Final dividend

The Board recommended the payment of a final dividend of HK 4.30 cents per share (2005: HK 2.10 cents) for the year ended 31st December 2006. The proposed final dividend, together with the interim dividend of HK 1.00 cent, gives a total dividend of HK 5.30 cents per share (2005: HK 4.50 cents including special dividend of HK 1.40 cents) for the whole year of 2006.

The register of members will be closed from 23rd May 2007 to 29th May 2007, both days inclusive, during which period no transfer of shares will be effected. To qualify for the proposed final dividend, all transfers must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Abacus Share Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 22nd May 2007.

It is expected that the relevant dividends will be payable to those entitled on or about 12th June 2007 subject to the shareholders' approval in the annual general meeting of the Company to be held on 29th May 2007.

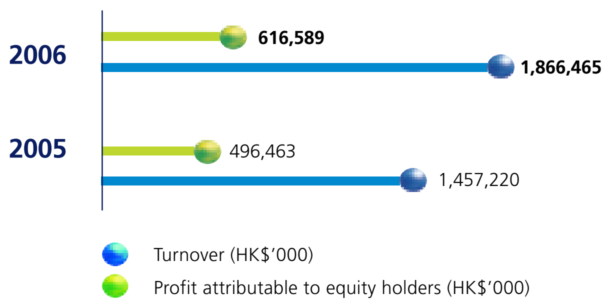
Financial review

OVERALL RESULTS ANALYSIS

(Note: Since the Company has entered into an agreement through its wholly-owned subsidiary with a connected person on 5th February 2007 in regard to the disposal of COSCO International Construction Limited ("COSCO Construction"), therefore, pursuant to the provision of the HKFRS 5, the Company has reclassified the financial results and assets and liabilities of the relevant operations as "discontinuing operations", and presented separately from the financial results and assets and liabilities associated with other operating activities. Figures of 2005 have been restated in regard to the "discontinuing operations".)

In 2006, the Company and its subsidiaries recorded a total turnover of HK$1,866,465,000, representing an increase of 28% as compared to HK$1,457,220,000 in 2005. Profit attributable to equity holders was HK$616,589,000, up 24% as compared to HK$496,463,000 in 2005.

Overview of Financial Results



Excluding the profit contribution from discontinuing operations, profit attributable to equity holders for the year was HK$590,749,000, representing an increase of 34% as compared to HK$439,957,000 in 2005.

Without taking into consideration of the revaluation gain on properties of HK$4,932,000 (2005: HK$303,765,000) and gain on the deemed disposal of partial interest in a jointly controlled entity of HK$279,043,000 (2005: nil) arising from share capital restructuring by SORED, the profit attributable to equity holders was HK$332,614,000, amounting to an increase of 73% as compared to HK$192,698,000 in 2005 under the same basis.

Basic earnings per share increased from HK 35.04 cents in 2005 to HK 42.90 cents in 2006.

Excluding the profit contribution from discontinuing operations, the basic earnings per share rose from HK 31.05 cents in 2005 to HK 41.10 cents in 2006.

Excluding the revaluation gain on properties and gain on deemed disposal of partial interest in a jointly controlled entity, the basic earnings per share increased from HK 13.60 cents in 2005 to HK 23.14 cents in 2006.

FINANCIAL ANALYSIS

Turnover

Turnover from the ship trading and supplying services businesses was HK$1,635,737,000 in 2006 (2005: HK$1,344,964,000), representing approximately 88% of the total turnover (2005: 92%). During the year, businesses such as ship trading and supplying services and property development recorded considerable growth in turnover of 22% and 110% respectively. On the other hand, Shenyang COSCO Yihe Property Development Co., Ltd. ("Shenyang COSCO Yihe"), the developer of COSCO Yihe Garden, a real estate project in China Mainland has been successful in raising selling prices and recorded favourable sales during the year. This consequently led to a slight decrease in the percentage of turnover from ship trading and supplying services business to the total turnover.

Gross profit and gross profit margins

In 2006, gross profit of the Company and its subsidiaries was HK$473,816,000, representing an increase of 27% as compared to HK$373,951,000 in 2005. Generally, the Company and its subsidiaries maintained relatively stable profit margins compared with that of 2005. The growth in gross profit was mainly attributable to the coatings business. Benefited from the recovery of the overall coatings industry in China Mainland during the year, 上海中遠關西塗料化工有限公司 ("Shanghai COSCO Kansai Paint & Chemicals Co., Ltd.") and 天津中遠關西塗料化工有限公司 ("Tianjin COSCO Kansai Paint & Chemicals Co., Ltd.") (collectively "COSCO Kansai Companies") successfully adjusted the prices of its coating products to counter the rising pressure on raw material prices.

Other income

In 2006, the Company and its subsidiaries recorded other income of HK$339,869,000, amounting to an increase of 4% as compared to HK$326,030,000 in 2005, which included fair value gain on investment properties of HK$4,932,000, gains on the disposals of 10% and 54% interests in 上海國際油漆有限公司 (International Paint of Shanghai Co., Limited) ("International Paint of Shanghai") and 河南新中益電力有限公司 (Henan Xinzhongyi Electric Power Co., Ltd.) ("Henan XZY") respectively totalling HK$41,496,000 and gain on the deemed disposal of partial interest in a jointly controlled entity of HK$279,043,000 (2005: nil) arising from its share capital restructuring.

Selling, administrative, general and other expenses

Driven by higher turnover, outgoings such as selling, administrative, general and other expenses increased by 24% as compared to 2005. Apart from the rise in selling and distribution expenses, the increase of expenses were mainly attributable to: (i) additional provision of trade receivables owing to the extension of repayment term; (ii) the payment of annual office rental expenses to the landlord following the disposal of eight floors of COSCO Tower in August 2005; and (iii) additional provision made in respective of tax liabilities of the People's Republic of China (the "PRC") on individual projects.

Finance income/(cost) – net

The Company and its subsidiaries had sufficient cash reserve and had committed to maximising capital returns through cautious investment approach. During the year, the interest income was HK$36,572,000, up 104% as compared to HK$17,950,000 in 2005.

During the year, by devoting efforts on the repayment of borrowings and the control on overall borrowing level, the Company and its subsidiaries recorded financial cost of HK$4,211,000, representing a significant decrease of 79% as compared to HK$19,957,000 in 2005.

Share of profits of jointly controlled entities

Contributions from the jointly controlled entities in aggregate increased by 154% as compared to that of 2005 among which profit contribution from Shine Wind Development Limited ("Shine Wind") was HK$152,587,000, representing a huge growth of 158% as compared to the profit contribution from SORED of HK$59,227,000 in 2005.

Profit attributable to equity holders

Profit attributable to equity holders amounted to HK$616,589,000, representing a big increase of 24% as compared to HK$496,463,000 in 2005. Included therein was contribution of HK$25,840,000 (2005: HK$56,506,000) from discontinuing operations.

Table 1: Segment Results and Financial Results at a Glance

	2006 HK$'000	2005 HK$'000	Change	%	Remarks
Ship trading and supplying services	**168,472**	122,602	45,870	37	Mainly substantial growth in the coatings business.
Property development and property investment	**17,361**	334,269	(316,908)	(95)	Decreased mainly due to the higher comparative basis in 2005 resulting from the revaluation gain recorded on the eight floors of COSCO Tower.
Other operations	**48,864**	(5,035)	53,899	–	Mainly profit contributions from sale of non-core businesses during the year.
Gain on deemed disposal of partial interest in a jointly controlled entity	**279,043**	–	279,043	–	Represents gain on deemed disposal of partial interest in SORED.
Unallocated corporate expenses, net of income	**(33,813)**	(20,182)	(13,631)	68	Increase mainly reflected the rise in staff cost, rental expenses and other operating expenses.
Operating profit	**479,927**	431,654	48,273	11	
Finance income/(costs) – net	**32,361**	(2,007)	34,368	–	Finance cost dropped significantly due to the earlier repayment of loan for property investment projects in China Mainland during the year.
Share of profits of jointly controlled entities	**164,867**	64,888	99,979	154	Mainly profit contributions from Shine Wind and Jotun COSCO Marine Coatings (HK) Limited.
Profit before income tax	**677,155**	494,535	182,620	37	
Income tax expense	**(39,942)**	(25,398)	(14,544)	57	
Profit from continuing operations	**637,213**	469,137	168,076	36	

Table 2: Assets and Liabilities of the Company and its Subsidiaries at a Glance

	2006 HK$'000	2005 HK$'000	Change	%	Remarks
Investment properties	**6,564**	32,614	(26,050)	(80)	Assets of a subsidiary have been reclassified as a disposal group held for sale and presented separately.
Intangible asset	**79,616**	79,616	–	–	–
Property, plant and equipment	**80,544**	60,030	20,514	34	Mainly attributed to construction of a new coatings plant in Zhuhai.
Prepaid premium for land leases	**16,609**	11,542	5,067	44	–
Associated companies	**–**	5,919	(5,919)	–	–
Jointly controlled entities	**1,137,946**	305,276	832,670	273	Represents the increase in equity interest in Shine Wind and the profit contributions from Shine Wind and Jotun COSCO
Available-for-sale financial assets	**57,617**	86,806	(29,189)	(34)	Represents the disposal of 10% interests in International Paint of Shanghai and 54% interests in Henan XZY.
Current assets	**2,168,275**	2,243,519	(75,244)	(3)	Assets of two subsidiaries have been reclassified as a disposal group held for sale and presented separately. On the other hand, driven by strong growth in coatings business in the second half of the year, related inventory and accounts receivable increased by 62%.
Assets held for sale	**145,854**	9,179	136,675	1,489	Assets of two subsidiaries have been reclassified as a disposal group held for sale and presented separately.
Total assets	**3,693,025**	2,834,501	858,524	30	
Current and other liabilities	**1,052,100**	940,804	111,296	12	Mainly attributable to increase in accruals and other payables.
Borrowing	**78,521**	106,660	(28,139)	(26)	Decreased due to the full repayment of loan related to the property investment projects in China Mainland during the year.
Liabilities directly associated with assets held for sale	**114,404**	–	114,404	–	Assets of two subsidiaries have been reclassified as a disposal group held for sale and presented separately.
Minority interests	**246,700**	193,853	52,847	27	
Total liabilities and minority interests	**1,491,725**	1,241,317	250,408	20	
Net assets	**2,201,300**	1,593,184	608,116	38	

FINANCIAL POSITION

Cash Flows

In 2006, the Company and its subsidiaries utilised bank and other loans of HK$78,521,000 (2005: HK$106,660,000) and repaid loans of HK$106,660,000 (2005: HK$988,508,000). Proceeds raised from the issuance of new shares resulting from the exercise of options amounted to HK$26,545,000 (2005: HK$2,166,000).

Financing and Standby Facilities

In December 2006, the Company secured a HK$100,000,000 revolving loan facility from a bank with effective period of one year and renewable on expiry. Interest was calculated with reference to Hong Kong Interbank Offered Rate or London Interbank Offered Rate plus 35 basis points. The loan will be used mainly as a standby facility for the Company. This facility and other favourable facility terms have improved the Company's debt structure and will lower interest expense.

As of 31st December 2006, cash in hand and committed yet unutilised standby facilities of the Company were HK$862,187,000 (2005: HK$1,274,085,000) and HK$148,781,000 (2005: HK$332,970,000) respectively. Cash and cash equivalents held by the Company accounted for 37% (2005: 57%) of the current assets of the Company and its subsidiaries.

Assets and Liabilities

As of 31st December 2006, total assets amounted to HK$3,693,025,000 (2005: HK$2,834,501,000). Total liabilities amounted to HK$1,245,025,000 (2005: HK$1,047,464,000). Gearing ratio, which represents total borrowings over total assets, was 2% (2005: 4%). For major changes in assets and liabilities taken place during the year, please refer to table 2.

Net assets value was HK$2,201,300,000. The increase mainly represented retained earnings, exchange difference, fair value gains on available-for-sale financial assets and the value of new shares issued upon the exercise of options. Net assets value per share was HK$1.52 (2005: HK$1.12), up 36% over the end of 2005.

The Company and its subsidiaries made net repayments of bank loans and other loans amounting to HK$28,139,000 (2005: net repayment of bank loans and other loans amounting to HK$881,848,000). As of 31st December 2006, total banking facilities available to the Company and its subsidiaries amounted to HK$270,302,000 (2005: HK$482,630,000), of which HK$121,521,000 (2005: HK$149,660,000) had been utilised. As of 31st December 2006, the Company and its subsidiaries pledged no assets to banks as security for bank loans (2005: nil). In addition, the Company and its subsidiaries had restricted bank deposit of HK$2,191,000 (2005: nil).

The Company and its subsidiaries, therefore, have sufficient financial resources to meet capital commitment and working capital requirements for future development.

Debt Analysis

	31st December 2006 HK$'000	%	31st December 2005 HK$'000	%
Classified by maturity:				
Loans repayable				
– within the 1st year	**78,521**	**100**	10,570	10
– within the 2nd year	**–**	**–**	96,090	90
	78,521	**100**	106,660	100
Classified by type of loan:				
– secured	**–**	**–**	–	–
– unsecured	**78,521**	**100**	106,660	100
	78,521	**100**	106,660	100
Classified by currency:				
– Renminbi	**15,931**	**20**	106,660	100
– United States dollars	**62,590**	**80**	–	–
	78,521	**100**	106,660	100

Treasury Policy

During 2006, the Company and its subsidiaries had no material exposure to exchange rate fluctuations. At 31st December 2006, borrowings of the Company and its subsidiaries were denominated in Renminbi and United States dollars and carried interest at rates calculated with reference to the Hong Kong Interbank Offered Rate and the benchmark interest rates announced by the People's Bank of China. The Company and its subsidiaries had no financial instruments for hedging purposes.

Major Customers and Suppliers

For the year ended 31st December 2006, aggregate sales to the five largest customers accounted for less than 30% of total turnover for the Company and its subsidiaries, while aggregate purchases from the five largest suppliers accounted for less than 30% of the total cost of sales for the Company and its subsidiaries (2005: less than 30%) respectively.

Employees

As of 31st December 2006, excluding associated companies and jointly controlled entities, the Company and its subsidiaries had approximately 573 (2005: 533) employees, of whom approximately 110 (2005: 122) are Hong Kong employees. The total number of employees increased by 8% as compared to 533 in 2005. This is mainly attributed to the development of production and sales of coatings by 珠海中遠關西塗料化工有限公司 (Zhuhai COSCO Kansai Paint & Chemicals Co., Ltd.) ("Zhuhai COSCO Kansai").

For the year ended 31st December 2006, total staff cost, including directors' emoluments and provident funds, was approximately HK$92,991,000 (2005:

HK$95,740,000). Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary, a year-end discretionary bonus which is determined with reference to market conditions and individual performance. During the year, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme.

On 26th November 2003, directors of the Company (excluding independent non-executive directors) and employees of the Company and its subsidiaries were granted share options to subscribe for a total of 44,800,000 shares of the Company at a price of HK$0.57 per share. These share options are exercisable at any time from 23rd December 2003 to 22nd December 2008. On 2nd December 2004, directors of the Company (excluding independent non-executive directors) and employees of the Company and its subsidiaries were granted share options to subscribe for a total of 32,650,000 shares of the Company at a price of HK$1.37 per share. These share options are exercisable at any time from 29th December 2004 to 28th December 2014. On 10th May 2005, employees of a subsidiary of the Company were granted share options to subscribe for a total of 2,400,000 shares of the Company at a price of HK$1.21 per share. These share options are exercisable at any time from 6th June 2005 to 5th June 2015. On 9th March 2007, directors of the Company (excluding independent non-executive directors) and employees of the Company, its subsidiaries and associated companies were granted share options to subscribe for a total of 25,930,000 shares of the Company at a price of HK$3.666 per share. These share options are exercisable from 9th March 2009 to 8th March 2015 on the stipulated proportion at any time namely: (i) no share options shall be exercisable by the grantees within the first two years from 9th March 2007; (ii) up to a maximum of 30% of the share options can be exercised by the grantees from 9th March 2009 onwards; (iii) up to a maximum of 70% of the share options can be exercised by the grantees from 9th March 2010 onwards and (iv) all share options can be exercised by the grantees from 9th March 2011 onwards.

Business review

During the year, the Company continued to implement its strategic development initiative by better positioning in ship trading and supplying services. The Company also through divestment of its non-core businesses, speeded up the pace in restructuring its businesses. During the year, the Company disposed of its investment interests in Henan XZY, various lots situated at Kutong, New Territories, Hong Kong, and Block 5 of Kingswell Garden, Shanghai. In order to minimise the effect of having self-competing business, as well as to focus resources on the operation of the marine coatings business in Jotun COSCO Marine Coatings (HK) Limited ("Jotun COSCO"), the Company also disposed of its interests in International Paint of Shanghai. After a series of business restructuring exercises, the Company can be more committed to its core businesses in terms of operations, resources and working capital for future development. Commencement of the construction of production factory of Zhuhai COSCO Kansai (expected to begin production in July 2007) will further strengthen the Company's coatings business, while the start of operation of 深圳中遠保險經紀有限公司(Shenzhen COSCO Insurance Brokers Limited) ("SZ COSCO Insurance Brokers") has provided a platform for the Company to develop an insurance brokerage business in China Mainland. All these will further consolidate the Company's ship trading and supplying services and facilitate stable growth of the Company. Furthermore, in order to consolidate the Company's continued development and enhance its profitability, the Company acquired a total of 24% equity interest in SORED from COSCO and Tianjin COSCO and became one of SORED's largest shareholders.

SHIP TRADING AND SUPPLYING SERVICES SUPPLY PLATFORM

Ship Trading Agency Services
Shipowners and Shipbuilders

Marine Insurance Brokerage Services
Insurance Companies

Sales of Marine Equipment, Spare Parts, Communications and Navigation Equipment
Marine Equipment, Spare Parts, Communications and Navigation Equipment Manufacturers

Production and Sales of Containers, Marine, and Industrial Heavy-duty Anti-corrosion Coatings
Raw Material Suppliers

MAJOR CUSTOMERS
Shipowners / Vessel Fleets / Shipbuilders / Container Owners / Container Manufacturers

Ship trading and supplying services
Third parties (including suppliers and business partners)

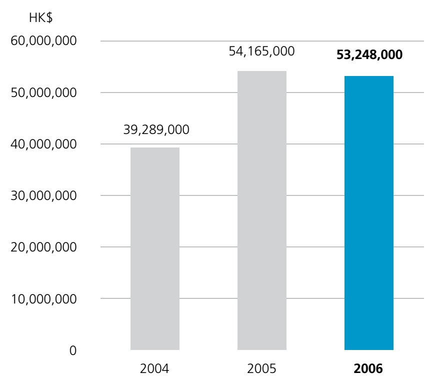
Core Business

1. SHIP TRADING AND SUPPLYING SERVICES

In 2006, turnover and profits from ship trading and supplying services of the Company and its subsidiaries showed a steady growth. For the year ended 31st December 2006, turnover of ship trading and supplying services was about HK$1,635,737,000, representing an increase of 22% as compared with HK$1,344,964,000 in 2005. This accounted for 88% (2005: 92%) of the total turnover of the Company and its subsidiaries. Segment result was HK$168,472,000, representing an increase of 37% compared with HK$122,602,000 in 2005.

In 2006, the global shipping market continued to grow rapidly. According to statistics from General Administration of Customs of the PRC, China imports and exports trade for 2006 amounted to US$1,760.6 billion (2005: US$1,420 billion), representing an increase of 24% as compared with 2005. Aggregated exports amounted to approximately US$970 billion (2005: US$760 billion), representing an increase of 28% as compared with 2005. Aggregated imports amounted to approximately US$790 billion (2005: US$660 billion), representing an increase of 20% as compared with 2005, while trade surplus amounted to US$177.4 billion, up 74% over 2005. China's economy continued to expand during the year, with robust growth in imports and exports trade and the gradually-dropping oil prices served to boost the development of shipping markets. Thriving shipping markets, together with COSCO Group fleet's demand for ship trading and supplying services, provided enormous business opportunities for the Company.

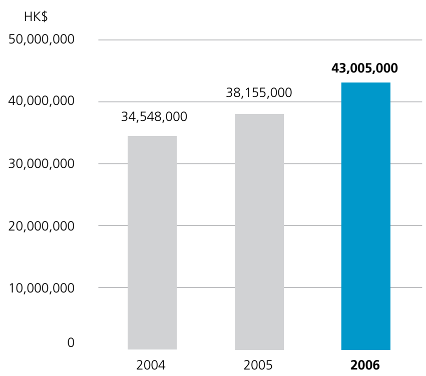
Turnover from Ship Trading Agency Services



COSCO International Ship Trading Company Limited ("COSCO Ship Trading") mainly provides exclusive agency services relating to ship building, trading and chartering for COSCO Group fleet, as well as similar agency services to non-COSCO Group shipping companies.

During the year, COSCO Ship Trading's turnover was HK$53,248,000, basically maintained the same as compared to HK$54,165,000 in 2005.

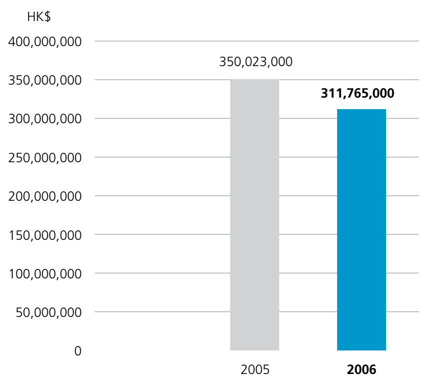
Turnover from Marine Insurance Brokerage Services



COSCO (Hong Kong) Insurance Brokers Limited ("HK COSCO Insurance Brokers"), is the sole insurance intermediary company within COSCO Group.

In addition, SZ COSCO Insurance Brokers, a non wholly-owned subsidiary of the Company, also launched its insurance brokerage service in China Mainland. During the year, the turnover contributed by the marine insurance brokerage service of HK COSCO Insurance Brokers and SZ COSCO Insurance Brokers totaled HK$43,005,000 (2005: HK$38,155,000), representing an increase of 13% compared with that of 2005.

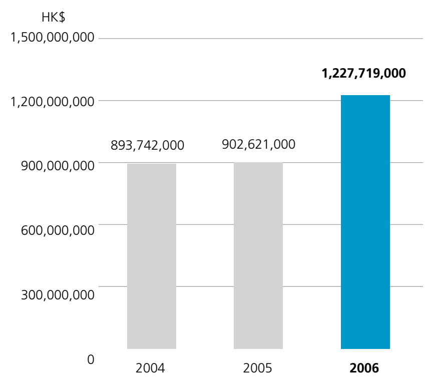
Turnover from Sales of Marine Equipment, Spare Parts, Communications and Navigation Equipment



Yuantong Marine Service Co. Limited ("Yuantong") is engaged principally in the sale and installation of marine equipment and spare parts for existing and new vessels, as well as oil drilling projects at sea, communications systems, shore-based AIS systems, vessel traffic management systems and information management systems for land users.

Yuantong's turnover during the year was HK$311,765,000, a decrease of 11% as compared with HK$350,023,000 in 2005. This is mainly attributable to the spare parts procurement cycle by the shipowners.

Turnover from Production and Sales of Coatings



上海中遠關西塗料化工有限公司 ("Shanghai COSCO Kansai Paint & Chemicals Co., Ltd.") and 天津中遠關西塗料化工有限公司 ("Tianjin COSCO Kansai Paint & Chemicals Co., Ltd."), (collectively called "COSCO Kansai Companies") are mainly engaged in the production and sales of container coatings and industrial heavy-duty anti-corrosion coatings. Jotun COSCO is mainly responsible for production and sales of marine coatings. During the year ended 31st December 2006, the production and sales of coating products segment recorded a turnover of HK$1,227,719,000 (2005: HK$902,621,000), representing a substantial increase of 36% as compared with that of 2005.

Ship Trading Agency Services

1.1 Ship trading agency services

COSCO Ship Trading, a non wholly-owned subsidiary of the Company, mainly provides exclusive agency services relating to ship building, trading and chartering for COSCO Group fleet, as well as similar agency services to non-COSCO Group shipping companies.

COSCO Ship Trading mainly derives its turnover from agency commissions. In the case of new vessels, shipbuilders paid commissions to COSCO Ship Trading according to ship-building progress as stipulated in the contracts entered into with the shipowners. As for second-hand vessels, trading commissions were paid within a stipulated period after the vendors had delivered vessels to buyers. During the year, COSCO Ship Trading's turnover was HK$53,248,000, basically maintained the same as compared to HK$54,165,000 in 2005.

During the year, COSCO Ship Trading consummated transactions for the sale and purchase of 84 vessels, amounting to a total of 6,140,000 dead weight tonnages, representing a significant increase of 123% as compared with 2,750,000 dead weight tonnages in 2005. This was mainly because COSCO Ship Trading took full advantage of opportunities arising from the temporary setback in the shipping and ship trading market during the first half of 2006, and facilitated trading contracts at favourable prices for COSCO Group shipping companies. The Company has been well positioned to secure part of its commission income for the next few years through these contracts executed during the year.

The shipping industry has experienced a revival in recent years, with an increase in the number of orders for new vessels and bookings for large-scale shipbuilders scheduled beyond 2010. Moreover, the costs and prices of new vessels remained at a high level because the cost of shipbuilding materials and marine equipment soared, stringent new regulations on vessel performance were enforced and currency rates in capital markets fluctuated. The shipbuilding market is expected to continue to be led by seller in 2007, with vessel prices remaining high in general. The characteristic long wait for new ships to be delivered has prompted an increase in the demand for second-hand vessels, which has resulted in a surge in vessel prices. Some popular types of vessels are no longer available or are being held back to allow prices to climb. In response to changes in global shipping market trends, COSCO Ship Trading will develop and implement ship buying and building plans for each COSCO Group shipping company by putting greater effort into in-depth analysis of the ship buying and building market. This will help develop a keener competitive edge for COSCO Ship Trading and foster closer co-operation with shipbuilders. In addition, COSCO Ship Trading will continue to explore the provision of ship trading agency services for non-COSCO Group customers in order to achieve higher operating efficiency.

“COSCO Ship Trading consummated the trading of 84 vessels, amounting to a total of 6,140,000 dead weight tonnages and representing a significant increase of 123% as compared with 2005.”

Marine Insurance Brokerage Services

1.2 Marine insurance brokerage services

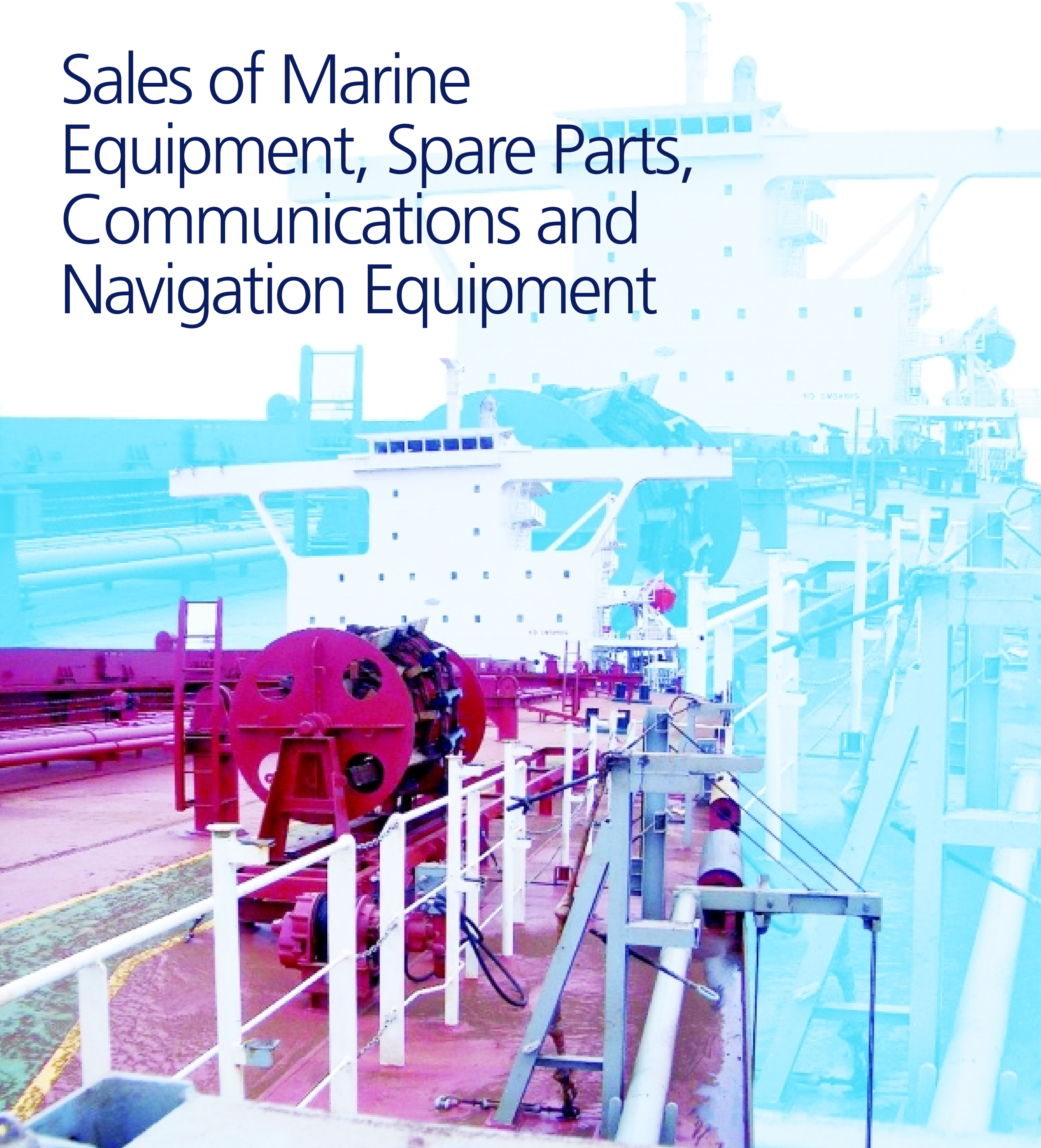
HK COSCO Insurance Brokers is the sole insurance intermediary company within COSCO Group. HK COSCO Insurance Brokers has Lloyd's accredited broker accreditation and mainly operates intermediary businesses in relation to marine insurance and shipowner's liability insurance.

In addition, SZ COSCO Insurance Brokers, a non wholly-owned subsidiary of the Company, also launched an insurance brokerage service in China Mainland. During the year, the turnover contributed by the marine insurance brokerage service of HK COSCO Insurance Brokers and SZ COSCO Insurance Brokers totaled HK$43,005,000 (2005: HK$38,155,000), representing an increase of 13% as compared with that of 2005.

International insurance companies have been establishing their brokerage businesses in China Mainland as the market has gradually opened up to foreign competitors. Certain of these new players entered marine insurance markets. Facing the growing keen competition, HK COSCO Insurance Brokers and SZ COSCO Insurance Brokers have fine-tuned their strategies, which now include development of hull mutual insurance for registered vessels in China Mainland. In addition to providing existing insurance brokerage services, HK COSCO Insurance Brokers and SZ COSCO Insurance Brokers also explore the provision of risk management brokerage services to COSCO Group members; expand their marine insurance brokerage services by seizing the co-operation opportunities throughout COSCO Group fleet and other shipping companies and put more efforts into developing businesses among local shipping companies with growth potential.

“Facing the growing keen competition, HK COSCO Insurance Brokers and SZ COSCO Insurance Brokers have fine-tuned their strategies, which now include development of hull mutual insurance for registered vessels in China Mainland.”

Sales of Marine Equipment, Spare Parts, Communications and Navigation Equipment



1.3 Sales of marine equipment, spare parts, communications and navigation equipment

Yuantong is engaged principally in the sale and installation of marine equipment and spare parts for existing and new vessels, as well as oil drilling projects at sea, communications systems, shore-based AIS systems, vessel traffic management systems and information management systems for land users.

Yuantong's turnover during the year was HK$311,765,000, a decrease of 11% as compared with HK$350,023,000 in 2005. This is mainly attributable to the spare parts procurement cycle by the shipowners.

Rapid development of the China shipbuilding industry has boosted demand for marine ancillary equipment. As a result of opportunities arising from prosperous development of the shipping industry and fierce competition among distributors, Yuantong will forge closer relations with suppliers. In particular, Yuantong will establish alliances with large suppliers and enhance communications, networks, promotion, ancillary services and business co-operation, while improving communications with customers, raising operational efficiency, following up orders and responding to the demand for logistics support and information. In addition, Yuantong will seek to increase product sales volumes and enhance profitability by way of acquisitions, alliances, co-operation agreements, establishing and managing cost-efficient sales networks.

“Rapid development of the shipbuilding industry in China has boosted the demand for marine ancillary equipments.”

Production and Sales of Coatings

1.4 Production and sales of coatings

COSCO Kansai Companies, being non wholly-owned subsidiaries of the Company, are mainly engaged in the production and sales of container coatings and industrial heavy-duty anti-corrosion coatings. The Company, together with Norwegian international coatings manufacturer Jotun A/S, formed a 50/50 joint venture, Jotun COSCO, which is mainly responsible for production and sales of marine coatings. During the year ended 31st December 2006, the production and sales of coating products segment recorded a turnover of HK$1,227,719,000 (2005: HK$902,621,000), representing a substantial increase of 36% as compared with that of 2005.

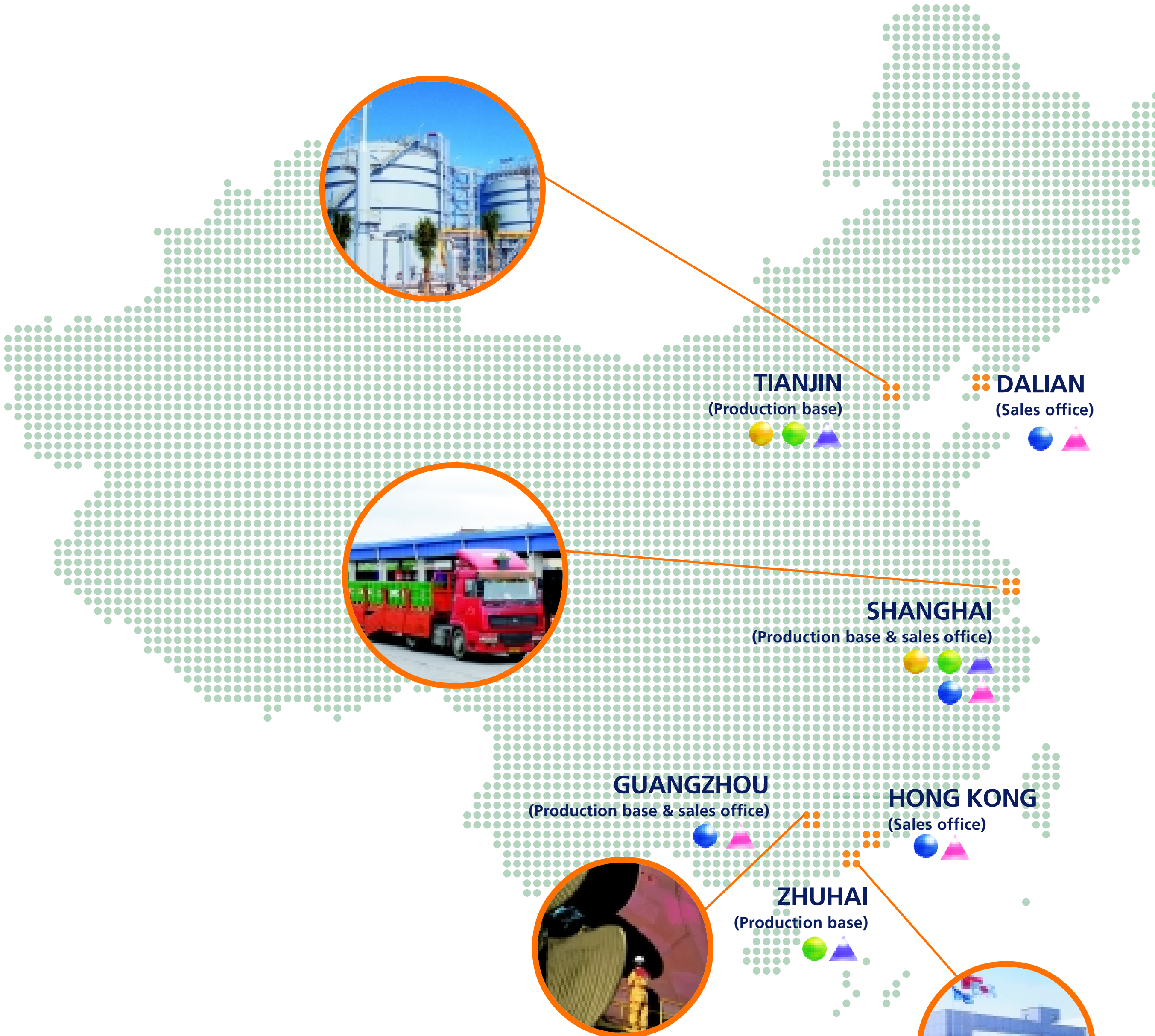
1.4.1 Container coatings

During the year, container coatings sales of COSCO Kansai Companies maintained double digit growth of 30% when compared to 2005. This was mainly attributable to the increase in product selling prices. Total sales volume in 2006 was 55,565 tonnes, basically maintained the same as compared to 56,119 tonnes in 2005. COSCO Kansai Companies enjoyed a high profile in the China Mainland market.

In February 2006, the Company and Kansai Paint Co., Ltd. set up a joint venture namely Zhuhai COSCO Kansai. The new plant in Zhuhai is expected to commence production in July 2007. Annual coatings production capacity will be 24,000 tonnes and will be increased to 36,000 tonnes after further expansion. The plants in Zhuhai, Shanghai and Tianjin are respectively located in three of the areas with the highest economic potential in China Mainland, namely the Pearl River Delta, Yangtze River Delta and Bohai Rim area, which will facilitate provision of speedy and efficient service to customers.

Given that the estimates relating to the global economy and trade volumes for the next few years are still optimistic, global demand for containers is therefore expected to rise steadily. Industry players predicted the demand for new containers in 2007 will be slightly greater than in 2006. In response to the rise in the cost of raw materials, container manufacturers have implemented stricter controls on cost, including coatings, leading to more intense competition among container coatings suppliers. Committed to the strategy of "securing significant customers, exploring ordinary customers and attracting new customers", COSCO Kansai Companies will build a stronger reputation and greater brand awareness in the container manufacturing industry and seek more orders from container owners to boost its market share in China.

"Sales of container coatings by COSCO Kansai Companies maintained double digit growth of 30% when compared to 2005."



Sales Volume of Coatings (Tonnes)

	2005	2006	Change
Container Coatings	56,119	55,565	-1%
Marine Coatings	20,215	25,929	+28%
Industrial Heavy-duty Anti-corrosion Coatings	4,777	6,991	+46%

Jotun COSCO

COSCO Kansai Companies and Zhuhai COSCO Kansai

1.4.2 Marine coatings

Jotun COSCO is engaged principally in the production and sales of marine coatings in China (including Hong Kong and Macau Special Administrative Region). During the year, marine coatings sales volume amounted to 19,945,000 litres (equivalent to 25,929 tonnes), representing an increase of approximately 28% compared with 15,550,000 litres (equivalent to 20,215 tonnes). Growth in turnover was due to firstly, the prosperous shipping and China shipbuilding markets; secondly, the increase in Jotun COSCO's share in the China Mainland market; and thirdly, the increase in product selling prices during the year.

Demand for marine coating products in China is estimated to grow at a fast pace. As well as seeking the support of COSCO Group, Jotun COSCO aims to continuously enhance product and service quality and increase supply volume to COSCO Group fleet. Jotun COSCO also seeks to have Jotun A/S support in order to secure continuous orders from overseas shipowners, reduce procurement costs and improve the process flow in the supply chain. In the meantime, Jotun COSCO aims to develop China Mainland market, improves operational efficiency and boosts profitability.

1.4.3 Industrial heavy-duty anti-corrosion coatings

Industrial heavy-duty anti-corrosion coatings turnover for COSCO Kansai Companies recorded a growth of 67.4% compared with that in 2005. Sales volume amounted to 6,991 tonnes, representing an increase of 46% compared with 4,777 tonnes in 2005. This was mainly due to the increase in demand for coatings from the construction, transportation, infrastructure and energy sectors, coupled with a ramping up of marketing activities by COSCO Kansai Companies during the year. At present, sales of industrial heavy-duty anti-corrosion coatings by COSCO Kansai Companies occupies a leading position in the industry.

Industrial heavy-duty anti-corrosion coatings produced by COSCO Kansai are used mainly in nuclear stations, ports, power stations, oil, petrochemical, transportation and municipal government infrastructure. Following implementation of China's Eleventh "Five-year Plan", development of these industries are still under fast growing stage. Market potential for industrial heavy-duty anti-corrosion coatings is, therefore, enormous. COSCO Kansai Companies will take full advantage of this demand, seek closer relations with major customers and focus on developing coatings for trailers. COSCO Kansai Companies will monitor China oil reserve base construction projects, expand its share of the nuclear power plants market; take advantage of the rapid development in the Bohai Rim area; seek more municipal government infrastructure coating projects and canvass business with oil and port machinery companies.

"Demand for marine coating products in China is estimated to grow at a fast pace. Jotun COSCO aims to increase supply volume to COSCO Group fleet. Jotun COSCO also seeks to secure continuous orders from overseas shipowners, improves operational efficiency and boosts profitability."

2. PROPERTY DEVELOPMENT AND PROPERTY INVESTMENT

In 2006, the turnover of property development and property investment division increased by 110% to HK$230,191,000 (2005: HK$109,648,000), accounting for 12% of the total turnover of the Company and its subsidiaries. Comparing with 2005, segment results decreased by 95% to HK$17,361,000 (2005: HK$334,269,000) was mainly due to the higher comparative basis in 2005 resulting from the revaluation gain recorded on the eight floors of COSCO Tower.

2.1 China Mainland business

The real estate market experienced a slight slowdown in investment activities in China Mainland due to the introduction of national real estate policy during the year but property prices continued to rise. With continuous economic growth and improvement of living standards in China Mainland, demand for residential property in cities is still expected to be high, leading a steady development of the real estate market.

2.1.1 Sino Ocean Real Estate Development Co., Ltd.

The Company indirectly held a 20% interest in SORED since 2002. On 22nd August 2006, the Company through the then wholly-owned subsidiary entered into an equity transfer agreement with COSCO and Tianjin COSCO to acquire 20% and 4% stakes in SORED for a cash consideration of RMB329,400,000 and RMB65,880,000, respectively. The Company held a total 44% interest in SORED upon completion. SORED then underwent a group restructuring exercise at the end of 2006. As such, the 44% interest owned by the Company in SORED was swapped for 44% equity interest in Shine Wind, a new holding company incorporated in the British Virgin Islands and in turn holds 100% equity interests in SORED. In view of the subscriptions of shares in Shine Wind by certain independent third party investors after the restructuring exercise, the equity interest in Shine Wind owned by the Company was diluted to 30.8% of the enlarged issued share capital of Shine Wind. The subscription has resulted in an unrealised gain of approximately HK$279,043,000 recorded by the Company.

SORED is a renowned property developer in China Mainland and has won numerous awards for property development projects in Beijing. SORED properties currently under development in China Mainland include Ocean Paradise, Ocean Landscape, Ocean Seasons, Chamsunny Plaza, Ocean International Centre in Beijing and Haihe New Skyline in Tianjin. SORED is engaged mainly in developing residences in the medium price range and premium grade A offices. In addition to major development in Beijing, SORED also explores markets in the Bohai Rim area. SORED has investments in Tianjin, Dalian and Shenyang, as well as in Zhongshan, in the Pearl River Delta. As of the end of 2006, SORED held total assets amounting to RMB16,300,000,000. Drawing strength from a dominant market position and a reputable brand, SORED made a profit contribution of HK$152,587,000 to the Company.

2.1.2 Shenyang COSCO Yihe Garden

COSCO Yihe Garden is a property development project with a total floor area of approximately 200,000 square metres in Shenyang, Liaoning, China, developed by Shenyang COSCO Yihe, a non wholly-owned subsidiary of the Company. The project was to be developed in two phases, divided into the South and North Districts offering a total of about 1,400 residential units. As of 31st December 2006, the cumulative area sold under contracts as COSCO Yihe Garden was 147,372 square metres (2005: 88,000 square metres). Initial registration for block numbers 1 to 5 in South District was completed in 2006 and quality inspection for block numbers 6 and 7 in South District was successful. The whole project is expected to be completed in mid 2007. COSCO Yihe Garden has been gradually establishing its brand since its launch in 2004. Besides, COSCO Yihe Garden obtained various awards including the "One Hundred Brands Affecting The Daily Livelihood of the Shenyang People" ("影響瀋陽人生活的一百個品牌"), "Property for Promoting Environmental Real Estate" ("環保地產推廣力樓盤"), "The Most Influential Property of Shenyang in the first half of 2006" ("2006上半年瀋陽市最具影響力樓盤") and the "View Design Gold Award of Residential Property Contribution Award (Shenyang) by Residential Property Promoting Center of Construction Department" ("建設部住宅產業促使中心住宅產業貢獻獎(瀋陽)景觀設計金獎").

Since 2005, demand for housing units in Shenyang has been focused on small and medium residential units so that larger-sized units faced greater downward pressure on selling price. As such, Shenyang COSCO Yihe has placed more emphasis on marketing research and the timely adjustment of marketing strategies. Internally, Shenyang COSCO Yihe will review its sales teams, innovate sales management systems, devise an incentive mechanism to win commitment from sales personnel, streamline marketing activities, ensure systematic management and offer attractive rewards. Shenyang COSCO Yihe will also expand its sales networks by engaging property agents, on top of its direct sales team.

2.1.3 Shanghai Fragrant Garden

The residential portion of Fragrant Garden, the Company's property development in Shanghai, has been substantially sold and handed over. As of 31st December 2006, a total of 1,841 square metres of retail shops and 193 car-parking spaces remained unsold. Based on actual market conditions, the Company will adopt a flexible marketing strategy to encourage small lot owners to switch from leasing to buying the remaining car-parking spaces.

2.2 Hong Kong business

To concentrate resources on the development of its core business of ship trading and supplying services, the Company divested its non-core businesses during the year. On 18th January 2006, Shun Shing Construction & Engineering Company, Limited, a wholly-owned subsidiary of the Company as vendor entered into a sales and purchase agreement with an independent third party for the sale of land with lots numbered 233A, 238, 244, 245, 246, 247 and 258 situated in Kutong, New Territories for a consideration of HK$13,000,000. The transaction was completed on 17th May 2006. On 5th February 2007, a wholly-owned subsidiary, COSCO (B.V.I.) Holdings Limited ("COSCO BVI") and COSCO (H.K.) Property Development Limited ("COSCO HK Property"), a wholly-owned subsidiary of COSCO (Hong Kong) Group Limited, entered into a conditional sale and purchase agreement pursuant to which COSCO BVI agrees to sell all of its equity interest in and shareholder's loan of COSCO Construction to COSCO HK Property for a total consideration of HK$2.00. The transaction was completed in March 2007. The major assets of COSCO Construction and its subsidiaries are 194 car-parking spaces at Broadview Court, Shum Wan.

3. OTHER BUSINESSES

3.1 Disposal of 54% interest in Henan Xinzhongyi Electric Power Co., Ltd.

On 23rd June 2006, New Central International Enterprises Co., Limited ("New Central"), an indirect non wholly-owned subsidiary of the Company, entered into an agreement with 河南省建設投資總公司 (Henan Provincial Investment Company) ("Investment Company") pursuant to which New Central agreed to sell 54% interest in Henan XZY to Investment Company for a consideration of RMB43,800,000. The transaction was completed in October 2006.

3.2 Disposal of 10% interest in International Paint of Shanghai Co., Ltd.

On 13th September 2006, the Company entered into an equity interest transfer agreement with Shanghai Coating Co., Ltd. ("Shanghai Coating"), pursuant to which the Company agreed to sell a 10% interest in International Paint of Shanghai to Shanghai Coating for a consideration of RMB39,000,000. The transaction was completed in November 2006.

3.3 Disposal of Wellbase Holdings Limited

Wellbase Holdings Limited ("Wellbase"), a wholly-owned subsidiary of the Company, owns Block 5 of Kingswell Garden, a hotel-style serviced apartment complex. Affected by the market and property conditions, the occupancy rate of Kingswell Garden as at 31st December 2006 was 56% (2005: 84%). On 29th December 2006, a wholly-owned subsidiary of the Company, Sound Mood Assets Limited (as vendor) ("Sound Mood") and an independent third party entered into an equity interest transfer agreement whereby Sound Mood agreed to sell all its equity interest in and shareholder's loan of Wellbase to the above party for a consideration of HK$31,200,000, subject to adjustment. The transaction was completed in January 2007.

PROSPECTS

COSCO and COSCO (Hong Kong) Group Limited are committed to their continued support of the Company, by injecting ship trading and supplying services related businesses and assets into the listed company. The Company will also take pro-active approach to identify new investment opportunities, capitalise on synergies between various operations, explore markets diligently for both COSCO Group and non-COSCO Group companies and enhance our competitiveness in the ship trading and supplying market. From human resources perspective, the Company plans to strengthen the composition of our management team and staff, improve the company wide mix of personnel, as well as to encourage team spirit in the implementation of the operational strategies and establish training systems to enhance the overall quality and effectiveness of the staff. In terms of our relationship with other stakeholders, the Company will strengthen internal audit and supervision, improve our compliance system, prevent risks in a proactive manner, enhance corporate governance, promote a safety-first mindset throughout the workforce, raise environmental standards, ensure the health of the personnel, maintain a sense of corporate social responsibility, improve relations with investors and continue to build up the brand and corporate image of the Company.