

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 December, 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Group 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 34 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the accounts.

RESULTS

The results of the Group for the year are set out in the consolidated profit and loss account on page 46 of the accounts.

DIVIDENDS

The directors recommend the payment of a final dividend of RMB0.12 per share, totalling RMB723,600,000 payable on or before 30 June, 2006.

RESERVES

Movement of the reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity on page 51 and Note 24 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets are set out in Note 16 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 23 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 income tax after offsetting (i) the accumulated losses brought forward 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 income tax of the Company are the lesser of its profit after income tax determined in accordance with (i) PRC accounting standard and regulations; and (ii) accounting principles generally accepted in Hong Kong.

As at 31 December, 2005, distributable reserves of the Company, calculated based on the above principles, amounted to approximately RMB739,867,000.

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 120.

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.

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.

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 H share share appreciation rights (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. Each annual grant involves 45,225,000 units of Rights accounting for 0.75% of the total issued share capital.

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.

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

Mr. Jia Hongxiang

Mr. Huang Xiaowen (appointed on 18 February, 2005)

Mr. Zhao Hongzhou (appointed on 18 February, 2005)

Non-executive directors:

Mr. Li Shaode

Mr. Zhang Jianhua

Mr. Wang Daxiong

Mr. Zhang Guofa (appointed on 18 February, 2005)

Mr. Yan Mingyi (appointed on 18 February, 2005 and resigned on 12 October, 2005)

Mr. Xu Hui (appointed on 12 October, 2005)

Independent non-executive directors:

Mr. Gu Nianzu

Mr. Hu Hanxiang

Mr. Wang Zongxi

Mr. Lam Siu Wai, Steven

Supervisors:

Mr. Yao Zuozhi

Mr. Huang Xinming (appointed on 18 February, 2005)

Mr. Tu Shiming (appointed on 12 October, 2005)

Mr. Zhang Rongbiao (resigned on 12 October, 2005)

Mr. Wang Xiuping

Mr. Hua Min

Ms. Pan Yingli

According to the Articles of Association of the Company, the term of service of the directors and supervisors of the Company shall be 3 years.

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 and the supervisor Mr. Huang Xinming, who were appointed for a term commencing from the conclusion of the first special general meeting of the Company in year 2005 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 and the new director Mr. Xu Hui and the supervisor Mr. Tu Shiming, who were appointed for a term commencing from the conclusion of the second special general meeting of the Company in year 2005 held on 12 October, 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 (as defined in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) in which a Director or a supervisor of the Company is or was materially interested, directly or indirectly, subsisted at the end of the year or at any time during the year.

No contracts of significance in relation to the Company's business in which the Company, its subsidiary, its holding company or a subsidiary of its holding company was a party and in which a Director or a supervisor of the Company is or was materially interested, directly or indirectly, subsisted at the end of the year or at any time during the year.

No contracts or proposed contracts with the Company in which a Director or a supervisor of the Company is or was materially interested in any way, 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 the Directors, supervisors and senior management are set out on pages 18 to 23.

Each of Li Kelin, Li Shaode, Zhang Jianhua, Wang Daxiong and Zhang Guofa was as at 31 December 2005 the President, a Vice-President, a Vice-President, a Vice-President and a Vice-President respectively of China Shipping (Group) Company, which was a company having, as at 31 December 2005, an interest or short position in the Company's shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO").

DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

No arrangements to which the Company, its subsidiary, its holding company or a subsidiary of its holding company is or was a party to enable the Directors, chief executives or supervisors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate subsisted at the end of the year or at any time during the year.

DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SHARES

In accordance with the share appreciation rights scheme adopted by the shareholders of the Company on 12 October, 2005, 9 Directors and 4 supervisors have been granted Rights. Details of the share appreciation rights scheme were set out in the circular to shareholders issued by the Company on 26 August, 2005.

As at 31 December, 2005, the Directors', chief executives' and supervisors' interests in H shares of the Company were as follows:

Name	Number of underlying H shares	Capacity	Percentage in total share capital
Directors			
Li Kelin	1,180,000	Beneficial owner	0.05% (Long position)
Jia Hongxiang	880,000	Beneficial owner	0.04% (Long position)
Huang Xiaowen	820,000	Beneficial owner	0.03% (Long position)
Zhao Hongzhou	720,000	Beneficial owner	0.03% (Long position)
Li Shaode	680,000	Beneficial owner	0.03% (Long position)
Wang Daxiong	300,000	Beneficial owner	0.01% (Long position)
Zhang Guofa	300,000	Beneficial owner	0.01% (Long position)
Zhang Jianhua	300,000	Beneficial owner	0.01% (Long position)
Xu Hui	200,000	Beneficial owner	0.01% (Long position)
Supervisors			
Huang Xinming	720,000	Beneficial owner	0.03% (Long position)
Wang Xiuping	450,000	Beneficial owner	0.02% (Long position)
Yao Zuozhi	200,000	Beneficial owner	0.01% (Long position)
Tu Shiming	60,000	Beneficial owner	0.002% (Long position)

Saved as disclosed above, as at 31 December, 2005, none of the directors, chief executives, 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 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December, 2005, so far as was known to the directors of the Company, the interests or short positions of the following persons (other than Directors, chief executives 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%
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 Trustee Company Limited	H shares	365,637,000 (Long position)	Trustee	15.11%	6.06%
Li Ka-Shing Unity Trustcorp Limited	H shares	362,637,000 (Long position)	Trustee and beneficiary of a trust	14.99%	6.01%
Li Ka-Shing Unity Trustee Corporation Limited	H shares	362,637,000 (Long position)	Trustee and beneficiary of a trust	14.99%	6.01%
Cheung Kong (Holdings) Limited	H shares	362,637,000 (Long position)	Interest of controlled corporation	14.99%	6.01%
Hutchison Whampoa Limited	H shares	241,758,000 (Long position)	Interest of controlled corporation	9.99%	4.01%
Hutchison International Limited	H shares	241,758,000 (Long position)	Beneficial owner	9.99%	4.01%

Save as disclosed above, as at 31 December, 2005, so far as was known to the Directors of the Company, no person (other than Directors, chief executives 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the latest practicable date prior to the issue of this report, there was sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

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, 2005, 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 5 largest customers and the 5 largest suppliers of the Group.

CONNECTED TRANSACTIONS

Pursuant to Rule 14A.45 of the Listing Rules, details of the following connected transactions of the Group require to be disclosed in the annual report of the Group:

- (a) On 7 April, 2005, the Company entered into a sale and purchase agreement with China Shipping Industry Co., Ltd. ("CSI") and China Shipping Group International Trading Company Limited ("CSGIT"), under which the Company had agreed to acquire a vessel from CSI at a cash consideration of RMB71,001,000. An agency fee of RMB104,275 is to be paid in cash by the Company to CSGIT.
- (b) On 31 October, 2005, China Shipping Container Lines (Asia) Co., Ltd. ("CS Asia"), a subsidiary of the Company, and Dong Fang International Container (Lianyungang) Co., Ltd. ("DFIC") entered into a container purchase agreement whereby CS Asia had agreed to purchase and DFIC had agreed to sell an aggregate of 13,000 TEU of steel type general purpose containers at a total cash consideration of US\$20,724,500.
- (c) On 30 November, 2005, CS Asia, a subsidiary of the Company, and DFIC entered into a container purchase agreement whereby CS Asia had agreed to purchase and DFIC had agreed to sell an aggregate of 7,000 TEU of new steel type general purpose containers at a total cash consideration of US\$10,581,500.

DFIC, CSI and CSGIT are all connected persons of the Company since they are all subsidiaries of China Shipping (Group) Company, the controlling shareholder of the 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, 2005 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.

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

CONNECTED TRANSACTIONS *(continued)*

Transaction	Annual Cap (RMB '000)	Actual Figure For the year ended 31 December, 2005 (RMB '000)
1. Transactions under the Master Provision of Chassis Agreement	25,000 (Note 2)	19,797
2. Transactions under the Master Ground Container Transport Agreement	54,000 (Note 2)	34,218
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)	268,526 (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)	17,054 (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)	56,769
6. Transactions under the Master Ship Repair Services Agreement	65,000 (Note 2)	54,780
7. Transactions under the Master Supply Agreement	350,000 (Note 2)	346,144
8. Transactions under the Master Provision of Crew Members Agreement	143,000 (Note 2)	140,450
9. Transactions under the Master Depot Services Agreement	29,000 (Note 2)	19,075
10. Products and services to be provided by the Group under (i) the First Master IT Service Agreement and (ii) the Second Master IT Service Agreement	26,000 (Note 2)	25,825
11. Products and services to be provided to the Group under (i) the First Master IT Service Agreement and (ii) the Second Master IT Service Agreement	33,000 (Note 2)	27,755

CONNECTED TRANSACTIONS (continued)

Transaction	Annual Cap (RMB '000)	Actual Figure For the year ended 31 December, 2005 (RMB '000)
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 transaction 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.

Non-exempted continuing connected transaction 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, 2005 (RMB '000)
1. Transactions under the Container Leases	680,000	488,231 (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	817,130 (Note 2)
3. Products and services to be provided to the Group under the Master Time Charter Agreement	926,000	288,188
4. Transactions under (i) the First Master Sub-route Agreement and (ii) the Second Master Sub-route Agreement	1,433,000	434,593 (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	693,601
6. Transactions under the Master Liner Services Agreement	1,281,000	941,774

Note 1: The 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)

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

For further details regarding the above continuing connected transactions, please refer to Note 33 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 reviewed the continuing connected transactions mentioned above and have provided the Board of Directors with a letter confirming that such transactions:

- (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, 2005 are set out in Note 2.17 and 9 to the accounts.

DEFINED CONTRIBUTION SCHEMES

Details of the Group's defined contribution schemes are set out in Note 2.17 to the accounts. Forfeited contributions (by the Group on behalf of employees who leave such defined contribution schemes prior to vesting fully in such contributions) may not be used by the Group to reduce the existing level of contributions.

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As at 31 December, 2005, 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 ON CORPORATE GOVERNANCE PRACTICES" (the "CG Code")

The Board confirms that, other than as set out below, none of the Directors is aware of any information that would reasonably indicate that the Group was not, at any time during year 2005, in compliance with the applicable code provisions of the CG Code:

In accordance with paragraph A.1.1 of the CG Code, the Board should meet regularly and board meetings should be held at least four times a year. A regular meeting does not include the practice of obtaining board consent through the circulation of written resolutions. The Board of the Company held five meetings in the year of 2005, of which only two were regular meetings, and the other three were held with the practice of obtaining board consent through the circulation of written resolutions.

The Company intends to propose to the shareholders at the 2005 Annual General Meeting that the Company adopts each code provision in the CG Code as the Company's corporate governance code.

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, 2005	% used
Approximately RMB 2,500 million for acquiring vessels (Note 1)	3,299,580,000	99.99 %
Approximately RMB 500 million for acquiring containers (Note 2)	–	–
Approximately RMB 500 million for injection into Shanghai Puhai Shipping Co., Ltd. by the Company (Note 3)	100,000,000	50%
Approximately RMB 3,000 million for repaying bank loans	2,998,250,000	99.94%
Remaining balance used as general working capital	659,530,000	99.97%

Note 1: In light of Note 2 and Note 3, this amount has been adjusted to not more than RMB3.3 billion.

Note 2: Resolution was passed at the Company's second special general meeting in 2005, which was held on 12 October, 2005, to change the use of RMB 500 million for purchasing containers as originally planned to acquire new vessels.

Note 3: Resolution was passed at the Company's first special general meeting in 2005, which was held on 28 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.

AUDIT COMMITTEE

The Company has established an audit committee and prescribed its written terms of reference in accordance with the code provisions of the "Code on Corporate Governance Practices" 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
18 April, 2006