

Management Discussion and Analysis

OVERALL FINANCIAL RESULTS

For the year ended 31st December 2005, the Company and its subsidiaries recorded a turnover of HK\$1,510,676,000 (2004: HK\$1,688,374,000); profit attributable to equity holders reached HK\$496,463,000 (2004: HK\$219,158,000), representing an increase of 126% compared with 2004.

TURNOVER

Ship trading and supplying services business being the core business of the Company and its subsidiaries has achieved an impressive growth, while the property development, property investment and building construction businesses have decreased as compared to the previous year. This resulted in a decline in the Company and its subsidiaries' turnover as compared to 2004.

Following the Company has positioned its strategic target in the ship trading and supplying services business, this business has made great progress. In 2005, revenue from ship trading and supplying services accounted for approximately 89% (2004: 57%) of the Company and its subsidiaries's total turnover. The growth was largely derived from the marine equipment, spare parts, communications and navigation equipment business carried out by Yuantong which was acquired by the Company during the year. In addition, other ship trading and supplying services businesses which include marine insurance brokerage, sales of coating products and ship trading agency services remained stable in 2005.

Turnover of the Company and its subsidiaries in building construction, property investment and property development businesses scaled down to HK\$163,104,000 (2004: HK\$714,345,000). This was attributable to the Company's effort in developing its core business. Besides, the sales of Fragrant Garden in Shanghai, one of its property development projects, was substantially completed in 2004.

GROSS PROFIT AND GROSS MARGINS

The Company and its subsidiaries' gross profit for the year was HK\$386,977,000 (2004: HK\$417,462,000). The change in gross profit was mainly due to the reduced contribution from property development and property investment businesses as compared

to the previous year. On the other hand, gross profit contribution from ship trading and supplying services business continued to grow. The overall gross profit margin of the Company and its subsidiaries nevertheless remained the same as that in 2004.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

Profit attributable to equity holders amounted to HK\$496,463,000 (2004: HK\$219,158,000), representing a 126% increase over 2004. The drastic growth was attributable to firstly, the gain of HK\$303,765,000 arising from revaluation of the eight floors of COSCO Tower previously owned by the Company's wholly-owned subsidiary prior to its disposal to COSCO Hong Kong; secondly, a write-back of provision of HK\$53,199,000 for claims and foreseeable losses on certain construction contracts as a result of final settlements reached between employers and subcontractors; and thirdly, sharing of profit of the Company's jointly controlled entity, Sino Ocean Real Estate Development Co., Ltd. (formerly known as COSCO Real Estate Development Co Ltd) which amounted to HK\$59,227,000.

BUSINESS REVIEW

With the full support and assistance of COSCO and COSCO Hong Kong together with its sister companies, the Company continued to operate and develop the ship trading and supplying services as its core business. The Company has further expanded its core business by acquiring a company engaging in the supply business of all kinds of marine communications and navigation equipment and spare parts, forming joint ventures to develop marine coatings, container coatings and marine insurance brokerage businesses. The expansions further strengthened the Company's platform in the provision of ship trading and supplying services and led the Company to a stable and healthy growth. With the support of COSCO Hong Kong, the Company's wholly-owned subsidiary successfully disposed of its eight floors of COSCO Tower. The disposal not only increased the Company and its subsidiaries' cash reserve, but also improved the capital structure of the Company and its subsidiaries and reduced the overall gearing ratio which laid a solid foundation for the sustained development of the Company and its subsidiaries.

SHIP TRADING AND SUPPLYING SERVICES SUPPLY PLATFORM



- Major customers
- Ship trading and supplying services
- Third parties (including suppliers and business partners)

Ship Trading and Supplying Services

During the year under review, the Company and its subsidiaries' turnover and profit contribution from the ship trading and supplying services business recorded a steady growth. For the year ended 31st December 2005, the turnover and profit contribution from ship trading and supplying services were HK\$1,344,964,000 (2004: HK\$967,579,000) and HK\$127,157,000 (2004: HK\$124,174,000) respectively, representing an increase of 39% and 2% as compared to 2004.

Ship Trading Agency Services

Following the development strategy on the agency services as starting point, the Company through its 60% equity owned subsidiary, COSCO International Ship Trading Company Limited ("COSCO Ship Trading") acts as an upstream services provider in the supply chain of provision of ship trading and supplying services. COSCO Ship Trading is the window company within the COSCO Group providing ship trading agency services in connection with the ship building, buying and selling, as well as ship chartering to the COSCO's fleets on exclusive basis. With a continued optimistic shipping market outlook and active transactions in the sale and purchase of new and second hand vessels, COSCO Ship Trading recorded a higher commission income during the year.

To build up a comprehensive ship trading and supplying services supply platform, COSCO Ship Trading has during the year taken an aggressive approach in establishing a long-term and good cooperative relationship with various shipping companies, shipyards, ship brokers, ship classification societies and equipment suppliers. Capitalising on its advantages in resources and networking, COSCO Ship Trading functions as a bridge for other ship trading and supplying services enterprises in the business chain, which include production and sales of coating products, marine equipment, spare parts, communications and navigation equipment supply as well as marine brokerage services businesses, with a view to exploring more new markets on top of its existing customer base and creating synergy among these enterprises.

Marine Insurance Brokerage Service

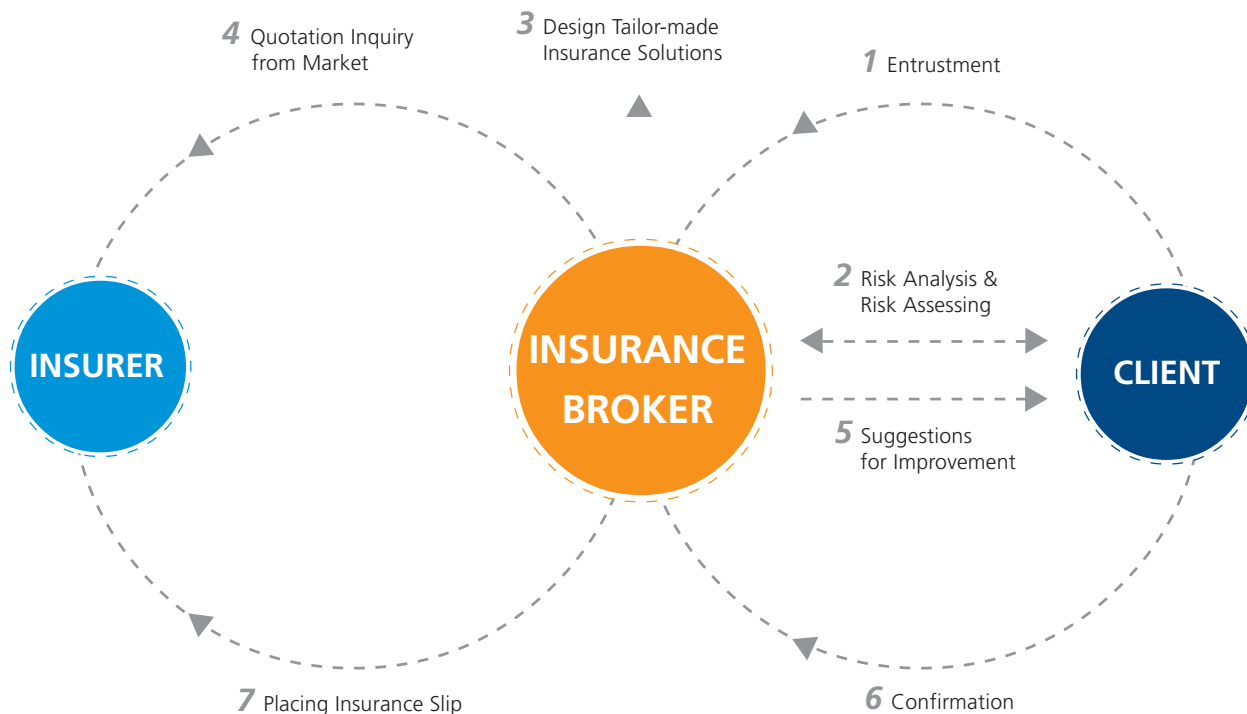
As an important part in the ship trading and supplying services platform, the main function of marine insurance broker is to arrange the best marine insurance protection to ocean-going vessels of various sizes. The Company's wholly-owned subsidiary, COSCO (Hong Kong) Insurance Brokers Limited ("HK COSCO Insurance Brokers"), is the sole insurance intermediary company within the COSCO Group. It is also one of the few insurance brokerage companies in Hong Kong that has obtained Lloyd's broker accreditation. HK COSCO Insurance Brokers mainly operates intermediary businesses in respect of marine insurance and shipowners' liabilities insurance, which include hull and machinery insurance, increased value insurance, insurance against war risks, shipowners' and charterers' liabilities insurance, freight, demurrage and defence insurance, loss of hire insurance and etc.

HK COSCO Insurance Brokers succeeded in grasping the opportunities in the delivery of new vessels to various shipping companies by actively developing the business in hull insurance for the new vessels during the year. The Company also capitalised on the growing chartering business arising from the optimistic shipping market outlook in the first half of the year and provided charterers' liabilities insurance brokerage service to over 130 vessels. In addition, after analysing the continuous unrest situation in the Middle East region and recurring terrorist attacks, HK COSCO Insurance Brokers developed business in war insurance against additional risks bringing in a favourable economic benefit to the Company. The annual commission income of HK COSCO Insurance Brokers was HK\$38,155,000 (2004: HK\$34,548,000), up 10% as compared to 2004. Leveraging on its Lloyd's broker accreditation, HK COSCO Insurance Brokers has actively developed non COSCO business and the annual commission income from non COSCO business accounted for 18% of its overall total commission income (2004: 14%).

In order to expand its insurance brokerage business to the China Mainland, HK COSCO Insurance Brokers entered into an agreement on 28th November 2005 with a wholly-owned subsidiary of the Company and Shenzhen Ocean Shipping Co., Limited, a non wholly-owned subsidiary of COSCO Hong Kong to set up a joint venture named SZ COSCO Insurance Brokers in Shenzhen. SZ COSCO Insurance Brokers will be responsible to develop marine insurance brokerage business in the China Mainland.



FLOW CHART OF INSURANCE BROKERAGE SERVICE



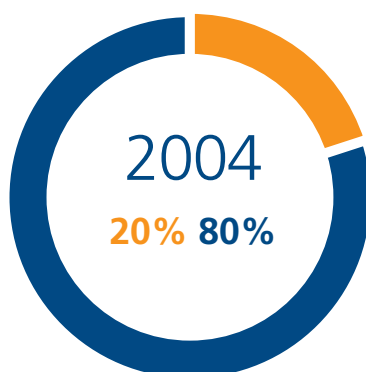
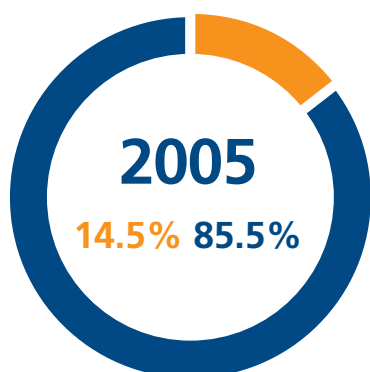
Sales of marine equipment, spare parts and communications and navigation equipment business

Following the increasing market demand and the positive prospects for marine communications and navigation equipment and spare parts, the Company through its wholly-owned subsidiary completed the acquisition of 100% equity interest in Yuantong in May 2005. Yuantong is principally engaged in the supply and installation of equipment and spare parts for existing vessels and new vessels, oil drilling projects at sea and communications systems, shore-based AIS system, vessel traffic management systems and as well as information management system for land users. During the year under review, Yuantong's performance was impressive with a total turnover of HK\$350,023,000 (2004: 301,282,000), representing an increase of 16% compared to 2004.

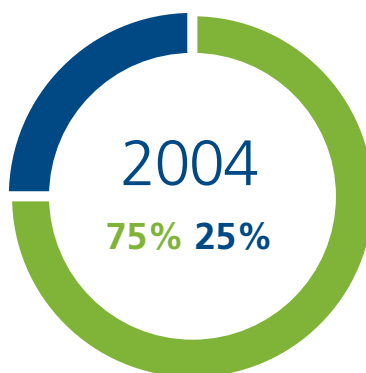
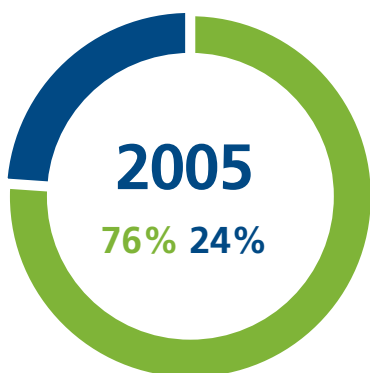
Yuantong has during the year actively explored new procurement channels, canvassed the new ship building market and established a good and close relationship with customers and manufacturers. On the procurement side, Yuantong entered into agency agreements with a number of manufacturers and achieved a breakthrough by entering into cooperative agreements for the provision of marine equipment to new vessels, which laid a solid foundation for long-term cooperation.

THE DISTRIBUTION OF YUANTONG'S SPARE PARTS AND COMMUNICATIONS AND NAVIGATION EQUIPMENT BUSINESS AND ITS CUSTOMERS

For the year ended 31st December



- Communications and Navigation Equipment Business
- Spare Parts Business



- COSCO Group customers
- Non COSCO Group customers

Production and Sales of Coating Business

Despite the fierce competition in the coating industry in China in 2005, the Company seized market opportunities by actively expanding its coating supply platform. After a series of acquisitions, the Company has initially established a framework for a cross-region coating production and sales platform. The Company's non wholly-owned subsidiaries, COSCO Kansai Companies, are responsible for the production and sales of container coatings and industrial anti-corrosion coatings, whilst Jotun COSCO, a jointly controlled entity of the Company, is in charge of the production and sales of marine coating products.

Container Coatings

During the year under review, the robust demand for containers from container owners worldwide in the first half of the year drove up the sales of container coatings. Owing to a cyclical change of shipping industry, demand for containers has slowed down in the second half of the year coupled with the increase in soaring oil and raw material prices, which affected the sales of container coatings. Nevertheless, with high quality products and sincere attitudes together with their aggressiveness in maintaining close contact with key customers, COSCO Kansai Companies achieved good sales results. During the year, the total sales volume



of container coatings reached 56,119 tonnes (2004: 69,352 tonnes), a 19% decrease as compared to 2004, but continued to rank the first in China's container coating market.

To reduce the transportation costs and risks and to enhance the overall operational efficiency, the Company had on 28th November 2005 entered into an agreement with Kansai Paint Co., Ltd. to set up a joint venture named Zhuhai COSCO Kansai Paint & Chemicals Co., Ltd ("Zhuhai COSCO Kansai"). Zhuhai COSCO Kansai assists the Company in expanding its scale of production in coatings. Both parties had on the same day entered into a project agreement with the Commission of Zhuhai Harbour Industrial Zone. According to the aforesaid agreement, Zhuhai COSCO Kansai will invest and build a coating production plant in the Zhuhai Harbour Industrial Zone, a heavy chemical production base in Guangdong Province. The expected annual production capacity of the new plant is 24,000 tonnes. The Zhuhai Harbour Industrial Zone is one of the major transportation hubs along the coast of China. It has a good operating environment and

comprehensive infrastructure and thus is an ideal location for setting up a coating plant. The Company expected that upon commissioning of the new plant, it will share the production loads of the manufacturing plants in Tianjin and Shanghai, thereby reducing production risks. The Company will in the meantime act in accordance with the market demands by readjusting its coating products development strategy for northern and central China with a view to fully expanding the coatings supply platform of the Company.

SALES VOLUME OF COATING PRODUCTS

Sales Volume (tonnes) /Year	2005	2004	Change (%)
Container coatings	56,119	69,352	-19%
Marine coatings	26,895 ^{Note 2}	7,146 ^{Note 1}	N.A.
- COSCO Kansai Companies	6,680	7,146	-7%
- Jotun COSCO	20,215	N.A.	--
Industrial anti-corrosion coatings	4,777	3,275	+46%

Note 1: Include only marine coating sales of COSCO Kansai Companies

Note 2: Include marine coating sales of both COSCO Kansai Companies and Jotun COSCO

Marine Coatings

The Company's marine coating production and sales business comes under Jotun COSCO. Jotun COSCO is a jointly controlled entity between the Company and the internationally renowned Norwegian coating manufacturer Jotun A/S, each owns 50% equity interests. Jotun COSCO has a manufacturing plant in Guangzhou and sales offices in places such as Shanghai, Dalian, Chengdu and Hong Kong. Jotun COSCO is responsible for centralising the running of marine coating business, including production and sales of coatings for new ship building, dry docking and sea stock, in various regions in China (including Hong Kong and Macau Special Administrative Regions).

During the year under review, Jotun COSCO actively expanded its market share and achieved a breakthrough in sales with the whole year coatings sales volume reached 15,550,000 litres (equivalent to 20,215 tonnes).

Industrial Anti-corrosion Coatings

In 2005, investment in fixed assets in China exceeded RMB8,860 billion, representing a remarkable increase of 26% compared to 2004. Currently, the Central Government of the People's Republic of China is planning and implementing a number of large scale infrastructure and railway projects. These projects will bring huge demands for industrial anti-corrosion coatings. Taking full advantage of their rich resources and advanced technology, COSCO Kansai Companies had been successful in expanding its industrial anti-corrosion coating market and achieved remarkable results. Sales volume of industrial anti-corrosion coatings during

the year reached 4,777 tonnes (2004: 3,275 tonnes), a 46% increase over the same period in 2004.

According to the market prediction, the proportion of specialised coatings in the coating business in China will expand owing to the continuous increase in demand for industrial coatings for the construction, transport, infrastructure and energy sectors.

The Company will leverage on its resources in each coating plant to readjust its product structure and strengthen its industrial anti-corrosion coating and marine coating businesses, with an aim to enlarge its scale in coating production and explore further potential for profits.

Property Development and Property Investment

Hong Kong

Following the economic recovery in Hong Kong during 2005, the property market was booming. The Company following its strategy of focusing on developing core activities, seized the opportunity to dispose of some of its investment properties. The disposal included the sales of the 39th, 40th, 42nd, 47th to 51st floors of COSCO Tower, a total of eight floors with a combined gross floor area of 172,660 square feet, to COSCO Hong Kong for a total consideration of HK\$1,402,000,000. The transaction was completed on 3rd August 2005. The transaction not only lowered the Company and its subsidiaries' gearing ratio substantially, but also significantly increased the cash reserve available for future investment opportunities.



The Company's wholly-owned subsidiary also sold its shopping mall property and 9 coach parking spaces in Broadview Court, Shum Wan, at the end of June 2005. As of the end of 2005, the aforesaid subsidiary held 195 car parking spaces in Broadview Court. To plan for further sales, the Company will continue to closely monitor market trend.

China Mainland

There was a relative slowdown of investment activities in the property market on the China Mainland during the year, however property prices was still on upward path. With the continued economic growth and improvement in people's living standard, demands for properties in cities are expected to remain high which will continue to drive steady development in the property market in the China Mainland.

Kingswell Garden

The Company, through its subsidiary, owns Block 5 of Kingswell Garden, a hotel-style serviced apartment complex with a total floor area of 2,592 square metres on Hongmei Road, Shanghai. As of 31st December 2005, the occupancy rate was 84% (2004: 94%) and the monthly rental per unit ranged from US\$1,000 to US\$2,500.

Fragrant Garden

The residential portion of Fragrant Garden, the Company's property development in Shanghai, has been substantially sold and handed over. As of 31st December 2005, a total of 1,841 square metres retail shops and 193 car parking spaces remained unsold. The Company will sell the remaining properties according to the market demand.

COSCO Yihe Garden

COSCO Yihe Garden is the Company's development property project with a total floor area of approximately 200,000 square metres in Shenyang, Liaoning Province, China. The project, located at Beita Xin Cun, Yu Hong District, was developed by Shenyang COSCO Yihe Property Development Co., Ltd ("Shenyang COSCO Yihe"), a non wholly-owned subsidiary of the Company. The total investment was RMB590,000,000. The project is developed by two phases, Phase 1 is in the South District and Phase 2 is in the North District. COSCO Yihe Garden provides a total of about 1,400 residential units of various sizes. As of 31st December 2005,

sales contracts for totally 747 residential units of COSCO Yihe Garden involving a total floor area of 88,000 square metres, have been concluded. Residential units in Phase 1 of the project have been gradually handed over to buyers in mid 2005. Sales of the residential units in Phase 2 of the project have been commenced in mid 2005. It is expected that construction of the whole project will be substantially completed at the end of 2006.

Building on Shenyang COSCO Yihe's experience in property development and quality customer services accumulated over the years, COSCO Yihe Garden has been gradually established its brand and reputation since its launch in 2004. In 2005, COSCO Yihe Garden obtained various awards including the "Shenyang Landscape Model Residential Building" ("瀋陽景觀示範住宅"), "2005 Most Popular Property among Shenyang Citizens" ("2005 瀋陽百姓喜愛的魅力樓盤") and "2005 CIHAF Most Well-known Property and Enterprise in China (Shenyang)" ("2005 CIHAF 中國(瀋陽)名盤名企").

Sino Ocean Real Estate Development Co., Ltd

Sino Ocean Real Estate Development Co., Ltd. (formerly known as COSCO Real Estate Development Co., Ltd.) ("SORED"), a jointly controlled entity of the Company and a renowned property developer in the China Mainland, won numerous awards for its property developments in Beijing. At present, SORED's properties under construction include Ocean Paradise, Ocean Landscape, Ocean Seasons, Chamsunny Plaza, Ocean International Centre, Haihe New Skyline in Tianjin and etc. SORED managed to achieve good results and brought profitable returns of HK\$59,227,000 (2004: HK\$12,888,000) to the Company. This was attributable to its solid financial strength, reputable brand and proactive marketing and sales efforts.

Other Operations

During the year, the Company did not have any material operating activities in the building construction business except for reaching accounts settlement with employers and sub-contractors.

Henan Xinzhongyi Electric Power Co., Ltd. ("Henan XZY") has two 200MW coal-fired generators in Henan Province. During the year, due to the increase in production costs arising from soaring coal prices, Henan XZY made no contribution to the Company. Going forward, Henan XZY will strive to control costs to achieve breakeven result.

FINANCIAL RESOURCES AND LIQUIDITY

As of 31st December 2005, shareholders' funds of the Company and its subsidiaries increased by 43% to HK\$1,593,184,000 resulting from the profit generated during the year. For the year ended 31st December 2005, the Company and its subsidiaries had a net repayment of bank and other loans of HK\$881,848,000 (2004: net drawdown of bank loan of HK\$29,770,000 and a drawdown of loan from a minority shareholder of HK\$23,618,000). As of 31st December 2005, total banking facilities available to the Company and its subsidiaries amounted to HK\$482,630,000 (2004: HK\$1,222,999,000) of which HK\$149,660,000 (2004: HK\$964,890,000) were utilised. The net repayment and decrease in utilisation of banking facilities were

primarily attributable to the disposal of eight floors of COSCO Tower and the repayment of the related bank loans. The gearing ratio, which represents total borrowings over total assets, was approximately 4% (2004: 32%).

As of 31st December 2005, the Company and its subsidiaries' borrowings were denominated in Renminbi and carried interests at rates calculated with reference to the Base Rates announced by the People's Bank of China. The Company and its subsidiaries did not have any financial instruments used for hedging purpose.

As of 31st December 2005, the Company and its subsidiaries did not have any assets pledged as securities to a bank in respect of certain banking facilities granted (2004: HK\$194,634,000).

As of 31st December 2005, cash and cash equivalents amounted to HK\$1,274,085,000 (2004: HK\$562,870,000) and accounted for 60% (2004: 39.2%) of the current assets of the Company and its subsidiaries. The Company and its subsidiaries did not have bank balances restricted for the purpose of obtaining banking facilities to the Company and its subsidiaries (2004: Nil). During the year, the Company and its subsidiaries had no material exposure to exchange rate fluctuations.

The maturity and currency profiles of the outstanding borrowings as of 31st December, 2005 are analysed as follows:

Maturity Profiles:	2005 HK\$000	2004 HK\$000
Bank and other loans		
- Within one year	10,570	122,619
- In the second year	96,090	36,443
- In the third to fifth year	-	829,446
	106,660	988,508

Currency Profiles:	2005 HK\$000	2004 HK\$000
Renminbi	106,660	102,694
United States dollars	-	287,214
Hong Kong dollars	-	598,600
	106,660	988,508



With its strong cash position and the available banking facilities, the Company and its subsidiaries have adequate resources for their ongoing operations and future development.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2005, the aggregate amount of sales from the Company and its subsidiaries' five largest customers and the aggregate amount of purchases from the Company and its subsidiaries' five largest suppliers accounted for less than 30% of the turnover and cost of sales of the Company and its subsidiaries respectively.

EMPLOYEES

As of 31st December 2005, excluding associated companies and jointly controlled entities, the Company and its subsidiaries had approximately 533 (2004: 664) employees of whom approximately 122 (2004: 137) employees were in Hong Kong. The reduction of employees was mainly due to the decrease of staff engaging in the property management of a property project in the China Mainland which was almost completed. For the year ended 31st December 2005, employee costs including directors' emoluments and pension costs totalling HK\$107,856,000 (2004: HK\$95,924,000). Employees were

remunerated on the basis of their performance and experience. Remuneration package comprises salary and year-end discretionary bonus are determined based on market conditions and individual performance. During the year, all Hong Kong employees have participated in the Mandatory Provident Fund scheme.

On 26th November 2003, the directors of the Company ("Directors") and employees of the Company and its subsidiaries were granted certain share options to subscribe for a total of 44,800,000 shares of the Company at a price of HK\$0.57 per share. These share options are exercisable at any time from 23rd December 2003 to 22nd December 2008. On 2nd December 2004, the Directors and employees of the Company and its subsidiaries were granted certain share options to subscribe for a total of 32,650,000 shares of the Company at a price of HK\$1.37 per share. These share options are exercisable at any time from 29th December 2004 to 28th December 2014. On 10th May 2005, certain employees of a subsidiary of the Company were granted certain share options to subscribe for a total of 2,400,000 shares of the Company at a price of HK\$1.21 per share. These share options are exercisable at any time from 6th June 2005 to 5th June 2015.