OVERALL ANALYSIS OF RESULTS

The Group's profit attributable to equity holders (excluding the non-cash effect of the Put Options associated with the CIMC Share Reform [Note]) would have reached US$346,263,000, a 3.4% increase from the US$334,937,000 recorded in 2005. Although the disposal of containers of 600,082 TEUs in June 2006 had reduced the Group's revenue to US$253,960,000 for the year, a 14.1% drop from US$295,648,000 in 2005, the disposal combined with the replenishment of new containers was considered as a strategic action in that the Group had re-deployed its container fleet to optimise the business model and capital structure of its container leasing operation, while expanding business opportunities by providing its container management expertise to clients to help them manage their container portfolio. Furthermore, the disposal had contributed a non-recurring net profit of approximately US$65 million for the year which consisted of approximately US$50 million as gain on disposal and approximately US$15 million as finder fee income (which was related to services rendered for the entire transaction prior to the completion of the disposal). With such profit contribution from the strategic disposal, the net profit contribution from the container leasing and container management businesses amounted to US$166,353,000, a 43.7% increase over the amount of US$115,733,000 in 2005.

Note: The Group granted 424,106,507 Put Options to the CIMC Tradable A-Share Shareholders in May 2006 in connection with the conversion of the CIMC non-tradable A-Shares held by the Group into tradable A-Shares of CIMC. The Put Options will expire on 23rd November 2007.

With the continuous robust growth in China's import and export trade and the worldwide shipping market, the Group was able to reap the benefits of its strategic efforts to expand the container terminal location network in China and other parts of the world either through investments in joint ventures or establishing subsidiaries with controlling stakes. Net profit contributions from container terminal operations for the year increased by 2.8% to US$90,520,000 as compared to the last year's profit contributions of US$88,089,000 (excluding the non-recurring item of the profit amount of US$61,875,000 on disposal of the 17.5% equity interest in Shekou Terminal in 2005). This was due to the Group's strategic investment in the terminal location network, which began to show profit generation momentum, despite a drop in profit contribution from COSCO-HIT Terminal for the year, which was caused by the replacement of four quay cranes.

The acquisition of a 16.23% equity interest in CIMC in 2004 provided the Group with a steady and growing stream of profits for both 2005 and 2006. Taking out the exceptional effect caused by the Put Options during the year, the net profit contribution from container manufacturing business should be US$69,715,000, a 24.1% increase over the net profit of US$56,176,000 in 2005. Although the net profit contribution from CIMC dropped temporarily for the first half-year period as compared to 2005, the subsequent business pick-up triggered by improved market conditions fueled growth in profit streams from this business segment. However, due to the CIMC Share Reform in which the Group had granted 424,106,507 Put Options to the CIMC Tradable A-Share Shareholders, the net effect of the Put Options to the Group's consolidated income statement in 2006 was an exceptional net charge of US$55,181,000.

Both the logistics business and banking business provided the Group with very satisfactory net profit contributions for the year and the combined total of which amounted to US$23,914,000 in 2006, an increase of 24.6% from US$19,191,000 in 2005.

After taking into account the exceptional effect caused by the Put Options, the net profit contribution for the Group was US$291,082,000 for the year, a 13.1% drop from US$334,937,000 in 2005. With the continuous efforts to achieve a high return on capital through strategic acquisitions and repositioning the Group's business portfolio, the Group achieved a return on equity holders of 14.4% as compared to 20.0% in 2005. The return on net assets was 14.2% versus 19.8% in 2005. The drops in return on equity holders and return on net assets were mainly due to the exceptional effect of the Put Options, which caused a net charge of US$55,181,000 against the consolidated income statement for the year and thus lowered both the return on equity holders and the return on net assets by 2.7 percentage points. In addition, the strategic disposal of containers of 600,082 TEUs during the year brought in total cash proceeds of US$869,203,000 out of which approximately US$340 million were applied for repaying bank loans, payment of capital gain tax of approximately US$112 million and the remaining balance was invested in the acquisitions of new containers and new terminal projects. Such newly made investments either require a time-gap before the newly purchased containers can be made available for generating leasing income, or require a ramp-up period before the full scale of operation can be achieved for the newly invested container terminals.

New investments were made in the Ningbo Yuan Dong Terminals, Tianjin Port Euroasia Terminal and Quanzhou Pacific Terminal during the year. Quanzhou Pacific Terminal only commenced operations in September 2006 while Guangzhou Nansha Port Phase II and Ningbo Yuan Dong Terminals are still in the preparatory stage. Nevertheless, as the newly purchased containers gradually start to contribute their leasing income and the newly invested container terminals begin their operations, it would be expected that the business performance will gradually improve.

FINANCIAL ANALYSIS

REVENUE

Revenue of the Group were US$253,960,000 for the year, down by 14.1% from US$295,648,000 in 2005. The drop in revenue was mainly due to the decrease in container leasing revenue after the disposal of containers of 600,082 TEUs in June 2006. Although the container leasing revenue dropped for the year by US$54,910,000 or 20.0% down to US$219,566,000 as a result of the strategic deployment action, the drop was considered as temporary since the container replenishment action will continue in 2007 in order to gradually increase the revenue base for container leasing in subsequent years. Meanwhile, revenue from container management rose dramatically to US$4,061,000 (2005: US$342,000) for the year as a result of migrating into the asset light business model triggered by the strategic deployment action. Taking the self-owned and management containers together, the Group's container fleet rose by 19.9% to 1,250,609 TEUs from 1,042,852 TEUs in 2005. Average utilisation rate increased by 0.7 percentage point to 96.2%. Revenue from leasing of reefer-container generator sets also increased significantly to US$1,368,000, which was a 42.1% increase over US$963,000 in 2005. In addition to rental income from leasing, the interest income from finance leases amounted to US$492,000 for the year and was comparable with the figures in 2005 of US$532,000.

Revenue from container terminal operations showed very strong growth for the year. With the operational commencement of Quanzhou Pacific Terminal in September 2006, the newly acquired terminal contributed throughput volume of 241,272 TEUs and revenue of US$5,867,000 for the year. In addition, Zhangjiagang Win Hanverky Terminal, with the newly acquired additional berth no.17 to commence operation during the year and with the continuous efforts in exploring new business opportunities and improving operational efficiency, achieved a significant growth of 20.9% in its throughput volume of 455,946 TEUs as compared with 377,121 TEUs in 2005. Its revenue recorded a corresponding increase to US$15,048,000, a 20.4% rise over US$12,496,000 in 2005.

Business volume of the container handling, storage, repairs and drayage operations, which were handled by Plangreat Limited and its subsidiaries, increased during the year with revenue achieved at US$7,558,000 for the current year versus US$6,839,000 in 2005.

COST OF SALES

Cost of sales, mainly comprising depreciation, depot expenses, repairs and maintenance and operating expenses, was US$100,686,000, a drop of 12.9% from US$115,551,000 in 2005. The drop was mainly due to the strategic disposal of containers, which resulted in a reduction in depreciation of US$19,694,000 for the year, a 18.6% drop from US$105,933,000 in 2005. The depreciation expense accounted for 85.7% of cost of sales versus 91.7% in 2005. Other cost of sales rose by 50.2% to US$14,447,000 from US$9,618,000 in 2005. The operational commencement of Quanzhou Pacific Terminal in September 2006 and the increased business throughput volume handled by Zhangjiagang Win Hanverky Terminal drove up the operating expenses.

OTHER INCOME

Other income, comprising mainly dividend income, increased by 19.0% or US$3,154,000 over 2005 to US$19,747,000. Among others, Yantian Terminal declared dividend of US$18,154,000, a rise of 20.4% or US$3,082,000 as compared to US$15,072,000 in 2005. In addition, Dalian Port Container Co., Ltd declared dividend of US$1,073,000 for 2006 (2005: US$186,000).

ADMINISTRATIVE EXPENSES

Administrative expenses were US$33,806,000, an increase of 7.6% or US$2,382,000 over the 2005 total of US$31,424,000. Increases were mainly on human resources, traveling and office rental expenses. Also, commencement of Quanzhou Pacific Terminal's operation in September 2006 had also triggered additional administrative expenses.

NET OTHER OPERATING INCOME

Net other operating income was US$32,636,000 for the year, a significant increase of US$22,684,000 or 227.9% over the amount of US$9,952,000 in 2005. The increase mainly comprised a finder fee income of approximately US$15 million, which was related to the services provided to complete the strategic disposal of containers of 600,082 TEUs. Increase in the net profit on disposal of containers returned from COSCON upon the expiry of leases also helped to increase the net other operating income by US$2,672,000. The number of containers returned by COSCON upon expiry of lease and disposed of during the year was 47,624 TEUs as compared to 26,838 TEUs in 2005. Furthermore, the sale of Shanghai CIMC Far East Container Co., Ltd. contributed a gain of approximately US$5,470,000 as other operating income.

PROFIT ON DISPOSAL OF CONTAINERS

The Group completed the disposal of containers of 600,082 TEUs (excluding the disposal of containers returned from COSCON upon the expiry of leases) in June 2006 (the "Disposal"), which generated profit before taxes of approximately US$84,454,000.

PROFIT ON DISPOSAL OF AN AVAILABLE-FOR-SALE FINANCIAL ASSET

There was no disposal of such category in 2006 whereas in 2005, the disposal of the 17.5% equity interest in Shekou Terminal was accounted for as an available-for-sale financial asset which resulted in a profit of US$61,875,000.

FINANCE INCOME

Finance income principally represented interest income. During the year, the disposal of containers of 600,082 TEUs, increased the Group's cash balances and therefore earning more interest income. As a result, interest income increased significantly to US$12,621,000 for the year, up 189.4% from US$4,361,000 in 2005.

FINANCE COSTS

Finance costs increased to US$44,203,000 from US$36,362,000 in 2005, a rise of 21.6%, which was mainly due to the persistent increase in interest rate. The Group's average borrowing for the year amounted to US$664,431,000, a decrease of 9.2% from the average borrowing amount of US$731,565,000 in 2005. The Group's average cost of borrowing, including amortisation of transaction costs on bank loans and notes but before the write-off of unamortised transaction costs upon the early repayment of bank loans, was an average 6-month London Interbank Offer Rate ("LIBOR") plus 100 basis points as compared to the 2005 average of LIBOR plus 120 basis points.

SHARE OF PROFITS LESS LOSSES OF JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Net profit contribution from jointly controlled entities amounted to US$85,070,000 in 2006, an increase of 16.6% or US$12,101,000 from US$72,969,000 in 2005. Continuous efforts in improving operational efficiency to cope with the robust growth in business volume delivered improved profit performance as evidenced by the result achievements in various terminal locations.

Throughput at Qingdao Qianwan Terminal increased by 24.4% to 6,770,003 TEUs, as compared to the 2005 level of 5,443,086 TEUs, and the net profit contribution increased to US$26,429,000, which was 24.5% higher than that of 2005. Throughput of Nanjing Longtan Terminal increased dramatically by 291.8% to 700,098 TEUs, as compared to the 2005 level of 178,686 TEUs, driving a performance turnaround to have profit contribution for the year from a loss in 2005. An improvement occurred in Qingdao Cosport Terminal and its throughput increased by 22.9% to 744,276 TEUs from the 2005 level of 605,791 TEUs.

Similar growth momentum in net profit contributions occurred at Yingkou Terminal as well as at COSCO-PSA Terminal. Throughput at Yingkou Terminal increased by 32.2% to 837,574 TEUs from the level of 633,573 TEUs in 2005. This resulted in a corresponding increase in profit contribution by 38.8% over 2005. Although the throughput of COSCO-PSA Terminal only increased by 2.8% to 627,894 TEUs as compared to the 2005 level of 611,013 TEUs, net profit contributions increased significantly by 29.0% over that in 2005 due to the rise in average revenue per container handled.

COSCO PACIFIC'S SOLID PERFORMANCE IN 2006 REFLECTED THE COMPANY'S ONGOING EFFORTS TO BUILD FUTURE PROFIT STREAMS THROUGH THE DECISIVE STRENGTHENING OF OUR BUSINESS MODELS.

Due to the necessity of replacing four quay cranes in COSCO-HIT Terminal during the year in order to accommodate the super vessels and strive for better operational efficiency, its throughput dropped by 8.3% to 1,688,697 TEUs from the 2005 level of 1,841,193 TEUs. Net profit contribution amounted to US$23,751,000, a 15.1% drop from US$27,981,000 in 2005 as a result of the interruptions to operations caused by the quay crane replacements.

Net profit contribution for the COSCO Logistics increased to US$18,351,000 in 2006, a growth of 21.8% over that of 2005. 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 associates amounted to US$89,042,000 for the year, an increase of 8.2% or US$6,722,000 from the 2005 level of US$82,320,000. 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 increase slightly its profit contribution to the Group to US$57,727,000, a 3.8% increase over US$55,636,000 in 2005. Throughput at Shanghai Pudong Terminal increased to 2,650,007 TEUs, a 7.2% increase from the 2005 level of 2,471,840 TEUs. Combined with the Group's action of acquiring an additional 10% equity interest during the year, the profit contribution from Shanghai Pudong Terminal amounted to US$15,439,000 which increased dramatically by 55.0% or US$5,476,000 from the 2005 level of US$9,963,000.

Although the throughput of Shanghai Terminal achieved an increase of 1.6% to the level of 3,703,460 TEUs for the year as compared to 3,646,732 TEUs in 2005, its profit contribution dropped by 22.5% to US$6,831,000 from the 2005 level of US$8,815,000 as a result of volume mix changes. Antwerp Terminal, being acquired at the end of 2004, recorded a loss for the year as its operations are still in the start-up phase despite throughput increasing to 599,170 TEUs for the year from the 2005 level of 70,084 TEUs. On the other hand, Chong Hing Bank increased its net profit contribution by 27.4% during the year to US$12,778,000 from US$10,026,000 in 2005.

INCOME TAX EXPENSES

Aggregate income tax expenses increased to US$49,196,000 for the year from the 2005 level of US$22,426,000. The increase mainly represented a net charge which arose from the capital gain tax in relation to the Disposal and the write back of related deferred tax liabilities.

FINANCIAL POSITION

CASH FLOW

The Disposal increased the cash inflow of the Group significantly. During the year, net cash from operating activities amounted to US$210,318,000 (2005: US$276,382,000). The Group drew bank loans of US$517,103,000 (2005: US$321,119,000) and repaid US$889,986,000 (2005: US$128,385,000) in 2006. Net proceeds from new shares issued upon the exercise of share options amounted to US$49,085,000 (2005: US$21,823,000). During the year, cash outflow for major terminal investments of the Group totalled US$143,891,000 (2005: US$89,125,000), including US$57,973,000 for additional 10% equity interests in Shanghai Pudong Terminal, US$34,336,000 in Guangzhou Nansha Port Phase II, US$20,195,000 in Qingdao Qianwan Terminal, US$9,087,000 in Yantian Terminal Phase III, US$9,196,000 in Dalian Port Container Co., Ltd., US$9,827,000 in Ningbo Yuan Dong Terminals and US$3,277,000 in Antwerp Terminal. In 2005, the cash outflow for major terminal investments included US$20,781,000 in Nanjing Longtan Terminal, US$12,082,000 in Qingdao Qianwan Terminal, US$19,516,000 in Tianjin Five Continents Terminal, US$15,894,000 in Antwerp Terminal, US$15,052,000 in Yantian Terminal Phase III and US$5,800,000 in Dalian Automobile Terminal. During the year, cash payments for property, plant and equipment amounted to US$438,923,000 (2005: US$350,785,000), out of which US$391,813,000 (2005: US$342,200,000) was for new container purchases. In addition, capital injections in the subsidiaries of the Group – Quanzhou Pacific Terminal and Zhangjiagang Win Hanverky Terminal were US$35,644,000 and US$10,200,000 respectively.

FINANCING AND CREDIT FACILITIES

In June 2006, the Group entered into a short-term bridging bank loan contract of US$500,000,000 with a bank for a term of six months and the costs were LIBOR plus 37 basis points. This short-term bridging bank loan expired in December 2006.

As at 31st December 2006, cash balances and banking facilities available but unused amounted to US$224,668,000 and US$40,000,000 respectively (2005:US$179,315,000 and US$320,000,000 respectively) and taking into account the Group's operating cash flow and sound borrowing capacity, the Group is expected to have sufficient funding to cover all the payables that fall due in 2007.

DEBT ANALYSIS

	As at 31st December 2006		As at 31st December 2005	
	US$	(%)	US$	(%)
By repayment term				
Within the first year	12,666,000	2.4	87,036,000	10.4
Within the second year	189,840,000	35.7	79,167,000	9.5
Within the third year	10,821,000	2.0	233,908,000	28.0
Within the fourth year	11,526,000	2.2	62,956,000	7.5
Within the fifth year and after	306,745,000	57.7	372,586,000	44.6
	531,598,000*	100.0	835,653,000*	100.0
By type of borrowings				
Secured borrowings	500,000	0.1	345,618,000	41.4
Unsecured borrowings	531,098,000	99.9	490,035,000	58.6
	531,598,000	100.0	835,653,000	100.0
By denomination of borrowings				
US dollar	464,622,000	87.4	830,326,000	99.4
RMB	66,976,000	12.6	5,327,000	0.6
	531,598,000	100.0	835,653,000	100.0

* Net of unamortised discount on notes and transaction costs on borrowings and notes.

ASSETS AND LIABILITIES

As at 31st December 2006, total assets of the Group were US$2,987,155,000 (2005: US$2,855,150,000). Total liabilities amounted to US$778,954,000 (2005: US$964,807,000). Net asset value increased to US$2,208,201,000 from US$1,890,343,000 a year ago, mainly due to an increase in retained profits and proceeds from new shares issued upon the exercise of share options. The net asset value per share was US99.08 cents (2005: US85.97 cents) representing an increase of 15.3% over last year.

As at 31st December 2006, cash balances of the Group amounted to US$224,668,000 (2005: US$179,315,000). After the Disposal, part of the sales proceeds was used to repay bank loans of approximately US$340,000,000, thus total indebtedness of the Group as at 31st December 2006 decreased to US$531,598,000 from US$835,653,000 a year ago. Net debt-to-equity ratio decreased from 34.7% to 13.9% and interest coverage was 8.8 times as compared with 11.1 times last year.

Certain land use rights with a net book value of US$1,645,000 (2005: property, plant and equipment and land use rights of US$512,957,000) were pledged to banks and financial institutions by the Group to secure loans with an aggregate amount of US$500,000 (2005: US$345,618,000). As the secured loans had been substantially repaid during the year, the majority of pledged bank deposits in relation thereto were released and the pledged balance reduced to US$158,000 (2005: US$21,978,000).

FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

As at 31st December 2006, the Group provided guarantees on a loan facility granted to an associate of US$25,304,000 (2005: US$21,920,000) and the Group did not have any significant contingent liabilities.

TREASURY POLICY

The Group contained foreign exchange risk by conducting borrowings as far as possible in currencies that match the Group's functional currency used for transacting the Group's major cash receipts and underlying assets. Borrowings for the container leasing business were conducted mainly in US dollars, which match with the US dollar revenue and expenses of the Group's container leasing business, minimising any potential foreign exchange exposure.

In regard to 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, with corresponding hedging policies being effective.

The Group continued to exercise stringent control over the use of financial derivatives to hedge against its interest rate exposure. As at 31st December 2006 and 2005, outstanding interest rate swap contracts comprised:

- Notional principals of contracts amounting to US$200,000,000 in total, whereby the Group agreed to pay floating interest rates ranging from 105 basis points to 116 basis points above 6-month LIBOR to the banks in return for receiving from the banks a fixed interest rate of 5.875% per annum.

- Notional principal of contracts amounting to US$100,000,000 in total, whereby the Group agreed to pay fixed interest rates ranging from 3.88% to 4.90% per annum to banks for the receipts of interest rate at 3-month LIBOR.

As at 31st December 2006, after adjusting the fixed rate borrowings for the effect of the interest rate swap contracts, the Group's ratio of fixed rate to floating rate borrowings was 35.7% : 64.3% (2005: 22.9% : 77.1%). The Group continued to monitor and adjust its fixed and floating debt portfolio from time to time in light of market conditions, the objective of which is to reduce potential interest rate risk exposure.