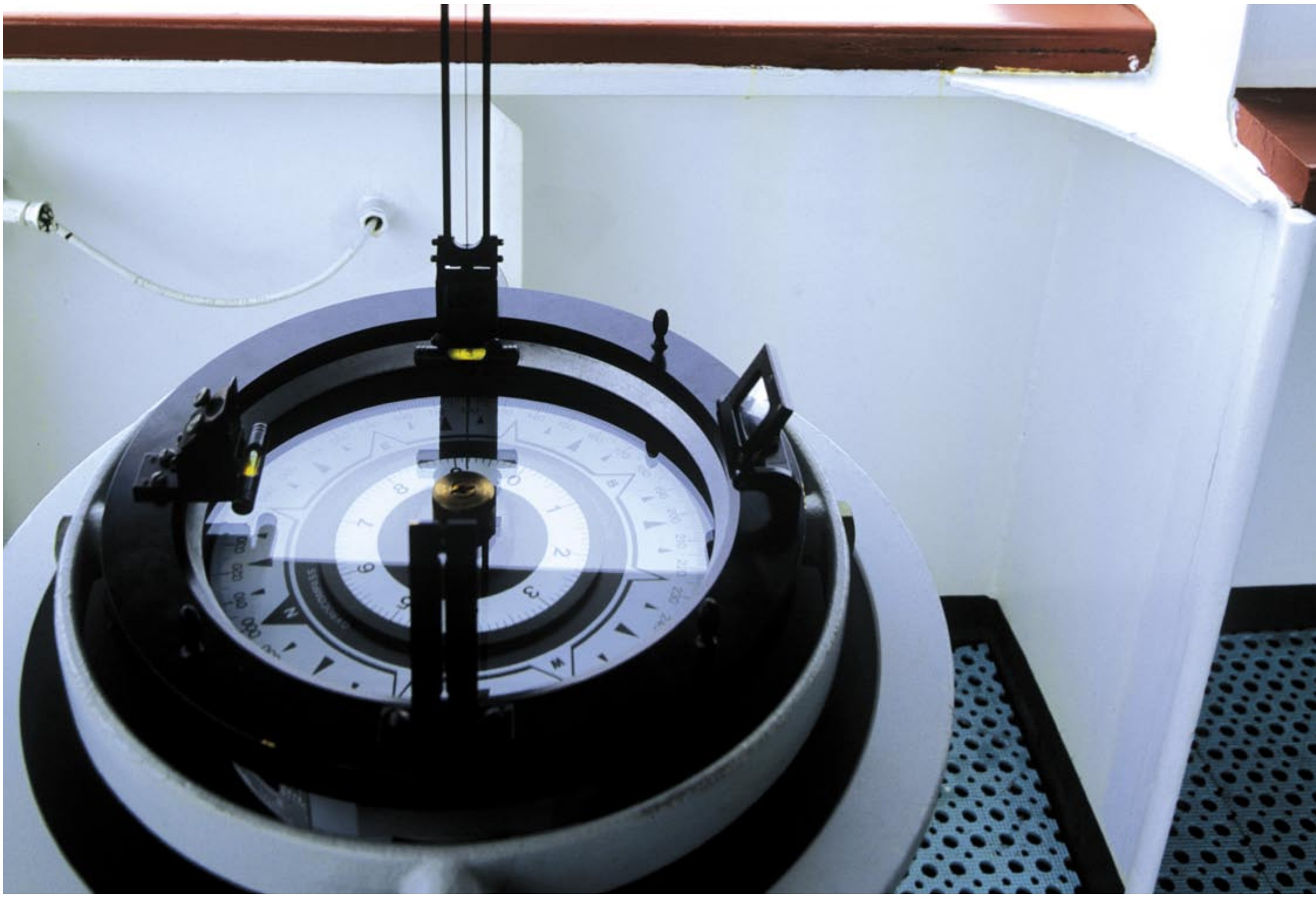


Financial Review

Results analysis

Overall analysis of results

Turnover of the Group was US$295,648,000 for the year, 7.4% up from US$275,296,000 in 2004. Profit attributable to the equity holders recorded a significant increase to US$334,937,000, 62.1% up from last year's US$206,646,000 (as restated). Earnings per share rose to US15.28 cents from US9.57 cents (as restated) a year ago. The significant increase in profit attributable to the equity holders was in part due to the acquisition of approximately 16.23% equity interest in CIMC, which brought a net profit contribution to the Group of US$55,636,000 (2004: N/A). Meanwhile, the continuous boom in China's import/export trade and the shipping market had helped the Group to achieve an outstanding performance in its container leasing and container terminal businesses. Further, the disposal of the 17.5% equity interest in Shekou Terminal in March had enabled the Group to achieve a dual objective of re-deploying the investment portfolio to better capitalise on the strategic development of the Pearl River Delta while generating a profit of US$61,875,000.

During the past year, the Group placed a significant emphasis on achieving a high return on capital, by pursuing strategic acquisitions while repositioning the Group's business portfolio. These efforts have resulted in the return on equity holders of the Company increasing to 20.0% from 14.7% (as restated) in 2004, and return on total assets also registering an increase to 13.1% from 10.0% (as restated) in 2004. The Group's financial position remained strong, reflecting a proper balance between investment return and gearing.

Financial analysis

Turnover

Turnover for container leasing and related businesses in 2005 was US$276,313,000, 7.5% up from US$257,046,000 in 2004. Amongst the two major customer groups, COSCON, a fellow subsidiary, contributed rental income of US$126,400,000, 4.6% up from US$120,805,000 in 2004, with number of containers reaching 377,324 TEUs as at 31st December 2005 (2004: 327,845 TEUs). Rental income from other international customers ("International Customers"), on the other hand, accounted for US$148,076,000, 9.6% up from US$135,116,000 in 2004. The increase was due to number of container fleet for International Customers being expanded from 591,283 TEUs to 665,528 TEUs in order to cope with the relatively stable demand in the shipping market and the relatively high average utilisation rate. Besides rental income from leasing, there were interest income from finance leases (US$532,000 versus US$573,000 in 2004, down 7.2%); income from container management (US$342,000 versus US$207,000 in 2004, up 65.2%); and income from leasing of reefer-container generator sets (US$963,000 versus US$345,000 in 2004, up 179.1%).

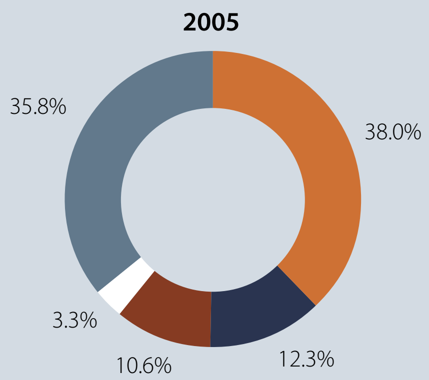
Turnover from Zhangjiagang Win Hanverky Terminal was US$12,496,000, 13.1% up from US$11,050,000 in 2004. Increased turnover was due to Zhangjiagang Win Harverky Terminal's continuous efforts to explore new business opportunities, which had boosted the throughput from 328,199 TEUs in 2004 to 377,121 TEUs in 2005, up 14.9%.

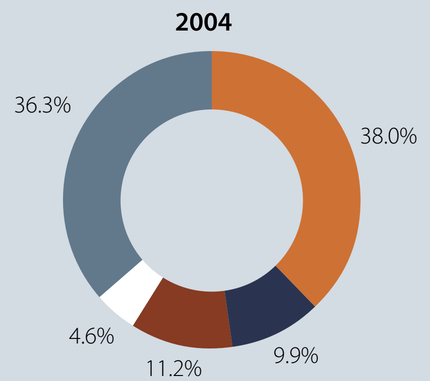
Plangreat Limited, a wholly owned subsidiary of the Company, and its subsidiaries are engaged in container stevedoring, storage, repairs and drayage services in Hong Kong. Turnover from Plangreat Limited and its subsidiaries was US$6,839,000 (2004: US$7,200,000). The decline in turnover this year was attributed to lower demand for such container services in Hong Kong as a result of the higher percentage of container traffic being transshipment passing through Hong Kong.

Cost of sales

Cost of sales, comprising mainly depreciation, depot expenses, repairs and maintenance and operating expenses, was US$115,551,000, 2.6% up from US$112,639,000 in 2004. The increase was due to higher number of containers driving up depreciation to US$105,933,000 (2004: US$100,066,000). Depreciation accounted for 91.7% of cost of sales (2004: 88.8%). Relatively high utilisation rate during the year had helped to lower the operational cost of containers by US$2,484,000.

Cost analysis (expressed as percentage of turnover)





Operating profit – exclude profit on disposal of Shekou Terminal | Finance costs | Administrative expenses | Other cost of sales | Cost of sales - depreciation

Other income

Other income was US$43,572,000, a decrease of US$5,735,000 from US$49,307,000 in 2004. During the year, 26,838 TEUs (2004: 39,488 TEUs) of Returned Containers were sold, generating proceeds of US$22,618,000 (2004: US$24,709,000). Dividends of US$15,072,000 (2004: US$15,009,000) were declared by Yantian Terminal. In addition, additional dividends of US$511,000 in respect of year 2004 were received from Shekou Terminal in 2005. Interest income received during the year amounted to US$4,361,000, compared with US$3,286,000 in 2004.

Administrative expenses

Administrative expenses increased by 2.1% from a year ago to US$31,424,000. Human resources and travelling expenses increased while professional fees and depreciation had a reduction during the year.

Net other operating expenses

Net other operating expenses were US$12,666,000, a 38.4% decreased from US$20,547,000 (as restated) in 2004. Returned Containers sold were 26,838 TEUs (2004: 39,488 TEUs), totalling a carrying value of US$15,836,000 (2004: US$23,973,000). As the selling price of old reefer-containers was relatively low, provision for impairment losses was made this year amounting to US$2,327,000 (2004: US$474,000). As a result of the Hong Kong Financial Reporting Standards, fair value gain on interest rate swap contracts amounting to US$3,984,000, which was not qualified as hedges, was included in other operating income during the year, whereas for 2004, a total amount of US$3,835,000 comprising realised and unrealised gain on interest rate swap contracts was included.

Profit on disposal of an available-for-sale financial asset

The disposal of the 17.5% equity interest in Shekou Terminal, which was accounted for as an available-for-sale financial asset at the time, generated a profit of US$61,875,000 during the year.

Finance costs

Finance costs increased by 33.7% to US$36,362,000 (2004 as restated: US$27,206,000). Interest rates increased gradually since 2004, leading to an increasing the cost of borrowing. Average borrowing for the year 2005 increased by 20.0% to US$731,565,000 (2004: US$609,503,000). The Group's average cost of borrowing, including amortisation of transaction costs on bank loans and notes was 4.97% (2004 as restated: 4.46%).

Share of profits less losses from jointly controlled entities and associates

Net profit contribution from jointly controlled entities amounted to US$72,969,000, an increase of 9.9% from US$66,366,000 (as restated) in 2004. Efforts of COSCO-HIT Terminal in exploring new business opportunities resulted in throughput being increased to a record high of 1,841,193 TEUs (2004: 1,697,212 TEUs), while the net profit contribution was slightly lower than that of 2004 due to changes in cargo mix and increasing interest rates. Yangzhou Yuanyang Terminal and Yingkou Terminal made good profit contributions for the year, with Yangzhou Yuanyang Terminal's throughput being increased by 33.1% to 157,123 TEUs in 2005 and Yingkou Terminal increased by 61.2% to 633,573 TEUs.

Throughput of Qingdao Qianwan Terminal increased by 20.1% to 5,443,086 TEUs (2004: 4,532,769 TEUs) and contributed a net profit of US$21,225,000, 35.3% higher than 2004. Throughput of COSCO-PSA Terminal increased by 6.8% to 611,013 TEUs (2004: 571,863 TEUs), while generating a net profit of US$2,659,000, 18.9% higher than 2004. The newly acquired Nanjing Longtan Terminal had a minor start-up loss in 2005. Shanghai CIMC Far East which operation was ceased in July 2005 due to restrictions imposed by China's environmental protection policy, was still in the process of liquidation. Shanghai CIMC Reefer and Tianjin CIMC North Ocean both contributed higher net profits than 2004. Net profit contribution from COSCO Logistics increased by 7.0% to US$15,064,000 in 2005. No goodwill amortisation for the Group was required in 2005. In 2004, amortisation of goodwill amounted to US$2,507,000, attributable to the investment in Qingdao Qianwan Terminal, COSCO Logistics and Yingkou Terminal.

Net profit contribution from associates amounted to US$82,320,000, registering an increase of 201.3% from US$27,324,000 (as restated) in 2004. CIMC, which became an associate of the Group in December 2004 after the acquisition of its approximately 16.23% equity interest by the Group, made a net profit contribution of US$55,636,000 in 2005 (2004: N/A). Throughput of Shanghai Terminal leveled 2004 while net profit contribution decreased by 5.6%. Shanghai Pudong Terminal achieved 2,471,840 TEUs in throughput (2004: 2,339,479 TEUs) and reported an increase of 21.4% in net profit contribution to US$9,963,000. Liu Chong Hing Bank contributed a net profit of US$10,026,000 (2004: US$9,780,000). Antwerp Terminal acquired at the end of 2004 recorded a loss of US$1,304,000 since it commenced operation in September 2005 due to operation being in the start-up phase.

Income tax expense

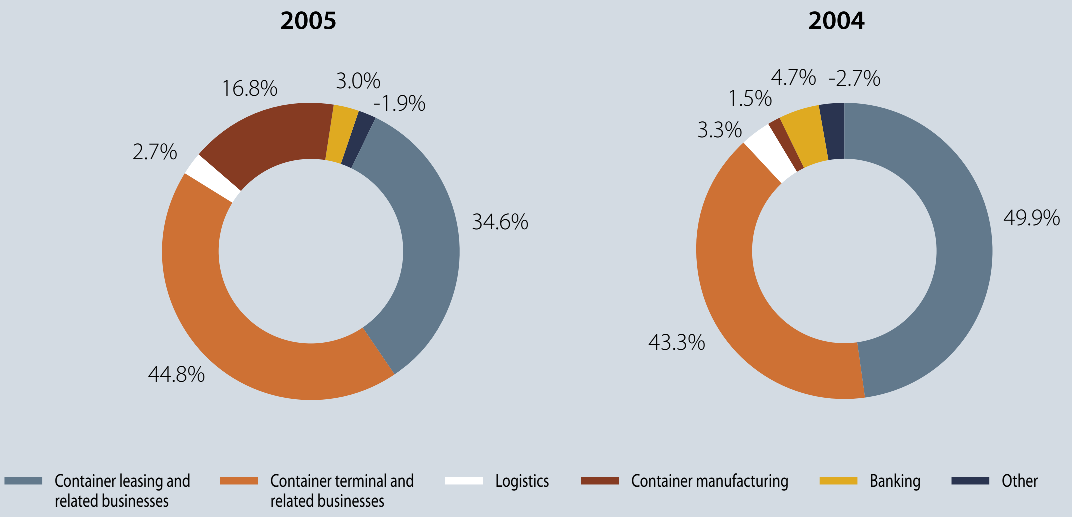
Aggregate income tax expenses increased to US$22,426,000 from US$18,021,000 (as restated) in 2004, mainly due to higher provision required for deferred tax due to increase in profits from the container leasing business.

Financial position

Cash flow

Cash inflows of the Group remained stable. During 2005, net cash from operating activities amounted to US$287,063,000 (2004 as restated: US$271,140,000). The Group drew bank loans of US$321,119,000 (2004: US$252,950,000) and repaid US$128,385,000 in 2005 (2004: US$78,238,000). Net proceeds from the new shares issued upon the exercise of share options amounted to US$21,823,000 (2004: US$41,508,000). During the year, cash outflow for major capital investments of the Group totalled US$89,125,000 (2004: US$377,056,000), including: 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's Phase III, and US$5,800,000 in Dalian Automobile Terminal. In 2004, the cash outflow for major investments included: acquisition of a 49% equity interest in COSCO Logistics involving cash outflow of US$151,101,000; investment of US$61,131,000 in Qingdao Qianwan Terminal, and US$127,514,000 in CIMC. In addition to terminal investments, US$342,200,000 (2004: US$272,475,000) was paid during the year for purchase of containers.

Breakdown of profit attributable to equity holders



Financing and credit facilities

In July 2005, a subsidiary of the Company obtained a loan facility of US$300,000,000 from thirteen banks on a club deal basis for a term of six years at a cost equivalent to London Interbank Offered Rate ("LIBOR") plus 50 basis points. Of this amount, US$180,000,000 was to be used to finance the purchase of containers and working capital and US$120,000,000 for re-financing purposes. This facility, along with other favorable terms, not only reduced the Group's interest expenses but also optimised its debt structure as well.

As at 31st December 2005, cash balances and banking facilities available but unused amounted to US$179,315,000 and US$320,000,000 respectively (2004: US$100,578,000 and US$291,108,000 respectively), the total sum of which, together with the Group's operating cash flow, is sufficient to cover all the payables that fall due in 2006.

Assets and liabilities

As at 31st December 2005, total assets of the Group were US$2,855,150,000 (2004 as restated: US$2,243,072,000). Total liabilities amounted to US$964,807,000 (2004: US$757,444,000). Net asset value increased to US$1,890,343,000 from US$1,485,628,000 (as restated) a year ago, mainly due to the increase in the retained profits and the proceeds from the new shares issued upon the exercise of share options. The net assets value per share was US85.97 cents (2004 as restated: US68.03 cents), representing an increase of 26.4% over last year.

As at 31st December 2005, cash balances of the Group amounted to US$179,315,000 (2004: US$100,578,000). Total indebtedness of the Group amounted to US$835,653,000 (2004: US$653,323,000), with a net debt-to-equity ratio of 34.7% (2004 as restated: 37.2%). Interest coverage was 11.1 times (2004 as restated: 10.1 times).

Certain of the Group's property, plant and equipment and land use right with an aggregate net book value of US$512,957,000 (2004: US$331,647,000) and bank deposits of US$21,978,000 (2004: US$11,297,000) were pledged to various banks and financial institutions as securities against borrowings totaling US$345,618,000 (2004: US$176,392,000).

Contingent liabilities

As at 31st December 2005, the Group provided guarantees on a loan facility granted to an associate of US$21,920,000 (2004: Nil).

	31st December 2005		31st December 2004	
Debt analysis	**US$**	**%**	**US$**	**%**
By repayment term				
Within the first year	87,036,000	10.4	38,178,000	5.9
Within the second year	79,167,000	9.5	44,046,000	6.7
Within the third year	233,908,000	28.0	58,609,000	9.0
Within the fourth year	62,956,000	7.5	202,087,000	30.9
Within the fifth year and after	372,586,000	44.6	310,403,000	47.5
	835,653,000*	**100.0**	**653,323,000****	**100.0**
By type of borrowings				
Secured borrowings	345,618,000	41.4	176,392,000	27.0
Unsecured borrowings	490,035,000	58.6	476,931,000	73.0
	835,653,000*	**100.0**	**653,323,000****	**100.0**
By domination of borrowings				
US dollar	830,326,000	99.4	649,795,000	99.5
RMB	5,327,000	0.6	3,528,000	0.5
	835,653,000*	**100.0**	**653,323,000****	**100.0**

* Net of discount on notes, effect of fair value hedge and unamortised transaction costs on borrowings and notes
**Net of discount on notes only

Treasury policy

The Group controlled the 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 receipt 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, minimising any potential foreign exchange exposure.

In respect of 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 effected.

The Group continued to exercise stringent control over the use of financial derivatives to hedge against its interest rate exposure. As at 31st December 2005 and 31st December 2004, 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 from the banks in return for receiving from the banks a fixed interest rate of 5.875%.

- Notional principals 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 the banks in return for receiving from the banks interest at 3-month LIBOR.

As at 31st December 2005, after adjusting the fixed rate borrowings for the effect of interest rate swap contracts, the Group's ratio of fixed-rate to floating-rate borrowings was 22.9% : 77.1% (2004: 31.0% : 69.0%). 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.

Net debt-to-equity ratio & interest coverage