Management Discussion and Analysis

Review of Overall Performance

In 2006, the Group's operating income amounted to RMB50,993,950,000, respresenting an increase of 6.3% as compared with RMB47,966,347,000 of the same period in 2005. Its profit before taxation amounted to RMB4,092,149,000, representing a decrease of 46.7% as compared with RMB 7,679,136,000 of the same period in 2005. Profit attributable to equity holders of the Company amounted to RMB2,031,016,000, representing a decrease of 63.6% over the same period of the previous year.

Review of Operations

Container Shipping and Related Business

Container shipping volume

In 2006, the Group's container shipping and related business achieved a shipping volume of 5,111,338 TEUs, representing an increase of approximately 12.7% over the same period in 2005. Its revenue was RMB40,033,474,000, an increase of 5.6% from the same period in 2005.

The increase in the shipping volume was mainly attributable to the global economy which continued to maintain healthy development, especially for the consecutive years' rapid growth in the economy in the PRC, continuous strong demand for container shipping, and effective increase in the shipping capacity by the Group in the global market, as well as the implementation of improved marketing strategies by the Group. The increase in the revenue was smaller than that in the shipping volume, which was mainly due to a decrease in freight rates on various routes in the first half of 2006 for lack of confidence in the marketplace. Despite of a gradual recovery in freight rates in the second half year, the annual average freight rates were lower than that of the previous year.

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Shipping volume by markets

	For the year ended 31 December		
	2006	2005	Change
	TEUs	TEUs	
Trans-Pacific	**1,303,027**	1,183,899	10.1%
Asia-Europe (including the Mediterranean)	**1,208,507**	1,002,561	20.5%
Intra-Asia (including Australia)	**1,500,873**	1,392,828	7.8%
Other international (including Trans-Atlantic)	**256,513**	240,873	6.5%
PRC	**842,418**	714,449	17.9%
Total	**5,111,338**	4,534,610	12.7%

Revenue by markets

	For the year ended 31 December		
	2006	2005	Change
	RMB'000	RMB'000	%
Trans-Pacific	**13,373,828**	12,527,188	6.8
Asia-Europe (including the Mediterranean)	**9,743,126**	9,154,183	6.4
Intra-Asia (including Australia)	**5,958,387**	5,935,908	0.4
Other international (including Trans-Atlantic)	**2,507,890**	2,573,389	(2.6)
PRC	**1,575,506**	1,433,004	9.9
Sub-total	**33,158,737**	31,623,672	4.9
Chartered out	**297,346**	288,193	3.18
Related businesses	**6,577,391**	6,008,372	9.5
Total	**40,033,474**	37,920,237	5.6

Upgrade of shipping capacity

In 2006, the Group steadily implemented the shipping capacity upgrade plan, resulting in the continuous optimization of its fleet structure. 7 new vessels were delivered during the year, including 2 vessels of 8,204 TEU and 5 vessels of 9,449 TEU. In order to fulfill the need for continuous development and enhancing its competitiveness, the Group ordered 8 container vessels, with capacity of 5,086 TEU each in June 2006, which will be delivered from 2009 to 2010. The Group also leased 2 container vessels of 3,534 TEU each in February 2006, which will be delivered in 2007. In May 2006, the Group leased 2 container vessels with capacity of 4,506 TEU each, which will be delivered in 2008 to 2009. At the end of 2006, the Group has an orderbook of 26 container vessels, with a total capacity of 166,320 TEUs, which are expected to commence operation in the next few years.

As at 31 December 2006, the Group had a fleet of 139 container vessels in operation, with a capacity of 399,237 TEUs, representing an increase of 23.8% over that at the end of 2005.

Optimization of routes

In order to effectively utilise the newly added shipping capacity, the Group has further optimized its routes worldwide through cooperation with partners in CKYH Consortium, and increased its service coverage. The 7 newly added vessels with over 8,000 TEUs were all devoted to Far East/Europe routes and the slot utilisation rate was satisfactory. The Group also upgraded the Far East/Mediterranean, PNW, PSW and China/Australian routes. Service coverage has been expanded and service standard has been improved, while cost has been reduced. Such as the upgrade of PNW route, the route coverage has been enhanced and on the other hand, 8 vessels (divided into 2 loops) were used to serve the North-west coast of the North America. As compared with the usual practice of other shipping companies of using 5 vessels for each loop, the shipping cost has been reduced.

The Group continued to develop emerging markets such as Central America, Red Sea, Black Sea, the eastern part of Mediterranean as well as Vietnam etc.. For the PRC market which has great potential, it integrated domestic feeder route resources and enhanced the feeding capability of feeder routes to the main routes as well as upgraded the service network. During the year, the Group also acquired the shares in COSCO Philippines Shipping, Inc. and COSCO (HK) Cargo Service Co., Ltd., which were originally held by COSCO Group, to further improve the global network system.

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Innovation of the marketing system

As one of the principal players and leaders in the container shipping market, the Group has been actively implementing the Global Key Account (GKA) system which focused on major customer relationship management across the whole marketing system so as to enhance its customer service standard. In the first half of the year, due to the decrease in freight rates in the market, the Group has actively communicated with various parties and promoted freight rates restoration with satisfactory results.

Lean management

During the year under review, the continued new heights achieved in international oil prices, the continued increase in terminal transshipment fees and inland transportation charges in the U.S. brought a great cost pressure to liner companies. In order to respond to this effectively, the Group actively implemented a lean management, with all costs brought under more effective control. Apart from continuing to reduce cost pressures brought by high oil prices through selection of refueling ports and fuel consumption savings, the Group also effectively reduced service costs for cargo transshipment through optimizing route allocation and adjustments to some of the pivot ports, expedited the revenue of containers and improved the equilibrium of global containers.

Information system

In 2006, with the Group's cargo flow information management system put into use, its cost and revenue management has been enhanced. The Group is currently focusing on improving the budget management system and performance assessment system so as to provide more information to support the decision-making by the management.

Terminal and Related Business

In 2006, the Group's container terminal business grew robustly, the throughput of container terminals increased by 25.7% to 32,791,713 TEUs. COSCO Pacific continued to be the fifth largest container terminal operators in the world. During the year, COSCO Pacific further expanded its global network by acquiring interests in new terminals and increased its investment in existing terminals. In 2006, the Group's total number of berths increased by 15 to 115 and the annual capability increased from 54,900,000 TEUs to 61,000,000 TEUs.

Throughput of container terminals in 2006

Container terminals (As at 31 December 2006)	2006 (TEUs)	2005 (TEUs)	Change percentage
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%
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 Containers Co., Ltd.	**700,098**	178,686	291.8%
Pearl River Delta	**10,400,888**	9,196,652	13.1%
COSCO — HIT Terminals (Hong Kong) Limited	**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**	—	—
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%
Total Throughput in China	**29,875,952**	23,557,322	26.8%
Total Throughput	**32,791,713**	26,079,612	25.7%

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China terminals

In 2006, the throughput for China mainland container ports reached 93,000,000 TEUs, representing an increase of 23% over the previous year. Benefited from this, the investment of the Group in container terminals in the PRC performed very well, with total throughput reaching 29,875,952 TEUs, representing an increase of 26.8% over the same period of the previous year. Of which, Bohai Rim had excellent performance, the throughput of container terminals increased by 43.3% to 13,431,338 TEUs. Qingdao Qianwan Container Terminal recorded strong growth to 6,770,003 TEUs, bringing a higher percentage of profit contribution.

The throughput of container terminals in Yangtze River Delta increased by 13.2% to 7,732,432 TEUs. Both Shanghai Container Terminals and Shanghai Pudong Container Terminals continued to operate at full capacity. Since trade was growing rapidly in Yangtze River, the throughput of the container terminals in Zhangjiagang, Yangzhou and Nanjing invested by the Group were growing at a fast speed, of which the throughput of Nanjing Longtan Terminal increased substantially by 291.8% to 700,098 TEUs.

The performance of the container terminals in Pearl River Delta was satisfactory. The throughput during the year increased by 13.1% to 10,400,888TEUs. With new operational berths added in Yantian Terminal Phase III, the total throughput of Phases I, II and III of that terminal increased by 15.2% to 8,470,919 TEUs.The throughput of COSCO — HIT Terminal in Hong Kong dropped by 8.3%, which was mainly due to the fact that four quay cranes were replaced in the first half of the year and the replacement work affected the normal operation of the terminal for a certain period of time. The situation had been improved in the second half of the year. The replacement of the cranes have enhanced the terminal to be capable to handle larger and more sophisticated vessels with capacity of over 8,000 TEUs.

Overseas terminals

The aggregate container terminal throughput of overseas rose 80.2% on year-to-year basis to 1,227,064 TEUs. COSCO-PSA Terminal in Singapore recorded throughput growth of 2.8% to 627,894 TEUs. In Europe, 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.

Acquisitions in 2006

A total of three berths will be added to the Bohai Rim, for which the Group signed a joint venture agreement in relation to the Tianjin Port Euroasia Terminal in 2006 for which it holds a 30% interest, has a total of three berths, is currently under construction and will commence operation in 2008.

In the Yangtze River Delta, the Group purchased another 10% shareholding in the Shanghai Pudong Container Terminal to increase COSCO Pacific'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 Terminal, in which COSCO Pacific holds a 20% 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 Group signed a joint venture agreement to build, manage and operate six berths of Quanzhou Pacific Container Terminal in which the Company holds a 71.43% interest. Four berths are already operating.

For the overseas area, COSCO Pacific is committed to enhance its global network. The Group entered into an agreement to acquire a 20% 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.

Container Leasing and Mangement Business

During the year, our container leasing and management businesses 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 model of our Group for year 2006.

As at 31 December 2006, the Group's container fleet (including management containers) reached 1,250,609 TEU, representing an increase of 19.9% over the previous year. In 2006, the container average utilization rate rose from 95.5% in the previous year to 96.2%, which was higher than the average rate of 91.8% of the industry.

During the year, the Group's newly purchased containers reached 268,236 TEUs, representing approximately 24.6% of the total purchases of 1,090,000 TEUs in the container leasing industry. As a result of this, our market share rose approximately from 10.9% in 2005 to 11.9% in 2006. Most of our new containers were under long-term leases to COSCON and other global container carriers. As at 31 December 2006, the number of customers rose from 256 in the previous year to 270.

In order to optimize the mode of operation of the Group's container leasing and management business and its capital structure, the Group completed the strategic sale of 600,082 TEUs and provided after-sale management services. The total amount received from buyer amounted to US$869,203,000.

Logistics Business

At the end of December 2006, the Group completed all the procedures for the acquisition of 51% shareholding in COSCO Logistics from COSCO Group, the major shareholder (the remaining 49% shareholding being held by COSCO Pacific, a subsidiary of the Group). The acquisition of COSCO Logistics has enabled the Group

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to control the leading third party logistics company in the PRC, significantly strengthened the Group's market position as one of the world's largest and most competitive container shipping and logistics enterprises. The level of the Group's door-to-door services was significantly increased and the synergies among business segments of container shipping, terminal and logistics increasingly envisaged.

COSCO Logistics provides integrated logistics services which include third party logistics, shipping agency and freight forwarding. Among which third party logistics comprises product logistics and engineering logistics. Freight forwarding comprises sea freight and air freight forwarding businesses. COSCO Logistics had been experiencing rapid growth over the past few years. It continued to grow at fast speed in 2006 and recorded revenue amounted to RMB10,166,985,000, representing an increase of 15.3% over 2005.

In 2006, the business volume of major segments of COSCO Logistics is as follows:

	2006	2005	Growth rate
Third party logistics			
Product logistics			
of which: home appliances ('000 units)	**30,720**	23,290	31.9%
automobile (units)	**562,484**	90,000	525.0%
Engineering logistics (million RMB)	**766.4**	567.9	35.0%
Shipping agency (voyages)	**135,087**	134,780	0.2%
Freight forwarding			
Sea freight forwarding			
of which: bulk cargo ('000 tones)	**129,280**	102,410	26.2%
container cargo (TEU)	**1,915,987**	1,632,242	17.4%
Air freight forwarding (tones)	**103,046**	90,796	13.5%

Third party logistics

With respect to product logistics, COSCO Logistics provides product logistics services such as supply chain management, order management, warehousing and distribution in the industries such as home appliances, automobiles, petrochemical and exhibition. With respect to logistics for home appliances, COSCO Logistics integrated the network resources in 2006 and set up 40 regional distribution centres (RDC), covering major cities of the country. Its clients comprises one-third of leading home appliance manufacturers in the PRC. In 2006, COSCO Logistics handled approximately 30.72 million units of home appliances, representing an increase of 31.9% over 2005. With respect to logistics for automobile, COSCO logistics provides automobile procurement logistics and sales logistics services to 11 automobile manufacturers in the PRC. In 2006, COSCO Logistics handled 562,484 vehicles, representing an increase of 525% over 2005.

With respect to engineering logistics, COSCO Logistics has leading position in the market of power logistics and petrochemical logistics in the PRC. In 2006, COSCO Logistics participated in a series of large scale domestic and worldwide infrastructure projects for hydro and nuclear power, including Yunnan Jinghong Hydro Power station, Pakistan Chashma Nuclear Power Plant project. Petrochemical logistics include the projects for 5 million tones refinery plant in Algeria of Petrochina, supply chain design for British Petroleum's PTA distribution in China, project for India Reliance Petroleum. COSCO Logistics successfully completed the logistics services for the project of Qinghai-Tibet Railway. In 2006, the turnover of engineering logistics of COSCO logistics was approximately RMB766 million, representing an increase of 35% over 2005.

Shipping agency

COSCO Logistics operates its shipping agency business by the brand "PENAVICO" and established a stable client group in major ports in the PRC. The clients mainly include leading shipping companies in the world. Under the circumstances of increasing number of market participants and intense competition, COSCO Logistics provides tailor-made services to core clients and strives to explore new customers and maintains about 50% market share in the PRC. In 2006, COSCO Logistics provided agency services for 135,087 voyages, representing an increase of 0.2% over 2005.

Freight forwarding

The sea freight forwarding businesses of COSCO Logistics include solicitation, slot booking, warehousing, customs clearance, international multi-modal transportation, for container and bulk cargo. In 2006, COSCO Logistics handled container cargoes of 1,915,987 TEUs, representing an increase of 17.4% over 2005. It handled bulk cargo of 129,280 thousand tonnes, representing an increase of 26.2% over 2005.

With respect to air freight forwarding business, COSCO Logistics has formed an extensive service network with Beijing, Shanghai and Guangzhou as core markets. In 2006, COSCO Logistics handled air cargo of 103,046 tonnes, representing an increase of 13.5% over 2005.

Technology management training (TMT) scheme

In 2006, COSCO Logistics implemented TMT scheme, promoting technology, management and training across the company. With respect to the promotion of technology, it implemented and developed ultra heavy cargo horizontal movement technology and real time

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logistics tracing system. It was also the first company in the industry who implemented the application of RF and RFID. With respect to the promotion of management, a series of standardization rules was set for sales, operation, management and carried out resources integration for home appliances and automobiles logistics. With respect to training, it cooperated with Dalian Maritime University and provided TMT training to senior managers and technician and established two international training bases for management personnel.

Market reputation

COSCO Logistics has won good reputation within the industry with its high level services. In 2006, COSCO Logistics ranked the first in the list of "Top 100 logistics enterprises in China" for the third consecutive years and was awarded the best third party logistics company in China by Lloyd's FTB Asia China Logistics Awards 2006. In assessment for China Freight Industry Awards, COSCO Logistics was awarded No. 1 in the contests including "integrated services", "inventory managment", "flow management" and "coverage of network" for the four consecutive years. Penavico of COSCO Logistics won No. 1 in all contests for shipping agency enterprises.

Other Businesses

The Group owns 16.23%, 20% and 22.5% in CIMC, Shanghai CIMC Reefer Containers Co., Ltd and Tianjin CIMC North Ocean Container Co., Ltd. respectively. 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 maintain a profit contribution of RMB460,003,000 to the Group. The sale of Shanghai CIMC Far East generated a profit of RMB43,588,000 for the Group. The net profit contributed from our container manufacturing business (excluding the CIMC Put Options Non-cash Expense) increased by 24.1% to RMB524,501,000 in 2006.

The 20% interest in Chong Hing Bank held by the Group through COSCO Pacific generated net profit contribution of RMB101,823,000, representing an increase of 27.4%.

Financial Review

Revenue

The Group's revenue in 2006 amounted to RMB50,993,950,000, representing an increase of RMB3,027,603,000 or 6.3% as compared with RMB 47,966,347,000 in 2005.

(I) Container Shipping and Related Business

In 2006, the revenue of container shipping and related business amounted to RMB40,033,474,000, representing an increase of 5.6% as compared to RMB37,920,237,000 in 2005. Of which, the revenue of container shipping business amounted to RMB33,456,083,000, representing an increase of 4.8% as compared with RMB31,911,865,000 in 2005. Other related business is the business of container shipping extension service. Benefited from the increase of shipping capacity and the expansion in marketing effort, the shipping volume increased by 12.7%, and as compared with 2005, except for other international routes which experienced slight decreases in turnover, revenue of other routes experienced increases at different degrees. However, the average freight rates of various routes experienced a decline, which is particularly obvious for Asia-Europe routes and its average freight rates dropped by 11.7%. The decline in freight rates partially offset the contribution from the growth in the shipping volume to the revenue.

(II) Container Terminal and Related Business

Revenue of Container Terminal business increased by 46.8% to RMB232,468,000 during the year. Quanzhou Pacific Container Terminal started to operate in September, 2006. This newly acquired terminal contributed RMB46,752,000 during the year. Meanwhile, as new business opportunities was continued to be explored, operating efficiency was improved and berth No. 17 (which was acquired during the year) started to operate, the throughput of Zhangjiagang Win Hanverky Container Terminal Co., Ltd.("Zhangjiagang Win Hanverky Terminal") increased substantially, the revenue it generated represented an increase of 20.4% to RMB119,911,000 as compared to 2005.

(III) Container Leasing and Management Business

In 2006, the revenue for container leasing business was RMB1,796,815,000, representing a decrease of 20.6% as compared with 2005, which was mainly attributable to the disposal of containers of 600,082 TEUs in June 2006, resulting a decrease in revenue for container leasing. However, the disposal was a strategic action aiming at optimizing the mode of opertion and capital structure of container leasing business, while expanding business by assisting customers to manage asset portfolio of containers. Since containers will be continued to be replenished in 2007 and the income basis for container leasing will be increased gradually in subsequent period, such decline was considered temporary.

(IV) Logistics Business

Logistics business recorded revenue of RMB10,166,985,000 in the current year, representing an increase of 15.3% over the same period of the previous year. The revenue from each segment in logistics and related business recorded a growth, especially for the segment of logistics (products logistics and engineering logistics) which showed an outstanding performance with an increase in turnover for the year by 58.9% to RMB2,234,140,000 over 2005. Product logistics and engineering logistics successively won bidders of certain significant domestic and worldwide logistics projects and the sectors involved includes: home appliances, automobile, petrochemical, exhibition and electricity etc, which has enhanced the recognition of the

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Company in each sector and the brand advantages of product logistics and engineering logistics were very obvious.

Cost of services

In 2006, the Group' total cost of services amounted to RMB46,019,733,000, representing an increase of RMB7,199,829,000 or 18.5%, as compared with RMB38,819,904,000 in 2005. This was mainly due to the growth in container shipping volume and the substantial increase in fuel cost , causing a rise in overall cost of services.

(I) Container Shipping and Related Business

The Group's cost in container shipping and related business in 2006 was RMB35,765,842,000, representing an increase of 20.4% as compared with RMB 29,693,808,000 in 2005.

- In 2006, total cost of equipment and cargo transportation was RMB14,898,710,000, representing an increase of 20.1% over 2005. Although the Group optimized the allocation of routes and adjusted certain transshipment pivot ports so as to reduce the service costs for cargo transshipment, the cost of equipment and cargo transportation was still increased due to the increase of the inland transportation charge in the US since the third quarter of 2006 and the increase of loading and unloading fee in certain ports in Europe and the U.S., which led to the increase of cost for equipment and cargo transportation.

- In 2006, the total voyage costs were RMB9,253,259,000, representing an increase of 42.2% as compared with RMB6,509,218,000 over 2005. There has been a significant increase in the average fuel price during the year, in addition to the expansion of shipping capacity, causing fuel cost to increase by 44% as compared with 2005. The increase in fuel cost represented 34% of the increment in the total cost of container shipping. During the year, as a result of the newly increased shipping capacity and the gradual commencement of operation of large container vessels as well as the increase in certain port charge rates, port charges grew by 37.1% as compared with 2005.

- Vessel costs in 2006 were RMB4,993,383,000, representing an increase of 22.3% as compared with RMB4,084,148,000 of 2005, which was mainly due to the gradual commencement of operation of large size container vessels.

- The cost of business of related extension services of container shipping in 2006 (including land transportation and other related transportation charges and fees paid to third party carriers) amounted to RMB6,241,249,000, representing a decrease of 1.6% as compared with RMB6,341,762,000 for 2005.

(II) Container Terminal

The costs of services for the container terminal business of the Group mainly comprise container handling costs, depreciation, repairs and maintenance costs, and wages. The costs of services for the Group's container terminal business was RMB121,083,000 in 2006, representing an increase of 32.6% over 2005, mainly due to the commencement of operation of Quanzhou Pacific Container Terminal in September 2006 as well as the throughput of Zhangjiagang Win Hanverky Container Terminal increased by 20.9%. The increase in the volume of terminal business resulted in the increase in the cost for terminal business.

(III) Container Leasing and Management Business

The costs of services for container leasing business primarily comprise depreciation, depot costs and repairs and maintenance costs. In 2006, the costs of the container leasing business were RMB673,176,000, representing a decrease of 21.5% over the same period of the previous year, which was due to the strategic disposal of containers, causing a reduction in depreciation and container handling fee during the year.

(IV) Logistics Business

The cost of services in logistics and related business was RMB9,459,632,000 in 2006, representing an increase of 15.7% over 2005. The extent of the increases in cost corresponded with that in revenue.

Selling, administrative and general expenses

Selling, administrative and general expenses decreased by 2.4% from RMB2,980,384,000 in 2005 to RMB2,910,327,000 in 2006. The Group continued to enhance its efforts in lean management, strengthed the implementation and monitoring system of internal control, and further consolidated its budget mechanism, thus controlling various controllable expenses within a certain range, and obtained remarkable results.

Net other income

Net other income in 2006 amounted to RMB1,732,260,000, representing an increase of RMB833,374,000, or 92.7%, over 2005. This was principally derived from the disposal of two vessels by the Group to COSCO Shanghai, a fellow subsidiary, which generated a profit of RMB290,807,000. During the year, the Group recognized a gain of RMB672,980,000 from the strategic disposal of containers. The Group also received finder's fees of approximately RMB121,449,000 from providing services in sales transactions. The profit from disposal of the containers and the finder's fees were both credited as other income. In addition, the dividend income from available for sale financial assets amounted to RMB 169,265,000 was also included in other income.

Share reform

The put options of COSCO Pacific, a subsidiary of the Group, involving the Share Reform of CIMC were financial derivatives. The net expenses in the income statements represented the net effect of the initial recognition of derivatives at the fair value and the subsequent changes in fair values amounted to RMB439,707,000.

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Finance income

Finance income was mainly interest income, which amounted to RMB274,354,000 for the financial year, representing an increase of 33% as compared with 2005. Cash consideration received from the disposal of vessels and from the disposal of containers increased cash balances, thereby increasing more interest income.

Finance costs

The Group's finance costs increased by RMB110,983,000, or 12.6% from RMB877,462,000 in 2005 to RMB988,445,000 in 2006. The impact of increase in interest rates and new borrowings raised to meet the Group's current capital expenditure contributed to the increase in interest expenses.

Share of profits less losses of jointly controlled entities and associates

Net profit contribution from jointly controlled entities amounted to RMB626,002,000, while net profit in 2005 was RMB567,253,000, representing an increase of 10.4%, which was mainly due to the increase of throughput of terminal which gave growth in net profit, of which the performance of Nanjing Longtan Terminal Co., Ltd. has turned from loss to profit position, its annual throughput increased substantially by 291.8% to 700,098 TEUs. Qingdao Cosport International Container Terminals Co., Ltd. also recorded growth, its throughput increased by 22.9% to 744,276 TEUs. The throughput of Qingdao Qianwan Container Terminal Co., Ltd. increased by 24.4% to 6,770,003 TEUs over the previous year. Net profit contributions of Yingkou Container Terminal Co., Ltd and COSCO-PSA Terminal Co., Ltd also indicated similar growing trends.

Net profit contribution from associates amounted to RMB823,795,000, while net profit for the same period in 2005 was RMB718,076,000, an increase of 14.7%. During the period, the Group acquired an additional 10% shareholding in Shanghai Pudong International Container Terminals Limited, which increased its net profit contributions by 55% over 2005 to RMB123,027,000. Antwerp Gateway NV, which was acquired at the end of 2004, recorded a loss during the year, which was due to its operation still in the initial stage, however, its throughput increased to 599,170 TEUs from 70,084 TEUs of the previous year.

Income tax expenses

Aggregate income tax expenses increased from RMB733,101,000 in 2005 to RMB923,983,000 in 2006. The increase mainly represented a net charge which arose from the capital gain tax in relation to the disposal of containers and the write back of related deferred tax liabilities.

Financial position

Cashflows

The Group's net cash generated from operating activities in 2006 amounted to RMB1,646,171,000, representing a decrease of RMB4,695,376,000 as compared with RMB6,341,547,000 for the same period in 2005. The Group's operating profit before changes in working capital in 2006 was RMB3,935,023,000, representing a decrease of RMB4,303,479,000 or 52.2% from that of 2005.

Net cash generated from investing activities in 2006 amounted to RMB2,031,056,000, of which RMB4,914,715,000 was used in purchasing property, plant and equipment, such as containers, container vessels, computers and office equipments. RMB503,890,000 was paid for the partial payment for acquiring 51% shareholdings in COSCO Logistics. Meanwhile, the Group received proceeds of RMB7,327,663,000 from the disposal of property, plant and equipment such as container vessels and containers, as well as total dividends of RMB983,092,000 received from its jointly controlled entities, associates and available-for-sale financial assets.

In 2006, the Group's net cash outflow from financing activities amounted to RMB5,775,457,000, of which repayment of long-term borrowings amounted to RMB15,560,960,000, the payment of cash for dividend distribution amounted to RMB3,435,965,000, cash amounted to RMB12,235,166,000 received from the drawdown of long term borrowing as well as cash amounted RMB1,500,000,000 obtained from the issue of short term bonds.

Cash and cash equivalents

As at 31 December 2006, the Group's cash and cash equivalents amounted to RMB7,795,855,000, representing a decrease of RMB2,173,795,000, or 21.8%, as compared to RMB9,969,650,000 as at 31 December 2005. Of the amount, HK$523,887,000 was the remaining balance of proceeds from the H share listing as at 31 December 2006.

The Group's principal source 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 operating costs, repayment of loans, purchase of container vessels and containers, investment in container terminals and the funding of the Group's information technology systems.

Assets and liabilities

As at 31 December 2006, the total assets of the Group amounted to RMB55,460,140,000, representing a decrease of RMB553,349,000 over RMB56,013,489,000 as at 31 December 2005. The total liabilities amounted to RMB27,983,432,000, as compared with RMB 29,088,401,000 as at 31 December 2005. Profit attributable to the equity holders of the Group amounted to RMB18,935,304,000, representing a decrease of RMB 517,387,000 as compared to RMB19,452,691,000 at the end of 2005.

Total outstanding borrowings as at the end of 2006 amounted to RMB15,106,560,000, as compared to RMB16,783,674,000 as at the end of 2005. The net current liabilities as at the end of 2006 amounted to RMB857,628,000, representing a decrease of RMB2,486,497,000 over 2005, which was mainly due to the combined effect of decrease of fund and increase of account payable, with total amount of RMB1,679,636,000, which are generated from the acquisition of 51% shares in COSCO Logistics, as well as other factors, such as the derivative financial liabilities generated from the put options of CIMC's share reform. The net debt to equity ratio as at the end of 2006 was 26.6%, representing a slightly increase from 25.3% as at the end of 2005. Interest coverage was 5.5 times, compared to 10.2 times as at the end of 2005. Borrowings totalling RMB6,138,557,000 (31 December 2005: RMB10,631,675,000) were secured by certain property, plant and equipment of the Group with net book value of RMB8,468,780,000 (31

Management Discussion and Analysis

December 2005: RMB14,875,047,000) to certain banks and financial institutions as collaterals. The pledged assets represented 32.1% (31 December 2005: 51.1%) of the total property, plant and equipment.

Debt analysis

Category	**As at 31 December 2006 RMB'000**	As at 31 December 2005 RMB'000
Short-term loans and bonds payable	**4,825,817**	2,217,308
Long-term borrowings		
Within one year	**1,333,535**	2,196,863
Between one and two years	**2,565,052**	2,246,890
Between two and five years	**2,375,658**	5,359,536
Over five years	**4,006,498**	4,763,077
Sub-total	**10,280,743**	14,566,366
Total	**15,106,560**	16,783,674

As at 31 December 2006, borrowings amounted to RMB15,106,560,000, representing a decrease of RMB1,677,114,000 as compared with RMB16,783,674,000 as at 31 December, 2005.

Breakdown by category:

The Group's secured borrowings amounted to RMB6,138,557,000, while unsecured borrowings amounted to RMB8,968,003,000, representing 40.6% and 59.4% of the total borrowings respectively.

Breakdown by denomination:

The Group had borrowings denominated in U.S. dollars equivalent to RMB10,780,926,000 and borrowings denominated in RMB amounting to RMB4,325,634,000, representing 71.4% and 28.6% of the total borrowings respectively.

Financial guarantees and contingent liabilities

As at 31 December 2006, the Group had provided guarantees on a bank borrowing granted to an associate in the amount of RMB197,591,000 (31 December 2005: RMB176,899,000). Save for the information disclosed in the note 38 to the Group's consolidated financial statements, the Group had no other significant contingent liabilities.

Foreign exchange and interest rate risks management

The Group actively managed the current loan level and control the interest rates by controlling the ratio of long and short-term loans and by using various financial tools, in order to reduce the impact of the fluctuation of interest rates to the Group.

Meanwhile, with respect to exchange rate, the Group is also committed to coordinate and use, in a reasonable manner, various financial tools to control the risks of exchange rate fluctuation, for example by using exchange rate swap agreements to eliminate the risks of exchange rate fluctuation. Subsidiaries under the Group reasonably adjusted the income from operation and the cost and expenditure as well as the currency structure of assets and liabilities according to its own business flow. They also reduce the accumulation of foreign currency by speeding up the turnover rate of capital and actively adopt various measures to handle the risk from the fluctuation of exchange rate.