



# COSCO International Holdings Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 0517)**

## **2006 Annual Results**

### **Results Highlights**

- Turnover increased by 28% to HK\$1,866,465,000;
- Profit attributable to equity holders was HK\$616,589,000, increased by 24%;
- Basic earnings per share was HK42.90 cents, increased by 22%;
- Excluding the fair value gains from investment properties and gain from share dilution of SORED, profit attributable to equity holders increased by 73% to HK\$332,614,000 and basic earnings per share rose by 70% to HK23.14 cents;
- The Board has recommended a final dividend payment of HK4.30 cents per share;
- Rapid expansion in ship trading and supplying services of which turnover increased by 22% compared with that in 2005.

The board of directors (the “Directors” or the “Board”) of COSCO International Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December 2006.

**CONSOLIDATED INCOME STATEMENT**  
*FOR THE YEAR ENDED 31ST DECEMBER 2006*

	<i>Note</i>	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	3	<b>1,866,465</b>	1,457,220
Cost of sales	5	<b>(1,392,649)</b>	(1,083,269)
<b>Gross profit</b>		<b>473,816</b>	373,951
Other income	4	<b>339,869</b>	326,030
Selling, administrative and general expenses	5	<b>(289,649)</b>	(245,754)
Other expenses	5	<b>(44,109)</b>	(22,573)
<b>Operating profit</b>		<b>479,927</b>	431,654
Finance income	6	<b>36,572</b>	17,950
Finance costs	6	<b>(4,211)</b>	(19,957)
Finance income/(costs) – net	6	<b>32,361</b>	(2,007)
Share of profits of jointly controlled entities		<b>164,867</b>	64,888
<b>Profit before income tax</b>		<b>677,155</b>	494,535
Income tax expense	7	<b>(39,942)</b>	(25,398)
Profit from continuing operations		<b>637,213</b>	469,137
Profit from discontinuing operations	11(b)	<b>25,840</b>	56,506
<b>Profit for the year</b>		<b>663,053</b>	525,643
<b>Attributable to:</b>			
Equity holders of the Company		<b>616,589</b>	496,463
Minority interests		<b>46,464</b>	29,180
		<b>663,053</b>	525,643
<b>Dividends</b>	8	<b>76,836</b>	63,820
<b>Earnings per share from continuing operations attributable to the equity holders of the Company during the year</b>			
– basic, HK cents	9	<b>41.10</b>	31.05
– diluted, HK cents	9	<b>40.05</b>	30.44
<b>Earnings per share from discontinuing operations attributable to the equity holders of the Company during the year</b>			
– basic, HK cents	9	<b>1.80</b>	3.99
– diluted, HK cents	9	<b>1.75</b>	3.91

**CONSOLIDATED BALANCE SHEET**  
*AS AT 31ST DECEMBER 2006*

	<i>Note</i>	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties		<b>6,564</b>	32,614
Intangible asset		<b>79,616</b>	79,616
Property, plant and equipment		<b>80,544</b>	60,030
Prepaid premium for land leases		<b>16,609</b>	11,542
Associated companies		–	5,919
Jointly controlled entities		<b>1,137,946</b>	305,276
Available-for-sale financial assets		<b>57,617</b>	86,806
		<u><b>1,378,896</b></u>	<u>581,803</u>
<b>Current assets</b>			
Completed properties held for sale		<b>79,687</b>	81,956
Properties under development for sale		<b>220,674</b>	267,343
Inventories		<b>279,979</b>	163,944
Trade and other receivables	<i>10</i>	<b>723,760</b>	455,841
Financial assets at fair value through profit or loss		<b>616</b>	350
Current income tax recoverable		<b>1,372</b>	–
Cash and cash equivalents		<b>862,187</b>	1,274,085
		<u><b>2,168,275</b></u>	<u>2,243,519</u>
Assets held for sale	<i>11(d)</i>	<b>145,854</b>	9,179
		<u><b>2,314,129</b></u>	<u>2,252,698</u>
<b>Total assets</b>		<u><b>3,693,025</b></u>	<u>2,834,501</u>

	<i>Note</i>	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital		<b>145,052</b>	141,824
Reserves		<b>1,993,875</b>	1,401,722
Proposed dividends		<b>62,373</b>	49,638
		<b>2,201,300</b>	1,593,184
<b>Minority interests</b>		<b>246,700</b>	193,853
<b>Total equity</b>		<b>2,448,000</b>	1,787,037
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term borrowing		–	96,090
Deferred income tax liabilities		<b>85</b>	85
		<b>85</b>	96,175
<b>Current liabilities</b>			
Trade and other payables	<i>12</i>	<b>1,033,331</b>	933,681
Current income tax liabilities		<b>18,684</b>	7,038
Short-term borrowing		<b>78,521</b>	10,570
		<b>1,130,536</b>	951,289
Liabilities directly associated with assets held for sale	<i>11(d)</i>	<b>114,404</b>	–
		<b>1,244,940</b>	951,289
<b>Total liabilities</b>		<b>1,245,025</b>	1,047,464
<b>Total equity and liabilities</b>		<b>3,693,025</b>	2,834,501
<b>Net current assets</b>		<b>1,069,189</b>	1,301,409
<b>Total assets less current liabilities</b>		<b>2,448,085</b>	1,883,212

## NOTES

### 1. Basis of preparation and accounting policies

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.

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.

## 2. Changes in accounting policies

### *Adoption of new HKFRS*

In 2006, the Group adopted the following new HKFRS, which are relevant to its operations:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	The Fair Value Option
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting for Forecast Intragroup Transactions
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts

The adoption of the above new HKFRS did not result in substantial changes to the Group's accounting policies and had no material effect on the financial statements.

## 3. Turnover and segment information

	<b>2006</b>	2005
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Sale of coating products	<b>1,227,719</b>	902,621
Sale of spare parts and navigation equipment	<b>311,765</b>	350,023
Ship trading and insurance brokerage commission income	<b>96,253</b>	92,320
Sale of properties	<b>227,573</b>	90,654
Rental income	<b>2,618</b>	18,994
Building management fee income	<b>537</b>	2,608
	<hr/> <b>1,866,465</b> <hr/>	<hr/> 1,457,220 <hr/>

	Continuing operations			Discontinuing operations (note 11(b))	
	Ship trading and supplying 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	<u>1,635,737</u>	<u>230,191</u>	<u>537</u>	<u>1,866,465</u>	<u>12,165</u>
Segment results	<u>168,472</u>	<u>17,361</u>	<u>48,864</u>	<u>234,697</u>	<u>25,494</u>
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				<u>479,927</u>	<u>25,494</u>
Finance income				36,572	576
Finance costs				(4,211)	(230)
Finance income-net				<u>32,361</u>	<u>346</u>
Share of profits of jointly controlled entities	12,280	152,587	-	<u>164,867</u>	-
Profit before income tax				<u>677,155</u>	<u>25,840</u>
Income tax expense				(39,942)	-
Profit for the year				<u>637,213</u>	<u>25,840</u>
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)	-
Write-back of impairment loss on completed properties held for sale	-	-	-	-	(23,319)
Write-back of provision for claims and foreseeable losses on certain construction contracts	-	-	-	-	(3,422)
Capital expenditure	<u>31,643</u>	<u>421</u>	<u>2,740</u>	<u>34,804</u>	<u>-</u>
	Continuing operations			Discontinuing operations	
	Ship trading and supplying 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 11(d))	-	31,800	-	31,800	114,054
Unallocated assets				312,685	-
Total assets				<u>3,578,971</u>	<u>114,054</u>
Segment liabilities	846,706	233,991	281	1,080,978	-
Current income tax liabilities				18,684	-
Liabilities directly associated with assets held for sale (note 11(d))	-	306	-	306	114,098
Unallocated liabilities				30,959	-
Total liabilities				<u>1,130,927</u>	<u>114,098</u>

	Continuing operations				Discontinuing operations (note 11(b))
	Ship trading and supplying services 2005 HK\$'000	Property development and property investment 2005 HK\$'000	Other operations 2005 HK\$'000	Total 2005 HK\$'000	2005 HK\$'000
Segment turnover	<u>1,344,964</u>	<u>109,648</u>	<u>2,608</u>	<u>1,457,220</u>	<u>53,456</u>
Segment results	<u>122,602</u>	<u>334,269</u>	<u>(5,035)</u>	451,836	56,587
Unallocated corporate expenses, net of income				(20,182)	–
Operating profit				431,654	56,587
Finance income				17,950	486
Finance costs				(19,957)	(567)
Finance costs-net				(2,007)	(81)
Share of profits of jointly controlled entities	5,661	59,227	–	64,888	–
Profit before income tax				494,535	56,506
Income tax expense				(25,398)	–
Profit for the year				<u>469,137</u>	<u>56,506</u>
The segment results have been arrived at after charging/ (crediting) the following:					
Depreciation and amortisation (net)	7,756	2,498	240	10,494	221
Fair value gains on investment properties and write-back of impairment loss on prepaid premium for land leases	–	(303,765)	–	(303,765)	–
Write-back of provision for claims and foreseeable losses on construction contracts	–	–	–	–	(53,199)
Capital expenditure	<u>24,123</u>	<u>294</u>	<u>183</u>	<u>24,600</u>	<u>–</u>
	Ship trading and supplying services 2005 HK\$'000	Property development and property investment 2005 HK\$'000	Building construction 2005 HK\$'000	Other operations 2005 HK\$'000	Group 2005 HK\$'000
Segment assets	1,087,635	563,056	33,873	12,187	1,696,751
Associated companies	–	–	5,919	–	5,919
Jointly controlled entities	49,484	255,792	–	–	305,276
Available-for-sale financial assets	–	–	–	86,806	86,806
Asset held for sale (note 11(c))	–	–	9,179	–	9,179
Unallocated assets					730,570
Total assets					<u>2,834,501</u>
Segment liabilities	655,993	272,113	109,199	357	1,037,662
Current income tax liabilities					7,038
Unallocated liabilities					2,764
Total liabilities					<u>1,047,464</u>

Secondary reporting format – geographical segments

	Turnover 2006 <i>HK\$'000</i>	Segment results 2006 <i>HK\$'000</i>	Total assets 2006 <i>HK\$'000</i>	Capital expenditure 2006 <i>HK\$'000</i>
Continuing operations:				
Hong Kong	388,448	65,162	467,108	4,334
China Mainland	1,478,017	169,535	1,571,815	30,470
	<u>1,866,465</u>	<u>234,697</u>	<u>2,038,923</u>	<u>34,804</u>
Discontinuing operations:				
Hong Kong	12,165	25,494	114,054	–
	<u>1,878,630</u>	<u>260,191</u>	<u>2,152,977</u>	<u>34,804</u>
Gain on deemed disposal of partial interest in a jointly controlled entity		279,043		
Unallocated corporate expenses, net of income		<u>(33,813)</u>		
Operating profit		<u>505,421</u>		
Jointly controlled entities			1,137,946	
Available-for-sale financial assets			57,617	
Assets held for sale			31,800	
Unallocated assets			<u>312,685</u>	
Total assets			<u>3,693,025</u>	
	Turnover 2005 <i>HK\$'000</i>	Segment results 2005 <i>HK\$'000</i>	Total assets 2005 <i>HK\$'000</i>	Capital expenditure 2005 <i>HK\$'000</i>
Continuing operations:				
Hong Kong	440,186	388,783	313,281	14,870
China Mainland	1,017,034	63,053	1,383,470	9,730
	<u>1,457,220</u>	<u>451,836</u>	<u>1,696,751</u>	<u>24,600</u>
Discontinuing operations:				
Hong Kong	53,456	56,587	–	–
	<u>1,510,676</u>	<u>508,423</u>	<u>1,696,751</u>	<u>24,600</u>
Unallocated corporate expenses, net of income		<u>(20,182)</u>		
Operating profit		<u>488,241</u>		
Associated companies			5,919	
Jointly controlled entities			305,276	
Available-for-sale financial assets			86,806	
Assets held for sale			9,179	
Unallocated assets			<u>730,570</u>	
Total assets			<u>2,834,501</u>	

#### 4. Other income

	2006 HK\$'000	2005 HK\$'000
Fair value gains on investment properties	4,932	257,046
Fair value gains on financial assets at fair value through profit or loss	266	23
Gain on disposal of available-for-sale financial assets (including investment revaluation reserve realised of HK\$7,735,000)	41,496	–
Gain on deemed disposal of partial interest in a jointly controlled entity ( <i>note</i> )	279,043	–
Gain on disposal of investment securities	–	5,018
Write-back of impairment loss on prepaid premium for land leases	–	46,719
Write-back of provision for urban real estate tax	1,988	–
Write-back of provision for bad and doubtful debts	–	8,082
Recovery of bad debts	529	–
Dividend income from available-for-sale financial assets	8,698	5,838
Dividend income from financial assets at fair value through profit or loss	38	–
Gain on disposal of plant and equipment, net	–	300
Others	2,879	3,004
	<u>339,869</u>	<u>326,030</u>

*Note:* In October 2006, the Group completed the transaction to acquire 20% and 4% equity interests in Sino Ocean Real Estate Development Co., Ltd. (“SORED”) from China Ocean Shipping (Group) Company (“COSCO”) and Tianjin Ocean Shipping Company (“Tianjin COSCO”), a fellow subsidiary respectively. Upon completion, the Group held a total of 44% equity interests in SORED. SORED underwent a group reorganisation by the end of 2006, pursuant to which the Group exchanged its interests in SORED for 44% shareholding interest in a new holding company, Shine Wind Development Limited (“Shine Wind”), which in turn holds 100% equity interest in SORED. 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 share capital of Shine Wind. The Subscription has resulted in the Group recording a gain on deemed disposal of partial interest in a jointly controlled entity amounting to approximately HK\$279,043,000.

#### 5. Expenses by nature

	2006 HK\$'000	2005 HK\$'000
Cost of inventories sold	1,209,487	1,017,661
Cost of properties sold	182,435	59,553
Outgoings for generating rental income	728	2,344
Depreciation	4,786	4,815
Amortisation of prepaid premium for land leases	459	1,981
Operating lease rental expense	9,018	4,928
Employee benefit expenses, including directors’ emoluments	76,196	76,705
Net exchange loss	994	2,333
Loss on disposal of subsidiaries	–	16,825
Loss on disposal of property, plant and equipment	52	–
Provision for bad and doubtful debts	7,793	1,013
Write-off of bad debts	582	–
Provision for inventory obsolescence	6,862	2,402
Write-off of obsolete inventory	1,424	–
Provision for land appreciation tax	17,864	–
Provision for capital gains tax	8,538	–
Auditors’ remuneration	2,412	1,586
Others	196,777	159,450
	<u>1,726,407</u>	<u>1,351,596</u>
Total cost of sales, selling, administrative, general and other expenses	<u>1,726,407</u>	<u>1,351,596</u>
Cost of sales	1,392,649	1,083,269
Selling, administrative and general expenses	289,649	245,754
Other expenses	44,109	22,573
	<u>1,726,407</u>	<u>1,351,596</u>

**6. Finance income/(costs) – net**

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest income from:		
– bank deposits	<u>36,572</u>	<u>17,950</u>
Interest expenses on:		
– bank and other loans wholly repayable within five years	(6,035)	(23,585)
– other borrowing costs	<u>(1,598)</u>	<u>(1,541)</u>
Total borrowing costs incurred	(7,633)	(25,126)
Capitalised in properties under development for sale	<u>3,422</u>	<u>5,169</u>
	<u>(4,211)</u>	<u>(19,957)</u>
Finance income/(costs) – net	<u><u>32,361</u></u>	<u><u>(2,007)</u></u>

**7. Income tax expense**

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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 the China Mainland for the year at the rates of taxation prevailing in the China Mainland.

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current income tax		
– Hong Kong profits tax	14,117	11,962
– China Mainland taxation	25,825	13,351
Deferred income tax	<u>–</u>	<u>85</u>
Tax expense	<u><u>39,942</u></u>	<u><u>25,398</u></u>

**8. Dividends**

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interim dividend paid of HK\$0.01 (2005: HK\$0.01) per ordinary share	14,463	14,182
Proposed special dividend of HK\$0.014 per ordinary share	–	19,855
Proposed final dividend of HK\$0.043 (2005: HK\$0.021) per ordinary share	<u>62,373</u>	<u>29,783</u>
	<u><u>76,836</u></u>	<u><u>63,820</u></u>

**9. Earnings per share**

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

	<b>2006</b>	2005
Profit from continuing operations attributable to the equity holders of the Company	<b>HK\$590,749,000</b>	HK\$439,957,000
Profit from discontinuing operations attributable to the equity holders of the Company	<b>HK\$25,840,000</b>	HK\$56,506,000
Weighted average number of ordinary shares in issue	<b>1,437,184,579</b>	1,416,855,538
Basic earnings per share from continuing operations attributable to the equity holders of the Company	<b>41.10 HK cents</b>	31.05 HK cents
Basic earnings per share from discontinuing operations attributable to the equity holders of the Company	<u><u>1.80 HK cents</u></u>	<u><u>3.99 HK cents</u></u>

- (b) Diluted earnings 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.

	2006	2005
Profit from continuing operations attributable to the equity holder of the Company	<b>HK\$590,749,000</b>	HK\$439,957,000
Profit from discontinuing operations attributable to the equity holders of the Company	<b>HK\$25,840,000</b>	HK\$56,506,000
Adjusted weighted average number of ordinary shares in issue	<b>1,474,889,490</b>	1,445,160,990
Diluted earnings per share from continuing operations attributable to the equity holders of the Company	<b>40.05 HK cents</b>	30.44 HK cents
Diluted earnings per share from discontinuing operations attributable to the equity holders of the Company	<b><u>1.75 HK cents</u></b>	<u>3.91 HK cents</u>

#### 10. Trade and other receivables

As at 31st December 2006, trade and other receivables included trade receivables amounting to HK\$623,343,000 (2005: HK\$393,547,000).

As at 31st December, the ageing analysis of trade receivables is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current – 90 days	<b>321,161</b>	218,825
91 – 180 days	<b>261,574</b>	102,144
Over 180 days	<b>40,608</b>	72,578
	<b><u>623,343</u></b>	<u>393,547</u>

For sale of coating products, the majority of sales are on credit terms from 30 days to 90 days. Revenues from sale of properties and other operating revenues are billed according to the terms of the relevant contracts governing the transactions. Other than those with credit terms, all invoices are payable upon presentation.

#### 11. Assets held for sale and discontinuing operations

- (a) 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 have been classified as a disposal group held for sale and presented separately in the consolidated balance sheet. The operations of Wellbase are included under property development and property investment for segment reporting purpose.

The assets and liabilities of the disposal group are classified as held for sale as follows:

	2006 <i>HK\$'000</i>
Assets held for sale:	
Investment properties	<b>30,997</b>
Property, plant and equipment	<b>673</b>
Trade receivables	<b>17</b>
Deposits, prepayments and other receivables	<b>94</b>
Cash and cash equivalents	<b>19</b>
	<b><u>31,800</u></b>
Liabilities directly associated with assets held for sale:	
Accrued liabilities and other payables	<b><u>306</u></b>

- (b) 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 ("COSCO Construction"), a wholly-owned subsidiary, to COSCO (H.K.) Property Development Limited, a fellow subsidiary at a consideration of HK\$2.00. The principal activity of COSCO Construction is building construction and maintenance. The disposal was effected pursuant to the Group's strategy of disposing non-core business and assets, and was completed in March 2007.

The assets and liabilities of COSCO Construction have been classified as a disposal group held for sale and presented separately in the consolidated balance sheet. The profit after tax of COSCO Construction is presented separately in the income statement as profit from discontinuing operations with the 2005 comparatives restated accordingly.

The assets and liabilities of the disposal group classified as held for sale are as follows:

	<b>2006</b>
	<b>HK\$'000</b>
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
	<u>114,054</u>
	<u><u>114,054</u></u>
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
	<u>114,098</u>
	<u><u>114,098</u></u>

An analysis of the results and the cash flows of discontinuing operations is as follows:

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover		
Building construction	<b>11,237</b>	21,491
Rental income	<b>646</b>	730
Sale of completed properties	<b>282</b>	31,235
	<b>12,165</b>	53,456
Cost of completed properties sold	<b>(90)</b>	(20,378)
Other operating costs	<b>(12,119)</b>	(20,052)
Gross (loss)/profit	<b>(44)</b>	13,026
Other income		
Write-back of provision for claims and foreseeable losses on certain construction contracts	<b>3,422</b>	53,199
Write-back of impairment loss on completed properties held for sale	<b>23,319</b>	–
Gain on disposal of plant and equipment, net	<b>136</b>	4,548
Gain on disposal of assets held for sale	<b>3,678</b>	–
Recovery of legal cost in respect of litigation on a construction contract	<b>–</b>	4,500
Others	<b>2,062</b>	540
	<b>32,617</b>	62,787
Administrative and general expenses	<b>(7,079)</b>	(19,226)
Operating profit	<b>25,494</b>	56,587
Finance income	<b>576</b>	486
Finance costs	<b>(230)</b>	(567)
Finance income/(costs) – net	<b>346</b>	(81)
Profit from discontinuing operations	<b>25,840</b>	56,506
Net cash generated from operating activities	<b>7,362</b>	4,045
Net cash from investing activities	<b>28,569</b>	7,480
Net cash used in financing activities	<b>(230)</b>	(567)
Total net cash from discontinuing operations	<b>35,701</b>	10,958

- (c) On 18th January 2006, the Group entered into a sale and purchase agreement to dispose of the land lease held by one of the Group's subsidiaries. The carrying amount of the land lease of HK\$9,179,000 was transferred to non-current assets classified as held for sale as at 31st December 2005.

- (d) Total assets held for sale and liabilities directly associated with assets held for sale are summarised as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Assets held for sale:		
Wellbase ( <i>note (a)</i> )	31,800	–
COSCO Construction ( <i>note (b)</i> )	114,054	–
Prepaid premium for land lease ( <i>note (c)</i> )	–	9,179
	<u>145,854</u>	<u>9,179</u>
Liabilities directly associated with assets held for sale:		
Wellbase ( <i>note (a)</i> )	306	–
COSCO Construction ( <i>note (b)</i> )	114,098	–
	<u>114,404</u>	<u>–</u>

## 12. Trade and other payables

As at 31st December 2006, trade and other payables included trade payables amounting to HK\$402,062,000 (2005: HK\$231,857,000).

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current – 90 days	305,448	172,621
91 – 180 days	80,668	19,714
Over 180 days	15,946	39,522
	<u>402,062</u>	<u>231,857</u>

## FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK4.30 cents per share (2005: HK2.10 cents) for the year ended 31st December 2006. The proposed final dividend, together with the interim dividend of HK1.00 cent, gives a total dividend of HK5.30 cents per share (2005: HK4.50 cents including special dividend of HK1.40 cents) for the whole year of 2006.

## CLOSURE OF REGISTER OF MEMBERS

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

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

## FINANCIAL REVIEW

### Business analysis

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

### ***Overall results analysis***

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

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

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

Basic earnings per share increased from HK35.04 cents in 2005 to HK42.90 cents in 2006.

Excluding the profit contributions from discontinuing operations, the basic earnings per share rose from HK31.05 cents in 2005 to HK41.10 cents in 2006.

Excluding the fair value gain on investment properties and gain on deemed disposal of partial interest in a jointly controlled entity, the basic earnings per share increased from HK13.60 cents in 2005 to HK23.14 cents in 2006.

### **Financial analysis**

#### ***Turnover***

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

#### ***Gross profit and gross profit margins***

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

#### ***Other income***

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

### ***Selling, administrative, general and other expenses***

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

### ***Finance income/(cost) net***

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

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

### ***Share of profits of jointly controlled entities***

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

### ***Profit attributable to equity holders***

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

## **Financial Position**

### ***Cash Flows***

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

### ***Financing and Standby Facilities***

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

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

### ***Assets and Liabilities***

As of 31st December 2006, total assets amounted to HK\$3,693,025,000 (2005: HK\$2,834,501,000). Total liabilities amounted to HK\$1,245,025,000 (2005: HK\$1,047,464,000). Gearing ratio, which represents total borrowings over total assets, was 2% (2005: 4%).

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

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

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

### **Debt Analysis**

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

### **Treasury Policy**

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

### **Major Customers and Suppliers**

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

### **Employees**

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

For the year ended 31st December 2006, total staff cost, including directors' emoluments and provident funds, was approximately HK\$92,991,000 (2005: HK\$95,740,000). Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary, a year-end discretionary bonus which were determined with reference to market conditions

and individual performance. During the year, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme.

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

## **BUSINESS REVIEW**

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

### **1. Ship trading and supplying services**

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

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

### **1.1 Ship trading agency 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 ship building, trading and chartering for COSCO Group fleet, as well as similar agency services to non-COSCO Group shipping companies.

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

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

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

## **1.2 Marine Insurance Brokerage Service**

The Company's wholly-owned subsidiary, COSCO (Hong Kong) Insurance Brokers Limited ("HK COSCO Insurance Brokers"), is the sole insurance intermediary company within the COSCO Group. HK COSCO Insurance Brokers has Lloyd's accredited broker accreditation and mainly operates intermediary businesses in relation to marine insurance and shipowner liability insurance.

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

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

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

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

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

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

## **1.4 Production and sales of coatings**

上海中遠關西塗料化工有限公司 ("Shanghai COSCO Kansai Paint & Chemicals Co., Ltd.") and 天津中遠關西塗料化工有限公司 ("Tianjin COSCO Kansai Paint & Chemicals Co., Ltd.") (collectively "COSCO Kansai Companies"), both being non wholly-owned subsidiaries of the Company, are mainly engaged in the production and sales of container coatings and industrial heavy-duty anti-corrosion coatings. The Company, together with Norwegian international coatings manufacturer Jotun A/S, formed a 50/50 joint venture, Jotun COSCO, which is mainly responsible for production and sales of marine coatings.

During the year ended 31st December 2006, the production and sale of coating products segment recorded a turnover of HK\$1,227,719,000 (2005: HK\$902,621,000), representing a substantial increase of 36% as compared with that of 2005.

#### *1.4.1 Container coatings*

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

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

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

#### *1.4.2 Marine coatings*

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

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

#### *1.4.3 Industrial heavy-duty anti-corrosion coatings*

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

Industrial heavy-duty anti-corrosion coatings produced by COSCO Kansai are used mainly in nuclear stations, ports, power stations, oil, petrochemical, transportation and municipal government infrastructure. Following implementation of China's 11th "Five-year Plan", development of these industries continues to gather momentum. Market potential for industrial heavy-duty anti-corrosion coatings is, therefore, enormous. COSCO Kansai Companies will take full advantage of this demand and will seek closer relations with major customers with an emphasis on exploring the potential for coatings by trailers. COSCO Kansai Companies will also monitor China oil stock base construction, expand its share of the nuclear power market – taking advantage of development in the Bohai Rim area – and seek more municipal government infrastructure coating projects. This will be in addition to canvassing business with various oil and port machinery companies.

## **2. Property development and property investment**

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

### **2.1 China Mainland business**

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

#### **2.1.1 Sino Ocean Real Estate Development Co., Ltd.**

The Company indirectly held a 20% interest in SORED since 2002. On 22nd August 2006, the Company through the then wholly-owned subsidiary entered into an equity transfer agreement with COSCO and Tianjin COSCO to acquire 20% and 4% stakes in SORED for a cash consideration of RMB329,400,000 (equivalent to approximately HK\$321,066,180) and RMB65,880,000 (equivalent to approximately HK\$64,213,236), respectively. The Company held a total 44% interest in SORED upon completion. SORED then underwent a group restructuring exercise at the end of 2006. As such, the 44% interest owned by the Company in SORED was swapped for 44% equity interest in Shine Wind, a new holding company incorporated in the British Virgin Islands and in turn holds 100% equity interests in SORED. In view of the subscriptions of shares in Shine Wind by certain independent third party investors after the restructuring exercise, the equity interest in Shine Wind owned by the Company was diluted to 30.8% of the enlarged issued share capital of Shine Wind. The subscription has resulted in an unrealised gain of approximately HK\$279,043,000 recorded by the Company.

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

### *2.1.2 Shenyang COSCO Yihe Garden*

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

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

### *2.1.3 Shanghai Fragrant Garden*

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

## **2.2 Hong Kong business**

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

### **3. Other businesses**

#### **3.1 Disposal of 54% interest in Henan Xin Zhong Yi Electric Power Co., Ltd.**

On 23rd June 2006, New Central International Enterprises Co., Limited (“New Central”), an indirect non wholly-owned subsidiary of the Company, entered into an agreement with 河南省建設投資總公司 (Henan Provincial Investment Company) (“Investment Company”) pursuant to which New Central agreed to sell 54% interest in Henan XZY to Investment Company for a consideration of RMB43,800,000 (approximately HK\$42,355,000). The transaction was completed in October 2006.

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

On 13th September 2006, the Company entered into an equity interest transfer agreement with Shanghai Coating Co., Ltd. (“Shanghai Coating”), pursuant to which the Company agreed to sell a 10% interest in International Paint of Shanghai to Shanghai Coating for a consideration of RMB39,000,000 (approximately HK\$38,110,000). The transaction was completed in November 2006.

#### **3.3 Disposal of Wellbase Holdings Limited**

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

### **Outlook prospects**

The economic outlook for 2007 remains positive in general, with global inflation expected to stay under control, global financial markets predicted to be stable and domestic consumption anticipated to have steady growth for developed countries. However, there are unfavourable factors such as inflation risks, high oil prices, an imbalance in the global economy and dampened United States housing markets, which justify a moderate downward adjustment to forecasted rates of global growth.

As for international shipping markets, overall demand for steel will fall as a result of decelerating growth in the global economy, with knock-on effect of a slowdown in the importation of iron ores by China. In 2006, shipping volumes remained stable for coal but decreased in the case of foodstuffs, with 2007 dry bulk shipping volumes expected to fall below 2006 levels. On the other hand, as fewer new vessels are delivered and the number of dismantled vessels has risen, overall shipping capability, basically remains about the same. Meanwhile, global dry bulk shipping volumes for 2007 are expected to reach those of last year, with a similar likelihood emerging for average freight rates and charter hires in 2006. Continued growth is expected in global container shipping capability against the backdrop of the ongoing development of China’s economy in 2007, as well as an increase in international oil consumption and the operation of mega-container vessels. Single-hull oil tankers will be phased out gradually, while demand for bulk shipping vessels will increase. In addition, large shipping companies are expected to expand their bulk shipping and oil tanker fleet, reinforcing the view that the fundamentals of the international shipping industry remain sound, providing positive sentiment for the development of shipping enterprises.

COSCO Group now operates a fleet of more than 700 modern commercial vessels. With routes travelled to 1,300 ports and scattered in 160 countries and regions and an annual shipping volume of 300 million tones, COSCO Group is a leading conglomerate in the international shipping industry. With support from COSCO Group, the Company has basically transformed itself into a

successful ship trading and supplying services-orientated enterprise. Our core business benefits from economies of scale and improvements in operational efficiency, the Company will take proactive approach in securing further support from COSCO Group in terms of business operations and asset reorganisation, which will assist in the ongoing expansion of ship trading and supplying services as the principal activity. In addition, the Company plans to pursue non-COSCO Group business, develop a competitive edge and become a main “listed vehicle” for the ship trading and supplying businesses of the COSCO Group.

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

#### **REVIEW OF PRELIMINARY ANNOUNCEMENT**

The figures in respect of the preliminary announcement of the Company and its subsidiaries' results for the year ended 31st December 2006 have been agreed by the auditors, PricewaterhouseCoopers, to the amounts set out in the draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements of Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

#### **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 2006.

#### **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 pro active investor relations programme.

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 25th May 2006 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 including the review of important accounting policies and supervises 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 2006. 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 Director 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 (the “Model Code”) 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 2006, all Directors confirmed that they have fully complied with the required standard set out in the Securities Code during the year.

## **BOARD OF DIRECTORS**

As at the date hereof, the Board comprises of fifteen Directors of which 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. Lin Libing, Mr. Wang Xiaodong and Mr. Lin Wenjin as executive directors; Mr. Chan Cheong Foon, Andrew, Mr. Kwong Che Keung, Gordon and Mr. Tsui Yiu Wa, Alec as independent non-executive directors.

By Order of the Board  
**Liang Yanfeng**  
*Managing Director*

Hong Kong, 11th April 2007

*Remarks:*

*This results announcement is published on the websites of the Company (<http://www.coscointl.com>) and the Stock Exchange’s website (<http://www.hkex.com.hk>)*

“Please also refer to the published version of this announcement in The Standard.”