

Financial Review

Overall Analysis of Results

The profit attributable to equity holders of the Group was US\$427,768,000, a 47.0% increase from US\$291,082,000 recorded in 2006. If the financial effect of the CIMC Put Options associated with the CIMC Share Reform is excluded, the Group's profit attributable to equity holders would be US\$372,587,000, a 7.6% increase as compared to US\$346,263,000 recorded last year. With the continuous robust growth in China's import and export trade and the worldwide shipping market, the Group's total container terminal throughput reached 39,832,964 TEUs in 2007, a 21.5% increase from the 32,791,713 TEUs recorded in 2006. Therefore, the net profit from container terminal business for the year reached US\$128,267,000, representing a significant increase of 27.5% over the amount of US\$100,581,000 in 2006.

In June, November and December 2007, an aggregate of 135,956 TEUs (as amended) of containers were disposed of while 326,715 TEUs of newly manufactured containers were purchased in the same year. As at 31st December 2007, the total container fleets amounted to 1,519,671 TEUs, in which 762,618 TEUs were managed containers. (In June 2006, 600,082 TEUs of containers were disposed of and 268,236 TEUs of newly manufactured containers were purchased; as at 31st December 2006, the total container fleets amounted to 1,250,609 TEUs, in which 629,881 TEUs were managed containers). In 2007, the net profit contribution from the container leasing, management and sale businesses amounted to US\$117,994,000 (2006: US\$184,344,000), a 36.0%

drop as compared with last year. The decrease was mainly due to the one-off disposal of 600,082 TEUs of containers at the end of June last year, which generated non-recurring net gain and a finder fee income aggregated to approximately US\$65,000,000.

Logistics business provided a net profit of US\$19,236,000 to the Group in 2007, a 6.0% increase over the amount of US\$18,151,000 recorded last year.

The net profit from container manufacturing business (excluding the financial effect of the CIMC Put Options associated with the CIMC Share Reform) amounted to US\$68,356,000 in 2007, a 5.4% drop over US\$72,233,000 recorded in 2006.

Furthermore, in order to concentrate our resources on the development of our core businesses such as terminal and container business, the Group completed the disposal of the 20% shareholding interest in Chong Hing Bank during the year, which generated a net profit of US\$90,742,000. The cash received was mainly used for the development of terminal business and the distribution of special final dividend. To achieve a higher return on capital through strategic acquisitions, disposal and repositioning, the Group achieved a return on equity holders of the Company of 17.5% (2006: 14.4%) and return on net assets of 17.2% (2006: 14.2%).

Financial Analysis

Revenue

Revenue of the Group were US\$298,948,000 for the year, a 0.5% increase from US\$297,473,000 of last year. Revenues were primarily contributed by the container leasing business. Since the strategic disposal of 600,082 TEUs of containers in June 2006, the Group further disposed of 135,956 TEUs (as amended) of containers during the year, so that while optimising the business model and capital structure of the container leasing operation, the Group can expand business opportunities by providing container management expertise to strategic investors to help them manage their container portfolio. The disposal resulted in revenue from container leasing dropping from US\$219,566,000 of last year to US\$181,334,000. Revenue from container management rose by US\$3,266,000 from US\$4,061,000 of last year to US\$7,327,000. Revenue from leasing of reefer-container generator sets rose by 29.8% from US\$1,368,000 of last year to US\$1,775,000. In addition to leasing income, proceeds from the disposal of returned containers amounted to US\$57,038,000, a 31.1% increase as compared to US\$43,513,000 of last year. The increase was mainly attributable to the number of returned containers sold increased from 48,071 TEUs of last year to 56,759 TEUs during the year.

Revenue from container terminal operations showed very strong growth for the year. With the operational commencement of Quan Zhou Pacific Terminal since September 2006, Quan Zhou Pacific Terminal contributed throughput volume of 856,784 TEUs (2006: 241,272 TEUs) and revenue of US\$24,089,000 for the year, a 310.6% increase from US\$5,867,000 of last year. With the newly acquired berth No. 17 commencing its operation in October last year and with the continuous benefits of exploring new business opportunities and improving operational efficiency, allowed Zhangjiagang Win Hanverky Terminal to achieve a significant increase in its throughput to 601,801 TEUs, a 32.0% over 455,946 TEUs last year. Revenue from Zhangjiagang Win Hanverky Terminal also recorded an increase to US\$17,763,000, a 18.0% rise from US\$15,048,000 last year. Yangzhou Yuanyang Terminal was reclassified from a jointly controlled entity to a subsidiary in December 2007 and the revenue in December 2007 was US\$1,532,000.

With increased business of container handling, storage, repairs and drayage operations, the revenue of Plangreat and its subsidiaries and COSCO Ports Services (Guangzhou) Limited amounted to US\$7,711,000, a 2.0% rise from US\$7,558,000 of last year.

Cost of sales

Cost of sales, mainly comprising depreciation, net book value of disposal on returned containers, depot expenses, repairs and maintenance and operating expenses, was US\$152,513,000, a rise of 14.1% from US\$133,651,000 of last year. The strategic disposal of containers last year resulted in a reduction in depreciation of containers to US\$74,667,000, a 10.1% drop from US\$83,059,000 of last year. Since the number of returned containers sold increased to 56,759 TEUs from 48,071 TEUs of last year, net book value of returned containers disposed of was US\$49,049,000, a 48.8% rise from US\$32,965,000 of last year. In addition, the commissioning of Quan Zhou Pacific Terminal and berth No. 17 in Zhangjiagang Win Hanverky Terminal in September and October last year respectively, also increased operating expenses.

Investment income

Investment income, comprising mainly dividend income, increased by 10.8% from US\$19,747,000 of last year to US\$21,874,000. During the year, Yantian Terminal declared dividend of US\$18,610,000, a rise of 2.5% as compared to US\$18,154,000 of last year. In addition, Dalian Port Container Co., Ltd. and Tianjin Five Continents Terminal declared dividend of US\$1,099,000 (2006: US\$1,073,000) and US\$1,475,000 (2006: Nil) respectively during the year.

Administrative expenses

Administrative expenses were US\$55,582,000, a rise of 64.4% from US\$33,806,000 of last year. The increase was mainly due to the granting of share options to continuous contract employees and certain directors of the Company by the Group. In accordance with the HKFRS 2 “Share-based Payment” issued by HKICPA, all share options granted are recognised at their fair value as share-based payment of employees’ benefits. Accordingly, the expense of such share-based payment of employees’ benefits was US\$11,190,000 for the year (2006: N/A). Commencement of Quan Zhou Pacific Terminal’s operation in September last year also triggered additional administrative expenses. In addition, human resources, marketing, office, professional consultation, entertainment and travelling expenses rose during the year as the Group continued to strengthen its marketing and new project development.

Net other operating income

Net other operating income was US\$18,373,000 for the year, a drop of 16.8% from US\$22,088,000 of last year. The difference was mainly due to a finder fee income of approximately US\$15,240,000, which was related to the services provided to the disposal of 600,082 TEUs of containers last year. Excluding this factor, the net increase

was mainly due to profit of US\$7,418,000 from the disposal on shares of China Shipping Container Lines Co., Ltd and net foreign exchange gain.

Profit on disposal of containers

During the year, 135,956 TEUs (as amended) (2006: 600,082 TEUs) of containers were disposed of (the Group would provide after sale management service), which generated a profit before tax of US\$25,975,000 (2006: US\$84,454,000).

Initial recognition and subsequent fair value gain on put options

In 2006, the Company issued 424,106,507 put options to shareholders of the CIMC Tradeable A-shares. As none of the holders of the put options exercised the put options upon the maturity date, being 23rd November 2007, the provision related to the fair value of put options of US\$55,181,000 made in 2006 was fully reversed.

Finance costs

Finance costs increased 12.8% from US\$44,203,000 of last year to US\$49,878,000 this year, which was mainly due to increase in the Group’s average borrowings from US\$664,431,000 of last year to US\$761,478,000 for the year. The Group’s average cost of borrowing,

including current amortisation of transaction costs on bank loans and notes but before the write-off of unamortised transaction costs upon the early repayment of bank loans for the last year, was an average 6-month London Interbank Offer Rate (“LIBOR”) plus 99 basis points as compared to the average LIBOR plus 100 basis points in 2006.

Share of profits less losses of jointly controlled entities and associates

In 2007, net profit contribution from jointly controlled entities amounted to US\$106,933,000, an increase of 25.7% from US\$85,070,000 in 2006. After COSCO-HIT Terminal replaced four quay cranes last year to strive for better operational efficiency, the throughput in 2007 increased 9.3% from 1,688,697 TEUs of last year to 1,846,559 TEUs and the net profit amounted to US\$25,125,000, a 5.8% rise from US\$23,751,000 of last year. Throughput at Qingdao Qianwan Terminal for the year increased by 21.7% to 8,237,501 TEUs, as compared to 6,770,003 TEUs of last year, and its net profit increased to US\$31,409,000, which increased by 18.8% from US\$26,429,000 of last year. Throughput of Nanjing Longtan Terminal for the year increased by 35.7% to 950,289 TEUs, as compared to 700,098 TEUs of last year, and the net profit increased by 30.0%.

Growth momentum in net profit also occurred at Yingkou Terminal as well as at the Yangzhou Yuanyang Terminal. Throughput at Yingkou Terminal and Yangzhou Yuanyang Terminal for the year was 1,125,557 TEUs (2006: 837,574 TEUs) and 253,772 TEUs (2006: 222,912 TEUs) respectively, representing a 34.4% and 13.8% growth respectively. Net profit of Yingkou Terminal and Yangzhou Yuanyang Terminal for the year increased by 42.2% and 2.7% respectively.

Upon the respective commencement of operation of Ningbo Yuan Dong Terminals and Guangzhou South China Oceangate Terminal at the beginning of 2007, Ningbo Yuan Dong Terminals recorded a profit while Guangzhou South China Oceangate Terminal recorded a loss of US\$4,270,000. Thus, the increase in net profit from jointly controlled entities for the year had slowed down slightly. In addition, Tianjin CIMC North Ocean and Shanghai CIMC Reefer under influence of rising costs of raw materials, recorded a lower profit. Net profit from COSCO Logistics for the year was US\$19,663,000, an increase of 7.1% as compared to US\$18,351,000 in 2006.

Yangzhou Yuanyang Terminal became a subsidiary from a jointly controlled entity

since December 2007. Shanghai Pudong Terminal was reclassified from an associate to a jointly controlled entity and its net profit for the year was US\$22,594,000, an increase of 46.3% as compared to US\$15,439,000 of last year, which was mainly due to the increase of additional 10% equity interest holding in Shanghai Pudong Terminal by the Group in June last year as well as the increase of throughput from 2,650,007 TEUs to 2,723,722 TEUs.

Net profit from associates amounted to US\$80,326,000 for the year, a decrease of 9.8% from US\$89,042,000 of last year, mainly due to reclassification of Shanghai Pudong Terminal from an associate to a jointly controlled entity and decrease in profit after the disposal of Chong Hing Bank. The net profit from Chong Hing Bank during the year was US\$7,628,000 (2006: US\$12,778,000). The throughput of Shanghai Terminal suffered a decrease of 6.9% at the level of 3,446,135 TEUs for the year as compared to 3,703,460 TEUs of last year and its profit dropped by 6.4% to US\$6,392,000 from last year's level of US\$6,831,000. Antwerp Terminal recorded a loss of US\$922,000 for the year, 66.3% lower than last year. Net profit of CIMC was US\$67,168,000 for the year, a 16.4% rise from US\$57,727,000 of last year.

Profit on disposal of an associate

In order to concentrate on the development of our core businesses such as terminal and container businesses, the Group completed the disposal of the 20% shareholding interest in Chong Hing Bank during the year, which generated a net profit of US\$90,742,000.

Income tax expenses

Aggregate income tax expenses decreased substantially by 63.8% to US\$17,796,000 for the year from last year's US\$49,196,000. The income tax expenses for last year mainly represented a net charge from the capital gain tax in relation to the disposal of 600,082 TEUs of containers and the write back of related deferred tax liabilities.

Financial Position

Cash flow

The disposal of containers and the disposal of 20% equity interest in Chong Hing Bank increased the cash inflow of the Group significantly. During the year, net cash from operating activities amounted to US\$231,465,000 (2006: US\$210,318,000).

In 2007, the Group drew bank loans of US\$611,292,000 (2006: US\$517,103,000) and repaid US\$286,319,000 (2006: US\$889,986,000). During the year, the total cash outflow for major investments of the Group amounted to US\$215,169,000, including US\$37,212,000 in Guangzhou South China Oceangate Terminal, US\$15,120,000 for additional equity interests of approximately 0.31% in CIMC, US\$18,610,000 dividend income for reinvestment in Yantian Terminal Phase III, US\$6,158,000 in Ningbo Yuan Dong Terminals, US\$28,756,000 in COSCO-PSA Terminal, US\$9,005,000 in Yangzhou Yuanyang Terminal, US\$1,703,000 in Antwerp Terminal, US\$47,550,000 in Suez Canal Terminal and US\$51,055,000 in Tianjin Port Euroasia Terminal. Last year the cash outflow included US\$57,973,000 for acquiring an additional 10% equity interests in Shanghai Pudong Terminal, US\$34,336,000 in Guangzhou South China Oceangate Terminal, US\$20,195,000 in Qingdao Qianwan Terminal, dividend income of US\$9,087,000 for reinvestment in Yantian Terminal Phase III, US\$9,196,000 in Dalian Port Container Co., Ltd, US\$9,827,000 in Ningbo Yuan Dong Terminals and US\$3,277,000 in Antwerp Terminal. During the year, cash

payments for acquisition of property, plant and equipment amounted to US\$682,829,000 (2006: US\$438,923,000), out of which US\$618,474,000 (2006: US\$391,813,000) was for new container purchases.

Financing and credit facilities

A wholly-owned subsidiary of the Company completed a club loan of US\$500,000,000 in May 2007, of which US\$300,000,000 was set for new container purchases for the year and US\$200,000,000 for general working capital. 17 banks participated in the club loan and the term of the loan was 6 years with the interest of 38 basis points over LIBOR. The loan was fully drawn down during the year. The terms and conditions of this financing package was privileged which would help to optimise the debt structure of the Group.

As at 31st December 2007, cash and bank balances was US\$387,373,000 (2006: US\$224,668,000) and there was no banking facilities available but unused (2006: US\$40,000,000).

Assets and liabilities

As at 31st December 2007, total assets of the Group were US\$3,871,575,000 (2006: US\$2,987,155,000). Total liabilities amounted to US\$1,096,916,000 (2006: US\$778,954,000). Net asset value increased to US\$2,774,659,000 from US\$2,208,201,000 in 2006, mainly due to an increase in retained profits and increase in the investment revaluation reserve as well as an increase of new shares issued upon the exercise of share options. The net asset value per share was US123.60 cents (2006: US99.08 cents) representing an increase of 24.7% over last year.

Debt Analysis

	As at 31st December 2007		As at 31st December 2006	
	US\$	%	US\$	%
By repayment term				
Within the first year	39,599,000	4.3	12,666,000	2.4
Within the second year	43,054,000	4.7	189,840,000	35.7
Within the third year	61,460,000	6.7	10,821,000	2.0
Within the fourth year	96,531,000	10.6	11,526,000	2.2
Within the fifth year and after	673,390,000	73.7	306,745,000	57.7
	914,034,000*	100.0	531,598,000*	100.0
By category				
Secured borrowings	–	–	500,000	0.1
Unsecured borrowings	914,034,000	100.0	531,098,000	99.9
	914,034,000	100.0	531,598,000	100.0
By denominated currency				
US dollar	800,134,000	87.5	464,622,000	87.4
RMB	113,900,000	12.5	66,976,000	12.6
	914,034,000	100.0	531,598,000	100.0

* Net of unamortised discount on notes and transaction costs on borrowings and notes.

As at 31st December 2007, cash and bank balances of the Group amounted to US\$387,373,000 (2006: US\$224,668,000). Total outstanding loan amounted to US\$914,034,000 (2006: US\$531,598,000). Net debt to equity ratio increased from 13.9% to 19.0% and interest coverage

was 10.0 times as compared with 8.8 times last year.

As at 31st December 2007, the Group did not have loan pledged by asset (as at 31st December 2006: land use rights with a net book value of US\$1,645,000 were pledged to a bank by the Group to secure loans with an aggregate amount of US\$500,000).

Contingent liabilities

As at 31st December 2007, the Group provided guarantees on a loan facility granted to an associate of US\$25,747,000 (2006: US\$25,304,000) and the Group did not have any significant contingent liabilities.

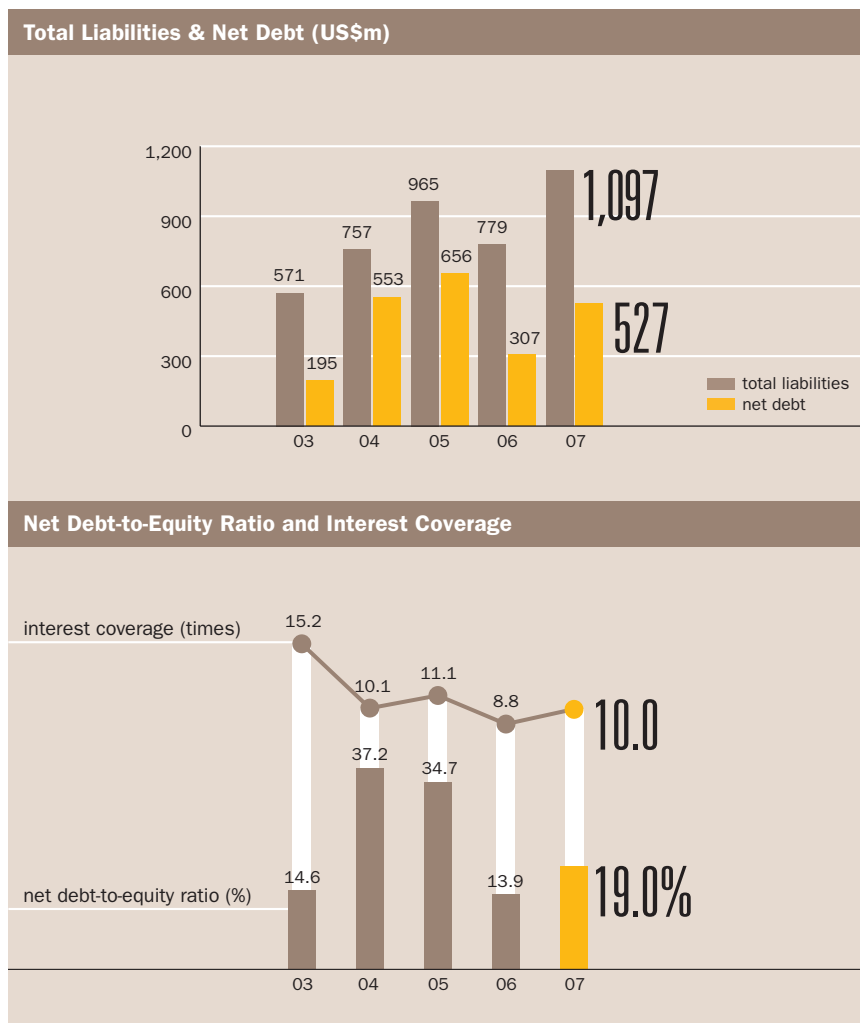
Treasury policy

The Group contained foreign exchange risk by conducting borrowings as far as possible in currencies that match the Group's functional currency used for transacting the Group's major cash receipts and underlying assets. Borrowings for the container leasing business were conducted mainly in US dollars, which match with the US dollar revenue and expenses of the Group's container leasing business so as to minimise any potential foreign exchange exposure.

In regard to the financing activities of jointly controlled entities and associates, all material borrowings were denominated in the respective functional currencies, with corresponding hedging policies being effective.

The Group continued to exercise stringent control over the use of financial derivatives to hedge against its interest rate exposure. As at 31st December 2007, outstanding interest rate swap contracts comprised:

- Notional principals of contracts amounting to US\$200,000,000 (2006: US\$200,000,000) in total, whereby the Group agreed to pay floating interest rates ranging from 105 to 116 basis points above 6 month LIBOR to the banks in return for receiving from the banks a fixed interest rate of 5.875% per annum.



- During last year, the notional principals of contracts of outstanding interest rate swap contracts amounted to US\$100,000,000 in total. In accordance with the interest rate swap contracts, the Group agreed to pay interests at a fixed interest rate ranging from 3.88% to 4.90% per annum to the banks in return for receiving from the banks an interest income at the rate of 3 month LIBOR. Such interest rate swap contracts had expired during the year.

As at 31st December 2007, after adjusting the fixed rate borrowings for the effect of the interest rate swap contracts, 10.9% (2006: 35.7%) of the Group's borrowings fell in the category of fixed rate loans. The Group would continue to monitor its debt portfolio and adjust the mix of fixed and floating interest rates from time to time in light of market conditions in order to reduce the potential exposure to interest rate risk.

Event after balance sheet date

During the period from 10th December 2007 to 24th March 2008, COSCO Container Industries Limited, a wholly owned subsidiary of the Company, acquired a total of 148,320,037 B shares of CIMC (representing approximately 5.57% of the issued share capital of CIMC) on the Shenzhen Stock Exchange in the PRC at an aggregate cash consideration of approximately HK\$2,139,058,000 (equivalent to approximately US\$274,238,000). Together with the 432,171,843 A shares (representing approximately 16.23% of the issued share capital of CIMC) held by the Group, the Group's interest in CIMC has increased to approximately 21.80%.

As at 31st December 2007, the Group held 432,171,843 A shares and 8,342,010 B shares of CIMC, representing approximately 16.54% of the issued share capital of CIMC.