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COSCO International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00517)

2008 Annual Results

RESULTS AND OPERATION HIGHLIGHTS

- Turnover decreased by 9% to HK\$2,100,937,000;
- Profit attributable to the equity holders was HK\$491,015,000, representing a decrease of 81%. Excluding gain on deemed disposal of partial interest in SOLHL in 2007 and the profit contributed by SOLHL, profit attributable to the equity holders was slightly down 1% to HK\$171,831,000 on the same basis;
- Basic earnings per share decreased by 81% to 33.18 HK cents;
- The Board has recommended a final dividend of 6.40 HK cents per share. Together with the interim dividend of 1.00 HK cent, the total dividend for 2008 was 7.40 HK cents, representing a 17% increase;
- Triggered by the financial tsunami, the global economy and the shipping market plunged commencing the fourth quarter of 2008. The container manufacturing market experienced significant adverse impact. As a result, the market demand of container coatings declined substantially. However, benefited from the growth in other areas of shipping services, the turnover of shipping services hence slightly dropped 1%;
- To actively expand the shipping services, the Group acquired the entire equity interests in CITC at the end of 2008;
- Enhancing corporate governance, both the Board and the former Vice Chairman Mr. Liu Guoyuan were presented Directors Of The Year Awards 2008 for Listed Companies (SEHK – Non-Hang Seng Index Constituents) by The Hong Kong Institute of Directors respectively.

The board of directors (the “Directors” or the “Board”) of COSCO International Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31st December 2008.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2008

	<i>Note</i>	2008 HK\$'000	2007 HK\$'000
Turnover	3	2,100,937	2,309,123
Cost of sales	6	(1,465,536)	(1,750,676)
Gross profit		635,401	558,447
Gain on deemed disposal of partial interest in a jointly controlled entity	4	–	1,925,468
Other income	5	33,759	54,020
Selling, administrative and general expenses	6	(360,265)	(370,945)
Other expenses	6	(105,132)	(31,863)
Operating profit		203,763	2,135,127
Finance income	7	28,127	35,762
Finance costs	7	(15,269)	(11,823)
Finance income – net	7	12,858	23,939
Share of results of jointly controlled entities		46,728	453,082
Share of result of an associated company		319,184	46,719
Profit before income tax		582,533	2,658,867
Income tax expense	8	(34,268)	(23,772)
Profit from continuing operations		548,265	2,635,095
Loss from discontinued operations	9	–	(2,827)
Profit for the year		548,265	2,632,268
Profit attributable to:			
Equity holders of the Company		491,015	2,572,623
Minority interests		57,250	59,645
		548,265	2,632,268
Dividends	10	110,142	93,069
Earnings per share from continuing operations attributable to the equity holders of the Company during the year			
– basic, HK cents	11(a)	33.18	176.14
– diluted, HK cents	11(b)	32.51	169.85
Loss per share from discontinued operations attributable to the equity holders of the Company during the year			
– basic, HK cent	11(a)	–	(0.19)
– diluted, HK cent	11(b)	–	(0.19)

CONSOLIDATED BALANCE SHEET
AS AT 31ST DECEMBER 2008

	<i>Note</i>	2008 HK\$'000	2007 HK\$'000
ASSETS			
Non-current assets			
Investment properties		26,815	10,717
Intangible assets		91,323	79,616
Property, plant and equipment		123,824	105,436
Prepaid premium for land leases		13,194	16,421
Jointly controlled entities		130,935	93,624
Associated companies		4,052,810	3,628,052
Available-for-sale financial assets		38,503	88,952
Deferred income tax assets		40,844	26,235
		4,518,248	4,049,053
Current assets			
Completed properties held for sale		2,631	20,717
Inventories		356,735	380,083
Trade and other receivables	12	887,374	743,502
Financial assets at fair value through profit or loss		239	608
Current income tax recoverable		897	—
Restricted bank deposits		118,963	8,006
Cash and cash equivalents		1,373,978	1,023,338
		2,740,817	2,176,254
Total assets		7,259,065	6,225,307
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		148,967	147,803
Reserves		5,301,389	4,675,607
Proposed dividends		95,339	78,336
		5,545,695	4,901,746
Minority interests		241,373	217,517
Total equity		5,787,068	5,119,263
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		8,363	798
Current liabilities			
Trade and other payables	13	1,128,321	867,240
Current income tax liabilities		18,353	21,190
Short-term borrowings		316,960	216,816
		1,463,634	1,105,246
Total liabilities		1,471,997	1,106,044
Total equity and liabilities		7,259,065	6,225,307
Net current assets		1,277,183	1,071,008
Total assets less current liabilities		5,795,431	5,120,061

NOTES

1 Basis of preparation and accounting policies

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

2 Changes in accounting policies

Adoption of new HKFRS

In 2008, the Group has adopted the following new HKFRS, which are relevant to its operations:

HKAS 39 (Amendment)	Financial instruments: Recognition and measurement	Effective prospectively from 1st July 2008
HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions	Effective for accounting periods beginning on or after 1st March 2007

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

3 Turnover and segment information

The Group is principally engaged in the provision of shipping services, general trading business and property investment. Turnover recognised from the continuing operations of the Group during the year is as follows:

	2008 <i>HK\$000</i>	2007 <i>HK\$000</i>
Sale of coating products	1,381,076	1,579,923
Sale of spare parts and navigation equipment	454,646	351,236
Ship trading and insurance brokerage commission income	196,382	127,112
Sale of properties	66,353	250,376
Rental income	2,480	476
	<u>2,100,937</u>	<u>2,309,123</u>

3 Turnover and segment information (Continued)

(a) Primary reporting format – business segments

	Shipping services 2008 HK\$'000	General trading business 2008 HK\$'000	Property investment 2008 HK\$'000	Other operations 2008 HK\$'000	Total 2008 HK\$'000
Segment turnover	<u>2,032,104</u>	<u>–</u>	<u>68,833</u>	<u>–</u>	<u>2,100,937</u>
Segment results	217,898	–	47,871	(369)	265,400
Dividend income from listed and unlisted investments	–	–	–	484	484
Gain on further acquisition and deemed acquisition of an associated company	–	–	3,096	–	3,096
Unallocated corporate expenses, net of income					<u>(65,217)</u>
Operating profit					203,763
Finance income					28,127
Finance costs					(15,269)
Finance income – net					12,858
Share of results of jointly controlled entities	46,728	–	–	–	46,728
Share of result of an associated company	–	–	319,184	–	319,184
Profit before income tax					582,533
Income tax expense					<u>(34,268)</u>
Profit for the year					<u>548,265</u>
The segment results have been arrived at after charging/(crediting) the following:					
Depreciation and amortisation (net of amount capitalised)	13,182	–	5	–	13,187
Depreciation and amortisation – unallocated	–	–	–	–	923
Fair value losses on investment properties	–	–	4,357	–	4,357
Provision for impairment of					
– inventories	27,233	–	–	–	27,233
– trade receivables	57,087	–	–	–	57,087
Write-back of provision for impairment of trade receivables	<u>(35)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(35)</u>
Capital expenditure	39,503	1,278	7,520	–	48,301
Capital expenditure – unallocated	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>669</u>

3 Turnover and segment information (Continued)

(a) Primary reporting format – business segments (Continued)

	Continuing operations				Discontinued operations (note 9)
	Shipping services 2007 HK\$'000	Property investment 2007 HK\$'000	Other operations 2007 HK\$'000	Total 2007 HK\$'000	2007 HK\$'000
Segment turnover	<u>2,058,271</u>	<u>250,852</u>	<u>–</u>	<u>2,309,123</u>	<u>1,064</u>
Segment results	212,895	14,877	(8)	227,764	3,420
Dividend income from listed investments	–	–	2,534	2,534	–
Gain on disposal of available-for-sale financial assets	–	–	31,139	31,139	–
Gain on deemed disposal of partial interest in a jointly controlled entity	–	1,925,468	–	1,925,468	–
Unallocated corporate expenses, net of income				<u>(51,778)</u>	<u>–</u>
Operating profit				2,135,127	3,420
Finance income				35,762	190
Finance costs				<u>(11,823)</u>	<u>(3)</u>
Finance income – net				23,939	187
Share of results of jointly controlled entities	27,020	426,062	–	453,082	–
Share of result of an associated company	–	46,719	–	<u>46,719</u>	<u>–</u>
Profit before income tax				2,658,867	3,607
Income tax expense				<u>(23,772)</u>	<u>–</u>
				2,635,095	3,607
Loss on disposal of discontinued operations				<u>–</u>	<u>(6,434)</u>
Profit/(loss) for the year				<u>2,635,095</u>	<u>(2,827)</u>
The segment results have been arrived at after charging/(crediting) the following:					
Depreciation and amortisation (net of amount capitalised)	13,533	138	–	13,671	–
Depreciation and amortisation – unallocated	–	–	–	823	–
Fair value gains on investment properties	–	(4,134)	–	(4,134)	–
Provision for impairment of					
– completed properties held for sale	–	11,278	–	11,278	–
– trade receivables	5,478	–	–	5,478	–
Write-back of provision for impairment of					
– inventories	(778)	–	–	(778)	–
– trade receivables	(1,914)	–	–	(1,914)	–
Write-back of provision for claims and foreseeable losses on certain construction contracts	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1,627)</u>
Capital expenditure	34,268	5	–	34,273	–
Capital expenditure – unallocated	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,285</u>	<u>–</u>

3 Turnover and segment information (Continued)

(a) Primary reporting format – business segments (Continued)

	Shipping services 2008 HK\$'000	General trading business 2008 HK\$'000	Property investment 2008 HK\$'000	Other operations 2008 HK\$'000	Total 2008 HK\$'000
Segment assets	1,935,250	302,175	72,183	239	2,309,847
Jointly controlled entities	122,837	8,098	–	–	130,935
Associated companies	–	8,943	4,043,867	–	4,052,810
Available-for-sale financial assets	1,759	–	–	36,744	38,503
Deferred income tax assets					40,844
Current income tax recoverable					897
Unallocated assets					<u>685,229</u>
Total assets					<u><u>7,259,065</u></u>
Segment liabilities	848,501	107,554	1,247	–	957,302
Deferred income tax liabilities					8,363
Current income tax liabilities					18,353
Short-term borrowings					316,960
Unallocated liabilities					<u>171,019</u>
Total liabilities					<u><u>1,471,997</u></u>
	Shipping services 2007 HK\$'000	Property investment 2007 HK\$'000	Other operations 2007 HK\$'000	Total 2007 HK\$'000	
Segment assets	1,765,246	208,350	608	1,974,204	
Jointly controlled entities	93,624	–	–	93,624	
Associated company	–	3,628,052	–	3,628,052	
Available-for-sale financial assets	477	–	88,475	88,952	
Deferred income tax assets				26,235	
Unallocated assets				<u>414,240</u>	
Total assets				<u><u>6,225,307</u></u>	
Segment liabilities	832,389	23,757	–	856,146	
Deferred income tax liabilities				798	
Current income tax liabilities				21,190	
Short-term borrowings				216,816	
Unallocated liabilities				<u>11,094</u>	
Total liabilities				<u><u>1,106,044</u></u>	

3 Turnover and segment information (Continued)

(b) Secondary reporting format – geographical segments

	Turnover 2008 HK\$'000	Segment results 2008 HK\$'000	Total assets 2008 HK\$'000	Capital expenditure 2008 HK\$'000
Hong Kong	594,973	130,269	616,245	2,595
China Mainland	<u>1,513,062</u>	<u>135,131</u>	<u>1,693,602</u>	<u>46,375</u>
	2,108,035	265,400	2,309,847	<u>48,970</u>
Hong Kong inter-segment sales elimination	<u>(7,098)</u>			
	<u>2,100,937</u>			
Dividend income from listed and unlisted investments		484		
Gain on further acquisition and deemed acquisition of an associated company		3,096		
Unallocated corporate expenses, net of income		<u>(65,217)</u>		
Operating profit		<u>203,763</u>		
Jointly controlled entities			130,935	
Associated companies			4,052,810	
Available-for-sale financial assets			38,503	
Deferred income tax assets			40,844	
Current income tax recoverable			897	
Unallocated assets			<u>685,229</u>	
Total assets			<u>7,259,065</u>	

3 Turnover and segment information (Continued)

(b) Secondary reporting format – geographical segments (Continued)

	Turnover 2007 HK\$'000	Segment results 2007 HK\$'000	Total assets 2007 HK\$'000	Capital expenditure 2007 HK\$'000
Continuing operations:				
Hong Kong	458,179	105,438	524,472	1,944
China Mainland	<u>1,850,944</u>	<u>122,326</u>	<u>1,449,732</u>	<u>33,614</u>
	2,309,123	227,764	1,974,204	35,558
Discontinued operations:				
Hong Kong	<u>1,064</u>	<u>3,420</u>	<u>–</u>	<u>–</u>
	<u>2,310,187</u>	231,184	1,974,204	<u>35,558</u>
Dividend income from listed investments		2,534		
Gain on disposal of available-for-sale financial assets		31,139		
Gain on deemed disposal of partial interest in a jointly controlled entity		1,925,468		
Unallocated corporate expenses, net of income		<u>(51,778)</u>		
Operating profit		<u>2,138,547</u>		
Jointly controlled entities			93,624	
Associated company			3,628,052	
Available-for-sale financial assets			88,952	
Deferred income tax assets			26,235	
Unallocated assets			<u>414,240</u>	
Total assets			<u>6,225,307</u>	

4 Gain on deemed disposal of partial interest in a jointly controlled entity

On 28th September 2007, Sino-Ocean Land Holdings Limited (“SOLHL”), a then jointly controlled entity, was listed on the Main Board of The Stock Exchange of Hong Kong Limited (“SEHK”) and the Group’s interest in SOLHL was diluted from 30.8% to 20.44%. A deemed disposal gain of HK\$1,925,468,000 arose as a result of the dilution.

5 Other income

	2008 HK\$'000	2007 HK\$'000
Fair value gains on investment properties	–	4,134
Gain on further acquisition and deemed acquisition of an associated company	3,096	–
Gain on disposal of property, plant and equipment	126	–
Gain on disposal of available-for-sale financial assets, including realised investment revaluation reserve of HK\$5,804,000	–	31,139
Gain on disposal of subsidiaries	–	2,887
Write-back of provision for land appreciation tax	12,298	–
Write-back of provision for capital gains tax	–	3,733
Write-back of provision for impairment of trade receivables	35	1,914
Write-back of provision for impairment of inventories	–	778
Write-back of provision for property development cost	6,128	–
Recovery of bad debts	1,259	374
Dividend income from listed and unlisted investments		
– available-for-sale financial assets	469	2,526
– financial assets at fair value through profit or loss	15	8
Others	10,333	6,527
	33,759	54,020

6 Expenses by nature

	2008 HK\$'000	2007 HK\$'000
Cost of sales		
Cost of inventories sold	1,445,159	1,541,092
Cost of properties sold	20,198	209,457
Direct operating expenses for generating rental income	179	127
	1,465,536	1,750,676
Selling, administrative and general expenses		
Selling expenses	144,868	175,463
Depreciation	7,177	7,369
Amortisation of prepaid premium for land leases	568	774
Operating lease rental expense	15,421	10,155
Employee benefit expenses, including directors' emoluments	119,896	113,325
Auditors' remuneration	3,745	3,011
Others	68,590	60,848
	360,265	370,945
Other expenses		
Fair value losses on investment properties	4,357	–
Fair value loss on financial assets at fair value through profit or loss	369	8
Net exchange loss	15,715	13,052
Loss on disposal of subsidiaries	–	31
Loss on disposal of property, plant and equipment	–	223
Provision for impairment of completed properties held for sale	–	11,278
Provision for impairment of trade receivables	57,087	5,478
Write-off of bad debts	–	1,787
Provision for impairment of inventories	27,233	–
Write-off of inventories	371	6
	105,132	31,863

7 Finance income – net

	2008 HK\$'000	2007 HK\$'000
Interest income from:		
– a fellow subsidiary	18	–
– a jointly controlled entity	1,294	1,621
– money market fund investments	270	–
– bank deposits	<u>26,545</u>	<u>34,141</u>
Total finance income	<u>28,127</u>	<u>35,762</u>
Interest expenses on bank loans wholly repayable within five years	(12,842)	(10,210)
Other finance charges	<u>(2,427)</u>	<u>(1,613)</u>
Total finance costs	<u>(15,269)</u>	<u>(11,823)</u>
Finance income – net	<u><u>12,858</u></u>	<u><u>23,939</u></u>

8 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the year.

With effect from 1st January 2008, the PRC corporate income tax rate for domestic enterprises was reduced from 33% to 25% and foreign invested enterprises increased from 15% or 24% to 25%. China Mainland taxation has been calculated on the estimated assessable profit derived from the Group's operations in China Mainland for the year at 25% (2007: 33%) except for certain subsidiaries, which are taxed at reduced rates ranging from 15% to 18% (2007: 12% to 15%) based on different local preferential policies on income tax and approval by relevant tax authorities.

	2008 HK\$'000	2007 HK\$'000
Current income tax		
– Hong Kong profits tax	20,753	16,876
– China Mainland taxation	29,524	33,962
– Over-provision for Hong Kong profits tax in prior years	(431)	(1,546)
– Over-provision for China Mainland taxation in prior years	(8,186)	–
Deferred income tax charge	4,755	713
Deferred income tax credit	<u>(12,147)</u>	<u>(26,233)</u>
Income tax expense	<u><u>34,268</u></u>	<u><u>23,772</u></u>

9 Discontinued operations

On 5th February 2007, the Group entered into an agreement to dispose of the entire issued share capital of, and the shareholder's loan to, COSCO International Construction Limited ("CICL"), a wholly-owned subsidiary, to COSCO (H.K.) Property Development Limited, a fellow subsidiary at a consideration of HK\$2. The principal activity of CICL and its subsidiaries (together "CICL Group") is building construction and maintenance. The disposal was effected pursuant to the Group's strategy of disposing its non-core businesses and assets, and was completed on 15th March 2007.

9 Discontinued operations (Continued)

The results of CICL Group for the period from 1st January 2007 to the date of disposal on 15th March 2007 are as follows:

	1st January to 15th March 2007 HK\$'000
Turnover	
Building construction	904
Rental income	<u>160</u>
	1,064
Operating costs	<u>(1,088)</u>
Gross loss	(24)
Other income	
Write-back of provision for claims and foreseeable losses on certain construction contracts	1,627
Claims received	2,807
Others	<u>25</u>
	4,459
Administrative and general expenses	<u>(1,015)</u>
Operating profit	<u>3,420</u>
Finance income	190
Finance costs	<u>(3)</u>
Finance income – net	<u>187</u>
Profit for the period	<u><u>3,607</u></u>

Loss from discontinued operations is presented separately in the consolidated income statement and is analysed as follows:

	1st January to 15th March 2007 HK\$'000
Profit for the period from CICL Group	3,607
Loss on disposal of CICL Group	<u>(6,434)</u>
Loss from discontinued operations	<u><u>(2,827)</u></u>

10 Dividends

	2008 HK\$'000	2007 HK\$'000
Interim dividend paid of HK\$0.01 (2007: HK\$0.01) per ordinary share	14,803	14,733
Final dividend proposed of HK\$0.064 (2007: HK\$0.035) per ordinary share	95,339	51,731
Special dividend proposed of HK\$0.018 per ordinary share for 2007	—	26,605
	<u>110,142</u>	<u>93,069</u>

11 Earnings/(loss) per share

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

	2008	2007
Profit/(loss) attributable to the equity holders of the Company		
– from continuing operations	HK\$491,015,000	HK\$2,575,450,000
– from discontinued operations	—	(HK\$2,827,000)
Weighted average number of ordinary shares in issue	1,480,032,051	1,462,165,609
Basic earnings/(loss) per share		
– from continuing operations	33.18 HK cents	176.14 HK cents
– from discontinued operations	—	(0.19 HK cent)

- (b) Diluted earnings/(loss) per share is calculated based on the weighted average number of shares in issue after adjusting for the potential dilutive effect in respect of outstanding share options.

	2008	2007
Profit/(loss) attributable to the equity holders of the Company		
– from continuing operations	HK\$491,015,000	HK\$2,575,450,000
– from discontinued operations	—	(HK\$2,827,000)
Weighted average number of ordinary shares in issue	1,480,032,051	1,462,165,609
Adjustment for assumed issuance of shares on exercise of share options	30,269,110	54,159,426
Weighted average number of ordinary shares for diluted earnings per share	1,510,301,161	1,516,325,035
Diluted earnings/(loss) per share		
– from continuing operations	32.51 HK cents	169.85 HK cents
– from discontinued operations	—	(0.19 HK cent)

12 Trade and other receivables

As at 31st December 2008, trade and other receivables included trade receivables amounting to HK\$667,373,000 (2007: HK\$683,685,000).

As at 31st December 2008, the ageing analysis of trade receivables after provision is as follows:

	2008 HK\$'000	2007 HK\$'000
Current – 90 days	223,627	339,801
91 – 180 days	255,622	245,286
Over 180 days	188,124	98,598
	<u>667,373</u>	<u>683,685</u>

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

13 Trade and other payables

As at 31st December 2008, trade and other payables included trade payables amounting to HK\$215,215,000 (2007: HK\$389,107,000).

As at 31st December 2008, the ageing analysis of trade payables is as follows:

	2008 HK\$'000	2007 HK\$'000
Current – 90 days	96,330	325,337
91 – 180 days	85,906	50,284
Over 180 days	32,979	13,486
	<u>215,215</u>	<u>389,107</u>

14 Business combination

On 31st December 2008, the Group acquired 100% equity interest in COSCO International Trading Company Limited (“CITC”) at a cash consideration of RMB142,000,000 from China Marine Bunker (Petro China) Co., Ltd., a jointly controlled entity of COSCO. CITC is engaged in the trading of asphalt and other products and has 40% equity interest in an associated company, COSCO International Ship Trading Company Limited (“COSCO Ship Trading”), which is a 60% owned subsidiary of the Company prior to the acquisition. The acquired business did not contribute revenue nor net profit to the Group for the year ended 31st December 2008. If the acquisition had occurred on 1st January 2008, Group revenue would have been HK\$2,717,180,000, and net profit attributable to equity holders of the Company would have been HK\$541,924,000.

14 Business combination (Continued)

Details of net assets acquired and goodwill are as follows:

	<i>HK\$'000</i>
Purchase consideration	
– Cash payable	161,276
– Incidental costs on acquisition	<u>4,190</u>
Total purchase consideration	165,466
Fair value of net assets acquired – shown as below	<u>(153,759)</u>
Goodwill	<u><u>11,707</u></u>

The goodwill is attributable to the expected future profitability of CITC's 40% equity interest in COSCO Ship Trading.

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

	Fair value <i>HK\$'000</i>	Acquiree's carrying amount <i>HK\$'000</i>
Investment property	7,520	7,520
Property, plant and equipment	1,278	1,239
Jointly controlled entities	8,098	8,098
Interest in COSCO Ship Trading [#]	39,852	39,852
Associated companies	8,943	8,943
Deferred income tax assets	830	830
Inventories	163,769	151,079
Trade receivables	62,920	62,920
Deposits, prepayment and other receivables	35,978	35,978
Amount due from a jointly controlled entity	430	430
Amount due from an associated company of COSCO	49	49
Cash and cash equivalents	37,751	37,751
Trade payables	(17,152)	(17,152)
Bills payables	(1,251)	(1,251)
Accrued liabilities and other payables	(52,043)	(52,043)
Amounts due to fellow subsidiaries	(23,367)	(23,367)
Current income tax liabilities	(1,045)	(1,045)
Short-term borrowings	(103,681)	(103,681)
Dividend payable	(13,742)	(13,742)
Deferred income tax liabilities	<u>(1,378)</u>	<u>(1,378)</u>
Net assets	<u><u>153,759</u></u>	<u><u>141,030</u></u>
Fair value of net assets acquired	<u><u>153,759</u></u>	

Net outflow of cash and cash equivalents on acquisition:

Incidental costs settled in cash	(4,190)
Cash and cash equivalents in subsidiary acquired	<u>37,751</u>
Net cash generated from the acquisition of a subsidiary	<u><u>33,561</u></u>

[#] This represents the minority interest in COSCO Ship Trading acquired by the Group.

OVERALL RESULTS ANALYSIS

The Group's profit attributable to the equity holders was HK\$491,015,000, representing a decrease of 81% as compared to HK\$2,572,623,000 in 2007.

Such decrease was largely attributable to a number of factors including: firstly, a substantial one-off gain on deemed disposal of partial interest in SOLHL of HK\$1,925,468,000 recognised by the Group in 2007 as a result of the initial public offering of shares by SOLHL ("Deemed Disposal Gain") and no such dilution gain recorded in 2008; and secondly, profit contribution from an associated company, SOLHL, decreased to HK\$319,184,000 (2007: HK\$472,781,000). Excluding these factors, the Group's profit attributable to the equity holders would be HK\$171,831,000 (2007: HK\$174,374,000), down 1% as compared with 2007 on the same basis.

On earnings per share performance, basic earnings per share decreased from 175.95 HK cents in 2007 to 33.18 HK cents in 2008.

FINANCIAL REVIEW

Turnover

The Group's turnover for 2008 decreased by 9% to HK\$2,100,937,000 (2007: HK\$2,309,123,000). From the fourth quarter onwards, the Group's container coating business experienced a stagnant market for its products following the drastic decline of worldwide shipping and shipbuilding industries as well as the decrease in international trade flows. However, the Group's solid performance in ship trading agency, sales of marine equipment, spare parts, communications and navigation equipment and marine insurance brokerage businesses largely mitigated the negative impact brought by the coating sales business. As a result, turnover derived from shipping services slightly decreased by 1% to HK\$2,032,104,000 (2007: HK\$2,058,271,000), and accounted for 97% (2007: 89%) of the Group's turnover. Turnover from property investment segment reached HK\$68,833,000 (2007: HK\$250,852,000) representing mainly the sales of retail shops and carparking spaces of the Shanghai Fragrant Garden and accounted for 3% (2007: 11%) of the Group's turnover. The shrinkage in turnover from this segment marked the Group's complete withdrawal from the property development business (except for the shareholdings in SOLHL) following the successful disposal of Shenyang COSCO Yihe Garden in 2007 and liquidation of Shanghai COSCO Honour Property Development Ltd. ("Shanghai Honour") in late 2008.

Gross Profit and Gross Profit Margins

The Group's gross profit for 2008 rose 14% to HK\$635,401,000 (2007: HK\$558,447,000). Due to the increased gross profit earned from the ship trading agency and marine insurance brokerage services income, and sales of marine equipment, spare parts, communications and navigation equipment and reduced raw material prices for the coating businesses, the Group's overall profit margin improved by 6 percentage points to 30% (2007: 24%).

Gain on Deemed Disposal of Partial Interest in a Jointly Controlled Entity

The Group recorded a substantial gain on deemed disposal of partial interest in SOLHL of HK\$1,925,468,000 due to the initial public offering of shares by SOLHL in September 2007. No such one-off gain recorded in 2008 to generate income of the same nature to the Group in 2008.

Other Income

Other income of HK\$33,759,000 (2007: HK\$54,020,000) comprised of further acquisition and deemed acquisition gain of HK\$3,096,000 recognised as a result of the Group's further acquisitions of shares in SOLHL and share repurchases by SOLHL during 2008, write-back of provisions for land appreciation tax and property development cost of HK\$12,298,000 and HK\$6,128,000 respectively following the completion of Shanghai Honour's liquidation in late 2008.

Other Expenses

Other expenses for the year increased sharply to HK\$105,132,000 (2007: HK\$31,863,000). This was largely attributable to fair value losses on investment properties of HK\$4,357,000 (2007: fair value gains on investment properties of HK\$4,134,000), net exchange loss of HK\$15,715,000 (2007: HK\$13,052,000), provision for impairment of trade receivables and write-off of bad debts of HK\$57,087,000 (2007: HK\$7,265,000) and provision for impairment of inventories and write-off of inventories of HK\$27,604,000 (2007: HK\$6,000). The net exchange loss was largely attributable to the strengthening of Renminbi against US Dollars. Drastic decline of the shipping and shipbuilding industries from the fourth quarter onwards with major customers cutting down their production orders and preserving their cash holdings had consequently led to downward pressure on container coating prices and sluggish settlement of receivables. In this circumstance, management considered it prudent to raise the level of provisions.

Operating Profit

The Group's operating profit fell drastically by 90% to HK\$203,763,000 (2007: HK\$2,135,127,000). As explained above, if the Deemed Disposal Gain of HK\$1,925,468,000 for 2007 was excluded, the Group's operating profit would be HK\$203,763,000 (2007: HK\$209,659,000), representing a 3% decrease as compared with 2007.

For 2008, the selling, administrative and general expenses decreased by 3% to HK\$360,265,000 (2007: HK\$370,945,000), indicating the fruitful result of management's commitment to vigorous control over operating costs in spite of increased cost pressures on rental expenses, employee share option expenses and as well as the full year operation of Zhuhai coating plant in 2008 which had only commenced its operation in September 2007. These three expense items experienced a 25% increase to HK\$46,681,000 (2007: HK\$37,361,000) when compared to 2007.

Finance Income – Net

The Group's net finance income mainly comprised interest income generated from cash deposits, money market fund investments and loans to a jointly controlled entity of totalling HK\$28,127,000 (2007: HK\$35,762,000) and finance costs which included interest expenses on short term bank loans of HK\$12,842,000 (2007: HK\$10,210,000) and other finance charges of HK\$2,427,000 (2007: HK\$1,613,000). The decrease in interest income was due to the lowering of deposit rates and increase in interest expenses was mainly attributable to increased level of the Group's borrowings.

Share of Profits of an Associated Company and Jointly Controlled Entities

The Group's share of profits from an associated company and jointly controlled entities dropped by 27% to HK\$365,912,000 (2007: HK\$499,801,000). The Group's share of profit contributions from SOLHL which had decreased by 32% to HK\$319,184,000 (2007: HK\$472,781,000) and profit contributions from other jointly controlled entities which had increased by 73% to HK\$46,728,000 (2007: HK\$27,020,000). The changes were mainly driven by decreased financial results of SOLHL and improved performance of Jotun COSCO Marine Coatings (HK) Limited ("Jotun COSCO").

Income Tax Expense

The Group's income tax expense for the year increased to HK\$34,268,000 (2007: HK\$23,772,000) while the effective tax rate, defined as the ratio of income tax expenses to profit before income tax after excluding share of profits of jointly controlled entities and an associated company and the Deemed Disposal Gain, increased from approximately 10% in 2007 to 16% in 2008. Such increases were mainly attributable to decrease in deferred tax credits made in respect of certain timing differences arising from certain expenses accrued by the Group's PRC subsidiaries and deferred tax charges made in respect of withholding tax on undistributed earnings retained by the Group's PRC subsidiaries.

Profit Attributable to the Equity Holders

The Group's profit attributable to the equity holders decreased by 81% to HK\$491,015,000 (2007: HK\$2,572,623,000). If the Deemed Disposal Gain of HK\$1,925,468,000 for 2007 and profit contribution from SOLHL (HK\$319,184,000 for 2008 and HK\$472,781,000 for 2007) were excluded, the Group's profit attributable to the equity holders would be HK\$171,831,000 (2007: HK\$174,374,000), down 1% as compared with 2007 on the same basis.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts a prudent yet flexible approach towards financial management through maintaining a strong balance sheet and a relatively low level of borrowings and achieving a high degree of liquidity. The Board believes this approach is beneficial to the Group's long term development as a major shipping services provider and to weather through the times of uncertainty and volatility.

For the year ended 31st December 2008, the Group financed its liquidity requirements by cash generated from operations, dividends from an associated company, bank borrowings, and cash generated from acquisition of subsidiary acquired.

As of 31st December 2008, the Group's consolidated total assets increased by 17% to HK\$7,259,065,000 (2007: HK\$6,225,307,000). Total liabilities increased 33% to HK\$1,471,997,000 (2007: HK\$1,106,044,000).

Net assets value was HK\$5,545,695,000 (2007: HK\$4,901,746,000). The increase mainly represented retained profit for the year, increased share of reserves of jointly controlled entities and an associated company, exchange differences and the value of new shares issued upon the exercise of options. Net assets value per share was HK\$3.72 (2007: HK\$3.32), up 12% over the end of 2007.

As at 31st December 2008, the Group's total bank borrowings increased to HK\$316,960,000 (2007: HK\$216,816,000) whereas the Group's total cash balance and committed yet unutilised standby facilities increased by 45% to HK\$1,492,941,000 (2007: HK\$1,031,344,000) and by 50% to HK\$386,225,000 (2007: HK\$258,208,000) respectively. Cash and cash equivalents held by the Group accounted for 50% (2007: 47%) of the Group's current assets.

The increase in bank borrowings was mainly used to finance the purchase of property, plant and equipment for ongoing expansion, upgrade of the Group's production facilities and support working capital needs. Gearing ratio, which represents the ratio of total borrowings to total assets, was 4.4% (2007: 3.5%).

Table: Debt Analysis

	31st December 2008		31st December 2007	
	HK\$'000	%	HK\$'000	%
Classified by maturity:				
– repayable within one year	<u>316,960</u>	<u>100</u>	<u>216,816</u>	<u>100</u>
Classified by type of loan:				
– unsecured	<u>316,960</u>	<u>100</u>	<u>216,816</u>	<u>100</u>
Classified by currency:				
– Renminbi	111,127	35	69,384	32
– United States dollars	188,933	60	147,432	68
– Hong Kong dollars	<u>16,900</u>	<u>5</u>	<u>–</u>	<u>–</u>
	<u>316,960</u>	<u>100</u>	<u>216,816</u>	<u>100</u>

As of 31st December 2008, except for subsidiary's pledge of bank deposits of HK\$118,963,000 (2007: HK\$8,006,000) for the related banking facilities, the Group did not pledge any other assets to banks as security for bank credit facilities.

In view of the Group's current level of cash and bank balances, funds generated internally from operations, the unutilised banking facilities available and a relatively low debt level, the Board is confident that the Group will have sufficient resources to meet its foreseeable capital expenditures and debt repayment requirements.

Treasury Policy

The Group operates principally in Hong Kong and China Mainland, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars and Renminbi. Foreign exchange risk arises from commercial transactions and recognised assets and liabilities. The Group managed its foreign exchange exposure through matching its operating costs and borrowings against its receivables on sales. Nevertheless, the Group is still exposed to relevant foreign exchange risk in respect of Renminbi and United States Dollars exchange rate fluctuations such that the Group's profit margin might be impacted accordingly. In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange controls promulgated by the PRC government.

The Group continued to monitor and adjust its debt portfolio from time to time in light of market conditions, the objective of which is to reduce potential interest rate risk exposure, improve debt structure and lower interest expenses.

At 31st December 2008, borrowings of the Group carried interest at rates calculated with reference to the London Interbank Offered Rate and the benchmark interest rates announced by the People's Bank of China. The Group will consider using forward foreign exchange contracts to hedge its foreign currency exposure should the need arise.

As to investment of surplus funds, the Group invests in highly liquid and secure investments and conduct investments with highly reputable financial institutions both in Hong Kong and China Mainland.

Major Customers and Suppliers

For the year ended 31st December 2008, aggregate sales to the five largest customers accounted for less than 30% (2007: less than 30%) of total turnover of the Group, while aggregate purchases from the five largest suppliers accounted for less than 30% (2007: less than 30%) of the total cost of sales of the Group.

Employees

As of 31st December 2008, excluding associated companies and jointly controlled entities, the Group had 662 (2007: 610) employees, of which 107 (2007: 104) are Hong Kong employees. The increase in the total number of employees was mainly attributed to the acquisition of 100% equity interest in CITC.

For the year ended 31st December 2008, total staff cost, including directors' emoluments and provident funds, was HK\$139,756,000 (2007: HK\$132,841,000). Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary, a year-end discretionary bonus, which are determined with reference to market conditions and individual performance. During the year, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme.

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

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of 6.40 HK cents per share (2007: 3.50 HK cents per share) for the year ended 31st December 2008 and propose to give shareholders an option of receiving part or all of the final dividend in the form of new shares (the “Scrip Dividend”) in lieu of cash. The Scrip Dividend proposal (the “Proposal”) will be conditional on the approval of the proposed final dividend at the forthcoming annual general meeting of the Company and the SEHK’s granting a listing of and permission to deal in the shares to be issued pursuant to the Proposal. The proposed final dividend, together with the interim dividend of 1.00 HK cent, gives a total dividend of 7.40 HK cents per share (2007: 6.30 HK cents per share including special dividend of 1.80 HK cents) for the whole year of 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 27th May 2009 to 2nd June 2009, both days inclusive, during which period no transfer of shares will be effected. To qualify for the proposed final dividend, all transfers must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 26th May 2009.

It is expected that the proposed final dividend will be payable to those entitled on or before 8th July 2009 subject to the shareholders’ approval in the annual general meeting of the Company to be held on 2nd June 2009.

BUSINESS REVIEW

2008 under review, the Group had been continuously implementing its strategic positioning initiative for its core business in shipping services by actively consolidating the development of its core businesses, strengthening the management of key businesses such as ship trading agency services, marine insurance brokerage services, sales of marine equipment, spare parts, communications and navigation equipment, and production and sales of marine coatings. The Group had also been actively exploring external markets, consolidating VIP customers, putting greater efforts into research and development on technology, and successfully procuring new customers and developing new niche markets. Those measures performed well as expected. In addition, the Group was devoted to expanding new businesses. At the end of 2008, the Group completed the acquisition of the entire equity interest in CITC. Since CITC owns 40% equity interest in COSCO International Ship Trading Company Limited (“COSCO Ship Trading”) and the Company indirectly owns 60% equity interest in COSCO Ship Trading, COSCO Ship Trading has become a wholly-owned subsidiary of the Company. COSCO Ship Trading is principally engaged in ship trading agency services, which is part of the Group’s core shipping services business. Apart from benefiting the Group’s reinforcement of its positioning in shipping services businesses, this acquisition has also aided to the steady growth of the Group. Principally engaged in trading of asphalt as well as trading of various marine spare parts and equipment, CITC may assist the Group realise synergy with its existing businesses in a more effective way.

CORE BUSINESS

1. Shipping Services

In the first half of 2008, despite the subprime crisis in the United States, global inflation and escalating oil prices, which had caused adverse impacts on the global economies, China's economy still had maintained a steady and fairly fast growth. However, after the outburst of the global financial tsunami in September, global economies suffered from impacts in varying degrees and the reduced demand from developed countries caused a downturn in export businesses of the developing countries. As a result, the global shipping market and shipbuilding industry was in the doldrums. According to statistics from General Administration of Customs of the PRC, China's imports and exports trade in 2008 amounted to US\$2,561.6 billion (2007: US\$2,173.8 billion), representing an increase of 17.8% as compared with last year. Aggregated exports increased by 17.2% and aggregated imports increased by 18.5%. Trade surplus amounted to US\$295.5 billion, up 12.7% over last year. Nonetheless, foreign imports and exports trade of the PRC experienced a steep slide since November 2008, when aggregated monthly imports and exports recorded negative growth. The contraction of China's imports and exports trade directly affected the development of the international shipping market.

In addition, the global shipbuilding industry had undergone the unusual and significant changes of recent years in 2008. According to statistics from Clarkson Research Services Limited, global accomplished shipbuilding output and contracts on hand during 2008 reached its highest level in the past decade, while China also achieved the historical high in new build ship orders and contracts on hand, ranking the second in the three largest shipbuilding countries in the world. However, in the wake of the financial tsunami, the banks introduced tight control over credit facilities, which forced some shipyards to face financing difficulties. Huge outflows of funds from the shipbuilding market resulted in significant month-on-month drops in global shipbuilding orders since the fourth quarter of 2008. At the same time, transaction volume in ship trading also significantly declined, thus dragging down the vessel prices. There were also instances where shipbuilding orders were cancelled or amended in the industry, or delays were requested for new vessel delivery, indicating that the shipbuilding rush was apparently cooled down.

Nevertheless, benefiting from the robust development in the shipping market and shipbuilding market in recent years, the Group accumulated shipbuilding orders as an agency for delivery within the next two to three years. In addition, numerous new vessels delivered during the year led to record high commission income from ship trading agency services in recent years, and maintained stable growth in sale of marine equipment and spare parts and marine insurance brokerage services, ensuring the steady development of the shipping services of the Group during the year. For the year ended 31st December 2008, the turnover from shipping services was HK\$2,032,104,000, representing a slight decrease of 1% as compared with HK\$2,058,271,000 in 2007. This accounted for 97% (2007: 89%) of the total turnover of the Group, mainly due to a great drop in demand for container coatings as a result of sharply diminishing container production in the fourth quarter of 2008. The segment results of HK\$217,898,000 represented a slight increase of 2% compared with HK\$212,895,000 in 2007.

1.1 Ship Trading Agency Services

COSCO Ship Trading, becoming a wholly-owned subsidiary of the Company at the end of 2008, is principally engaged in provision of exclusive agency services relating to shipbuilding, ship trading and chartering for COSCO Group fleet, as well as relevant agency services to non-COSCO Group shipping companies. COSCO Ship Trading mainly derives its turnover from agency commissions. In the case of new vessels, COSCO Ship Trading is paid commissions by shipbuilders according to shipbuilding progress as stipulated in the contracts. As for second-hand vessels, trading commissions are paid according to the contracts after the vendors had delivered vessels to buyers.

As a consequence of the global financial crisis, transaction volume in the ship market during the year significantly declined as compared with 2007. COSCO Ship Trading consummated transactions for the sale and purchase of 59 vessels (2007: 107 vessels), amounting to a total of 4,480,000 dead weight tonnages (2007: 6,670,000 dead weight tonnages). COSCO Ship Trading had been well positioned to secure part of its ship trading commission income for 2008 through the contracts executed during the preceding years. As a result, COSCO Ship Trading recorded a surge in turnover to HK\$130,700,000 (2007: HK\$73,821,000), representing an increase of 77% over 2007.

It is expected that new shipbuilding orders will significantly fall in 2009 due to the credit crunch and uncertain prospect for the shipping market. It is expected that various factors such as the gradual release of the shipbuilding capacity and the drop in steel prices will bring about increasing pressure for downward adjustment of both new and second-hand vessel prices. However second-hand vessel transactions and vessel dismantling transactions will become active. The governments around the world have been actively putting forward financial rescue packages. The policies put forward by the PRC government to stimulate the development of the ship industry will include reinforced efforts in providing financial and credit support for the ship industry, with the aim of achieving a sustainable development of the industry. It is expected that these policies will help solve insufficient vessel financing, and therefore provide active support for the shipbuilding industry and related trading services industries.

Confronted with this evolved situation in the global ship trading market in 2009, COSCO Ship Trading will make risk control its major mission. This includes control over, among other things, market risks and customer risks to ensure performing effectively management over recognised orders. Meanwhile, COSCO Ship Trading will enhance its market research and communication with other shipping companies of COSCO Group, and enhance internal management and improve service quality, as well as putting greater efforts in exploring new ship trading businesses. At the time of shipbuilding market downturn, the vessel dismantling market and second-hand vessel market will provide COSCO Ship Trading with new opportunities. COSCO Ship Trading will strive to achieve better results by emphasising on development in the vessel dismantling and second-hand vessel market inside and outside of COSCO Group.

1.2 *Marine Insurance Brokerage Services*

COSCO (Hong Kong) Insurance Brokers Limited (“HK COSCO Insurance Brokers”), a wholly-owned subsidiary of the Company, has Lloyd’s broker accreditation and mainly operates intermediary businesses in relation to marine insurance and ship owner’s liability insurance. 深圳中遠保險經紀有限公司 (Shenzhen COSCO Insurance Brokers Limited) (“SZ COSCO Insurance Brokers”), a non wholly-owned subsidiary of the Company, is also engaged in provision of insurance brokerage services in China Mainland. During the year, the marine insurance brokerage services of HK COSCO Insurance Brokers and SZ COSCO Insurance Brokers (collectively referred to as “COSCO Insurance Brokers”) recorded a turnover of HK\$65,682,000 (2007: HK\$53,291,000), representing an increase of 23% as compared to 2007. The increase in turnover was mainly attributable to the robust shipping market in the first half of 2008 and the success in procuring new customers.

In view of the continuously weak shipping markets resulting in the fall in vessel prices and the significant decline in insurance of chartering business, it is expected that insured sums will decrease and commission income from insurance brokerage will reduce. Confronted with keen market competition, COSCO Insurance Brokers will, while stabilising its existing business, continue their development of hull mutual insurance for registered vessels in China Mainland and actively pursue markets for new insurance products. They will also explore ways to improve marketing capabilities, enhance management and reduce costs, in order to achieve even greater operating efficiencies. Furthermore, COSCO Insurance Brokers will continue to position itself appropriately for the shipbuilding orders of COSCO Group, and put more efforts in cultivating insurance businesses from prospective local shipping companies.

1.3 *Sales of Marine Equipment, Spare Parts, Communications and Navigation Equipment*

Yuantong Marine Service Co. Limited (“Yuantong”), a wholly-owned subsidiary of the Company, is principally engaged in the sales and installation of marine equipment and spares parts for existing and new vessels, as well as oil drilling project at sea, communications systems, shore-based AIS systems, vessel traffic management systems and information management systems for land users. During the year, Yuantong’s turnover was HK\$454,646,000, representing an increase of 29% as compared with HK\$351,236,000 in 2007. This was mainly attributable to the increase in the equipment for new build vessels business and increased orders for spare parts, communications and navigation equipment, as well as newly successful bidding for a land-based communication project.

Although the development of the shipbuilding industry in China Mainland has boosted demand for marine ancillary equipment, keen competition among the distributors arises. Direct sales businesses gradually increase at the expense of market share for traditional suppliers. In addition, due to the recent uncertain prospects for the shipping market and the shipbuilding market, various shipping companies begins to reduce purchase of spare parts in order to lower costs, which results in a significant decrease in demand for spare parts. Under current circumstances, Yuantong will continue to forge closer relations with suppliers, enhance communications, promotion and ancillary services, enhance synergies between various members of COSCO Group, strive for support from ship owners and shipyards, further expand the products mix distributed by Yuantong, study and screen domestic brand products in China Mainland, explore new channels for distributions and seek new niche markets for profit growth.

1.4 Production and sales of coatings

中遠關西塗料化工(天津)有限公司 (COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd.) (“COSCO Kansai (Tianjin)”), 中遠關西塗料化工(上海)有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.) (“COSCO Kansai (Shanghai)”) and 中遠關西塗料化工(珠海)有限公司 (COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd.) (“COSCO Kansai (Zhuhai)”) (collectively called “COSCO Kansai Companies”) are principally engaged in the operations of container coatings and industrial heavy-duty anti-corrosion coatings. Jotun COSCO, the 50/50 joint venture formed by the Company and Jotun A/S, Norway, is principally engaged in the operations of marine coatings. During the year, the production and sales of coatings segment recorded a turnover of HK\$1,381,076,000 (2007: HK\$1,579,923,000), representing a decrease of 13% as compared with that of 2007.

1.4.1 Container Coatings

COSCO Kansai Companies have established coating plants in Zhuhai, Shanghai and Tianjin respectively. Those three coating plants are located in the three most economically developed regions in China, namely the Pearl River Delta, the Yangtze River Delta and the Pan-Bohai Rim Area respectively, with total production capacity of 100,000 tonnes. During the first three quarters of 2008, COSCO Kansai Companies recorded a steady growth in container coatings business. However, affected by the global financial crisis, the market demand for containers rapidly reduced and the order for containers sharply decreased. Some container plants stopped their production because of lack of orders. The sharp fall in demand for containers led to a significant drop in demand for container coatings, which resulted in a sharp fall in the container coatings orders of COSCO Kansai Companies in the fourth quarter of 2008. During the year, the total sales volume of COSCO Kansai Companies was 51,034 tonnes, representing a decrease of 20% as compared to 63,985 tonnes in 2007.

It is expected that shipping companies and container leasing companies will further reduce demand for new containers in 2009, and demand for container coatings will accordingly reduce because of various factors such as overcapacity of the container transportation sector and the constant high level of container inventories. However, as container prices further diminish and the economic recovery policies of various governments are launched, there are hopes that the market players will gradually restore their confidence to purchase containers. However, it is expected that there will be much fewer container orders globally for the whole year over 2008. As keen competition for container coatings will be further intensified, COSCO Kansai Companies will continue to maintain close relationship with their key customers, optimise the procurement procedure for raw materials, reduce procurement costs, strengthen internal management, optimise the business process and pay effort to diminish the material adverse impact from the market.

1.4.2 Marine Coatings

Jotun COSCO is principally engaged in marine coatings in China (including Hong Kong and Macau Special Administrative Regions). During the year, marine coatings sales volume amounted to 49,665,000 litres (equivalent to 72,014 tonnes), representing a significant increase of 69% compared with 29,440,000 litres (equivalent to 42,688 tonnes) in 2007. It was ranked as a key player in terms of its market share in the marine coatings market in 2008, mainly attributable to the prosperous development in China shipbuilding and ship repairing markets and remarkable progress in exploring markets.

Since the shipping market is weak, there will be fewer market demands for coatings used in new shipbuilding and ship refitting. However, it is expected that the sales of marine coatings will be relatively stable due to the delivery of new build vessels in 2009. In the face of the keen market competition, Jotun COSCO will take advantage of the recognised new orders for shipbuilding and continue to strengthen customer management, give priority to develop VIP customers and customers with stable businesses, strive for orders actively; adjust tactics, put greater efforts in marketing coatings for ship repairing and shipbuilding; make appropriate arrangements for orders and capacity, strictly control product quality and constantly improve service quality, in an attempt to consolidate and enhance the market penetration of Jotun COSCO in China and become the first preference for customers.

1.4.3 Industrial Heavy-duty Anti-corrosion Coatings

China Mainland's demand for infrastructure had grown at a faster pace, which stimulated a rapid growth in sales of industrial heavy-duty anti-corrosion coatings. During the year, COSCO Kansai Companies focused on developing industrial heavy-duty anti-corrosion coatings and achieved satisfactory sales results. Sales volume amounted to 10,091 tonnes, representing an increase of 10% compared with 9,164 tonnes in 2007 because the sales of industrial heavy-duty anti-corrosion coatings were domestically-oriented and were not affected by the unfavourable external economic factors.

With a series of policies launched which expanded domestic demand and investment in China Mainland, it is expected that there will be a significant increase in construction scale for infrastructure in China Mainland in 2009, representing a steady increase in demand for industrial heavy-duty anti-corrosion coatings. COSCO Kansai Companies, in 2009, will focus on developing industrial heavy-duty anti-corrosion coating products mainly for fast-growing industries, such as nuclear stations, ports, electricity, oil, petrochemical, transportation and municipal infrastructure in order to expand the market share of relevant products and develop new niche markets for profit growth.

1.5 Others

CITC had become a wholly-owned subsidiary of the Group since December 2008. CITC is principally engaged in trading of asphalt and trading of various vessel spare parts and accessories, as well as other comprehensive trading. CITC is familiar with the China market and the market operations and has abundant experience in international trading and has steady suppliers and stable market share, which generates synergies between the Group's shipping services business, serving an important platform for the Group to tap into the domestic markets. With the support from the PRC Government which launched measures to expand domestic consumption, including the policy to expand infrastructure projects, it is estimated that various provinces and municipalities in China Mainland will increase investments in road construction in 2009, leading to a corresponding increase in imports of asphalt for highways, which will benefit CITC to capitalise its advantages to expand relevant markets.

2. Property Investment

In order to counter high inflation, the PRC government imposed stricter control over the funding available for real estate development and availability of mortgages for home buyers, thus suppressing the demand and supply in the property market. With the slowdown of China's economic growth, the fourth quarter of 2008 saw a greater downturn in the PRC property market. To support a healthy development in the property market, the central government has introduced adjustment and control measures to facilitate the property market development.

In 2008, the segment turnover of property investment decreased by 73% to HK\$68,833,000 (2007: HK\$250,852,000), accounting for 3% of the total turnover of the Group. This was mainly due to the completion of the sale of Shenyang COSCO Yihe Garden, the last development project of the Group, in November 2007, the revenues from which were reflected in the 2007 financial statements.

Upon the completion of Fragrant Garden, the Group's property development in Shanghai, its residential portion was sold and handed over. Shanghai COSCO Honour Property Development Limited, the project holding company, had applied to commence and completed voluntary liquidation, with approval of registration cancellation by Shanghai Administration of Industry and Commerce in October 2008.

Comparing with 2007, segment results increased by 222% to HK\$47,871,000 (2007: HK\$14,877,000) was mainly due to write-back of certain provisions previously made for Fragrant Garden which were no longer required after the liquidation of Shanghai COSCO Honour Property Development Limited.

3. Investment in an Associated Company

Sino-Ocean Land Holdings Limited

As at 31st December 2008, the Company holds 20.77% equity interest in SOLHL, the shares of which are listed on the SEHK. SOLHL holds 100% interest in Sino-Ocean Land Limited ("SOLL").

SOLL is a well known property developer in China Mainland and principally engaged in the development of medium to high-end residential properties and premium grade office buildings, retail properties, serviced apartments and hotels. Besides with a leading position in Beijing and the Pan-Bohai Rim, SOLL also expands into the regions with rapid economic growth such as the Pearl River Delta and the Yangtze River Delta. For the year ended 31st December 2008, the Group's share of profit from SOLHL decreased by 32% from 2007 to HK\$319,184,000 (2007: HK\$472,781,000) mainly due to the decrease in financial results of SOLHL which was attributable to the decrease in one-off gains such as profit on disposal of interests in jointly controlled entities and fair value gain on investment properties recorded in 2007.

It is expected the PRC property market will be still subject to the influence of the economic growth and the property policies in China Mainland in 2009. However, there are still positive prospects for the PRC property market in the long run as there are no changes to the great demand for better living environment and commercial buildings while urbanisation in the PRC is still developing and the tendency to the growth in social and personal wealth remains unchanged. Capitalising on its sound financial strength, strong brand reputation, prime project locations and flexible marketing strategy, SOLL will maintain its leading position in Beijing and the Pan-Bohai Rim.

EVENT AFTER THE BALANCE SHEET DATE

On 3rd March 2009, New Renown Limited ("New Renown"), a wholly-owned subsidiary of the Company, entered into a conditional share transfer agreement with COSCO Trading and Supply Investments Limited ("COSCO Trading"), in relation to the acquisition by New Renown of 18% of the total share capital in Double Rich Limited from COSCO Trading for a consideration of US\$4,905,484. Details of the acquisition were disclosed in the announcement dated 3rd March 2009.

PROSPECTS

There has been a significant slowdown in the growth of the global economy as a result of the financial tsunami, which evolved from deterioration of the United States sub-prime crisis. The global shipping and shipbuilding industries began to step into the downward trend as a result of the steep decline in international trade. It is expected that each of the core businesses of the Group will inevitably be exposed to greater impacts in 2009 due to the uncertainties such as external market demand downturn, fewer demand for containers, a sharp drop in vessel prices, a slump in new build ship order, greater risk of order revocation and difficulties in financing which resulted in negative prospects for the shipping and shipbuilding industries, and to a certain extent, a corresponding slip in market demand for shipping services.

The governments in the world in turn have announced economic bailout plans with injection of billions into the economy. The PRC government will also inject RMB4,000 billion into the economy from 2009 to 2010 and introduce stimulus plans for, among others, shipbuilding industry and logistic development, which will help eliminate the current shipbuilding financing problems and stabilise the economy. They will actively support the shipping industry, shipbuilding industry and related ship trading service industries. As a result, the economy may gradually recover from the trough. The turnover in the ship trading market will also significantly decrease due to the expected steep drop in new build ship orders, which are affected by the shipping and shipbuilding market, as well as delivery of numerous new vessels, which will result in oversupply in shipping capacity and a decrease in vessel prices. However, The Group will emphasise on development in vessel dismantling and second-hand vessel market to take hold of new opportunities. In 2009, the marine insurance brokerage market will still be exposed to the difficulties of reduced insured sums as a result of the decrease in vessel

prices and the reduction of chartering. However, the Group will continue to actively develop its hull mutual insurance for registered vessels in China Mainland and markets for new insurance products, striving for greater operating efficiency. In addition, as the prospects of the shipping market and shipbuilding market become uncertain, the spare parts supply market will be directly exposed to the impacts of cost reduction and purchase of fewer spare parts of all of the shipping companies. Nonetheless, it is believed that the Group will strive to open up new agency marketing channels and expand agents' product mix, and marine equipment business will seek a new channel to facilitate profit growth. In view of fewer demand for containers and reduction in the new shipbuilding orders, as well as the depressed shipping market, sale of the container coatings and the coatings used in new shipbuilding and ship refitting will also be under pressure to a certain extent. As for container coatings, the Group will optimise its material procurement procedure, in an attempt to reduce the procurement costs and overcome market difficulties; as for marine coatings, the Group will adjust tactics, strive to obtain orders from VIP customers and customers with stable businesses, put greater efforts in marketing coatings used for shipbuilding and ship maintenance. On the contrary, the market demand for industrial heavy-duty anti-corrosion coatings will significantly increase as a series of investment measures and the policy of domestic demand expansion in China Mainland are announced and come into operation in turn.

Under such difficult operating circumstances, the Group will continuously position its core business in shipping services and set its work objectives as "risk control, lean management, consistent safety, stable development, and greater benefit". On the one hand, the Group will try its best to improve the production and management of the existing business units by striving to turn risks into opportunities and crises into chances, ensuring safe production, enhancing product and service quality, and reinforcing the core corporate competitiveness and brands to continuously develop new products and businesses and procure new customers, thus seeking new niche markets for profit growth, and actively taking initiatives to counter new challenges, improve management, and excel and strengthen the existing business, thus ensuring to achieve healthy growth for the year. On the other hand, the Group will take pro-active approach to identify new investment opportunities, steadily expand the shipping service business, continuously improve asset reorganisation, strengthen synergy among various business operations, explore business opportunities available inside and outside COSCO Group in order to extend the services network and enhance the competitiveness in the shipping services market as a whole, thereby globalising the shipping service and achieving a steady and sustainable growth. Under the full support of China Ocean Shipping (Group) Company and COSCO (Hong Kong) Group Limited, the Group aims to build a strong reputation and outstanding brand awareness in shipping services industry and become a specialised, unique and leading shipping services provider.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31st December 2008 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December 2008.

CORPORATE GOVERNANCE

Maintaining high standards of corporate governance has always been one of the Company's priorities. This is achieved through an effective, timely disclosure of information by the Board and a proactive investor relations programme. In recognition of the great strides that were made with regard to its business performance and corporate governance practices during the year, both the Board and the former Vice Chairman, Mr. Liu Guoyuan were presented Directors Of The Year Awards 2008 for Listed Companies (SEHK – Non-Hang Seng Index Constituents) by The Hong Kong Institute of Directors respectively. Nonetheless, the Company will continue to implement measures in order to further strengthen both its corporate governance and overall risk management.

The Board believed that the Company has during the year complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") except that (i) all Non-executive Directors (including Independent Non-executive Directors) have entered into letters of appointment with the Company until November 2008 for a specific term up to the forthcoming annual general meeting of the Company and the Director appointed in 2008 has not been re-elected by shareholders at the first general meeting after his appointment, however, all Directors are subject to retirement and eligible for re-election in each annual general meeting in accordance with the Bye-Laws of the Company; and (ii) Mr. Wei Jiafu, the former Chairman of the Board, was unable to attend the annual general meeting of the Company held on 23rd May 2008 due to other business commitments.

The audit committee of the Company (the "Audit Committee") consists of three Independent Non-executive Directors. The Audit Committee is chaired by an Independent Non-executive Director who is a certified public accountant. The duties of Audit Committee include the review of important accounting policies and supervises the Company's financial reporting process; monitoring the performance of both the internal and external auditors; reviewing and examining the effectiveness of the financial reporting procedures and internal controls; ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, and internal rules and procedures approved by the Board. The Audit Committee has discussed the internal controls and financial reporting matters with management of the Company and reviewed the results announcement and the audited financial statements of the Group for the year ended 31st December 2008. The Company has received from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Director to be independent.

The Company has adopted a code of conduct regarding securities transactions of directors and employees (the "Securities Code") no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. To ensure Directors' dealing in the securities of the Company are conducted in accordance with the Securities Code, a committee (the "Committee") comprising the Chairman, the Vice Chairman, the Managing Director and Deputy Managing Directors was set up to deal with such transactions. Prior to any dealing in the securities of the Company, a Director is required to notify the Chairman or the Vice Chairman in writing and obtain a written acknowledgement from the Committee.

The Company has made specific enquiry of all Directors regarding any non-compliance with the Securities Code during the year ended 31st December 2008, all Directors confirmed that they have fully complied with the required standard set out in the Securities Code during the year.

BOARD OF DIRECTORS

As at the date hereof, the Board comprises thirteen Directors, namely Mr. Zhang Fusheng (Chairman)¹, Mr. Wang Futian (Vice Chairman)¹, Mr. Li Jianhong², Mr. Jia Lianjun², Mr. Wang Xiaoming¹, Mr. Liang Yanfeng (Managing Director)¹, Mr. Meng Qinghui², Mr. Chen Xuewen², Mr. Wang Xiaodong¹, Mr. Lin Wenjin¹, Mr. Kwong Che Keung, Gordon³, Mr. Tsui Yiu Wa, Alec³ and Mr. Jiang, Simon X.³.

¹ *Executive Director*

² *Non-executive Director*

³ *Independent Non-executive Director*

By Order of the Board
COSCO International Holdings Limited
Liang Yanfeng
Managing Director

Hong Kong, 27th March 2009