

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31 December, 2004.

REORGANISATION

The Company was incorporated as a joint stock limited company in the People's Republic of China ("PRC") on 3 March, 2004 for the purpose of the reorganisation of its businesses and assets in preparation for the listing of the H shares of the Company on the Main Board of the Stock Exchange. Details of the reorganisation and the basis for preparing the accounts are set out in note 1 to the accounts.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company are owning, chartering and operating container vessels for the provision of international and domestic container marine transportation service. The principal activities of the subsidiaries are set out in note 30 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS

The results of the Group for the year are set out in the consolidated profit and loss account on page 50 of the accounts.

DIVIDENDS

Pursuant to the group reorganisation, the Company had a special dividend of RMB480,098,000 payable to China Shipping (Group) Company, which was equivalent to the net profit for the period from 1 November, 2003 (being the first day after the date of the valuation of the assets of the Company) to 2 March, 2004 (being the day immediately prior to the conversion of the Company into a joint stock limited company), determined in accordance with Accounting Standards for Business Enterprises and Accounting System for Business Enterprises of the PRC.

Apart from the said special dividend, the directors recommend the payment of a final dividend of RMBO.2 per share, totalling RMB1,206,000,000 payable on or before 20 June, 2005.

RESERVES

Movement of the reserves of the Group and the Company during the year are set out in note 22 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets are set out in note 13 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in the note 21 to the accounts.

DISTRIBUTABLE RESERVES

In accordance with the PRC Company Law, the Company may only distribute dividends out of its distributable profits (i.e., the Company's profit after taxation after offsetting (i) the accumulated losses brought down from the previous years, and (ii) the allocations to the statutory surplus reserve, the statutory public welfare fund and, if any, the discretionary common reserve (in such order of priorities) before payment of any dividend on shares).

According to the Company's article of association, for the purpose of determining profit distribution, the profit after taxation of the Company are the lesser of its profit after taxation determined in accordance with (i) PRC accounting standard and regulations; and (ii) accounting principles generally accepted in Hong Kong.

As at 31 December 2004, distributable reserves of the Company, calculated based on the above principles, amounted to approximately RMB1,220,838,000.

PRE-EMPTIVE RIGHTS

Under the articles of association of the Company and the laws of the PRC, no pre-emptive rights exist which require the Company to offer new Shares to its existing Shareholders in proportion to their shareholding.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 109.

PURCHASES, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

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DIRECTORS AND SUPERVISORS

The Directors and supervisors who held office during the year and up to the date of this report are:

Executive directors:

Mr. Li Kelin	(appointed on 20 February, 2004)
Mr. Jia Hongxiang	(appointed on 20 February, 2004)
Mr. Huang Xiaowen	(appointed on 18 February, 2005)
Mr. Zhao Hongzhou	(appointed on 18 February, 2005)

Non-executive directors:

Mr. Li Shaode	(appointed on 20 February, 2004)
Mr. Zhang Jianhua	(appointed on 20 February, 2004)
Mr. Wang Daxiong	(appointed on 20 February, 2004)
Mr. Zhang Guofa	(appointed on 18 February, 2005)
Mr. Yan Mingyi	(appointed on 18 February, 2005)
Mr. Wang Xiangyun	(appointed on 20 February, 2004 and resigned on 18 February, 2005)

Independent non-executive directors:

Mr. Hu Hanxiang	(appointed on 4 March, 2004)
Mr. Gu Nianzu	(appointed on 4 March, 2004)
Mr. Wang Zongxi	(appointed on 4 March, 2004)
Mr. Lam Siu Wai, Steven	(appointed on 4 March, 2004)

Supervisors:

Mr. Yao Zuozhi	(appointed on 20 February, 2004)
Mr. Huang Xinming	(appointed on 18 February, 2005)
Mr. Zhao Shijiang	(appointed on 20 February, 2004 and resigned on 18 February, 2005)
Mr. Zhang Rongbiao	(appointed on 20 February, 2004)
Mr. Wang Xiuping	(appointed on 3 March, 2004)
Mr. Hua Min	(appointed on 4 March, 2004)
Ms. Pan Yingli	(appointed on 4 March, 2004)

There being no provision in the Company's Articles of Association for retirement by rotation, all directors continue in office.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and supervisors of the Company has a service contract with the Company for a term of 3 years, save for the directors Mr. Zhang Guofa, Mr. Huang Xiaowen, Mr. Zhao Hongzhou, Mr. Yan Mingyi and a supervisor Mr. Huang Xinming, who were appointed for a term commencing from the conclusion of the special general meeting of the Company held on 18 February, 2005 until the conclusion of the annual general meeting of the Company for the year 2006, i.e. on or around June 2007.

The Company did not enter into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation) with any director or supervisor.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

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

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of Directors, supervisors and senior management are set out on pages 26 to 33.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December, 2004 was the Company, its subsidiaries, its fellow subsidiaries or its ultimate holding company a party to any arrangement to enable the Company's directors or supervisors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December, 2004, none of the directors, supervisors or their associates had any interest in the shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register kept by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTEREST

As at 31 December, 2004, so far as was known to the directors of the Company, the interests or short positions of the following persons (other than Directors or supervisors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company pursuant to section 336 of the SFO were as follows:

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%
BNP Paribas S.A.	H shares	718,045,000 (Long position)	Interest of controlled corporation	29.67%	11.91%
Morgan Stanley <i>(Note 1)</i>	H shares	366,400,000 (Long position)	Interest of controlled corporation	15.14%	6.08%
Morgan Stanley Capital Management, LLC <i>(Note 1)</i>	H shares	366,400,000 (Long position)	Interest of controlled corporation	15.14%	6.08%
Morgan Stanley Domestic Capital Inc. <i>(Note 1)</i>	H shares	366,400,000 (Long position)	Interest of controlled corporation	15.14%	6.08%
Morgan Stanley International Incorporated <i>(Note 1)</i>	H shares	366,400,000 (Long position)	Interest of controlled corporation	15.14%	6.08%
Morgan Stanley Group (Europe) <i>(Note 2)</i>	H shares	366,000,000 (Long position)	Interest of controlled corporation	15.12%	6.07%
Morgan Stanley International Limited <i>(Note 2)</i>	H shares	366,000,000 (Long position)	Interest of controlled corporation	15.12%	6.07%
Morgan Stanley UK Group <i>(Note 2)</i>	H shares	366,000,000 (Long position)	Interest of controlled corporation	15.12%	6.07%
Morgan Stanley & Co International Limited <i>(Note 2)</i>	H shares	366,000,000 (Long position)	Beneficial owner	15.12%	6.07%

SUBSTANTIAL SHAREHOLDERS' INTEREST (Continued)

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
Li Ka-Shing (Note 3)	H shares	362,637,000 (Long position)	Interest of controlled corporation and founder of a discretionary trust	14.98%	6.01%
Li Ka-Shing Unity Trustee Company Limited (Note 3)	H shares	362,637,000 (Long position)	Trustee	14.98%	6.01%
Li Ka-Shing Unity Trustcorp Limited (Note 3)	H shares	362,637,000 (Long position)	Trustee and beneficiary of a trust	14.98%	6.01%
Li Ka-Shing Unity Trustee Corporation Limited (Note 3)	H shares	362,637,000 (Long position)	Trustee and beneficiary of a trust	14.98%	6.01%
Cheung Kong (Holdings) Limited (Note 3)	H shares	362,637,000 (Long position)	Interest of controlled corporation	14.98%	6.01%
Hutchison Whampoa Limited (Note 4)	H shares	241,758,000 (Long position)	Interest of controlled corporation	9.99%	4.01%
Hutchison International Limited (Note 4)	H shares	241,758,000 (Long position)	Beneficial owner	9.99%	4.01%

Note 1: The 366,400,000 shares referred to herein is the same batch of shares.

Note 2: The 366,000,000 shares referred to herein is the same batch of shares, which forms part of the 366,400,000 shares referred to in Note 1.

Note 3: The 362,637,000 shares referred to herein is the same batch of shares.

Note 4: Hutchison International Limited is a wholly owned subsidiary of Hutchison Whampoa Limited. The 241,758,000 shares referred to herein is the same batch of shares, which forms part of the 362,637,000 shares referred to in Note 3.

Save as disclosed above, as at 31 December, 2004, so far as was known to the Directors of the Company, no person (other than Directors or supervisors) had any interest or short position in any 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 any interest or short positions recorded in the register kept by the Company pursuant to section 336 of the SFO.

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group purchased less than 30% of its goods and services from its 5 largest suppliers and sold less than 30% of its goods and services to its 5 largest customers.

For the year ended 31 December, 2004, none of the directors, supervisors, their respective associates and any shareholder (who to the knowledge of the Board owns more than 5% of the share capital of the Company) had any interest in the five largest customers and the five largest suppliers of the Group.

CONNECTED TRANSACTIONS

Pursuant to Rule 14A.45 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), details of the following connected transactions of the Group require to be disclosed in the annual report of the Group (more details of these transactions can be found in the announcement made by the Company on 30 December, 2004):

- (a) On 30 December, 2004, the Company, Shanghai Puhai Shipping Co., Ltd. ("Shanghai Puhai"), China Shipping Logistics Co., Ltd. ("CS Logistics"), China Shipping Agency Co., Ltd. ("China Shipping Agency"), China Shipping Industry Co., Ltd. ("CSI") and China Shipping Container Lines Shanghai Co., Ltd. ("CS (Shanghai)") entered into an agreement under which:
- (i) the Company agreed to acquire from each of CS Logistics and China Shipping Agency a 20% equity interest in its subsidiary, Shanghai Puhai, at an aggregate cash consideration of RMB 23,765,900;
 - (ii) CS (Shanghai) agreed to acquire a 10% equity interest in Shanghai Puhai from CSI at a cash consideration of RMB 5,941,470; and
 - (iii) the Company and CS (Shanghai) agreed to contribute RMB 200 million and about RMB 22.2 million in cash into Shanghai Puhai, in proportion to their respective equity interests in Shanghai Puhai.

CONNECTED TRANSACTIONS (Continued)

- (b) On 30 December, 2004, the Company entered into a sale and purchase agreement with CSI and China Shipping Group International Trading Company Limited (“CSGIT”) under which the Company agreed to acquire a 1270 TEU vessel, Xiang Fei (向飛), from CSI at a cash consideration of RMB 71,001,000 and to pay a cash agency fee of RMB 124,200 to CSGIT.

China Shipping (Group) Company, being the controlling shareholder of the Company, is a connected person of the Company. CS (Shanghai) is also a connected person of the Company as it is owned as to 90% by the Company and 10% by China Shipping (Group) Company. CS Logistics, China Shipping Agency, CSI and CSGIT are all connected persons of the Company since they are all subsidiaries of China Shipping (Group) Company.

The Stock Exchange has granted a waiver (the “Waiver”) to the Company for a period of three years ending on 31 December, 2006 from strict compliance with the requirements of (i) disclosure by way of press notices (in respect of the continuing connected transactions as set out on page 184 of the prospectus issued by the Company dated 4 June, 2004 (the “Prospectus”); and (ii) disclosure by way of press notices, circular to shareholders and/or independent shareholders’ approval (in respect of the continuing connected transactions as set out on pages 185 to 187 of the Prospectus) as stipulated in Chapter 14A of the Listing Rules in connection with those continuing connected transactions.

The following tables set out the relevant annual cap granted by the Stock Exchange and the actual annual figure for the year ended 31 December, 2004 in relation to those continuing connected transactions under the Waiver. Terms used in the following tables shall have the same meanings as defined in the Prospectus, unless the context requires otherwise.

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CONNECTED TRANSACTIONS (Continued)

Non-exempted continuing connected transactions for which a waiver from the disclosure requirement has been granted by the Stock Exchange

Transaction	Annual Cap (RMB '000)	Actual Figure For the year ended 31 December, 2004 (RMB '000)
1. Transactions under the Master Provision of Chassis Agreement	25,000 (Note 2)	13,286
2. Transactions under the Master Ground Container Transport Agreement	54,000 (Note 2)	30,359
3. Transactions under (i) the First Master Liner and Cargo Agency Agreement and (ii) the Second Master Liner and Cargo Agency Agreement	455,000 (Note 2)	338,548 (Note 1)
4. Products and services to be provided by the Group under (i) the First Master Container Management Agreement and (ii) the Second Master Container Management Agreement	18,000 (Note 2)	15,208 (Note 1)
5. Products and services to be provided to the Group under the Master Bareboat Charter Agreement and the CSDC Bareboat Charters	85,000 (Note 2)	42,747
6. Transactions under the Master Ship Repair Services Agreement	65,000 (Note 2)	19,380
7. Transactions under the Master Supply Agreement	350,000 (Note 2)	297,685
8. Transactions under the Master Provision of Crew Members Agreement	143,000 (Note 2)	114,796
9. Transactions under the Master Depot Services Agreement	29,000 (Note 2)	17,726

CONNECTED TRANSACTIONS (Continued)

Non-exempted continuing connected transactions for which a waiver from the disclosure requirement has been granted by the Stock Exchange (Continued)

Transaction	Annual Cap (RMB '000)	Actual Figure For the year ended 31 December, 2004 (RMB '000)
10. Products and services to be provided by the Group under (i) the First Master IT Services Agreement and (ii) the Second Master IT Services Agreement	26,000 (Note 2)	24,029
11. Products and services to be provided to the Group under (i) the First Master IT Services Agreement and (ii) the Second Master IT Services Agreement	33,000 (Note 2)	22,448
12. Products and services to be provided by the Group under the Products and Services Master Agreement	2.5% of the revenue ratio	–
13. Products and services to be provided to the Group under the Products and Services Master Agreement	2.5% of the consideration ratio	–

Note 1: Please note that these figures are different from those found in the note on significant related party transactions set out in the notes to the accounts, since subsidiaries of the Company which are connected persons under the Listing Rules, are not considered as related parties for accounting purposes.

Note 2: Each of the annual caps for transactions 1 to 11 above will not exceed, in any event, 2.5% of the revenue ratio or the consideration ratio, as the case may be.

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CONNECTED TRANSACTIONS (Continued)

Non-exempted continuing connected transactions for which a waiver from the shareholders' approval and disclosure requirements has been granted by the Stock Exchange

Transaction	Annual Cap (RMB '000)	Actual Figure For the year ended 31 December, 2004 (RMB '000)
1. Transactions under the Container Leases	680,000	588,558 (Note 1)
2. Products and services to be provided to the Group under (i) the First Master Container Management Agreement and (ii) the Second Master Container Management Agreement	894,000	585,188 (Note 2)
3. Products and services to be provided to the Group under the Master Time Charter Agreement	926,000	291,965
4. Transactions under (i) the First Master Sub-route Agreement and (ii) the Second Master Sub-route Agreement	1,433,000	480,455 (Note 2)
5. Transactions under (i) the First Master Loading and Unloading Agreement and (ii) the Second Master Loading and Unloading Agreement	1,045,000	541,480
6. Transactions under the Master Liner Services Agreement	1,281,000	1,137,246

Note 1: This figure is based on the actual cash payments made and is therefore different from the figure found in the note on significant related party transactions set out in the notes to the accounts, since from an accounting perspective, the leasing of containers have been treated as finance leases and the interest element of such finance leases have been included in the accounts.

Note 2: These figures are different from those found in the note on significant related party transactions set out in the notes to the accounts, since subsidiaries of the Company which are connected persons under the Listing Rules, are not considered as related parties for accounting purposes.

CONNECTED TRANSACTIONS (Continued)

For further details regarding the above continuing connected transactions, please refer to note 29 to the accounts.

The independent non-executive directors of the Company, Mr. Hu Hanxiang, Mr. Gu Nianzu, Mr. Wang Zongxi and Mr. Lam Siu Wai, Steven, have reviewed the above continuing connected transactions and confirm that these transactions have been entered into:

- (1) in the ordinary and usual course of business of the Company;
- (2) on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have also confirmed that the continuing connected transactions disclosed above:

- (1) have received the approval of the Company's board of directors;
- (2) in relation to those transactions which are revenue generating in nature, are in accordance with the pricing policies of the Company;
- (3) have been entered into in accordance with the relevant agreements governing the transactions; and
- (4) have not exceeded the relevant annual cap disclosed in the Prospectus.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the Listing Rules, each independent non-executive director of the Company has re-affirmed his independence with the Company. Based on their confirmation, the Company considered that they are independent.

PENSION SCHEME

Details of the Group's pension scheme for the year ended 31 December, 2004 are set out in notes 1(k) and 10 to the accounts.

REPORT OF THE DIRECTORS

USE OF PROCEEDS FROM ISSUE OF H SHARES

The Company was successfully listed on the Main Board of the Stock Exchange on 16 June, 2004 and raised a net amount (after issue expenses) of approximately RMB 7,159,713,000 by the placing and the public offer of H shares. According to the plan described in the Prospectus, the proceeds were applied as follows:

Planned use of proceeds	Actual use of proceeds for the year ended 31 December, 2004	% used
Approximately RMB 2,500 million for acquiring vessels	1,739,750,000	69.59%
Approximately RMB 500 million for acquiring containers	–	–
Approximately RMB 500 million for injection into Shanghai Puhai Shipping Co., Ltd. by the Company*	–	–
Approximately RMB 3,000 million for repaying bank loans	2,550,920,000	85.03%
Remaining balance used as general working capital	659,530,000	99.97%

* Resolution was passed at the Company's first special general meeting in 2005, which was held on 18 February, 2005, to reduce the capital injection into Shanghai Puhai Shipping Co., Ltd. from RMB 500 million as originally planned to RMB 200 million, with the remaining amount of RMB 300 million for acquiring new vessels and containers.

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As at 31 December 2004, the Group had not placed any designated deposits with any financial institution in the PRC, nor had it failed to collect any time deposits upon maturity during the year.

TAX RELIEF AND EXEMPTION

The Company is not aware that holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee and prescribed its written terms of reference in accordance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review the completeness of the Group's financial reports, annual reports and interim reports and to examine the Company's financial and internal controls as well as the offer of advice and recommendations to the Board. The audit committee consists of two independent non-executive Directors, namely Mr. Gu Nianzu and Mr. Wang Zongxi, and one non-executive Director, Mr. Wang Daxiong.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Li Kelin

Chairman

Shanghai, the People's Republic of China

8 March, 2005