Moving into a bright future

ANNUAL REPORT 2007

International

COSCO International Holdings Limited

Stock Code: 00517

COSCO International will continue to actively identify new investment opportunities, capitalise on synergies among various business units, and explore business opportunities in order to extend our services network and enhance our competitiveness. Our aim is to build a strong reputation and outstanding brand in the shipping services industry and to become a specialised, unique and leading shipping services provider.

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Annual Results Highlights

For the year ended 31st December	2007 HK$'000	2006 HK$'000	Change (%)
Turnover	**2,309,123**	1,866,465	24
Gross profit	**558,447**	473,816	18
EBITDA	**715,236**	360,874	98
Operating profit	**2,135,127**	479,927	345
Profit before income tax	**2,658,867**	677,155	293
Profit attributable to the equity holders	**2,572,623**	616,589	317
Profit attributable to the equity holders (excluding fair value gains and gain on deemed disposal)	**643,021**	332,614	93
Basic earnings per share (HK cents)	**175.95**	42.90	310
Dividends per share (HK cents)	**6.30**	5.30	19

Key Financial Ratios

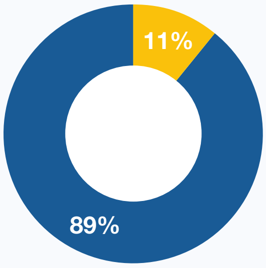
For the year ended 31st December	2007	2006
Gross profit margin	**24.2%**	25.4%
Interest coverage	**60.5 times**	47.3 times
Current ratio	**2.0 times**	1.9 times
Total liabilities/total assets	**17.8%**	33.7%
Total borrowings/total assets	**3.5%**	2.1%

Turnover by Segments

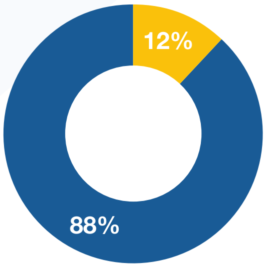
For the year ended 31st December	2007 HK$'000	2006 HK$'000	Change (%)
Shipping services			
Sale of coating products	**1,579,923**	1,227,719	29
Sale of spare parts and navigation equipment	**351,236**	311,765	13
Ship trading and insurance brokerage commission income	**127,112**	96,253	32
Property development and property investment	**250,852**	230,191	9
Other operations	**-**	537	-
Total	**2,309,123**	1,866,465	24

Turnover by Segments

2007



2006

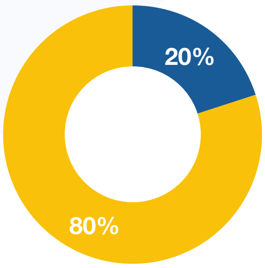


Shipping services

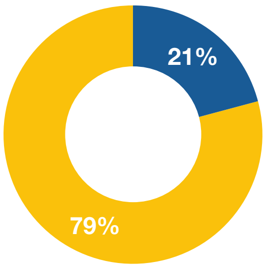
Property development, property investment and other operations

Turnover by Geographical Segments

2007



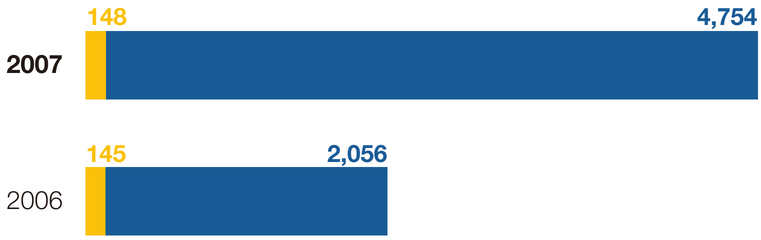
2006



China Mainland

Hong Kong

Shareholders' Funds



Share capital (HK$ million)

Share premium and other reserves (HK$ million)

Highlights of the Year 2007

5 FEBRUARY

A sale and purchase agreement was entered into between COSCO International and COSCO (H.K.) Property Development Limited regarding the disposal of the equity interest and shareholder's loan of COSCO International Construction Limited, a holding company of Shun Shing Construction & Engineering Company, Limited.

(5 FEB)

15 MARCH

A special general meeting of COSCO International was held in Hong Kong regarding the disposal of equity interest and shareholder's loan of COSCO International Construction Limited.

16 MARCH

Mr. Wang Futian was appointed as an Executive Director of COSCO International.

11 APRIL

Press conference and analysts presentation meeting for 2006 annual results were held by COSCO International in Hong Kong.

12 APRIL

Mr. Jiang, Simon X. was appointed as an Independent Non-executive Director of COSCO International.


(13 SEP)

29 MAY

2007 Annual General Meeting of COSCO International was held in Hong Kong. Mr. Chan Cheong Foon, Andrew, an Independent Non-executive Director of COSCO International retired from office at the Annual General Meeting.

13 SEPTEMBER

The coatings plant of COSCO Kansai Paint Chemicals (Zhuhai) Co., Ltd. commenced production at Gaolan Port Economic Zone in Zhuhai. Together with the coatings plants in Tianjin and Shanghai, the total coatings production capacity of COSCO Kansai Companies reached 100,000 tonnes.

19 SEPTEMBER

Press conference and analysts presentation meeting for 2007 interim results were held by COSCO International in Hong Kong.

2 MARCH

COSCO International announced that certain independent third-party investors subscribed for new shares in Shine Wind Development Limited ("Shine Wind"), the holding company of Sino-Ocean Land Limited. As a result, the Company's shareholding interest in Shine Wind was diluted to 30.8% of its enlarged issued share capital.

24 AUGUST

A sale and purchase agreement was entered into between COSCO International and an independent third party regarding the disposal of 51% interest in Shenyang COSCO Yihe Property Development Co., Ltd..

(24 AUG)

28 SEPTEMBER

Sino-Ocean Land Holdings Limited was listed on the main board of The Stock Exchange of Hong Kong Company Limited.


(28 SEP)

4 OCTOBER

A special general meeting of COSCO International was held in Hong Kong regarding the disposal of 51% interest in Shenyang COSCO Yihe Property Development Company Co., Ltd..

11 DECEMBER

COSCO International was awarded the prize of "Hong Kong Outstanding Enterprises Parade 2007" by *Economic Digest*. On the same day, Mr. Lin Libing resigned as an Executive Director of COSCO International.

Directors

Executive Directors

Mr. Wei Jiafu *(Chairman)*
Mr. Liu Guoyuan *(Vice Chairman)*
Mr. Li Jianhong
Mr. Wang Futian
Mr. Jia Lianjun
Mr. Wang Xiaoming
Mr. Liang Yanfeng *(Managing Director)*
Mr. Meng Qinghui
Mr. Chen Xuewen
Mr. Wang Xiaodong
Mr. Lin Wenjin

Independent Non-executive Directors

Mr. Kwong Che Keung, Gordon
Mr. Tsui Yiu Wa, Alec
Mr. Jiang, Simon X.

Company Secretary

Ms. Chiu Shui Suet

Qualified Accountant

Mr. Lo Siu Leung, Tony

Audit Committee

Mr. Kwong Che Keung, Gordon *(Committee Chairman)*
Mr. Tsui Yiu Wa, Alec
Mr. Jiang, Simon X.

Executive Committee

Mr. Liang Yanfeng *(Committee Chairman)*
Mr. Liu Guoyuan
Mr. Wang Xiaoming
Mr. Chen Xuewen
Mr. Wang Xiaodong
Mr. Lin Wenjin

Investment Committee

Mr. Wang Xiaoming *(Committee Chairman)*
Mr. Wang Futian
Mr. Liang Yanfeng
Mr. Meng Qinghui
Mr. Chen Xuewen
Mr. Wang Xiaodong

Nomination Committee

Mr. Tsui Yiu Wa, Alec *(Committee Chairman)*
Mr. Kwong Che Keung, Gordon
Mr. Jiang, Simon X.
Mr. Liang Yanfeng

Remuneration Committee

Mr. Jiang, Simon X. *(Committee Chairman)*
Mr. Kwong Che Keung, Gordon
Mr. Tsui Yiu Wa, Alec
Mr. Liang Yanfeng
Mr. Lin Wenjin

Risk Management Committee

Mr. Liang Yanfeng *(Committee Chairman)*
Mr. Liu Guoyuan
Mr. Wang Xiaoming
Mr. Meng Qinghui
Mr. Chen Xuewen
Mr. Wang Xiaodong

Independent Auditor

PricewaterhouseCoopers

Legal Advisers

Woo Kwan Lee & Lo
Sit, Fung, Kwong & Shum
Conyers Dill & Pearman

Principal Bankers
Bank of China (Hong Kong) Limited
Bank of Communications Company Limited
China Merchants Bank Company Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Mizuho Corporate Bank, Limited

Principal Share Registrar
Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office
Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Listing Information
The Stock Exchange of Hong Kong Limited
Ordinary share (stock code: 00517)

Registered Office
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business
47th Floor, COSCO Tower,
183 Queen's Road Central
Hong Kong

Investor Relations
Telephone : (852) 2809 7888
Facsimile : (852) 8169 0678
Website : www.coscointl.com
E-mail : info@coscointl.com

Financial Calendar
2007 Annual General Meeting: 29th May 2007
Announcement of 2007
Interim Results: 19th September 2007
Announcement of 2007
Annual Results: 28th March 2008
2008 Annual General Meeting: 23rd May 2008

Dividends
2007 Interim Dividend: 1.00 HK cent per share
Proposed 2007 Final Dividend:
3.50 HK cents per share
Proposed 2007 Special Dividend:
1.80 HK cents per share
Total Dividends for 2007:
6.30 HK cents per share

COSCO International Holdings Limited ("COSCO International" or the "Company") and its subsidiaries are principally engaged in the provision of shipping services. Other business operations are property development and property investment.

The shares of COSCO International have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") since February 1992 under the stock code of 00517. The Company has become a subsidiary of COSCO (Hong Kong) Group Limited since July 1997 which in turn is a wholly-owned subsidiary of 中國遠洋運輸（集團）總公司 (China Ocean Shipping (Group) Company) ("COSCO"). COSCO and its subsidiaries ("COSCO Group") is a diversified and multinational conglomerate focusing mainly on shipping, logistics and shipbuilding and ship repairing businesses with a leading position in the world. COSCO Group is engaged in the provision of quality services in shipping, logistics and shipbuilding and ship repairing, as well as other ship related businesses.

COSCO International has positioned shipping services as its core business. The Company has laid a platform of shipping services supplies comprising ship trading agency, marine insurance brokerage, sales of marine equipment, spare parts, communications and navigation equipment as well as production and sales of coatings, which grounded a solid foundation for future growth.

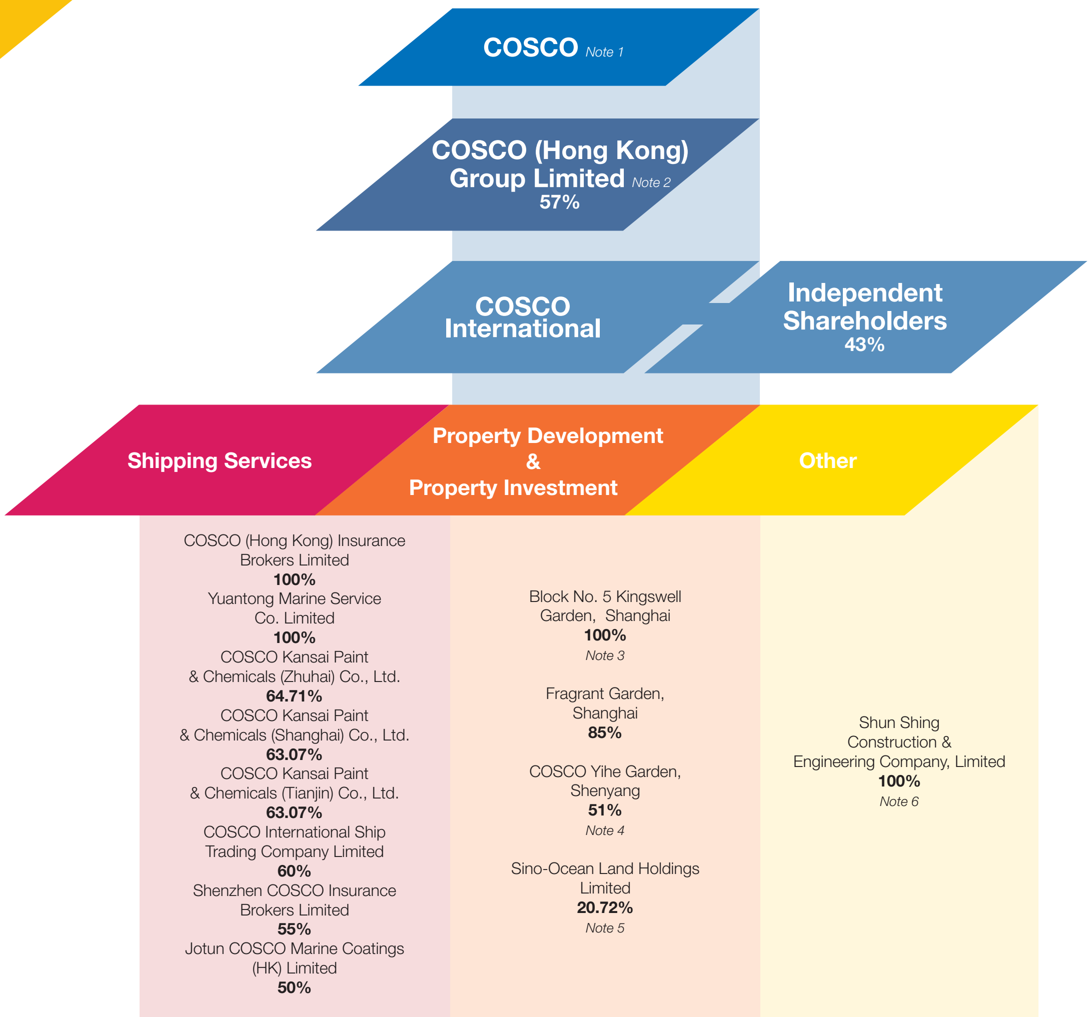
Vision

COSCO International's vision is to provide quality and professional services for fleets in China and worldwide, through the establishment of a comprehensive, safe, reliable and efficient shipping services supply platform. Our aim is to become a specialised, unique and leading shipping services provider.

Mission

By virtue of the support of COSCO Group and leveraging on its substantial resources, COSCO International's mission is to maximise its shareholders' returns. By securing trustworthy and harmonious relationships with its customers, business partners and employees, COSCO International will pursue sustainable growth and maintain its leading position in the shipping services industry.

Corporate Structure



Note 1

COSCO is the ultimate holding company of COSCO International. It operates a fleet of more than 800 modern commercial vessels with a total carrying capacity of over 52,000,000 dead weight tonnages.

Note 2

COSCO International is a subsidiary of COSCO (Hong Kong) Group Limited. COSCO (Hong Kong) Group Limited is an important overseas regional headquarters and conglomerate of COSCO Group which operates and manages a few hundred subsidiaries in Hong Kong and Macau. The main business aspects of COSCO (Hong Kong) Group Limited include shipping services, information technology, property development and property management, etc.

Note 3

On 29th December 2006, a wholly-owned subsidiary of the Company, Sound Mood Assets Limited ("Sound Mood") (as vendor) and an independent third party entered into an equity transfer agreement in relation to the disposal of equity interest and shareholder's loan of Wellbase Holdings Limited ("Wellbase") which owns Block 5 of Kingswell Garden. The transaction was completed in January 2007.

Note 4

On 24th August 2007, a wholly-owned subsidiary of the Company, Top Elegant Investments Limited ("Top Elegant") entered into a conditional sale and purchase agreement with an independent third party in relation to the disposal of equity interest and shareholders' loan of Success Gate Investments Limited ("Success Gate") which owns 51% interest in COSCO Yihe Garden, Shenyang. The transaction was approved by the independent shareholders of the Company on 4th October 2007 and was completed in November 2007.

Note 5

In the first half year of 2007, the Company's 30.8% interest in Shine Wind Development Limited ("Shine Wind") was swapped for 30.8% interest in Sino-Ocean Land Holdings Limited ("SOLHL") which in turn holds 100% interest in Sino-Ocean Land Limited ("SOLL", formerly known as Sino Ocean Real Estate Development Co., Ltd.). On 28th September 2007, SOLHL was listed on the SEHK. The Company currently holds 20.72% interest in SOLHL.

Note 6

On 5th February 2007, a wholly-owned subsidiary of the Company, COSCO (B.V.I.) Holdings Limited ("COSCO BVI") and COSCO (H.K.) Property Development Limited ("COSCO Property") entered into a conditional sale and purchase agreement in relation to the disposal of equity interest and shareholder's loan of COSCO International Construction Limited ("CICL"), a holding company of Shun Shing Construction & Engineering Company, Limited ("SSCE"). The transaction was approved by the independent shareholders of the Company on 15th March 2007 and was completed in March 2007.

Chairman's Statement

It gives me great pleasure to announce the impressive results achieved by the Company and its subsidiaries in 2007. In particular, profit reached its record high as a result of the outstanding performances of the Company's various business segments. Profit attributable to the equity holders during the year recorded HK$2,572,623,000, representing an increase of 317% as compared to HK$616,589,000 in 2006, while total turnover amounted to HK$2,309,123,000, representing an increase of 24%. Basic earnings per share were 175.95 HK cents, representing an increase of 310% when compared with 42.90 HK cents in 2006. In appreciation of shareholders' continued support, the board of directors of the Company proposed a final dividend of 3.50 HK cents and a special dividend of 1.80 HK cents per share for 2007. Together with the interim dividend of 1.00 HK cent per share, the declared dividends for the whole of 2007 was 6.30 HK cents per share, representing a 19% increase compared with that of 2006.

The Company successfully captured business opportunities throughout the year as the global shipping market continued its robust and rapid growth in 2007. The Company was able to quickly meet the rising fleet demands for its shipping services. During the year, the Company established a foundation for continued growth by solidifying its shipping services, the core business of the Company, through gradually divesting its non-core businesses. As a result of active restructuring of businesses, development of new clientele and greater marketing efforts, turnover derived from shipping services businesses accounted for 89% of the Company and its subsidiaries' total turnover for the year.

A prime example of this foundation is SOLHL, a well-branded and highly profitable property developer, whose listing on the SEHK on 28th September 2007 raised a gross proceeds of HK$11.59 billion. As the largest shareholder of SOLHL, the Company's profitability and asset base in 2007 were greatly increased by this successful listing. The Company will maintain its interest in SOLHL and remains committed towards further development of the shipping services businesses as its core business.

Outlook Prospects

In view of the subprime crisis in the United States, the escalating oil prices and increasing inflationary pressures worldwide, the International Monetary Fund has forecast that global economic growth will slow down to approximately 4.1% in 2008. Despite the grim picture in the United States, China and other Asian countries will maintain their economic growth momentum, while the global trading volume in 2008 is expected to grow at a rate similar to that of 2007. In particular, the coal shipping market worldwide will benefit from China's transformation into a coal importing country as a result of the decision of the government of The People's Republic of China (the "PRC") to cancel the tariff on coal imports as well as to reduce the tax rebate on coal exports. Moreover, China's robust demand for raw materials including ores, as well as the steadily increasing number of European and Asian shipping routes will provide growth momentum for both the shipping and shipbuilding industries, which will further benefit the growth in demand for shipping services.

COSCO and COSCO (Hong Kong) Group Limited will remain committed as in the past, to support the Company through the injection of shipping related businesses and assets. The Company will also actively identify new investment opportunities in order to pursue high and prudent growth. The Company has five development initiatives in 2008: expanding our business steadily, creating a more distinctive image as a shipping services provider, strengthening management, extending the network, as well as expanding the business through synergy and consolidation among both COSCO Group and non-COSCO Group entities. Through these initiatives, the Company will further enhance its competitiveness in the shipping services market and thereby achieve steady growth in turnover, profit and market capitalisation.

During the year, the Company made great strides in its business performance and corporate governance during the year and was awarded for the first time the prize of "Hong Kong Outstanding Enterprise Parade 2007" by *Economic Digest*. In future, the Company will continue to implement measures to further strengthen its corporate governance and overall risk management.

As COSCO, the Company's ultimate controlling holding company, has become a member of the United Nations Global Compact and World Business Council for Sustainable Development since 2006, the Company took a number of measures during the year to further improve its social responsibility practices in the areas of staff ethics, environmental protection and occupational safety. Meanwhile, the Company actively lowered the consumption of raw materials and other resources during coatings production through lean management, and further enhanced the safety management system with the help of regular emergency drills and production safety conferences among its subsidiaries.

I would like to take this opportunity to express my sincere gratitude to the shareholders and business partners for their continued support, to all members of the Board and the employees for their diligent services to the Company.

WEI Jiafu
Chairman
Hong Kong, 28th March 2008

Vice Chairman's Statement

In 2007, the Company and its subsidiaries succeeded in further solidifying their shipping services, the core business, in line with the corporate strategy. This was achieved through prudent business consolidation during the year that involved the gradual disposal of non-core businesses. Meanwhile, the success of the listing of SOLHL on the SEHK fully reflected the investment value of the Company's shareholding in this entity. The Company also won recognition from market for its utmost dedication work towards improving safety, enhancing efficiency and strengthening management during the year.

Core Business Results

The core business of the Company performed admirably during the year, with turnover from the shipping services businesses increased by 26%. This considerable rise resulted from properly seizing business opportunities in every sector. Taking advantage of the thriving shipbuilding industry, the Company's ship trading agency business achieved the highest record in trading of new build vessels transactions in 2007. Turnover of the Company's marine insurance brokerage business also jumped by 24% from 2006, which was attributable to the strengthening of its foothold in China Mainland through the establishment of a brokerage company in Shenzhen. Benefited from the blooming shipbuilding industry as well as the rising demand for spare parts and communications and navigation equipment, turnover in this sector rose by 13% from 2006. The Company's coatings business is now widely recognised by customers and its turnover climbed to HK$1,579,923,000, a 29% growth from 2006.

With regard to core business expansion, the formation of 中遠關西塗料化工（珠海）有限公司 (COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd) ("COSCO Kansai (Zhuhai)", formerly known as 珠海中遠關西塗料化工有限公司 (Zhuhai COSCO Kansai Paint & Chemicals Co., Ltd.)) and the commencement of production of the new plant in Zhuhai since the second half of 2007 have further expanded the Company's coatings business territory and formed a strategic tripod covering the Pearl River Delta, Yangtze River Delta and Pan-Bohai Rim Area.

Property Investment Business

The successful listing of SOLHL, a well-branded property developer, on the SEHK in September 2007 enabled the Company, the largest shareholder of SOLHL, to reap gains in terms of both profitability and asset base, and the shareholding of SOLHL is expected to contribute a steady inflow of profits. With the exception of this shareholding, the Company will eventually cease all property-related businesses so as to fully focus on its core business. In this endeavour, the disposal of the Company's businesses in this sector either has already been or is currently in the process of being completed.

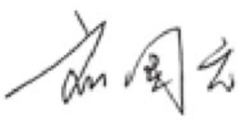
Divestment of Non-core Businesses

During the year, the Company disposed of interests in Wellbase which owned the Kingswell Garden in Shanghai, CICL which held 100% of SSCE, and Success Gate which held 51% interest in Shenyang COSCO Yihe Property Development Co., Ltd. ("Shenyang COSCO Yihe"). The divestment of these non-core businesses enabled the Company to focus more sharply on the development of its core shipping services businesses.

Corporate Governance and Investor Relations

The Company is cognisant of the fact that good corporate governance is inherent towards its continued success. During the year, the Company maintained strict adherence to its internal rules and regulations in accordance with the direction of the Board. In addition to closely monitoring each and every investment and prudently managing capital and exchange risk, the Company further enhanced the internal audit mechanism for itself and its subsidiaries in order to ensure all business operations were in compliance with the law. At the same time, the management of the Company worked tirelessly during the year to further improve the relationship with investors. Investors, fund managers and analysts have a clearer understanding of the Company because the Company continued to utilise a number of channels to disclose its business operations and development strategies in a regularly and timely manner in 2007.

Looking forward, COSCO and COSCO (Hong Kong) Group Limited, the controlling shareholders of the Company, will remain highly committed to support the Company. To counter market pressures while steadfastly enlarging the core business, the Company will speed up business co-operation with COSCO Group to explore synergistic effects on shipping services-related projects and leverage the different cycles of its businesses to lower the risks caused by fluctuating shipping markets. Moreover, the Company aims to create new sources of income by further enlarging the customer base and exploring new business opportunities while strengthening cost control measures on production and management to enhance management efficiency and maximise returns. Lastly, the Company will continue to strengthen corporate governance and social responsibility, as well as measures relating to production safety, environmental protection and health, in its bid to safeguard the rights of its stakeholders and to become a specialised, unique and leading shipping services provider and hence the industry's most influential player.



LIU Guoyuan
Vice Chairman
Hong Kong, 28th March 2008

Overall Results Analysis

The Company and its subsidiaries' profit attributable to the equity holders was HK$2,572,623,000, representing an increase of 317% as compared to HK$616,589,000 in 2006.

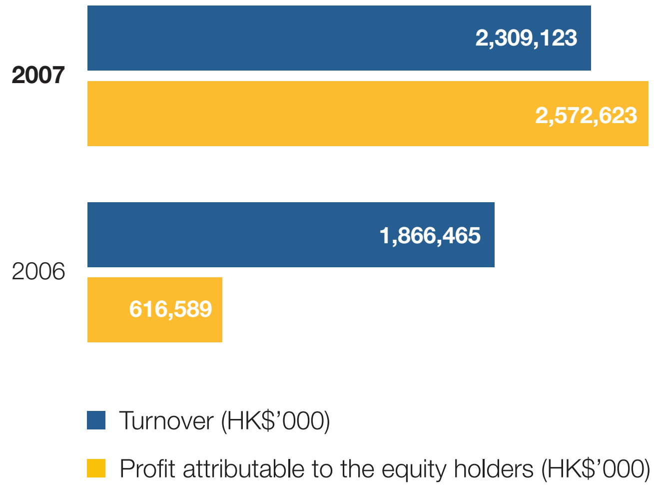
The significant increase in the Company and its subsidiaries' profit attributable to the equity holders was due to a substantial gain on deemed disposal of partial interest in SOLHL of HK$1,925,468,000 (2006: a deemed disposal gain of HK$279,043,000 was recognised as a result of subscription of new shares in Shine Wind, a former jointly controlled entity of the Company, by certain independent third party investors) arising from the initial public offering of its shares ("IPO") and listing on the Main Board of the SEHK. Excluding this factor and the fair value gains on investment properties of HK$4,134,000 (2006: HK$4,932,000), profit attributable to the equity holders reached HK$643,021,000, still representing an encouraging increase of 93% as compared to HK$332,614,000 in 2006 on the same basis.

During the year, the Company successfully divested its non-core investments, namely: entire interests in CICL and in Shanghai Kingswell Garden and the 51% interests in Shenyang COSCO Yihe Garden pursuant to the Company's strategic plan to optimise its capital structure and to focus on the development and expansion of shipping services as its core business.

On earnings per share performance, basic earnings per share increased from 42.90 HK cents in 2006 to 175.95 HK cents in 2007. The basic earnings per share from continuing operations rose from 41.10 HK cents in 2006 to 176.14 HK cents in 2007 while the basic earnings per share from discontinued operations fell from 1.80 HK cents in 2006 to a loss of 0.19 HK cent in 2007.

Financial Analysis

Overview of Financial Results



Turnover

Aggregate turnover for 2007 reached HK$2,309,123,000, representing a 24% increase from HK$1,866,465,000 in 2006. Turnover derived from the shipping services was HK$2,058,271,000 in 2007 (2006: HK$1,635,737,000), representing 89% (2006: 88%) of the total turnover. During the year, the Company and its subsidiaries' core business in shipping services recorded considerable growth in turnover of 26% and such growth was mainly attributable to the continuous robust growth in the import and export trade of the PRC, thriving worldwide shipping markets as well as management's ability to reap from these market opportunities. Despite the divestment of the Company's interests in Shenyang COSCO Yihe Garden and Shanghai Kingswell Garden during the year, the segment of property development and property investment still recorded a 9% growth in turnover.

Gross Profit and Gross Profit Margins

In 2007, gross profit of the Company and its subsidiaries was HK$558,447,000, representing an increase of 18% as compared to HK$473,816,000 in 2006. Despite the gradual rising cost pressure in Hong Kong and China Mainland, the Company and its subsidiaries had been able to maintain a stable gross profit margin as compared to that of 2006 through enhancing its overall operational efficiency.

Gain on Deemed Disposal of Partial Interest in a Jointly Controlled Entity

As a result of the IPO and listing of SOLHL on the SEHK in September 2007 which diluted the Company's shareholding percentage in SOLHL from 30.8% to 20.44%, the Company recorded a substantial gain on deemed disposal of partial interest in SOLHL of HK$1,925,468,000. In 2006, a deemed disposal gain of partial interest in a jointly controlled entity amounting to HK$279,043,000 was recognised as a result of subscription of new shares in Shine Wind by certain independent third party investors.

Other Income

In 2007, the Company and its subsidiaries recorded other income of HK$54,020,000, representing a decrease of 11% as compared to HK$60,826,000 in 2006. Other income included gain on disposal of available-for-sale financial assets of HK$31,139,000, fair value gains on investment properties of HK$4,134,000 and gain on the disposal of 100% interests in Success Gate (which held 51% interest in Shenyang COSCO Yihe) of HK$2,887,000.

Selling, Administrative, General and Other Expenses

During the year, selling, administrative, general and other expenses amounted to HK$402,808,000 (2006: HK$333,758,000). Increases were mainly attributable to share option expenses of HK$17,419,000 recognised in relation to the employee share options granted in March 2007, additional administrative expenses of HK$9,781,000 incurred for the establishment and operation of the newly commenced coatings plant in Zhuhai, the PRC. Excluding the above, selling, administrative, general and other expenses increased by 13% as compared to 2006 and was mainly driven by the increased turnover.

Finance Income – Net

The Company and its subsidiaries had sufficient cash reserve and had committed to maximise capital returns through cautious investment approach. During the year, interest income was HK$35,762,000, slightly down by 2% as compared to HK$36,572,000 in 2006. During the year, the Company and its subsidiaries recorded finance costs of HK$11,823,000, representing an increase of 181% as compared to HK$4,211,000 in 2006. The increase in finance costs mainly reflected an increase in the level of borrowing rates for subsidiaries and increase in short-term borrowings caused by the expanded business volume.

Share of Profits of an Associated Company and Jointly Controlled Entities

Net profit contributions from SOLHL, and other jointly controlled entities amounted to HK$472,781,000 and HK$27,020,000 respectively, representing increases of 210% and 120% respectively as compared to 2006. Such significant increases were mainly attributable to the fast growing profit contributions from SOLHL and Jotun COSCO Marine Coatings (HK) Limited ("Jotun COSCO HK").

Income Tax Expense

Aggregate income tax expense decreased to HK$23,772,000 for the year from the level of HK$39,942,000 in 2006. Such decrease was mainly attributed to deferred tax credits recognised in response to the increase in deferred tax assets which were generated by the increase in corporate income tax rate for foreign invested enterprises in China Mainland and timing differences arising from certain expenses accrued by our PRC subsidiaries.

Profit Attributable to the Equity Holders

Profit attributable to the equity holders amounted to HK$2,572,623,000, representing an increase of 317% as compared to HK$616,589,000 in 2006. Included therein was a loss of HK$2,827,000 (2006: a gain of HK$25,840,000) from discontinued operations.

Segment Results and Financial Results at a Glance

For the years ended 31st December	**2007 HK$'000**	2006 HK$'000	Change HK$'000	%	Remarks
Shipping services	**212,895**	168,472	44,423	26	Represented mainly substantial growth in commission income from the ship trading agency and insurance brokerage services.
Property development and property investment	**14,877**	17,361	(2,484)	(14)	Decreased mainly due to the disposals of Company's interests in Shenyang COSCO Yihe Garden and Shanghai Kingswell Garden.
Other operations	**33,665**	48,864	(15,199)	(31)	Represented mainly the gains in relation to disposal of available-for-sale financial assets during the year.
Gain on deemed disposal of partial interest in a jointly controlled entity	**1,925,468**	279,043	1,646,425	590	Represented gain on deemed disposal of partial interest in a jointly controlled entity upon SOLHL's listing and IPO on the SEHK.
Unallocated corporate expenses, net of income	**(51,778)**	(33,813)	(17,965)	(53)	Increased mainly due to the rise in staff cost, rental expenses and other operating expenses.
Operating profit	**2,135,127**	479,927	1,655,200	345	
Finance income – net	**23,939**	32,361	(8,422)	(26)	Finance income was comparable to that in 2006. Finance costs increased due to the increase in the level of borrowings caused by the expanded business volume and rise in borrowing rates for our subsidiaries during the year.
Share of profits of an associated company and jointly controlled entities	**499,801**	164,867	334,934	203	Increased mainly due to the fast growing profit contributions from SOLHL and Jotun COSCO HK.
Profit before income tax	**2,658,867**	677,155	1,981,712	293	
Income tax expense	**(23,772)**	(39,942)	16,170	40	Decreased mainly due to deferred tax credits recognised in response to the increase in deferred tax assets which were generated by the increase in corporate income tax rate for foreign invested enterprises in China Mainland and timing differences arising from certain expenses accrued by our PRC subsidiaries.
Profit from continuing operations	**2,635,095**	637,213	1,997,882	314	

Assets and Liabilities of the Company and its Subsidiaries at a Glance

As at 31 December	2007 HK$'000	2006 HK$'000	Change HK$'000	%	Remarks
Investment properties	**10,717**	6,564	4,153	63	Increased due to revaluation gain on investment properties.
Intangible asset	**79,616**	79,616	-	-	
Property, plant and equipment	**105,436**	80,544	24,892	31	Mainly attributed to construction of a new coatings plant in Zhuhai.
Prepaid premium for land leases	**16,421**	16,609	(188)	(1)	
Jointly controlled entities	**93,624**	1,137,946	(1,044,322)	(92)	Decreased mainly due to the pre-listing reorganisation of SOLHL under which the Company's shareholdings in Shine Wind, a former jointly controlled entity, was converted into shareholdings in SOLHL. Upon the listing and IPO of SOLHL on SEHK, it became an associated company of the Company.
Associated company	**3,628,052**	-	3,628,052	-	Increased due to: (1) the pre-listing reorganisation of SOLHL under which the Company's shareholdings in Shine Wind, former jointly controlled entity, was converted into shareholdings in SOLHL, an associated company; (2) the Company's share of SOLHL's underlying net asset value increased substantially following the listing and IPO of SOLHL on the SEHK.
Deferred income tax assets	**26,235**	-	26,235	-	Represented the deferred tax impact of the increase in corporate income tax rate for foreign invested enterprises in China Mainland and timing differences arising on certain expenses accrued by our PRC subsidiaries.
Available-for-sale financial assets	**88,952**	57,617	31,335	54	Mainly attributed to the increase in fair value of listed share investments.
Current assets	**2,176,254**	2,168,275	7,979	-	
Assets held for sale	**-**	145,854	(145,854)	-	Assets of two subsidiaries were reclassified as a disposal group held for sale and presented separately in 2006. Disposals of these two subsidiaries were completed during the year.
Total assets	**6,225,307**	3,693,025	2,532,282	69	
Current and other liabilities	**889,228**	1,052,100	(162,872)	(15)	Mainly attributed to decrease in accruals and other payables.
Borrowings	**216,816**	78,521	138,295	176	Increased due to the expanded business volume during the year.
Liabilities directly associated with assets held for sale	**-**	114,404	(114,404)	-	Assets of two subsidiaries were reclassified as a disposal group held for sale and presented separately. Disposals of these two subsidiaries have been completed during the year.
Minority interests	**217,517**	246,700	(29,183)	(12)	
Total liabilities and minority interests	**1,323,561**	1,491,725	(168,164)	(11)	
Net assets	**4,901,746**	2,201,300	2,700,446	123	

Financial Position

Cash Flows

In 2007, the Company and its subsidiaries utilised bank and other loans of HK$216,816,000 (2006: HK$78,521,000) and repaid loans of HK$78,521,000 (2006: HK$106,660,000). Proceeds from disposals of available-for-sale financial asset and equity interests in subsidiaries and issuance of new shares resulting from the exercise of options amounted to HK$131,345,000 (2006: HK$78,724,000) and HK$23,585,000 (2006: HK$26,545,000) respectively.

Financing and Standby Facilities

As of 31st December 2007, cash in hand and committed yet unutilised standby facilities of the Company and its subsidiaries were HK$1,031,344,000 (2006: HK$862,187,000) and HK$258,208,000 (2006: HK$148,781,000) respectively. Cash and cash equivalents held by the Company and its subsidiaries accounted for 47% (2006: 37%) of the current assets of the Company and its subsidiaries.

The Company and its subsidiaries continued to monitor and adjust its debt portfolio from time to time in light of market conditions, the objective of which is to reduce potential interest rate risk exposure, improve debt structure and lower interest expenses of the Company and its subsidiaries.

Assets and Liabilities

As of 31st December 2007, total assets amounted to HK$6,225,307,000 (2006: HK$3,693,025,000). Total liabilities amounted to HK$1,106,044,000 (2006: HK$1,245,025,000). Gearing ratio, which represents total borrowings over total assets, was 3.5% (2006: 2.1%). For major changes in assets and liabilities taken place during the year, please refer to the table on page 17.

Net assets value was HK$4,901,746,000 (2006: HK$2,201,300,000). The increase mainly represented retained profit for the year, increased share of reserves of jointly controlled entities and an associated company, exchange differences, 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$3.32 (2006: HK$1.52), up 118% over the end of 2006.

The Company and its subsidiaries made net drawdown of bank loans and other loans amounting to HK$138,295,000 (2006: net repayment of bank loans and other loans amounting to HK$28,139,000). As of 31st December 2007, total banking facilities available to the Company and its subsidiaries amounted to HK$475,024,000 (2006: HK$270,302,000), of which HK$216,816,000 (2006: HK$121,521,000) was utilised. As of 31st December 2007,

Debt Analysis

	31st December 2007		31st December 2006	
	HK$'000	**%**	HK$'000	%
Classified by maturity:				
– repayable within the first year	**216,816**	**100**	78,521	100
Classified by type of loan:				
– unsecured	**216,816**	**100**	78,521	100
Classified by currency:				
– Renminbi	**69,384**	**32**	15,931	20
– United States dollars	**147,432**	**68**	62,590	80
	216,816	**100**	78,521	100

the Company and its subsidiaries did not pledge any assets to banks as security for bank credit facilities (2006: nil), please refer to the table on page 18. In addition, the Company and its subsidiaries had restricted bank deposits of HK$8,006,000 (2006: HK$2,191,000).

The Company and its subsidiaries, therefore, have sufficient financial resources to meet the capital commitments and working capital requirements for future development of its existing business portfolio.

Treasury Policy

The Company and its subsidiaries managed its foreign exchange exposure by conducting borrowings as far as possible in currencies that match functional currencies of the Company and its subsidiaries used for transacting major cash receipts and underlying assets of the Company and its subsidiaries.

At 31st December 2007, borrowings of the Company and its subsidiaries carried interest at rates calculated with reference to the London Interbank Offered Rate and the benchmark interest rates announced by the People's Bank of China. The Company and its subsidiaries will consider using forward foreign exchange contracts to hedge its foreign currency exposure should the need arise.

Major Customers and Suppliers

For the year ended 31st December 2007, aggregate sales to the five largest customers accounted for less than 30% (2006: less than 30%) of total turnover of the Company and its subsidiaries, while aggregate purchases from the five largest suppliers accounted for less than 30% (2006: less than 30%) of the total cost of sales of the Company and its subsidiaries.

Employees

As of 31st December 2007, excluding an associated company and jointly controlled entities, the Company and its subsidiaries had 610 (2006: 573) employees, of which 104 (2006: 110) are Hong Kong employees. The increase in the total number of employees was mainly attributed to the continuous development of the production and sales of the coatings business by COSCO Kansai (Zhuhai) and to the commencement of production of the new coatings plant in Zhuhai.

For the year ended 31st December 2007, total staff cost, including directors' emoluments and provident funds, was HK$132,841,000 (2006: HK$92,991,000). Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary, a year-end discretionary bonus, which are 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 certain 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 certain 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, certain 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 certain employees of the Company, its subsidiaries and jointly controlled entities 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 in 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 has been continuously implementing its strategic development initiative by positioning its core business in shipping services. The Company has divested its non-core businesses and speeded up the pace in restructuring its businesses. During the year, the Company disposed of its 100% interests in Wellbase which held 100% interests in Shanghai Kingswell Garden, its 100% interests in CICL which held 100% interests in SSCE and its 100% interests in Success Gate which held 51% interests in Shenyang COSCO Yihe. The divestments of non-core businesses enabled the Company to further focus its operations, resources and working capital on its core business. The formation of COSCO Kansai (Zhuhai) and the commencement of production of the new coatings plant in the second half of 2007 further strengthened the competitiveness of the Company's coatings business. The commencement of operation of 深圳中遠保險經紀有限公司 (Shenzhen COSCO Insurance Brokers Limited) ("SZ COSCO Insurance Brokers") provided a platform for the Company to develop insurance brokerage business in China Mainland. The acquisition of 中遠（北京）海上電子設備有限公司 (COSCO (Beijing) Marine Electronic Equipment Limited) ("COSCO (Beijing) Marine Electronic") in late 2007 further reinforced the business of supplying communications and navigation equipment and marine equipment in China Mainland. All of the above mentioned events have further consolidated the Company's positioning in shipping services and facilitated stable growth of the Company. In addition, the successful listing of shares of SOLHL on the SEHK on 28th September 2007 contributed significantly in terms of profit and asset value to the Company.

Core Business

1. Shipping Services

In 2007, turnover and profits from shipping services of the Company and its subsidiaries showed a steady growth. For the year ended 31st December 2007, turnover of shipping services was HK$2,058,271,000, representing an increase of 26% as compared with HK$1,635,737,000 in 2006. This accounted for 89% (2006: 88%) of the total turnover of the Company and its subsidiaries. Segment result was HK$212,895,000, representing an increase of 26% compared with HK$168,472,000 in 2006.

In 2007, the global economy recorded a steady growth. China's economy has continued to expand during the year, with robust growth in imports and exports trade served to boost the development of shipping markets. According to statistics from General Administration of Customs of the PRC, China imports and exports trade in 2007 amounted to US$2,173.8 billion (2006: US$1,760.6 billion), representing an increase of 23.5% as compared with 2006. Aggregated exports increased by 25.7% and aggregated imports increased by 20.8% as compared with 2006. Trade surplus amounted to US$262.2 billion, up 47.8% over 2006. In addition, according to the statistics from Clarkson Research Services Limited, the PRC ranks as one of the three largest shipbuilding countries in the world. China achieved record high in new build orders and contracts on hand during 2007. The thriving shipping market and record high new build ship orders, together with the demand for shipping services of the fleet of COSCO Group, provided many business opportunities for the Company and its subsidiaries.

Shipping Services Supply Platform

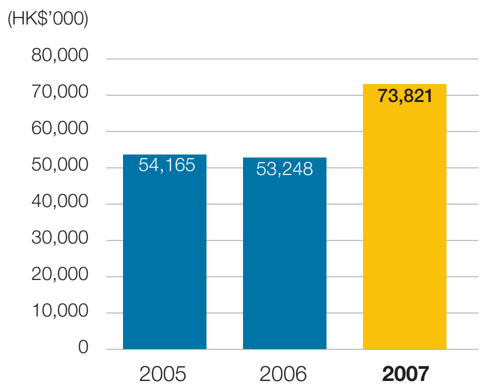
Ship Trading Agency Services

Marine Insurance Brokerage Services

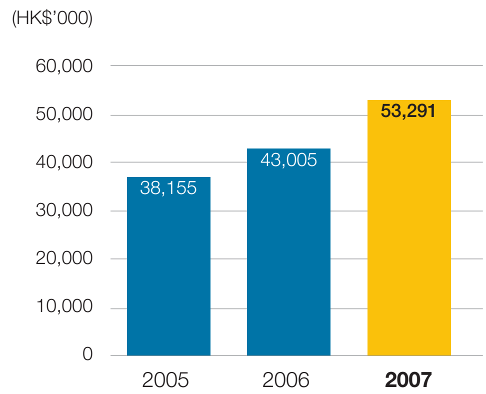
Sales of Marine Equipment, Spare Parts, Communications and Navigation Equipment

Production and Sales of Container, Marine and Industrial Heavy–duty Anti–corrosion Coatings

Turnover from Ship Trading Agency Services



Turnover from Marine Insurance Brokerage Services



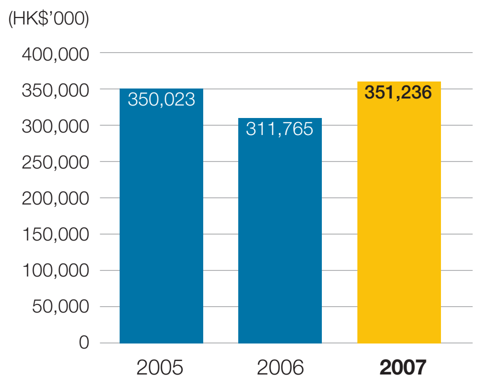
COSCO International Ship Trading Company Limited ("COSCO Ship Trading"), a non wholly-owned subsidiary of the Company, mainly provides exclusive agency services relating to shipbuilding, ship trading and chartering for COSCO Group fleet, as well as relevant agency services to non-COSCO Group shipping companies.

During the year, COSCO Ship Trading's turnover marked a significant increase to HK$73,821,000 (2006: HK$53,248,000), representing an increase of 39% when compared with that of 2006. In relation to the turnover for 2005 to 2007 from COSCO Ship Trading, please refer to the above chart.

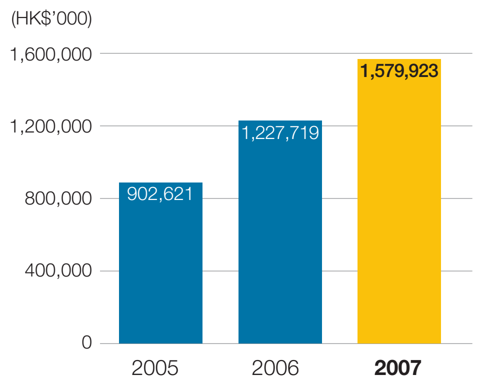
COSCO (Hong Kong) Insurance Brokers Limited ("HK COSCO Insurance Brokers"), a wholly-owned subsidiary of the Company, mainly operates intermediary businesses in relation to marine insurance and shipowner's liability insurance. In addition, SZ COSCO Insurance Brokers, a non wholly-owned subsidiary of the Company, is also engaged in the provision of insurance brokerage services in China Mainland.

During the year, the turnover contributed by the marine insurance brokerage services of HK COSCO Insurance Brokers and SZ COSCO Insurance Brokers totaled HK$53,291,000 (2006: HK$43,005,000), representing an increase of 24% compared with that of 2006. In relation to the turnover for 2005 to 2007 contributed by the marine insurance brokerage services, please refer to the above chart.

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



Turnover from Production and Sales of Coatings



Yuantong Marine Service Co. Limited ("Yuantong"), a wholly-owned subsidiary of the Company, is principally engaged in the sales 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 port and land users.

Yuantong's turnover during the year was HK$351,236,000, an increase of 13% as compared with HK$311,765,000 in 2006. In relation to the turnover for 2005 to 2007 from Yuantong, please refer to the above chart.

COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd. ("COSCO Kansai (Tianjin)", formerly known as Tianjin COSCO Kansai Paint & Chemicals Co., Ltd.), COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd. ("COSCO Kansai (Shanghai)", formerly known as Shanghai COSCO Kansai Paint & Chemicals Co., Ltd.) and COSCO Kansai (Zhuhai), (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 HK is mainly responsible for production and sales of marine coatings.

During the year, the production and sales of coatings segment recorded a turnover of HK$1,579,923,000 (2006: HK$1,227,719,000), representing an increase of 29% as compared with that of 2006, which was attributable to the increase in sales volume during the year. In relation to the turnover for 2005 to 2007 contributed by the production and sales of coatings, please refer to the above chart.

1.1 Ship Trading Agency Services

COSCO Ship Trading, a non wholly-owned subsidiary of the Company, mainly provides exclusive agency services relating for shipbuilding, ship trading and chartering for COSCO Group fleet, as well as relevant agency services for non-COSCO Group shipping companies. COSCO Ship Trading mainly derives its turnover from agency commissions. In the case of new vessels, COSCO Ship Trading is paid commissions by shipbuilders according to shipbuilding progress as stipulated in the contracts. As for second-hand vessels, trading commission is paid according to the contracts after the vendors have delivered vessels to buyers.

During the year, by taking full advantage of opportunities arising from thriving shipbuilding industry and the support of COSCO, COSCO Ship Trading achieved the highest record in transactions consummated for sale and purchase of new vessels. COSCO Ship Trading consummated transactions for the sale and purchase of 107 vessels (2006: 84 vessels), amounting to a total of 6,670,000 dead weight tonnages (2006: 6,140,000 dead weight tonnages). COSCO Ship Trading has been well positioned to secure part of its ship trading commission income for the year 2007 through the contracts executed during the preceding years. As a result, COSCO Ship Trading's turnover marked a significant increase to HK$73,821,000 (2006: HK$53,248,000), representing an increase of 39% year-on-year.

The shipping industry has experienced a revival in recent years. Number of orders for new vessels increased and bookings for large-scale shipbuilders were scheduled beyond 2011. Moreover, the costs and prices of new vessels remain at high levels because of stringent new international regulations on vessel safety performance, soaring cost of shipbuilding materials and marine equipment, as well as volatile currency rates in foreign exchange markets. The shipbuilding market is expected to continue to be led by sellers in 2008, with vessel prices in general remaining high. Despite the slow down of economy in the United States would pose negative impacts on bankers and financial institutions, which may affect the capital financing for shipbuilding industry, it will have little impact on those new vessels scheduled to be delivered in 2008 and thus the total shipping capacity is expected to increase in 2008. The characteristic of long queue for new ships delivery has prompted an increase in demand for second-hand vessels, which has resulted vessel prices remaining high.

In response to this market environment, COSCO Ship Trading will capitalise on the business opportunities driven by the expansion of COSCO Group's fleet and ship buying and building plans in each COSCO Group shipping company. In addition, COSCO Ship Trading will continue to explore the provision of ship trading agency services for non-COSCO Group customers in pursuing higher operating efficiency.

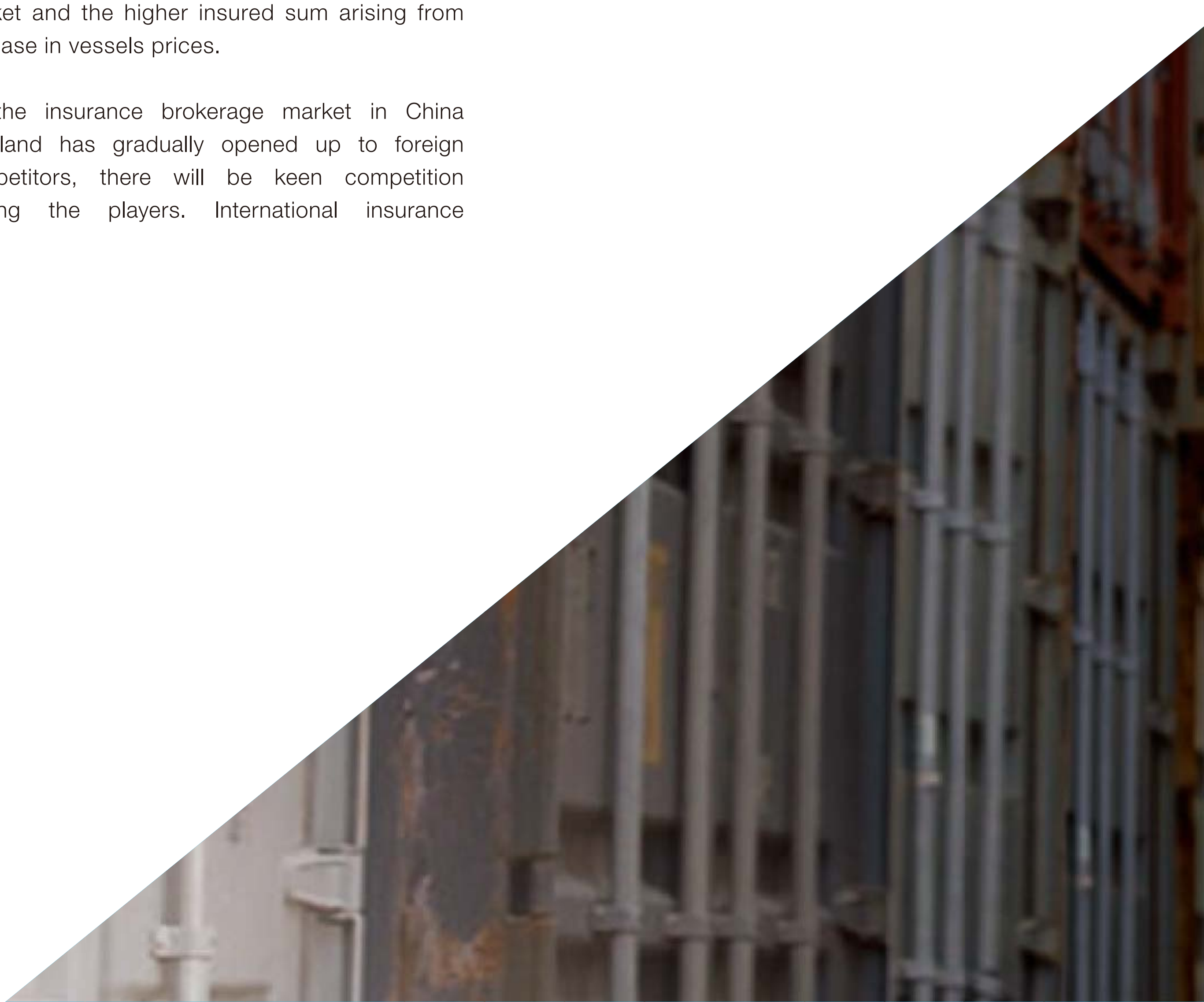
COSCO Ship Trading achieved the record high in relation to the transactions consummated for sale and purchase of new vessels. It consummated transactions for the sale and purchase of new build and second-hand ships amounting to 107 vessels, equivalent to a total of 6,670,000 dead weight tonnages.

Ship Trading Agency Services

1.2 Marine Insurance Brokerage Services

HK COSCO Insurance Brokers, a wholly-owned subsidiary of the Company, has Lloyd's 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 is engaged in the provision of insurance brokerage services in China Mainland. During the year, the turnover contributed by the marine insurance brokerage services of HK COSCO Insurance Brokers and SZ COSCO Insurance Brokers (collectively called "COSCO Insurance Brokers") totaled HK$53,291,000 (2006: HK$43,005,000), representing an increase of 24% compared with that of 2006. This is mainly attributed to the growth trend of the shipping market and the higher insured sum arising from increase in vessels prices.

As the insurance brokerage market in China Mainland has gradually opened up to foreign competitors, there will be keen competition among the players. International insurance companies have been establishing their branches in China Mainland and certain large-scale shipping companies also established their own insurance brokerage businesses. In view of keen competition, COSCO Insurance Brokers will actively develop the hull mutual insurance for registered vessels in China Mainland and expand their marine insurance brokerage services by taking the opportunities arising from COSCO Group fleet in 2008. In addition to providing existing insurance brokerage services, COSCO Insurance Brokers also explore new brokerage services in order to strengthen the market competitiveness. Furthermore, COSCO Insurance Brokers will put more efforts in cultivating insurance brokerage businesses from prospective local shipping companies.



Turnover from the marine insurance brokerage services contributed by COSCO Insurance Brokers totaled HK$53,291,000, representing an increase of 24% as compared to 2006.

Marine Insurance Brokerage Services

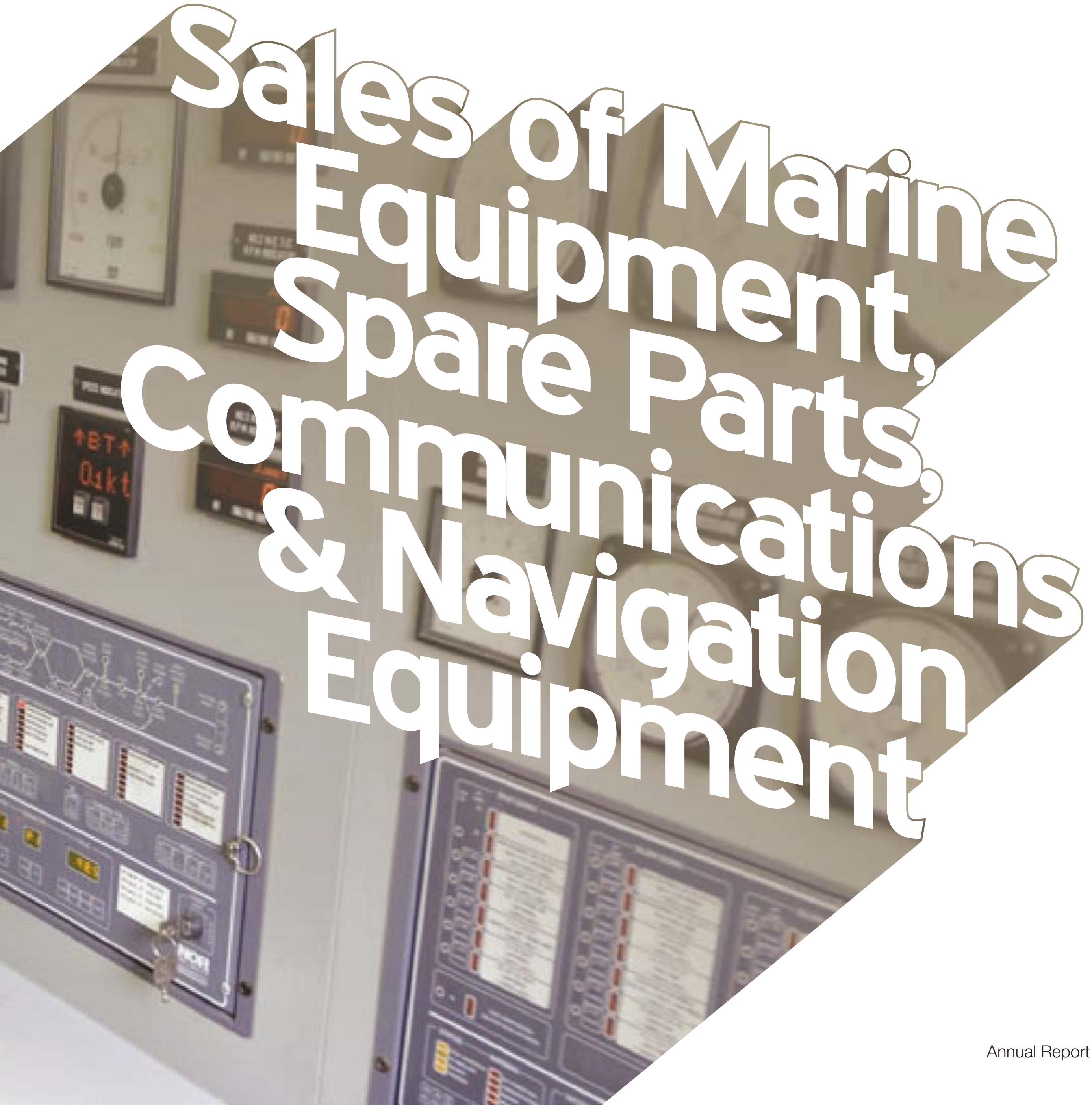
1.3 Sales of Marine Equipment, Spare Parts, Communications and Navigation Equipment

Yuantong, a wholly-owned subsidiary of the Company, is principally engaged in the sales 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 ports and land users. Yuantong's turnover during the year was HK$351,236,000, an increase of 13% as compared with HK$311,765,000 in 2006. This is mainly attributable to the increase in the new vessels business and increased orders for spare parts, communications and navigation equipment.

Although rapid development of the shipbuilding industry in China Mainland has boosted demand for marine ancillary equipment, keen competition among the distributors arises. In addition, certain large-scale shipping companies have commenced to establish their own internal distribution department (including the supply of marine equipment) which intensify fierce competition in the market. Yuantong will forge closer relations with suppliers, and in particular will establish alliances with large suppliers so as to enhance communications, networks, promotional activities and delivery. Yuantong will also strengthen communications with customers, raise operational efficiency, improve order tracking and responsiveness to customer's call for supporting services and information services. In addition, Yuantong will seek to increase product sales volumes and enhance profitability by acquisitions, alliances, co-operation agreements and establishing and managing cost-efficient sales networks. Following the acquisition of COSCO (Beijing) Marine Electronic by Yuantong in late 2007, Yuantong will integrate its businesses and gradually expand its network.

Due to the increase in the new vessels business and increased orders for spare parts, communications and navigation equipment, turnover from Yuantong amounted to HK$351,236,000, representing a 13% increase.

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



1.4 Production and Sales of Coatings

COSCO Kansai Companies are mainly engaged in the production and sales of container coatings and industrial heavy-duty anti-corrosion coatings. Jotun COSCO HK, a 50/50 joint venture owned by the Company and Norwegian international coatings manufacturer Jotun A/S, is mainly responsible for production and sales of marine coatings. During the year, the production and sales of coatings segment recorded a turnover of HK$1,579,923,000 (2006: HK$1,227,719,000), representing an increase of 29% as compared with that of 2006.

1.4.1 Container Coatings

During the year, container coatings sales of COSCO Kansai Companies maintained double-digit growth when compared to 2006. This was mainly attributable to the stimulation of sales by giving more discounts to key customers and the increase in sales turnover by rising the selling prices of products. Total sales volume in 2007 was 63,985 tonnes, representing an increase of 15% as compared to 55,565 tonnes in 2006. COSCO Kansai Companies have been ranked among the best in the container coatings market of China Mainland.

Following the establishment of a joint venture, COSCO Kansai (Zhuhai) and the commencement of production in the new plant in Zhuhai in the second half of 2007, the total annual coatings production capacity of the three plants located in Zhuhai, Shanghai and Tianjin owned by COSCO Kansai Companies has been expanded to 100,000 tonnes. The plants are strategically located in three of the areas with the highest economic growth in China Mainland, namely the Pearl River Delta, the Yangtze River Delta and the Pan-Bohai Rim Area, which will facilitate provision of speedy and efficient services to customers of these regions.

Despite the slow down of economy in the United States, the global economy and trade volumes in 2008 are expected to remain stable. The growth pace of container shipping capacity is expected to slow down and there will be certain pressure on the global demand for new containers in 2008, which implies fierce competition. COSCO Kansai Companies will continue to maintain close relationship with their key customers to secure orders, build a stronger reputation and greater brand awareness in the container manufacturing industry and strive for greater container coatings market share in the PRC. To react to the rising cost of raw material and the impact of the tax refund policy of the PRC, COSCO Kansai Companies will adjust their operational models, explore substitution of imported raw materials with local materials, strengthen budget management and implement stringent control on the operating cost in order to increase their profitability.

Production and sales of coating products segment recorded a turnover of HK$1,579,923,000, representing an increase of 29% as compared to 2006.

Sales Volume of Coatings (Tonnes)	2007	2006	Change
Container Coatings	**63,985**	55,565	+15%
Marine Coatings	**38,272**	25,929	+48%
Industrial Heavy-duty Anti-corrosion Coatings	**9,164**	6,991	+31%

▲ Jotun COSCO HK

▲ COSCO Kansai Companies

1.4.2 Marine Coatings

Jotun COSCO HK is principally engaged in the production and sales of marine coatings in China (including Hong Kong and Macau Special Administrative Regions). During the year, marine coatings sales volume amounted to 29,440,000 litres (equivalent to 38,272 tonnes), representing a significant increase of 48% compared with 19,945,000 litres (equivalent to 25,929 tonnes) in 2006. Growth in sales volume was mainly attributable to the prosperous China shipbuilding and ship repairing markets, the recognition by the customers and the implementation of the measures to develop new business during the year.

Whilst the demand for marine coating products in China Mainland is estimated to grow at a steady pace, the cost of raw materials keeps soaring. In response to the rise in the cost of raw materials, Jotun COSCO HK will enter into sales contracts of coatings for new vessel with Renminbi instead of United States Dollar in order to minimise the effect of the change in tax refund policy and appreciation of Renminbi, implement stringent control on the operating cost, broaden the business with higher gross profit and promote the high quality energy saving coating products to the shipowners in order to meet shipowners' energy saving requirement and step on the healthy development path.

1.4.3 Industrial Heavy-duty Anti-corrosion Coatings

During the year, sales of industrial heavy-duty anti-corrosion coatings from COSCO Kansai Companies recorded a double-digit growth compared with that in 2006. Sales volume amounted to 9,164 tonnes, representing an increase of 31% compared with 6,991 tonnes in 2006. This was mainly due to the increase in the sales volume and the increase in selling prices.

Industrial heavy-duty anti-corrosion coatings produced by COSCO Kansai Companies are used mainly in fast-growing industries including nuclear stations, ports, electricity, oil, petrochemical, transportation and municipal government infrastructure. As a result, there is enormous market potential for industrial heavy-duty anti-corrosion coatings. COSCO Kansai Companies will capitalise on the opportunities by developing coatings for trailers, monitoring China oil reserve base construction projects and expanding its share of the nuclear power plants market. It will also take advantage of the rapid development in the Pan-Bohai Rim Area, seek more municipal government infrastructure coating projects and develop business with oil and port machinery companies. COSCO Kansai Companies will also seek business opportunities arising from the coming Shanghai World Expo 2010 regarding the demand for the accessories in relation to industrial heavy-duty anti-corrosion coatings.

2. Property Development and Property Investment

In 2007, the turnover of property development and property investment segment increased by 9% to HK$250,852,000 (2006: HK$230,191,000), accounting for 11% of the total turnover of the Company and its subsidiaries. Comparing with 2006, segment results decreased by 14% to HK$14,877,000 (2006: HK$17,361,000) which was mainly due to decrease of rental income from Shanghai Kingswell Garden after its disposal in January 2007.

2.1 Shanghai Fragrant Garden

The residential portion of Fragrant Garden, the Company's property development in Shanghai, has been sold and handed over. As of 31st December 2007, a total of 1,841 square metres of retail shops and 193 carparking spaces remained unsold. As the project is close to final stage, Shanghai COSCO Honour Property Development Limited has commenced voluntary liquidation. The Company will adopt a flexible marketing strategy and endeavour to sell the remaining properties before the completion of liquidation.

2.2 Shenyang COSCO Yihe Garden

Shenyang COSCO Yihe, which was 51% indirectly owned by the Company through its wholly-owned subsidiary, Top Elegant, owned Shenyang COSCO Yihe Garden, a residential project. On 24th August 2007, Top Elegant entered into a conditional sale and purchase agreement with an independent third party whereby Top Elegant agreed to sell all its equity interest in and shareholder's loan to Success Gate at a consideration of RMB55,667,000. The transaction was approved by the independent shareholders of the Company on 4th October 2007 and was completed in November 2007.

2.3 Shanghai Kingswell Garden

On 29th December 2006, a wholly-owned subsidiary of the Company, Sound Mood (as vendor) 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 to Wellbase for a consideration of HK$31,200,000, subject to adjustment. Wellbase's principal asset is the holding of Block 5 of Kingswell Garden, a hotel-style serviced apartment complex in Shanghai. The transaction was completed in January 2007.

3. Investment in an Associated Company

Sino-Ocean Land Holdings Limited

The Company's 44% interest in SOLL was swapped for 44% equity interest in Shine Wind at the end of 2006. Subsequently, upon the subscription of shares in Shine Wind by certain independent third party investors, the equity interest in Shine Wind owned by the Company was diluted to 30.8% of the enlarged issued share capital of Shine Wind. In the first half year of 2007, the Company's 30.8% interest in Shine Wind was then swapped for equity interest in SOLHL which in turn holds 100% interest in SOLL.

SOLL is a well known property developer in China Mainland and it develops medium to high-end residential properties and premium grade office buildings, retail properties, services apartments and hotels. SOLL also explores property development markets in the Pearl River Delta, the Yangtze River Delta and the Pan-Bohai Rim Area. The Company's share of profit from SOLHL amounted to HK$472,781,000 (2006: HK$152,587,000). Such increase was mainly due to an increase in net profit of SOLHL in 2007. On 28th September 2007, SOLHL was listed on the SEHK. The Company currently holds 20.72% of interest in SOLHL.

4. Other Businesses

To accelerate the divestment of non-core businesses of the Company, COSCO BVI, an indirect wholly-owned subsidiary of the Company and COSCO Property, a connected person of the Company entered into a conditional sale and purchase agreement on 5th February 2007, pursuant to which COSCO BVI agreed to sell all its equity interest in and shareholder's loan to CICL at a total consideration of HK$2. CICL holds 100% interest in SSCE. The transaction was approved by independent shareholders of the Company on 15th March 2007 and was completed in March 2007.

Prospects

The Company had attained significant achievements in restructuring its core businesses and will continue to explore new opportunities with a view to striving for better business performance. The Company is now ready for taking up new business challenge and expects to have material development. Despite the slow down in the growth of the global economy and the subprime issue of the United States affecting the world economy, the shipping industry will nevertheless reap the benefit of the strong domestic demand in China Mainland. It is expected that the shipping market condition in 2008 will remain stable and there will be stable demand for shipping services. In relation to the forecast of our core business, the Company believes that the Company will confront challenges due to the slow down in the growth of global economy. Capitalising on the steady development of shipping industry and on the opportunities brought forth by the PRC Government's initiative to develop the shipbuilding and equipment manufacturing industry regarding shipping services, the Company will continue to focus on sustaining continued growth of the Company. COSCO, being one of the largest shipowners in the world, and COSCO (Hong Kong) Group Limited are supportive to the Company, as evidenced by injecting shipping services related businesses and assets into the Company. In the future, the Company will continue to actively identify new investment opportunities, capitalise on synergies among various business unit, explore business opportunities for both COSCO Group and non-COSCO Group companies in order to extend our services network and enhance our competitiveness in the shipping services market. The Company aims to build a strong reputation and outstanding brand awareness in the shipping services industry and become a specialised, unique and leading shipping services provider.

Investor Relations

Investor Relations Management

With consistent emphasis on effective and thorough communications with shareholders and investors, COSCO International ensures their timely access of information about the development strategies and business operations of the Company so as to obtain their continuous support. Subject to legal requirements, COSCO International fully safeguards the investors' and shareholders' right to be informed, as well as takes initiative to communicate with them in a fair and equal manner through open, fair and just channels, aiming at increasing their understanding and recognition of the Company and thus enhancing the Company's investment value.

In order to effectively implement investor relations management, apart from the *Regulations for Investor Relations Management* of COSCO International formulated to provide a clear guidance for the investor relations personnel to communicate with the investors and shareholders, the Company also formulated the *Information Management Policy* in 2007 which categorises the various types of information and regulates disclosure procedures. On one hand, the policy ensures that disclosure of price sensitive information is in accordance with the requirements of the Rules Governing the Listing of Securities on the SEHK ("Listing Rules") and other regulatory authorities; on the other hand, it also ensures all communication with the shareholders, the investors and the media who obtain the corporate information is on a fair and open basis so as to protect their right to be informed. Details of the *Information Management Policy* has been uploaded to the website of the Company for public access.

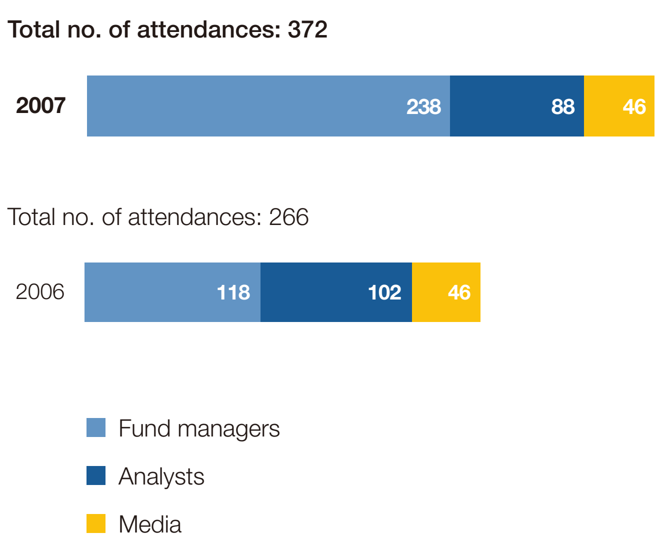
Two-way Communications and Enhancement of Value

A department has been established by the Company for planning and implementation of investor relations. Led by the senior management, the team has disclosed to its shareholders, investors, analysts and fund managers timely, accurate and complete information, which facilitated the effective valuation of the Company's investment value. Through communications, the Company may also understand the expectations and opinions of its shareholders and investors, thereby enhancing its corporate governance and transparency.

Review of Investor Relations Activities

In retrospect of 2007, COSCO International continued to take initiatives to strengthen the communication with its shareholders, investors and the media, and achieved fruitful results in introducing its development strategies and operating conditions to them through various channels, and participating in promotional activities within and outside Hong Kong organised by securities firms. During the year, the management of the Company met fund managers, analysts and the media for a total of 372 attendances (2006: 266 attendances) through press conferences, shareholders' meetings, roadshows and presentation meetings, corporate visits, conference calls and individual meetings, among which 238 attendances (2006: 118 attendances), 88 attendances (2006: 102 attendances) and 46 attendances (2006: 46 attendances) were meetings with fund managers, analysts and the media respectively. Besides, there were 6 securities research institutes which issued analysis reports for the Company during the year.

Distribution of No. of Attendances at Meetings with the Management



Various Activities to Develop Investor Relations

Conducting press conferences and analysts presentation meetings to announce the Company's interim and annual results and answering questions raised by the media and analysts. Videos of the press conferences have also been posted on the Company's website to allow access by the shareholders and the investors.

Arranging regular meetings and conference calls with analysts and fund managers to introduce the operating conditions and future development strategies of the Company and its subsidiaries.

Organising visits to our subsidiaries in China Mainland for the analysts, fund managers and the media to facilitate their understanding towards the business operations of the Company and its subsidiaries.

Participating in corporate presentation conferences organised within and outside Hong Kong by securities firms to present the development strategies and operating conditions of the Company to the investors from various regions.

Posting the financial statistics for the recent years and the latest discloseable information of the Company in the investor relations section on the website of the Company.

Dispatching the media, the analysts and the investors, such as fund managers, the latest news of the Company through emails and also simultaneously posting such information on the website of the Company to enhance its transparency.

Informing the latest news of the Company to the investors and the public through the media coverage, so as to increase their understanding of the Company's positioning and businesses.

Enhancement of Investment Value

Improvement of Corporate Governance

Enhancement of Transparency

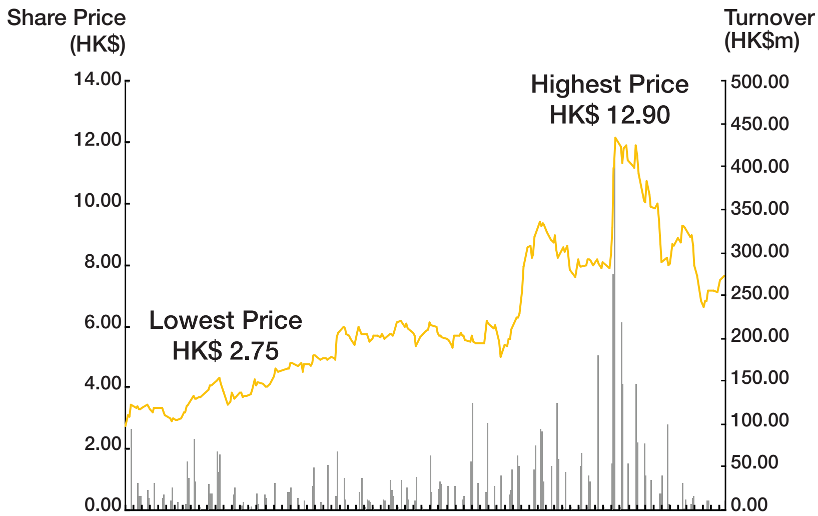
List of Investor Relations and Media Relations Activities in 2007

Month	Events
Jan	Attending the Pulse of Asia Conference organised by DBS Vickers in Singapore
Mar	Attending the Asian Investment Conference Small Cap Day 2007 organised by Credit Suisse in Hong Kong
Apr	Announcement of 2006 annual results of COSCO International – Press conference – Analysts' presentation meeting Attending the 2006 annual results briefing presentation organised by DBS Vickers in Hong Kong
May	Mr. Liang Yanfeng, Managing Director of the Company, was interviewed by *Hong Kong Economic Journal*, a Hong Kong based financial newspaper
Jul	Attending the China Red Chips and Beverage Access Day organised by CLSA in Hong Kong
Sep	Announcement of 2007 interim results of COSCO International – Press conference – Analysts' presentation meeting Attending the 2007 interim results briefing presentation organised by DBS Vickers in Hong Kong Attending the 2007 interim results briefing presentation organised by CLSA in Hong Kong
Nov	Attending the roadshows organised by UOB Kay Hian in Singapore Attending the Hong Kong Corporate Access Day Conference organised by CLSA in Singapore Attending the Chinese/Hong Kong Enterprises with Small Capitalisation Conference organised by JP Morgan in Hong Kong Mr. Liang Yanfeng, Managing Director of the Company, was interviewed by a Hong Kong financial journal -- *Economic Digest*

Performance of Share Price and Trading Amount of COSCO International in 2007

As of 31st December 2007, the closing price of shares of COSCO International was HK$7.62 (2006: HK$2.75) per share, representing a year-on-year increase of 177%. The market capitalisation of the Company was HK$11,262,598,000 (2006: HK$3,988,939,000), representing a year-on-year increase of 182%. During the year, the highest share price was HK$12.90 and the lowest share price was HK$2.75.

Share Price and Trading Amount Performance in 2007



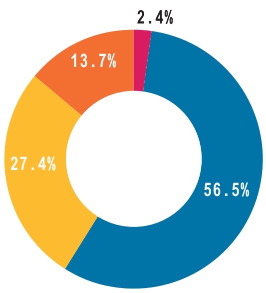
Performance of Share Price and Market Capitalisation for the Past Financial Years

Shareholding and Equity Structure

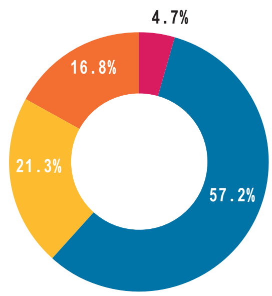
As of 31st December 2007, the Company had 1,478,031,291 shares in issue, of which approximately 43.5% was held by the public independent shareholders. According to the register of members and the participants' shareholding report prepared by CCASS on 31st December 2006 and 31st December 2007, there were obvious changes in the shareholding structure and proportion of shareholding of the Company last year. The percentage in total share capital of the Company held through custodians increased from 21.3% in 2006 to 27.4% in 2007. The change in shareholding reflected that the number of institutional investors holding shares through custodians has increased and it also reflected that the market positioning and development strategies of the Company began to have been recognised by institutional investors.

Shareholding Structure by Percentage

2007



2006



- COSCO *Note 1*
- Securities brokers registered with CCASS
- Custodians registered with CCASS
- Individual participating investors

Note 1 The major controlling shareholder of the Company is True Smart International Limited ("True Smart"), therefore the interests of True Smart are deemed to be the interests owned by COSCO (Hong Kong) Group Limited and in turn the interests of COSCO (Hong Kong) Group Limited are deemed to be the interests owned by COSCO under the Securities and Futures Ordinance.

Earnings Per Share and Dividends Per Share

The basic earnings per share of the Company and its subsidiaries for 2007 has increased by 310% to 175.95 HK cents (2006: 42.90 HK cents). A stable dividend policy has been adopted by the Company since 2004 to maintain a dividend payout ratio (on recurrent operating profits) of not less than 25%. The Board has recommended a final dividend of 3.50 HK cents (2006: 4.30 HK cents) per share and a special dividend of 1.80 HK cents (2006: nil) per share, together with the interim dividend of 1.00 HK cent (2006: 1.00 HK cent) per share paid for 2007, making a total dividends of 6.30 HK cents (2006: 5.30 HK cents) per share for the whole year. The dividend payout ratio for the year in terms of recurrent operating profits was approximately 25%.

Dividends Per Share, Basic Earnings Per Share and Dividend Payout Ratio for the Past Financial Years

Financial year	2004	2005	2006	**2007**
Dividends per share (HK cents)	2.50	4.50	5.30	**6.30**
Basic earnings per share (HK cents)	15.54	35.04	42.90	**175.95**
Dividend payout ratio				
– Percentage to recurrent operating profits (%)	30%	35%	33%	**25%**
– Percentage to net profit (%)	16%	13%	12%	**4%**

Market Recognition

The Company is committed to strengthen corporate governance, maintain good investor relations and adequate information disclosure, as well as protect our shareholders' interests. With the joint efforts of the management and all staff, the Company obtained market support and recognition. On 11th December 2007, the Company was awarded a prize of Hong Kong Outstanding Enterprise Parade 2007 by *Economic Digest*, a renowned financial magazine in Hong Kong. The winner of this award must fulfil the requirements of three selection criteria, i.e. "Remarkable Results Growth", "Excellent Corporate Governance" and "Welcome by Minority Shareholders". It was the first award granted to COSCO International by the media since its incorporation. It indicated that COSCO International had positioned itself properly and achieved good results which were well received by the market, and thus enhanced the corporate image and reputation.

Investor Relations Prospects

Looking forward, the Company will further strengthen investor relations management and continue to maintain timely and effective communications with its shareholders, investors, analysts and the media in an open, fair and equal manner while improving the transparency of the Company so as to maintain a high level of investor relations to further enhance the investment values of the Company and maximise returns to its shareholders. Specific measures include:

1. Continuing to communicate and exchange views with the shareholders and investors in Hong Kong and overseas as well as the potential investors in an honest and equal manner, so as to help them fully understand the development direction and strategies of the Company;

2. In compliance with the disclosure requirements of the Listing Rules, studying the feasibility of disclosing more information on the operating conditions of the Company which enable the public to receive the instant and accurate information of the Company through adequate information disclosures, so as to improve their understanding of and recognition towards the Company.

3. Further making use of the website of the Company as a media to release the latest news of the Company to the public; publishing more timely and accurate information through the website so as to facilitate investors' search and access of information of the Company; and enhancing the function of the website so as to collect opinions and expectation from the investors, which achieves mutual communication and benefits overall improvement of corporate governance.

Frequently Asked Questions

Corporate Positioning and Development Strategies

1. **What are the development strategies of COSCO International in 2008?**

   ANS: Year 2008 is a year of development for COSCO International. We will strive to achieve our strategy of "One Change", i.e. change from the status of pursuing development and divesting non-core businesses together to the status of focusing on the new development of core business, so as to attain a rapid and positive growth of the Company. To achieve this, we will carry out five major tasks. Firstly, we will continue to pursue a continued growth of our businesses to ensure a solid growth in profit. We will endeavor to expand our core business so as to build up a distinguished image of shipping services provider. We will strengthen our internal management and enhance our corporate governance. In addition, we will continue to participate into the restructuring and consolidation of all shipping services related to COSCO Group and non-COSCO Group, so as to complement mutual competencies and drive synergy in related businesses. We will try to extend both internal and external servicing network of our core business to achieve horizontal integration through acquiring new business assets. We will strive to make great strides in 2008 and our aim is become a specialised, unique and leading shipping services provider.

2. **COSCO International currently holds 20.72% interest in SOLHL, as a result, contributions from the profits of properties investment and property development accounted for a considerable portion of the net profits of the Company. Will COSCO International reduce the holdings in SOLHL and focus on the development of its shipping services?**

   ANS: COSCO International has been positioned to provide shipping services and our long term strategy is to develop more shipping services. COSCO International currently maintains its shareholdings of 20.72% in its associated company, SOLHL. We considered that the prospects of the real estate market in China Mainland will remain optimistic, SOLHL is one of the largest real estate companies in Beijing, the PRC with experienced management and its businesses have been focused on the rapidly developed areas in China including the Pan-Bohai Rim Area, the Yangtze River Delta and the Pearl River Delta regions. Currently, although the profits contributed from SOLHL accounts for a considerable proportion of the total net profit of COSCO International, the Company will continue to hold its interests in this company in order to ensure the earning base of the Company and provide financial support to the future development of its core business.

Financial Status

3. **What is COSCO International's policy on dividend payout? Does it have a stable dividend payout ratio or does it depend on the business situation?**

   ANS: To fulfill its commitment to providing maximum returns to our shareholders, the Board is pleased to share our fruitful results with them. Our usual practice is to distribute not less than 25% of the recurrent operating profits as dividend. The payment of future dividend will be subject to the market changes and capital requirement of the development projects of the Company in the future.

4. **What was the effect of the continuous appreciation of Renminbi on the Company during the year?**

   ANS: The reporting currencies adopted for financial statements of the Company and its major subsidiaries are Hong Kong dollars and Renminbi. The continuous appreciation of Renminbi has been inflating the net asset base of the Company and its subsidiaries as a whole and has therefore strengthened their asset base. Sales of coatings by COSCO Kansai Companies are indirect exports and settled by United States dollars, the continuous appreciation of Renminbi therefore imposes pressure on the profitability of COSCO Kansai Companies. Nevertheless, it is anticipated that upon the execution of the PRC Government's new policy on regulating the indirect industrial exports at the end of 2008, those indirect industrial exports settled by United States dollars will gradually be transformed to domestic sales settled by Renminbi. It is believed that the appreciation pressure of Renminbi on container coatings and marine coatings businesses will soon be relieved.

In addition, due to the substantial earnings contributed from the associated company of SOLHL during the year, the Company has been able to deliver impressive results and benefited from the appreciation of Renminbi during the year. In a nutshell, the appreciation of Renminbi in the year had no material impact on COSCO International. However, the Company has formed a task force to closely monitor the market situation and take any precautionary measures if necessary.

5. **What is the capital expenditure of the Company for future operations?**

ANS: The Company has been well prepared for the capital requirement of the future development and investment opportunities. As of the end of December 2007, the cash and cash equivalents of the Company was about HK$1,031,344,000. If all the potential investment projects including the construction plan for new coatings plants of Jotun COSCO HK are realised, it is anticipated the Company may not have enough cash in hand to pay the consideration of the investment project with the current net cash in hand. With a view to expanding its core business, the Company will raise funds according to the cash demand of the projects and the prevailing market conditions.

6. **Will the Company place new shares to raise funds for its potential investment projects?**

ANS: As of the end of December 2007, the total debt to total assets ratio was at a healthy level of 17.8%. At such level, the Company could finance its projects through various means of fund raising such as borrowing from banks, issuing bonds and placing new shares. The Company will evaluate these methods from time to time and select the appropriate one according to the prevailing market conditions so as to maximise the corporate profitability and the shareholders' values.

Shipping Services

7. **Amongst COSCO Group, what kind of non-listed businesses are related to shipping services?**

ANS: COSCO Group is a diversified and multinational conglomerate which focuses mainly on shipping and modern logistics businesses. Apart from these two major businesses, COSCO Group has a number of quality assets relating to shipping services. Currently, COSCO Group has regional operations of provision of marine equipments and spare parts in the United States, Germany, Japan and Singapore. In addition, COSCO Group owns other shipping services such as oil bunkering services. COSCO International has been interested in all kinds of shipping services businesses under its parent company. By ways of expansion of new businesses and consolidation of existing businesses, COSCO International will achieve the sustainable development and further enhance its overall core competencies.

8. **Amongst shipping services, what is the income proportion from COSCO Group customers? Will there be any change in such proportion in the future?**

ANS: In 2007, turnover from COSCO Group customers accounted for about 19% (2006: 21%) of the total turnover from shipping services, of which the proportions of the revenue from ship trading agency, marine insurance brokerage and sales of marine equipment and spare parts businesses derived from COSCO Group customers were relatively high, i.e. 92%, 76% and 75% respectively. The coatings business, which has comparatively more customers from non COSCO Group, representing a larger share of the total revenue and its proportion of revenue from non COSCO Group customers accounted for about 99%. The Company expects to expand its businesses, consolidate and develop its clientele to further maintain the proportion from COSCO Group customers at an existing level and gradually reduce it.

9. Among the current shipping services businesses of the Company, which businesses will achieve higher growth in the coming years?

ANS: The core business of the Company is servicing to the ships. The size of fleets has close relationship with the amount of our businesses. In recent years, given the aggressive expansion of the fleets by the global shipping companies, including COSCO Group, which leads to active sales and purchases of new vessel, and results in a rise in vessel price and tight schedules of dockyards, it is expected that the delivery of current new build orders will not be made until 2011. Accordingly, a relatively faster growth in the ship trading agency industry is anticipated. Meanwhile, the continuous expansion of fleets and the rising vessel price will provide much room for the growth of marine insurance business. China is currently ranked as the third largest ship building country worldwide while her new build orders has overwhelmingly dominated around the world. It is expected China will become the largest shipbuilding country in the world by 2015. In view of this, the demand for marine coatings will increase dramatically due to the tremendous orders for new build vessels. In addition, with the implementation of the Eleventh "Five-year Plan" by the PRC Government, the infrastructure industry will be developed drastically, thereby bringing forth a rapid development prospect for the industrial heavy-duty anti-corrosion coatings.

10. Will the shipping services business be affected by the cyclical changes of the shipping industry?

ANS: The cyclical changes of the shipping industry mainly involve the fluctuations on transportation fees which have no direct impact on the income of shipping services. In addition, during the depression of the industry, some ship owners will order additional new vessels and replace equipment at lower prices. So that, when the market restores, they will be well positioned to cope with the higher demand and expand market shares. Therefore, in principle, the demand for shipping services is relatively stable and less volatile than the shipping industry, its cycle is not in phase with the shipping industry.

11. The new build ship trading volume of COSCO International in 2007 set a new record, when will the commission derived from ship trading agency services be recognised?

ANS: Agency commission is the major income of COSCO Ship Trading. Though agency commission income of COSCO Ship Trading is collected in stages based on the ship building schedule, such commission on new vessel will only be recognised upon the delivery of the new vessels. Commission on trading of second-hand vessels is payable within a specified period commencing from the delivery of the vessels by the vendor to the buyer and will be booked by the end of that period. As such, although the new ship trading volume of COSCO Ship Trading in 2007 increased substantially as compared to the past few years, the commission income attributable to the trading of new vessels will only be gradually booked upon delivery of the new vessels in the coming years.

12. **What is the prospect of the insurance brokerage market in China Mainland? What is the prospect of growth of COSCO International's insurance brokerage business in China Mainland?**

ANS: The marine insurance businesses for vessels registered in China Mainland are currently operating under traditional practice, i.e. insurance issues are being negotiated directly by the insurance companies with the shipowners, rather than through a more professional, independent insurance broker with stronger bargaining power as usually practising internationally. With the liberation of the insurance market in China, the demand for insurance services has been on the rise and the need to seek advice in relation to vessels registered in China from professional insurance brokers has been increasing. Currently, over two-third of the vessels of COSCO Group's fleets are registered in China. Therefore, the Company will take proactive strategies in 2008 to expand insurance brokerage businesses to the vessels registered in China within COSCO Group in order to expand the room for profit growth.

13. **The global shipbuilding market saw a record high in 2007, resulting in a significant increase in demand for marine coatings. What is the future prospect of the marine coatings market?**

ANS: The international shipping market is expected to maintain its strong momentum in 2008, which will lead to a steady growth of the marine coatings market. Currently, China has dominated the order book of new build vessels, thus the demand for marine coatings will benefit from the increased production capacities and order books of several large shipyards in China Mainland. Though the enforcement of new rules and regulations on new vessels by the International Maritime Organisation is expected to hinder the production progress and affect the order book of small-scale domestic ship building companies in China, the growth of China's ship repairing and shipbuilding industries will boost the demand for marine coatings.

14. **What are the major ingredients of the coating products of COSCO Kansai Companies? What was the influence of rising oil price on the cost of coating products during the past year? What measures had been taken by the Company?**

ANS: Oil refined products and metal products are the main ingredients of the coating products of COSCO Kansai Companies. The cost of oil refined products such as epoxy resin, methylbenzene and solvent constitutes approximately 51% of the total cost of production, while the cost of metal products, including titanium dioxide and zinc dust, constitutes approximately 38% of the total cost. The substantial rise in crude oil price last year posed some pressures on the cost of coating products, but it was partly offset by the lowering of some kinds of metal price. During the year, COSCO Kansai Companies not only grasped the business opportunities brought about by the periodical increase in demand for containers to expand their sales volume, but also shifted the strategy on sales of industrial heavy-duty anti-corrosion coatings to medium and long term projects so as to increase their market share. As a result, the sales of coating products by COSCO Kansai Companies achieved good results during the year.

15. **How much container coatings is needed for each TEU of container? What is the expected demand for container coatings in China in 2008?**

ANS: Each TEU of container requires about 0.1 tonne of container coatings. According to the Company's internal statistics, though the expected growth rate of global economy and foreign trade will slow down this year, the production volume of containers in China will keep at a range approximately from 2,800,000 TEUs to 3,300,000 TEUs in 2008. Accordingly, based on 0.1 tonne of coatings consumed for each TEU, the container coatings consumption in 2008 in China will range from 280,000 tonnes to 330,000 tonnes.

Five-year Financial Statistics

For the year ended 31st December	2003	2004	2005	2006	**2007**
Total number of shares issued (million)	1,394	1,414	1,418	1,451	**1,478**
Closing price Note (HK$)	0.84	1.38	1.19	2.75	**7.62**
Market capitalisation Note (HK$ million)	1,171	1,952	1,688	3,989	**11,263**
Basic earnings/ (loss) per share (HK cents)	(8.37)	15.54	35.04	42.90	**175.95**
Price/ earning ratio Note (times)	--	8.88	3.40	6.40	**4.33**
Dividends per share (HK cents)	--	2.50	4.50	5.30	**6.30**
Dividend payout ratio (by net profit) (%)	--	16%	13%	12%	**4%**
Dividend payout ratio (by recurrent operating profit) (%)	--	30%	35%	33%	**25%**
Net asset value per share (HK$)	0.64	0.79	1.12	1.52	**3.32**
Return on total assets (%)	-4.8%	8.2%	17.1%	18.9%	**51.9%**
Return on shareholders' equity (%)	-12.3%	21.9%	36.6%	32.5%	**72.5%**
Net debt-to-shareholders' equity ratio (%)	42.4%	38.1%	Net cash	Net cash	**Net cash**
Current ratio (times)	1.41	1.76	2.40	1.90	**1.97**
Quick ratio (times)	1.16	1.20	1.80	1.40	**1.61**
Interest coverage (times)	3.14	14.28	9.10	47.30	**60.50**

Note: As at the last trading day per year

Analysts' Contact Information

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SBI E2-Capital Securities Limited	Andes Cheng	andescheng@sbie2capital.com
UOB Kay Hian (Hong Kong) Limited	Mark Po	mark.po@uobkayhian.com.hk

Mr. WEI Jiafu

aged 58, has been an Executive Director and the Chairman of the Board of the Company since June 2000. He is also the President and CEO of COSCO, Executive director and Chairman of China COSCO Holdings Company Limited, Chairman of COSCO (Hong Kong) Group Limited, Non-executive director and Chairman of COSCO Pacific Limited, COSCO Corporation (Singapore) Limited chairman of COSCO Container Lines Co., Ltd., Boao COSCO Co., Ltd., COSCO Finance Co., Ltd., COSCO Pacific Investment Holdings Limited, Vice Chairman of China Merchants Bank Co., Ltd. and Honorary Chairman of Beijing Highlander Digital Record Technology Co., Ltd.. He was elected into the 16th and 17th CPC Central Committee for Discipline Inspection in November 2002 and October 2007 respectively. Mr. Wei is also the Chairman of China Shipowners' Association, China Shipowners Mutual Assurance Association, China Group Companies Promotion Association, China Federation of Industrial Economics and China Association of Trade in Services, Director of the Board of Boao Forum for Asia, International Advisor of Panama Canal Authority, member of International Committee of Distinguished Shipping Personages under the American Bureau of Shipping (ABS), Commissioner of National Guidance Commission of MBA Education, Honorary Dean of School of Economics and Management at Shanghai Maritime University, Honorary Dean and Part-time Professor of School of Navigation at Wuhan University of Technology. He obtained his Doctoral degree from Tianjin University and Master of Transportation Planning and Management degree from Dalian Maritime University. He is a Senior Engineer. Mr. Wei joined the COSCO Group in 1967 and had been a Marine Captain, President of COSCO Holdings (Singapore) Pte. Ltd, General Manager of Tianjin Ocean Shipping Company and COSCO Bulk Carrier Co., Ltd., and General Manager of Chinese-Tanzania Joint Shipping Company. He has extensive experience in international shipping management and capital operation.

Mr. LIU Guoyuan

aged 56, has been an Executive Director and the Vice Chairman of the Board of the Company since November 2000. Mr. Liu is also the Executive Vice Chairman and President of COSCO (Hong Kong) Group Limited, Chairman of COSCO (H.K.) Industry & Trade Holdings Limited, COSCO (H.K.) Property Development Limited, COSCO Network Limited and COSCO H.K. (Beijing) Investment Co., Limited. Mr. Liu was an Executive Director and the Vice Chairman of COSCO Pacific Limited, a Non-executive Director of China COSCO Holdings Company Limited and Chong Hing Bank Limited, Chairman and Executive Director of COSCO (H.K.) Shipping Co., Limited.

Mr. Liu has comprehensive experience, especially in corporate management, shipping business and investment management. Before joining COSCO (Hong Kong) Group Limited, he had been the Senior Commercial Director of COSCO, the Deputy General Manager of Tianjin Ocean Shipping Company and Vice Chairman and President of COSCO Europe GmbH. Mr. Liu joined COSCO in 1975 after he graduated from Beijing Foreign Studies University. In 1982, he obtained a Master's degree in Law (LL.M) from the Law School of the University of Washington, United States. In 1990, Mr. Liu was awarded the qualification of Senior Economist by the Ministry of Communications of the PRC.

In 2007, Mr. Liu was appointed by the Chief Executive of the Hong Kong Special Administrative Region as a Justice of the Peace. Currently, Mr. Liu is a member of Hong Kong Port Development Council, the Hong Kong Maritime Industry Council, and an Investment Promotion Ambassador of InvestHK. He is also the Vice Chairman of The Hong Kong Chinese Enterprises Association, Vice Chairman of Hong Kong Shipowners' Association, as well as a council member of the Hong Kong Management Association and the Hong Kong General Chamber of Commerce and the Honorary Adviser of Hong Kong Institute of Directors.

Mr. LI Jianhong

aged 51, has been an Executive Director of the Board of the Company since March 2002. He is also the Vice President of COSCO, Chairman of COSCO Shipyard Group Co., Ltd., COSCO International Ship Trading Company Limited and Dalian COSCO Shipbuilding Industry Co., Ltd., Non-executive Director and Chairman of Sino-Ocean Land Holdings Limited, Vice Chairman of China International Marine Containers (Group) Co., Ltd., Suzhou Industrial Park Co., Ltd., Nantong COSCO KHI Ship Engineering Co., Ltd., Non-executive director of China COSCO Holdings Company Limited, Executive director of COSCO Pacific Limited, Non-executive Director of COSCO Corporation (Singapore) Limited, Director of COSCO Logistics Co., Ltd., Boao COSCO Co., Ltd. and COSCO Pacific Investment Holdings Limited. Mr. Li is the Vice Chairman of Chinese Society of Naval Architects and Marine Engineers and China Association of National Shipbuilding Industry. Mr. Li has a Master's degree in Business Administration from University of East London, United Kingdom and a Master's degree in Economics and Management from Jilin University. He is a Senior Economist. Mr. Li joined COSCO Group in 1989. He had been general manager of Nantong COSCO Shipyard, general manager of COSCO Industry Company, Sino Ocean Real Estate Development Co., Ltd (now known as Sino-Ocean Land Limited) and assistant to the president and Chief Commercial Officer of COSCO. He has extensive experience in corporate management and capital operations.

Mr. WANG Futian

aged 57, has been an Executive Director of the Board of the Company since March 2007. He is also the Vice President of COSCO (Hong Kong) Group Limited. Mr. Wang graduated from Dalian Maritime University, the PRC, in Navigation and graduated from Capital University of Economics and Business in Postgraduate Studies in Business Administration. He has the Senior Engineer qualification awarded by Ministry of Communications of the PRC. He had been a Marine Captain, Vice President and Chief Legal Counsel of COSCO, Non-executive Director of China COSCO Holdings Company Limited, Executive Director of COSCO Pacific Limited, Chairman of the Supervisory Committee and Director of COSCO Container Lines Co., Ltd. and a member of senior management of Dalian Ocean Shipping Company. He has rich experience in the operation and management of large-scale shipping enterprises.

Mr. JIA Lianjun

aged 47, has been an Executive Director of the Board of the Company since January 2006. He is also the Deputy General Manager of Strategic Planning Division (General Counsel Office) of COSCO, Director of COSCO (Hong Kong) Group Limited and Chinese-Tanzania Joint Shipping Company. Mr. Jia graduated from Dalian Maritime University, the PRC, in Marine Engineering Management and has Senior Engineer qualification awarded by the Ministry of Communications of the PRC. He had been the department officer, deputy department head, department head and manager of Corporate Management Office of Corporate Management Department of COSCO. He has extensive experience in corporate management.

Mr. WANG Xiaoming

aged 52, has been an Executive Director of the Board of the Company since January 2006. Mr. Wang is also the Director and Financial Controller of COSCO (Hong Kong) Group Limited and non-executive director of Chong Hing Bank Limited. Mr. Wang graduated from Shanghai Maritime University, the PRC, majoring in Accounting and has Senior Accountant qualification awarded by Ministry of Communications of the PRC. Mr. Wang had been the deputy manager of the Audit Department and deputy general manager of Finance Division of COSCO, finance manager of COSCO Bulk Carrier Co., Ltd. and general manager of COSCO Finance Co., Ltd.. He has extensive experience in corporate financial management.

Profile of Directors and Senior Management

Mr. LIANG Yanfeng

aged 42, has been an Executive Director and the Managing Director of the Board of the Company since August 2006. Mr. Liang leads overall management and operation, strategic development, corporate governance, legal and financial management of the Company. He is also the non-executive director and non-executive vice chairman of Soundwill Holdings Limited, non-executive director of Sino-Ocean Land Holdings Limited. Mr. Liang has a Master's degree in Laws from the Department of Social Science of Tsinghua University and a degree of Executive Master of Business Administration from the School of Economics and Management of Tsinghua University. He was also awarded the senior economist qualification by the Ministry of Communications of the PRC. Mr. Liang had been the deputy general manager of Human Resources Division and the general manager of Capital Operations Division of COSCO, director of COSCO (Hong Kong) Group Limited, executive director of COSCO Pacific Limited and director of COSCO Corporation (Singapore) Limited, general manager of COSCO Human Resources Development Company. He also served as director of various companies. While temporary posted in a local government, he had been the Deputy Mayor of Luzhou municipal government, Sichuan Province. He had participated in acquisitions and financing activities of listed companies and has extensive experience in corporate management and capital market operation.

Mr. MENG Qinghui

aged 52, has been an Executive Director of the Board of the Company since March 2002. He is also the Managing Director of Finance Division of COSCO (Hong Kong) Group Limited, non-executive director of Chong Hing Bank Limited and Soundwill Holdings Limited. Mr. Meng graduated from Central South University and has the PRC Accountant qualification. He has extensive experience in corporate financial management and accounting and is also familiar with corporate financial planning.

Mr. CHEN Xuewen

aged 43, has been an Executive Director of the Board of the Company since August 2006. He is also the Managing Director of the Strategic Planning and Development Division of COSCO (Hong Kong) Group Limited. He graduated from the University of Peking in Economics and Management. He had been the department head of the Planning Department of Strategic Planning Division of COSCO, general manager of Beijing Ocean Plaza Co., Ltd. and deputy general manager of COSCO HK (Beijing) Investment Co., Limited.

Mr. WANG Xiaodong

aged 49, has been an Executive Director of the Board of the Company since January 2006. He also serves as a Deputy Managing Director of the Company. Mr. Wang is in charge of management of the subsidiaries and project investment of the Company. He has a Bachelor's degree in Marine Mechanical Management from Dalian Maritime University, the PRC, a Master's degree in Business Administration from China Europe International Business School and a Senior Engineer qualification awarded by the Ministry of Communications of the PRC. He had been the deputy general manager of the Trade Division and head of the Consolidated Trade Department of COSCO, deputy general manager of COSCO International Trading Company, general manager of China Marine Bunker Supply Company (presently known as China Marine Bunker (Petro China) Co., Ltd.) and general manager of COSCO Industry Company. Mr. Wang has extensive experience in the technical management, investment management and operation in the business of marine vessel fuel supply, marine manufacturing industry and coating industry.

Mr. LIN Wenjin

aged 48, has been an Executive Director of the Board of the Company since August 2006. He also serves as a Deputy Managing Director of the Company. Mr. Lin is in charge of investor relations as well as administration and personnel management of the Company. He has a Bachelor's degree in Engineering from Shanghai Maritime University of China, Marine Chief Engineer certificate and Senior Engineer qualification awarded by the Ministry of Communications of the PRC. He had worked in COSCO and had been the assistant manager of the Technical Department, chief of New Building Section in Japan, manager of the Development Department of Ocean Tramping Company Limited and had been the deputy general manager of Development Division and Strategic Planning Division, managing director of the Executive Division of COSCO (Hong Kong) Group Limited. He had participated in the acquisitions and financing activities of listed companies. Mr. Lin has extensive experience in shipping management, new shipbuilding, corporate management and planning and capital market operations.

Mr. KWONG Che Keung, Gordon

aged 58, has been an Independent Non-executive Director of the Board of the Company since September 2004. Mr. Kwong is also Independent Non-executive Director for a number of companies listed on the SEHK, namely Tianjin Development Holdings Limited, Beijing Capital International Airport Company Limited, Frasers Property (China) Limited, NWS Holdings Limited, China Oilfield Services Limited, OP Financial Investments Limited (formerly known as Concepta Investments Limited), China Chengtong Development Group Limited, Global Digital Creations Holdings Limited, Ping An Insurance (Group) Company of China, Limited, Quam Limited, CITIC 1616 Holdings Limited, China Power International Development Limited, Henderson Land Development Company Limited, Henderson Investment Limited and Agile Property Holdings Limited. He has a Bachelor's degree in Social Science from the University of Hong Kong and is a fellow member of the Institute of Chartered Accountants in England and Wales. From 1984 to 1998, Mr. Kwong was a partner of PricewaterhouseCoopers. He had served as a part-time panel member of the Hong Kong Government's Central Policy Unit from 1993 to 1995 and was an independent member of the council of the SEHK from 1992 to 1997, during which, he had acted as convener of both the compliance committee and the listing committee.

Mr. TSUI Yiu Wa, Alec

aged 58, has been an Independent Non-executive Director of the Board of the Company since February 2004. Mr. Tsui is also the chairman of WAG Worldsec Corporate Finance Limited, vice chairman of China Mergers and Acquisitions Association, member of the Corporate Advisory Council of the Hong Kong Securities Institute; director of Hong Kong Professional Consultants Association Limited and independent director of AIG Huatai Fund Management Company Limited. He is also an independent non-executive director of a number of listed companies in Hong Kong and NASDAQ, namely Industrial and Commercial Bank of China (Asia) Limited, Vertex Group Limited, China Power International Development Limited, China Chengtong Development Group Limited, Synergis Holdings Limited, China BlueChemical Ltd., Greentown China Holdings Limited, China Huiyuan Juice Group Limited, Pacific Online Limited, Melco PBL Entertainment (Macau) Limited and ATA Inc Ltd. Mr. Tsui graduated from the University of Tennessee, United States and was awarded a Bachelor of Science degree and a Master of Engineering degree and had completed a Program for Senior Managers in Government at the John F. Kennedy School of Government of Harvard University, United States. He was the chairman of the Hong Kong Securities Institute from 2001 to 2004 and the chief operating officer of Hong Kong Exchanges and Clearing Limited in 2000. He has numerous years of experience in finance and administration, corporate and strategic planning, information technology as well as human resources management.

Mr. JIANG, Simon X.

aged 54, has been an Independent Non-executive Director of the Board of the Company since April 2007. He is also the chairman of CyberCity International Limited, an independent non-executive director of Bank of China Investment Management Co., Ltd. (formerly known as BOC International Investment Managers), China Oilfield Services Limited and SPG Land (Holdings) Limited. Mr. Jiang is also a director of China Foundation for Disabled Persons, a trustee of Cambridge China Development Trust and a senior associate at the Judge Business School of Cambridge University. Mr. Jiang received his bachelor's degree from Beijing Foreign Studies University, master's degree from Australian National University and doctorate's degree from Cambridge University. Mr. Jiang was the deputy chief of United Nations Joint Staff Pension Fund Investment Management Service, executive director and chairman of Vision Century Corporation Limited (now known as Frasers Property (China) Limited), a director of Zi Corporation and an advisory board member of Capital International Inc., and Rothschild Investment Bank. He has experience in fund management.

Mr. LO Siu Leung, Tony

aged 44, has been the Financial Controller of the Company since September 2005. Mr. Lo is a fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He holds a Master's degree of Business Administration from the Hong Kong University of Science and Technology. Mr. Lo had previously worked for an international accounting firm, the SEHK and several listed companies. He has extensive experience and expertise in corporate finance, corporate governance and financial planning.

Ms. CHIU Shui Suet

aged 41, has been the Company Secretary of the Company since October 2005. Ms. Chiu obtained a Bachelor of Laws degree from the University of Wolverhampton in 1996 and completed her Postgraduate Certificate in Laws at the City University of Hong Kong in 1998. Ms. Chiu was admitted as a solicitor in Hong Kong in 2000. Besides, she is also a fellow member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Prior to joining the Company, Ms Chiu had worked for accounting firms, legal firm and various listed companies. She has extensive experience and solid knowledge in dealing with the company secretarial and legal matters of listed company.

Ms. ZHU Yizhen

aged 53, joined the Company in August 2004, is the assistant to Managing Director of the Company. She graduated from Beijing Institute of Chemical Engineering with a Bachelor degree in Chemical Engineering in 1982. After graduation, Ms. Zhu had engaged in research work in Beijing Research Institute of Chemical Engineering for more than 10 years. She is very familiar with the technology of petrochemical engineering. From 1992 to 2004, Ms. Zhu was the deputy general manager of Technology Safety Department and the general manager of the Development Department, Management Department and Assets Management Department of China Marine Bunker (Petro China) Co., Ltd. She is a Senior Engineer and has wide management experience in marine fuel products and bunker oil supply, as well as the operation of coastal transportation and storage of various oil products.

Mr. CHEN Daming

aged 51, has been Managing Director of COSCO Ship Trading since January 1998. Mr. Chen graduated from Dalian Maritime University majoring in Shipping Engineering Management and joined Tianjin Ocean Shipping Company after graduation. He had been the assistant engineer, fourth engineer, third engineer and traveled with COSCO's crews all over the world. In 1987, Mr. Chen was assigned to work in the Shipbuilding Division of COSCO and in charge of the sale and purchase of second-hand vessels, scrap vessels and containers businesses. Mr. Chen was awarded with the professional qualification of Senior Engineer and has extensive experience in ship trading.

Mr. SUN Guangcheng

aged 56, has been Managing Director of HK COSCO Insurance Brokers since September 2001. Following his graduation from Shanghai Maritime University majoring in Shipping Transportation, Mr. Sun joined Tianjin Ocean Shipping Company. From 1984 to 1988, he had been the head of Commercial Division and Insurance & Claim Division of Tianjin Ocean Shipping Company. Later, he had been appointed as the chief representative of COSCO in Syria and Cyprus from 1988 to 1991. Having returned to China in September 1991, Mr. Sun had been the deputy general manager of COSCO Tianjin Freight & Forwarding Co., Ltd., the general manager of COSCO Tianjin Container Lines Freight & Forwarding Co., Ltd. in Tianjin, the deputy general manager cum corporate legal advisor of Tianjin COSCO International Freight & Forwarding Co., Ltd. Mr. Sun is a Senior Economist and he has sound knowledge in marine insurance and extensive experience in the management of marine and commercial legal cases

Mr. QIU Ming

aged 47, has been General Manager of Yuantong since January 2006. Mr. Qiu graduated from Shanghai Marine College, majoring in Marine Engineering in 1982. After graduation, he worked as a member, deputy division chief and division chief of the Safety and Technology Division of the Second Department and as division chief of Equipment Division of the Technology Department of Shanghai Ocean Shipping Company. In 1999, Mr. Qiu worked as the general manager of Chung Lin Marine Service Company in Japan. He has much experience in managing the supply of marine equipment, spare parts, ship fuels as well as marine technology.

Mr. HUO Conglin

aged 53, has been General Manager of COSCO Kansai Companies since July 2002. Mr. Huo graduated from Dalian Maritime University and joined COSCO in 1982. He had been the deputy head of the Education Department of COSCO, personnel manager of China Ocean Shipping Agency and deputy general manager of COSCO Industry Company. Mr. Huo has extensive experience in the areas of shipping management, paint technology and corporate management.

Mr. YIN Guoping

aged 55, has been the General Manager of Shanghai COSCO Honour since February 1999. He is responsible for the management and sale of Fragrant Garden in Shanghai. Mr. Yin graduated from the First Foreign Language University of the People's Liberation Army in 1974, majoring in English Language. He had been the deputy division chief of Security Bureau of Shanghai Municipal Government, the personnel training manager and the security manager of Ocean Hotel Shanghai. He has extensive experience in personnel management and corporate management.

Mr. DONG Zhaoming

aged 50, has been General Manager of Jotun COSCO since January 2006. Mr. Dong graduated from Shanghai Coating Polytechnic, majoring in Chemistry in 1977, subsequently majored in English and Management respectively in Shanghai International Studies University and Shanghai Jiao Tong University, and obtained his Master's degree of Business Administration from the Macao University of Science and Technology in 2002. Mr. Dong worked as a manager of the Production Department and the Sales Department of International Paints Shanghai during the period from 1981 to 1996. Since 1998, He worked as the general manager of Jotun Paints (H.K.) Limited Shanghai Office. Mr. Dong has extensive experience in coatings technology, sales, marketing management and purchasing management.

The Company actively promotes a social responsible corporate culture which grounds a solid foundation for achieving sustainable development.

Sustainable Development

While pursuing higher operating efficiency and maximising the shareholders' value, the Company is also committed to promote social, environmental and economic balance and harmony so as to achieve sustainable growth for the enterprise, the society and the environment as a whole. COSCO, the ultimate controlling shareholder of the Company, has become a member of the United Nation's Global Compact and the World Business Council for Sustainable Development to support the principles uphold under the Global Compact, that is, to reinforce the initiatives for the sustainable growth of the enterprises and to develop and perform social responsibilities, especially in connection with the principles and values of human rights, labour standards, environmental protection and anti-corruption aspects. In 2007, COSCO International, following the principles of corporate governance of COSCO and has been fully aware of its influence and impacts on the community and the environment where it operates, was committed to safeguard

and balance the interests among its stakeholders including the shareholders, business partners, employees, clients and suppliers through laying down relevant policies and organising various activities. The Company is thus actively promoting a social responsible corporate culture to pave the way for the long term sustainable growth of the Company.

People Oriented

The Company has been adhering to the principle of "Building on good management and maintaining a strong management team" which aims at promoting a people-oriented culture in order to provide customers with quality services, maximise corporate value and bring along the best returns to our shareholders. Accordingly, the management of the Company places significant emphasis on building up an incorrupt, honest and proactive management team comprising the senior and middle management through various kinds of training programmes, appraisal mechanisms as well as corporate activities, which in turn enhances the overall standards and integrated management capability of its staff. This enables the Company to enter a new era of remarkable progress with the concerted efforts of its staff.

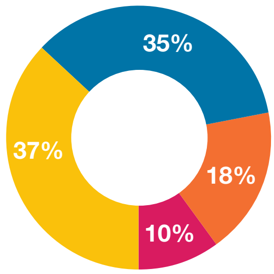
Remuneration and Incentives

The management of the Company believes that the setting up of a good scheme for attracting and retaining talents is essential to the future business development of the Company. Therefore, the Company conducted an annual review and planning of its manpower in order to formulate a comprehensive policy for training and retaining its talents. As of 31st December 2007, the Company and its subsidiaries had a total of 610 staff (2006: 573), of which 104 (2006: 110) were based in Hong Kong and 506 (2006: 463) were based in China Mainland. [Note]

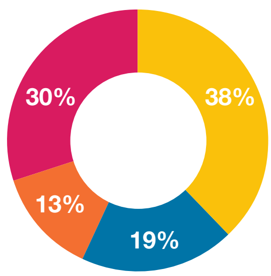
Note: Employees of the Company in China Mainland do not include the employees of the jointly controlled entities and the associated company.

Employees Particulars in 2007

By Age



By Years of Employment



The Company conducts periodical reviews on its remuneration policy with reference to the labour legislations of the governments of Hong Kong Special Administrative Region ("HKSAR") and the PRC, industrial practices, prevailing market condition and individual staff contribution. In respect of staff remuneration, the Company has been reviewing staff compensation package regularly and adopting the policy of performance based reward scheme. By adopting various incentives such as double pay, bonus and share option scheme, the Company aims to motivate its staff and enhance their sense of responsibilities and commitment. Besides, the Company also optimised the remuneration and incentive scheme for its senior management during the year, which further linked up with the results of the Company.

Equality and Training

The Company, as an employer, always concern about the building up of harmonious relationship with its employees and among the employees. The Company respects its staff on their similarities and differences in aspect of gender, age, disease, race and religious belief. The Company is opposed to any kinds of discrimination towards gender, disability or family status. The Company provides equal opportunities for its staff to develop their career and puts the right person on the right position under the basis of equality and competitive selection, so as to fully explore the staff potential and enhance their motivation.

In order to further enhance the professional standard of its management team and staff, the Company organised a number of seminars on professional ethics during the year, which covered topics including corporate governance, prevention of frauds and corruption and monitoring mechanism for its senior management; arranged study tour in China Mainland for outstanding Hong Kong staffs so as to enhance their understanding of business operations; arranged professional staff to participate into various training courses and seminars on the aspects of occupational safety and technology, financial management, internal auditing, office and information security, etc. Furthermore, with a view to upgrading the overall professional standard of its staff and enhancing its core competitiveness, the Company gave strong support and subsidised its staff to enroll various programmes and attend seminars after office hours for continuous development and enhancement of their professional qualifications.

Fostering Good Professional Conduct

The Company and its subsidiaries strongly believe that honesty, anti-corruption and fairness are vital assets of a listed company and also the keys to sustainable growth. In order to safeguard the interests of the stakeholders of the Company and its subsidiaries, and to cultivate a good and positive corporate culture, a Code of Conduct and Professional Ethic of Staff was drafted and adopted during the year which serves as a clear and complete guideline to monitor the code of conduct of the employees of the Company and its subsidiaries. The guideline requires all employees to adhere to the principles of fairness, openness and righteousness while dealing with the interests of the suppliers, contractors and customers and be honest, clean and trustworthy, so as to protect the stakeholders' interests of the Company and its subsidiaries and build up a long term cooperation relationship.

Occupational Safety and Health

The Company regards the provision and the safeguarding of a safe and healthy working environment is its social responsibility for the benefits of the employees, the enterprise, the shareholders and the environment. Currently, the Company and its subsidiaries' four coating plants located in Tianjin, Shanghai, Zhuhai and Guangzhou are all in compliance with the safety guidelines and environmental protection standards required by the state and municipal authorities and were granted the Production Safety Permit (《安全生產許可證》) by the municipal governments, which evidences their competency to ensure production safety and create profits.

The Company strives to enhance its staff's awareness of safety, to foster an occupational safety culture and to formulate an effective and long lasting mechanism on occupational safety. The Company deployed a number of programmes on occupational safety during 2007. The Company implemented a series of measures and organised various activities aiming at the four aspects of fundamental safety management, safety knowledge and awareness, code of conduct on safety and crisis management during the year. Such measures included (i) adjusting the existing safety management system which gets direct involvement of the management and ensures the execution of the system; (ii) organising varied educational and training programmes to enhance the understanding and awareness of safety management of all staff; (iii) setting up a series of crisis management and contingency plans in respect of production safety of dangerous chemical products, information security, natural disasters and any emergencies. The plans specify the reporting system, handling procedures and relevant measures in case of emergency. The Company also places great emphasis on emergency drills. During the year, the Company and its subsidiaries conducted a total of 12 emergency exercises which greatly enhanced the capability of each production unit in dealing with any emergency and in turn protected the lives of the employees and the properties of the Company. In 2007, the Company and its subsidiaries did not record any occurrence of serious incidents in relation to production safety and information security.

The Company concerns the physical and mental health of the employees, and the balanced development of their career and family livelihood. Apart from offering an annual medical check-up for all employees of the Company and its subsidiaries in general, the Company also encourages its staff to participate in various recreational activities, such as ball games and marathon racing, so as to enhance their health and alleviate their work pressure. In addition, the Company organised a group travel for the employees based in Hong Kong and their family members for the first time during the year. The tour enhanced the mutual understanding amongst the employees and/or their family members. Through such activities, not only can our employees achieve balanced development of their physical and mental health, but also enhance the team spirit and sense of belongings amongst the employees to the Company, therefore building up a healthy and energetic corporate culture.

A corporate citizen is not only accountable to its shareholders, but also socially responsible to its society and the public environment.

Environmental Protection

The Company has always been an advocate of saving invaluable resources on the earth and protecting the environment. The Company concerns the possible damage to the environment during production. In view of this, the Company's subsidiaries engaged in the production and sales of coatings had set up various environmental protection schemes and adopted corresponding measures. COSCO Kansai Companies had formulated a management system on environmental protection and had set up a number of objectives and concrete measures on energy saving and emission reduction, which clearly set out the operation procedures for the installation of environmental protection facilities and delineate the scope of responsibilities for daily administration of such facilities, and establish stringent rewarding and penalty scheme to ensure compliance with the requirements of energy saving and emission reduction during production. To follow the rules stipulated by the International

Marine Organisation on protecting marine ecosystem, Jotun COSCO HK was adopted the production formulae of coatings for anti-fouling to avoid any usage of raw materials which may cause pollution to the sea. Meanwhile, to respond to the call for environmental protection by international community and the country, COSCO Kansai Companies and Jotun COSCO HK strive to perform the duties of corporate citizen to protect the environment and conserve the ecosystem by enhancing the accuracy of energy consumption prediction through lean management so as to increase their energy efficiency. During the year, the Company and its subsidiaries did not record any occurrence of serious incidents in relation to environmental pollution.

In addition, the Company followed the HKSAR Government's call on environmental protection and adopted a scheme on urging its staff to wear more comfortable, business smart casual costumes at work during the summer period from June to October 2007. The scheme is one of the environmental protection measures of the Company, which not only alleviated the energy consumption on air conditioning, but also fostered a cosy working environment.

Corporate Citizen and Social Harmony

Being one of the listing arms of COSCO Group in Hong Kong, the Company actively promotes the essences of COSCO Group's corporate culture, i.e. building a harmonious working environment based on fairness, righteousness, equality and friendliness through various corporate activities. During the year, the Company fostered its staff team spirit and sense of belongings towards the company, as well as to build up a harmonious corporate culture through organising large-scale events such as annual dinner and sports day.

The Company concerns the nurturing of the sense of citizenship of its employees and encourages them to show their care for their community as well as to deliver on their obligations of being good citizens. To respond to the call by the HKSAR Government, the Company urged its staff to contribute themselves to the community by actively casting their votes in the two district elections during the year. Furthermore, the Company encouraged the employees to participate in varied social charitable activities. In 2007, our staff were arranged to take part in blood donation activity held by Hong Kong Red Cross at the office building and were encouraged to help the cataract sufferers in China Mainland by giving donations to "Lifeline Express". The Company also motivated its staff to participate in celebrating activities of the 10th anniversary of the handover of Hong Kong's sovereignty and the National Day. Such activities fully demonstrated our excellent corporate culture of "Love the Country, Love Hong Kong and Love COSCO Group". In future, the Company will continue to perform the duties of a good corporate citizen and will strive to make contribution to the building up of a harmonious enterprise and harmonious society.

The Commitment and Compliance of the Company

The Board is committed to maintaining high standards of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for the Company and its subsidiaries to manage business risks, enhance transparency, maintain high standard of accountability and protect shareholders' interest in general. The Board has adopted a Corporate Governance Statement of Policy (available on www.coscointl.com) which gives guidance on how corporate governance principles are applied to the Company.

The overall management of the Company's business is vested in the Board. The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The Directors have to take decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the Managing Director and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. The Board is currently composed of eleven Executive Directors (including the Chairman, the Vice Chairman and the Managing Director of the Company) and three Independent Non-executive Directors, whose biographical details are set out in "Profile of Directors and Senior Management".

During the year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

In addition, the Company has received from each of the Independent Non-executive Director an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules.

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31st December 2007 except that:

(i) although the Independent Non-executive Directors have not been appointed for any specific terms, they are subject to retirement and eligible for re-election in each annual general meeting in accordance with the Bye-Laws of the Company; and

(ii) Mr. Wei Jiafu, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 29th May 2007 due to other business commitments.

In addition to complying with applicable statutory requirements, the Company aims to continually review and enhance its corporate governance practices in the light of local and international best practices.

Statement of Compliance

A. Directors

A.1 The Board

Principle of the Code

An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.

Code Provisions	Compliance	Actions by the Company
A.1.1 The board should meet regularly and board meetings should be held at least 4 times a year at approximately quarterly intervals.	Yes	The Board met four times during the year and conducted the following principal activities: – adoption of recommendations of Audit Committee; – interim and annual review of the report of the business operations; – approving the rules and regulations of the Company, organisational structure, risk management control systems and internal procedures; – approval of information management policy and employee code of conduct; – approval of interim/final results, announcements, and interim/annual report, determining dividends; matters to be considered at annual general meeting; approval of directors' fee of Independent Non-executive Directors; – adoption of recommendations of Risk Management Committee; and – approval of annual operating plan and budget, management results and performance updates against annual operating plan and budget, together with business reports and presentations from senior management.
A.1.2 Arrangements should be in place to ensure that all directors are given an opportunity to include matters in the agenda for regular board meetings.	Yes	Directors were invited to include any matters which they thought appropriate in the agenda for regular Board meetings.
A.1.3 Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend.	Yes	At least 14 days' prior notice was normally given for regular Board meetings.
A.1.4 All directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.	Yes	Directors have access to the services of the Company Secretary who is responsible for ensuring the Board procedures are complied with.

Code Provisions	Compliance	Actions by the Company
A.1.5 Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting and open for inspection.	Yes	Minutes are kept by the appointed secretary of the meetings and available for inspection at the Company's principal place of business.
A.1.6 Minutes of board meetings and meetings of board committees should be recorded in sufficient detail. Draft and final versions of minutes should be sent to all directors for their comment and records respectively.	Yes	All minutes were recorded in detail and would be sent to Directors for review and comment within a reasonable time (generally within 7 days) after each meeting. Final version of minutes would be sent to Directors for record.
A.1.7 There should be a procedure for directors to seek independent professional advice at the issuer's expense.	Yes	Directors are permitted to seek independent professional advice, if required, at the Company's expense.
A.1.8 If a substantial shareholder/ director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, a board meeting should be held. Independent non-executive directors should be present at such board meeting.	Yes	The Company will continue to ensure that such matters require Board meetings be held instead of by way of circulation and with the presence of Independent Non-executive Directors or otherwise seek the full endorsement by the Independent Non-executive Directors.

Recommended Best Practices complied by the Company

- There is in place a Directors & Officers' Liabilities Insurance cover in respect of legal actions against the Directors and senior management arising out of corporate activities; and
- Board Committees have adopted broadly the same principles and procedures as stated in A.1.1 to A.1.8 of Appendix 14 to the Listing Rules.

A.2 *Chairman and Chief Executive Officer*

Principle of the Code

There should be a clear division between the management of the board and the day-to-day management at the board level of the issuer's business to ensure a balance of power and authority so that power is not concentrated in any one individual.

Code Provisions	Compliance	Actions by the Company
A.2.1 The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.	Yes	The positions of the Chairman, the Vice Chairman and the Managing Director are held by Mr. Wei Jiafu, Mr. Liu Guoyuan and Mr. Liang Yanfeng respectively. In order to reinforce their respective independence, accountability and responsibility, the roles of the Chairman and the Vice Chairman are separate from that of the Managing Director. The Chairman and the Vice Chairman are responsible for formulating the overall strategies and policies of the Company and the Managing Director is responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval. Division of responsibilities between the Chairman, the Vice Chairman and the Managing Director is clearly defined and set out in writing.
A.2.2 & A.2.3 The chairman should ensure that all directors are properly briefed on issues arising at board meetings and they receive adequate information in a timely manner.	Yes	The Chairman has a clear responsibility to ensure that all the directors are properly briefed and given accurate information.

Recommended Best Practices complied by the Company

– The Chairman has a clear responsibility to ensure that the Board works effectively and discusses all key and appropriate issues in a timely manner.
– Meeting between the Chairman and/or the Vice Chairman and Independent Non-executive Directors without management presence, to be held at least once a year. The most recent meeting was held in April 2007. The Board regards such meetings as opinion exchange gathering whereby a broad range of strategic and performance matters may be openly discussed.

A.3 Board composition

Principle of the Code

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should include a balanced composition of executive directors and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgment. Non-executive directors should be of sufficient caliber and number for their views to carry weight.

Code Provision	Compliance	Actions by the Company
A.3.1 The independent non-executive directors should be expressly identified as such in all corporate communications.	Yes	Composition of the Board, by category of Directors, including names of the Chairman, the Vice Chairman, the Managing Director and Independent Non-Executive Directors, is disclosed in all corporate communications.

Recommended Best Practice complied by the Company

– Biographies of Directors, including clear designation of their roles and responsibilities are maintained on the Company's website: www.coscointl.com.

A.4 Appointments, re-election and removal

Principle of the Code

There should be a formal and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Code Provisions	Compliance	Actions by the Company
A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election. *A.4.2* All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	Partial compliance	All directors (including Independent Non-executive Directors) were not appointed for specific terms, but are subject to retirement and shall be eligible for re-election at the annual general meeting of the Company in accordance with the Bye-Laws of the Company. Since all Directors are subject to retirement and re-election at the annual general meeting in accordance with the Company's Bye-Laws, the Company considers that sufficient measures will have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

Recommended Best Practices complied by the Company

– The Company has set up a Nomination Committee comprising a majority of Independent Non-executive Directors with specific written terms of reference. It is responsible for reviewing the Board composition, developing and formulating the relevant procedures on appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-executive Directors. The terms of reference of Nomination Committee is made available on the Company's website. A meeting was held in March and April 2007 respectively to discuss the appointment of proposed Directors. After considering the qualification and experience of Mr. Wang Futian and Mr. Jiang, Simon X., the Committee recommended to the Board to appoint Mr. Wang Futian as Executive Director on 16th March 2007 and Mr. Jiang, Simon X. as Independent Non-executive Director on 12th April 2007.

A.5 Responsibilities of directors

Principle of the Code

Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Code Provisions	Compliance	Actions by the Company
A.5.1 Every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the issuer and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer.	Yes	A comprehensive information package containing an introduction to the operation of the Company and its subsidiaries, Directors' responsibilities and duties and other statutory requirements will be provided to new Directors upon their appointment. The Company Secretary is responsible for keeping all Directors updated on Listing Rules and other statutory requirements.

Code Provisions	Compliance	Actions by the Company
A.5.2 The functions of non-executive directors should include: – bring an independent judgment at the board meeting – take the lead where potential conflicts of interests arise – serve on the audit, remuneration, nomination and other governance committees, if invited; and – scrutinize the issuer's performance.	Yes	Independent Non-executive Directors are well aware of their functions and have been actively performing their functions.
A.5.3 Every director should ensure that he can give sufficient time to the affairs of the issuer.	Yes	There is satisfactory attendance rate for the Board and Board Committees in 2007.
A.5.4 Directors must comply with their obligations under the Model Code set out in Appendix 10 to the Listing Rules.	Yes	The Company has adopted a code of conduct regarding securities transactions of Directors and employees (the "Securities Code") no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. To ensure Directors' dealings in the securities of the Company are conducted in accordance with the Securities Code, a committee (the "Committee") comprising the Chairman, the Vice Chairman, the Managing Director and the Deputy Managing Directors was set up to deal with such transactions. Prior to any dealings in securities of the Company, a Director is required to notify the Chairman or the Vice Chairman in writing and obtain a written acknowledgement from the Committee. The Company has made specific enquiry of all Directors regarding any non-compliance with the Securities Code during the year of 2007, all Directors confirmed that they have fully complied with the required standard set out in the Securities Code during the year.

Recommended Best Practices complied by the Company

– Directors disclose their other directorship at the time of appointment and, subsequently, at least once every year to the Company. There were satisfactory attendances and active participations at Board, Board committees and general meetings by the Directors. The Independent Non-executive Directors had during the year contributed to the Board their constructive and valuable advice to the Company in the development of the Company's strategy and policies, in particular the internal controls of the Company.

A.6 Supply of and access to information

Principle of the Code

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

Code Provisions	Compliance	Actions by the Company
A.6.1 Agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of board meeting or committee meeting.	Yes	Agenda and board papers are sent to all Directors at least 3 days (generally at least 7 days) before the meetings unless it is on urgent basis to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting.
A.6.2 Management has an obligation to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions. The board and each director should have separate and independent access to the issuer's senior management.	Yes	Senior management works closely with the Board and meets each other on regular basis. They are required to submit reports on the Company's operations on a regular basis to the Board so that it could discharge its responsibilities.
A.6.3 All directors are entitled to have access to board papers. Steps must be taken to respond to the queries raised by directors as promptly and fully as possible.	Yes	Board papers will be sent to the Directors at least 7 days before the Board meetings. Minutes are properly kept by the Company Secretarial Department of the Company and are available for inspection by the Directors.

B. Remuneration of Directors and Senior Management

B.1 The level and make-up of remuneration and disclosure

Principle of the Code

An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. No director should be involved in deciding his own remuneration.

Code Provisions	Compliance	Actions by the Company
B.1.1 Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be the independent non-executive directors.	Yes	A Remuneration Committee has been established by the Board with specific written terms of reference and a majority of members of the Remuneration Committee is Independent Non-executive Director. The duties of the Remuneration Committee include: – determining the policy for the remuneration of the Company; – approving the terms of service contracts; and – ensuring the remuneration offered is appropriate for the duties and in line with market practice.
B.1.2 The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.	Yes	The Remuneration Committee carries out annual review of remuneration packages for the Directors and senior management of the Company. A meeting was held in August 2007 to review the remuneration package of the employees (including the Executive Directors and senior management) of the Company and to determine the total annual emoluments of the Independent Non-executive Directors.

Code Provisions	Compliance	Actions by the Company
B.1.3, B.1.4 & B.1.5 The terms of reference of the remuneration committee should include the specific duties as stipulated in B.1.3 of Appendix 14 to the Listing Rules. The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. The remuneration committee should be provided with sufficient resources to discharge its duties.	Yes	The terms of reference are set out in writing with adoption of the specific duties as provided in B.1.4 of Appendix 14 to the Listing Rules. It is made available on the Company's website. The Company will pay for all professional advice and other assistance as required by the Remuneration Committee.

Recommended Best Practices complied by the Company

– Details of remuneration of the Vice Chairman, the Managing Director and Deputy Managing Directors who are also the executive directors and the Independent Non-executive Directors are disclosed on an individual basis in this Annual Report.

C. Accountability and Audit

C.1 Financial Reporting

Principle of the Code

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Code Provisions	Compliance	Actions by the Company
C.1.1 Management should provide such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.	Yes	Management is required to provide detailed report and explanation to enable the Board to make an informed assessment before approval.

Code Provisions	Compliance	Actions by the Company
C.1.2 The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts, and there should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements.	Yes	The Directors and auditor of the Company state their respective responsibilities in this Annual Report.
C.1.3 The board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as information required to be disclosed pursuant to statutory requirements.	Yes	The Board aims at presenting a balanced, clear and understandable assessment of the Company's position to its shareholders and the public. Press conferences had been held twice a year. Information in relation to the Company had also been uploaded to the Company's website.

C.2 Internal Control

Principle of the Code

The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

Code Provisions	Compliance	Actions by the Company
C.2.1 The directors should at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its subsidiaries and report to shareholders that they have done so in their Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls and risk management functions.	Yes	The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. Management is charged with the responsibility to formulate and implement an appropriate internal controls system. An Internal Audit Department has been established to assist the Audit Committee in ensuring a sound and effective system of internal controls maintained by the Company. The chairman of the Audit Committee reports to the Board on key findings regarding internal audit work at least twice a year. A Risk Management Committee, chaired by the Managing Director and comprising of other Executive Directors, has been set up. The Managing Director reports to the Board on key findings regarding internal controls at least on annual basis. The Board has conducted an annual review on the effectiveness of its internal control systems covering all material controls, including financial, operational and compliance controls as well as risk management functions. The Board believed that the internal control systems of the Company are effective and adequate. A meeting was held in December 2007 to discuss a report submitted by the management. The report was about the implementation of risk management of the Company, content of which includes the employee conduct, the investment project and the Company's operation. Such report was submitted to the Board for review and the Board was satisfied with the results.

C.3 Audit Committee

Principle of the Code

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Listing Rules should have clear terms of reference.

Code Provisions	Compliance	Actions by the Company
C.3.1 Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the audit committee meetings should be sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.	Yes	Draft minutes prepared by the secretary of the Committee are sent to committee members for comment. Full minutes are kept by the secretary of the meeting.
C.3.2 A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of the issuer's audit committee for one year after he ceases to be a partner of or to have any financial interest in the firm, whichever is the later.	Yes	Except that Mr. Kwong Che Keung, Gordon, the Independent Non-executive Director, who was a partner of PricewaterhouseCoopers from 1984 to 1998, none of the members of the Audit Committee are former partners of the Company's existing auditing firm.
C.3.3 The terms of reference of the audit committee should include at least the following duties: – review of relationships with issuer's auditors – review of financial information of the issuer; and oversight of the issuer's financial reporting system and internal control procedures.	Yes	The terms of reference have coverage on the scope of duties as required in this Code Provisions.

Code Provisions	Compliance	Actions by the Company
C.3.4 The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	Yes	The terms of reference are available on the Company's website.
C.3.5 Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuers should include in the Corporate Governance Report a statement from the audit committee, explaining its recommendation and also the reason(s) why the board has taken a different view.	Yes	The Audit Committee recommended to the Board that, subject to the shareholders' approval at the forthcoming annual general meeting, PricewaterhouseCoopers would be re-appointed as the external auditor of the Company.
C.3.6 The audit committee should be provided with sufficient resources to discharge its duties.	Yes	The Company will at its expenses provide such assistance as required by the Audit Committee.

Recommended Best Practices complied by the Company

The terms of reference of the Audit Committee have been revised to include the following duties:

(1) to approve and monitor procedures enabling the following, and ensuring the fair and independent investigation and appropriate follow-up of such matters:

 (a) receipt, retention and treatment of complaints received by the Company regarding accounting, financial reporting, internal control, auditing or other matters; and

 (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting, financial reporting, internal control, auditing or other matters.

(2) the Audit Committee acts as the key representative body of the Company and is responsible to oversee the relationship between the Company and the external auditor, include the relationships involving the provision of non-audit services.

D. Delegation by the Board

D.1 Management functions

Principle of the Code

An issuer should have formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

Code Provisions	Compliance	Actions by the Company
D.1.1 When the board delegates aspects of its management and administration functions to management, it must at the same time give clear directions as to the powers of management.	Yes	The segregation of duties and responsibilities between the Board and the management has been defined and provided as internal guidelines of the Company. The duties of the Board include: – formulating operational strategies and management policy and establish corporate governance and internal control system; – setting the objective of management; and – monitoring performance of management.
D.1.2 An issuer should formalise the functions reserved to the board and those delegated to management.	Yes	The duties of the management include: – reviewing the business performance; – ensuring adequate fundings; and – monitoring performance of the management of the Company and its subsidiaries.

D.2 Board Committees

Principle of the Code

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Code Provisions	Compliance	Actions by the Company
D.2.1 Board committees are established with sufficiently clear terms of reference.	Yes	The Board has established Audit Committee, Remuneration Committee, Nomination Committee, Investment Committee, Risk Management Committee and Executive Committee with respective defined terms of reference. The terms of reference of the Board Committees are available on the Company's website.
D.2.2 The terms of reference of board committees should require such committees to report back to the board.	Yes	Board Committees would report to the Board their work, findings and recommendations at the Board meetings.

E. Communication with Shareholders

E.1 Effective Communication

Principle of the Code

The board should endevaour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Code Provisions	Compliance	Actions by the Company
E.1.1 A separate resolution should be proposed by the chairman of a general meeting for substantially separate issue.	Yes	Separate resolutions are proposed at the general meeting on each substantially separate issue.
E.1.2 The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duty appointed delegate, to be available to answer questions at annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.	Partial compliance	Mr. Wei Jiafu, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 29th May 2007 due to other business commitments. The chairman of the Audit Committee and the Remuneration Committee or their representatives attended the annual general meeting of the Company.

E.2 Voting by Poll

Principle of the Code

The issue should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the issuer.

Code Provisions	Compliance	Actions by the Company
E.2.1, E.2.2 & E.2.3 Disclosure in the issuer's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll. The issuer should ensure that votes cast are properly counted and recorded. The chairman of a meeting should at the commencement of the meeting ensure that the procedures for demanding a poll by shareholders and the detailed procedures for conducting a poll are explained.	Yes	Procedures for demanding a poll were set out in the circular accompanying the notice of general meeting. these procedures were also explained during the proceedings. Branch Share Registrar was appointed as scrutiniser.

The Composition of the Board and other Committees as at 31st December 2007

Board of Directors

Executive Directors

Mr. Wei Jiafu *(Chairman)*
Mr. Liu Guoyuan *(Vice Chairman)*
Mr. Li Jianhong
Mr. Wang Futian
Mr. Jia Lianjun
Mr. Wang Xiaoming
Mr. Liang Yanfeng *(Managing Director)*
Mr. Meng Qinghui
Mr. Chen Xuewen
Mr. Wang Xiaodong
Mr. Lin Wenjin

Independent Non-executive Directors

Mr. Kwong Che Keung, Gordon
Mr. Tsui Yiu Wa, Alec
Mr. Jiang, Simon X.

Audit Committee

Mr. Kwong Che Keung, Gordon* *(Committee Chairman)*
Mr. Tsui Yiu Wa, Alec*
Mr. Jiang, Simon X.*

Executive Committee

Mr. Liang Yanfeng# *(Committee Chairman)*
Mr. Liu Guoyuan#
Mr. Wang Xiaoming#
Mr. Chen Xuewen#
Mr. Wang Xiaodong#
Mr. Lin Wenjin#

Investment Committee

Mr. Wang Xiaoming# *(Committee Chairman)*
Mr. Wang Futian#
Mr. Liang Yanfeng#
Mr. Meng Qinghui#
Mr. Chen Xuewen#
Mr. Wang Xiaodong#

Nomination Committee

Mr. Tsui Yiu Wa, Alec* *(Committee Chairman)*
Mr. Kwong Che Keung, Gordon*
Mr. Jiang, Simon X.*
Mr. Liang Yanfeng#

Remuneration Committee

Mr. Jiang, Simon X.* *(Committee Chairman)*
Mr. Kwong Che Keung, Gordon*
Mr. Tsui Yiu Wa, Alec*
Mr. Liang Yanfeng#
Mr. Lin Wenjin#

Risk Management Committee

Mr. Liang Yanfeng# *(Committee Chairman)*
Mr. Liu Guoyuan#
Mr. Wang Xiaoming#
Mr. Meng Qinghui#
Mr. Chen Xuewen#
Mr. Wang Xiaodong#

* *Independent Non-executive Director*
\# *Executive Director*

During the year, the attendance record of each director at the Board meetings and Board Committees meetings is set out below:

	Board	Audit Committee	Executive Committee	Nomination Committee	Investment Committee	Remuneration Committee	Risk Management Committee
Executive Directors							
Mr. Wei Jiafu	4/4	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Liu Guoyuan	4/4	N/A	1/1	N/A	N/A	N/A	1/1
Mr. Li Jianhong	4/4	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Wang Futian *Note 1*	4/4	N/A	N/A	N/A	1/1	N/A	N/A
Mr. Jia Lianjun	4/4	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Wang Xiaoming	3/4	N/A	1/1	N/A	2/2	N/A	1/1
Mr. Liang Yanfeng *Note 2*	4/4	N/A	1/1	0/0	2/2	3/3	1/1
Mr. Meng Qinghui	4/4	N/A	N/A	N/A	2/2	N/A	1/1
Mr. Chen Xuewen	4/4	N/A	1/1	N/A	2/2	N/A	1/1
Mr. Lin Libing *Note 3*	2/3	N/A	0/1	2/2	2/2	N/A	N/A
Mr. Wang Xiaodong	3/4	N/A	1/1	N/A	2/2	N/A	1/1
Mr. Lin Wenjin	4/4	N/A	1/1	N/A	N/A	3/3	N/A
Independent Non-executive Directors							
Mr. Chan Cheong Foon, Andrew *Note 4*	1/1	1/1	N/A	2/2	N/A	1/1	N/A
Mr. Kwong Che Keung, Gordon *Note 5*	4/4	2/2	N/A	2/2	N/A	3/3	N/A
Mr. Tsui Yiu Wa, Alec	4/4	2/2	N/A	2/2	N/A	3/3	N/A
Mr. Jiang, Simon X. *Note 6*	3/3	1/1	N/A	0/0	N/A	2/2	N/A

Note 1
appointed as Executive Director on 16th March 2007 and committee member of the Investment Committee of the Company on 29th May 2007.

Note 2
appointed as committee member of the Nomination Committee of the Company on 11th December 2007.

Note 3
resigned as Executive Director and committee member of the Executive Committee, the Investment Committee and the Nomination Committee of the Company on 11th December 2007.

Note 4
retired as Independent Non-executive Director and ceased to be the chairman of the Audit Committee and committee member of the Remuneration Committee and the Nomination Committee of the Company on 29th May 2007.

Note 5
appointed as the chairman of the Audit Committee and resigned as the chairman and remained as committee member of the Remuneration Committee of the Company on 29th May 2007.

Note 6
appointed as Independent Non-executive Director and appointed as committee member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company on 12th April 2007. On 29th May 2007, he was appointed as the chairman of the Remuneration Committee of the Company.

Auditors' Remuneration

During the year, the remuneration paid to the Company's external auditor, Messrs. PricewaterhouseCoopers for audit services and non-audit services are HK$2,647,000 and HK$2,897,000 respectively.

The above non-audit services include professional advisory on taxation, professional services in relation to shareholders' circulars and review on connected transactions.

Information Disclosure and Investor Relations

The Company adheres to high standards with respect to the disclosure of its financial statements. To foster regular and contribute two-way communications amongst the Company, its shareholders and potential investors, the Company has established a Corporate Communications Department to respond to enquiries from its shareholders and the public. In addition, the Company is committed to maximising the use of its website as a channel to provide updated information in a timely manner and strengthen the communications with both the public and its shareholders.

Director's Responsibility in respect of Financial Statements

The Board acknowledges its responsibility for preparing the financial statements of the Company and its subsidiaries. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Company aims to present a clear and balanced assessment of its financial position and prospects. The Board must ensure that the financial statements of the Company and its subsidiaries are prepared so as to give a true and fair view of the financial status of the Company and its subsidiaries. Audited financial statements are published within four months after the end of the financial year.

The reporting responsibilities of the Directors and external auditor are further set out in the Auditor's Report in this Annual Report. For the announcement relating to the price-sensitive information and other financial disclosures required under the Listing Rules are disclosed pursuant to statutory requirements.

Management Meetings

Members of Executive Committee and the senior management meet together on a weekly basis to review, discuss and make decisions on financial and operational matters. These meetings, chaired by the Managing Director, enhance and strengthen departmental communications and cooperation within the Company and its subsidiaries.

Connected Transactions

The Company committed to ensuring compliance with regulatory requirements under the Listing Rules and applicable laws and regulations in handling connected transactions. Accordingly, the Company implemented various internal control mechanisms to capture and monitor connected transactions to ensure that connected transactions are approved by Independent Non-executive Directors, conducted under normal commercial terms or on terms that are fair and reasonable and properly disclosed and (if necessary) approved by independent shareholders of the Company in accordance with the Listing Rules. The connected persons were requested to abstain from voting in the general meetings. Details of the connected transactions during the year are set out in the Directors' Report.

Incentive Scheme and Corporate Culture

The Company maintains an employee handbook providing guidance to employees on matters such as employee dealings on the Company's securities, ethical standards, business conduct and employees conduct. The employee handbook applies to all employees of the Company and its subsidiaries who must ensure strict compliance with the policies therein. Through the establishment of a performance charter for the senior management, appropriate appraisal mechanisms, and the granting of share options, the Company has been able to align the interests of the senior management and entire staff with the growth and performance of the Company. The Company pays particular attention to the establishment of an optimal corporate culture. With the support of all staff, the Company has identified, formulated and implemented a corporate culture that is considered appropriate for its special circumstances, thereby ensuring that good corporate governance is maintained at all levels and at all times within the Company and its subsidiaries.

By order of the Board

CHIU Shui Suet
Company Secretary
Hong Kong, 28th March 2008

The Directors present this Directors' Report (the "Report") together with the audited financial statements of the Company and its subsidiaries for the year ended 31st December 2007.

Principal Activities

The Company's principal activity is investment holding. The principal activities of the Company and its subsidiaries include shipping services, property development and property investment. An analysis of the turnover and segment information of the Company and its subsidiaries for the year is set out in note 5 to the financial statements.

Results and Appropriations

The results of the Company and its subsidiaries for the year ended 31st December 2007 are set out in the consolidated income statement on page 108 of this Annual Report. The Board recommended the payment of a final dividend of 3.50 HK cents (2006: 4.30 HK cents) and a special dividend of 1.80 HK cents (2006: Nil) per share for the year ended 31st December 2007 subject to the shareholders' approval at the annual general meeting of the Company to be held on 23rd May 2008. Approximately HK$78,336,000 will be payable on or before 11th June 2008 to the shareholders of the Company whose names appear on the register of members on 23rd May 2008.

The register of members will be closed from 21st May 2008 to 23rd May 2008, both days inclusive, during which period no transfer of shares will be effected. To qualify for the proposed final and special dividends, all transfers must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 20th May 2008.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Company and its subsidiaries during the year are set out in note 8 to the financial statements.

Distributable Reserves

The distributable reserves of the Company as at 31st December 2007 calculated under Companies Act of Bermuda amounted to HK$1,287,963,000.

Borrowings and Interest Capitalised

Borrowings repayable on demand or within one year are classified under current liabilities. Details of the borrowings are set out in note 24 to the financial statements. Interest and other borrowing costs capitalised by the Company and its subsidiaries during the year are set out in note 28 to the financial statements.

Reserves

Details of the movements in reserves of the Company and its subsidiaries during the year are set out in note 22 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 21 to the financial statements.

Donations

The Company and its subsidiaries did not make any donations during the year (2006: Nil).

Five-year Financial Summary

A five-year financial summary of the Company and its subsidiaries is set out on page 188.

Directors

The Directors during the year and up to the date of this Report were:

Executive Directors

Mr. Wei Jiafu *(Chairman)*
Mr. Liu Guoyuan *(Vice Chairman)*
Mr. Li Jianhong
Mr. Wang Futian
(appointed on 16th March 2007)
Mr. Jia Lianjun
Mr. Wang Xiaoming
Mr. Liang Yanfeng *(Managing Director)*
Mr. Meng Qinghui
Mr. Chen Xuewen
Mr. Lin Libing
(resigned on 11th December 2007)
Mr. Wang Xiaodong
Mr. Lin Wenjin

Independent Non-executive Directors

Mr. Chan Cheong Foon, Andrew
(retired on 29th May 2007)
Mr. Kwong Che Keung, Gordon
Mr. Tsui Yiu Wa, Alec
Mr. Jiang, Simon X.
(appointed on 12th April 2007)

In accordance with Bye-Law 99 of the Company's Bye-Laws, all Directors shall retire from office at the forthcoming annual general meeting and be eligible for re-election.

Directors' Interests in Contracts

No contracts of significance in relation to the Company's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Businesses

During the year and up to the date of this Report, the following Directors are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "SEHK") as set out on the following page:

Name of Director	Name of the entities which were considered to compete or likely to compete with the businesses of the Company and its subsidiaries	Description of businesses of the entities which were considered to compete or likely to compete with the businesses of the Company and its subsidiaries	Nature of Director's interest in the entities
Mr. Wei Jiafu	companies controlled by COSCO	– Shipping services – Property development and investment	director
Mr. Liu Guoyuan	COSCO (Hong Kong) Group Limited and companies controlled by COSCO (Hong Kong) Group Limited	– Shipping services – Property development and investment	director
Mr. Li Jianhong	companies controlled by COSCO	– Shipping services – Property development and investment	director
	Sino-Ocean Land Holdings Limited ("SOLHL")	– Property development and investment	non-executive director and chairman
Mr. Wang Futian	companies controlled by COSCO (Hong Kong) Group Limited	– Shipping services – Property development and investment	director
Mr. Jia Lianjun	companies controlled by COSCO	– Shipping services – Property development and investment	director
Mr. Wang Xiaoming	COSCO (Hong Kong) Group Limited and companies controlled by COSCO (Hong Kong) Group Limited	– Shipping services – Property development and investment	director
Mr. Liang Yanfeng	Soundwill Holdings Limited ("Soundwill")	– Property development and investment	non-executive vice chairman
	SOLHL	– Property development and investment	non-executive director
Mr. Meng Qinghui	companies controlled by COSCO (Hong Kong) Group Limited	– Shipping services – Property development and investment	director
	Soundwill	– Property development and investment	non-executive director
Mr. Chen Xuewen	companies controlled by COSCO (Hong Kong) Group Limited	– Shipping services – Property development and investment	director

As the Board is independent from the board of directors of the aforesaid companies, and as none of the above Directors controls the Board, the Company and its subsidiaries are capable of carrying on their businesses independently of, and at arm's length from, the businesses of these companies.

Connected Transactions

Pursuant to Chapter 14A of the Listing Rules, the following connected transactions are required to be disclosed in this Annual Report. The connected transactions which also constitute significant related party transactions are set out in note 37 to the financial statements.

1. Ship Trading Continuing Connected Transactions

On 28th December 2004, an agreement (the "Master Agreement") was entered into between the Company, COSCO (Hong Kong) Group Limited, an intermediate holding company of the Company, and COSCO International Ship Trading Company Limited ("COSCO Ship Trading"), an indirect non wholly-owned subsidiary of the Company, pursuant to which COSCO Ship Trading and its subsidiaries (collectively "COSCO Ship Trading Group") agrees to continue to provide COSCO Group with the agency services (the "Ship Trading Continuing Connected Transactions") for the three financial years ending 31st December 2005, 2006 and 2007. Pursuant to the Master Agreement, COSCO (Hong Kong) Group Limited and the Company will procure that the Ship Trading Continuing Connected Transactions be conducted in usual and ordinary course of business, on normal commercial terms or terms no less favourable than terms available to or from independent third parties. Pursuant to the Master Agreement, the Company undertakes for a term of three years that it will ensure the aggregate amount of the Ship Trading Continuing Connected Transactions for the three financial years ending 31st December 2005, 2006 and 2007 will not exceed HK$58,500,000, HK$60,300,000 and HK$63,200,000 respectively (the "Ship Trading Cap Amounts"). The Ship Trading Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 24th February 2005.

In order to meet the increasing demands of Ship Trading Continuing Connected Transactions, the Company entered into a supplemental agreement on 27th October 2005 with COSCO (Hong Kong) Group Limited and COSCO Ship Trading, to revise the annual cap amounts of the Ship Trading Continuing Connected Transactions to HK$73,000,000 and HK$80,000,000 for the two financial years ending 31st December 2006 and 2007 respectively ("ST Revised Cap Amounts"), while the annual cap amount for the Ship Trading Continuing Connected Transactions for the financial year ending 31st December 2005 as previously approved by the independent shareholders of the Company, being HK$58,500,000, and other terms of the Master Agreement remained unchanged. The ST Revised Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 8th December 2005. The annual cap amount for the Ship Trading Continuing Connected Transactions for the financial year ending 31st December 2005 and the ST Revised Cap Amounts are as below:

Cap for the year ending 31st December 2005	Cap for the year ending 31st December 2006	**Cap for the year ending 31st December 2007**
HK$58,500,000	HK$73,000,000	**HK$80,000,000**

The Ship Trading Continuing Connected Transactions for the financial year ended 31st December 2007 amounted to HK$78,146,000.

On 30th November 2007, a conditional master agreement was entered into between the Company, COSCO (Hong Kong) Group Limited and COSCO Ship Trading ("Ship Agency Services Master Agreement"), pursuant to which the COSCO Ship Trading Group will provide ship agency services ("Ship Agency Services") to COSCO Group for the three financial years ending 31st December 2010 on normal commercial terms and on terms no less favourable than terms available to or from independent third parties and the annual cap amounts of the Ship Agency Services for each of the financial years ending 31st December 2008, 2009 and 2010 will not exceed HK$330,000,000 (collectively the "2008–2010 Ship

Agency Cap Amounts"). The Ship Agency Services Master Agreement and the 2008–2010 Ship Agency Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 8th January 2008.

2. Yuantong Continuing Connected Transactions

On 28th December 2004, a conditional sale and purchase agreement (the "Yuantong S&P Agreement") was entered into by Leadfull Investments Limited ("Leadfull"), a wholly-owned subsidiary of the Company as purchaser and COSCO Trading and Supply Investments Limited ("COSCO Trading and Supply"), a subsidiary of COSCO (Hong Kong) Group Limited, as vendor for the sale and purchase of 100% equity interest in Yuantong Marine Service Co. Limited ("Yuantong"), pursuant to which Yuantong agrees to provide COSCO Group with supply and installation of marine equipment, spare parts, communications and navigation equipment (the "Yuantong Continuing Connected Transactions") for the three financial years ending 31st December 2005, 2006 and 2007.

Pursuant to the Yuantong S&P Agreement, COSCO (Hong Kong) Group Limited and the Company will procure that the Yuantong Continuing Connected Transactions be conducted on normal commercial terms or terms no less favourable than terms available to or from independent third parties. Pursuant to the Yuantong S&P Agreement, the Company undertakes for a term of three years that it will ensure the aggregate amount of the Yuantong Continuing Connected Transactions for the three financial years ending 31st December 2005, 2006 and 2007 will not exceed HK$229,000,000, HK$249,000,000 and HK$270,000,000 respectively (the "Yuantong Cap Amounts").

In order to meet the increasing demands of Yuantong Continuing Connected Transactions, the Company had entered into a supplemental agreement on 27th October 2005 with Leadfull, COSCO Trading and Supply and COSCO (Hong Kong) Group Limited to revise the Yuantong Cap Amounts to HK$313,000,000, HK$406,000,000 and HK$446,000,000 for the three financial years ending 31st December 2005, 2006 and 2007 respectively (the "YT Revised Cap Amounts"), while other terms of the Yuantong S&P Agreement remained unchanged. The YT Revised Cap Amounts as set out below were approved by the independent shareholders of the Company at the special general meeting held on 8th December 2005.

Cap for the year ending 31st December 2005	Cap for the year ending 31st December 2006	**Cap for the year ending 31st December 2007**
HK$313,000,000	HK$406,000,000	**HK$446,000,000**

The Yuantong Continuing Connected Transactions for the financial year ended 31st December 2007 amounted to HK$290,384,000.

On 30th November 2007, a conditional master agreement was entered into between the Company, COSCO (Hong Kong) Group Limited and Yuantong ("Supply and Installation Services Master Agreement"), pursuant to which Yuantong and its subsidiary will provide the supply and installation services ("Supply and Installation Services") to COSCO Group for the three financial years ending 31st December 2010 on normal commercial terms and on terms no less favourable than terms available to or from independent third parties and the annual cap amounts for each of the financial years ending 31st December 2008, 2009 and 2010 will not exceed HK$410,000,000, HK$450,000,000 and HK$495,000,000 respectively (collectively the "2008–2010 Supply and Installation Cap Amounts"). The Supply and Installation Services Master Agreement and the 2008–2010 Supply and Installation Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 8th January 2008.

3. COSCO Kansai Continuing Connected Transactions

In order to comply with the requirement of the Listing Rules, other than (a) a technology transfer agreement entered into between COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd. ("COSCO Kansai (Tianjin)", formerly known as Tianjin COSCO Kansai Paint & Chemicals Co., Ltd.) and Kansai Paint Co., Ltd. ("Japan Kansai"), a substantial shareholder of certain non wholly-owned subsidiaries of the Company, on 18th December 1991; (b) a technology transfer agreement entered into between COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd. ("COSCO Kansai (Shanghai)", formerly known as Shanghai COSCO Kansai Paint & Chemicals Co., Ltd.) and Japan Kansai on 19th January 1996; and (c) a technology transfer agreement entered into between 中遠關西塗料化工（珠海）有限公司 (COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd.) ("COSCO Kansai (Zhuhai)", formerly known as 珠海中遠關西塗料化工有限公司 (Zhuhai COSCO Kansai Paint & Chemicals Co., Ltd.)) and Japan Kansai on 28th February 2006 in relation to the provision of technology and know-how (collectively the "Technology Transfer Agreements"),

(A) COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) had
   (i) on 31st March 2005 entered into an agreement with NKM Coatings Co., Ltd. ("NKM"), a company registered in Kyoto, Japan in which Japan Kansai holds more than 50% of its equity interest, in relation to their purchase of raw material; and
   (ii) on 25th May 2005 entered into written agreements with Japan Kansai and its subsidiaries and associated companies (the "Kansai Group") and COSCO Group in relation to (a) the purchase of raw materials by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) from Japan Kansai; (b) the sale of coatings by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) to NKM; (c) the sale of coatings by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) to COSCO Group; (d) the introduction of businesses by NKM to COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai); and (e) the introduction of businesses by COSCO Group to COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai); and
   (iii) on 19th June 2006 entered into another agreement with NKM in relation to the sale of coatings by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) to NKM.

(B) COSCO Kansai (Zhuhai) had
   (i) on 16th August 2007 entered into an agreement with Japan Kansai in relation to the purchase of raw materials and semi-finished products by COSCO Kansai (Zhuhai) from Japan Kansai; and
   (ii) on 16th August 2007 entered into an agreement with COSCO (Hong Kong) Group Limited in relation to the introduction of business by members of the COSCO Group to COSCO Kansai (Zhuhai).

(The Technology Transfer Agreements and the agreements set out in items (A) and (B) are collectively called "the Written Agreements" and the transactions contemplated under the Written Agreements are collectively called "COSCO Kansai Continuing Connected Transactions".)

The annual cap amounts of the COSCO Kansai Continuing Connected Transactions for each of the financial years ending 31st December 2005, 2006 and 2007 will not exceed relevant cap amounts set out below (the "COSCO Kansai Cap Amounts"):

	Caps for the year ending 31st December 2005 RMB	Caps for the year ending 31st December 2006 RMB	**Caps for the year ending 31st December 2007 RMB**
Technology usage fee payable to Japan Kansai	8,000,000	8,000,000	**9,500,000***
Purchase of raw materials from Japan Kansai and NKM	52,000,000	52,000,000	**54,000,000***
Sale of coatings to NKM	10,000,000	10,000,000	**10,000,000**
Sale of coatings to the COSCO Group	29,000,000	29,000,000	**29,000,000**
Commission payable to NKM for business referral	9,000,000	9,000,000	**9,000,000**
Commission payable to the COSCO Group for business referral	4,000,000	4,000,000	**10,000,000***

Note
- the Caps marked "*" involved COSCO Kansai (Tianjin), COSCO Kansai (Shanghai) and COSCO Kansai (Zhuhai)
- other than the Caps marked "*", all the Caps involved COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) only

The COSCO Kansai Continuing Connected Transactions for the financial year ended 31st December 2007 were as follows:

	RMB
Technology usage fee paid to Japan Kansai	8,037,000*
Purchase of raw materials from Japan Kansai and NKM	4,033,000*
Sale of coatings to NKM	4,418,000
Sale of coatings to the COSCO Group	19,898,000
Commission paid to NKM for business referral	–
Commission paid to the COSCO Group for business referral	1,494,000*

Note
- the amounts marked "*" involved COSCO Kansai (Tianjin), COSCO Kansai (Shanghai) and COSCO Kansai (Zhuhai)
- other than the amounts marked "*", all the amounts involved COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) only

The COSCO Kansai Continuing Connected Transactions were approved by the independent shareholders of the Company at the special general meeting held on 21st July 2005 and disclosed in the announcements dated 19th June 2006 and 16th August 2007 respectively.

In view of the expiry of COSCO Kansai Cap Amounts as at 31st December 2007, the following agreements were entered into on 30th November 2007 for the three financial years ending 31st December 2010 on normal commercial terms:

(A) master agreements were entered into between each of COSCO Kansai (Tianjin), COSCO Kansai (Shanghai) and COSCO Kansai (Zhuhai) (collectively "COSCO Kansai Companies") and Japan Kansai in relation to the purchase of raw material by each of COSCO Kansai (Tianjin), COSCO Kansai (Shanghai) and COSCO Kansai (Zhuhai) from Japan Kansai;

(B) a conditional master agreement was entered into between COSCO Kansai (Tianjin), COSCO Kansai (Shanghai) and NKM in relation to the purchase of raw materials from NKM;

(C) a master agreement was entered into between COSCO Kansai (Tianjin), COSCO Kansai (Shanghai) and NKM in relation to the sale of coatings to NKM;

(D) a conditional master agreement was entered into between the Company, COSCO Kansai Companies and COSCO (Hong Kong) Group Limited in relation to the sale of coatings by COSCO Kansai Companies to COSCO Group and the introduction of businesses by COSCO Group to COSCO Kansai Companies; and

(E) a conditional master agreement was entered into between COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) and NKM in relation to the introduction of businesses by NKM to COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai).

(The agreements set out in items (A), (B), (C), (D), (E) and the Technology Transfer Agreements are collectively called "the Renewal Agreements" and the transactions contemplated under the Renewal Agreements are collectively called "COSCO Kansai Forthcoming Continuing Connected Transactions".)

The aggregate amount of the COSCO Kansai Forthcoming Continuing Connected Transactions for each of the financial years ending 31st December 2008, 2009 and 2010 will not exceed relevant cap amounts set out below (the "2008-2010 COSCO Kansai Cap Amounts"). The Renewal Agreements and the 2008–2010 COSCO Kansai Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 8th January 2008.

	Caps for the year ending 31st December 2008 RMB	Caps for the year ending 31st December 2009 RMB	Caps for the year ending 31st December 2010 RMB
Technology usage fees payable by the COSCO Kansai Companies to Japan Kansai	11,000,000	14,000,000	18,000,000
Purchase of raw materials by the COSCO Kansai Companies from Japan Kansai and by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) from NKM	12,000,000	15,000,000	18,000,000
Sale of coatings by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) to NKM	10,000,000	10,000,000	10,000,000
Sale of coatings by the COSCO Kansai Companies to the COSCO Group	29,000,000	35,000,000	42,000,000
Commission payable to NKM by COSCO Kansai (Tianjin) and COSCO Kansai (Shanghai) for business referral	9,000,000	9,000,000	9,000,000
Commission payable to the COSCO Group by the COSCO Kansai Companies for business referral	19,000,000	21,000,000	23,000,000

4. COSCO Insurance Brokers Continuing Connected Transactions

On 10th November 2006, the Company, COSCO (Hong Kong) Insurance Brokers Limited ("HK COSCO Insurance Brokers"), an indirect wholly-owned subsidiary of the Company, 深圳中遠保險經紀有限公司 (Shenzhen COSCO Insurance Brokers Limited) ("SZ COSCO Insurance Brokers"), an indirect non wholly-owned subsidiary of the Company, and COSCO (Hong Kong) Group Limited entered into a conditional master agreement ("COSCO Insurance Master Agreement"), pursuant to which HK COSCO Insurance Brokers and SZ COSCO Insurance Brokers will provide marine and general insurance brokerage services (the "COSCO Insurance Brokers Continuing Connected Transactions") to COSCO Group for the three financial years ending 31st December 2009 on normal commercial terms and on terms no less favourable than terms available to or from independent third parties. The aggregate amount of the COSCO Insurance Brokers Continuing Connected Transactions for each of the financial years ending 31st December 2007, 2008 and 2009 will not exceed the relevant cap amounts set out below (the "Insurance Cap Amounts"). The COSCO Insurance Master Agreement and the Insurance Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 21st December 2006.

Cap for the year ending 31st December 2007	Cap for the year ending 31st December 2008	Cap for the year ending 31st December 2009
US$5,740,000	US$6,320,000	US$6,960,000
(approximately HK$44,772,000)	(approximately HK$49,296,000)	(approximately HK$54,288,000)

The aggregate amount of COSCO Insurance Brokers Continuing Connected Transactions for the financial year ended 31st December 2007 was US$5,257,000.

5. Tenancy Agreements Relating to 47th Floor, Unit 4802 and Unit 4601 of COSCO Tower, Supplemental Agreement of 47th Floor of COSCO Tower and Tenancy Agreement Relating to Rooms 1103, 1108 and 1110 of the 11th Floor of Block A of Lucky Tower, No. 3 North Dongsanhuan Road, Chao Yang District, Beijing, PRC

On 30th May 2005, Monoland Assets Limited, a wholly-owned subsidiary of the Company as vendor and Wealthocean Investments Limited ("Wealthocean") as purchaser, a wholly-owned subsidiary of COSCO (Hong Kong) Group Limited entered into a conditional sale and purchase agreement ("Modern Capital S&P Agreement") for the sale and purchase of 100% interest in, and loan to, Modern Capital Investment Limited ("Modern Capital") for a total consideration of HK$1,402,000,000. Modern Capital owns various subsidiaries which are the owners of 39th, 40th, 42nd, 47th, 48th, 49th, 50th and 51st Floors of COSCO Tower, Grand Millennium Plaza, Hong Kong. The transaction was completed on 3rd August 2005 where upon Modern Capital became an indirect wholly-owned subsidiary of COSCO (Hong Kong) Group Limited.

Pursuant to the terms of Modern Capital S&P Agreement, the following two tenancies were entered into at completion:

(1) a tenancy agreement ("47th Floor Tenancy Agreement") between the Company (as tenant) and Tian Lee Property Limited ("Tian Lee"), an indirect wholly-owned subsidiary of COSCO (Hong Kong) Group Limited (as landlord) in respect of the whole 47th Floor of COSCO Tower ("Premises"); and

(2) a tenancy agreement ("4802 Tenancy Agreement") between COSCO Ship Trading (as tenant) and Velu Exports Limited ("Velu Exports"), an indirect wholly-owned subsidiary of COSCO (Hong Kong) Group Limited (as landlord) in respect of Unit 4802 of COSCO Tower.

In order to comply with the Listing Rules, the rental payable by the Company in accordance with the 47th Floor Tenancy Agreement (the "47th Floor Tenancy Continuing Connected Transactions") should not exceed HK$3,700,000, HK$7,300,000 and HK$7,300,000 for the three financial years ending 31st December 2005, 2006 and 2007 respectively. The rental payable by COSCO Ship Trading in accordance with the 4802 Tenancy Agreement (the "4802 Tenancy Continuing Connected Transactions") should not exceed HK$1,200,000, HK$2,300,000 and HK$2,300,000 for each of the financial years ending 31st December 2005, 2006 and 2007 respectively.

On 5th January 2006, a supplemental agreement was entered into between the Company and Tian Lee to amend certain terms of the 47th Floor Tenancy Agreement to exclude Unit 4705 of the 47th Floor COSCO Tower from the 47th Floor Tenancy Agreement ("Supplemental Agreement").

Pursuant to the Supplemental Agreement, certain terms of the 47th Floor Tenancy Agreement have been amended with effect from the date of the Supplemental Agreement as follows:

1. the subject premises of the 47th Floor Tenancy Agreement were changed from the Premises (as defined in the 47th Floor Tenancy Agreement) to Units 4701-3 and 4706 of 47th Floor of COSCO Tower, Grand Millennium Plaza, Hong Kong by excluding Unit 4705 of 47th Floor of COSCO Tower, Grand Millennium Plaza, Hong Kong;

2. the monthly rental (exclusive of air-conditioning and management charges, Government rates and all other outgoings of a recurring and non-capital nature but inclusive of Government rent) payable by the Company to Tian Lee was reduced proportionally by reference to the size of the Unit 4705 of the 47th Floor of COSCO Tower, Grand Millennium Plaza, Hong Kong and the Premises;

3. the monthly management fee (including air-conditioning charges) was reduced proportionally by reference to the size of the Unit 4705 of the 47th Floor of COSCO Tower, Grand Millennium Plaza, Hong Kong and the Premises; and

4. a corresponding compensation shall be payable by Tian Lee to the Company.

The 47th Floor and the 4802 Tenancy Continuing Connected Transactions for the financial year ended 31st December 2007 amounted to HK$5,477,000 and HK$2,262,000 respectively.

As the 47th Floor Tenancy Agreement as supplemented by the Supplemental Agreement and the 4802 Tenancy Agreement will expire on 2nd August 2008, the following agreements were entered into on 30th November 2007:

1. a tenancy agreement between the Company as tenant and Tian Lee as landlord in respect of Units 4701-3 and 4706 of the 47th Floor of COSCO Tower, Grand Millennium Plaza, Hong Kong for a period of three years from 3rd August 2008 to 2nd August 2011 (the "1st Tenancy Agreement");

2. a tenancy agreement between COSCO Ship Trading as tenant and Velu Exports as landlord in respect of Unit 4802 of the 48th Floor of COSCO Tower, Grand Millennium Plaza, Hong Kong for a period of three years from 3rd August 2008 to 2nd August 2011 (the "2nd Tenancy Agreement").

In addition, Yuantong on 30th November 2007 entered into a tenancy agreement as tenant with Thien Poh Engineering Limited, an indirect wholly-owned subsidiary of COSCO (Hong Kong) Group Limited as landlord in respect of Unit 4601 of the 46th Floor of COSCO Tower, Grand Millennium Plaza, Hong Kong for a period of three years from 1st January 2008 to 31st December 2010 (the "3rd

Tenancy Agreement") and 中遠國際船舶貿易(北京)有限公司 (前稱北京中遠船貿技術資訊限公司 (COSCO Ship Beijing Company Limited)) on 30th November 2007 entered into a tenancy agreement as tenant with 中遠幸福(北京)大廈有限公司 (COSCO Happiness (Beijing) Mansion Ltd.)), an indirect wholly-owned subsidiary of COSCO (Hong Kong) Group Limited for a period of three years from 1st January 2008 to 31st December 2010 (the "4th Tenancy Agreement").

(The 1st Tenancy Agreement, the 2nd Tenancy Agreement, the 3rd Tenancy Agreement and the 4th Tenancy Agreement are collectively called the "Tenancy Agreements" and the transactions contemplated under the Tenancy Agreements are collectively called the "Tenancy Continuing Connected Transactions".)

The aggregate amount of the Tenancy Continuing Connected Transactions for each of the financial years ending 31st December 2008, 2009 and 2010 will not exceed HK$16,000,000, HK$18,000,000 and HK$18,000,000 respectively (the "2008-2010 Tenancy Cap Amounts"). Details of the Tenancy Agreements and the 2008–2010 Tenancy Cap Amounts were disclosed in the announcement dated 30th November 2007.

The Independent Non-executive Directors had reviewed 1) the Ship Trading Continuing Connected Transactions; 2) the Yuantong Continuing Connected Transactions; 3) the COSCO Kansai Continuing Connected Transactions; 4) the COSCO Insurance Brokers Continuing Connected Transactions; and 5) the 47th Floor and the 4802 Tenancy Continuing Connected Transactions (collectively called "the Company's Continuing Connected Transactions") and were of the opinion that the Company's Continuing Connected Transactions for the financial year ended 31st December 2007 had been entered into:

(i) in the ordinary and usual course of business of the Company and its subsidiaries;
(ii) either on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and
(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company was instructed to perform specific procedures on the Company's Continuing Connected Transactions and confirmed that the Company's Continuing Connected Transactions:

(a) had received the approval of the Board;
(b) were in accordance with the pricing policies of the Company and its subsidiaries;
(c) had been entered into in accordance with the relevant agreements governing them; and
(d) had not exceeded the relevant cap amounts for the financial year ended 31st December 2007.

6. Disposal of COSCO Construction

On 5th February 2007, COSCO (B.V.I.) Holdings Limited, a wholly-owned subsidiary of the Company, as vendor entered into a conditional sale and purchase agreement with COSCO (H.K.) Property Development Limited ("COSCO HK Property"), a wholly-owned subsidiary of COSCO (Hong Kong) Group Limited as purchaser in respect of the disposal of the entire issued share capital of COSCO International Construction Limited and the Shareholder's Loan (as defined in the announcement of the Company dated 5th February 2007) to COSCO HK Property at the total consideration of HK$2. The disposal was approved by the independent shareholders on 15th March 2007.

7. **Disposal of Success Gate**

On 24th August 2007, Top Elegant Investments Limited, a wholly-owned subsidiary of the Company as vendor entered into a conditional sale and purchase agreement with Long Sen Investments (Hong Kong) Limited ("Long Sen"), an independent third party of the Company, as purchaser in respect of the disposal of the entire issued share capital of Success Gate Investments Limited ("Success Gate") and the Shareholder's Loan (as defined in the announcement of the Company dated 24th August 2007) to Long Sen at the total consideration of RMB55,667,000. Success Gate is the investment holding company holding 51% interest in Shenyang COSCO Yihe Property Development Co., Ltd. ("Shenyang COSCO Yihe"). Shenyang COSCO Yihe is the developer of the real estate development project "COSCO Yihe Garden" and the owner of Properties (as defined in the announcement of the Company dated 24th August 2007). As the disposal involved the disposal of the Company's indirect interest in Shenyang COSCO Yihe where a substantial shareholder of Shenyang COSCO Yihe (namely 廣州遠洋建設實業公司 (COSCO Guangzhou Construction Industry Company)) is an associate of a controller of the Company (namely, COSCO), under the Listing Rules, the disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The disposal was approved by the independent shareholders of the Company on 4th October 2007.

Specific Performance Obligations of the Controlling Shareholder

Under paragraph 13.18 of Chapter 13 of the Listing Rules, the Company discloses the following loan agreement which contain covenants requiring specific performance obligations of the controlling shareholder:

1. An unsecured loan and credit facility of HK$100,000,000 to finance the general working capital and corporate funding requirement of the Company was granted by Mizuho Corporate Bank, Ltd, Hong Kong Branch to the Company on 22nd December 2006. The unsecured loan and credit facility will be repayable on or before 22nd December 2008. The loan is guaranteed unconditionally and irrevocably by COSCO (Hong Kong) Group Limited which undertakes, amongst other conditions, that:

   (i) it shall directly or indirectly beneficially maintain an equity or shareholding interest of not less than 35% of the voting rights attached to the issued share capital of the Company, which shall maintain its listing status on the SEHK; and
   (ii) it shall be more than 50% beneficially owned by COSCO.

Share Options

The following is a summary of the Company's share option scheme approved and adopted by the shareholders of the Company on 17th May 2002 and with amendment approved by the shareholders of the Company at the special general meeting held on 5th May 2005 (the "Share Option Scheme") and disclosed in accordance with the Listing Rules:

1. **Purpose of the Share Option Scheme**

   (a) The purpose of the Share Option Scheme is for the Company and its subsidiaries to attract, retain and motivate talented participants to strive for future development and expansion of the Company and its subsidiaries.
   (b) The Share Option Scheme shall be an incentive to encourage the participants and allow the participants to enjoy the results of the Company attained through their efforts and contributions.

2. **Participants of the Share Option Scheme**

   (a) any director of the Company and its subsidiaries;
   (b) any director of the substantial shareholder of the Company;
   (c) any employee of the Company and its subsidiaries;
   (d) any employee of the Company's substantial shareholder or any employee of such substantial shareholder's subsidiaries or associated companies;
   (e) any business associate of the Company and its subsidiaries; and
   (f) any business associate of any substantial shareholder of each member of the Company and its subsidiaries.

3. Total number of share options available for issue under the Share Option Scheme and percentage of issued share capital of the Company as at 31st December 2007

The number of share options available for issue under the Share Option Scheme is 95,394,129 shares representing 6.45% of the issued share capital of the Company at 31st December 2007.

4. Maximum entitlement of each participant under the Share Option Scheme

The maximum entitlement for each participant is that the total number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of issued shares of the Company. Any grant of further options above this limit shall be subject to certain requirements as stipulated in the rules of the Share Option Scheme.

5. The period within which the shares must be taken up under an option

Share options granted on 26th November 2003 are exercisable at any time from 23rd December 2003 to 22nd December 2008.

Share options granted on 2nd December 2004 are exercisable at any time from 29th December 2004 to 28th December 2014.

Share options granted on 10th May 2005 are exercisable at any time from 6th June 2005 to 5th June 2015.

Share options granted on 9th March 2007 are exercisable from 9th March 2009 to 8th March 2015 in 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.

6. The minimum period for which an option must be held before it can be exercised

There is and shall be no minimum period for which an option must be held before it can be exercised except the share options granted on 9th March 2007, details of which was disclosed in item 5 above.

7. The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be paid

The option shall be deemed to have been accepted when the duplicate letter duly signed by the grantee, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof, is received by the Company. To the extent that the offer is not accepted within 28 days in the manner aforesaid, it will be deemed to have been irrevocably declined.

8. The basis of determining the exercise price

The exercise price is determined by the Board and shall be the highest of:

(a) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the SEHK on the offer date;
(b) the average closing price of shares of the Company as stated in the daily quotation sheets issued by the SEHK for the five business days immediately preceding the offer date; and
(c) the nominal value of a share of the Company.

9. The remaining life of the Share Option Scheme

The Share Option Scheme is valid and effective for a period of 10 years, it commenced on 17th May 2002 and will expire on 16th May 2012.

Details of the movements of the share options granted under the Share Option Scheme during the year are set out below:

Name	Exercise price HK$	Outstanding as at 1st January 2007	Granted during the year	Changed category during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December 2007	Percentage of total issued share capital	Notes
Mr. Wei Jiafu	0.57	1,800,000	–	–	–	–	1,800,000	0.122%	(1),(5),(6)
	1.37	1,200,000	–	–	–	–	1,200,000	0.081%	(2),(5),(6)
Mr. Liu Guoyuan	0.57	1,800,000	–	–	(1,800,000)	–	–	–	(1),(5),(6)
	1.37	1,200,000	–	–	–	–	1,200,000	0.081%	(2),(5),(6)
	3.666	–	1,100,000	–	–	–	1,100,000	0.074%	(4),(5),(6)
Mr. Li Jianhong	0.57	1,800,000	–	–	–	–	1,800,000	0.122%	(1),(5),(6)
	1.37	1,200,000	–	–	–	–	1,200,000	0.081%	(2),(5),(6)
Mr. Wang Futian(i)	3.666	–	800,000	–	–	–	800,000	0.054%	(4),(5),(6)
Mr. Jia Lianjun	3.666	–	800,000	–	–	–	800,000	0.054%	(4),(5),(6)
Mr. Wang Xiaoming	3.666	–	800,000	–	–	–	800,000	0.054%	(4),(5),(6)
Mr. Liang Yanfeng	0.57	1,200,000	-	–	(1,200,000)	–	–	–	(1),(5),(6)
	3.666	-	1,100,000	–	–	–	1,100,000	0.074%	(4),(5),(6)
Mr. Meng Qinghui	0.57	1,200,000	–	–	(1,200,000)	–	–	–	(1),(5),(6)
	1.37	800,000	–	–	–	–	800,000	0.054%	(2),(5),(6)
	3.666	–	800,000	–	–	–	800,000	0.054%	(4),(5),(6)
Mr. Chen Xuewen	3.666	–	800,000	–	–	–	800,000	0.054%	(4),(5),(6)
Mr. Wang Xiaodong	0.57	900,000	–	–	(900,000)	–	–	–	(1),(5),(6)
	1.37	800,000	–	–	–	–	800,000	0.054%	(2),(5),(6)
	3.666	–	800,000	–	–	–	800,000	0.054%	(4),(5),(6)
Mr. Lin Wenjin	0.57	800,000	–	–	(800,000)	–	–	–	(1),(5),(6)
	1.37	500,000	–	–	–	–	500,000	0.034%	(2),(5),(6)
	3.666	–	800,000	–	–	–	800,000	0.054%	(4),(5),(6)
Ex-Director									
Mr. Lin Libing(ii)	0.57	1,200,000	–	–	(1,200,000)	–	–	–	(1),(5),(6)
	1.37	800,000	–	–	(800,000)	–	–	–	(2),(5),(6)
	3.666	–	800,000	(800,000)	–	–	–	–	(4),(5),(6)
Continuous contract employees of the Company, its subsidiaries and jointly controlled entities	0.57	4,848,000	–	–	(1,248,000)	–	3,600,000	0.244%	(1),(5),(6)
	1.37	14,150,000	–	(1,450,000)	(4,200,000)	–	8,500,000	0.575%	(2),(5),(6)
	1.21	2,200,000	–	–	(900,000)	–	1,300,000	0.088%	(3),(5),(6)
	3.666	–	17,330,000	(250,000)	–	–	17,080,000	1.156%	(4),(5),(6)
Other participants	0.57	16,538,000	–	–	(9,098,000)	–	7,440,000	0.503%	(1),(5),(6)
	1.37	21,030,000	–	1,450,000	(4,162,000)	–	18,318,000	1.239%	(2),(5),(6)
	3.666	–	17,920,000	1,050,000	–	–	18,970,000	1.283%	(4),(5),(6)

(i) Appointed as an Executive Director on 16th March 2007. As at 16th March 2007, he had the entitlement of the share options.
(ii) Resigned as an Executive Director on 11th December 2007.

Notes

(1) Pursuant to the Share Option Scheme, these share options were granted on 26th November 2003 and are exercisable at HK$0.57 per share at any time between 23rd December 2003 and 22nd December 2008.

(2) These share options were granted on 2nd December 2004 pursuant to the Share Option Scheme and are exercisable at HK$1.37 per share at any time between 29th December 2004 and 28th December 2014.

(3) These share options were granted on 10th May 2005 pursuant to the Share Option Scheme and are exercisable at HK$1.21 per share at any time between 6th June 2005 and 5th June 2015.

(4) These share options were granted on 9th March 2007 pursuant to the Share Option Scheme and are exercisable at HK$3.666 per share from 9th March 2009 to 8th March 2015 in 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.

(5) These share options represent personal interest held by the relevant participants as beneficial owner.

(6) For the year ended 31st December 2007, none of the share options were lapsed or cancelled.

(7) During the year ended 31st December 2007, the weighted average closing price of the shares when the share options were exercised was HK$7.12.

(8) The relevant share options entitled to be exercised will be recorded by the Company as staff cost in the income statement at the fair value of the relevant share options. Upon the exercise of the share options, the shares to be issued will be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares will be recorded by the Company in the share premium account. Share options which have lapsed or been cancelled will be deducted from the outstanding options.

(9) The Company adopted Black-Scholes Options Pricing Model (a common valuation methodology for share options) to calculate the fair value of share options granted in 2005. The fair value for each of the share options granted in 2005 was HK$0.58 at the date of grant with assumptions as follows:
   (i) interest rate of 10-year Exchange Fund Notes of 3.806% per annum as the risk-free interest rate;
   (ii) expected life of 10 years; and
   (iii) expected volatility of 50.2%, being the annualised volatility of the closing price of the share from 1st August 2004 to 30th November 2004.

(10) The Company adopted the Binomial Lattice Valuation Model (a common valuation methodology for share options) to calculate the fair value of share options granted in 2007. The weighted average fair value for each of the share options granted in 2007 was HK$1.33 at the date of grant with the major assumptions as follows:
   (i) 4% per annum for the first 3 years and 4.25% per annum for the next 5 years as risk-free rates;
   (ii) expected life of 8 years;
   (iii) expected volatility of 37% per annum;
   (iv) annual dividend rate of 2.20% per annum; and
   (v) black-out periods, being one month prior to the release of annual/interim results (April and August respectively) and holding of price sensitive information, applicable to certain option holders with regard to seniority of their positions.

The fair value of the share options is subject to a number of assumptions and with regard to the limitation of the models. Therefore the value may be subjective and difficult to determine.

Directors' Interests in Securities

As at 31st December 2007, the interests of each Director and chief executive of the Company in the equity or debt securities of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director has taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the SEHK were as follows:

1. Long positions in the shares of the Company

Name of Director	Nature of interest and capacity	Total number of shares held	Percentage of total issued share capital of the associated corporation
Mr. Liang Yanfeng	Beneficial owner	1,200,000	0.081%
Mr. Wang Xiaodong	Beneficial owner	900,000	0.061%
Mr. Lin Wenjin	Beneficial owner	800,000	0.054%

2. Long positions in the underlying shares of equity derivatives of the Company

Details are set out in the section headed "Share Options" above.

3. Long positions in the shares of associated corporations

Name of Director	Name of associated corporation	Nature of interest and capacity	Total number of shares held	Percentage of total issued share capital of the associated corporation
Mr. Wei Jiafu	COSCO Corporation (Singapore) Limited ("COSCO SGP")	Beneficial owner	1,900,000	0.085%
Mr. Li Jianhong	COSCO SGP	Beneficial owner	1,300,000	0.058%
Mr. Liang Yanfeng	China COSCO Holdings Company Limited ("China COSCO")	Beneficial owner	30,000	0.001%
Mr. Wang Xiaodong	China COSCO	Beneficial owner	10,000	0.0004%
Mr. Lin Wenjin	Sino-Ocean Land Holdings Limited ("SOLHL")	Beneficial owner	50,000	0.001%
Mr. Kwong Che Keung, Gordon	COSCO Pacific Limited ("COSCO Pacific")	Beneficial owner	250,000	0.011%

4. Long positions in the underlying shares of equity derivatives of associated corporations

(a) Share Options

Name of Director	Name of associated corporation	Exercise price	Outstanding as at 1st January 2007	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December 2007	Percentage of total issued share capital of the associated corporation	Exercisable period	Notes
Mr. Wei Jiafu	COSCO Pacific	HK$9.54	400,000	-	(400,000)	-	-	-	30.10.2003-29.10.2013	(1),(5),(6)
	COSCO Pacific	HK$13.75	1,000,000	-	-	-	1,000,000	0.045%	03.12.2004-02.12.2014	(2),(5),(6)
	COSCO SGP	SGD1.23	1,100,000	-	-	-	1,100,000	0.049%	21.02.2007-20.02.2011	(3),(5),(6)
Mr. Liu Guoyuan	SOLHL	HK$7.70	-	350,000	-	-	350,000	0.008%	08.10.2008-07.01.2009	(4),(5),(6)
Mr. Li Jianhong	COSCO Pacific	HK$9.54	300,000	-	(300,000)	-	-	-	29.10.2003-28.10.2013	(1),(5),(6)
	COSCO Pacific	HK$13.75	1,000,000	-	-	-	1,000,000	0.045%	02.12.2004-01.12.2014	(2),(5),(6)
	COSCO SGP	SGD1.23	700,000	-	-	-	700,000	0.031%	21.02.2007-20.02.2011	(3),(5),(6)
Mr. Meng Qinghui	COSCO Pacific	HK$13.75	700,000	-	(200,000)	-	500,000	0.022%	29.11.2004-28.11.2014	(2),(5),(6)
Mr. Liang Yanfeng	SOLHL	HK$7.70	-	1,430,000	-	-	1,430,000	0.032%	08.10.2008-07.10.2012	(4),(5),(6)
Mr. Lin Wenjin	COSCO Pacific	HK$13.75	100,000	-	(100,000)	-	-	-	01.12.2004-30.11.2014	(2),(5),(6)

Notes

(1) Pursuant to the share option scheme of COSCO Pacific ("Share Option Scheme of COSCO Pacific"), an associated corporation of the Company, adopted on 23rd May 2003, these share options were granted during the period from 28th October 2003 to 6th November 2003 and are exercisable at HK$9.54 per share for ten years from their respective date on which an offer is accepted or deemed to be accepted.

(2) These share options were granted pursuant to the Share Option Scheme of COSCO Pacific during the period from 25th November 2004 to 16th December 2004 and are exercisable at HK$13.75 per share at any time within ten years from their respective date on which an offer is accepted or deemed to be accepted.

(3) These share options were granted by COSCO SGP on 21st February 2006.

(4) These share options were granted by SOLHL on 28th September 2007.

(5) These share options represent personal interest held by the relevant participants as beneficial owner.

(6) For the year ended 31st December 2007, none of the share options of the above Directors were cancelled or lapsed.

(b) Share Appreciation Rights

Name of Director	Name of associated corporation	Exercise price HK$	Outstanding as at 1st January 2007	Units granted during the year	Units exercised during the year	Units lapsed during the year	Outstanding as at 31st December 2007	Notes
Mr. Wei Jiafu	China COSCO	3.195	900,000	-	(220,000)	-	680,000	(1),(4),(5)
		3.588	900,000	-	-	-	900,000	(2),(4),(5)
		9.540	-	880,000	-	-	880,000	(3),(4),(5)
Mr. Liu Guoyuan	China COSCO	3.195	600,000	-	(600,000)	-	-	(1),(4),(5)
Mr. Li Jianhong	China COSCO	3.195	600,000	-	(150,000)	-	450,000	(1),(4),(5)
		3.588	600,000	-	-	-	600,000	(2),(4),(5)
		9.540	-	580,000	-	-	580,000	(3),(4),(5)
Mr. Wang Futian	China COSCO	3.195	600,000	-	(600,000)	-	-	(1),(4),(5)
		3.588	600,000	-	(280,000)	-	320,000	(2),(4),(5)
Mr. Jia Lianjun	China COSCO	3.195	75,000	-	-	-	75,000	(1),(4),(5)
		3.588	65,000	-	-	-	65,000	(2),(4),(5)
		9.540	-	60,000	-	-	60,000	(3),(4),(5)

Notes

(1) These share appreciation rights were granted by China COSCO ("Share Appreciation Rights") in units with each unit representing one H share of China COSCO on 16th December 2005 pursuant to the share appreciation rights plan adopted by China COSCO (the "Plan"). Under the Plan, no share will be issued. The Share Appreciation Rights can be exercised at HK$3.195 per unit at any time between 16th December 2007 and 15th December 2015.

(2) These Share Appreciation Rights were granted in units with each unit representing one H share of China COSCO on 5th October 2006 pursuant to the Plan. Under the Plan, no share will be issued. The Share Appreciation Rights can be exercised at HK$3.588 per unit according to its terms between 5th October 2008 and 4th October 2016.

(3) These Share Appreciation Rights were granted in units with each unit representing one H share of China COSCO on 4th June 2007 pursuant to the Plan. Under the Plan, no share will be issued. The Share Appreciation Rights can be exercised at HK$9.540 per unit according to its terms between 4th June 2009 and 3rd June 2017.

(4) These Share Appreciation Rights represent personal interest held by the relevant participants as beneficial owner. The beneficial owners of these Share Appreciation Rights are entitled to the premium of the price of the issued shares of China COSCO over the exercise price of the Share Appreciation Rights.

(5) For the year ended 31st December 2007, none of the Share Appreciation Rights of the above Directors were cancelled or lapsed.

Save as disclosed above and in the section headed "Share Options" as at 31st December 2007, none of the Directors and chief executives of the Company had any interest and short positions in the shares, underlying shares or, the equity interest and debentures of the Company or any associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director has taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors or Listed Issuers to be notified to the Company and the SEHK.

Substantial Shareholders

As at 31st December 2007, the following persons and entities, other than Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Number of Shareholder	Capacity	Nature of interest	Number of shares held (Long positions)	Percentage of total issued share capital
COSCO	Interest of controlled corporation	Corporate interest	835,774,511	56.55%
COSCO (Hong Kong) Group Limited	Interest of controlled corporation	Corporate interest	835,774,511	56.55%
True Smart International Limited ("True Smart")	Beneficial owner	Beneficial interest	835,774,511	56.55%

Note

Since True Smart is a wholly-owned subsidiary of COSCO (Hong Kong) Group Limited which is in turn a wholly-owned subsidiary of COSCO, the interests of True Smart are deemed to be the interests of COSCO (Hong Kong) Group Limited and in turn the interests of COSCO (Hong Kong) Group Limited are deemed to be the interests of COSCO under the SFO.

Save as disclosed above, as at 31st December 2007, the Company has not been notified of any person or entity had an interests or a short position in the shares and underlying shares of he Company as recorded in the register required to be kept under Section 336 of the SFO.

Public Float

As at the date of this Annual Report, the Board acknowledge that approximately 43% of the issued capital of the Company are held by the public.

Pre-emptive Rights

No pre-emptive rights exist in Bermuda being the jurisdiction in which the Company is incorporated.

Auditor

The financial statements for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December 2007.

Corporate Governance

Maintaining high standards of corporate governance has always been one of the Company's priorities. This is achieved through an effective, timely disclosure of information by the Board and a proactive investor relations programme.

The Company made great strides in its business performance and corporate governance during the year and was awarded for the first time the prize of "Hong Kong Outstanding Enterprise Parade 2007" by *Economic Digest*. Nonetheless, the Company will continue to implement measures to further strengthen its corporate governance and overall risk management.

The Board believed that the Company has during the year complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules except that (i) although the Independent Non-executive Directors have not been appointed for any specific terms, they are subject to retirement and eligible for re-election in each annual general meeting in accordance with the Bye-Laws of the Company; and (ii) Mr. Wei Jiafu, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 29th May 2007 due to other business commitments.

The audit committee of the Company (the "Audit Committee") consists of three Independent Non-executive Directors. The Audit Committee is chaired by an Independent Non-executive Director who is a certified public accountant. The duties of Audit Committee include the review of important accounting policies and supervising the Company's financial reporting process; monitoring the performance of both the internal and external auditors; reviewing and examining the effectiveness of the financial reporting procedures and internal controls; ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, and internal rules and procedures approved by the Board. The Audit Committee has discussed the internal controls and financial reporting matters with management of the Company and reviewed the results announcement and the audited financial statements of the Company and its subsidiaries for the year ended 31st December 2007. The Company has received from each of the Independent Non-executive Director, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Directors to be independent.

The Company has adopted a code of conduct regarding securities transactions of directors and employees (the "Securities Code") no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. To ensure Directors' dealing in the securities of the Company are conducted in accordance with the Securities Code, a committee (the "Committee") comprising the Chairman, the Vice Chairman, the Managing Director and Deputy Managing Director was set up to deal with such transactions. Prior to any dealing in the securities of the Company, a Director is required to notify the Chairman or the Vice Chairman in writing and obtain a written acknowledgement from the Committee.

The Company has made specific enquiry of all Directors regarding any non-compliance with the Securities Code during the year ended 31st December 2007, all Directors confirmed that they have fully complied with the required standard set out in the Securities Code during the year.

On behalf of the Board

LIANG Yanfeng
Managing Director
Hong Kong, 28th March 2008

PRICEWATERHOUSECOOPERS

Independent Auditor's Report
To the Shareholders of COSCO International Holdings Limited
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of COSCO International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 105 to 186, which comprise the consolidated and company balance sheets as at 31st December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 28th March 2008

Consolidated Balance Sheet

As at 31st December 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Investment properties	6	**10,717**	6,564
Intangible asset	7	**79,616**	79,616
Property, plant and equipment	8	**105,436**	80,544
Prepaid premium for land leases	9	**16,421**	16,609
Jointly controlled entities	11	**93,624**	1,137,946
Associated company	12	**3,628,052**	–
Deferred income tax assets	25	**26,235**	–
Available-for-sale financial assets	13	**88,952**	57,617
		4,049,053	1,378,896
Current assets			
Completed properties held for sale	14	**20,717**	79,687
Properties under development for sale	15	**–**	220,674
Inventories	16	**380,083**	279,979
Trade and other receivables	17	**743,502**	723,760
Financial assets at fair value through profit or loss	18	**608**	616
Current income tax recoverable		**–**	1,372
Cash and cash equivalents	19	**1,031,344**	862,187
		2,176,254	2,168,275
Assets held for sale	20(c)	**–**	145,854
		2,176,254	2,314,129
Total assets		**6,225,307**	3,693,025
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	21	**147,803**	145,052
Reserves	22	**4,675,607**	1,993,875
Proposed dividends	22	**78,336**	62,373
		4,901,746	2,201,300
Minority interests		**217,517**	246,700
Total equity		**5,119,263**	2,448,000

	Note	2007 HK$'000	2006 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	25	**798**	85
Current liabilities			
Trade and other payables	23	**867,240**	1,033,331
Current income tax liabilities		**21,190**	18,684
Short-term borrowings	24	**216,816**	78,521
		1,105,246	1,130,536
Liabilities directly associated with assets held for sale	20(c)	**–**	114,404
		1,105,246	1,244,940
Total liabilities		**1,106,044**	1,245,025
Total equity and liabilities		**6,225,307**	3,693,025
Net current assets		**1,071,008**	1,069,189
Total assets less current liabilities		**5,120,061**	2,448,085

LIANG Yanfeng
Managing Director

WANG Xiaodong
Deputy Managing Director

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	**3,082**	2,614
Subsidiaries	10(a)	**140,105**	140,105
Jointly controlled entity	11	**42,808**	42,808
		185,995	185,527
Current assets			
Other receivables	17	**13,758**	56,280
Amounts due from subsidiaries, net	10(b)	**1,217,788**	2,065,338
Cash and cash equivalents	19	**322,158**	161,368
		1,553,704	2,282,986
Total assets		**1,739,699**	2,468,513
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	21	**147,803**	145,052
Reserves	22	**1,283,658**	1,306,028
Proposed dividends	22	**78,336**	62,373
Total equity		**1,509,797**	1,513,453
LIABILITIES			
Current liabilities			
Other payables	23	**10,849**	12,236
Amounts due to subsidiaries	10(b)	**219,053**	942,824
Total liabilities		**229,902**	955,060
Total equity and liabilities		**1,739,699**	2,468,513

LIANG Yanfeng
Managing Director

WANG Xiaodong
Deputy Managing Director

Consolidated Income Statement

For the year ended 31st December 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	5	**2,309,123**	1,866,465
Cost of sales	27	**(1,750,676)**	(1,392,649)
Gross profit		**558,447**	473,816
Gain on deemed disposal of partial interest in a jointly controlled entity	11	**1,925,468**	279,043
Other income	26	**54,020**	60,826
Selling, administrative and general expenses	27	**(370,945)**	(289,649)
Other expenses	27	**(31,863)**	(44,109)
Operating profit		**2,135,127**	479,927
Finance income	28	**35,762**	36,572
Finance costs	28	**(11,823)**	(4,211)
Finance income – net	28	**23,939**	32,361
Share of profits of jointly controlled entities	11	**453,082**	164,867
Share of profit of an associated company	12	**46,719**	–
Profit before income tax		**2,658,867**	677,155
Income tax expense	29	**(23,772)**	(39,942)
Profit from continuing operations		**2,635,095**	637,213
(Loss)/profit from discontinued operations	20(a)	**(2,827)**	25,840
Profit for the year		**2,632,268**	663,053
Profit attributable to:			
Equity holders of the Company	30	**2,572,623**	616,589
Minority interests		**59,645**	46,464
		2,632,268	663,053
Dividends	31	**93,069**	76,836
Earnings per share from continuing operations attributable to the equity holders of the Company during the year			
– basic, HK cents	32(a)	**176.14**	41.10
– diluted, HK cents	32(b)	**169.85**	40.05
(Loss)/earnings per share from discontinued operations attributable to the equity holders of the Company during the year			
– basic, HK cents	32(a)	**(0.19)**	1.80
– diluted, HK cents	32(b)	**(0.19)**	1.75

Consolidated Statement of Changes In Equity

For the year ended 31st December 2007

	Note	Attributable to equity holders of the Company Share capital HK$'000	 Reserves HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1st January 2006		141,824	1,451,360	193,853	1,787,037
Exchange differences	22	–	20,176	9,897	30,073
Share of reserve of a jointly controlled entity	22	–	1,527	–	1,527
Fair value gains on available-for-sale financial assets	22	–	15,774	–	15,774
Investment revaluation reserve realised upon disposal of available-for-sale financial assets	22	–	(7,735)	–	(7,735)
Net income recognised directly in equity		–	29,742	9,897	39,639
Profit for the year	22	–	616,589	46,464	663,053
Total recognised income for 2006		–	646,331	56,361	702,692
Issue of shares	21	3,228	23,317	–	26,545
Capital contribution from minority shareholders of subsidiaries		–	–	23,517	23,517
Dividends	22	–	(64,760)	(27,031)	(91,791)
		3,228	(41,443)	(3,514)	(41,729)
Balance at 31st December 2006		145,052	2,056,248	246,700	2,448,000
Balance at 1st January 2007		**145,052**	**2,056,248**	**246,700**	**2,448,000**
Exchange differences	22	**–**	**34,353**	**14,162**	**48,515**
Share of reserves of jointly controlled entities	22	**–**	**81,752**	**–**	**81,752**
Share of reserves of an associated company		**–**	**9,054**	**–**	**9,054**
Fair value gains on available-for-sale financial assets	22	**–**	**48,630**	**–**	**48,630**
Exchange reserve realised upon disposal of subsidiaries	22	**–**	**(3,820)**	**–**	**(3,820)**
Investment revaluation reserve realised upon disposal of available-for-sale financial assets	22	**–**	**(5,804)**	**–**	**(5,804)**
Net income recognised directly in equity		**–**	**164,165**	**14,162**	**178,327**
Profit for the year	22	**–**	**2,572,623**	**59,645**	**2,632,268**
Total recognised income for 2007		**–**	**2,736,788**	**73,807**	**2,810,595**
Issue of shares	21	**2,751**	**20,834**	**–**	**23,585**
Disposal of minority interests		**–**	**–**	**(58,265)**	**(58,265)**
Employee share option benefits	22	**–**	**17,419**	**–**	**17,419**
Dividends	22	**–**	**(77,346)**	**(44,725)**	**(122,071)**
		2,751	**(39,093)**	**(102,990)**	**(139,332)**
Balance at 31st December 2007		**147,803**	**4,753,943**	**217,517**	**5,119,263**

Consolidated Cash Flow Statement

For the year ended 31st December 2007

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities of continuing and discontinued operations			
Cash generated from operations	34(a)	**151,213**	4,528
Income tax paid		**(37,449)**	(30,332)
Net cash generated from /(used in) operating activities		**113,764**	(25,804)
Cash flows from investing activities			
Increase in bank deposits with maturity over three months		**(35,904)**	(15,976)
Increase in restricted bank deposits		**(5,816)**	(2,191)
Interest received		**35,952**	37,148
Dividends received		**2,534**	8,736
Dividends received from jointly controlled entities		**107,603**	20,609
Proceeds from sale of property, plant and equipment		**47**	987
Proceeds from sale of available-for-sale financial assets		**42,630**	78,724
Proceeds from sale of assets held for sale		**–**	12,857
Payment made for prepaid premium for land leases		**–**	(5,427)
Purchase of property, plant and equipment		**(35,492)**	(29,377)
Acquisition of additional interests in a jointly controlled entity		**–**	(407,842)
Acquisition of additional interests in an associated company		**(175,258)**	–
Cash generated from the acquisition of a subsidiary#		**815**	–
Net cash outflow on disposal of subsidiaries	34(b)	**(10,289)**	–
Net cash used in investing activities		**(73,178)**	(301,752)
Cash flows from financing activities			
Drawdown of bank and other loans		**216,816**	78,521
Repayment of bank and other loans		**(78,521)**	(106,660)
Capital contribution from minority shareholders of subsidiaries		**–**	23,517
Issue of share capital	21	**23,585**	26,545
Finance costs paid		**(11,826)**	(4,441)
Dividends paid to the Company's equity holders		**(77,346)**	(64,760)
Dividends paid to the minority shareholders of subsidiaries		**(44,725)**	(27,031)
Net cash generated from/(used in) financing activities		**27,983**	(74,309)
Net increase/(decrease) in cash and cash equivalents		**68,569**	(401,865)
Cash and cash equivalents at the beginning of the year		**878,219**	1,269,620
Exchange gain on cash and cash equivalents		**20,206**	10,464
Cash and cash equivalents at the end of the year	19	**966,994**	878,219

net of cash consideration paid for acquisition of a subsidiary of HK$358,000 during the year.

1 GENERAL INFORMATION

COSCO International Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the provision of shipping services, property development and property investment.

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited ("SEHK"). The address of its principal place of business is 47/F, COSCO Tower, 183 Queen's Road Central, Hong Kong.

The ultimate holding company of the Company is China Ocean Shipping (Group) Company ("COSCO"), a stated-owned enterprise established in the People's Republic of China (the "PRC").

These consolidated financial statements have been approved for issue by the board of directors on 28th March 2008.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKAS") (collectively "HKFRS"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

(i) Adoption of new HKFRS

In 2007, the Group adopted the following new HKFRS, which are relevant to its operations:

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC)-Int 8	Scope of HKFRS 2
HK (IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK (IFRIC)-Int 10	Interim Financial Reporting and Impairment

(1) HKAS 1 (Amendment) and HKFRS 7 introduce new disclosures relating to capital management and financial instruments respectively. These standards do not have any impact on the classification and valuation of the Group's financial instruments.

(2) HK (IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

(3) HK (IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As the group companies have not changed the major terms of their contracts, HK (IFRIC)-int 9 is not relevant to the Group's operations.

(4) HK (IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

(ii) Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, interpretations and amendments to existing standards, which are relevant to the Group's operations, have been published that are mandatory for the Group's accounting periods beginning on or after 1st January 2008 or later periods, but which the Group has not early adopted, are as follows:

		Effective for accounting periods beginning on or after
HK (IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transaction	1st March 2007
HKFRS 8	Operating Segments	1st January 2009
HKAS 23 (Revised)	Borrowing costs	1st January 2009
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations	1st January 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1st July 2009
HKRFS 3 (Revised)	Business Combinations	1st July 2009

The Group has already commenced an assessment of the impact of these new standards, interpretations and amendments, but is not yet in a position to state whether these changes would have a significant impact on its results of operations and financial position.

(1) HK (IFRIC)-Int 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone financial statements of the parent company and group companies.

(2) Under HKFRS 8, segments are components of an entity regularly reviewed by the entity's chief operating decision-maker. Segment reporting is presented on the same basis as that used for internal reporting.

(3) HKAS 23 (Revised) requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of the asset. It addresses that management no longer has an option to expense these borrowing costs.

(4) HKFRS 2 Amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

(ii) Standards, interpretations and amendments to published standards that are not yet effective (Continued)

(5) HKAS 27 (Revised) requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

(6) HKFRS 3 (Revised) may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other IFRSs. They are income taxes, employee benefits, share-based payment and non-current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

All significant intercompany transactions, balances and unrealised gain on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(e) Associated companies

Associated companies are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill identified on acquisition (net of any accumulated impairment loss).

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in associated companies equals or exceeds its interest in the associated companies, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated companies.

Unrealised gains on transactions between the Group and the associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(f) Jointly controlled entities

Jointly controlled entities are contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Investments in jointly controlled entities are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in jointly controlled entities includes goodwill identified on acquisition (net of any accumulated impairment loss).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Jointly controlled entities (Continued)

The Group's share of jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in jointly controlled entities equals or exceeds its interest in the jointly controlled entities, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities.

Unrealised gains on transactions between the Group and jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investment in jointly controlled entities is stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

Dilution gains and losses in jointly controlled companies are recognised in the consolidated income statement.

(g) Intangible asset

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the subsidiaries, associated companies and jointly controlled entities at the date of acquisition.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associated companies/jointly controlled entities is included in investments in associated companies/jointly controlled entities and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Properties

(i) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Investment property is measured initially at cost, including related transaction cost. After initial recognition, investment properties are carried at fair value.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers.

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

(ii) Properties under development for sale

Properties under development for sale comprise prepayments for leasehold land and land use rights, development expenditure and borrowing costs capitalised. In the course of property development, the amortisation charge of leasehold land and land use rights is included as part of the costs of the properties under development for sale. In all other cases, the amortisation charge is recognised in the income statement.

The accounting policy for recognition of revenue from sale of properties under development for sale is set out in note 2(w)(i)(1).

(iii) Completed properties held for sale

Completed properties held for sale are included as current assets and stated at the lower of cost and net realisable value. Net realisable value is determined by reference to estimated sales proceeds of the properties sold in the ordinary course of business less estimated selling expenses.

The accounting policy for recognition of revenue from sale of completed properties is set out in note 2(w)(i)(2).

(iv) Prepaid premium for land leases

Prepaid premium for land leases are up-front payments to acquire long-term interests in properties. The premiums are stated at cost and are amortised on a straight line basis over the lease period to the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	30 years or remaining lease terms (whichever is shorter)
Machinery	5-10 years
Equipment and motor vehicles	3-5 years
Leasehold improvement	3-5 years
Furniture and fixtures	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. In prior years, the depreciation of buildings was calculated using straight line method to allocate cost less their residual values over 20 to 50 years. The directors of the Company have reviewed the usage of buildings and considered it is appropriate to depreciate them on a straight line basis over a useful live of 30 years or the remaining period of the lease, whichever is shorter, starting from 1st January 2007. This change in accounting estimates has no significant impact to the Group's depreciation charged to the income statement for the current year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

All direct and indirect costs relating to the construction of property, plant and equipment, including financing costs and foreign exchange differences on the related borrowed funds during the construction period are capitalised as costs of the asset.

(j) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises direct materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(l) Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purposes for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and are not intended for trading. They are included in current assets, except for those with maturity greater than 12 months after the balance sheet date in which case they are classified as non-current assets.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised within investment revaluation reserve in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Investments (Continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indication that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(m) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Payment made under operating leases (net of any incentives received from the lessors) are charged to the income statement on a straight-line basis over the lease term.

(n) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment. A provision for impairment of trade and other receivable is established when there is objective evidence that the Group will not be able to collect all amounts due to it according to the original terms of receivables. The amount of write-down is based on the difference between the asset's carrying amount and the present value of estimated future cash flows. The amount of the provision is recognised in the income statement.

(o) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with bank and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits with banks with maturity less than three months from the date of placement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Assets held for sale and discontinued operations

Assets held for sale represent assets attributable to discontinued operations and other assets held for sale.
A discontinued operation is a cash generating unit ("CGU") or a group of CGU of the Group that either has been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale.

Assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. The liabilities of the disposal group are classified as liabilities directly associated with assets held for sale. Prior year balances of amounts relating to assets held for sale and liabilities directly associated with assets held for sale are not re-presented.

The profit after tax of discontinued operations is presented separately in the income statement as profit from discontinued operations. Prior year amounts are re-presented.

(q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(r) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(s) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company, its subsidiaries, associated companies and jointly controlled companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Current and deferred income tax (Continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated company and jointly controlled entities, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

(t) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. The functional currency of the Group's subsidiaries in the PRC is Renminbi. The directors consider that presentation of the consolidated financial statements in Hong Kong dollars will facilitate analysis of the financial information of the Group.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Foreign currency translation (Continued)

(iii) Group companies

On consolidation, the results and financial position of all the group entities none of which has the currency of a hyperinflationary economy that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(u) Borrowings and borrowing costs

Borrowings are recognised initially at fair value and subsequently stated at amortised cost. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs that are directly attributable to the acquisition, construction or production of any qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Employee benefits

(i) Pensions and retirement benefits

Following the adoption of the Mandatory Provident Fund Scheme ("MPF Scheme") in December 2000, all staff of the Group employed in Hong Kong joined the MPF Scheme. Under this scheme, employees and the Group are required to make contributions to the scheme calculated at 5% of the individual employee's monthly basic salaries, subject to a cap of HK$1,000. The Group's contributions to this scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in independently administered funds.

The Group also contributes to employee pension schemes established by municipal government in respect of certain subsidiaries in China Mainland. The municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the income statement as incurred.

(ii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(w) Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with the transactions during the year will flow to the Group and these benefits can be measured reliably on the following bases.

(i) Sale of properties

(1) Properties under development for sale

Sale of properties is recognised on the transfer of risks and rewards of ownership. Deposits and instalments received on properties sold prior to their completion are included in current liabilities.

(2) Completed properties held for sale

Revenue from sale of completed properties held for sale is recognised upon completion of the sale and purchase contracts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue recognition (Continued)

(ii) Building management income

Building management fee income is recognised when services are rendered.

(iii) Rental income

Rental income is recognised on a straight-line basis over the terms of the respective leases.

(iv) Sale of coating products, spare parts and navigation equipment

Revenue from the sale of coating products, spare parts and navigation equipment is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time the goods are delivered to customers according to the sales agreements and titles have passed.

(v) Commission income

(1) Agency commission income

Commission income from agency services is recognised when the terms of the agency contracts are fulfilled upon provision of services.

(2) Brokerage commission income

Brokerage commission income is recognised when premium becomes due.

(vi) Dividend income

Dividend income is recognised when the right to receive payment is established.

(x) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(y) Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holders.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk, and liquidity risk. Management manages and monitors these exposures to ensure approximate measures are implemented on a timely and effective manner. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has not entered into any major derivative financial instruments to hedge the risk exposures.

Risk management is carried out by the management under policies approved by the board of directors. The management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board of directors provides written policies covering specific areas, such as foreign currency risk, interest rate risk and use of derivative financial instruments.

(i) Market risk

(1) Foreign currency risk

The Group operates locally and in the PRC, where the major exchange currencies are Hong Kong dollars, Renminbi and United States dollars. As a result, the Group is mainly exposed to the United States dollars and the Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in the PRC operations.

Management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure by using foreign exchange forward contracts when the need arises. As at 31st December 2007, the Group has not entered into significant forward foreign exchange contracts to mitigate the currency exposure.

At 31st December 2007, if Hong Kong dollars had weakened/strengthened by 5% against the United States dollars with all other variables held constant, post-tax profit for the year would have been HK$26,077,000 (2006: HK$20,468,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollars-denominated trade and other receivables, and cash and cash equivalents and foreign exchange losses/gains on translation of US dollars-denominated trade and other payables and short-term borrowings.

At 31st December 2007, if Hong Kong dollars had weakened/strengthened by 5% against the Renminbi with all other variables held constant, post-tax profit for the year would have been HK$2,664,000 (2006: HK$4,459,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Renminbi-denominated trade and other receivables, and cash and cash equivalents and foreign exchange losses/gains on translation of Renminbi-denominated trade and other payables and short-term borrowings.

As most of the Group's equity securities classified as available for sale are denominated in Hong Kong dollars, there was no impact on equity.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(i) Market risk (Continued)

(2) Interest rate risk

Other than bank balances and deposits (collectively the "Interest Bearing Assets"), the Group has no other significant interest bearing assets.

The Group's interest rate risk also arises from borrowings and finance lease obligations (collectively the "Interest Bearing Liabilities"). Interest Bearing Liabilities are primarily issued at variable rates which therefore expose the Group to cash flow interest rate risk.

With all other variables held constant, if the interest rate had increased/decreased by 50 basis-point, the corresponding increase/decrease in net finance income (representing interest income on the Interest Bearing Assets less interest expenses on Interest Bearing Liabilities) will result in a net increase/decrease in the Group's post-tax profit by approximately HK$3,766,000 (2006: HK$3,436,000).

(3) Price risk

The Group is exposed to equity securities price risk because certain of the Group's investments are classified as available-for-sale financial assets which are required to be stated at their fair values (see fair value estimation below). To manage its price risk arising from equity securities, the Group diversifies its portfolio in accordance with the limits set by the Group.

The Group's equity investments in equity of other entities are publicly traded. The table below summarises the impact of increases/decreases of the market price of the Group's equity investments by 5%:

	Impact on post-tax profit		Impact on investment revaluation reserve	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
5% change in market price	**21**	23	**4,424**	2,857

(ii) Credit risk

Credit risk mainly arises from financial assets and deposits with financial institutions, as well as credit exposures to the customers, including outstanding receivables and committed transactions. For financial institutions, only independent parties with good rating are accepted and a substantial portion of the Group's bank balances and deposits were placed with state-owned banks (note 37(d)). Customers are assessed and rated based on the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set by management and the utilisation of credit limits is regularly monitored. No credit limit was exceeded during the year, and management does not expect any significant losses from non-performance by these relevant parties.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk

The Group adopts prudent liquidity risk management which includes maintaining sufficient bank balances and cash, having available funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
Group				
At 31st December 2007				
Trade and other payables	**867,240**	**–**	**–**	**–**
Short-term borrowings	**220,378**	**–**	**–**	**–**
At 31st December 2006				
Trade and other payables	1,033,331	–	–	–
Short-term borrowings	80,212	–	–	–
Company				
At 31st December 2007				
Other payables	**10,849**	**–**	**–**	**–**
At 31st December 2006				
Other payables	12,236	–	–	–

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders.

3 FINANCIAL RISK MANAGEMENT (Continued)

(b) Capital risk management (Continued)

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total assets. The Group's strategy, which was unchanged from 2006, is to maintain an acceptable gearing ratio. The gearing ratios at 31st December 2007 and 2006 were as follows:

	2007 HK$'000	2006 HK$'000
Short-term borrowings	216,816	78,521
Total assets	6,225,307	3,693,025
Gearing ratio	3.5%	2.1%

(c) Fair value estimation

The fair values of the Group's available-for-sale financial assets and financial assets at fair value through profit or loss are determined by reference to the methods below:

– the quoted market price when the related investment is traded in an active market;
– valuation techniques (including pricing models or discounted cash flow models); and
– the price for similar recent transactions, with adjustment on the different market conditions and circumstances.

The carrying value less impairment provision (as applicable) of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December 2007, the carrying amount of goodwill was HK$79,616,000. Details of the recoverable amount calculation are disclosed in note 7.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

(b) Estimate of fair value of investment properties

In making its judgement, the Group considers information from a variety of sources including:

(i) Current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) Discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

(c) Determination of fair value of shared-based compensation

The Group uses the Binomial Lattice Valuation Model to determine the fair value of share options issued during the year. Under this model, the value of the share options is subject to a number of assumptions such as risk-free interest rate, expected life of the options and expected volatility based on annualised volatility of the closing price of the share. Therefore the value may be subjective and would change should any of the assumptions change.

(d) Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31st December 2007 was HK$105,436,000. The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful lives of 3 to 30 years, and after taking into account of their estimated residual values. The estimated useful lives reflects the directors' best estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

(e) Allowances for inventory

The management of the Group reviews the ageing analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

(f) Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgment. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the creditworthiness and the past collection history of each customer.

5 TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the provision of shipping services, property development and property investment. Turnover recognised from the continuing operations of the Group during the year is as follows:

	2007 **HK$'000**	2006 HK$'000
Sale of coating products	**1,579,923**	1,227,719
Sale of spare parts and navigation equipment	**351,236**	311,765
Ship trading and insurance brokerage commission income	**127,112**	96,253
Sale of properties	**250,376**	227,573
Rental income	**476**	2,618
Building management fee income	**–**	537
	2,309,123	1,866,465

(a) Primary reporting format – business segments

The Group is organised into two main business segments:

Shipping services	– manufacturing and trading of coating products – provision of agency services in respect of trading of vessels, marine equipment and bareboat charter business – provision of insurance brokerage services – trading of spare parts and navigation equipment for vessels
Property development and property investment	– development of properties and holding of properties for rental purpose

Other operations of the Group comprise mainly holding of financial assets.

Unallocated costs represent corporate expenses net of corporate income. Segment assets consist primarily of investment properties, intangible asset, property, plant and equipment, prepaid premium for land leases, completed properties held for sale, properties under development for sale, inventories, receivables and operating cash, and mainly exclude investments in associated company and jointly controlled entities, deferred income tax assets, available-for-sale financial assets, and corporate assets. Segment liabilities comprise operating liabilities and mainly exclude items such as current and deferred income tax liabilities. Capital expenditure comprises additions to intangible assets, investment properties, property, plant and equipment, prepaid premium for land leases, including additions resulting from acquisitions through business combination.

There were no transactions between business segments during both years of 2007 and 2006.

5 TURNOVER AND SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

	Continuing operations				Discontinued operations (note 20(a))
	Shipping services 2007 HK$'000	Property development and property investment 2007 HK$'000	Other operations 2007 HK$'000	Total 2007 HK$'000	2007 HK$'000
Segment turnover	2,058,271	250,852	–	2,309,123	1,064
Segment results	212,895	14,877	33,665	261,437	3,420
Gain on deemed disposal of partial interest in a jointly controlled entity	–	1,925,468	–	1,925,468	–
Unallocated corporate expenses, net of income				(51,778)	–
Operating profit				2,135,127	3,420
Finance income				35,762	190
Finance costs				(11,823)	(3)
Finance income – net				23,939	187
Share of profits of jointly controlled entities	27,020	426,062	–	453,082	–
Share of profit of an associated company	–	46,719	–	46,719	–
Profit before income tax				2,658,867	3,607
Income tax expense				(23,772)	–
				2,635,095	3,607
Loss on disposal of discontinued operations				–	(6,434)
Profit/(loss) for the year				2,635,095	(2,827)
The segment results have been arrived at after charging/(crediting) the following:					
Depreciation and amortisation (net)	13,533	138	823	14,494	–
Fair value gains on investment properties	–	(4,134)	–	(4,134)	–
Provision for impairment of					
– completed properties held for sale	–	11,278	–	11,278	–
– trade receivables	5,478	–	–	5,478	–
Write-back of provision for impairment of					
– inventories	(778)	–	–	(778)	–
– trade receivables	(1,914)	–	–	(1,914)	–
Write-back of provision for claims and foreseeable losses on certain construction contracts	–	–	–	–	(1,627)
Capital expenditure	34,268	5	1,285	35,558	–

5 TURNOVER AND SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

	Continuing operations			
	Shipping services 2007 HK$'000	Property development and property investment 2007 HK$'000	Other operations 2007 HK$'000	Total 2007 HK$'000
Segment assets	1,765,246	208,350	608	1,974,204
Jointly controlled entities	93,624	–	–	93,624
Associated company	–	3,628,052	–	3,628,052
Deferred income tax assets				26,235
Available-for-sale financial assets	–	–	88,952	88,952
Unallocated assets				414,240
Total assets				6,225,307
Segment liabilities	1,049,205	23,757	–	1,072,962
Deferred income tax liabilities				798
Current income tax liabilities				21,190
Unallocated liabilities				11,094
Total liabilities				1,106,044

5 TURNOVER AND SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

	Continuing operations				Discontinued operations (note 20(a))
	Shipping services 2006 HK$'000	Property development and property investment 2006 HK$'000	Other operations 2006 HK$'000	Total 2006 HK$'000	2006 HK$'000
Segment turnover	1,635,737	230,191	537	1,866,465	12,165
Segment results	168,472	17,361	48,864	234,697	25,494
Gain on deemed disposal of partial interest in a jointly controlled entity	–	279,043	–	279,043	–
Unallocated corporate expenses, net of income				(33,813)	–
Operating profit				479,927	25,494
Finance income				36,572	576
Finance costs				(4,211)	(230)
Finance income – net				32,361	346
Share of profits of jointly controlled entities	12,280	152,587	–	164,867	–
Profit before income tax				677,155	25,840
Income tax expense				(39,942)	–
Profit for the year				637,213	25,840
The segment results have been arrived at after charging/(crediting) the following:					
Depreciation and amortisation (net)	8,240	375	563	9,178	–
Fair value gains on investment properties	–	(4,932)	–	(4,932)	–
Provision for impairment of					
– inventories	6,862	–	–	6,862	–
– trade receivables	7,793	–	–	7,793	–
Write-back of provision for impairment of completed properties held for sale	–	–	–	–	(23,319)
Write-back of provision for claims and foreseeable losses on certain construction contracts	–	–	–	–	(3,422)
Capital expenditure	31,643	421	2,740	34,804	–

5 TURNOVER AND SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

	Continuing operations				Discontinued operations (note 20(a))
	Shipping services 2006 HK$'000	Property development and property investment 2006 HK$'000	Other operations 2006 HK$'000	Total 2006 HK$'000	2006 HK$'000
Segment assets	1,505,992	528,060	4,871	2,038,923	–
Jointly controlled entities	63,149	1,074,797	–	1,137,946	–
Available-for-sale financial assets	–	–	57,617	57,617	–
Assets held for sale (note 20(c))	–	31,800	–	31,800	114,054
Unallocated assets				312,685	–
Total assets				3,578,971	114,054
Segment liabilities	846,706	233,991	281	1,080,978	–
Deferred income tax liabilities				85	–
Current income tax liabilities				18,684	–
Liabilities directly associated with assets held for sale (note 20(c))	–	306	–	306	114,098
Unallocated liabilities				30,874	–
Total liabilities				1,130,927	114,098

(b) Secondary reporting format – geographical segments

The Group's business segments operate in two geographical areas as follows:

Hong Kong
- provision of agency services in respect of trading of vessels, marine equipment and bareboat charter business
- provision of insurance brokerage services
- trading of spare parts and navigation equipment for vessels

China Mainland
- manufacturing and trading of coating products
- provision of agency services in respect of trading of vessels, marine equipment and bareboat charter business
- provision of insurance brokerage services
- development of properties and holding of properties for rental purpose

There were no transactions between geographical segments during both years of 2007 and 2006.

5 TURNOVER AND SEGMENT INFORMATION (Continued)

(b) Secondary reporting format – geographical segments (Continued)

	Turnover	Segment results	Total assets	Capital expenditure
	2007	2007	2007	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Continuing operations:				
Hong Kong	458,179	139,111	524,472	1,944
China Mainland	1,850,944	122,326	1,449,732	33,614
	2,309,123	261,437	1,974,204	35,558
Discontinued operations:				
Hong Kong	1,064	3,420	–	–
	2,310,187	264,857	1,974,204	35,558
Gain on deemed disposal of partial interest in a jointly controlled entity		1,925,468		
Unallocated corporate expenses, net of income		(51,778)		
Operating profit		2,138,547		
Jointly controlled entities			93,624	
Associated company			3,628,052	
Deferred income tax assets			26,235	
Available-for-sale financial assets			88,952	
Unallocated assets			414,240	
Total assets			6,225,307	

5 TURNOVER AND SEGMENT INFORMATION (Continued)

(b) Secondary reporting format – geographical segments (Continued)

	Turnover 2006 HK$'000	Segment results 2006 HK$'000	Total assets 2006 HK$'000	Capital expenditure 2006 HK$'000
Continuing operations:				
Hong Kong	388,448	65,162	467,108	4,334
China Mainland	1,478,017	169,535	1,571,815	30,470
	1,866,465	234,697	2,038,923	34,804
Discontinued operations:				
Hong Kong	12,165	25,494	114,054	–
	1,878,630	260,191	2,152,977	34,804
Gain on deemed disposal of partial interest in a jointly controlled entity		279,043		
Unallocated corporate expenses, net of income		(33,813)		
Operating profit		505,421		
Jointly controlled entities			1,137,946	
Available-for-sale financial assets			57,617	
Assets held for sale			31,800	
Unallocated assets			312,685	
Total assets			3,693,025	

6 INVESTMENT PROPERTIES

	Group 2007 HK$'000	Group 2006 HK$'000
At 1st January	**6,564**	32,614
Exchange differences	**19**	15
Fair value gains (note 26)	**4,134**	4,932
Reclassified to assets held for sale (note 20(b))	**–**	(30,997)
At 31st December	**10,717**	6,564

The Group's interests in investment properties are analysed as follows:

	Group 2007 HK$'000	Group 2006 HK$'000
Outside Hong Kong, held on:		
Leases of between 10 and 50 years	**10,717**	6,564

The investment properties were revalued at 31st December 2007 on the basis of their open market value by an independent firm of Chartered Surveyors, DTZ Debenham Tie Leung Limited.

7 INTANGIBLE ASSET

	Group 2007 HK$'000	Group 2006 HK$'000
Goodwill		
Cost		
At 1st January and 31st December	**85,600**	85,600
Accumulated impairment		
At 1st January and 31st December	**(5,984)**	(5,984)
Net book value at 31st December	**79,616**	79,616

7 INTANGIBLE ASSET (Continued)

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units under shipping services business segment as follows:

	2007 HK$'000	2006 HK$'000
Agency services in respect of trading of vessels, marine equipment and bareboat charter business ("Ship trade business")	**35,590**	35,590
Provision of insurance brokerage services ("Insurance business")	**35,046**	35,046
Trading of spare parts and navigation equipment for vessels ("Supply business")	**8,980**	8,980
	79,616	79,616

The recoverable amounts of the above business units are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions used for value-in-use calculations are as follows:

	Ship trade business	Insurance business	Supply business
Growth rate	5.0%	5.0%	5.0%
Discount rate	8.3%	8.3%	8.3%

Management determined the budgeted margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are after-tax and reflect specific risks relating to the relevant segments.

8 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Machinery, equipment and motor vehicles HK$'000	Leasehold improvement HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
At 1st January 2006						
Cost	56,070	55,038	10,761	18,413	–	140,282
Accumulated depreciation and impairment	(19,914)	(36,969)	(10,319)	(13,050)	–	(80,252)
Net book amount	36,156	18,069	442	5,363	–	60,030
Year ended 31st December 2006						
Opening net book amount	36,156	18,069	442	5,363	–	60,030
Additions	113	4,528	2,739	2,967	19,030	29,377
Transfer between categories	322	2,634	–	872	(3,828)	–
Reclassified to assets held for sale (note 20(b))	–	–	(252)	(421)	–	(673)
Exchange differences	1,134	641	1	174	330	2,280
Depreciation (note 27(a))	(2,594)	(4,760)	(590)	(1,623)	–	(9,567)
Disposals	(60)	(710)	–	(133)	–	(903)
Closing net book amount	35,071	20,402	2,340	7,199	15,532	80,544
At 31st December 2006						
Cost	58,324	46,803	12,571	16,216	15,532	149,446
Accumulated depreciation and impairment	(23,253)	(26,401)	(10,231)	(9,017)	–	(68,902)
Net book amount	35,071	20,402	2,340	7,199	15,532	80,544
Year ended 31st December 2007						
Opening net book amount	**35,071**	**20,402**	**2,340**	**7,199**	**15,532**	**80,544**
Acquisition of a subsidiary	**–**	**66**	**–**	**–**	**–**	**66**
Additions	**254**	**6,775**	**–**	**5,653**	**22,810**	**35,492**
Transfer between categories	**31,441**	**7,182**	**(21)**	**689**	**(39,291)**	**–**
Exchange differences	**2,283**	**1,334**	**3**	**409**	**1,120**	**5,149**
Depreciation (note 27(a))	**(2,105)**	**(6,476)**	**(614)**	**(5,527)**	**–**	**(14,722)**
Disposal of subsidiaries	**–**	**(760)**	**–**	**(63)**	**–**	**(823)**
Disposals	**(17)**	**(240)**	**–**	**(13)**	**–**	**(270)**
Closing net book amount	**66,927**	**28,283**	**1,708**	**8,347**	**171**	**105,436**
At 31st December 2007						
Cost	**93,941**	**60,468**	**12,554**	**22,951**	**171**	**190,085**
Accumulated depreciation and impairment	**(27,014)**	**(32,185)**	**(10,846)**	**(14,604)**	**–**	**(84,649)**
Net book amount	**66,927**	**28,283**	**1,708**	**8,347**	**171**	**105,436**

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Machinery, equipment and motor vehicles HK$'000	Leasehold improvement HK$'000	Furniture and fixtures HK$'000	Total HK$'000
At 1st January 2006				
Cost	2,822	7,344	1,124	11,290
Accumulated depreciation and impairment	(2,426)	(7,310)	(1,120)	(10,856)
Net book amount	396	34	4	434
Year ended 31st December 2006				
Opening net book amount	396	34	4	434
Additions	571	1,565	601	2,737
Depreciation	(234)	(237)	(77)	(548)
Disposals	(9)	–	–	(9)
Closing net book amount	724	1,362	528	2,614
At 31st December 2006				
Cost	3,018	8,909	736	12,663
Accumulated depreciation and impairment	(2,294)	(7,547)	(208)	(10,049)
Net book amount	724	1,362	528	2,614
Year ended 31st December 2007				
Opening net book amount	**724**	**1,362**	**528**	**2,614**
Additions	**1,295**	**–**	**22**	**1,317**
Depreciation	**(408)**	**(319)**	**(122)**	**(849)**
Closing net book amount	**1,611**	**1,043**	**428**	**3,082**
At 31st December 2007				
Cost	**4,313**	**8,909**	**758**	**13,980**
Accumulated depreciation and impairment	**(2,702)**	**(7,866)**	**(330)**	**(10,898)**
Net book amount	**1,611**	**1,043**	**428**	**3,082**

9 PREPAID PREMIUM FOR LAND LEASES

	Group	
	2007	2006
	HK$'000	HK$'000
At 1st January	**16,609**	11,542
Addition	**–**	5,427
Exchange differences	**586**	99
Amortisation	**(774)**	(459)
At 31st December	**16,421**	16,609

9 PREPAID PREMIUM FOR LAND LEASES (Continued)

The Group's interests in prepaid premium for land leases at their net book value are analysed as follows:

	Group 2007 HK$'000	Group 2006 HK$'000
In Hong Kong, held on:		
Leases of over 50 years	**6,373**	6,381
Leases of between 10 and 50 years	**1,976**	2,090
Outside Hong Kong, held on:		
Leases of between 10 and 50 years	**5,615**	5,346
Leases of less than 10 years	**2,457**	2,792
	16,421	16,609

10 SUBSIDIARIES

(a) Investments in subsidiaries

	Company 2007 HK$'000	Company 2006 HK$'000
Unlisted investments, at cost	**140,105**	140,105

(b) Amounts due from/to subsidiaries

	Company 2007 HK$'000	Company 2006 HK$'000
Amounts due from subsidiaries	**1,867,411**	3,177,431
Provision for impairment	**(649,623)**	(1,112,093)
	1,217,788	2,065,338
Amounts due to subsidiaries	**219,053**	942,824

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand. Particulars of the principal subsidiaries which, in the opinion of the directors, principally affect the results and/or assets and liabilities of the Group as at 31st December 2007 are set out in note 38 to the financial statements.

11 JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1st January	**1,137,946**	305,276	**42,808**	42,808
Acquisition	**–**	407,842	**–**	–
Share of reserves of jointly controlled entities (note 22)	**81,752**	1,527	**–**	–
Share of profits of jointly controlled entities	**453,082**	164,867	**–**	–
Gain on deemed disposal of partial interest in a jointly controlled entity (note(c))	**1,925,468**	279,043	**–**	–
Dividends received	**(107,603)**	(20,609)	**–**	–
Reclassified to associated company (note(c))	**(3,397,021)**	–	**–**	–
At 31st December	**93,624**	1,137,946	**42,808**	42,808

Notes:

(a) Particulars of the principal jointly controlled entities of the Group are set out as follows:

Name	Place of incorporation and operation	Principal activities	Effective interest held as at 31 December	
			2007	2006
Shine Wind Development Limited ("Shine Wind") (note(c))	British Virgin Islands	Investment holding	**–**	30.8%
Jotun COSCO Marine Coatings (HK) Limited	Hong Kong	Manufacturing and trading of coating products	**50%**	50%

11 JOINTLY CONTROLLED ENTITIES (Continued)

Notes: (Continued)

(b) The Group's share of the financial positions and results of the jointly controlled entities is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Assets		
Non-current assets	**19,997**	639,449
Current assets	**259,969**	4,527,843
	279,966	5,167,292
Liabilities		
Non-current liabilities	**(11,845)**	(1,520,344)
Current liabilities	**(174,497)**	(2,509,002)
	(186,342)	(4,029,346)
Net assets	**93,624**	1,137,946
Revenue	**2,260,366**	1,448,453
Expenses	**(1,807,284)**	(1,283,586)
Profit for the year	**453,082**	164,867
Share of capital commitments of jointly controlled entities	**–**	59,619

(c) In October 2006, the Group completed the transaction to acquire 20% and 4% equity interests in Sino-Ocean Land Limited ("SOLL", previously known as Sino-Ocean Real Estate Development Co., Ltd.) from COSCO and Tianjin Ocean Shipping Company, a fellow subsidiary, respectively. SOLL is an equity joint venture company incorporated in the PRC and is engaged in property development in China Mainland. Upon completion, the Group held a total of 44% equity interests in SOLL. SOLL underwent a group reorganisation in November 2006, pursuant to which the Group exchanged its interests in SOLL for a 44% equity interest in a new holding company, Shine Wind, which in turn held a 100% equity interest in SOLL. Subsequent to the reorganisation, certain independent third-party investors subscribed for new shares in Shine Wind ("Subscription"). As a result, the Group's shareholding interest in Shine Wind was diluted to 30.8% of the enlarged issued capital of Shine Wind. The Subscription resulted in the Group recording a gain on deemed disposal of partial interest in a jointly controlled entity amounting to HK$279,043,000 in 2006.

In May 2007, Shine Wind underwent a pre-listing reorganisation pursuant to which, a new holding company, Sino-Ocean Land Holdings Limited ("SOLHL") acquired all the issued shares of Shine Wind by issuing shares to the then shareholders of Shine Wind, and became the ultimate holding company of Shine Wind. Since then, the Group held the shares in SOLHL instead of Shine Wind. On 28th September 2007, SOLHL was listed on the Main Board of the SEHK and the Group's interest in SOLHL was diluted from 30.8% to 20.44%. A deemed disposal gain of HK$1,925,468,000 arose as a result of the dilution. The directors considered that, upon the listing of SOLHL, the Group no longer has any joint control but significant influence in SOLHL. Accordingly, the Group's investment in SOLHL was reclassified as an associated company.

12 ASSOCIATED COMPANY

	Group 2007 HK$'000	2006 HK$'000
At 1st January	–	–
Reclassified from jointly controlled entity (note 11(c))	3,397,021	–
Acquisition (note (c))	175,258	–
Share of reserves of an associated company (note 22)	9,054	–
Share of profit of an associated company	46,719	–
At 31st December	3,628,052	–
Market value of listed shares in Hong Kong	8,956,279	–

Notes:

(a) Particulars of the associated company of the Group are set out as follows:

Name	Place of incorporation and operation	Principal activity	Effective interest held as at 31 December 2007	2006
Sino-Ocean Land Holdings Limited (note11(c))	Hong Kong	Investment holding	20.72%	–

(b) The Group's share of the financial positions and results of the associated company is as follows:

	Group 2007 HK$'000	2006 HK$'000
Assets		
Non-current assets	1,050,375	–
Current assets	7,430,646	–
	8,481,021	–
Liabilities		
Non-current liabilities	(2,008,001)	–
Current liabilities	(2,844,968)	–
	(4,852,969)	–
Net assets	3,628,052	–
Revenue	459,228	–
Expenses	(412,509)	–
Profit for the year	46,719	–

(c) The Group increased its interests in SOLHL to 20.72% as at 31st December 2007 through acquisition of shares in the open market.

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2007	2006
	HK$'000	HK$'000
At 1st January	**57,617**	86,806
Fair value gains recognised in equity (note 22)	**48,630**	15,774
Disposals	**(17,295)**	(44,963)
At 31st December	**88,952**	57,617

There were no impairment provisions on available-for-sale financial assets as at 31st December 2007 and 2006.

Available-for-sale financial assets include the following:

	Group	
	2007	2006
	HK$'000	HK$'000
Market value of listed equity securities in Hong Kong	**88,475**	57,140
Unlisted securities	**477**	477
	88,952	57,617

Available-for-sale financial assets are denominated in the following currencies:

	Group	
	2007	2006
	HK$'000	HK$'000
Renminbi	**477**	477
Hong Kong dollars	**88,475**	57,140
	88,952	57,617

14 COMPLETED PROPERTIES HELD FOR SALE

	Group	
	2007	2006
	HK$'000	HK$'000
Land cost	**5,984**	21,804
Development cost	**14,733**	57,883
	20,717	79,687

The carrying value of completed properties held for sale is analysed as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Outside Hong Kong, held on:		
Leases of over 50 years	**20,717**	79,687

15 PROPERTIES UNDER DEVELOPMENT FOR SALE

	Group	
	2007	2006
	HK$'000	HK$'000
Land cost	**–**	57,132
Development cost	**–**	163,542
	–	220,674

The carrying value of properties under development for sale is analysed as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Outside Hong Kong, held on:		
Leases of over 50 years	**–**	220,674

16 INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**125,410**	110,242
Work in progress	**7,603**	7,111
Finished goods	**247,070**	162,626
	380,083	279,979

The cost of inventories recognised as expenses and included in cost of sales amounting to HK$1,541,092,000 (2006: HK$1,209,487,000) (note 27).

In 2007, the Group reversed HK$778,000 of inventories impairment provision. The amount reversed was included in other income (note 26).

17 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables				
– fellow subsidiaries (note(a))	**88,256**	76,557	**–**	–
– associated companies of COSCO (note(a))	**244,894**	146,684	**–**	–
– jointly controlled entities (note(a))	**292**	605	**–**	–
– minority shareholders of subsidiaries (note(a))	**1,385**	–	**–**	–
– third parties	**361,440**	412,233	**–**	–
	696,267	636,079	**–**	–
Less: provision for impairment	**12,582**	12,736	**–**	–
Trade receivables – net	**683,685**	623,343	**–**	–
Deposits, prepayments and other receivables	**43,564**	72,552	**2,074**	36,853
Amounts due from fellow subsidiaries (note(a))	**4,601**	8,470	**32**	32
Amount due from a jointly controlled entity (note(b))	**11,652**	19,395	**11,652**	19,395
	743,502	723,760	**13,758**	56,280

17 TRADE AND OTHER RECEIVABLES (Continued)

Notes:

(a) Balances with fellow subsidiaries, associated companies of COSCO, certain jointly controlled entities and minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(b) Amount due from a jointly controlled entity is unsecured, interest bearing at 0.5% (2006: 0.5%) above LIBOR and repayable on or about 31st December 2008.

(c) The carrying amounts of trade and other receivables approximate their fair values and are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**193,801**	165,134	**–**	34,949
Hong Kong dollars	**49,833**	37,757	**2,106**	1,936
United States dollars	**449,333**	484,556	**11,652**	19,395
Others	**50,535**	36,313	**–**	–
	743,502	723,760	**13,758**	56,280

(d) As at 31st December, the ageing analysis of trade receivables after provision is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Current – 90 days	**339,801**	321,161
91 – 180 days	**245,286**	261,574
Over 180 days	**98,598**	40,608
	683,685	623,343

For sale of coating products, spare parts and navigation equipment, the majority of sales are on credit terms from 30 days to 90 days. Revenues from sale of properties and other operating revenue are billed according to the terms of the relevant contracts governing the transactions.

17 TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(e) As at 31st December 2007, trade receivables of HK$41,420,000 (2006: HK$20,081,000) were subject to impairment. The amount of the provision was HK$12,582,000 as at 31st December 2007 (2006: HK$12,736,000). The ageing analysis of these receivables is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Current – 90 days	**3,137**	–
91 – 180 days	**9,091**	447
Over 180 days	**29,192**	19,634
	41,420	20,081

(f) Movements on the provision for impairment of trade receivables are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
At 1st January	**12,736**	4,617
Acquisition of a subsidiary	**25**	–
Exchange differences	**897**	326
Provision for impairment (note 27)	**5,478**	7,793
Amount written off	**(4,640)**	–
Unused provision written back (note 26)	**(1,914)**	–
At 31st December	**12,582**	12,736

(g) Trade receivables that are less than nine months past due are not considered impaired. As at 31st December 2007, trade receivables of HK$337,073,000 (2006: HK$311,749,000) were past due but not impaired. The ageing analysis on past due days of these receivables is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Up to 90 days	**229,532**	256,733
91 – 180 days	**75,589**	33,886
Over 180 days	**31,952**	21,130
	337,073	311,749

(h) The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK$'000	HK$'000
Market value of listed equity securities in Hong Kong	**608**	616

Financial assets at fair value through profit or loss are presented within operating activities in the cash flow statement (note 34(a)).

19 CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**310,508**	426,556	**1,162**	460
Short-term bank deposits	**720,836**	435,631	**320,996**	160,908
	1,031,344	862,187	**322,158**	161,368

Notes:

(a) The carrying amounts of cash and cash equivalents approximate their fair values and are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**245,123**	281,700	**–**	9
Hong Kong dollars	**34,156**	73,727	**1,570**	8,487
United States dollars	**731,827**	488,507	**320,588**	152,850
Others	**20,238**	18,253	**–**	22
	1,031,344	862,187	**322,158**	161,368

(b) The maximum exposure to credit risk at the reporting date is the carrying amount of the balances mentioned above.

(c) The effective interest rate on short-term bank deposits was 4.35% (2006: 4.71%). These deposits have an average maturity of 23 days (2006: 19 days).

19 CASH AND CASH EQUIVALENTS (Continued)

Notes: (Continued)

(d) The Group's cash and cash equivalents include the following for the purposes of the cash flow statement:

	Group	
	2007	2006
	HK$'000	HK$'000
Cash and cash equivalents		
– continuing operations	**1,031,344**	862,187
– assets held for sale	**–**	38,664
Less: Cash investments with maturity more than three months from date of placement	**56,344**	20,441
Restricted bank deposits	**8,006**	2,191
	966,994	878,219

20 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

(a) On 5th February 2007, the Group entered into an agreement to dispose of the entire issued share capital of, and the shareholder's loan to, COSCO International Construction Limited ("CICL"), a wholly-owned subsidiary, to COSCO (H.K.) Property Development Limited, a fellow subsidiary at a consideration of HK$2. The principal activity of CICL and its subsidiaries (together "CICL Group") is building construction and maintenance. The disposal was effected pursuant to the Group's strategy of disposing its non-core businesses and assets, and was completed on 15th March 2007.

20 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (Continued)

The results and the cash flows of CICL Group for the period from 1st January 2007 to the date of disposal on 15th March 2007 and for the year ended 31st December 2006 are as follows:

	1st January 2007 to15th March 2007 HK$'000	2006 HK$'000
Turnover		
Building construction	**904**	11,237
Rental income	**160**	646
Sale of completed properties	**–**	282
	1,064	12,165
Cost of completed properties sold	**–**	(90)
Other operating costs	**(1,088)**	(12,119)
Gross loss	**(24)**	(44)
Other income		
Write-back of provision for claims and foreseeable losses on certain construction contracts	**1,627**	3,422
Write-back of provision for impairment of completed properties held for sale	**–**	23,319
Claims received	**2,807**	–
Gain on disposal of property, plant and equipment – net	**–**	136
Gain on disposal of assets held for sale	**–**	3,678
Others	**25**	2,062
	4,459	32,617
Administrative and general expenses	**(1,015)**	(7,079)
Operating profit	**3,420**	25,494
Finance income	**190**	576
Finance costs	**(3)**	(230)
Finance income – net	**187**	346
Profit for the period/year	**3,607**	25,840
Net cash (used in)/generated from operating activities	**(6,300)**	7,362
Net cash generated from investing activities	**190**	28,569
Net cash used in financing activities	**(3)**	(230)
Total net cash (used in)/generated from discontinued operations	**(6,113)**	35,701

20 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (Continued)

(Loss)/profit from discontinued operations is presented separately in the income statement and is analysed as follows:

	1st January 2007 to 15th March 2007	2006
	HK$'000	HK$'000
Profit for the period/year from CICL Group	**3,607**	25,840
Loss on disposal of CICL Group (note 34(b))	**(6,434)**	–
(Loss)/profit from discontinued operations	**(2,827)**	25,840

The assets and liabilities of CICL Group were classified as a disposal group held for sale and presented separately in the consolidated balance sheet as at 31st December 2006 as follows:

	Group 2006
	HK$'000
Assets held for sale:	
Associated companies	5,915
Completed properties held for sale	34,400
Gross amounts due from customers for contract work	79
Trade receivables	9,085
Retention receivables	22,293
Deposits, prepayments and other receivables	3,637
Cash and cash equivalents	38,645
	114,054
Liabilities directly associated with assets held for sale:	
Gross amounts due to customers for contract work	69,124
Trade payables	11,625
Retention payables	23,521
Accrued liabilities and other payables	4,126
Amounts due to associated companies	5,702
	114,098

20 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (Continued)

(b) On 29th December 2006, the Group entered into an agreement with an independent third party to dispose of the entire issued share capital of, and the shareholder's loan to, Wellbase Holdings Limited ("Wellbase"), a wholly-owned subsidiary at a consideration of HK$31,200,000, subject to adjustment. The disposal was completed in January 2007. The assets and liabilities of Wellbase were classified as a disposal group held for sale and presented separately in the consolidated balance sheet as at 31st December 2006 as follows:

	Group 2006 HK$'000
Assets held for sale:	
Investment properties (note 6)	30,997
Property, plant and equipment (note 8)	673
Trade receivables	17
Deposits, prepayments and other receivables	94
Cash and cash equivalents	19
	31,800
Liabilities directly associated with assets held for sale:	
Accrued liabilities and other payables	306

(c) At 31st December 2006, assets held for sale and liabilities directly associated with assets held for sale are made up as follows:

	Group 2006 HK$'000
Assets held for sale:	
CICL Group (note(a))	114,054
Wellbase (note(b))	31,800
	145,854
Liabilities directly associated with assets held for sale:	
CICL Group (note(a))	114,098
Wellbase (note(b))	306
	114,404

21 SHARE CAPITAL

	2007 Number of shares	2007 HK$'000	2006 Number of shares	2006 HK$'000
Authorised:				
Shares of HK$0.10 each	3,000,000,000	300,000	3,000,000,000	300,000
Issued and fully paid:				
At 1st January	1,450,523,291	145,052	1,418,241,291	141,824
Issue of shares upon exercise of share options (note)	27,508,000	2,751	32,282,000	3,228
At 31st December	1,478,031,291	147,803	1,450,523,291	145,052

Share options

On 17th May 2002, a share option scheme was approved at the annual general meeting of the Company under which the directors of the Company may, at their discretion, invite, but not limited to, the directors and employees of the Group, and employees of COSCO, its subsidiaries and associated companies (other than the Group) (collectively "COSCO Group") to subscribe for shares of the Company.

Particulars and movements of the share options granted by the Company are as follows:

			Number of share options						Vested %	
Category	Note	Exercise price HK$	Outstanding as at 1st January 2007	Granted during the year	Changed category during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December 2007	as at 31st December 2007	as at 31st December 2006
Directors	a	0.57	10,700,000	–	–	(7,100,000)	–	3,600,000	100	100
	b	1.37	6,500,000	–	–	(800,000)	–	5,700,000	100	100
	d	3.666	–	8,600,000	(800,000)	–	–	7,800,000	–	–
Continuous contract employees	a	0.57	4,848,000	–	–	(1,248,000)	–	3,600,000	100	100
	b	1.37	14,150,000	–	(1,450,000)	(4,200,000)	–	8,500,000	100	100
	c	1.21	2,200,000	–	–	(900,000)	–	1,300,000	100	100
	d	3.666	–	17,330,000	(250,000)	–	–	17,080,000	–	–
Others	a	0.57	16,538,000	–	–	(9,098,000)	–	7,440,000	100	100
	b	1.37	21,030,000	–	1,450,000	(4,162,000)	–	18,318,000	100	100
	d	3.666	–	17,920,000	1,050,000	–	–	18,970,000	–	–
			75,966,000	43,850,000	–	(27,508,000)	–	92,308,000		

21 SHARE CAPITAL (Continued)

Notes:

(a) On 26th November 2003, the directors and employees of the Group were granted a total of 44,800,000 share options at an exercise price of HK$0.57 per share. In addition, 34,200,000 share options were granted to employees of COSCO Group. The share options are exercisable at any time from 23rd December 2003 to 22nd December 2008. A total of 17,446,000 (2006: 22,062,000) share options was exercised during the year.

(b) On 2nd December 2004, the directors and employees of the Group were granted 32,650,000 share options at an exercise price of HK$1.37 per share. In addition, 23,250,000 share options were granted to employees of COSCO Group. The share options are exercisable at any time from 29th December 2004 to 28th December 2014. During the year, 9,162,000 (2006: 10,020,000) share options were exercised and no (2006: 1,450,000) share options were lapsed.

(c) On 10th May 2005, the employees of the Group were granted 2,400,000 share options at an exercise price of HK$1.21 per share. The share options are exercisable at any time between 6th June 2005 and 5th June 2015. A total of 900,000 (2006: 200,000) share options was exercised during the year.

(d) On 9th March 2007, the Company granted share options to subscribe for 43,850,000 shares of the Company at an exercise price of HK$3.666 per share. These share options are exercisable at any time from 9th March 2009 to 8th March 2015 in the stipulated proportion at any time namely: (i) no share options shall be exercisable within the first two years from 9th March 2007; (ii) up to a maximum of 30% of the share options can be exercised from 9th March 2009 onwards; (iii) up to a maximum of 70% of the share options can be exercised from 9th March 2010 onwards and (iv) all share options can be exercised from 9th March 2011 onwards.

The Company adopted the Binomial Lattice Valuation Model to determine the fair value of the above share options granted during the year. The weighted average fair value of each share option at the grant date was HK$1.33. The significant inputs into the model are as follows:

Weighted average price	HK$3.62
Exercise price	HK$3.666
Expected volatility	37% p.a.
Expected option life	8 years
Risk-free rate	4% p.a. for the first 3 years
	4.25% p.a. for the next 5 years
Expected dividend yield	2.2% p.a.

Expected volatility measured at the standard deviation of the continuously compounded rates of return was determined based on the historical volatility of the Company's share price over the previous one year.

During the year, the Group recognised total expenses of HK$17,419,000 (2006: nil) as a result of the above equity-settled share based transactions on the basis of the fair value of share options granted.

21 SHARE CAPITAL (Continued)

During the year, an aggregate of 27,508,000 (2006: 32,282,000) share options were exercised and a summary of which, analysed by exercise month, is set out below:

	Number of share options exercised	
	2007	2006
Exercise month		
January	**1,268,000**	4,300,000
February	**630,000**	2,450,000
March	**196,000**	3,750,000
April	**1,870,000**	7,650,000
May	**1,626,000**	680,000
June	**2,372,000**	350,000
July	**2,000,000**	1,280,000
August	**5,704,000**	4,240,000
September	**5,624,000**	1,650,000
October	**5,008,000**	2,400,000
November	**1,210,000**	3,482,000
December	**–**	50,000
	27,508,000	32,282,000

Exercise of the above share options during the year yielded proceeds as follows:

	2007	2006
	HK$'000	HK$'000
Ordinary share capital – at par	**2,751**	3,228
Share premium	**20,834**	23,317
Proceeds	**23,585**	26,545

The weighted average closing price of the Company's shares on the dates when the share options were exercised was HK$7.12 (2006: HK$2.04).

22 RESERVES

Group

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Capital Reserve (note (b)) HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January 2007	34,494	1,284	65,959	676,218	24,776	20,841	1,232,676	2,056,248
Transfer of reserves	–	–	24,419	–	–	–	(24,419)	–
Capital reserve realised upon disposal of subsidiaries	–	–	(1,063)	–	–	–	1,063	–
Exchange reserve realised upon disposal of subsidiaries	–	–	–	–	(3,820)	–	–	(3,820)
Share of reserves of jointly controlled entities (note 11)	–	–	–	–	81,120	632	–	81,752
Share of reserves of an associated company (note 12)	–	6,175	–	–	–	2,879	–	9,054
Investment revaluation reserve realised upon disposal of available-for-sale financial assets	–	–	–	–	–	(5,804)	–	(5,804)
Issue of shares upon exercise of share options	21,356	(522)	–	–	–	–	–	20,834
Exchange differences	–	–	–	–	34,353	–	–	34,353
Fair value gains on available-for-sale financial assets (note 13)	–	–	–	–	–	48,630	–	48,630
Employee share option benefits	–	17,419	–	–	–	–	–	17,419
Profit for the year (note(a))	–	–	–	–	–	–	2,572,623	2,572,623
Dividends paid	–	–	–	–	–	–	(77,346)	(77,346)
Balance at 31st December 2007	55,850	24,356	89,315	676,218	136,429	67,178	3,704,597	4,753,943
Representing:								
Reserves	55,850	24,356	89,315	676,218	136,429	67,178	3,626,261	4,675,607
2007 proposed final and special dividends	–	–	–	–	–	–	78,336	78,336
	55,850	24,356	89,315	676,218	136,429	67,178	3,704,597	4,753,943

22 RESERVES (Continued)

Group (Continued)

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Capital Reserve (note (b)) HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January 2006	11,061	1,400	65,184	676,218	1,571	12,802	683,124	1,451,360
Transfer of reserves	–	–	2,277	–	–	–	(2,277)	–
Share of reserve of a jointly controlled entity (note 11)	–	–	–	–	1,527	–	–	1,527
Investment revaluation reserve realised upon disposal of available-for-sale financial assets	–	–	–	–	–	(7,735)	–	(7,735)
Issue of shares upon exercise of share options	23,433	(116)	–	–	–	–	–	23,317
Exchange differences	–	–	(1,502)	–	21,678	–	–	20,176
Fair value gains on available-for-sale financial assets (note 13)	–	–	–	–	–	15,774	–	15,774
Profit for the year (note(a))	–	–	–	–	–	–	616,589	616,589
Dividends paid	–	–	–	–	–	–	(64,760)	(64,760)
Balance at 31st December 2006	34,494	1,284	65,959	676,218	24,776	20,841	1,232,676	2,056,248
Representing:								
Reserves	34,494	1,284	65,959	676,218	24,776	20,841	1,170,303	1,993,875
2006 proposed final dividend	–	–	–	–	–	–	62,373	62,373
	34,494	1,284	65,959	676,218	24,776	20,841	1,232,676	2,056,248

Company

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Contributed Surplus (note (d)) HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January 2007	**34,494**	**1,284**	**759,988**	**572,635**	**1,368,401**
Transfer of reserve	**–**	**–**	**(83,770)**	**83,770**	**–**
Issue of shares upon exercise of share options	**21,356**	**(522)**	**–**	**–**	**20,834**
Employee share options benefits	**–**	**17,419**	**–**	**–**	**17,419**
Profit for the year	**–**	**–**	**–**	**32,686**	**32,686**
Dividends paid	**–**	**–**	**–**	**(77,346)**	**(77,346)**
Balance at 31st December 2007	**55,850**	**18,181**	**676,218**	**611,745**	**1,361,994**
Representing:					
Reserves	**55,850**	**18,181**	**676,218**	**533,409**	**1,283,658**
2007 proposed final and special dividends	**–**	**–**	**–**	**78,336**	**78,336**
	55,850	**18,181**	**676,218**	**611,745**	**1,361,994**

22 RESERVES (Continued)

Company (Continued)

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Contributed Surplus (note (d)) HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January 2006	11,061	1,400	759,988	7,379	503,580	1,283,408
Investment revaluation reserve realised upon disposal of available-for-sale financial asset	–	–	–	(7,379)	–	(7,379)
Issue of shares upon exercise of share options	23,433	(116)	–	–	–	23,317
Profit for the year	–	–	–	–	133,815	133,815
Dividends paid	–	–	–	–	(64,760)	(64,760)
Balance at 31st December 2006	34,494	1,284	759,988	–	572,635	1,368,401
Representing:						
Reserves	34,494	1,284	759,988	–	510,262	1,306,028
2006 proposed final dividend	–	–	–	–	62,373	62,373
	34,494	1,284	759,988	–	572,635	1,368,401

Notes:

(a) Profit for the year of HK$2,572,623,000 (2006: HK$616,589,000) includes a net profit of HK$453,082,000 (2006: HK$164,867,000) attributable to jointly controlled entities and HK$46,719,000 (2006: nil) attributable to an associated company.

(b) Included in the capital reserve is an amount of HK$55,249,000 (2006: HK$31,893,000) which represents the Group's share of the PRC statutory reserves of certain subsidiaries, associated company and jointly controlled entities.

(c) In 2004, part of the amount standing to the credit of the share premium account of the Company was offset against the entire accumulated losses as at 31st December 2003 of HK$1,680,335,000 and the remaining credit of the share premium account of HK$676,218,000 was transferred to contributed surplus.

(d) Included in the contributed surplus of the Company as at 31st December 2006 is an amount of HK$83,770,000 which arose in 1992 when the Company issued shares in exchange for the shares of companies then acquired, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the companies acquired. As these companies were disposed of in 2007, such amount was transferred to retained earnings.

23 TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables				
– fellow subsidiaries (note(a))	**16,745**	29,061	**–**	–
– associated companies of COSCO (note(a))	**–**	826	**–**	–
– jointly controlled entities (note(a))	**249**	278	**–**	–
– minority shareholders of subsidiaries (note(a))	**772**	7,100	**–**	–
– third parties	**371,341**	364,797	**–**	–
	389,107	402,062	**–**	–
Accrued liabilities and other payables	**443,819**	562,177	**7,784**	12,236
Amounts due to fellow subsidiaries (note(a))	**30,938**	51,176	**–**	–
Amount due to holding companies (note(a))	**3,188**	9,483	**3,065**	–
Amounts due to jointly controlled entities (note(a))	**188**	–	**–**	–
Dividend payable to minority shareholders of subsidiaries	**–**	8,433	**–**	–
	867,240	1,033,331	**10,849**	12,236

Notes:

(a) Balances with fellow subsidiaries, associated companies of COSCO, jointly controlled entities, minority shareholders of subsidiaries, and holding companies are unsecured, interest-free and have no fixed terms of repayment.

(b) The carrying amounts of trade and other payables approximate their fair values and are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**440,584**	549,822	**–**	–
Hong Kong dollars	**59,748**	69,968	**10,849**	12,236
United States dollars	**338,345**	364,668	**–**	–
Others	**28,563**	48,873	**–**	–
	867,240	1,033,331	**10,849**	12,236

(c) As at 31st December, the ageing analysis of trade payables is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Current – 90 days	**325,337**	305,448
91 – 180 days	**50,284**	80,668
Over 180 days	**13,486**	15,946
	389,107	402,062

24 SHORT-TERM BORROWINGS

	Group	
	2007	2006
	HK$'000	HK$'000
Unsecured bank loans, repayable within one year	**216,816**	78,521

Notes:

(a) The carrying amounts of short-term borrowings approximate their fair values and are denominated in the following currencies:

	Group	
	2007	2006
	HK$'000	HK$'000
Renminbi	**69,384**	15,931
United States dollars	**147,432**	62,590
	216,816	78,521

(b) The effective interest rates of short-term borrowings during the year ended 31st December 2007 and 2006 are as follows:

	2007	2006
Renminbi	**6.89%**	5.07%
United States dollars	**5.73%**	6.47%

(c) Short-term borrowings are subject to the exposure of interest rate changes at contractual repricing dates.

25 DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using tax rates enacted by the balance sheet date.

The movement on the net deferred income tax assets/(liabilities) during the year is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
At 1st January	**(85)**	(85)
Acquisition of a subsidiary	**2**	–
Credited to the income statement (note 29)	**26,233**	–
Charged to the income statement (note 29)	**(713)**	–
At 31st December	**25,437**	(85)

25 DEFERRED INCOME TAX (Continued)

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that realisation of the related tax benefit through future taxable profits is probable. As at 31st December 2007, the Group has unrecognised tax losses of HK$249,849,212 (2006: HK$203,529,212) from continuing operations to carry forward against future taxable income.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Deferred income tax assets:		
– to be recovered after more than 12 months	**5,348**	–
– to be recovered within 12 months	**20,887**	–
	26,235	–
Deferred income tax liabilities:		
– to be settled after more than 12 months	**(798)**	(85)
– to be settled within 12 months	**–**	–
	(798)	(85)
	25,437	(85)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) Deferred income tax assets

	Group				
	Provisions	Impairment losses	Tax losses	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2007	–	–	–	–	–
Acquisition of a subsidiary	–	–	–	2	2
Credited to the income statement	20,210	4,028	1,362	633	26,233
At 31st December 2007	20,210	4,028	1,362	635	26,235

Note: Under the new Corporate Income Tax Law of the PRC, the corporate income tax rate applicable to the Group's certain PRC subsidiaries will be increased with effect from 1st January 2008. Deferred income tax asset is calculated using the new tax rate.

25 DEFERRED INCOME TAX (Continued)

(b) Deferred income tax liabilities

	Group		
	Accelerated tax depreciation	Fair value gains	Total
	HK$'000	HK$'000	HK'$000
At 1st January 2007	(85)	–	(85)
Credited/(charged) to the income statement	3	(716)	(713)
At 31st December 2007	(82)	(716)	(798)

26 OTHER INCOME

	2007	2006
	HK$'000	HK$'000
Fair value gains on investment properties (note 6)	4,134	4,932
Fair value gains on financial assets at fair value through profit or loss	–	266
Gain on disposal of available-for-sale financial assets, including realised investment revaluation reserve of HK$5,804,000 (2006: HK$7,735,000)	31,139	41,496
Gain on disposal of subsidiaries (note 34(b))	2,887	–
Write-back of provision for urban real estate tax	–	1,988
Write-back of provision for capital gains tax	3,733	–
Write-back of provision for impairment of trade receivables (note 17)	1,914	–
Write-back of provision for impairment of inventories (note 16)	778	–
Recovery of bad debts	374	529
Dividend income from listed and unlisted investments		
– available-for-sale financial assets	2,526	8,698
– financial assets at fair value through profit or loss	8	38
Others	6,527	2,879
	54,020	60,826

27 EXPENSES BY NATURE

	2007 HK$'000	2006 HK$'000
Cost of sales		
Cost of inventories sold (note 16)	**1,541,092**	1,209,487
Cost of properties sold	**209,457**	182,435
Direct operating expenses for generating rental income	**127**	727
	1,750,676	1,392,649
Selling, administrative and general expenses		
Depreciation (note 27(a))	**7,369**	4,786
Amortisation of prepaid premium for land leases	**774**	459
Operating lease rental expense (note 27(b))	**10,155**	9,018
Employee benefit expenses, including directors' emoluments (note 27(c))	**113,325**	76,196
Auditors' remuneration	**3,011**	2,412
Others	**236,311**	196,778
	370,945	289,649
Other expenses		
Fair value loss on financial assets at fair value through profit or loss	**8**	–
Net exchange loss	**13,052**	994
Loss on disposal of subsidiaries (note 34(b))	**31**	–
Loss on disposal of property, plant and equipment	**223**	52
Provision for impairment of completed properties held for sale	**11,278**	–
Provision for impairment of trade receivables (note 17)	**5,478**	7,793
Write-off of bad debts	**1,787**	582
Provision for impairment of inventories	**–**	6,862
Write-off of inventories	**6**	1,424
Provision for land appreciation tax	**–**	17,864
Provision for capital gains tax	**–**	8,538
	31,863	44,109

27 EXPENSES BY NATURE (Continued)

(a) Depreciation

	2007 HK$'000	2006 HK$'000
Charge for the year (note 8)	14,722	9,567
Charged to cost of sales	(6,351)	(3,933)
Capitalised in inventories	(1,002)	(848)
	7,369	4,786

(b) Operating lease rental expense

	2007 HK$'000	2006 HK$'000
Land and buildings	10,155	9,018

(c) Employee benefit expenses, including directors' emoluments

	2007 HK$'000	2006 HK$'000
Wages and salaries	101,707	85,507
Employee share option benefits (note 21(d))	17,419	–
Pension costs – defined contribution scheme (note)	13,715	7,484
Employee benefit expenses, including directors' emoluments (note 33(a))	132,841	92,991
Charged to cost of sales	(10,736)	(13,518)
Capitalised in inventories	(8,780)	(3,277)
	113,325	76,196

Note: There were no forfeited contributions (2006: nil) utilised during the year and no forfeited contributions (2006: nil) were available at the year end to reduce future contributions. There were no contributions (2006: nil) payable to the retirement benefit schemes at the year end.

28 FINANCE INCOME – NET

	2007 HK$'000	2006 HK$'000
Interest income from bank deposits	**34,141**	36,572
Interest income from a jointly controlled entity	**1,621**	–
	35,762	36,572
Interest expenses on bank and other loans wholly repayable within five years	**(10,210)**	(6,035)
Other finance costs	**(1,613)**	(1,598)
Total finance costs incurred	**(11,823)**	(7,633)
Capitalised in properties under development for sale	**–**	3,422
	(11,823)	(4,211)
Finance income – net	**23,939**	32,361

29 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

China Mainland taxation has been calculated on the estimated assessable profit derived from the Group's operations in China Mainland for the year at the rates of taxation prevailing in China Mainland.

	2007 HK$'000	2006 HK$'000
Current income tax		
– Hong Kong profits tax	**16,876**	13,010
– China Mainland taxation	**33,962**	27,618
– Over-provision for Hong Kong profits tax in prior years	**(1,546)**	(686)
Deferred income tax charge (note 25)	**713**	–
Deferred income tax credit (note 25)	**(26,233)**	–
Income tax expense	**23,772**	39,942

29 INCOME TAX EXPENSE (Continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the profits tax rate of Hong Kong where the Company operates and the difference is set out below:

	2007 HK$'000	2006 HK$'000
Profit before income tax from continuing operations (excluding share of profits of jointly controlled entities and an associated company)	**2,159,066**	512,288
Calculated at a tax rate of 17.5% (2006: 17.5%)	**377,837**	89,651
Effect of different tax rates in China Mainland	**(1,405)**	603
Income not subject to tax	**(365,809)**	(66,483)
Expenses not deductible for tax purposes	**18,380**	5,993
Tax losses not recognised	**8,106**	10,864
Over-provision in prior years	**(1,546)**	(686)
Effect of prospective change in tax rates applicable to deferred tax in China Mainland	**(11,791)**	–
Income tax expense	**23,772**	39,942

30 PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$32,686,000 (2006: HK$133,815,000).

31 DIVIDENDS

The dividends paid in 2007 were HK$77,346,000 (2006: HK$64,760,000).

	2007 HK$'000	2006 HK$'000
Interim dividend paid of HK$0.01 (2006: HK$0.01) per ordinary share	**14,733**	14,463
Final dividend proposed of HK$0.035 (2006: HK$0.043) per ordinary share	**51,731**	62,373
Special dividend proposed of HK$0.018 (2006: nil) per ordinary share	**26,605**	–
	93,069	76,836

At the board meeting held on 28th March 2008, the directors proposed a final dividend of HK$0.035 per ordinary share and a special dividend of HK$0.018 per ordinary share for the year ended 31st December 2007. These proposed dividends are not reflected as dividend payable in the financial statements until it has been approved at the annual general meeting, but will be reflected as an appropriation of retained profits for the year ending 31st December 2008.

32 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007	2006
Profit/(loss) attributable to the equity holders of the Company		
– from continuing operations	**HK$2,575,450,000**	HK$590,749,000
– from discontinued operations	**(HK$2,827,000)**	HK$25,840,000
Weighted average number of ordinary shares in issue	**1,462,165,609**	1,437,184,579
Basic earnings/(loss) per share		
– from continuing operations	**176.14 HK cents**	41.10 HK cents
– from discontinued operations	**(0.19 HK cent)**	1.80 HK cents

(b) Diluted earnings/(loss) per share is calculated based on the weighted average number of shares in issue after adjusting for the potential dilutive effect in respect of outstanding share options.

	2007	2006
Profit/(loss) attributable to the equity holders of the Company		
– from continuing operations	**HK$2,575,450,000**	HK$590,749,000
– from discontinued operations	**(HK$2,827,000)**	HK$25,840,000
Weighted average number of ordinary shares in issue	**1,462,165,609**	1,437,184,579
Adjustments for assumed issuance of shares on exercise of share options	**54,159,426**	37,704,911
Weighted average number of ordinary shares for diluted earnings per share	**1,516,325,035**	1,474,889,490
Diluted earnings/(loss) per share		
– from continuing operations	**169.85 HK cents**	40.05 HK cents
– from discontinued operations	**(0.19 HK cent)**	1.75 HK cents

33 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

(a) Directors' emoluments

Details of the emoluments of the directors of the Company for the year ended 31st December 2007 are as follows:

Name of directors	Fees	Salaries and other emoluments	Share option benefits	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Liu Guoyuan	–	5,000	426	5,426
Mr. Wang Futian (appointed on 16th March 2007)	–	–	310	310
Mr. Jia Lianjun	–	–	296	296
Mr. Wang Xiaoming	–	–	310	310
Mr. Liang Yanfeng	–	2,400	426	2,826
Mr. Meng Qinghui	–	–	310	310
Mr. Chen Xuewen	–	–	310	310
Mr. Lin Libing (resigned on 11th December 2007)	–	810	310	1,120
Mr. Wang Xiaodong	–	1,080	310	1,390
Mr. Lin Wenjin	–	1,080	310	1,390
Mr. Chan Cheong Foon, Andrew (retired on 29th May 2007)	78	–	–	78
Mr. Kwong Che Keung, Gordon	200	–	–	200
Mr. Tsui Yiu Wa, Alec	200	–	–	200
Mr. Jiang, Simon X. (appointed on 12th April 2007)	145	–	–	145
	623	10,370	3,318	14,311

Details of the emoluments of the directors of the Company for the year ended 31st December 2006 are as follows:

Name of directors	Fees	Salaries and other emoluments	Share option benefits	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Liu Guoyuan	–	5,000	–	5,000
Mr. Liang Yanfeng	–	1,250	–	1,250
Mr. Liu Hanbo (resigned on 9th August 2006)	–	1,500	–	1,500
Mr. Lin Libing	–	1,080	–	1,080
Mr. Wang Xiaodong	–	1,080	–	1,080
Mr. Lin Wenjin	–	810	–	810
Mr. Chan Cheong Foon, Andrew	190	–	–	190
Mr. Kwong Che Keung, Gordon	190	–	–	190
Mr. Tsui Yiu Wa, Alec	190	–	–	190
	570	10,720	–	11,290

As at 31st December 2007, the directors of the Company had outstanding share options to subscribe for 17,100,000 (2006: 17,200,000) shares of the Company (refer to note 21 for details).

33 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

(a) Directors' emoluments (Continued)

The directors were granted share options by COSCO Pacific Limited ("COSCO Pacific"), a fellow subsidiary, details of which are as follows:

			Number of share options				
Category	Note	Exercise price HK$	Outstanding as at 1st January 2007	Granted during the year	Changed category during the year	Exercised during the year	Outstanding as at 31st December 2007
Directors	i	9.54	700,000	–	–	(700,000)	–
	ii	13.75	2,800,000	–	–	(300,000)	2,500,000
			3,500,000	–	–	(1,000,000)	2,500,000

The directors were granted share options by COSCO Corporation (Singapore) Limited ("COSCO SGP"), a fellow subsidiary, details of which are as follows:

			Number of share options				
Category	Note	Exercise price S$	Outstanding as at 1st January 2007	Granted during the year	Changed category during the year	Exercised during the year	Outstanding as at 31st December 2007
Directors	iii	1.23	1,800,000	–	–	–	1,800,000

The directors were granted share appreciation rights by China COSCO Holdings Company Limited ("China COSCO"), a fellow subsidiary, details of which are as follows:

			Number of units of share appreciation rights				
Category	Note	Exercise price HK$	Outstanding as at 1st January 2007	Granted during the year	Changed category during the year	Exercised during the year	Outstanding as at 31st December 2007
Directors	iv	3.195	2,175,000	–	600,000	(1,570,000)	1,205,000
	v	3.588	1,565,000	–	600,000	(280,000)	1,885,000
	vi	9.540	–	1,520,000	–	–	1,520,000
			3,740,000	1,520,000	1,200,000	(1,850,000)	4,610,000

33 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

(a) Directors' emoluments (Continued)

The directors were granted share options by SOLHL, an associated company, details of which are as follows:

			Number of share options				
Category		Exercise price	Outstanding as at 1st January 2007	Granted during the year	Changed category during the year	Exercised during the year	Outstanding as at 31st December 2007
	Note	HK$					
Directors	vii	7.7	–	**1,780,000**	–	–	**1,780,000**

Notes:

(i) These share options were granted by COSCO Pacific during the period from 28th October 2003 to 6th November 2003 and are exercisable at any time within ten years from the respective date of grant of the share options.

(ii) These share options were granted by COSCO Pacific during the period from 25th November 2004 to 16th December 2004 and are exercisable at any time within ten years from the respective date of grant of the share options.

(iii) These share options were granted by COSCO SGP on 21st February 2006 and are exercisable at any time from 21st February 2007 to 20th February 2011.

(iv) Share appreciation rights ("Share Appreciation Rights") were granted by China COSCO in units with each unit representing one H share of China COSCO pursuant to the share appreciation rights plan adopted by China COSCO (the "Plan"). The beneficial owners of the Share Appreciation Rights are entitled to the premium of the price of the issued shares of China COSCO over the exercise price of the share appreciation rights. These Share Appreciation Rights were granted on 16th December 2005 and are exercisable at any time between 16th December 2007 and 15th December 2015.

(v) These Share Appreciation Rights were granted by China COSCO on 5th October 2006 pursuant to the Plan and are exercisable at any time between 5th October 2008 and 4th October 2016.

(vi) These Share Appreciation Rights were granted by China COSCO on 4th June 2007 pursuant to the Plan and are exercisable at any time between 4th June 2009 and 3rd June 2017.

(vii) These share options were granted by SOLHL on 28th September 2007 and are exercisable from 8th October 2008 to 7th October 2012.

33 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2006: four) directors whose emoluments are reflected in the above analysis. The emoluments of the remaining one (2006: one) individual during the year are as follows:

	2007 HK$'000	2006 HK$'000
Basic salaries, other allowances and benefit-in-kind	1,703	1,454
Pension costs – defined contribution scheme	12	12
	1,715	1,466

The emoluments of these individuals fell within the following bands:

	Number of individuals	
Emolument bands	2007	2006
HK$1,000,001 – HK$1,500,000	–	1
HK$1,500,001 – HK$2,000,000	1	–
	1	1

34 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to cash generated from operations

	2007 HK$'000	2006 HK$'000
Operating profit		
– continuing operations	**2,135,127**	479,927
– discontinued operations#	**3,420**	25,494
Depreciation of property, plant and equipment, net of amount capitalised	**13,720**	8,719
Amortisation of prepaid premium for land leases	**774**	459
Fair value gains on investment properties	**(4,134)**	(4,932)
Loss/(gain) on disposal of property, plant and equipment	**223**	(84)
Gain on disposal of available-for-sale financial assets	**(31,139)**	(41,496)
Gain on deemed disposal of partial interest in a jointly controlled entity	**(1,925,468)**	(279,043)
Gain on disposal of assets held for sale	**–**	(3,678)
Gain on disposal of subsidiaries	**(2,887)**	–
Loss on disposal of subsidiaries	**31**	–
Fair value loss/(gains) on financial assets at fair value through profit or loss	**8**	(266)
Write-back of provision for impairment of completed properties held for sale	**–**	(23,319)
Write-back of provision for claims and foreseeable losses on certain construction contracts	**(1,627)**	(3,422)
Write-back of provision for impairment of trade receivables	**(1,914)**	–
Write-back of provision for impairment of inventories	**(778)**	–
Write-back of provision for urban real estate tax	**–**	(1,988)
Write-back of provision for capital gains tax	**(3,733)**	–
Provision for impairment of completed properties held for sale	**11,278**	–
Provision for impairment of trade receivables	**5,478**	7,793
Provision for impairment of inventories	**–**	6,862
Provision for land appreciation tax	**–**	17,864
Provision for capital gains tax	**–**	8,538
Write-off of bad debts	**1,787**	582
Write-off of inventories	**6**	1,424
Employee share option benefits	**17,419**	–
Dividend income	**(2,534)**	(8,736)
Operating profit before working capital changes	**215,057**	190,698
Decrease in properties under development for sale	**228,132**	55,410
Increase in completed properties held for sale	**(17,216)**	(6,069)
Increase in inventories	**(73,699)**	(115,296)
Increase in trade receivables, retention receivables, deposits, prepayments and other receivables	**(31,523)**	(273,796)
Decrease/(increase) in amounts due from fellow subsidiaries	**3,869**	(2,431)
Decrease/(increase) in amount due from a jointly controlled entity	**7,743**	(19,395)
(Decrease)/increase in trade payables, accrued liabilities and other payables	**(146,044)**	161,731
(Decrease)/increase in construction contracts in progress	**(328)**	17,386
Decrease in amounts due to fellow subsidiaries	**(20,238)**	(9,592)
(Decrease)/increase in amount due to holding companies	**(6,295)**	9,372
Increase/(decrease) in amounts due to jointly controlled entities	**188**	(186)
Decrease in amount due to minority shareholder of a subsidiary	**–**	(3,415)
(Decrease)/increase in dividend payable to minority shareholders of subsidiaries	**(8,433)**	111
Cash generated from operations	**151,213**	4,528

before deducting non-cash item from loss on disposal of discontinued operations of HK$6,434,000 (2006: nil).

34 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries

As disclosed in note 20(a), on 15th March 2007, the Group disposed of a 100% equity interest in, and the shareholder's loan to, CICL at a proceed of HK$2.

The assets and liabilities arising from the disposal are as follows:

	Carrying amount HK$'000
Associated companies	5,915
Completed properties held for sale	34,400
Gross amounts due from customers for contract work	79
Trade receivables	14,357
Retention receivables	19,979
Deposits, prepayment and other receivables	3,671
Cash and cash equivalents	32,532
Gross amounts due to customers for contract work	(67,169)
Trade payables	(8,296)
Retention payables	(22,554)
Accrued liabilities and other payables	(3,649)
Amounts due to associated companies	(5,702)
Net assets disposed	3,563
Incidental costs on disposal	413
Exchange reserve realised upon disposal	2,458
	6,434
Loss on disposal (note 20(a))	(6,434)
Proceeds on disposal	–
Net outflow of cash and cash equivalents on disposal:	
Proceeds received in cash	–
Incidental costs on disposal	(413)
Cash and cash equivalents in subsidiary disposed	(32,532)
	(32,945)

34 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries (Continued)

As disclosed in note 20(b), on 22nd January 2007, the Group disposed of a 100% equity interest in, and the shareholder's loan to, Wellbase at a proceed of HK$31,463,000.

The assets and liabilities arising from the disposal are as follows:

	Carrying amount HK$'000
Investment properties	**30,997**
Property, plant and equipment	**673**
Trade receivables	**17**
Deposits, prepayment and other receivables	**94**
Cash and cash equivalents	**19**
Accrued liabilities and other payables	**(306)**
Net assets disposed	**31,494**
Loss on disposal (note 27)	**(31)**
Proceeds on disposal	**31,463**
Net inflow of cash and cash equivalents on disposal:	
Proceeds received in cash	**31,463**
Cash and cash equivalents in subsidiary disposed	**(19)**
	31,444

34 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries (Continued)

On 5th November 2007, the Group disposed of a 100% equity interest in, and the shareholder's loan to, Success Gate Investments Limited ("Success Gate") at a proceed of HK$57,252,000. Success Gate is an investment holding company holding 51% equity interest in Shenyang COSCO Yihe Property Development Co., Ltd., which is engaged in property development in the PRC.

The assets and liabilities arising from the disposal are as follows:

	Carrying amount HK$'000
Property, plant and equipment	823
Completed properties held for sale	68,393
Trade receivables	15,816
Deposits, prepayment and other receivables	17,379
Cash and cash equivalents	66,040
Trade payables	(36,750)
Accrued liabilities and other payables	(4,169)
Current income tax liabilities	(8,624)
Minority interests	(58,265)
Net assets disposed	60,643
Exchange reserve realised upon disposal	(6,278)
	54,365
Gain on disposal (note 26)	2,887
Proceeds on disposal	57,252
Net outflow of cash and cash equivalents on disposal:	
Proceeds received in cash	57,252
Cash and cash equivalents in subsidiary disposed	(66,040)
	(8,788)

35 COMMITMENTS

(a) Capital commitments

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Contracted but not provided for				
– property, plant and equipment	**1,018**	22,941	**–**	–

(b) Operating lease commitments

The aggregate future minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**14,680**	8,334	**5,966**	4,818
In the second to fifth years inclusive	**41,068**	5,221	**19,566**	2,811
	55,748	13,555	**25,532**	7,629

(c) Future minimum rental payments receivable

The future minimum rental receivable under non-cancellable leases is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**83**	109
In the second to third years inclusive	**12**	–
	95	109

The Group's operating leases were for terms ranging from two to three years.

36 CONTINGENCIES

	Group		Company	
	2007	2006	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Guarantee and counter-indemnity to bank guarantees in respect of due performance of management and remedial cost of a property formerly undertaken by the Group	–	43,000	–	35,000

Note:

Pursuant to the disposal of a wholly-owned subsidiary as referred to in note 20(a), the purchaser, COSCO (H.K.) Property Development Limited, has given an indemnity in favour of the Company whereby the purchaser shall indemnify the Company from and against all obligations, liabilities, demand and claims in connection with the above guarantee unless and until it is released and discharged by the beneficiary. Accordingly, the above guarantee and counter-indemnity were not regarded as contingencies as at 31st December 2007.

37 RELATED PARTY TRANSACTIONS

The Group is controlled by COSCO (Hong Kong) Group Limited ("COSCO Hong Kong"), a company incorporated in Hong Kong, which owns 57% of the Company's shares as at 31st December 2007. The remaining 43% of the Company's shares is widely held. The parent of COSCO Hong Kong is COSCO, a state-owned enterprise established in the PRC.

COSCO itself is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with HKAS 24, other state-owned enterprises and their subsidiaries (other than COSCO group companies), directly or indirectly controlled by the PRC government, are also defined as related parties of the Group. On that basis, related parties include COSCO, its subsidiaries and associates, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, and other entities and corporations in which the Company is able to control or exercise significant influence.

For the purpose of related party transaction disclosures, the Group has identified, except where the amounts have been disclosed elsewhere in the accounts, to the extent practicable, its customers, suppliers and banks which are state-owned enterprises. The directors believe that meaningful information in respect of related party transactions has been adequately disclosed.

The following is a summary of the significant related party transactions carried out in the normal course of the Group's business and on terms no less favourable than those charged/being charged to/from other third party customers/suppliers of the Group.

37 RELATED PARTY TRANSACTIONS (Continued)

(a) Sale of goods and provision of services to fellow subsidiaries, associated companies of COSCO and other related parties

	Note	Group 2007 HK$'000	Group 2006 HK$'000
Sale of coating products to:	(i)		
– fellow subsidiaries		**21,126**	23,059
– associated companies of COSCO		**504,319**	420,095
– state-owned enterprises		**56,672**	26,412
– minority shareholders of subsidiaries		**4,713**	–
Sale of spare parts and navigation equipment to:	(ii)		
– fellow subsidiaries		**262,067**	240,564
– associated companies of COSCO		**–**	15,769
– state-owned enterprises		**29,089**	1,009
– jointly controlled entities		**613**	571
Commission income in relation to provision of agency services to:	(iii)		
– fellow subsidiaries		**68,010**	43,486
– associated companies of COSCO		**118**	–
– state-owned enterprises		**5,507**	–
– holding companies		**–**	7,131
– jointly controlled entities		**–**	1,492
Commission income in relation to provision of insurance brokerage services to:	(iv)		
– fellow subsidiaries		**40,498**	34,530
– associated companies of COSCO		**365**	1,353
– holding companies		**45**	64
– state-owned enterprises		**3,084**	1,191
Interest income received from state-owned banks		**24,504**	27,327
Interest income received from a jointly controlled entity (note 17(b))		**1,621**	–

Notes:

(i) Sale of coating products to fellow subsidiaries, associated companies of COSCO, state-owned enterprises and minority shareholders of subsidiaries were conducted on terms as set out in the agreements governing these transactions.

(ii) Sale of spare parts and navigation equipment to fellow subsidiaries, associated companies of COSCO, state-owned enterprises and jointly controlled entities were conducted on terms as set out in the agreements governing these transactions.

(iii) Certain subsidiaries of the Company acted as agent of COSCO and its subsidiaries in respect of (a) sale and purchase of new and second hand vessels, (b) bareboat charter businesses, and (c) sale and purchase of marine equipment for new ship-building projects. According to the terms of the relevant engagement/commission agreements, the Group received commission income from vendors, ship-owners and equipment makers with respect to the transactions mentioned above.

(iv) Commission income in relation to the provision of insurance brokerage services to fellow subsidiaries, associated companies of COSCO, holding companies and state-owned enterprises were calculated on terms as set out in the agreements governing these transactions.

37 RELATED PARTY TRANSACTIONS (Continued)

(b) Purchase of goods and services from fellow subsidiaries, associated companies of COSCO and other related parties

		Group	
		2007	2006
	Note	HK$'000	HK$'000
Rental expenses paid to fellow subsidiaries	(i)	(8,410)	(7,850)
Commission expenses in relation to sale of coating products paid to:	(ii)		
– fellow subsidiaries		(273)	(61)
– associated companies of COSCO		(11,770)	(7,752)
– state-owned enterprises		(279)	(495)
– minority shareholders of subsidiaries		–	(96)
Purchase of raw materials from minority shareholders of subsidiaries	(iii)	(4,194)	(11,112)
Purchase of construction materials from a fellow subsidiary	(iv)	–	(2,189)
Technology usage fee paid to minority shareholders of subsidiaries	(v)	(8,579)	(7,039)
Payment for land leases to the PRC government		–	(5,427)
Interest expenses paid to state-owned banks	(vi)	(7,269)	(1,729)
Interest expense paid to a fellow subsidiary	(vii)	–	(3,422)

Notes:

(i) In August 2005, the Group leased certain properties from the wholly-owned subsidiaries of COSCO Hong Kong at the average monthly rental of HK$567,325 for an initial term of 3 years. The Group also leased other properties from fellow subsidiaries on terms as set out in the agreements governing these transactions.

(ii) Commission paid was based on a certain percentage of sales amount in accordance with terms as set out in the agreements governing these transactions.

(iii) Purchase of raw materials from minority shareholders of subsidiaries were conducted on terms as set out in the agreements governing these transactions.

(iv) On 4th April 2005, a 51% owned subsidiary of the Company entered into a purchase agreement with a fellow subsidiary for the purchase of construction materials.

(v) Technology usage fee paid to minority shareholders of subsidiaries was made based on a certain percentage of the net sales amount in accordance with terms as set out in the agreements governing these transactions.

(vi) Interest expenses were paid to state-owned banks on terms as set out in the relevant loan agreements.

(vii) In 2005, a 51% owned subsidiary of the Company ("Borrower") entered into an agreement with a fellow subsidiary ("Lender") for a loan facility of RMB150,000,000 under which the Company together with the other shareholders of the Borrower agreed to provide the Lender with their guarantee on a joint and several basis. The loan is unsecured, interest bearing at 5.76% per annum and repayable before 5th April 2007. The loan was fully repaid in 2006.

37 RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with fellow subsidiaries, associated companies of COSCO and other related parties arising from sale and purchase of goods and services

	Group	
	2007	2006
	HK$'000	HK$'000
Receivables from fellow subsidiaries	**88,256**	76,557
Receivables from associated companies of COSCO	**244,894**	146,684
Receivables from jointly controlled entities	**292**	605
Receivables from state-owned enterprises	**32,352**	9,583
Receivables from minority shareholders of subsidiaries	**1,385**	–
Payables to fellow subsidiaries	**(16,745)**	(29,061)
Payables to associated companies of COSCO	**–**	(826)
Payables to jointly controlled entities	**(249)**	(278)
Payables to minority shareholders of subsidiaries	**(772)**	(7,100)
Payables to state-owned enterprises	**(3,783)**	(686)

(d) Balances with state-owned banks

	Group	
	2007	2006
	HK$'000	HK$'000
Bank deposits with state-owned banks	**839,679**	701,715
Loans from state-owned banks	**(138,453)**	(47,032)

(e) On 23rd June 2006, the Group entered into an agreement with Henan Provincial Investment Company for the disposal of its 54% interest in Henan Xin Zhong Yi Electric Power Co., Ltd at a consideration of RMB43,800,000 (approximately HK$43,612,000). The disposal was completed in October 2006.

(f) On 5th February 2007, the Group entered into an agreement to dispose of the entire share capital of, and the shareholder's loan to, CICL, a wholly-owned subsidiary, to COSCO (H.K.) Property Development Limited, a fellow subsidiary at a consideration of HK$2. The disposal was completed on 15th March 2007.

38 PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31st December 2007 are as follows:

Name	Place of incorporation/ operation and kind of legal entity	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Operated in Hong Kong				
Capital Properties Limited#	Hong Kong	2 ordinary shares of HK$1each	100%	Provision of nominee services
COSCO (Hong Kong) Insurance Brokers Limited	Hong Kong	5,000,000 ordinary shares of HK$1 each	100%	Provision of insurance brokerages and related services
COSCO International Infrastructure Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Investment holding
COSCO International Land Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Investment holding
COSCO International Ship Trading and Supplying Services Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Investment holding
COSCO International Ship Trading Company Limited	Hong Kong	500,000 ordinary shares of HK$1 each	60%	Provision of agency services on ship trading business
COSCO Project Management Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Investment holding
Cosmart Company Limited	Hong Kong	2 ordinary shares of HK$1 each	60%	Provision of agency services on ship trading business
New Central International Enterprises Co., Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	90%	Investment holding
Wealth Nice Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Property development
Yuantong Marine Service Co., Limited	Hong Kong	43,000,000 ordinary shares of HK$1 each	100%	Trading of spare parts and navigation equipment for vessels

38 PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation and kind of legal entity	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Operated in British Virgin Islands				
COSCO (B.V.I.) Holdings Limited#	British Virgin Islands	1 ordinary share of US$1	100%	Investment holding
COSCO International Infrastructure (BVI) Holdings Limited	British Virgin Islands	1 ordinary share of US$1	100%	Investment holding
COSCO International Land (B.V.I.) Limited	British Virgin Islands	1 ordinary share of US$1	100%	Investment holding
Graceful Nice Limited	British Virgin Islands	1 ordinary share of US$1	100%	Investment holding
Leadfull Investments Limited	British Virgin Islands	1 ordinary share of US$1	100%	Investment holding
Monoland Assets Limited	British Virgin Islands	2 ordinary shares of US$1 each	100%	Investment holding
Promise Keep Limited	British Virgin Islands	1 ordinary share of US$1	100%	Investment holding
Raycle Match Development Ltd.	British Virgin Islands	1 ordinary share of US$1	100%	Investment holding
Sunny Wealth Investments Limited	British Virgin Islands	1 ordinary share of US$1	100%	Investment holding
Top Elegant Investments Limited	British Virgin Islands	1 ordinary share of US$1	100%	Investment holding
Uppermost Corporation#	British Virgin Islands	1 ordinary share of US$1	100%	Investment holding

38 PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation and kind of legal entity	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Operated in the PRC				
COSCO (Beijing) Marine Electronic Equipment Limited	PRC, wholly foreign-owned enterprise	RMB680,000	100%	Trading of spare parts and navigation equipment for vessels
COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd (formerly known as Shanghai COSCO Kansai Paint & Chemicals Co., Ltd.)#	PRC, equity joint venture	US$7,000,000	63.07%	Manufacturing and trading of coating products
COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd (formerly known as Tianjin COSCO Kansai Paint & Chemicals Co., Ltd.)#	PRC, equity joint venture	US$5,000,000	63.07%	Manufacturing and trading of coating products
Zhuhai COSCO Kansai Paint & Chemicals Co., Ltd. (to be renamed as COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd.)#	PRC, equity joint venture	US$5,700,000	64.71%	Manufacturing and trading of coating products
COSCO Ship Beijing Company Limited	PRC, wholly foreign-owned enterprise	US$500,000	60%	Provision of agency services on ship trading business
Shanghai COSCO Honour Property Development Limited	PRC, equity joint venture	RMB 232,238,926	85%	Property development
Shenzhen COSCO Insurance Brokers Limited	PRC, equity joint venture	RMB$5,000,000	55%	Provision of professional services of insurance brokerages
Xiang Li Yuan (Shanghai) Property Management Co., Ltd.	PRC, wholly foreign-owned enterprise	US$500,000	100%	Property management services

shares held directly by the Company

List of Major Properties

COMPLETED PROPERTIES HELD FOR SALE

	Description	Use	Approximate area	% of attributable interest to the Group
(1)	Between Yuezhou Road, Hailaer Road, Tongzhou Road and Gaoyang Road at Hongkou District, Shanghai, PRC	commercial and car parking spaces	Gross floor area 1,841 sq.m. and 193 car parking spaces	85

BUILDINGS

	Description	Use	Approximate area	Lease term	% of attributable interest to the Group
(1)	42, 5th Avenue TEDA, Tianjin, PRC	Factory	Gross floor area 28,572 sq.m.	From 16th April 2007 to 15th April 2012	63.07
(2)	No.5589-5689 Hutai Road, Shanghai, PRC	Factory	Gross floor area 44,159 sq.m.	From 22nd December 1995 to 21st December 2015	63.07
(3)	Gaolan Port Economic Zone Zhuhai PRC	Factory	Gross floor area 46,700 sq.m.	From 18th April 2006 to 17th April 2056	64.71
(4)	19th Floor, Nan Dao Commercial Building, 359-361 Queen's Road Central, Hong Kong	Commercial	Gross floor area 320.51 sq.m.	999 years from 7th February 1852	100

Five-year Financial Summary

CONSOLIDATED RESULTS

	Year ended 31st December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**2,309,123**	1,866,465	1,457,220	1,379,624	336,218
Operating profit/(loss) after finance income/(costs) – net	**2,159,066**	512,288	429,647	336,755	(18,732)
Share of profits of jointly controlled entities	**453,082**	164,867	64,888	12,888	9,880
Share of profit of an associated company	**46,719**	–	–	–	–
Profit/(loss) before income tax	**2,658,867**	677,155	494,535	349,643	(8,852)
Income tax expense	**(23,772)**	(39,942)	(25,398)	(50,403)	(18,525)
Profit/(loss) from continuing operations	**2,635,095**	637,213	469,137	299,240	(27,377)
(Loss)/profit from discontinued/ discontinuing operations	**(2,827)**	25,840	56,506	(36,324)	(80,710)
Profit/(loss) for the year	**2,632,268**	663,053	525,643	262,916	(108,087)
Profit/(loss) attributable to:					
Equity holders of the Company	**2,572,623**	616,589	496,463	219,158	(116,706)
Minority interests	**59,645**	46,464	29,180	43,758	8,619
	2,632,268	663,053	525,643	262,916	(108,087)

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31st December				
				Restated	
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Intangible asset	**79,616**	79,616	79,616	62,321	37,624
Property, plant and equipment	**105,436**	80,544	60,030	204,147	1,007,969
Jointly controlled entities	**93,624**	1,137,946	305,276	210,454	206,900
Associated companies	**3,628,052**	–	5,919	8,365	2,784
Available-for-sale financial assets	**88,952**	57,617	86,806	–	–
Other investment in a joint venture	**–**	–	–	29,580	56,490
Investment securities	**–**	–	–	43,946	45,976
Other non-current assets	**53,373**	23,173	44,156	993,578	4,392
Current assets	**2,176,254**	2,314,129	2,252,698	1,435,391	996,933
Total assets	**6,225,307**	3,693,025	2,834,501	2,987,782	2,359,068
Current and other liabilities	**889,228**	1,166,504	940,804	693,060	706,837
Borrowings	**216,816**	78,521	106,660	988,508	677,900
Minority interests	**217,517**	246,700	193,853	188,895	87,259
Total liabilities and minority interests	**1,323,561**	1,491,725	1,241,317	1,870,463	1,471,996
Net assets	**4,901,746**	2,201,300	1,593,184	1,117,319	887,072

Note: The accounting policies were changed in 2005 and the figures prior to 2004 have not been restated to reflect these changes.

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