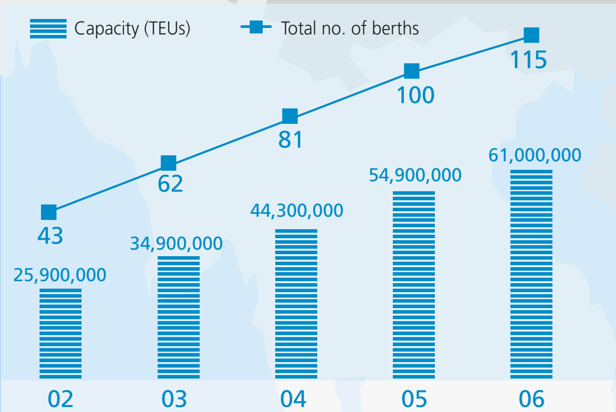
OPERATIONAL REVIEW

TERMINALS

During the year, COSCO Pacific built further on its strengthened business model in order to achieve medium to long-term growth. We will continue to focus substantial resources on the three major regions of China, namely Pearl River Delta, Yangtze River Delta, and Bohai Rim, while strategically and selectively expanding our global terminal network through alliances with major liner operators.

ACCUMULATED GROWTH MOMENTUM



MAJOR TERMINALS INVESTMENT

• Yantian Phase III	• Qingdao Qianwan	• Yangzhou Yuanyang	• Guangzhou Nansha Port Phase II	• Ningbo Yuan Dong
	• Dalian Automobile	• Zhenjiang Jinyuan	• Nanjing Port Longtan	• Tianjin Port Euroasia
	• Tianjin Five Continents	• Dalian Port	• Shanghai Yangshan Port Phase II	• Quanzhou Pacific
	• COSCO-PSA	• Yingkou	• Suez Canal	
		• Antwerp		

COSCO Pacific Terminal Portfolio	Shareholding (%)	No. of berths	Depth (Meter)	Quay length (Meter)	Annual handling capacity (TEUs)
BOHAI RIM		**38**			**18,600,000**
Qingdao Qianwan Container Terminal Co., Ltd. Note 1	20%	11	17.5	3,400	6,500,000
Qingdao Cosport International Container Terminals Co., Ltd.	50%	1	13.5	349	600,000
Dalian Port Container Co., Ltd.	8.13%	9	8.9-14.0	2,335	3,000,000
Dalian Port Container Terminal Co., Ltd.	20%	6	13.5-17.8	2,096	4,200,000
Dalian Automobile Terminal Co., Ltd.	30%	2	11.0	550	600,000 vehicles
Tianjin Five Continents International Container Terminal Co., Ltd.	14%	4	15.7	1,202	1,500,000
Tianjin Port Euroasia International Container Terminal Co., Ltd.	30%	3	15.5	1,100	1,800,000
Yingkou Container Terminals Company Limited	50%	2	14.0	576	1,000,000
YANGTZE RIVER DELTA		**36**			**14,200,000**
Shanghai Container Terminals Limited	10%	10	9.4-10.5	2,281	3,700,000
Shanghai Pudong International Container Terminals Limited	30%	3	12.0	940	2,300,000
Shanghai Xiangdong International Container Terminal Company Limited	10%	4	15.0	1,400	3,200,000
Ningbo Yuan Dong Terminals Limited Note 2	20%	5	15.0	1,610	2,100,000
Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	51%	3	10.0	722	1,000,000
Yangzhou Yuanyang International Ports Co., Ltd.	55.59%	2	11.0	1,346	700,000
		3			+4.7 million tons of break-bulk cargo
Nanjing Port Longtan Container Co., Ltd.	20%	5	12.0	910	1,000,000
Zhenjiang Jinyuan Container Terminals Co., Ltd.	25%	1	13.0	233	200,000
PEARL RIVER DELTA		**29**			**21,500,000**
COSCO-HIT Terminals (Hong Kong) Limited	50%	2	15.5	1,086	1,800,000
Yantian International Container Terminals Ltd. (I, II)	5%	5	14.0-15.5	1,650	4,500,000
Yantian International Container Terminals (Phase III) Ltd.	4.45%	10	16.0	3,297	9,000,000
Guangzhou South China Oceangate Container Terminal Co., Ltd.	39%	6	14.5	2,100	4,200,000
Quanzhou Pacific Container Terminal Co., Ltd. Note 3	71.43%	5	10.0-15.0	1,475	2,000,000
		1			+1.0 million tons of break-bulk cargo
OVERSEAS		**12**			**6,700,000**
COSCO-PSA Terminal Private Limited	49%	2	15.0	720	1,000,000
Antwerp Gateway NV	20%	6	17.0	2,450	3,500,000
Suez Canal Container Terminal S.A.E.	20%	4	16.5	1,200	2,200,000
TOTAL NO. OF TERMINAL BERTHS		**115**			
Total no. of container terminal berths / annual handling capacity		109			61,000,000
Total no. of automobile terminal berths / vehicles		2			600,000 vehicles
Total no. of multi-purpose termial berths / tons Note 4		4			5.7 million tons of break-bulk cargo

Note 1: Include 11 berths in Phases II & III of Qingdao Qianwan Terminal
Note 2: Include berth No.7-11 of Ningbo Yuan Dong Terminals
Note 3: Quanzhou Pacific Terminal located at the South-east coastal area in China was included in the Pearl River Delta.
Note 4: Include 1 multi-purpose berth in Quanzhou Pacific Terminal and another 3 berths in Yangzhou Yuanyang Terminal

PORT INDUSTRY REVIEW

In 2006, China ranked number one in global container throughput for the fourth consecutive year with 93,000,000 TEUs passing through its ports, a 23% increase over 2005. The increase was driven by a 23.8% rise in China imports and exports.

The globalisation of terminal operations continues at a rapid pace, with global carriers dedicated to enhancing the efficiency of the transport chain to remain competitive. Port operators are more than ever committed to pursuing profit maximisation, growth and additional market share, while carrier alliances and terminal operators are increasingly emerging (and merging) to invest in the global terminal network. Against this background, COSCO Pacific continues to forge strong partnerships with global port operators and liners and to maintain good relationships with local port authorities. The increasing cooperation between liners, such as slot exchange, joint services and carrier alliance should enhance the utilisation rate of liners, port efficiency and also profitability.

CHINA THROUGHPUT CAGR: 25.7%

	2002	2003	2004	2005	2006
China throughput ('000TEUs)	37,210	48,670	61,600	75,640	93,000
y-o-y	+35.4%	+30.8%	+26.6%	+22.8%	+23.0%

Source: Ministry of Communications of the People's Republic of China

TOP 10 GLOBAL CONTAINER TERMINAL OPERATORS IN 2006

Ranking	Operator	Market Share
1	HPH	13.0%
2	APM Terminals	10.1%
3	PSA	10.1%
4	P&O Ports	6.0%
5	**COSCO Pacific**	**3.7%**
6	DP World	3.2%
7	Eurogate	3.0%
8	Evergreen	2.2%
9	MSC	2.0%
10	SSA Marine	1.8%

Source: Drewry Shipping Consultants Ltd (Aug 2006)

TOP 10 CHINA PORTS IN 2006

Ranking	Port	Throughput (TEUs)	y-o-y
1	Shanghai	21,710,000	+20.1%
2	Shenzhen	18,469,000	+14.0%
3	Qingdao	7,702,000	+22.1%
4	Ningbo	7,068,000	+35.7%
5	Guangzhou	6,600,000	+40.9%
6	Tianjin	5,950,000	+23.9%
7	Xiamen	4,019,000	+20.2%
8	Dalian	3,212,000	+21.2%
9	Lianyungang	1,302,000	+30.0%
10	Zhongshan	1,173,000	+9.1%

Source: www.portcontainer.cn

TERMINAL PERFORMANCE IN 2006

According to the "Annual Review of Global Container Terminal Operators 2006" published by Drewry Shipping Consultants, COSCO Pacific ranked the world's fifth largest container terminal operator with a 3.7% market share in 2006. Total container terminal throughput increased by 25.7% to 32,791,713 TEUs in 2006. Net profit contribution from the terminals and related businesses (excluding the profit on disposal of Shekou Terminal of US$61,875,000 in 2005) rose 2.8% to US$90,520,000 in 2006.

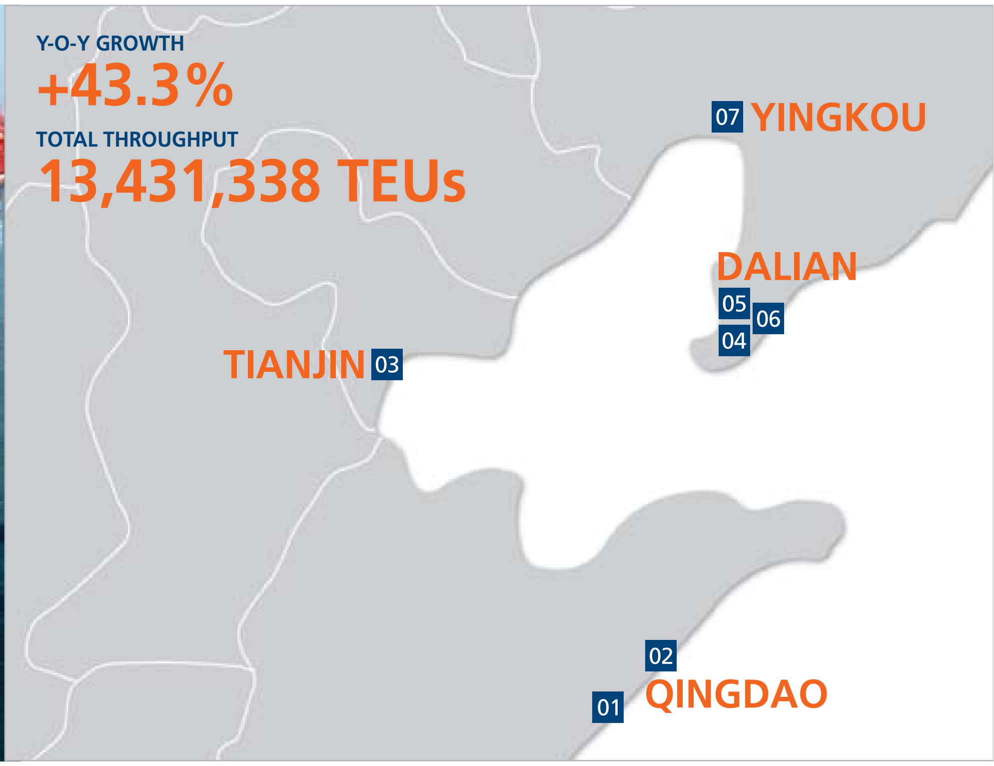
Container Terminal Throughput	2006 (TEUs)	2005 (TEUs)	y-o-y
Bohai Rim	13,431,338	9,370,361	+43.3%
Yangtze River Delta	7,732,423	6,831,502	+13.2%
Pearl River Delta	10,400,888	9,196,652	+13.1%
Overseas	1,227,064	681,097	+80.2%
Total throughput	**32,791,713**	**26,079,612**	**+25.7%**

BOHAI RIM

The Group's terminal business in Bohai Rim region performed very well, with aggregate container terminal throughput rose by 43.3% to 13,431,338 TEUs during the year. Boosted by the growing economy in the region, throughput of Qingdao Qianwan Terminal achieved a year-on-year growth of 24.4% to 6,770,003 TEUs. Throughput of Dalian Port Container Co., Ltd. increased 16.9% to 2,885,276 TEUs. At Yingkou Terminal, throughput increased 32.2% to 837,574 TEUs. Following commencement of operations at Tianjin Five Continents Terminal in November 2005, throughput reached 1,773,141 TEUs for the full year operation in 2006.

Container Terminal Throughput	2006 (TEUs)	2005 (TEUs)	y-o-y
Bohai Rim	**13,431,338**	**9,370,361**	**+43.3%**
Qingdao Qianwan Container Terminal Co., Ltd.	6,770,003	5,443,086	+24.4%
Qingdao Cosport International Container Terminals Co., Ltd.	744,276	605,791	+22.9%
Dalian Port Container Co., Ltd.	2,885,276	2,467,465	+16.9%
Dalian Port Container Terminal Co., Ltd.	421,068	132,984	+216.6%
Tianjin Five Continents International Container Terminal Co., Ltd.	1,773,141	87,462	+1,927.3%
Yingkou Container Terminals Company Limited	837,574	633,573	+32.2%

01 Qingdao Qianwan Terminal
02 Qingdao Cosport Terminal
03 Tianjin Five Continents Terminal
04 Dalian Port Container Co., Ltd.
05 Dalian Automobile Terminal
06 Dalian Port Container Terminals
07 Yingkou Terminal



YANGTZE RIVER DELTA

In the Yangtze River Delta, the Group's terminal business achieved outstanding performance. Aggregate container terminal throughput growth was 13.2% on a year-on-year basis to 7,732,423 TEUs. Both Shanghai Terminal and Shanghai Pudong Terminal continued to operate at full capacity. With the purchase of another 10% equity interest in the Shanghai Pudong Terminal that increased the Company's shareholding from 20% to 30%, the terminal's profit is set to increase. At Zhangjiagang Win Hanverky Terminal, throughput rose 20.9% to 455,946 TEUs. At Yangzhou Yuanyang Terminal, throughput rose 41.9% to 222,912 TEUs. Nanjing Longtan Terminal's throughput surged 291.8% to 700,098 TEUs largely due to a significant increase in trade volume along the Yangtze River.

08 Shanghai Pudong Terminal
09 Shanghai Terminal
10 Zhangjiagang Win Hanverky Terminal
11 Yangzhou Yuanyang Terminal
12 Nanjing Longtan Terminal
13 Ningbo Yuan Dong Terminals

Container Terminal Throughput	2006 (TEUs)	2005 (TEUs)	y-o-y
Yangtze River Delta	**7,732,423**	**6,831,502**	**+13.2%**
Shanghai Container Terminals Limited	3,703,460	3,646,732	+1.6%
Shanghai Pudong International Container Terminals Limited	2,650,007	2,471,840	+7.2%
Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	455,946	377,121	+20.9%
Yangzhou Yuanyang International Ports Co., Ltd.	222,912	157,123	+41.9%
Nanjing Port Longtan Container Co., Ltd.	700,098	178,686	+291.8%

Note: Ningbo Yuan Dong Terminals commenced trial-run in December 2006.

PEARL RIVER DELTA

In the Pearl River Delta, the Group's terminal business performed satisfactorily. Aggregate throughput growth was 13.1% on a year-on-year basis to 10,400,888 TEUs. Throughput at Yantian Terminal Phases I, II and III increased by 15.2% to 8,470,919 TEUs with new operational berths added in Phase III. At COSCO-HIT Terminal in Hong Kong, throughput decreased by 8.3%. It was mainly affected by the construction and replacement of four quay cranes during the first half of the year which disrupted the terminal's normal operation for a certain period of time. The situation had been improved in the second half of the year. The replacement of the cranes has enhanced the terminal's capability to handle larger and more sophisticated vessels with a capacity of over 8,000 TEUs.

Y-O-Y GROWTH

+13.1%

TOTAL THROUGHPUT

10,400,888 TEUs

14 COSCO-HIT Terminal
15 Yantian Terminal (Phases I, II & III)
16 Guangzhou Nansha Port Phase II
17 Quanzhou Pacific Terminal

Container Terminal Throughput	2006 (TEUs)	2005 (TEUs)	y-o-y
Pearl River Delta	**10,400,888**	**9,196,652**	**+13.1%**
COSCO-HIT Terminals (Hong Kong) Ltd.	1,688,697	1,841,193	-8.3%
Yantian International Container Terminals Ltd. (Phase I, II, III)	8,470,919	7,355,459	+15.2%
Quanzhou Pacific Container Terminal Co., Ltd.	241,272	–	–

Note: Two berths at Guangzhou Nansha Port Phase II commenced its trial run in December 2006.

OVERSEAS

The aggregate container terminal throughput of overseas rose 80.2% on year-on-year basis to 1,227,064 TEUs. COSCO-PSA Terminal in Singapore recorded a throughput growth of 2.8% to 627,894 TEUs. In Belgium, Antwerp Terminal saw growth of throughput of 754.9% to 599,170 TEUs for the full year operation in 2006 after commencing operations in September 2005.

Container Terminal Throughput	2006 (TEUs)	2005 (TEUs)	y-o-y
Overseas	**1,227,064**	**681,097**	**+80.2%**
COSCO-PSA Terminal Private Limited	627,894	611,013	+2.8%
Antwerp Gateway NV	599,170	70,084	+754.9%

Y-O-Y GROWTH
+80.2%

TOTAL THROUGHPUT
1,227,064 TEUs

18 COSCO-PSA Terminal
19 Antwerp Terminal

TERMINAL BUSINESS INVESTMENTS IN 2006

During 2006, COSCO Pacific further bolstered its global network by investing in new terminals and increasing its shareholding in existing terminals through a process of organic growth with some projects awaiting government approval. The Group's total number of berths increased from 100 to 115 and the annual handling capacity grew from 54,900,000 TEUs to 61,000,000 TEUs.

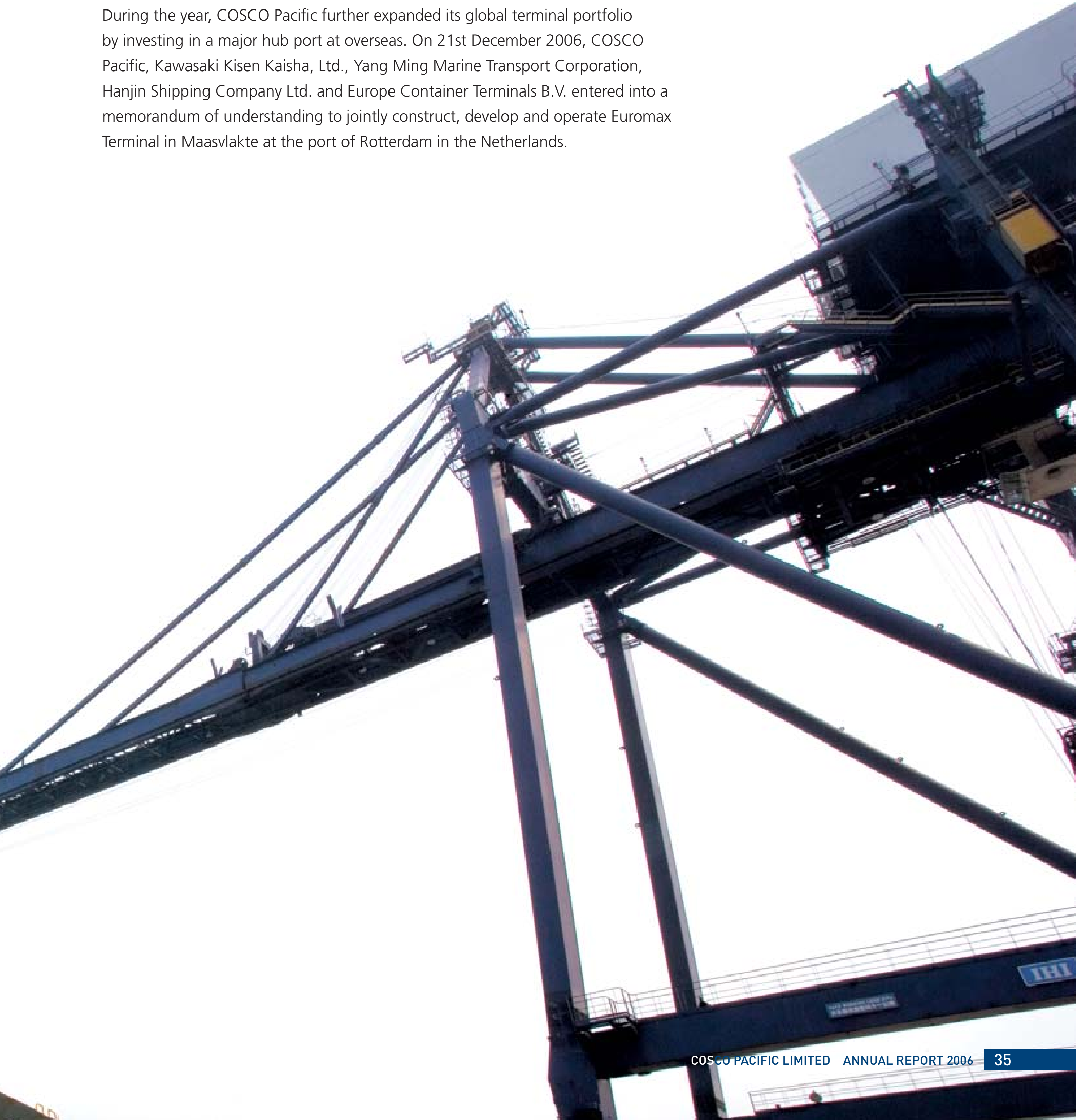
In the Bohai Rim, Tianjin Port Euroasia Terminal, for which the Group signed a joint venture agreement in 2006 for a 30% equity interest, is currently under construction with a total of three berths and will commence operation in 2008. Therefore a total of three berths will be added in this region.

In the Yangtze River Delta, the Company purchased another 10% equity interest in the Shanghai Pudong Terminal at a cost of RMB465,000,000 to increase the Group's shareholding from 20% to 30%. In addition, the Group signed a joint venture agreement to construct, operate and manage five berths of Ningbo Yuan Dong Terminals, in which COSCO Pacific holds a 20% equity interest. Together with the expansion of one berth in Yangzhou Yuanyang Terminal, a total of six berths will be added in this region.

In the Pearl River Delta, the Company signed a joint venture agreement to construct, operate and manage six berths of Quanzhou Pacific Terminal, in which COSCO Pacific holds a 71.43% equity interest. Four berths are already in operation.

At overseas, COSCO Pacific is committed to enhancing its global network. In line with this strategy, the Group entered into an agreement to acquire a 20% equity interest in the Suez Canal Terminal at Port Said, Egypt in December 2005. The Egyptian government agreed in principle with the purchase of shares in December 2006. The acquisition has tremendous potential for future growth due to the terminal's excellent location at the northern entrance of the Suez Canal and on all major shipping routes between Asia and Europe via the Mediterranean.

During the year, COSCO Pacific further expanded its global terminal portfolio by investing in a major hub port at overseas. On 21st December 2006, COSCO Pacific, Kawasaki Kisen Kaisha, Ltd., Yang Ming Marine Transport Corporation, Hanjin Shipping Company Ltd. and Europe Container Terminals B.V. entered into a memorandum of understanding to jointly construct, develop and operate Euromax Terminal in Maasvlakte at the port of Rotterdam in the Netherlands.



OUTLOOK

COSCO Pacific continues to be confident about the ongoing prospects for container terminal operations. The increasing efficiency and professionalism of our terminal services management and business operations as well as the continuing robust growth of global trade encourage us in this view. In China, despite a possible modest reining in of the economy, the strong growth of imports and exports is expected to continue. Our strategic and timely investments in termnals are set to result in relatively high returns in the medium to long term.

The Chinese Central Government's 11th Five-Year Plan underlined the powerhouse role of the Pearl River Delta, Yangtze River Delta and Pan-Bohai Economic Zone for the development of the hinterland. The Bohai Rim shows the highest development potential, with dynamic economic growth expected to continue, particularly in foreign trade.

Two more berths at Dalian Port Container Terminal commenced operations in 2006, joining the two new ones that came on stream in 2005. Dalian Automobile Terminal came on stream in 2006 with two new berths. Tianjin Five Continents Terminal commenced full operations in 2006. As a result, handling capacity at the Group's terminal in the Bohai Rim is set to steadily grow. In addition, the business performance and profitability of our terminal investments in this region are expected to accelerate its growth in the coming years.

Dynamic economic growth in the Yangtze River Delta is driving a dramatic increase in transportation demand along the river, especially following the opening of operations of terminals at the port of Yangshan in Shanghai. There is no doubt that transport to and from Yangshan along the Yangtze River is more cost effective and provides better value than land transport. This is already driving rapid growth in throughput at feeder ports such as Nanjing Longtan Terminal, Zhangjiagang Win Hanverky Terminal and Yangzhou Yuanyang Terminal. Among which, Nanjing Longtan Terminal has great potential being the only one container terminal in the port of Nanjing, which is the largest river port in the Yangtze River Delta.

In the Pearl River Delta, container throughput is forecast to show sustainable growth. Due to rising demand for terminal services, new berths at Yantian Terminal Phase III commenced operation in 2006. Container throughput is set to rise at Yantian Terminal. Meanwhile, a stable growth is expected at COSCO-HIT Terminal. The Pearl River Delta is the leading manufacturing centre in China. Once manufacturers choose to ship their goods through Nansha Port, which is located at a prominent position in the region, it is likely that Nansha will become a major port in the Western Pearl River Delta. Therefore, the Group believes that our investment in the Guangzhou Nansha Port Phase II will have a prosperous future.

In overseas operations, the rapid rise in container throughput in Antwerp Terminal has already begun following the launch of our operations there in September 2005. We continue to forecast stable growth of throughput at COSCO-PSA Terminal in Singapore. Following the potential acquisition by the end of 2007 of a second berth located nearby the existing one, the terminal should be able to achieve a stronger throughput growth. The Group's purchase of a 20% shareholding in the Suez Canal Terminal at Port Said should complete in 2007.

ABBREVIATION

Company name	Abbreviation
BOHAI RIM	
Qingdao Qianwan Container Terminal Co., Ltd.	Qingdao Qianwan Terminal
Qingdao Cosport International Container Terminals Co., Ltd.	Qingdao Cosport Terminal
Dalian Port Container Terminal Co., Ltd.	Dalian Port Container Terminal
Dalian Automobile Terminal Co., Ltd.	Dalian Automobile Terminal
Tianjin Five Continents International Container Terminal Co., Ltd.	Tianjin Five Continents Terminal
Tianjin Port Euroasia International Container Terminal Co., Limited	Tianjin Port Euroasia Terminal
Yingkou Container Terminals Company Limited	Yingkou Terminal
YANGTZE RIVER DELTA	
Shanghai Container Terminals Limited	Shanghai Terminal
Shanghai Pudong International Container Terminals Limited	Shanghai Pudong Terminal
Shanghai Xiangdong International Container Terminal Company Limited	Shanghai Yangshan Port Phase II
Ningbo Yuan Dong Terminals Limited	Ningbo Yuan Dong Terminals
Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	Zhangjiagang Win Hanverky Terminal
Yangzhou Yuanyang International Ports Co., Ltd.	Yangzhou Yuanyang Terminal
Nanjing Port Longtan Container Co., Ltd.	Nanjing Longtan Terminal
Zhenjiang Jinyuan Container Terminals Co., Ltd.	Zhenjiang Jinyuan Terminal
PEARL RIVER DELTA	
COSCO-HIT Terminals (Hong Kong) Limited	COSCO-HIT Terminal
Yantian International Container Terminals Ltd. (I, II)	Yantian Terminal Phases I & II
Yantian International Container Terminals (Phase III) Limited	Yantian Terminal Phase III
Guangzhou South China Oceangate Container Terminal Company Limited	Guangzhou Nansha Port Phase II
Quanzhou Pacific Container Terminal Co., Ltd.	Quanzhou Pacific Terminal
Shekou Container Terminals Ltd.	Shekou Terminal
OVERSEAS	
COSCO-PSA Terminal Private Limited	COSCO-PSA Terminal
Antwerp Gateway NV	Antwerp Terminal
Suez Canal Container Terminal S.A.E.	Suez Canal Terminal

CONTAINER LEASING AND MANAGEMENT

COSCO Pacific continued to focus on long-term leases, to expand market share and to find the optimum balance between ownership and management of our containers based on our refocused "asset light" business model. Successful marketing and increasing flexibility meant that we ended the year with a satisfactory performance. Rising demand for larger container fleets, growing containerisation in China and a higher utilisation rate are likely to be the growth drivers of our container leasing business.

MARKET REVIEW

According to Containerisation International Market Analysis 2006, the worldwide container fleet capacity was approximately 23,170,000 TEUs in 2006, of which approximately 10,195,000 TEUs representing 44% were owned by container leasing companies. The ten largest container leasing companies including our Group owned and managed an aggregate of approximately 8,756,000 TEUs, representing 86% of the total fleet owned by container leasing companies. The increase in shipbuilding orders is likely to stimulate further strong demand for container leasing services from the shipping industry.

In 2006, container leasing rates for all categories continued to be affected by the changing seasonal conditions of the market, the cost of containers and intensifying competition. Due to the market demand from the increased shipping capacity of new vessels and the increased cost of raw materials, the price of new containers as per 20' dry container rose to US$2,000 from April to August in 2006. However, due to the changes of the cost of raw materials and the market demand, the price of new containers dropped by the end of third quarter, and then rose to around US$1,900 by the end of fourth quarter.

TOP 10 CONTAINER LEASING COMPANIES IN 2006

Ranking	Company	Fleet capacity (TEUs)	Market share
1	Textainer	1,525,000	15.0%
2	Triton Container	1,390,000	13.7%
3	**COSCO Pacific (Florens)**[Note]	**1,250,609**	**11.9%**
4	TAL International	940,000	9.3%
5	GE SeaCo	930,000	9.2%
6	Interpool Group	750,000	7.4%
7	CAI	670,000	6.6%
8	Capital Lease	520,000	5.2%
9	Cronos Group	405,000	4.0%
10	Gold Container	375,000	3.7%

Source: Containerisation International Market Analysis/Andrew Foxcroft Container Data UK, February 2007
Note: The fleet size of Florens as at 31st December 2006

TOP 10 GLOBAL CONTAINER LINERS IN 2006

Ranking	Shipping company	Fleet capacity (TEUs)
1	Maersk Line	1,573,551
2	MSC	1,019,725
3	CMA CGM	517,213
4	Hapag-Lloyd	454,526
5	**COSCON**	**399,237**
6	CSCL	387,168
7	Evergreen	377,334
8	APL	342,461
9	Hanjin	337,378
10	NYK	283,109

Source: www.ci-online.co.uk

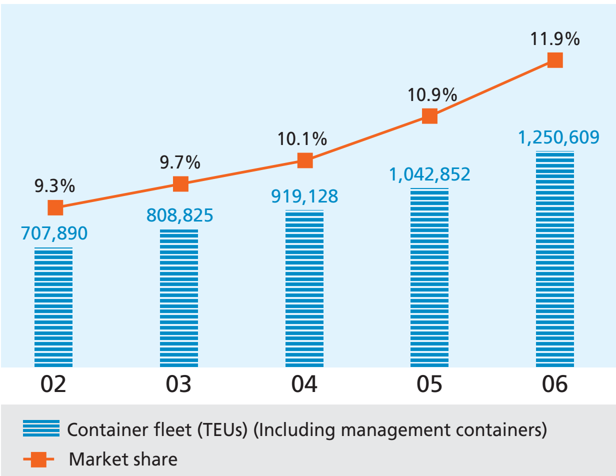
BUSINESS REVIEW

During the year, our container leasing and management business achieved satisfactory performance by enhancing our business model and capital structure. The Group continued to focus on long-term leases, to expand market share and to find the optimum balance between ownership and management of our containers. Successful marketing and increasing flexibility of management enabled us to further strengthen our container leasing and management business.

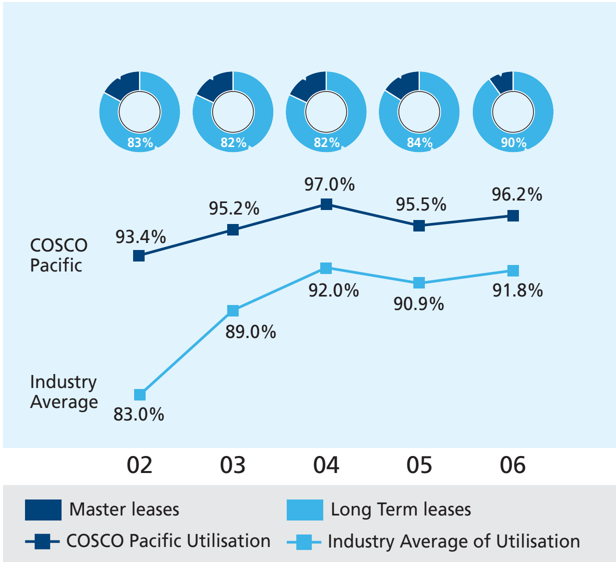
COSCO Pacific's container leasing and management business are being operated and managed by Florens[Note] which is ranked the third in the world, continued to perform well this year. As at 31st December 2006, the Group's container fleet including management containers reached 1,250,609 TEUs, up 19.9% on the previous year. The average utilisation rate of Florens' containers rose to 96.2% in 2006 (2005: 95.5%), well above the industry average of approximately 91.8% (2005: approximately 90.9%). Net profit contribution from container leasing and management business rose by 43.7% to US$166,353,000 in 2006.

Note: Florens Container Holdings Limited, a wholly owned subsidiary of COSCO Pacific, and its subsidiaries are collectively referred to as "Florens".

GROWING FLEET CAPACITY



FOCUS ON LONG-TERM LEASING AND HIGH UTILISATION RATES



As at 31st December 2006, Florens leased 456,877 TEUs (2005: 377,324 TEUs) of containers to COSCON and 163,851 TEUs (2005: 630,925 TEUs) of containers to international customers. The reduction in leasing containers to international customers was due to the strategic disposal of 600,082 TEUs of containers in June 2006 while maintaining our management role. The total number of management containers rose significantly from 34,603 TEUs at the end of 2005 to 629,881 TEUs at the end of 2006.

By category of various types, 95.9% of the fleet was dry containers, 3.3% was reefer containers and 0.8% was specialised containers such as open-tops and flat racks. The fleet age remained young at an average of four years old.

FLEET CAPACITY MOVEMENT

	2006 TEUs	2005 TEUs	y-o-y
Fleet capacity as of 1st January	1,042,852	919,128	+13.5%
New containers purchased	268,236	168,592	+59.1%
Containers returned from COSCON upon expiry of leases			
Total	(43,981)	(26,354)	+66.9%
Re-leased	648	344	+88.4%
Disposed of and pending for disposal	(43,333)	(26,010)	+66.6%
Ownership transferred to customers upon expiry of finance leases	(172)	(629)	-72.7%
Defective containers written off	(11)	(4)	+175.0%
Total loss of containers declared and compensated by customers	(16,963)	(18,225)	-6.9%
Fleet capacity as of 31st December	1,250,609	1,042,852	+19.9%

FLEET CAPACITY BREAKDOWN BY TYPE OF CONTAINERS

31st December 2006		Total	COSCON	International customers	Management containers
Total number of containers	TEUs	1,250,609	456,877	163,851	629,881
	%	100.0	36.5	13.1	50.4
Dry	%	95.9	93.2	99.3	96.9
Reefer	%	3.3	6.5	0.1	1.9
Special	%	0.8	0.3	0.6	1.2

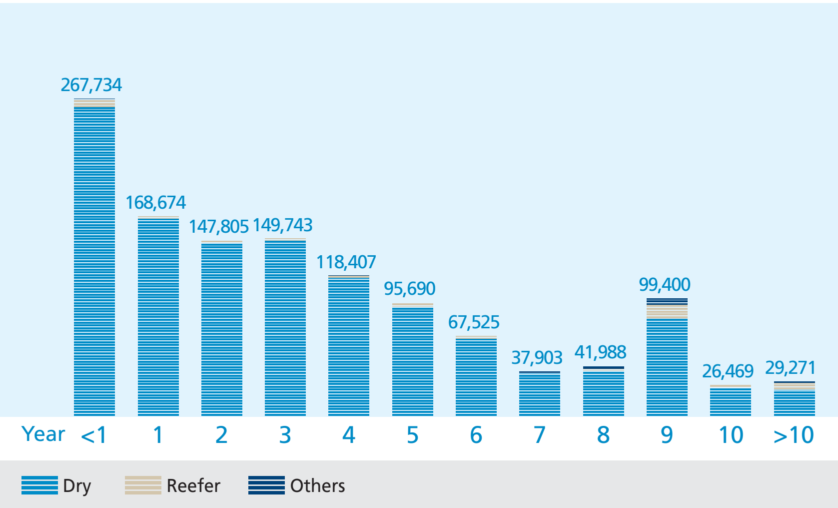
31st December 2005		Total	COSCON	International customers	Management containers
Total number of containers	TEUs	1,042,852	377,324	630,925	34,603
	%	100.0	36.2	60.5	3.3
Dry	%	95.3	92.8	96.5	100.0
Reefer	%	3.6	6.8	2.0	-
Special	%	1.1	0.4	1.5	-

FLEET CAPACITY BREAKDOWN

31st December		2006	2005	y-o-y
COSCON	TEUs	456,877	377,324	+21.1%
	%	36.5	36.2	+0.3pp
International customers	TEUs	163,851	630,925	-74.0%
	%	13.1	60.5	-47.4pp
Management containers	TEUs	629,881	34,603	+1,720.3%
	%	50.4	3.3	+47.1pp
Total	TEUs	1,250,609	1,042,852	+19.9%

During the year, Florens was the largest buyer and purchased 268,236 TEUs of new containers representing 24.6% of the total purchases of approximately 1,090,000 TEUs within the container leasing industry. As a result of this, our market share rose from about 10.9% in 2005 to approximately 11.9% in 2006. Most of our new containers were under long-term leases to COSCON and other international container shipping liners. The number of customers amounted to 270 as at 31st December 2006 (2005: 256).

FLEET AGE ANALYSIS (BY TEUs)



DISPOSAL OF RETURNED CONTAINERS

In 2006, COSCON returned a total of 43,981 TEUs (2005: 26,354 TEUs) of containers upon expiry of the leases ("Returned Containers"). Florens disposed of 47,624 TEUs (2005: 26,838 TEUs) of Returned Containers and the disposal generated a net profit of US$8,794,000 (2005: US$6,122,000).

STRATEGIC DISPOSAL OF CONTAINERS

In June 2006, Florens completed the sale of 600,082 TEUs of containers together with container leasing agreements covering those containers ("Sold Assets") and the total amount received from the buyer amounted to US$869,203,000. Upon completion of transferring the ownership of the Sold Assets to the buyer, Florens retained a managerial role in respect of the Sold Assets under an administrative services agreement.

Florens will receive the administrative fee annually from the buyer based on the rates as follows:

(1) 4% of net operating income under the contracts for long-term leases;

(2) 8% of net operating income under the contracts for master leases;

(3) 2% of net sales proceeds for resale of containers; and

(4) 2% of net operating income under contracts for finance leases and other leases

The aggregate amount of US$869,203,000 received included the net book value of the Sold Assets as at 30th June 2006 plus a premium of 12% totalled US$846,524,000, an upfront administration fee of US$7,439,000 and a finder fee of US$15,240,000.

The sales proceeds were used to repay loan facilities relating to those Sold Assets, to make related tax payments, and to make provision for funding the purchase of new containers. The remaining balance was for working capital and other investments. Florens will continue to purchase new containers and lease them to COSCON and other international customers.

OUTLOOK

With the growth of shipping fleets, massive new shipbuilding orders, further industry consolidation and a positive outlook for containerised trade in 2007, the Group will continue to expand its market share by purchasing new containers for leasing business. Meanwhile, we will also consider increasing our container management business so as to further expand our revenue stream. While strengthening the business relationship with our top 20 international customers, we will also expand our customer network in Eastern Europe, Russia, India and Vietnam. Moreover, we project that our market share and container leasing business in China which will further expand on the back of an increased containerisation rate in the region. We are confident about the solid performance of our container leasing and management division.

LOGISTICS

The Group has 49% interest in COSCO Logistics while China COSCO holds the other 51% interest. With the dynamic economic environment continuing to foster 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.

The shipping agency handled 135,087 vessels in 2006, an increase of 0.2% over 2005, freight forwarding registered 128,763,073 tons, a rise of 25.7% over the previous year. Third party logistics (3PL)-Home appliance handled 30,716,640 units, and 3PL-Motor handled 562,484 vehicles, a growth rate of 36.0% and 433.2% respectively over 2005. Net profit contribution from the logistics business rose 21.5% to US$11,136,000 in 2006.

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

CONTAINER MANUFACTURING AND OTHER INVESTMENT

CONTAINER MANUFACTURING

The Group has 16.23% equity interest in China International Marine Containers (Group) Co., Ltd. ("CIMC"), 20.0% equity interest in Shanghai CIMC Reefer Containers Co. Ltd. ("Shanghai CIMC Reefer") and 22.5% equity interest in Tianjin CIMC North Ocean Container Co. Ltd. ("Tianjin CIMC North Ocean").

At the beginning of 2006, sales volume and prices of containers were low as the container manufacturing plant remained exposed to market factors subsisting at the end of 2005. Subsequently, the rebound of the container manufacturing market helped CIMC to maintain a profit contribution of US$57,727,000 to the Group. The sale of Shanghai CIMC Far East Container Co., Ltd. generated a profit of US$5,470,000. The net profit contribution from our container manufacturing business (excluding CIMC Put Options non-cash expense) increased by 24.1% to US$69,715,000 in 2006.

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

OTHER INVESTMENT

The Group has 20% equity interest in Chong Hing Bank, which contributed a net profit of US$12,778,000 to the Group, an increase of 27.4% from the previous year.