

# Vice-chairman's Statement



**Liu Guoyuan**  
Vice-chairman

## **MAINTAINING A STABLE AND HEALTHY BUSINESS PERFORMANCE**

In 2005 under review, the overall performance of the Company and its subsidiaries remained steady and healthy. Income from core business increased, including commissions from ship trading and marine insurance brokerage, and income from sales of marine spare parts and communications and navigation equipment by the newly acquired Yuantong Marine Service Co. Limited ("Yuantong"). During the year, turnover from ship trading and supplying services segment achieved HK\$1,344,964,000 (2004: HK\$967,579,000), accounted for 89% of the Company and its subsidiaries' turnover (2004: 57%).

The Company and its subsidiaries' gross profit was HK\$386,977,000 (2004: HK\$417,462,000) during the year. Such change was mainly attributable to the reduced contribution from property development and property investment businesses as compared to 2004. On the other hand, gross profit contribution from ship trading and supplying services business continued to grow. Nevertheless,



the Company and its subsidiaries' overall gross profit margin remained stable.

For the year ended 31st December 2005, the Company and its subsidiaries' operating profit reached HK\$506,677,000 (2004: HK\$316,041,000), an increase of 60% compared to the previous year. The significant increase was due to the HK\$303,765,000 gain arising from revaluation of the eight floors of COSCO Tower according to the new Hong Kong Financial Reporting Standards. The Company and its subsidiaries' operating profit before such gain was HK\$202,912,000 (2004: HK\$160,075,000), increased by 27% compared to 2004.

As of 31st December 2005, the Company and its subsidiaries' consolidated total assets was HK\$2,711,687,000; total liabilities was HK\$924,650,000 and total equity was HK\$1,787,037,000. The balance of cash and cash equivalents amounted to HK\$1,274,085,000, which reflects the strong financial position of COSCO International and provides for a solid foundation for the long term development of the Company.

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### RESTRUCTURING BUSINESS STRUCTURE TO EXPAND CORE BUSINESS

The Company is committed to its management philosophy which is focused on profitability. With the support of COSCO and COSCO Hong Kong, we managed to closely monitor market opportunities to consolidate our existing businesses and strengthen the assets and at the same time continued to expand our core business and create higher operational efficiencies. In 2005 under review, the Company further restructured the distribution of its assets by consolidating and strategically positioning its various ship trading and supplying services businesses. Significant results were achieved through the strategy to place different coatings specialties by division of companies. Subsequent to the acquisition of the 49% equity interest in the Guangzhou Jotun Ocean Paints Company Limited (“JOP”), the Company, together with the internationally renowned Norwegian coating manufacturer Jotun A/S, formed a 50/50 joint venture, Jotun COSCO Marine Coatings (HK) Limited (“Jotun COSCO”). Now, Jotun COSCO is responsible for the production and sales of marine coatings in China. I believe that by leveraging COSCO's abundant resources, the enormous market potential and the advanced technology of our strong business partner, the Company is now well positioned to become the top marine coating manufacturer and supplier in China.

Furthermore, in view of the huge market demand for containers and vessels in China in the first half of 2005, the Company expanded its scale of production in coatings to improve operational efficiency and lower transportation costs. With the

full support of the Zhuhai Municipal Government and our strategic partner, the Company signed a project agreement with Kansai Paint Co., Ltd. and the Commission of Zhuhai Harbour Industrial Zone on 28th November 2005 to establish a coating production plant in the Zhuhai Harbour Industrial Zone, a heavy chemical production base in Guangdong Province. In future, the Company's Shanghai & Tianjin COSCO Kansai Paint & Chemicals Co., Ltd (collectively known as “COSCO Kansai Companies”) will focus on the production and sales of container coatings and industrial anti-corrosion coatings. This implemented the Company's strategy to have specialized coating units in northern, eastern and southern China and to establish a cross-regional coating production and sales platform.

### CREATING VALUES THROUGH LEAN PROCESS AND ACHIEVING SUSTAINED DEVELOPMENT

The Company understands that, to improve operational efficiency and to accomplish the goal of value creation, a comprehensive and thorough management system must be in place to effectively manage all aspects of our operations and business processes. When establishing our ship trading and supplying services supply platform, we adhere strictly to our strategies of “initiating new businesses through agency services”, “integrating through network system” and “increasing profits through joint venture products”. By capitalising on the Company's unique advantages and resources, we actively create synergy and expand our clientele to create higher values in the supply chain of our core business and hence enhance our profits.



“ the Company will actively pursue its goal to enhance profits and achieve excellence with innovation and to lay a solid foundation for sustained development through effective management, efficient operation and quality services. ”

On 28th November 2005, the Company signed a joint venture agreement with Shenzhen Ocean Shipping Co., Ltd to set up a joint venture company named Shenzhen COSCO Insurance Brokers Limited (“SZ COSCO Insurance Brokers”), in Shenzhen, which is mainly responsible for expanding our marine insurance brokerage business on the China Mainland. As a window company for the Company to set its foothold on the China Mainland, SZ COSCO Insurance Brokers further expands COSCO International’s ship trading and supplying services supply platform and provides a stronger driving force for the Company to sustain its development.

## PROSPECTS

According to the latest report released by the National Development and Reform Commission of China, it is anticipated that China’s economic growth will maintain at a rate of over 8.5% in 2006, with a steady growth rate in foreign direct investments and external trade. It is projected that China’s foreign trade growth will be maintained at a rate of about 15%, transiting from a high growth stage to a steady growth stage. In view of the stable economic growth worldwide, increase in ocean cargo volume will be maintained at about 3.6%, higher than the average over the past five years. It is anticipated that there will see a large number of vessels completed according to previously signed contracts in two to three years. We, therefore, believe that the demand for various ship trading and supplying services will be high in future.

Looking forward, the Company will actively pursue its goal to enhance profits and achieve excellence with innovation and to lay a solid foundation for sustained development through effective management, efficient operation and quality services. Apart from fully leveraging the Company’s competitive advantages, we shall apply lean process and adopt a better and more streamlined management and production processes so as to create value edges in the value chain. We shall also maintain a close relationship with our business partners to create synergy. The Company will strive to restructure its businesses, improve its product structure and expand its clientele to strengthen our core competence. We shall spare no efforts in establishing a one-stop, standardized and professional ship trading and supplying services supply platform to provide our clients worldwide with a highly efficient quality service, aiming to create a more favourable environment for the sustained development of the Company and so become the world leader in ship trading and supplying services industry.

**Liu Guoyuan**

*Vice-chairman*

Hong Kong, 30th March 2006