



## COSCO International Holdings Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 0517)**

### **2005 Annual Results**

#### **Results Highlights**

- Turnover of HK\$1,510,676,000, a decrease of 11%;
- Profit attributable to equity holders reached HK\$496,463,000, up 126%;
- Basic earnings per share was HK\$0.3504, up 125%;
- Turnover generated from ship trading and supplying services business amounted to HK\$1,344,964,000, representing an encouraging growth of 39%, accounted for 89% of total turnover of the Company and its subsidiaries;
- Core business has been continuously developing, the Company's subsidiary acquired a company engaging in the marine communications and navigation equipment and spare parts supplying business; set up an insurance brokerage company to explore marine insurance brokerage market in the China Mainland; formed a joint venture to enlarge its market share in China's marine coating market; realised the plan to construct a new coating production plant in Southern China to expand coating business in the region;
- The board of directors recommended to declare a final dividend of HK\$0.021 per share and a special dividend of HK\$0.014 per share; together with the interim dividend of HK\$0.01 per share, the total dividend for the year is HK\$0.045 per share.

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 2005.

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31ST DECEMBER 2005**

	<i>Note</i>	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover	3	<b>1,510,676</b>	1,688,374
Cost of sales		<b>(1,123,699)</b>	(1,270,912)
<b>Gross profit</b>		<b>386,977</b>	417,462
Other income		<b>18,436</b>	2,679
Selling and distribution expenses		<b>(112,276)</b>	(109,094)
Other gains – net		<b>358,892</b>	116,935
Administrative expenses		<b>(136,389)</b>	(92,068)
Other operating expenses		<b>(8,963)</b>	(19,873)
<b>Operating profit</b>	4	<b>506,677</b>	316,041
Finance costs	5	<b>(20,524)</b>	(15,610)
Share of profits of jointly controlled entities		<b>64,888</b>	12,888
<b>Profit before income tax</b>		<b>551,041</b>	313,319
Income tax expense	6	<b>(25,398)</b>	(50,403)
<b>Profit for the year</b>		<b>525,643</b>	262,916
<b>Attributable to:</b>			
Equity holders of the Company		<b>496,463</b>	219,158
Minority interests		<b>29,180</b>	43,758
		<b>525,643</b>	262,916
Dividends	7	<b>63,820</b>	35,361
<b>Earnings per share for profit attributable to the equity holders of the Company during the year</b> (expressed in Hong Kong cents per share)			
– basic	8	<b>35.04</b>	15.54
– fully diluted	8	<b>34.35</b>	15.22

**CONSOLIDATED BALANCE SHEET**  
AS AT 31ST DECEMBER 2005

	<i>Note</i>	<b>2005</b> <i>HK\$'000</i>	Restated 2004 <i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties		<b>32,614</b>	425,100
Intangible assets		<b>79,616</b>	62,321
Property, plant and equipment		<b>60,030</b>	204,147
Prepaid premium for land leases		<b>11,542</b>	568,478
Associated companies		<b>5,919</b>	8,365
Jointly controlled entities		<b>305,276</b>	210,454
Available-for-sale financial assets/other investment in a joint venture and investment securities		<b>86,806</b>	73,526
		<b>581,803</b>	1,552,391
<b>Current assets</b>			
Completed properties held for sale		<b>81,956</b>	50,878
Properties under development for sale		<b>144,529</b>	194,634
Inventories		<b>163,944</b>	216,478
Trade and other receivables	9	<b>455,841</b>	410,204
Financial assets at fair value through profit or loss/short-term investments		<b>350</b>	327
Non-current assets classified as held for sale		<b>9,179</b>	–
Cash and cash equivalents		<b>1,274,085</b>	562,870
		<b>2,129,884</b>	1,435,391
<b>Total assets</b>		<b>2,711,687</b>	2,987,782
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital		<b>141,824</b>	141,444
Reserves		<b>1,401,722</b>	940,514
Proposed dividends		<b>49,638</b>	35,361
		<b>1,593,184</b>	1,117,319
<b>Minority interests</b>		<b>193,853</b>	188,895
<b>Total equity</b>		<b>1,787,037</b>	1,306,214
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		<b>96,090</b>	865,889
Deferred income tax liabilities		<b>85</b>	–
		<b>96,175</b>	865,889

**Current liabilities**

Trade and other payables	10	810,867	673,959
Current income tax liabilities		7,038	19,101
Borrowings		10,570	122,619
		<u>828,475</u>	<u>815,679</u>
<b>Total liabilities</b>		<u>924,650</u>	<u>1,681,568</u>
<b>Total equity and liabilities</b>		<u>2,711,687</u>	<u>2,987,782</u>
<b>Net current assets</b>		<u>1,301,409</u>	<u>619,712</u>
<b>Total assets less current liabilities</b>		<u>1,883,212</u>	<u>2,172,103</u>

**NOTES****1 Basis of preparation and accounting policies**

The consolidated 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 have been prepared in accordance with Hong Kong Financial Reporting Standards (“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 and loss, which are carried at fair values.

**2 Changes in accounting policies**

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 3	Revenue – Pre-completion of Contracts for the Sale of Development Properties
HKAS-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of the above HKFRSs has the following impacts on the Group's accounting policies:

- (i) The adoption of new/revised HKASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 18, 21, 23, 24, 27, 28, 31, 33, 34, 37 and HKAS-Ints 4 and 15 did not result in substantial changes to the Group's accounting policies. In summary:
  - (a) HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associated companies and jointly controlled entities, and other disclosures.
  - (b) HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 21, 23, 27, 28, 31, 33, 34, 37, HKAS-Ints 4 and 15 have no material effect on the Group's accounting policies.
  - (c) HKAS 24 has affected the identification of related parties and some other related party disclosures.
- (ii) The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to prepaid premium for land leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was stated at cost less accumulated depreciation and accumulated impairment loss. HKAS 17 was applied retrospectively.
- (iii) The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to investment securities and short-term investments. Investment securities and other investment in a joint venture have been re-designated as available-for-sale financial assets and are stated at fair values. Changes in their fair values are accounted for as movements in reserve. The difference between the fair value of available-for-sale financial assets as at 1st January 2005 and the carrying amounts of the investment securities and other investment in a joint venture as at 31st December 2004 was credited to the opening investment revaluation reserve as at 1st January 2005. In previous accounting periods, investment securities were stated at cost less provision for diminution in value; other investment in a joint venture was carried at cost less accumulated amortisation and accumulated impairment losses.

Short-term investments have been re-designated as financial assets at fair value through profit or loss.

HKAS 39 does not permit the recognition, derecognition or measurement of financial assets and liabilities in accordance with this standard on a retrospective basis.

- (iv) The adoption of HKAS 40 has resulted in a change in the accounting policy relating to the reclassification of properties leased to group companies (i.e. fellow subsidiaries) from property, plant and equipment to investment properties.
- (v) The adoption of revised HKAS Int-21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.
- (vi) The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective from 1st January 2005, the Group expenses the cost of share options in the income statement. There is no impact on the prior year financial statements, as the Group had no unvested share options outstanding as at 1st January 2005. HKFRS 2 was applied retrospectively only for equity instruments granted after 7th November 2002 and not vested at 1st January 2005.
- (vii) The adoption of HKFRS 3 and HKASs 36 and 38 has resulted in a change in the accounting policy for goodwill. Until 31st December 2004,
  - Goodwill was amortised on a straight-line basis over its estimated useful life and assessed for an indication of impairment at each balance sheet date.
  - Negative goodwill was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases, it was recognised in the income statement as those expected losses were incurred.

In accordance with the provision of HKFRS 3,

- For previously recognised goodwill, the Group ceased amortisation from 1st January 2005 and the accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill. From the year ending 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is an indication of impairment. Any impairment loss is charged to the income statement.
- For previously recognised negative goodwill, the carrying amount of negative goodwill at 1st January 2005 was derecognised and credited to the opening balance of retained profits. From the year ending 31st December 2005 onwards, any excess of the fair value of the Group's share of the identifiable net assets acquired over the cost of acquisition is recognised directly in the income statement.

HKFRS 3 was applied prospectively after the adoption date with any adjustment made to the retained profits as at 1st January 2005.

- (viii) The adoption of HKFRS 5 has resulted in the reclassification of an asset which the Group had the intention to sell as non-current assets classified as held for sale.
- (ix) The adoption of HKAS-Int 3 has resulted in a change in the accounting policy for sales of properties under development. In previous accounting periods, profit was recognised by the stage of completion method. Effective from 1st January 2005, profit from sales of properties under development is only recognised upon completion of the property development.

In accordance with the transitional provisions, the Group will continue to use the stage of completion method to recognise revenue from the sale of properties under development entered into before 1st January 2005.

The effects of the changes in the above accounting policies on the financial statements are summarised below:

		<b>Effect of adopting</b>						
		<b>HKFRS 3, HKASs 32 and 39</b>		<b>HKFRS 3, HKASs 36 and 38</b>		<b>HKAS 40</b>	<b>HKFRS 5</b>	<b>Total</b>
		<b>HKFRS 2</b>	<b>HKAS 17</b>	<b>and 39</b>	<b>and 38</b>	<b>HKAS 40</b>	<b>HKFRS 5</b>	<b>Total</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
(a)	Consolidated income statement <b>For the year ended 31st December 2005</b>							
	Increase/(decrease) in administrative and other operating expenses	<u>1,400</u>	<u>91</u>	<u>-</u>	<u>(3,842)</u>	<u>-</u>	<u>-</u>	<u>(2,351)</u>

The changes in accounting policies have no material effect on the basic earnings per share and fully diluted earnings per share. The changes in accounting policies have no material effect on the consolidated income statement for the year ended 31st December 2004.

	Effect of adopting						Total HK\$'000
	HKFRS 2 HK\$'000	HKAS 17 HK\$'000	HKFRS 3, HKASs 32 and 39 HK\$'000	HKFRS 3, HKASs 36 and 38 HK\$'000	HKAS 40 HK\$'000	HKFRS 5 HK\$'000	
<b>(b) Consolidated balance sheet</b>							
<b>At 31st December 2005</b>							
Increase in intangible assets	-	-	-	8,315	-	-	8,315
Decrease in property, plant and equipment	-	(574,990)	-	--	(112,503)	-	(687,493)
Increase in investment properties	-	-	-	-	522,602	-	522,602
Increase/(decrease) in prepaid premium for land leases	-	574,990	-	-	(410,099)	(9,179)	155,712
Increase in available- for-sale financial assets	-	-	12,802	-	-	-	12,802
Decrease in completed properties held for sale	-	(91)	-	-	-	-	(91)
Increase in non-current assets classified as held for sale	-	-	-	-	-	9,179	9,179
Decrease in profit for the year	(1,400)	(91)	-	-	-	-	(1,491)
Increase in employee share-based compensation reserve	1,400	-	-	-	-	-	1,400
Increase in investment revaluation reserve	-	-	12,802	-	-	-	12,802
Increase in opening balance of retained profits	-	-	-	8,315	-	-	8,315
<b>At 31st December 2004</b>							
Decrease in property, plant and equipment	-	(568,478)	-	-	-	-	(568,478)
Increase in prepaid premium for land leases	-	568,478	-	-	-	-	568,478

### 3 Turnover and segment information

	2005 HK\$000	2004 HK\$000
<b>Turnover</b>		
Sales of coating products	902,621	893,742
Sales of spare parts and navigation equipment	350,023	-
Ship trading and insurance brokerage commission income	92,320	73,837
Sale of properties	121,889	375,345
Building construction	21,491	306,814
Rental income	19,724	32,186
Building management fee income	2,608	2,971
Income from other investment in a joint venture	-	3,479
	<u>1,510,676</u>	<u>1,688,374</u>

*Primary reporting format – business segments*

	Ship trading and supplying services 2005 <i>HK\$'000</i>	Property development and property investment 2005 <i>HK\$'000</i>	Building construction 2005 <i>HK\$'000</i>	Other operations 2005 <i>HK\$'000</i>	Group 2005 <i>HK\$'000</i>
Segment turnover	<u>1,344,964</u>	<u>141,613</u>	<u>21,491</u>	<u>2,608</u>	<u>1,510,676</u>
Segment results	<u>127,157</u>	<u>344,672</u>	<u>46,670</u>	<u>(5,035)</u>	513,464
Unallocated corporate expenses, net of income					<u>(6,787)</u>
Operating profit					506,677
Finance costs					(20,524)
Share of profits of jointly controlled entities	5,661	59,227	–	–	<u>64,888</u>
Profit before income tax					551,041
Income tax expense					<u>(25,398)</u>
Profit for the year					<u>525,643</u>
Segment assets	1,087,635	440,242	43,052	12,187	1,583,116
Associated companies	–	–	5,919	–	5,919
Jointly controlled entities	49,484	255,792	–	–	305,276
Available-for-sale financial assets	–	–	–	86,806	86,806
Unallocated assets					<u>730,570</u>
Total assets					<u>2,711,687</u>
	Ship trading and supplying services 2005 <i>HK\$'000</i>	Property development and property investment 2005 <i>HK\$'000</i>	Building construction 2005 <i>HK\$'000</i>	Other operations 2005 <i>HK\$'000</i>	Group 2005 <i>HK\$'000</i>
Segment liabilities	655,993	149,299	109,199	357	914,848
Current income tax liabilities					7,038
Unallocated liabilities					<u>2,764</u>
Total liabilities					<u>924,650</u>
The segment results have been arrived at after charging/ (crediting) the following:					
Depreciation and amortisation (net)	7,756	2,498	221	240	10,715
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 certain construction projects	<u>–</u>	<u>–</u>	<u>(53,199)</u>	<u>–</u>	<u>(53,199)</u>
Capital expenditure	<u>24,123</u>	<u>294</u>	<u>–</u>	<u>183</u>	<u>24,600</u>

	Ship trading and supplying services 2004 HK\$'000	Property development and property investment 2004 HK\$'000	Building construction 2004 HK\$'000	Other operations 2004 HK\$'000	Group 2004 HK\$'000
Segment turnover	<u>967,579</u>	<u>407,531</u>	<u>306,814</u>	<u>6,450</u>	<u>1,688,374</u>
Segment results	<u>124,174</u>	<u>258,508</u>	<u>(19,146)</u>	<u>(28,990)</u>	334,546
Unallocated corporate expenses, net of income					<u>(18,505)</u>
Operating profit					316,041
Finance costs					(15,610)
Share of profit of a jointly controlled entity	–	12,888	–	–	<u>12,888</u>
Profit before income tax					313,319
Income tax expense					<u>(50,403)</u>
Profit for the year					<u>262,916</u>
Segment assets	734,873	1,650,805	110,597	7,139	2,503,414
Associated companies	–	–	8,365	–	8,365
Jointly controlled entity	–	210,454	–	–	210,454
Other investment in a joint venture and investment securities	–	–	–	73,526	73,526
Unallocated assets					<u>192,023</u>
Total assets					<u>2,987,782</u>
Segment liabilities	427,938	748,117	217,686	105	1,393,846
Current income tax liabilities					19,101
Unallocated liabilities					<u>268,621</u>
Total liabilities					<u>1,681,568</u>
The segment results have been arrived at after charging/ (crediting) the following:					
Depreciation and amortisation (net)	8,024	17,021	1,429	3,479	29,953
Write-back of deficit on revaluation of investment properties	–	(155,966)	–	–	(155,966)
Provision for diminution in value of investment securities	–	–	–	9,677	9,677
Write-back of provision for claims and foreseeable losses on certain construction projects	–	–	(452)	–	(452)
Legal charges in respect of litigation on a construction project	–	–	7,011	–	7,011
Provision for completed properties held for sale	–	13,646	–	–	13,646
Impairment loss on other investment in a joint venture	–	–	–	23,431	<u>23,431</u>
Capital expenditure	<u>91,050</u>	<u>1,151</u>	<u>246</u>	<u>–</u>	<u>92,447</u>

*Secondary reporting format – geographical segments*

	<b>Turnover 2005 HK\$'000</b>	<b>Segment results 2005 HK\$'000</b>	<b>Total assets 2005 HK\$'000</b>	<b>Capital expenditure 2005 HK\$'000</b>
Hong Kong	493,642	450,411	322,460	14,870
China Mainland	<u>1,017,034</u>	<u>63,053</u>	<u>1,260,656</u>	<u>9,730</u>
	<u><b>1,510,676</b></u>	<b>513,464</b>	<b>1,583,116</b>	<u><b>24,600</b></u>
Unallocated corporate expenses, net of income		<u>(6,787)</u>		
Operating profit		<u><b>506,677</b></u>		
Associated companies			5,919	
Jointly controlled entities			305,276	
Available-for-sale financial assets			86,806	
Unallocated assets			<u>730,570</u>	
Total assets			<u><b>2,711,687</b></u>	
	<b>Turnover 2004 HK\$'000</b>	<b>Segment results 2004 HK\$'000</b>	<b>Total assets 2004 HK\$'000</b>	<b>Capital expenditure 2004 HK\$'000</b>
Hong Kong	435,132	185,309	1,456,971	36,462
China Mainland	<u>1,253,242</u>	<u>149,237</u>	<u>1,046,443</u>	<u>55,985</u>
	<u><b>1,688,374</b></u>	<b>334,546</b>	<b>2,503,414</b>	<u><b>92,447</b></u>
Unallocated corporate expenses, net of income		<u>(18,505)</u>		
Operating profit		<u><b>316,041</b></u>		
Associated companies			8,365	
Jointly controlled entity			210,454	
Other investment in a joint venture and investment securities			73,526	
Unallocated assets			<u>192,023</u>	
Total assets			<u><b>2,987,782</b></u>	

#### 4 Operating profit

Operating profit is stated after crediting and (charging) the following:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Net rental income	16,195	27,491
Depreciation and amortisation (net)	(10,715)	(29,953)
Operating lease rental expense	(5,883)	(1,620)
Cost of inventories sold	(1,017,661)	(679,311)
Cost of completed properties sold	(22,500)	(13,382)
Fair value gains on investment properties	257,046	–
Fair value gains on financial assets at fair value through profit or loss	23	–
Net realised and unrealised gains on short-term investments	–	84
Write-back of impairment loss on prepaid premium for land leases	46,719	–
Write-back of deficit on revaluation of investment properties	–	155,966
Provision for diminution in value of investment securities	–	(9,677)
Loss on disposal of subsidiaries	(16,825)	–
Write-back of provision for claims and foreseeable losses on certain construction projects	53,199	452
Legal charges in respect of litigation on a construction project	–	(7,011)
Provision for completed properties held for sale	–	(13,646)
Impairment loss on other investment in a joint venture	–	(23,431)
Dividend income from available-for-sale financial assets/investment securities	5,838	3,882
Recovery of legal cost in respect of litigation on a construction project	4,500	–
	<u>4,500</u>	<u>–</u>

#### 5 Finance costs

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest on bank and other loans wholly repayable within five years	23,585	16,206
Other borrowing costs	2,108	2,993
	<u>25,693</u>	<u>19,199</u>
Capitalised in construction contracts in progress	–	(644)
Capitalised in properties under development for sale	(5,169)	(2,945)
	<u>(5,169)</u>	<u>(2,945)</u>
	<u>20,524</u>	<u>15,610</u>

#### 6 Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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.

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current income tax		
– Hong Kong profits tax	11,962	5,947
– China Mainland taxation	13,351	44,456
Deferred income tax	85	–
	<u>25,398</u>	<u>50,403</u>

## 7 Dividends

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interim dividend paid of HK\$0.01 (2004: Nil) per ordinary share	14,182	–
Proposed special dividend of HK\$0.014 (2004: Nil) per ordinary share	19,855	–
Proposed final dividend of HK\$0.021 (2004: HK\$0.025) per ordinary share	29,783	35,361
	<u>63,820</u>	<u>35,361</u>

## 8 Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to the equity holders of the Company of HK\$496,463,000 (2004: HK\$219,158,000) and the weighted average number of 1,416,855,538 (2004: 1,410,080,624) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31st December 2005 is based on the weighted average number of 1,445,160,990 (2004: 1,440,135,287) shares in issue after adjusting for the potential dilutive effect in respect of outstanding share options.

## 9 Trade and other receivables

As at 31st December 2005, trade and other receivables included trade receivables amounting to HK\$393,547,000 (2004: HK\$315,667,000).

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current – 90 days	218,825	183,067
91 – 180 days	102,144	82,703
Over 180 days	72,578	49,897
	<u>393,547</u>	<u>315,667</u>

For sales of coating products, the majority of sales are on credit terms from 30 days to 90 days. For building construction contracts, they are billed according to certified progress billings, while revenue from sales 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 billed are payable upon presentation.

## 10 Trade and other payables

As at 31st December 2005, trade and other payables included trade payables amounting to HK\$231,857,000 (2004: HK\$265,291,000).

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current – 90 days	172,621	221,623
91 – 180 days	19,714	28,362
Over 180 days	39,522	15,306
	<u>231,857</u>	<u>265,291</u>

## **FINAL DIVIDEND AND SPECIAL DIVIDEND**

The Board recommended the payment of a final dividend of HK\$0.021 (2004: HK\$0.025) and a special dividend of HK\$0.014 (2004: Nil) per share for the year ended 31st December 2005. The proposed final and special dividends, together with the interim dividend of HK\$0.01, give a total dividend of HK\$0.045 (2004: HK\$0.025) for the whole year of 2005.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from 23rd May 2006 to 25th May 2006, both days inclusive, during which period no transfer of shares will be effected. To qualify for the proposed final and special dividends, all transfers must be lodged with the Company's branch registrar in Hong Kong, Abacus Share Registrars Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 22nd May 2006.

It is expected that the relevant dividends will be payable to those entitled on or about 8th June 2006 subject to the shareholders' approval in the annual general meeting of the Company to be held on 25th May 2006.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Overall Financial Results**

For the year ended 31st December 2005, the Company and its subsidiaries recorded a turnover of HK\$1,510,676,000 (2004: HK\$1,688,374,000); profit attributable to equity holders reached HK\$496,463,000 (2004: HK\$219,158,000), representing an increase of 126% compared with 2004.

### **Turnover**

Ship trading and supplying services being the core business of the Company and its subsidiaries has achieved an impressive growth, while the property development, property investment and building construction businesses have decreased as compared to the previous year. This resulted in a slight decline in the Company and its subsidiaries' turnover as compared to the same period in 2004.

The Company has positioned its strategic target in the ship trading and supplying services business, which accounted for approximately 89% (2004: 57%) of the Company and its subsidiaries's total turnover. The growth was largely derived from the marine equipment, spare parts, communications and navigation equipment business carried out by Yuantong Marine Service Co. Ltd. ("Yuantong") which was acquired by the Company during the year. In addition, other ship trading and supplying businesses which include marine insurance brokerage, sales of coating products and ship trading agency services business remained stable in 2005.

Turnover of the Company in building construction, property investment and property development businesses scaled down to HK\$163,104,000 (2004: HK\$714,345,000). This was attributable to the Company's effort in developing its core business. Besides, the sales of Fragrant Garden in Shanghai, one of its property development projects, was substantially completed in 2004.

### **Gross Profit and Margins**

The Company and its subsidiaries' gross profit for the year was HK\$386,977,000 (2004: HK\$417,462,000). The change in gross profit was mainly due to the reduced contribution from property development and property investment businesses as compared to the previous year. On the other hand, gross profit contribution from ship trading and supplying services business continued to grow. The overall Group's gross profit margin nevertheless remained the same as that in 2004.

## **Profit Attributable to Equity Holders**

Profit attributable to equity holders amounted to HK\$496,463,000 (2004: HK\$219,158,000), representing a 126% increase over 2004. The drastic growth was attributable to firstly, the revaluation surplus of HK\$303,765,000 arisen on the eight floors of COSCO Tower previously owned by the Company's wholly owned subsidiary prior to its disposal to its parent company COSCO (Hong Kong) Group Limited ("COSCO Hong Kong"); secondly, a write-back of provision of HK\$53,199,000 for claims and foreseeable losses on certain construction contracts as a result of final settlements reached with employers and subcontractors; and thirdly, sharing of profit of the Company's jointly controlled entity, Sino-Ocean Real Estate Development Co., Ltd. (formerly known as COSCO Real Estate Development Company Limited) which amounted to HK\$59,227,000.

## **Business Review**

With the full support of the ultimate holding company, China Ocean Shipping (Group) Company ("COSCO") and the intermediate holding company, COSCO Hong Kong together with sister companies (together the "COSCO Group"), the Company continued to operate and develop the ship trading and supplying services as its core business. The Company has further expanded its core businesses by acquiring a company engaging in the supply business of all kinds of marine communications and navigation equipment and spare parts, forming joint ventures to develop marine coatings, container coatings and marine insurance brokerage businesses. The expansions further strengthened the Company's platform in the provision of ship trading and supplying services and led the Company to a stable and healthy growth. With the support of COSCO Hong Kong, the Company's wholly-owned subsidiary successfully disposed of its eight floors of the COSCO Tower. The disposal not only increased the Company and its subsidiaries' cash reserve, but also improved the capital structure of the Company and its subsidiaries and reduced the overall gearing ratio which laid a solid foundation for the sustainable development of the Company and its subsidiaries.

### ***Ship Trading and Supplying Services***

During the year under review, the Company and its subsidiaries' turnover and profit contribution from the ship trading and supplying services business recorded a steady growth. For the year ended 31st December 2005, the turnover and profit contribution from ship trading and supplying services were HK\$1,344,964,000 (2004: HK\$967,579,000) and HK\$127,157,000 (2004: HK\$124,174,000) respectively, representing an increase of 39% and 2% as compared to 2004.

### ***Ship Trading Agency Services***

Following the development strategy on the agency services as starting point, the Company through its 60% equity owned subsidiary, COSCO International Ship Trading Company Limited ("COSCO Ship Trading") acts as an upstream services supplier in the supply chain of provision of ship trading and supplying services. COSCO Ship Trading is the window company within the COSCO Group providing ship trading agency services in connection with the ship building, buying and selling, as well as ship chartering to the COSCO Group on exclusive basis. With a continued optimistic shipping market outlook and active transactions in the sale and purchase of new and second hand vessels, COSCO Ship Trading recorded a higher commission income during the year.

To build up a comprehensive ship trading agency services supply platform, COSCO Ship Trading has taken an aggressive approach in establishing a long-term and good cooperative relationship with various shipping companies, shipyards, ship brokers, ship classification societies and equipment suppliers. Capitalizing on its advantages in resources and networking, COSCO Ship Trading functions as a bridge for other ship trading and supplying enterprises in the business chain. It also assists other subsidiaries of the Company in the ship trading and supplying services business chain which include coating products, marine equipment supply as well as brokerage services in marine insurance business, to explore more new markets on top of its existing customer base and to create synergy among these enterprises.

### *Provision of Marine Insurance Brokerage Service*

As an important part in the ship trading and supplying services platform, the main function of marine insurance broker is to arrange the best marine insurance protection to ocean-going vessels of various sizes. The Company's wholly-owned subsidiary, COSCO (Hong Kong) Insurance Brokers Limited ("COSCO Insurance"), is the sole insurance intermediary company within the COSCO Group. It is also one of the few insurance brokerage companies in Hong Kong that has obtained Lloyd's broker accreditation. COSCO Insurance mainly operates intermediary business in respect of marine insurance and shipowners' liabilities insurance, which include hull and machinery insurance, increased value insurance, insurance against war risks, shipowners' and charterers' liabilities insurance, freight, demurrage and defence insurance, loss of hire insurance and etc.

COSCO Insurance succeeded in grasping the opportunities in the delivery of new vessels to various shipping companies by actively developing the business in hull insurance for the new vessels during the year. The Company also capitalized on the growing chartering business arising from the optimistic shipping market outlook in the first half of the year and provided charterers' liabilities insurance to over 130 vessels. In addition, after analysing the continuous unrest situation in the Middle East region and recurring terrorist attacks, COSCO Insurance developed business in war insurance against additional risks bringing in a favourable economic benefit to the Company. The annual commission income of COSCO Insurance was HK\$38,155,000 (2004: HK\$34,548,000), up 10% as compared to the same period of 2004. Leveraging on its Lloyds' broker accreditation, COSCO Insurance has actively developed non-COSCO business and the annual commission income from non-COSCO business accounted for 18% of its overall total commission income (2004: 14%).

In order to expand its insurance brokerage business in the China Mainland, COSCO Insurance entered into an agreement on 28th November 2005 with Shenzhen Ocean Shipping Co., Limited, a non wholly-owned subsidiary of COSCO Hong Kong to set up a joint venture named Shenzhen COSCO Insurance Brokers Limited ("Shenzhen COSCO Insurance") in Shenzhen. Shenzhen COSCO Insurance is principally engaged in the provision of marine insurance brokerage business in the China Mainland.

### *Marine equipment, spare parts and communications and navigation equipment business*

Following the increasing market demand and the positive prospects for marine communications and navigation equipment and spare parts, the Company through its wholly owned subsidiary completed the acquisition of 100% equity interest in Yuantong in May 2005. Yuantong is principally engaged in the supply and installation of equipment and spare parts for existing vessels and new vessels, oil drilling projects at sea and communication systems, shore-based AIS system, vessel traffic management systems and as well as information management system for land users. During the year under review, Yuantong's performance was impressive with a total turnover of HK\$350,023,000 (2004: 301,282,000), representing an increase of 16% compared to the same period last year.

Yuantong has during the year actively exploring new procurement channels, canvassed the new ship building market and established a good and close relationship with customers and manufacturers. On the procurement side, Yuantong entered into agency agreements with a number of manufacturers and achieved a breakthrough by entering into cooperative agreement for the provision of marine equipment to new vessels, which laid a solid foundation for long-term cooperation.

### *Production and Sales of Coating Business*

Despite the fierce competition in the coating industry in China in 2005, the Company seized market opportunities by actively expanding its coating supply platform. After a series of acquisitions, the Company has initially established a framework for a cross-region coating production and sales platform. The Company's non-wholly owned subsidiaries, Shanghai Kansai COSCO Paint & Chemicals Co., Ltd & Tianjin Kansai COSCO Paint & Chemicals Co., Ltd (collectively known as "COSCO Kansai Companies") are responsible for the production and sales of container coatings and industrial anti-corrosion coatings, whilst Jotun COSCO Marine Coatings (Kong Kong) Company Limited ("Jotun COSCO") is in charge of the production and sales of marine coating products.

### *Container Coatings*

During the year under review, the robust demand for containers from container owners worldwide in the first half of the year drove up the sales of container coatings. Owing to a cyclical change of shipping industry, demand for containers has slowed down in the second half of the year coupled with the increase in soaring oil and raw material prices, affecting the sales of container coatings. Nevertheless, with high quality products and sincere attitudes together with their aggressiveness in maintaining close contact with key customers, COSCO Kansai Companies achieved good sales results. During the year, the total sales volume of container coatings was about 56,119 tonnes (2004: 69,352 tonnes), a 19% decrease as compared to the same period last year, but continued to rank the first in China's container coating market.

To reduce the transportation costs and risks and to enhance the overall operational efficiency, the Company had on 28th November 2005 entered into an agreement with Japan Kansai Paint Co., Ltd. to set up a joint venture named Zhuhai COSCO Kansai Paint & Chemicals Co., Ltd. ("Zhuhai COSCO Kansai"). Zhuhai COSCO Kansai also assists the Company in expanding its scale of production in coatings. Both parties had on the same day entered into a project agreement with the Commission of Zhuhai Harbour Industrial Zone. According to the aforesaid agreement, Zhuhai COSCO Kansai will invest and build a coating production plant in the Zhuhai Harbour Industrial Zone, a heavy chemical production base in Guangdong Province. The expected annual production capacity of the new plant is 24,000 tonnes. The Zhuhai Harbour Industrial Zone is one of the major transportation hubs along the coast of China. It has a good operating environment and comprehensive infrastructure and thus is an ideal location for setting up a coating plant. The Company expected that upon commissioning of the new plant, it will share the production loads of the manufacturing plants in Tianjin and Shanghai, thereby reducing production risks. The Company will in the meantime act in accordance with the market demands by readjusting its coating products development strategy for Northern and Central China with a view to fully expand the coatings supply platform of the Company.

### *Marine Coatings*

The Company's marine coating production and sales business comes under Jotun COSCO. Jotun COSCO is a joint venture between the Company and the internationally renowned Norwegian coating manufacturer Jotun A/S, each owns 50% equity interests. The joint venture has a manufacturing plant in Guangzhou and sales offices in places such as Shanghai, Dalian, Chengdu and Hong Kong. The joint venture is responsible for centralising the running of marine coating business, including production and sales of coatings for new ship building, dry docking and sea stock, in various regions in China (including Hong Kong and Macau Special Administrative Regions).

During the year under review, Jotun COSCO actively expanded its market share and achieved a breakthrough in sales with the whole year coatings sales volume reached 15,550,000 litres (equivalent to 20,215 tonnes).

### *Industrial Anti-Corrosion Coatings*

In 2005, investment in fixed assets in China exceeded RMB8,860 billion, representing a remarkable increase of 26% compared to 2004. Currently, the Central Government of the People's Republic of China is planning and implementing a number of large scale infrastructure and railway projects. These projects will bring huge demands for industrial anti-corrosion coatings. Taking full advantage of their rich resources and advanced technology, COSCO Kansai Companies had been successful in expanding its industrial anti-corrosion coating market and achieved remarkable results. Sales volume of industrial anti-corrosion coatings during the year reached 4,777 tonnes (2004: 3,275 tonnes), a 46% increase over the same period in 2004.

According to the market prediction, the proportion of specialised coatings in the coating business in China will expand owing to the continuous increase in demand for industrial coatings for the construction, transport, infrastructure and energy sectors.

The Company will leverage on its resources in each coating plant to readjust its product structure and strengthen its industrial anti-corrosion coating and marine coating businesses, with an aim to enlarge its scale in coating production and explore further potential for profits.

## *Property Development and Property Investment*

### *Hong Kong*

Following the economic recovery in Hong Kong during 2005, the property market was booming. The Company following its strategy of focusing on developing core activities, seized the opportunity to dispose of some of its investment properties. The disposals included the sales of the 39th, 40th, 42nd, 47th to 51st floors of COSCO Tower, a total of eight floors with a combined gross floor area of 172,660 square feet, to COSCO Hong Kong for a total consideration of HK\$1,402,000,000. The transaction was completed on 3rd August 2005. The transaction not only lowered the Company and its subsidiaries' gearing ratio substantially, but also significantly increased the cash reserve available for future investment opportunities.

The Company's wholly owned subsidiary also sold its shopping mall property and nine coach parking spaces in Broadview Court, Shum Wan, at the end of June 2005. As of 31st December 2005, the aforesaid subsidiary held 195 car parks in Broadview Court. To plan for further sales, the Company will continue to closely monitor market development trend.

### *China Mainland*

There was a relative slowdown of investment activities in the property market on the China Mainland during the year, property prices was still on upward path. Nevertheless, with the continuing economic growth and improvement in people's living standard, demands for properties in cities are expected to remain high which will continue to drive steady development in the property market in China Mainland.

#### *Shanghai Kingswell Garden*

The Company, through its subsidiary, owns Block 5 of Kingswell Garden, a hotel-style serviced apartment complex with a total floor area of 2,592 square metres on Hongmei Road, Shanghai. As of 31st December 2005, the occupancy rate was 84% (2004: 94%) and the monthly rental per unit ranged from US\$1,000 to US\$2,500.

#### *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 2005, a total of 1,841 square metres retail shops and 193 car parks remained unsold. The Company will sell the remaining properties according to the market demand.

#### *COSCO Yihe Garden*

COSCO Yihe Garden is the Company's development property project with a total floor area of approximately 200,000 square metres in Shenyang, Liaoning Province, China. The project, located at Beita Xin Cun, Yu Hong District, was developed by COSCO Yihe Property Development Co., Ltd. ("Shenyang COSCO"), a non-wholly owned subsidiary of the Company. The total investment was RMB590,000,000. The project is developed by two phases, Phase 1 is in the South District and Phase 2 is in the North District. COSCO Yihe Garden provides a total of about 1,400 residential units of various sizes. As of 31st December 2005, sales contracts for totally 747 residential units of COSCO Yihe Garden involving a total floor area of 88,000 square metres, have been concluded. Residential units in Phase 1 of the project have been gradually handed over to buyers in mid 2005. Sales of the residential units in Phase 2 of the project have been commenced in mid 2005. It is expected that the whole project will be substantially completed at the end of 2006.

Building on the Company's experience in property development and quality customer services accumulated over the years, the Company has gradually established its brand and reputation since the launch of COSCO Yihe Garden in 2004. In 2005, COSCO Yihe Garden obtained various awards including the "Shenyang Landscape Model Residential Building" ("瀋陽景觀示範住宅"), "2005 Most Popular Property among Shenyang Citizens" ("2005瀋陽百姓喜愛的魅力樓盤") and "2005 CIHAF Most Well-known Property and Enterprise in China (Shenyang)" ("2005 CIHAF 中國(瀋陽)名盤名企").

## *Beijing*

Sino-Ocean Real Estate Development Co., Ltd. (formerly known as COSCO Real Estate Development Co., Ltd.) (“SORED”), a jointly controlled entity of the Company and a renowned property developer in China, won numerous awards for its property developments in Beijing. At present, SORED’s properties under construction include Ocean Paradise, Ocean Landscape, Ocean Seasons, Chamsunny Plaza, Ocean International Centre, Haihe New Skyline in Tianjin and etc. Despite the sluggish property market in Beijing in 2005, SORED still managed to achieve good results and brought profitable returns of HK\$59,227,000 (2004: HK\$12,888,000) to the Company. This was attributable to its solid financial strength, reputable brand and proactive marketing and sales efforts.

## ***Other Businesses***

During the year, the Company did not have any material operating activities in the building construction business except for reaching accounts settlement with employers and sub-contractors.

Henan Xinzhongyi Electric Power Co., Ltd. (“Henan XZY”) has two 200MW coal-fired generators in Henan Province. Going forward, despite increase in production costs arising from soaring coal prices, Henan XZY will strive to control costs to achieve breakeven result.

## **Financial Resources and Liquidity**

As at 31st December 2005, shareholders’ funds of the Company and its subsidiaries increased by 43% to HK\$1,593,184,000 resulting from the profit generated during the year. For the year ended 31st December 2005, the Company and its subsidiaries had a net repayment of bank loans amount to HK\$881,848,000 (2004: net drawdown of HK\$29,770,000). As at 31st December 2005, total banking facilities available to the Company and its subsidiaries amounted to HK\$482,630,000 (2004: HK\$1,222,999,000) of which HK\$149,660,000 (2004: HK\$964,890,000) were utilised. The net repayment and decrease in utilization of banking facilities were primarily attributable to the disposal of COSCO Tower and the repayment of the related bank loans. The gearing ratio, which represents total borrowings over total assets, was approximately 4% (2004: 32%).

As at 31st December 2005, the Company and its subsidiaries’ borrowings were denominated in Renminbi and carried interests at rates calculated with reference to the Base Rates announced by the People’s Bank of China. The Company and its subsidiaries did not have any financial instruments used for hedging purpose.

As at 31st December 2005, the Company and its subsidiaries did not have any assets pledged as securities to a bank in respect of certain banking facilities granted (2004: HK\$194,634,000).

As at 31st December 2005, cash and cash equivalents amounted to HK\$1,274,085,000 (2004: HK\$562,870,000) and accounted for 60% (2004: 39.2%) of the current assets of the Company and its subsidiaries. The Company and its subsidiaries did not have bank balances restricted for the purpose of obtaining banking facilities to the Company and its subsidiaries (2004: Nil). During the year, the Company and its subsidiaries had no material exposure to exchange rate fluctuations.

With its strong cash position and the available banking facilities, the Company and its subsidiaries have adequate resources for their ongoing operations and future development.

## **Major Customers and Suppliers**

For the year ended 31st December 2005, the aggregate amount of sales from the Company and its subsidiaries’ five largest customers and the aggregate amount of purchases from the Company and its subsidiaries’ five largest suppliers accounted for less than 30% of the turnover and cost of sales of the Company and its subsidiaries respectively.

## Employees

As at 31st December 2005, excluding associated companies and jointly controlled entities, the Company and its subsidiaries had approximately 533 (2004: 664) employees of whom approximately 122 (2004: 137) employees were in Hong Kong. The reduction of employees was mainly due to the decrease of staff engaging in the property management of a property project in China which was almost in completion stage. For the year ended 31st December 2005, employee costs including directors' emoluments and pension costs totaled HK\$107,856,000 (2004: HK\$95,924,000). Employees were remunerated on the basis of their performance and experience. Remuneration package comprises salary and year-end discretionary bonus are determined based on market conditions and individual performance. During the year, all Hong Kong employees have participated in the Mandatory Provident Fund scheme.

On 26th November 2003, the Directors and employees of the Company and its subsidiaries were granted certain share options to subscribe for 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, the Directors and employees of the Company and its subsidiaries were granted certain share options to subscribe for 32,650,000 shares of the Company at a price of HK\$1.37 per share. These share options are exercisable at any time from 29th December 2004 to 28th December 2014. On 10th May 2005, certain employees of a subsidiary of the Company were granted certain share options to subscribe for a total of 2,400,000 shares 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.

## CORPORATE GOVERNANCE

The Board believes that high standard and good corporate governance practices are essential for the Company to enhance its accountability and transparency, and strike a balance of looking after the interests of the public and its stakeholders, inter alia, shareholders, customers, employees, creditors, and investment partners. In this connection, the corporate governance practices of the Company are published on website of the Company so that stakeholders are aware of the standards which they can expect from the Company and let the Company know whether these standards, and the manner in which the Company conducts itself in practice, meet their expectations.

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; (ii) one of the regular Board meetings of the Company was attended by less than half of the Directors due to other business commitments by the absent Directors; and (iii) Mr. Wei Jiafu, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 5th May 2005 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 and reviewed the audited financial statements of the Company and its subsidiaries for the year ended 31st December 2005. 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 2005, all Directors confirmed that they have fully complied with the required standard set out in the Securities Code during the year.

The Board acknowledges its ultimate responsibility for setting up a robust internal control system for the Company and its subsidiaries to safeguard the shareholders’ investment and its assets. According to the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules, the Board will annually conduct review of the effectiveness of the Company’s system of internal control.

#### **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 2005 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 or 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 2005.

#### **BOARD OF DIRECTORS**

As at the date hereof, the Board comprises of fourteen Directors of which Mr. Wei Jiafu (Chairman), Mr. Liu Guoyuan (Vice-chairman), Mr. Li Jianhong, Mr. Zhou Liancheng, Mr. Liu Hanbo (Managing Director), Mr. Jia Lianjun, Mr. Wang Xiaoming, Mr. Chen Pisen, Mr. Meng Qinghui, Mr. Lin Libing and Mr. Wang Xiaodong as Executive Directors; and 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  
**LIU Hanbo**  
*Managing Director*

Hong Kong, 30th March 2006

## CHAIRMAN'S STATEMENT

I am pleased to announce to our shareholders that the overall business performance of COSCO International Holdings Limited ("the Company") and its subsidiaries has been satisfactory. In line with the Company's goals to create efficiency and values for sustained development, the Company has during the year continued to pursue the strategy to position and implement ship trading and supplying services as its core business, continued to expand its portfolios and also enhanced competitiveness. Through creating synergy, overall efficiency has been improved. For the year ended 31st December 2005, the Company and its subsidiaries' total turnover was HK\$1,510,676,000 (2004: HK\$1,688,374,000), representing a decrease of 11% compared to the previous year. Profit attributable to equity holders recorded HK\$496,463,000 (2004: HK\$219,158,000), up 126%. Basic earnings per share was HK\$0.3504 (2004: HK\$0.1554), up 125%.

The Board, after discussion, has recommended a final dividend of HK\$0.021 (2004: HK\$0.025) and a special dividend of HK\$0.014 (2004: Nil) per share for the year ended 31st December 2005. Together with the interim dividend of HK\$0.01 per share, total dividend for the year was HK\$0.045 per share, involving a total amount of HK\$63,820,000.

### **Capitalizing on the Internal Network and Strengthening Core Businesses**

Whilst in pursuit of the strategy to build ship trading and supplying services as the growth platform, the Company capitalizes on the networking advantages within the COSCO Group. Capturing the uniqueness of various ship trading and supplying services, the Company has redeployed the resources of various businesses to achieve organic growth and synergy. In 2005, building on its existing ship trading and supplying services, the Company further acquired and established a number of joint venture companies. Amongst these was the acquisition of a company engaging in the marine equipment, communications and navigation equipment and spare parts supplying business which is highly profitable and provides the Group with a driver for profit growth. We have restructured our coating business by establishing a joint venture company with an internationally renowned coating manufacturer to expand the China coating market and have also planned to set up a coating manufacturing plant in Zhuhai Harbour Industrial Zone to broaden our clientele in Southern China. In addition, we have established an insurance brokerage on the China Mainland to develop the marine insurance brokerage business in China. For the year under review, ship trading and supplying services accounted for 89% (2004: 57%) of the Company and its subsidiaries' total turnover, up 32 percentage point. This clearly indicates the significance of ship trading and supplying services as the Company's core portfolio and that the business is enjoying a healthy development.

### **Watching Over the Macro Climate and Planning for the Long Term**

The world economy in 2005 continued on a growing trend and overall economic growth was maintained at 3.2% (2004: 4.0%). China's economy grew at 9.9% (2004: 10.1%) and the United States 3.5% (2004: 4.2%). During the year, despite the soaring oil prices and interest rates hikes by the US Federal Reserve Board, the Asia Pacific region continued to be leading in terms of economic growth. China's overall economic growth continued to be impressive. The imports and exports in China remained strong with a value of more than US\$1,420 billion (2004: US\$1,150 billion), up more than 23% compared to 2004 and ranking third internationally. China's export value reached US\$760 billion, representing an increase of 28% and imports were valued at US\$660 billion, a growth of 17%.

We believe that the sustained growth in imports and exports is crucial to the flourishing development of China's maritime transportation industry. Demands for shipment of dry bulks, iron ores and coals continue to increase and exhibit a huge potential for future growth. Furthermore, annual ship building production in China has grown from less than 4 million tonnes in 2000 to over 10 million tonnes in 2005, accounted for approximately 18% of the total world production and ranked the third in the world. All these factors contributed to the promising development of the ship trading and supplying services business.

## Prospect

Looking ahead, it is anticipated that the world economic growth will remain steady and the momentum in international trade will sustain. Fuelled by a strong domestic demand, the average growth forecast for the China's economic growth in 2006 will maintain higher than 8.5%. In view of the agreement on textile quotas with European Economic Community, China's imports and exports will continue to grow steadily, which will in turn drive the growth in the maritime transportation market.

The Company's ultimate holding company, COSCO, the world's second largest maritime transportation group, will continue to focus on improving efficiency and strive to become "Two-hundred COSCO", a system integrator in shipping and logistics. COSCO will lend its full support to the Company in strengthening its position in ship trading and supplying services. Meanwhile, the Company will leverage COSCO's resources and internal network and endeavour to understand the many needs of the ship trading and supplying services business in the shipping industry. We shall actively expand our clientele and provide customized services. We shall also strengthen the management, consolidate and enhance the operations and processes of our various businesses to improve our competitiveness. At the same time, we shall prudently manage our non core businesses, strengthen internal audits and minimize possible risks. Adopting a long term view, we shall strive to be a global, competitive and unique supplier in the ship trading and supplying services, bring the best values to the Company and maximum returns to shareholders.

Lastly, on behalf of the Board, I would like to take this opportunity to thank all our clients, partners, banks, suppliers, consultants and shareholders for their support and trust given to the Company. Our sincere gratitude also goes to all management and staff for their dedication and contributions.

**WEI Jiafu**  
Chairman

Hong Kong, 30th March 2006

*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>).*

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