ANNUAL REPORT

2005

ACHIEVING **PROFITS**
AND **EXCELLENCE**
WITH **INNOVATION**

International

COSCO International Holdings Limited

Stock Code: 0517

In the past year, COSCO International continued to expand its core business, building on a healthy and well developed platform founded on a team spirit of unity, perseverance, flexibility and innovation. Leveraging COSCO's brand and system advantages and in pursuit of innovative management, efficient operation and quality services, we have enhanced our core competencies and leveraged our existing resources and networks in ship trading and supplying services businesses to create synergies. We always focus on long term outcomes and closely monitor market changes to drive the sustained development of the Company. Our aim is to become a competitive, professional and unique global ship trading and supplying services provider, with the ultimate goals to provide the best services for our customers and maximize the returns to our shareholders.

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ANNUAL RESULTS HIGHLIGHTS

For the year ended 31st December	2005 (HK$'000)	2004 (HK$'000)	Change (%)
Turnover	**1,510,676**	1,688,374	-11%
Gross profit	**386,977**	417,462	-7%
EBITDA	**242,118**	274,176	-12%
Operating profit	**506,677**	316,041	+60%
Profit before income tax	**551,041**	313,319	+76%
Profit attributable to equity holders	**496,463**	219,158	+126%
Basic earnings per share	**HK$0.3504**	HK$0.1554	+125%
Dividends per share	**HK$0.045**	HK$0.025	+80%

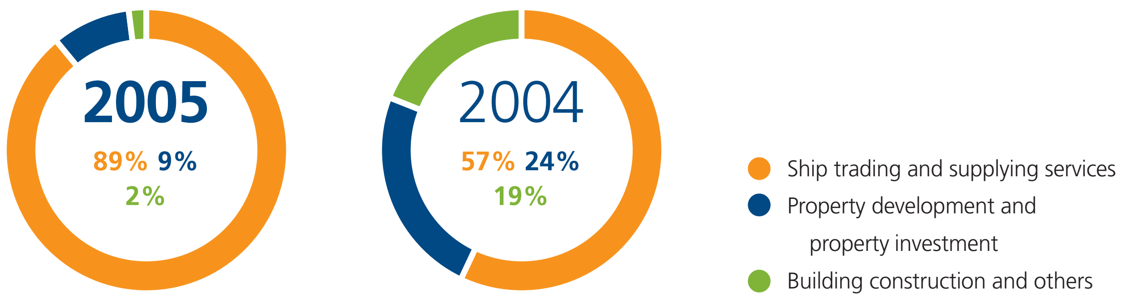
KEY FINANCIAL RATIOS

For the year ended 31st December	2005	2004
Gross profit margin	**26%**	25%
Interest coverage	**9.4 times**	14.3 times
Current ratio	**2.6 times**	1.8 times
Total liabilities / total assets	**34%**	56%
Total borrowings / total assets	**4%**	32%

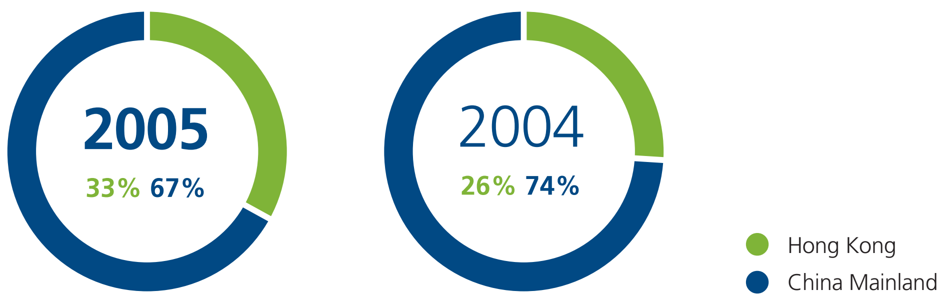
TURNOVER BY SEGMENTS

For the year ended 31st December	2005 (HK$'000)	2004 (HK$'000)	Change (%)
Ship trading and supplying services	**1,344,964**	967,579	+39%
Sales of coating products	**902,621**	893,742	+1%
Ship trading and insurance brokerage commission income	**92,320**	73,837	+25%
Sales of spare parts and navigation equipment	**350,023**	N.A.	N.A.
Property development and property investment	**141,613**	407,531	-65%
Building construction	**21,491**	306,814	-93%
Other operations	**2,608**	6,450	-60%
Total	**1,510,676**	**1,688,374**	**-11%**

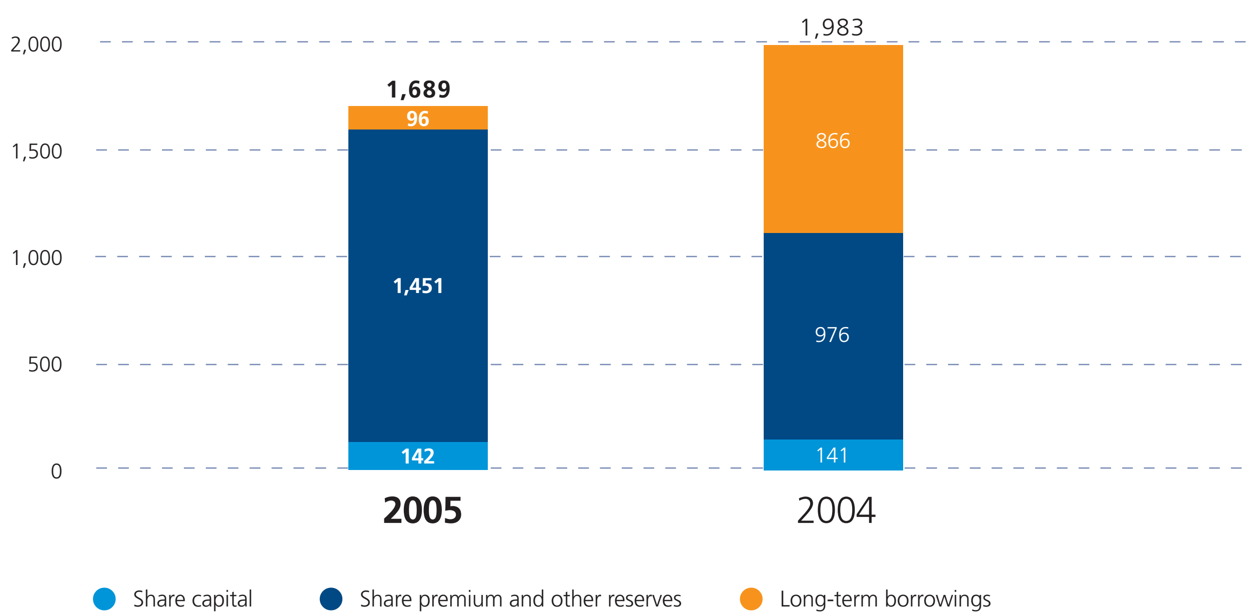
TURNOVER BY SEGMENTS



TURNOVER BY GEOGRAPHICAL SEGMENTS



SHAREHOLDERS' FUNDS AND LONG-TERM BORROWINGS (HK$ million)



Highlights of the Year 2005

28th February

1st Audit Committee Meeting was held to consider and approve the 2004 audited annual financial statements.

3rd March

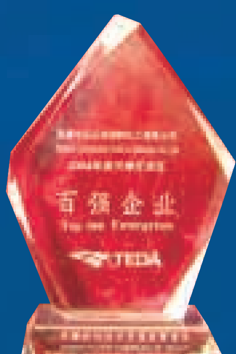
1st Board Meeting and a press conference for the 2004 annual results announcement were held.

4th April

A guarantee was entered into regarding a loan facility of up to RMB150,000,000 for a two-year term granted to Shenyang COSCO Yihe Property Development Co., Ltd

23rd April

Tianjin COSCO Kansai & Chemicals Co., Ltd was awarded the prize of the "One of the Hundred Leading Enterprises in Tianjin Economic Technology Development Zone".



5th May

2005 Annual General Meeting and a special general meeting were held. Resolutions regarding the 2004 audited annual financial statements, declaration of final dividend, re-election of the directors and re-appointment of auditors as well as the amendment of the Share Option Scheme and refreshment of the Share Option Scheme Limit were approved.

10th May

Yuantong Marine Service Co. Limited became a wholly-owned subsidiary of COSCO International.

30th May

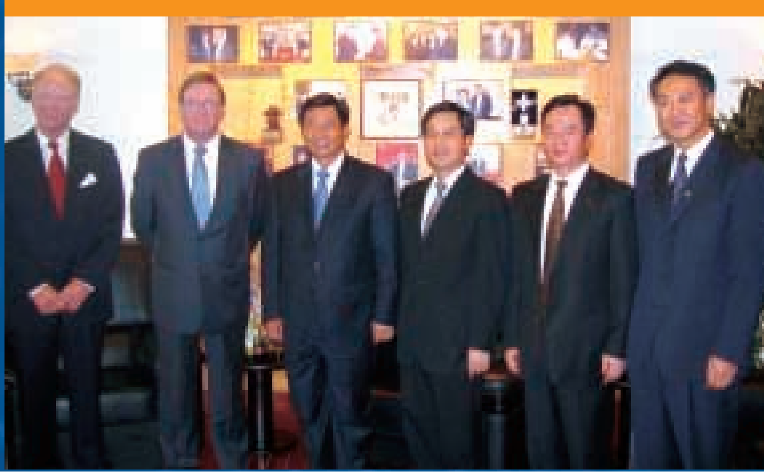
COSCO International entered into a sale and purchase agreement to dispose of the eight floors of COSCO Tower at a total consideration of HK$1,402,000,000 and the transaction was completed on 3rd August 2005.

30th June

COSCO International sold the properties of a shopping arcade and 9 coach parking spaces located in Broadview Court, Shum Wan.

12th July

A shareholders' agreement signing ceremony was held for the establishment of a new joint venture to develop marine coatings in China between the Company and Jotun A/S.



Highlights of the Year 2005

5th August

The risk management policies of the Company were approved at the 2nd Board Meeting.

1st September

Jotun COSCO Marine Coatings (HK) Limited became a jointly controlled entity of the Company.

13th September

2nd Audit Committee Meeting was held to consider and approve the 2005 unaudited interim financial statements.

22nd September

3rd Board Meeting and a press conference for the 2005 interim results announcement were held.

18th November

Jotun COSCO Marine Coatings (HK) Limited entered into a marine coatings contract for a new VLCC of 300,000 dead weight tonnages with Nantong COSCO KHI Ship Engineering Co., Ltd, kicking off COSCO International's strategic expansion of marine coatings business within COSCO Group.

28th November

COSCO International formed a sino-foreign joint venture in Shenzhen to develop the marine insurance market in the China Mainland.

28th November

COSCO International and Kansai Paint Co., Ltd. entered into a project agreement with the Zhuhai Harbour Industrial Zone Commission to invest in a coating manufacturing plant project in Zhuhai.

8th December

A special general meeting was held to approve the resolutions in respect of the revised caps of the continuing connected transactions of Yuantong Marine Service Co. Limited and COSCO International Ship Trading Company Limited.

Company Information

DIRECTORS

Executive Directors

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
Mr. Wang Xiaodong

Independent Non-executive Directors

Mr. Chan Cheong Foon, Andrew
Mr. Kwong Che Keung, Gordon
Mr. Tsui Yiu Wa, Alec

COMPANY SECRETARY

Ms. Chiu Shui Suet

QUALIFIED ACCOUNTANT

Mr. Lo Siu Leung, Tony

AUDIT COMMITTEE

Mr. Chan Cheong Foon, Andrew *(Chairman)*
Mr. Kwong Che Keung, Gordon
Mr. Tsui Yiu Wa, Alec

EXECUTIVE COMMITTEE

Mr. Liu Hanbo *(Chairman)*
Mr. Lin Libing
Mr. Wang Xiaodong

INVESTMENT COMMITTEE

Mr. Wang Xiaoming *(Chairman)*
Mr. Liu Hanbo
Mr. Chen Pisen
Mr. Lin Libing

NOMINATION COMMITTEE

Mr. Tsui Yiu Wa, Alec *(Chairman)*
Mr. Chan Cheong Foon, Andrew
Mr. Kwong Che Keung, Gordon
Mr. Lin Libing

REMUNERATION COMMITTEE

Mr. Kwong Che Keung, Gordon *(Chairman)*
Mr. Chan Cheong Foon, Andrew
Mr. Tsui Yiu Wa, Alec
Mr. Liu Hanbo

RISK MANAGEMENT COMMITTEE

Mr. Liu Guoyuan *(Chairman)*
Mr. Zhou Liancheng
Mr. Liu Hanbo
Mr. Wang Xiaoming

AUDITORS

PricewaterhouseCoopers

SOLICITORS

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Wing Hang Bank, Limited

PRINCIPAL REGISTRAR

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HONG KONG BRANCH REGISTRAR

Abacus Share Registrars Limited
26th Floor Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Ordinary shares (Stock Code: 0517)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

47th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

INVESTORS RELATIONS

For further information about the Company, please contact:
Corporate Communications Department
47th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

Telephone	: (852) 2809 7888
Facsimile	: (852) 2548 8214
Website	: www.coscointl.com
E–mail	: info@coscointl.com

FINANCIAL CALENDAR

2005 annual general meeting	5th May 2005
Announcement of interim results	22nd September 2005
Announcement of final results	30th March 2006
Book close date for final and special dividends	23rd to 25th May 2006
2006 annual general meeting	25th May 2006

DIVIDENDS

Interim dividend	HK$0.01 per share
Proposed final dividend	HK$0.021 per share
Proposed special dividend	HK$0.014 per share
Total dividends	HK$0.045 per share

Corporate Profile

COSCO International Holdings Limited ("COSCO International" or the "Company") and its subsidiaries' core business is ship trading & supplying services, other business operations include property development and property investment.

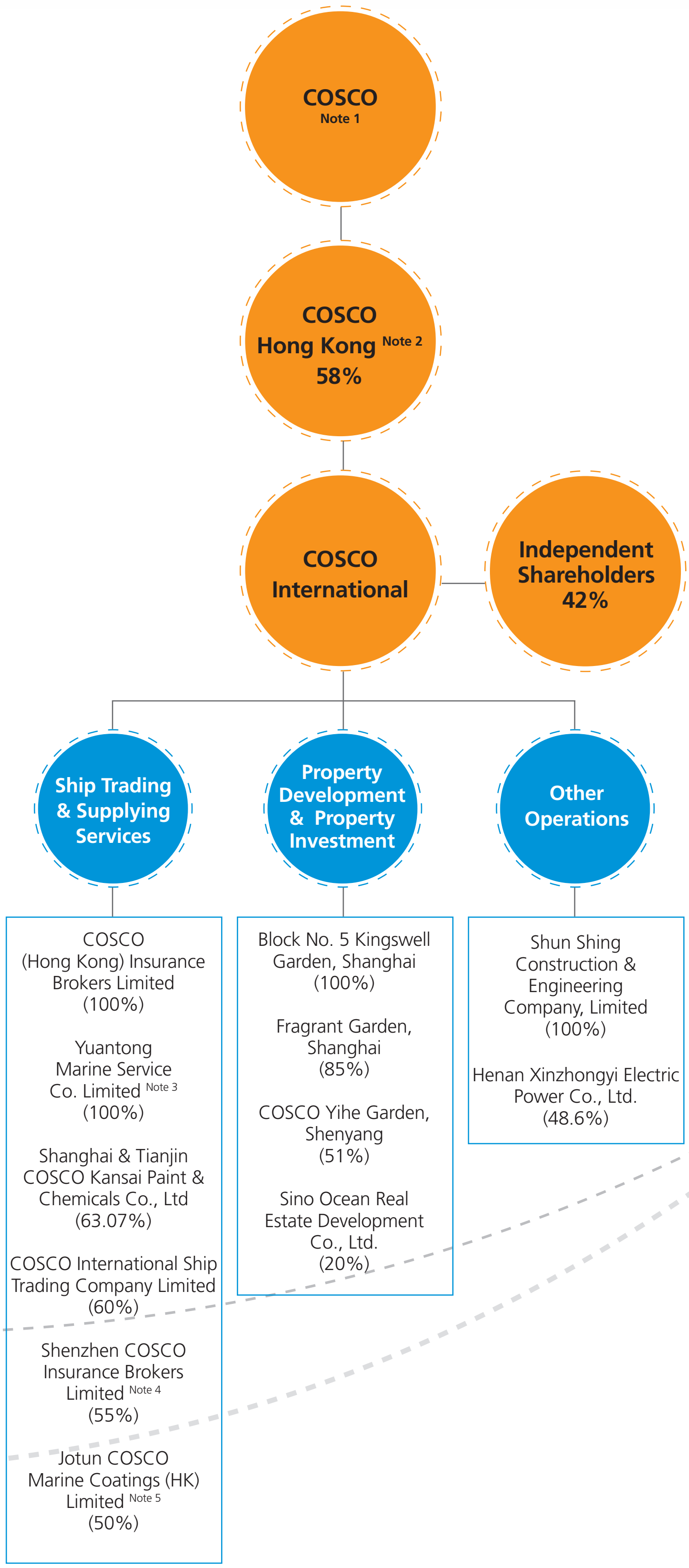
COSCO International has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since February 1992 (Stock Code: 0517). The Company became a subsidiary of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") in July 1997 and was renamed to its present name. COSCO Hong Kong is a wholly-owned subsidiary of China Ocean Shipping (Group) Company ("COSCO"). As of 31st December 2005, the total asset value of the Company was about HK$2.7 billion and the total number of shares in issue is more than 1.4 billion.

COSCO and its subsidiaries ("COSCO Group") is a multinational diversified service conglomerate, engages mainly in shipping and logistics businesses and provides quality shipping, logistics and other shipping related services for customers worldwide. In the past few years, with the support from COSCO, COSCO International began to position itself on ship trading and supplying services as its core business and made tremendous progress. In 2005, the Company reached a new height in the development of ship trading and supplying services and grounded a strong foundation for future development in the long run.

VISION & MISSION

COSCO International's vision is to provide quality and professional services for vessel fleets in China and worldwide, through the establishment of a comprehensive, safe, reliable and efficient ship trading and supplying services supply platform. Our aim is to become a competitive, professional and unique ship trading and supplying services provider worldwide. With the mission to maximize the shareholders' values, the Company endeavours to ensure the sustained development and maintain a leading position in the ship trading and supplying services industry by making innovation in corporate management, increasing the profitability and providing the best services for our customers.

Corporate Structure



Note 1 : COSCO is the ultimate holding company of COSCO International. It owns and operates a variety of merchant fleet of over 600 vessels with a total carrying capacity of up to 35 million dead weight tonnages, which help achieve an annual traffic volume of more than 300 million tons.

Note 2 : COSCO International is a non wholly-owned subsidiary of COSCO Hong Kong. COSCO Hong Kong manages the operations of few hundred companies in the Hong Kong SAR and Macau, as well as the Philippines. The businesses and investment projects span over the major cities of the China Mainland and Asia.

Note 3 : It became a wholly-owned subsidiary of COSCO International on 10th May 2005. It has offices in Beijing, Shanghai, Dalian and Shenzhen.

Note 4 : Shenzhen COSCO Insurance Brokers Limited was formed in December 2005.

Note 5 : It became a jointly controlled entity of COSCO International on 1st September 2005. The Company holds 50% equity interests.

Chairman's Statement

In 2005, COSCO International continued to enjoy steady and healthy development. Capitalising on the Company and its subsidiaries' internal network and organisational synergy, we managed to expand its core business. We also achieved remarkable results in improving capital structure and enhancing corporate governance. Looking

WEI Jiafu
Chairman

I am pleased to announce to our shareholders that the overall business performance of COSCO International 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 2004. 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 directors of board (the "Board"), after discussion, recommended a final dividend of HK$0.021 (2004: HK$0.025) per share 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.

forward, we will continue to strengthen the competitiveness of its core business. Whilst closely monitoring market changes and developments, we will adopt a long term view to strive to become a global professional and unique ship trading and supplying services provider with competitive advantages.

CAPITALISING ON THE INTERNAL NETWORK AND STRENGTHENING CORE BUSINESS

Whilst in pursuit of the strategy to expand ship trading and supplying services platform, the Company capitalises 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 business, the Company further acquired and established a number of joint venture companies. Amongst these include the acquisition of a company engaging in the sales of marine equipment, spare parts, communications and navigation equipment business which is highly profitable and provides the Company with a driver for profit growth. We have restructured its coating business by establishing a joint venture company with an internationally renowned coating manufacturer to expand the coating market in China 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 company to develop the marine insurance brokerage business in the China Mainland . For the year under review, turnover from ship trading and supplying services accounted for 89% (2004: 57%) of the Company and its subsidiaries' total turnover, up 32 percentage points. This clearly indicates the

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"Turnover from ship trading and supplying services accounted for 89% (2004: 57%) of the Company and its subsidiaries' total turnover, up 32 percentage points. This clearly indicates the significance of ship trading and supplying services as the Company's core portfolio."

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 was 3.5% (2004: 4.2%). During the year, despite the soaring oil prices and interest rates hikes announced 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. External trade 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 the 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 dead weight tonnages in 2000 to over 10 million dead weight tonnages 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.

PROSPECTS

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 shipping market.

“China’s imports and exports will continue to grow steadily, which will in turn drive the growth in the shipping market.”

The Company will continue to focus on improving efficiency and strengthening its position in ship trading and supplying services, under the strategic target of its ultimate holding company, COSCO, the world’s second largest shipping conglomerate, to achieve “Two-hundred COSCO” and to become a system integrator in shipping and logistics. Meanwhile, the Company will leverage the COSCO Group’s resources and internal network and endeavour to understand the various 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 become a global, competitive, professional and unique ship trading and supplying services provider, bringing the best values to the Company and the maximum returns to shareholders.

Lastly, on behalf of the Board, I would like to take this opportunity to thank all our customers, 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 in the past.

WEI Jiafu
Chairman

Hong Kong, 30th March 2006

Liu Guoyuan
Vice-chairman

MAINTAINING A STABLE AND HEALTHY BUSINESS PERFORMANCE

In 2005 under review, the overall performance of the Company and its subsidiaries remained steady and healthy. Income from core business increased, including commissions from ship trading and marine insurance brokerage, and income from sales of marine spare parts and communications and navigation equipment by the newly acquired Yuantong Marine Service Co. Limited ("Yuantong"). During the year, turnover from ship trading and supplying services segment achieved HK$1,344,964,000 (2004: HK$967,579,000), accounted for 89% of the Company and its subsidiaries' turnover (2004: 57%).

The Company and its subsidiaries' gross profit was HK$386,977,000 (2004: HK$417,462,000) during the year. Such change was mainly attributable to the reduced contribution from property development and property investment businesses as compared to 2004. On the other hand, gross profit contribution from ship trading and supplying services business continued to grow. Nevertheless,

the Company and its subsidiaries' overall gross profit margin remained stable.

For the year ended 31st December 2005, the Company and its subsidiaries' operating profit reached HK$506,677,000 (2004: HK$316,041,000), an increase of 60% compared to the previous year. The significant increase was due to the HK$303,765,000 gain arising from revaluation of the eight floors of COSCO Tower according to the new Hong Kong Financial Reporting Standards. The Company and its subsidiaries' operating profit before such gain was HK$202,912,000 (2004: HK$160,075,000), increased by 27% compared to 2004.

As of 31st December 2005, the Company and its subsidiaries' consolidated total assets was HK$2,711,687,000; total liabilities was HK$924,650,000 and total equity was HK$1,787,037,000. The balance of cash and cash equivalents amounted to HK$1,274,085,000, which reflects the strong financial position of COSCO International and provides for a solid foundation for the long term development of the Company.

"The balance of cash and cash equivalents amounted to HK$1,274,085,000, which reflects the strong financial position of COSCO International and provides a solid foundation for the long term development of the Company."

"By capitalising on the Company's unique advantages and resources, we actively create synergy and expand our clientele to create higher values in the supply chain of our core business and hence enhance our profits."

RESTRUCTURING BUSINESS STRUCTURE TO EXPAND CORE BUSINESS

The Company is committed to its management philosophy which is focused on profitability. With the support of COSCO and COSCO Hong Kong, we managed to closely monitor market opportunities to consolidate our existing businesses and strengthen the assets and at the same time continued to expand our core business and create higher operational efficiencies. In 2005 under review, the Company further restructured the distribution of its assets by consolidating and strategically positioning its various ship trading and supplying services businesses. Significant results were achieved through the strategy to place different coatings specialties by division of companies. Subsequent to the acquisition of the 49% equity interest in the Guangzhou Jotun Ocean Paints Company Limited ("JOP"), the Company, together with the internationally renowned Norwegian coating manufacturer Jotun A/S, formed a 50/50 joint venture, Jotun COSCO Marine Coatings (HK) Limited ("Jotun COSCO"). Now, Jotun COSCO is responsible for the production and sales of marine coatings in China. I believe that by leveraging COSCO's abundant resources, the enormous market potential and the advanced technology of our strong business partner, the Company is now well positioned to become the top marine coating manufacturer and supplier in China.

Furthermore, in view of the huge market demand for containers and vessels in China in the first half of 2005, the Company expanded its scale of production in coatings to improve operational efficiency and lower transportation costs. With the full support of the Zhuhai Municipal Government and our strategic partner, the Company signed a project agreement with Kansai Paint Co., Ltd. and the Commission of Zhuhai Harbour Industrial Zone on 28th November 2005 to establish a coating production plant in the Zhuhai Harbour Industrial Zone, a heavy chemical production base in Guangdong Province. In future, the Company's Shanghai & Tianjin COSCO Kansai Paint & Chemicals Co., Ltd (collectively known as "COSCO Kansai Companies") will focus on the production and sales of container coatings and industrial anti-corrosion coatings. This implemented the Company's strategy to have specialized coating units in northern, eastern and southern China and to establish a cross-regional coating production and sales platform.

CREATING VALUES THROUGH LEAN PROCESS AND ACHIEVING SUSTAINED DEVELOPMENT

The Company understands that, to improve operational efficiency and to accomplish the goal of value creation, a comprehensive and thorough management system must be in place to effectively manage all aspects of our operations and business processes. When establishing our ship trading and supplying services supply platform, we adhere strictly to our strategies of "initiating new businesses through agency services", "integrating through network system" and "increasing profits through joint venture products". By capitalising on the Company's unique advantages and resources, we actively create synergy and expand our clientele to create higher values in the supply chain of our core business and hence enhance our profits.

"the Company will actively pursue its goal to enhance profits and achieve excellence with innovation and to lay a solid foundation for sustained development through effective management, efficient operation and quality services."

On 28th November 2005, the Company signed a joint venture agreement with Shenzhen Ocean Shipping Co., Ltd to set up a joint venture company named Shenzhen COSCO Insurance Brokers Limited ("SZ COSCO Insurance Brokers"), in Shenzhen, which is mainly responsible for expanding our marine insurance brokerage business on the China Mainland. As a window company for the Company to set its foothold on the China Mainland, SZ COSCO Insurance Brokers further expands COSCO International's ship trading and supplying services supply platform and provides a stronger driving force for the Company to sustain its development.

PROSPECTS

According to the latest report released by the National Development and Reform Commission of China, it is anticipated that China's economic growth will maintain at a rate of over 8.5% in 2006, with a steady growth rate in foreign direct investments and external trade. It is projected that China's foreign trade growth will be maintained at a rate of about 15%, transiting from a high growth stage to a steady growth stage. In view of the stable economic growth worldwide, increase in ocean cargo volume will be maintained at about 3.6%, higher than the average over the past five years. It is anticipated that there will see a large number of vessels completed according to previously signed contracts in two to three years. We, therefore, believe that the demand for various ship trading and supplying services will be hugh in future.

Looking forward, the Company will actively pursue its goal to enhance profits and achieve excellence with innovation and to lay a solid foundation for sustained development through effective management, efficient operation and quality services. Apart from fully leveraging the Company's competitive advantages, we shall apply lean process and adopt a better and more streamlined management and production processes so as to create value edges in the value chain. We shall also maintain a close relationship with our business partners to create synergy. The Company will strive to restructure its businesses, improve its product structure and expand its clientele to strengthen our core competence. We shall spare no efforts in establishing a one-stop, standardized and professional ship trading and supplying services supply platform to provide our clients worldwide with a highly efficient quality service, aiming to create a more favourable environment for the sustained development of the Company and so become the world leader in ship trading and supplying services industry.

Liu Guoyuan
Vice-chairman

Hong Kong, 30th March 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 business 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 decline in the Company and its subsidiaries' turnover as compared to 2004.

Following the Company has positioned its strategic target in the ship trading and supplying services business, this business has made great progress. In 2005, revenue from ship trading and supplying services 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 which was acquired by the Company during the year. In addition, other ship trading and supplying services businesses which include marine insurance brokerage, sales of coating products and ship trading agency services remained stable in 2005.

Turnover of the Company and its subsidiaries 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 GROSS 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 gross profit margin of the Company and its subsidiaries 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 gain of HK$303,765,000 arising from revaluation of the eight floors of COSCO Tower previously owned by the Company's wholly-owned subsidiary prior to its disposal to 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 between 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 Co Ltd) which amounted to HK$59,227,000.

BUSINESS REVIEW

With the full support and assistance of COSCO and COSCO Hong Kong together with its sister companies, the Company continued to operate and develop the ship trading and supplying services as its core business. The Company has further expanded its core business 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 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 sustained development of the Company and its subsidiaries.

SHIP TRADING AND SUPPLYING SERVICES SUPPLY PLATFORM

Major customers

Ship trading and supplying services

Third parties (including suppliers and business partners)

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 provider 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's fleets 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 and supplying services supply platform, COSCO Ship Trading has during the year 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. Capitalising on its advantages in resources and networking, COSCO Ship Trading functions as a bridge for other ship trading and supplying services enterprises in the business chain, which include production and sales of coating products, marine equipment, spare parts, communications and navigation equipment supply as well as marine brokerage services businesses, with a view to exploring more new markets on top of its existing customer base and creating synergy among these enterprises.

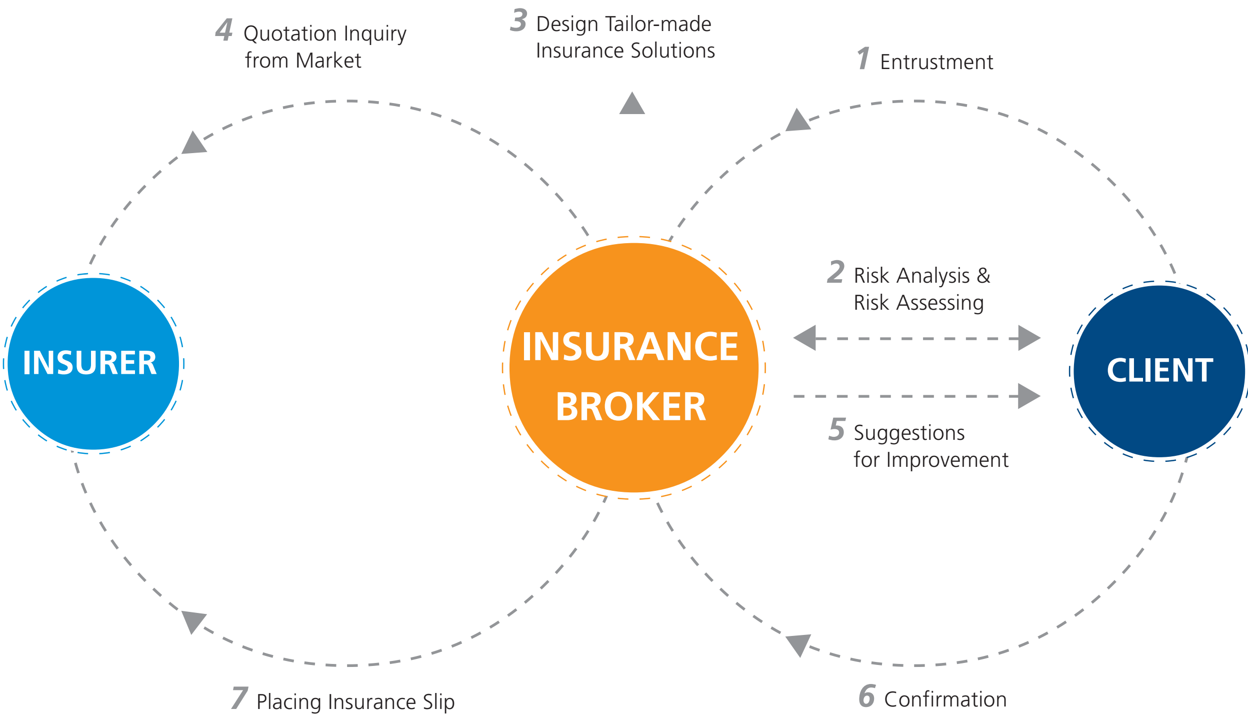
Marine Insurance Brokerage Service

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 ("HK COSCO Insurance Brokers"), 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. HK COSCO Insurance Brokers mainly operates intermediary businesses 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.

HK COSCO Insurance Brokers 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 capitalised on the growing chartering business arising from the optimistic shipping market outlook in the first half of the year and provided charterers' liabilities insurance brokerage service to over 130 vessels. In addition, after analysing the continuous unrest situation in the Middle East region and recurring terrorist attacks, HK COSCO Insurance Brokers developed business in war insurance against additional risks bringing in a favourable economic benefit to the Company. The annual commission income of HK COSCO Insurance Brokers was HK$38,155,000 (2004: HK$34,548,000), up 10% as compared to 2004. Leveraging on its Lloyds' broker accreditation, HK COSCO Insurance Brokers 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 to the China Mainland, HK COSCO Insurance Brokers entered into an agreement on 28th November 2005 with a wholly-owned subsidiary of the Company and Shenzhen Ocean Shipping Co., Limited, a non wholly-owned subsidiary of COSCO Hong Kong to set up a joint venture named SZ COSCO Insurance Brokers in Shenzhen. SZ COSCO Insurance Brokers will be responsible to develop marine insurance brokerage business in the China Mainland.

FLOW CHART OF INSURANCE BROKERAGE SERVICE



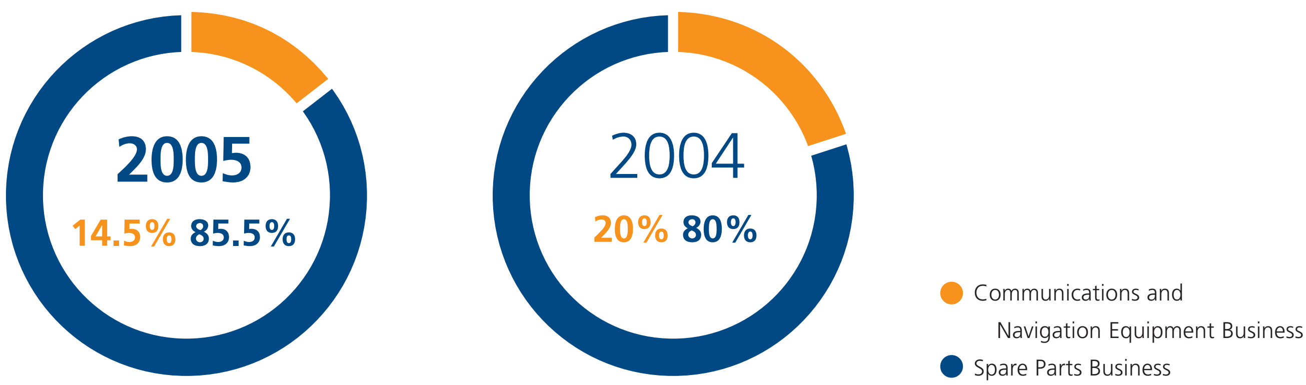
Sales of marine equipment, spare parts and communications and navigation equipment business

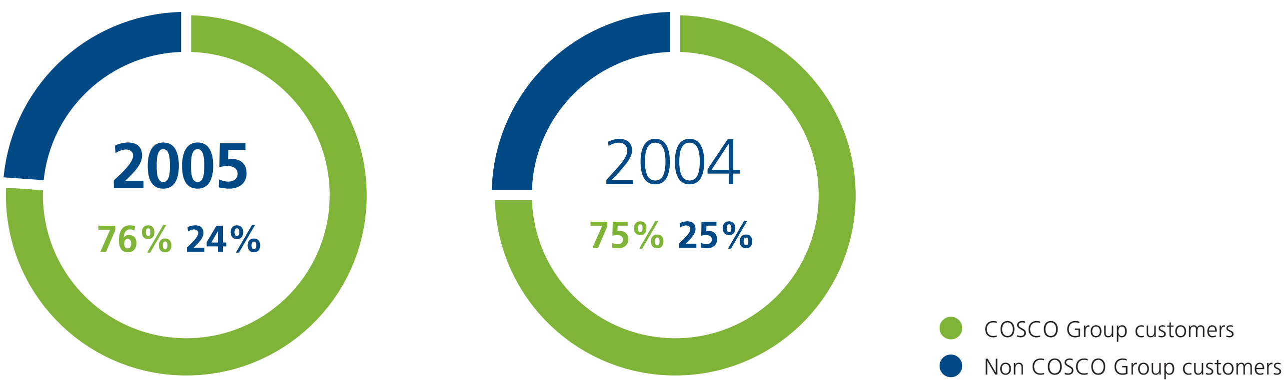
Following the increasing market demand and the positive prospects for marine communications and navigation equipment and spare parts, the Company through its wholly-owned subsidiary completed the acquisition of 100% equity interest in Yuantong in May 2005. Yuantong is principally engaged in the supply and installation of equipment and spare parts for existing vessels and new vessels, oil drilling projects at sea and communications 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 2004.

Yuantong has during the year actively explored 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 agreements for the provision of marine equipment to new vessels, which laid a solid foundation for long-term cooperation.

THE DISTRIBUTION OF YUANTONG'S SPARE PARTS AND COMMUNICATIONS AND NAVIGATION EQUIPMENT BUSINESS AND ITS CUSTOMERS

For the year ended 31st December





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, COSCO Kansai Companies, are responsible for the production and sales of container coatings and industrial anti-corrosion coatings, whilst Jotun COSCO, a jointly controlled entity of the Company, 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, which affected 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

Shanghai & Tianjin COSCO Kansai Paint & Chemicals Co., Ltd (63.07%)

Jotun COSCO Marine Coatings (HK) Limited (50%)

2005 Sales Volume (tonnes)	
Container Coatings	56,119
Marine Coatings	26,895
Industrial Anti-corrosion Coatings	4,777

of container coatings reached 56,119 tonnes (2004: 69,352 tonnes), a 19% decrease as compared to 2004, 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 Kansai Paint Co., Ltd. to set up a joint venture named Zhuhai COSCO Kansai Paint & Chemicals Co., Ltd ("Zhuhai COSCO Kansai"). Zhuhai COSCO Kansai 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 expanding the coatings supply platform of the Company.

SALES VOLUME OF COATING PRODUCTS

Sales Volume (tonnes) /Year	2005	2004	Change (%)
Container coatings	56,119	69,352	-19%
Marine coatings	26,895 Note 2	7,146 Note 1	N.A.
- COSCO Kansai Companies	6,680	7,146	-7%
- Jotun COSCO	20,215	N.A.	--
Industrial anti-corrosion coatings	4,777	3,275	+46%

Note 1: Include only marine coating sales of COSCO Kansai Companies

Note 2: Include marine coating sales of both COSCO Kansai Companies and Jotun COSCO

Marine Coatings

The Company's marine coating production and sales business comes under Jotun COSCO. Jotun COSCO is a jointly controlled entity between the Company and the internationally renowned Norwegian coating manufacturer Jotun A/S, each owns 50% equity interests. Jotun COSCO has a manufacturing plant in Guangzhou and sales offices in places such as Shanghai, Dalian, Chengdu and Hong Kong. Jotun COSCO 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 disposal 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 9 coach parking spaces in Broadview Court, Shum Wan, at the end of June 2005. As of the end of 2005, the aforesaid subsidiary held 195 car parking spaces in Broadview Court. To plan for further sales, the Company will continue to closely monitor market trend.

China Mainland

There was a relative slowdown of investment activities in the property market on the China Mainland during the year, however property prices was still on upward path. With the continued 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 the China Mainland.

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 parking spaces 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 Shenyang COSCO Yihe Property Development Co., Ltd ("Shenyang COSCO Yihe"), 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 construction of the whole project will be substantially completed at the end of 2006.

Building on Shenyang COSCO Yihe's experience in property development and quality customer services accumulated over the years, COSCO Yihe Garden has been gradually established its brand and reputation since its launch 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"）.

Sino Ocean Real Estate Development Co., Ltd

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 the China Mainland, 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. SORED 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 Operations

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. During the year, due to the increase in production costs arising from soaring coal prices, Henan XZY made no contribution to the Company. Going forward, Henan XZY will strive to control costs to achieve breakeven result.

FINANCIAL RESOURCES AND LIQUIDITY

As of 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 and other loans of HK$881,848,000 (2004: net drawdown of bank loan of HK$29,770,000 and a drawdown of loan from a minority shareholder of HK$23,618,000). As of 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 utilisation of banking facilities were primarily attributable to the disposal of eight floors 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 of 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 of 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 of 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.

The maturity and currency profiles of the outstanding borrowings as of 31st December, 2005 are analysed as follows:

Maturity Profiles:	2005 HK$000	2004 HK$000
Bank and other loans		
- Within one year	10,570	122,619
- In the second year	96,090	36,443
- In the third to fifth year	-	829,446
	106,660	988,508

Currency Profiles:	2005 HK$000	2004 HK$000
Renminbi	106,660	102,694
United States dollars	-	287,214
Hong Kong dollars	-	598,600
	106,660	988,508

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 of 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 the China Mainland which was almost completed. For the year ended 31st December 2005, employee costs including directors' emoluments and pension costs totalling 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 of the Company ("Directors") and employees of the Company and its subsidiaries were granted certain share options to subscribe for a total of 44,800,000 shares of the Company at a price of HK$0.57 per share. These share options are exercisable at any time from 23rd December 2003 to 22nd December 2008. On 2nd December 2004, the Directors and employees of the Company and its subsidiaries were granted certain share options to subscribe for a total of 32,650,000 shares of the Company at a price of HK$1.37 per share. These share options are exercisable at any time from 29th December 2004 to 28th December 2014. On 10th May 2005, certain employees of a subsidiary of the Company were granted certain share options to subscribe for a total of 2,400,000 shares of the Company at a price of HK$1.21 per share. These share options are exercisable at any time from 6th June 2005 to 5th June 2015.

Five-year Financial Summary

CONSOLIDATED RESULTS

Year ended 31st December

	2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000	2001 HK$'000
Turnover	**1,510,676**	1,688,374	939,680	583,508	1,844,845
Operating profit/(loss) after finance costs	**486,153**	300,431	(99,442)	(540,279)	(158,205)
Share of profits of associated companies	**-**	-	-	1,947	76
Share of profits/(losses) of jointly controlled entities	**64,888**	12,888	9,880	7,242	(2,169)
Profit/(loss) before income tax	**551,041**	313,319	(89,562)	(531,090)	(160,298)
Income tax expense	**(25,398)**	(50,403)	(18,525)	(14,311)	(7,353)
Profit/(loss) for the year	**525,643**	262,916	(108,087)	(545,401)	(167,651)
Minority interests	**(29,180)**	(43,758)	(8,619)	7,345	(447)
Profit/(loss) attributable to equity holders	**496,463**	219,158	(116,706)	(538,056)	(168,098)

CONSOLIDATED ASSETS AND LIABILITIES

As at 31st December

	2005 HK$'000	Restated 2004 HK$'000	2003 HK$'000	2002 HK$'000	2001 HK$'000
Intangible assets	**79,616**	62,321	37,624	39,658	-
Property, plant and equipment	**60,030**	204,147	1,007,969	1,101,740	1,376,753
Associated companies	**5,919**	8,365	2,784	2,784	837
Jointly controlled entities	**305,276**	210,454	206,900	262,744	212,727
Available-for-sale financial assets	**86,806**	-	-	-	-
Other investment in a joint venture	**-**	29,580	56,490	77,868	238,001
Investment securities	**-**	43,946	45,976	62,645	103,354
Other non-current assets	**44,156**	993,578	4,392	54,129	83,794
Current assets	**2,129,884**	1,435,391	996,933	910,986	1,403,368
Total assets	**2,711,687**	2,987,782	2,359,068	2,512,554	3,418,834
Current and other liabilities	**817,990**	693,060	706,837	508,985	793,150
Borrowings	**106,660**	988,508	677,900	951,281	1,036,626
Minority interests	**193,853**	188,895	87,259	48,003	46,701
Total liabilities and minority interests	**1,118,503**	1,870,463	1,471,996	1,508,269	1,876,477
Net assets	**1,593,184**	1,117,319	887,072	1,004,285	1,542,357

Note: The accounting policies were changed in 2005 and the figures prior to 2004 have not been restated to reflect these changes.

FINANCIAL STATISTICS

	2005	2004	2003	2002	2001
Total number of shares issued (million)	**1,418**	1,414	1,394	1,394	1,394
Share price (as at 31st December) (HK$)	**1.19**	1.38	0.84	0.47	0.58
Market capitalisation (as at 31st December) (HK$ million)	**1,687**	1,951	1,171	655	809
Basic earnings/(loss) per share (HK cents)	**35.04**	15.54	(8.37)	(38.59)	(12.10)
Price/earning ratio (as at 31st December) (times)	**3.40**	8.88	-	-	-
Dividend per share (HK cents)	**4.50**	2.50	-	-	-
Dividend payout ratio (by net profit) (%)	**12.8%**	16.1%	-	-	-
Dividend payout ratio (by net operating profit) (%)	**35.0%**	30.4%	-	-	-
Net asset value per share (HK$)	**1.12**	0.79	0.64	0.72	1.11
Return on total assets (%)	**17.4%**	8.2%	-4.8%	-18.1%	-4.4%
Return on shareholders' equity (%)	**36.6%**	21.9%	-12.3%	-42.3%	-10.4%
Net debt-to-shareholders' equity ratio (%)	**Net cash**	38.1%	42.4%	56.4%	58.1%
Current ratio (times)	**2.57**	1.76	1.41	1.79	1.77
Quick ratio (times)	**2.10**	1.20	1.16	1.33	1.31
Interest coverage (times)	**9.42**	14.28	3.14	2.30	1.69

Frequently Asked Questions

COMPANY POSITIONING AND DEVELOPMENT STRATEGY

1 : What is the strategic positioning of COSCO International? How is it different from that of the other listed companies under COSCO Group?

Answer : According to the positioning set for COSCO International by COSCO, COSCO International has been developing the ship trading and supplying services as its core business. In addition to serving COSCO's fleet, COSCO International has been also expanding its ship trading and supplying services supply platform to strengthen its position as a competitive, professional and unique ship trading and supplying services provider.

Other than COSCO International, COSCO also has two other listed companies in Hong Kong: China COSCO Holdings Company Limited and COSCO Pacific Limited. Whilst the businesses of all three companies are shipping related, there are fundamental differences amongst the three. The other two companies mainly engage in ocean going container liner services, container terminal and container leasing, whilst COSCO International focuses on providing ship trading and supplying services which include ship trading, marine insurance brokerage, sales of marine equipment, spare parts, communications and netvigation equipment, and coating businesses such as container coatings, marine coatings and industrial anti-corrosion coatings. The Company also invests in and operates other shipping related businesses. Capitalising on China's continual economic growth and increasing imports and exports volume, businesses relevant to shipping are all enjoying a promising development outlook.

2 : What is the strategy of COSCO International in future?

Answer : Looking forward to 2006, we will continue to closely monitor changes in the market and the macro environment. As a listed company, we shall continue to leverage the capital market to construct, enrich and expand our supply platform in ship trading and supplying services. We will continue to restructure our coating business through the redeployment of resources. With the goal of adopting specialisation in various coating products, our container coating businesses will be expanded to southern China. Furthermore, we will fully expand the industrial anti-corrosion coating business and strive to increase the usage of our marine coating products versus other brands by COSCO's vessel fleets. We will consider the expansion of our supplying network while capturing the opportunities raised by the increasingly accessible insurance market on the China Mainland to actively develop the marine insurance brokerage business.

FINANCIAL SITUATION

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

Answer : COSCO International is committed to providing maximum returns to our shareholders. The Board has decided to award shareholders with a portion of the proceeds derived from our profits. Our dividend policy is to distribute 20% to 40% of the net operating profits. The distribution of future dividends will depend on market changes and capital requirements for further development.

4 : How much are the long term and the short term debts of the Company respectively? What is the current state of the balance sheet?

Answer : As of 31st December 2005, the Company and its subsidiaries, loans with a repayment period of over one year totalling HK$96,090,000. The current portion of the repayable loans is approximately HK$10,570,000. The ratio of total liabilities over total assets dropped significantly from 56% at the end of 2004 to 34% in 2005, mainly attributable to the positive results from various capital restructuring exercises.

5 : How much is COSCO International's cash and cash equivalents ? Does it have sufficient working capital? Is there any need to raise funds in the short term?

Answer : As of 31st December 2005, the Company's cash in hand amounted to HK$1,274,085,000. Current assets were 2.6 times over current liabilities and thus, the Company have sufficient working capital. Future requirements for fund raising will be dependent upon the future investment plans.

SHIP TRADING AND SUPPLYING BUSINESSES

6 : Amongst ship trading and supplying services, what is the income proportion from non COSCO Group customers? Will there be any changes in such proportion in future?

Answer : During the year, income from COSCO Group customers in the ship trading and supplying services business accounts for about 27% of the total turnover of the Company and its subsidiaries (2004: 9%), of which a larger proportion was derived from ship trading, marine equipment and spare parts, and marine insurance brokerage businesses. The coating business, which has comparatively more non COSCO Group customers, represented a large share of the total revenue and as a result, contributed to a higher proportion of income from non COSCO Group customers. The Company expects a reasonable adjustment in this proportion whilst expanding our businesses and consolidating our clientele to further strengthen the Company's market share within COSCO Group.

7 : The various businesses in ship trading and supplying services are quite different. How can COSCO International achieve synergies and how can it identify business opportunities among these businesses?

Answer : The scope of our core ship trading and supplying services include: ship trading, marine insurance brokerage, marine equipment and spare parts, communications and navigation equipment, coating production and sales. The target customers are all vessels. The Company hopes to build a common platform for synergies through leveraging the strengths of various businesses, effectively consolidating various resources and developing a common customer network.

8 : What is the impact of the cycle of the shipping industry on the Company as a whole?

Answer : The change in shipping industry cycle mostly results in the change in shipping freight costs. As the Company is mainly engaged in the provision of various services for vessels, the change in freight costs has no direct relationship with the Company's businesses. This should not have a great impact on our overall performance.

9 : Does the ship trading and supplying services industry have a high threshold for entry? Is competition in the industry fierce?

Answer : Having a large vessel fleet as a client source is important to an all round ship trading and supplying services provider in securing a good market share. COSCO Group has more than 600 various vessels with a total dead weight tonnage of 35 million. Therefore, to compete with COSCO International, a player in the industry should have equivalent market support. In regard to competition, any industry with development prospects will attract new entrants. At present, there remains significant development potential in the market for the Company and thus, there are many competitors. Nevertheless, the Company's core competence and competitiveness are unrivalled in the industry. Therefore, COSCO International believes its goal to become the leader in ship trading and supplying services industry is achievable.

10 : What is the relation between the total ship transaction tonnage and commission income?

Answer : Basically, the commission income in ship trading is calculated on the value of the vessel. It is not relevant to the ship transacted tonnage or freight costs.

11 : What is COSCO International's competitive edge in marine insurance brokerage?

Answer : COSCO Insurance is the only insurance agency in COSCO Group. As the company is registered in Hong Kong, at present it can only provide insurance consultancy services to vessels not flying PRC flags in COSCO fleets. The reason for setting up a joint venture company on the China Mainland in 2005 was to take advantage of an opening insurance market on the China Mainland to expand its insurance brokerage services to vessels flying PRC flags. In addition, to ensure the quality of service, HK COSCO Insurance Brokers will only refer the fleets to insurance companies with a credit rating of BBB or above.

12 : What is the outlook of the marine insurance industry on the China Mainland? How is competition?

Answer : Despite the fierce competition in the marine insurance industry on the China Mainland, the market promises considerable potential. Therefore, we see ample opportunities for the expansion of insurance brokerage services on the China Mainland.

13 : Does Yuantong provide only marine equipment or spare parts products? Does it also offer total solutions?

Answer : Yuantong sells products and also provides comprehensive solutions for spare part applications and equipment after sales, testing and commissioning, as well as repair services. It also supplies equipment and offers after sales services to new vessels.

14 : What are the reasons for the drop in the sales for container coatings in 2005? What is the outlook in 2006?

Answer : Starting from the end of 2004, there was an increasing demand for new containers because of the backlog of containers stored in Northern America and Europe, etc. arising from port congestion in these areas. Due to market anticipation that the same situation would recur at an earlier time in 2005, and that prices of steel prices and container prices would further increase, container orders increased substantially in early 2005. This has led to a considerable increase in container coating sales in the first half of 2005. However, as a result of a shorter container recovery time beyond expectation due to relieved port congestion as well as decreasing steel prices since the second quarter of 2005, the prices of and demand for containers dropped significantly in the second half of 2005. Accordingly, the sales of container coatings was directly affected.

It is anticipated that more container vessels will be launched in 2006. This will boost the demand for containers and thus, we expect a higher demand for container coatings in 2006 than in 2005.

15 : Will the soaring oil prices have an impact on the production cost for coatings? What will COSCO International do to counteract this? Does the Company have cost control measures in place?

Answer : About 80% of the raw material for the production of coatings comes from crude oil. Therefore, the surge in oil prices has an impact on the cost of production. The price of crude oil in 2005 was 45% higher than that in the end of 2004. However, the Company's raw material costs in 2005 have risen by only 23.6% compared to 2004. This was the result of a series of cost control measures, such as broadening our procurement channels to lower the raw material costs and researching and developing new raw material substitutes. Looking forward, we will adjust our prices according to the market situation to improve the overall gross profit margin.

16 : What is the relationship of the demand of container and marine coatings to the shipping market cycle?

Answer : In general, there is a time lag of about a year for the demand of container and marine coatings to react to any changes in the shipping market.

17 : What are the production capacities of various coating plants?

Answer :

Coating Companies (Equity Percentage)	Annual Production Capacity
Shanghai & Tianjin COSCO Kansai Paint and Chemicals Co., Ltd (63.07%)	63,000 tonnes
Jotun COSCO Marine Coatings (HK) Limited (50%)	14,300 tonnes

OTHER OPERATIONS

18 : There is little synergy between the Company's property businesses and its core business. What are COSCO International's plans for the property businesses going forward?

Answer : COSCO International now has a strong and growing ship trading and supplying services business and we will approach the property businesses only from an investment perspective. At present, the Company is scaling down its investments in properties, leaving only a development property project in Shengyang, Liaoning Province, China, a few retail properties in Shanghai and 20% equity interest in the jointly controlled entity SORED as a long term investment. The future of the Company's property portfolio will hinge on the progress of its investment projects and market changes. The Company shall consider all viable options before making a decision.

19 : Does COSCO International has any plan to handle other operations?

Answer : COSCO International has successfully transformed itself into a listed company with its core business in ship trading and supplying services. The Company has significantly scaled down other non core businesses. With regard to the future of these non core businesses, the Company is considering various options according to the principle of protecting the shareholders' interests. The Company shall take into consideration of market changes and deal with these businesses, when appropriate, so as to ensure minimal impact on the Company's operations.

Corporate Culture

CORPORATE Value – A CORNERSTONE OF SUCCESS

Committed to its goals to maximize corporate efficiency and shareholders' returns, the Company has been actively pursuing COSCO Hong Kong's "twenty-five words management mottos", i.e. maximizing profits, adopting market-oriented strategy, providing quality services, building on good management and maintaining a strong management team. The Company, at the same time, promotes people-oriented corporate core values, and encourages team work among staff. The Company advocates a range of good attributes such as loyalty, accountability, diligence, innovation and persistence which form the cornerstone for its long term development.

TALENTS FOR DEVELOPMENT TEAM FOR GROWTH

The Company believes that a cohensive, loyal, progressive and professional team is the key to success and to help the Company deliver the best customer services at a time of continual business expansion. While the Company actively recruits experts and talented staff, it also reviewed and implemented a training and development program to cultivate a high quality professional team in meeting the demand of the Company's continual business development. During the year under review, the Company not only organized seminar in regard to the new corporate governance regulations for listed companies, but also arranged various training programs for management staff to raise their professional standards .

To pursue the overall corporate development goals and to ensure an effective operation, the Company has re-organised its organization structure to improve efficiency during the year. As of 31st December 2005, the Company and its subsidiaries employed 533 staff, of which 122 were in Hong Kong and 411 were on the China Mainland. In addition, the Company initiated a long-term human resources plan and other related human resources strategies, such as setting key performance indicators for the senior management, making performance appraisals and offering share options. The Company implemented a performance management system linking the rewards of the management team and all staff with their work performance. Under this system, staff were encouraged to strive for the benefit of the Company.

UNIQUE CULTURE – REBATING TO THE COMMUNITY

The Company stresses on building a good corporate culture and advocates an atmosphere embracing collaboration, accountability and the pursuit of common goals. Through a range of corporate cultural and recreational activities, staff communication is enhanced and a team spirit is cultivated. The activities also improve the health and well being of staff and raise their productivity. In addition, the Company is committed to promoting a sense of belonging among staff and offering comprehensive communication channels to encourage its staff to make recommendations for the betterment of the Company. The Company aims to raise operational efficiency and economic benefit, as well as to further enhance competitiveness through tapping the collective wisdom from all staff.

As a member in the community, the Company fulfils its corporate citizenship by encouraging its staff to participate in the charitable activities and contribute to society. In early 2005, in response to the call of the Hong Kong Red Cross, the Company participated in COSCO Hong Kong's donation activities by urging all staff to donate to the victims suffered in the South Asian earthquake and tsunamis and support the relief operations of the Hong Kong Red Cross in the affected areas. In addition, the Company also donated funds to Lifeline Express, which is a mobile eye hospital providing free surgery for the needy cataract patients in remote regions on the China Mainland.

Apart from economic efficiency, the Company stresses environmental protection and operational safety by ensuring the production and operation of its various businesses adhering to the environmental regulations of their respective countries and municipal governments. The Company also implements various stringent production safety guidelines and requirements by putting in place preventive measures before festive days and conducting regular checks to ensure a safe and uninterrupted production. In 2005, there were no major incidents within the Company and its subsidiaries.

Profile of Directors and Senior Management

DIRECTORS

Mr. WEI Jiafu

aged 56, has been the Chairman of the Board of the Company since June 2000 and is responsible for formulating the overall strategy and policy of the Company and its subsidiaries. He is also the president of COSCO and the chairman of COSCO Hong Kong, the chairman, executive director and chief executive officer of China COSCO Holdings Company Limited, the chairman and non-executive director of COSCO Pacific Limited and COSCO Investment (Singapore) Limited and the chairman of COSCO Container Lines Company Limited. He was elected as a member of CPC Central Committee for Discipline Inspection since November 2002. As a former marine captain who had served for more than a decade on COSCO's ocean-going ships, he is richly experienced in international shipping business. Mr. Wei was awarded the professional qualification of senior engineer by the Ministry of Communications of the People's Republic of China ("the PRC"), and also received a number of distinguished awards, including "International Who's Who Professional" by the International Who's Who Historical Society, "Valuable Manager of the Year" by China's leading media, "Economic Booster Award" by the Massachusetts Alliance for Economic Development, "Port Pilot Award" by the Port Authority of Long Beach, Honour of Commander in the Order of Leopold II by the King of Belgium, "2005 CCTV Person of the Year of China's Economy" by CCTV, "Innovation Talents of the Year 2006" by the Education Science and Culture Commission of Chinese People's Political Consultative Conference, "Leader in the Global Shipping and Logistics Industry" by The Journal of Commerce and "The Perspective IT Master of the Year" by the National Informatization Evaluation Centre, etc. He is also the chairman of China Shipowners' Association, chairman of China Federation of Industrial Economics, chairman of China Shipowners Mutual Assurance Association, member of International Advisory Council of PSA Corporation, director of the Board of Bo'ao Forum for Asia, advisor of Harvard Business School, advisor of Panama Canal Authority, committee member of International Committee of American Bureau of Shipping, chairman of China Group Companies Promotion Association and the vice-chairman of China Merchants Bank. He obtained his Master's degree in Shipping Management and Engineering from Dalian Maritime University, the PRC and Doctorate degree from Tianjin University. Before he was appointed as the president of COSCO, Mr. Wei had been the president of COSCO Investment (Singapore) Limited and general manager of Chinese-Tanzania Joint Shipping Company, Tianjin Ocean Shipping Company and COSCO Bulk Carrier Company Limited.

Mr. LIU Guoyuan

aged 54, has been the Executive Director and Vice-chairman of the Board of the Company since November 2000. He is also the chairman of Risk Management Committee of the Board. Mr. Liu is also the executive vice-chairman and president of COSCO Hong Kong, the non-executive director of China COSCO Holdings Limited; the chairman of COSCO (HK) Shipping Company Limited, COSCO (Hong Kong) Industry & Trade Holdings Limited, COSCO (HK) Property Development Limited, COSCO Network Limited and COSCO H.K. (Beijing) Investment Co., Limited. He joined the COSCO Group in 1975 after graduated from Beijing Foreign Studies University and obtained Master's degree (LL. M) from the law school of the University of Washington, United States in 1982. Since 1984, Mr. Liu had been the department head of the Law and Policy Research Department, head of the Executive Division, manager of the Planning and Project Division in COSCO. In 1990, Mr. Liu was awarded the qualification of senior economist by the Ministry of Communications of the PRC. In 1991, he was promoted as the senior commercial director of COSCO. Afterwards, Mr. Liu had been the deputy general manager of Tianjin Ocean Shipping Company and vice-chairman and president of COSCO Europe GmbH. Mr. Liu has extensive experience in corporate management, shipping operation management and investment management. Currently, he is also a council member of the Hong Kong Port Development Council, the Hong Kong Maritime Industry Council and the Hong Kong Logistics Development Council, the vice-chairmen of The Hong Kong Chinese Enterprises Association and Hong Kong Shipowners' Association, as well as a council member of The Hong Kong Management Association and the General Committee of the Hong Kong General Chamber of Commerce.

Mr. LI Jianhong

aged 49, has been the Executive Director of the Board of the Company since March 2002. He is also the vice-president of COSCO, a non-executive director of China COSCO Holdings Company Limited, an executive director of COSCO Pacific Limited and the chairman of China International Marine Containers (Group) Limited. Mr. Li has Master's degrees in business administration from University of East London, United Kingdom and in economics and management from Jilin University, the PRC and senior economist qualification awarded by the Ministry of Communications of the PRC. He had been general manager of Nantong COSCO Shipyard, assistant to the president and senior commercial director of COSCO, general managers of COSCO Industry Company and Sino Ocean Real Estate Development Co., Ltd. He has over 20 years of experience in corporate management and over 10 years of experience in shipping management and extensive experience in capital markets and asset management.

Mr. ZHOU Liancheng

aged 57, has been the Executive Director of the Board of the Company since September 2000 and committee member of Risk Management Committee of the Board. He is also a director and vice-president of COSCO Hong Kong. Mr. Zhou graduated from Dalian Maritime University, the PRC. He had been the general manager of Nanjing China Ocean Shipping Agency and the deputy general managers of COSCO Asia Development Limited and COSCO (Hong Kong) Industry & Trade Holdings Limited. Mr. Zhou has extensive experience in corporate management.

Mr. LIU Hanbo

aged 46, has been the Executive Director and the Managing Director of the Board of the Company since January 2002 and the chairman of the Executive Committee and committee members of the Investment Committee, Remuneration Committee and Risk Management Committee of the Board. Mr. Liu is also the vice-president of COSCO Hong Kong and non-executive director and non-executive vice-chairman of Soundwill Holdings Limited. Mr. Liu has a Master's degree in communication and transportation management and planning from Dalian Maritime University, the PRC, senior engineer qualification and senior economist qualification awarded by the Ministry of Communications of the PRC. He had been the general manager of COSCO Dalian Enterprises Development Company, general manager of the Development Division and head of Asset Operating Centre of COSCO and the general manager of COSCO (Hong Kong) Industry & Trade Holdings Limited. Mr. Liu has extensive experience in corporate management and capital market operations.

Mr. JIA Lianjun

aged 45, has been the Executive Director of the Board of the Company since January 2006. He is also the deputy general manager of Strategic Planning Division (General Counsel Office) of COSCO, directors of COSCO Hong Kong and Chinese-Tanzania Joint Shipping Company. Mr. Jia graduated from Dalian Maritime University, the PRC, in marine engineering management and has senior engineer qualification awarded by the Ministry of Communications of the PRC. He had been the department officer, deputy department head, department head and manager of Corporate Management Office of Corporate Management Department of COSCO. He has extensive experience in corporate management.

Mr. WANG Xiaoming

aged 50, has been the Executive Director of the Board of the Company since January 2006. He is also the chairman of the Investment Committee and a committee member of the Risk Management Committee of the Board. Mr. Wang is also the director of COSCO Hong Kong and deputy financial controller. Mr. Wang graduated from Shanghai Maritime University, the PRC, major in accounting and has senior accountant qualification awarded by Ministry of Communications of the PRC. Mr. Wang had been the deputy manager of the Audit Department of COSCO, finance manager of COSCO Bulk Carrier Co. Limited, deputy general manager of Finance Division of COSCO and general manager of COSCO Finance Co. Limited. He has extensive experience in corporate financial management.

Mr. CHEN Pisen

aged 38, has been the Executive Director of the Board of the Company since June 2002. He is also a committee member of Investment Committee of the Board. Mr. Chen is also the deputy general manager of COSCO H.K. (Beijing) Investment Co., Limited. He graduated from Dalian Maritime University, the PRC and has a Master's degree in business administration from the University of South Australia. Mr. Chen had been the deputy general manager of Executive Division of COSCO and general manager of the Strategic Planning Division of COSCO Hong Kong. He has extensive experience in corporate management.

Mr. MENG Qinghui

aged 50, has been the Executive Director of the Board of the Company since March 2002. He is also the general manager of Finance Division of COSCO Hong Kong and the non-executive director of Soundwill Holdings Limited. Mr. Meng graduated from Central South University and has PRC accountant qualification. He has extensive experience in corporate financial management and accounting and is also familiar with corporate financial planning.

Mr. LIN Libing

aged 43, has been the Executive Director of the Board of the Company since February 2004. He also serves as the Deputy Managing Director of the Company and committee members of Executive Committee, Investment Committee and Nomination Committee of the Board. Mr. Lin is in charge of the financial management, company secretarial, legal as well as investor relations of the Company. He has PRC accountant qualification. Mr. Lin had been the general manager of Finance Division of COSCO (Hong Kong) Shipping Co., Limited and the general manager of Finance Division of COSCO. Mr. Lin has extensive experience in the international and the PRC market operations.

Mr. WANG Xiaodong

aged 47, has been the Executive Director of the Board of the Company since January 2006. He serves as the Deputy Managing Director of the Company and a committee member of the Executive Committee of the Board. Mr. Wang is in charge of the management of the subsidiaries and projects investment of the Company. He holds a Bachelor's degree in marine mechanical management from Dalian Maritime University, the PRC and a Master's degree in business administration from China Europe International Business School and a senior engineer qualification awarded by the Ministry of Communications of the PRC. He had been the general manager of China Marine Bunker Supply Company, deputy general manager of the Trade Division and head of the Consolidated Trade Department of COSCO, deputy general manager of COSCO International Trading Company and general manager of COSCO Industry Company. Mr. Wang has extensive experience in the technical management and operation in the business of marine vessel fuel, marine industry and coating industry.

Mr. CHAN Cheong Foon, Andrew

aged 68, has been the Independent Non-executive Director of the Board of the Company since December 1991, the Chairman of the Audit Committee and members of the Nomination Committee and Remuneration Committee of the Board. Mr. Chan is also the senior partner of Wong Brothers & Co., Certified Public Accountants. He has wide experience in public accounting practice. He is also a fellow of The Taxation Institute of Hong Kong, Certified Public Accountants of Australia and the Hong Kong Institute of Certified Public Accountants.

Mr. KWONG Che Keung, Gordon

aged 56, has been the Independent Non-executive Director of the Board of the Company since September 2004. He also serves as the chairman of the Remuneration Committee and committee members of the Nomination Committee and Audit Committee of the Board. Mr. Kwong is also an Independent Non-executive Director of a number of companies listed on the Stock Exchange, namely Tianjin Development Holdings Limited, Beijing Capital International Airport Company Limited, Frasers Property (China) Limited, NWS Holdings Limited, China Oilfield Services Limited, Concepta Investments Limited, China Chengtong Development Group Limited, Global Digital Creations Holdings Limited, Ping An Insurance (Group) Company of China, Limited, Quam Limited, Tom Online Inc., China Power International Development Limited, New World Mobile Holdings Limited, Henderson Land Development Company Limited, Henderson Investment Limited and Agile Property Holdings Limited. He has a Bachelor of Social Science degree from the University of Hong Kong and is a fellow member of the Institute of Chartered Accountants in England and Wales. From 1984 to 1998, Mr. Kwong was a partner of Price Waterhouse and was a council member of the Stock Exchange from 1992 to 1997. Mr. Kwong previously served as a non-executive director of COSCO Pacific Limited until his resignation in January 2006 and was an independent non-executive director of Henderson China Holdings Limited which was privatised in July 2005.

Mr. TSUI Yiu Wa, Alec

aged 56, has been an Independent Non-executive Director of the Board of the Company since February 2004. He also serves as the Chairman of Nomination Committee and committee members of Audit Committee and Remuneration Committee of the Board. Mr. Tsui is also the chairman of WAG Financial Services Group Limited, the vice-chairman of China Mergers and Acquisitions Association; directors of Hong Kong Securities Institute, Hong Kong Professional Consultants Association Limited, AIG Huatai Fund Management Company Limited and Harbour Networks Holdings Limited. He is also an independent non-executive director of a number of companies listed on the Stock Exchange, namely Industrial and Commercial Bank of China (Asia) Limited, Vertex Communications & Technology Group Limited, China Power International Development Limited, China Chengtong Development Group Limited and Synergis Holdings Limited. Mr. Tsui graduated from the University of Tennessee, United States and was awarded a Bachelor of Science degree and a Master of Engineering degree and had completed a Program for Senior Managers in Government at the John F. Kennedy School of Government of Harvard University, United States. He was the chairman of the Hong Kong Securities Institute from 2001 to 2004 and the chief operating officer of Hong Kong Exchanges and Clearing Limited in 2000. He has numerous years of experience in finance and administration, corporate and strategic planning, information technology as well as human resources management.

SENIOR MANAGEMENT

Mr. LIANG Yanfeng

aged 40, has been Deputy General Manager of the Company since April 2006. Mr. Liang graduated with a Master of Social Sciences degree in 1991 and obtained an Executive Master of Business Administration in 2005 from Tsinghua University. He is also a senior economist. Mr. Liang had been the general manager of the Assets Management Division and the deputy general manager of Personnel Division of COSCO, director of COSCO Hong Kong, executive directors of COSCO Pacific Limited and the Company, and the general manager of COSCO Human Resources Development Company. Mr. Liang has extensive experience in corporate management.

Mr. LIN Wen Jin

aged 46, has been Deputy General Manager of the Company since March 2006. Mr. Lin holds Bachelor's Degree in Engineering from Shanghai Maritime University, the PRC, marine chief engineer certificate and senior engineer qualification. He had worked in Chartering Department and Technical Department of COSCO. He had been the assistant manager of Technical Department, the chief of New Building Section in Japan and manager of Development Department of Ocean Tramping Co., and had been the deputy general managers of Development Division and Strategic Planning Division, managing director of Executive Division of COSCO Hong Kong. He had participated in the acquisitions and financing of listed companies. Mr. Lin has extensive experience in shipping management, new ships building, corporate management and planning and capital market operations.

Mr. LO Siu Leung, Tony

aged 42, joined the Company in September 2005, is the Financial Controller of the Company. Mr. Lo is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He holds a Master's degree of Business Administration from the Hong Kong University of Science and Technology. Mr. Lo had previously worked for an international accounting firm, The Stock Exchange of Hong Kong Limited and several listed companies. He has extensive experience and expertise in corporate finance, corporate governance and financial planning.

Ms. CHIU Shui Suet

aged 39, joined the Company in October 2005, is the Company Secretary of the Company. Ms. Chiu obtained a Bachelor of Laws degree from the University of Wolverhampton in 1996 and completed her Postgraduate Certificate in Laws at the City University of Hong Kong in 1998. Ms. Chiu was admitted as a solicitor in Hong Kong in 2000. Besides, she is also an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Prior to joining the Company, Ms Chiu had worked for accounting firms, legal firm and various listed companies. She has extensive experience and solid knowledge in dealing with the company secretarial and legal matters of listed company.

Mr. ZHANG Huimin

aged 55, has been General Manager of Henan XZY since December 1997. Mr. Zhang is responsible for the operation and management of the power plant in Henan. He graduated from Hangzhou University in 1976, majoring in foreign languages. From 1977 to 1996, he worked for Shanghai Ocean Shipping Company in the areas of shipping and shipping economic management and held the positions of deputy division chief, division chief and deputy general manager of Shipping Division. He has also been awarded as a senior economist by the Ministry of Communications of the PRC.

Mr. YIN Guoping

aged 53, has been the General Manager of Shanghai COSCO Honour since February 1999. He is responsible for the management and sale of Fragrant Garden in Shanghai . Mr. Yin graduated from the First Foreign Language University of the People's Liberation Army in 1974, majoring in English Language. He had been the deputy division chief of Security Bureau of Shanghai Municipal Government, the personnel training manager and the security manager of Ocean Hotel Shanghai. He has extensive experience in personnel management and corporate management.

Mr. SUN Guangcheng

aged 53, has been Managing Director of HK COSCO Insurance Brokers since September 2001. Following his graduation from Shanghai Maritime University majoring in shipping transportation, Mr. Sun joined Tianjin Ocean Shipping Company. From 1984 to 1988, he had been the head of Commercial Division and Insurance & Claim Division of Tianjin Ocean Shipping Company. Later, he had been appointed as the chief representative of COSCO in Syria and Cyprus from 1988 to 1991. Having returned to China in September 1991, Mr. Sun had been the deputy general manager of COSCO Tianjin Freight & Forwarding Co., Ltd., the general manager of COSCO Tianjin Container Lines Freight & Forwarding Co., Ltd. in Tianjin, the deputy general manager cum corporate legal advisor of Tianjin COSCO International Freight & Forwarding Co., Ltd. Mr. Sun is a senior economist and he has sound knowledge in marine insurance and extensive experience in the management of marine and commercial legal cases.

Mr. DONG Qingbo

aged 52, has been General Manager of Shenyang COSCO Yihe since July 2003. Mr. Dong graduated from Sichuan Foreign Languages University majoring in English in 1977 and obtained his degree of Master of Business Administration from the Hong Kong Baptist University in 2003. Mr. Dong had been the general manager of Ocean Hotel Qingdao, the deputy general manager of COSCO Real Estate Property Co., Ltd., the executive director of COSCO Hotel Real Estate Management Company and the vice-chairman of Guangzhou Yihe Group Company Limited. Mr. Dong has extensive experience in property and real estate management.

Mr. HUO Conglin

aged 51, has been General Manager of COSCO Kansai Companies since July 2002. Mr. Huo graduated from Dalian Maritime University and joined COSCO in 1982. He had been the deputy head of the Education Department of COSCO, personnel manager of China Ocean Shipping Agency and deputy general manager of COSCO Industry Company. Mr. Huo has extensive experience in the areas of shipping management, paint technology and corporate management.

Mr. CHEN Daming

aged 49, has been Managing Director of COSCO Ship Trading since January 1998. Mr. Chen graduated from Dalian Maritime University majoring in Shipping Engineering Management and joined Tianjin Ocean Shipping Company after graduation. He had been the assistant engineer, fourth engineer, third engineer and traveled with COSCO's crews all over the world. In 1987, Mr. Chen was assigned to work in the Shipbuilding Division of COSCO and in charge of the sale and purchase of second-hand vessels, scrap vessels and containers businesses. Mr. Chen was awarded with the professional qualification of senior engineer and has extensive experience in ship trading.

Mr. DONG Zhaoming

aged 48, has been General Manager of Jotun COSCO since January 2006. Mr. Dong graduated from Shanghai Coating Polytechnic, majoring in Chemistry in 1977, subsequently majored in English and Management in Shanghai International Studies University and Shanghai Jiao Tong University, and obtained his Master's degree of Business Administration from the Macao University of Science and Technology in 2002. Mr. Dong worked as a manager of the Production Department and the Sales Department of International Paints Shanghai during the period from 1981 to 1996. Since 1998, He worked as the general manager of Jotun Paints (H.K) Ltd. Shanghai Office. Mr. Dong has extensive experience in coatings technology, sales, marketing management and purchasing management.

Mr. ZHANG Yansheng

aged 55, previously joined Shun Shing Construction Engineering Company Limited as the Managing Director since June 2002, is the General Manager of Administration and Human Resources Department. Upon his graduation from Tianjin Normal University in 1977, Mr. Zhang joined COSCO in the same year. He had taught in Tianjin Mariner School and had been a division manager in Tianjin Ocean Shipping Company from 1982 to 1990. Mr. Zhang has been in charge of the infrastructure and property development business and involved in corporate management since 1991. He had been the chief of Infrastructure Division of Tianjin Ocean Shipping Company, general manager of COSCO Tianjin Property Development Company and chief engineer of COSCO Tianjin Property Management Company Limited. Mr. Zhang is a certified economist and has extensive work experience in corporate management.

Ms. SUN Xian

aged 34, joined the Company in April 2004, is the General Manager of the Finance Department of the Company. She graduated from the Central University of Finance and Economics in 1994, majoring in Foreign Accounting, with a Bachelor of Economics degree and obtained her Master's degree in Management from the same university in 2000. Prior to joining the Company, Ms. Sun was the assistant manager of the Finance Department of COSCO Finance Company Limited and the manager of the Finance Department of Yuantong. She has extensive experience in accounting and financial management.

Ms. MA Xiashan

aged 31, joined the Company in August 2004, is the General Manager of the Internal Audit Department of the Company. She graduated from Guangdong University of Foreign Studies, China in 1997 with a Bachelor's degree in Economics. She further pursued her studies in United Kingdom in the same year and obtained a Bachelor's degree in English for International Business in 1998 and a Master's degree in Accounting and Finance in 1999. She is a member of American Institute of Certified Public Accountants, and had worked for an international audit firm. She has good knowledge in accounting and extensive experience in corporate audit.

Mr. QIU Ming

aged 45, has been General Manager of Yuantong since January 2006. Mr. Qiu graduated from Shanghai Marine College, majoring in marine engineering in 1982. After graduation, he worked as a member, deputy division chief and division chief of the Safety and Technology Division of the Second Department and as division chief of Equipment Division of the Technology Department of Shanghai Ocean Shipping Company. In 1999, Mr. Qiu worked as the general manager of Chung Lin Marine Service Company in Japan. He has much experience in managing the supply of marine equipment, spare parts, ship fuels as well as marine technology.

Ms. ZHU Yizhen

aged 51, joined the Company in August 2004, is the General Manager of the Strategic Investment Department of the Company. She graduated from Beijing Institute of Chemical Engineering with a Bachelor degree in Chemical Engineering in 1982. After graduation, Ms. Zhu had engaged in research work in Beijing Research Institute of Chemical Engineering for more than 10 years. She is very familiar with the technology of petrochemical engineering. From 1992 to 2004, Ms. Zhu was the deputy general manager of Technology Safety Department and the general manager of the Development Department, Management Department and Assets Management Department of China Marine Bunker (Petro China) Co., Ltd. She is a senior engineer and has wide management experience in marine fuel products and bunker oils supply, as well as the operation of coastal transportation and storage of various oil products.

Mr. WANG Jixin

aged 33, joined the Company in September 2002, is the General Manager of the Corporate Management Department of the Company. Mr. Wang graduated from Renmin University of China, majoring in real estate economics and finance. He holds a degree in Master of Science in Economics. Mr. Wang joined COSCO Real Estate Development Co., Ltd. in 1994 and had been the general manager of Development Operation Department. He was the deputy general manager of the Beijing Yuanquen Real Estate Development Company Limited and the deputy general manager of Beijing Tianlin Real Estate Development Company Limited. Mr. Wang had been responsible for the development of the Ocean Cityscape and Ocean Prospect projects in Beijing. He has extensive experience in real estate project management and corporate management.

Ms. CHEUNG Ka Yi

aged 30, joined the Company in April 2003, is the Deputy General Manager of the Corporate Communications Department of the Company. She graduated from the Chinese University of Hong Kong in 1997 with a Bachelor's degree in Social Science. Later, she obtained a Postgraduate Diploma in Public Relations from the Hong Kong University School of Professional And Continuing Education. Ms. Cheung had worked for a publishing company and a professional body in relation to public relations. She has professional knowledge and wide experience in corporate communications and media operations.

Corporate Governance Report

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 between 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 the website of the Company so that stakeholders are aware of the standards which they can expect from the Company and let the Company knows 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 ("Appendix 14") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31st December 2005 except that (i) the Independent Non-executive Directors have not been appointed for any specific terms, but 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. In addition to complying with the code provisions of Appendix 14, the Company has in certain areas adopted the recommended best practices contained therein. Guided by the Corporate Governance Statement of Policy for the Company ("CG Statement of Policy") which is available on the website of the Company at www.coscointl.com, the Company recognizes that corporate governance is an evolving process and is dedicated to continue improving its corporate governance practices to maintain a good, solid and sensible framework of corporate governance.

A. Board of Directors

The Board is accountable to the shareholders of the Company ("Shareholders") for leading the Company and its subsidiaries in a responsible and effective manner. The Directors are aware of their collective and individual responsibilities to the Shareholders for the manner in which the affairs of the Company are managed and operated. Each Director must act in good faith in the best interests of the Company.

Board functions and composition

The Board is responsible for overseeing the Company's strategies development and determines the objectives, targets with a view to enhancing Shareholders' value and to monitoring and providing guidances to the senior management of the Company ("Senior Management"). The Board also monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the strategic objective of the Company.

The Board comprises fourteen Directors, eleven of them are Executive Directors, namely Mr. Wei Jiafu, Mr. Liu Guoyuan, Mr. Li Jianhong, Mr. Zhou Liancheng, Mr. Liu Hanbo, Mr. Jia Lianjun, Mr. Wang Xiaoming, Mr. Chen Pisen, Mr. Meng Qinghui, Mr. Lin Libing and Mr. Wang Xiaodong, and the remaining are Independent Non-executive Directors, namely Mr. Chan Cheong Foon, Andrew, Mr. Kwong Che Keung, Gordon and Mr. Tsui Yiu Wa, Alec. The biographical details of the Directors are given on "Profile of Directors and Senior Management" of this Annual Report. The information is also published on the Company's website.

The Chairman, the Vice-chairman and the Managing Director are Mr. Wei Jiafu, Mr. Liu Guoyuan and Mr. Liu Hanbo respectively. The roles of the Chairman, the Vice-chairman and the Managing Director are separated and are not performed by the same individual. The Chairman and the Vice-chairman are responsible for formulating the overall strategies and policies of the Company. The Managing Director, supported by other Board members and the Senior Management, is authorized by the Board to manage the day-to-day business operations and implementation of internal control policies of the Company in accordance with the objective and direction formulated by the Board. Both the Board and the Senior Management have clearly defined authorities and responsibilities under various internal controls and check and balance mechanisms. Matters reserved to the full Board for decision include group strategy formulation, matters involving a conflict of interest for a substantial Shareholder or a Director, material acquisitions and disposals of assets, delegation of authorities, treasury and risk management policies and key human resources issues. The Senior Management, under the leadership of the Managing Director, is responsible for exercising the authorities and discharging responsibilities. The Senior Management is required to submit reports on the Company's operations on a regular basis to the Board so that it could discharge its responsibilities. The Board reviews and approves the Company's annual financial budget and business plans, which serves as an important yardstick in assessing and monitoring the performance of the Senior Management. The Senior Management are also obliged to supply the Board and the Board Committees with adequate information in a timely manner to enable them to make informed decisions.

Board meetings

During the year, the Board held a total of four Board meetings, all of which are regular board meetings. The Financial Controller, Company Secretary and the head of Internal Audit Department also attended the Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial. The Board is supplied with relevant information by the Senior Management pertaining to the matters to be brought before the Board for decisions as well as reports relating to operational and financial performance of the Company and its subsidiaries before each regular Board meeting. At least 14 days' notice of a regular Board meeting is given to all Directors to give them opportunity to attend. All Directors are given an opportunity to include any matters in the agenda for regular Board meeting. Board papers are dispatched to the Directors at least 3 days before the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting. All Directors have access to the services of Company Secretary who is responsible for ensuring the Board procedures are complied with and for advising the Board on compliance matters. The proceedings of the Board meetings are chaired by the Chairman or the Vice-chairman who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and equal opportunities are being given to the Directors to speak, express their views and share their concerns.

Directors shall have full access to information on the Company and its subsidiaries and are able to obtain independent advice whenever deemed necessary by the Directors (including Directors serving the Board committee). The Company Secretary shall be responsible for preparing minutes and keeping records of matters discussed and decisions resolved at all Board meetings.

The following tables set out details of the Directors' attendance at the regular Board meetings held in 2005.

Date of Board meetings	No. of Directors present/ total no. of Directors	Attendance rate (%)
3rd March 2005	14/14	100
5th August 2005	10/14	71
22nd September 2005	8/14	57
28th December 2005	5/14	36

Executive Directors	No. of Board meetings attended/held in 2005	Attendance rate (%)
Wei Jiafu	1/4	25
Li Jianhong	1/4	25
Liu Guoyuan	4/4	100
Zhou Liancheng	2/4	50
Liu Hanbo	4/4	100
He Jiale*	1/4	25
Guo Huawei*	1/4	25
Chen Pisen	4/4	100
Meng Qinghui	3/4	75
Zhao Kaiji*	2/4	50
Lin Libing	4/4	100

Independent Non-executive Directors	No. of Board meetings attended/held in 2005	Attendance rate (%)
Chan Cheong Foon, Andrew	3/4	75
Kwong Che Keung, Gordon	4/4	100
Tsui Yiu Wa, Alec	3/4	75

* *resigned as Executive Director since 25th January 2006*

Independent Non-executive Directors

The Independent Non-executive Directors are highly experienced with appropriate professional qualifications. They assist the Board for an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct and ensure the maintenance of a high standard of financial and other mandatory reporting, providing adequate checks and balances to safeguard the interests of Shareholders and the Company as a whole.

Independent Non-executive Directors have expressly identified as such in all corporate communications that disclose the names of Directors. Each of the Independent Non-executive Directors has given his annual confirmation on independence on 28th January 2006.

A meeting between the Vice-chairman and Independent Non-executive Directors without the presence of Executive Directors was held in the first quarter of 2005.

Directors' Retirement

According to the Bye-Laws of the Company, all Directors including the Independent Non-executive Directors shall retire from office but be eligible for re-election at the annual general meeting.

Directors' Insurance Indemnity

The Company has arranged appropriate insurance cover on the Directors and officers' liabilities in respect of legal actions against its Directors and Senior Management arising out of corporate activities.

Directors' Securities Transactions

The Company has its own code of conduct regarding securities transactions of Directors and employees ("Securities Code") no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules ("Model Code"). To ensure Directors' dealings in the securities are conducted in accordance with the Model Code and Securities Code, a Director is required to notify the Chairman or the Vice-chairman in writing and obtain a written acknowledgement from the committee set up prior to any dealings in securities. All Directors have confirmed, following specific enquiry by the Company that they fully complied with the Model Code and Securities Code throughout the year 2005.

B. Board Committees

The Board has six committees, namely Audit Committee, Executive Committee, Investment Committee, Nomination Committee, Remuneration Committee and Risk Management Committee. The terms of reference of each committee is set out in the CG Statement of Policy. The composition of each committee is set out below.

(1) Audit Committee

The Audit Committee, comprised three Independent Non-executive Directors, namely Mr. Chan Cheong Foon, Andrew, Mr. Kwong Che Keung, Gordon and Mr. Tsui Yiu Wa, Alec who are appointed by the Board and has extensive experience in accounting and financial matters. The committee is chaired by Mr. Chan Cheong Foon, Andrew. Two of the committee members of the committee are certified public accountants. The committee meets at least two times a year. Special meeting(s) may be called at the discretion of the chairman of the committee or the request of the Managing Director or Head of Internal Audit Department to review significant control or financial issues.

The Board, through the committee, has conducted semi-annual reviews of the effectiveness of the internal control system of the Company covering all financial reporting and internal control procedures, ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, internal rules and procedures approved by the Board.

Two committee meetings were held in 2005 and all members of the committee attended the meetings. All businesses transacted at these meetings were documented and maintained in accordance with applicable laws and regulations. After each committee meeting, the committee chairman will present a written report to the Board which highlights any significant issues discussed in the meeting.

(2) Executive Committee

Executive Committee consists of three Executive Directors and is chaired by Mr. Liu Hanbo who is the Managing Director. The committee meets regularly and operates as a general management committee with overall delegated authority from the Board. The committee is responsible for executing the strategy, reviewing the business performance, ensuring adequate fundings and monitoring performance of the management of the Company and its subsidiaries. A meeting was held in January 2006. All members of the committee attended the meeting.

(3) Investment Committee

The Investment Committee consists of four Executive Directors and is chaired by Mr. Wang Xiaoming who is an Executive Director of the Company. The committee advises the Board on the investment of the Company, including advice on investment policies, asset allocation and new investment proposal.

A meeting was held in July 2005 to review and discuss the joint venture project between Jotun A/S and the Company on marine coating business. All members of the committee attended the meeting.

(4) Nomination Committee

The Nomination Committee consists of three Independent Non-executive Directors namely Mr. Chan Cheong Foon, Andrew, Mr. Kwong Che Keung, Gordon and Mr. Tsui Yiu Wa, Alec and a Deputy Managing Director, Mr. Lin Libing. Chaired by Mr. Tsui Yiu Wa, Alec, the committee meets at least once a year and is responsible for making the recommendations to Shareholders on Directors standing for re-election as directors. It is also responsible for making recommendations to the Board on the nomination of candidates to fill casual vacancies of Directors.

A meeting was held in January 2006 to discuss the appointment of proposed Directors. After considering the qualification and experience of Mr. Jia Lianjun, Mr. Wang Xiaoming and Mr. Wang Xiaodong, the committee recommended to the Board to appoint them as Executive Directors of the Company. All members of the committee attended the meeting.

(5) Remuneration Committee

The Remuneration Committee consists of three Independent Non-executive Directors namely, Mr. Chan Cheong Foon, Andrew, Mr. Kwong Che Keung, Gordon and Mr. Tsui Yiu Wa, Alec and the Managing Director, Mr. Liu Hanbo and is chaired by Mr. Kwong Che Keung, Gordon. The committee meets at least once a year, and is responsible to determine the policy for the remuneration of the Company (including that of Executive Directors and Senior Management) and approving the terms of their service contracts. The committee ensures that the remuneration offered is appropriate for the duties and in line with market practice.

A meeting was held in April 2005 to determine the total annual emoluments of the Vice-chairman. All members of the committee attended the meeting.

(6) Risk Management Committee

The Risk Management Committee consists of four Executive Directors and is chaired by Mr. Liu Guoyuan who is also the Vice-chairman. It aims at managing risk and controlling its operation and financial activities so as to avoid or reduce risks which can cause loss or reputation damage, ensure compliance with applicable laws and regulations. The committee is responsible for formulating the written policies and procedures to identify and manage risks including operation risk, liquidity risk, regulatory risk, and credit risk.

A meeting was held in July 2005 to discuss a report submitted by the Senior Management. The said report contained three parts, namely, the development history on the risk management of the Company and the risk analysis, the basic ideas behind the risk management of the Company and the implementing rules of risk management of the Company. Together with the said report was seven attachments which include risk management policy, a comprehensive regulation on management based budgeting, detailed implementing rules for capital budgeting and management, regulation on contract management, regulation on tendering and management, regulation on the compliance of the Listing Rules by subsidiaries and the Internal Audit Handbook. All members of the committee attended the meeting.

C. Internal and External Audit

(1) Internal Audit

The Company has implemented appropriate policies and procedures for all major business operations. The head of Internal Audit Department is responsible for monitoring compliance with these policies and procedures. The primary objective of the Internal Audit Department is to assist the Board and the Senior Management in risk management and in monitoring compliance with applicable regulatory requirements and guidelines with a view to enhancing the effectiveness of the internal control mechanisms of the Company. All internal audit missions set out in the 2005 Internal Audit Plan were accomplished. The recommendations made by Internal Audit Department in connection with these audit missions were widely accepted and rectification measures have been put in place. Internal Audit Department also actively participates in the review and enhancement of the internal policies and procedures of the Company on a continuing basis.

To preserve the independence of the internal audit function, the head of Internal Audit Department reports directly to the Audit Committee on internal audit matters and to the Managing Director on administrative matters.

Using a risk ranking methodology, the Internal Audit Department plans its internal audit schedules annually in consultation with, but independent of, Senior Management, and the audit plan is submitted to the Audit Committee for approval. Independent reviews of different financial, business and functional operations and activities will be conducted with audit resources being focused on higher risk areas. Ad hoc review will also be conducted on areas of concern identified by the Audit Committee and the Senior Management.

(2) External Auditors

The Company's independent external auditors are PricewaterhouseCoopers. The Audit Committee is responsible for considering the appointment of the external auditors and also reviewing any non-audit functions performed by the external auditors for the Company and its subsidiaries. In particular, the Audit Committee will consider, in advance of their being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest. A comparative analysis of remuneration (and associated remuneration) in respect of the audit and non-audit services provided by PricewaterhouseCoopers to the Company and its subsidiaries for the year ended 2004 and 2005 were as follow:

	2005 HK$'000	2004 HK$'000
Audit	1,686	1,533
Taxation services	121	51
Due Diligence services	995	512

Two meetings were held on 28th February 2005 and 13th September 2005 and were attended by all committee members of the Audit Committee.

D. Shareholders

The Company conducts ongoing dialogue with the Shareholders and potential shareholders. The Board is committed to providing clear and updated performance information of the Company and its subsidiaries to all Shareholders, as soon as it becomes available, through the publication of interim and annual reports, which are also made accessible on the Company's website. In addition to sending out circulars, notices, financial reports to Shareholders, the Company also arranged information and services for Shareholders on its website for the purpose of keeping direct communication with Shareholders and investors. The Company's website provides the Shareholders and other stakeholders with information on the Company's corporate governance structure, policies and systems. The "Corporate Governance" section of the website of the Company including CG Statement of Policy, biographical data on Directors and Senior Management and terms of reference of Board committees. The annual general meeting not only deals with the regular business of the Company but also acts as a forum for Directors' dialogue with Shareholders whereby Shareholders may ask questions on the Company's operations or related financial information. The Directors and the chairmen of the Board committees will usually attend the annual general meeting and answer questions. Voting by polls had been arranged on all proposed resolutions in relation to the connected transactions at the general meetings in 2005. Poll voting results were announced by way of paid advertisement at the newspapers next trading day of securities to the relevant general meeting and were also made available on the Company's website so as to provide Shareholders with information regarding the level of support and opposition to each resolution. For the sake of good corporate governance practice, the Board intends to demand poll voting at future general meetings for all resolutions set out in the relevant notice of meeting so as to allow Shareholders to have one vote for every share held. In addition, the Company Secretarial Department respond to letters and telephone enquires from Shareholders and potential shareholders throughout the year.

E. Financial Reporting

The Board is responsible for preparing the financial statements of the Company and its subsidiaries and the external auditors are responsible for reporting in the auditors' report on the financial statements of the Company and its subsidiaries. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Company aims to present a clear and balanced assessment of its financial position and prospects. The Board must ensure that the financial statements for the Company and its subsidiaries are prepared so as to give a true and fair view of the financial status of the Company and its subsidiaries. Audited financial statements are published within four months after the end of the financial year. For the announcement relating to the price-sensitive information and other financial disclosures required under the Listing Rules are disclosed pursuant to statutory requirements.

F. Management Meetings

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

G. Connected Transactions

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

H. Incentive Scheme and Corporate Culture

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

By order of the Board

CHIU Shui Suet
Company Secretary

Hong Kong, 30th March 2006

The Directors present this Directors' Report (the "Report") together with the audited financial statements of the Company and its subsidiaries for the year ended 31st December 2005.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Company and its subsidiaries for the year ended 31st December 2005 are set out in the consolidated income statement on page 70 of this Annual Report. The Board recommended the payment of a final dividend of HK$0.021 (2004: HK$0.025) per Share and a special dividend of HK$0.014 (2004: Nil) per Share for the year ended 31st December 2005 subject to the shareholders' approval in the annual general meeting of the Company to be held on 25th May 2006. Approximately HK$49,638,000 will be payable on or before 8th June 2006 to the shareholders of the Company whose names appear on the register of members on 25th May 2006.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Company and its subsidiaries during the year are set out in note 16 to the financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31st December 2005 calculated under Companies Act of Bermuda amounted to HK$1,263,568,000.

BORROWINGS AND INTEREST CAPITALISED

Borrowings repayable on demand or within one year are classified under current liabilities. Details of the borrowings are set out in note 32 to the financial statements. Interest and other borrowing costs capitalised by the Company and its subsidiaries during the year are set out in note 8 to the financial statements.

RESERVES

Details of the movements in reserves of the Company and its subsidiaries during the year are set out in note 31 to the financial statements.

SHARE CAPITAL

Details of the movements on share capital of the Company are set out in note 30 to the financial statements.

DONATIONS

The Company and its subsidiaries did not make any donations during the year (2004: HK$121,000).

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Company and its subsidiaries is set out on pages 30 and 31.

DIRECTORS

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

Executive Directors

Mr. Wei Jiafu *(Chairman)*
Mr. Liu Guoyuan *(Vice-chairman)*
Mr. Li Jianhong
Mr. Zhou Liancheng
Mr. Liu Hanbo *(Managing Director)*
Mr. Jia Lianjun *(appointed on 25th January 2006)*
Mr. Wang Xiaoming *(appointed on 25th January 2006)*
Mr. Chen Pisen
Mr. Meng Qinghui
Mr. Lin Libing
Mr. Wang Xiaodong *(appointed on 25th January 2006)*
Mr. He Jiale *(resigned on 25th January 2006)*
Mr. Guo Huawei *(resigned on 25th January 2006)*
Mr. Zhao Kaiji *(resigned on 25th January 2006)*

Independent Non-executive Directors

Mr. Chan Cheong Foon, Andrew
Mr. Kwong Che Keung, Gordon
Mr. Tsui Yiu Wa, Alec

In accordance with Bye-Laws 99 and 102(B) of the Company's Bye-Laws, all Directors shall retire from office at the forthcoming annual general meeting and be eligible for re-election.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

Name of Director	Name of businesses which are considered to compete or likely to compete with the businesses of the Company and its subsidiaries	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Company and its subsidiaries	Nature of Director's interest in the entity
Mr. Wei Jiafu	companies controlled by China Ocean Shipping (Group) Company ("COSCO")	– Property investment and development – Ship trading and supplying services	director
Mr. Liu Guoyuan	COSCO (Hong Kong) Group Limited ("COSCO Hong Kong") and its associated companies	– Property investment and development – Ship trading and supplying services	director
Mr. Li Jianhong	companies controlled by COSCO	– Property investment and development – Ship trading and supplying services	director
Mr. Zhou Liancheng	COSCO Hong Kong and its associated companies	– Property investment and development – Ship trading and supplying services	director
Mr. Liu Hanbo	Soundwill Holdings Limited	– Property investment and development	non-executive vice-chairman
Mr. Jia Lianjun*	COSCO Hong Kong and its associated companies	– Property investment and development – Ship trading and supplying services	director
Mr. Wang Xiaoming*	COSCO Hong Kong and its associated companies	– Property investment and development – Ship trading and supplying services	director
Mr. Chen Pisen	companies controlled by COSCO Hong Kong	– Property investment and development – Ship trading and supplying services	director
Mr. Meng Qinghui	companies controlled by COSCO Hong Kong Soundwill Holdings Limited	– Property investment and development – Ship trading and supplying services – Property investment and development	director non-executive director
Mr. He Jiale$^{\Delta}$	COSCO Hong Kong and its associated companies	– Property investment and development – Ship trading and supplying services	director
Mr. Guo Huawei$^{\Delta}$	companies controlled by COSCO	– Property investment and development – Ship trading and supplying services	director

* *appointed as Executive Director on 25th January 2006*

$^{\Delta}$ *resigned as Executive Director on 25th January 2006*

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

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the following connected transactions require disclosure in this Annual Report. The connected transactions which also constitute significant related party transactions are set out in note 38 to the financial statements.

1. Ship Trading Continuing Connected Transactions

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

In order to meet the increasing demands of Ship Trading Continuing Connected Transactions, the Company has entered into a supplemental agreement (the "Supplemental Agreement") on 27th October 2005 with COSCO Hong Kong and COSCO International Ship Trading, to amend the relevant terms of the Master Agreement in order to reflect the changes in the Ship Trading Cap Amounts while the annual cap amount for the Ship Trading Continuing Connected Transactions for the financial year ending 31st December 2005 as previously approved by the independent shareholders of the Company, being HK$58,500,000, and other terms of the Master Agreement will remain unchanged. The annual caps amounts of the Ship Trading Continuing Connected Transactions were revised to HK$73,000,000 and HK$80,000,000 for each of the two financial years ending 31st December 2006 and 2007 respectively ("ST Revised Cap Amounts"). The ST Revised Cap Amounts were approved by the independent shareholders of the Company at the special general meeting held on 8th December 2005. COSCO and their respective associates abstained from voting on the ordinary resolutions proposed in the special general meeting. The annual cap amount for the Ship Trading Continuing Connected Transactions for financial year ending 31st December 2005 and the ST Revised Cap Amounts are as below:

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

The Ship Trading Continuing Connected Transactions for the financial year ended 31st December 2005 amounted to HK$52,680,000.

The Independent Non-executive Directors reviewed the Ship Trading Continuing Connected Transactions and were of the opinion that the Ship Trading Continuing Connected Transactions for the financial year ended 31st December 2005 had been:

(i) carried out in the ordinary and usual course of business of the Company and its subsidiaries;
(ii) conducted on normal commercial terms; and
(iii) entered into in accordance with the terms of the relevant agreements governing the terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditors of the Company was instructed to perform specific procedures on the Ship Trading Continuing Connected Transactions and report on the actual finding of those procedures as follows:

(a) the Ship Trading Continuing Connected Transactions for the financial year ended 31st December 2005 had been approved by the Board;
(b) the Ship Trading Continuing Connected Transactions for the financial year ended 31st December 2005 had been entered into in accordance with the terms of the relevant agreements; and
(c) the aggregate amount of the Ship Trading Continuing Connected Transactions for the financial year ended 31st December 2005 did not exceed the Ship Trading Cap Amount.

2. Yuantong Continuing Connected Transactions

On 28th December 2004, a conditional sale and purchase agreement (the "Yuantong S&P Agreement") was entered into by Leadfull Investments Limited ("Leadfull"), a wholly-owned subsidiary of the Company as purchaser and COSCO Trading and Supply Investments Limited ("COSCO Trading and Supply") as vendor for the sale and purchase of 100% equity interest in Yuantong Marine Service Co. Limited ("Yuantong"). COSCO Trading and Supply is a subsidiary of COSCO Hong Kong. Pursuant to the Yuantong S&P Agreement, Yuantong agrees to continue to provide the COSCO Group with supply and installation of marine, equipment, spare parts, communications and navigation equipment (the "Yuantong Continuing Connected Transactions") for the three financial years ending 31st December 2005, 2006 and 2007. Pursuant to the Yuantong S&P Agreement, COSCO Hong Kong and the Company procure the Yuantong Continuing Connected Transactions will be conducted in Yuantong's usual and ordinary course of business on normal commercial terms or terms no less favourable than terms available to or from independent third parties, as well as terms in accordance with the Yuantong S&P Agreement being fair and reasonable as far as the interests of the Company and the Shareholders as a whole are concerned. Pursuant to the Yuantong S&P Agreement, the Company undertakes that the aggregate amount of the Yuantong Continuing Connected Transactions for each of the financial years ending 31st December 2005, 2006 and 2007 will not exceed HK$229,000,000, HK$249,000,000 and HK$270,000,000 respectively (the "Yuantong Cap Amounts").

In order to meet the increasing demands of Yuantong Continuing Connected Transactions, the Company has entered into a supplemental agreement on 27th October 2005 with Leadfull, COSCO Trading and Supply and COSCO Hong Kong to amend the relevant terms of the Yuantong S&P Agreement in order to reflect the changes in the Yuantong Cap Amounts while other terms of the Yuantong S&P Agreement will remain unchanged. The Yuantong Cap Amounts were revised to HK$313,000,000, HK$406,000,000 and HK$446,000,000 for each of the three financial years ending 31st December 2005, 2006 and 2007 respectively (the "YT Revised Cap Amounts"). The YT Revised Cap Amounts as set out below were approved by the independent shareholders of the Company at the special general meeting held on 8th December 2005. COSCO and their respective associates abstained from voting on the ordinary resolutions proposed in the special general meeting.

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

The Yuantong Continuing Connected Transactions for the financial year ended 31st December 2005 amounted to HK$266,080,000.

The Independent Non-executive Directors reviewed the Yuantong Continuing Connected Transactions and were of the opinion that the Yuantong Continuing Connected Transactions for the financial year ended 31st December 2005 had been:

(i) carried out in the ordinary and usual course of business of the Company and its subsidiaries;
(ii) conducted on normal commercial terms; and
(iii) entered into in accordance with the terms of the relevant agreements governing the terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditors of the Company was instructed to perform specific procedures on the Yuantong Continuing Connected Transactions and reported on the actual finding of those procedures as follows:

(a) the Yuantong Continuing Connected Transactions for the financial year ended 31st December 2005 had been approved by the Board;
(b) the Yuantong Continuing Connected Transactions for the financial year ended 31st December 2005 had been entered into in accordance with the terms of the relevant agreements; and
(c) the aggregate amount of the Yuantong Continuing Connected Transactions for the financial year ended 31st December 2005 did not exceed the YT Revised Cap Amount.

3. Kansai Continuing Connected Transactions

In order to comply with the requirement of the Listing Rules, Shanghai COSCO Kansai & Chemicals Co., Ltd ("Shanghai COSCO Kansai") and Tianjin COSCO Kansai & Chemicals Co., Ltd ("Tianjin COSCO Kansai") (collectively "the COSCO Kansai Companies") had on 31st March 2005 entered into an agreement with NKM Coatings Co Ltd. ("NKM"), a company registered in Kyoto, Japan and Kansai Paint Co., Ltd ("Japan Kansai") holds more than 30% of its equity interest, in relation to their purchase of raw material and had on 25th May 2005 entered into written agreements with Japan Kansai and its subsidiaries and associates (the "Kansai Group") and the COSCO Group in relation to (a) the purchase of raw material by the COSCO Kansai Companies from Japan Kansai; (b) the introduction of businesses by NKM to the COSCO Kansai Companies; (c) the sale of container coatings and marine coatings by the COSCO Kansai Companies to NKM; (d) the sale of container coatings and marine coatings by the COSCO Kansai Companies to the COSCO Group; and (e) the introduction of businesses by the COSCO Group to COSCO Kansai Companies (collectively "the Written Agreements"), other than (a) a technology transfer contract entered into between Shanghai COSCO Kansai and Japan Kansai in relation to the provision of technology and know-how on 19th January 1996 and (b) a technology transfer contract entered into between Tianjin COSCO Kansai and Japan Kansai in relation to the provision of technology and know-how on 18th December 1991 (collectively called the "Technology Agreements"), to the COSCO Kansai Companies (hereinafter referred to as "Kansai Continuing Connected Transactions").

Pursuant to the Written Agreements, the Company will procure the Kansai Continuing Connected Transactions will be conducted in the ordinary and usual course of business on normal commercial terms or terms no less favourable than terms available to or from independent third parties, as well as terms in accordance with the Written Agreements being fair and reasonable as far as the interests of the Company and the Shareholders as a whole are concerned.

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

	Cap for the year ending 31st December 2005 RMB	Cap for the year ending 31st December 2006 RMB	Cap for the year ending 31st December 2007 RMB
Technology usage fee payable to Japan Kansai	8,000,000	8,000,000	8,000,000
Purchase of raw materials from Japan Kansai and NKM	52,000,000	52,000,000	52,000,000
Sale of container coatings and marine coatings to NKM	10,000,000 (for the financial year ending 31st December 2005 only)	–	–
Sale of container coatings and marine coatings to the COSCO Group	29,000,000	29,000,000	29,000,000
Commission payable to NKM for business referral	9,000,000	9,000,000	9,000,000
Commission payable to the COSCO Group for business referral	4,000,000	4,000,000	4,000,000

The Kansai Continuing Connected Transactions for the financial year ended 31st December 2005 were as follows:

	RMB
Technology usage fee payable to Japan Kansai	5,622,000
Purchase of raw materials from Japan Kansai and NKM	5,871,000
Sale of container coatings and marine coatings to NKM	5,084,000
Sale of container coatings and marine coatings to the COSCO Group	17,483,000
Commission payable to NKM for business referral	969,000
Commission payable to the COSCO Group for business referral	1,959,000

The COSCO Kansai Continuing Connected Transactions were approved by the independent shareholders of the Company at the special general meeting held on 21st July 2005.

The Independent Non-executive Directors reviewed the COSCO Kansai Continuing Connected Transactions and were of the opinion that the COSCO Kansai Continuing Connected Transactions for the financial year ended 31st December 2005 had been:

(i) carried out in the ordinary and usual course of business of the Company and its subsidiaries;
(ii) conducted on normal commercial terms; and
(iii) entered into in accordance with the terms of the relevant agreements governing the terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditors of the Company was instructed to perform specific procedures on the COSCO Kansai Continuing Connected Transactions and reported on the actual finding of those procedures as follows:

(a) the COSCO Kansai Continuing Connected Transactions for the financial year ended 31st December 2005 had been approved by the Board;

(b) the COSCO Kansai Continuing Connected Transactions for the financial year ended 31st December 2005 had been entered into in accordance with the terms of the relevant agreements; and
(c) the aggregate amount of the COSCO Kansai Continuing Connected Transactions for the financial year ended 31st December 2005 did not exceed the COSCO Kansai Cap Amounts.

4. Formation of Zhuhai Kansai Joint Venture

On 28th November 2005, the Company entered into an agreement with Japan Kansai ("Zhuhai JV Agreement") in relation to the setting up and the operation of a wholly foreign-owned enterprise under a proposed name, Zhuhai COSCO Kansai Paint & Chemicals Co., Ltd (the "Zhuhai COSCO Kansai") to be established under the laws of the People's Republic of China ("PRC").

According to the Zhuhai JV Agreement, Zhuhai JV will have a registered capital of US$5,700,000 of which the Company will contribute approximately US$3,688,470 representing 64.71% of the registered capital and Japan Kansai will contribute approximately US$2,011,530 representing 35.29% of the registered capital. The approval for setting up Zhuhai COSCO Kansai has been granted by the relevant PRC approving authority. It is expected that the incorporation of Zhuhai COSCO Kansai will be completed in the first half of 2006. The Zhuhai COSCO Kansai will become a non wholly-owned subsidiary of the Company upon completion of incorporation.

5. COSCO Insurance Brokers Continuing Connected Transactions

On 14th May 2004, Promise Keep Limited, a wholly-owned subsidiary of the Company, as purchaser and COSCO Hong Kong and G. W. Maritime Pte. Ltd. as vendors entered into a conditional sale and purchase agreement ("COSCO Insurance Brokers S&P Agreement") for the sale and purchase of 100% interest in COSCO (Hong Kong) Insurance Brokers Limited ("HK COSCO Insurance Brokers"). The transaction was completed on 1st July 2004, whereupon HK COSCO Insurance Brokers became a wholly-owned subsidiary of the Company.

Pursuant to COSCO Insurance Brokers S&P Agreement, HK COSCO Insurance Brokers agrees to continue to provide COSCO Group with marine and general insurance brokerage services (the "COSCO Insurance Brokers Continuing Connected Transactions") for the three financial years ending 31st December 2004, 2005 and 2006.

Pursuant to the COSCO Insurance Brokers S&P Agreement, COSCO Hong Kong and the Company will procure that the COSCO Insurance Brokers Continuing Connected Transactions will be conducted in the HK COSCO Insurance Broker's usual and ordinary course of business on normal commercial terms or terms no less favourable than terms available to or from independent third parties, as well as terms in accordance with the COSCO Insurance Brokers S&P Agreement being fair and reasonable as far as the interests of the Company and the Shareholders as a whole are concerned.

Pursuant to the COSCO Insurance Brokers S&P Agreement, the Company undertakes for a term of three years that aggregate amount of the COSCO Insurance Brokers Continuing Connected Transactions for each of the financial years ending 31st December 2004, 2005 and 2006 will not exceed relevant cap amounts set out below (the "Insurance Cap Amounts"):

Cap for the year ending 31st December 2004	Cap for the year ending 31st December 2005	Cap for the year ending 31st December 2006
US$3,697,000	US$4,252,000	US$4,890,000
HK$28,837,000	HK$33,166,000	HK$38,142,000

The aggregate amount of COSCO Insurance Brokers Continuing Connected Transactions for the financial year ended 31st December 2005 was US$4,024,698 (equivalent to HK$31,209,000).

The Independent Non-executive Directors had reviewed the COSCO Insurance Brokers Continuing Connected Transactions for the financial year ended 31st December 2005 and were of the opinion that the COSCO Insurance Brokers Continuing Connected Transactions had been:

(i) carried out in the ordinary and usual course of business of the Company and its subsidiaries;
(ii) conducted on normal commercial terms; and
(iii) entered into in accordance with the terms of the relevant agreements governing the terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditors of the Company was instructed to perform specific procedures on the COSCO Insurance Brokers Continuing Connected Transactions and reported on the actual finding of those procedures as follows:

(a) the COSCO Insurance Brokers Continuing Connected Transactions for the financial year ended 31st December 2005 had been approved by the Board;

(b) the COSCO Insurance Brokers Continuing Connected Transactions for the financial year ended 31st December 2005 had been entered into in accordance with the terms of the relevant agreements; and

(c) the aggregate amount of the COSCO Insurance Brokers Continuing Connected Transactions for the financial year ended 31st December 2005 did not exceed the Insurance Cap Amount.

6. Formation of SZ COSCO Insurance Brokers

On 28th November 2005, HK COSCO Insurance Brokers and Xiang Li Yuan (Shanghai) Property Management Co., Ltd. ("Xiang Li Yuan"), both being wholly-owned subsidiaries of the Company, entered into a joint venture agreement ("Shenzhen JV Agreement") with Shenzhen Ocean Shipping Co., Ltd. ("Shenzhen Ocean"), a subsidiary of COSCO in relation to the setting up and operation of joint venture under the proposed name, Shenzhen COSCO Insurance Brokers Limited ("SZ COSCO Insurance Brokers").

According to the Shenzhen JV Agreement, SZ COSCO Insurance Brokers will have a registered capital of RMB5,000,000 of which HK COSCO Insurance Brokers will contribute RMB1,200,000 representing 24% of the registered capital, Xiang Li Yuan will contribute RMB1,550,000 representing 31% of the registered capital and Shenzhen Ocean will contribute approximately RMB2,250,000 representing 45% of the registered capital. Upon the completion of the incorporation, SZ COSCO Insurance Brokers will become a non wholly-owned subsidiary of the Company.

7. Eleven Tenancy Agreements

On 12th January 2004, eleven tenancy agreements (the "Tenancy Agreements") were entered into between Tian Lee Property Limited, Velu Exports Limited, Wing Thye Holdings Limited, Year Of The Rat Corp. and 99 Prove Finance Ltd., the then wholly-owned subsidiaries of the Company before the disposal (details as described below), as landlords, and COSCO Hong Kong and certain subsidiaries of COSCO Hong Kong as tenants for the leasing of portions of the 47th to 51st floors of COSCO Tower for a term of 3 years (except for the term of COSCO Pacific Management Company Limited which was for 2 years) and an option to renew for a further 3 years (except for COSCO Pacific Management Company Limited, a wholly-owned subsidiary of COSCO Pacific Limited, being the fellow subsidiary of the Company which had a renewable option for a further 1 year), at an aggregate monthly rental of approximately HK$2,429,000. COSCO Hong Kong provided guarantees for its subsidiaries in respect of the ten tenancy agreements at an amount equivalent to 3 times of the monthly rental respectively.

The Stock Exchange granted to the Company conditional waivers on 5th February 2004 from strict compliance with connected transaction provisions of the Listing Rules in respect of the rental receivable by the Company during the initial term and subsequent renewed term (if applicable) of the Tenancy Agreements (the "1st Tenancy Continuing Connected Transactions") not exceeding HK$30,054,000 (the "1st Tenancy Cap Amount") for each of the three financial years ending 31st December 2004, 2005 and 2006. The 1st Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 amounted to HK$13,846,000.

The Independent Non-executive Directors reviewed the 1st Tenancy Continuing Connected Transactions and were of the opinion that the 1st Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 had been:

(i) carried out in the ordinary and usual course of business of the Company and its subsidiaries;

(ii) conducted on normal commercial terms; and

(iii) entered into in accordance with the terms of the relevant agreements that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditors of the Company was instructed to perform specific procedures on the 1st Tenancy Continuing Connected Transactions and reported on the actual finding of those procedures as follows:

(a) the 1st Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 had been approved by the Board;

(b) the 1st Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 had been entered into in accordance with the terms of the relevant agreements; and

(c) the aggregate amount of the 1st Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 did not exceed the 1st Tenancy Cap Amount.

8. Very Substantial Disposal of COSCO Tower

On 30th May 2005, Monoland Assets Limited, a wholly-owned subsidiary of the Company, as vendor and Wealthocean Investments Limited ("Wealthocean") as purchaser, a wholly-owned subsidiary of COSCO Hong Kong entered into a conditional sale and purchase agreement ("Modern Capital S&P Agreement") for the sale and purchase of 100% interest in, and loan to, Modern Capital Investment Limited ("Modern Capital") for a total consideration of HK$1,402,000,000. Upon completion, Wealthocean will own the entire issued share capital of Modern Capital. Modern Capital is an investment holding company which owns Cash In Hand Inc. ("Cash In Hand"), Gwee Brothers Limited ("Gwee Brothers"), Malayan Corporations Limited ("Malayan"), Tian Lee Property Limited ("Tian Lee"), Velu Exports Limited ("Velu Exports"), Wing Thye Holdings Limited ("Wing Thye"), Year of The Rat Corp. ("Year of the Rat") and 99 Prove Finance Ltd. ("99 Prove Finance"). Each of Cash In Hand, Gwee Brothers, Malayan, Tian Lee, Velu Exports, Wing Thye, Year of the Rat and 99 Prove Finance, all principally engaged in the business of property letting and are owners of 39th, 40th, 42nd, 47th, 48th, 49th, 50th and 51st floors of COSCO Tower (the "Properties") respectively. The transaction was completed on 3rd August 2005 where upon Modern Capital became an indirect wholly-owned subsidiary of COSCO Hong Kong. After the disposal of the Properties, the Company used part of the consideration received to repay the bank loan and to provide further resources for the businesses of the Company and subsidiaries', in particular, the ship trading and supplying services businesses. The Modern Capital S&P Agreement were approved by the independent shareholders of the Company at the special general meeting held on 21st July 2005.

9. Tenancy Agreements relating to 47th Floor and Unit 4802 of COSCO Tower and supplemental agreement of 47th Floor of COSCO Tower

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

(1) a tenancy agreement ("47th Floor Tenancy Agreement") between the Company (as tenant) and Tian Lee (as landlord) in respect of the whole 47th floor of COSCO Tower ("Premises"); and

(2) a tenancy agreement ("4802 Tenancy Agreement") between COSCO Ship International Trading (as tenant) and Velu Exports (as landlord) in respect of Unit 4802 of COSCO Tower.

In order to comply with the Listing Rules, the rental payable by the Company in accordance with 47th Floor Tenancy Agreement (2nd Tenancy Continuing Connected Transactions) should not be exceeding HK$3,700,000, HK$7,300,000 and HK$7,300,000 for each of the three financial years ending 31st December 2005, 2006 and 2007 respectively (the 2nd Tenancy Cap Amounts"). In order to comply with the Listing Rules, the rental payable by the Company's subsidiary in accordance with 4802 Tenancy Agreement (3rd Tenancy Continuing Connected Transactions) should be not exceeding HK$1,200,000, HK$2,300,000 and HK$2,300,000 for each of the three financial years ending 31st December 2005, 2006 and 2007 respectively (the "3rd Tenancy Cap Amounts").

The 2nd and 3rd Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 amounted to HK$2,306,000 and HK$995,000 respectively.

The Independent Non-executive Directors reviewed the 2nd and 3rd Tenancy Continuing Connected Transactions and were of the opinion that the 2nd and 3rd Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 had been:

(i) carried out in the ordinary and usual course of business of the Company and its subsidiaries;
(ii) conducted on normal commercial terms; and
(iii) entered into in accordance with the terms of the relevant agreements that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditors of the Company was instructed to perform specific procedures on the 2nd and 3rd Tenancy Continuing Connected Transactions and reported on the actual finding of those procedures as follows:

(a) the 2nd and 3rd Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 had been approved by the Board;
(b) the 2nd and 3rd Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 had been entered into in accordance with the terms of the relevant agreements; and
(c) the aggregate amount of the 2nd and 3rd Tenancy Continuing Connected Transactions for the financial year ended 31st December 2005 did not exceed the 2nd and 3rd Tenancy Cap Amounts respectively.

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

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

1. the subject premises of the 47th Floor Tenancy Agreement has been changed from the Premises to Units 4701-3 and 4706 of the 47th floor of COSCO Tower, Grand Millennium Plaza, Hong Kong by excluding Unit 4705 of the 47th floor of COSCO Tower, Grand Millennium Plaza, Hong Kong;
2. the monthly rental (exclusive of air-conditioning and management charges, Government rates and all other outgoings of a recurring and non-capital nature but inclusive of Government rent) payable by the Company to Tian Lee has been reduced proportionally by reference to the size of the Unit 4705 of the 47th floor of COSCO Tower, Grand Millennium Plaza, Hong Kong and the Premises;
3. the monthly management fee (including air-conditioning charges) has been reduced proportionally by reference to the size of the Unit 4705 of the 47th floor of COSCO Tower, Grand Millennium Plaza, Hong Kong and the Premises; and
4. a corresponding compensation shall be payable by Tian Lee to the Company.

10. Sale and purchase agreement in respect of the Construction Material

On 31st March 2005, Shenyang COSCO Yihe Property Development Co., Ltd. ("Shenyang COSCO Yihe"), a non wholly-owned subsidiary of the Company entered into an agreement with COSCO International Trading Company ("COSCO Trading"), a subsidiary of COSCO for the sale and purchase of certain steel, cement and other construction materials with a maximum purchase and credit limits of RMB30,000,000 ("S&P Agreement"). Pursuant to the S&P Agreement, Shenyang COSCO Yihe has agreed to purchase the construction materials from COSCO Trading on a non-exclusive basis. Upon receipt of purchase order(s) from Shenyang COSCO Yihe, COSCO Trading shall source the construction materials from the relevant supplier(s) as suggested by Shenyang COSCO Yihe and sell the construction materials to Shenyang COSCO Yihe at cost together with a management fee equivalent to 3% of the aggregate cost of the construction materials. As a term of the S&P Agreement, the Company as one of the guarantors provided guarantee guaranteeing Shenyang COSCO Yihe's due performance of the obligations under the S&P Agreement.

11. Provision of guarantee to COSCO Finance in respect of loan facilities to Shenyang COSCO Yihe

On 4th April 2005, Shenyang COSCO Yihe as Borrower, a 51% owned subsidiary of the Company, entered into the loan agreement (the "Loan Agreement") with COSCO Finance Limited ("COSCO Finance") in respect of a loan facility (the "Loan Facility") of up to RMB150,000,000 for a term up to 5th April 2007.

Pursuant to the terms of the Loan Agreement, the Company, Guangzhou COSCO Construction Industry Company ("COSCO GZ"), a wholly-owned subsidiary of COSCO and Guangzhou Yihe Group Co., Ltd ("Guangzhou Yihe") entered into the guarantee dated 4th April 2005 (the "Guarantee") whereby the Company, COSCO GZ and Guangzhou Yihe (collectively called the "Guarantors") agreed to provide a guarantee to COSCO Finance on a joint and several basis to secure the performance of the obligations of Shenyang COSCO Yihe under the Loan Agreement. The Guarantee will be effective from 5th April 2005 to 5th April 2009. The maximum exposure of the Company will be the principal, interest accrued, penalty payment (up to 3.8% of the amount of loan facility, i.e. RMB5,700,000), fees and/or otherwise which are payable under the Loan Agreement.

A commitment agreement dated 4th April 2005 was entered into between the Company, COSCO GZ, Guangzhou Yihe and Shenyang COSCO Yihe setting out the commitments of the parties as set out in the announcement dated 4th April 2005.

The Guarantee and Commitment Agreement was approved by the independent Shareholder on 8th June 2005.

SPECIFIC PERFORMANCE OBLIGATIONS OF THE CONTROLLING SHAREHOLDER

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

1. An unsecured loan and credit facility of US$45,000,000 to finance the general working capital and corporate funding requirement of the Company was granted by China Merchants Bank, Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited, Shanghai Branch to the Company on 8th March 2004. The unsecured loan and credit facility will be repayable on or before 8th March 2009. The loan is guaranteed unconditionally and irrevocably by COSCO Hong Kong which undertakes, amongst other conditions, that:

    (i) it shall directly or indirectly beneficially maintain an equity or shareholding interest of not less than 35% of the voting rights attached to the issued share capital of the Company, which shall maintain its listing status on the Stock Exchange.

    (ii) it shall be more than 50% beneficially owned by COSCO.

2. An unsecured loan of HK$150,000,000 to finance the general working capital and corporate funding requirement of the Company was granted by Wing Hang Bank, Limited to the Company on 26th August 2004 ("Wing Hang Loan") under a loan agreement dated 12th September 2002 ("Loan Agreement") and supplemented by first supplement to Loan Agreement. The repayment of Wing Hang Loan has been extended from 10th September 2005 to 9th September 2006 and at reduced interest rate under second supplement to Loan Agreement. The Wing Hang Loan is guaranteed unconditionally and irrevocably by COSCO Hong Kong which undertakes that it shall directly or indirectly beneficially maintain an equity or shareholding interest of not less than 35% of the voting rights attached to the issued share capital of the Company.

SHARE OPTIONS

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

1. Purpose of the Share Option Scheme:

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

2. Participants of the Share Option Scheme:

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

3. Total number of share options available for issue under the Share Option Scheme and percentage of issued share capital of the Company as at 31st December 2005:

    The number of share options available for issue under the Share Option Scheme is 139,244,129 shares representing 9.82% of the issued share capital of the Company at 31st December 2005.

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

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

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

   Not applicable.

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

   There is and shall be no minimum period for which an option must be held before it can be exercised.

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

   The option shall be deemed to have been accepted when the duplicate letter duly signed by the grantee, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant.

   There is and shall be no minimum period for which an option must be held before it can be exercised thereof, is received by the Company. To the extent that the offer is not accepted within 28 days in the manner aforesaid, it will be deemed to have been irrevocably declined.

8. The basis of determining the exercise price:

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

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

9. The remaining life of the Share Option Scheme:

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

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

Name of Director	Exercise Price (HK$)	Outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Changed category during the year	Outstanding as at 31st December 2005	Percentage of total issued share capital	Exercisable period	Note
Mr. Wei Jiafu	0.57	1,800,000	–	–	–	–	1,800,000	0.127%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	1,200,000	–	–	–	–	1,200,000	0.085%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Liu Guoyuan	0.57	1,800,000	–	–	–	–	1,800,000	0.127%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	1,200,000	–	–	–	–	1,200,000	0.085%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Li Jianhong	0.57	1,800,000	–	–	–	–	1,800,000	0.127%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	1,200,000	–	–	–	–	1,200,000	0.085%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Zhou Liancheng	0.57	1,800,000	–	–	–	–	1,800,000	0.127%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	1,200,000	–	–	–	–	1,200,000	0.085%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Liu Hanbo	0.57	1,800,000	–	–	–	–	1,800,000	0.127%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	1,200,000	–	–	–	–	1,200,000	0.085%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Chen Pisen	0.57	1,200,000	–	–	–	–	1,200,000	0.085%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	800,000	–	–	–	–	800,000	0.056%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Meng Qinghui	0.57	1,200,000	–	–	–	–	1,200,000	0.085%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	800,000	–	–	–	–	800,000	0.056%	29.12.2004-28.12.2014	(2),(3),(4)

Name of Director	Exercise Price (HK$)	Outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Changed category during the year	Outstanding as at 31st December 2005	Percentage of total issued share capital	Exercisable period	Note
Mr. Lin Libing	0.57	1,200,000	–	–	–	–	1,200,000	0.085%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	800,000	–	–	–	–	800,000	0.056%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. He Jiale[Δ]	0.57	1,800,000	–	–	–	–	1,800,000	0.127%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	1,200,000	–	–	–	–	1,200,000	0.085%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Guo Huawei[Δ]	1.37	800,000	–	–	–	–	800,000	0.056%	29.12.2004-28.12.2014	(2),(3),(4)
Mr. Zhao Kaiji[Δ]	0.57	1,200,000	–	–	–	–	1,200,000	0.085%	23.12.2003-22.12.2008	(1),(3),(4)
	1.37	800,000	–	–	–	–	800,000	0.056%	29.12.2004-28.12.2014	(2),(3),(4)
Ex– Director	0.57	1,200,000	–	–	–	(1,200,000)	–	–	23.12.2003-22.12.2008	(1),(3),(4)
Continuous contract employees of the Company and its subsidiaries	0.57	16,198,000	–	(2,400,000)	– note (6)	–	13,798,000	0.973%	23.12.2003-22.12.2008	(1),(3)
	1.37	21,450,000	–	–	(2,750,000)	–	18,700,000	1.319%	29.12.2004-28.12.2014	(2),(3)
	1.21	–	2,400,000	–	–	–	2,400,000	0.169%	06.06.2005-05.06.2015	(3),(5)
Other participants	0.57	24,950,000	–	(1,400,000)	–	1,200,000	24,750,000	1.745%	23.12.2003-22.12.2008	(1),(3)
	1.37	23,250,000	–	–	–	–	23,250,000	1.639%	29.12.2004-28.12.2014	(2),(3)

Δ *resigned as Executive Director on 25th January 2006*

Note:

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

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

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

(4) During the year ended 31st December 2005, none of the share options of the above Directors were cancelled or lapsed.

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

(6) Clercial mistake

During the year ended 31st December 2005, the aggregate number of share options exercised was 3,800,000 and the weighted average closing price of the Shares immediately before the dates on which the share options were exercised was HK$1.26.

The share options entitled to be exercised will be recorded by the Company as staff cost in the income statement at the fair value of the relevant share options. Upon the exercise of the share options, the shares to be issued will be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares will be recorded by the Company in the share premium account. Share options which have lapsed or been cancelled will be deducted from the outstanding options. Save for the share options referred to in the above table which have lapsed during the year ended 31st December 2005, no share option has lapsed or been cancelled during the year ended 31st December 2005.

The Company adopted Black-Scholes Options Pricing Model (a common valuation methodology for share options) to calculate the value of share options. The fair value for each of the share options granted during the period was HK$0.58 at the date of grant with assumptions as follows:-

(i) interest rate of 10-year Exchange Fund Notes of 3.806% per annum as the risk-free interest rate;

(ii) expected life of 10 years; and

(iii) expected volatility of 50.2%, being the annualized volatility of the closing price of the share from 1st August 2004 to 30th November 2004.

The value of the share options is subject to a number of assumptions and with regard to the limitation of the model. Therefore the value may be subjective and difficult to determine. Particulars and movements of the Company's share options during the year are also set out in note 30 to the financial statements.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2005, the interests of each Director and chief executive of the Company in the equity or debt securities of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director has taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

1. Long positions in shares of associated corporations

Name of Director	Name of associated corporations	Nature of interest and capacity	Total number of shares held	Percentage of total issued share capital
Mr. Kwong Che Keung, Gordon	COSCO Pacific Limited ("COSCO Pacific")	Beneficial owner	250,000	0.012%
Mr. Wei Jiafu	COSCO Corporation (Singapore) Limited ("COSCO SGP")	Beneficial owner	1,400,000	0.128%
Mr. Li Jianhong	COSCO SGP	Beneficial owner	950,000	0.087%
Mr. Zhou Liancheng	COSCO SGP	Beneficial owner	700,000	0.064%

2. Long positions in underlying shares of equity derivatives of associated corporation

(a) Share Options

Name of Director	Name of associated corporation	Exercise price	Outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December 2005	Percentage of total issued share capital	Exercisable period	Note
Mr. Wei Jiafu	COSCO Pacific	HK$9.54	1,000,000	–	(500,000)	–	500,000	0.023%	30.10.2003-29.10.2013	(1),(3),(4)
	COSCO Pacific	HK$13.75	1,000,000	–	–	–	1,000,000	0.046%	03.12.2004-02.12.2014	(2),(3),(4)
	COSCO SGP	SGD0.2	350,000	–	(350,000)	–	–	–	12.08.2003-11.08.2007	(3),(4),(5)
	COSCO SGP	SGD0.2	350,000	–	(350,000)	–	–	–	01.04.2004-31.03.2008	(3),(4),(6)
	COSCO SGP	SGD0.735	700,000	–	(700,000)		–	–	24.05.2005-23.05.2009	(3),(4),(7)
	COSCO SGP	SGD1.614	–	450,000	–	–	450,000	0.041%	06.04.2006-05.04.2010	(3),(4),(8)

Name of Director	Name of associated corporation	Exercise price	Outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December 2005	Percentage of total issued share capital	Exercisable period	Note
Mr. Liu Guoyuan	COSCO Pacific	HK$9.54	100,000	–	(100,000)	–	–	–	28.10.2003-27.10.2013	(1),(3),(4)
	COSCO Pacific	HK$13.75	1,000,000	–	–	–	1,000,000	0.046%	29.11.2004-28.11.2014	(2),(3),(4)
Mr. Li Jianhong	COSCO Pacific	HK$9.54	800,000	–	(400,000)	–	400,000	0.018%	29.10.2003-28.10.2013	(1),(3),(4)
	COSCO Pacific	HK$13.75	1,000,000	–	–	–	1,000,000	0.046%	02.12.2004–01.12.2014	(2),(3),(4)
	COSCO SGP	SGD0.2	200,000	–	(200,000)	–	–	–	12.08.2003-11.08.2007	(3),(4),(5)
	COSCO SGP	SGD0.2	250,000	–	(250,000)	–	–	–	01.04.2004-31.03.2008	(3),(4),(6)
	COSCO SGP	SGD0.735	500,000	–	(500,000)	–	–	–	24.05.2005-23.05.2009	(3),(4),(7)
	COSCO SGP	SGD1.614	–	300,000	–	–	300,000	0.027%	06.04.2006-05.04.2010	(3),(4),(8)
Mr. Zhou Liancheng	COSCO Pacific	HK$9.54	400,000	–	(206,000)	–	194,000	0.009%	29.10.2003-28.10.2013	(1),(3),(4)
	COSCO Pacific	HK$13.75	1,000,000	–	–	–	1,000,000	0.046%	29.11.2004-28.11.2014	(2),(3),(4)
	COSCO SGP	SGD0.735	500,000	–	(500,000)	–	–	–	24.05.2005-23.05.2009	(3),(4),(7)
	COSCO SGP	SGD1.614	–	300,000	–	–	300,000	0.027%	06.04.2006-05.04.2010	(3),(4),(8)
Mr. Liu Hanbo	COSCO Pacific	HK$9.54	700,000	–	–	–	700,000	0.032%	06.11.2003-05.11.2013	(1),(3),(4)
	COSCO Pacific	HK$13.75	800,000	–	–	–	800,000	0.036%	30.11.2004-29.11.2014	(2),(3),(4)
Mr. He Jiale∆	COSCO Pacific	HK$9.54	76,000	–	(76,000)	–	–	–	31.10.2003-30.10.2013	(1),(3),(4)
	COSCO Pacific	HK$13.75	1,000,000	–	(700,000)	–	300,000	0.014%	30.11.2004-29.11.2014	(2),(3),(4)
Mr. Chen Pisen	COSCO Pacific	HK$9.54	50,000	–	–	–	50,000	0.002%	29.10.2003-28.10.2013	(1),(3),(4)
	COSCO Pacific	HK$13.75	600,000	–	–	–	600,000	0.027%	6.12.2004-5.12.2014	(2),(3),(4)
Mr. Meng Qinghui	COSCO Pacific	HK$13.75	1,000,000	–	–	–	1,000,000	0.046%	29.11.2004-28.11.2014	(2),(3),(4)

∆ *resigned as Executive Director on 25th January 2006*

Note:

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

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

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

(4) For the year ended 31st December 2005, none of the share options of the above Directors were cancelled or lapsed.

(5) These share options were granted by COSCO SGP, an associated corporation of the Company, on 12th August 2002.

(6) These share options were granted by COSCO SGP, on 1st April 2003.

(7) These share options were granted by COSCO SGP on 24th May 2004.

(8) These share options were granted by COSCO SGP on 6th April 2005.

(b) Share Appreciation Rights

Name of Director	Name of associated corporation	Exercise price	Outstanding as at 1st January 2005	Unit granted during the year	Unit exercised during the year	Unit lapsed during the year	Outstanding as at 31st December 2005	Exercisable period	Note
Mr. Wei Jiafu	China COSCO Holdings Company Limited ("China COSCO")	HK$3.195	–	900,000	–	–	900,000	16.12.2007- 15.12.2015	(1),(2),(3),(4)
Mr. Liu Guoyuan	China COSCO	HK$3.195	–	600,000	–	–	600,000	16.12.2007- 15.12.2015	(1),(2),(3),(4)
Mr. Li Jianhong	China COSCO	HK$3.195	–	600,000	–	–	600,000	16.12.2007- 15.12.2015	(1),(2),(3),(4)

Note:

(1) Pursuant to the share appreciation rights plan ("Share Appreciation Rights") of China COSCO, an associated corporation of the Company, implemented on 16th December 2005, these Share Appreciation Rights are exercisable during the period from 16th December 2007 to 15th December 2015.

(2) Share Appreciation Rights were granted in units.

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

(4) For the year ended 31st December 2005, none of the Share Appreciation Rights of the above Directors were cancelled or lapsed.

Save as disclosed above and in the section headed "Share Options" and "Share Appreciation Rights" as at 31st December 2005, none of the Directors and the chief executives of the Company had any interest and short positions in the shares, underlying shares or, the equity interest and debentures of the Company or any associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director has taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors or Listed Issuers to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2005, the following persons and entities, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Name of Shareholder	Capacity	Nature of interest	Number of share held Long Positions	Percentage of total issued share capital
COSCO	Interest of controlled corporation	Corporate interest	829,360,511	58.48%
COSCO Hong Kong	Interest of controlled corporation	Corporate interest	829,360,511	58.48%
True Smart International Limited ("True Smart")	Beneficial owner	Beneficial interest	829,360,511	58.48%

Note:

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

Save as disclosed above, as at 31st December 2005, the Company has not been notified of any person or entity had an interests or a short position in the shares and underlying shares of he Company as recorded in the register required to be kept under Section 336 of the SFO.

PUBLIC FLOAT

As at the date of this Annual Report, the Board acknowledge that approximately 42% of the issued capital of the Company are held by the public.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the year ended 31st December 2005, neither the Company nor any of its subsidiaries had redeemed, purchased or sold any of the Company's listed shares.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st December 2005 with the Code of Best Practice as set out in the Appendix 14 of the Listing Rules of which is effective before 31st December 2004.

PRE-EMPTIVE RIGHTS

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

AUDITORS

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

On behalf of the Board

LIU Hanbo
Managing Director

Hong Kong, 30th March 2006

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AUDITORS' REPORT TO THE SHAREHOLDERS OF
COSCO INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 70 to 146 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of the financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

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

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 30th March 2006

Consolidated Income Statement

For the year ended 31st December 2005

	Note	2005 HK$'000	2004 HK$'000
Turnover	5	**1,510,676**	1,688,374
Cost of sales		**(1,123,699)**	(1,270,912)
Gross profit		**386,977**	417,462
Other income	5	**18,436**	2,679
Selling and distribution expenses		**(112,276)**	(109,094)
Other gains - net	7	**358,892**	116,935
Administrative expenses		**(136,389)**	(92,068)
Other operating expenses		**(8,963)**	(19,873)
Operating profit	6	**506,677**	316,041
Finance costs	8	**(20,524)**	(15,610)
Share of profits of jointly controlled entities	20	**64,888**	12,888
Profit before income tax		**551,041**	313,319
Income tax expense	9	**(25,398)**	(50,403)
Profit for the year		**525,643**	262,916
Attributable to:			
Equity holders of the Company	10	**496,463**	219,158
Minority interests		**29,180**	43,758
		525,643	262,916
Dividends	11	**63,820**	35,361
Earnings per share for profit attributable to the equity holders of the Company during the year			
(expressed in Hong Kong cents per share)			
– basic	12	**35.04**	15.54
– fully diluted	12	**34.35**	15.22

Consolidated Balance Sheet

As at 31st December 2005

	Note	2005 HK$'000	Restated 2004 HK$'000
ASSETS			
Non-current assets			
Investment properties	14	**32,614**	425,100
Intangible assets	15	**79,616**	62,321
Property, plant and equipment	16	**60,030**	204,147
Prepaid premium for land leases	17	**11,542**	568,478
Associated companies	19	**5,919**	8,365
Jointly controlled entities	20	**305,276**	210,454
Available-for-sale financial assets/other investment in a joint venture and investment securities	21	**86,806**	73,526
		581,803	1,552,391
Current assets			
Completed properties held for sale	22	**81,956**	50,878
Properties under development for sale	23	**144,529**	194,634
Inventories	24	**163,944**	216,478
Trade and other receivables	25	**455,841**	410,204
Financial assets at fair value through profit or loss/short-term investments	27	**350**	327
Non-current assets classified as held for sale		**9,179**	–
Cash and cash equivalents	28	**1,274,085**	562,870
		2,129,884	1,435,391
Total assets		**2,711,687**	2,987,782
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	30	**141,824**	141,444
Reserves	31	**1,401,722**	940,514
Proposed dividends	31	**49,638**	35,361
		1,593,184	1,117,319
Minority interests		**193,853**	188,895
Total equity		**1,787,037**	1,306,214
LIABILITIES			
Non-current liabilities			
Borrowings	32	**96,090**	865,889
Deferred income tax liabilities	33	**85**	–
		96,175	865,889
Current liabilities			
Trade and other payables	29	**810,867**	673,959
Current income tax liabilities		**7,038**	19,101
Borrowings	32	**10,570**	122,619
		828,475	815,679
Total liabilities		**924,650**	1,681,568
Total equity and liabilities		**2,711,687**	2,987,782
Net current assets		**1,301,409**	619,712
Total assets less current liabilities		**1,883,212**	2,172,103

LIU Hanbo
Managing Director

LIN Libing
Deputy Managing Director

Balance Sheet

As at 31st December 2005

	Note	2005 HK$'000	Restated 2004 HK$'000
ASSETS			
Non-current assets			
Plant and equipment	16	**434**	491
Subsidiaries	18(a)	**111,027**	111,027
Jointly controlled entity	20	**42,808**	–
Available-for-sale financial assets/investment securities	21	**15,027**	7,648
		169,296	119,166
Current assets			
Other receivables	25	**3,469**	3,779
Amounts due from subsidiaries, net	18(b)	**1,697,720**	2,067,929
Cash and cash equivalents	28	**555,682**	62,581
		2,256,871	2,134,289
Total assets		**2,426,167**	2,253,455
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	30	**141,824**	141,444
Reserves	31	**1,233,770**	877,293
Proposed dividends	31	**49,638**	35,361
Total equity		**1,425,232**	1,054,098
LIABILITIES			
Non-current liability			
Borrowings	32	**–**	842,271
Current liabilities			
Other payables	29	**7,018**	3,158
Amounts due to subsidiaries	18(b)	**993,917**	341,103
Borrowings	32	**–**	12,825
		1,000,935	357,086
Total liabilities		**1,000,935**	1,199,357
Total equity and liabilities		**2,426,167**	2,253,455

LIU Hanbo
Managing Director

LIN Libing
Deputy Managing Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2005

	Note	Attributable to equity holders of the Company Share capital HK$'000	Reserves HK$'000	Minority interests HK$'000	Total HK$'000
Balance at 1st January 2004,					
as previously reported		139,439	747,633	–	887,072
Reclassification of minority interests as equity		–	–	87,259	87,259
Balance at 1st January 2004, adjusted		139,439	747,633	87,259	974,331
Acquisition of subsidiaries		–	–	70,555	70,555
Issue of shares	30	2,005	9,425	–	11,430
Share issue expenses	31	–	(150)	–	(150)
Exchange differences	31	–	(191)	–	(191)
Profit for the year	31	–	219,158	43,758	262,916
Dividends		–	–	(12,677)	(12,677)
Balance at 31st December 2004		141,444	975,875	188,895	1,306,214
Balance at 1st January 2005,					
as previously reported		141,444	975,875	–	1,117,319
Reclassification of minority interests as equity		–	–	188,895	188,895
Opening adjustment on the adoption of HKFRS 3	2(b)	–	8,315	–	8,315
Opening adjustment on the adoption of HKAS 39	2(b)&21	–	11,012	–	11,012
Balance at 1st January 2005, adjusted		141,444	995,202	188,895	1,325,541
Issue of shares	30	380	1,786	–	2,166
Exchange differences	31	–	4,312	3,537	7,849
Capital distribution to minority shareholder of a subsidiary		–	–	(7,659)	(7,659)
Capital contribution from minority shareholder of a subsidiary		–	–	2,162	2,162
Fair value gains on available-for-sale financial assets	31	–	1,790	–	1,790
Employee share option benefits	31	–	1,400	–	1,400
Profit for the year	31	–	496,463	29,180	525,643
Dividends		–	(49,593)	(22,262)	(71,855)
Balance at 31st December 2005		141,824	1,451,360	193,853	1,787,037

Consolidated Cash Flow Statement

For the year ended 31st December 2005

	Note	2005 HK$'000	2004 HK$'000
Cash flows from operating activities			
Cash generated from operations	34(a)	**308,714**	142,804
Hong Kong profits tax paid		**(19,648)**	(3,607)
Overseas profits tax paid		**(20,289)**	(55,781)
Net cash from operating activities		**268,777**	83,416
Cash flows from investing activities			
Decrease in bank deposits with maturity over three months		**47,661**	93,925
Income received from other investment in a joint venture		**–**	22,839
Interest received		**18,436**	2,679
Dividends received		**5,838**	3,882
Dividend received from a jointly controlled entity		**13,889**	9,334
Proceeds from sale of property, plant and equipment		**5,274**	1,134
Purchase of investment securities		**–**	(7,647)
Purchase of property, plant and equipment		**(10,933)**	(5,767)
Capital distribution by an associated company		**2,446**	–
Acquisition of subsidiaries		**–**	(95,894)
Net cash generated from the acquisition of a subsidiary	37	**34,496**	–
Acquisition of a jointly controlled entity	20	**(42,808)**	–
Disposal of subsidiaries	34(b)	**1,386,617**	–
Net cash from investing activities		**1,460,916**	24,485
Cash flows from financing activities			
Drawdown of bank and other loans	34(c)	**106,660**	335,572
Repayment of bank and other loans	34(c)	**(964,890)**	(352,420)
Repayment of loan from a minority shareholder of a subsidiary	34(c)	**(23,618)**	–
Capital distribution to a minority shareholder of a subsidiary	34(c)	**(7,659)**	–
Capital contribution from a minority shareholder of a subsidiary	34(c)	**2,162**	–
Dividends paid to minority shareholders	34(c)	**(22,262)**	(12,677)
Issue of share capital	30	**2,166**	11,430
Loan from a minority shareholder of a subsidiary	34(c)	**–**	23,618
Interest paid		**(20,524)**	(15,610)
Share issue expenses	30	**–**	(150)
Dividends paid to the Company's equity holders		**(49,593)**	–
Net cash used in financing activities		**(977,558)**	(10,237)
Net increase in cash and cash equivalents		**752,135**	97,664
Cash and cash equivalents at beginning of the year		**510,744**	413,271
Exchange gains/(losses) on cash and cash equivalents		**6,741**	(191)
Cash and cash equivalents at end of the year	28	**1,269,620**	510,744

Notes to the Financial Statements

1. GENERAL INFORMATION

COSCO International Holdings Limited ("the Company") and its subsidiaries ("the Group") are principally engaged in the provision of ship trading and supplying services, property development and property investment, and building construction.

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

These consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Basis of preparation

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

The adoption of new/revised HKFRS

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
HK-Int 3	Revenue – Pre-completion of Contracts for the Sale of Development Properties
HK-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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

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

(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, HK-Int 4 and HKAS-Int 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, HK-Int 4 and HKAS-Int 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

(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. The Group's new share-based payment policy is set out in note 2 (v)(ii).

(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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

(ix) The adoption of HK-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:

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

	Effect of adopting						
	HKFRS 2 HK$'000	HKAS 17 HK$'000	HKASs 32 and 39 HK$'000	HKFRS 3, HKASs 36 and 38 HK$'000	HKAS 40 HK$'000	HKFRS 5 HK$'000	Total HK$'000
b) Consolidated balance sheet							
At 31st December 2005							
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
At 31st December 2004							
Decrease in property, plant and equipment	–	(568,478)	–	–	–	–	(568,478)
Increase in prepaid premium for land leases	–	568,478	–	–	–	–	568,478

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

No early adoption of the following new Standards, Interpretations and Amendments that have been issued but are not yet effective. The adoption of such Standards, Interpretations and Amendments will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 (Amendment) and HKFRS 4	Financial guarantee contracts (Amendments)[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HKFRS -Int 4	Determining whether an arrangement contains a lease[2]
HKFRS -Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HKFRS -Int 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[3]

1 Effective for annual reports beginning on or after 1st January 2007

2 Effective for annual reports beginning on or after 1st January 2006

3 Effective for annual reports beginning on or after 1st December 2005

(c) Basis of consolidation

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

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

(d) Subsidiaries

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see note 2(g)).

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

(e) Associated companies

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition.

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

(f) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Investments in jointly controlled entities are accounted for by the equity method of accounting. The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill on acquisition.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Intangible assets

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

After initial recognition, goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(h) Properties

(i) Investment properties

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

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

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

Changes in fair values are recognised in the income statement.

(ii) Properties under development for sale

Properties under development for sale are included in current assets and stated at cost plus attributable profits taken to date, less provisions for any foreseeable losses and sales instalments received and receivable. Cost includes the cost of land, development expenditure, other attributable expenses and borrowing costs capitalised.

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

(iii)Completed properties held for sale

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

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

(iv) Prepaid premium for land leases

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Depreciation of property, plant and equipment is calculated using straight line method to allocate cost less their residual values over their estimated useful lives as follows:

Buildings	20 – 50 years
Machinery	5 – 10 years
Equipment and motor vehicles	3 – 5 years
Leasehold improvements	3 – 5 years
Furniture and fixtures	3 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

(j) Impairment of assets

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

(k) Inventories

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Investments

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

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

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

(ii) Loans and receivables

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

(iii) Available-for-sale financial assets

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

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in the investment revaluation reserve. Upon disposal, the difference between net sale proceeds and the carrying value, and accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Investments (Continued)

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

(m) Construction contracts in progress

Construction contracts in progress are stated at cost plus attributable profits less allowances for foreseeable losses and progress payments received and receivable. Contract costs comprise direct materials, direct labour, sub-contracting charges and an appropriate portion of construction overheads. Where progress billings received and receivable on construction contracts exceed contract costs incurred to date plus recognised profits less recognised losses, the net amount is treated as amounts due to contract customers. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings received and receivable on construction contracts, the net amount is treated as amounts due from contract customers.

The accounting policy for recognition of contract revenue is set out in note 2(w)(ii).

(n) Operating leases

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

(o) Trade and other receivables

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

(p) Cash and cash equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Provisions

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

(r) Contingent liabilities

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

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

(s) Deferred income tax

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

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

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

(t) Foreign currency translation

(i) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Foreign currency translation (Continued)

(iii)Group companies

Translation differences on non-monetary items are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity. On consolidation, the results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

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

(u) Borrowing costs

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

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

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

(v) Employee benefits

(i) Pension and retirement benefits

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Employee benefits (Continued)

(i) Pension and retirement benefits (Continued)

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

(ii) Share-based compensation

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

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

(w) Revenue recognition

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

(i) Sale of properties

(1) Properties under development for sale

Refer to note 2(b)(ix), the Group has continued to use the stage of completion method to recognise revenue from the sale of properties under development entered into before 1st January 2005. When a development property is sold in advance of completion, recognition of profit commences when a legally binding sale and purchase agreement has been executed. The profit recognised in a year is computed as a proportion of the total estimated profit to completion and such proportion is taken to be the percentage of construction costs incurred at the end of the year to the estimated total construction costs on completion, with due allowance for contingencies. The profit so recognised is restricted to the amount of instalments received.

In respect of property sales entered into on or after 1st January 2005, revenue is recognised upon completion of development.

(2) Completed properties held for sale

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue recognition (Continued)

(ii) Construction contracts

Revenue from construction contracts is recognised based on the stage of completion of the contracts when the outcome of the contracts can be ascertained with reasonable certainty. The stage of completion of a contract is established by reference to the gross billing value of contracting work to date as certified by qualified architects and/or engineers as compared to the total sum under the contract.

(iii) Rental income

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

(iv) Income from other investment in a joint venture

Income from other investment in a joint venture is recognised when the right to receive investment income is established.

(v) Sales of coating products

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

(vi) Commission income

(1) Agency commission income

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

(2) Brokerage commission income

Brokerage commission income is recognised when premium becomes due.

(vii) Dividend income

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

(x) Segment reporting

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

(y) Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include trade and other receivables, trade and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Currency risk

The Group is subject to foreign exchange risk arising from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

A majority of the Group's transactions, balances and investments are denominated in Hong Kong dollars, Renminbi and US dollars. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(b) Price risk

The Group is exposed to equity securities price risk. To manage this exposure, the management of the Group maintains a portfolio of investments with different risk profiles.

(c) Credit risk

The Group is exposed to credit risk in relation to its financial assets. To manage this exposure, the management of the Group has predetermined credit limits and other credit approval procedures. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group has no significant concentrations of credit risk, with exposure spread over a number of counterparties and customers. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed credit facilities. The Company aims to maintain flexibility in funding by keeping committed credit lines available.

(e) Fair value interest rate risk

The Group's fair value interest rate risk relates to fixed-rate borrowings (see note 32 for details of these borrowings). With the current level of debt which is low, the Group considers the exposure is minimal but will explore ways to reduce the exposure should new borrowings be required to support the Group's operations.

3. FINANCIAL RISK MANAGEMENT (Continued)

(f) Fair value estimation

The fair value of financial instruments traded in active markets (such as shares of publicly listed companies) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the closing price at year end date.

The fair value of financial instruments that are not traded in an active market is determined by using discounted cash flow valuation techniques.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December 2005, the carrying amount of goodwill was HK$79,616,000. Details of the recoverable amount calculation are disclosed in note 15.

(b) Estimate of fair value of investment properties

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

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

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

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

(d) Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31st December 2005 was HK$60,030,000. The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful life of three to fifty years, and after taking into account of their estimated residual value, using the straight-line method. The estimated useful life reflects the directors' best estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

(e) Allowances for inventory

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

(f) Allowances for bad and doubtful debts

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

5. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the provision of ship trading and supplying services, property development and property investment, and building construction. Turnover and other income recognised during the year are as follows:

	2005 HK$'000	2004 HK$'000
Turnover		
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
	1,510,676	1,688,374
Other income		
Interest income	**18,436**	2,679
	1,529,112	1,691,053

Primary reporting format – business segments

The Group is organised into three main business segments:

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

Other operations of the Group comprise mainly holding of financial assets, provision of building management services and infrastructure investment.

There were no transactions between business segments during both year 2005 and 2004.

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Secondary reporting format – geographical segments

The Group's business segments operated in Hong Kong and the China Mainland are as follows:

Hong Kong	– provision of agency services in respect of trading of vessels, marine equipment, bareboat charter business
	– trading of spare parts and navigation equipment for vessels
	– provision of insurance brokerage services
	– construction of buildings
	– holding of properties for rental purpose
China Mainland	– manufacturing and trading of coating products
	– development of properties
	– holding of properties for rental purpose
	– investment in a power plant project

There were no transactions between geographical segments during both year 2005 and 2004.

Primary reporting format – business segments

	Ship trading and supplying services 2005 HK$'000	Property development and property investment 2005 HK$'000	Building construction 2005 HK$'000	Other operations 2005 HK$'000	Group 2005 HK$'000
Segment turnover	1,344,964	141,613	21,491	2,608	1,510,676
Segment results	127,157	344,672	46,670	(5,035)	513,464
Unallocated corporate expenses, net of income					(6,787)
Operating profit					506,677
Finance costs					(20,524)
Share of profits of jointly controlled entities	5,661	59,227	–	–	64,888
Profit before income tax					551,041
Income tax expense					(25,398)
Profit for the year					525,643

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	Ship trading and supplying services 2005 HK$'000	Property development and property investment 2005 HK$'000	Building construction 2005 HK$'000	Other operations 2005 HK$'000	Group 2005 HK$'000
Segment assets	1,087,635	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					730,570
Total assets					2,711,687
Segment liabilities	655,993	149,299	109,199	357	914,848
Current income tax liabilities					7,038
Unallocated liabilities					2,764
Total liabilities					924,650
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	–	–	(53,199)	–	(53,199)
Capital expenditure	24,123	294	–	183	24,600

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	Ship trading supplying services 2004 HK$'000	Property and development and property investment 2004 HK$'000	Building construction 2004 HK$'000	Other operations 2004 HK$'000	Group 2004 HK$'000
Segment turnover	967,579	407,531	306,814	6,450	1,688,374
Segment results	124,174	258,508	(19,146)	(28,990)	334,546
Unallocated corporate expenses, net of income					(18,505)
Operating profit					316,041
Finance costs					(15,610)
Share of profit of a jointly controlled entity	–	12,888	–	–	12,888
Profit before income tax					313,319
Income tax expense					(50,403)
Profit for the year					262,916

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	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 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					192,023
Total assets					2,987,782
Segment liabilities	427,938	748,117	217,686	105	1,393,846
Current income tax liabilities					19,101
Unallocated liabilities					268,621
Total liabilities					1,681,568
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	23,431
Capital expenditure	91,050	1,151	246	–	92,447

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Secondary reporting format – geographical segments

	Turnover 2005 HK$'000	Segment results 2005 HK$'000	Total assets 2005 HK$'000	Capital expenditure 2005 HK$'000
Hong Kong	**493,642**	**450,411**	**322,460**	**14,870**
China Mainland	**1,017,034**	**63,053**	**1,260,656**	**9,730**
	1,510,676	**513,464**	**1,583,116**	**24,600**
Unallocated corporate expenses, net of income		**(6,787)**		
Operating profit		**506,677**		
Associated companies			**5,919**	
Jointly controlled entities			**305,276**	
Available-for-sale financial assets			**86,806**	
Unallocated assets			**730,570**	
Total assets			**2,711,687**	

	Turnover 2004 HK$'000	Segment results 2004 HK$'000	Total assets 2004 HK$'000	Capital expenditure 2004 HK$'000
Hong Kong	435,132	185,309	1,456,971	36,462
China Mainland	1,253,242	149,237	1,046,443	55,985
	1,688,374	334,546	2,503,414	92,447
Unallocated corporate expenses, net of income		(18,505)		
Operating profit		316,041		
Associated companies			8,365	
Jointly controlled entity			210,454	
Other investment in a joint venture and investment securities			73,526	
Unallocated assets			192,023	
Total assets			2,987,782	

6. OPERATING PROFIT

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

	2005 HK$'000	2004 HK$'000
Net rental income (note 6(a))	**16,195**	27,491
Depreciation (note 6(b))	**(8,513)**	(10,952)
Operating lease rental expense (note 6(c))	**(5,883)**	(1,620)
Net exchange (loss)/gain	**(2,333)**	149
Auditors' remuneration	**(1,686)**	(1,533)
Amortisation of goodwill – net (note 15)	**–**	(2,495)
Amortisation of leasehold land (note 17)	**(2,202)**	(13,027)
Amortisation of the cost of other investment in a joint venture	**–**	(3,479)
Employee benefit expenses, including directors' emoluments (note 6(d))	**(104,787)**	(72,511)
Cost of inventories sold	**(1,017,661)**	(679,311)
Cost of completed properties sold	**(22,500)**	(13,382)
Other gains – net (note 7)	**358,892**	116,935

(a) Net rental income

	2005 HK$'000	2004 HK$'000
Gross rental income from		
investment properties	**18,994**	5,638
other properties	**730**	26,548
	19,724	32,186
Outgoings	**(3,529)**	(4,695)
	16,195	27,491

(b) Depreciation

	2005 HK$'000	2004 HK$'000
Charge for the year	**8,939**	11,999
Capitalised in construction contracts in progress	**–**	(233)
Capitalised in inventories	**(426)**	(814)
	8,513	10,952

6. OPERATING PROFIT (Continued)

(c) Operating lease rental expense

	2005 HK$'000	2004 HK$'000
Land and buildings	**5,883**	1,620
Plant and machinery	**–**	211
	5,883	1,831
Capitalised in construction contracts in progress	**–**	(211)
	5,883	1,620

(d) Employee benefit expenses, including directors' emoluments

	2005 HK$'000	2004 HK$'000
Wages and salaries	**98,089**	92,499
Employee share option benefits	**1,400**	–
Pension costs – defined contribution scheme (note)	**8,367**	3,425
Employee benefit expenses, including directors' emoluments (note 13)	**107,856**	95,924
Capitalised in construction contracts in progress	**–**	(17,355)
Capitalised in inventories	**(3,069)**	(6,058)
	104,787	72,511

Note:

There were no forfeited contributions (2004: Nil) utilised during the year and no further forfeited contributions were available at year end to reduce future contributions.

There were no contributions (2004: Nil) payable to the MPF Scheme at year-end.

7. OTHER GAINS – NET

	2005 HK$'000	2004 HK$'000
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**	–
Gain on disposal/write-off of plant and equipment, net	**4,848**	317
Others	**3,544**	9,999
	358,892	116,935

8. FINANCE COSTS

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

9. 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 HK$'000	2004 HK$'000
Current income tax		
– Hong Kong profits tax	**11,962**	5,947
– China Mainland taxation	**13,351**	44,456
Deferred income tax (note 33)	**85**	–
Tax expense	**25,398**	50,403

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

	2005 HK$'000	2004 HK$'000
Profit before income tax (excluding share of profits of jointly controlled entities)	**486,153**	300,431
Calculated at a tax rate of 17.5% (2004: 17.5%)	**85,077**	52,575
Effect of different tax rate in the China Mainland	**233**	8,091
Income not subject to tax	**(59,791)**	(26,449)
Expenses not deductible for tax purposes	**4,304**	13,950
Tax losses not recognised	**10,217**	6,366
Utilisation of previously unrecognised tax losses	**(14,642)**	(4,130)
Tax expense	**25,398**	50,403

10. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$409,782,000 (2004: HK$143,391,000).

11. DIVIDENDS

The dividends paid during the year ended 31st December 2005 were HK$49,593,000. No dividends were paid during the year ended 31st December 2004.

	2005 HK$'000	2004 HK$'000
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
	63,820	35,361

At the board meeting held on 30th March 2006, the directors proposed a final dividend of HK$0.021 per ordinary share and a special dividend of HK$0.014 per ordinary share for the year ended 31st December 2005. These proposed dividends are not reflected as dividend payable in the financial statements until it has been approved at the annual general meeting, but will be reflected as an appropriation of retained profit for the year ending 31st December 2006.

12. 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.

13. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

(a) Directors' emoluments

Details of the emoluments paid and payable to the directors of the Company for the year ended 31st December 2005 are as follows:

Name of directors	Fees HK$'000	Salaries and other emoluments HK$'000	Total HK$'000
Mr. Liu Guoyuan	–	3,750	3,750
Mr. Liu Hanbo	–	2,400	2,400
Mr. Zhao Kaiji (resigned on 25th January 2006)	–	660	660
Mr. Lin Libing	–	1,080	1,080
Mr. Chan Cheong Foon, Andrew	185	–	185
Mr. Kwong Che Keung, Gordon	185	–	185
Mr. Tsui Yiu Wa, Alec	185	–	185
	555	7,890	8,445

Details of the emoluments paid and payable to the directors of the Company for the year ended 31st December 2004 are as follows:

Name of directors	Fees HK$'000	Salaries and other emoluments HK$'000	Total HK$'000
Mr. Liu Hanbo	–	2,400	2,400
Mr. Zhao Kaiji	–	1,080	1,080
Mr. Lin Libing	–	1,080	1,080
Mr. Chan Cheong Foon, Andrew	175	–	175
Mr. Kwong Che Keung, Gordon	100	–	100
Mr. Tsui Yiu Wa, Alec	170	–	170
Mr. Alexander Reid Hamilton (retired on 3rd June 2004)	72	–	72
	517	4,560	5,077

As at 31st December 2005, the directors of the Company had outstanding share options to subscribe for 26,800,000 shares of the Company (refer to note 30 for details).

13. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

(a) Directors' emoluments (Continued)

The directors were granted share options by COSCO Pacific Limited ("COSCO Pacific"), a fellow subsidiary, details of which are as follows:

Category	Note	Exercise price HK$	Number of share options: Outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Outstanding as at 31st December 2005
Directors	i	9.54	3,126,000	–	(1,282,000)	1,844,000
	ii	13.75	7,400,000	–	(700,000)	6,700,000
			10,526,000	–	(1,982,000)	8,544,000

The directors were granted share options by COSCO Corporation (Singapore) Limited ("COSCO SGP"), a fellow subsidiary, details of which are as follows:

Category	Note	Exercise price S$	Number of share options: Outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Outstanding as at 31st December 2005
Directors	iii	0.2	550,000	–	(550,000)	–
	iv	0.2	600,000	–	(600,000)	–
	v	0.735	1,700,000	–	(1,700,000)	–
	vi	1.614	–	1,050,000	–	1,050,000
			2,850,000	1,050,000	(2,850,000)	1,050,000

The directors were granted share appreciation rights by China COSCO Holdings Company Limited ("China COSCO"), a fellow subsidiary, details of which are as follows:

Category	Note	Exercise price HK$	Number of units of share appreciation rights: Outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Outstanding as at 31st December 2005
Directors	vii	3.195	–	2,175,000	–	2,175,000

13. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

(a) Directors' emoluments (Continued)

Note:

(i) The share options were granted by COSCO Pacific during the period from 28th October 2003 to 6th November 2003 and are exercisable at any time within ten years from their respective date on which an offer is accepted or deemed to be accepted.

(ii) The share options were granted by COSCO Pacific during the period from 25th November 2004 to 16th December 2004 and are exercisable at any time within ten years from their respective date of acceptance of the share options.

(iii) The share options were granted by COSCO SGP on 12th August 2002 and are exercisable at any time from 12th August 2003 to 11th August 2007.

(iv) The share options were granted by COSCO SGP on 1st April 2003 and are exercisable at any time from 1st April 2004 to 31st March 2008.

(v) The share options were granted by COSCO SGP on 24th May 2004 and are exercisable at any time from 24th May 2005 to 23rd May 2009.

(vi) The share options were granted by COSCO SGP on 6th April 2005 and are exercisable at any time from 6th April 2006 to 5th April 2010.

(vii) Pursuant to the share appreciation rights plan ("Share Appreciation Rights") of China COSCO implemented on 16th December 2005, these Share Appreciation Rights are exercisable during the period from 16th December 2007 to 15th December 2015. The Share Appreciation Rights were granted in units with each unit representing one H share of China COSCO. These Share Appreciation Rights represent personal interest held by the relevant participants as beneficial owners. The beneficial owners of these Share Appreciation Rights are entitled to the premium of the price of the issued shares of China COSCO over the exercise price of the share appreciation rights.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2004: two) directors whose emoluments are reflected in the above analysis. The emoluments paid and payable to the remaining two (2004: three) individuals during the year are as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries, share options, other allowances and benefit-in-kind	**2,531**	4,690
Pension costs – defined contribution scheme	**21**	36
	2,552	4,726

The emoluments of these individuals fell within the following bands:

	Number of individuals	
Emolument bands	2005	2004
HK$1,000,001 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**1**	2
	2	3

14. INVESTMENT PROPERTIES

	Group	
	2005	**2004**
	HK$'000	**HK$'000**
At 1st January	**425,100**	269,134
Adjustment on the adoption of HKAS 40	**522,602**	–
Exchange difference	**(10)**	–
Fair value gains	**257,046**	–
Write-back of deficit on revaluation of investment properties	**–**	155,966
Disposal of subsidiaries (note 34(b))	**(1,172,124)**	–
At 31st December	**32,614**	425,100

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

	2005	**2004**
	HK$'000	**HK$'000**
In Hong Kong, held on leases of between 10 and 50 years	**–**	398,000
Outside Hong Kong, held on leases of between 10 and 50 years	**4,914**	–
Outside Hong Kong, held on leases of over 50 years	**27,700**	27,100
	32,614	425,100

The investment properties were revalued at 31st December 2005 on the basis of their open market value by an independent firm of Chartered Surveyors, DTZ Debenham Tie Leung Limited.

As at 31st December 2004, investment properties in Hong Kong of HK$398,000,000 were pledged as securities to a bank in respect of certain banking facilities granted to the Group.

15. INTANGIBLE ASSETS

	Goodwill		Negative goodwill		Total	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Cost						
At 1st January	**76,620**	40,675	**(8,753)**	–	**67,867**	40,675
Opening adjustment on the adoption of HKFRS 3	**–**	–	**8,753**	–	**8,753**	–
Acquisition of subsidiaries (note 37)	**8,980**	35,945	**–**	(8,753)	**8,980**	27,192
At 31st December	**85,600**	76,620	**–**	(8,753)	**85,600**	67,867
Accumulated amortisation						
At 1st January	**5,984**	3,051	**(438)**	–	**5,546**	3,051
Opening adjustment on the adoption of HKFRS 3	**–**	–	**438**	–	**438**	–
Amortisation charge (note 6)	**–**	2,933	**–**	(438)	**–**	2,495
At 31st December	**5,984**	5,984	**–**	(438)	**5,984**	5,546
Net book value						
At 31st December	**79,616**	70,636	**–**	(8,315)	**79,616**	62,321

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units under ship trading and supplying services business segment as follows:

	2005 HK$'000	2004 HK$'000
Agency services in respect of trading of vessels, marine equipment, bareboat charter business ("Ship trade business")	**35,590**	35,590
Trading of spare parts and navigation equipment for vessels ("Supply business")	**8,980**	–
Provision of insurance brokerage services ("Insurance business")	**35,046**	35,046
	79,616	70,636

15. INTANGIBLE ASSETS (Continued)

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

Key assumptions used for value-in-use calculations

	Ship trade business	Supply business	Insurance business
Growth rate	2.5%	2.5%	5.8%
Discount rate	9.8%	9.8%	9.8%

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

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Machinery, equipment and motor vehicles HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Total HK$'000
At 1st January 2004					
Cost	177,035	51,980	11,576	7,637	248,228
Accumulated depreciation and impairment	(21,492)	(48,005)	(11,290)	(6,980)	(87,767)
Net book amount	155,543	3,975	286	657	160,461
Year ended 31st December 2004					
Opening net book amount	155,543	3,975	286	657	160,461
Acquisition of subsidiaries	34,313	12,669	–	3,753	50,735
Additions	72	3,268	81	2,346	5,767
Depreciation	(5,872)	(4,939)	(81)	(1,107)	(11,999)
Disposals/write-off	–	(339)	–	(478)	(817)
Closing net book amount	184,056	14,634	286	5,171	204,147
At 31st December 2004					
Cost	226,185	79,548	12,019	17,133	334,885
Accumulated depreciation and impairment	(42,129)	(64,914)	(11,733)	(11,962)	(130,738)
Net book amount	184,056	14,634	286	5,171	204,147
Year ended 31st December 2005					
Opening net book amount	**184,056**	**14,634**	**286**	**5,171**	**204,147**
Adjustment on the adoption of HKAS 40	**(112,503)**	**–**	**–**	**–**	**(112,503)**
Acquisition of a subsidiary (note 37)	**3,686**	**455**	**366**	**180**	**4,687**
Additions	**2,092**	**7,291**	**6**	**1,544**	**10,933**
Exchange differences	**745**	**300**	**(8)**	**81**	**1,118**
Depreciation	**(2,933)**	**(4,266)**	**(208)**	**(1,532)**	**(8,939)**
Disposal of subsidiaries (note 34(b))	**(38,987)**	**–**	**–**	**–**	**(38,987)**
Disposals/write-off	**–**	**(345)**	**–**	**(81)**	**(426)**
Closing net book amount	**36,156**	**18,069**	**442**	**5,363**	**60,030**
At 31st December 2005					
Cost	**56,070**	**55,038**	**10,761**	**18,413**	**140,282**
Accumulated depreciation and impairment	**(19,914)**	**(36,969)**	**(10,319)**	**(13,050)**	**(80,252)**
Net book amount	**36,156**	**18,069**	**442**	**5,363**	**60,030**

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Machinery, equipment and motor vehicles HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Total HK$'000
At 1st January 2004				
Cost	3,198	7,344	1,128	11,670
Accumulated depreciation and impairment	(2,812)	(7,235)	(1,114)	(11,161)
Net book amount	386	109	14	509
Year ended 31st December 2004				
Opening net book amount	386	109	14	509
Additions	202	–	–	202
Depreciation	(173)	(30)	(5)	(208)
Disposals/write-off	(12)	–	–	(12)
Closing net book amount	403	79	9	491
At 31st December 2004				
Cost	2,639	7,344	1,124	11,107
Accumulated depreciation and impairment	(2,236)	(7,265)	(1,115)	(10,616)
Net book amount	403	79	9	491
Year ended 31st December 2005				
Opening net book amount	**403**	**79**	**9**	**491**
Additions	**183**	**–**	**–**	**183**
Depreciation	**(190)**	**(45)**	**(5)**	**(240)**
Closing net book amount	**396**	**34**	**4**	**434**
At 31st December 2005				
Cost	**2,822**	**7,344**	**1,124**	**11,290**
Accumulated depreciation and impairment	**(2,426)**	**(7,310)**	**(1,120)**	**(10,856)**
Net book amount	**396**	**34**	**4**	**434**

17. PREPAID PREMIUM FOR LAND LEASES

	Group	
	2005 HK$'000	2004 HK$'000
At 1st January	**568,478**	578,374
Adjustment on the adoption of HKAS 40	**(410,099)**	–
Acquisition of a subsidiary (note 37)	**8,714**	3,131
Write-back of impairment loss	**46,719**	–
Amortisation	**(2,202)**	(13,027)
Disposal of subsidiaries (note 34(b))	**(190,889)**	–
Transfer to non-current assets classified as held for sale (note)	**(9,179)**	–
At 31st December	**11,542**	568,478

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

	2005 HK$'000	2004 HK$'000
In Hong Kong, held on leases of between 10 and 50 years	**2,204**	565,347
In Hong Kong, held on leases of over 50 years	**6,389**	–
Outside Hong Kong, held on leases of less than 10 years	**2,949**	3,131
	11,542	568,478

Note:

On 18th January 2006, the Group entered into a sale and purchase agreement to dispose of the land lease held by one of the Group's subsidiaries. The disposal of the land lease will be completed in May 2006. Accordingly, the land lease is transferred to non-current assets classified as held for sale as at 31st December 2005.

18. SUBSIDIARIES

(a) Investments in subsidiaries

	Company 2005 HK$'000	Company Restated 2004 HK$'000
Unlisted investments, at cost	**111,027**	111,027

(b) Amounts due from/to subsidiaries

	Company 2005 HK$'000	Company Restated 2004 HK$'000
Amounts due from subsidiaries	**2,870,580**	3,619,834
Provision for impairment loss	**(1,172,860)**	(1,551,905)
	1,697,720	2,067,929
Amounts due to subsidiaries	**993,917**	341,103

The amounts due from/to subsidiaries are interest-free and repayable on demand. Particulars of the principal subsidiaries which, in the opinion of the directors, principally affect the results and/or assets of the Group at 31st December 2005 are set out in note 39 to the financial statements.

19. ASSOCIATED COMPANIES

	Group 2005 HK$'000	Group Restated 2004 HK$'000
At 1st January	**8,365**	8,365
Capital distribution by an associated company	**(2,446)**	–
At 31st December	**5,919**	8,365
Share of net assets of associated companies	**5,919**	8,365

20. JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
At 1st January	**210,454**	206,900	**–**	–
Acquisition of a subsidiary (note 37)	**1,015**	–	**–**	–
Acquisition of a jointly controlled entity	**42,808**	–	**42,808**	–
Share of results of jointly controlled entities				
– profit before income tax	**106,554**	30,835	**–**	–
– income tax expense	**(41,666)**	(17,947)	**–**	–
	64,888	12,888	**–**	–
Dividends received	**(13,889)**	(9,334)	**–**	–
At 31st December	**305,276**	210,454	**42,808**	–

As at 31st December 2005, the Group has contingent liabilities of HK$24,039,000 (2004: Nil) in respect of guarantee for bank facility provided to a jointly controlled entity.

As at 31st December 2005, total commitments in respect of capital contribution to a jointly controlled entity was HK$19,385,000 (2004: Nil).

Particulars of the principal jointly controlled entities of the Group at 31st December 2005 and 2004 are set out as follows:

Name	Place of incorporation and operation	Principal activities	% of interest held
2004			
COSCO Real Estate Development Co Ltd	The People's Republic of China ("PRC"), equity joint venture	Property development in the China Mainland	20
2005			
Sino Ocean Real Estate Development Co., Ltd. (formerly known as COSCO Real Estate Development Co Ltd)	PRC, equity joint venture	Property development in the China Mainland	20
Jotun COSCO Marine Coatings (HK) Limited	Hong Kong	Manufacturing and trading of coating products	50

20. JOINTLY CONTROLLED ENTITIES (Continued)

Share of financial results and positions of the jointly controlled entities for the year ended and as at 31st December are as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Assets		
Non-current assets	**202,321**	99,070
Current assets	**1,587,961**	1,100,169
	1,790,282	1,199,239
Liabilities		
Non-current liabilities	**(609,453)**	(296,890)
Current liabilities	**(875,553)**	(691,895)
	(1,485,006)	(988,785)
Net assets	**305,276**	210,454
Income	**634,099**	381,809
Expenses	**(569,211)**	(368,921)
Share of profits less losses	**64,888**	12,888

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS/OTHER INVESTMENT IN A JOINT VENTURE AND INVESTMENT SECURITIES

	Group
	2005 HK$'000
At 1st January (note)	**73,526**
Opening adjustment on the adoption of HKAS 39	**11,012**
Acquisition of a subsidiary (note 37)	**478**
Fair value gains (note 31)	**1,790**
At 31st December	**86,806**

There were no impairment provisions on available-for-sale financial assets as at 31st December 2005.

Available-for-sale financial assets/other investment in a joint venture and investment securities include the following:

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Listed equity securities in Hong Kong	**41,366**	36,298	**–**	–
Unlisted securities	**15,505**	7,648	**15,027**	7,648
Available-for-sale financial assets/ other investment in a joint venture	**29,935**	29,580	**–**	–
	86,806	73,526	**15,027**	7,648

Note: Other investment in a joint venture and investment securities have been re-designated as available-for-sale financial assets.

22. COMPLETED PROPERTIES HELD FOR SALE

As at 31st December 2005, the carrying amount of completed properties held for sale that are carried at net realisable value amounted to HK$29,071,000 (2004: HK$50,878,000).

23. PROPERTIES UNDER DEVELOPMENT FOR SALE

	Group	
	2005 **HK$'000**	**2004** **HK$'000**
Cost incurred plus attributable profits	**267,343**	283,586
Sales instalments received	**(122,814)**	(88,952)
	144,529	194,634

As at 31st December 2005, none of the properties under development was pledged (2004: properties under development of HK$194,634,000 were pledged as securities to a bank in respect of certain banking facilities granted to the Group).

24. INVENTORIES

	Group	
	2005 **HK$'000**	**2004** **HK$'000**
Raw materials	**67,098**	67,236
Work in progress	**4,009**	3,398
Finished goods	**92,837**	145,844
	163,944	216,478

During the year ended 31st December 2005, the cost of inventories recognised as expenses and included in cost of inventories sold amounted to HK$1,017,661,000 (2004: HK$679,311,000).

25. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Gross amounts due from customers for contract work (note 26)	**2,817**	6,803	**–**	–
Trade receivables				
– fellow subsidiaries	**55,806**	12,450	**–**	–
– associated companies of COSCO	**88,151**	90,647	**–**	–
– jointly controlled entities	**1,601**	–	**–**	–
– third parties	**247,989**	212,570	**–**	–
Retention receivables	**24,286**	50,625	**–**	–
Deposits, prepayments and other receivables	**29,152**	35,027	**3,436**	3,746
Amounts due from fellow subsidiaries	**6,039**	2,082	**33**	33
	455,841	410,204	**3,469**	3,779

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.

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

	Group	
	2005 HK$'000	2004 HK$'000
Current – 90 days	**218,825**	183,067
91 – 180 days	**102,144**	82,703
Over 180 days	**72,578**	49,897
	393,547	315,667

26. CONSTRUCTION CONTRACTS IN PROGRESS

	Group	
	2005 HK$'000	2004 HK$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	**5,560,345**	6,384,415
Progress billings received and receivable	**(5,615,426)**	(6,494,820)
	(55,081)	(110,405)
Representing:		
Gross amounts due from customers for contract work included in trade and other receivables (note 25)	**2,817**	6,803
Gross amounts due to customers for contract work included in trade and other payables (note 29)	**(57,898)**	(117,208)
	(55,081)	(110,405)

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT-TERM INVESTMENTS

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Market value of Hong Kong listed equity securities	**350**	327	**–**	–

28. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Cash at banks and in hand	**345,941**	262,156	**1,217**	1,744
Short-term bank deposits	**928,144**	300,714	**554,465**	60,837
	1,274,085	562,870	**555,682**	62,581

The effective interest rate on short-term bank deposits was 2.01% (2004: 0.48%); these deposits have an average maturity of 30 days.

Cash and cash equivalents include the following for the purposes of cash flow statement:

	Group	
	2005 HK$'000	2004 HK$'000
Cash and cash equivalents	**1,274,085**	562,870
Less: Cash investments with maturity more than three months from date of placement	**(4,465)**	(52,126)
	1,269,620	510,744

29. TRADE AND OTHER PAYABLES

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Gross amounts due to customers for contract work (note 26)	**57,898**	117,208	**–**	–
Trade payables				
– fellow subsidiaries	**2,698**	–	**–**	–
– associated companies of COSCO	**81**	–	**–**	–
– jointly controlled entities	**27**	–	**–**	–
– third parties	**229,051**	265,291	**–**	–
Retention payables	**28,224**	65,101	**–**	–
Accrued liabilities and other payables	**414,380**	209,868	**5,906**	3,158
Amounts due to fellow subsidiaries	**60,768**	4,920	**1,112**	–
Amount due to ultimate holding company	**111**	872	**–**	–
Amounts due to jointly controlled entities	**186**	–	**–**	–
Amount due to a minority shareholder	**3,415**	4,993	**–**	–
Amounts due to associated companies	**5,706**	5,706	**–**	–
Dividend payable to a minority shareholder	**8,322**	–	**–**	–
	810,867	673,959	**7,018**	3,158

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

	Group	
	2005 HK$'000	2004 HK$'000
Current – 90 days	**172,621**	221,623
91 – 180 days	**19,714**	28,362
Over 180 days	**39,522**	15,306
	231,857	265,291

As at 31st December 2004, there was a liquidated damage cost estimation of HK$46,080,000 included in gross amounts due to customers for contract work, which was fully written back during the year.

30. SHARE CAPITAL

	2005 Number of shares	2005 HK$'000	2004 Number of shares	2004 HK$'000
Authorised:				
Shares of HK$0.10 each	**3,000,000,000**	**300,000**	3,000,000,000	300,000
Issued and fully paid:				
At 1st January	**1,414,441,291**	**141,444**	1,394,389,291	139,439
Issue of shares upon exercise of share options (note)	**3,800,000**	**380**	20,052,000	2,005
At 31st December	**1,418,241,291**	**141,824**	1,414,441,291	141,444

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

Category	Note	Exercise price HK$	Number of share options: Outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Changed category during the year	Lapsed during the year	Outstanding as at 31st December 2005	Vested %: as at 31st December 2005	as at 31st December 2004
Directors	i	0.57	15,600,000	–	–	–	–	15,600,000	100	100
	ii	1.37	11,200,000	–	–	–	–	11,200,000	100	100
Ex-director	i	0.57	1,200,000	–	–	(1,200,000)	–	–	N/A	100
Continuous contract employees	i	0.57	16,198,000	–	(2,400,000)	–	–	13,798,000	100	100
	ii	1.37	21,450,000	–	–	–	(2,750,000)	18,700,000	100	100
	iii	1.21	–	2,400,000	–	–	–	2,400,000	100	N/A
Others	i	0.57	24,950,000	–	(1,400,000)	1,200,000	–	24,750,000	100	100
	ii	1.37	23,250,000	–	–	–	–	23,250,000	100	100
			113,848,000	2,400,000	(3,800,000)	–	(2,750,000)	109,698,000		

Note:

(i) On 26th November 2003, the directors and employees of the Group were granted a total of 44,800,000 share options at an exercise price of HK$0.57 per share. In addition, 34,200,000 share options were granted to employees of China Ocean Shipping (Group) Company ("COSCO"), the ultimate holding company, and its subsidiaries and associated companies (other than the Group) (collectively "COSCO Group"). The share options are exercisable at any time from 23rd December 2003 to 22nd December 2008. A total of 3,800,000 share options (2004: 20,052,000 share options) were exercised during the year.

(ii) On 2nd December 2004, the directors and employees of the Group were granted 32,650,000 share options at an exercise price of HK$1.37 per share. In addition, 23,250,000 share options were granted to employees of COSCO Group. The share options are exercisable at any time from 29th December 2004 to 28th December 2014. No share options were exercised during the year. However, 2,750,000 share options were lapsed during the year.

(iii) On 10th May 2005, the employees of the Group were granted 2,400,000 share options at an exercise price of HK$1.21 per share. The share options are exercisable at any time between 6th June 2005 to 5th June 2015. No share options were exercised during the year.

30. SHARE CAPITAL (Continued)

During the year, an aggregate of 3,800,000 (2004: 20,052,000) share options were exercised and a summary of which, analysed by exercise month, is set out below:

	Number of share options exercised at exercise price of HK$0.57 per share	
	2005	**2004**
Exercise month		
January	**500,000**	5,430,000
February	**–**	7,520,000
March	**500,000**	1,200,000
April	**1,000,000**	1,400,000
May	**500,000**	602,000
June	**500,000**	100,000
July	**–**	100,000
August	**–**	–
September	**800,000**	200,000
October	**–**	1,800,000
November	**–**	1,600,000
December	**–**	100,000
	3,800,000	20,052,000

Exercise of the 3,800,000 (2004: 20,052,000) share options during the year yielded proceeds as follows:

	2005 HK$'000	**2004 HK$'000**
Ordinary share capital – at par	**380**	2,005
Share premium	**1,786**	9,425
Proceeds	**2,166**	11,430

The weighted average closing price of the Company's shares on the dates when the share options were exercised was HK$1.26 (2004: HK$1.31).

30. SHARE CAPITAL (Continued)

The fair value of the share options granted during the year determined using the Black-Scholes valuation model was HK$0.58. The significant inputs into the model and assumptions were as follows:

– interest rate of 10-year Exchange Fund Notes of 3.806% per annum as the risk-free interest rate;

– expected life of 10 years; and

– expected volatility of 50.2%, being the annualised volatility of the closing price of the share from 1st August 2004 to 30th November 2004.

31. RESERVES

Group

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Investment revaluation reserve HK$'000	Retained profits (accumulated losses) HK$'000	Total HK$'000
At 1st January 2004	2,356,553	–	63,151	–	(2,550)	–	(1,669,521)	747,633
Exchange differences	–	–	–	–	(191)	–	–	(191)
Transfer of reserves	–	–	5,936	–	–	–	(5,936)	–
Reduction of share premium (note (c))	(2,356,553)	–	–	676,218	–	–	1,680,335	–
Issue of shares upon exercise of share options	9,425	–	–	–	–	–	–	9,425
Share issue expenses	(150)	–	–	–	–	–	–	(150)
Profit for the year (note (a))	–	–	–	–	–	–	219,158	219,158
At 31st December 2004	9,275	–	69,087	676,218	(2,741)	–	224,036	975,875
Representing:								
Reserves	9,275	–	69,087	676,218	(2,741)	–	188,675	940,514
2004 proposed final dividend	–	–	–	–	–	–	35,361	35,361
	9,275	–	69,087	676,218	(2,741)	–	224,036	975,875

31. RESERVES (Continued)

Group (Continued)

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January 2005, as previously reported	**9,275**	**–**	**69,087**	**676,218**	**(2,741)**	**–**	**224,036**	**975,875**
Opening adjustment on the adoption of HKFRS 3	–	–	–	–	–	–	8,315	8,315
Opening adjustment on the adoption of HKAS 39	–	–	–	–	–	11,012	–	11,012
Balance at 1st January 2005, adjusted	**9,275**	**–**	**69,087**	**676,218**	**(2,741)**	**11,012**	**232,351**	**995,202**
Transfer of reserves (note (b))	–	–	18,715	–	–	–	(18,715)	–
Capital reserve realised on disposal of subsidiaries	–	–	(22,618)	–	–	–	22,618	–
Issue of shares on exercise of share options	1,786	–	–	–	–	–	–	1,786
Exchange differences	–	–	–	–	4,312	–	–	4,312
Fair value gains on available-for-sale financial assets (note 21)	–	–	–	–	–	1,790	–	1,790
Employee share option benefits (note 6(d))	–	1,400	–	–	–	–	–	1,400
Profit for the year (note (a))	–	–	–	–	–	–	496,463	496,463
Dividends paid	–	–	–	–	–	–	(49,593)	(49,593)
Balance at 31st December 2005	**11,061**	**1,400**	**65,184**	**676,218**	**1,571**	**12,802**	**683,124**	**1,451,360**
Representing:								
Reserves	11,061	1,400	65,184	676,218	1,571	12,802	633,486	1,401,722
2005 proposed final and special dividends	–	–	–	–	–	–	49,638	49,638
	11,061	1,400	65,184	676,218	1,571	12,802	683,124	1,451,360

31. RESERVES (Continued)

Company

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Contributed surplus (note (d)) HK$'000	Investment revaluation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1st January 2004	2,356,553	–	83,770	–	(1,680,335)	759,988
Reduction of share premium (note (c))	(2,356,553)	–	676,218	–	1,680,335	–
Issue of shares upon exercise of share options	9,425	–	–	–	–	9,425
Share issue expenses	(150)	–	–	–	–	(150)
Profit for the year	–	–	–	–	143,391	143,391
At 31st December 2004	**9,275**	**–**	**759,988**	**–**	**143,391**	**912,654**
Representing:						
Reserves	9,275	–	759,988	–	108,030	877,293
2004 proposed final dividend	–	–	–	–	35,361	35,361
	9,275	–	759,988	–	143,391	912,654

31. RESERVES (Continued)

Company

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Contributed surplus (note (d)) HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January 2005, as previously reported	**9,275**	**–**	**759,988**	**–**	**143,391**	**912,654**
Opening adjustment on the adoption of HKAS 39	–	–	–	7,259	–	7,259
Balance at 1st January 2005, adjusted	9,275	–	759,988	7,259	143,391	919,913
Employee share option benefits	–	1,400	–	–	–	1,400
Issue of shares upon exercise of share options	1,786	–	–	–	–	1,786
Fair value gains on available-for-sale financial assets	–	–	–	120	–	120
Profit for the year	–	–	–	–	409,782	409,782
Dividends paid	–	–	–	–	(49,593)	(49,593)
Balance at 31st December 2005	**11,061**	**1,400**	**759,988**	**7,379**	**503,580**	**1,283,408**
Representing:						
Reserves	11,061	1,400	759,988	7,379	453,942	1,233,770
2005 proposed final and special dividends	–	–	–	–	49,638	49,638
	11,061	1,400	759,988	7,379	503,580	1,283,408

Note:

(a) Profit for the year of HK$496,463,000 (2004: HK$219,158,000) includes a net profit of HK$64,888,000 (2004: HK$12,888,000) attributable to jointly controlled entities.

(b) Included in the capital reserve is an amount of HK$31,119,000 (2004: HK$12,404,000) which represents the Group's share of the statutory reserves of certain PRC subsidiaries.

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

(d) The balance of contributed surplus of the Company as at 1st January 2004 arose in 1992 when the Company issued shares in exchange for the shares of companies being acquired, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the companies acquired.

32. BORROWINGS

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Non-current				
Bank loans (note (a))				
– secured	**–**	598,600	**–**	598,600
– unsecured	**–**	243,671	**–**	243,671
	–	842,271	**–**	842,271
Loan from a minority shareholder (note (b))	**–**	23,618	**–**	–
Loan from a fellow subsidiary (note (c))	**96,090**	–	**–**	–
	96,090	865,889	**–**	842,271
Current				
Loan from a fellow subsidiary (note (c))	**10,570**	–	**–**	–
Bank loans – unsecured (note (a))	**–**	12,825	**–**	12,825
Short term bank loans				
– secured	**–**	79,076	**–**	–
– unsecured	**–**	30,718	**–**	–
	10,570	122,619	**–**	12,825
Total borrowings	**106,660**	988,508	**–**	855,096
The above loans are repayable as follows:				
Within one year	**10,570**	122,619	**–**	12,825
In the second year	**96,090**	36,443	**–**	12,825
In the third to fifth year	**–**	829,446	**–**	829,446
	106,660	988,508	**–**	855,096

Note:

(a) In addition to the pledge of certain of the Group's properties as securities to long-term bank loans, the Group's long-term bank loans of HK$855,096,000 as at 31st December 2004 were guaranteed by COSCO (Hong Kong) Group Limited ("COSCO Hong Kong"). Such loans were fully repaid during the year.

(b) The loan from minority shareholder of a subsidiary was unsecured, interest free and had no fixed terms of repayment. Such loan was fully repaid during the year.

(c) The loans from a fellow subsidiary are unsecured and interest bearing at either 5.58% or 5.76% per annum, the non-current portion of which is repayable before 5th April 2007.

32. BORROWINGS (Continued)

(d) The effective interest rates of borrowings during the year ended 31st December 2005 and 2004 are as follows:

	2005	2004
Renminbi	**4.94%**	4.55%
Hong Kong dollars	**1.63%**	1.30%
United States dollars	**4.07%**	2.5%

33. DEFERRED INCOME TAX LIABILITIES

Deferred income tax liabilities are calculated in full on temporary differences under liability method using a principal tax rate of 17.5% (2004: 17.5%).

The deferred income tax liabilities arise from accelerated depreciation allowances and its movements are as follows:

	Group	
	2005 HK$'000	2004 HK$'000
At 1st January	**–**	–
Deferred income tax charged to income statement (note 9)	**85**	–
At 31st December	**85**	–

Deferred income tax assets are recognised for tax losses to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group has unrecognised tax losses of HK$607,328,000 (2004: HK$751,725,000) to carry forward against future taxable income.

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to cash generated from operations

	2005 HK$'000	2004 HK$'000
Operating profit	**506,677**	316,041
Impairment loss on other investment in a joint venture	**–**	23,431
Provision for diminution in value of investment securities	**–**	9,677
Provision for completed properties held for sale	**–**	13,646
Depreciation of property, plant and equipment, net of amount capitalised	**8,513**	10,952
Amortisation of leasehold land	**2,202**	13,027
Amortisation of cost of other investment in a joint venture	**–**	3,479
Amortisation of goodwill (net)	**–**	2,495
Write-back of impairment loss on prepaid premium for land leases	**(46,719)**	–
Fair value gains on investment properties	**(257,046)**	–
Write-back of deficit on revaluation of investment properties	**–**	(155,966)
Loss on disposal of subsidiaries	**16,825**	–
Write-back of provision for claims and foreseeable losses on certain construction projects	**(53,199)**	(452)
Gain on disposal/write-off of plant and equipment	**(4,848)**	(317)
Interest income	**(18,436)**	(2,679)
Employee share option benefits	**1,400**	–
Dividend income	**(5,838)**	(3,882)
Recovery of legal cost in respect of litigation on a construction project	**(4,500)**	–
Income from other investment in a joint venture	**–**	(3,479)
Operating profit before working capital changes	**145,031**	225,973
Decrease/(increase) in properties under development for sale	**50,105**	(92,008)
(Increase)/decrease in completed properties held for sale	**(31,078)**	12,474
Decrease/(increase) in inventories	**55,901**	(1,316)
Decrease in trade receivables, retention receivables, deposits, prepayments and other receivables	**5,585**	48,453
Decrease in amounts due from fellow subsidiaries	**55,575**	15,534
Increase in financial assets at fair value through profit or loss/short-term investments	**(23)**	(84)
Increase in trade payables, accrued liabilities and other payables	**50,292**	9,708
Increase/(decrease) in construction contracts in progress	**1,499**	(66,977)
(Decrease)/increase in amounts due to fellow subsidiaries	**(30,356)**	1,358
Decrease in amounts due to the ultimate holding company	**(747)**	(15,304)
Increase in amounts due to joint controlled entities	**186**	–
(Decrease)/increase in amount due to a minority shareholder	**(1,578)**	4,993
Increase in dividend payable to a minority shareholder	**8,322**	–
Cash generated from operations	**308,714**	142,804

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries

	2005 HK$'000
Net assets disposed	
Investment properties (note 14)	1,172,124
Leasehold buildings (note 16)	38,987
Prepaid premium for land leases (note 17)	190,889
Trade and other receivables	6,086
Cash and cash equivalents	15,383
Trade and other payables	(4,525)
Amounts due to fellow subsidiaries	(105)
Amounts due to holding companies	(14)
	1,418,825
Loss on disposal (note 7)	(16,825)
Total consideration	1,402,000
Satisfied by:	
Cash	1,402,000

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2005 HK$'000
Cash consideration	1,402,000
Cash and cash equivalents disposed	(15,383)
Net cash from the disposal of subsidiaries	1,386,617

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Analysis of changes in financing during the year

	Share capital and share premium HK$'000	Bank and other loans HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January 2004	2,495,992	935,120	87,259	3,518,371
Reduction of share premium	(2,356,553)	–	–	(2,356,553)
Net cash inflow/(outflow) from financing activities	11,280	6,770	(12,677)	5,373
Acquisition of subsidiaries	–	46,618	70,555	117,173
Minority's share of profit for the year	–	–	43,758	43,758
At 31st December 2004	150,719	988,508	188,895	1,328,122
At 1st January 2005	150,719	988,508	188,895	1,328,122
Net cash inflow/(outflow) from financing activities	2,166	(881,848)	(27,759)	(907,441)
Minority's share of profit for the year	–	–	29,180	29,180
Exchange differences	–	–	3,537	3,537
At 31st December 2005	152,885	106,660	193,853	453,398

35. COMMITMENTS

(a) Capital commitments

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Approved but not contracted for property, plant and equipment	–	–	–	–
Commitments in respect of capital contribution to a joint venture (note 38(h))	28,602	–	28,602	–
	28,602	–	28,602	–

35. COMMITMENTS (Continued)

(b) Operating lease commitments

The aggregate future minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	Group		Company	
	2005 **HK$'000**	**2004** **HK$'000**	**2005** **HK$'000**	**2004** **HK$'000**
Within one year	**10,255**	1,004	**6,384**	2,458
In the second to fifth years inclusive	**11,580**	1,176	**6,384**	2,253
Over five years	**3,724**	–	**3,724**	–
	25,559	2,180	**16,492**	4,711

(c) Future minimum rental payments receivable

The future minimum rental receivable under non-cancellable leases is as follows:

	Group	
	2005 **HK$'000**	**2004** **HK$'000**
In the first year	**1,532**	36,957
In the second to third years inclusive	**163**	29,986
	1,695	66,943

The Group's operating leases are for terms ranging from two to three years.

36. CONTINGENCIES

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Performance bonds in respect of performance and completion of construction contracts	**–**	10,271	**–**	–
Guarantee and counter-indemnity to bank guarantees in respect of due performance of management and remedial cost of a property undertaken by the Group	**43,000**	43,000	**35,000**	35,000
Guarantee to mortgage loans in respect of a property development project (note)	**44,211**	172,736	**–**	–
Guarantee for banking facility provided to a company which is held by the Group as available-for-sale financial asset	**5,189**	–	**5,189**	–

Note:

The Group has provided guarantees to the mortgage loans granted by certain banks to buyers of property development projects in the China Mainland. Pursuant to the terms of the guarantees, upon default in loan payments by the buyers, the Group is responsible to repay the outstanding loan principals together with accrued interest and penalty owed by the defaulted buyers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The directors of the Company consider that in case of default, the net realisable value of the related properties can cover the repayment of outstanding loan principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements of the Group for the guarantees.

37. BUSINESS COMBINATION

In 2005, the Group completed the acquisition of 100% interest in Yuantong Marine Service Co. Limited, which is engaged in the trading of spare parts and navigation equipment for vessels. The acquired business contributed revenues of HK$350,023,000 and net profit of HK$24,917,000 to the Group for the year ended 31st December 2005.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration	
– Cash paid	53,750
– Direct costs relating to the acquisition	1,540
Total purchase consideration	55,290
Fair value of net assets acquired – (see below)	(46,310)
Goodwill	8,980

The goodwill is attributable to the expected future profitability of the acquired business.

37. BUSINESS COMBINATION (Continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK$'000	Acquiree's carrying amount HK$'000
Cash and cash equivalents	89,786	89,786
Property, plant and equipment (note 16)	4,687	4,687
Prepaid premium for land leases (note 17)	8,714	5,404
Jointly controlled entities (note 20)	1,015	1,015
Available-for-sale financial assets (note 21)	478	478
Inventories	2,941	2,941
Trade and other receivables	52,837	52,837
Amounts due from fellow subsidiaries	59,532	59,532
Trade and other payables	(84,810)	(84,810)
Amounts due to fellow subsidiaries	(86,309)	(86,309)
Current income tax liabilities	(2,561)	(2,561)
Net assets acquired	46,310	43,000

Analysis of net cash flow in respect of the acquisition of a subsidiary:

Cash consideration	55,290
Cash and cash equivalents acquired	(89,786)
Net cash generated from the acquisition of a subsidiary	(34,496)

38. RELATED PARTY TRANSACTIONS

The Group is controlled by COSCO Hong Kong, a company incorporated in Hong Kong, which owns 58.48% of the Company's shares as at 31st December 2005. The remaining 41.52% of the Company's shares is widely held. The parent of COSCO Hong Kong is COSCO, a state-owned enterprise established in the PRC.

COSCO itself is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with HKAS 24, other state-owned enterprises and their subsidiaries (other than COSCO group companies), directly or indirectly controlled by the PRC government, are also defined as related parties of the Group. On that basis, related parties include COSCO and its subsidiaries, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government and other entities and corporations in which the Company is able to control or exercise significant influence.

For the purpose of related party transaction disclosures, the Group has identified, except where the amounts have been disclosed elsewhere in the accounts, to the extent practicable, its customers, suppliers and banks which are state-owned enterprises. The directors believe that meaningful information in respect of related party transactions has been adequately disclosed.

The following is a summary of the significant related party transactions carried out in the normal course of the Group's business and at terms no less favourable than those charged/being charged to/from other third party customers/suppliers of the Group.

(a) Sales of goods and provision of services to fellow subsidiaries, associated companies of COSCO and other related entities

		Group	
	Note	2005 HK$'000	2004 HK$'000
Rental income received from:			
– an intermediate holding company	(i)	**893**	1,786
– fellow subsidiaries	(i)	**11,839**	26,632
Sales of coating products to:	(ii)		
– fellow subsidiaries		**16,799**	17,856
– associated companies of COSCO		**340,754**	350,466
– state-owned enterprises		**6,422**	7,346
Sales of spare parts and navigation equipment to:	(iii)		
– fellow subsidiaries		**266,080**	–
– state-owned enterprises		**18,829**	–
Commission income in relation to:			
– provision of agency services to fellow subsidiaries	(iv)	**52,680**	50,856
– provision of insurance brokerage services to fellow subsidiaries	(v)	**31,209**	15,064
– provision of insurance brokerage services to state-owned enterprises	(v)	**1,136**	696
Interest income received from state-owned banks		**13,751**	1,491

38. RELATED PARTY TRANSACTIONS (Continued)

Note:

(i) On 12th January 2004, tenancy agreements were entered into between certain subsidiaries of the Company as landlords, and COSCO Hong Kong or its subsidiaries as tenants, for the leasing of certain properties of the Group at COSCO Tower at an average monthly rental of approximately HK$28 (2004: HK$28) per square foot.

(ii) Sales of coating products to fellow subsidiaries, associated companies of COSCO and state-owned enterprises were conducted at terms as set out in the agreements governing these transactions.

(iii) Sales of spare parts and navigation equipment to fellow subsidiaries and state-owned enterprises were conducted at terms as set out in the agreements governing these transactions.

(iv) Certain subsidiaries of the Company acted as agent of COSCO and its subsidiaries in respect of (a) sale and purchase of new and second hand vessels, (b) bareboat charter businesses, and (c) sale and purchase of marine equipment for new ship-building projects. According to the terms of the relevant engagement/commission agreements, the Group received commission income from vendors, ship-owners and equipment makers with respect to the transactions mentioned above.

(v) Commission income in relation to the provision of insurance brokerage services to fellow subsidiaries and state-owned enterprises were calculated at terms as set out in the agreements governing these transactions.

(b) Purchases of goods and services from fellow subsidiaries, associated companies of COSCO and other related entities

		Group	
	Note	2005 HK$'000	2004 HK$'000
Rental expenses paid to immediate holding company	(i)	**(3,301)**	–
Commission expenses in relation to sales of coating products paid to:	(ii)		
– fellow subsidiaries		**(1,882)**	(1,193)
– associated companies of COSCO		**(7,062)**	(6,906)
– a minority shareholder		**(931)**	(1,704)
Purchases of raw materials from minority shareholders of a subsidiary	(iii)	**(5,642)**	(6,800)
Purchases of construction materials from a fellow subsidiary of COSCO	(iv)	**(23,746)**	–
Commission expenses paid to an associated company of COSCO in relation to purchases of construction materials		**(935)**	–
Technology usage fee paid to a minority shareholder of a subsidiary	(v)	**(5,402)**	(5,780)
Interest expenses paid to state-owned banks		**(11,789)**	(4,908)
Interest expense paid to a fellow subsidiary	(vi)	**(4,436)**	–

38. RELATED PARTY TRANSACTIONS (Continued)

Note:

(i) In August 2005, the Group leased certain properties from a wholly-owned subsidiary of COSCO Hong Kong at the average monthly rental of HK$697,825 for an initial term of 3 years. On 5th January 2006, the Group entered into a supplementary tenancy agreement with a wholly-owned company of COSCO Hong Kong to amend the terms to exclude one of the units, resulting in revised monthly rental of HK$567,325.

(ii) Commission paid was based on a certain percentage of sales amount in accordance with terms as set out in the agreements governing these transactions.

(iii) Purchases of raw material from minority shareholders of a subsidiary were conducted at terms as set out in the agreements governing these transactions.

(iv) On 31st March 2005, a 51% owned subsidiary of the Company ("Purchaser") entered into a purchase agreement with a fellow subsidiary ("Vendor") for the purchase of construction materials.

(v) Technology usage fee paid to a minority shareholder of a subsidiary was made based on a certain percentage of the net sales amount in accordance with terms as set out in the agreements governing these transactions.

(vi) On 4th April 2005, a 51% owned subsidiary of the Company ("Borrower") entered into an agreement with a fellow subsidiary ("Lender") for a loan facility of RMB150,000,000 under which the Company together with the other shareholders of the Borrower agreed to provide the Lender with their guarantee on a joint and several basis. The loan is unsecured, interest bearing at 5.76% per annum and repayable before 5th April 2007. The amount of loan outstanding as at 31st December 2005 is RMB111,000,000 (approximately HK$106,660,000).

(c) Balances with associates and state-owned enterprises arising from sales and purchases of goods and services

	2005 HK$'000	2004 HK$'000
Receivables from associated companies of COSCO	**88,151**	90,647
Receivables from state-owned enterprises	**3,026**	1,483
Payables to state-owned enterprises	**114**	–

38. RELATED PARTY TRANSACTIONS (Continued)

(d) Balances with state-owned banks and a fellow subsidiary

	2005 HK$'000	2004 HK$'000
Bank deposits with state-owned banks	**991,768**	449,849
Loans from state-owned banks	**–**	770,947
Loan from a fellow subsidiary	**106,660**	–

(e) In 2004, the Group entered into a conditional share transfer agreement for the acquisition of 49% equity interest in Guangzhou Jotun Ocean Paint Co., Ltd. (renamed as Jotun COSCO Marine Coatings (Guangzhou) Limited) from Guangzhou Economy & Technology Development Zone COSCO Marine Service Co. Limited, a wholly-owned subsidiary of COSCO at a consideration of RMB17,310,000 (approximately HK$16,633,000). The acquisition was completed in February 2005.

(f) In 2004, the Group entered into a conditional sale and purchase agreement with COSCO Trading and Supply Investments Limited, a wholly-owned subsidiary of COSCO Hong Kong, for the acquisition of 100% equity interest in Yuantong Marine Service Co. Limited at a consideration of HK$53,750,000. The acquisition was completed in May 2005.

(g) On 30th May 2005, the Group entered into a conditional sale and purchase agreement with a wholly-owned subsidiary of COSCO Hong Kong, pursuant to which the Group agreed to dispose of the entire issued share capital of, and loan to, Modern Capital Investment Limited ("Modern Capital"), a wholly-owned subsidiary of the Company, at a total consideration of HK$1,402,000,000. Modern Capital indirectly owns the beneficial interests in eight floors of the COSCO Tower with a carrying value of HK$1,402,000,000. The disposal was completed in August 2005.

(h) On 28th November 2005, the Group entered into an agreement with a minority shareholder of a subsidiary for the setting up and operation of a joint venture in Zhuhai, PRC for a term of 20 years. The new joint venture will be owned as to 64.71% by the Company. The total investment amount and registered capital is US$5,700,000 (approximately HK$44,200,000).

(i) On 28th November 2005, the Group entered into an agreement with Shenzhen Ocean Shipping Co., Ltd., a non wholly-owned subsidiary of COSCO for the setting up and operation of a joint venture in Shenzhen, PRC for a term of 20 years. The new joint venture will be owned as to 55% by the Group. The total investment amount and registered capital are RMB8,000,000 and RMB5,000,000 (approximately HK$7,687,000 and HK$4,804,000) respectively.

39. PRINCIPAL SUBSIDIARIES

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
Operated in Hong Kong				
Capital Properties Limited #	Hong Kong	2 Ordinary shares of HK$1 each	100	Provision of nominee services
Century Metro Development Limited	Hong Kong	10,000 Ordinary shares of HK$1 each	100	Property development
COSCO (Hong Kong) Insurance Brokers Limited	Hong Kong	5,000,000 Ordinary shares of HK$1 each	100	Provision of insurance brokerages and related services
COSCO International Infrastructure Limited	Hong Kong	2 Ordinary shares of HK$1 each	100	Investment holding
COSCO International Land Limited	Hong Kong	2 Ordinary shares of HK$1 each	100	Investment holding
COSCO International Ship Trading and Supplying Services Limited	Hong Kong	2 Ordinary shares of HK$1 each	100	Investment holding
COSCO International Ship Trading Company Limited	Hong Kong	500,000 Ordinary shares of HK$1 each	60	Provision of agency services on ship trading business
COSCO Project Management Limited	Hong Kong	2 Ordinary shares of HK$1 each	100	Investment holding

39. PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
Operated in Hong Kong (Continued)				
Cosmart Company Limited	Hong Kong	2 Ordinary shares of HK$1 each	60	Provision of agency services on ship trading business
Mission Success Limited	Hong Kong	2 Ordinary shares of HK$1 each	100	Investment holding
Selwin Limited	Hong Kong	1,000,000 Ordinary shares of HK$1 each	100	Building construction
Shun Shing Construction & Engineering Company, Limited	Hong Kong	5,352,000 Ordinary shares of HK$100 each 120,000 non-voting deferred shares of HK$100 each	100	Building construction, maintenance and civil engineering
Success Gate Investments Limited	Hong Kong	2 Ordinary shares of HK$1 each	100	Investment holding
Waily Development Limited	Hong Kong	2 Ordinary shares of HK$1 each	100	Investment holding
Wealth Nice Investment Limited	Hong Kong	2 Ordinary shares of HK$1 each	100	Property development
Yuantong Marine Service Co. Limited	Hong Kong	43,000,000 Ordinary shares of HK$1 each	100	Trading of spare parts and navigation equipment for vessels

39. PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
Operated in British Virgin Islands				
Cash Rich Enterprises Limited	British Virgin Islands	10,000 Ordinary shares of US$1 each	85.85	Investment holding
COSCO (B.V.I.) Holdings Limited #	British Virgin Islands	1 Ordinary share of US$1	100	Investment holding
COSCO International Construction Limited	British Virgin Islands	100 Ordinary shares of US$1 each	100	Investment holding
COSCO International Infrastructure (BVI) Holdings Limited	British Virgin Islands	1 Ordinary share of US$1	100	Investment holding
COSCO International Land (B.V.I.) Limited	British Virgin Islands	1 Ordinary share of US$1	100	Investment holding
Graceful Nice Limited	British Virgin Islands	1 Ordinary share of US$1	100	Investment holding
Leadfull Investments Ltd	British Virgin Islands	1 Ordinary share of US$1	100	Investment holding
Mega Precise Profit Limited	British Virgin Islands	1 Ordinary share of US$1	100	Investment holding
Monoland Assets Limited	British Virgin Islands	2 Ordinary shares of US$1 each	100	Investment holding
Promise Keep Limited	British Virgin Islands	1 Ordinary share of US$1	100	Investment holding
Raycle Match Development Ltd.	British Virgin Islands	1 Ordinary share of US$1	100	Investment holding
Top Elegant Investments Ltd.	British Virgin Islands	1 Ordinary share of US$1	100	Investment holding
Trinity Developments Limited	British Virgin Islands	1 Ordinary share of US$1	100	Investment holding
Uppermost Corporation #	British Virgin Islands	1 Ordinary share of US$1	100	Investment holding

39. PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
Operated in the PRC				
COSCO Ship Beijing Company Limited	PRC, wholly foreign-owned enterprise	US$500,000	60	Provision of agency services on ship trading business
New Central International Enterprises Co., Limited	Hong Kong	1,000,000 Ordinary shares of HK$1 each	90	Investment holding
Shanghai COSCO Honour Property Development Limited	PRC, equity joint venture	RMB232,238,926	85	Property development
Shanghai COSCO Kansai Paint & Chemicals Co., Ltd #	PRC, equity joint venture	US$7,000,000	63.07	Manufacturing and trading of coating products
Shenyang COSCO Yihe Property Development Co., Ltd	PRC, equity joint venture	RMB100,000,000	51	Property development
Shenzhen COSCO Insurance Brokers Limited	PRC, equity joint venture	RMB5,000,000	55	Provision of professional services of insurance brokerages
Tianjin COSCO Kansai Paint & Chemicals Co., Ltd #	PRC, equity joint venture	US$5,000,000	63.07	Manufacturing and trading of coating products
Xiang Li Yuan (Shanghai) Property Management Co., Ltd	PRC, wholly foreign-owned enterprise	US$500,000	100	Property management services
Wellbase Holdings Limited	Hong Kong	2 Ordinary shares of HK$1 each	100	Property investment

Shares held directly by the Company

40. ULTIMATE HOLDING COMPANY

The directors regard China Ocean Shipping (Group) Company, a state-owned enterprise established in the PRC, as being the ultimate holding company.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 30th March 2006.

List of Major Properties

PROPERTIES UNDER DEVELOPMENT FOR SALE

Description	Use	Approximate area	Stage of completion	Percentage of attributable interest to the Group
(1) Located at the south west of the junction between Cong Shan Dong Road and Liu Tiao Hu Street, Yu Hung District, Shenyang, Liao Ning Province, PRC	Residential, commercial and car parking spaces	Phase Two: Site area 35,980 sq.m. Estimated gross floor area 131,570 sq.m.	Construction in progress	51

COMPLETED PROPERTIES HELD FOR SALE

Description	Use	Approximate area	Percentage of attributable interest to the Group
(1) Between Yuezhou Road, Hailaer Road, Tongzhou Road and Gaoyang Road at Hongkou District, Shanghai, PRC	Residential, commercial and car parking spaces	Gross floor area 2,638 sq.m. and 193 car parking spaces	85
(2) Located at the south west of the junction between Cong Shan Dong Road and Liu Tiao Hu Street, Yu Hung District, Shenyang, Liao Ning Province, PRC	Residential, commercial and car parking spaces	Gross floor area 19,497 sq.m. and 100 car parking spaces	51
(3) Aberdeen Inland Lot No. 435, Shum Wan Road, Hong Kong	Car parking spaces	195 car parking spaces	100

INVESTMENT PROPERTY

Description	Use	Approximate area	Lease term	Percentage of attributable interest to the Group
(1) Block 5, Kingswell Garden Lane 3887, Hong Mei Road, Shanghai, PRC	Residential	Gross floor area 2,592 sq.m.	From 26th December 1996 to 4th June 2065	100

BUILDINGS

Description	Use	Approximate area	Lease term	Percentage of attributable interest to the Group
(1) 42, 5th Avenue TEDA, Tianjin, PRC	Factory	Gross floor area 28,572 sq.m.	From 16th May 1992 to 15th April 2007	63.07
(2) No.5589-5689 Hutai Road, Shanghai, PRC	Factory	Gross floor area 44,159 sq.m.	From 22nd December 1995 to 21st December 2015	63.07
(3) 19th Floor, Nan Dao Commercial Building, 359-361 Queen's Road Central, Hong Kong	Commercial	Gross floor area 320.51 sq.m.	999 years from 7th February 1852	100

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