The movement on the net deferred income tax liabilities during the year is as follows:

	Group	
	2006	2005
	US$'000	US$'000
At 1st January	**72,453**	51,625
(Credited)/charged to consolidated income statement (note 13)	**(70,413)**	20,828
At 31st December	**2,040**	72,453

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31st December 2006, the Group and the Company have unrecognised tax losses of US$4,286,000 (2005: US$5,198,000) and US$2,555,000 (2005: US$2,561,000) respectively, which have no expiry date, to carry forward.

As at 31st December 2006, deferred income tax liabilities of US$58,750,000 (2005: US$36,617,000) have not been established for the withholding taxation that would be payable on the undistributed earnings of certain subsidiaries totalling US$195,833,000 (2005: US$122,055,000) as the directors considered that the timing of the reversal of the related temporary differences can be controlled and accordingly the temporary difference will not be reversed in the foreseeable future.

The movement in recognised deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

(a) Deferred income tax liabilities

	Group	
	Accelerated tax depreciation	
	2006	2005
	US$'000	US$'000
At 1st January	**125,263**	112,501
(Credited)/charged to consolidated income statement	**(121,023)**	12,762
At 31st December	**4,240**	125,263

35 DEFERRED INCOME TAX (CONTINUED)

(b) Deferred income tax assets

	Group					
	Tax losses		Others		Total	
	2006 US$'000	2005 US$'000	2006 US$'000	2005 US$'000	2006 US$'000	2005 US$'000
At 1st January	**48,064**	54,668	**4,746**	6,208	**52,810**	60,876
Charged to consolidated income statement	**(47,876)**	(6,604)	**(2,734)**	(1,462)	**(50,610)**	(8,066)
At 31st December	**188**	48,064	**2,012**	4,746	**2,200**	52,810

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2006 US$'000	2005 US$'000
Deferred income tax assets	**162**	246
Deferred income tax liabilities	**2,202**	72,699

The amounts shown in the consolidated balance sheet include the following:

	2006 US$'000	2005 US$'000
Deferred income tax assets to be recovered after more than 12 months	**115**	246
Deferred income tax liabilities to be settled after more than 12 months	**2,188**	72,636

As at 31st December 2006 and 2005, the Company did not have significant deferred income tax assets and liabilities.

36 OTHER LONG TERM LIABILITIES

	Group	
	2006 US$'000	2005 US$'000
Deferred upfront administration fee (note)	**6,695**	–
Less: current portion (note 31)	**(1,488)**	–
	5,207	–

Note:

Subsequent to the completion of the disposal of containers as set out in note 8, the Group has entered into Administrative Services Agreements (the "Agreements") with the Purchaser pursuant to which the Group will manage the Sold Containers on behalf of the Purchaser for an initial term of five years (extendable at the option of the Purchaser). The Group has received an upfront administration fee of approximately US$7,439,000 from the Purchaser pursuant to the Agreements. During the year ended 31st December 2006, upfront administration fee of US$744,000 (2005: Not applicable) has been recognised as income in the consolidated income statement and the remaining unearned administration fee income of US$6,695,000 (2005: Not applicable) was deferred and will be recognised over the remaining period of the Agreements.

37 FINANCIAL GUARANTEE CONTRACTS

The face value of the financial guarantees issued by the Group and the Company as at 31st December 2006 is analysed as below:

	Group		Company	
	2006 US$'000	2005 US$'000	2006 US$'000	2005 US$'000
Guarantees for:				
– Notes issued by a subsidiary (note 34(e))	**–**	–	**300,000**	300,000
– Other credit or loan facilities granted to subsidiaries	**–**	–	**175,000**	541,379
– Bank guarantees to an associate	**25,304**	21,920	**–**	–
	25,304	21,920	**475,000**	841,379

The directors of the Company consider that it is not probable for a claim to be made against the Group and the Company under any of these guarantees as at the balance sheet date.

38 CAPITAL COMMITMENTS

Except as disclosed elsewhere in the financial statements, the Group has the following significant capital commitments as at 31st December 2006:

	Group 2006 US$'000	2005 US$'000
Authorised but not contracted for		
– Containers	**474,592**	317,558
– Generator sets	**2,448**	5,600
– Computer system under development	**946**	1,074
– Other property, plant and equipment	**1,264**	–
	479,250	324,232
Contracted but not provided for		
– Containers	**39,346**	8,331
– Investments (note)	**727,118**	711,844
– Other property, plant and equipment	**27,729**	6,240
	794,193	726,415
The Group's share of capital commitments of the jointly controlled entities themselves not included in the above are as follows:		
Contracted but not provided for	**20,320**	7,316
Authorised but not contracted for	**32,221**	8,318
	52,541	15,634

Note:

The Group's investments contracted but not provided for as at 31st December 2006 are as follows:

	Group 2006 US$'000	2005 US$'000
Investments in:		
– Qingdao Qianwan Container Terminal Co., Ltd	**77,817**	104,020
– Antwerp Gateway NV	**86,294**	81,091
– Dalian Port Container Terminals Co., Ltd	**91,546**	88,392
– COSCO Ports (Nansha) Limited	**165,902**	293,096
– Others	**64,410**	44,197
	485,969	610,796
Terminal projects in:		
– Tianjin Port Euroasia Terminal	**138,307**	–
– Shanghai Yangshan Port Phase II	**51,225**	49,565
– Suez Canal Terminal at Port Said, Egypt	**47,500**	47,500
– Others	**4,117**	3,983
	241,149	101,048
	727,118	711,844

39 OPERATING LEASE ARRANGEMENTS/COMMITMENTS

(a) Operating lease arrangement – where the Group is the lessor

At 31st December 2006, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	Group 2006 US$'000	2005 US$'000
Containers		
– not later than one year	**156,681**	210,896
– later than one year and not later than five years	**462,665**	508,750
– later than five years	**280,864**	183,278
	900,210	902,924
Generator sets		
– not later than one year	**1,468**	1,053
– later than one year and not later than five years	**3,130**	2,708
	4,598	3,761
Investment properties		
– not later than one year	**34**	29
– later than one year and not later than five years	**22**	16
	56	45
	904,864	906,730

The future lease receipts above do not include those lease contracts with the amount of future lease receipts depends on the timing of pick up and drop off of containers by lessees during the lease period of the contracts.

(b) Operating lease commitments – where the Group is the lessee

At 31st December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group 2006 US$'000	2005 US$'000
Buildings, leasehold land and land use rights		
– not later than one year	**3,021**	2,534
– later than one year and not later than five years	**3,839**	5,177
– later than five years	**4,269**	4,465
	11,129	12,176
Plant and machinery		
– not later than one year	**322**	390
– later than one year and not later than five years	**97**	328
	419	718
	11,548	12,894

(c) The Company did not have any lease commitments as at 31st December 2006 and 2005.

40 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before income tax to cash generated from operations

	2006 US$'000	2005 US$'000
Profit before income tax	**343,654**	360,381
Depreciation and amortisation	**88,119**	107,666
Interest expenses	**39,219**	33,641
Fair value gain on interest rate swap contracts not qualified as hedges	**(605)**	(3,984)
Initial recognition of put options granted in connection with share reform of an associate	**140,064**	–
Fair value gain on put options granted	**(84,883)**	–
Amortised amount of		
– discount on issue of notes	**214**	227
– transaction costs on bank loans and notes	**3,944**	1,771
Other incidental borrowing costs and charges	**826**	723
Impairment loss of containers	**2,533**	2,327
Provision for impairment of trade and finance lease receivables	**3,061**	1,389
Provision of inventories	**143**	–
Profit on disposal of property, plant and equipment, net	**(85,086)**	(1,664)
Dividend income from		
– a listed investment	**(476)**	(768)
– unlisted investments	**(19,227)**	(15,769)
Profit on disposal of		
– a subsidiary	**–**	(14)
– a jointly controlled entity	**(5,470)**	–
– partial interest in an associate	**–**	(178)
– an available-for-sale financial asset	**–**	(61,875)
Revaluation surplus of investment properties	**(157)**	(501)
Reversal of provision for impairment of trade receivables	**(1,676)**	(14)
Interest income	**(12,621)**	(4,361)
Share of profits less losses of		
– jointly controlled entities	**(85,070)**	(72,969)
– associates	**(89,042)**	(82,320)
Operating profit before working capital changes	**237,464**	263,708
(Increase)/decrease in net amount due from jointly controlled entities	**(784)**	14
Decrease in finance lease receivables	**1,521**	1,578
Increase in rent receivable collected on behalf of owners of managed containers	**(36,459)**	–
Decrease in inventories held for sale	**30,954**	15,453
Decrease/(increase) in trade and other receivables, deposits and prepayments	**22,071**	(7,698)
Decrease/(increase) in restricted bank deposits	**21,820**	(10,681)
Decrease/(increase) in amounts due from fellow subsidiaries	**849**	(2,664)
Decrease/(increase) in amounts due from related companies	**83**	(186)
(Increase)/decrease in amount due from an associate	**(775)**	308
(Decrease)/increase in trade and other payables and accruals	**(1,724)**	9,523
Increase in payable to owners of managed containers	**34,909**	–
(Decrease)/increase in amounts due to fellow subsidiaries	**(80)**	239
Increase in amounts due to related companies	**14**	–
Increase/(decrease) in amounts due to minority shareholders of subsidiaries	**774**	(67)
Cash generated from operations	**310,637**	269,527

40 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) US$'000	Loans and notes US$'000	Minority interests US$'000
Balance at 1st January 2006	652,022	835,653	10,395
Exchange differences	–	1,213	514
Issue of shares on exercise of share options (net of share issue expenses)	49,085	–	–
Transaction costs net off to bank loans and notes during the year	–	(1,550)	–
Loans borrowed	–	517,103	–
Amortised amount of			
– discount on issue of notes	–	214	–
– transaction costs on bank loans and notes	–	3,944	–
Loans repaid	–	(889,986)	–
Effect of fair value hedge	–	(1,432)	–
Dividends paid to minority shareholders	–	–	(2,774)
Minority interests' share of profit for the year	–	–	3,376
Asset injection to a non-wholly owned subsidiary by a minority shareholder of a subsidiary	–	–	9,800
Establishment of a non-wholly owned subsidiary	–	–	14,256
Transfer of loans by a minority shareholder of a subsidiary	–	66,439	–
Balance at 31st December 2006	701,107	531,598	35,567

40 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) Analysis of changes in financing during the year (Continued)

	Share capital (including share premium) US$'000	Loans and notes US$'000	Minority interests US$'000
Balance at 1st January 2005	630,199	649,089	9,441
Exchange differences	–	53	148
Issue of shares on exercise of share options (net of share issue expenses)	21,823	–	–
Transaction costs net off to bank loans and notes during the year	–	(1,618)	–
Loans borrowed	–	321,119	–
Amortised amount of			
– discount on issue of notes	–	227	–
– transaction costs on bank loans and notes	–	1,771	–
Loans repaid	–	(128,385)	–
Effect of fair value hedge	–	(6,603)	–
Dividends paid to minority shareholders	–	–	(2,212)
Minority interests' share of profit for the year	–	–	3,018
Balance at 31st December 2005	652,022	835,653	10,395

(c) Analysis of the balances of cash and cash equivalents

	Group 2006 US$'000	Group 2005 US$'000
Total time deposits, bank balances and cash (note i)	**224,668**	179,315
Restricted bank deposits included in non-current assets (note ii)	**(158)**	(21,978)
	224,510	157,337
Representing:		
Time deposits	**160,561**	94,688
Bank balances and cash	**63,949**	62,649
	224,510	157,337

40 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(c) Analysis of the balances of cash and cash equivalents (Continued)

Notes:

(i) As at 31st December 2006, cash and cash equivalents of US$15,834,000 (2005: US$82,745,000) were denominated in Renminbi and US dollar which are held by certain subsidiaries with bank accounts operating in the PRC where exchange controls apply.

The carrying amounts of time deposits, bank balances and cash are denominated in the following currencies:

	Group 2006 US$'000	Group 2005 US$'000	Company 2006 US$'000	Company 2005 US$'000
US dollar	**163,929**	145,711	**96,053**	68,169
Renminbi	**15,378**	17,944	**–**	–
Hong Kong dollar	**31,630**	11,733	**27,270**	9,113
Other currencies	**13,731**	3,927	**3,420**	–
	224,668	179,315	**126,743**	77,282

(ii) As at 31st December 2005, restricted bank deposits mainly included deposits of US$21,819,000 which were held as securities for repayment of bank loans and were restricted for the purpose of the related banking facilities.

(iii) The effective interest rate on time deposits was 4.64% (2005: 3.83%) per annum. These deposits have an average maturity of 9 days (2005: 11 days). The bank balances earn interests at floating rates based on daily bank deposits rates.

41 RELATED PARTY TRANSACTIONS

The Group is controlled by China COSCO which owns 51.34% of the Company's shares as at 31st December 2006. The parent company of China COSCO is COSCO.

COSCO itself is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with HKAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries (other than COSCO group companies), directly or indirectly controlled by the PRC government, are also defined as related parties of the Group. On that basis, related parties include COSCO and its subsidiaries, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and COSCO as well as their close family members.

For the purpose of related party transaction disclosures, the Group has identified, to the extent practicable, its customers and suppliers as to whether they are state-owned enterprises. Nevertheless, the directors believe that meaningful information in respect of related party transactions has been adequately disclosed.

In addition to those disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the year.

41 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Sales/purchases of goods, services and investments

	2006 US$'000	2005 US$'000
Container rental income from fellow subsidiaries (note i)		
– long term leases	**136,889**	126,400
– short term leases	**213**	849
Container rental income from other state-owned enterprise (note i)	**1,041**	2,110
Handling, storage and transportation income from fellow subsidiaries (note ii)	**7,234**	6,346
Management fee and service fee income from (note iii)		
– jointly controlled entities	**3,441**	2,571
– associates	**859**	613
– a joint venture partner of a jointly controlled entity	**2,000**	–
Container terminal handling and storage income received from fellow subsidiaries and an associate of a parent company (note iv)	**3,980**	1,940
Container freight charges to (note v)		
– jointly controlled entities	**(507)**	(174)
– subsidiaries of CIMC	**(1,620)**	(1,778)
Approved continuous examination program fees to a fellow subsidiary (note vi)	**(1,100)**	(1,100)
Proceeds on disposal of a jointly controlled entity to a subsidiary of CIMC (note vii)	**6,252**	–
Proceeds on the disposal of a subsidiary and assignment of a shareholder's loan to a fellow subsidiary (note viii)	**–**	1,558
Purchase of containers from (note ix)		
– subsidiaries of CIMC	**(156,299)**	(105,758)
– jointly controlled entities of the Group	**(40,375)**	(36,831)
Injection of assets and liabilities by minority shareholders of subsidiaries and related subsequent expenses (note x)	**54,436**	–

41 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Sales/purchases of goods, services and investments (Continued)

Notes:

(i) The Group has conducted long term container leasing business with COSCON. During the two years ended 31st December 2006, the Group entered into new long term container leasing contracts/arrangements with COSCON. The Group's long term container leasing transactions with COSCON during the year have been conducted by reference to the average of the available leasing rates quoted from four (2005: four) of the top ten independent container leasing companies and in the ordinary and normal course of the business of the Group.

The other container leasing businesses with COSCON, other subsidiaries of COSCO and other state-owned enterprises were conducted at terms as agreed between the Group and respective parties in concern.

(ii) The handling, storage and transportation income received from fellow subsidiaries of the Company were conducted at terms as set out in the agreements entered into between the Group and these fellow subsidiaries.

(iii) The Group provided advisory and management services to COSCO-HIT Terminals (Hong Kong) Limited ("COSCO HIT"), a jointly controlled entity of the Group, during the year. Management fee was charged and agreed at HK$20,000,000 (equivalent to US$2,575,000) (2005: HK$20,000,000 (equivalent to US$2,571,000)) per annum.

Other management fee and service fee income charged to jointly controlled entities, associates and the joint venture partner of a jointly controlled entity was agreed between the Group and the respective parties in concern.

(iv) The container terminal handling and storage income received from fellow subsidiaries and an associate of COSCO in relation to the cargoes shipped from/to Zhangjiagang and Quanzhou ports were conducted by the Group by reference to rates as set out by the Ministry of Communications of the PRC.

(v) The container freight charges paid to jointly controlled entities and subsidiaries of CIMC for container repositioning services rendered to the Group were charged at rates as mutually agreed.

(vi) Approved continuous examination program fees of US$1,100,000 to COSCON in connection with the containers leased to COSCON on a long term basis were agreed between the Group and COSCON for the year ended 31st December 2006 (2005: US$1,100,000).

(vii) On 17th July 2006, the Group entered into an agreement with a subsidiary of CIMC to dispose of its entire 20% equity interest in Shanghai CIMC Far East Container Co., Ltd, a then jointly controlled entity of the Group, at a consideration of US$6,252,000. The disposal resulted in a gain of US$5,470,000.

(viii) On 31st May 2005, the Group disposed of a wholly owned subsidiary, which holds certain properties located in Hong Kong, and assigned a shareholder's loan to COSCO (H.K.) Property Development Limited, a fellow subsidiary, at an aggregate consideration of HK$12,100,000 (equivalent to US$1,558,000), and this resulted in an insignificant gain.

(ix) The purchases of containers from subsidiaries of CIMC and jointly controlled entities of the Group were conducted at terms as set out in the agreements entered into between the Group and the respective parties in concern.

(x) During the year ended 31st December 2006, the minority shareholder of Zhangjiagang Win Hanverky Container Terminal Co., Ltd. ("ZWHC") , a non-wholly owned subsidiary, transferred certain port facilities and terminal equipment to ZWHC amounting to RMB171,082,000 (equivalent to approximately US$21,713,000) (the "Transferred Assets"). The value of the Transferred Assets was determined by reference to the valuation report issued by an independent valuer in the PRC (the "Valuation"). The amount of the Transferred Assets, net of the minority shareholder's capital contribution to ZWHC for its capital increase of US$9,800,000 together with the subsequent expenses incurred between the date of Valuation and the date of assets transfer, are repayable to the minority shareholder by ZWHC. Any unsettled balance bore interest at a rate of 5.265% (prior to 30th April 2006: 5.022%) per annum. The related balances repayable to the minority shareholder of ZWHC were fully settled in November 2006. For the capital increase of ZWHC, the Group had also made a capital contribution in cash to ZWHC in proportion to its shareholding.

In addition, the Group established Quanzhou Pacific Container Terminal Co., Limited ("QPCT"), a non-wholly owned subsidiary, in August 2006 and had contributed capital in cash to QPCT in proportion to its shareholding. The minority shareholder transferred certain assets and liabilities to QPCT with an aggregate value of RMB246,852,000 (equivalent to approximately US$31,015,000) (the "Transferred Net Assets") which was determined by reference to the valuation report issued by an independent valuer in the PRC. The amount of the Transferred Net Assets, after deducting the minority shareholder's capital contribution to QPCT of US$14,256,000, is repayable to the minority shareholder by QPCT and the balance is unsecured, interest free and has no fixed terms of repayment. As at 31st December 2006, the related unsettled balance payable to the minority shareholder of QPCT amounted to US$1,050,000.

41 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with state-owned banks

	2006 US$'000	2005 US$'000
Bank deposit balances		
– in China mainland	**15,384**	17,946
– outside China mainland	**96,084**	101,682
Long term loans		
– in China mainland	**57,232**	1,372
– outside China mainland	**174,409**	173,980
Short term loans		
– in China mainland	**10,245**	2,478

The deposits and loans with state-owned banks were in accordance with the terms as set out in the respective agreements or as mutually agreed between the parties in concern.

(c) Balances with other state-owned enterprise

	2006 US$'000	2005 US$'000
Other payables to a state-owned enterprise	**5,682**	5,005

The balance represented the port construction levies collected by subsidiaries of the Group on behalf of the port authority in Zhangjiagang and Quanzhou pursuant to a notice issued by the Ministry of Communications of the PRC. The balances are unsecured, interest free and have no fixed terms of repayment.

(d) Key management compensation

	2006 US$'000	2005 US$'000
Salaries, bonuses and other allowances	**2,641**	2,508
Contributions to retirement benefit schemes	**6**	6
	2,647	2,514

Key management includes directors of the Company and four senior management members of the Group.

42 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

43 DETAILS OF SUBSIDIARIES

Details of the subsidiaries as at 31st December 2006 are as follows:

	Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/paid-up capital	Group equity interest 2006	Group equity interest 2005
2	Allgood International Limited	British Virgin Islands	Hong Kong	Dormant	1 ordinary share of US$1	**100.00%**	100.00%
1, 2	Bauhinia 97 Ltd.	Cayman Islands	Hong Kong	Investment holding	2 ordinary shares of US$1 each	**100.00%**	100.00%
	Cheer Hero Development Limited	Hong Kong	Hong Kong	Container handling, storage and stevedoring	10,000 ordinary shares of HK$10 each	**75.00%**	75.00%
1, 2	COSCO Container Industries Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
	COSCO Container Services Limited	Hong Kong	Hong Kong	Investment holding, depot handling, storage and container repairing	2 ordinary shares of HK$1 each	**100.00%**	100.00%
1, 2, 3	COSCO Pacific (China) Investments Co., Ltd.	PRC	PRC	Investment holding	US$37,496,000	**100.00%**	100.00%
1	COSCO Pacific Finance (2003) Company Limited	British Virgin Islands	Hong Kong	Financing	1 ordinary share of US$1	**100.00%**	100.00%
1, 2	COSCO Pacific Logistics Company Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
1	COSCO Pacific Management Company Limited	Hong Kong	Hong Kong	Investment holding and provision of management services	2 ordinary shares of HK$1 each	**100.00%**	100.00%
1, 2	COSCO Pacific Nominees Limited	British Virgin Islands	Hong Kong	Provision of nominee services	1 ordinary share of US$1	**100.00%**	100.00%
2	COSCO Ports (Antwerp) NV	Belgium	Belgium	Investment holding	EURO61,500 divided into 2 shares with no face value	**100.00%**	100.00%

43 DETAILS OF SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/paid-up capital	Group equity interest 2006	2005
COSCO Ports (Belgium) Limited	Hong Kong	Hong Kong	Investment holding	1 ordinary share of HK$1	**100.00%**	100.00%
[2] COSCO Ports (Dalian) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[2] COSCO Ports (Dalian RoRo) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[2] COSCO Ports (Guangzhou) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[1] COSCO Ports (Holdings) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[2] COSCO Ports (Hong Kong) Limited	British Virgin Islands	Hong Kong	Dormant	1 ordinary share of US$1	**100.00%**	100.00%
[7] COSCO Ports (Nansha) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**–**	100.00%
[2] COSCO Ports (Nanjing) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[2] COSCO Ports (Ningbo Beilun) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[2] COSCO Ports (Port Said) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[2] COSCO Ports (Pudong) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	–
[2] COSCO Ports (Services) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	–
[2] COSCO Ports (Singapore) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[2] COSCO Ports (Qianwan) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%

43 DETAILS OF SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/paid-up capital	Group equity interest 2006	2005
[2] COSCO Ports (Qingdao) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[2] COSCO Ports (Quanzhou) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	–
[2] COSCO Ports (Quanzhou Jinjiang) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	–
[2] COSCO Ports (Tianjin) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[2] COSCO Ports (Tianjin North Basin) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[2] COSCO Ports (Yangshan) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[2] COSCO Ports (Yangzhou) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[2] COSCO Ports (Yingkou) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[2] COSCO Ports (Zhenjiang) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[1] CPL Treasury Limited	British Virgin Islands	Hong Kong	Provision of treasury services	1 ordinary share of US$1	**100.00%**	100.00%
[1] Crestway International Limited	British Virgin Islands	Hong Kong	Investment holding	50,000 ordinary shares of US$1 each	**100.00%**	100.00%
[1,2] Elegance Investment Limited	British Virgin Islands	Hong Kong	Dormant	1 ordinary share of US$1	**100.00%**	100.00%
Fairbreeze Shipping Company Limited	Hong Kong	Hong Kong	Property investment	5,000 ordinary shares of HK$100 each	**100.00%**	100.00%

43 DETAILS OF SUBSIDIARIES (CONTINUED)

	Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/paid-up capital	Group equity interest 2006	2005
2	Famous International Limited	British Virgin Islands	Worldwide	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
2,3,4,5	Florens (China) Company Limited	PRC	PRC	Resale of old containers	US$12,800,000	**100.00%**	–
2	Fentalic Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
	Florens Container (Macao Commercial Offshore) Limited	Macau	Worldwide	Sale of old containers and administration of marine shipping container activities	1 quota of MOP100,000	**100.00%**	100.00%
	Florens Container Corporation S.A.	Panama	Worldwide	Container leasing	100 ordinary shares of US$100 each	**100.00%**	100.00%
1	Florens Container Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	22,014 ordinary shares of US$1 each	**100.00%**	100.00%
	Florens Container Inc.	United States of America	United States of America	Container manager and container leasing	1 ordinary share of US$1	**100.00%**	100.00%
2, 6	Florens Container, Inc. (1998)	United States of America	United States of America	Inactive	100 ordinary shares of US$1 each	**100.00%**	100.00%
2, 6	Florens Container Inc. (1999)	United States of America	United States of America	Inactive	100 ordinary shares of US$1 each	**100.00%**	100.00%
2, 6	Florens Container, Inc. (2000)	United States of America	United States of America	Inactive	100 ordinary shares of US$1 each	**100.00%**	100.00%
2, 6	Florens Container, Inc. (2001)	United States of America	United States of America	Inactive	1 ordinary share of US$1	**100.00%**	100.00%
	Florens Container, Inc. (2002)	United States of America	United States of America	Sale of old containers	1 ordinary share of US$1	**100.00%**	100.00%
2, 6	Florens Container, Inc. (2003)	United States of America	United States of America	Inactive	1 ordinary share of US$1	**100.00%**	100.00%

43 DETAILS OF SUBSIDIARIES (CONTINUED)

	Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/paid-up capital	Group equity interest 2006	2005
2, 6	Florens Container, Inc. (2004)	United States of America	United States of America	Inactive	1 ordinary share of US$1	**100.00%**	100.00%
2, 6	Florens Container, Inc. (2005)	United States of America	United States of America	Inactive	1 ordinary share of US$1	**100.00%**	100.00%
2	Florens Container Services (Australia) Pty Limited	Australia	Australia	Provision of container management services	100 ordinary shares of AUD1 each	**100.00%**	100.00%
	Florens Container Services Company Limited	Hong Kong	Worldwide	Provision of container management services	100 ordinary shares of HK$1 each	**100.00%**	100.00%
2	Florens Container Services (Deutschland) GmbH.	Germany	Germany	Provision of container management services	2 shares of EURO12,782.30 each	**100.00%**	100.00%
2	Florens Container Services (Italy) S.R.L.	Italy	Italy	Provision of container management services	20,000 quotas of EURO0.52 each	**100.00%**	100.00%
2	Florens Container Services (Japan) Co. Ltd.	Japan	Japan	Provision of container management services	200 ordinary shares of JPY50,000 each	**100.00%**	100.00%
2	Florens Container Services (UK) Limited	United Kingdom	United Kingdom	Provision of container management services	183,610 ordinary shares of GBP1 each	**100.00%**	100.00%
	Florens Container Services (USA), Ltd.	United States of America	United States of America	Container manager and provision of container management container services	1,000 ordinary shares of US$0.001 each	**100.00%**	100.00%

43 DETAILS OF SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/paid-up capital	Group equity interest 2006	2005
[1, 2] Florens Industrial Holdings Limited	Bermuda	Hong Kong	Dormant	12,000 ordinary shares of US$1 each	**100.00%**	100.00%
Florens Management Services (Macao Commercial Offshore) Limited	Macau	Macau	Provision of container management services	1 quota of MOP100,000	**100.00%**	100.00%
Florens Maritime Limited	Bermuda	Worldwide	Container leasing	12,000 ordinary shares of US$1 each	**100.00%**	–
Florens Shipping Corporation Limited	Bermuda	Worldwide	Container leasing	12,000 ordinary shares of US$1 each	**100.00%**	100.00%
[2] Florens U.S. Holdings, Inc.	United States of America	United States of America	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
[2] Fota Limited	British Virgin Islands	Hong Kong	Dormant	12,000 ordinary shares of US$1 each	**100.00%**	–
[2] Frosti International Limited	British Virgin Islands	Hong Kong	Investment holding	2 ordinary shares of US$1 each	**100.00%**	100.00%
Greating Services Limited	Hong Kong	Hong Kong	Transportation of containers	250,000 ordinary shares of HK$1 each	**100.00%**	100.00%
[1, 2] Hang Shing Investment Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%
Loson Investment Limited	British Virgin Islands	Hong Kong	Dormant	1 ordinary share of US$1	**100.00%**	100.00%
[2] Plangreat Limited	British Virgin Islands	Hong Kong	Investment holding	100 ordinary each shares of US$1	**100.00%**	100.00%
[1, 2] Topview Investment Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US$1	**100.00%**	100.00%

43 DETAILS OF SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/paid-up capital	Group equity interest 2006	2005
Win Hanverky Investments Limited	Hong Kong	Hong Kong	Investment holding	10,000 ordinary shares of HK$10 each	**100.00%**	100.00%
[2, 3, 5] Quanzhou Pacific Container Terminal Co., Limited	PRC	PRC	Operation of container terminal	RMB397,395,746	**71.43%**	–
[2] Yeman Limited	British Virgin Islands	British Virgin Islands	Property holding	1 ordinary share of US$1	**100.00%**	–
[2, 3] Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	PRC	PRC	Operation of container terminal	US$16,800,000	**51.00%**	51.00%

1 Shares held directly by the Company.

2 Subsidiaries not audited by PricewaterhouseCoopers.

3 COSCO Pacific (China) Investments Co., Ltd and Florens (China) Company Limited are wholly foreign-owned enterprises. Quanzhou Pacific Container Terminal Co., Limited and Zhangjiagang Win Hanverky Container Terminal Co., Ltd are sino-foreign equity joint ventures established in the PRC.

4 The subsidiary has not commenced operations as at 31st December 2006.

5 The capital of these subsidiaries was not fully paid up as at 31st December 2006.

6 These subsidiaries were previously engaged in container leasing businesses and became inactive since 1st July 2006.

7 In August 2006, the Group transferred 33.9% equity interest in COSCO Ports (Nansha) Limited ("CP Nansha") to a third party and the Group has accounted for CP Nansha as a jointly controlled entity since then.

44 DETAILS OF JOINTLY CONTROLLED ENTITIES

Details of the jointly controlled entities as at 31st December 2006 are as follows:

Name	Place of establishment/ operation	Principal activities	Paid-up capital	Percentage of interest in ownership/voting power/profit sharing 2006	2005
COSCO-HIT Terminals (Hong Kong) Limited	Hong Kong	Operation of container terminal	2 "A" ordinary shares of HK$10 each and 2 "B" ordinary shares of HK$10 each 4 non-voting 5% deferred shares of HK$10 each	**50.00%/ 50.00%/ 50.00%**	50.00%/ 50.00%/ 50.00%
COSCO Logistics Co., Ltd.	PRC	Shipping agency, freight forwarding, third party logistics and supporting services	RMB1,582,029,851	**49.00%/ 44.40%/ 49.00%**	49.00%/ 44.40%/ 49.00%
COSCO-PSA Terminal Private Limited	Singapore	Operation of container terminal	SGD48,900,000	**49.00%/ 50.00%/ 49.00%**	49.00%/ 50.00%/ 49.00%
COSCO Ports (Nansha) Limited	PRC	Investment in a container terminal	US$10,000	**66.10%/ 66.70%/ 66.10%**	– – –
Nanjing Port Longtan Container Co., Ltd.	PRC	Operation of container terminal	RMB474,000,000	**20.00%/ 22.20%/ 20.00%**	20.00%/ 22.20%/ 20.00%
Ningbo Yuan Dong Terminals Ltd.	PRC	Operation of container terminal	RMB390,000,000	**20.00%/ 20.00%/ 20.00%**	– – –
Qingdao Cosport International Container Terminals Co. Ltd.	PRC	Operation of container terminal	RMB337,868,700	**50.00%/ 50.00%/ 50.00%**	50.00%/ 50.00%/ 50.00%
Qingdao Qianwan Container Terminal Co., Ltd.	PRC	Operation of container terminal	US$199,962,500	**20.00%/ 18.18%/ 20.00%**	20.00%/ 18.18%/ 20.00%

44 DETAILS OF JOINTLY CONTROLLED ENTITIES (CONTINUED)

Name	Place of establishment/ operation	Principal activities	Paid-up capital	Percentage of interest in ownership/voting power/profit sharing 2006	2005
Shanghai CIMC Far East Container Co., Ltd. (note)	PRC	Container manufacturing	US$9,480,000	– – –	20.00%/ 20.00%/ 20.00%
Shanghai CIMC Reefer Containers Co., Ltd.	PRC	Container manufacturing	US$31,000,000	**20.00%/ 21.40%/ 20.00%**	20.00%/ 21.40%/ 20.00%
Tianjin CIMC North Ocean Container Co., Ltd.	PRC	Container manufacturing	US$16,682,000	**22.50%/ 20.00%/ 22.50%**	22.50%/ 20.00%/ 22.50%
Yangzhou Yuanyang International Ports Co. Ltd.	PRC	Operation of container terminal	US$29,800,000	**55.59%/ 50.00%/ 55.59%**	55.59%/ 50.00%/ 55.59%
Yingkou Container Terminals Company Limited	PRC	Operation of container terminal	RMB8,000,000	**50.00%/ 57.14%/ 50.00%**	50.00%/ 57.14%/ 50.00%

Note:

The directors of the Company considered that the disposal of the Group's entire equity interest in Shanghai CIMC Far East Container Co., Ltd. to a subsidiary of CIMC was completed in December 2006.

45 DETAILS OF ASSOCIATES

Details of the associates as at 31st December 2006 are as follows:

Name	Place of establishment/ operation	Principal activities	Issued share capital/registered capital	Group equity interests 2006	2005
Antwerp Gateway NV	Belgium	Operation of container terminal	EURO14,000,000	**20.00%**	20.00%
China International Marine Containers (Group) Co., Ltd. (note)	PRC	Container manufacturing	RMB2,218,663,376 (360,143,203 non-publicly tradable shares, 666,453,082 "A" shares and 1,192,067,091 "B" shares), all of RMB1 each	**16.23%**	16.23%
Dalian Automobile Terminal Co., Ltd.	PRC	Construction and operation of automobile terminals	RMB160,000,000	**30.00%**	30.00%
Dalian Port Container Terminal Co., Ltd.	PRC	Operation of container terminal	RMB240,000,000	**20.00%**	20.00%
Dawning Company Limited	British Virgin Islands/ Hong Kong	Investment holding	200 "A" shares of US$1 each and 800 "B" shares of US$1 each	**20.00%**	20.00%
Chong Hing Bank Limited (formerly known as Liu Chong Hing Bank Limited)	Hong Kong	Banking and related financial services	435,000,000 ordinary shares of HK$0.5 each	**20.00%**	20.00%
Shanghai Pudong International Container Terminals Limited	PRC	Operation of container terminal	RMB1,900,000,000	**30.00%**	20.00%

Note:

The directors of the Company considered that the Group has significant influence over China International Marine Containers (Group) Co., Ltd ("CIMC") through its representatives on the board of directors of CIMC.

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31st December 2006 US$'000	2005 US$'000	2004 US$'000	2003 US$'000	2002 US$'000
Revenue	**253,960**	295,648	275,296	257,495	241,644
Operating profit after finance income and costs	**169,542**	205,092	133,421	109,341	91,916
Share of profits less losses of					
– jointly controlled entities	**85,070**	72,969	66,366	36,891	42,575
– associates	**89,042**	82,320	27,324	22,813	20,680
Profit before income tax	**343,654**	360,381	227,111	169,045	155,171
Income tax expenses	**(49,196)**	(22,426)	(18,021)	(12,502)	(10,929)
Profit for the year	**294,458**	337,955	209,090	156,543	144,242
Profit attributable to:					
Equity holders of the Company	**291,082**	334,937	206,646	154,685	142,543
Minority interests	**3,376**	3,018	2,444	1,858	1,699
	294,458	337,955	209,090	156,543	144,242
Dividends	**197,370**	190,333	117,662	87,568	79,904
Basic earnings per share (US cents)	**13.14**	15.28	9.57	7.20	6.64
Dividend per share (US cents)	**8.85**	8.65	5.40	4.08	3.72

	As at 31st December 2006 US$'000	2005 US$'000	2004 US$'000	2003 US$'000	2002 US$'000
Total assets	**2,987,155**	2,855,150	2,243,072	1,903,292	1,746,469
Total liabilities	**(778,954)**	(964,807)	(757,444)	(570,458)	(482,435)
Net assets	**2,208,201**	1,890,343	1,485,628	1,332,834	1,264,034

Notes:

1 The consolidated results of the Group for the two years ended 31st December 2006 and the assets and liabilities of the Group as at 31st December 2006 have been extracted from the audited consolidated financial statements of the Group as set out on pages 106 to 108 of the annual report.

2 The Company was incorporated in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 26th July 1994.

HISTORICAL STATISTICS SUMMARY

Financial statistics		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Consolidated income statement	US$M										
Revenue											
Container leasing, container management and related businesses		167.9	202.1	205.1	202.1	209.4	225.0	239.7	257.0	276.3	225.5
Container terminal		3.6	4.2	4.6	5.3	5.7	7.8	9.0	11.1	12.5	20.9
Container handling, transportation and storage		12.0	10.8	10.9	10.5	9.6	8.8	8.8	7.2	6.8	7.6
Total		183.5	217.1	220.6	217.9	224.7	241.6	257.5	275.3	295.6	254.0
EBITDA		192.6	234.8	237.3	245.6	258.8	254.6	274.1	351.1	499.3	462.6
Depreciation & amortisation		(52.1)	(66.8)	(70.6)	(74.8)	(81.0)	(87.7)	(95.5)	(102.5)	(107.7)	(88.1)
EBIT		140.5	168.0	166.7	170.8	177.8	166.9	178.6	248.6	391.6	374.5
Interest expenses		(27.9)	(41.7)	(37.1)	(38.1)	(24.0)	(15.5)	(11.9)	(24.8)	(35.6)	(43.4)
Interest income		11.1	3.1	5.1	12.2	5.2	3.8	2.3	3.3	4.4	12.6
Profit before income tax		123.7	129.4	134.7	144.9	159.0	155.2	169.0	227.1	360.4	343.7
Operating profit after finance income and costs		85.9	81.1	83.7	81.8	99.0	91.9	109.3	133.4	205.1	169.5
Profit attributable to equity holders of the Company		121.5	126.7	128.8	140.0	154.5	142.5	154.7	206.6	334.9	291.1
Breakdown of profit attributable to equity holders of the Company											
Container terminal and related businesses		38.7	39.9	40.4	47.7	44.3	58.4	68.3	89.4	150.0	90.5
Container leasing, container management and related businesses		82.4	85.2	80.4	72.5	81.1	76.1	80.7	103.2	115.7	166.4
Logistics and related businesses		–	–	–	–	–	–	–	6.7	9.2	11.1
Container manufacturing and related businesses		1.2	2.0	1.7	2.7	5.0	5.2	5.6	3.0	56.2	14.5 Note 1
Other operations		1.0	9.2	9.7	13.5	24.3	7.0	7.8	9.9	10.7	13.3
Net corporate financial income/(expenses)		(0.3)	(6.2)	(0.5)	6.4	2.9	(0.8)	(2.1)	0.5	2.3	5.0
Net corporate expenses		(1.5)	(3.4)	(2.9)	(2.8)	(3.1)	(3.4)	(5.6)	(6.1)	(9.2)	(9.7)
Total		121.5	126.7	128.8	140.0	154.5	142.5	154.7	206.6	334.9	291.1
Consolidated balance sheet	US$M										
Consolidated total assets		1,434.4	1,549.7	1,631.3	1,558.9	1,731.9	1,746.4	1,903.3	2,243.0	2,855.1	2,987.2
Consolidated total liabilities		666.4	683.6	631.6	470.9	544.3	482.4	570.5	757.4	964.8	779.0
Consolidated net assets		768.0	866.1	999.7	1,088.0	1,187.6	1,264.0	1,332.8	1,485.6	1,890.3	2,208.2
Consolidated total debts		600.0	634.3	560.8	423.6	509.5	420.7	478.3	653.3	835.6	531.6
Cash balances		38.4	87.6	252.3	145.6	254.1	236.1	283.8	100.6	179.3	224.7
Consolidated net debts		561.6	546.7	308.5	278.0	255.4	184.6	194.5	552.7	656.3	306.9
Per share data											
Capital and reserves attributable to the equity holders of the Company per share	US cents	0.37	0.42	0.46	0.50	0.55	0.58	0.61	0.67	0.85	0.97
Basic earnings per share	US cents	6.02	6.18	6.11	6.55	7.21	6.64	7.20	9.57	15.28	13.14
Dividend per share	US cents	2.12	2.30	2.34	2.46	3.01	3.72	4.08	5.40	8.65	8.85
Net asset value per share	HK$	2.919	3.292	3.645	3.967	4.324	4.592	4.839	5.307	6.666	7.704
Share price (as at 31st December)	US$	0.808	0.413	0.827	0.776	0.516	0.821	1.327	2.064	1.830	2.349
	HK$	6.300	3.225	6.450	6.050	4.025	6.400	10.350	16.100	14.200	18.260
Ratios											
P/E (as at 31st December)	Times	13.4	6.7	13.5	11.9	7.2	12.4	18.4	21.7	11.9	17.9
Dividend payout ratio	%	35.3	37.2	38.3	37.6	41.7	56.0	56.6	56.4	56.6	56.6 Note 2
Return on total assets	%	10.2	8.5	8.1	8.8	9.4	8.2	8.5	10.0	13.1	10.0
Return on net assets	%	17.7	15.5	13.8	13.4	13.6	11.6	11.9	14.7	19.8	14.2
Return on equity holders of the Company	%	17.8	15.6	13.9	13.5	13.7	11.8	12.1	14.7	20.0	14.4
Net debt-to-equity ratio	%	73.1	63.1	30.9	25.6	21.5	14.6	14.6	37.2	34.7	13.9
Interest coverage	Times	5.4	4.1	4.6	4.8	7.6	11.0	15.2	10.1	11.1	8.8
Other information											
Total number of shares issued	M	2,051.8	2,051.8	2,139.2	2,139.2	2,142.5	2,147.0	2,148.5	2,183.6	2,199.0	2,228.7
Weighted average number of ordinary shares issued	M	2,019.1	2,051.8	2,109.5	2,139.2	2,141.2	2,146.2	2,147.3	2,160.0	2,192.1	2,214.7
Market capitalisation (as at 31st December)	US$M	1,657.2	848.4	1,769.0	1,659.3	1,105.6	1,761.7	2,851.0	4,507.2	4,024.2	5,234.1

Notes:

1 The amount included the non-cash expense of Put Options associated with the CIMC Share Reform.

2 The non-cash expense of Put Options associated with the CIMC Share Reform was excluded in the calculation of dividend payout ratio of year 2006.

HISTORICAL STATISTICS SUMMARY

Operating statistics		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Container leasing											
Revenue	US$M	167.9	202.1	205.1	202.1	209.4	225.0	239.7	257.0	276.3	225.5
Breakdown of rental income											
– COSCON		138.6	149.0	142.6	136.8	136.0	136.1	130.6	120.8	126.4	136.9
– International customers (long term lease)		17.5	29.0	32.0	35.7	40.4	49.1	64.9	88.0	104.3	60.9
– International customers (master lease)		7.6	19.9	27.2	27.9	31.9	39.2	43.6	47.1	43.8	21.8
Fleet capacity	TEUs	469,951	505,954	500,899	527,982	610,019	707,890	808,825	919,128	1,042,852	1,250,609
Breakdown of fleet capacity by customers											
– COSCON	TEUs	335,117	340,344	311,047	303,978	327,370	329,028	310,444	327,845	377,324	456,877
– International customers	TEUs	134,834	165,610	189,852	224,004	282,649	373,644	481,701	567,644	630,925	163,851
– Management containers	TEUs	–	–	–	–	–	5,218	16,680	23,639	34,603	629,881
– COSCON	%	71.3	67.3	62.1	57.6	53.7	46.5	38.4	35.7	36.2	36.5
– International customers	%	28.7	32.7	37.9	42.4	46.3	52.8	59.5	61.7	60.5	13.1
– Management containers	%	–	–	–	–	–	0.7	2.1	2.6	3.3	50.4
Breakdown of fleet capacity											
– Dry	TEUs	432,734	463,200	456,490	482,516	561,419	657,466	758,783	870,789	993,988	1,198,770
– Reefer	TEUs	28,889	30,325	30,757	31,880	35,078	36,962	37,400	36,639	38,020	41,456
– Special	TEUs	8,328	12,429	13,652	13,586	13,522	13,462	12,642	11,700	10,844	10,383
– Dry	%	92.1	91.5	91.2	91.4	92.0	92.9	93.8	94.7	95.3	95.9
– Reefer	%	6.1	6.0	6.1	6.0	5.8	5.2	4.6	4.0	3.6	3.3
– Special	%	1.8	2.5	2.7	2.6	2.2	1.9	1.6	1.3	1.1	0.8
Capital expenditure on containers	US$M	348.3	127.9	57.7	116.3	165.0	153.7	195.6	270.9	333.6	480.6
Purchase of new containers	TEUs	126,706	58,009	40,094	69,060	96,953	119,466	142,218	155,526	168,592	268,236
Disposal of Returned Containers	TEUs	1,421	18,740	40,319	34,087	12,151	15,710	23,619	39,488	26,838	47,624
Fleet age	Year	3.6	4.0	4.1	4.2	4.3	4.4	4.3	4.3	4.3	4.0
Utilisation rate											
COSCO Pacific (Florens)	%	97.5	97.0	96.5	95.1	91.4	93.4	95.2	97.0	95.5	96.2
Industry average	%	85.0	80.0	80.0	83.0	75.0	83.0	89.0	92.0	90.9	91.8
Number of customers		86	150	175	155	155	176	202	218	256	270
Container terminals											
Throughput	TEUs										
COSCO-HIT Terminal		1,302,409	1,206,572	1,220,002	1,412,854	1,301,966	1,526,074	1,513,559	1,697,212	1,841,193	1,688,697
Yantian Terminal (Phases I, II & III)		638,396	1,038,074	1,588,089	2,147,476	2,751,885	4,181,478	5,258,106	6,259,515	7,355,459	8,470,919
Quanzhou Pacific Terminal		–	–	–	–	–	–	–	–	–	241,272
Shanghai Pudong Terminal		–	–	–	–	–	–	1,765,586	2,339,479	2,471,840	2,650,007
Shanghai Terminal		1,766,590	2,027,188	2,593,995	2,950,500	2,609,800	3,049,080	3,400,963	3,650,319	3,646,732	3,703,460
Zhangjiagang Win Hanverky Terminal		119,384	105,051	113,114	136,778	161,208	202,348	247,306	328,199	377,121	455,946
Yangzhou Yuanyang Terminal		–	–	–	–	–	–	–	118,079	157,123	222,912
Nanjing Longtan Terminal		–	–	–	–	–	–	–	–	178,686	700,098
Qingdao Qianwan Terminal		–	–	–	–	–	–	1,332,746	4,532,769	5,443,086	6,770,003
Qingdao Cosport Terminal		300,332	350,126	401,029	502,119	600,329	454,528	244,159	385,856	605,791	744,276
Dalian Port Container Co., Ltd.		–	–	–	–	–	1,326,463	1,644,409	2,172,252	2,467,465	2,885,276
Dalian Port Container Terminal		–	–	–	–	–	–	–	–	132,984	421,068
Yingkou Terminal		–	–	–	–	–	–	–	393,097	633,573	837,574
Tianjin Five Continents Terminal		–	–	–	–	–	–	–	–	87,462	1,773,141
COSCO-PSA Terminal		–	–	–	–	–	–	95,830	571,863	611,013	627,894
Antwerp Terminal		–	–	–	–	–	–	–	–	70,084	599,170
Total throughput		4,127,111	4,727,011	5,916,229	7,149,727	7,425,188	10,739,971	15,502,664	22,448,640	26,079,612	32,791,713
Container manufacturing											
Production volume	TEUs										
CIMC		–	–	–	–	–	–	–	–	1,304,500	1,564,100
Shanghai CIMC Reefer		8,850	11,088	16,914	24,503	25,642	33,582	35,398	40,320	48,645	47,798
Tianjin CIMC North Ocean		–	38,993	37,948	61,000	33,382	79,506	98,306	133,968	101,077	141,759

CORPORATE INFORMATION

BOARD OF DIRECTORS

Dr. WEI Jiafu[2] *(Chairman)*
Mr. CHEN Hongsheng[1]
Mr. LI Jianhong[1]
Mr. XU Lirong[2]
Ms. SUN Yueying[1]
Mr. XU Minjie[1] *(Vice Chairman and Managing Director)*
Dr. SUN Jiakang[2]
Mr. WONG Tin Yau, Kelvin[1]
Mr. WANG Zhi[1]
Mr. QIN Fuyan[1]
Dr. LI Kwok Po, David[3]
Mr. LIU Lit Man[3]
Mr. CHOW Kwong Fai, Edward[3]
Mr. Timothy George FRESHWATER[3]

1 Executive Director
2 Non-executive Director
3 Independent Non-executive Director

GENERAL COUNSEL AND COMPANY SECRETARY

Ms. HUNG Man, Michelle

QUALIFIED ACCOUNTANT

Ms. SIU Kim Shan, Margaret

PLACE OF INCORPORATION

Bermuda

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

49th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong
Telephone: (852) 2809 8188
Fax: (852) 2907 6088
Website: www.coscopac.com.hk

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Hong Kong

SOLICITORS

Coudert Brothers
Holman, Fenwick & Willan
Linklaters
Woo, Kwan, Lee & Lo

PRINCIPAL BANKERS

ABN AMRO Bank N.V.
Bank of China (Hong Kong) Limited
ING Bank N.V.
Rabobank
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL REGISTRAR AND TRANSFER OFFICE IN BERMUDA

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

LISTING INFORMATION/COMPANY STOCK CODE

The Stock Exchange of Hong Kong Limited: 1199
Bloomberg: 1199 HK
Reuters: 1199. HK