


CHAIRMAN'S STATEMENT



“ WE AIM FOR THE
MAXIMISATION OF
ENTERPRISE VALUE. ”

SOLID



Our vision is to maximise enterprise value on the basis of controlling rights in terminal investments and converting container leasing into an asset light business. The value of the Company depends on the future profits expected by investors exceeding the cost of capital. A sustained increase in “EVA” (Economic Value Added) will bring about an increase in the market value of a company. We believe that controlling rights in our future investments are especially important for the increase of our EVA, thereby resulting in continuous growth in shareholder value. We aim to re-focus our objectives from profit maximisation to maximisation of enterprise value.

PERFORMANCE

CHAIRMAN'S STATEMENT

I am pleased to report that the overall performance of COSCO Pacific was satisfactory in 2006. The solid profit growth was once more led by strong performances of container terminals and supported by container leasing and management, logistics and container manufacturing.

During the year, excluding the CIMC Put Options non-cash expense, the Company achieved net profit of US\$346,263,000 ^{Note}, an increase of 3.4% over the previous year, and earnings per share of US15.63 cents (2005: US15.28 cents). The full year dividend per share was US8.847 cents per share (2005: US8.650 cents) with a dividend payout ratio of 56.6% (2005: 56.6%) of profit attributable to equity holders of the Company before the CIMC Put Options non-cash expense.

COSCO Pacific's solid performance in 2006 reflected the Company's ongoing efforts to build future profit streams through the decisive strengthening of our business models with a strategic focus on becoming a port operator through holding a controlling interest in more ports and terminals and with an "asset light" approach to our container leasing business.

The accumulated momentum of growth that our new and existing investments is generating, particularly in container terminals, combined with the rebalancing of the management and ownership of container leasing and management division, is likely to result in a "harvesting" of earnings and the "optimising" of risk in the medium to long term.

At the same time, as one of the world's leading container terminal operators and container leasing companies, we continue to benefit from the strong growth in the supporting areas of logistics and container manufacturing. For details of results performance in 2006, please refer to the Vice Chairman's report, operational and financial reviews of this annual report.

MAJOR TRANSACTIONS

In 2006, COSCO Pacific continued to expand its global ports network through strategic alliances with leading port authorities, global shipping lines and terminal operators. In China, the Group signed joint venture contracts to capitalise on investments in the Quanzhou, Tianjin and Ningbo terminals and obtained a 71.43% equity interest in Quanzhou Pacific Container Terminal Co., Ltd., a 30% equity interest in Tianjin Port Euroasia International Container Terminal Co., Limited, as well as a 20% equity interest in Ningbo Yuan Dong Terminals Limited. In addition, the Group acquired a further 10% equity interest in Shanghai Pudong International Container Terminals Limited to obtain a total of 30% equity interest.

We continued to focus most of our resources in China while selectively expanding our global terminal network. In December 2005, the Group signed a share purchase agreement to acquire 20% interest in the Suez Canal Container Terminal S.A.E. at Port Said, Egypt. This transaction was agreed in principle by the Egyptian government in December 2006.

**COSCO PACIFIC'S
SOLID PERFORMANCE
REFLECTED THE
COMPANY'S ONGOING
EFFORTS TO BUILD
FUTURE PROFIT
STREAMS**



Note: After taking into account, the CIMC Put Options non-cash expense, profit attributable to equity holders of the Company declined to US\$291,082,000 representing a decrease of 13.1% over 2005.

In order to minimise our business risk in the container leasing and management business and to transform our business model into an asset light one, the Group completed a transaction for the disposal of 600,082 TEUs of containers in June 2006, while maintaining our management role for the same. The total amount received from the buyer amounted to US\$869,203,000.

Pursuant to the guidelines and other relevant documents in relation to the equity division reform of listed companies issued by the People's Republic of China, COSCO Pacific granted 424,106,507 put options to holders of the CIMC tradable A-Shares in 2006, as a compensation for their approval to convert the Company's holding of 360,143,203 non-tradable A-Shares to be tradable, representing 16.23% of the total shares outstanding of CIMC. The net effect of the Put Options on the Company's 2006 consolidated income statement was a non-cash expense of approximately US\$55,181,000. The exercise price of the Put Options is RMB8.868^{Note}. The expiry date of the CIMC Put Options will be on 23rd November 2007. The closing price of CIMC tradable A-Shares was RMB18.84 on 31st December 2006. We have confidence in the outlook for CIMC and the potential value gain of our holdings in CIMC upon completion of the share reform.

OPERATING ENVIRONMENT

In 2006, China was once more at the forefront of global growth, registering a 10.7% rise in GDP. China's total exports and imports reached US\$1,761 billion, a 23.8% rise from the previous year, representing a compound annual growth of 29.8% for the period from 2002 to 2006.

According to the latest study of the Ministry of Communications of the People's Republic of China, the Pearl River Delta, the Yangtze River Delta and the Bohai Rim will continue to be the powerhouse drivers for the economic development of China. The Ministry expected that substantial investments in Bohai Rim are likely to be approved by the Chinese Government since port facilities in that area are not sufficient to cope with the strong container transportation demand deriving from the significant economic growth of the hinterland. The Ministry forecasts that container throughput will increase from 93 million TEUs in 2006 to 140 million TEUs in 2010.

During the year, COSCO Pacific continued to strengthen its investments in the major ports along the coastal areas in China, including Qingdao, Dalian, Tianjin, Shanghai, Ningbo, Shenzhen, Guangzhou and Quanzhou. Moreover, we captured the opportunities offered by the rapid increase in China's river trade through our existing investments in a number of feeder ports, including Zhangjiagang, Yangzhou and Nanjing.

As at 31st December 2006, the annual handling capacity of our terminal portfolio including the development plans of some newly invested terminals, reached 61.0 million TEUs with a total of 115 berths, of which 103 berths capable of handling 54.3 million TEUs annually are located in China and Hong Kong.

The ongoing merger and acquisition activities in the global container terminal industry, the increasing containerisation and intensifying competition, as well as the growing size and capacity of container fleets, all underline the importance of building a worldwide network. As a leading global operator, COSCO Pacific intends to capitalise on these opportunities by extending and intensifying its global network. Our terminal investments in Singapore and Antwerp have proved to be a successful model for our future development in global terminal operations. The Company will continue to study the feasibility of and capture opportunities for investments in global major hub ports.

STRATEGY FOR THE FUTURE

COSCO Pacific's strategy is to maintain and enhance its position as the global industry leader. We intend to further strengthen our container terminal network by means of organic growth and new investments in both China and overseas. Our carrier-terminal partnerships remain key to this strategy, providing market knowledge, local experience, common business interests and future development opportunities.

China Ocean Shipping (Group) Company ("COSCO") and China COSCO Holdings Company Limited ("China COSCO"), the ultimate and intermediate shareholders of COSCO Pacific respectively, will provide strong support to the Company in its drive to capture terminal investment opportunities.

Note: The original exercise price of the CIMC Put Options was RMB10 which was adjusted to RMB8.868 on 20th July 2006.

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COSCO Container Lines Company Limited ("COSCON"), the wholly owned subsidiary of China COSCO, is the world's fifth largest container shipping company, managing and operating 139 vessels with an aggregate capacity of approximately 400,000 TEUs. COSCON is engaged in an expansion programme to increase the fleet capacity to 560,000 TEUs by 2010. This well-equipped container fleet, together with its shipping alliance with Kawasaki Kisen Kaisha, Ltd. ("K Line"), Yang Ming Marine Transport Corporation ("Yang Ming") and Hanjin Shipping Company Ltd. ("Hanjin"), should allow the Company to enhance synergies and efficiency along the container transport chain as well as to enlarge the platform for our ports and terminals expansion so as to maximise profitability and return on capital.

In terms of container leasing, the strategy for the future will reflect the success of the sale and management transaction of containers as we expand our market share with an asset light model. As at 31st December 2006, the fleet capacity continued to expand by 19.9% to 1,250,609 TEUs.

After the sale and management transaction, the container leasing and management division consists mainly of three segments:

- (1) COSCON 10-year long-term leasing;
- (2) International customers long-term and short-term leasing; and
- (3) Container management services.

The benefits of this divestment transaction are clear. COSCON 10-year long-term leases with a 100% utilisation rate are providing the Company with a very stable revenue stream. We continue to fully utilise our expertise to lease containers to COSCON and other international customers, and we provide container management services to our customers while building up a well-balanced business model based on risk-reward profile and stable yield.

Going forward, we will seek further opportunities to expand our container management business with a view to further strengthen our capital investment based on this successful model.

ENHANCING CORPORATE GOVERNANCE

The corporate philosophy of COSCO Pacific is the continuous pursuit of higher standards of integrity, transparency and professionalism whatever may be the current economic and market conditions. While being committed to maximising shareholders' value and improving corporate profitability, the Company is also determined to ensure the highest standards of corporate governance. In maintaining a high level of transparency and accountability to the shareholders, the Board believes that good corporate governance should benefit our stakeholders.

In 2006, the Company was the proud recipient of awards granted in recognition of our well-governed and well-managed operations. The Board of COSCO Pacific was honoured to be presented the "Directors of The Year" awards organised by the Hong Kong Institute of Directors. We were also awarded the "Hong Kong Outstanding Enterprise" by the Economic Digest for the second consecutive year. Moreover, the Company was cited as one of the "Forbes 2000 leading companies in the world" as well as one of the "China Shipping Gazette top 10 enterprises". We were nominated as a Finalist in the "Shipping In-House Team of the Year" in the ALB Hong Kong Law Awards organised by Asian Legal Business, a widely circulated magazine amongst the legal professional in 2006. Finally, the Company was given a highly commended award for our investor relations by IR Asia Magazine.

Each award endorses the public's confidence in the Company, and this confidence in turn motivates us to set yet higher governance standards. The Company espouses the core principles of corporate governance, which are based on the checks and balances system, and seeks to maximise shareholders' investment returns through balancing the interests of our shareholders. The Board and the management of COSCO Pacific will continue to follow these principles and to act in the long-term interests of its shareholders and stakeholders.

RESPONSIBILITY TO THE COMMUNITY AND SOCIETY

As a good corporate citizen, COSCO Pacific believes that involvement in the community and environmental awareness are essential for the future progress and sustainable development of the societies where the Company operates.

During the year, COSCO Pacific signed up to "Project CLEAN AIR", a programme organised by the Hong Kong General Chamber of Commerce, the Hong Kong Business Coalition on the Environment, and various environmental agencies in Guangdong to encourage businesses to implement appropriate measures to combat air pollution and improve air quality in the Pearl River Delta. More pro-active measures are likely to be taken in 2007 in connection with our terminal investments in this region.

CHANGE OF DIRECTORSHIP AND AUTHORISED REPRESENTATIVE

On 24th January 2007, Mr. XU Minjie was appointed as the Executive Director, Vice Chairman, Managing Director and an authorised representative of the Company. While welcoming Mr. XU to the Board, I would also like to express my deepest gratitude to his predecessor Dr. SUN Jiakang for his outstanding contribution to the Company. I have every confidence that our new Vice Chairman will unchart an even greater success in the years to come.

OUTLOOK

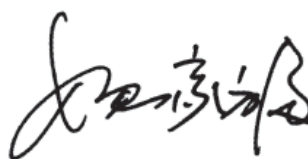
We have a positive outlook for 2007 based on the continuing recovery of the shipping industry, lower oil prices and a potential reduction in the U.S. interest rates, which will provide a favourable stimulus for the business environment. Rising demand driven by domestic consumption in China will boost its imports to achieve a higher growth rate. Moreover, it is expected that China's economic growth will remain strong and that the global economy will expand at an even more impressive rate than in 2006. This continued strength of the global economy is positive for all of our businesses including container terminal, container leasing and management, logistics and container manufacturing.

In the container terminal business, we are expecting further robust growth. Our terminal throughput will continue to grow strongly. In addition, we believe that container leasing will show renewed growth by further expanding its market share due to a transformation of our business model from ownership to a model with a combination of ownership and management of containers. Both our logistics and container manufacturing businesses are likely to register further profit improvements as complementary businesses to our core operations.

MISSION

COSCO Pacific's mission remains to create value for our shareholders and to provide superior service through the strengthening of our business models, becoming a leading global port operator with controlling rights that enhance enterprise value while transforming container leasing into an asset light business. This vision continues to be based on high profitability, strategic balance, excellent management, entrepreneurship, social responsibility, concern for the environment, and the attainment of leadership positions in all of our core businesses. It gives me great pride to say that COSCO Pacific's operations and performance in 2006 once more reflected our strong commitment to these values.

Finally, I would like to take this opportunity to express my heartfelt thanks to our Board, management and employees for their contributions for the awards attained in 2006, and particularly for the Hong Kong Institute of Directors award that recognised our dedication to establishing a well-managed Board, high standards of corporate governance and increasing transparency. The Group continues to flourish because of the energy, commitment and resourcefulness of the COSCO Pacific team at all levels. I would also like to express my deepest gratitude to our business partners and above all our shareholders for the trust they have placed in our vision, and for driving the Group towards realising the full potential of its strengthened business models.



WEI Jiafu

Chairman

22nd March 2007