
COSCO DALIAN
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Review of Overall Performance

Benefiting from the favorable conditions in the global economy and international shipping, the Group's business segments which include container shipping, container terminals, container leasing, freight forwarding and shipping agency services, etc. had grown rapidly during the year. The Group's gross turnover for 2005 was RMB39,165,710,000, representing an increase of 21.7% over 2004. Its profit before income tax and profit attributable to equity holders of the Company were RMB7,450,250,000 and RMB5,450,805,000, representing an increase of 42.1% and 31.1% over 2004 respectively. The substantial increase in the Group's profit, as compared with last year, was due to the continuous growth in shipping and port handling volume and revenue, reasonable control of the costs, better utilisation of resources and enhanced information management.

Review of Operations

Container Shipping Business

Rapid Growth in Shipping Volume and Turnover

In 2005, the Group's container shipping business achieved a shipping volume of 4,534,610 TEUs, representing an increase of 19.7% on a year-to-year basis. All major routes, including Trans-Pacific, Asia-Europe, Intra-Asia and China routes achieved growth, of which Asia-Europe was the most obvious, with a growth rate reaching 31.7%. The next was China routes, which had reached a growth rate of 25.1%. The increase in shipping volume for container shipping business in 2005 was due to the fact that the shipping market continued the good momentum from 2004. Moreover, the Group had timely increased its number of ships and strength in solicitation activities. The Group also increased its shipping capacities, added new services and increased its existence in emerging markets.

The turnover of the Group's container shipping business in 2005 amounted to RMB31,959,809,000, representing a growth of 17.0% on a year-to-year basis over the previous year. Trans-Pacific, Asia-Europe, Intra-Asia, other international routes and China routes had achieved growth. Among them, Asia-Europe and China routes had achieved the best performed growth, reaching 24.5% and 29.2% respectively. The increase in turnover from container shipping business was due to the increase in shipping volume on major routes, details of which are shown in the following tables:

Shipping volume by markets

	For the year ended 31 December		
	2005	2004	Change
	TEUs	TEUs	%
Trans-Pacific	**1,183,899**	1,000,360	18.3
Asia-Europe (including the Mediterranean)	**1,002,561**	761,013	31.7
Intra-Asia (including Australia)*	**1,392,828**	1,214,578	14.7
Other international (including Trans-Atlantic)	**240,873**	241,369	-0.2
PRC	**714,449**	571,132	25.1
Total	**4,534,610**	3,788,452	19.7

* 2005 and 2004 figures include the shipping volume handled by Coheung Marine Shipping Company Limited

Turnover by markets

	For the year ended 31 December		
	2005	2004	Change
	RMB'000	RMB'000	%
Trans-Pacific	**12,527,188**	10,680,016	17.3
Asia-Europe (including the Mediterranean)	**9,154,183**	7,354,971	24.5
Intra-Asia (including Australia)	**5,935,908**	5,352,822	10.9
Other International (including Trans-Atlantic)	**2,573,389**	2,270,638	13.3
PRC	**1,480,948**	1,146,609	29.2
Sub-total	**31,671,616**	26,805,056	18.2
Chartered out	**288,193**	514,787	-44.0
Total	**31,959,809**	27,319,843	17.0

Optimisation of the trunk routes network

In line with market development and customer demand, the Group undertook an innovative reorganisation of its services on trunk east-west routes. Together with its CKYH Consortium, COSCON further consolidated and optimised their shipping services to European/US destinations to further enhance their service quality and coverage and reduce the risks and costs of routes development. In the Trans-Pacific routes, the Group enlarged the service coverage of the Pacific Northwest route by directly calling at the ports of Busan and Portland. In addition, the Group reorganised its European services, and introduced a new loop. Besides, COSCON also cooperated with Hanjin and K Line in introducing a new service between South China and the Persian Gulf.

Development of emerging markets

Through the co-operation with other shipping companies, COSCON made an aggressive effort in developing emerging markets. During the year, utilising the opportunity in reorganising its European shipping services, Kuala Lumpur was added as a calling port, in order to focus on the development in the South Asian subcontinent market. Since April, the US East Coast biweekly service began to call at Panama, marking COSCON's entry to the Caribbean market. The South China — Red Sea service was reopened in response to the demand of the Red Sea market brought by the addition of Jeddah port to the reorganised European routes. In addition, COSCON introduced a series of feeder services on the Southeast Asia — Australia, Hong Kong — Manila , the Naples — Adriatic Sea, India — Pakistan, and the intra-Bohai routes. The above global feeder service network enhanced the Company's development of the emerging markets. 110,000 TEUs were added through the development of emerging markets with a revenue of RMB620 million in 2005.

Enhancement of shipping capacity

Our container ship fleet is an essential component of our competitive edge. To expand its market share and satisfy the shipping demand of its newly developed markets, the Group added 9 new vessels with a combined shipping capacity of 39,240 TEUs during the year. As of 31 December 2005, the Group had a total of 124 vessels with an aggregate capacity of 322,414 TEUs, representing an increase of 8% over the previous year. In addition, the Group recalled certain vessels on short-term leases to make available the most resources to cope with the demand in the peak season. As a result, its available shipping spaces achieved an increase of 14% over the previous year.

As of 31 December 2005, the Group had an orderbook of 23 vessels with a combined shipping capacity of about 180,000 TEUs, which are expected to commence operation in the next few years. Among the vessels, 11 are time chartered vessels with a combined shipping capacity of 79,733 TEUs. The strategies for the fleet include constantly increasing the proportion of large-size vessels, in order to enhance the fleet structure. In the first half of the year, the Group entered into contracts with Hyundai Heavy Industries and Nantong COSCO KHI Ship Engineering Co., Ltd. for the building of a total of eight 10,000 TEU vessels, making it the first company in the shipping industry to order vessels of such size.

Improvement of information systems and networks

The Group leveraged advanced information technology to further build up its efficient customer service system. In 2005, COSCON further advanced its e-commerce service by introducing various interactive service features, including online booking, online shipping instructions, online printing of bill of lading, electronic equipment release and online arrival advice. Besides, a self-service interactive voice response system was launched in China. The above services have given tremendous convenience to the global customers of COSCON, thereby enhancing its service branding and corporate image.

In line with its business development, the Group focused on promoting integrated business information system, IRIS-2, in emerging markets and regions in which it actively pursues business expansion. Besides, further steps were taken to improve the features of the management information system to enable the full performance of its functions in improving yield management and reducing costs.

To support the enlarged shipping capacity of the Company, the Group established 16 additional points of sales and services globally. Efforts were also made to reorganise its sales network in the South China region in order to enhance the Group's service quality and market share in the area.

Stringent Cost Controls

The Group reduced the proportion of transshipment cargoes by optimal route-planning and increasing the proportion of direct port-calling. It also actively adjusted the structure of the cargo base. These had resulted in a reduction of transshipment costs. Meanwhile, the Group implemented dynamic management of shipping spaces to maintain a high utilisation rate and improve the control of the flow of orders. The Group also effectively lowered the cost on containers by raising the utilisation rate and reducing the turnaround time. Besides, IRIS-2 system was used for cost control which has saved service cost substantially.

The Group had also redesigned the arrangement of shipping routes, schedules and speeds of ships in order to minimise the voyage costs.

In addition, the Group also improved its cost control on fuel procurement. Coupled with the adoption of centralised procurement and futures trading, the Group managed to reduce its fuel costs to below market levels. Owing to the synergy effect resulting from business integration, the Group also strengthened its bargaining power and restrained the rate of increase in port charges.

Business Strategies

In 2006, the Group will further expand its share of the existing markets, while stepping up its efforts in developing emerging markets. On the one hand, the Group will actively utilise the vessels which will be delivered in 2006 to advance the shipping capacity of its trunk routes, in order to enlarge its market share in the European and US markets. On the other hand, it will actively focus on developments in the emerging markets to promote the formation of global feeder service network. At the same time, the Group will further develop its information systems and adopt innovative digital marketing initiatives. Under a more customer-oriented marketing strategy, the Group will further segmentise its customers in order to formulate more personalised sales strategies and enhance its services for high value customers.

Container Terminal Business

In 2005, the Group's container terminal business, which is operated through COSCO Pacific, maintained strong growth momentum, with its total throughput achieving an annual growth of 16.2% to 26,079,612 TEUs.

During the year, the overall performance of the container terminal business in China was outstanding, with growth in their aggregate throughput reaching 16.1%. The performance was particularly brilliant for Qingdao Qianwan Terminal and Yingkou Terminal in the Bohai Rim, Yangzhou Yuanyang Terminal and Zhangjiagang Win Hanverky Terminal in the Yangtze River Delta, COSCO-HIT Terminal and Yantian Terminal Phases I, II & III in the Pearl River Delta. Specifically, the total throughput of the container terminals in the Bohai Rim grew to 9,370,361 TEUs, representing an annual growth of 25.2%. As for the container terminals in the Yangtze River Delta, their total throughput rose to 6,831,502 TEUs, representing an annual growth of 6.1%. The total throughput of the container terminals in the Pearl River Delta grew by 15.6% year on year to 9,196,652 TEUs.

In respect of the overseas market, the total throughput of the container terminals of the Group grew by 19.1% to 681,097 TEUs. Due to the growth in the throughput of the Singapore Port and the improvement in the operating efficiency of the terminals, the throughput of the COSCO-PSA Terminal increased by 6.8% to 611,013 TEUs. As for the European market, the Antwerp Terminal commenced operation in September 2005.

During the year, by way of acquiring shares in new terminals and investing in the construction of new berths in its existing terminals, the Group further consolidated its global business network. Currently, certain projects are pending government approvals. For the year, 30 new berths were added, increasing the total number of berths of the Group to 100.

Throughput and Annual Growth Rate of the Container Terminals of COSCO Pacific

Container Terminal (TEUs)	Shareholding (%)	2005	2004	+/-(%)
Pearl River Delta		**9,196,652***	7,956,727*	+15.6
COSCO — HIT Terminal	50	**1,841,193**	1,697,212	+8.5
Yantian Terminal (Phases I, II & III)	4.45-5	**7,355,459**	6,259,515	+17.5
Yantze River Delta		**6,831,502**	6,436,076	+6.1
Shanghai Terminal	10	**3,646,732**	3,650,319	-0.1
Shanghai Pudong Terminal	20	**2,471,840**	2,339,479	+5.7
Zhangjiagang Win Hanverky Terminal	51	**377,121**	328,199	+14.9
Yangzhou Yuanyang Terminal	55.59	**157,123**	118,079	+33.1
Nanjing Longtan Terminal	20	**178,686**	—	N/A
Bohai Rim		**9,370,361**	7,483,974	+25.2
Qingdao Qianwan Terminal	20	**5,443,086**	4,532,769	+20.1
Qingdao Cosport Terminal	50	**605,791**	385,856	+57.0
Dalian Port Container Co.	8	**2,467,465**	2,172,252	+13.6
Dalian Port Terminal	20	**132,984**	—	N/A
Yingkou Terminal	50	**633,573**	393,097	+61.2
Tianjin Five Continents Terminal	14	**87,462**	—	N/A
Overseas		**681,097**	571,863	+19.1
COSCO-PSA Terminal	49	**611,013**	571,863	+6.8
Antwerp Terminal	20	**70,084**	—	N/A
Total throughput		**26,079,612**	22,448,640	+16.2

* Shekou Terminal was disposed of on 23 March 2005, and throughput from the terminal for both years have been excluded from the table above.

Management Discussion and Analysis

During the year, the Group adjusted the development strategy for its terminal operations in the Pearl River Delta. In order to consolidate its financial resources and the geographic advantage of the Pearl River Delta, COSCO Pacific disposed of its 17.5% equity interest in Shekou Container Terminals Ltd. Immediately afterwards, COSCO Pacific signed a joint venture agreement in respect of Nansha Port Phase II in Guangzhou, thereby acquiring a 59% equity interest in the joint venture company. Besides, COSCO Pacific also signed a joint venture agreement in respect of 4 berths in Yangshan Port Phase II in Shanghai, thereby acquiring a 10% equity interest in the joint venture company. In its another major acquisition during the year, COSCO Pacific signed a share purchase agreement in respect of a 20% equity interest in the Suez Canal Terminal at Port Said, Egypt, further reinforcing the solid strengths of COSCO Pacific as a global container terminal operator.

The policy of the Group is to fully utilise each investment opportunity and speed up globalisation process. The continued success of COSCO Pacific's container terminal business is attributable to its strategy of cooperation and is closely related to the strategic alliance relationship it has formed with the world's major shipping companies and operators. On the other hand, COSCO Pacific will benefit from the global shipping network of COSCON to implement a high growth, high returns development strategy for its container terminal operations. It is expected that the terminals recently acquired or completed and commenced operation will give an additional boost to the total container throughput of COSCO Pacific in 2006.

Container Leasing Business

The Group's container leasing business is conducted through Florens, a wholly-owned subsidiary of COSCO Pacific. In 2005, Floren's ranking among the global container leasing companies rose from the fourth to the third, with a worldwide market share of approximately 10.9%, which was higher than that of 10.1% in 2004. The number of customers of Florens also expanded from 218 in 2004 to 256 in 2005, while its fleet grew by 13.5% to 1,042,852 TEUs.

In 2005, the container leasing business grew steadily, benefiting from the strong growth of international trade and the increased market share of the Group, with turnover increasing by 6.4% and amounting to RMB2,262,976,000. It is expected that in 2006, with the commissioning of 1,220,000 TEUs of new vessels capacity being made available for use in the container shipping market, the demand for containers will increase further to the advantage of the container leasing industry.

Freight Forwarding, Shipping Agency and Logistics Business

The Group's freight forwarding and shipping agency business is operated by certain PRC and overseas subsidiaries of COSCON, which are mainly engaged in providing supporting services to COSCON and in assisting the company in strengthening its cost control. The freight forwarding and shipping agency business of the Group achieved rapid growth, reaching a turnover of RMB8,202,784,000, representing an annual growth of 39.1% over 2004. This was attributable to not only the increase in the cargo volume handled, but also the introduction of more value-added services to the customers, thereby driving the continued rapid growth in revenues. In addition, revenues received from newly established subsidiaries around the world also contributed to the growth in revenues.

Meanwhile, COSCO Logistics, with number one ranking in China and in which the Group owns 49% equity interest through COSCO Pacific, substantially lifted the standards of the door-to-door service of the Group by way of business integration.

Other Businesses and Investments

The Group holds shares, through COSCO Pacific, in 4 container manufacturing enterprises, namely CIMC (approximately 16.23%), Shanghai CIMC Reefer Containers Co., Ltd. (approximately 20.0%), Shanghai CIMC Far East Container Co., Ltd. (approximately 20.0%), and Tianjin CIMC North Ocean Container Co., Ltd. (approximately 22.5%). In 2005, these companies contributed RMB480,886,000 in net profit to COSCO Pacific. Among them, approximately 16.23% shareholding of CIMC, the acquisition of which was completed by COSCO Pacific in December 2004, contributed RMB455,645,000 in net profit to COSCO Pacific for the first time in 2005.

Financial Analysis

Turnover

In 2005, the turnover of the Group was RMB39,165,710,000, representing an increase of RMB6,977,041,000 or 21.7% as compared with the amount of RMB32,188,669,000 in 2004. During the year, growth was recorded in all business segments of the Group.

(I) Container Shipping Business

Turnover from the container shipping business increased by RMB4,639,966,000 to

RMB31,959,809,000, or 17.0%, in 2005. The rapid growth was sustained by the high freight rates and the sharp increase of 19.7% in shipping volume.

(II) Container Terminal Business

Turnover from the container terminal business increased by 2.7% to RMB158,351,000. This was mainly because, Zhangjiagang Win Hanverky Container Terminal Co., Ltd., a container terminal of the Group, aggressively expanded its domestic shipping business and successfully increased its throughput by 14.9%, resulting in an increase of its turnover by 13.1% to RMB102,340,000, as compared to RMB90,498,000 in 2004.

(III) Container Leasing Business

During the year, the demand for containers in the shipping market was stable, and the average utilisation rate of the Group was maintained at a relatively high level. In addition, the Group made an aggressive effort in expanding its container fleet for international customers to 665,528 TEUs (2004: 591,283 TEUs), resulting in a 8.8% increase in the rental income from international customers. Meanwhile, the rental income from the intra-group leasing to the container shipping segment also rose by 3.6%. As a result of the above two factors, the turnover of the container leasing and related businesses of the Group grew by 6.4% to RMB2,262,976,000.

(IV) Freight Forwarding and Shipping Agency Business

The Group's turnover generated from the freight forwarding and shipping agency business in 2005 increased by RMB2,304,396,000 to RMB8,202,784,000, representing an annual increase of 39.1%. The growth was attributed to the increase in the container cargo volume handled.

Cost of services

The Group's total cost of services increased by RMB4,838,065,000, or 18.8%, from RMB25,752,985,000 in 2004 to RMB30,591,050,000 in 2005, which was proportional to the increase in turnover and revenues. In particular, the increase of the cost of services was comparatively higher for the container shipping, freight forwarding and shipping agency businesses.

(I) Container Shipping Business

The total cost of services for the container shipping business increased to RMB23,335,778,000 in 2005, representing an increase of 15.0%, as compared with or RMB20,284,178,000 in 2004.

- In 2005, the total costs of equipment and cargo transportation were RMB12,814,112,000, representing an increase of 3.7% as compared with the amount in 2004. The Group increased its strength in cost controls and the costs in equipment and cargo transportation rise at a slower pace than with shipping volume which in turn have reduced the unit cost for equipment and cargo transportation.
- In 2005, the total voyage costs were RMB6,437,517,000, representing an increase of 48.1% as compared with RMB4,347,640,000 of the corresponding

period in 2004. This was mainly attributable to the increase in fuel costs and port charges. Oil prices rose continuously in 2005, coupled with the increase of shipping capacity and number of voyages, resulting in fuel costs substantially higher than the previous year and, which represents an increase of 61.6% over the previous year. In addition, the Company has increased shipping capacity whereby large new vessels were deployed on the Trans-Pacific and Asia-Europe routes. The increase in vessel tonnage and number of voyages resulted an increase in port charges of 21.6% in 2005 as compared to the corresponding period of the pervious year. Fuel costs and port charges are the two factors contributing the substantial increase in voyage costs of this year over the previous year.

- Vessel costs were RMB4,084,149,000, representing an increase of 14.0% or RMB501,889,000 as compared with RMB 3,582,260,000 in 2004, which was mainly due to the increase in vessels and is lower than the increase in the total shipping costs and shipping volume.

(II) Container Terminal and Container Leasing Businesses

The costs of services for the container terminal business of the Group mainly comprise container handling costs, depreciation charges, repairs and maintenance costs, and wages. The costs of services for the container terminal business was RMB91,299,000 in 2005, representing an increase of 13.4% over 2004, mainly due to the proportional increase in the handling volume.

The costs of services for the container leasing business primarily comprise depreciation charges and container handling expenses, such as depot costs and repairs and maintenance costs. In 2005, the costs and expenses of the container leasing business were RMB857,620,000, which were RMB5,241,000 less as compared to the amounts of RMB862,861,000 in 2004. The increase in the number of containers this year led to an increase in depreciation charges. However, this factor was partly offset by the decrease in operating costs for the containers, which in turn were due to the high container utilisation rates maintained throughout the year.

(III) Freight Forwarding and Shipping Agency Business

The costs of services for the freight forwarding and shipping agency businesses (including land transportation and other related transportation charges and fees paid to third party carriers) increased by 39.4% to RMB6,306,353,000 in 2005. The increase was due to the rapid increase in shipping and transportation volume.

Other gains

Other gains of the Group includes dividend income from available-for-sale financial assets, interest income, gain/loss on interest rate swap contracts, and gain/loss on foreign exchange. In 2005, other gains of the Group amounted to RMB179,427,000, representing a decrease of RMB107,483,000 or 37.5% as compared to the amount of RMB286,910,000 in 2004. In particular, dividend income was RMB145,149,000, which represents a decrease of RMB36,374,000 from 2004. Certain business segments of the Group settled their accounts in currencies other than the US dollar. Owing to fluctuations in exchange rates, a loss on foreign exchange of RMB171,628,000 was recorded. Meanwhile, interest income for the year increased by RMB126,037,000 to RMB173,277,000 primarily due to the increase in bank balances.

Other operating income

Other operating income in 2005 amounted to RMB1,026,456,000, representing an increase of RMB477,372,000, or 86.9%, over 2004. This was mainly due to the gain on disposal of the investment in Shekou Terminals of RMB512,117,000 during the year.

Selling, administrative and general expenses

Selling, administrative and general expenses increased by RMB620,512,000 (or 33.3%) from RMB1,861,681,000 in 2004 to RMB2,482,193,000 in 2005. This was principally due to increase in staff costs resulting from an expansion in the freight forwarding and shipping agency network and expenses incurred for the restructuring and listing exercises.

Other operating expenses

Other operating expenses in 2005 amounted to RMB243,477,000, representing a decrease of RMB120,804,000, or 33.2%, over 2004. This was mainly due to the decrease in sale of returned containers during the year as compared to 2004.

Finance costs

The Group's finance costs increased by RMB228,633,000, or 35.7%, from RMB639,760,000 in 2004 to RMB868,393,000 in 2005. Due to the increase of interest rates, the Company's borrowing costs have increased. Furthermore, the Group obtained additional US dollar loans due to the restructuring prior to its listing. New borrowings were also raised to finance the capital expenditure during the year. As a result, there was a corresponding increase in interest expense.

Share of profits less losses of jointly controlled entities and associates

Net profit contribution from jointly controlled entities in 2005 amounted to RMB601,852,000, representing an increase of 7.3% as compared to the amount of RMB560,731,000 in 2004. In particular, Qingdao Qianwan Container Terminal Co., Ltd. contributed a net profit of RMB173,835,000, representing an increase of 36.3% over 2004. The results of COSCO Logistics Co., Ltd. had grown 7% in 2005 comparing to that of 2004 together with cessation of goodwill amortisation in 2005, contributed profit of RMB123,373,000 to COSCO Pacific.

Net profit contribution from associates amounted to RMB661,918,000, representing a 139.3% increase as compared to the amount of RMB276,613,000 in 2004. CIMC, which became an associate of the Group at the end of last year, made a profit contribution of RMB455,645,000 (2004: not applicable) for the year. Antwerp Gateway NV, in which the equity interest was acquired at the end of last year, recorded a loss of RMB10,684,000 due to its start-up operation.

Income tax expenses

The Group's taxation increased from RMB285,757,000 in 2004 to RMB651,319,000 in 2005. The significant increase was on the one hand, due to the lower tax charge in 2004 resulting from the utilisation of previously unrecognised tax losses, and on the other hand, the higher income tax payable by the Group due to the growth in profits of the subsidiaries in the PRC and overseas countries.

On 15 September 2005, pursuant to the Domestic Enterprise Income Tax Concession Policy of Pudong New District, the Shanghai Local Tax Office granted its approval to COSCON that, effective from 1 January 2005, the enterprise income tax rate payable by COSCON is reduced to 15%.

Financial position

Cashflows

The Group's principal sources of liquidity and capital resources are cash flows generated from operations, listing proceeds and bank loans. Apart from the proceeds raised from the initial public offering, cash inflows from operating activities of the Group remained stable.

The Group's net cash generated from operating activities increased by RMB714,514,000, from RMB5,437,803,000 in 2004 to RMB6,152,317,000 in 2005. The Group's operating profit before changes in working capital in 2005 was RMB7,894,012,000, an increase of RMB1,326,953,000 from that of 2004.

Net cash used in investing activities in 2005 of RMB7,615,297,000 was primarily used to purchase property, plant and equipment, such as containers, container vessels, computers and office equipments totalling RMB5,820,152,000 and there was a payment of RMB2,874,478,000 in settlement of the consideration payable to a subsidiary of COSCO. Meanwhile, the Group received RMB649,536,000 in proceeds from the disposal of Shekou Terminals as well as a total of RMB841,680,000 in dividends from its jointly controlled entities, associates and available-for-sale financial assets.

The Group received RMB4,811,772,000 in net cash from financing activities during 2005. On 30 June 2005, a total of 2,244,000,000 H shares, with a nominal value of RMB1.00 (consisting of 2,040,000,000 new shares and 204,000,000 shares converted from domestic shares), were issued at HK$4.25 each and were fully paid in cash. The Group's financial position was significantly improved as a result of the receipt of net proceeds of RMB8,817,797,000 from the issuance of shares by the Company.

Cash and cash equivalents

As at 31 December 2005, the Group's cash and cash equivalents totalled RMB8,147,375,000, representing an increase of RMB3,252,843,000, or 66.5%, as compared to the amount of RMB4,894,532,000 as at 31 December 2004. Of the amount, RMB2,159,856,000 was the remaining balance of proceeds from the share issue as at 31 December 2005.

The Group's principal sources of liquidity and capital resources have been, and are expected to continue to be, cash flows generated from operating activities, the issuance of new shares and debt financing from banks. The Group's principal uses of cash have been, and are expected to continue to be, for operational costs, repayment of loans, purchase of container vessels and containers, investment in container terminals and the funding of the Group's digital information technology systems.

Assets and liabilities

As at 31 December 2005, total assets of the Group was RMB51,675,654,000, representing an increase of RMB7,426,087,000 from RMB44,249,567,000 as at 31 December 2004. Total liabilities amounted to RMB25,730,562,000, as compared to RMB30,847,045,000 as at 31 December 2004. Equity attributable to the Company's equity holders amounted to RMB18,436,352,000, representing an increase of RMB10,987,148,000 from RMB7,449,204,000 as at the end of 2004. As at 31 December 2005, the equity attributable to the Company's equity holders per share was RMB3.00, representing an increase of 64.8% as compared to RMB1.82 at the end of 2004. The reason for the increase was mainly due to increase in the retained earnings for the year and the net proceeds of the new shares issued pursuant to the listing.

Cash and cash equivalents of the Group as at the end of 2005 amounted to RMB8,147,375,000 million, as compared to RMB4,894,532,000 as at 31 December 2004. Total outstanding borrowings as at the end of 2005 amounted to RMB16,689,474,000, as compared to RMB17,836,303,000 as at the end of 2004. The net debt-to equity ratio as at the end of 2005 was 32.9%, representing a substantial decrease from 96.6% as at the end of 2004. Interest coverage was 10.01 times, compared to 10.51 times at the end of 2004. Long-term borrowings totalling RMB10,631,675,000 (2004: RMB11,785,188,000) were primarily pledged by certain property, plant and equipment of the Group with net book value of RMB14,875,047,000 (2004: RMB14,202,241,000) to certain banks and financial institutions as collaterals. The pledged assets represented 52.4% (31 December 2004: 55.8%) of the total property, plant and equipment.

Debt analysis

Breakdown by category:

Category	**As at 31 December 2005 RMB'000**	As at 31 December 2004 RMB'000
Short-term loans	**2,123,108**	2,006,761
Long-term borrowings		
Within one year	**2,196,863**	3,580,099
Between one to two years	**2,246,889**	1,581,925
Between two to five years	**5,359,537**	4,994,548
Over five years	**4,763,077**	5,672,970
Subtotal	**14,566,366**	15,829,542
Total	**16,689,474**	17,836,303

The Group's secured borrowings amounted to RMB10,631,675,000, while unsecured borrowings amounted to RMB6,057,799,000 represent respectively 63.7% and 36.3% of the total borrowings.

Breakdown by denomination:

The Group had US dollar borrowings equivalent to RMB15,780,374,000 and RMB borrowings amounting to RMB909,100,000 represent respectively 94.6% and 5.4% of the total borrowings.

Contingent liabilities

As at 31 December 2005, the Group had provided guarantees on a bank borrowing granted to an associate in the amount of RMB176,899,000 (31 December 2004: RMB Nil). The claim amounts of the pending lawsuits totalled at RMB32,656,000. Except for the above and information disclosed in the Group's consolidated financial statements, the Group had no other significant contingent liabilities.

Foreign exchange and interest rate risks management

In accordance with the requirements of HKAS21, the management of the Group has determined to adopt US dollar as the functional currency in view of the fact that the business activities of the Company and its subsidiaries mainly operate in such places where the US dollar is used for transaction purposes. Besides, it is considered that, given the status of the US dollar in the international financial market, such arrangement will help minimise the impact of fluctuations in exchange rates on the profitability of the Group which might otherwise arise where the local currency is used as the functional currency.

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 assets and cash receipts of the Group's core businesses. Borrowings for the container leasing business were mainly loans in US dollars, which matched well with the US dollar revenues 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 to minimise the Group's exposure to the exchange risks of these investments.

During the year, the Group continued to exercise stringent control and monitoring mechanisms over the use of financial derivatives for hedging against its interest rate risks.

The Group also monitored and adjusted its debt portfolio of fixed and floating interests from time to time to reduce market rate risks.