1 GENERAL INFORMATION

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 "Main Board") 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.

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, which are carried at fair value.

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 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HK(SIC)-Int 15	Operating Leases – Incentives
HKFRS 2	Share – based Payments
HKFRS 3	Business Combinations

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 BASIS OF PREPARATION *(continued)*

The adoption of new/revised HKFRS (continued)

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 21, 23, 24, 27, 28, 33, 36 and HK(SIC)-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

(i) HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associated companies and other disclosures.

(ii) HKASs 2, 7, 8, 10, 23, 27, 28, 33 and HK(SIC)-Int 15 had no material effect on the Group's policies.

(iii) HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

(iv) HKAS 24 has affected the identification of related parties and some other related-party disclosures.

(v) HKAS 16

Vessel repairs and surveys

The adoption of HKAS 16 has resulted in a change in the accounting policy relating to the 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.

In previous years, the components of the vessels which are required to be replaced at the next dry-docking are not separately identified and are depreciated over the estimated useful life of the vessels and dry-docking costs for vessels are charged to the profit and loss account as incurred. This accounting policy has been changed to conform with HKAS 16 and the change has been applied retrospectively. The effect of the changes is summarised below:

	As at 31 December,	
	2005	2004
	RMB'000	RMB'000
Decrease in opening retained earnings	**15,874**	7,087
Decrease in fixed assets	**25,627**	23,693
Decrease in deferred tax liabilities	**8,458**	7,819

	Year ended 31 December,	
	2005	2004
	RMB'000	RMB'000
Increase in operating cost	**1,933**	13,115
Decrease in income tax expense	**638**	4,328

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 BASIS OF PREPARATION *(continued)*

(v) HKAS 16 *(continued)*

Residual values of the assets

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

During the year, the residual values of fixed assets were reassessed, and accordingly, depreciation charge of fixed assets for the year ended 31 December, 2005 has been calculated based on the revised estimated residual values. This represented a change in accounting estimate and the depreciation charge for the year has been reduced by RMB 111 million.

(vi) HKAS 17

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from fixed assets to operating leases. The up-front prepayments made for the land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the profit and loss account. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment. The adoption of HKAS 17 has resulted in reclassification of the land use rights of RMB 13,686,000 as at 31 December, 2005 and a corresponding decrease in fixed assets of the same amount.

(vii) HKASs 32 and 39

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and change in recognition and measurement of loans and receivables and borrowings.

(viii) HKFRS 3, HKAS 36 and HKAS 38

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December, 2004, goodwill was:

– Amortised on a straight line basis over a period of 10 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (Note 2.8):

– The Group ceased amortisation of goodwill from 1 January, 2005;

– Accumulated amortisation as at 31 December, 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ended 31 December, 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

HKFRS 3 is applied prospectively from 1 January, 2005.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 BASIS OF PREPARATION *(continued)*

(ix) HKFRS 2

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December, 2004, there was no share-based scheme in place. Effective on 1 January, 2005, the Group expenses the cost of share appreciation rights in the profit and loss account. The share appreciation rights scheme of the Group was introduced on 12 October, 2005.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective HKFRS. All standards adopted by the Group are applied prospectively on or after 1 January, 2005 other than HKAS16, which requires retrospective application.

Standards, interpretation and amendments to published standards that are not yet effective
Certain new standards, amendments and interpretations to existing standards (collectively "New Standards") have been published by the HKICPA that are effective for accounting periods beginning on or after 1 January, 2006 or later periods.

The Group does not early adopt these New Standards in the accounts for the year ended 31 December, 2005. The Group has already commenced an assessment of the impact of these New Standards but is not yet in a position to state whether these New Standards would have a significant impact on its results of operations and financial position.

HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group plan and Disclosures (effective from 1 January, 2006)
HKAS21 (Amendment)	The Effects of Changes in Foreign Exchange Rates-Net Investment in a Foreign Operations (effective from 1 January, 2006)
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January, 2006)
HKAS 39 (Amendment)	The Fair Value Option (effective from 1 January, 2006)
HKAS 39 and HKFRS 4 (Amendment)	Financial Instruments – Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts (effective from 1 January, 2006)
HKFRS 6	Exploration for and Evaluation of Mineral Resources (effective from 1 January, 2006)
HKFRS 7 and Amendment to HKAS 1	Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January, 2007)
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease (effective from 1 January, 2006)
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January, 2006)
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1 March, 2006)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 but considered an impairment indicator 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 with minority interests*

Changes in the parent's ownership interest in a subsidiary after control is obtained that do not result in a loss of control are accounted for as transactions between equity holders in their capacity as equity holders. No gain or loss is recognised in profit or loss on such changes. The carrying amount of the non-controlling interest is adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, is recognised directly in equity and attributed to equity holders of the parent.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 CONSOLIDATION *(continued)*

(c) *Associated companies*

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

The Group's share of its associated companies' 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 interest 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 companies are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 FOREIGN CURRENCY TRANSLATION *(continued)*

(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 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 FIXED ASSETS *(continued)*

(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 cost 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	30 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*

Costs incurred in restoring fixed assets to their normal working condition to allow continued use of the overall assets are charged to the consolidated profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

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. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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 lease's commencement 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 in the consolidated profit and loss account on a straight-line basis over the period of the lease.

Where the Group is a lessor

Operating lease

Assets leased out under operating leases are included in fixed assets in the balance sheets. They are depreciated over their expected useful lives on a basis consistent with similar owned fixed assets. Rental income, net of any incentives given to lessees, is recognised on a straight line basis over the lease terms.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 IMPAIRMENT OF NON-FINANCIAL 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). Non-financial 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 and 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*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised 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) *Loan 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 notes 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 AND OTHER RECEIVABLES

Trade and other 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 and other 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 effective interest rate. The amount of the provision is recognised in the consolidated profit and loss account.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 CASH AND CASH EQUIVALENTS

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

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 EMPLOYEE BENEFITS *(continued)*

(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 more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

2.22 COMPARATIVES

The Group previously disclosed interest income, bank charges and foreign exchange gains/losses within "net financing charge". Management believe that their inclusion in "other income" and "administrative and general expenses" respectively is a fairer presentation of the Group's activities.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow 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 Stated Dollars (USD).

Other currencies against RMB and USD have been comparatively stable for the year ended 31 December, 2005. 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, 2005.

(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 demand and supply, domestic fuel price is regulated by the relevant authorities of the state government. Fuel expense represents 15% and 19% of the Group's total costs of sales for the year ended 31 December, 2004 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.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(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, 2004 and 2005, over 76% and 71% of the Group's borrowings respectively were at fixed rates. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 25.

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 fair value of financial instruments traded in active market is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term borrowings. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

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

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(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) 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.

	2005 **RMB'000**	2004 RMB'000
Turnover		
Liner	**28,126,526**	22,038,357
Chartering	**248,154**	325,494
	28,374,680	22,363,851

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.

5 TURNOVER AND SEGMENT INFORMATION

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 America, Europe/Mediterranean, Australia, East and Southeast Asia, 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:

	2005 **RMB'000**	2004 RMB'000
America	**11,341,455**	8,687,942
Europe/Mediterranean	**10,451,232**	7,806,185
Australia	**1,378,370**	1,215,417
East and Southeast Asia	**1,758,694**	1,527,992
China Domestic	**1,938,820**	1,668,410
Others	**1,506,109**	1,457,905
	28,374,680	22,363,851

6 OPERATING COSTS

	2005 **RMB'000**	2004 Restated RMB'000
Operating costs		
Container and cargo	**10,473,989**	8,003,143
Vessel and voyage	**7,752,946**	5,646,923
Sub-route and others	**5,104,197**	3,229,516
	23,331,132	16,879,582

7 OTHER INCOME

	2005	2004
		Restated
	RMB'000	RMB'000
Information technology services fees	**25,825**	24,029
Recovery of payment for claims	**28,305**	14,565
Compensation income (note (i))	**99,331**	–
Interest income	**84,801**	14,040
	238,262	52,634

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

	2005	2004
		Restated
	RMB'000	RMB'000
Auditors' remunerations	**4,500**	3,145
Cost of bunkers consumed	**4,383,763**	2,594,842
Depreciation:		
– Owned container vessels chartered-out under operating leases	**20,316**	10,939
– Other owned assets	**414,101**	452,599
– Containers under finance leases	**441,202**	350,052
	875,619	813,590
Amortisation of goodwill (Note 18)	**–**	458
Loss on disposal of fixed assets	**5,034**	270
Operating lease rental:		
– Container vessels	**2,360,813**	2,557,456
– Containers	**587,459**	409,826
– Buildings	**32,809**	29,503
	2,981,081	2,996,785
Provision/(reversal of provision) for impairment of receivables	**6,211**	(4,623)
Employee benefit expense, including directors' and supervisors' emoluments (Note 9,10)	**605,171**	516,241
Foreign exchange losses/(gains)	**58,699**	(49,821)
Bank charges	**1,598**	3,638

9 EMPLOYEE BENEFIT EXPENSE

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

	2005	2004
	RMB'000	RMB'000
Staff salaries and hiring of crews	**475,080**	416,488
Social welfare benefits	**94,849**	87,329
Pension cost	**33,791**	12,424
Share based compensation granted to directors and employees (note(i))	**1,451**	–
	605,171	516,241

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 dollar 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 Hong Kong dollar 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. 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.

During the year ended 31 December, 2005, no Rights were exercised. The Company recognised compensation expense of the Rights over the applicable vesting period. For the year ended 31 December, 2005, compensation expense recognised by the Group in respect of the Rights was RMB1,451,000 (2004: nil).

10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) Directors' and supervisors' emoluments

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

Name of Director and Supervisor	**Fees RMB'000**	**Salary RMB'000**	**Pension and other social welfare RMB'000**	**Total RMB'000**
2005				
Director				
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**
Supervisor				
Mr. Huang Xinming	**–**	**568**	**156**	**724**
Mr. Hua Min	**88**	**–**	**–**	**88**
Ms. Pan Yingli	**88**	**–**	**–**	**88**
Mr. Wang Xiuping	**–**	**295**	**77**	**372**
	715	**2,396**	**662**	**3,773**

The remuneration of every director and supervisor for the year ended 31 December, 2004 is set out below:

Name of Director and Supervisor	Fees RMB'000	Salary RMB'000	Pension and other social welfare RMB'000	Total RMB'000
2004				
Director				
Mr. Jia Hongxiang	–	578	117	695
Mr. Hu Hanxiang	80	–	–	80
Mr. Gu Nianzu	80	–	–	80
Mr. Wang Zongxi	80	–	–	80
Mr. Lam Siu Wai, Steven	250	–	–	250
Supervisor				
Mr. Zhao Shijiang	–	578	118	696
Mr. Hua Min	80	–	–	80
Ms. Pan Yingli	80	–	–	80
Mr. Wang Xiuping	–	244	58	302
	650	1,400	293	2,343

10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

(a) Directors' and supervisors' emoluments *(continued)*

No directors or supervisors of the Company waived any emoluments during the year (2004: Nil). No discretionary bonus was paid to any of the directors or supervisors of the Company during the year (2004: Nil).

The remaining seven directors (2004: five) and three supervisors (2004: two) 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 include three (2004: one) directors and one (2004: two) supervisor whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: two) individual during the year are as follows:

	2005 RMB'000	2004 RMB'000
Basic salaries and allowances	**1,061**	1,247
Pension and others welfare	**312**	61
	1,373	1,308

The emoluments of the above one (2004: two) individuals fell within the following bands:

	2005	2004
Nil to HK$1,000,000 (equivalent to approximately RMB 1,040,000)	**–**	2
HK$1,000,000 (equivalent to approximately RMB 1,040,000) to HK$2,000,000 (equivalent to approximately RMB 2,080,000)	**1**	–
	1	2

(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 (2004: nil).

11 FINANCE COSTS

	2005 RMB'000	2004 Restated RMB'000
Interest expenses:		
– bank loans	**278,404**	341,660
– finance lease obligations	**288,520**	266,549
Total interest expenses	**566,924**	608,209
Less: amount capitalised in vessels under construction	**(139,651)**	(95,714)
	427,273	512,495

The capitalisation rate applied to funds borrowed generally and utilised for the vessels under construction is 5.46% (2004: 5.25%) per annum for the year ended 31 December, 2005.

12 TAXATION

(a) Income tax expense

	2005 RMB'000	2004 Restated RMB'000
Current income tax		
– Hong Kong profits tax (note (i))	**2,198**	7,214
– PRC enterprise income tax (note (ii))	**234,807**	425,956
Deferred taxation (Note 27)	**487,163**	241,007
	724,168	674,177

(i) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for year ended 31 December, 2005.

12 TAXATION *(continued)*

(a) Income tax expense *(continued)*

(ii) *PRC enterprise income tax ("EIT")*

Pursuant to notifications issued by the State Tax Bureau on 2 September, 2004, the Company and certain of its subsidiaries ("Tax Entities") were assessed for EIT on a consolidated basis with China Shipping (Group) Company for the period from 1 January, 2004 to 2 March, 2004. China Shipping (Group) Company did not allocate any EIT to the Tax Entities for the period. Accordingly, the Tax Entities did not have any EIT payable for the period from 1 January, 2004 to 2 March, 2004.

On 3 March, 2004 the Company was converted into a joint stock limited company under the Company Law of the PRC and was registered in the Pudong New District. According to the relevant laws and regulations, the EIT rate applicable to the Company from 3 March, 2004 onwards is 15%. The Company's subsidiaries previously included in the Tax Entities are subject to EIT at a rate of 33% from 3 March, 2004 onwards.

The Company's other subsidiaries incorporated in the PRC are subject to EIT at a rate ranging from 0% to 33% for the year ended 31 December, 2005 (2004: 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:

	2005	2004
		Restated
	RMB'000	RMB'000
Profit before income tax	**4,309,263**	4,694,568
Tax calculated at a taxation rate of 15% (2004:15%)	**(646,389)**	(704,185)
Effect of profit not taxed under consolidated tax filing	**–**	79,311
Effect of different tax rate in subsidiaries	**(77,779)**	(49,303)
Tax expense	**(724,168)**	(674,177)

12 TAXATION *(continued)*

(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, 2005 (2004: 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 RMB 1,344,212,000 (2004: RMB 2,738,846,000).

14 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company RMB 3,582,782,000 (2004: RMB 4,013,622,000) by the weighted average number of 6,030,000,000 (2004: 5,026,174,863) shares in issue during the year.

	2005	2004 Restated
	RMB'000	RMB'000
Profit attributable to equity holders of the Company	**3,582,782**	4,013,622
Weighted average number of ordinary shares in issue (thousands)	**6,030,000**	5,026,175
Basic earnings per share (RMB per share)	**RMB0.59**	RMB0.80

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

15 DIVIDENDS

	2005 **RMB'000**	2004 RMB'000
Special dividend to ultimate holding company (note (i))	**–**	480,098
Final, proposed of RMB0.12 (2004: RMB0.2) (note (ii))		
– per domestic share	**433,200**	722,000
– per H share	**290,400**	484,000
	723,600	1,206,000
	723,600	1,686,098

(i) Special dividend to ultimate holding company

In accordance with the "Provisional Regulation relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment", which was issued by the Ministry of Finance of the PRC and became effective from 27 August, 2002, the Company is required to distribute to China Shipping (Group) Company the Company's 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) (the "Special Period"), determined in accordance with Accounting Standards for Business Enterprises and Accounting Systems for Business Enterprises of the PRC, payable out of the Company's internal resources and/or cash generated from the Company's operating activities (the "Profit Appropriation"). Holders of H Shares are not entitled to participate in the distribution arising from the Profit Appropriation.

The Company has engaged BDO Zhong Hua Certified Public Accountants 上海眾華滬銀會計師事務所 to perform a special audit on the Company's accounts for the Special Period to determine the profit for the Special Period for distribution to China Shipping (Group) Company. According to the audited accounts, the net profit for the Special Period amounted to RMB 480,098,000.

(ii) The dividends paid during the year ended 2005 were 2004 special dividend to ultimate holding company of RMB 480,098,000 and 2004 final proposed dividend of RMB 1,206,000,000 (RMB 0.2 per share). A dividend in respect of 2005 of RMB 0.12 per share, amounting to a total dividend of RMB 723,600,000 was proposed at the Board of Directors' Meeting on 18 April, 2006. These accounts do not reflect this dividend payable.

16 FIXED ASSETS

The Group

	Container vessels RMB'000	Building RMB'000	Vessels under construction RMB'000	Construction in progress RMB'000	Improvement on vessels under operating leases RMB'000	Containers RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Total RMB'000
At 1 January, 2004									
Cost	5,468,009	–	2,429,991	–	340,775	2,664,346	31,954	145,896	11,080,971
Accumulated depreciation and impairment losses, as previously reported	(647,731)	–	–	–	(220,786)	(1,074,385)	(11,648)	(38,574)	(1,993,124)
Adjustment for the adoption of HKAS 16	(10,578)	–	–	–	–	–	–	–	(10,578)
Accumulated depreciation and impairment losses, as restated	(658,309)	–	–	–	(220,786)	(1,074,385)	(11,648)	(38,574)	(2,003,702)
Net book amount, as restated	4,809,700	–	2,429,991	–	119,989	1,589,961	20,306	107,322	9,077,269
Year ended 31 December, 2004									
Opening net book amount	4,809,700	–	2,429,991	–	119,989	1,589,961	20,306	107,322	9,077,269
Transfers	3,830,456	–	(3,830,456)	–	–	–	–	–	–
Additions	21,166	–	5,751,931	225,601	8,196	815,762	5,198	33,838	6,861,692
Acquisition from fellow subsidiaries	71,001	–	–	–	–	–	–	17	71,018
Disposals	–	–	–	–	(5,021)	–	(269)	(513)	(5,803)
Depreciation	(354,703)	–	–	–	(36,950)	(362,115)	(4,986)	(54,836)	(813,590)
Closing net book amount	8,377,620	–	4,351,466	225,601	86,214	2,043,608	20,249	85,828	15,190,586
At 31 December, 2004									
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, as previously reported	(989,319)	–	–	–	(240,074)	(1,436,500)	(16,160)	(92,858)	(2,774,911)
Adjustment for the adoption of HKAS 16	(23,693)	–	–	–	–	–	–	–	(23,693)
Accumulated depreciation and impairment losses, as restated	(1,013,012)	–	–	–	(240,074)	(1,436,500)	(16,160)	(92,858)	(2,798,604)
Net book amount, as restated	8,377,620	–	4,351,466	225,601	86,214	2,043,608	20,249	85,828	15,190,586

16 FIXED ASSETS *(continued)*

The Group

	Container vessels RMB'000	Building RMB'000	Vessels under construction RMB'000	Construction in progress RMB'000	Improvement on vessels under operating leases RMB'000	Containers RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Total RMB'000
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

16 FIXED ASSETS *(continued)*

The Company

	Container vessels RMB'000	Building RMB'000	Vessels under construction RMB'000	Construction in progress RMB'000	Improvement on vessels under operating leases RMB'000	Containers RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Total RMB'000
At 1 January, 2004									
Cost	5,379,333	–	1,734,938	–	323,113	2,663,075	4,782	111,808	10,217,049
Accumulated depreciation and impairment losses, as previously reported	(623,734)	–	–	–	(217,844)	(1,074,245)	(1,964)	(26,900)	(1,944,687)
Adjustment for the adoption of HKAS 16	(10,578)	–	–	–	–	–	–	–	(10,578)
Accumulated depreciation and impairment losses, as restated	(634,312)	–	–	–	(217,844)	(1,074,245)	(1,964)	(26,900)	(1,955,265)
Net book amount, as restated	4,745,021	–	1,734,938	–	105,269	1,588,830	2,818	84,908	8,261,784
Year ended 31 December, 2004									
Opening net book amount	4,745,021	–	1,734,938	–	105,269	1,588,830	2,818	84,908	8,261,784
Transfers	3,211,887	–	(3,211,887)	–	–	–	–	–	–
Additions	2,143	–	3,313,564	225,601	–	214,393	374	9,699	3,765,774
Acquisition from a fellow subsidiary	71,001	–	–	–	–	–	–	–	71,001
Disposals	–	–	–	–	(5,021)	–	–	(91)	(5,112)
Depreciation	(321,976)	–	–	–	(22,230)	(349,902)	(634)	(41,719)	(736,461)
Closing net book amount	7,708,076	–	1,836,615	225,601	78,018	1,453,321	2,558	52,797	11,356,986
At 31 December, 2004									
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, as previously reported	(932,595)	–	–	–	(222,412)	(1,424,147)	(2,598)	(68,209)	(2,649,961)
Adjustment for the adoption of HKAS 16	(23,693)	–	–	–	–	–	–	–	(23,693)
Accumulated depreciation and impairment losses, as restated	(956,288)	–	–	–	(222,412)	(1,424,147)	(2,598)	(68,209)	(2,673,654)
Net book amount, as restated	7,708,076	–	1,836,615	225,601	78,018	1,453,321	2,558	52,797	11,356,986

16 FIXED ASSETS *(continued)*

	The Company								
	Container vessels RMB'000	Building RMB'000	Vessels under construction RMB'000	Construction in progress RMB'000	Improvement on vessels under operating leases RMB'000	Containers RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Total RMB'000
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

(a) As at 31 December, 2005, the net book value of containers held under finance lease by the Group and the Company amounted to approximately RMB2,722,223,000 and RMB1,092,936,000 (2004: RMB1,790,344,000 and RMB1,453,321,000) respectively.

(b) As at 31 December, 2005, the net book value of container vessels and vessels under construction of the Group and the Company pledged as securities for the long-term bank loans amounted to approximately RMB 6,727,496,000 and RMB5,463,524,000 (2004: RMB4,061,047,000 and RMB2,814,118,000) respectively (Note 25).

(c) As at 31 December, 2005, the aggregate cost, accumulated depreciation and accumulated impairment losses of the leased assets, where the Group and the Company are the leassor, comprised vessels under chartering arrangements, amounted to RMB486,383,000, RMB194,733,000 and RMB32,916,000 (2004: RMB376,620,000, RMB110,538,000 and RMB Nil) respectively.

(d) As at 31 December, 2005, the accumulated capitalised borrowing costs of the Group and the Company included in vessels under construction amounted to approximately RMB131,864,000 and RMB62,013,000 (2004: RMB55,396,000 and RMB29,590,000) respectively.

16 FIXED ASSETS *(continued)*

(e) As at 31 December, 2005, the accumulated impairment losses of the container vessels of the Group and the Company amounted to RMB59,279,000 (2004: RMB59,279,000).

(f) Depreciation expenses of RMB 858,483,000 (2004: RMB 802,250,000) has been expensed in operating costs, RMB17,136,000 (2004: RMB11,340,000) in 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:

	RMB'000
Year ended 31 December, 2005	
Opening net book value	–
Transfer from fixed assets (Note 16)	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

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, 2004	
Opening net book amount	–
Acquisition of additional equity interests of a subsidiary during the year	13,739
Amortisation expense (Note 8)	(458)
Closing net book amount	13,281
At 31 December, 2004	
Cost	13,739
Accumulated amortisation	(458)
Net book amount	13,281
Year ended 31 December, 2005	
Opening net book amount	13,281
Impairment expense	–
Closing net book amount	13,281

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 amount of goodwill acquired through acquisition of additional equity interests of a subsidiary is solely allocated to this subsidiary 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, 2005 RMB'000	2004 RMB'000
Unlisted shares, at cost	**295,928**	145,402
Loan to a subsidiary	**1,177,258**	2,198,160
	1,473,186	2,343,562

(a) During the year, the Company made capital injection to its subsidiaries, Shanghai Puhai Shipping Liners Co., Ltd. and China Shipping Container Liners Shanghai Co., Ltd. in the form of cash amounting to RMB 100,000,000 and RMB 50,526,000 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, who issued capital certification reports on 3 June, 2005 and 26 May, 2005 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, 2005 is set out in Note 34(a).

20 INTEREST IN AN ASSOCIATED COMPANY

	The Group As at 31 December, 2005 RMB'000	2004 RMB'000
Beginning of the year	**46,892**	46,343
Share of an associated company's results		
– profit before taxation	**8,164**	8,000
– taxation	**(2,204)**	(2,160)
	5,960	5,840
Dividend received	**(5,256)**	(5,291)
End of the year	**47,596**	46,892

20 INTEREST IN AN ASSOCIATED COMPANY *(continued)*

	The Company As at 31 December, 2005 RMB'000	The Company As at 31 December, 2004 RMB'000
Unlisted investments, at cost	**29,214**	29,214

The Group's interest in its principal associate, which is unlisted, was as follows:

	As at 31 December, 2005 RMB'000	As at 31 December, 2004 RMB'000
Total assets	**50,684**	51,516
Total liabilities	**3,088**	4,624
Revenue	**35,987**	31,131
Net profit	**5,960**	5,840
Percentage of interest held	**40%**	40%

Details of the associated company as at 31 December, 2005 are set out in Note 34(b).

21 TRADE AND NOTES RECEIVABLES

	The Group As at 31 December, 2005 RMB'000	The Group As at 31 December, 2004 RMB'000
Trade receivables		
– Fellow subsidiaries	**1,997,785**	1,955,125
– Others	**1,933,858**	1,283,123
	3,931,643	3,238,248
Notes receivables	**122,702**	118,823
	4,054,345	3,357,071

21 TRADE AND NOTES RECEIVABLES *(continued)*

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

	The Group As at 31 December,	
	2005	2004
	RMB'000	RMB'000
1 to 3 months	**2,547,888**	3,146,994
4 to 6 months	**699,593**	313,935
7 to 9 months	**428,547**	–
10 to 12 months	**499,913**	11,527
Over 1 year	**8,463**	8,463
	4,184,404	3,480,919
Less: provision for impairment of receivables	**(130,059)**	(123,848)
	4,054,345	3,357,071

The Group has recognised a loss of RMB 6,211,000 (Note 8) for the impairment of its trade receivables during the year ended 31 December, 2005. The loss has been included in administrative and general expenses in the consolidated profit and loss account.

	The Company As at 31 December,	
	2005	2004
	RMB'000	RMB'000
Trade receivables		
– Subsidiaries	**491,295**	516,848
– Fellow subsidiaries	**446,840**	1,610,634
– Others	**11,325**	257,235
	949,460	2,384,717
Notes receivables	**78,245**	103,538
	1,027,705	2,488,255

21 TRADE AND NOTES RECEIVABLES *(continued)*

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

	The Company As at 31 December, 2005 RMB'000	The Company As at 31 December, 2004 RMB'000
1 to 3 months	**896,502**	2,340,253
4 to 6 months	**105,959**	210,421
7 to 9 months	**15,205**	–
10 to 12 months	**39,404**	11,527
Over 1 year	**8,463**	8,463
	1,065,533	2,570,664
Less: provision for impairment of receivables	**(37,828)**	(82,409)
	1,027,705	2,488,255

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 As at 31 December,		The Company As at 31 December,	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Renminbi	**962,206**	226,453	**420,848**	126,521
Hong Kong dollar	**33,659**	46,662	**–**	–
US dollar	**2,419,871**	2,814,679	**575,168**	2,289,468
Other currencies	**638,609**	269,277	**31,689**	72,266
	4,054,345	3,357,071	**1,027,705**	2,488,255

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.

22 CASH AND CASH EQUIVALENTS

	The Group As at 31 December,		The Company As at 31 December,	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**2,605,368**	4,171,724	**1,027,342**	3,259,380
Short-term bank deposits	**818,005**	1,691,767	**–**	77,849
	3,423,373	5,863,491	**1,027,342**	3,337,229

The effective interest rate on short-term bank deposits was 3.6% per annum (2004: 2.0%); these deposits have an average maturity of 3 days (2004: 4 days).

Cash and cash equivalents are denominated in the following currencies:

	The Group As at 31 December,		The Company As at 31 December,	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**921,022**	892,925	**679,078**	570,608
Hong Kong dollar	**74,008**	2,275,453	**41,579**	2,271,769
US dollar	**2,232,504**	2,619,596	**301,559**	489,158
Other currencies	**195,839**	75,517	**5,126**	5,694
	3,423,373	5,863,491	**1,027,342**	3,337,229

As at 31 December, 2005, cash and cash equivalents of RMB 1,367,246,000 (2004: RMB 3,643,438,000) were held by the Company and certain subsidiaries of the Group with bank accounts operating in the PRC where exchange controls apply.

23 SHARE CAPITAL

	Registered capital RMB'000	Domestic shares of RMB1 each RMB'000	H shares of RMB1 each (note (ii)) RMB'000	Total RMB'000
At 1 January, 2004	3,801,050	–	–	3,801,050
Upon Transformation (note(i)) by conversion of:				
– other reserves (Note 24)	–	1,175,706	–	1,175,706
– retained earnings	–	(1,146,756)	–	(1,146,756)
– registered capital	(3,801,050)	3,801,050	–	–
Sales of domestic shares by ultimate holding company and conversion into H shares upon listing	–	(220,000)	220,000	–
Issuance of new H shares	–	–	2,200,000	2,200,000
At 31 December, 2004	–	3,610,000	2,420,000	6,030,000
At 31 December, 2005	–	3,610,000	2,420,000	6,030,000

Note:

(i) On 3 March, 2004, the Company was transformed into a joint stock limited company under the Company Law of the PRC by converting its registered capital and reserves as at 31 October, 2003 into 3,830,000,000 shares of RMB1 each.

(ii) On 16 June, 2004, the Company's H shares were issued and listed on the Main Board.

(iii) The domestic shares and H shares rank pari passu in all material repects expect that the dividends to holders of H shares are declared in RMB but paid in Hong Kong dollars.

24 OTHER RESERVES

	The Group						
	Capital surplus RMB'000	Statutory surplus reserve (note(ii)) RMB'000	Statutory public welfare fund (note(iii)) RMB'000	Discretionary common reserve (note (iv)) RMB'000	Share issuance costs RMB'000	Translation RMB'000	Total RMB'000
As at 1 January, 2004	1,051,886	10,095	10,019	–	(4,519)	–	1,067,481
Transfer of reserve to share capital upon Transformation (note (i))	(1,155,592)	(10,095)	(10,019)	–	–	–	(1,175,706)
Share premium arising from issuance of new H shares	5,215,849	–	–	–	–	–	5,215,849
Share issuance costs incurred for the year	–	–	–	–	(256,136)	–	(256,136)
Transfer from share issuance costs to capital surplus	(260,655)	–	–	–	260,655	–	–
Profit appropriation	–	380,473	380,473	740	–	–	761,686
As at 31 December, 2004 and 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
As at 31 December, 2005	4,851,488	787,735	586,632	740	–	(97,757)	6,128,838

24 OTHER RESERVES *(continued)*

	Capital surplus RMB'000	Statutory surplus reserve (note(ii)) RMB'000	The Company Statutory public welfare fund (note(iii)) RMB'000	Share issuance costs RMB'000	Total RMB'000
As at 1 January, 2004	1,048,636	–	–	(4,519)	1,044,117
Transfer of reserve to share capital upon transformation (note(i))	(1,231,943)	–	–	–	(1,231,943)
Share premium arising from issue of new H shares	5,215,849	–	–	–	5,215,849
Share insurance costs incurred for the year	–	–	–	(256,136)	(256,136)
Transfer from share insurance costs to capital surplus	(260,655)	–	–	260,655	–
Profit appropriation	–	367,551	367,551	–	735,102
As at 31 December, 2004 and 1 January, 2005	4,771,887	367,551	367,551	–	5,506,989
Profit appropriation	–	402,206	201,103	–	603,309
As at 31 December, 2005	4,771,887	769,757	568,654	–	6,110,298

Note:

(i) On 3 March, 2004 the Company was transformed into a joint stock limited company under the Company Law of the PRC by converting its registered capital and reserves as at 31 October, 2003 into 3,830,000,000 shares (Note 23) of RMB1 each.

(ii) 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.

(iii) 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.

(iv) Transfer to discretionary common fund is at the discretionary of the companies in the Group.

25 BANK BORROWINGS

	The Group As at 31 December,		The Company As at 31 December,	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-Current				
Long-term bank loans	**5,107,112**	4,569,928	**3,616,800**	3,597,770
Current				
Short-term bank loans	**–**	381,520	**–**	381,520
Long-term bank loans – current portion	**501,053**	445,030	**380,000**	445,030
	501,053	826,550	**380,000**	826,550
	5,608,165	5,396,478	**3,996,800**	4,424,320
Representing:				
– unsecured	**817,439**	381,520	**154,000**	381,520
– secured	**4,790,726**	5,014,958	**3,842,800**	4,042,800
Total bank borrowings	**5,608,165**	5,396,478	**3,996,800**	4,424,320
Analysed as follows:				
– wholly repayable within five years	**–**	381,520	**–**	381,520
– not wholly repayable within five years	**5,608,165**	5,014,958	**3,996,800**	4,042,800
Total bank borrowings	**5,608,165**	5,396,478	**3,996,800**	4,424,320

The maturity of bank borrowings is as follows:

	The Group As at 31 December,		The Company As at 31 December,	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**501,053**	826,550	**380,000**	826,550
Between 1 and 2 years	**753,461**	650,030	**552,560**	650,030
Between 2 and 5 years	**2,543,910**	1,961,180	**1,945,695**	1,758,650
Over 5 years	**1,809,741**	1,958,718	**1,118,545**	1,189,090
	5,608,165	5,396,478	**3,996,800**	4,424,320

25 BANK BORROWINGS *(continued)*

As at 31 December, 2005, the long-term bank loans of the Group and the Company were secured by the following:

(i) Legal mortgage over certain container vessels and vessels under construction of the Group and the Company with net book value of approximately RMB 6,727,496,000 and RMB 5,463,524,000 (2004: RMB 4,061,047,000 and RMB 2,814,118,000) respectively (Note 16(b)).

(ii) Charges over shares of certain vessels owning subsidiaries (Note 34 (a)(ii)).

(iii) Assignment of shipbuilding contracts related to certain vessels under construction.

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

	The Group As at 31 December,		The Company As at 31 December,	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
RMB				
– at fixed rates	**3,996,800**	4,142,800	**3,996,800**	4,142,800
– at floating rates	**–**	–	**–**	–
USD				
– at fixed rates	**–**	–	**–**	–
– at floating rates	**1,611,365**	1,253,678	**–**	281,520
	5,608,165	5,396,478	**3,996,800**	4,424,320

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

	The Group As at 31 December,		The Company As at 31 December,	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Bank borrowing				
– RMB	**5.46%**	5.53%	**5.46%**	5.53%
– USD	**4.05%**	2.22%	**–**	1.86%

The carrying amounts of current borrowings approximate their fair value.

25 BANK BORROWINGS *(continued)*

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

	The Group As at 31 December,		The Company As at 31 December,	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amounts	**5,608,165**	5,014,958	**3,996,800**	4,042,800
Fair Values	**5,521,114**	4,938,601	**3,909,749**	3,966,443

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 (2004:6.12%).

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

	The Group As at 31 December,		The Company As at 31 December,	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Floating rate	**143,581**	–	**–**	–
Fixed rate	**3,407,500**	1,407,500	**3,407,500**	1,407,500
	3,551,081	1,407,500	**3,407,500**	1,407,500

26 FINANCE LEASE OBLIGATIONS

	The Group As at 31 December, 2005		
	Minimum lease payment RMB'000	**Finance charges RMB'000**	**Net present value of minimum lease payment RMB'000**
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**
	3,752,277	**888,622**	**2,863,655**
Less: no later than one year (current portion)	**(716,348)**	**(257,667)**	**(458,681)**
	3,035,929	**630,955**	**2,404,974**

	The Group As at 31 December, 2004		
	Minimum lease payment RMB'000	Finance charges RMB'000	Net present value of minimum lease payment RMB'000
Finance lease obligations			
Within one year	677,722	238,774	438,948
In the second year	513,530	177,490	336,040
In the third to fifth year	1,179,966	295,134	884,832
After fifth year	459,928	63,971	395,957
	2,831,146	775,369	2,055,777
Less: no later than one year (current portion)	(677,722)	(238,774)	(438,948)
	2,153,424	536,595	1,616,829

The effective interest of finance lease obligation of the Group is 14.0% per annum (2004:16.0%).

26 FINANCE LEASE OBLIGATIONS *(continued)*

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

	The Group	
	2005	2004
	RMB'000	RMB'000
Carrying amounts	**2,863,655**	2,055,777
Fair Values	**2,850,612**	2,048,690

The fair values are based on discounted cash flow using a rate based on internal rate of return of the lesser at 8.4% per annum (2004:10.6%).

All finance lease obligations are dominated in US dollars.

	The Company As at 31 December, 2005		
	Minimum lease payment RMB'000	**Finance charges RMB'000**	**Net present value of minimum lease payment RMB'000**
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**
	1,721,306	**437,780**	**1,283,526**
Less: Payable no later than one year (current portion)	**(443,924)**	**(151,086)**	**(292,838)**
	1,277,382	**286,694**	**990,688**

26 FINANCE LEASE OBLIGATIONS *(continued)*

	The Company As at 31 December, 2004		
	Minimum lease payment RMB'000	Finance charges RMB'000	Net present value of minimum lease payment RMB'000
Finance lease obligations			
Within one year	617,810	213,354	404,456
In the second year	455,465	155,014	300,451
In the third to fifth year	1,005,694	246,144	759,550
After fifth year	303,939	48,003	255,936
	2,382,908	662,515	1,720,393
Less: no later than one year (current portion)	(617,810)	(213,354)	(404,456)
	1,765,098	449,161	1,315,937

The effective interest of finance lease obligations of the company is 14.8% per annum (2004: 15.6%).

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

	The Company	
	2005 RMB'000	2004 RMB'000
Carrying amounts	**1,283,526**	1,720,393
Fair Values	**1,267,735**	1,712,267

The fair values are based on discounted cash flow using a rate based on internal rate of return of the lessor at 12.0% per annum (2004:12.0%).

All finance lease obligations are dominated in US dollars.

27 DEFERRED INCOME TAX

Deferred 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	
	2005	2004	**2005**	2004
		Restated		Restated
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets:				
– Deferred tax assets to be recovered after more than 12 months	**(72,759)**	(76,959)	**(67,814)**	(76,959)
– Deferred tax assets to be recovered within 12 months	**(9,791)**	(17,205)	**(9,791)**	(17,205)
	(82,550)	(94,164)	**(77,605)**	(94,164)
Deferred tax liabilities:				
– Deferred tax liabilities to be settled after more than 12 months	**719,670**	244,121	**36,769**	–
	719,670	244,121	**36,769**	–
	637,120	149,957	**(40,836)**	(94,164)

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

	The Group	
	2005	2004
		Restated
	RMB'000	RMB'000
Beginning of the year	**149,957**	(91,050)
Deferred taxation charged to consolidated profit and loss account (Note 12)	**487,163**	241,007
End of the year	**637,120**	149,957

27 DEFERRED INCOME TAX *(continued)*

	The Company	
	2005	2004
		Restated
	RMB'000	RMB'000
Beginning of the year	**(94,164)**	(91,050)
Deferred taxation charged/(credited) to profit and loss account	**53,328**	(3,114)
End of the year	**(40,836)**	(94,164)

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:

	The Group			The Company
		Residual		**Residual**
	Profits of	**value**		**value**
	subsidiaries	**difference**	**Total**	**difference**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January, 2004	**–**	**–**	**–**	**–**
Charged to profit and loss account	244,121	–	244,121	–
At 31 December, 2004	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

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.

27 DEFERRED INCOME TAX *(continued)*

Deferred tax assets:

	The Group			
	Interest element of finance lease obligations RMB'000	Capitalised dry docking expense RMB'000	Tax loss of a subsidiary RMB'000	Total RMB'000
At 1 January, 2004 restated	(87,559)	(3,491)	–	(91,050)
Charged/(credited) to consolidated profit and loss account	1,214	(4,328)	–	(3,114)
At 31 December, 2004 restated	(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)

	The Company		
	Interest element of finance lease obligations RMB'000	Capitalised dry docking expense RMB'000	Total RMB'000
At 1 January, 2004 restated	(87,559)	(3,491)	(91,050)
Charged/(credited) to profit and loss account	1,214	(4,328)	(3,114)
At 31 December, 2004 restated	(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)

Deferred tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through the future taxable profit is probable. There is no expiry dates of the tax loss of approximately RMB 28,257,000 (2004: Nil).

28 TRADE AND NOTES PAYABLES

	The Group As at 31 December, 2005 RMB'000	The Group As at 31 December, 2004 RMB'000
Trade payables		
– Fellow subsidiaries	**467,858**	268,862
– Others	**2,281,554**	1,852,116
	2,749,412	2,120,978
Notes payables	**10,000**	19,800
	2,759,412	2,140,778

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

	The Group As at 31 December, 2005 RMB'000	The Group As at 31 December, 2004 RMB'000
1 to 3 months	**1,954,087**	1,600,936
4 to 6 months	**697,283**	525,038
7 to 9 months	**108,042**	14,804
	2,759,412	2,140,778

28 TRADE AND NOTES PAYABLES *(continued)*

	The Company As at 31 December, 2005 RMB'000	2004 RMB'000
Trade payables		
– Subsidiaries	**428,404**	701,364
– Fellow subsidiaries	**1,323,755**	330,005
– Others	**22,244**	878,060
	1,774,403	1,909,429
Notes payables	**26,000**	20,000
	1,800,403	1,929,429

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

	The Company As at 31 December, 2005 RMB'000	2004 RMB'000
1 to 3 months	**1,661,288**	1,489,513
4 to 6 months	**139,115**	425,112
7 to 9 months	**–**	14,804
	1,800,403	1,929,429

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 As at 31 December,		The Company As at 31 December,	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Renminbi	**639,622**	629,017	**127,622**	594,916
Hong Kong dollar	**50,430**	29,127	**–**	–
US dollar	**1,931,201**	1,420,111	**1,630,921**	1,320,457
Other currencies	**138,159**	62,523	**41,860**	14,056
	2,759,412	2,140,778	**1,800,403**	1,929,429

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of profit before income tax to cash generated from operations:

	2005	2004 Restated
	RMB'000	RMB'000
Profit before income tax	**4,309,263**	4,694,568
Depreciation	**875,619**	813,590
Amortisation of land use rights	**232**	–
Amortisation of goodwill	**–**	458
Share of profit of an associated company	**(5,960)**	(5,840)
Interest expense	**138,753**	245,946
Interest income	**(84,801)**	(14,040)
Provision/ (reversal of provision) for impairment of receivables	**6,211**	(4,623)
Finance charge of finance lease obligations	**288,520**	266,549
Loss on disposal of fixed assets (See below)	**5,034**	270
Operating profit before working capital changes	**5,532,871**	5,996,878
Increase in bunkers	**(303,029)**	(55,010)
Increase in trade and notes receivables	**(695,725)**	(991,481)
Decrease/(increase) in prepayments and other receivables	**184,334**	(86,797)
Increase in trade and notes payables	**618,634**	656,605
Decrease in accruals and other payables	**(32,867)**	(38,087)
Decrease in amount due to ultimate holding company	**–**	(2,925)
Net cash generated from operations	**5,304,218**	5,479,183

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS *(continued)*

(a) Reconciliation of profit before income tax to cash generated from operations: *(continued)*

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

	2005 RMB'000	2004 RMB'000
Net book amount (Note 16)	**5,911**	5,803
Loss on disposal of fixed assets	**(5,034)**	(270)
Receivable from disposal of fixed assets	**–**	(3,879)
Proceeds from disposal of fixed assets	**877**	1,654

(b) Significant non-cash transactions

During the year ended 31 December, 2005, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of RMB1,353,002,000 (2004: RMB560,741,000).

30 COMMITMENTS

(a) Capital commitments

As at 31 December, 2005 and 2004, 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, 2005 RMB'000	 2004 RMB'000
Contracted but not provided for:		
– Vessels under construction	**4,315,787**	7,567,140
– Purchase of containers	**160,036**	–
	4,475,823	7,567,140

	The Company As at 31 December, 2005 RMB'000	 2004 RMB'000
Contracted but not provided for:		
– Vessels under construction	**4,018,445**	7,211,014

30 COMMITMENTS *(continued)*

(b) Purchase commitments

As at 31 December, 2005 and 2004, 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,	
	2005	2004
	RMB'000	RMB'000
Contracted but not provided for:		
– Purchase of bunkers	**415,914**	–

(c) Other commitments

As at 31 December, 2005 and 2004, 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,	
	2005	2004
	RMB'000	RMB'000
Contracted but not provided for:		
– Investment	**111,100**	222,200

	The Company	
	As at 31 December,	
	2005	2004
	RMB'000	RMB'000
Contracted but not provided for:		
– Investment	**100,000**	200,000

Pursuant to an equity transfer and capital injection agreement entered in 2004, the Group agreed to contribute in cash into Shanghai Puhai.

30 COMMITMENTS *(continued)*

(d) Lease commitments

As at 31 December, 2005 and 2004, the Group and the Company had future aggregate minimum lease payments under non-cancelable operating leases as follows:

	The Group As at 31 December,	
	2005	2004
	RMB'000	RMB'000
Land and buildings:		
– Within one year	**41,385**	17,979
– In the second to fifth year	**88,436**	44,361
– After fifth year	**12,867**	18,382
	142,688	80,722
Vessels chartered-in and containers under operating leases:		
– Within one year	**2,641,580**	2,924,159
– In the second to fifth year	**5,667,242**	7,549,574
– After fifth year	**2,838,513**	3,589,892
	11,147,335	14,063,625
	11,290,023	14,144,347

	The Company As at 31 December,	
	2005	2004
	RMB'000	RMB'000
Land and buildings:		
– Within one year	**5,675**	5,675
– In the second to fifth year	**22,701**	22,701
– After fifth year	**11,351**	17,026
	39,727	45,402
Vessels chartered-in and containers under operating leases:		
– Within one year	**283,861**	2,682,241
– In the second to fifth year	**592,910**	7,619,380
– After fifth year	**41,206**	4,037,945
	917,977	14,339,566
	957,704	14,384,968

31 FUTURE OPERATING LEASE ARRANGEMENTS

As at 31 December, 2005 and 2004, the Group and the Company had future aggregate minimum lease receipts under non-cancellable operating leases as following:

	The Group As at 31 December,	
	2005	2004
	RMB'000	RMB'000
Vessels chartered-out under operating leases:		
– Within one year	**105,644**	129,462
– In the second to fifth year	**7,722**	70,579
	113,366	200,041

	The Company As at 31 December,	
	2005	2004
	RMB'000	RMB'000
Vessels chartered-out under operating leases:		
– Within one year	**1,504,449**	1,323,507
– In the second to fifth year	**4,171,371**	2,864,284
	5,675,820	4,187,791

32 CONTINGENT LIABILITIES

As at 31 December, 2005, the Group and the Company have no significant contingent liabilities.

33 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.

33 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(continued)*

In addition to the related party information shown elsewhere in the accounts (Note 16), 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, 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 Inchon 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
Universal Shipping Co., Ltd.	Fellow subsidiary
China Shipping (Hongkong) Holdings Co., Ltd.	Fellow subsidiary
China Shipping (North America) Holding Co., Ltd.	Fellow subsidiary
West Basin Container Terminals LLC.	Related company

Same as disclosed elsewhere in the accounts (Note 16), 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.

33 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(continued)*

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

	Notes	2005 RMB'000	2004 RMB'000
Transactions with fellow subsidiaries			
Revenue:			
Information technology services	(i)	**25,825**	24,029
Lease of containers	(ii)	**4,785**	3,472
Liner services	(i)	**941,774**	1,137,246
Lease of vessels	(i)	**1,273**	–
Compensation income	(Note7(i))	**99,331**	–
Expense:			
Agency management services	(i)	**14,705**	8,120
Interest element of finance lease obligations in connection with lease of containers	(ii)	**213,254**	259,285
Lease of chassis	(i)	**19,797**	13,286
Lease of properties	(ii)	**11,902**	13,622
Cargo and liner agency services	(i)	**208,924**	286,409
Container management services	(i)	**790,380**	562,967
Time charter services	(i)	**288,188**	291,965
Bareboat charter services	(i)	**56,769**	42,747
Ship repair services	(i)	**54,780**	19,380
Supply of fresh water, vessel fuel, lubricants, spare parts and other materials	(i)	**346,144**	297,685
Depot services	(i)	**19,075**	17,726
Information technology services	(i)	**27,755**	22,448
Provision of motor vehicles	(i)	**2,718**	1,002
Provision of crew members	(i)	**140,450**	114,796
Loading and unloading services	(i)	**693,601**	541,480
Sub-route services	(i)	**101,935**	47,876
Ground container transport costs	(i)	**34,218**	30,359

33 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(continued)*

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

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

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

	2005 **RMB'000**	2004 RMB'000
Transactions with other state-owned enterprises		
Revenue:		
Interest income from bank deposits	**19,873**	6,154
Expense:		
Port charges	**3,061,575**	1,786,457
Purchase of bunkers and spare parts	**352,229**	327,710
Interest expenses	**223,109**	208,109
Vessel maintenance costs	**74,998**	44,327
Other transactions:		
Progress payment made on construction of vessels	**3,195,946**	1,189,661
Purchase of property	**–**	174,746

33 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties

	2005 RMB'000	2004 RMB'000
Balances with fellow subsidiaries		
Trade receivables (note (i))	**2,059,573**	2,022,288
Less: provisions	**(61,788)**	(67,163)
	1,997,785	1,955,125
Trade payables (note (i))	**(467,858)**	(268,862)
Finance lease obligations (note(ii))	**(1,283,526)**	(1,720,393)
	246,401	(34,130)
Balances with China Shipping (Group) Company		
Dividend payable	**–**	480,098

Note:

(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 rates 14.8% per annum agreed between both parties (2004: 15.6%).

33 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties *(continued)*

	2005 **RMB'000**	2004 RMB'000
Balances with other state-owned enterprises		
Bank deposits (note (i))	**1,031,286**	3,596,563
Bank loans (note (ii))	**3,821,800**	3,597,770
Other payables (note (iii))	**752,825**	494,340

Note:

(i) Interest of bank deposits is at market rates ranging from 0.72% to 3.6% per annum (2004: from 0.72% to 3.6%).

(ii) As at 31 December, 2005, the bank loans were secured by legal mortgage over certain container vessels and vessels in construction with net book value of approximately RMB 3,842,800,000 for the Group (2004: RMB 4,042,800,000).

(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:

	2005 **RMB'000**	2004 RMB'000
Salaries and other short-term employee benefits	**4,172**	3,299
Post employment benefits	**975**	742

34 PARTICULARS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

(a) Subsidiaries

As at 31 December, 2005, 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 (note(i))	14 January, 2003	Limited liability company	RMB10,000,000	40%	–	Cargo and liner agency
China Shipping Container Lines Qingdao Company Limited	13 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

34 PARTICULARS OF SUBSIDIARIES AND ASSOCIATED COMPANIES *(continued)*

(a) Subsidiaries *(continued)*

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 *(continued)*						
China Shipping Container Lines (Yangpu) Co., Ltd.	5 December, 2002	Limited liability company	RMB38,000,000	90%	4%	Domestic containers shipping cargo sales, slot booking, container transportation centre, transhipment, depot construction, repair leasing, sale and purchasing containers, leasing, sales and purchase of vessels and container related business
China Shipping (Yangpu) Refrigeration Storage & Transportation Co., Ltd. (note (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

34 PARTICULARS OF SUBSIDIARIES AND ASSOCIATED COMPANIES *(continued)*

(a) Subsidiaries *(continued)*

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 *(continued)*						
Shanghai Puhai Shipping Lines Co., Ltd.	19 November, 1992	Limited liability company	RMB122,911,111	90%	9%	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. (note(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 Lianyunggang Co., Ltd.	12 March, 2003	Limited liability company	RMB5,000,000	10%	81%	Cargo and liner agency
China Shipping Container Lines (Qinghuangdao) Co., Ltd.	6 May, 2003	Limited liability company	RMB500,000	10%	81%	Cargo and liner agency

34 PARTICULARS OF SUBSIDIARIES AND ASSOCIATED COMPANIES *(continued)*

(a) Subsidiaries *(continued)*

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 *(continued)*						
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

34 PARTICULARS OF SUBSIDIARIES AND ASSOCIATED COMPANIES *(continued)*

(a) Subsidiaries *(continued)*

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 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
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
Yanshan C Shipping Company Limited (note(ii))	23 April, 2004	Limited liability company	US$50,000	100%	–	Owning of vessel
Yanshan D Shipping Company Limited (note(ii))	23 April, 2004	Limited liability company	US$50,000	100%	–	Owning of vessel
Incorporated in the Republic of Cyprus						
Arisa Navigation Company Limited	18 June, 2002	Limited liability company	CYP1,000	100%	–	Owning of vessel

Note:

(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, 2005.

34 PARTICULARS OF SUBSIDIARIES AND ASSOCIATED COMPANIES *(continued)*

(b) Associated company

As of 31 December, 2005, 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

All subsidiaries and associated company 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 and the associated company 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.

35 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.

36 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 18 April, 2006.