1 General information and Reorganisation

China COSCO Holdings Company Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on 3 March 2005 as a joint stock company with limited liability under the Company Law of the PRC. The address of its registered office is Ocean Plaza, 12th Floor, 158 Fuxingmennei Street, Beijing 100031, the PRC. As part of the restructuring of China Ocean Shipping (Group) Company ("COSCO") and its subsidiaries, (collectively "COSCO Group"), COSCO underwent a group reorganisation (the "Reorganisation"), as detailed below, in preparation for a listing of the Company's H shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Main Board").

The Company and its subsidiaries (collectively the "Group") provides integrated container shipping services to international and domestic customers. The Group's businesses include the provisions of a range of container shipping, container terminal, container leasing and freight forwarding and shipping agency services all over the world.

Pursuant to the Reorganisation, the Company issued 4,100,000,000 non-publicly tradable State-owned legal person shares ("Domestic Shares") of RMB1.00 per share in exchange for the equity interests of certain subsidiaries, jointly controlled entities and associates (collectively the "Relevant Companies") transferred to the Company by COSCO Group.

The Reorganisation comprised mainly the following:

(a) Transfer of the equity interests in COSCO International Freight Co., Ltd, COSCO Container Shipping Agency Company Limited, Shanghai Pan Asia Shipping Company Limited ("Pan Asia"), and certain overseas companies and their respective subsidiaries, jointly controlled entities and associates from COSCO Group to COSCO Container Lines Company Limited ("COSCON"). The equity interests in the PRC companies were transferred at cash consideration totalling RMB5,000,000 and the equity interests for the overseas companies were transferred at cash consideration totalling RMB62,743,000.

(b) Transfer of the entire equity interest in COSCO Investments Limited ("COSCO Investments"), and the then 52.39% equity interest in COSCO Pacific Limited ("COSCO Pacific") (of which approximately 9.6% were directly held by COSCO Investments) and its respective subsidiaries, jointly controlled entities and associates from COSCO (Hong Kong) Group Limited ("COSCO HK"), a wholly owned subsidiary of COSCO, to COSCO Pacific Investment Holdings Limited ("COSCO Pacific Investment") at a total consideration of approximately US$347,285,000 (equivalent to approximately RMB2,874,478,000). The consideration included a shareholder loan due from COSCO Investments to COSCO HK of approximately US$196,490,000 (equivalent to approximately RMB1,626,348,000) and was settled in cash by COSCO Pacific Investment.

Prior to the transfer of the entire interest in COSCO Investments from COSCO Group to COSCO Pacific Investment, COSCO Investments disposed of all of its investments other than the equity interests in COSCO Pacific to two subsidiaries of COSCO HK at a consideration of US$203,357,000 (equivalent to approximately RMB1,683,185,000). The disposal resulted in a gain of approximately RMB1,428,385,000 and was accounted for as a deemed contribution from COSCO for the year ended 31 December 2004 (note 22(e)).

(c) The entire equity interests in COSCON and COSCO Pacific Investment after the equity transfers described above were injected into the Company by COSCO in exchange for Domestic Shares issued by the Company upon incorporation.

1 General information and Reorganisation (Continued)

(d) Transfer of the equity interests in, and assets and liabilities of, certain overseas companies from COSCO Group to certain overseas subsidiaries of COSCON at cash consideration totalling RMB175,988,000.

The Reorganisation was completed in March 2005. Accordingly, the Company became the holding company of the companies now comprising the Group.

The H shares of the Company were listed on the Main Board on 30 June 2005 (the "Listing Date"). Details of movements in the Company's share capital are set out in note 21 to the consolidated financial statements.

The directors of the Company (the "Directors") regard COSCO, a state-owned enterprise established in the PRC, as being the Company's parent company (note 40).

These consolidated financial statements have been approved for issue by the board of directors on 11 April 2006.

2 Summary of significant accounting policies

(a) Basis of preparation

The Group resulting from the Reorganisation referred in note 1 above is regarded as a continuing entity. Accordingly, the consolidated financial statements for the year ended 31 December 2005 (the "Consolidated Financial Statements"), including comparative figures, have been prepared on the merger basis as if the Company had been the holding company of those companies comprising the Group throughout the two years ended 31 December 2004 and 2005 presented, or since their respective dates of incorporation/establishment or from the effective dates of acquisition/up to the effective dates of disposal, whichever is the shorter period.

These Consolidated Financial Statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Consolidated Financial Statements have been prepared under the historical cost convention, except that, as disclosed in the accounting policies below, available-for-sale financial assets and derivative financial assets and financial liabilities are stated at fair value.

The preparation of the Consolidated Financial Statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements, are disclosed in note 4.

2 Summary of significant accounting policies (Continued)

(b) Changes in significant accounting policies

In 2005, the Group adopted the new/revised HKFRSs below, which are relevant to its operations. The comparative figures in respect of 2004 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 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKAS-Int 12	Consolidation - Special Purpose Entities
HKAS-Int 12 (Amendment)	Scope of HKAS- Int 12 Consolidation – Special Purpose Entities
HKAS-Int 15	Operating Leases - Incentives
HKAS-Int 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets

2 Summary of significant accounting policies (Continued)

(b) Changes in significant accounting policies (Continued)

The overall effects of the adoption of the new/revised HKFRSs are to increase the opening equity (including minority interests) as at 1 January 2005 by RMB2,257,924,000, the profit for the year ended 31 December 2005 by RMB534,780,000 and net assets as at 31 December 2005 by RMB2,079,372,000. There was no significant impact on the profit for the year ended 31 December 2004 following the adoption of the new/revised HKFRSs. Summary of the effects of adopting the new/revised HKFRSs and the earnings per share for profit attributable to the equity holders of the Company are set out in note 2(b)(x) to the Consolidated Financial Statements. The major changes in the Group's significant accounting policies or the presentation of financial statements as a result of the adoption of these new/revised HKFRSs are summarised as below:

(i) *HKAS 1*

The adoption of HKAS 1 has mainly resulted in the following presentational change in the Group's financial statements:

(1) minority interests are now required to be shown within the Group's equity. On the face of the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year;

(2) the Group's share of profits less losses (net of income taxes) of jointly controlled entities and associates are required to be presented on the face of the consolidated income statement; and

(3) investment properties are now required to be presented on the face of consolidated balance sheet.

(ii) *HKAS 16*

Under HKAS 16, when a vessel is acquired, the costs of major components which are usually replaced or renewed in connection with the dry-docking are identified and depreciated over the period to next estimated dry-docking date. Costs incurred on subsequent dry-docking of a vessel are capitalised and depreciated over the period to the next estimated dry-docking date. Dry-docking costs were previously charged to the consolidated income statement when incurred.

This represents a change in accounting policy. However, as the resulting impact of this change is not material as a whole, this change has not been applied for retrospectively and a prior year adjustment has not been made.

The residual values and the useful lives of property, plant and equipment are now required to be reviewed and adjusted, if appropriate, at each financial year end.

The Directors have reviewed the residual values of vessels and containers, and accordingly, depreciation charge of vessels and containers for the year ended 31 December 2005 has been calculated based on the revised estimated residual values. This represents a change in accounting estimate. The change has been accounted for prospectively.

The Directors have reviewed the residual values of other property, plant and equipment and useful lives of property, plant and equipment and do not consider that there are significant changes from the previous estimates.

2 Summary of significant accounting policies (Continued)

(b) Changes in significant accounting policies (Continued)

(iii) HKAS 17

The adoption of revised HKAS 17 has resulted in a change in accounting policy relating to reclassification of leasehold land and land use rights from property, plant and equipment and investment properties to operating leases. The up-front prepayments made for the leasehold land and the land use rights are expensed in the consolidated income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is charged to the consolidated income statement. In prior years, the leasehold land and land use rights were stated at cost less accumulated depreciation and impairment losses while the leasehold land as included in investment properties was stated at valuation.

Since the resulting impact of this change is not material as a whole, it has not been applied retrospectively and a prior year adjustment has not been made.

(iv) HKAS 21

HKAS 21 requires items included in the financial statements 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 Company's functional currency is United States Dollar ("US dollar" or "US$"). The Consolidated Financial Statements are presented in Renminbi ("RMB").

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 income statement.

Translation differences on monetary and non-monetary items are included in the income statement and reserve respectively.

This represents a change in accounting policy. However, as the resulting impact of this change is not material as a whole, this change has not been applied retrospectively and a prior year adjustment has not been made.

(v) HKAS 24

HKAS 24 has extended the identification and disclosure of related parties to include state-owned enterprises. Related parties include COSCO and its subsidiaries, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Group and COSCO as well as their close family members.

2 Summary of significant accounting policies (Continued)

(b) Changes in significant accounting policies (Continued)

(vi) HKAS 32, HKAS 39 and HKAS 39 (Amendment)

The adoption of HKASs 32, 39 and HKAS 39 (Amendment) has resulted in changes in the accounting policies relating to the following:

(1) the Group's investment securities which were previously stated at cost less provision for impairment losses are now redesignated as available-for-sale financial assets and carried in the balance sheet at their fair values. The amount, being the difference between the fair values of these available-for-sale financial assets and their previous carrying amounts as at 31 December 2004, was credited to the Group's opening equity as at 1 January 2005;

(2) the interest rate swap contracts as entered into between the Group and certain financial institutions are now classified as derivative financial assets/liabilities and recognised in the balance sheet at their respective fair values. In prior years, derivative financial assets/liabilities were not required to be recognised in the balance sheet pursuant to the Statements of Standard Accounting Practice issued by the HKICPA. The recognition of interest rate swap contracts at their fair values as at 1 January 2005 has resulted in a net increase in the Group's opening equity as at 1 January 2005;

In addition, the Group has adopted hedge accounting when the hedging relationship between the interest rate swap contracts with notional principal amounts of US$200,000,000 and the notes as issued by the Group (note 23(d)) was fully designated and documented. The effect of the application of hedge accounting is to reduce the fair value loss on interest rate swap contracts for the year ended 31 December 2005; and

(3) the Group's borrowings or notes which were previously stated at their original carrying amounts are now required to be stated initially at their fair values, net of transaction costs incurred, and then subsequently stated at amortised cost. The unamortised transaction costs in respect of these borrowings and notes as at 31 December 2004, which were previously expensed as incurred, are included in the related borrowings or notes by a corresponding credit adjustment to the Group's opening equity as at 1 January 2005.

As HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis, all the related financial impact on the Consolidated Financial Statements are reflected as opening adjustments to the Group's equity as at 1 January 2005 and accordingly, the comparative figures as presented in the Consolidated Financial Statements have not been restated.

2 Summary of significant accounting policies (Continued)

(b) Changes in significant accounting policies (Continued)

(vii) HKAS 40

The adoption of revised HKAS 40 has resulted in a change in accounting policy for the Group's investment properties. Until 31 December 2004, the investment properties were carried at valuation. In accordance with the provision of HKAS 40, the Group opted for the cost model and the investment properties are carried at cost less accumulated depreciation and impairment. The net book value of investment properties as at 31 December 2004 was deemed as the cost on 1 January 2005. Any adjustments, including the reclassification of any amount previously held in revaluation reserve for investment properties, are made to the opening balance of retained profits. Depreciation on deemed cost commences in 2005 accordingly.

As at 31 December 2004, the valuation of investment properties was less than their original cost and the revaluation deficits had already been charged to the income statement in prior years and there was no investment property revaluation reserve. Consequently, no adjustment on opening equity is required.

(viii) HKFRS 2

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments.

One of the Group's subsidiaries operates an equity-settled, share-based compensation plan. Until 31 December 2004, the provision of share options granted by the subsidiary to the Group's employees did not result in expense in the income statement. With effect from 1 January 2005, the fair value of the employee services received in exchange for the grant of the share options of the subsidiary is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share options granted by the subsidiary.

As all the share options previously granted by the subsidiary were vested on or before 1 January 2005 and accordingly, no adjustment is made in the Consolidated Financial Statements pursuant to the transitional provisions as set out in HKFRS 2.

2 Summary of significant accounting policies (Continued)

(b) Changes in significant accounting policies (Continued)

(ix) HKFRS 3

The adoption of HKFRS 3 has resulted in a change in the accounting policy for goodwill and negative goodwill. In prior years, goodwill or negative goodwill on acquisitions of subsidiaries, jointly controlled entities or associates on or after 1 January 2001 was:

- Amortised on a straight-line basis over its estimated useful life of not exceeding 20 years; and
- Assessed for impairment on goodwill at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill with effect from 1 January 2005;
- Accumulated amortisation of goodwill as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- Goodwill is tested annually for impairment, as well as when there is indication of impairment; and
- The carrying amount of negative goodwill as at 31 December 2004 is derecognised and reflected as an adjustment to the Group's opening equity as at 1 January 2005.

Upon the adoption of HKFRS 3, the derecognition of a negative goodwill from the acquisition of an associate was credited to the Group's opening equity as at 1 January 2005 in accordance with HKFRS 3.

The adoption of HKASs 2, 7, 8, 10, 23, 27, 28, 31, 33, 36, 37, 38, HKAS-Ints 12, 12 (Amendment), 15 and 21 did not result in any significant change to the Group's significant accounting policies and the presentation of the Consolidated Financial Statements.

2 Summary of significant accounting policies (Continued)

(b) Changes in significant accounting policies (Continued)

(x) Summary of effects on adopting new/revised HKFRSs

The following tables set out the effects of adopting the new/revised HKFRSs on the Consolidated Financial Statements.

(a) Consolidated balance sheet at 31 December 2005

	Effect of adopting							
	HKAS 1	HKAS 16		HKAS 17	HKASs 32, 39 & 39 (Amendment)	HKAS 40	HKFRS 3	Total
	Presentation of Financial Statements	Property, Plant and Equipment Dry-docking costs	Property, Plant and Equipment Residual values	Leases	Financial Instruments	Investment Property	Business Combinations	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Increase/(decrease) in net assets:								
Assets								
Property, plant and equipment	(6,828)	37,823	184,297	(167,918)	—	—	—	47,374
Investment properties	6,828	—	—	—	—	(4,393)	—	2,435
Leasehold land and land use rights	—	—	—	198,052	—	—	—	198,052
Jointly controlled entities	—	—	—	—	2,704	—	20,886	23,590
Associates	—	—	—	—	33,322	—	158,031	191,353
Available-for-sale financial assets	—	—	—	—	2,233,042	—	—	2,233,042
Investment securities	—	—	—	—	(710,415)	—	—	(710,415)
Derivative financial assets	—	—	—	—	5,853	—	—	5,853
Trade and other receivables	—	—	—	—	9,410	—	—	9,410
Liabilities								
Derivative financial liabilities	—	—	—	—	(16,197)	—	—	(16,197)
Deferred income tax liabilities	—	(5,472)	(23,083)	—	—	—	—	(28,555)
Long-term borrowings	—	—	—	—	123,430	—	—	123,430
Net assets	—	32,351	161,214	30,134	1,681,149	(4,393)	178,917	2,079,372

The adoption of HKFRS 3, HKASs 32, 39 and 39 (Amendment) do not require the restatement of the comparative figures of the relevant balance sheet items. All the related financial effects of RMB2,257,924,000 on the consolidated balance sheet as at 31 December 2004 are reflected as opening adjustments to the Group's equity as at 1 January 2005. In addition, since the resulting impact of adoption of HKASs 16, 17 and 21 are not material as a whole, this change has not been applied retrospectively and prior year adjustments have not been made. Accordingly, the consolidated balance sheet as at 31 December 2004 has not been separately presented.

2 Summary of significant accounting policies (Continued)

(b) Changes in significant accounting policies (Continued)

(x) *Summary of effects on adopting new/revised HKFRSs* (Continued)

(b) Consolidated income statement for the year ended 31 December 2005

	Effect of adopting								
	HKAS 1	HKAS 16		HKAS 17	HKAS 21	HKASs 32, 39 & 39 (Amendment)	HKAS 40	HKFRS 3	Total
	Presentation of Financial Statements	Property, Plant and Equipment Dry-docking costs	Property, Plant and Equipment Residual values	Leases	Foreign Currency Translation	Financial Instruments	Investment Property	Business Combinations	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Decrease in cost of services	—	110,059	—	—	—	—	—	—	110,059
Increase in other gains, net	—	—	—	—	284,130	18,673	—	—	302,803
Decrease/(increase) in depreciation and amortisation	—	(72,236)	184,297	30,134	—	—	(289)	—	141,906
Decrease in other operating income	—	—	—	—	—	—	(4,104)	—	(4,104)
(Decrease)/increase in share of profits less losses of									
- jointly controlled entities	(101,599)	—	—	—	—	(4,029)	—	21,195	(84,433)
- associates	(31,833)	—	—	—	—	467	—	(5,487)	(36,853)
Decrease in finance costs	—	—	—	—	—	525	—	—	525
Decrease/(increase) in income tax expenses	133,432	(5,472)	(23,083)	—	—	—	—	—	104,877
Increase/(decrease) in profit for the year	—	32,351	161,214	30,134	284,130	15,636	(4,393)	15,708	534,780
Increase/(decrease) in earnings per share									
- basic (RMB cents)	—	0.63	2.83	0.31	5.53	0.16	(0.09)	0.16	9.53
- diluted (RMB cents)	—	0.63	2.81	0.30	5.50	0.16	(0.09)	0.16	9.47

No adjustment was made to the consolidated income statement for the year ended 31 December 2004 following the adoption of the new/revised HKFRSs, except that HKAS 1 affected the presentation of minority interests, share of net after-tax results of jointly controlled entities, associates and other disclosures for that year. Accordingly, the effect of adopting the new/revised HKFRSs on the consolidated income statement for the year ended 31 December 2004 has not separately disclosed and presented.

2 Summary of significant accounting policies (Continued)

(c) Standards, interpretation and amendments to be published that are not yet effective for the year ended 31 December 2005

The HKICPA has issued the following new standards, amendments and interpretations which are not yet effective for the year ended 31 December 2005:

	Effective for accounting periods beginning on or after
HKFRS Interpretation 4 "Determining whether an Arrangement contains a Lease"	1 January 2006
HKAS 19 (Amendment), "Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures"	1 January 2006
HKAS 39 (Amendment), "Financial Instruments: Recognition and Measurement":	
- The Fair Value Option	1 January 2006
- Cash Flow Hedge Accounting of Forecast Intragroup Transactions	1 January 2006
- Financial Guarantee Contracts	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
- HKAS 1 "Presentation of Financial Statements"	1 January 2006
- HKAS 27 "Consolidated and Separate Financial Statements"	1 January 2006
- HKFRS 3 "Business Combinations"	1 January 2006
HKFRS 7 "Financial Instruments: Disclosures"	1 January 2007
HKAS 1 (Amendment) "Presentation of Financial Statements: Capital Disclosures"	1 January 2007

The Group has not early adopted the above standards, amendments and interpretations in the Consolidated Financial Statements. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether substantial changes to Group's accounting policies and presentation of the Consolidated Financial Statements will be resulted.

2 Summary of significant accounting policies (Continued)

The significant accounting policies applied in the preparation of the Consolidated Financial Statements are set out below.

(d) Group accounting

The Consolidated Financial Statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

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, other than those subsidiaries acquired pursuant to the Reorganisation (notes 1 and 2(a)). 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 income statement.

Investment in a jointly controlled entity/an associate is accounted for using the equity method from the date on which it becomes a jointly controlled entity/an associate. The measurement and recognition of goodwill is same as that of goodwill arising from the acquisition of subsidiaries. Goodwill relating to a jointly controlled entity/an associate is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the profits or losses after acquisition are made to the consolidated financial statements based on their fair values at the date of acquisition.

The consolidated income statement includes the Group's share of the results of jointly controlled entities and associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and associates and goodwill (net of any accumulated impairment losses) on acquisition.

When the Group's share of losses in an associate 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 associate.

Intercompany transactions and balances between group companies are eliminated. Unrealised gains on transactions between group companies and between the Group and its jointly controlled entities and associates to the extent of the Group's interest are eliminated. Unrealised losses are also eliminated but (considered an impairment indicator) unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of subsidiaries, jointly controlled entities and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 Summary of significant accounting policies (Continued)

(d) Group accounting (Continued)

(i) Subsidiaries

Subsidiaries are all entities (including special purpose 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.

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 income.

(ii) Jointly controlled entities

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the ventures have their respective interests and establish a contractual arrangement among them to define joint control over the economic activity of the entity.

(iii) Associates

Associates 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.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements 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 Company's functional currency is US dollar and its consolidated financial statements are presented in RMB. Presentation currency is different from the Company's functional currency because the Company is a PRC incorporated company which is required to present its financial statements in RMB.

2 Summary of significant accounting policies (Continued)

(e) Foreign currency translation (Continued)

(ii) 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 income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the securities, and other changes in the carrying amount of the securities. Translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets are included in equity.

(iii) 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:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement 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

(3) 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 equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement 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 Summary of significant accounting policies (Continued)

(f) Property, plant and equipment

(i) Assets under construction

Assets under construction represent primarily vessels and buildings under construction, and plant and equipment pending installation and are stated at cost less accumulated impairment losses. Cost includes all direct costs relating to the construction of the assets and acquisition.

No depreciation is provided for assets under construction until such time as the relevant assets are completed and ready for intended use. Assets under construction are transferred to relevant categories of property, plant and equipment upon the completion of their respective construction.

(ii) Container vessels and containers

Container vessels and containers are stated at cost less accumulated depreciation and impairment losses.

Container vessels and containers are depreciated on a straight-line basis on an anticipated useful life of 25 years and 12 to 15 years respectively, after taking into account the estimated residual values. Cost incurred in replacing or renewing the separate assets (dry-docking costs) of container vessels are capitalised and depreciated on a straight-line basis over the estimated period until the next dry-docking (note 2(b)(ii)).

(iii) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Other property, plant and equipment are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives to their respective residual values estimated by the Directors on a straight-line basis. The estimated useful lives of these assets are summarised as follows:

Buildings	25 to 50 years
Trucks, chassis and motor vehicles	5 to 10 years
Computer and office equipment	3 to 5 years

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 income statement during the period in which they are incurred.

The residual values of the property, plant and equipment and their useful lives are reviewed and adjusted, if appropriate, at each financial year end. 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.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

2 Summary of significant accounting policies (Continued)

(g) Leasehold land and land use rights

Leasehold land and land use rights represent prepaid operating lease payments for land less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method to allocate the prepaid operating lease payments for land over the remaining lease term.

(h) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated group, is classified as investment property.

Investment properties are stated at cost less accumulated depreciation and impairment losses. The cost less accumulated impairment and residual values of investment properties are depreciated on a straight-line basis over their estimated useful lives of 25 to 50 years (note 2(b)(vii)).

(i) Intangible assets

(i) Goodwill

Goodwill represents the excess of purchase consideration over the fair value of the Group's share of the net identifiable assets of subsidiaries, jointly controlled entities and associates acquired at the date of acquisition.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of jointly controlled entities and associates is included in investments in jointly controlled entities and associates respectively.

Goodwill is tested annually or when an indication of impairment exists for impairment and carried at cost less accumulated impairment losses. Impairment loss 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. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years on a straight-line basis.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer system under development are transferred to computer software upon the completion of the respective development and amortisation will then be commenced accordingly over the estimated useful lives of 5 years on a straight-line basis.

2 Summary of significant accounting policies (Continued)

(j) Impairment of assets

Assets that have an indefinite useful life 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 depreciation or 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.

(k) Assets under leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Leases that substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as finance leases.

(i) Where the company is the lessee

(1) Operating leases

Payments made under operating leases (net of any incentives received from the leasing company) are expensed in the income statement on a straight-line basis over the lease periods.

(2) Finance leases

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current liabilities. The finance charges are charged to the income statement over the lease periods.

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

2 Summary of significant accounting policies (Continued)

(k) Assets under leases (Continued)

(ii) Where the company is the lessor

(1) Operating leases

When assets are leased out under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(f) above. Revenue arising from assets leased out under operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(x)(iii) below.

(2) Finance leases

Finance leases for assets leased out are leases of assets which contain a provision giving the lessee an option to acquire legal title to the assets upon the fulfillment of certain conditions stated in the contracts.

When assets are leased out under a finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Revenue on containers leased out under finance leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(x)(iii) below.

(l) Investments

Prior to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, jointly controlled entities and associates as investment securities.

Listed and unlisted investments which were intended to be held on a continuing basis were stated at cost less provision for impairment losses.

The carrying amounts of individual investments were reviewed at each balance sheet date to assess whether the fair values had declined below the carrying amounts. When a decline other than temporary had occurred, the carrying amount of such investment was reduced to its fair value. The impairment loss was recognised as an expense in the income statement. This impairment loss was written back to income statement when the circumstances and events that led to the write-downs and write-offs ceased to exist and there was persuasive evidence that the new circumstances and events would persist for the foreseeable future.

2 Summary of significant accounting policies (Continued)

(l) Investments (Continued)

From 1 January 2005 onwards:

The Group classifies its investments as available-for-sale financial assets. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Available-for-sale financial assets are non-derivatives and they are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investments.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market input and relying as little as possible on entity-specific input.

The Group assesses at each balance sheet date whether there is objective evidence that available-for-sale financial assets are impaired. A significant or prolonged decline in the fair value of the securities below its cost is considered as an indicator that in determining whether the securities are impaired. If any such evidence exists the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(m) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedge of the fair value of a recognised liability (note 2(b)(vi)(2)).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of the hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining hedge item is more than 12 months, and as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(m) Derivative financial instruments and hedging activities (Continued)

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within finance costs. The gain or loss relating to the ineffective portion is recognised in the income statement within other gains. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognised in the income statement within finance costs. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within other gains.

(n) Inventories

Inventories, primarily bunkers and resaleable containers, are stated at the lower of cost and net realisable value. Costs are calculated on a weighted average basis. Net realisable value of bunkers is the expected amount to be realised from use as estimated by the Directors whereas that of resaleable containers is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(o) 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 income statement within other operating expenses.

(p) Cash and cash equivalents

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

2 Summary of significant accounting policies (Continued)

(q) 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 a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(r) 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.

(s) 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 income statement 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.

(t) Government grants

Grants from the government are recognised at their fair value when there is a reasonable assurance that the Group will comply with the conditions attaching with them and that the grants will be received.

Grants relating to income are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs they are intended to compensate. Grants with no future related costs are recognised as income in the year in which they become receivable.

2 Summary of significant accounting policies (Continued)

(u) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service 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.

(ii) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(iii) Retirement benefit costs

The Group has both defined benefit and defined contribution plans throughout the world, the assets of which are generally held in separate trustee-administered funds. The plans are generally funded by payments from employees and the relevant companies in the Group, determined by periodic actuarial calculations if required.

A defined contribution plan is a retirement benefit plan under which the Group pays fixed contributions into a separate entity. Contributions under the defined contribution plans are charged to the income statement as expense when incurred.

The Group also makes payments and contributions on a monthly basis according to various defined contribution retirement benefit plans organised by relevant municipal and/or provincial governments in the PRC and other relevant countries. The Group has no further obligations for post-retirement benefits beyond these payments as they fall due. Payments made under these plans are expensed as incurred.

A defined benefit plan is a retirement benefit plan that is not a defined contribution plan. Under the plan, an amount of retirement benefit that an employee will receive on retirement is defined, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of retirement plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related retirement benefit liability.

2 Summary of significant accounting policies (Continued)

(u) Employee benefits (Continued)

(iii) Retirement benefit costs (Continued)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of retirement plan assets or 10% of the present value of the defined benefit obligation are recognised in the income statement over the employees' expected average remaining working lives.

Past service costs are recognised immediately as income, unless the changes to the retirement benefit plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(iv) Other post-employment obligations

The Group also provides post-retirement healthcare benefits to their retirees. The entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit retirement plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

(v) Early retirement benefits

Employee early retirement benefits are recognised in the period in which the Group has entered into an agreement with the employee specifying the terms of early retirement or after the individual employee has been advised of the specific terms. The specific terms vary among the early retired employees depending on various factors including position, length of service and district of the employee concerned.

(vi) Housing funds

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

2 Summary of significant accounting policies (Continued)

(u) Employee benefits (Continued)

(vii) Share-based payments

The Group regularly entered into equity-settled or cash-settled share-based payment transactions with employees.

Employee services settled in cash

Employee services received in exchange for cash-settled share-based payments, are recognised at the fair value of the liability incurred and are expensed when consumed or capitalised as assets, which are depreciated or amortised. The liability is remeasured at each balance sheet date to its fair value, with all changes recognised immediately in the income statement.

Employee services settled in equity instruments

One of the Group's subsidiaries operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the share options of the subsidiary is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(v) 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 Financial Statements. 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 income 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, jointly controlled entities and associates, 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 Summary of significant accounting policies (Continued)

(w) 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 Financial Statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises 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 Consolidated Financial Statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(x) Recognition of revenue and income

The Group recognises revenues and income on the following basis:

(i) Revenue from container shipping

Freight revenues from the operation of 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) Revenue from container terminal operations

Revenue from container terminal operations is recognised when the services rendered are complete and the vessel leaves the berth.

(iii) Revenue from lease rental income

Rental income arising from assets leased out under operating leases are recognised on a straight-line basis over the period of each lease.

Revenue on assets leased out under finance leases is allocated to accounting period to give a constant periodic rate of return on the net investment in the lease in each period.

2 Summary of significant accounting policies (Continued)

(x) Recognition of revenue and income (Continued)

(iv) Revenue from freight forwarding and shipping agency

Revenue is recognised when the services are rendered.

For freight forwarding business, it generally coincides with the date of departure for outward freights and the time of transfer of goods to the customers at the designated location for inward freight. For shipping agency services, it generally coincides with the date of departure of the relevant vessels from the port.

Where the Group effectively acts as a principal in arranging transportation of goods for customers, revenue recognised generally includes the carrier's charges to the company. Where the Group effectively acts as an agent for the customers, revenue recognised comprises fees for services provided by the Group.

(v) Income from sale of containers

Revenue from sale of containers is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the containers are delivered to customers and title has passed. Direct costs relating to the lifting and storage of containers for sale are expressed as incurred.

(vi) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(vii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(viii) Income on sale of investments

Income on sale of investments is recognised when the title to the investments is passed to the purchaser.

(y) Dividend distribution

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

(z) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

2 Summary of significant accounting policies (Continued)

(aa) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

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

3 Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and interest rate risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. 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. The Group uses derivative financial instruments to hedge certain risk exposures. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

(i) Market risk

(1) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures (such as RMB and EURO dollar), primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(2) Price risk

The Group is exposed to equity securities price risk because the Group's investments are classified as available-for-sale financial assets which are required to be stated at their fair values (see fair value estimation below). The Group is also exposed to bunker's price risk, the Group uses bunker forward contracts to manage this risk.

(ii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that credit sales are made to customers with an appropriate trading history. The Group has policies that limit the amount of credit exposure to any financial institution.

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk

The Group adopts prudent liquidity risk management which implies maintaining sufficient cash and bank balances, having available funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(iv) Cash flow and fair value interest rate risk

As the Group has no significant interest bearing assets, other than deposits and cash and cash equivalents, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group raises short-term loans and long-term borrowings at floating rates as well as fixed rates, based upon the capital market conditions and the Group's own internal requirements. Interest rate swap contracts with financial institutions are used to achieve the optimum ratio between fixed and floating rates. The Group uses certain interest rate swap contracts as hedge of the fair value of notes issued by the Group.

(v) Fair value estimation

The fair values of the Group's available-for-sale financial assets are determined by reference to the methods below:

– the quoted market price when the related investment is traded in an active market;

– valuation techniques (including pricing models or discounted cash flow models); and

– the price for similar recent transactions, with adjustment on the different in market conditions and circumstances.

For major unlisted investment, the Group will determine the fair value of available-for-sale financial assets by reference to valuation report of an independent professional valuer.

The fair value of interest rate swap contract is calculated as the present value of the estimated future cash flows.

The nominal values less impairment provision (as applicable) 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 experience and other factors, including expectations of future events that are believed to be reasonable under the circumstance.

Critical accounting estimates and assumptions

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) Impairment of container vessels and containers

The Group's major operating assets represent container vessels and containers. The Group tests annually whether container vessels and containers have suffered any impairment in accordance with the accounting policy stated in note 2(j). The recoverable amounts of container vessels and containers have been determined based on value-in-use calculations. These calculations require the use of estimates on the projections of cash inflows from the continue use of container vessels and containers (including the amount to be received for the disposal of container vessels and containers) and discount rate.

(ii) Useful lives and residual values of container vessels and containers

The Group's major operating assets represent container vessels and containers. Management determines the estimated useful lives of container vessels and containers by reference to the Group's business model, its assets management policy and also the industry practice. The useful lives could change significantly as a result of the changes in these factors. The depreciation expense will increase where useful lives are less than previously estimated lives.

Management determines the residual values of its container vessels and containers based on all relevant factors (including the use of the current scrap value of steels in an active market as a reference value) at each measurement date. The depreciation expense will change where the residual values are different from previously estimated values.

(iii) Fair value of available-for-sale financial assets

If information on current or recent prices of available-for-sale financial assets is not available, the fair values of available-for-sale financial assets are determined using valuation techniques (including discounted cash flow model or price/earnings multiple model). The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

(iv) Impairment of goodwill and other assets

The Group tests annually whether goodwill and other assets have suffered any impairment in accordance with the accounting policy stated in note 2(j). The recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations which require the use of assumptions and estimates.

4 Critical accounting estimates and judgements (Continued)

Critical accounting estimates and assumptions (Continued)

(v) Provision of operating costs

Operating costs, which mainly comprise container and cargo costs, vessel and voyage costs, sub-route and transportation costs, are recognised on a percentage of completion basis. Invoices in relation to these expenses are received approximately up to 6 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 costs in future periods.

(vi) Income taxes

The Group is subject to income taxes in numerous 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.

(vii) Revenue recognition

The Group recognises container shipping revenues on a percentage of completion basis, which is determined on the time proportion method of each individual voyage.

Critical judgements in applying the Group's accounting policies

Income taxes

Deferred tax liabilities have not been established for the withholding tax and differential tax that would be payable on the undistributed profits of certain subsidiaries primarily operating in the United States of America or the PRC as the Directors consider that the timing of the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future (note 16).

5 Turnover and segment information

Turnover represents gross revenues from container shipping, container terminal, container leasing and freight forwarding and shipping agency, net of discounts allowed, where applicable.

	2005 RMB'000	2004 RMB'000
Container shipping (note a)	**31,959,809**	27,319,843
Container terminal	**106,378**	99,274
Container leasing (note b)	**1,227,429**	1,127,659
Freight forwarding and shipping agency	**5,872,094**	3,641,893
	39,165,710	32,188,669

Notes:

(a) Revenue from container shipping include charterhire income under operating leases of RMB288,193,000 for the year ended 31 December 2005 (2004: RMB514,787,000).

(b) Revenue from container leasing is analysed below:

	2005 RMB'000	2004 RMB'000
Operating lease rentals	**1,223,072**	1,122,916
Finance lease income	**4,357**	4,743
	1,227,429	1,127,659

(c) Primary reporting format - business segments

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

The Group is organised on a worldwide basis into the following segments:

- Container shipping
- Container terminal and related businesses
- Container leasing
- Freight forwarding and shipping agency
- Other operations that primarily comprise container manufacturing, banking and investment holding

Unallocated income mainly represents corporate interest income. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land and land use rights, intangible assets, inventories, receivables and operating cash, and mainly exclude investments in jointly controlled entities, associates, available-for-sale financial assets and investment securities, derivative financial assets, deferred income tax assets and corporate assets. Segment liabilities comprise operating liabilities and mainly exclude items such as current and deferred income tax liabilities, distribution payable, corporate borrowings and related hedging derivatives. Capital expenditure comprises additions to property, plant and equipment, investment properties, leasehold land and land use rights and intangible assets, including additions resulting from acquisitions through business combination.

5 Turnover and segment information (Continued)

(c) Primary reporting format - business segments (Continued)

	Year ended and as at 31 December 2005						
	Container shipping RMB'000	Container terminal and related businesses RMB'000	Container leasing RMB'000	Freight forwarding and shipping agency RMB'000	Other operations RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Turnover							
External sales	31,959,809	106,378	1,227,429	5,872,094	—	—	39,165,710
Inter-segment sales	—	51,973	1,035,547	2,330,690	—	(3,418,210)	—
	31,959,809	158,351	2,262,976	8,202,784	—	(3,418,210)	39,165,710
Segment results	4,705,310	216,743	1,287,470	397,726	6,123	—	6,613,372
Profit on disposal of an available-for-sale financial asset *(note 29(b))*	—	512,117	—	—	—	—	512,117
Unallocated income							148,522
Unallocated expenses							(219,138)
Operating profit							7,054,873
Finance costs							(868,393)
Share of profits less losses of							
- jointly controlled entities	—	449,012	—	127,615	25,225	—	601,852
- associates	—	136,427	—	5,567	519,924	—	661,918
Profit before income tax							7,450,250
Income tax expenses							(651,319)
Profit for the year							6,798,931
Segment assets	23,445,451	422,903	12,622,708	4,351,793	113	(1,887,249)	38,955,719
Jointly controlled entities	—	1,624,257	—	1,493,052	147,200	—	3,264,509
Associates	—	970,232	—	24,955	3,073,367	—	4,068,554
Available-for-sale financial assets	—	2,134,744	—	8,945	89,353	—	2,233,042
Unallocated assets							3,153,830
Total assets							51,675,654
Segment liabilities	12,274,448	1,030,500	4,665,640	4,551,742	443,861	(1,887,249)	21,078,942
Unallocated liabilities							4,651,620
Total liabilities							25,730,562
Depreciation and amortisation	835,980	10,753	886,338	72,322	3,911	—	1,809,304
Capital expenditure	2,688,135	35,791	2,749,623	300,860	7,287	—	5,781,696
Provision for impairment of trade receivables	—	—	11,376	15,897	—	—	27,273
Other non-cash expenses	6,236	1,900	16,117	2,290	1,833	—	28,376

5 Turnover and segment information (Continued)

(c) Primary reporting format - business segments (Continued)

	Year ended and as at 31 December 2004 (Restated)						
	Container shipping RMB'000	Container terminal and related businesses RMB'000	Container leasing RMB'000	Freight forwarding and shipping agency RMB'000	Other operations RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Turnover							
External sales	27,319,843	99,274	1,127,659	3,641,893	—	—	32,188,669
Inter-segment sales	—	54,984	999,911	2,256,495	—	(3,311,390)	—
	27,319,843	154,258	2,127,570	5,898,388	—	(3,311,390)	32,188,669
Segment results	3,495,858	240,497	1,073,901	210,989	(666)	—	5,020,579
Unallocated income							85,083
Unallocated expenses							(59,946)
Operating profit							5,045,716
Finance costs							(639,760)
Share of profits less losses of							
- jointly controlled entities	—	425,893	—	109,511	25,327	—	560,731
- associates	—	145,212	—	503	130,898	—	276,613
Profit before income tax							5,243,300
Income tax expenses							(285,757)
Profit for the year							4,957,543
Segment assets	19,802,632	431,099	11,037,299	5,058,914	38,483	(1,948,872)	34,419,555
Jointly controlled entities	—	1,402,033	—	1,514,867	131,583	—	3,048,483
Associates	—	866,668	—	18,203	2,402,834	—	3,287,705
Investment securities	—	467,030	—	34,805	108,222	—	610,057
Unallocated assets							2,883,767
Total assets							44,249,567
Segment liabilities	16,166,420	903,846	3,352,748	5,468,213	3,330,816	(1,948,872)	27,273,171
Unallocated liabilities							3,573,874
Total liabilities							30,847,045
Depreciation and amortisation	922,684	10,446	842,341	105,225	3,600	—	1,884,296
Capital expenditure	601,613	8,947	2,279,122	257,490	4,114	—	3,151,286
Provision/(reversal of provision) for impairment of trade receivables	(6,632)	—	(182)	34,232	—	—	27,418
Other non-cash expenses	23,439	—	7,367	34,204	—	—	65,010

5 Turnover and segment information (Continued)

(d) Secondary reporting format - geographical segments

The Group's businesses are managed on a worldwide basis. The turnover generated from the world's major trade lanes for container shipping business mainly includes Trans-Pacific, Asia-Europe, Intra-Asia, PRC and Trans-Atlantic which are reported as follows:

Geographical	Segment trade lanes
America	Trans-Pacific
Europe	Asia-Europe
Asia Pacific	Intra-Asia
China domestic	PRC
Other international market	Trans-Atlantic and others

In respect of container leasing, the movements of containers under operating leases or finance leases are known through reports from the lessees but the Group is not able to control the movements of containers except to the degree that the movements are restricted by the terms of the leases or where safety of the containers is concerned. It is therefore impracticable to present segment information by geographical area and thus the turnover of which is presented as unallocated turnover.

In respect of other activities including container terminals and freight forwarding, shipping agency and logistics, turnover is based on the geographical locations in which the business operations are located.

The Group's total assets are primarily dominated by its container vessels and containers. The Directors consider that the nature of the Group's business precludes a meaningful allocation of container vessels and containers and their related capital expenditure to specific geographical segments as defined under the HKAS 14 "Segmental reporting" issued by the HKICPA. These container vessels and containers are primarily utilised across geographical markets for shipment of cargoes throughout the world. Accordingly, geographical segment information is only presented for turnover.

	2005 RMB'000	2004 RMB'000
America	12,527,188	10,682,762
Europe	9,524,197	7,473,639
Asia Pacific	6,280,865	5,507,037
China domestic	7,032,641	5,126,934
Other international market	2,573,387	2,270,638
Unallocated	1,227,432	1,127,659
Total turnover	39,165,710	32,188,669

6 Property, plant and equipment

Group

	Buildings RMB'000	Container vessels RMB'000	Containers RMB'000	Trucks, chassis and motor vehicles RMB'000	Computer and office equipment RMB'000	Assets under construction RMB'000	Total RMB'000
Cost							
At 1 January 2005	572,914	25,483,788	14,771,333	402,035	754,715	635,485	42,620,270
Exchange differences	(1,373)	(323,237)	(366,887)	(1,016)	(8,661)	(11,263)	(712,437)
Reclassifications	27,091	—	—	1,576	117,270	(145,937)	—
Additions	88,063	121,978	2,692,282	55,553	103,964	2,618,870	5,680,710
Disposals/transfers	(21,550)	—	(997,214)	(165,365)	(28,028)	—	(1,212,157)
At 31 December 2005	665,145	25,282,529	16,099,514	292,783	939,260	3,097,155	46,376,386
Accumulated depreciation							
At 1 January 2005	85,754	11,646,531	4,796,854	192,772	435,916	—	17,157,827
Exchange differences	(16)	(115,596)	(124,769)	(681)	(5,570)	—	(246,632)
Charge for the year	23,615	696,483	875,035	31,747	106,044	—	1,732,924
Disposals/transfers	(3,826)	—	(571,003)	(45,104)	(24,592)	—	(644,525)
At 31 December 2005	105,527	12,227,418	4,976,117	178,734	511,798	—	17,999,594
Net book value							
At 31 December 2005	559,618	13,055,111	11,123,397	114,049	427,462	3,097,155	28,376,792

6 Property, plant and equipment (Continued)

Group

	Buildings RMB'000	Container vessels RMB'000	Containers RMB'000	Trucks, chassis and motor vehicles RMB'000	Computer and office equipment RMB'000	Assets under construction RMB'000	Total RMB'000
Cost							
At 1 January 2004	620,917	26,601,768	13,673,223	260,565	709,887	65,342	41,931,702
Exchange differences	2,435	(793)	2	2,412	6,971	—	11,027
Reclassifications	3,874	—	8,818	2,659	18,759	(34,110)	—
Additions	30,840	—	2,242,628	167,639	55,811	604,253	3,101,171
Disposals/transfers	(78,303)	(1,117,187)	(1,153,338)	(18,178)	(35,472)	—	(2,402,478)
Disposals of subsidiaries	(6,849)	—	—	(13,062)	(1,241)	—	(21,152)
At 31 December 2004	572,914	25,483,788	14,771,333	402,035	754,715	635,485	42,620,270
Accumulated depreciation							
At 1 January 2004	80,227	11,041,215	4,702,816	166,729	367,865	—	16,358,852
Exchange differences	399	(239)	6	1,906	4,587	—	6,659
Charge for the year	22,665	824,586	826,390	46,494	90,539	—	1,810,674
Disposals/transfers	(13,368)	(219,031)	(732,358)	(14,106)	(26,322)	—	(1,005,185)
Disposal of subsidiaries	(4,169)	—	—	(8,251)	(753)	—	(13,173)
At 31 December 2004	85,754	11,646,531	4,796,854	192,772	435,916	—	17,157,827
Net book value							
At 31 December 2004	487,160	13,837,257	9,974,479	209,263	318,799	635,485	25,462,443

6 Property, plant and equipment (Continued)

Company

	Motor vehicles RMB'000	Computer and office equipment RMB'000	Total RMB'000
Cost			
Additions	1,400	5,309	6,709
Accumulated depreciation			
Charge for the year	(58)	(432)	(490)
Net book value			
At 31 December 2005	1,342	4,877	6,219

Notes:

(a) The aggregate cost and accumulated depreciation of the leased assets, where the Group is the lessor under the operating lease arrangements, are set out below:

	Containers RMB'000	Container vessels RMB'000	Total RMB'000
At 31 December 2005			
Cost	7,940,649	—	7,940,649
Accumulated depreciation	(2,319,028)	—	(2,319,028)
	5,621,621	—	5,621,621
At 31 December 2004			
Cost	8,023,823	1,001,033	9,024,856
Accumulated depreciation	(2,091,581)	(705,816)	(2,797,397)
	5,932,242	295,217	6,227,459

(b) As at 31 December 2005, certain containers and container vessels with an aggregate net book value of RMB4,126,067,000 and RMB10,748,980,000 respectively (2004: RMB2,730,673,000 and RMB11,471,568,000) were pledged as securities for loan facilities granted by banks or third parties (note 23(i)).

(c) During the year, the Group transferred containers with an aggregate net book value of RMB171,529,000 (2004: RMB263,382,000) to inventories.

(d) As at 31 December 2004, the net book value of chassis held under finance leases by the Group was RMB115,171,000.

7 Investment properties

	Group 2005 RMB'000	2004 RMB'000
At 1 January (note a)	13,880	12,738
Exchange differences	(183)	—
Reclassifications	—	(1,275)
Disposals	(6,580)	—
Depreciation	(289)	—
Revaluation (note 29)	—	2,417
At 31 December	6,828	13,880
Cost	7,113	13,880
Accumulated depreciation	(285)	—
Net book value	6,828	13,880

Notes:

(a) The investment properties as at 31 December 2004 were revalued on an open market value basis by DTZ Debenham Tie Leung Limited and Sallmanns (Far East) Ltd., independent professional property valuers.

The net book value of the properties as at 31 December 2004 was deemed as the cost as at 1 January 2005. The portion of prepaid operating lease payments has not been segregated from the investment properties as the amount is insignificant to the Group.

(b) During the year ended 31 December 2004, certain investment properties of RMB530,000 and RMB745,000 were transferred to buildings and leasehold land respectively.

(c) The fair value of the investment properties as at 31 December 2005 was RMB11,161,000.

8 Leasehold land and land use rights

	Group 2005 RMB'000	2004 RMB'000
At 1 January	**155,930**	130,969
Additions	**48,969**	34,822
Exchange differences	**(4,931)**	1,380
Amortisation	**(1,916)**	(4,303)
Disposals	**—**	(6,938)
At 31 December	**198,052**	155,930

Notes:

(a) The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group 2005 RMB'000	2004 RMB'000
In Hong Kong, held on:		
Leases of over 50 years	**130,681**	105,806
Leases of between 10 to 50 years	**1,934**	2,096
	132,615	107,902
Outside Hong Kong, held on:		
Leases of over 50 years	**9,091**	—
Leases of between 10 to 50 years	**56,346**	48,028
	65,437	48,028
	198,052	155,930

(b) As at 31 December 2005, land use rights outside Hong Kong with net book value of RMB13,598,000 (2004: RMB14,369,000) were pledged as securities for loan facility granted by a bank (note 23(i)).

9 Intangible assets

	Group		Company
	Computer software		Computer software
	2005	2004	2005
	RMB'000	RMB'000	RMB'000
Cost	**439,112**	393,854	**132**
Accumulated amortisation and impairment	**(291,028)**	(222,620)	**(13)**
Net book value at 31 December	**148,084**	171,234	**119**
At 1 January	**171,234**	223,712	**—**
Exchange differences	**(728)**	273	**—**
Additions	**52,017**	16,568	**132**
Amortisation	**(74,175)**	(69,319)	**(13)**
Disposal/write-off	**(264)**	—	**—**
At 31 December	**148,084**	171,234	**119**

10 Subsidiaries

	Company 2005 RMB'000
Unlisted investments, at cost	**6,868,438**
Current assets	
Amounts due from subsidiaries (note a)	**10,761,230**
Current liabilities	
Amounts due to subsidiaries (note a)	**(4,411,050)**

Notes:

(a) The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(b) Details of principal subsidiaries as at 31 December 2005 are shown in note 41(a) to the Consolidated Financial Statements.

11 Jointly controlled entities

	Group 2005 RMB'000	2004 RMB'000
Share of net assets	**2,669,929**	2,422,725
Goodwill on acquisition (note a)	**421,741**	395,028
Loans to jointly controlled entities (note b)	**172,839**	230,730
	3,264,509	3,048,483
Unlisted investments, at cost	**4,732,755**	4,717,822

Notes:

(a) The carrying amount of goodwill on acquisition of jointly controlled entities as at 31 December 2005 mainly represented the goodwill on acquisition of equity interests in COSCO Logistics Co., Ltd ("COSCO Logistics"), Qingdao Qianwan Container Terminal Co., Ltd and Nanjing Port Longtan Containers Co., Ltd of RMB340,974,000 (2004: RMB349,712,000), RMB43,272,000 (2004: RMB44,381,000), and RMB36,582,000 (2004: N/A) respectively. The estimated useful lives of goodwill range from 20 years to 35 years by reference to the respective joint venture periods of jointly controlled entities. The movement during the year is as follows:

	Group 2005 RMB'000	2004 RMB'000
Cost		
At 1 January, as previously reported	**415,778**	46,707
Exchange differences	**(10,387)**	—
Elimination (note 2(b)(ix))	**(20,232)**	—
At 1 January, as restated	**385,159**	46,707
Additions	**36,582**	369,071
At 31 December	**421,741**	415,778
Accumulated amortisation		
At 1 January, as previously reported	**20,750**	—
Exchange differences	**(518)**	—
Elimination (note 2(b)(ix))	**(20,232)**	—
At 1 January, as restated	**—**	—
Amortisation for the year	**—**	(20,750)
At 31 December	**—**	(20,750)
Net book value		
At 31 December	**421,741**	395,028

The recoverable amount of the goodwill is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management of respective jointly controlled entities covering a one-year period. Cash flows beyond the one-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long term average growth rate for container terminal and logistics business in the PRC.

11 Jointly controlled entities (Continued)

Key assumptions used for value-in-use calculations include:

(i) the growth in the projected earnings before interest, depreciation, amortisation and income tax ("EBITDA") of respective jointly controlled entities for the coming five years ranging from 5% to 16%;

(ii) the growth rates used to extrapolate cash flow projections beyond a five years' period ranging from 3% to 5%; and

(iii) a discount rate of 10%.

Management determined projected EBITDA based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant industry.

Based on the management's assessment, no impairment has been recognised for the year ended 31 December 2005.

(b) The loans to jointly controlled entities are unsecured. Except for an amount of RMB77,522,000 (2004: RMB81,027,000) which bears interest at 1.60% (2004: 1.60%) per annum above the applicable swap offer rate as determined by the Association of Banks in Singapore, the remaining balance is interest free. Loans to jointly controlled entities of RMB77,522,000 (2004: RMB81,027,000) and RMB95,317,000 (2004: RMB149,689,000) are wholly repayable on or before October 2013 and January 2035 respectively.

(c) The Company has no directly owned jointly controlled entity as at 31 December 2005 and 2004. Details of principal jointly controlled entities as at 31 December 2005 are shown in note 41(b) to the Consolidated Financial Statements.

(d) The financial information below represents the Group's interests in respective jointly controlled entities.

	Non-current assets RMB$'000	Current assets RMB$'000	Non-current liabilities RMB$'000	Current liabilities RMB$'000	Minority interests RMB$'000	Turnover RMB$'000	Profits less losses after income tax RMB$'000
2005							
COSCO-HIT Terminals (Hong Kong) Limited	1,184,197	234,964	(1,117,900)	(108,988)	—	541,827	229,162
COSCO Logistics	772,584	2,124,408	(121,634)	(1,562,714)	(68,863)	5,245,074	123,373
Others	1,982,566	609,718	(651,749)	(606,660)	—	1,412,062	249,317
	3,939,347	2,969,090	(1,891,283)	(2,278,362)	(68,863)	7,198,963	601,852
2004							
COSCO-HIT Terminals (Hong Kong) Limited	1,269,088	161,029	(1,147,374)	(83,424)	—	531,491	262,985
COSCO Logistics	672,374	2,175,552	(79,095)	(1,628,789)	(63,650)	3,882,269	98,074
Others	1,881,341	896,687	(780,260)	(778,934)	(71,820)	1,489,721	199,672
	3,822,803	3,233,268	(2,006,729)	(2,491,147)	(135,470)	5,903,481	560,731

There are no significant contingent liabilities relating to the Group's interest in the jointly controlled entities, and no significant contingent liabilities of the jointly controlled entities themselves.

12 Associates

	Group 2005 RMB'000	2004 RMB'000
Share of net assets	**3,953,562**	3,409,625
Goodwill on acquisition (note a)	**702**	1,556
Negative goodwill on acquisition (note a)	**—**	(164,596)
Loans to associates (note b)	**114,290**	41,120
	4,068,554	3,287,705
Investments, at cost		
- Listed shares in Hong Kong	**1,768,899**	1,814,227
- Unlisted shares	**1,828,026**	1,541,600
	3,596,925	3,355,827
Market value of listed shares	**1,113,663**	1,083,956

Notes:

(a) Movement of goodwill/(negative goodwill) during the year is as follows:

	Group Goodwill RMB'000	Negative goodwill RMB'000	Total RMB'000
Cost			
At 1 January 2004	—	—	—
Additions	1,556	(164,596)	(163,040)
At 31 December 2004, as previously reported	1,556	(164,596)	(163,040)
Derecognition (note 2(b)(ix))	—	164,596	164,596
At 1 January 2005, as restated	1,556	—	1,556
Partial disposal of equity interest	(815)	—	(815)
Exchange differences	(39)	—	(39)
At 31 December 2005	702	—	702
Accumulated amortisation			
At 1 January 2004 and 31 December 2004	—	—	—
Net book amount			
At 31 December 2005	702	—	702
At 31 December 2004	1,556	(164,596)	(163,040)

The goodwill/negative goodwill as set out above was arisen from acquisitions of associates which were completed in December 2004 and accordingly no amortisation was recognised for the year ended 31 December 2004. In accordance with HKFRS 3, with effect from 1 January 2005, the Group is required to cease amortisation of goodwill/negative goodwill (note 2(b)(ix)).

12 Associates (Continued)

Notes: (Continued)

(b) Loans to associates are unsecured. Balance of RMB66,288,000 (2004: RMB41,120,000) bears interest at 2% (2004: 2%) per annum above the 10-year Belgium prime rate and has no fixed terms of repayment. The remaining balance of RMB48,002,000 (2004: RMBNil) bears interest at Tokyo Inter-Bank Offered Rate per annum (2004: N/A) and is wholly repayable in April 2008.

(c) The Company has no directly owned associates as at 31 December 2005 and 2004. Details of principal associates as at 31 December 2005 are shown in note 41(c) to the Consolidated Financial Statements.

(d) The financial information below, after making adjustments to conform to the Group's significant accounting policies, represents the Group's interests in respective associates:

	Total assets RMB$'000	Total liabilities RMB$'000	Minority interests RMB$'000	Turnover RMB$'000	Profits less losses after income tax RMB$'000
2005					
Liu Chong Hing Bank Limited	**10,559,034**	**(9,187,527)**	**—**	**407,939**	**82,120**
China International Marine Containers (Group) Co., Ltd. ("CIMC")	**2,762,421**	**(1,056,494)**	**(145,611)**	**5,021,326**	**455,645**
Others	**1,845,611**	**(823,872)**	**—**	**280,228**	**124,153**
	15,167,066	**(11,067,893)**	**(145,611)**	**5,709,493**	**661,918**
2004					
Liu Chong Hing Bank Limited	9,008,422	(7,661,009)	—	268,109	80,949
CIMC	2,757,027	(1,397,571)	(139,426)	N/A	N/A
Others	940,559	(98,377)	—	327,066	195,664
	12,706,008	(9,156,957)	(139,426)	595,175	276,613

13 Available-for-sale financial assets

	Group 2005 RMB'000
At 1 January 2005	2,549,449
Exchange differences	(56,884)
Additions	278,971
Disposals	(642,824)
Reclassification to associates	(20,000)
Net revaluation surplus recognised in equity	124,330
At 31 December 2005	2,233,042
Available-for-sale financial assets included the following:	
Listed securities in Hong Kong (note b)	89,353
Unlisted investments (note c)	2,143,689
	2,233,042

Notes:

(a) Available-for-sale financial assets as at 31 December 2005 comprise investments in equity securities of the investee companies and the shareholders' loans advanced to an investee company (with the nominal value of RMB402,994,000). The loans advanced to an investee company are unsecured, interest free and have no fixed terms of repayment.

(b) Listed securities represents equity interest in an entity which is principally engaged in the operation and management of international and domestic container marine transportation.

(c) Unlisted investments mainly comprise equity interests in entities which are engaged in container terminal operations in Yantian, Tianjin and Dalian of China mainland.

14 Investment securities

	Group 2004 RMB'000
Equity securities, at cost (note a)	
- listed investments in Hong Kong	108,231
- unlisted investments	192,898
- unlisted investments in fellow subsidiaries	22,100
Loans to an investee company (note b)	287,692
Provision	(864)
	610,057
Market value of listed shares	105,821

Notes:

(a) All the listed and unlisted investment securities and loans to an investee company have been redesignated as available-for-sale financial assets upon the adoption of HKASs 32 and 39 (note 2(b)(vi)).

(b) Loans to an investee company were unsecured and had no fixed terms of repayment. Except for an amount of RMB103,018,000 which bore interest at Hong Kong dollar prime rate per annum, the remaining balance was interest free.

15 Finance lease receivables

Group	Gross receivables RMB'000	Unearned finance income RMB'000	Present value of minimum lease payment receivable RMB'000
As at 31 December 2005			
Not later than one year	**13,752**	**(3,397)**	**10,355**
Later than one year and not later than five years	**33,790**	**(5,585)**	**28,205**
Later than five years	**2,076**	**(40)**	**2,036**
	49,618	**(9,022)**	**40,596**
Less: Amount included under current assets	**(13,752)**	**3,397**	**(10,355)**
	35,866	**(5,625)**	**30,241**
As at 31 December 2004			
Not later than one year	14,923	(4,158)	10,765
Later than one year and not later than five years	38,952	(8,372)	30,580
Later than five years	8,484	(546)	7,938
	62,359	(13,076)	49,283
Less: Amount included under current assets	(14,923)	4,158	(10,765)
	47,436	(8,918)	38,518

As at 31 December 2005, the Group entered into 19 (2004: 20) finance leases contracts for leasing of certain containers. The average term of the finance lease contracts is 3 years (2004: 4 years).

The cost of assets acquired for the purpose of leasing under finance leases amounted to RMB65,990,000 (2004: RMB64,966,000) as at 31 December 2005.

Unguaranteed residual values of assets leased under finance lease contracts are estimated at approximately RMB73,000 (2004: RMB74,000).

16 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using taxation rates ranging from 15% to 44% for the year (2004: 15% to 44%).

The movement on the net deferred tax liabilities is as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
At 1 January	(765,205)	(226,701)
Exchange differences	12,732	(98)
Credited/(charged) to consolidated income statement (note 31)	107,500	(117,319)
Charged to equity (note 33)	—	(421,087)
At 31 December	(644,973)	(765,205)

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2005, the Group has unrecognised tax losses of RMB75,417,000 (2004: RMB35,404,000) to carry forward, among which, the tax loss of RMB3,306,000 will expire at the end of year 2006, RMB580,000 will expire at the end of year 2007 and RMB1,355,000 will expire at the end of year 2008.

As at 31 December 2005, deferred tax liabilities of RMB919,200,000 (2004: RMB205,719,000) have not been established for the tax liabilities that would be payable on the repatriation of undistributed profits of certain subsidiaries primarily operating in the United States of America and the PRC totalling RMB4,521,800,000 (2004: RMB697,701,000) as the Directors consider that the timing of the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future.

The Company did not recognise any deferred income tax for the period ended 31 December 2005 and as at 31 December 2005 as the temporary difference is insignificant to the Company.

16 Deferred income tax (Continued)

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Group

Deferred income tax liabilities

	Accelerated tax depreciation RMB'000	Accrued revenues RMB'000	Undistributed profits of subsidiaries RMB'000	Others RMB'000	Total RMB'000
At 1 January 2004	(754,073)	(81,852)	—	(935)	(836,860)
Exchange differences	2	—	—	—	2
Charged to consolidated income statement	(441,032)	(28,742)	—	—	(469,774)
At 31 December 2004 and 1 January 2005	(1,195,103)	(110,594)	—	(935)	(1,306,632)
Exchange differences	25,843	—	—	—	25,843
(Charged)/credited to consolidated income statement	161,708	90,608	(176,000)	616	76,932
At 31 December 2005	(1,007,552)	(19,986)	(176,000)	(319)	(1,203,857)

Group

Deferred income tax assets

	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2004	545,926	64,233	610,159
Exchange differences	—	(100)	(100)
Credited to consolidated income statement	327,647	24,808	352,455
Charged to equity (note 33)	(421,087)	—	(421,087)
At 31 December 2004 and 1 January 2005	452,486	88,941	541,427
Exchange differences	(10,681)	(2,430)	(13,111)
Charged/(credited) to consolidated income statement	(42,710)	73,278	30,568
At 31 December 2005	399,095	159,789	558,884

16 Deferred income tax (Continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group	
	2005	2004
	RMB'000	RMB'000
Deferred income tax assets	**63,733**	39,593
Deferred income tax liabilities	**(708,706)**	(804,798)
	(644,973)	(765,205)
The amount shown in the consolidated balance sheet include the following:		
Deferred income tax assets to be recovered after more than 12 months	**63,733**	39,444
Deferred income tax liabilities to be settled after more than 12 months	**(701,006)**	(653,388)

17 Derivative financial assets/liabilities

	Group	
	2005	**2005**
	Assets	**Liabilities**
	RMB'000	**RMB'000**
Interest rate swaps		
- cash flow hedges (note a)	**5,853**	**—**
- fair value hedges (note b)	**—**	**16,199**
Total	**5,853**	**16,199**

Notes:

(a) The notional principal amounts of the related interest rate swap contracts amounted to US$100,000,000 (equivalent to approximately RMB807,020,000) (2004: US$100,000,000 (equivalent to approximately RMB827,700,000)) which were committed with the fixed interest rates ranging from 3.88% to 4.90% (2004: 3.88% to 4.90%) per annum. These interest rate swap contracts do not qualify for hedge accounting.

(b) The notional principal amount of the related interest rate swap contracts amounted to US$200,000,000 (equivalent to approximately RMB1,614,040,000) (2004: US$200,000,000 (equivalent to approximately RMB1,655,400,000)) which were committed with the interest rates ranging from 1.05% to 1.16% (2004: 1.05% to 1.16%) per annum above the London Interbank Offered Rate ("LIBOR"). These interest rate swap contracts have been designated as a hedge of the fair value of the notes issued by a subsidiary of Group upon their hedging relationship was fully designated and documented during the year (note 23(d)).

(c) As at 31 December 2005, there were notional amounts of outstanding bunker forward agreements of US$24,864,000 (equivalent to approximately RMB200,656,000) (2004: US$23,766,000 (equivalent to approximately RMB196,713,000)) entered into by the Group. The fair value of the outstanding bunker forward agreements has not been recognised in the Group's financial statements as at 31 December 2005 as the amount is not significant to the Group.

18 Deposits and cash and cash equivalents

	Group 2005 RMB'000	Group 2004 RMB'000	Company 2005 RMB'000
Non-current portion			
Restricted bank deposits (note a)	207,711	93,509	—
Current portion			
Pledged bank deposits (note b)	—	346	—
Cash and cash equivalents			
Money market fund investments (note c)	64,562	—	—
Deposits placed with COSCO Finance Co., Ltd ("COSCO Finance") (note d)	54,441	71,214	—
Bank balances and cash - unpledged	8,028,372	4,823,318	2,262,888
	8,147,375	4,894,532	2,262,888
Total deposits and cash and cash equivalents (note e)	8,355,086	4,988,387	2,262,888

Notes:

(a) Restricted bank deposits are deposits held as security for repayment of bank loans of the Group and are restricted for the purpose of the related banking facilities (note 23(i)).

(b) Pledged bank deposits are funds deposited in retention accounts for bank loan repayment or required to be utilised for specific purposes.

(c) Money market fund investments are highly liquid investments with original maturities within 3 months.

(d) Deposits placed with COSCO Finance, an associate/a fellow subsidiary, bear interest at prevailing market rates.

(e) As at 31 December 2005, exchange controls apply to certain bank balances and cash, which are held by certain subsidiaries of the Group with bank accounts operating in the PRC, amounted to RMB1,599,478,000 (2004: RMB1,215,179,000).

The carrying amounts of deposits and cash and cash equivalents are denominated in the following currencies:

	Group 2005 RMB'000	Group 2004 RMB'000	Company 2005 RMB'000
US dollar	3,145,126	2,882,058	117,161
RMB	1,252,274	805,404	139,762
HK dollar	2,225,455	277,750	2,005,965
EURO dollar	570,062	286,813	—
Other currencies	1,162,169	736,362	—
	8,355,086	4,988,387	2,262,888

(f) The effective interest rates on short-term bank deposits as at 31 December 2005 were in the range of 0.60% to 5.44% per annum (2004: 0.18% to 5.50% per annum); these deposits have an average maturity of 65 days (2004: 73 days). The bank balances earn interests at floating rates based on daily bank deposit rates.

19 Inventories

	Group 2005 RMB'000	Group 2004 RMB'000
Bunker	499,343	288,322
Resaleable containers and others	37,553	30,087
	536,896	318,409

20 Trade and other receivables

	Group 2005 RMB'000	Group 2004 RMB'000	Company 2005 RMB'000
Trade receivables (note a)			
- third parties	2,697,957	2,052,671	—
- subsidiaries of COSCO	617,251	648,191	—
- jointly controlled entities	325,891	173,386	—
- related companies	8,970	262,896	—
	3,650,069	3,137,144	—
Bills receivables (note a)	53,219	40,566	—
	3,703,288	3,177,710	—
Prepayments, deposits and other receivables	443,909	521,875	3,618
Due from related parties (note c)			
- COSCO	16,467	2,032,583	—
- subsidiaries of COSCO	59,544	182,334	313,775
- jointly controlled entities	58,666	73,690	37,640
- associates	566	—	—
- related companies	95,189	115,971	—
	230,432	2,404,578	351,415
	4,377,629	6,104,163	355,033

20 Trade and other receivables (Continued)

Notes:

(a) The normal credit period granted to the customers is generally in the range of 25 to 90 days. At 31 December 2005, the aging analysis of trade and bills receivables is as follows:

	2005 RMB'000	2004 RMB'000
1-3 months	**3,489,622**	2,841,880
4-6 months	**154,958**	200,503
7-12 months	**63,671**	113,611
1-2 years	**22,609**	44,781
2-3 years	**2,545**	34,787
	3,733,405	3,235,562
Provision for impairment	**(30,117)**	(57,852)
	3,703,288	3,177,710

(b) The carrying amounts of trade and bills receivables are denominated in the following currencies:

	2005 RMB'000	2004 RMB'000
US dollar	**2,336,540**	1,837,914
RMB	**562,727**	791,443
EURO dollar	**419,142**	282,577
Other currencies	**384,879**	265,776
	3,703,288	3,177,710

(c) The amounts due from related parties are unsecured and interest free.

(d) The carrying amounts of trade and other receivables approximate their fair values.

21 Share capital and equity linked benefits

(a) Share capital

	Number of shares (thousands)	Nominal Value RMB'000
Registered, issued and fully paid		
Domestic Shares of RMB1.00 each	3,896,000	3,896,000
H shares of RMB1.00 each	2,244,000	2,244,000
As at 31 December 2005	6,140,000	6,140,000

A summary of the movements in the Company's issued share capital for the period from 3 March 2005 (date of incorporation of the Company) to 31 December 2005 was as follows:

	Domestic Shares RMB'000	H shares RMB'000	Total RMB'000
Incorporation on 3 March 2005 (note i)	4,100,000	—	4,100,000
Domestic Shares converted into H shares (note ii)	(204,000)	204,000	—
Issue of new shares upon listing (note ii)	—	2,040,000	2,040,000
At 31 December 2005	3,896,000	2,244,000	6,140,000

Notes:

(i) The Company was incorporated on 3 March 2005, with an initial registered share capital of RMB4,100,000,000, divided into 4,100,000,000 shares with a nominal value of RMB1.00 each. 4,100,000,000 shares with a nominal value of RMB1.00 each were issued to COSCO, all of which were credited as fully paid, in consideration for the transfer of the Relevant Companies to the Company pursuant to the Reorganisation as referred to in note 1 to the Consolidated Financial Statements.

The Domestic Shares rank pari passu, in all material respects, with the H shares. Nonetheless, the transfer of Domestic Shares (including Domestic Shares held by the Directors, the supervisors and the staff of the Company, if any) is subject to certain restrictions imposed by the PRC law from time to time.

(ii) The Company's H shares were listed on the Main Board on 30 June 2005 and 2,244,000,000 H shares, consisting of 2,040,000,000 new shares and 204,000,000 shares converted from Domestic Shares, with a nominal value of RMB1.00 each were issued to the public by way of international offering and public offer at HK$ 4.25 (equivalent to approximately RMB4.53) each.

The Company raised net proceeds of approximately RMB8,817,797,000 from the issuing of 2,040,000,000 new shares, of which paid-up share capital was approximately RMB2,040,000,000 and share premium was approximately RMB6,777,797,000.

The net proceeds from the sales of 204,000,000 H shares converted from Domestic Shares were approximately RMB880,541,000, after deducting the relevant portion of share issuing expenses of approximately RMB42,727,000. The National Social Security Fund is entitled to the net proceeds in connection with the sales of these shares. The net proceeds were paid to the National Social Security Fund during the year.

(iii) The comparative of share capital shown in the consolidated balance sheet represents 4,100,000,000 shares with a nominal value of RMB1.00 each in the share capital of the Company prior to the share conversion and the issue of new issue upon listing.

21 Share capital and equity linked benefits (Continued)

(b) Share appreciation rights

The Group has adopted a cash-settled, share-based payment scheme (the "Plan") which was approved in the shareholders' meeting held on 9 June 2005. The Plan provides for the grant of share appreciation rights ("SARs") to eligible participants, including the Directors (excluding independent non-executive Directors), supervisors, company secretary, senior management of the Company and COSCON Group and other grantees as approved by the Company's board of directors (collectively "the Grantees"). The Plan will remain in force unless otherwise cancelled or amended.

Under the Plan, the holders of SARs are entitled the rights to receive an amount in respect of the appreciation in market value of the Company's H shares from the date of grant of SARs and the date of exercise. No shares will be issued under the Plan and therefore the Company's equity interests will not be diluted as a result of the issuance of SARs. The maximum number of unexercised SARs permitted to be granted under the Plan is, upon their exercise, limited to 10% of the Company's H shares in issue at any time during each year. The maximum number of SARs granted to any eligible participant (including share appreciation rights granted prior to this Plan) is limited to 25% of the total number of SARs in issue at any time. Any further grant of SARs in excess of the above limits is subject to the approval of the Company's board of directors.

The exercise period of all SARs commences after a vesting period and ends on a date which is not later than 10 years from the date of grant of the SARs. As of each of the last day of the third, fourth, fifth and sixth anniversary of the date of grant, the total number of SARs exercisable will not exceed 25%, 50%, 75% and 100%, respectively, of the total SARs granted to the respective eligible participants.

Movements in the number of SARs granted by the Company during the year ended 31 December 2005, for which the grant was approved by the Company's board of directors on 16 December 2005, are set out below.

			For the year ended 31 December 2005			
			Number of units of SARs			
Category	**Note**	**Exercise price**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at 31 December 2005**
Directors	(i)	HK$3.195	6,000,000	—	—	6,000,000
Supervisors	(i)	HK$3.195	1,400,000	—	—	1,400,000
Other continuous contract employees	(i)	HK$3.195	12,525,000	—	—	12,525,000
Others	(i), (ii)	HK$3.195	2,225,000	—	—	2,225,000
			22,150,000	—	—	22,150,000

21 Share capital and equity linked benefits (Continued)

(b) Share appreciation rights (Continued)

Notes:

(i) The SARs were granted by the Company on 16 December 2005 and are exercisable between 16 December 2007 to 15 December 2015.

(ii) The SARs were granted to other grantees as approved by the Company's board of directors (including certain employees of COSCO) during the year and are classified in the category of "Others".

The fair value of SARs at the date of grant as determined using the Black-Scholes valuation model was HK$1.9454 per unit. The significant inputs into the model were share price of HK$ 3.425, exercise price, expected life of SARs of 10 years, expected dividend rate, and risk-free interest rate of 5.24%. The expected volatility is estimated based on historical daily share price of the Company for the year. The intrinsic value of SARs as at 31 December 2005 is HK$0.225 per unit.

The fair value of SARS has not been recognised in the Group's financial statements for the year ended 31 December 2005 as the amount is insignificant to the Group.

(c) Share options of a subsidiary

The Group's subsidiary, COSCO Pacific, operates share option schemes whereby options may be granted to eligible employees and directors or any participants (as defined in the relevant share option schemes) of the Group, to subscribe for its shares.

Movements of the share options granted by COSCO Pacific during the year ended 31 December 2005 and 2004 are set out below:

			For the year ended 31 December 2005 Number of share options					
Category	Note	Exercise price HK$	Outstanding at 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Reclassified (to)/ from other category (note (vi))	Outstanding at 31 December 2005
Directors	(iv)	9.54	6,700,000	—	(3,400,000)	—	—	3,300,000
	(v)	13.75	9,000,000	—	—	—	—	9,000,000
Supervisor	(iv)	9.54	800,000	—	(400,000)	—	—	400,000
	(v)	13.75	1,000,000	—	—	—	—	1,000,000
Other continuous contract employees	(iii)	8.80	2,702,000	—	(1,548,000)	—	—	1,154,000
	(iv)	9.54	11,670,000	—	(3,682,000)	—	—	7,988,000
	(v)	13.75	43,990,000	—	(4,846,000)	—	(1,000,000)	38,144,000
Others	(iv)	9.54	1,320,000	—	(410,000)	—	—	910,000
	(v)	13.75	9,750,000	—	(1,050,000)	—	1,000,000	9,700,000
			86,932,000	—	(15,336,000)	—	—	71,596,000

21 Share capital and equity linked benefits (Continued)

(c) Share options of a subsidiary (Continued)

			For the year ended 31 December 2004 Number of share options				
Category	Note	Exercise price HK$	Outstanding at 1 January 2004	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2004
Directors	(iv)	9.54	7,600,000	—	(900,000)	—	6,700,000
	(v)	13.75	—	9,000,000	—	—	9,000,000
Supervisor	(iv)	9.54	800,000	—	—	—	800,000
	(v)	13.75	—	1,000,000	—	—	1,000,000
Other continuous contract employees	(ii)	5.53	1,580,000	—	(1,580,000)	—	—
	(iii)	8.80	10,600,000	—	(7,898,000)	—	2,702,000
	(iv)	9.54	31,240,000	—	(19,550,000)	(20,000)	11,670,000
	(v)	13.75	—	43,990,000	—	—	43,990,000
Others	(iv)	9.54	6,180,000	—	(4,860,000)	—	1,320,000
	(v)	13.75	—	10,050,000	(300,000)	—	9,750,000
			58,000,000	64,040,000	(35,088,000)	(20,000)	86,932,000

Notes:

(i) All the outstanding options were vested and exercisable as at 31 December 2005 and 2004. The Group has no legal or constructive obligation to repurchase or settle the options in cash. As all grants of share options were vested on or before 1 January 2005 and accordingly, no adjustment is made in the Group's financial statements pursuant to the transitional provisions as set out in HKFRS 2.

(ii) The share options were granted on 1 July 1996 under the COSCO Pacific's 1994 share option scheme and are exercisable on or before 30 June 2006, subject to the following conditions:

Percentage of the total number of options granted to each grantee which can be exercised (including the options which have already been exercised)	Price level per share at which the options can be exercised #
20% of the options	HK$6.50 or above
40% of the options	HK$7.00 or above
60% of the options	HK$7.50 or above
80% of the options	HK$8.00 or above
100% or the options	HK$8.50 or above

\# The price level refers to the closing price of COSCO Pacific's shares on The Stock Exchange of Hong Kong Limited at the date prior to the exercise of the options.

21 Share capital and equity linked benefits (Continued)

(c) Share options of a subsidiary (Continued)

(iii) The share options were granted on 20 May 1997 (the "Offer Date") under the COSCO Pacific's 1994 share option scheme and are exercisable on or before 19 May 2007, subject to the following conditions:

1. For those grantees who have completed one year full-time service in the Group may exercise a maximum of 20% of share options granted in each of the first five anniversary years from the Offer Date.

2. For those grantees who have not completed one year full-time service in the Group as at the Offer Date, a maximum of 20% of options granted may be exercisable in each of the first five anniversary years of the Offer Date after completion of one year full-time service.

For those share options granted on 20 May 1997 under the COSCO Pacific's 1994 share option scheme, all grantees may reserve their rights to exercise and accumulate their share options exercisable during their employment within the COSCO Pacific group.

(iv) The share options were granted during the period from 28 October 2003 to 6 November 2003 under the COSCO Pacific's 2003 share option scheme at an exercise price of HK$9.54. The options are exercisable at any time within ten years from the date on which an offer is accepted or deemed to be accepted by the grantee under the COSCO Pacific's 2003 share option scheme from 28 October 2003 to 6 November 2003.

Following the resignation of an employee, 20,000 share options were lapsed during the year ended 31 December 2004.

(v) The share options were granted during the period from 25 November 2004 to 16 December 2004 under the COSCO Pacific's 2003 share option scheme at an exercise price of HK$13.75. The options are exercisable at any time within ten years from the date on which an offer is accepted or deemed to be accepted by the grantee under the COSCO Pacific's 2003 share option scheme from 25 November 2004 to 16 December 2004.

(vi) Certain share options were granted to the directors or senior management of COSCO and fellow subsidiaries which are disclosed in the category of "Others". A director of a subsidiary was resigned in 2005. The options granted to him were re-classified from the category of "Other continuous contract employees" to "Others" during the year.

(vii) The exercise of the 15,336,000 (2004: 35,088,000) share options during the year yielded the proceeds, net of transaction costs, of RMB179,901,000 (2004: RMB343,628,000).

(viii) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005		2004	
	Average exercise price per share HK$	Number of share options	Average exercise price per share HK$	Number of share options
At 1 January	12.60	86,932,000	9.30	58,000,000
Granted	N/A	—	13.75	64,040,000
Exercised	11.08	(15,336,000)	9.23	(35,088,000)
Lapsed	N/A	—	9.54	(20,000)
At 31 December		71,596,000		86,932,000

The weighted average closing price of the COSCO Pacific's shares on the dates when the share options were exercised was HK$15.73 (2004: HK$13.35) per share.

22 Reserves

Group

	Capital reserve RMB'000	Statutory reserve funds RMB'000	Exchange reserve RMB'000	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
As at 1 January 2004	(64,095)	147,993	17,253	(2,254,883)	(2,153,732)
Profit for the year	—	—	—	4,157,960	4,157,960
Exchange differences	—	—	8,414	—	8,414
Share of reserves of jointly controlled entities and associates	—	(596)	—	—	(596)
Release of reserves upon deemed disposals	(9,072)	(613)	464	—	(9,221)
Transfer of reserves	—	59,485	—	(59,485)	—
Distributions (note 33)					
- distribution of reserves	—	—	—	(1,148,081)	(1,148,081)
- transfer of COSCO Pacific	—	—	—	(1,248,130)	(1,248,130)
- deferred income tax	—	—	—	(421,087)	(421,087)
- dividends paid to then shareholders	—	—	—	(389,304)	(389,304)
- disposal/transfer of other subsidiaries	—	—	—	(86,036)	(86,036)
- others	—	—	—	(19,062)	(19,062)
Contributions (note e)					
- capital injection to a subsidiary	3,000,000	—	—	—	3,000,000
- waiver of payable balances from related parties	—	—	—	229,694	229,694
- transfer of investments to then shareholders	—	—	—	1,428,385	1,428,385
As at 31 December 2004	2,926,833	206,269	26,131	189,971	3,349,204

22 Reserves (Continued)

Group

	Capital reserve RMB'000	Special reserve (Note d) RMB'000	Statutory reserve funds RMB'000	Investment revaluation reserve RMB'000	Exchange reserve RMB'000	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
As at 1 January 2005, as previously reported	2,926,833	—	206,269	—	26,131	189,971	3,349,204
Opening adjustments for the adoption of HKFRS 3, HKASs 32, 39 and 39 (Amendment) in respect of:							
- Redesignation of investment securities as available-for-sale financial assets	—	—	—	1,016,182	—	—	1,016,182
- Recognition of unamortised transaction costs on bank borrowings and notes	—	—	—	—	—	68,633	68,633
- Recognition of interest rate swap contracts as derivative financial instruments	—	—	—	—	—	7,021	7,021
- Derecognition of negative goodwill	—	—	—	—	—	86,243	86,243
- Share of opening adjustments of jointly controlled entities and associates	3,161	—	11,545	14,524	—	(3,566)	25,664
As at 1 January 2005, as restated	2,929,994	—	217,814	1,030,706	26,131	348,302	4,552,947
Capital reduction of a subsidiary	(3,720,000)	—	—	—	—	3,720,000	—
Capitalisation upon reorganisation of the Company (note a)	2,248,316	279,422	(217,814)	—	(26,131)	(2,283,793)	—
Share premium arising from issuance of new H shares	7,192,683	—	—	—	—	—	7,192,683
Share issue expenses	(414,886)	—	—	—	—	—	(414,886)
Profit for the year	—	—	—	—	—	5,450,805	5,450,805
Release of reserves upon							
- disposal of an available-for-sale financial asset	—	—	—	(261,381)	—	—	(261,381)
- deemed disposals	(4,796)	—	—	(5,639)	—	—	(10,435)
- disposal of a jointly controlled entity	(279)	—	—	—	—	—	(279)
Fair value gain on available-for-sale financial assets	—	—	—	64,689	—	—	64,689
Share of reserves of a jointly controlled entity and associates	9,208	—	—	—	—	—	9,208
Exchange differences	—	—	—	—	(393,559)	—	(393,559)
Transfer of reserves (note b)	—	—	1,081,763	—	—	(1,081,763)	—
Distributions (note 33)							
- distributions to COSCO	—	—	—	—	—	(3,788,566)	(3,788,566)
- transfer of other subsidiaries	—	—	—	—	—	(94,568)	(94,568)
- others	—	—	—	—	—	(10,306)	(10,306)
As at 31 December 2005	8,240,240	279,422	1,081,763	828,375	(393,559)	2,260,111	12,296,352
Representing:							
Reserves	8,240,240	279,422	1,081,763	828,375	(393,559)	1,461,911	11,498,152
2005 final dividend proposed	—	—	—	—	—	798,200	798,200
As at 31 December 2005	8,240,240	279,422	1,081,763	828,375	(393,559)	2,260,111	12,296,352

22 Reserves (Continued)

Company

	Capital reserve RMB'000	Special reserve (note d) RMB'000	Statutory reserve funds RMB'000	Accumulated loss RMB'000	Exchange reserve RMB'000	Total RMB'000
Capitalisation upon incorporation of the Company (note a)	2,489,016	279,422	—	—	—	2,768,438
Loss for the period from 3 March 2005 to 31 December 2005 (note 32)	—	—	—	(75,297)	—	(75,297)
Share premium arising from issuance of new H shares	7,192,683	—	—	—	—	7,192,683
Share issue expenses	(414,886)	—	—	—	—	(414,886)
Distribution (note 33 (b))	—	—	—	(967,926)	—	(967,926)
Exchange difference (note f)	—	—	—	—	(185,476)	(185,476)
Transfer to statutory reserve funds (note b)	—	—	1,081,763	(1,081,763)	—	—
At 31 December 2005	9,266,813	279,422	1,081,763	(2,124,986)	(185,476)	8,317,536
Representing:						
Reserves	9,266,813	279,422	1,081,763	(2,923,186)	(185,476)	7,519,336
2005 final dividend proposed	—	—	—	798,200	—	798,200
At 31 December 2005	9,266,813	279,422	1,081,763	(2,124,986)	(185,476)	8,317,536

Notes:

(a) As described in note 2(a) to the Consolidated Financial Statements, the financial statements of the Group for the years ended 31 December 2005 and 2004 have been prepared on the basis of merger accounting as if the Company had been the holding company of those companies comprising the Group throughout the two years ended 31 December 2004 and 2005, or since the respective dates of incorporation/establishment or from the effective dates of acquisition/up to the effective dates of disposal, whichever is a shorter period. Upon the incorporation of the Company on 3 March 2005, the net value of the interests in COSCON and COSCO Pacific Investments transferred to the Company from COSCO was converted into the Company's share capital of RMB4,100,000,000 of RMB1.00 each with the then existing reserves eliminated (save for investment revaluation reserve) and the resulting difference dealt with in the capital reserve, special reserve (note 22(d)) and retained profits.

22 Reserves (Continued)

(b) Statutory reserve funds

In accordance with the PRC Company Law and the Company's articles of association, the Company is required to allocate 10% of its profit after tax as determined in accordance with the relevant accounting principles and financial regulations applicable to PRC companies ("PRC GAAP") and regulations applicable to the Company, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Company. The appropriation to the reserve must be made before any distribution of dividends to equity holders. The statutory surplus reserve can be used to offset previous year's losses, if any, and part of the statutory surplus reserve can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company.

In accordance with the PRC Company Law, the Company is required to appropriate 5% to 10% of its profit after tax, as determined in accordance with PRC GAAP and regulations applicable to the Company, to its statutory public welfare fund for capital expenditure on staff welfare facilities, the ownership in respect of which belongs to the Group. The statutory public welfare fund is not available for distribution to equity holders except under liquidation. The appropriation to this fund must be made before any distribution of dividends to equity holders.

On 9 June 2005, the equity holders of the Company approved the appropriations of RMB173,023,000 to each of the statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve. Each appropriation represents 10% of the Company's profit after tax for the period from 4 March 2005 to 30 June 2005 as determined in accordance with PRC GAAP.

For the year ended 31 December 2005, further appropriations of RMB281,347,000 to each of the statutory surplus reserve and statutory public welfare fund. Each appropriation represents 10% of the Company's profit after tax for the period from 1 July 2005 to 31 December 2005, as determined in accordance with PRC GAAP. An appropriation of 10% to the discretionary surplus reserve is proposed and is subject to the equity holders' approval at the forthcoming annual general meeting. This proposed appropriation to the discretionary surplus fund is not reflected in the financial statements until it has been approved at the annual general meeting, and will be reflected as an appropriation of retained profits for the year ending 31 December 2006.

(c) In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of dividend payments is based on the lesser of (i) the net profit determined in accordance with the PRC GAAP; and (ii) the net profit determined in accordance with HKFRSs.

On this basis, as at 31 December 2005, amount of retained profits available for distribution (after initial and special distributions to COSCO on profits relating to periods prior to listing totalled RMB3,788,566,000 (note 33) and the appropriation of reserves (note 22(b)) was approximately RMB1,724,455,000, being the amount determined in accordance with the PRC GAAP.

(d) The Company has obtained from the Ministry of Finance an approval pursuant to which the Company is permitted to retain as a special reserve, the benefit of which is solely attributable to COSCO, an amount representing the profit of COSCO Pacific attributable to the Group for the period from 30 June 2004 to 3 March 2005 (being the date of incorporation of the Company) less dividends payable by COSCO Pacific to the Group in respect of that period. At 31 December 2005, specific reserve amounted to RMB279,422,000 (note 33(a)).

With regard to such special reserve, pursuant to the reorganisation agreement dated 9 June 2005 entered into between the Company and COSCO, the Company has agreed with COSCO that it will, at a time it considers appropriate and, in any event, within three years from the Listing Date, convert such special reserve into domestic shares to be held by COSCO at HK$4.25 per share, subject to obtaining prior approval from the State-owned Assets Supervision and Administration Commission of the State Council for such conversion.

22 Reserves (Continued)

(e) Contributions during 2004 represented the following:

	2004 RMB'000
Capital injection in cash to a subsidiary	3,000,000
Waiver of payable balances	
- from COSCO	161,539
- from subsidiaries of COSCO	68,155
	229,694
Gain on disposal of investments *	1,428,385
	4,658,079

* This represented the gain on disposal of investments by COSCO Investments (note 1(b)).

(f) The Company's functional currency is US dollar which is different from its presentation currency. Assets and liabilities are translated at closing rate and income and expenses are translated using the exchange rates prevailing at the dates of the transactions, any differences are dealt with in the exchange reserve of the Company.

23 Long-term borrowings

	Group	
	2005 **RMB'000**	2004 RMB'000
Bank loans		
- secured (note i)	**10,570,648**	11,452,327
- unsecured	**1,588,449**	1,455,676
Secured other loans (note i)	**61,027**	332,861
Finance lease obligations (note c)	**—**	118,796
Notes (note d)	**2,346,242**	2,469,882
	14,566,366	15,829,542
Current portion of long-term borrowings	**(2,196,863)**	(3,580,099)
	12,369,503	12,249,443

23 Long-term borrowings (Continued)

(a) The long-term borrowings are analysed as follows:

	Group 2005 RMB'000	2004 RMB'000
Wholly repayable within five years		
- bank loans	**7,920,595**	7,356,254
- other loans	**61,027**	84,569
	7,981,622	7,440,823
Not wholly repayable within five years		
- bank loans	**4,238,502**	5,551,749
- other loan	**—**	248,292
- finance lease obligations	**—**	118,796
- notes	**2,346,242**	2,469,882
	6,584,744	8,388,719
	14,566,366	15,829,542

23 Long-term borrowings (Continued)

(b) The Group's long-term borrowings were repayable as follows:

	Group 2005 RMB'000	2004 RMB'000
Bank loans		
- within one year	2,173,798	3,529,319
- in the second year	2,222,049	1,528,475
- in the third to fifth years	5,346,415	4,851,235
- over five years	2,416,835	2,998,974
	12,159,097	12,908,003
Other loans		
- within one year	23,065	41,649
- in the second year	24,840	44,319
- in the third to fifth years	13,122	107,439
- over five years	—	139,454
	61,027	332,861
Finance lease obligations		
- within one year	—	9,131
- in the second year	—	9,131
- in the third to fifth years	—	35,874
- over five years	—	64,660
	—	118,796
Notes		
- over five years	2,346,242	2,469,882
	14,566,366	15,829,542

23 Long-term borrowings (Continued)

(c) The minimum lease payments under finance leases are summarised as follows:

	2005 RMB'000	2004 RMB'000
The minimum lease payments		
- within one year	—	14,754
- in the second year	—	14,754
- in the third to fifth years	—	44,259
- over five years	—	73,134
	—	146,901
Future finance charges on finance leases	—	(28,105)
Present value of finance lease obligations	—	118,796

(d) Details of the notes as at 31 December 2005 are as follows:

	2005 RMB'000	2004 RMB'000
Principal amount	2,421,060	2,483,100
Discount on issue	(15,325)	(15,718)
Notes issuance cost	(14,526)	—
Proceeds received	2,391,209	2,467,382
Accumulated amortised amounts of		
- discount on issue	4,269	2,500
- notes issuance cost	4,043	—
Effect of fair value hedge	(53,279)	—
	2,346,242	2,469,882

Notes with principal amount of US$300,000,000 (equivalent to approximately RMB2,421,060,000) were issued by a subsidiary of COSCO Pacific to investors on 3 October 2003. The notes carried an interest yield of 5.96% per annum and were issued at a price of 99.367 per cent of their principal amount with a coupon rate of 5.875% per annum. The notes bear interest from 3 October 2003, payable semi-annually in arrear on 3 April and 3 October of each year, commencing on 3 April 2004. The notes are guaranteed unconditionally and irrevocably by COSCO Pacific and listed on the Singapore Exchange Securities Trading Limited.

Unless previously redeemed or repurchased by COSCO Pacific, the notes will mature on 3rd October 2013 at their principal amount. The notes are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of COSCO Pacific at any time in the event of certain changes affecting the taxes of certain jurisdictions.

23 Long-term borrowings (Continued)

(e) The exposure of the Group's long-term borrowings to interest rate changes and the contractual repricing dates are as follows:

	6 months or less RMB'000	6 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2005					
Total borrowings	**430,773**	**1,766,090**	**7,606,426**	**4,763,077**	**14,566,366**
Effect of interest rate swaps	**—**	**—**	**—**	**(1,614,040)**	**(1,614,040)**
	430,773	**1,766,090**	**7,606,426**	**3,149,037**	**12,952,326**
At 31 December 2004					
Total borrowings	160,100	3,419,999	6,576,473	5,672,970	15,829,542
Effect of interest rate swaps	—	—	—	(1,655,400)	(1,655,400)
	160,100	3,419,999	6,576,473	4,017,570	14,174,142

(f) The carrying amounts of the long-term borrowings are denominated in the following currencies:

	2005 RMB'000	2004 RMB'000
US dollar	**14,543,374**	15,822,341
RMB	**22,992**	7,201
	14,566,366	15,829,542

(g) The carrying amounts and fair value of the long-term borrowings are as follows:

	Carrying amounts		**Fair values**	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Bank loans	**12,159,097**	12,908,003	**12,090,767**	12,862,173
Other loans	**61,027**	332,861	**60,010**	331,702
Finance lease obligations	**—**	118,796	**—**	118,796
Notes	**2,346,242**	2,469,882	**2,514,012**	2,457,350
	14,566,366	15,829,542	**14,664,789**	15,770,021

The fair values are based on cash flows discounted using a weighted average borrowing rate of 5.20% (2004: 4.90%) per annum.

23 Long-term borrowings (Continued)

(h) The effective interest rates per annum at the balance sheet date were as follows:

	2005		2004	
	US$	RMB	US$	RMB
Bank loans	2.80% to 5.83%	4.70%	2.40% to 3.91%	4.40%
Other loans	6.80%	—	6.80%	—
Notes	6.00%	—	6.00%	—

(i) The secured bank and other loans are secured, inter alia, by one or more of the following:

(i) First legal mortgage over certain container vessels, containers and land use rights.

(ii) Assignment of the charter, rental income and earnings, requisition compensation, insurance and container lease agreements relating to certain container vessels and containers.

(iii) Shares and bank deposits of certain subsidiaries.

(iv) Assignment of refund guarantee and shipbuilding contracts relating to certain container vessels.

(v) Corporate guarantees provided by COSCO and a fellow subsidiary as set out below:

	2005	2004
	RMB'000	RMB'000
COSCO	—	3,972,720
Fellow subsidiary	—	307,365
	—	4,280,085

24 Amount due to COSCO

The balance as at 31 December 2004 was unsecured, financing in nature and was repaid prior to the listing of the Company's shares.

25 Other non-current liabilities

	2005	2004
	RMB'000	RMB'000
Provision for one-off housing subsidies (note a)	66,583	79,485
Early retirement benefit obligations (note a)	9,854	15,769
Retirement benefit obligations (note b)	51,225	10,627
	127,662	105,881

25 Other non-current liabilities (Continued)

Notes:

(a) Movements for the year are as below:

	Provision for one-off housing subsidies		Early retirement benefit obligations	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**79,485**	79,485	**15,769**	15,769
Reversal of over provision	**(9,037)**	—	**—**	—
Payments during the year	**(3,865)**	—	**(5,915)**	—
At 31 December	**66,583**	79,485	**9,854**	15,769

In 2000, the State Council issued a circular stating that one-off cash housing subsidies should be made to those eligible employees who have not been allocated with staff quarters at all or who have not been allocated with quarters up to the prescribed standards before 31 December 1998 when the staff quarter allocation schemes were terminated. The subsidies are determined based on staff member's years of service, position and other criteria. In addition, monthly cash housing allowances should be made to other employees following the withdrawal of allocation of staff quarters. The specific timetable and procedures of implementation of these policies are to be determined by individual provincial or municipal governments based on the particular situation of the province or municipality.

The Group has provided for the one-off cash housing subsidies based on the relevant detailed local government regulations when they are promulgated, or the available information and the best estimate of the management when the local regulations have not been promulgated. The subsidies were charged to the consolidated income statement in 2000 when the State Council Circular in respect of cash subsidies was issued and that the payment of which is determined to be probable and the amounts can be reasonable estimated.

(b) Retirement benefit obligations

	Group	
	2005	2004
	RMB'000	RMB'000
Balance sheet obligations for:		
Defined benefits (note (i))	**16,975**	10,627
Post-employment medical benefits (note (ii))	**34,250**	—
	51,225	10,627
Expensed in income statement for (note 35):		
Defined benefits (note (i))	**9,056**	11,350
Post-employment medical benefits (note (ii))	**34,825**	—
	43,881	11,350

Notes:

(i) Defined benefits

There is a retirement benefit plan operating as defined benefit plan in a subsidiary of the Group in United States of America. The assets of the funded plans are held independently of the subsidiary's assets in separate trustee administered funds. The plans are valued by a qualified actuary, Summit Financial Corporation, annually using the projected unit credit method.

25 Other non-current liabilities (Continued)

(i) Defined benefits (Continued)

The amounts recognised in the balance sheet are determined as follows:

	2005 RMB'000	2004 RMB'000
Present value of funded obligations	40,422	30,918
Fair value of plan assets	(11,471)	(9,055)
	28,951	21,863
Unrecognised actuarial losses	(7,740)	(5,118)
Unrecognised past service cost	(4,236)	(6,118)
Liability on the balance sheet	16,975	10,627

Fair value of the plan assets are analysed as follows:

	2005 percentage	2004 percentage
Equity instruments	61%	63%
Debt instruments	20%	19%
Other assets	19%	18%
	100%	100%

The amounts recognised in the income statement are as follows:

	2005 RMB'000	2004 RMB'000
Current service cost	2,749	2,620
Interest cost	1,937	1,485
Expected return on plan assets	(807)	(578)
Net actuarial losses recognised during the year	94	32
Past service cost	5,083	7,791
Total expense, included in staff costs	9,056	11,350

The expenses were included in selling, administrative and general expenses.

The actual return on plan assets was RMB713,000 (2004: RMB546,000).

The movement in the liability recognised in the balance sheet is as follows:

	2005 RMB'000	2004 RMB'000
At 1 January	10,627	2,289
Exchange differences	(264)	—
Total expense, included in staff costs as shown above	9,056	11,350
Contributions paid	(2,444)	(3,012)
At 31 December	16,975	10,627

25 Other non-current liabilities (Continued)

(i) Defined benefits (Continued)

The principal actuarial assumptions used were as follows:

	2005	2004
Discount rate	5.50%	5.75%
Expected return on plan assets	8.00%	8.00%

(ii) Post-employment medical benefits

There is a post-employment medical benefit plans in the United States of America. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit plans.

The main actuarial assumption is a long-term increase in health costs of 10% in 2006 and increase grading down to 5% in 2016 and after.

The amounts recognised in the balance sheet were determined as follows:

	2005 RMB'000
Present value of funded obligations	63,209
Fair value of plan assets	(624)
	62,585
Unrecognised actuarial losses	(2,427)
Unrecognised past service cost	(25,908)
Liability in the balance sheet	34,250

Fair value of the plan assets are analysed as follows:

	2005 percentage	2004 percentage
Equity instruments	61%	—
Debt instruments	17%	—
Other assets	22%	—
	100%	—

The amounts recognised in the income statement were as follows:

	2005 RMB'000
Current service cost	5,915
Interest cost	3,114
Expected return on plan assets	49
Net actuarial losses recognised during the year	—
Past service cost	25,747
Total expense, included in staff costs	34,825

The expense was included in selling, administrative and general expenses.

The actual return on plan assets was RMB49,000 (2004: N/A).

25 Other non-current liabilities (Continued)

(ii) Post-employment medical benefits (Continued)

Movement in the liability recognised in the balance sheet:

	2005 RMB'000
At 1 January	—
Total expense, included in staff costs as shown above	34,825
Contributions paid	(575)
At 31 December	34,250

26 Trade and other payables

	Group		Company
	2005 RMB'000	2004 RMB'000	2005 RMB'000
Trade payables (note a)			
- third parties	1,219,930	1,659,317	—
- subsidiaries of COSCO	335,209	182,927	—
- jointly controlled entities	192,749	206,895	—
- associates	137,129	—	—
- related companies	605,311	251,085	—
	2,490,328	2,300,224	—
Other payables and accruals	2,955,952	3,386,524	24,805
Distribution payable to COSCO (notes 33(a) and (b))	1,794,022	—	967,926
Due to related parties (note c)			
- COSCO	116,364	2,669,090	—
- subsidiaries of COSCO	1,053	3,298,117	145,918
- jointly controlled entities	—	19,114	—
	117,417	5,986,321	145,918
	7,357,719	11,673,069	1,138,649

Notes:

(a) As at 31 December 2005, the aging analysis of trade payables of the Group is as follows:

	2005 RMB'000	2004 RMB'000
1-6 months	2,305,917	2,096,012
7-12 months	72,601	58,343
1-2 years	81,188	50,224
2-3 years	12,425	42,465
Above 3 years	18,197	53,180
	2,490,328	2,300,224

26 Trade and other payables (Continued)

(b) The carrying amounts of trade payables are denominated in the following currencies:

	2005 RMB'000	2004 RMB'000
US dollar	**1,255,305**	1,081,730
RMB	**712,722**	702,637
EURO dollar	**165,401**	177,876
HK dollar	**138,258**	141,421
Other currencies	**218,642**	196,560
	2,490,328	2,300,224

(c) The amounts due to related parties are unsecured and interest free.

(d) The carrying amounts of trade and other payables approximate their fair values.

27 Short-term loans

	Group		Company
	2005 RMB'000	2004 RMB'000	2005 RMB'000
Bank loans			
- secured (note a)	**—**	372,443	**—**
- unsecured	**1,773,108**	1,634,318	**242,106**
	1,773,108	2,006,761	**242,106**
Unsecured loan from COSCO Finance (note b)	**350,000**	—	**—**
	2,123,108	2,006,761	**242,106**

Notes:

(a) Bank loans as at 31 December 2004 were secured by trade receivables of a subsidiary amounting to RMB417,657,000.

(b) The loan from COSCO Finance, bore interest at 5.02% per annum as at 31 December 2005.

(c) The effective interest rates of short-term bank loans, as at 31 December 2005 were in the range of 4.70% to 5.58% (2004: 3.26% to 5.31%) per annum .

27 Short-term loans (Continued)

(d) The carrying amounts of short-term loans approximate their fair values. The carrying amounts of the short-term loans are denominated in the following currencies:

	Group		Company
	2005	2004	2005
	RMB'000	RMB'000	RMB'000
US dollar	1,237,000	1,357,761	242,106
RMB	886,108	649,000	—
	2,123,108	2,006,761	242,106

28 Other gains, net

	2005	2004
	RMB'000	RMB'000
Dividend income from listed and unlisted investments	145,149	181,523
Interest income from		
- deposits with COSCO Finance (note 18(d))	1,057	7,815
- loan to a jointly controlled entity (note 11(b))	2,642	2,429
- loans to associates (note 12(b))	2,673	66
- loan to an investee company (note 14(b))	—	5,422
- third parties	166,905	31,508
	173,277	47,240
Gain on interest rate swap contracts not qualifying as hedges	32,629	—
Net gain on interest rate swap contracts	—	31,742
Exchange (loss)/gain, net	(171,628)	26,405
	179,427	286,910

29 Operating profit

Operating profit is stated after crediting and charging the following:

	2005 RMB'000	2004 RMB'000
Crediting:		
Gain on disposal of jointly controlled entities and dissolution of an associate, net*	1,029	3,203
Gain on partial disposal of an associate*	1,458	—
Recovery of bad debts*	62,459	575
Gain on disposal of property, plant and equipment*	25,324	77,162
Gain on disposal of investment securities*	—	93
Government subsidy* (note a)	129,061	99,335
Gain on deemed disposal of a subsidiary*	48,708	78,530
Gain on disposal of an available-for-sale financial asset* (note b)	512,117	—
Write-back of revaluation deficit of investment properties previously recognised* (note 7)	—	2,417
Gross rental income from investment properties*	457	668
Charging:		
Auditors' remuneration	32,331	11,637
Amortisation		
- leasehold land and land use rights	1,916	4,303
- intangible assets	74,175	69,319
Cost of bunkers and fuel consumed	4,694,189	2,923,007
Cost of resaleable containers sold#	155,026	263,743
Depreciation		
- owned property, plant and equipment leased out under operating leases	496,580	468,247
- other owned property, plant and equipment	1,236,344	1,337,182
- property, plant and equipment held under finance leases	—	5,245
- Investment properties	289	—
Outgoings in respect of investment properties	33	41
Operating lease rentals		
- container vessels	1,845,413	1,163,570
- containers	752,510	550,292
- land and buildings	122,126	160,612
- other property, plant and equipment	260,862	209,264
Provision for impairment of trade receivables#	27,273	27,418
Provision for resaleable containers#	—	5,322
Write-off of resaleable containers#	—	2,045
Loss on disposal/write-off of property, plant and equipment#	4,712	13,705

* Item included in other operating income

\# Item included in other operating expenses

29 Operating profit (Continued)

Notes:

(a) In 2005 and 2004, subsidies have been granted by a local government to a subsidiary of the Group by way of a refund of certain business tax paid by that subsidiary for the years ended 31 December 2004 and 2003, as an encouragement to the business development and improvement of that subsidiary.

(b) The amount represented gain on disposal of the 17.5% equity interest in Shekou Container Terminals Ltd. to China Merchants Holdings (International) Company Limited in March 2005.

30 Finance costs

	2005 RMB'000	2004 RMB'000
Interest expenses:		
- bank loans	684,787	216,074
- other loans		
- wholly repayable within five years	3,115	52,491
- not wholly repayable within five years	—	9,314
- loans from COSCO Finance wholly repayable within one year	5,669	19,432
- notes not wholly repayable within five years	132,859	145,882
- loans from a minority shareholder of a subsidiary	—	389
- amounts due to COSCO	—	47,798
- amounts due to fellow subsidiaries	—	57,972
- finance lease obligations	—	2,029
	826,430	551,381
Amortised amount of transaction costs on long-term borrowings	19,694	—
Amortised amount of discount on issue of notes	1,859	1,987
Other incidental borrowing costs and charges	20,410	86,392
	868,393	639,760

31 Income tax expenses

	2005 RMB'000	2004 RMB'000 (Restated)
Current income tax		
- PRC enterprise income tax (note a)	**694,987**	124,085
- Hong Kong profits tax (note b)	**5,440**	10,462
- Overseas taxation (note c)	**59,829**	34,272
Over provision in prior years	**(1,437)**	(381)
	758,819	168,438
Deferred income tax (note 16)	**(107,500)**	117,319
	651,319	285,757

The Group's share of income tax expense of jointly controlled entities and associates for the year totalling RMB101,599,000 (2004: RMB124,093,000) and RMB31,833,000 (2004: RMB43,808,000) are included in the consolidated income statement as share of profits of jointly controlled entities and associates respectively.

Notes:

(a) PRC enterprise income tax

The provision for enterprise income tax is based on the statutory rate of 33% on the taxable income of each of the PRC companies of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the year, except for certain subsidiaries, which are taxed at reduced rates ranging from 15% to 27% based on different local preferential policies on income tax and approval by relevant tax authorities.

The Group's PRC sourced income from container leasing is currently exempt from income tax in the PRC in accordance with a notice granting temporary exemption of income tax on rental payments made to foreign companies for leasing of containers which are used in international transportation (Guo Shui Fa (1993) No. 49) issued by the State Administration of Taxation of the PRC on 12 March 1993.

(b) 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 the year.

(c) Overseas taxation

Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates. These rates range from 22% to 44% during the year (2004: 22% to 44%).

31 Income tax expenses (Continued)

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

	2005 RMB'000	2004 RMB'000 (Restated)
Profit before income tax	7,450,250	5,243,300
Less: Share of profits less losses of jointly controlled entities and associates	(1,263,770)	(837,344)
	6,186,480	4,405,956
Calculated at a tax rate of 33%	2,041,538	1,453,965
Effect of differential tax rates of other territories	(339,972)	(189,909)
Effect of preferential tax rate of domestic subsidiaries	(13,702)	(14,557)
Effect of unrecognised deferred tax liabilities on differential tax rate of domestic subsidiaries	(492,144)	—
Income not subject to income tax	(143,875)	(59,643)
Expenses not deductible for taxation purposes	66,346	78,679
Utilisation of previously unrecognised tax losses	(2,665)	(826,803)
Tax losses not recognised	13,519	1,244
Effect of exchange losses directly recognised in equity	(32,556)	—
Effect on deferred tax assets/liabilities due to the change in tax rates	(175,572)	—
Recognition of previously unrecognised tax losses	—	(421,087)
Recognition of temporary differences previously not recognised	(88,670)	262,539
Reversal of deferred tax liabilities previously recognised	(170,899)	—
Over provision in prior years	(1,437)	(381)
Others	(8,592)	1,710
Income tax expenses	651,319	285,757

(e) Business tax

Pursuant to various PRC business tax rules and regulations, the Group is required to pay business tax to relevant local tax bureaus as below.

Revenues derived from container shipping for inbound shipment and freight forwarding and shipping agencies, and terminal operations provided by the Group in the PRC are subject to business tax at rates ranging from 3% to 5% during the year. The related business tax is included in the cost of services.

Certain subsidiaries are currently exempt from business tax on PRC sourced rental income earned from container leasing in accordance with a notice granting exemption from business tax for foreign enterprises which have no establishment in the PRC earning rental income from leasing of movable properties (Guo Shui Fa (1997) No. 35) issued by the State Administration of Taxation of the PRC on 14 March 1997.

32 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company include a loss of the Company to the extent of RMB75,297,000.

33 Distributions

	2005 RMB'000	2004 RMB'000
Distributions to COSCO		
- Initial, paid (note a)	**1,994,544**	—
- Initial, payable (note a)	**826,096**	—
- Special, payable (note b)	**967,926**	—
	3,788,566	—
Transfer of other subsidiaries (note c)	**94,568**	67,743
Transfer of COSCO Pacific (note 1(b))	**—**	1,248,130
Distribution of reserves (note d)	**—**	1,148,081
Disposal of subsidiaries	**—**	18,293
Deferred income tax (note 16)	**—**	421,087
Dividends to then shareholders	**—**	208,996
Others	**10,306**	19,062
	3,893,440	3,131,392

Included in the consolidated statement of changes in equity:

	2005 RMB'000	2004 RMB'000
Total distributions	**3,893,440**	3,131,392
Add: final dividend to then shareholders proposed in the prior year	**—**	180,308
	3,893,440	3,311,700

Notes:

(a) In accordance with the "Provisional Regulation Relating to Corporate Reorganisation of Enterprises and the Related Management of State-owned Capital and Financial Treatment" notice issued by the Ministry of Finance (English translation is a direct translation of Chinese title of the notice), which became effective from 27 August 2002, after the Company's incorporation, the Company is required to make a mandatory distribution to COSCO, in an amount equal to the combined net profit of the Group generated during the period from 30 June 2004 to 3 March 2005 (being the date of incorporation of the Company) (the "Initial Profit Period"), as determined based on audited financial statements prepared in accordance with the PRC GAAP, after giving effect to relevant necessary adjustments.

The amounts distributable to COSCO in respect of the Initial Profit Period and the amounts retained as a special reserve as at 3 March 2005 were RMB2,820,640,000 and RMB279,422,000 (note 22(d)) respectively, as derived based on the audited financial statements prepared in accordance with the PRC GAAP. The Company passed a shareholders' resolution on 9 June 2005 to approve an amount of RMB1,994,544,000 as part of initial distribution to COSCO, which was paid prior to the Listing Date. As at 31 December 2005, the distribution payable to COSCO in respect of the Initial Profit Period was RMB826,096,000, of which payment will be made in 2006.

33 Distributions (Continued)

(b) Pursuant to the resolution of the extraordinary shareholders' meeting dated 9 June 2005, it was resolved to make a special distribution by the Company to COSCO in an amount equal to the aggregate of the amounts of the distributable profit of the Group (excluding COSCO Pacific) and dividend payable by COSCO Pacific to the Group, in respect of the period from 4 March 2005 to 29 June 2005 (the "Subsequent Profit Period"). The amounts to be distributable to COSCO for the Subsequent Profit Period is determined based on audited consolidated income statement prepared in accordance with the PRC GAAP or with the HKFRSs, whichever is lower. The amount distributable to COSCO for the Subsequent Profit Period was RMB967,926,000, as determined based on the audited consolidated income statement prepared in accordance with the PRC GAAP.

(c) Pursuant to various agreements entered into between the Group and COSCO Group pursuant to the Reorganisation, COSCO Group transferred equity interests in, and assets and liabilities of, certain overseas companies to the Group. The difference, being the considerations paid over the net asset value of the companies transferred, was treated as a deemed distribution to COSCO Group in the Group's financial statements.

(d) This represented the distribution of reserves of certain overseas subsidiaries to their then shareholders pursuant to the directors' resolutions of these companies dated 1 January 2004.

(e) Final dividend proposed

	2005 RMB'000	2004 RMB'000
Final, proposed, of RMB0.13 per ordinary share (2004: N/A)	798,200	N/A

At the meeting held on 11 April 2006, the Directors proposed a final dividend of RMB0.13 per ordinary share for the year ended 31 December 2005. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 December 2006.

34 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The comparative basic earnings per share is calculated based on the profit attributable to the equity holders of the Company and on the assumption that 4,100,000,000 domestic shares issued upon the incorporation of the Company in connection with the Reorganisation which were deemed to have been in issue since 1 January 2004.

	2005	2004 (Restated)
Profit attributable to equity holders of the Company	RMB5,450,805,000	RMB4,157,960,000
Weighted average number of ordinary shares in issue	5,133,972,603	4,100,000,000
Basic earnings per share	RMB1.06171	RMB1.01414

Diluted

Diluted earnings per share is calculated based on the profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the year, after adjusting for the number of dilutive potential ordinary shares deemed to be issued at no consideration on the assumption that the special reserve had been converted into Domestic Shares at the offer price of HK$4.25 (note 22(d)).

	2005
Profit attributable to equity holders of the Company	RMB5,450,805,000
Weighted average number of ordinary shares in issue	5,133,972,603
Adjustments for assumed conversion of special reserve	31,292,600
Weighted average number of ordinary shares for diluted earnings per share	5,165,265,203
Diluted earnings per share	RMB1.05528

As the Company had no diluted instruments for the year ended 31 December 2004, the diluted earnings per share was equal to the basic earnings per share.

35 Staff costs

An analysis of staff costs, including Directors', supervisors' and key management's emoluments, is set out below:

	2005 RMB'000	2004 RMB'000
Crew expenses	**612,978**	604,464
Wages and salaries	**1,467,148**	1,180,015
Housing benefits (note a)	**46,472**	19,809
Retirement benefits costs		
- defined benefit plans (note 25(b))	**43,881**	11,350
- defined contribution plans (note b)	**64,726**	35,383
Welfare and other expenses	**269,066**	242,629
	2,504,271	2,093,650

Notes:

(a) These include contributions to PRC government sponsored housing funds (at rates ranging from 5% to 20% of the employees' basic salary) for full time employees in the PRC during the year.

(b) The employees of the subsidiaries in the PRC participate in various retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group was required to make monthly contributions to these plans at rates ranging from 9% to 20%, dependent on the applicable local regulations, of the employees' basic salary for the year.

In addition, the Group participates in various defined contribution retirement schemes for its qualified employees in certain countries outside the PRC. Employees' and employers' contributions are calculated based on various percentages of employees' gross salaries or fixed sums and length of service. The assets of the schemes are held separately from those of the administered funds independently.

Forfeited contributions totalled RMB66,000 were utilised during 2004 and no forfeited contributions were available as at 31 December 2005 and 2004 to reduce future contributions.

Contributions totalling RMB19,383,000 (2004: RMB13,305,000) payable to various retirement benefit plans at 31 December 2005 are included in other payables and accruals.

(c) The staff costs disclosed above do not include the amounts of benefits in kind provided to the Directors, supervisors and the Group's key managements in respect of staff quarters, share options and share appreciation rights being granted during the year. Further details of the emoluments of the Directors, supervisors and senior management are disclosed in note 36 to the Consolidated Financial Statements.

36 Emoluments of Directors, supervisors and senior management

(a) Directors', supervisors' and senior management's emoluments

Details of the emoluments paid and payable to the Directors, supervisors and senior management of the Company by the Group in respect of their services rendered for managing the business of the Group during the year are as follows:

	2005 RMB'000	2004 RMB'000 (Restated)
Independent non-executive Directors		
- Fees	685	223
Executive and other non-executive Directors		
- Fees	1,639	1,052
- Salaries and allowances	4,564	5,403
- Benefits in kind	322	43,922
- Discretionary bonuses	22	—
	7,232	50,600
Supervisors		
- Salaries and allowances	1,659	789
- Benefits in kind	75	4,842
- Discretionary bonuses	150	—
- Retirement benefit contributions	16	14
- Others	44	—
	1,944	5,645
Senior management		
- Salaries and allowances	7,599	3,844
- Benefits in kind	—	14,526
- Discretionary bonuses	407	—
- Others	61	52
- Retirement benefit contributions	23	—
	8,090	18,422
	17,266	74,667

Benefits in kind for the year ended 31 December 2004 mainly represented the aggregate fair values of the share options granted to the Directors, a supervisor and senior management under the COSCO Pacific's share option scheme which had not been accounted for in the Group's financial statements pursuant to the transitional provisions of HKFRS 2. COSCO Pacific did not grant any share options during the year ended 31 December 2005 (note 21(c)).

36 Emoluments of Directors, supervisors and senior management (Continued)

(a) Directors', supervisors' and senior management's emoluments (Continued)

Benefits in kind for the year ended 31 December 2005 mainly represented the aggregate fair value of the SARs granted to the Directors, supervisors and certain key management members at the date of grant (details of which refer note 21(b)). During 2005, the number of SARs granted to the Directors and supervisors were 6,000,000 and 1,400,000 respectively.

(b) Directors' emoluments

Details of the remuneration of each of the Director are set out below:

	Year ended 31 December 2005				
Name of Directors	Fees RMB'000	Salaries and allowances RMB'000	Benefits in kind RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Wei Jiafu	158	1,181	49	—	1,388
Zhang Fusheng	63	1,097	43	—	1,203
Chen Hongsheng	126	970	38	—	1,134
Wang Futian	200	—	32	—	232
Li Jianhong	288	—	32	—	320
Ma Zehua	199	—	32	—	231
Ma Guichuan	200	—	32	—	232
Sun Yueying	265	—	32	—	297
Liu Guoyuan	140	1,316	32	22	1,510
Li Boxi	111	—	—	—	111
Cheng Mo Chi	147	—	—	—	147
Hamilton Alexander Reid	284	—	—	—	284
Tsao Wen King, Frank	143	—	—	—	143
	2,324	4,564	322	22	7,232

36 Emoluments of Directors, supervisors and senior management (Continued)

(b) Directors' emoluments (Continued)

	Year ended 31 December 2004				
Name of Directors	Fees RMB'000	Salaries and allowances RMB'000	Benefits in kind RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Wei Jiafu	163	—	4,842	—	5,005
Zhang Fusheng	127	—	4,833	—	4,960
Chen Hongsheng	127	—	4,833	—	4,960
Wang Futian	127	—	4,833	—	4,960
Li Jianhong	127	—	4,833	—	4,960
Ma Zehua	127	—	4,833	—	4,960
Ma Guichuan	127	—	4,842	—	4,969
Sun Yueying	127	—	4,842	—	4,969
Liu Guoyuan	—	5,403	5,231	—	10,634
Hamilton Alexander Reid	223	—	—	—	223
	1,275	5,403	43,922	—	50,600

Note:

During the year, no emoluments were paid by the Group to any of the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. No Directors of the Company waived or agreed to waive any emoluments during the year.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year are as follows:

	Number of individuals	
	2005	2004
Directors	**—**	1
Employees	**5**	4
	5	5

36 Emoluments of Directors, supervisors and senior management (Continued)

(c) Five highest paid individuals (Continued)

None of the Directors' emoluments as disclosed in note 36(b) above was included in the emoluments paid to the five highest paid individuals (2004: one Director). Details of emoluments paid to the five (2004: four) highest paid non-Director individuals are as follows:

	2005 RMB'000	2004 RMB'000 (Restated)
- Salaries and allowances	11,094	8,658
- Benefits in kind	—	17,597
- Discretionary bonuses	2,132	944
- Retirement benefit contributions	164	33
	13,390	27,232

The emoluments of the above non-Director individuals fell within the following bands:

	Number of individuals 2005	2004
HK$1,500,001 to HK$2,000,000 (equivalent to approximately RMB1,560,000 to RMB2,080,000)	2	—
HK$2,000,001 to HK$2,500,000 (equivalent to approximately RMB2,080,000 to RMB2,600,000)	2	—
HK$4,500,001 to HK$5,000,000 (equivalent to approximately RMB4,680,000 to RMB5,200,000)	1	—
HK$6,000,001 to HK$6,500,000 (equivalent to approximately RMB6,240,000 to RMB6,760,000)	—	2
HK$6,500,001 to HK$7,000,000 (equivalent to approximately RMB6,760,000 to RMB7,280,000)	—	1
HK$7,000,001 to HK$7,500,000 (equivalent to approximately RMB7,280,000 to RMB7,800,000)	—	1
	5	4

37 Notes to the consolidated cash flow statement

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

	2005 RMB'000	2004 RMB'000
Profit before income tax	**7,450,250**	5,243,300
Depreciation	**1,733,213**	1,810,674
Amortisation of intangible assets	**74,175**	69,319
Amortisation of leasehold land and land use rights	**1,916**	4,303
Amortised amounts of transaction costs on long-term borrowings and discount on issue of notes	**21,553**	1,987
Dividend income from listed and unlisted investments	**(145,149)**	(181,523)
Share of profits less losses of		
- jointly controlled entities	**(601,852)**	(560,731)
- associates	**(661,918)**	(276,613)
Gain on disposal of investment securities	**—**	(93)
Gain on disposal of an available-for-sale financial asset	**(512,117)**	—
Interest expenses	**826,430**	551,381
Interest income	**(173,277)**	(47,240)
Gain on deemed disposal of a subsidiary	**(48,708)**	(78,530)
Provision for impairment of trade receivables	**27,273**	27,418
Recovery of bad debts	**(62,459)**	(575)
Provision for resaleable containers	**—**	5,322
Write-off of resaleable containers	**—**	2,045
Gain on disposal of property, plant and equipment	**(20,612)**	(63,457)
Revaluation surplus of investment properties	**—**	(2,417)
Gain on disposal of jointly controlled entities and dissolution of an associate, net	**(1,029)**	(3,203)
Gain on partial disposal of an associate	**(1,458)**	—
Gain on interest rate swap contracts not qualifying as hedges	**(32,629)**	—
Net gain on interest rate swap contract	**—**	(31,742)
Exchange loss	**—**	11,042
Other incidental borrowing costs and charges	**20,410**	86,392
Operating profit before working capital changes	**7,894,012**	6,567,059
Increase in inventories	**(218,487)**	(14,600)
Decrease/(increase) in trade and other receivables	**1,592,546**	(2,654,251)
(Decrease)/increase in trade and other payables	**(2,989,573)**	1,695,249
Decrease in other taxes payable	**(75,076)**	(122,479)
Decrease/(increase) in finance lease receivables	**12,744**	(110)
Increase in other non-current liabilities	**22,506**	—
Cash generated from operations	**6,238,672**	5,470,868

37 Notes to the consolidated cash flow statement (Continued)

(b) Disposal of subsidiaries

	2005 RMB'000	2004 RMB'000
Net assets disposed of:		
Property, plant and equipment and intangible assets	—	7,979
Other non-current assets	—	481
Other current assets	—	33,569
Bank balances and cash	—	13,609
Other current liabilities	—	(35,313)
Minority interests	—	(2,032)
	—	18,293

Net cash outflow in respect of the disposal of subsidiaries is analysed as follows:

	2005 RMB'000	2004 RMB'000
Cash consideration	—	—
Bank balances and cash in hand disposed of	—	(13,609)
Net cash outflow in respect of disposal of subsidiaries	—	(13,609)

(c) Major non-cash transactions

(i) During the year ended 31 December 2004, the amount due to a fellow subsidiary was set off against consideration receivable of RMB1,683,185,000 arising from the disposal of investments.

(ii) During the year ended 31 December 2004, the amount due to a subsidiary of COSCO of RMB1,626,348,000 formed part of the consideration payable which was included under current liabilities.

(iii) During the year ended 31 December 2004, amount payable to a bank RMB2,000,000,000 outstanding as at 1 January 2004 was novated to COSCO by COSCON and settled through the amount due from COSCO.

(iv) On 31 December 2004, the amount due to a fellow subsidiary of US$360,000,000 (equivalent to RMB2,980,000,000) was transferred and novated to COSCO through COSCON.

(v) On 31 December 2004, COSCO and COSCON entered into a loan transfer agreement with a bank, as part of the debt restructuring of COSCO, to replace the Group's net payable balances of RMB3,973,000,000 (consisting of borrowings from COSCO of RMB4,804,000,000 and a receivable balance from COSCO of RMB831,000,000) with bank borrowings of the same amount.

(vi) During the year ended 31 December 2004, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of RMB123,900,000.

37 Notes to the consolidated cash flow statement (Continued)

(c) Major non-cash transactions (Continued)

(vii) The Group disposed of certain subsidiaries to fellow subsidiaries at nil consideration and the net assets of which were treated as deemed distributions to COSCO of RMB18,293,000 for the year ended 31 December 2004.

(viii) On 1 January 2004, certain overseas companies distributed reserves of RMB1,148,081,000 to their then holding company which is now a fellow subsidiary. The balance was subsequently novated to COSCO through COSCON.

(ix) In 2004, COSCO Group transferred the equity interests in certain PRC and overseas subsidiaries to the Group for consideration of RMB62,743,000 (note 1(a)), of which RMB37,180,000 was subsequently novated to COSCO through COSCON. The remaining balance of RMB17,119,000 was included in amounts due to related parties as at 31 December 2004 and of RMB13,444,000 was paid during 2004.

(x) In 2004, COSCO and certain fellow subsidiaries waived the rights to receive the balances of RMB122,911,000 and RMB68,155,000 from the Group and the waiver of balances was treated as capital contribution.

(xi) In 2005, the Group derecognised the finance lease arrangements in respect of assets with a total value of RMB118,796,000.

37 Notes to the consolidated cash flow statement (Continued)

(d) Analysis of changes in financing during the year

	Borrowings RMB'000	Amount due to COSCO RMB'000	Amounts due to fellow subsidiaries RMB'000	Minority interests RMB'000	Amount payable to a bank under non-current liabilities RMB'000
Balance at 1 January 2004	12,672,978	2,171,893	5,873,171	5,285,448	3,000,000
Amortised amount of discount on issue of notes	1,987	—	—	—	—
Drawdown of borrowings	6,745,461	—	1,796,462	—	—
Repayment of borrowings	(5,675,919)	(338,788)	(2,565,361)	—	(1,000,000)
Inception of finance lease obligations (note c(vi))	123,900	—	—	—	—
Finance lease payments	(5,104)	—	—	—	—
Transfer (note c(iv))	—	2,980,000	(2,980,000)	—	—
Disposal of investments (note c(i))	—	—	(1,683,185)	—	—
Assignment of balances (notes c(ii), c(iii) and c(v))	3,973,000	(4,804,000)	(1,626,348)	—	(2,000,000)
Distribution of reserves (note c(viii))	—	—	1,148,081	—	—
Transfer of certain oversea subsidiaries (note c (ix))	—	—	37,180	—	—
Increase in equity upon deemed disposal of subsidiaries	—	—	—	274,319	—
Disposal of subsidiaries	—	—	—	(2,032)	—
Minority interests' share of profit	—	—	—	799,583	—
Contributions from minority shareholders of subsidiaries	—	—	—	2,732	—
Dividends paid to minority shareholders of subsidiaries	—	—	—	(406,732)	—
Balance at 31 December 2004	17,836,303	9,105	—	5,953,318	—

37 Notes to the consolidated cash flow statement (Continued)

(d) Analysis of changes in financing during the year (Continued)

	Share capital (including share premium) RMB'000	Borrowings RMB'000	Amount due to COSCO RMB'000	Minority interests RMB'000
Balance at 1 January 2005, as previously reported	—	17,836,303	9,105	5,953,318
Opening adjustments for the adoption of HKFRS 3, HKASs 32, 39 and 39 (Amendment) in respect of				
- Redesignation of investments securities as available-for-sale financial assets	—	—	—	923,096
- Recognition of unamortised transaction cost on bank borrowings and notes	—	(91,684)	—	23,051
- Recognition of interest rate swap contracts as derivative financial instruments	—	—	—	6,378
- Derecognition of negative goodwill	—	—	—	78,343
- Share of opening adjustments of jointly controlled entities and associates	—	—	—	23,313
Balance at 1 January 2005, as restated	—	17,744,619	9,105	7,007,499

37 Notes to the consolidated cash flow statement (Continued)

(d) Analysis of changes in financing during the year (Continued)

	Share capital (including share premium) RMB'000	Borrowings RMB'000	Amount due to COSCO RMB'000	Minority interests RMB'000
Proceeds from issue of new H shares	9,232,683	—	—	—
Share issue expenses	(414,886)	—	—	—
Exchange differences	—	(419,241)	—	(140,429)
Amortised amounts of transaction costs on long-term borrowings and discount on issue of notes	—	21,553	—	—
Drawdown of borrowings	—	6,248,448	—	—
Repayment of borrowings	—	(6,733,031)	(9,105)	—
Derecognition of finance lease obligations (note c(xi))	—	(118,796)	—	—
Effect of fair value hedge	—	(54,078)	—	—
Release of reserves upon				
- disposal of an available-for-sale financial asset	—	—	—	(237,871)
- deemed disposals	—	—	—	141,628
Fair value gain of available-for sale financial assets	—	—	—	59,641
Share of reserves of a jointly controlled entity and associates	—	—	—	3,151
Increase in equity interest in subsidiaries (previously jointly controlled entities)	—	—	—	71,940
Minority interests' share of profit	—	—	—	1,348,126
Dividends paid to minority shareholders of a subsidiary	—	—	—	(745,648)
Contributions from minority shareholders of subsidiaries	—	—	—	703
At 31 December 2005	8,817,797	16,689,474	—	7,508,740

38 Contingent liabilities

The following is a summary of the significant contingent liabilities as at 31 December 2005:

	Group	
	2005	2004
	RMB'000	RMB'000
Guarantee for bank loan facilities granted to an associate (note a)	**176,899**	—
Pending lawsuits (note b)	**32,656**	36,100
	209,555	36,100

Notes:

(a) As at 31 December 2005, Antwerp Gateway NV., an associate of the Group, had bank loans facilities of EURO143,400,000 (equivalent to approximately RMB1,373,729,000), of which EURO18,466,000 (equivalent to approximately RMB176,899,000) is guaranteed by the Group.

(b) In 2003, the Group was involved in a personal injury case in which a truck was involved in a traffic accident in Illinois, the US, resulting in death and injury of a number of individuals. Upon advice of US legal counsel, the Directors considered that the exposure liable to the Group, if any, is fully covered by the Group's insurance policies.

The Group is subject to other claims in respect of a number of litigations currently under way. As at 31 December 2005, the Group is unable to ascertain the likelihood and amounts of the respective claims. However, based on advice of legal counsel, the Directors are of the opinion that, while the claims have not been provided for in the Consolidated Financial Statements or included in the contingent liabilities as disclosed above, either the Group's insurance coverage will be adequate to cover any final claims to be settled or the final claims amounts will be insignificant to the Group.

(c) The Company did not have any significant contingent liabilities as at 31 December 2005.

39 Commitments

(a) Capital commitments

	Group 2005 RMB'000	Group 2004 RMB'000
Authorised but not contracted for		
Containers	2,562,757	2,919,099
Vessels	304,000	8,731,959
Other property, plant and equipment	94,264	115,506
Investments	675	23,966
Intangible assets	7,918	—
	2,969,614	11,790,530
Contracted but not provided for		
Containers	67,233	95,599
Vessels	7,395,075	1,774,059
Other property, plant and equipment	96,258	66,959
Investments (note i)	5,744,723	2,906,080
Intangible assets	11,805	—
	13,315,094	4,842,697

Notes:

(i) The Group's contracted investments as at 31 December 2005 are as follows:

	Group 2005 RMB'000	Group 2004 RMB'000
Investments in:		
- Qingdao Qianwan Container Terminal Co., Ltd	839,462	884,646
- Antwerp Gateway NV	654,421	1,458,813
- Dalian Port Container Terminals Co., Ltd	713,341	—
- Others	356,679	530,472
Terminal projects in:		
- Nansha of Guangzhou	2,365,343	—
- Others	815,477	32,149
	5,744,723	2,906,080

39 Commitments (Continued)

(a) Capital commitments (Continued)

(ii) Amounts of capital commitments relating to the Group's interest in the jointly controlled entities are as follows:

	2005 RMB'000	2004 RMB'000
Authorised but not contracted for	**67,128**	61,250
Contracted but not provided for	**59,042**	68,542
	126,170	129,792

(b) Operating lease arrangement - where the Group is the lessor

At 31 December 2005, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	Group	
	2005 RMB'000	2004 RMB'000
Vessels and containers		
- not later than one year	**838,027**	875,475
- later than one year and not later than five years	**1,898,248**	1,532,078
- later than five years	**83,632**	215,790
	2,819,907	2,623,343
Investment properties and other properties		
- not later than one year	**3,589**	4,718
- later than one year and not later than five years	**7,317**	12,781
- later than five years	**1,930**	1,805
	12,836	19,304
Other property, plant and equipment		
- not later than one year	**8,498**	6,166
- later than one year and not later than five years	**21,854**	21,313
	30,352	27,479
	2,863,095	2,670,126

The future lease receipts above do not include those lease contracts with the amount of future lease receipts depends on the timing of pick up and drop off of containers by lessees during the lease period of the contracts.

39 Commitments (Continued)

(c) Operating lease commitments - where the Group is the lessee

At 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Land and buildings		
- not later than one year	**84,331**	68,698
- later than one year and not later than five years	**141,816**	97,868
- later than five years	**43,908**	41,248
	270,055	207,814
Vessels and containers		
- not later than one year	**2,734,247**	2,135,589
- later than one year and not later than five years	**8,909,207**	9,570,024
- later than five years	**7,669,724**	8,559,998
	19,313,178	20,265,611
Other property, plant and equipment		
- not later than one year	**13,207**	9,110
- later than one year and not later than five years	**19,569**	7,353
	32,776	16,463
	19,616,009	20,489,888

(d) The Company did not have any significant commitments as at 31 December 2005.

40 Significant related party transactions

The Company is controlled by COSCO, the parent company and a state-owned enterprise established in the PRC.

COSCO itself is a state-owned enterprise controlled by the PRC government. In accordance with HKAS 24 "Related Party Disclosures" issued by the HKICPA, other state-owned enterprises and their subsidiaries (other than COSCO group companies), directly or indirectly controlled by the PRC government, are also defined as related parties of the Group.

For the purpose of the related party transaction disclosures, the Group has identified, to the extent practicable, its customers and suppliers as to whether they are state-owned enterprises. Nevertheless, the Directors believe that meaningful information in respect of related party transactions has been adequately disclosed.

40 Significant related party transactions (Continued)

In addition to the related party information disclosed elsewhere in the Consolidated Financial Statements, the following is a summary of significant related party transactions entered into the ordinary course of business between the Group and its related parties during the year.

	2005 RMB'000	2004 RMB'000
Transactions with COSCO		
Expenses		
Vessel costs		
Subcharter expenses (note a)	**113,236**	—
Transactions with subsidiaries of COSCO and its related entities (including jointly controlled entities and associates)		
Revenues		
Container shipping income (note b)	**392,823**	391,017
Shipping-related service income (note l)	**15,888**	13,707
Freight forwarding and shipping agency income (note c)	**23,786**	52,812
Expenses		
Vessel costs		
Vessel services expenses (note d)	**267,871**	263,250
Crew expenses (note e)	**603,433**	604,464
Subcharter expenses (note a)	**495,307**	501,346
Vessel management expenses (note e)	**75,248**	52,580
Voyage costs		
Bunker costs (note f)	**4,489,521**	2,713,529
Port charges (note g)	**1,261,996**	1,141,714
Equipment and cargo transportation costs		
Commission and rebates (note h)	**229,363**	369,742
Cargo and transhipment and equipment and repositioning expenses (note i)	**231,931**	234,047
Transportation and depot services expenses (note j)	**151,482**	92,514
Management fee expenses (note l)	**21,257**	59,383
General service expenses (note l)	**19,527**	7,278
Rental expenses (note l)	**42,646**	20,921
Sales commission for handling of vessels sales (note l)	**—**	10,136

40 Significant related party transactions (Continued)

	2005 RMB'000	2004 RMB'000
Others		
Consideration received for the disposal of a subsidiary and assignment of a shareholders' loan (note m)	12,760	—
Purchase of building (note m)	18,600	—
Downpayments for purchase of container vessels (note o)	392,100	—
Purchase of		
- an associate (note p)	—	1,056,384
- jointly controlled entities (note q)	—	1,252,910
Disposal of jointly controlled entities (note m)	—	41,040
Disposal of investments in a subsidiary (note m)	—	32,189
Share of general and administrative expenses by a fellow subsidiary (note r)	—	33,648
Transactions with jointly controlled entities of the Group		
Revenues		
Container shipping income (note b)	297,991	487,775
Freight forwarding and shipping agency income (note c)	21,632	39,027
Management fee income (note l)	21,056	21,222
Expenses		
Voyage costs		
Port charges (note g)	1,091,301	1,001,664
Equipment and cargo transportation costs		
Commission and rebates (note h)	16,622	43,159
Cargo and transhipment and equipment and repositioning expenses (note i)	5,093	43,015
Transportation and depot services expenses (note j)	134,016	123,130
Rental expenses (note l)	4,595	4,825
Others		
Purchase of containers (note s)	301,642	51,293
Transactions with associates of the Group		
Expenses		
Container freight charges (note l)	14,562	9,245
Others		
Purchase of containers (note s)	866,147	239,106

40 Significant related party transactions (Continued)

	2005 RMB'000	2004 RMB'000
Transactions with other state-owned enterprises		
Revenues		
Container shipping income (note b)	**2,867,281**	1,674,515
Freight forwarding and shipping agency income (note c)	**459,062**	412,046
Container rental income (note l)	**17,281**	18,042
Interest income on bank deposits (note l)	**41,527**	15,314
Expenses		
Vessel costs		
Vessel services expenses (note d)	**74,497**	76,020
Port charges (note g)	**1,365,032**	960,796
Transportation and depot services expenses (note j)	**269,299**	230,811
General service expenses (note l)	**7,320**	3,066
Interest expense (note k)	**421,314**	244,370

Notes:

(a) COSCO and its subsidiaries leased thirteen vessels to COSCON and Pan Asia by way of sub-time charter arrangements. The periods of the sub-time charters are of six to twelve years. The daily charterhire rate for each vessel was agreed on a mutual basis.

(b) COSCON provided a subsidiary of COSCO, COSCO Logistics and its subsidiaries and certain state-owned enterprises with container shipping services. These services were charged on a mutually agreed basis, except for the transactions with the subsidiary of COSCO and jointly controlled entities, which are governed by the terms under Master Solicitation Activities Agreement since 9 June 2005 (note n) and the underlying execution agreements. COSCO Logistics was owned as to 51% directly by COSCO and as to 49% indirectly by COSCO Pacific since January 2004.

(c) The subsidiaries of the Group provided the subsidiaries of COSCO, certain jointly controlled entities of the Group, certain state-owned enterprises with freight forwarding, shipping agency and related services. The services were charged based on a certain percentage of the related freight revenue or fixed amounts per volume handled or as terms governed by the Master Overseas Agency Services Agreement dated 9 June 2005 (note n).

(d) Certain subsidiaries of COSCO and state-owned enterprises provided COSCON and its subsidiaries with lubricants, paint for vessel repairing, paint for maintenance, vessel materials and parts, vessel radio and communication equipment, etc. The vessel services were charged on a mutually agreed basis, except for the transactions with subsidiaries of COSCO which are governed by the terms under Master Vessel Services Agreement dated 9 June 2005 (noted n).

(e) Shanghai Ocean Shipping Company ("SOSC"), a wholly-owned subsidiary of COSCO, provided the Group with crew and vessel management services. The services rendered were charged based on a mutually agreed basis prior to Listing Date or based on the actual costs incurred by SOSC and governed by the terms under Master Vessel Management Agreement and Master Seamen Leasing Agreement dated 9 June 2005 (note n).

40 Significant related party transactions (Continued)

(f) Certain subsidiaries and jointly controlled entities of COSCO provided COSCON and its subsidiaries with bunkers at prices with reference to market rates and governed by the terms under Master Vessel Services Agreement dated 9 June 2005 (note n).

The Group entered into bunker forward agreements through Chimbusco (Singapore) Pte Ltd ("Chimbusco"), a jointly controlled entity of COSCO. No service fees was charged by Chimbusco for the arrangements of bunker forward agreements.

As at 31 December 2005, there were notional amounts of outstanding bunker forward agreements of RMB200,656,000 (2004: RMB196,713,000) entered into by the Group for itself and certain fellow subsidiaries. The gain or loss on bunker forward agreements is shared between the Group and the fellow subsidiaries based on their respective actual consumption of bunker for the year.

(g) Certain jointly controlled entities of COSCO and jointly controlled entities of the Group and certain state-owned enterprises provided the Group with container terminal handling and storage services, port services and shipping services. The services rendered were charged at terms as agreed with the related parties or at terms based on respective underlying agreements entered into between the Group and the respective related companies or at terms governed by the Master Port Services Agreement dated 9 June 2005 (note n).

(h) Certain subsidiaries of COSCO and certain subsidiaries, jointly controlled entities and an associate of COSCO Logistics, and certain jointly controlled entities of the Group provided COSCON with shipping agency, freight forwarding, freight solicitation, slot booking services and other related services. The service was charged based on a certain percentage of the related freight revenue, the quantity of cargo solicited, at terms as agreed with the related parties and at terms governed by the Master Overseas Agent Services Agreement dated 9 June 2005 (note n) and the underlying execution agreements.

(i) Certain subsidiaries of COSCO and jointly controlled entities of the Group provided the Group with container services including provision of container depots, repairs, towage, examination and maintenance of containers and related services. The container services were charged at terms as agreed with the related parties or at terms governed by the Master Container Services Agreement dated 9 June 2005 (note n) and the underlying execution agreements.

(j) Certain subsidiaries, jointly controlled entities and associates of COSCO and COSCO Logistics, certain jointly controlled entities of the Group and state-owned enterprise provided the Group with transportation and depot services. The charges were based on the terms as governed by the Master Container Services Agreement or Master Solicitation Services Agreement dated 9 June 2005 (note n) and the underlying execution agreements or at terms as agreed with the related parties.

(k) Interest was charged for loans with state-owned banks in accordance with the terms as set out in the respective agreements or as mutually agreed between the parties in concern.

(l) These transactions of revenues and expenses in nature were conducted based on terms as set out in the underlying agreements, based on statutory rates or market prices or actual cost incurred, or as mutually agreed.

(m) These transactions were conducted at terms as set out in the relevant agreements entered into between the Group and the parties in concern.

(n) On 9 June 2005, the Group (other than COSCO Pacific group) and COSCO Group entered into eight master agreements effective on or after 9 June 2005 with an initial term of three years relating to the provision of general services, vessel services, agency and management services, container services solicitation activities, port services, vessel management services, seamen leasing, properties leasing, provision of products and services. Upon the expiry of the initial term, each of the master agreements shall automatically continue for a term to be agreed by the parties of such master agreements. Each of the eight master agreements contains binding principles, guidelines and terms and conditions pursuant to which any and all products and services contemplated therein are to be provided by the relevant provider to the relevant recipient. The fee of each relevant product or service under each of the master agreements is determined with reference to state-prescribed prices, market price or the actual cost incurred in providing such products or services plus a margin. The master agreements are framework agreements which provide the mechanism for the operation of the related party transactions and individual execution agreements were entered into between the Group and the related parties, if appropriate.

40 Significant related party transactions (Continued)

(o) In April 2005, the Group entered into several ship building contracts with Nantong COSO KHI Ship Engineering Co., Ltd., a related party of the Group, for the construction of four 10,000 TEU container vessels. The total contract price was approximately US$485,800,000 (equivalent to approximately RMB4,021,200,000). As at 31 December 2005, RMB392,100,000 was paid.

(p) On 19 August 2004, COSCO Container Industries Limited ("COSCO Container"), a wholly owned subsidiary of COSCO Pacific, entered into an agreement with COSCO to acquire its 163,701,456 non-publicly tradable State-owned legal person shares in CIMC, representing approximately 16.23% of the issued share capital of CIMC, at a cash consideration of RMB1,056,384,000 (equivalent to approximately US$127,240,000). CIMC, whose A shares and B shares are listed and traded on the Shenzhen Stock Exchange, is primarily engaged in the manufacturing and sale of modern traffic and transport equipment such as containers, modern road transport vehicles and airport ground equipment. The acquisition of CIMC was completed on 31 December 2004.

(q) (i) Pursuant to an agreement dated 22 September 2003 (the "Agreement"), COSCO Pacific Logistics Company Limited ("CPLCL"), a subsidiary of the Group, agreed to acquire from COSCO its 49% equity interest in COSCO Logistics, a then wholly owned subsidiary of COSCO, at an aggregate amount of RMB1,180,410,000 (equivalent to approximately US$142,179,000), comprising an amount payable to COSCO of RMB446,410,000 and capital contribution to COSCO Logistics of RMB734,000,000. The acquisition was completed in January 2004.

CPLCL also paid COSCO an additional consideration of RMB50,000,000 (equivalent to approximately US$6,022,000) in September 2004 pursuant to the conditions as set out in the Agreement.

(ii) Pursuant to an agreement dated 15 June 2004, COSCO Ports (Yingkou) Limited, a subsidiary of the Group, agreed to acquire from COSCO its entire 50% equity interest in a company established in the PRC which is principally engaged in the provision of container terminal business in Yingkou, at a cash consideration of RMB22,500,000. The acquisition was completed in August 2004.

(r) In the prior year, the general and administrative expenses were shared by a subsidiary of COSCO for the general and administrative services provided by the Group. The sharing of the expenses incurred was calculated based on the headcount involved in general and administrative work of the staff of COSCON for the fellow subsidiary.

(s) The purchases of containers from jointly controlled entities of the Group and subsidiaries of CIMC were conducted at terms as set out in the agreements entered into between the Group and the parties in concern.

40 Significant related party transactions (Continued)

Balances with related parties

Other than those disclosed elsewhere in the Consolidated Financial Statements, the outstanding balances with related entities at year end are as follows:

	2005 RMB'000	2004 RMB'000
Deposits		
- State-owned banks and other state-owned non-bank financial institutions (note a)	**5,007,356**	1,735,742
Loans		
- State-owned banks and other state-owned non-bank financial institutions (note a)	**7,857,147**	10,117,748
Trade and other receivables		
- State-owned enterprises (note b)	**302,839**	444,456
Trade and other payables		
- State-owned enterprises (note b)	**133,943**	194,819

Notes:

(a) The deposits and loans were in accordance with the terms as set out in the respective agreements or as mutually agreed between the parties in concern. The interest rates were set at prevailing market rates.

(b) Trading balances with state-owned enterprises have similar terms of repayments as the balances with third parties while other balances with state-owned enterprises are unsecured, interest free and repayable on demand.

40 Significant related party transactions (Continued)

Share options granted by related parties

Share options were granted to the Company's Directors and employees of the Group by two fellow subsdiaries, COSCO International Holdings Limited ("COSCO International") and COSCO Corporation (Singapore) Limited ("COSCO Corporation (Singapore)"). Movement during the year are as follows:

		Number of units of share options					
	Exercise price	Outstanding at 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2005	note
Share Options of COSCO International							
Directors	HK$0.57	5,400,000	—	—	—	5,400,000	(i)
	HK$1.37	3,600,000	—	—	—	3,600,000	(ii)
Employees	HK$0.57	5,000,000	—	(300,000)	—	4,700,000	(i)
	HK$1.37	4,600,000	—	—	—	4,600,000	(ii)
		18,600,000	—	(300,000)	—	18,300,000	
Share options of COSCO Corporation (Singapore)							
Directors	S$0.2	800,000	—	(800,000)	—	—	(iii)
	S$0.2	850,000	—	(850,000)	—	—	(iv)
	S$0.735	1,700,000	—	(1,700,000)	—	—	(v)
	S$1.614	—	1,050,000	—	—	1,050,000	(vi)
		3,350,000	1,050,000	(3,350,000)	—	1,050,000	

Notes:

(i) The share options were granted on 26 November 2003 under the share option scheme adopted by COSCO International on 17 May 2002 (the "COSCO International Scheme"). The options are exercisable at any time between 23 December 2003 to 22 December 2008.

(ii) The share options were granted on 2 December 2004 by COSCO International under the COSCO International Scheme. The options are exercisable at any time between 29 December 2004 to 28 December 2014.

(iii) The share options were granted by COSCO Corporation (Singapore) on 12 August 2002 The options are exercisable at any time between 12 August 2003 and 11 August 2007.

(iv) The share options were granted by COSCO Corporation (Singapore) on 1 April 2003 and are exercisable at any time between 1 April 2004 and 31 March 2008.

(v) The share options were granted by COSCO Corporation (Singapore) on 24 May 2004 and are exercisable at any time between 24 May 2005 and 23 May 2009.

(vi) The share options were granted by COSCO Corporation (Singapore) on 6 April 2005 and are exercisable at any time between 6 April 2005 and 5 April 2010.

41 Particulars of subsidiaries, jointly controlled entities and associates

(a) Subsidiaries

As at 31 December 2005, the Group had direct and indirect interests in the following principal subsidiaries:

Name	Place of incorporation/ establishment and operations	Principal activities	Type of legal entity	Issued/registered and fully paid up share capital	Attributable equity interest to the equity holders of the Company 2005	2004
Shares held directly						
[1] COSCO Container Lines Company Limited	PRC	Container transportation	Limited liability company	RMB2,380,000,000	100%	100%
COSCO Pacific Investment Holdings Limited #	Hong Kong	Investment holding	Limited liability company	500 ordinary shares of HK$1,000 each	100%	100%
Shares held indirectly						
COSCO Container Shipping Agency Company Limited	PRC	Shipping agency	Limited liability company	RMB80,000,000	100%	100%
COSCO International Freight Co., Ltd.	PRC	Freight forwarding and transportation	Limited liability company	RMB200,000,000	100%	100%
[3] COSCO Pacific Limited #	Bermuda	Investment holding	Limited liability company	2,198,966,298 ordinary shares of HK$0.1 each	52.03%	52.18%
COSCO Investments Limited #	British Virgin Islands/ Hong Kong	Investment holding	Limited liability company	1 ordinary share of US$1	100%	100%
Dalian COSCO International Freight Co., Ltd.	PRC	Freight forwarding	Limited liability company	RMB20,000,000	100%	100%
COSCO Tianjin International Freight Co. Ltd.	PRC	Freight forwarding	Limited liability company	RMB20,000,000	100%	100%
COSCO Qingdao International Freight Co. Ltd.	PRC	Freight forwarding	Limited liability company	RMB24,300,000	100%	100%
COSCO Wuhan International Freight Co., Ltd.	PRC	Freight forwarding	Limited liability company	RMB34,950,000	51%	51%
COSCO Shanghai International Freight Co., Ltd.	PRC	Freight forwarding	Limited liability company	RMB114,000,000	100%	100%

41 Particulars of subsidiaries, jointly controlled entities and associates (Continued)

(a) Subsidiaries (Continued)

Name	Place of incorporation/ establishment and operations	Principal activities	Type of legal entity	Issued/registered and fully paid up share capital	Attributable equity interest to the equity holders of the Company 2005	2004
Shares held indirectly						
COSCO Southern China International Freight Co., Ltd.	PRC	Freight forwarding	Limited liability company	RMB10,000,000	100%	—
COSCO Xiamen International Freight Co., Ltd.	PRC	Freight forwarding	Limited liability company	RMB7,560,000	100%	100%
COSCO Beijing International Freight Co., Ltd.	PRC	Freight forwarding	Limited liability company	RMB5,705,600	100%	100%
COSCO Xian International Freight Co., Ltd.	PRC	Freight forwarding	Limited liability company	RMB8,000,000	100%	100%
COSCO Seabow International Freight Co., Ltd.	PRC	Freight forwarding	Sino-Foreign joint venture	USD1,000,000	70%	70%
Welley Shipping Company (China) Limited	PRC	Domestic transportation agency	Limited liability company	RMB13,000,000	100%	100%
COSCO Qingdao Container Shipping Agency Co., Ltd.	PRC	Shipping agency	Limited liability company	RMB10,000,000	100%	100%
COSCO Shanghai Container Shipping Agency Co., Ltd.	PRC	Shipping agency	Limited liability company	RMB10,000,000	100%	100%
COSCO Dalian Container Shipping Agency Co., Ltd.	PRC	Shipping agency	Limited liability company	RMB3,000,000	100%	100%
COSCO Guangzhou Container Shipping Agency Co., Ltd.	PRC	Shipping agency	Limited liability company	RMB16,000,000	100%	100%
COSCO Xiamen Container Shipping Agency Co., Ltd.	PRC	Shipping agency	Limited liability company	RMB10,000,000	100%	100%
COSCO Shenzhen Container Shipping Agency Co., Ltd.	PRC	Shipping agency	Limited liability company	RMB5,000,000	100%	100%

41 Particulars of subsidiaries, jointly controlled entities and associates (Continued)

(a) Subsidiaries (Continued)

Name	Place of incorporation/ establishment and operations	Principal activities	Type of legal entity	Issued/registered and fully paid up share capital	Attributable equity interest to the equity holders of the Company 2005	2004
Shares held indirectly (Continued)						
[4] COSCO Tianjin Container Shipping Agency Co., Ltd.	PRC	Shipping agency	Limited liability company	RMB15,000,000	51%	51%
[4] Shanghai O G Enterprise Co., Ltd.	PRC	Freight forwarding	Limited liability company	US$4,000,000	70%	70%
Shanghai Pan Asia Shipping Company Limited	PRC	International ocean shipping, national inshore and inland river internal trade containers transportation	Limited liability company	RMB668,800,000	100%	100%
COSCO Information and Technology (Shanghai) Ltd.	PRC	Software developing, technical service and supporting	Sino-foreign equity joint venture	US$250,000	60%	60%
China Ocean Shipping (Canada) Inc.	Canada	Shipping agency	Limited liability company	400,000 shares of US$4.67 each	100%	100%
China Ocean Shipping (East Canada) Inc.	Canada	Shipping agency	Limited liability company	100 shares of US$0.7 each	100%	100%
COSCO Agencies (Los Angeles), Inc.	United States of America	Shipping agency	Limited liability company	1,000 shares of US$0.1 each	100%	100%
COSCON France SAS (formerly Air Sea Lines Sarl)	France	Freight forwarding	Limited liability company	500 shares of EURO16 each	100%	100%
COSCON (UK) Ltd (formerly JNF Services Limited)	United Kingdom	Shunting and haulage contracting	Limited liability company	100 shares of GBP1 each	100%	100%
COSCO Belgium NV	Belgium	Shipping agency	Limited liability company	100 shares of EURO1,250 each	100%	100%
COSCO Iberia Ship Agency, S.A.	Spain	Shipping agency	Limited liability company	10,000 shares of EURO6.02 each	70%	70%
COSCO Container Line Agencies Limited [#]	Hong Kong	Shipping agency	Limited liability company	1,000,000 shares of HK$1 each	100%	100%
North Star Shipholding Ltd. S.A.	Panama/Japan	Vessel owning and chartering	Limited liability company	1,000 shares of US$1 each	100%	100%
COSCO Japan Express Ltd	Japan	Shipping agency	Limited liability company	10,000,000 shares of JPY 1 each	100%	—

41 Particulars of subsidiaries, jointly controlled entities and associates (Continued)

(a) Subsidiaries (Continued)

Name	Place of incorporation/ establishment and operations	Principal activities	Type of legal entity	Issued/registered and fully paid up share capital	Attributable equity interest to the equity holders of the Company 2005	2004
Shares held indirectly (Continued)						
COSKOR Shipping Co., Ltd. (formerly COSCO Logistics (Korea) Co., Ltd.) #	Korea	Freight forwarding	Limited liability company	60,000 shares of KRW5,000 each	100%	100%
Wonseong Shipping Co., Ltd. (formerly Coshan Shipping Co., Ltd.) #	Korea	Shipping agency	Limited liability company	50,000 shares of KRW5,000 each	100%	100%
Freightworld Pte Ltd.	Singapore	Shipping agency and freight forwarding	Limited liability company	200,000 shares of SGD 1 each	100%	100%
Freightworld (M) Sdn. Bhd	Malaysia	Shipping agency and freight forwarding	Limited liability company	100,000 shares of RM1 each	100%	100%
Five Star Shipping and Agency Company Pty. Ltd.	Australia	Shipping agency	Limited liability company	100,000 shares of AUD 1 each	100%	100%
BPSC International Shipping & Cargo Service Pty Ltd.	Australia	Freight forwarding	Limited liability company	110,000 shares of AUD 1 each	100%	100%
COSCO (New Zealand) Limited	New Zealand	Shipping agency and freight forwarding	Limited liability company	100,000 shares of NZD 1 each	100%	100%
Green Leaf Promotions Limited	New Zealand	Management service	Limited liability company	25,000 shares of NZD 1 each	100%	100%
Cheer Hero Development Limited #	Hong Kong	Container handling, storage and stevedoring	Limited liability company	10,000 ordinary shares of HK$10 each	39.02%	39.14%
COSCO Container Services Limited #	Hong Kong	Investment holding, depot handling, storage and container repairing	Limited liability company	2 ordinary shares of HK$1 each	52.03%	52.18%
COSCO Pacific (China) Investments Co. , Ltd	PRC	Investment holding	Limited liability company	US$37,496,000	52.03%	52.18%
COSCO Pacific Finance (2003) Company Limited #	British Virgin Islands/ Hong Kong	Financing	Limited liability company	1 ordinary share of US$1	52.03%	52.18%
COSCO Pacific Logistics Company Limited	British Virgin Islands/ Hong Kong	Investment holding	Limited liability company	1 ordinary share of US$1	52.03%	52.18%

41 Particulars of subsidiaries, jointly controlled entities and associates (Continued)

(a) Subsidiaries (Continued)

Name	Place of incorporation/ establishment and operations	Principal activities	Type of legal entity	Issued/registered and fully paid up share capital	Attributable equity interest to the equity holders of the Company 2005	2004
Shares held indirectly (Continued)						
Florens Container (Macao Commercial Offshore) Limited #	Macau/ Worldwide	Sale of old containers and administration of marine shipping container activities	Limited liability company	1 quota (share) of MOP100,000	52.03%	52.18%
Florens Container Corporation S.A. #	Panama/ Worldwide	Container leasing	Limited liability company	100 ordinary shares of US$100 each	52.03%	52.18%
Florens Container Holdings Limited #	British Virgin Islands/ Hong Kong	Investment holding	Limited liability company	22,014 ordinary shares of US$1 each	52.03%	52.18%
Florens Container Inc. #	United States of America	Container leasing	Limited liability company	1 ordinary share of US$1	52.03%	52.18%
Florens Container, Inc. (1998) #	United States of America	Container leasing	Limited liability company	100 ordinary shares of US$1 each	52.03%	52.18%
Florens Container Inc. (1999) #	United States of America	Container leasing	Limited liability company	100 ordinary shares of US$1 each	52.03%	52.18%
Florens Container, Inc. (2000) #	United States of America	Container leasing	Limited liability company	100 ordinary shares of US$1 each	52.03%	52.18%
Florens Container, Inc. (2001) #	United States of America	Container leasing	Limited liability company	1 ordinary share of US$1	52.03%	52.18%
Florens Container, Inc. (2002) #	United States of America	Sale of old containers	Limited liability company	1 ordinary share of US$1	52.03%	52.18%
Florens Container, Inc. (2003) #	United States of America	Container leasing	Limited liability company	1 ordinary share of US$1	52.03%	52.18%
Florens Container, Inc. (2004) #	United States of America	Container leasing	Limited liability company	1 ordinary share of US$1	52.03%	52.18%
Florens Container, Inc. (2005)	United States of America	Container leasing	Limited liability company	1 ordinary share of US$1	52.03%	—
Florens Container Services (Australia) Pty Limited	Australia	Provision of container management services	Limited liability company	100 ordinary shares of AUD1 each	52.03%	52.18%
Florens Container Services Company Limited #	Hong Kong/ Worldwide	Provision of container management services	Limited liability company	100 ordinary shares of HK$1 each	52.03%	52.18%
Florens Container Services (Deutschland) GmbH.	Germany	Provision of container management services	Limited liability company	2 shares of EURO 12,782.30 each	52.03%	52.18%

41 Particulars of subsidiaries, jointly controlled entities and associates (Continued)

(a) Subsidiaries (Continued)

Name	Place of incorporation/ establishment and operations	Principal activities	Type of legal entity	Issued/registered and fully paid up share capital	Attributable equity interest to the equity holders of the Company 2005	2004
Shares held indirectly (Continued)						
Florens Container Services (Italy) S.R.L.	Italy	Provision of container management services	Limited liability company	20,000 quotas of EURO 0.52 each	52.03%	52.18%
Florens Container Services (Japan) Co., Ltd.	Japan	Provision of container management services	Limited liability company	200 ordinary shares of JPY 50,000 each	52.03%	52.18%
Florens Container Services (UK) Limited	United Kingdom	Provision of container management services	Limited liability company	183,610 ordinary shares of GBP1 each	52.03%	52.18%
Florens Container Services (USA), Ltd.	United States of America	Provision of container management services	Limited liability company	1,000 ordinary shares of US$0.001 each	52.03%	52.18%
Florens Management Services (Macao Commercial Offshore) Limited #	Macau	Provision of container management services	Limited liability company	1 quota (share) of MOP100,000	52.03%	52.18%
Florens Shipping Corporation Limited #	Bermuda/ Worldwide	Container leasing	Limited liability company	12,000 ordinary shares of US$1 each	52.03%	52.18%
Greating Services Limited #	Hong Kong	Transportation of containers	Limited liability company	250,000 ordinary shares of HK$1 each	52.03%	52.18%
Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	PRC	Operation of container terminal	Sino-foreign joint venture	US$16,800,000	26.54%	26.62%
COSCO (Cayman) Mercury Co., Ltd. #	Cayman Islands/ Singapore	Investment holding	Limited liability company	50,000 ordinary shares of US$1 each	100%	100%
Honor River Maritime Inc.	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	2 ordinary shares of US$100 each	100%	100%
Starry Shipping Inc.	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	2 ordinary shares of US$100 each	100%	100%
Pretty River Shipping Inc.	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	2 ordinary shares of US$100 each	100%	100%
Dainty River Shipping Inc.	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	2 ordinary shares of US$100 each	100%	100%
Sky Manna Maritime Inc.	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	2 ordinary shares of US$100 each	100%	100%
Golden Cascade Corporation #	Liberia/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%

41 Particulars of subsidiaries, jointly controlled entities and associates (Continued)

(a) Subsidiaries (Continued)

Name	Place of incorporation/ establishment and operations	Principal activities	Type of legal entity	Issued/registered and fully paid up share capital	Attributable equity interest to the equity holders of the Company 2005	2004
Shares held indirectly (Continued)						
Golden Shore Corporation #	Liberia/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
2 Buyihe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
Chaoshanhe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
Chuanhe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
2 Caiyunhe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
2 COSCO Line New Jersey Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
2 COSCO Line New York Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
Daqinghe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
2 Hanihe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
Hutuohe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
2 Jingpohe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
2 Jinyunhe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	1,000 ordinary shares of US$10 each	100%	100%
2 Luhe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	10,000 ordinary shares of US$1 each	100%	100%
2 Lubahe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
Daqinghe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
Miyunhe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	1,000 ordinary shares of US$10 each	100%	100%

41 Particulars of subsidiaries, jointly controlled entities and associates (Continued)

(a) Subsidiaries (Continued)

Name	Place of incorporation/ establishment and operations	Principal activities	Type of legal entity	Issued/registered and fully paid up share capital	Attributable equity interest to the equity holders of the Company 2005	2004
Shares held indirectly (Continued)						
2 Naxihe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
2 Ninghe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	10,000 ordinary shares of US$100 each	100%	100%
Qiyunhe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	1,000 ordinary shares of US$10 each	100%	100%
Wanhe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	10,000 ordinary shares of US$1 each	100%	100%
2 Xibohe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
Xinhuihe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
Yangjianghe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
Yongdinghe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
Yuehe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	10,000 ordinary shares of US$1 each	100%	100%
2 Yuguhe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
2 Yunhe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	10,000 ordinary shares of US$100 each	100%	100%
Zhaoqinghe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
Ziyahe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US$100 each	100%	100%
Fenghou Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	1,000 ordinary shares of US$10 each	100%	100%
Haihou Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	1,000 ordinary shares of US$10 each	100%	100%
Longhou Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	1,000 ordinary shares of US$10 each	100%	100%

41 Particulars of subsidiaries, jointly controlled entities and associates (Continued)

(a) Subsidiaries (Continued)

Name	Place of incorporation/ establishment and operations	Principal activities	Type of legal entity	Issued/registered and fully paid up share capital	Attributable equity interest to the equity holders of the Company 2005	2004
Shares held indirectly (Continued)						
Tianhou Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	1,000 ordinary shares of US$10 each	100%	100%
COSCO Charleston Maritime Inc. #	Panama/ Worldwide	Vessel owning	Limited liability company	1,000 ordinary shares of US$10 each	100%	100%
COSCO New York Maritime Inc. #	Panama/ Worldwide	Vessel owning	Limited liability company	1,000 ordinary shares of US$10 each	100%	100%
COSCO Boston Maritime Inc. #	Panama/ Worldwide	Vessel owning	Limited liability company	1,000 ordinary shares of US$10 each	100%	100%
COSCO Norfolk Maritime Inc. #	Panama/ Worldwide	Vessel owning	Limited liability company	100 ordinary shares of US$100 each	100%	100%
COSCO Asia Maritime Inc. #	Panama/ Worldwide	Vessel owning	Limited liability company	1,000 ordinary shares of US$10 each	100%	—
COSCO Africa Maritime Inc. #	Panama/ Worldwide	Vessel owning	Limited liability company	1,000 ordinary shares of US$10 each	100%	—
COSCO Europe Maritime Inc. #	Panama/ Worldwide	Vessel owning	Limited liability company	1,000 ordinary shares of US$10 each	100%	—
COSCO America Maritime Inc. #	Panama/ Worldwide	Vessel owning	Limited liability company	1,000 ordinary shares of US$10 each	100%	—
COSCO Oceania Shipping Limited. #	Hong Kong/ Worldwide	Vessel owning	Limited liability company	10,000 ordinary shares of US$1 each	100%	—
COSCO Pacific Shipping Limited. #	Hong Kong/ Worldwide	Vessel owning	Limited liability company	10,000 ordinary shares of US$1 each	100%	—
COSCO Indian Ocean Shipping Limited #	Hong Kong/ Worldwide	Vessel owning	Limited liability company	10,000 ordinary shares of US$1 each	100%	—
COSCO Atlantic Shipping Limited. #	Hong Kong/ Worldwide	Vessel owning	Limited liability company	10,000 ordinary shares of US$1 each	100%	—
COSCO Container Lines (Hong Kong) Co., Limited. #	Hong Kong	Marine services	Limited liability company	1,000,000 shares of HK$1 each	100%	100%
COSCO Container Lines Europe GmbH #	German/Europe	Shipping agency	Limited liability company	EURO1,500,000	100%	100%

41 Particulars of subsidiaries, jointly controlled entities and associates (Continued)

(a) Subsidiaries (Continued)

Name	Place of incorporation/ establishment and operations	Principal activities	Type of legal entity	Issued/registered and fully paid up share capital	Attributable equity interest to the equity holders of the Company 2005	2004
Shares held indirectly (Continued)						
COSCO Container Lines Japan Co., Ltd.	Japan	Marine services	Limited liability company	JPY40,000,000	100%	100%
COSCO Container Lines Americas, Inc.	United States of America	Shipping agency	Limited liability company	1,000 ordinary shares of US$0.01 each	100%	—
Coheung Marine Shipping Company Limited #	Hong Kong/ Korea	Marine transportation	Limited liability company	2,980,000 shares of US$1 each	100%	—
COSCO (Cayman) Golden Company Limited #	Cayman Islands/ Worldwide	Treasury	Limited liability company	1,000 shares of US$1 each	100%	100%

Subsidiaries audited by PricewaterhouseCoopers

1 In June 2005, COSCO Container Lines Company Limited reduced its registered capital from RMB6,100,000,000 to RMB2,380,000,000.

2 Shares of these subsidiaries have been pledged to banks as securities for loan facilities granted (note 23(i)).

3 All shares of COSCO Pacific held by the Group have been held as custody for loan facilities granted to a subsidiary by banks.

4 Those companies were classified as jointly controlled entities as at 31 December 2004.

41 Particulars of subsidiaries, jointly controlled entities and associates (Continued)

(b) Jointly controlled entities

As at 31 December 2005, the subsidiaries of the Group had direct interests in the following principal jointly controlled entities:

Name	Place of incorporation/ establishment and operations	Principal activities	Type of legal entity	Issued/registered and fully paid up share capital	Percentage of interest in ownership/ votingpower/ profit sharing attributable to the equity holders of the Company 2005	2004
COSCON Italy S.R.L.	Italy	Ocean transportation	Limited liability company	100,000 shares of EURO 1 each	50%	—
COSCO-HIT Terminals (Hong Kong) Limited	Hong Kong	Operation of container terminal	Limited liability company	2 "A" ordinary shares of HK$10 each and 2 "B" ordinary shares of HK$10 each 4 non-voting 5% deferred shares of HK$10 each	26.02%/ 26.02%/ 26.02%	26.09%/ 26.09%/ 26.09%
Qingdao Cosport International Container Terminals Co., Ltd.	PRC	Operation of container terminal	Sino-Foreign joint venture	RMB337,868,700	26.02%/ 26.02%/ 26.02%	26.09%/ 26.09%/ 26.09%
Shanghai CIMC Reefer Containers Co., Ltd.	PRC	Container manufacturing	Sino-Foreign joint venture	US$31,000,000	10.41%/ 11.13%/ 10.41%	10.44%/ 11.17%/ 10.44%
Shanghai CIMC Far East Container Co., Ltd. *(note)*	PRC	In liquidation	Sino-Foreign joint venture	US$9,480,000	10.41%/ 10.41%/ 10.41%	10.44%/ 10.44% 10.44%/
Tianjin CIMC North Ocean Container Co., Ltd. *(note)*	PRC	Container manufacturing	Sino-Foreign joint venture	US$16,682,000	11.71%/ 10.41%/ 11.71%	11.75%/ 10.44%/ 11.75%
Qingdao Qianwan Container Terminal Co., Ltd.	PRC	Operation of container terminal	Sino-Foreign joint venture	US$199,962,500	10.44%/ 9.49%/ 10.44%	10.41%/ 9.46%/ 10.41%

41 Particulars of subsidiaries, jointly controlled entities and associates (Continued)

(b) Jointly controlled entities (Continued)

Name	Place of incorporation/ establishment and operations	Principal activities	Type of legal entity	Issued/registered and fully paid up share capital	Percentage of interest in ownership/ votingpower/ profit sharing attributable to the equity holders of the Company 2005	2004
COSCO Logistics Co., Ltd.	PRC	Shipping agency, freight forwarding, third party logistics and supporting services	Sino-Foreign joint venture	RMB1,582,029,851	25.49%/ 23.12%/ 25.49%	25.57%/ 23.19%/ 25.57%
Yangzhou Yuanyang International Ports Co., Ltd.	PRC	Operation of container terminal	Sino-Foreign joint venture	US$29,800,000	28.92%/ 26.02%/ 28.92%	29.01%/ 26.09%/ 29.01%
Yingkou Container Terminals Company Limited	PRC	Operation of container terminal	Sino-Foreign joint venture	RMB8,000,000	26.02%/ 29.73%/ 26.02%	26.09%/ 29.82%/ 26.09%
COSCO-PSA Terminal Private Limited	Singapore	Operation of container terminal	Limited liability company	SGD48,900,000	25.49%/ 26.02%/ 25.49%	25.57%/ 26.09%/ 25.57%
Nanjing Port Longtan Container Co., Ltd.	PRC	Operation of container terminal	Limited liability company	RMB474,000,000	10.41%/ 11.56%/ 10.41%	— — —
COSCO Container Lines (Netherlands) B.V.	Netherlands	Shipping agency	Limited liability company	EURO18,000	50%	—

Note: During the year ended 31 December 2004, the Group's share of the results of its jointly controlled entities, Shanghai CIMC Far East Container Co., Ltd. and Tianjin CIMC North Ocean Container Co., Ltd. (collectively "Shanghai and Tianjin CIMC"), were based on the guaranteed profits as stated in the relevant subcontracting agreements entered into with the venturer of Shanghai and Tianjin CIMC. The guaranteed profit arrangements for Shanghai and Tianjin CIMC were valid for the period from 1 January 2000 to 31 December 2004.

Shanghai CIMC Far East Container Co., Ltd. ("Shanghai Far East") commenced its liquidation in October 2005. The Directors consider that the liquidation of Shanghai Far East will not have any material impact on the Group's financial statements.

41 Particulars of subsidiaries, jointly controlled entities and associates (Continued)

(c) Associates

As at 31 December 2005, the subsidianies of the Group had direct equity interests in the following principal associates:

Name	Place of incorporation/ establishment and operations	Principal activities	Type of legal entity	Issued/registered and fully paid up share capital	Percentage of interest in ownership/ voting power/ profit sharing attributable to the equity holders of the Company 2005	2004
Shanghai Pudong International Container Terminals Limited	PRC	Operation of container terminal	Sino-foreign joint venture	RMB1,900,000,000	10.44%/ 10.41%/ 10.44%	10.44%/ 10.41%/ 10.41%
COSCO Finance Co., Ltd. *(note ii)*	PRC	Banking and related financial services	Limited liability company	RMB800,000,000	17.25%	5%
Antwerp Gateway NV *(note i)*	Belgium	Operation of container terminal	Limited liability company	EURO14,000,000	10.41%/ 9.25%/ 10.41%	13.05%/ 11.59%/ 13.05%
China International Marine Containers (Group) Co., Ltd. *(note ii)*	PRC	Container manufacturing	Limited liability company	RMB2,016,966,706 (327,402,912 non-publicly tradable shares, 605,866,438 "A" shares and 1,083,697,356 "B" shares), all of RMB1 each	8.45%/ 13.01%/ 8.45%	8.47%/ 13.05%/ 8.47%
Dalian Automobile Terminal Co., Ltd.	PRC	Construction and operation of automobile terminals	Limited liability company	RMB160,000,000	15.61%/ 14.86%/ 15.61%	15.65%/ 14.90%/ 15.65%
Dalian Port Container Terminal Co., Ltd.	PRC	Operation of container terminal	Limited liability company	RMB240,000,000	10.41%/ 9.46%/ 10.41%	10.44%/ 9.49%/ 10.44%
Liu Chong Hing Bank LImited	Hong Kong	Banking and related financial services	Limited liability company	435,000,000 ordinary shares of HK$0.5 each	10.41%/ 5.78%/ 10.41%	10.44%/ 5.80%/ 10.44%

Notes:

(i) The Group disposed of 5% equity interest in Antwerp Gateway NV to a third party in July 2005 and the gain on disposal amounted to RMB1,436,496.

(ii) The Directors consider that the Group has significant influence over CIMC and COSCO Finance through its representatives on the board of directors of CIMC and COSCO Finance respectively.

41 Particulars of subsidiaries, jointly controlled entities and associates (Continued)

All subsidiaries, jointly controlled entities and associates 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 names of certain subsidiaries, jointly controlled entities and associates referred to in the Consolidated Financial Statements represent management's best efforts at translating the Chinese names of these companies as no English names have been registered.

42 Comparatives

The Group has adopted new/revised HKFRSs which are effective for accounting periods commencing on or after 1 January 2005. As mentioned in note 2(b) to the Consolidated Financial Statements, this has resulted in changes to the presentation of certain items and the comparative figures have been restated. In addition, certain comparative figures have been reclassified to confirm with the current year's presentation.

43 Events after the balance sheet date

As at 31 December 2005, a wholly owned subsidiary of COSCO Pacific holds 327,402,912 of non-publicly tradable shares of CIMC (the "CIMC Shares"). On 13 March 2006, CIMC announced that, after the consultation with The Shenzhen Stock Exchange (the "SZSE"), it will commence the necessary procedures under the Equity Division Reform (the "CIMC's Reform").

On 4 April 2006 and 11 April 2006, the Company announced the COSCO Pacific's proposal for the conversion of the CIMC Shares to become tradable in the SZSE "A" share market (the "Proposal"). Under the Proposal, COSCO Pacific will grant put-option certificates (the "Put-options") to the holders of CIMC tradable A shares (the "A-Share Equity Holders") in the proportion of 7 Put-options for every 10 CIMC tradable A shares being hold by these A-Share Equity Holders. With these Put-options, the A-Share Equity Holders are entitled to sell certain portion of their CIMC tradable A shares to COSCO Pacific at an exercise price of RMB10 per share during a pre-defined exercisable period. The impact of the Proposal on the Group's future financial results and position largely depends on the future market prices of CIMC tradable A shares and the Put-options which will be listed and tradable on the SZSE. On the assumption that all the Put-options are exercised in full upon the expiry date, COSCO Pacific has to pay a total sum of approximately RMB4,241,000,000 in cash to acquire certain portion of the CIMC tradable A shares from the A-Share Equity Holders and COSCO Pacific's equity interest in CIMC will then be increased from 16.23% to 37.26%.

The implementation of the Proposal is conditional upon the requisite approval of shareholders of CIMC on 28 April 2006 and the fulfilment of certain condition precedents as set out in the Proposal. If the Proposal is not being approved, COSCO Pacific has to provide another proposal for the CIMC's Reform and different proposal will have different financial implications on the Group's financial statements.