
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Circular or as to any action to be taken, you should consult appropriate independent advisers.

If you have sold or transferred all your shares in **China Shipping Container Lines Company Limited**, you should at once hand this Circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.



中 海 集 裝 箱 運 輸 股 份 有 限 公 司

China Shipping Container Lines Company Limited*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock code: 2866)

MAJOR TRANSACTION ACQUISITION OF VESSELS

* *The Company is registered as an overseas company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) under its Chinese name and the English name "China Shipping Container Lines Company Limited".*

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	
I INTRODUCTION	4
II THE AGREEMENTS	5
III GENERAL INFORMATION ON THE GROUP AND THE VENDOR	6
IV REASONS FOR AND BENEFITS OF THE ACQUISITION	7
V EFFECT OF THE ACQUISITION ON EARNINGS AND ASSETS AND LIABILITIES.	7
VI IMPLICATIONS UNDER THE LISTING RULES	8
VII ADDITIONAL INFORMATION	8
APPENDIX I – FINANCIAL INFORMATION ON THE GROUP	9
APPENDIX II – GENERAL INFORMATION	70

DEFINITIONS

In this Circular, unless the context otherwise requires, the following terms shall have the following meanings:

“Acquisition”	the acquisition of the Vessels by the Company from the Vendor pursuant to the Agreements.
“Agreement(s)”	eight (8) ship building contracts entered into after the trading hours of the Stock Exchange on 8 August 2007 between the Company and the Vendor, pursuant to each of which the Vendor has agreed to design, build, launch, equip, complete and sell, and the Company has agreed to purchase, a Vessel.
“associate”	has the meaning ascribed thereto under the Listing Rules.
“Board”	the board of Directors.
“China Shipping”	China Shipping (Group) Company (中國海運(集團)總公司), a PRC state-owned enterprise, which is the controlling Shareholder, having an approximately 59.87% shareholding interest.
“Company”	China Shipping Container Lines Company Limited (中海集裝箱運輸股份有限公司), a joint stock limited company established in the PRC, of which 2,420,000,000 H shares are listed on the Stock Exchange.
“connected person(s)”	has the meaning ascribed to such term under the Listing Rules.
“Defect(s)”	all defects, omissions, shortages and non-conformity, defective or unsuitable materials or equipment, faulty design and/or performance or poor workmanship.
“Director(s)”	the director(s) of the Company.
“Group”	the Company and its subsidiaries.
“Guarantee Period”	a period of twelve (12) calendar months as from the date the Vessel is delivered to and accepted by the Company, subject to extension for a certain period where the Vessel is not capable of performing services for a certain period or where the Vessel is accepted with reservations.

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region of the PRC.
“Hong Kong”	Hong Kong Special Administrative Region of the PRC.
“Latest Practicable Date”	29 August 2007, being the latest practicable date prior to the printing of this Circular for ascertaining certain information in this Circular.
“Letter of Refundment Guarantee”	an irrevocable letter of refundment guarantee issued by certain bank(s) in favour of the Company covering the amount of all of the first, second, third and fourth installment payments by the Company under each Agreement.
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange.
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to the Listing Rules.
“percentage ratios”	has the meaning ascribed to such term under the Listing Rules.
“PRC”	People’s Republic of China.
“Rights”	the H share share appreciation rights granted under the H Share Share Appreciation Rights Scheme adopted by the Company on 12 October 2005.
“RMB”	Renminbi, the lawful currency of the PRC.
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended and supplemented from time to time.
“Shareholder(s)”	the shareholder(s) of the Company.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.
“subsidiaries”	has the meaning ascribed to such term under the Listing Rules

DEFINITIONS

“Supervisor(s)”	the supervisor(s) of the Company.
“TEU”	twenty-foot equivalent units, a standard unit of measurement of the volume of a container with a length of 20 feet, height of 8 feet and 6 inches and width of 8 feet.
“US\$”	United States Dollars, the lawful currency of the United States of America.
“Vendor”	Samsung Heavy Industries Co., Ltd., a corporation incorporated and existing under the laws of the Republic of Korea.
“Vessel(s)”	eight (8) ocean going single screw diesel engine driven fully cellular container vessels, each with a capacity of 13,296 TEU, to be acquired by the Company from the Vendor under the Agreements.

The exchange rate adopted in this Circular for illustration purposes only is US\$1.00 = HK\$7.82 and HK\$1.00 = RMB1.04.

LETTER FROM THE BOARD



中 海 集 裝 箱 運 輸 股 份 有 限 公 司

China Shipping Container Lines Company Limited*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock code: 2866)

Executive Directors:

Mr. Li Shaode
Mr. Zhang Guofa
Mr. Huang Xiaowen
Mr. Zhao Hongzhou

Non-executive Directors:

Mr. Ma Zehua
Mr. Zhang Jianhua
Mr. Wang Daxiong
Mr. Yao Zuozhi
Mr. Xu Hui

Independent non-executive Directors:

Mr. Hu Hanxiang
Mr. Jim Poon (also known as Pan Zhanyuan)
Mr. Wang Zongxi
Mr. Shen Kangchen

*Legal address and principal place
of business in the PRC:*

27th Floor
450 Fu Shan Road
Pudong New District
Shanghai
the PRC

*Principal place of business
in Hong Kong:*

Level 69
The Center
99 Queen's Road Central
Hong Kong

30 August 2007

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION ACQUISITION OF VESSELS

I INTRODUCTION

Reference is made to the announcement of the Company dated 8 August 2007 in relation to the Agreements.

The Acquisition constitutes a major transaction of the Company under Rule 14.06(3) of the Listing Rules. The main purpose of this Circular is to provide you with, among other things, further information on the Acquisition.

* The Company is registered as an oversea company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) under its Chinese name and the English name "China Shipping Container Lines Company Limited".

LETTER FROM THE BOARD

II THE AGREEMENTS

1. Time

After the trading hours of the Stock Exchange on 8 August 2007.

2. Parties

Purchaser: The Company

Vendor: Samsung Heavy Industries Co., Ltd.

3. General Nature of the Agreements

Pursuant to the Agreements, the Vendor has agreed to design, build, launch, equip, complete and sell, and the Company has agreed to purchase, the Vessels.

4. Consideration and Payment Terms

The aggregate consideration payable for the Acquisition under the Agreements is US\$1,359,840,000 (equivalent to approximately HK\$10,633,948,800). The said consideration was determined based on market prices as negotiated with the Vendor. The said consideration will be funded from bank financing, internal resources and/or capital raising exercises.

The consideration for each Vessel will be payable in US\$ by the Company to the Vendor in five (5) equal installments of US\$33,996,000 (equivalent to approximately HK\$265,848,720) in accordance with the following milestones as stated in each Agreement:

- (a) First installment: To be remitted by telegraphic transfer within three (3) banking days after the Company's receipt from the Vendor of the respective Letter of Refundment Guarantee or before 20 August 2007, whichever comes later;
- (b) Second installment: To be remitted by telegraphic transfer within five (5) banking days upon six (6) months after signing of the Agreement;
- (c) Third installment: To be remitted by telegraphic transfer within five (5) banking days upon steel cutting of the Vessel;
- (d) Fourth installment: To be remitted by telegraphic transfer within five (5) banking days upon keel laying of the Vessel; and
- (e) Delivery installment: To be remitted by telegraphic transfer on delivery of the Vessel.

LETTER FROM THE BOARD

The consideration for each Vessel is subject to adjustments in the event: (i) of any delay in delivery; (ii) the actual speed is less than the guaranteed speed of the Vessel by a certain percentage; (iii) the actual fuel consumption exceeds the guaranteed fuel consumption of the Vessel by a certain percentage; (iv) the actual deadweight is less than the guaranteed deadweight of the Vessel by a certain figure; and/or (v) the actual container capacity is less than the guaranteed container capacity of the Vessel by a certain figure.

5. Delivery Time

The respective delivery date for each Vessel is on or before 31 December 2010, 30 April 2011, 31 July 2011, 30 September 2011, 30 November 2011, 31 December 2011, 31 March 2012 and 31 May 2012.

6. Guarantee/Security in Relation to the Acquisition

Under each Agreement, the Vendor guarantees the principal dimensions and characteristics (including speed, fuel consumption, deadweight and container capacity) of the relevant Vessel.

Under each Agreement, the Vendor guarantees the relevant Vessel from Defect(s), provided that: (a) such Defect(s) arise within the Guarantee Period; and (b) such Defect(s) are not the result of an accident, ordinary wear and tear, misuse, negligence or wilful neglect or omissions by the Company, its employees or agents. In the event that the normal guarantee period stipulated by manufacturers or suppliers of various components of machinery etc. in each Vessel exceeds the Guarantee Period, the benefits of such extended guarantee rights shall be made available to the Company by the Vendor without any additional cost to the Company. The Vendor shall also arrange for the paint manufacturer to guarantee defects in paint and/or application on under water parts of each Vessel for additional twelve (12) calendar months commencing from the end of the Guarantee Period.

Under each Agreement, as security for refund of installments paid by the Company including interest prior to delivery of the Vessels, the Vendor will furnish the Company with a Letter of Refundment Guarantee.

Under each Agreement, in the event of an assignment of the said Agreement by the Company, the Company shall guarantee the due and faithful performance by the assignee(s) of all of its or their liabilities and responsibilities under the said Agreement.

III GENERAL INFORMATION ON THE GROUP AND THE VENDOR

The Group is principally engaged in the operation and management of international and domestic container marine transportation.

The Vendor is principally engaged in the design, building, launch, equipping and sales of ships.

LETTER FROM THE BOARD

IV REASONS FOR AND BENEFITS OF THE ACQUISITION

The purchase of the Vessels, each with an extremely large capacity, will significantly improve the economies of scale enjoyed by the Group, satisfy the development plan and operational needs of the Group, improve the Group's economic benefits and strengthen the Group's market competitiveness. Expeditiously building extremely large vessels will allow us to take the initiative in seeking cooperation with leading liner service providers, with which we will expect to have an authoritative voice over service pricing in the international liner market.

The Board (including the independent non-executive Directors) believes that the terms of the Agreements are fair and reasonable, on normal commercial terms and in the interest of the Shareholders and the Company as a whole.

V EFFECT OF THE ACQUISITION ON EARNINGS AND ASSETS AND LIABILITIES

It is a general trend in the development of container shipping industry to introduce larger vessels, and those who have overwhelming fleet scale will earn themselves a head start in the keen market competition. With the market growing currently at a high speed, the Group must consider expanding its fleet size promptly to increase its transportation capacity so as to maintain its market share. Currently, the trend of seeking larger vessels has been quite clear, and has become the most noteworthy feature in the international container shipping market. In recent years, shipping companies have endeavored to cut down operational costs in order to create greater profits and secure a favorable position in the competition, and introducing highly-efficient large vessels has been an approach which is being widely adopted.

In recent years, benefiting from the favourable factors in respect of China, the Group's routes from Far-East to Europe and Mediterranean Sea have been running very well. In particular, in the first half of 2007, after the Group dispatched the 8,500TEU series vessels to the Far-East to Europe and Mediterranean Sea routes, the cost per container of the Group has decreased significantly compared to the same period, and profitability level has significantly increased. Such a move has made a noteworthy contribution to the achievement of satisfactory operating results and the economies of scale of large vessels has taken effect.

The Directors expect the Company's earnings to increase as a result of the Acquisition. However, any precise increase in or effect on the Company's earnings is presently unascertainable as the Vessels are yet to be built. In addition, the Acquisition is expected to increase the Company's assets by approximately US\$1,359,840,000 (equivalent to approximately HK\$10,633,948,800) and is also expected to cause the Company to incur a large capital expenditure, which will significantly increase our liabilities if we fail to secure financing from multiple channels. The Directors determined that the consideration for the Acquisition will be financed approximately 50% by bank financing and the remaining approximate 50% either by internal resources or by capital raising exercises or a combination of both.

LETTER FROM THE BOARD

VI IMPLICATIONS UNDER THE LISTING RULES

As the applicable percentage ratios exceed 25% but are less than 100%, the Acquisition constitutes a major transaction of the Company under Rule 14.06(3) of the Listing Rules and is therefore subject to Shareholders' approval. Pursuant to Rule 14.44 of the Listing Rules, Shareholders' approval for the Acquisition may be obtained by written Shareholders' approval in lieu of holding a general meeting if: (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition; and (b) written Shareholders' approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% in nominal value of the securities giving the right to attend and vote at that general meeting to approve the Acquisition.

The Board confirms that, to the best of its knowledge, information and belief after having made all reasonable enquiries, the Vendor and its ultimate beneficial owner(s) are third parties independent of the Company and connected persons of the Company. Therefore, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition. As at the date of this Circular, China Shipping, the controlling Shareholder, controls or is entitled to exercise control over the voting rights in respect of 3,610,000,000 domestic shares of the Company representing approximately 59.87% of the entire issued share capital of the Company. China Shipping has given its written approval for the Acquisition. Accordingly, no general meeting for Shareholders' approval of the Acquisition will be held.

VII ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Circular.

By Order of the Board
China Shipping Container Lines Company Limited
Li Shaode
Chairman

I SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the audited financial information of the Group for the three financial years ended 31 December 2004, 2005 and 2006 as extracted from the relevant annual reports of the Company.

CONSOLIDATED RESULTS

For the year ended 31 December,

	2006	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	30,502,378	28,374,680	22,363,851
Operating profit	1,670,031	4,730,576	5,201,223
Profit after taxation	864,714	3,585,095	4,020,391
Basic earnings per share	RMB0.14	RMB0.59	RMB0.80
Gross profit margin	6.90%	17.80%	24.50%
Profit before income tax margin	3.70%	15.20%	21.00%
Gearing ratio	46.00%	30.40%	11.10%

CONSOLIDATED ASSETS AND LIABILITIES

As at 31 December,

	2006	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	30,744,056	29,005,328	25,034,860
Non-current assets	23,604,392	20,845,376	15,250,759
Current assets	7,139,664	8,159,952	9,784,101
Total liabilities	14,167,851	12,376,004	10,689,672
Current liabilities	4,593,201	4,226,798	4,352,958
Net current assets	2,546,463	3,933,154	5,431,143

II AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

The following is the audited consolidated financial statements of the Group for the year ended 31 December 2006, together with the relevant notes, as extracted from the annual report of the Company for the financial year ended 31 December 2006.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December, 2006

		Year ended 31 December	
		2006	2005
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	5	30,502,378	28,374,680
Operating costs	6,8	<u>(28,391,606)</u>	<u>(23,331,132)</u>
Gross profit		2,110,772	5,043,548
Other operating income	7	133,171	238,262
Administrative and general expenses	8	<u>(573,912)</u>	<u>(551,234)</u>
Operating profit		1,670,031	4,730,576
Finance costs	11	(533,999)	(427,273)
Share of profit of an associated company	20	<u>6,529</u>	<u>5,960</u>
Profit before income tax		1,142,561	4,309,263
Income tax expense	12	<u>(277,847)</u>	<u>(724,168)</u>
Profit for the year		<u><u>864,714</u></u>	<u><u>3,585,095</u></u>
Attributable to:			
Equity holders of the Company	13	859,210	3,582,782
Minority interests		<u>5,504</u>	<u>2,313</u>
		<u><u>864,714</u></u>	<u><u>3,585,095</u></u>
Dividends	15	<u><u>241,200</u></u>	<u><u>723,600</u></u>
Basic earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)	14	<u><u>RMB0.14</u></u>	<u><u>RMB0.59</u></u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****CONSOLIDATED BALANCE SHEET***As at 31 December, 2006*

		As at 31 December	
		2006	2005
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Fixed assets	16	23,463,851	20,770,813
Land use rights	17	13,356	13,686
Goodwill	18	46,427	13,281
Investment in an associated company	20	48,758	47,596
Investment in a jointly controlled entity	21	32,000	–
		<u>23,604,392</u>	<u>20,845,376</u>
Current assets			
Bunkers		635,735	553,080
Trade and notes receivables	22	3,490,403	4,054,345
Prepayments and other receivables		97,984	129,154
Cash and cash equivalents	23	2,915,542	3,423,373
		<u>7,139,664</u>	<u>8,159,952</u>
Total assets		<u><u>30,744,056</u></u>	<u><u>29,005,328</u></u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	24	6,030,000	6,030,000
Other reserves	25	5,998,515	6,128,838
Retained earnings			
– Proposed final dividend		241,200	723,600
– Others		4,263,526	3,709,426
		<u>16,533,241</u>	<u>16,591,864</u>
Minority interests		<u>42,964</u>	<u>37,460</u>
Total equity		<u>16,576,205</u>	<u>16,629,324</u>
LIABILITIES			
Non-current liabilities			
Long-term bank loans	26	5,538,152	5,107,112
Finance lease obligations	27	3,199,249	2,404,974
Deferred tax liabilities	28	837,249	637,120
		<u>9,574,650</u>	<u>8,149,206</u>

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

		As at 31 December	
		2006	2005
	Note	RMB'000	RMB'000
Current liabilities			
Trade and notes payables	29	2,205,055	2,759,412
Accrual and other payables		515,189	305,702
Short-term bank loans	26	400,000	–
Long-term bank loans – current portion	26	707,608	501,053
Finance lease obligations – current portion	27	695,724	458,681
Income tax payable		69,625	201,950
		<u>4,593,201</u>	<u>4,226,798</u>
Total liabilities		<u>14,167,851</u>	<u>12,376,004</u>
Total equity and liabilities		<u>30,744,056</u>	<u>29,005,328</u>
Net current assets		<u>2,546,463</u>	<u>3,933,154</u>
Total assets less current liabilities		<u>26,150,855</u>	<u>24,778,530</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****BALANCE SHEET***As at 31 December, 2006*

		As at 31 December	
		2006	2005
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Fixed assets	16	14,971,491	14,650,020
Land use rights	17	13,356	13,686
Investment in subsidiaries	19	1,328,477	1,473,186
Investment in an associated company	20	29,214	29,214
Investment in a joint controlled entity	21	32,000	–
Deferred tax assets	28	–	40,836
		<u>16,374,538</u>	<u>16,206,942</u>
Current assets			
Bunkers		65,660	101,416
Trade and notes receivables	22	1,178,261	1,027,705
Prepayments and other receivables		104,411	25,564
Amounts due from subsidiaries		–	732,305
Dividend receivable from a subsidiary		300,000	1,220,000
Cash and cash equivalents	23	925,058	1,027,342
		<u>2,573,390</u>	<u>4,134,332</u>
Total assets		<u><u>18,947,928</u></u>	<u><u>20,341,274</u></u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	24	6,030,000	6,030,000
Other reserves	25	6,170,275	6,110,298
Retained earnings			
– Proposed final dividend		241,200	723,600
– Others		24,806	16,267
		<u>12,466,281</u>	<u>12,880,165</u>
Total equity		<u>12,466,281</u>	<u>12,880,165</u>
LIABILITIES			
Non-current liabilities			
Long-term bank loans	26	3,408,940	3,616,800
Finance lease obligations	27	–	990,688
Deferred tax liabilities	28	48,497	–
		<u>3,457,437</u>	<u>4,607,488</u>

		As at 31 December	
		2006	2005
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Trade and notes payables	29	1,198,203	1,800,403
Accrual and other payables		258,894	187,239
Amounts due to subsidiaries		635,085	–
Short-term bank loans	26	400,000	–
Long-term bank loans – current portion	26	475,000	380,000
Finance lease obligations – current portion	27	–	292,838
Income tax payable		57,028	193,141
		<u>3,024,210</u>	<u>2,853,621</u>
Total liabilities		<u>6,481,647</u>	<u>7,461,109</u>
Total equity and liabilities		<u>18,947,928</u>	<u>20,341,274</u>
Net current (liabilities)/assets		<u>(450,820)</u>	<u>1,280,711</u>
Total assets less current liabilities		<u>15,923,718</u>	<u>17,487,653</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 December, 2006

		Attributable to equity holders of the Company					
		Share capital	Other reserves	Retained earnings	Total	Minority interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January, 2005		6,030,000	5,613,174	2,669,665	14,312,839	32,349	14,345,188
Capital injection by minority shareholders in a subsidiary		–	–	–	–	5,614	5,614
Currency translation differences		–	(97,757)	–	(97,757)	–	(97,757)
Profit for the year		–	–	3,582,782	3,582,782	2,313	3,585,095
Profit appropriation		–	613,421	(613,421)	–	–	–
Dividend relating to 2004		–	–	(1,206,000)	(1,206,000)	(2,816)	(1,208,816)
Balance at 31 December, 2005 and 1 January, 2006		6,030,000	6,128,838	4,433,026	16,591,864	37,460	16,629,324
Currency translation differences		–	(194,233)	–	(194,233)	–	(194,233)
Profit for the year		–	–	859,210	859,210	5,504	864,714
Profit appropriation		–	63,910	(63,910)	–	–	–
Dividend relating to 2005	15	–	–	(723,600)	(723,600)	–	(723,600)
Balance at 31 December, 2006		6,030,000	5,998,515	4,504,726	16,533,241	42,964	16,576,205

CONSOLIDATED CASH FLOW STATEMENT*For the Year ended 31 December, 2006*

		Year ended 31 December	
		2006	2005
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities			
Cash generated from operations	30(a)	2,975,706	5,304,218
Income tax paid		(210,043)	(163,070)
Net cash generated from operating activities		<u>2,765,663</u>	<u>5,141,148</u>
Cash flows from investing activities			
Purchase of fixed assets		(3,671,894)	(5,088,539)
Acquisition of a subsidiary, net of cash acquired	30(c)	(78,528)	–
Capital injection to a jointly controlled entity		(32,000)	–
Proceeds from disposal of fixed assets		15,516	877
Dividends received from an associated company		5,367	5,256
Interest received		<u>74,849</u>	<u>84,801</u>
Net cash used in investing activities		<u>(3,686,690)</u>	<u>(4,997,605)</u>
Cash flows from financing activities			
Interest paid		(362,627)	(278,404)
Proceeds from short-term and long-term bank loans		2,645,285	1,207,207
Repayments of short-term and long-term bank loans		(1,607,690)	(995,520)
Proceeds from sale and lease back of containers		1,349,650	–
Capital element of finance lease payments		(615,016)	(545,124)
Interest element of finance lease payments		(272,806)	(288,520)
Dividends paid to Company's shareholders		(723,600)	(1,686,098)
Dividends paid to minority shareholders		–	(2,816)
Capital injection by minority shareholders		<u>–</u>	<u>5,614</u>
Net cash generated from/(used in) financing activities		<u>413,196</u>	<u>(2,583,661)</u>
Net decrease in cash and cash equivalents		(507,831)	(2,440,118)
Cash and cash equivalents at beginning of the year		<u>3,423,373</u>	<u>5,863,491</u>
Cash and cash equivalents at end of the year		<u><u>2,915,542</u></u>	<u><u>3,423,373</u></u>

NOTES TO THE CONSOLIDATED ACCOUNTS

1 GENERAL INFORMATION

China Shipping Container Lines Company Limited (“the Company”) and its subsidiaries (together, “the Group”) principally engaged in owning, chartering and operating container vessels for the provision of international and domestic container marine transportation service.

The Company was established in the People’s Republic of China (the “PRC”) on 28 August, 1997 as a company with limited liability under the Company Law of the PRC. On 3 March, 2004, the Company was transformed into a joint stock limited company under the Company Law of the PRC (the “Transformation”) by converting its registered capital and reserves as at 31 October, 2003 into 3,830,000,000 shares of RMB1 each. The Company’s H shares (the “Share Issue”) have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 16 June, 2004.

The address of its registered office is 27th Floor, 450 Fu Shan Road, Pudong New District, Shanghai, PRC.

These consolidated accounts are presented in thousands of units of Renminbi (RMB’000), unless otherwise stated.

These consolidated accounts have been approved for issue by the Board of Directors on 10 April, 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

The consolidated accounts of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value through profit or loss.

The preparation of accounts 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 accounts, are disclosed in Note 4.

The adoption of new/revised HKFRS

In 2006, the Group adopted the amendments and interpretation of HKFRS below, which are relevant to its operations.

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The Group has assessed the impact of the adoption of these amendments and interpretation and considered that there was no significant impact on the Group’s results and financial position nor any substantial changes in the Group’s accounting policies.

Standards, interpretation and amendments to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published which are relevant to the Group’s operations and accounts and are mandatory for the Group’s accounting periods beginning on or after 1 January, 2007 or later periods as follows:

Effective from 1 January, 2007

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HK (IFRIC) – Int 8	Scope of HKFRS 2
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK (IFRIC) – Int 10	Interim Reporting and Impairment
HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HKFRS 7	Financial Instruments: Disclosures

Effective from 1 January, 2009

HKFRS 8	Operating Segments
---------	--------------------

The Group has not early adopted the above standards, amendments and interpretations and is not yet in a position to state whether substantial changes to the Group’s accounting policies and presentation of the accounts will be resulted.

2.2 Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December.

(a) 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.

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.

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 profit and loss account (*Note 2.8*).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transactions provide 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.

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

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associated company

Associated company is entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associated company is accounted for using the equity method of accounting and is initially recognised at cost. The Group's investment in an associated company includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2.8).

The Group's share of its associated company's post-acquisition profits or losses is recognised in the consolidated profit and loss account, 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. When the Group's share of losses in an associated company equals or exceeds its investment in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated company are eliminated to the extent of the Group's investment in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated company have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investment in an associated company is stated at cost less provision for impairment losses. The results of associated company are accounted for by the Company on the basis of dividend received and receivable.

(d) Jointly controlled entity

A jointly controlled entity 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.

Investment in a jointly controlled entity is accounted for in the accounts under the equity method and is stated at cost plus share of post-acquisition results and reserves and goodwill on acquisition less provision for impairment losses (Note 2.8). The share of post-acquisition results and reserves is based on the relevant profit sharing ratios.

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

2.3 Segment Reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing 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.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(b) 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 consolidated profit and loss account.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account 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
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the consolidated profit and loss account as part of the gain or loss on sale.

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.

2.5 Fixed Assets**(a) Vessels under construction**

Vessels under construction are stated at cost less accumulated impairment losses. Capitalisation of vessel construction cost is based on actual cost incurred during the year. No depreciation is provided for vessels under construction.

(b) Vessel repairs and surveys

Upon acquisition of a vessel, the components of the vessel which are required to be replaced at the next dry-docking are identified and these costs are depreciated over the period to the next estimated dry-docking date. Costs incurred on the subsequent dry-docking of vessels are capitalised and depreciated over the period to the next estimated dry-docking date. When significant dry-docking costs are incurred prior to the expiry of the depreciation period, the remaining costs of the previous dry-docking are written-off immediately.

(c) Construction in progress

Construction in progress represents office building under renovation and other fixed assets under construction or pending installation and is stated at cost. Cost includes the cost of acquisition of the building and the actual renovation costs incurred during the year. No depreciation is provided for construction in progress.

(d) Other fixed assets

All other fixed assets are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 profit and loss account during the financial period in which they are incurred.

Depreciation of fixed assets is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

	Estimated useful lives
Container vessels	25 years from the date of first registration
Building	40 years
Containers	8 to 10 years
Improvements on vessels under operating leases*	5 years or the period of the lease, whichever is the shorter
Computer and office equipment	5 to 8 years
Motor vehicles	6 years

* represent improvements on vessels operated by the Group under operating leases

The residual values of fixed assets and their 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 (*Note 2.9*).

(e) *Gain or loss on sale*

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss account.

(f) *Capitalisation of fixed assets*

All direct cost relating to the construction of container vessels, including finance costs on related borrowed funds during the construction period, are capitalised as fixed assets.

2.6 Land Use Rights

All land in PRC is state-owned or collectively-owned and no individual land ownership exists. The Group acquires the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the lease period using the straight-line method.

2.7 Assets under Leases

(i) *Where the Group is a lessee*

(a) *Finance lease*

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the leases at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current liabilities. The interest element of the finance cost is recognised in the consolidated profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(b) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated profit and loss account on a straight-line basis over the period of the leases.

*(ii) Where the Group is a lessor**Operating lease*

Assets leased out under operating leases are included in fixed assets on the balance sheet and when applicable, and are depreciated in accordance with the Group's depreciation policies, as set out in Note 2.5 above. Rental income, net of any incentives given to the lessees, is recognised on a straight-line basis over the period of leases.

(iii) Sale and leaseback transactions – where the Group is the lessee

A sale and leaseback transaction involves the sale of an asset by the Group and the leasing of the same asset back to the Group. The lease payments and the sale price are usually interdependent as they are negotiated as a package.

Sale and leaseback arrangements that result in the Group retaining the majority of the risks and rewards of ownership of assets are accounted for as finance leases. Any excess of sales proceeds over the carrying amount is deferred and amortised over the period of leases.

2.8 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2.9 Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial Assets

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also classified as held for trading unless they are designated as hedges. 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.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as “trade and other receivables” in the balance sheet.

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. Impairment testing of trade receivables is described in Note 2.12.

2.11 Bunkers

Bunkers represent fuels and are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis.

2.12 Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the consolidated profit and loss account.

2.13 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term and highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

2.14 Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 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 accounts. However, the deferred income tax is not accounted for if it arises from 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. 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 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 and associated company, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Employee Benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The full-time employees of the Group employed in Mainland China are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulae. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans based on percentages of the total salary of employees, subject to a certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the plans are expensed as incurred.

The Group also operates a defined contribution Mandatory Provident Fund ("MPF") scheme for its employees employed in Hong Kong. The Group and the employees both contribute 5% of the employees' relevant income per month as required by the Hong Kong MPF Scheme Ordinance subject to a maximum of HK\$1,000 per person.

The Group's contributions to the above defined contribution schemes are fully vested upon contribution and are expensed as incurred.

(c) Housing benefits

All full-time employees of the Group employed in Mainland China are entitled to participate in various government-sponsored housing funds. The Group contributes to these funds based on certain percentages of the salaries of the employees on a monthly basis. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the funds are expensed as incurred.

(d) Share-based compensation

The Group operates a cash-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of share appreciation rights is recognised as expense. The employees are entitled to a future cash payment, based on the increase in the Company's share price from a specified level over a specified period of time.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share appreciation rights, by applying an option pricing models, taking into account the terms and condition on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date.

At each balance sheet date, the Group measures the services acquired and the liability incurred at the fair value of the liabilities. The fair value of the liabilities are re-measured at each balance sheet date and at the date of settlement, with any changes in fair value, if any, recognised in the consolidated profit and loss account for the year.

2.18 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 the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.19 Revenue Recognition

The Group recognises revenues on the following bases:

(i) *Liner services*

Freight revenues from the operation of the international and domestic containerised transportation business are recognised on a percentage of completion basis, which is determined on the time proportion method of each individual vessel voyage.

(ii) *Chartering*

Income from chartering of vessels under operating leases is recognised over the periods of the respective leases on a straight-line basis.

(iii) *Interest income*

Interest income is recognised on a time proportion basis using the effective interest method.

2.20 Contingent Liabilities and Contingent Assets

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 consolidated accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.21 Dividend Distribution

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

3 FINANCIAL RISK MANAGEMENT**3.1 Financial Risk Factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk, cash flow and fair value interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk**(i) Foreign exchange risk**

The Group mainly operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the RMB and United States Dollars ("USD").

Other currencies against RMB and USD have been comparatively stable for the year ended 31 December, 2006. As a result, the Group considers its exposure to foreign exchange risk as low and the Group has not used any forward contracts or other means to hedge its foreign currency exposure for the year ended 31 December, 2006.

(ii) Price risk

The Group's results of operations may be significantly affected by the fluctuation of the fuel price which is a significant expense for the Group. While the international fuel price is determined by worldwide market's demand and supply, domestic fuel price is regulated by the relevant authorities of the state government. Fuel expense represents 22% and 19% of the Group's total costs of sales for the years ended 31 December, 2006 and 2005 respectively.

(b) Credit risk

The Group has no significant concentration of credit risk. The Group has policies that limit the amount of credit exposure to any financial institutions. The Group has also policies in place to ensure that services are rendered to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances. No single customer accounted for greater than 10% of total revenues during the year.

(c) Liquidity risk

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

The Group finances its working capital requirements through a combination of funds generated from operations, proceeds and bank loans.

(d) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets.

The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. As at 31 December, 2006 and 2005, over 64% and 71% of the Group's borrowings respectively were at fixed rates. The weighted average effective interest rates and terms of repayment of the Group's borrowings are disclosed in Note 26.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk but may enter into interest rate hedging instruments in the future to hedge any significant interest rate exposure.

3.2 Fair Value Estimation

The carrying value less impairment provision of trade and notes receivables, prepayment and other receivables, cash and cash equivalents, trade and notes payables, accrual and other payables, current borrowings and balances with group companies are assumed to approximate their fair values due to the short term maturities of these assets and liabilities. The fair value of long-term borrowings 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related 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:

(i) Estimated Impairment of Fixed Assets

The Group assesses annually whether fixed assets and land use rights have any indication of impairment, in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of fixed assets have been determined based on value-in-use calculations. These calculations and valuations require the use of judgement and estimates.

(ii) Income Taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets, depends on the management's expectation of future taxable profit that will be available against which the deferred tax assets can be utilised. The outcome of their actual utilisation may be different.

(iii) Useful Lives of Fixed Assets

Management determines the estimated useful lives and residual values for the Group's fixed assets. Management will revise the depreciation charge where useful lives and residual values are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iv) Provision of Operating Cost

Operating costs, which comprise container and cargo, vessel and voyage costs, sub-route and other costs, are recognised on a percentage of completion basis as set out in Note 2.19. Invoices in relation to these expenses are received approximately up to six months after the expenses have been incurred. Consequently, recognition of operating costs is based on the rendering of services as well as the latest tariff agreed with vendors.

If the actual expenses of a voyage differ from the estimated expenses, this will have an impact on operating cost in future periods. Historically, the Group has not experienced significant deviation between the estimated and actual expenses.

5 TURNOVER AND SEGMENT INFORMATION

The principal activities of the Group are owning, chartering and operating container vessels for the provision of international and domestic container marine transportation service. Turnover represents gross revenues from liner and chartering services, net of discounts allowed, where applicable.

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Turnover		
Liner	30,375,447	28,126,526
Chartering	126,931	248,154
	<u>30,502,378</u>	<u>28,374,680</u>

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

The business segment reporting includes provisions of liner service and chartering of vessels. In respect of the geographical segment reporting, segment revenues from liner and chartering services cover the world's major trade lanes.

Primary Reporting Format – Business Segments

The Group's business is organised into two business segments: liner and chartering. The Group's business is dominated by provision of liner services. The chartering business is of insufficient size to be reported separately.

Secondary Reporting Format – Geographical Segments

The Group's liner and chartering businesses are managed on a worldwide basis. The turnover generated from the world's major trade lanes includes North America, South America, Europe/Mediterranean, Australia, East and Southeast Asia, Middle East, China domestic and others.

The directors of the Company consider that the nature of the Group's business precludes a meaningful allocation of the Group's assets to specific geographical segments as defined under HKAS 14 "Segment Reporting". Accordingly, geographical segment information is only presented for turnover:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
North America	12,840,106	11,060,184
South America	650,379	281,271
Europe/Mediterranean	8,600,589	10,372,910
Australia	1,278,240	1,378,370
East and Southeast Asia	1,596,373	1,758,694
Middle East	1,097,042	78,322
China Domestic	2,419,817	1,938,820
Others	2,019,832	1,506,109
	<u>30,502,378</u>	<u>28,374,680</u>

6 OPERATING COSTS

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Operating costs		
Container and cargo	12,789,231	10,473,989
Vessel and voyage	10,280,565	7,752,946
Sub-route and others	5,321,810	5,104,197
	<u>28,391,606</u>	<u>23,331,132</u>

7 OTHER OPERATING INCOME

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Interest income	74,849	84,801
Information technology services fees	42,213	25,825
Reversal of provision for impairment of receivables	16,109	–
Recovery of payment for claims	–	28,305
Compensation income (<i>Note (i)</i>)	–	99,331
	<u>133,171</u>	<u>238,262</u>

Note:

- (i) Pursuant to an agreement between a fellow subsidiary and the City of Los Angeles on 21 May, 2005, the City of Los Angeles made compensation to the fellow subsidiary for the delay in providing premises at Berths 100-102. Out of the aforementioned compensation receivable from the City of Los Angeles, the fellow subsidiary agreed to pay USD12,000,000 to the Company to compensate the Company for the additional costs incurred by the Group due to the delay in the provision of port related services.

8 EXPENSES BY NATURE

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Auditor's remunerations	4,980	4,500
Cost of bunkers consumed	6,311,076	4,383,763
Depreciation:		
– Owned container vessels chartered-out under operating leases	14,462	20,316
– Other owned assets	694,170	414,101
– Containers under finance leases	474,856	441,202
	1,183,488	875,619
Loss on disposal of fixed assets	11,645	5,034
Operating lease rental:		
– Container vessels	2,399,354	2,360,813
– Containers	587,676	587,459
– Buildings	43,000	32,809
	3,030,030	2,981,081
Provision for impairment of receivables	–	6,211
Employee benefit expense, including directors' and supervisors' emoluments (<i>Note 9, 10</i>)	739,498	605,171
Foreign exchange losses	19,034	58,699
Bank charges	4,372	1,598

9 EMPLOYEE BENEFIT EXPENSE

An analysis of staff costs, including directors' and supervisors' emoluments, is set out below:

	2006 RMB'000	2005 RMB'000
Staff salaries and hiring of crews	562,486	475,080
Social welfare benefits	124,727	94,849
Pension cost	50,853	33,791
Share based compensation granted to directors and employees (<i>note(i)</i>)	1,432	1,451
	<u>739,498</u>	<u>605,171</u>

Note:

(i) H SHARE SHARE APPRECIATION RIGHTS SCHEME

In accordance with the "Resolution Regarding Adoption and Approval of the H Share Share Appreciation Rights Scheme and Implementation Methods" passed at the Company's second Special General Meeting in year 2005 held on 12 October, 2005, the Company implemented a H share share appreciation rights scheme as appropriate incentive policy. Under this scheme, the H share share appreciation rights (the "Rights") are granted in units with each unit representing one H share. No shares will be issued under the share appreciation rights scheme. Upon exercise of the Rights, the grantee will receive a cash payment in RMB, subject to any applicable withholding tax, translated from the Hong Kong dollars "HKD" amount equal to the number of units of Rights exercised multiplied by the appreciation, if any, in the market price of the Company's H shares above the exercise price of the Rights, based on the applicable exchange rate between RMB and HKD at the date of the exercise. The market price of the Company's H shares at the time of exercise of the Rights shall be the average closing price of the Company's H shares on the Stock Exchange for the 4 trading days before the date of exercise and on the date of exercise.

The eligible grantees are: the directors of the Company (other than independent non-executive directors), the supervisors of the Company (other than independent supervisors), the senior executives of the Company, the head of department of each of the operational and management departments of the Company and the general managers and deputy general managers of the Company's subsidiaries.

The term of the scheme is 10 years. The Rights proposed to be granted account for 2% of the current total issued share capital of the Company, i.e. 120,600,000 units of Rights, which will be granted on three occasions, i.e. an initial grant and two further annual grants. The initial grant was made on 12 October, 2005, when 30,150,000 units of Rights accounting for 0.5% of the total issued share capital of the Company were granted. Two further annual grants will be made on 1 July, 2007 and 1 July, 2009 respectively.

The stipulated lock-up period for exercising the Rights is two years after the date of grant. Not more than 30%, 60% and 100% of the Rights will vest during the third year, fourth year and fifth year respectively. The Rights can be exercised before the expiration of the term of the scheme (10 years). The Rights which have not been exercised after the expiration of the term of the scheme shall lapse.

During the year ended 31 December, 2006, no Rights were exercised. The Company recognised compensation expense of the Rights over the applicable vesting period. For the year ended 31 December, 2006, compensation expense recognised by the Group in respect of the Rights was RMB1,432,000 (2005: RMB1,451,000).

10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) Directors' and Supervisors' Emoluments

The remuneration of each director and supervisor for the year ended 31 December, 2006 is set out below:

Name of Director and Supervisor	Fees <i>RMB'000</i>	Salary <i>RMB'000</i>	Pension and other social welfare <i>RMB'000</i>	Total <i>RMB'000</i>
2006				
<i>Director</i>				
Mr. Jia Hongxiang	–	146	166	312
Mr. Huang Xiaowen	–	144	157	301
Mr. Zhao Hongzhou	–	115	139	254
Mr. Hu Hanxiang	88	–	–	88
Mr. Gu Nianzu	88	–	–	88
Mr. Wang Zongxi	88	–	–	88
Mr. Lam Siu Wai, Steven	275	–	–	275
<i>Supervisor</i>				
Mr. Huang Xinming	–	144	166	310
Mr. Hua Min	88	–	–	88
Ms. Pan Yingli	88	–	–	88
Mr. Wang Xiuping	–	358	93	451
	<u>715</u>	<u>907</u>	<u>721</u>	<u>2,343</u>

The remuneration of each director and supervisor for the year ended 31 December, 2005 is set out below:

Name of Director and Supervisor	Fees <i>RMB'000</i>	Salary <i>RMB'000</i>	Pension and other social welfare <i>RMB'000</i>	Total <i>RMB'000</i>
2005				
<i>Director</i>				
Mr. Jia Hongxiang	–	568	156	724
Mr. Huang Xiaowen	–	511	143	654
Mr. Zhao Hongzhou	–	454	130	584
Mr. Hu Hanxiang	88	–	–	88
Mr. Gu Nianzu	88	–	–	88
Mr. Wang Zongxi	88	–	–	88
Mr. Lam Siu Wai, Steven	275	–	–	275
<i>Supervisor</i>				
Mr. Huang Xinming	–	568	156	724
Mr. Hua Min	88	–	–	88
Ms. Pan Yingli	88	–	–	88
Mr. Wang Xiuping	–	295	77	372
	<u>715</u>	<u>2,396</u>	<u>662</u>	<u>3,773</u>

No directors or supervisors of the Company waived any emoluments during the year (2005: Nil). No discretionary bonus was paid to any of the directors or supervisors of the Company during the year (2005: Nil).

The remaining six directors (2005: seven) and two supervisors (2005: three) of the Company did not receive any emoluments from the Company or any of its subsidiaries during the year.

(b) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year do not include any directors (2005: three) and supervisors (2005: one). The emoluments payable to the five (2005: remaining one) individuals during the year are as follows:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Basic salaries and allowances	2,129	1,061
Pension and others welfare	475	312
	<u>2,604</u>	<u>1,373</u>

The emoluments of the above five (2005: one) individuals fell within the following bands:

	2006	2005
Nil to HK\$1,000,000 (equivalent to approximately RMB1,004,000)	5	–
HK\$1,000,000 (equivalent to approximately RMB1,004,000) to HK\$2,000,000 (equivalent to approximately RMB2,008,000)	–	1
	<u>5</u>	<u>1</u>

- (c) During the year, no emoluments were paid by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2005: nil).

11 FINANCE COSTS

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Interest expenses:		
– bank loans	362,627	278,404
– finance lease obligations	295,123	288,520
Total interest expenses	657,750	566,924
Less: amount capitalised in vessels under construction	(123,751)	(139,651)
	<u>533,999</u>	<u>427,273</u>

The capitalisation rate applied to funds borrowed generally and utilised for the vessels under construction is 5.43% (2005: 5.46%) per annum for the year ended 31 December, 2006.

12 TAXATION

(a) Income Tax Expense

	2006 RMB'000	2005 RMB'000
Current income tax		
– Hong Kong profits tax (<i>note (i)</i>)	1,214	2,198
– PRC enterprise income tax (<i>note (ii)</i>)	76,504	234,807
Deferred taxation (<i>Note 28</i>)	200,129	487,163
	<u>277,847</u>	<u>724,168</u>

Notes:

(i) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for year ended 31 December, 2006.

(ii) PRC enterprise income tax (“EIT”)

The Company is a joint stock limited company under the Company Law of the PRC and was registered in the Pudong New District, Shanghai. According to the relevant laws and regulations, the EIT rate applicable to the Company is 15%.

The Company’s subsidiaries incorporated in the PRC are subject to EIT at a rate ranging from 0% to 33% for the year ended 31 December, 2006 (2005: 0% – 33%).

Pursuant to relevant EIT regulations, the profits derived by the Company’s overseas subsidiaries are subject to EIT. The Company has obtained approval from the tax bureau to adopt a fixed rate of 16.5% on the profits of the overseas subsidiaries for EIT purposes.

(iii) The taxation on the Group’s profit before income tax differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2006 RMB'000	2005 RMB'000
Profit before income tax	1,142,561	4,309,263
Less: Share of profit of an associated company	<u>(6,529)</u>	<u>(5,960)</u>
	1,136,032	4,303,303
Tax calculated at a taxation rate of 15% (2005: 15%)	(170,405)	(645,495)
Write-off of deferred tax assets on finance lease (<i>Note 28</i>)	(69,148)	–
Effect of different tax rate in subsidiaries	<u>(38,294)</u>	<u>(78,673)</u>
Tax expense	<u>(277,847)</u>	<u>(724,168)</u>

(b) Other Taxes

(i) Value-added tax (“VAT”)

The Company’s subsidiaries in the PRC are subject to VAT, which is charged on top of the selling price at a general rate of 17%. An input credit is available whereby input VAT previously paid on purchases of raw materials or semi-finished products can be used to offset the output VAT on sales to determine the net VAT payable.

(ii) Business tax

Revenue derived from liner services provided by the Company and its subsidiaries in the PRC is subject to business tax at rates ranging from 3% to 5% for the year ended 31 December, 2006 (2005: 3% to 5%).

13 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of RMB309,716,000 (2005: RMB1,344,212,000).

14 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB859,210,000 (2005: RMB3,582,782,000) by the number of 6,030,000,000 (2005: 6,030,000,000) shares in issue.

	2006 RMB'000	2005 RMB'000
Profit attributable to equity holders of the Company	859,210	3,582,782
Number of ordinary shares in issue (thousands)	6,030,000	6,030,000
Basic earnings per share (RMB per share)	RMB0.14	RMB0.59

Diluted earnings per share has not been presented as the Company has no potential dilutive shares.

15 DIVIDENDS

	2006 RMB'000	2005 RMB'000
Final, proposed of RMB0.04 (2005: RMB0.12) (note (i))		
– per domestic share	144,400	433,200
– per H share	96,800	290,400
	241,200	723,600

Note:

- (i) The dividends paid during the year ended 31 December, 2006 were 2005 final proposed dividends of RMB723,600,000 (RMB0.12 per share). The dividends paid during the year ended 31 December, 2005 were 2004 special dividend to ultimate holding company of RMB480,098,000 and 2004 final proposed dividends of RMB1,206,000,000 (RMB0.2 per share). A dividend in respect of 2006 of RMB0.04 per share, amounting to a total dividend of RMB241,200,000, was proposed at the Board of Directors’ Meeting on 10 April, 2007. These accounts do not reflect this dividend payable.

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

16 FIXED ASSETS

The Group									
	Container vessels <i>RMB'000</i>	Building <i>RMB'000</i>	Vessels under construction <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Improvement on vessels under operating leases <i>RMB'000</i>	Containers <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Computer and office equipment <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January, 2005									
Cost	9,390,632	–	4,351,466	225,601	326,288	3,480,108	36,409	178,686	17,989,190
Accumulated depreciation and impairment losses	(1,013,012)	–	–	–	(240,074)	(1,436,500)	(16,160)	(92,858)	(2,798,604)
Net book amount	8,377,620	–	4,351,466	225,601	86,214	2,043,608	20,249	85,828	15,190,586
Year ended 31 December, 2005									
Opening net book amount	8,377,620	–	4,351,466	225,601	86,214	2,043,608	20,249	85,828	15,190,586
Exchange difference	(17,758)	–	(70,918)	–	–	(16,841)	–	–	(105,517)
Transfers	4,592,311	169,826	(4,592,311)	(209,304)	–	–	–	39,478	–
Transfer to land use rights	–	–	–	(13,918)	–	–	–	–	(13,918)
Additions	29,966	–	3,919,286	13,022	8,456	2,325,224	6,571	40,415	6,342,940
Acquisition from fellow subsidiaries	71,001	–	–	–	–	167,251	–	–	238,252
Disposals	–	–	–	–	–	(4,309)	(417)	(1,185)	(5,911)
Depreciation	(344,007)	(2,689)	–	–	(17,416)	(476,399)	(5,256)	(29,852)	(875,619)
Closing net book amount	12,709,133	167,137	3,607,523	15,401	77,254	4,038,534	21,147	134,684	20,770,813
At 31 December, 2005									
Cost	14,066,152	169,826	3,607,523	15,401	334,744	5,948,550	41,931	253,412	24,437,539
Accumulated depreciation and impairment losses	(1,357,019)	(2,689)	–	–	(257,490)	(1,910,016)	(20,784)	(118,728)	(3,666,726)
Net book amount	12,709,133	167,137	3,607,523	15,401	77,254	4,038,534	21,147	134,684	20,770,813
Year ended 31 December, 2006									
Opening net book amount	12,709,133	167,137	3,607,523	15,401	77,254	4,038,534	21,147	134,684	20,770,813
Exchange difference	(18,055)	–	(79,889)	–	–	(92,550)	(66)	(868)	(191,428)
Transfers	2,863,253	25,971	(2,863,253)	(37,312)	–	–	–	11,341	–
Addition from purchase of a subsidiary	–	–	–	–	–	–	103	2,682	2,785
Additions	31,833	–	2,151,813	31,697	3,855	963,583	2,513	14,545	3,199,839
Acquisition from fellow subsidiaries	54,760	–	–	–	–	837,731	–	–	892,491
Disposals	(8,049)	–	–	–	(11,032)	(4,277)	(381)	(3,422)	(27,161)
Depreciation	(519,777)	(4,160)	–	–	(30,905)	(583,032)	(5,072)	(40,542)	(1,183,488)
Closing net book amount	15,113,098	188,948	2,816,194	9,786	39,172	5,159,989	18,244	118,420	23,463,851
At 31 December, 2006									
Cost	16,975,344	195,797	2,816,194	9,786	166,498	6,847,128	43,958	274,957	27,329,662
Accumulated depreciation and impairment losses	(1,862,246)	(6,849)	–	–	(127,326)	(1,687,139)	(25,714)	(156,537)	(3,865,811)
Net book amount	15,113,098	188,948	2,816,194	9,786	39,172	5,159,989	18,244	118,420	23,463,851

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

The Company

					Improvement on vessels under operating leases			Computer and office equipment	Total
	Container vessels	Building	Vessels under construction	Construction in progress		Containers	Motor vehicles		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January, 2005									
Cost	8,664,364	–	1,836,615	225,601	300,430	2,877,468	5,156	121,006	14,030,640
Accumulated depreciation and impairment losses	(956,288)	–	–	–	(222,412)	(1,424,147)	(2,598)	(68,209)	(2,673,654)
Net book amount	7,708,076	–	1,836,615	225,601	78,018	1,453,321	2,558	52,797	11,356,986
Year ended 31 December, 2005									
Opening net book amount	7,708,076	–	1,836,615	225,601	78,018	1,453,321	2,558	52,797	11,356,986
Transfers	4,572,578	169,826	(4,572,578)	(208,374)	–	–	–	38,548	–
Transfer to land use rights	–	–	–	(13,918)	–	–	–	–	(13,918)
Additions	29,966	–	3,899,921	12,586	–	–	2,613	4,301	3,949,387
Acquisition from a fellow subsidiary	71,001	–	–	–	–	–	–	–	71,001
Disposals	–	–	–	–	–	(4,277)	–	(436)	(4,713)
Depreciation	(322,929)	(2,689)	–	–	(12,518)	(356,108)	(750)	(13,729)	(708,723)
Closing net book amount	12,058,692	167,137	1,163,958	15,895	65,500	1,092,936	4,421	81,481	14,650,020
At 31 December, 2005									
Cost	13,337,909	169,826	1,163,958	15,895	300,430	2,870,311	7,769	161,915	18,028,013
Accumulated depreciation and impairment losses	(1,279,217)	(2,689)	–	–	(234,930)	(1,777,375)	(3,348)	(80,434)	(3,377,993)
Net book amount	12,058,692	167,137	1,163,958	15,895	65,500	1,092,936	4,421	81,481	14,650,020
Year ended 31 December, 2006									
Opening net book amount	12,058,692	167,137	1,163,958	15,895	65,500	1,092,936	4,421	81,481	14,650,020
Transfers	1,468,235	25,971	(1,468,235)	(37,312)	–	–	–	11,341	–
Additions	27,566	–	1,913,275	31,203	–	–	1,714	–	1,973,758
Transfer to a subsidiary	–	–	–	–	–	(1,092,936)	–	–	(1,092,936)
Disposals	(8,049)	–	–	–	(11,032)	–	–	(128)	(19,209)
Depreciation	(483,952)	(4,160)	–	–	(25,359)	–	(1,133)	(25,538)	(540,142)
Closing net book amount	13,062,492	188,948	1,608,998	9,786	29,109	–	5,002	67,156	14,971,491
At 31 December, 2006									
Cost	14,812,456	195,797	1,608,998	9,786	128,329	–	9,483	171,254	16,936,103
Accumulated depreciation and impairment losses	(1,749,964)	(6,849)	–	–	(99,220)	–	(4,481)	(104,098)	(1,964,612)
Net book amount	13,062,492	188,948	1,608,998	9,786	29,109	–	5,002	67,156	14,971,491

- (a) As at 31 December, 2006, the net book value of containers held under finance lease by the Group amounted to approximately RMB3,806,385,000 (2005: RMB2,722,223,000).
- (b) As at 1 January, 2006, the Company transferred its containers under finance leases with net book value of RMB1,092,936,000 to a subsidiary.

- (c) As at 31 December, 2006, the net book value of container vessels, vessels under construction and containers of the Group and the Company pledged as securities for the long-term bank loans amounted to approximately RMB7,009,915,000 and RMB4,941,694,000 (2005: RMB6,727,496,000 and RMB5,463,524,000) respectively (*Note 26*).
- (d) As at 31 December, 2006, the aggregate cost, accumulated depreciation and accumulated impairment losses of the leased assets, where the Group and the Company are the lessor, comprised vessels under chartering arrangements, amounted to RMB376,620,000, RMB162,758,000 and RMB32,916,000 (2005: RMB486,383,000, RMB194,733,000 and RMB32,916,000) respectively.
- (e) As at 31 December, 2006, the accumulated capitalised borrowing costs of the Group and the Company included in vessels under construction amounted to approximately RMB194,637,000 and RMB71,098,000 (2005: RMB131,864,000 and RMB62,013,000) respectively.
- (f) As at 31 December, 2006, the accumulated impairment losses of the container vessels of the Group and the Company amounted to RMB59,279,000 (2005: RMB59,279,000).
- (g) Depreciation expenses of RMB1,163,981,000 (2005: RMB858,483,000) has been charged to consolidated profit and loss account within operating costs, and RMB19,507,000 (2005: RMB17,136,000) has been charged to consolidated profit and loss account within administrative and general expenses.

17 LAND USE RIGHTS

The Group and the Company's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	<i>RMB'000</i>
Year ended 31 December, 2005	
Opening net book value	–
Transfer from fixed assets (<i>Note 16</i>)	13,918
Amortisation charge for the year	(232)
Closing net book amount	13,686
At 31 December, 2005	
Cost	13,918
Accumulated amortisation	(232)
Net book amount	13,686
Year ended 31 December, 2006	
Opening net book value	13,686
Amortisation charge for the year	(330)
Closing net book amount	13,356
At 31 December, 2006	
Cost	13,918
Accumulated amortisation	(562)
Net book amount	13,356

All of the Group's land use rights are located in Shanghai, the PRC and are held on leases of 30 to 50 years from the dates of acquisition.

18 GOODWILL

The Group
RMB'000

Year ended 31 December, 2005	
Opening and closing net book amount	13,281
At 31 December, 2005	
Cost	13,281
Impairment expense	—
Net book amount	13,281
Year ended 31 December, 2006	
Opening net book amount	13,281
Addition from purchase of a subsidiary	33,146
Impairment expense	—
Closing net book amount	46,427
At 31 December, 2006	
Cost	46,427
Impairment expense	—
Net book amount	46,427

Goodwill Impairment Test

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.8. The carrying amounts of goodwill acquired through acquisition of equity interests of subsidiaries are solely allocated to these subsidiaries for impairment testing.

The recoverable amount of the subsidiary is 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 growth rates which are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risk relating to the subsidiary.

Based on the impairment tests of goodwill, in the opinion of the Directors, no impairment provision is considered necessary for the balance of the Group's goodwill.

19 INVESTMENTS IN SUBSIDIARIES

	The Company As at 31 December	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	396,188	295,928
Loan to a subsidiary	932,289	1,177,258
	<u>1,328,477</u>	<u>1,473,186</u>

- (a) During the year, the Company made capital injection to its subsidiaries, Shanghai Puhai Shipping Liners Co., Ltd. , Quanzhou China Shipping Container Lines Co., Ltd., China Shipping Container Lines (Fuzhou) Co., Ltd. and Longkou China Shipping Container Lines Co., Ltd. in the form of cash amounting to RMB100,000,000, RMB105,000, RMB105,000 and RMB50,000 respectively. These capital injections have been verified by BDO Zhong Hua Certified Public Accountants (上海眾華滬銀會計師事務所), Quanzhou Ming Cheng Certified Public Accountants Company Limited (泉州名城有限責任會計師事務所), Fuzhou Da Zheng Certified Public Accountants Company Limited (福州大正有限責任會計師事務所) and Yantai Jin Du Certified Public Accountants Company Limited (煙台金都有限責任會計師事務所), who issued capital certification reports on 15 August, 2006, 9 February, 2006, 14 January, 2006 and 22 February, 2006 respectively.
- (b) The loan to a subsidiary is unsecured, interest bearing at LIBOR plus 0.05% per annum and wholly repayable on 27 December, 2009.
- (c) A list of subsidiaries as at 31 December, 2006 is set out in Note 35(a).

20 INVESTMENT IN AN ASSOCIATED COMPANY

	The Group As at 31 December	
	2006	2005
	RMB'000	RMB'000
Beginning of the year	47,596	46,892
Share of an associated company's results		
– profit before income tax	8,944	8,164
– income tax expense	(2,415)	(2,204)
	<u>6,529</u>	<u>5,960</u>
Dividend received	<u>(5,367)</u>	<u>(5,256)</u>
End of the year	<u>48,758</u>	<u>47,596</u>

	The Company As at 31 December	
	2006	2005
	RMB'000	RMB'000
Unlisted investments, at cost	<u>29,214</u>	<u>29,214</u>

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

The Group and the Company’s interest in its principal associated company, which is unlisted, is as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Total assets	51,280	50,684
Total liabilities	2,522	3,088
Revenue	39,972	35,987
Net profit	6,529	5,960
Percentage of interest held	40%	40%

Details of the associated company as at 31 December, 2006 are set out in Note 35(b).

21 INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	The Group and the Company	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Share of net assets	32,000	–

The Group and the Company’s interest in its principal jointly controlled entity, which is unlisted, is as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Total assets	32,000	–
Total net assets	32,000	–
Percentage of interest held	50%	–

Details of the jointly controlled entity as at 31 December, 2006 are set out in Note 35(c).

There are no contingent liabilities relating to the Group and the Company’s investment in jointly controlled entity, and no contingent liabilities of the ventures itself.

22 TRADE AND NOTES RECEIVABLES

	The Group	
	As at 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables		
– Fellow subsidiaries	1,932,592	1,997,785
– Others	1,431,516	1,933,858
	3,364,108	3,931,643
Notes receivables	126,295	122,702
	3,490,403	4,054,345

The ageing analysis of the trade and notes receivables is as follows:

	The Group	
	As at 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
1 to 3 months	2,914,493	2,547,888
4 to 6 months	561,926	699,593
7 to 9 months	114,784	428,547
10 to 12 months	–	499,913
Over 1 year	13,150	8,463
	3,604,353	4,184,404
Less: provision for impairment of receivables	(113,950)	(130,059)
	3,490,403	4,054,345

The Group has reversed RMB16,109,000 (Note 7) for the impairment of its trade receivables during the year ended 31 December, 2006. The income has been included in other operating income in the consolidated profit and loss account.

	The Company	
	As at 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables		
– Subsidiaries	664,393	491,295
– Fellow subsidiaries	292,996	446,840
– Others	108,779	11,325
	1,066,168	949,460
Notes receivables	112,093	78,245
	1,178,261	1,027,705

The ageing analysis of the trade and notes receivables is as follows:

	The Company	
	As at 31 December	2005
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
1 to 3 months	1,170,648	896,502
4 to 6 months	12,240	105,959
7 to 9 months	4,554	15,205
10 to 12 months	–	39,404
Over 1 year	13,150	8,463
	<u>1,200,592</u>	<u>1,065,533</u>
Less: provision for impairment of receivables	<u>(22,331)</u>	<u>(37,828)</u>
	<u><u>1,178,261</u></u>	<u><u>1,027,705</u></u>

The carrying amounts of the trade and notes receivables approximate their fair value.

The carrying amounts of the trade and notes receivables are denominated in the following currencies:

	The Group		The Company	
	As at 31 December	2005	As at 31 December	2005
	2006	2005	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	1,176,638	962,206	412,932	420,848
HKD	7,717	33,659	–	–
USD	1,966,129	2,419,871	754,182	575,168
Other currencies	339,919	638,609	11,147	31,689
	<u>3,490,403</u>	<u>4,054,345</u>	<u>1,178,261</u>	<u>1,027,705</u>

There is no concentration of credit risk with respect to trade receivables, as the group and the company has a large number of customers, internationally dispersed.

Credit Policy

Credit terms in the range between 30 to 50 days are granted to those customers with good payment history. Invoices to other customers are due for payment upon presentation.

23 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	As at 31 December	2005	As at 31 December	2005
	2006	2005	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at bank and in hand	2,065,367	2,605,368	881,695	1,027,342
Short-term bank deposits	850,175	818,005	43,363	–
	<u>2,915,542</u>	<u>3,423,373</u>	<u>925,058</u>	<u>1,027,342</u>

The effective interest rate on short-term bank deposits was 4.6% per annum (2005: 3.6%); these deposits have an average maturity of 5 days (2005: 3 days).

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Cash and cash equivalents are denominated in the following currencies:

	The Group		The Company	
	As at 31 December		As at 31 December	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	889,378	921,022	602,632	679,078
HKD	120,764	74,008	41,716	41,579
USD	1,742,818	2,232,504	278,872	301,559
Other currencies	162,582	195,839	1,838	5,126
	<u>2,915,542</u>	<u>3,423,373</u>	<u>925,058</u>	<u>1,027,342</u>

As at 31 December, 2006, cash and cash equivalents of RMB1,302,895,000 (2005: RMB1,367,246,000) were held by the Company and certain subsidiaries of the Group with bank accounts operating in the PRC where exchange controls apply.

24 SHARE CAPITAL

	Domestic shares of RMB1 each	H shares of RMB1 each	Total
	(note (i))		
	RMB'000	RMB'000	RMB'000
At 31 December, 2005	<u>3,610,000</u>	<u>2,420,000</u>	<u>6,030,000</u>
At 31 December, 2006	<u>3,610,000</u>	<u>2,420,000</u>	<u>6,030,000</u>

Note:

- (i) The domestic shares and H shares rank pari passu in all material respects except that the dividends to holders of H shares are declared in RMB but paid in HKD.

25 OTHER RESERVES

The Group

	Capital surplus <i>RMB'000</i>	Statutory surplus reserve <i>(note(i))</i> <i>RMB'000</i>	Statutory public welfare fund <i>(note(ii))</i> <i>RMB'000</i>	Discretionary common reserve <i>(note (iii))</i> <i>RMB'000</i>	Translation <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January, 2005	4,851,488	380,473	380,473	740	–	5,613,174
Currency translation difference	–	–	–	–	(97,757)	(97,757)
Profit appropriation	–	407,262	206,159	–	–	613,421
At 31 December, 2005 and 1 January, 2006	4,851,488	787,735	586,632	740	(97,757)	6,128,838
Currency translation difference	–	–	–	–	(194,233)	(194,233)
Transfer	–	586,632	(586,632)	–	–	–
Profit appropriation	–	63,910	–	–	–	63,910
At 31 December, 2006	<u>4,851,488</u>	<u>1,438,277</u>	<u>–</u>	<u>740</u>	<u>(291,990)</u>	<u>5,998,515</u>

The Company

	Capital surplus <i>RMB'000</i>	Statutory surplus reserve <i>(note(i))</i> <i>RMB'000</i>	Statutory public welfare fund <i>(note(ii))</i> <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January, 2005	4,771,887	367,551	367,551	5,506,989
Profit appropriation	–	402,206	201,103	603,309
At 31 December, 2005 and 1 January, 2006	4,771,887	769,757	568,654	6,110,298
Transfer	–	568,654	(568,654)	–
Profit appropriation	–	59,977	–	59,977
At 31 December, 2006	<u>4,771,887</u>	<u>1,398,388</u>	<u>–</u>	<u>6,170,275</u>

Notes:

- (i) In accordance with the PRC regulations and the Articles of Association of the companies within the Group, before distributing the net profit of each year, each of the companies registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under Accounting Standards for Business Enterprises and Accounting System for Business Enterprises of the PRC to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares. However, such statutory surplus reserve fund must be maintained at a minimum of 25% of the entity's share capital after such issuance.

- (ii) Before 1 January, 2006, companies registered in the PRC within the Group are required to set aside 5% to 10% of their statutory net profit for the year as determined under Accounting Standards for Business Enterprises and Accounting System for Business Enterprises of the PRC to the statutory public welfare fund. The statutory public welfare fund is to be utilised to build or acquire capital items, for the entity's employees and cannot be used to pay off staff welfare expenses. Titles to these capital items remain with the entity.

According to the Company Law of the PRC which was revised on 27 October, 2005, the Company is no longer required to make profit appropriation to the statutory public welfare fund commencing from 1 January, 2006. Pursuant to the notice "Cai Qi [2006] No. 67." issued by the Ministry of Finance of the PRC, the balance of this fund as at 1 January, 2006 was transferred to the statutory surplus reserve.

- (iii) Transfer to discretionary common fund is at the discretion of the companies in the Group.

26 BANK BORROWINGS

	The Group		The Company	
	As at 31 December		As at 31 December	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Non-Current				
Long-term bank loans	5,538,152	5,107,112	3,408,940	3,616,800
Current				
Short-term bank loans	400,000	–	400,000	–
Long-term bank loans				
– current portion	707,608	501,053	475,000	380,000
	1,107,608	501,053	875,000	380,000
	6,645,760	5,608,165	4,283,940	3,996,800
Representing:				
– unsecured	1,642,870	817,439	862,000	154,000
– secured	5,002,890	4,790,726	3,421,940	3,842,800
Total bank borrowings	6,645,760	5,608,165	4,283,940	3,996,800
Analysed as follows:				
– wholly repayable within five years	4,347,310	–	2,902,700	–
– not wholly repayable within five years	2,298,450	5,608,165	1,381,240	3,996,800
Total bank borrowings	6,645,760	5,608,165	4,283,940	3,996,800

The maturity of bank borrowings is as follows:

	The Group		The Company	
	As at 31 December		As at 31 December	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	1,107,608	501,053	875,000	380,000
In the second year	707,608	753,461	475,000	552,560
In the third to fifth year	4,079,808	2,543,910	2,622,700	1,945,695
After fifth year	750,736	1,809,741	311,240	1,118,545
	<u>6,645,760</u>	<u>5,608,165</u>	<u>4,283,940</u>	<u>3,996,800</u>

As at 31 December, 2006, the long-term bank loans of the Group and the Company were secured by the following:

- (i) Legal mortgage over certain container vessels, vessels under construction and containers of the Group and the Company with net book value of approximately RMB7,009,915,000 and RMB4,941,694,000 (2005: RMB6,727,496,000 and RMB5,463,524,000) respectively (*Note 16(c)*).
- (ii) Charges over shares of certain vessels owning subsidiaries (*Note 35 (a)(ii)*).
- (iii) Assignment of shipbuilding contracts related to certain vessels under construction.

An analysis of the carrying amounts of the Group and the Company's bank borrowings by type and currency is as follows:

	The Group		The Company	
	As at 31 December		As at 31 December	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
RMB				
– at fixed rates	4,283,940	3,996,800	4,283,940	3,996,800
– at floating rates	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
USD				
– at fixed rates	–	–	–	–
– at floating rates	<u>2,361,820</u>	<u>1,611,365</u>	<u>–</u>	<u>–</u>
	<u>6,645,760</u>	<u>5,608,165</u>	<u>4,283,940</u>	<u>3,996,800</u>

The weighted average effective interest rates at the respective balance sheet dates were set out as follows:

	The Group		The Company	
	As at 31 December		As at 31 December	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowing				
– RMB	<u>5.18%</u>	<u>5.46%</u>	<u>5.18%</u>	<u>5.46%</u>
– USD	<u>5.96%</u>	<u>4.05%</u>	<u>–</u>	<u>–</u>

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

The carrying amounts of current borrowings approximate their fair value.

The carrying amounts and the fair values of long term bank borrowings are as follows:

	The Group		The Company	
	As at 31 December		As at 31 December	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amounts	6,245,760	5,608,165	3,883,940	3,996,800
Fair values	6,150,725	5,521,114	3,788,905	3,909,749

The carrying amounts of USD bank borrowings approximate their fair value.

The fair values of RMB bank borrowings are based on discounted cash flow using a rate based on the borrowings rate of 6.12% per annum (2005: 6.12%).

The Group and the Company have the following undrawn borrowing facilities.

	The Group		The Company	
	As at 31 December		As at 31 December	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Floating rate	1,210,348	143,581	—	—
Fixed rate	4,760,360	3,407,500	4,760,360	3,407,500
	5,970,708	3,551,081	4,760,360	3,407,500

27 FINANCE LEASE OBLIGATIONS

	The Group		
	As at 31 December, 2006		
	Minimum lease payment	Finance charges	Net present value of minimum lease payment
	RMB'000	RMB'000	RMB'000
Finance lease obligations			
Within one year	995,756	300,032	695,724
In the second year	889,384	224,690	664,694
In the third to fifth year	2,106,029	374,336	1,731,693
After fifth year	865,105	62,243	802,862
	4,856,274	961,301	3,894,973
Less: no later than one year (current portion)	(995,756)	(300,032)	(695,724)
	3,860,518	661,269	3,199,249

The Group As at 31 December, 2005			
	Minimum lease payment <i>RMB'000</i>	Finance charges <i>RMB'000</i>	Net present value of minimum lease payment <i>RMB'000</i>
Finance lease obligations			
Within one year	716,348	257,667	458,681
In the second year	683,496	205,430	478,066
In the third to fifth year	1,584,020	355,130	1,228,890
After fifth year	768,413	70,395	698,018
	<u>3,752,277</u>	<u>888,622</u>	<u>2,863,655</u>
Less: no later than one year (current portion)	<u>(716,348)</u>	<u>(257,667)</u>	<u>(458,681)</u>
	<u><u>3,035,929</u></u>	<u><u>630,955</u></u>	<u><u>2,404,974</u></u>

The effective interest rate of finance lease obligations of the Group is 10.3% per annum (2005:14.0%).

The carrying amounts and the fair values of finance lease obligations of the Group are as follows:

The Group		
	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Carrying amounts	<u>3,894,973</u>	<u>2,863,655</u>
Fair values	<u>3,879,892</u>	<u>2,850,612</u>

The fair values are based on discounted cash flow using a rate based on internal rate of return of the lessor at 7.1% per annum (2005: 8.4%).

All finance lease obligations are dominated in USD.

As at 1 January, 2006, the Company transferred its finance lease obligations with carrying value of RMB1,283,526,000 to a subsidiary. The details of the Company's finance lease obligations as at 31 December, 2005 are set out below:

The Company As at 31 December, 2005			
	Minimum lease payment <i>RMB'000</i>	Finance charges <i>RMB'000</i>	Net present value of minimum lease payment <i>RMB'000</i>
Finance lease obligations			
Within one year	443,924	151,086	292,838
In the second year	406,719	111,348	295,371
In the third to fifth year	753,745	157,539	596,206
After fifth year	116,918	17,807	99,111
	<u>1,721,306</u>	<u>437,780</u>	<u>1,283,526</u>
Less: no later than one year (current portion)	<u>(443,924)</u>	<u>(151,086)</u>	<u>(292,838)</u>
	<u><u>1,277,382</u></u>	<u><u>286,694</u></u>	<u><u>990,688</u></u>

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

As at 31 December, 2005, the effective interest rate of finance lease obligations of the Company was 14.8% per annum.

The carrying amounts and their fair values of finance lease obligations of the Company are as follows:

	The Company	
	2006	2005
	RMB'000	RMB'000
Carrying amounts	–	1,283,526
Fair values	–	1,267,735

As at 31 December, 2005, the fair values were based on discounted cash flow using a rate based on internal rate of return of the lessor at 12.0% per annum.

All finance lease obligations were denominated in USD.

28DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:				
– Deferred tax assets to be recovered after more than 12 months	(15,887)	(72,759)	(10,942)	(67,814)
– Deferred tax assets to be recovered within 12 months	(19,957)	(9,791)	(19,957)	(9,791)
	(35,844)	(82,550)	(30,899)	(77,605)
Deferred tax liabilities:				
– Deferred tax liabilities to be settled after more than 12 months	873,093	719,670	79,396	36,769
	837,249	637,120	48,497	(40,836)

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

The gross movement on the deferred tax liabilities/(assets) is as follows:

	The Group	
	2006	2005
	RMB'000	RMB'000
Beginning of the year	637,120	149,957
Deferred taxation charged to consolidated profit and loss account (<i>Note 12</i>)	200,129	487,163
End of the year	837,249	637,120

	The Company	
	2006	2005
	RMB'000	RMB'000
Beginning of the year	(40,836)	(94,164)
Deferred taxation charged to profit and loss account	89,333	53,328
End of the year	48,497	(40,836)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities:

	Profits of subsidiaries	The Group Residual value difference	Total	The Company Residual value difference
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January, 2005	244,121	–	244,121	–
Charged to profit and loss account	438,780	36,769	475,549	36,769
At 31 December, 2005	682,901	36,769	719,670	36,769
Charged to profit and loss account	110,796	42,627	153,423	42,627
At 31 December, 2006	793,697	79,396	873,093	79,396

Deferred tax liabilities mainly relates to deferred tax liabilities provided at a fixed rate of 16.5% on the profit of overseas subsidiaries which are subject to PRC EIT and payable upon profit remittance to the Company.

Deferred tax assets:

	The Group			
	Interest element of finance lease obligations RMB'000	Capitalised dry docking expense RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January, 2005	(86,345)	(7,819)	–	(94,164)
Charged/(credited) to consolidated profit and loss account	17,197	(638)	(4,945)	11,614
At 31 December, 2005	(69,148)	(8,457)	(4,945)	(82,550)
Charged/(credited) to consolidated profit and loss account	69,148	(2,485)	(19,957)	46,706
At 31 December, 2006	–	(10,942)	(24,902)	(35,844)

	The Company			
	Interest element of finance lease obligations RMB'000	Capitalised dry docking expense RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January, 2005	(86,345)	(7,819)	–	(94,164)
Charged/(credited) to profit and loss account	17,197	(638)	–	16,559
At 31 December, 2005	(69,148)	(8,457)	–	(77,605)
Charged/(credited) to profit and loss account	69,148	(2,485)	(19,957)	46,706
At 31 December, 2006	–	(10,942)	(19,957)	(30,899)

Deferred tax assets are recognised for tax losses carry forward to the extent that the realisation of the related tax benefit through the future taxable profit is probable. The tax loss of the Company approximately RMB133,048,000 (2005: Nil) has five-year expiry dates. The tax loss of a subsidiary approximately RMB28,257,000 (2005: RMB28,257,000) has no expiry dates.

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

29

TRADE AND NOTES PAYABLES

	The Group	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Trade payables		
– Fellow subsidiaries	259,834	467,858
– Others	1,945,221	2,281,554
	2,205,055	2,749,412
Notes payables	–	10,000
	2,205,055	2,759,412

The ageing analysis of the trade and notes payables is as follows:

	The Group	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
1 to 3 months	2,132,189	1,954,087
4 to 6 months	45,774	697,283
7 to 9 months	27,092	108,042
	2,205,055	2,759,412

	The Company	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Trade payables		
– Subsidiaries	466,979	428,404
– Fellow subsidiaries	362,793	1,323,755
– Others	288,431	22,244
	1,118,203	1,774,403
Notes payables	80,000	26,000
	1,198,203	1,800,403

The ageing analysis of the trade and notes payables is as follows:

	The Company	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
1 to 3 months	1,039,059	1,661,288
4 to 6 months	106,545	139,115
7 to 9 months	52,599	–
	1,198,203	1,800,403

The carrying amounts of the trade and notes payables approximate their fair value.

The carrying amounts of the trade and notes payables are denominated in the following currencies:

	The Group		The Company	
	As at 31 December		As at 31 December	
	2006	2005	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	841,803	639,622	297,226	127,622
HKD	56,075	50,430	–	–
USD	1,150,148	1,931,201	885,568	1,630,921
Other currencies	157,029	138,159	15,409	41,860
	<u>2,205,055</u>	<u>2,759,412</u>	<u>1,198,203</u>	<u>1,800,403</u>

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of Profit before Income Tax to Net Cash Generated from Operations:

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	1,142,561	4,309,263
Depreciation	1,183,488	875,619
Amortisation of land use rights	330	232
Share of profit of an associated company	(6,529)	(5,960)
Interest expense	238,876	138,753
Interest income	(74,849)	(84,801)
(Reversal of)/provision for impairment of receivables	(16,109)	6,211
Finance charge of finance lease obligations	295,123	288,520
Loss on disposal of fixed assets (See below)	11,645	5,034
Operating profit before working capital changes	2,774,536	5,532,871
Increase in bunkers	(82,655)	(303,029)
Decrease/(increase) in trade and notes receivables	654,496	(695,725)
Decrease in prepayments and other receivables	33,659	184,334
(Decrease)/increase in trade and notes payables	(577,162)	618,634
Increase/(decrease) in accruals and other payables	172,832	(32,867)
Net cash generated from operations	<u>2,975,706</u>	<u>5,304,218</u>

In the cash flow statement, proceeds from disposal of fixed assets comprise:

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Net book amount (Note 16)	27,161	5,911
Loss on disposal of fixed assets (Note 8)	(11,645)	(5,034)
Proceeds from disposal of fixed assets	<u>15,516</u>	<u>877</u>

(b) Significant Non-cash Transactions

During the year ended 31 December, 2006, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of RMB296,684,000 (2005: RMB1,353,002,000).

(c) Acquisition of a Subsidiary Company

On 27 August, 2006, China Shipping Container Lines (Hong Kong) Co., Ltd. (“CSHK”), a wholly-owned subsidiary of the Company entered into a Share Purchase Agreement with China Shipping Agency Logistics (Oversea) Co., Limited, Rich Shipping Agency Co., Ltd. and China Shipping (Hong Kong) Agency Co., Ltd, which are all fellow subsidiaries of the Group, to acquire the net assets of Universal Shipping (Asia) Co., Ltd. (“Universal Shipping”) at a consideration of RMB80,141,000.

Universal Shipping is engaged in provision of shipping services in the PRC. Particulars of the assets and liabilities acquired are as follows:

	Fair value <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Property, plant and equipment	2,785	2,785
Trade receivables, prepayments and other receivables	79,740	79,740
Cash and cash equivalents	1,613	1,613
Trade payables, accruals and other payables	(37,023)	(37,023)
Deferred tax liability	(120)	(120)
Net assets acquired	46,995	
Goodwill on acquisition	33,146	
Purchase consideration settled in cash	80,141	
Cash and cash equivalents acquired	(1,613)	
Cash outflow on acquisition	78,528	

31 COMMITMENTS**(a) Capital Commitments**

As at 31 December, 2006 and 2005, the Group and the Company had the following significant capital commitments which were not provided for in the balance sheets:

	The Group	
	As at 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for:		
– Vessels under construction	4,100,999	4,315,787
– Purchase of containers	–	160,036
	4,100,999	4,475,823

	The Company	
	As at 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for:		
– Vessels under construction	3,969,969	4,018,445

(b) Purchase Commitments

As at 31 December, 2006 and 2005, the Group had the following significant purchase commitments of bunkers which were not provided for in the balance sheets:

	The Group	
	As at 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for:		
– Purchase of bunkers	1,754,165	415,914

(c) Other Commitments

As at 31 December, 2006 and 2005, the Group and the Company had the following significant commitments which were not provided for in the balance sheets:

	The Group	
	As at 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for:		
– Investment	–	111,100

	The Company	
	As at 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for:		
– Investment	–	100,000

(d) Lease Commitments

As at 31 December, 2006 and 2005, the Group and the Company had future aggregate minimum lease payments under non-cancelable operating leases as follows:

	The Group	
	As at 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Land and buildings:		
– Within one year	44,339	41,385
– In the second to fifth year	62,835	88,436
– After fifth year	4,248	12,867
	111,422	142,688
Vessels chartered-in and containers under operating leases:		
– Within one year	2,935,592	2,641,580
– In the second to fifth year	6,940,418	5,667,242
– After fifth year	3,825,150	2,838,513
	13,701,160	11,147,335
	13,812,582	11,290,023

	The Company	
	As at 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Land and buildings:		
– Within one year	6,420	5,675
– In the second to fifth year	19,828	22,701
– After fifth year	3,639	11,351
	<u>29,887</u>	<u>39,727</u>
Vessels chartered-in and containers under operating leases:		
– Within one year	243,624	283,861
– In the second to fifth year	338,940	592,910
– After fifth year	–	41,206
	<u>582,564</u>	<u>917,977</u>
	<u>612,451</u>	<u>957,704</u>

32 FUTURE OPERATING LEASE ARRANGEMENTS

As at 31 December, 2006 and 2005, the Group and the Company had future aggregate minimum lease receipts under non-cancellable operating leases as following:

	The Group	
	As at 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Vessels chartered-out under operating leases:		
– Within one year	49,960	105,644
– In the second to fifth year	27,850	7,722
	<u>77,810</u>	<u>113,366</u>
	<u>77,810</u>	<u>113,366</u>
	The Company	
	As at 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Vessels chartered-out under operating leases:		
– Within one year	929,088	1,504,449
– In the second to fifth year	1,979,036	4,171,371
	<u>2,908,124</u>	<u>5,675,820</u>
	<u>2,908,124</u>	<u>5,675,820</u>

33 CONTINGENT LIABILITIES

As at 31 December, 2006, the Group and the Company have no significant contingent liabilities.

34 SIGNIFICANT RELATED-PARTY TRANSACTIONS

The Group is part of a larger group of companies under China Shipping (Group) Company (incorporated in the PRC) and has extensive transactions and relationships with members of the China Shipping (Group) Company. China Shipping (Group) Company itself is a state-owned enterprise and is controlled by the PRC government. Neither of them produces accounts for public use.

As the Group is controlled by China Shipping (Group) Company, it is considered to be indirectly controlled by the PRC government, which controls a substantial number of entities in the PRC. In accordance with HKAS 24 “Related Party Disclosure”, state-owned enterprises and their subsidiaries, other than China Shipping (Group) Company and its subsidiaries, directly or indirectly controlled by the PRC Government are also deemed as related parties of the Group (“other state-owned enterprises”). For purpose of related party transactions disclosure, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that meaningful information relative to related-party transactions has been adequately disclosed.

In addition to the related party information shown elsewhere in the accounts (Note 16 and Note 30), the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the years and balances arising from related party transactions for the year ended 31 December, 2006 and 31 December, 2005.

- (a) During the year, for the purpose of this report, the directors are of the view that the following companies are related parties of the Group:

Name	Relationship with the Group
China Shipping (Group) Company	Ultimate holding company
Rich Shipping Co., Ltd.	Fellow subsidiary
Shanghai Marine Transport (Group) Co., Ltd.	Fellow subsidiary
Guangzhou Marine Transport (Group) Co., Ltd.	Fellow subsidiary
Dalian Marine Transport (Group) Company	Fellow subsidiary
China Shipping Development Co., Ltd.	Fellow subsidiary
China Shipping Passenger Liner Co., Ltd.	Fellow subsidiary
China Shipping (Hainan) Haisheng Shipping and Enterprise Co., Ltd.	Fellow subsidiary
Shanghai Incheon International Ferry Co., Ltd.	Fellow subsidiary
China Shipping Terminal Development Co., Ltd.	Fellow subsidiary
China Shipping Logistics Co., Ltd.	Fellow subsidiary
China Shipping Agency Co., Ltd.	Fellow subsidiary
China Shipping Air Cargo Co., Ltd.	Fellow subsidiary
China Shipping Industry Co., Ltd.	Fellow subsidiary
China Shipping Investment Co., Ltd.	Fellow subsidiary
China Shipping International Trading Co., Ltd.	Fellow subsidiary
China Shipping Telecommunications Co., Ltd.	Fellow subsidiary
Dong Fang International Investment Co., Ltd.	Fellow subsidiary
China Shipping Regional Holdings Pte Ltd.	Fellow subsidiary
China Shipping Agency (Australia) Co., Ltd.	Fellow subsidiary
China Shipping Japan Co., Ltd.	Fellow subsidiary
China Shipping Agency (Korea) Co., Ltd.	Fellow subsidiary
China Shipping (Europe) Holding GmbH	Fellow subsidiary
China Shipping Suppliers Co., Ltd.	Fellow subsidiary
China Shipping (Hongkong) Holdings Co., Ltd.	Fellow subsidiary
China Shipping (North America) Holding Co., Ltd.	Fellow subsidiary
China Shipping (North America) Agency Co., Inc.	Fellow subsidiary
China Shipping (Malaysia) Agency Sdn. Bhd.	Fellow subsidiary
China Shipping (Argentina) Agency S.A.	Fellow subsidiary
China Shipping (Brazil) Agency S.A.	Fellow subsidiary
China Shipping Egypt Co, Ltd.	Fellow subsidiary
West Basin Container Terminals LLC.	Related company

Same as disclosed elsewhere in the accounts (Note 16 and Note 30), the Group had the following transactions and balances with related parties, which in the opinion of the directors, were carried out in the ordinary course of the Group’s business.

(b) The following significant transactions were carried out with related parties:

		2006	2005
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Transactions with fellow subsidiaries			
<i>Revenue:</i>			
Information technology services	(i)	42,213	25,825
Lease of containers	(ii)	854	4,785
Liner services	(i)	1,661,158	941,774
Lease of vessels	(i)	7,592	1,273
Compensation income	(Note 7(i))	–	99,331
<i>Expense:</i>			
Agency management services	(i)	13,696	14,705
Interest element of finance lease obligations in connection with lease of containers	(ii)	149,009	213,254
Lease of containers	(ii)	67,682	–
Lease of chassis	(i)	39,400	19,797
Lease of properties	(ii)	10,922	11,902
Cargo and liner agency services	(i)	406,352	208,924
Container management services	(i)	751,920	790,380
Time charter services	(i)	232,650	288,188
Bareboat charter services	(i)	76,795	56,769
Ship repair services	(i)	58,560	54,780
Supply of fresh water, vessel fuel, lubricants, spare parts and other materials	(i)	474,523	346,144
Depot services	(i)	30,541	19,075
Information technology services	(i)	27,083	27,755
Provision of motor vehicles	(i)	952	2,718
Provision of crew members	(i)	121,244	140,450
Loading and unloading services	(i)	875,888	693,601
Sub-route services	(i)	164,379	101,935
Ground container transport costs	(i)	152,151	34,218

(i) These transactions were conducted in accordance with various master agreements entered into between the Company and fellow subsidiaries on 10 May, 2004.

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

(ii) These transactions were conducted in accordance with relevant agreements entered into between the Company and fellow subsidiaries.

	2006	2005
	RMB'000	RMB'000
Transactions with other state-owned enterprises		
Revenue:		
Interest income from bank deposits	17,737	19,873
Expense:		
Port charges	2,507,759	3,061,575
Purchase of bunkers and spare parts	451,910	352,229
Interest expenses	312,265	223,109
Vessel maintenance costs	81,277	74,998
Other transactions:		
Progress payment made on construction of vessels	1,518,655	3,195,946

(c) Balances with related parties

	2006	2005
	RMB'000	RMB'000
Balances with fellow subsidiaries		
Trade receivables (note (i))	1,992,363	2,059,573
Less: provisions	(59,771)	(61,788)
	1,932,592	1,997,785
Trade payables (note (i))	(259,834)	(467,858)
Finance lease obligations (note(ii))	(957,684)	(1,283,526)
	715,074	246,401

Notes:

- (i)

These balances arose from the ordinary course of the Group’s business and are unsecured and interest free.
- (ii)

The Group has entered into finance lease arrangement to lease containers from its fellow subsidiaries. These balances carry interest at an average rate of 11.6% (2005: 14.8%) per annum as agreed between both parties.

	2006	2005
	RMB’000	RMB’000
Balances with other state-owned enterprises		
Bank deposits (note (i))	1,350,583	1,031,286
Bank loans (note (ii))	5,064,810	3,821,800
Other payables (note (iii))	985,105	752,825

Notes:

- (i)

Interest of bank deposits is at market rates ranging from 0.72% to 3.6% per annum (2005: from 0.72% to 3.6%).
- (ii)

As at 31 December, 2006, the bank loans were secured by legal mortgage over certain container vessels and vessels in construction with net book value of approximately RMB4,941,694,000 for the Group (2005: RMB3,842,800,000).
- (iii)

These balances arose from the ordinary course of the Group’s business are unsecured, interest free and no fixed payment terms.
- (d)

Key management compensation:

	2006	2005
	RMB’000	RMB’000
Salaries and other short-term employee benefits	2,806	4,172
Post employment benefits	1,229	975

35

PARTICULARS OF SUBSIDIARIES, ASSOCIATED COMPANY AND JOINTLY CONTROLLED ENTITY

(a) Subsidiaries

As at 31 December, 2006, the Company has direct and indirect interests in the following subsidiaries:

Name	Date of incorporation/ establishment	Type of legal entity	Issued/registered and fully paid up share capital	Attributable equity interest		Principal activities
				Directly held	Indirectly held	
Established and operate in the PRC						
China Shipping Container Lines Dalian Co., Ltd.	5 January, 2003	Limited liability company	RMB10,000,000	90%	–	Cargo and liner agency
China Shipping Container Lines Guangzhou Co., Ltd.	26 January, 2003	Limited liability company	RMB10,000,000	90%	–	Cargo and liner agency
China Shipping Container Lines Hainan Company Limited <i>(note(i))</i>	14 January, 2003	Limited liability company	RMB10,000,000	40%	–	Cargo and liner agency
China Shipping Container Lines Qingdao Company Limited	3 January, 2003	Limited liability company	RMB10,000,000	90%	–	Cargo and liner agency
China Shipping Container Lines Shanghai Co., Ltd.	13 January, 2003	Limited liability company	RMB71,140,000	90%	–	Cargo and liner agency
China Shipping Container Lines Shenzhen Co., Ltd.	15 January, 2003	Limited liability company	RMB10,000,000	90%	–	Cargo and liner agency
China Shipping Container Lines Tianjin Company Limited	3 January, 2003	Limited liability company	RMB10,000,000	90%	–	Cargo and liner agency
China Shipping Container Lines Xiamen Co., Ltd.	6 January, 2003	Limited liability company	RMB10,000,000	90%	–	Cargo and liner agency
China Shipping Container (Yangpu) Co., Ltd.	5 December, 2002	Limited liability company	RMB38,000,000	90%	4%	Domestic containers shipping cargo sales, slot booking, container transportation centre, transshipment, depot construction, repair leasing, sale and purchasing containers, leasing, sales and purchase of vessels and container related business

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Name	Date of incorporation/ establishment	Type of legal entity	Issued/registered and fully paid up share capital	Attributable equity interest		Principal activities
				Directly held	Indirectly held	
China Shipping (Yangpu) Refrigeration Storage & Transportation Co., Ltd. <i>(note (i))</i>	13 December, 2001	Limited liability company	RMB6,000,000	40%	–	Transportation, placement and storage of containers, refrigeration, warehousing and storage business, the examination and repair of containers and chassis, leasing, import and export, and supply of equipment and external technology consulting, the importations of generators used for refrigerated containers
Shanghai Puhai Shipping Co., Ltd.	19 November, 1992	Limited liability company	RMB222,911,111	94.49%	4.96%	International container shipping, transportation of goods (including containers) between ports along with the mainland domestic coast and Chang Jiang (Yangtze) River, construction, repair, leasing and sales of containers, vessel leases and sales, crew labour services and training and other shipping services, cargo agency for water transportation and shipping agency services
China Shipping Container Lines (Fuzhou) Co., Ltd.	20 May, 2003	Limited liability company	RMB500,000	10%	81%	Cargo and liner agency
China Shipping Container Lines (Haikou) Co., Ltd. <i>(note(i))</i>	5 November, 2003	Limited liability company	RMB3,000,000	–	36%	Cargo and liner agency
China Shipping Container Lines (Jiangsu) Co., Ltd.	19 September, 2003	Limited liability company	RMB6,500,000	45%	49.5%	Transportation
China Shipping Container Lines Lianyungang Co., Ltd.	12 March, 2003	Limited liability company	RMB5,000,000	10%	81%	Cargo and liner agency

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Name	Date of incorporation/ establishment	Type of legal entity	Issued/registered and fully paid up share capital	Attributable equity interest		Principal activities
				Directly held	Indirectly held	
China Shipping Container Lines (Qinghuangdao) Co., Ltd.	6 May, 2003	Limited liability company	RMB500,000	10%	81%	Cargo and liner agency
China Shipping Container Lines (Rizhao) Co., Ltd.	18 July, 2003	Limited liability company	RMB500,000	–	90.1%	Cargo and liner agency
China Shipping Container Lines (Zhejiang) Co., Ltd.	18 June, 2003	Limited liability company	RMB7,000,000	45%	49.5%	Cargo and liner agency
Dandong China Shipping Container Lines Co., Ltd.	18 April, 2003	Limited liability company	RMB500,000	–	90.01%	Cargo and liner agency
Dongguan China Shipping Container Lines Co., Ltd.	14 May, 2004	Limited liability company	RMB500,000	10%	81%	Cargo and liner agency
Fangchenggang China Shipping Container Lines Co., Ltd.	6 May, 2003	Limited liability company	RMB500,000	10%	81%	Cargo and liner agency
Jiangmen China Shipping Container Lines Co., Ltd.	21 August, 2003	Limited liability company	RMB500,000	10%	81%	Cargo and liner agency
Jinzhou China Shipping Container Lines Co., Ltd.	18 March, 2003	Limited liability company	RMB500,000	–	90.1%	Cargo and liner agency
Quanzhou China Shipping Container Lines Co., Ltd.	2 September, 2003	Limited liability company	RMB500,000	10%	81%	Cargo and liner agency
Shantou China Shipping Container Lines Co., Ltd.	18 April, 2003	Limited liability company	RMB500,000	10%	81%	Cargo and liner agency
Yingkou China Shipping Container Lines Co., Ltd.	9 January, 2003	Limited liability company	RMB1,000,000	10%	81%	Cargo and liner agency
Zhanjiang China Shipping Container Lines Co., Ltd.	23 May, 2003	Limited liability company	RMB500,000	10%	81%	Cargo and liner agency
Zhongshan China Shipping Container Lines Co., Ltd.	15 May, 2003	Limited liability company	RMB500,000	10%	81%	Cargo and liner agency
Weihai China Shipping Container Lines Co., Ltd.	8 September, 2004	Limited liability company	RMB5,000,000	–	90.1%	Cargo and liner agency
Yantai China Shipping Container Lines Co., Ltd.	21 December, 2006	Limited liability company	RMB5,000,000	–	90%	Cargo and liner agency
Longkou China Shipping Container Lines Co., Ltd.	23 February, 2006	Limited liability company	RMB500,000	10%	81%	Cargo and liner agency
China Shipping Container Lines Chongqing Co., Ltd.	25 April, 2005	Limited liability company	RMB5,000,000	76.50%	14.18%	Cargo and liner agency
Changsha China Shipping Container Lines Co., Ltd.	13 April, 2005	Limited liability company	RMB5,000,000	76.50%	14.18%	Cargo and liner agency

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Name	Date of incorporation/ establishment	Type of legal entity	Issued/registered and fully paid up share capital	Attributable equity interest		Principal activities
				Directly held	Indirectly held	
China Shipping Container Lines Wuhu Co., Ltd.	29 March, 2005	Limited liability company	RMB1,500,000	76.50%	14.18%	Cargo and liner agency
Nantong China Shipping Container Lines Co., Ltd.	21 June, 2005	Limited liability company	RMB5,000,000	63%	28.35%	Cargo and liner agency
China Shipping Container Lines Wuhan Co., Ltd.	26 May, 2005	Limited liability company	RMB5,000,000	76.50%	14.18%	Cargo and liner agency
Jiujiang China Shipping Container Lines Co., Ltd.	27 April, 2005	Limited liability company	RMB5,000,000	76.50%	14.18%	Cargo and liner agency
Zhangjiagang China Shipping Container Lines Co., Ltd.	15 March, 2005	Limited liability company	RMB5,000,000	63%	28.35%	Cargo and liner agency
Incorporated and operate in Hong Kong						
China Shipping Container Lines (Hong Kong) Co., Ltd.	3 July, 2002	Limited liability company	HK\$1,000,000	100%	–	International container shipping and liner agency
Universal Shipping (Asia) Co., Ltd.	11 June, 1999	Limited liability company	HK\$10,000	–	100%	Provision of shipping services
Incorporated in the British Virgin Islands						
China Shipping Container Lines (Asia) Co., Ltd.	28 October, 2002	Limited liability company	US\$50,000	100%	–	Sales, purchase and lease of vessels
Intercontinental Computer Co., Ltd.	8 April, 2003	Limited liability company	US\$50,000	–	100%	Development of information technology systems and provision of information technology services
Yangshan A Shipping Company Limited	23 December, 2003	Limited liability company	US\$50,000	–	100%	Owning of vessel
Yangshan B Shipping Company Limited	23 December, 2003	Limited liability company	US\$50,000	–	100%	Owning of vessel
Yangshan C Shipping Company Limited <i>(note (ii))</i>	23 April, 2004	Limited liability company	US\$50,000	–	100%	Owning of vessel
Yangshan D Shipping Company Limited <i>(note (ii))</i>	23 April, 2004	Limited liability company	US\$50,000	–	100%	Owning of vessel

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Name	Date of incorporation/ establishment	Type of legal entity	Issued/registered and fully paid up share capital	Attributable equity interest		Principal activities
				Directly held	Indirectly held	

Incorporated in the
Republic of Cyprus

Arisa Navigation Company Limited	18 June, 2002	Limited liability company	CYP1,000	–	100%	Owning of vessel
----------------------------------	---------------	---------------------------	----------	---	------	------------------

Notes:

- (i) According to respective Memorandum and Articles of Association, the Company has the power to appoint more than half of the total number of directors of these companies. These companies are therefore accounted for as subsidiaries.
- (ii) Shares of the subsidiaries were charged for certain long term bank loans as at 31 December, 2006 (*Note 26*).

(b) Associated Company

As of 31 December, 2006, the Group had direct equity interests in the following associated company:

Name	Date of establishment	Type of legal entity	Place of operation	Registered capital	Attributable equity interest	Principal activities
Established in the PRC						
Shanghai HaiXin YuanCang International Logistics Co., Ltd.	18 May, 1995	Limited liability company	PRC	US\$11,600,000	40%	Cargo and liner agency

(c) Jointly Controlled Entity

As of 31 December, 2006, the Group had direct equity interests in the following jointly controlled entity:

Name	Date of establishment	Type of legal entity	Place of operation	Registered capital	Attributable equity interest	Principal activities
Established in the PRC						
China Shipping Yangshan International Container Storage& Transportation Co., Ltd	8 November, 2006	Limited liability company	PRC	RMB64,000,000	50%	Placement and storage of containers, refrigeration, warehousing and storage business, the examination and repair of containers and leasing, loading and unloading, and supply of equipment and external technology consulting

All subsidiaries, associated company and jointly controlled entity are private companies, or if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

The English name of certain subsidiaries, the associated company and the jointly controlled entity referred to in these accounts represent management's best efforts at translating the Chinese names of these companies as no English names have been registered.

36 EVENTS AFTER THE BALANCE SHEET DATE

(a) Approval of Corporate Bonds

According to the board meeting held on 26 March, 2007, the Company intends to issue of domestic corporate bonds ("the Bonds") of an aggregate value of RMB1.8 billion with maturity of 10 years and fixed interest rate estimated as between 4.1% to 4.4% per annum, to all qualified domestic institutional investors in the PRC excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan ("Mainland China"). The net proceeds of the issue of the Bonds are to fund the construction within Mainland China of: (i) four container vessels (each with a volume of 4,250TEU); and (ii) eight container vessels (each with a volume of 8,530 TEU). This proposal is previously approved by a special general meeting held on 28 August 2006 and subsequently by the National Development and Reform Commission of the PRC in notice "Fa Gai Cai Jin [2007] No.602" in the year 2007.

(b) New Corporate Income Tax Law

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these accounts are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Company is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Company will continue to evaluate the impact as more detailed regulations are announced.

37 ULTIMATE HOLDING COMPANY

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

III STATEMENT OF INDEBTEDNESS

As at the close of business on 30 June 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately RMB10,324,239,000, comprising bank loans of approximately RMB5,248,761,000 (being secured bank loans of approximately RMB4,022,041,000 and unsecured bank loans of approximately RMB1,226,720,000 respectively), non-current domestic corporate bonds of approximately RMB1,800,000,000 and finance lease obligations of approximately RMB3,275,478,000.

As at 30 June 2007, the long-term bank loans of the Group were secured by: (i) legal mortgage over certain containers, container vessels and vessels in construction with net book value of approximately RMB7,000,403,000 of the Group; and (ii) charges over shares of certain vessels-owning subsidiaries of the Company.

As at 30 June 2007, the domestic corporate bonds were guaranteed by the Bank of China, Shanghai branch.

The Directors confirm that the Group had no material contingent liabilities as at 30 June 2007.

Save as disclosed above and apart from intra-group liabilities, as at 30 June 2007, the Group did not have any debt securities issued and outstanding, or authorized/otherwise created but un-issued, any other term loans (secured, unsecured, guaranteed or not), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments (whether secured/ unsecured, guaranteed or not), any other mortgages and charges, any other contingent liabilities or guarantees.

The Directors confirm that, from 1 July 2007 to the date of this Circular, the Group has repaid bank loans totalling approximately US\$5 million and RMB475 million, drawn down new bank loans totalling approximately US\$292 million and has an increased commitment of approximately US\$1,088 million in connection with the 80% unpaid contract sum under the Agreements as referred to in this Circular. Save for the change in debt and capital commitments stated above, there was no significant change to the Group's indebtedness, commitments and/or contingent liabilities.

IV WORKING CAPITAL

After taking into account the available banking/credit facilities, internal resources of the Group and proceeds from potential issuance of A shares and in the absence of unforeseeable circumstances, the Directors were of the opinion that the Group had sufficient working capital to satisfy its present requirements for a period of twelve (12) months from the date of this Circular.

V NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006 (being the date to which the latest published audited accounts of the Group were made up).

VI FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group captured the opportunity when the global container shipping industry was in its downturn period and purchased new vessels in large quantities and at relatively low cost. It was during the recovery period of the container shipping industry when these vessels were put into operation upon completion of construction, which not only reduced the fixed ship building cost of the Group, but also ensured the sufficient shipping capacity of the Group to capture the opportunities presented during the recovery period of the container shipping industry. The Group's two indices, percentage of large vessels and average age of the fleet, are rated at leading positions among international container shipping companies. We believe that our young and large fleets will be capable of providing quick and highly efficient delivery and of further reducing the shipping cost per container accordingly.

The Group has actively taken various cost control measures to successfully prevent its operation from adverse effects resulting from changes of external environment. The Group also paid close attention to the fluctuations of RMB exchange rate, and settled foreign exchange payment in a timely manner to reduce the loss from exchange rate fluctuations. In future, the Group will, when necessary, take proper methods, including future and equivalent hedging instruments to reduce foreign exchange risks according to its actual needs.

The rapid development of the Group in recent years has broadened its funding channels and built powerful financing capacity. In particular, the Group was granted several awards as the most profitable liner shipping company of the world by the relevant foreign industry associations, and established good image and reputation in the industry and capital market. In addition to equity funding, the Group also raised funds by issuing corporate bonds, bank loans and finance lease etc.. The good credit of the Group is helpful in reducing its debt financing cost. At present, the Group has a gearing ratio much lower than that of comparable companies in the industry, which built a ideal base for subsequent debt financing.

The Group has been aiming to establish standard finance management system in the long term, to feedback regularly according to written management advice from auditors and internal recommendations, and formulate its internal control measures and keep improving its finance management system.

According to the data from AXSMARINE, as at 1 July 2007, the Group's shipping capacity ranked No. 6 within global container liner shipping companies and No. 1 within PRC container liner shipping companies. Compared with its competitors, we believe that the Group's main advantages are excellent brand strength and leading market position, fleets with large scale and good structure, global marketing networks to provide customers with integrated

services, quality domestic trade routes with good services and well-established sub-routes, significantly improving business, effective cost control and experienced management team and standard and effective corporate governance structure.

Since it was established ten years ago, the Group has been adhering to the principle of “seizing every opportunity to achieve rapid growth” and is widely recognized in the shipping industry. Today, the Group has positioned itself on a new starting point to achieve further rapid development. From the second half of 2007, the world economy is expected to follow the fast growing trend of the first half of this year. The PRC, as a world manufacturing centre as well as one of the driving sources of the world economy, is expected to continue growing fast, which will provide a favorable market and operating environment for container transportation.

The Group will focus on the following aspects:

- i. The Group will continue to reinforce and expand its fleet. The Group will order 8 large container vessels, each with a capacity of 13,296 TEU, to further improve its fleet structure and modernize and expand its fleet size so as to become a first-rate liner shipping company.
- ii. The Group will continue to optimize overall arrangement of trade lanes, enhance cooperation with other liner shipping companies and strategically increase investment in the east coast of the Mediterranean Sea, the Red Sea, East Africa and the west coast of South America etc.. The Group will also increase its trade route coverage and frequency to provide better service to its customers and meet customers’ requests.
- iii. The Group will continue to maintain its domestic quality trade lanes, which have achieved outstanding performance since their launch in the second half of 2006. In the future, the Group will continue to enhance investment in the domestic market so as to foster its leading position therein.
- iv. The Group has also set higher standard for all trade lanes, including changing supply configuration of cargo, soliciting quality clients and increasing the proportion of long-term clients etc.. With the implementation of such measures, in future, the Group will endeavour to perform well in stabilizing revenue, increasing profits and saving costs of trade lanes etc..
- v. In view of the thriving PRC capital market, the Group intends to raise funds via the A-share market in the PRC in the second half of 2007 for the construction of container vessels, purchase of assets related to container transportation business, strengthening of the Company’s working capital base as well as repayment of bank loans, which will open a new page in the Group’s development.

1. RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS

Certain Directors and Supervisors were granted Rights under the Rights scheme adopted by the Shareholders on 12 October 2005 and amended by the Shareholders on 20 June 2006 and 26 June 2007. Details of the Rights scheme are set out in the Company's circular to Shareholders dated 26 August 2005 and the amended Rights scheme was produced to the annual general meetings of the Company held on 20 June 2006 and 26 June 2007. The interests of such Directors and Supervisors in the underlying H shares of the Company as at the Latest Practicable Date were as follows:

Name	Number of underlying H shares interested in	Capacity in which underlying H shares were held	% of issued H share capital
Directors			
Huang Xiaowen	2,151,000	Beneficial owner	0.09 (Long position)
Li Shaode	2,182,000	Beneficial owner	0.09 (Long position)
Ma Zehua	981,000	Beneficial owner	0.04 (Long position)
Wang Daxiong	800,000	Beneficial owner	0.03 (Long position)
Xu Hui	700,000	Beneficial owner	0.03 (Long position)
Yao Zuozhi	700,000	Beneficial owner	0.03 (Long position)
Zhang Guofa	1,431,000	Beneficial owner	0.06 (Long position)
Zhang Jianhua	800,000	Beneficial owner	0.03 (Long position)
Zhao Hongzhou	1,680,000	Beneficial owner	0.07 (Long position)

Name	Number of underlying H shares interested in	Capacity in which underlying H shares were held	% of issued H share capital
Supervisors			
Wang Xiuping	900,000	Beneficial owner	0.04 (Long position)
Tu Shiming	260,000	Beneficial owner	0.01 (Long position)
Chen Decheng	612,000	Beneficial owner	0.03 (Long position)
Yao Guojian	1,600,000	Beneficial owner	0.07 (Long position)

Each of Li Shaode, Zhang Jianhua, Wang Daxiong, Ma Zehua and Zhang Guofa was as at the Latest Practicable Date the President, a Vice-President, a Vice-President, a Party secretary and a Vice-President, respectively of China Shipping, which was a company having, as at the Latest Practicable Date, an interest or short position in the Company's shares and underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executive(s) of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was 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 any such Directors, Supervisors or chief executive(s) is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code (which shall be deemed to apply to the Supervisors to the same extent as it applies to the Directors).

3. SERVICE CONTRACTS

Each of the executive Directors has a service contract with the Company for a term of 3 years until terminated by either party with three months' notice in writing served on the other side. Under such service contracts, Mr. Li Shaode, Mr. Zhang Guofa, Mr. Huang Xiaowen and Mr. Zhao Hongzhou is entitled to an annual fee of RMB970,000 (equivalent to approximately HK\$932,692), RMB770,000 (equivalent to approximately HK\$740,385), RMB700,000 (equivalent to approximately HK\$673,077) and RMB620,000 (equivalent to approximately HK\$596,154) respectively.

Each of the non-executive Directors has a service contract with the Company for a term of 3 years until terminated by either party with three months' notice in writing served on the other side. Under such service contracts, each of the non-executive Directors, i.e. Mr. Ma Zehua, Mr. Zhang Jianhua, Mr. Wang Daxiong, Mr. Yao Zuozhi and Mr. Xu Hui, is entitled to an annual fee of RMB100,000 (equivalent to approximately HK\$96,154).

Each of the independent non-executive Directors has a service contract with the Company for a term of 3 years until terminated by either party with three months' notice in writing served on the other side. Under such service contracts, Mr. Jim Poon (also known as Pan Zhanyuan) is entitled to an annual fee of RMB300,000 (equivalent to approximately HK\$288,462), and each of the other independent non-executive Directors, i.e. Mr. Hu Hanxiang, Mr. Wang Zongxi and Mr. Shen Kangchen, is entitled to an annual fee of RMB100,000 (equivalent to approximately HK\$96,154).

Each of the Supervisors has a service contract with the Company for a term of 3 years until terminated by either party with three months' notice in writing served on the other side. Under such service contracts, Mr. Yao Guojian, Mr. Chen Decheng, Mr. Tu Shiming, Mr. Hua Min, Ms. Pan Yingli and Mr. Wang Xiuping is entitled to an annual fee of RMB420,000 (equivalent to approximately HK\$403,846), RMB100,000 (equivalent to approximately HK\$96,154), RMB100,000 (equivalent to approximately HK\$96,154), RMB100,000 (equivalent to approximately HK\$96,154), RMB100,000 (equivalent to approximately HK\$96,154) and RMB360,000 (equivalent to approximately HK\$346,154) respectively.

Save as set out above, as at the Latest Practicable Date, none of the Directors or Supervisors has entered into any service contract with the Company or any of its subsidiaries which is not expiring or determinable by the Company within one year without any payment of compensation, other than statutory compensation.

4. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates has any interest in a business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors, Supervisors, proposed Directors or proposed Supervisors had any direct or indirect interest in any assets which have been, since 31 December 2006 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement, subsisting at the date of this Circular, which is significant in relation to the business of the Group.

6. SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS WITH NOTIFIABLE INTERESTS

As at the Latest Practicable Date, so far as the Directors or chief executive(s) of the Company are aware, the following persons (other than a Director, Supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Class of shares	Number of shares/ underlying shares held	Capacity	Percentage in the relevant class of share capital	Percentage in total share capital
China Shipping (Group) Company	Domestic shares	3,610,000,000 (Long position)	Beneficial owner	100%	59.87%
Li Ka-Shing	H shares	365,637,000 (Long position)	Interest of controlled corporation and founder of a discretionary trust	15.11%	6.06%
Li Ka-Shing Unity Trustcorp Limited	H shares	365,637,000 (Long position)	Trustee and beneficiary of a trust	15.11%	6.06%
Li Ka-Shing Unity Trustee Corporation Limited	H shares	365,637,000 (Long position)	Trustee and beneficiary of a trust	15.11%	6.06%
Cheung Kong (Holdings) Limited	H shares	362,637,000 (Long position)	Interest of controlled corporation	14.99%	6.01%
Li Ka-Shing Unity Trustee Company Limited	H shares	362,637,000 (Long position)	Trustee	14.99%	6.01%
Hutchison International Limited	H shares	241,758,000 (Long position)	Beneficial owner	9.99%	4.01%
Hutchison Whampoa Limited	H shares	241,758,000 (Long position)	Interest of controlled corporation	9.99%	4.01%
Baring Asset Management Limited	H shares	223,897,000 (Long position)	Investment manager	9.25%	3.71%

Name of shareholder	Class of shares	Number of shares/ underlying shares held	Capacity	Percentage in the relevant class of share capital	Percentage in total share capital
Northern Trust Fiduciary Services (Ireland) Limited	H shares	184,809,000 (Long position)	Trustee	7.64%	3.06%
Citigroup Inc.	H shares	149,844,680 (Long position)	Interest of controlled corporation, person	6.19% (Long position)	2.48% (Long position)
		91,352,000 (Short position)	having a security interest in shares and custodian	3.77% (Short position)	1.51% (Short position)
		33,079,000 (Lending Pool)	corporation/ approved lending agent	1.37% (Lending Pool)	0.55% (Lending Pool)

Save as disclosed above and so far as the Directors or chief executive(s) of the Company are aware, as at the Latest Practicable Date, no other person had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

As at the Latest Practicable Date, so far as the Directors or chief executive(s) are aware, each of the following persons, not being: (i) a Director, Supervisor or chief executive of the Company; or (ii) a member of the Group, were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of subsidiary (See Note)	Name of shareholder (See Note)	Percentage of shareholding
China Shipping Container Lines Dailian Co., Ltd. (中海集裝箱運輸大連有限公司)	China Shipping Group Investment Co. Ltd. (中海集團投資有限公司)	10%
China Shipping Container Lines Guangzhou Co., Ltd. (中海集裝箱運輸廣州有限公司)	China Shipping Group Investment Co. Ltd. (中海集團投資有限公司)	10%

Name of subsidiary (See Note)	Name of shareholder (See Note)	Percentage of shareholding
China Shipping Container Lines Hainan Company Limited (中海集裝箱運輸海南有限公司)	(i) China Shipping Group Investment Co. Ltd. (中海集團投資有限公司)	10%
	(ii) China Shipping Agency Co., Ltd. (中海船務代理有限公司)	20%
	(iii) China Shipping Hainan Logistics Co., Ltd. (中海海南物流有限公司)	30%
China Shipping Container Lines Qingdao Company Limited (中海集裝箱運輸青島有限公司)	China Shipping Group Investment Co. Ltd. (中海集團投資有限公司)	10%
China Shipping Container Lines Shanghai Co., Ltd. (中海集裝箱運輸上海有限公司)	China Shipping Group Investment Co. Ltd. (中海集團投資有限公司)	10%
China Shipping Container Lines Shenzhen Co., Ltd. (中海集裝箱運輸深圳有限公司)	China Shipping Group Investment Co. Ltd. (中海集團投資有限公司)	10%
China Shipping Container Lines Tianjin Company Limited (中海集裝箱運輸天津有限公司)	China Shipping Group Investment Co. Ltd. (中海集團投資有限公司)	10%
China Shipping Container Lines Xiamen Co., Ltd. (中海集裝箱運輸廈門有限公司)	China Shipping Group Investment Co. Ltd. (中海集團投資有限公司)	10%
China Shipping (Yangpu) Refrigeration Storage & Transportation Co., Ltd. (中海(洋浦)冷藏儲運有限公司)	(i) China Shipping Logistics Co., Ltd. (中海集團物流有限公司)	30%
	(ii) Suzhou China Shipping Containers Lines Storage and Transportation Co., Ltd. (蘇州中海集裝箱儲運有限公司)	30%

Name of subsidiary (See Note)	Name of shareholder (See Note)	Percentage of shareholding
China Shipping Container Lines (Haikou) Co., Ltd. (海口中海集裝箱運輸有限公司)	China Shipping Agency Co., Ltd. (中海船務代理有限公司)	10%
Shanghai HaiXin YuanCang International Logistics Co., Ltd. (上海海興遠倉國際物流有限公司)	(i) Bermuda YuanCang International Co., Ltd. (百慕達遠倉國際股份 有限公司)	40%
	(ii) Shanghai YiHua Enterprises Company (上海逸驊實業總公司)	20%

Note: The English names of certain companies referred herein represent management’s best efforts at translating the Chinese names of these companies as no English names have been registered.

Save as disclosed above and so far as the Directors or chief executive(s) of the Company are aware, as at the Latest Practicable Date, no other person, not being: (i) a Director, Supervisor or chief executive of the Company; or (ii) a member of the Group, were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by member(s) of the Group within the two years immediately preceding the date of this Circular and up to the Latest Practicable Date and which are or may be material:

Date	Title	Parties	Summary of principal contents	Consideration
8 August 2007	Eight (8) ship building contracts	The Company, as purchaser Samsung Heavy Industries Co., Ltd., as vendor	Designing, building, launching, equipping, completing, sale and purchase of eight (8) container vessels	US\$1,359,840,000 (equivalent to approximately HK\$10,633,948,800)
20 November 2006	Seven (7) acquisition agreements	Shanghai Puhai Shipping Co., Ltd. (上海浦海航運有限公司), as purchaser Guangzhou Maritime Transport (Group) Co., Ltd. (廣州海運(集團)有限公司), as seller	Sale and purchase of seven (7) container vessels	RMB54,760,000 (equivalent to approximately HK\$52,653,846)
25 October 2006	Joint venture agreement	The Company China Shipping Logistics Co., Ltd. (中海集團物流有限公司) China Shipping Logistics (Overseas) Co., Ltd. (中海物流(海外)有限公司)	Establishment of a joint venture company, Shanghai China Shipping YangShan International Container Land-Warehousing Co., Ltd. (上海中海洋山國際集裝箱儲運有限公司), to engage in the provision of container storage and various container related services	RMB64,000,000 (equivalent to approximately HK\$61,538,462) being the proposed registered capital of the joint venture company, out of which RMB32,000,000 (equivalent to approximately HK\$30,769,231) was contributed by the Company

Date	Title	Parties	Summary of principal contents	Consideration
27 August 2006	Share purchase agreement	China Shipping Container Lines (Hong Kong) Co., Ltd. (中海集裝箱運輸(香港)有限公司), as purchaser China Shipping Logistics (Overseas) Co., Ltd. (中海物流(海外)有限公司), Rich Shipping Company Limited (鵬達船務有限公司) and China Shipping (Hong Kong) Agency Co., Ltd. (中海(香港)船務代理有限公司)	Sale and purchase of the entire issued share capital of Universal Shipping (Asia) Co., Ltd. (五洲航運有限公司)	HK\$79,766,300
9 June 2006	Head Lease Agreement	China Shipping Container Lines (Asia) Co., Ltd. (中海集裝箱運輸(亞洲)有限公司), as lessee Container Finance 2006-1 Limited, as lessor	Finance lease of containers	US\$371,838,000 (equivalent to approximately HK\$2,907,773,160)
10 January 2006	Four (4) ship construction agreements	The Company, as buyer China Ship Building & Offshore International Co., Ltd., and Dalian Ship Building Industry Co., Ltd., as sellers	Construction of four (4) container vessels	US\$230.8 million (equivalent to approximately HK\$1,804.9 million)

Date	Title	Parties	Summary of principal contents	Consideration
30 November 2005	Container purchase agreement	China Shipping Container Lines (Asia) Co., Ltd. (中海集裝箱運輸(亞洲)有限公司), as purchaser Dong Fang International Container (Lianyungang) Co., Ltd. (東方國際集裝箱(連雲港)有限公司), as seller	Sale and purchase of containers	US\$10,581,500 (equivalent to approximately HK\$82,747,330)
31 October 2005	Container purchase agreement	China Shipping Container Lines (Asia) Co., Ltd. (中海集裝箱運輸(亞洲)有限公司), as purchaser Dong Fang International Container (Lianyungang) Co., Ltd. (東方國際集裝箱(連雲港)有限公司), as seller	Sale and purchase of containers	US\$20,724,500 (equivalent to approximately HK\$162,065,590)

8. LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

9. PROCEDURE FOR DEMANDING A POLL

Pursuant to articles 8.18 to 8.20 of the articles of association of the Company, at any general meeting, a resolution shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- (1) by the chairman of the meeting;
- (2) by at least two Shareholders entitled to vote present in person or by proxy; or

- (3) by one or more Shareholders present in person or by proxy and representing 10% or more of all shares carrying the right to vote at the meeting.

Unless a poll is so demanded, a declaration by the chairman of the meeting as to whether a resolution has been passed on a show of hands and an entry to that effect into the minutes of the meeting shall be conclusive evidence of the fact without requiring proof of the number or proportion of votes cast in favour of or against such resolution. The demand for a poll may be withdrawn by the person who makes such demand. A poll demanded on the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded. On a poll taken at the meeting, a Shareholder (including proxy) entitled to two or more votes need not cast all his or her votes in the same way.

10. MISCELLANEOUS

- (a) The secretary of the Company is Mr. Ye Yu Mang. Mr. Ye graduated from Shanghai Maritime University in 1989 with a Masters degree in mechanical engineering and was the company secretary of China Shipping Development Company Limited from April 2001 to March 2003.
- (b) The qualified accountant of the Company pursuant to Rule 3.24 of the Listing Rules is Mr. Zhao Xiaoming, who is able to meet all the requirements set out in Rule 3.24 of the Listing Rules (except that he is not a fellow or an associate member of the HKICPA or a similar body of accountants recognized by the HKICPA for the purpose of granting exemptions from the examination requirement for membership of the HKICPA). Pursuant to the conditions of the waiver from the Stock Exchange from strict compliance with Rule 3.24 of the Listing Rules, the Company has engaged Mr. Mak Po Lung, a fellow member of the HKICPA, to assist Mr. Zhao Xiaoming during the period of the waiver, commencing from 1 October 2006 and expiring on: (i) 30 September 2009, being the expiry date of three years commencing from 1 October 2006; or (ii) when the Company fails to fulfill any of the conditions for the said waiver, whichever is earlier.
- (c) The legal address and principal place of business in the PRC of the Company is 27th Floor, 450 Fu Shan Road, Pudong New District, Shanghai, the PRC. The Hong Kong H share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English text of this Circular shall prevail over the Chinese text in case of any inconsistency.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Level 69, The Center, 99 Queen's Road Central, Hong Kong for a period of 14 days (excluding Saturdays) from the date of this Circular:

- (i) the articles of association of the Company;
- (ii) the service contracts referred to in the paragraph headed "Service Contracts" in this Appendix;
- (iii) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;
- (iv) the annual reports (incorporating the annual consolidated audited accounts) of the Group for each of the three financial years ended 31 December 2004, 2005 and 2006;
- (v) a copy of the Agreements;
- (vi) a copy of China Shipping's written approval for the Acquisition;
- (vii) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which have been issued since 31 December 2006 (being the date to which the latest published audited consolidated financial statement of the Group was made up);
- (viii) a copy of the Company's announcement dated 8 August 2007 in relation to the Agreements; and
- (ix) a copy of this Circular.