
Chairman WEI JIAFU

Chairman's Statement

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Dear shareholders,

First of all, I would like to express, on behalf of the Board of China COSCO, my heartfelt gratitude to the shareholders for their care and support to the Group.

In 2006, the world shipping market maintained its rapid growth, with the shipping market facing increasing demand from global trading. In the PRC, GDP has grown by 10.7% over the same period of the previous year, with total imports and exports reaching US$1,760.1 billion, representing a growth of 23.8% over the previous year. Under the impact of the shifting of industrial bases worldwide, foreign direct investments in the PRC, in particular direct foreign investments in the manufacturing sector, continued to increase, and the PRC has gradually become one of the most important production and manufacturing bases in the world, which has driven the rapid development of exports as the driving force of international trade. "China Factors" continues to be the main driving force for the continuous rapid growth in the shipping market. Being one of the world's largest and most competitive integrated enterprises engaging in container shipping, terminals, container leasing and logistics businesses, China COSCO has been relying on the advantages of the domestic market to face the world, and dedicated to developing into an integrated shipping and logistics conglomerate across the shipping value chain, providing high quality services to customers worldwide.

Being the listed flagship and integrating platform of COSCO Group, the Group has successfully acquired 51% interest in COSCO Logistics from COSCO Group in 2006. COSCO Logistics is a leading third party logistics provider in the PRC and the largest shipping agency in the PRC, and has ranked top of the "China Top 100 Logistics Enterprises" three years consecutively since 2004, and was named the "Best third party logistics company in the PRC" by Lloyd's FTB Asia China Logistics Awards 2006. The acquisition of COSCO Logistics significantly strengthened the Group's market position as one of the world's largest and most competitive integrated container shipping and logistics enterprises.

In addition, in order to explore new financing channel and optimize its capital structure, the Group was actively involved in returning to the A Share market in the PRC, and was anticipated to issue A Shares in the PRC in June this year. Meanwhile, the Group is in negotiation with COSCO Group, the major shareholder for the possible acquisition of bulk vessels of COSCO Group, with a view to further develop the Group's integrated shipping business. The Board has authorized management of the Company to conduct feasibility study and relevant preparation work.

During the period under review, the Group's revenue was RMB50,993,950,000, representing an increase of 6.3% from the same period year, and profit attributable to shareholders was RMB2,031,016,000, representing a decrease of 63.6% from the same period last year. The Board has recommended the payment of a

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dividend of RMB0.09 per share in accordance with the benchmark for dividend payment, the dividend yield was 29.7%, together with an issue of bonus shares on the basis of 1.5 bonus shares for every 10 existing shares of par value RMB1.00 each of the Company.

During the period under review, the Group's container shipping and related business segment saw rapid development. The revenue reached RMB40,033,474,000, representing an increase of 5.6% from the same period last year. Total container shipping volume for the whole year was 5,111,338 TEUs, an increase of 12.7% from the same period last year.

In order to meet the increasing demand for shipping capacity, and to further optimize the fleet structure so as to enhance the Group's competitiveness, the Group has ordered eight 5,086 TEU container vessels in 2006, and 7 new container vessels were delivered during the year. As of 31 December 2006, the Group owned a total of 139 vessels, with a total shipping capacity of 399,237 TEUs, ranking it the top amongst container shipping companies in the PRC, and fifth of all container shipping companies in the world.

In order to effectively leverage on the newly added shipping capacity, the Group further optimized its global routes and increased its service coverage through cooperation with partners in CKYH Alliance, continued to devote its new shipping capacity to routes with strong demand so as to consolidate its market share. At the same time, it also strengthened the development in emerging markets, so as to integrate global resources and upgrade its service network.

In order to cope with the impact brought about by high oil prices, increase in port and inland transportation charges, the Group continued to implement lean management, and various costs have been under more effective control. In 2006, the Group's cargo flow information management system has commenced operation, and has enhanced the level of its management on cost and revenue. At the same time, the Group was dedicated in the improvement of the budget management system and performance appraisal system, providing more information support for the decision-making of the management.

During the period under review, the Group's terminal business grew rapidly, and terminal throughput continued to increase, of which the annual throughput of container terminal reached 32,791,713 TEUs, an increase of 25.7%. During the period, the Group continued to focus on identifying and investing in quality ports worldwide, and has invested in container terminals projects such as Ningbo Yuan Dong Terminal, Tianjin Port Euroasia Terminal, Quanzhou Pacific Container Terminal. The number of berths it has interests in reached 115, which laid a solid foundation for the Group's establishment of a more extensive terminal network.

In respect of container leasing, the Group has disposed of certain shipping containers owned by Florens Container Holdings Limited ("Florens") at approximately RMB6.93 billion and reached a management service agreement for the sold containers with the buyer. On the basis of expanding the scope of operation, it effectively optimized the mode of operation of the Group's container leasing and management and its capital structure. With the continued growth of the scope of the Group's owned and managed container fleet, its market share has grown from approximately 10.9% in 2005 to approximately 11.9% in 2006. As at 31 December 2006, its container fleet has reached 1,250,609 TEUs, with an average utilization rate of 96.2%, far ahead of its counterparts.

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As a listed company, the Group has stressed the effectiveness and transparency of corporate governance. In 2006, the Group has achieved remarkable results in corporate governance and China COSCO was accredited with the "Directors of the Year Award 2006" (Non Hang Seng Index Listed Company Group) by the Hong Kong Institute of Directors, making it the first H Share company in the PRC receiving such accreditation. In addition, the Group aimed at standardising transparent information disclosure. China COSCO won the awards for its 2005 Annual Report, the first annual report since its Listing, in the 2006 International ARC Awards Competition.

Looking forward to 2007, it is anticipated that the global container market will still maintain its booming trend with continuous strong demand. However, it should also be noted that there exists risks such as successive delivery of new vessels of major shipping companies, fluctuation of oil prices, port congestions and increase in inland transportation charges in the U.S., which will bring challenges to shipping companies. As a whole, we are cautiously optimistic about the global container shipping market in 2007.

Looking forward to the port sector in 2007, the flourish development of the container shipping market will continue to lead to the rapid growth in port throughput. It is expected that the throughput of container ports in the PRC will surpass 100 million TEUs. As the engine of economic growth of the PRC, the ports in the areas of Bohai Rim, Yangtze River Delta and Pearl River Delta will maintain strong growth, which is expected to bring about continuous growth for the Group's terminals in these three areas.

With continuous expansion of vessel fleet and increasing orderbook for new vessels by international liner companies in 2007, further consolidation of the industry as well as further development in containerization in the PRC and other emerging markets, there will be further growth in the demand for leased containers. The Group will grasp the opportunities to develop its own fleet, expand its customer bases and increase its market share.

With respect of the logistics market of the PRC in 2007, in view of the rapid development in the industries of home appliances, automobiles, electricity and chemical, there is great demand for logistics services. International logistics will also continue to grow following the growth in direct investments of foreign enterprises and foreign trade. The Group will continue to develop the scope of third party logistics and enhance the service level in shipping agency and freight forwarding.

I believe that on the basis of the overall shipping value chain comprising businesses such as container shipping, terminals, container leasing and logistics, and through the integration of external and internal resources, the overall strengthening of the synergy from various business segments, China COSCO will step further to transform itself from a global ocean carrier to a shipping-based global logistics operator. With its root deep in prosperous Chinese market and branches into the global market, China COSCO will continue to enhance its integrated competitiveness in shipping through better allocation of shipping and logistics resources, to provide the best service to its customers, and realize the optimum operational efficiency, value of the Company and return to shareholders.

Wei Jiafu
Chairman

28 March 2007