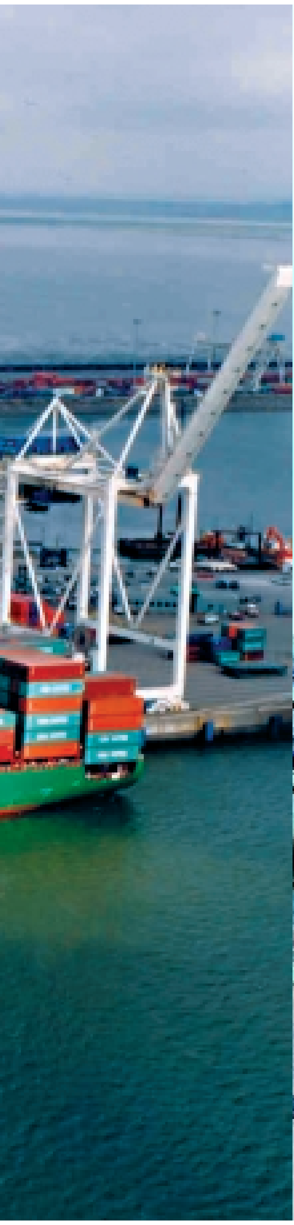
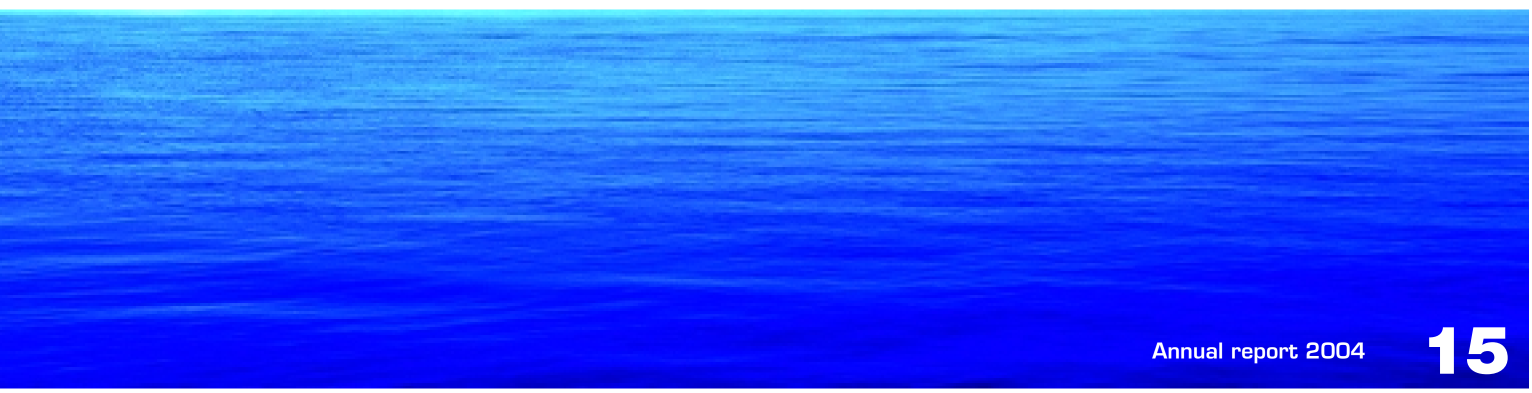
FLEXIBLE
RESOURCE ALLOCATION

Its flexible allocation of resources has allowed CSCL to benefit considerably regarding the operation of its trade lanes





MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December, 2004, the Group recorded a sales revenue of RMB 22,363,851,000, representing an increase of 46.4% as compared to the previous year; profit before taxation amounted to RMB 4,709,843,000, representing an increase of 234.8% as compared to the previous year; profit attributable to shareholders amounted to RMB 4,022,409,000, representing an increase of 190.9%; loaded cargo volume for the whole year amounted to 3,654,767 TEU, representing an increase of 29.0%. The average transport cost per TEU of the Group increased by RMB 807.58 from RMB 5,197.10 in 2003 to RMB 6,004.68 in 2004, representing an increase of 15.54%, of which the average transport cost per TEU of international trade lanes increased by RMB 991 from RMB 6,951.89 in 2003 to RMB 7,942.85 in 2004, representing an increase of 14.3%. The average transport cost per TEU of domestic trade lanes increased by RMB 392.02, from RMB 1,122.12 in 2003 to RMB 1,514.14 in 2004, representing an increase of 34.94%. For the year ended 31 December, 2004, the total shipping capacity of the Group reached 254,207 TEU, representing an increase of 28.1%.

Analysis of container volume by trade lanes:

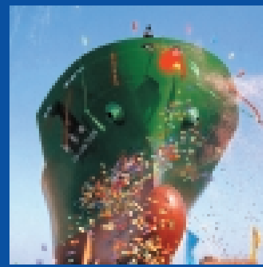
Principal market	2004 Annual (TEU)	2003 Annual (TEU)	Increase (%)
America	**892,838**	808,624	10.41
Europe/Mediterranean	**885,981**	571,563	55.01
Australia	**163,883**	109,261	49.99
East and Southeast Asia	**488,017**	418,706	16.55
China domestic	**1,101,882**	853,109	29.16
Others	**122,166**	72,944	67.48
Total	**3,654,767**	2,834,207	28.95

PERFORMANCE ANALYSIS

The Group's performance has shown remarkable improvements in 2004. Profit after taxation and minority interests for the year ended 31 December, 2004 was RMB 4,022,409,000, which is approximately 29% (equivalent to approximately RMB 895,699,000) higher than the Directors' profit forecast of RMB 3,126,710,000 as stated in the prospectus. This is mainly due to the Group's ability to break previous records in terms of operating efficiency and economic benefits through measures including optimization of the fleet structure, strengthening of its core competitiveness, flexible deployment of resources and stringent operational cost control.

OPERATION OF TRADE LANES

During 2004, 15 vessels (of which 11 vessels are large container vessels with capacity of more than 4,000 TEU) with a total capacity of 72,146 TEU were added to the fleet and put into operation in international trade lanes. In addition, through measures including the setting up of additional global agency network points, the strengthening agents' ability in soliciting cargo and the steady of rising freight rates, the Group was able to increase both the shipping volume and revenue of the trade lanes.



Containers for exports in the Europe/Mediterranean trade lanes were particularly outstanding, reaching 601,412 TEU, while containers for imports reached 284,569 TEU, representing increases of 105% and 72% respectively from the previous year. Containers for exports and imports in Australia trade lanes were 53,999 TEU and 109,884 TEU, representing increases of 51% and 50% respectively from the previous year.

The Group continued to expand its domestic trade lanes and strengthen its leading advantage in the China container shipping market during 2004. Shipping volume for the year amounted to 1,101,882 TEU with a revenue of RMB 1,668,410,000, representing increases of 29.2% and 73.69% respectively from 2003. Revenue per TEU reached RMB 1,514.14, representing an increase of 34.48% from the previous year.

OPTIMIZED FLEET STRUCTURE

For the year ended 31 December, 2004 , the Group had 32 vessels with a capacity of over 4,000 TEU, accounting for 67.7% of total capacity. The average age of these vessels was only 1.8 years. These modern, young, high speed and low cost vessels formed the principal components of the Group's modernized fleet and thus strengthened the core competitiveness of the Group.

CONTINUE TO TAKE ADVANTAGE OF THE FLEXIBLE ALLOCATION OF RESOURCES

In the international market, whenever port congestion occurred from time to time, domestic market vessels were immediately redeployed and transferred to satisfy the demand for capacity. As a result, the pressure on the tight supply of shipping capacity resulting from port congestion was alleviated. In addition, the Group was able to avoid failure to meet the shipping schedules, guarantee the quality of its customer service and protect the interests of cargo owners. In the domestic market, the Group increase the utilization of slots in trade lanes and alleviate pressure on feeder spaces by means such as deploying foreign trade lanes to accommodate feeder shipments, etc. Moreover, the problems of imbalanced demand for reefer containers in northbound and southbound main trade lanes and the high cost of shipping empty containers have been resolved by making full use of the flexible deployment of shipping capacity resources through measures such as deploying reefer containers to carry dry cargo.

SETTING UP ADDITIONAL GLOBAL AGENCY NETWORK POINTS

During 2004, the global agency network points of the Group increased to 285, amongst which 182 were international points and 103 were domestic points. This expansion has further expanded the coverage of the Group's global service network, strengthening the Group's capability in canvassing cargo and ensuring that adequate cargo is solicited for the current and additional trade lanes.

MANAGEMENT DISCUSSION AND ANALYSIS

ATTRACTING STABLE LONG-TERM CUSTOMERS AND VOLUME CARGO OWNERS

During 2004, the Company signed 1,096 contracts with long-term customers and volume cargo owners, amongst which 969 were trans-Pacific service contracts and 127 were trans-Atlantic service contracts involving many import and export suppliers amongst the top 100 in the US and world famous non-vessel operation carriers. The signing of these contracts established a stable base for the Company's development of US trade lanes in 2004. During 2004, the Company's market share in trans-Pacific eastbound routes reached 4.8% and its ranking was upgraded from No.12 in 2003 to No. 9. The Company also unprecedentedly entered into the top 5, ranking No. 4 in the China to US west coast market.

COST CONTROL MEASURES AND EFFECTS

With regard to fuel cost, faced with the pressure of rising fuel prices, the Group adopted a series of measures to control expenses on fuel and their effects were apparent. Several savings were made including the US$ 2,324,000 saved due to appropriate fuel purchase arrangements; 238,783.4 tons of fuel amounting to about US$ 41,787,000 saved by vessels operating at "economical" speed; and about US$ 9,963,000 saved by locking in 585,000 tons of fuel at low prices. Meanwhile, the pressure of rising fuel costs were alleviated through the timely raising of fuel surcharges, according to the usual practices of the international shipping market.

CONTAINER MANAGEMENT

The Group ordered to build about 125,000 TEU of containers in early 2004. Amongst these, 102,000 TEU have already been put into operation, with the remaining 23,000 TEU to be delivered and put into operation during 2005. As the order was placed before the lifting of steel and container leasing prices, it is expected that approximately US$ 45,000,000 could be saved for the Group.

STEVEDORE AND PORT CHARGES

The Group ensured its strong bargaining position by taking full advantage of the operation scale established in each port and the competitive relationship amongst adjacent ports. The Group negotiated actively with each port to reduce all kinds of rates and achieved apparent results. As a result, about US$ 23,000,000 was saved for the Group.

EMPLOYEES AND BENEFITS

As at 31 December, 2004, the Group had 3,142 employees, representing an increase of 357 employees compared to year 2003. The total expense was approximately RMB 516,241,000. In addition, the Group entered into contracts with a number of subsidiaries of China Shipping (Group) Company, pursuant to which the subsidiaries provided the Group with approximately 3,200 crew members in aggregate who mainly work on the Group's self-owned or bare-boat chartered vessels.

Remuneration of the Group's employees includes basic salaries, other allowances and performance bonuses. The Group also adopted a performance discretionary incentive scheme for its staff. The scheme links up the financial benefits of the Group's staff with certain business performance indicators. Such indicators may include but not limited to the profit target of the Group.

Details of the performance discretionary incentive scheme vary among the members of the Group. The Group sets out certain performance indicators for each of its subsidiaries to achieve. Each subsidiary has the discretion to formulate its own detailed performance related remuneration policies according to its local circumstances.

FINANCIAL REVIEW

Turnover

The Group's turnover increased by RMB 7,087,688,000 or 46.4% from RMB 15,276,163,000 for the year ended 31 December, 2003 to RMB 22,363,851,000 for the year ended 31 December, 2004. The increase in turnover was primarily due to:

- Increased volume of loaded cargoes

  The volume of loaded cargoes increased from 2,834,207 TEU in 2003 to 3,654,767 TEU in 2004 representing an increase of 820,560 TEU or 28.95% – of which Europe/Mediterranean trade lanes increased by 314,418 TEU or 55.01% from 571,563 TEU in 2003; America trade lanes increased by 84,214 TEU or 10.41% from 808,624 TEU in 2003; Australia trade lanes increased by 54,622 TEU or 49.99% from 109,261 TEU in 2003; domestic trade lanes increased by 248,773 TEU or 29.16% from 853,109 TEU in 2003. During the year, the deployment of new and large container vessels enabled the Group to inaugurate a number of major trade lanes resulting in a remarkable increase in voyages servicing North America, Europe/Mediterranean, Australia and coastal regions.

- Increased freight rates

  The Group's average freight rates per TEU increased by RMB 807.58 or 15.54% from RMB 5,179.10 in 2003 to RMB 6,004.68 in 2004. In particular, average rates per TEU for international trade lanes recorded an increase of RMB 991 or 14.3% from RMB 6,951.89 in 2003 and average rates per TEU for domestic trade lanes recorded an increase of RMB 392.02 or 34.94% from RMB 1,122.12 in 2003. The increase in the average level of overall freight rates was contributed to the excess of demand of fleet capacities over its supply in both domestic and international trade lanes, limited capacity, the increasing freight rates, as well as the increased volume of loaded cargoes shipped in the offshore trade lanes.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating costs

Total operating costs increased by RMB 3,856,576,000 or 29.64% from RMB 13,009,891,000 for the year ended 31 December, 2003 to RMB 16,866,467,000 for the year ended 31 December, 2004. However, with the significant increase in the volume of loaded cargoes, operating costs, on a per TEU basis, increased from RMB 4,479.18 in 2003 to RMB 4,541.50. Reasons for the increase in operating costs were as follows:

- Container and cargo costs increased by RMB 2,019,594,000 or 33.75% from RMB 5,983,549,000 in 2003 mainly due to the increase in the volume of loaded cargoes. Port charges amounted to RMB 1,222,687,000 representing an increase of 13.6% as a result of extended services, higher voyage frequencies and increase in port calling and canal passing frequency. The stevedorage for loaded and empty containers amounted to RMB 5,137,662,000, representing an increase of 42.97%, principally due to the increase in the volume of loaded cargoes in the international and domestic trade lanes and the shipment of empty containers by 28.95% and 27.76% respectively.

- Vessel and voyage costs increased by RMB 714,895,000 or 14.53% from RMB 4,918,913,000 in 2003 to RMB 5,633,808,000 in 2004. However, with the gradual deployment of large vessels which were ordered by the Group at low costs during the down cycle of the shipping industry as well as the successful control of fuel costs, vessel and voyage costs on a per TEU basis dropped from RMB 1,735.55 in 2003 to RMB 1,541.50 in 2004. Average fuel costs and vessel fixed costs were remarkably reduced, reflecting the Group's strengthened competitiveness and ability to counter risks as a result of the change in the fleet structure.

- Sub-route and other costs increased by RMB 1,122,087,000 or 53.24% from RMB 2,107,429,000 in 2003 to RMB 3,229,516,000 in 2004. The increase was largely due to an increase in shipping volume along sub-routes and the absolute amount of inland cargo deliveries in North America.

Gross profit

Due to the above reasons, including a general increase in freight rates, the Group recorded a significant increase in gross profit by RMB 3,231,112,000 or 142.57% to RMB 5,497,384,000 in 2004. Gross profit margin was 24.58% representing an increase of 9.74% from 14.84% in 2003.

Taxation

Before 3 March, 2004, the Company and certain of its subsidiaries were covered in the consolidated enterprise income tax filing of China Shipping (Group) Company, the Company's parent company and hence were exempted from enterprise income tax. Nevertheless, as certain subsidiaries established by the Group in the PRC in the year 2003 were not covered in the consolidated tax filing of China Shipping (Group) Company, their profits were subject to enterprise income tax.

Starting from the transformation of the Company into a joint stock limited company and registration in the Pudong New District, the PRC on 3 March, 2004, the applicable tax rate of the Company has been 15% while that of the subsidiaries established in the PRC is 33%. Overall, the Group's effective tax rate in 2004 was 14.5%.

Profit attributable to shareholders

Due to the above reasons including an increase in the Group's freight rates, the profit attributable to the shareholders of the Group increased by RMB 2,639,537,000 or 190.87% from RMB 1,382,872,000 in 2003 to RMB 4,022,409,000 in 2004.

Liquidity, financial resources and capital structure

The Group's principal sources of liquidity have been the cash flow from operations, proceeds from the issue of H shares and bank borrowings. Cash have mainly been used to pay for the operating costs, to finance the construction of new vessels, the purchase of containers and the repayment of principal with interest for bank borrowings and finance leases.

As at 31 December, 2004, the Group's total bank loans were RMB 5,396,478,000. The maturity profile spreads over a period between 2005 and 2015, with RMB 826,550,000 repayable within one year, RMB 650,030,000 between one to two years, RMB 1,961,180,000 between two to five years, and RMB 1,958,718,000 over five years. The Group's long term bank loans are mainly used to fund the purchase of new vessels.

As at 31 December, 2004, the long term bank loans were secured by mortgage over certain container vessels and vessels in construction with net book value of RMB 4,061,047,000 (31 December, 2003: RMB 3,109,502,000), assignment of shipbuilding contracts, and charges over shares of certain vessels owning subsidiaries.

As at 31 December, 2004, the Group had loans in the amount of RMB 4,142,800,000 at fixed interest rates and loans in amount of RMB 1,253,678,000 at floating rates. The loans were primarily denominated in RMB and US dollars while its cash and cash equivalents were held in the same currencies.

Net current assets

As at 31 December, 2004, the Group's net current assets amounted to approximately RMB 5,431,143,000.

Current assets mainly comprised bunker inventory of RMB 250,051,000, trade receivable (including notes receivable) of RMB 3,357,071,000, prepayments and other receivables of RMB 313,488,000 and cash and bank balances of RMB 5,863,491,000.

Current liabilities mainly comprised trade and notes payable of RMB 2,140,778,000, accruals and other payables of RMB 338,569,000, tax payable of RMB 128,015,000, dividend payable of RMB 480,098,000, short-term bank loans of RMB 381,520,000, long-term borrowings due within 1 year of RMB 445,030,000 and finance lease obligations payable within 1 year of RMB 438,948,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Cash flows

For the year ended 31 December, 2004, the Group's net cash generated from operations was RMB 5,479,183,000, denominated principally in RMB, US dollars and Hong Kong dollars, and which represented an increase of RMB 2,758,163,000 from the year ended 31 December, 2003. Cash balances for 2004 also increased, mainly reflecting an increase in net cash inflow from operating activities and net cash inflows from financing activities due primarily to an increase of bank loans and proceeds on issue of shares which are mainly used to pay for long term capital expenditures and used as short term working capital. Cash generated from operations, when not needed for working capital requirements, are principally held as short-term and demand deposits.

The following table provides information regarding the Group's cash flows for the reporting periods.

	For the year ended 31 December,	
	2004	2003
	(RMB'000)	*(RMB'000)*
Net cash from operating activities	**5,160,605**	2,715,908
Net cash used in investing activities	**(6,285,895)**	(3,389,693)
Cashflow from financing activities	**5,504,317**	1,642,978
Net increase in cash and cash equivalents	**4,379,027**	969,193

Net cash inflow from operating activities

In 2004, the net cash inflow from operating activities were RMB 5,160,605,000, representing an increase of RMB 2,444,697,000 from RMB 2,715,908,000 in 2003. The increase was mainly due to the expansion of the scale of liner operation and increase in operating profit margin. The change in the capital from operating activities for 2004 was mainly due to the 101.37% increase of cash generated from operations from RMB 2,721,020,000 in 2003 to RMB 5,479,183,000.

Net cash used in investing activities

In 2004, net cash used in investing activities was RMB 6,285,895,000, representing an increase of RMB 2,896,202,000 from RMB 3,389,693,000 in 2003. The increase was mainly due to the Group's capital expenditure (primarily vessels and other construction in progress) of RMB 5,977,532,000 (2003: RMB 3,500,261,000).

Net cash inflow from financing activities

In 2004, net cash inflow from financing activities was RMB 5,504,317,000, representing an increase of RMB 3,861,339,000 when compared to RMB 1,642,978,000 in 2003. One of the reasons for the change is reduction of short-term and long-term bank loans and loans from the ultimate holding company arising from the increase of net cash inflow from operating activities. However, the significant increase in the cash inflow from financing activities was mainly attributable to the cash proceeds of RMB 7,159,713,000 raised upon the successful listing of the Group in Hong Kong in 2004.

Average debtor turnover

The Group's average debtor turnover days were reduced to 45 days in 2004 from 52 days in 2003, mainly due to management's effort to strengthen credit control over settlement from customers.

Gearing ratio

As at 31 December, 2004, the Group's gearing ratio (ie. the ratio of net debt over shareholders' equity) was 11%, which is far below the 178.0% for 2003. The main reasons for the decrease are the increase in liquidity from proceeds from the issue of shares and a remarkable increase in operating profits, which can fully offset the payments for capital expenditure during the year.

Foreign exchange risk and hedging

Most of the revenue and expenditure of the Group are settled or denominated in US dollars. In 2004, the Group's operation or liquidity were not materially affected by the fluctuations in currency exchange rate. The Directors believe that the Group will have sufficient foreign exchange to meet its foreign exchange requirements. Meanwhile, the Group will continue to pay close attention to the currency fluctuation of RMB. The Group will consider appropriate measures including making hedging arrangements (eg. forward exchange contracts), based on its operating needs to mitigate the Group's currency exposure. However, as at 31 December, 2004, the Group had not entered into any hedging arrangement including any forward exchange contracts.

Capital expenditure

In 2004, capital expenditure for the purchase of vessels and vessels under construction was RMB 5,844,098,000, for the acquisition and construction of offices was RMB 225,601,000, for improvement on vessels under operating leases was RMB 8,196,000, for the purchase of containers was RMB 815,762,000, for the purchase of office equipment was RMB 33,838,000 while that for the purchase of motor vehicles was RMB 5,198,000.

Capital commitments

As at 31 December, 2004, the Group had contracted but not provided for capital commitment of approximately RMB 7,567,140,000 for vessels under construction.

Acquisition

In 2004, the Company further increased its attributable interest in its subsidiary, Shanghai Puhai Shipping Co., Ltd, from 50% to approximately 99% at a consideration of RMB 29,707,000.

Contingent liabilities

As at 31 December, 2004, the Group did not have any material contingent liabilities.