Chairman **WEI JIAFU**

What is the “China Factor”? In Beijing, the urban map is being re-drawn so swiftly that road signs can hardly keep up with the new roads and buildings. In the global shipping market, large quantity of containers are shipped from China to countries all around the world. This is a sign of the huge impact of China’s economic growth on the global economy, and nowhere is this impact deeper than in the area of global shipping. As global competition intensifies, the demand for Chinese manufacturing will shift from quantity to quality, which in turn creates more opportunities for China’s logistics and shipping services. The future of the China Factor will put new pressure on global shipping companies to create innovative services and improve service quality to meet the needs of their customers in the context of global competition.

The China Factor has led the international shipping industry into a new era. With globalisation and outsourcing trend, China will consolidate its position of being the “Factory of the World”. And yet, the China Factor faces many challenges as well, ranging from high oil prices to international terrorism and protectionism. These make it imperative for shipping companies to improve both the capacity and quality of its shipping services to meet the market demand, to build global alliances across the shipping industry and to establish a more harmonious atmosphere for dialogue with their counterparts in the industry, the governments, and the investors.

Going forward, China COSCO will strengthen her leading position in the global shipping industry as it utilises the opportunities of the China Factor.

CHAIRMAN'S STATEMENT

In 2005, the world's shipping market kept up its momentum and spectacular growth after setting a record high in 2004, while the "China Factor" continued to power the industry's development in China and around the world. Meanwhile, the combined effect of globalisation and the shifting of production bases to Asia has provided a solid foundation for the steady growth of the shipping market in China. As one of the world's leading providers of integrated container shipping services, the Group is well positioned to benefit from the strength of China's domestic economy and international trade. This is due to its fully-integrated container shipping value chain, the positive synergy among its diversified businesses, its quality customer base, its worldwide network of sales and services, as well as its advanced information technology systems.

The Group achieved impressive business growth in 2005. During the year, the turnover was RMB39,165,710,000 and profit attributable to equity holders of the Company was RMB5,450,805,000, an increase of 21.7% and 31.1% respectively, exceeded the profit forecast made when China COSCO was listed in June 2005. In particular, COSCON, a wholly-owned subsidiary of China COSCO and the largest container shipping company in China, attained very outstanding results in 2005. COSCON recorded a total container shipping volume of 4,534,610 TEUs and a total turnover of RMB31,959,809,000, an increase of 19.7% and 17.0% respectively over 2004. The Group's container terminal business, which is conducted through COSCO Pacific, continued to grow rapidly. In 2005, the Group's container terminals handled a total throughput of 26,079,612 TEUs, an increase of 16.2% over 2004. The Group's container leasing business is conducted through Florens Container Holdings Limited ("Florens"). As of 31 December 2005, Florens owned and managed a container fleet of approximately 1,042,852 TEUs. Its world ranking of being the fourth largest container company has been promoted to the third place in 2005.

In line with the long-term development strategy of the Group, the Board has recommended payment of a final dividend of RMB0.13 per share (pre-tax) based on the payout rate indicated in the China COSCO's listing prospectus of 29.8%.

2005 was a very significant year for China COSCO in its corporate history. In the first half of the year, the Group completed its asset restructuring and was successfully listed on the Stock Exchange. The listing exercise enabled us to expand the capacity, to improve the age and structure of our container vessel fleet, to enhance our "door-to-door" service platform and to further optimise our capital structure. All in all, it provided a strong support to the business development of the Group.

During the year under review, the Group has successfully made integration to the value chain of container shipping, giving full synergic effect among the various business entities, and enhancing the Group's overall capabilities against market risks. In respect of container shipping, the Group further reduced its operation risks through various measures such as opening new shipping services, re-designing the existing shipping services and adjusting the allocations of capacities of the various services. At the same time, the Group has strengthened the coverage and competitiveness of CKYH Consortium, a consortium consisting of COSCON, K-Line, Yang Ming and Hanjin Shipping. For example, CKYH Consortium has confirmed in the meeting held on 3 November 2005 that the focus of the strategic plan in 2006 will be to consolidate the strategic alliances and strengthen competitiveness. CKYH Consortium not only provides cooperation in the main-routes, but will also expand the cooperation scope to the joint establishment of feeder service network. In respect of container terminals, the Group has continued its global expansion strategy, and has entered into major joint venture and acquisition agreements in respect of Guangzhou Nansha Port Phase II terminal, Shanghai Yangshan Port Phase II terminal and Suez Canal Terminal at Port Said, Egypt. In respect of container leasing, the Group further explored markets and expanded the strengths of its container fleets through strategic cooperation partnership with various large shipping companies, and port operators. In respect of logistics business, on the basis of continuous consolidation of its brand advantages, the Group has made further in-depth development into the target markets, integrated resources and enhanced the level of its operations.

At the same time, the Group also dedicated in reducing its operation costs, and capitalising on various measures such as centralised purchases of fuel and futures trading by which the Group has been able to reduce its operation costs and mitigate impact brought about by oil price risks. In addition, in order to expand the Group's market share in the shipping market, while paying attention on the emerging market opportunities, the Group also promoted on the formation of global feeder network. During the year, the Group also continued to enhance information management and overall level of management, so as to create more values to customers.

The Group firmly believes that a sound framework of corporate governance is the cornerstone for the sustainable growth of its business value. Currently, the Company retains four independent non-executive directors, which is above the requirement set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Besides, the Board has set up five board committees and an executive committee. The board committee will help the Board evaluate, review and recommend development strategies and risk management measures, monitor and safeguard the independence of external auditors, and review the nomination of directors and the relevant remuneration policies, etc. The executive committee will approve the investment projects of the Group in accordance with the authority granted by the Board. China COSCO also aimed at continuously improving and enhancing its risk management and internal control procedures so as to promptly respond to and resolve any potential risk.

According to the forecast of the World Bank and the International Monetary Fund, etc., the global economy will maintain its steady growth in 2006 and the growth rate will be similar to that of 2005. 2006 is the first year for the implementation of the PRC government's "Eleventh Five-year Plan". We believe that, in the context of China's continued industrialisation and urbanisation, as well as the upcoming Beijing Olympics in 2008, China will continue to realise high economic growth. Hence, the Group believes that China is likely to uphold its position as the world's factory and maintain the substantial growth in its imports and exports. According to the "Eleventh Five-year Traffics Technology Development Rule" announced by the Ministry of Communications in China, the throughput of China's ports was 4,910,000,000 tons and the throughput of containers was 75,800,000 TEUs in 2005, which ranked China as number one in the world in three consecutive years. It is expected that, during the next five years period, the throughput of China's coastal ports and the throughput of containers will realise an average of 8.0% and 12.2% annual growth respectively. Therefore we believe that the global demand for container shipping, as well as for container terminals and the ancillary facilities and services, will continue to increase. The Group stands to benefit under such a favorable outlook.

Against this exciting backdrop, however, we are aware of the challenges ahead. From 2005 till now, rising crude oil prices, the revaluation of the Renminbi, market skepticisms on the demand and supply equilibrium of the global shipping industry, as well as the restructuring within the industry aroused concerns from the investment market. As one of the world's major providers of integrated container shipping services, the Group is fully prepared to develop strategies to enhance its operating efficiency. We also intend to adopt necessary measures to reduce the effects associated with rising oil prices and Renminbi appreciation. Meanwhile, supported by the positive global economic prospects and the "China Factor", it is our belief that the industry's demand and supply will be relatively balanced in the coming years.

Going forward, we will continue to increase our competitiveness to become one of the world's leading global integrated shipping companies in terms of business scale, range of services, profitability and customer satisfaction. To this end, we will continue to improve our information systems and cost-control measures. We will also continue to optimise our container vessel fleet capacity and our shipping route and terminal networks and services to enhance our "door-to-door" services. Accordingly, we aim to further improve customer satisfaction and increase our profitability so as to create better shareholder value.

Looking back to our achievements in the past year, I would like to take this opportunity to express the Board’s gratitude to our shareholders, customers, employees and business partners for their generous and unfailing support to the Group. In the future, we look forward to working more closely with all of you to create an even stronger marine fleet, an even wider shipping network and an even more flexible logistics system. I believe that China COSCO is heading towards to become the world's leading shipping enterprise and will play its role to the full as the overseas listed flagship for shipping business of the COSCO Group. Let us anticipate even more brilliant prospects for the Group in the international shipping market.

WEI Jiafu
Chairman

11 April 2006