

VICE CHAIRMAN'S REPORT

Focusing on ports as the key earnings driver, we aim to further strengthen our terminal business by transforming our business model from an investment-based model to a controlling rights model; from a strategic emphasis on the China market to the global market with a primary focus on China; from a container terminals to a diversified terminals portfolio; and from maximisation of profit to maximisation of enterprise value.

BUILDING PLAT



FORM

" WE ARE REFOCUSING
OUR OBJECTIVES FOR
THE FUTURE. "

VICE CHAIRMAN'S REPORT

COSCO Pacific's strategy of leveraging on its value creation platform for future profit is supported by each of its business divisions. This strategy will help the Company maintain its position as a global industry leader.

On 24th January 2007, I was honoured to be appointed as the Executive Director, Vice Chairman and Managing Director of COSCO Pacific. During my more than 30 years of experience in the shipping industry, much of which has been spent with COSCO Group, I have had the opportunity to accumulate at first hand knowledge and experience of how the industry works. I hope to bring this expertise to bear on the Company's strategic development, corporate governance and financial management.

I would like to take this opportunity to thank Dr. SUN Jiakang, my predecessor, for his clear and consistent strategy in guiding COSCO Pacific. The future success of the Company will be closely linked to the strengthened business models he has introduced.

TERMINALS

In 2006, COSCO Pacific ranked as the fifth largest container terminal operator in the world. The Group's container terminal business continued to grow strongly with throughput up 25.7% to 32,791,713 TEUs. During the year, COSCO Pacific further bolstered its global network by acquiring interests in new terminals and increasing its investment in existing terminals. The Group's total number of berths increased by 15 to 115 in 2006, of which its annual handling capacity rose from 54,900,000 TEUs to 61,000,000 TEUs.

The profit contribution from terminal division (excluding profit on disposal of Shekou Container Terminals Ltd. of US\$61,875,000 in 2005) amounted to US\$90,520,000 increased by 2.8% over the last year. Among which, Qingdao Qianwan Container Terminal Co., Ltd. recorded a high throughput of 6,770,003 TEUs and provided substantial profit contribution. The replacement of four quay cranes by COSCO-HIT Terminals (Hong Kong) Limited during the first half of the year directly affected terminal throughput, which dropped by 8.3% while profit contribution also decreased. The replacement of the cranes has enhanced the terminal to be capable to handle larger and more sophisticated vessels with capacity of over 8,000 TEUs.

In April 2006, the Group acquired an additional 10% equity interest in Shanghai Pudong International Container Terminals Limited and therefore its profit contribution rose significantly during the year.

We remain positive for the outlook for COSCO Pacific's operating environment in 2007. Robust growth is forecast for China's foreign trade, both imports and exports. In the Yangtze River Delta, throughput at the Group's feeder ports such as Zhangjiagang, Yangzhou and Nanjing, is expected to grow rapidly because of the dramatic increase in river trade to support international shipping through Shanghai.

Newly acquired stakes in terminals that are already in operation and newly built terminals commencing operations will provide a platform for ongoing container throughput and profit growth, especially in the medium term. This is in addition to increasing capacity and organic growth at existing terminals.

CONTAINER LEASING AND MANAGEMENT

COSCO Pacific's container leasing business ranked third in the world and continued to perform well last year. As at 31st December 2006, the Group's container fleet reached 1,250,609 TEUs, up 19.9% on the previous year. Average utilisation rate rose to 96.2% in 2006 (2005: 95.5%), well above the industry average of around 91.8% (2005: 90.9%).

As a result of a strategic disposal of 600,082 TEUs of containers in June 2006, our owned fleet reduced to 620,728 TEUs as at 31st December 2006 (2005: 1,008,249 TEUs). The disposal generated a net gain of approximately US\$50 million and a finder fee income of approximately US\$15 million. A total of approximately US\$65 million in exceptional income boosted the net profit contribution from our container leasing and management division by 43.7% to US\$166,353,000.

With the growth of shipping fleets, massive new shipbuilding orders, further industry consolidation and a positive outlook for containerised trade in 2007, we continue to be confident of the future prospects of our container leasing and management operations.

LOGISTICS

The Group has 49% interest in COSCO Logistics while China COSCO holds the other 51% interest. As the dynamic economic environment continues to encourage the growth of foreign and domestic enterprises in China, the domestic logistics market is developing further in terms of internationalisation, professionalism and standardisation. COSCO Logistics is actively expanding its third party logistics in the fields of home appliances, automobiles, power supply, petrochemical, convention and exhibition services. Net profit contribution from the logistics business rose 21.5% to US\$11,136,000 in 2006.

For the third consecutive year, COSCO Logistics ranked Number 1 in "China's Logistics 100" in recognition of its logistics achievements in China. For the future, our strategy remains to grow our logistics business to support the growth of the Group as a whole.

CONTAINER MANUFACTURING

The Group has 16.23% interest in CIMC, 20.0% interest in Shanghai CIMC Reefer Containers Co., Ltd. and 22.5% interest in Tianjin CIMC North Ocean Container Co., Ltd.

At the beginning of 2006, sales volume and prices of containers were low. However, the subsequent rebound in the market helped the net profit contribution from our container manufacturing business (excluding CIMC Put Options non-cash expense) to increase by 24.1% to US\$69,715,000 in 2006.

We continue to expect stable growth with new and larger vessels coming on stream and an increase in the containerisation rate in China being the major growth drivers.

FUTURE PROSPECTS

Looking ahead to 2007, there are good prospects for continued sustainable growth of the world economy. As the logistics and river trades growth of the hinterlands of the Pearl River Delta, the Yangtze River Delta and the Bohai Rim have been accelerating, we believe that the effects for COSCO Pacific will be positive.

**OUR MANAGEMENT TEAM
WILL CONTINUE TO BUILD
ON OUR VALUE CREATION PLATFORM
IN ORDER TO SUPPORT AND
ENHANCE COSCO PACIFIC'S POSITION
AS A GLOBAL INDUSTRY LEADER.**



The Group's accumulated-growth momentum for the container terminal business, with throughput driven by both organic growth and new investments, is expected to reap continuous earnings growth by the end of 2007 and beyond. The main engine for the growth of COSCO Pacific will be led by the profit growth of our terminal business and supported by the stable yield of our container leasing and management business. Our container manufacturing and logistics businesses are set to contribute to the growth of the Group's profits as a whole. With our well-balanced portfolio and strengthened business models, our management team will continue to build on our value creation platform in order to support and enhance COSCO Pacific's position as a global industry leader.

A handwritten signature in black ink, appearing to be '徐敏杰' (Xu Minjie).

XU Minjie

Vice Chairman and Managing Director
22nd March 2007