

Notes to the Consolidated Financial Statements

1 General information

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 changed to 3rd Floor, No.1 Tongda Square, Tianjin Port Free Trade Zone, Tianjin, the PRC on 5 January 2007. 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”), 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 H shares of the Company are listed on the Main Board since 30 June 2005.

Details of the Reorganisation were disclosed in the consolidated financial statements for the year ended 31 December 2005.

The Company and its subsidiaries (collectively the “Group”) provides integrated container shipping and logistics services to international and domestic customers. The Group’s businesses include the provisions of a range of container shipping, container terminal, container leasing and logistics services all over the world.

During the year, the Group acquired from COSCO Group the equity interests in COSCO Logistics Co., Limited (“COSCO Logistics”), COSCO Philippines Shipping Inc. and COSCO (HK) Cargo Services Co., Limited (collectively the “Acquired Subsidiaries”). The acquisitions are regarded as business combination under common control (note 2 (b)(i)) and the relevant statements of adjustments for the common control combinations as at 31 December 2006 and 2005 are set out in note 21(g) to the consolidated financial statement.

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 28 March 2007.

2 Summary of significant accounting policies

(a) Basis of preparation

The consolidated financial statements for the year ended 31 December 2006 (the “Consolidated Financial Statements”) have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) and the principles of merger accounting as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The Consolidated Financial Statements have been prepared under the historical cost convention, except for available-for-sale financial assets and derivative financial assets and financial liabilities are stated at fair value.

At 31 December 2006, the Group had net current liabilities of RMB857,628,000, and unutilised banking facilities of approximately RMB7,996,000,000.

Based on the Group’s history of obtaining finance, its available banking facilities, its operating performance, cash flow forecast and financial obligations in the next twelve months, the Directors consider that there are sufficient financial resources available to the Group to meet its liabilities as and when they fall due and to carry on its business for the foreseeable future. Accordingly, the Directors have prepared the Consolidated Financial Statements on a going concern basis.

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.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

- (i) Amendments and interpretation which are effective in 2006 and adopted by the Group

In 2006, the Group adopted the new/revised HKFRSs below, which are relevant to its operations.

HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 4 and HKAS 39 (Amendment)	Financial Guarantee Contracts
HKFRS Interpretation 4	Determining whether an Arrangement contains a Lease

The adoption of the above new/revised HKFRSs in the current year did not have any significant effect on the Consolidated Financial Statements or result in any significant changes in the Group's significant accounting policies except as described below.

HKAS 19 “Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures”

The Group adopted an amendment to HKAS 19 “Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures” as at 1 January 2006. The Group now recognises all actuarial gains and losses arising from defined benefit plans immediately in equity. In previous years, the Group applied the corridor method to recognise actuarial gains and losses over the expected average remaining working lives of employees in the plans, and recognised such gains and losses in income statement.

This represents a change in an accounting policy and should be accounted for retrospectively in accordance with the transitional provisions of the amendments. However, as the amount is immaterial, all cumulative differences on actuarial losses and related deferred income tax arising from defined benefit plans of RMB5,971,000 as at 1 January 2006 have been charged to equity in the current year. The cumulative differences together with actuarial losses and related deferred income tax for the year have resulted in a net decrease of RMB3,363,000 in equity as at 31 December 2006, representing the recognition of actuarial loss on plan assets of RMB5,676,000 offset by the related deferred income tax assets of RMB2,313,000.

HKFRS 4 and HKAS 39 (Amendment) “Financial Guarantee Contracts”

In prior years, financial guarantees issued by the Group were only disclosed as contingent liabilities and no provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon. Upon the adoption of the Amendments to Hong Kong Accounting Standard (“HKAS”) 39 and HKFRS 4 “Financial Guarantee Contracts” (the “Amendments”), financial guarantees are accounted for as financial liabilities under HKAS 39 “Financial Instruments: Recognition and Measurement” and measured initially at fair value and subsequently stated at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount of the provision, if any, that should be recognised in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. The adoption of the Amendments did not have any material impact on the Consolidated Financial Statements for the years ended 31 December 2006 and 2005 (note 12(f)).

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

- (ii) Standards, interpretation and amendments that are not yet effective for the year ended 31 December 2006 and have not been early adopted by the Group

The HKICPA has issued the following new standards, amendments and interpretations which are not yet effective and relevant to the Group's operations for the year ended 31 December 2006:

	Effective for accounting periods beginning on or after
HKFRS 7 "Financial Instruments: Disclosures"	1 January 2007
HKAS 1 (Amendment) "Presentation of Financial Statements: Capital Disclosures"	1 January 2007
HKIFRIC-Int 8 Share-based payment	1 May 2006
HKIFRIC-Int 9 Reassessment of embedded derivatives	1 June 2006
HKIFRIC-Int 10 Interim Financial reporting and Impairment	1 November 2006

The Group will apply the above standard and amendments from 1 January 2007, but it is not expected to have any significant financial impact on the Consolidated Financial Statements except additional disclosures in the Consolidated Financial Statements will be resulted.

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

(b) Group accounting

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

- (i) Merger accounting for common control combination

The Consolidated Financial Statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Consolidated Financial Statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(b) Group accounting (Continued)

(i) Merger accounting for common control combination (Continued)

Transaction costs, including professional fees, registration fees, costs of furnishing information to equity holders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the year in which it is incurred.

(ii) Purchase method of accounting for non-common control combination

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, other than the common control combinations (note 2(b)(i)). 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

(iii) 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.

Subsidiaries are de-consolidated from the date that control ceases.

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.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(b) Group accounting (Continued)

(iv) Jointly controlled entities/associates

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.

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.

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.

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

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.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(c) 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 United States dollar ("US dollar") and its consolidated financial statements are presented in Renmibi ("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.

(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 such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale 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.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(c) Foreign currency translation (Continued)

(iii) Group companies (Continued)

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.

(d) 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.

(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

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(d) Property, plant and equipment (Continued)

(iii) Other property, plant and equipment (Continued)

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.

(e) 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.

(f) 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 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.

(g) 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.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(g) Intangible assets (Continued)

(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.

(h) Impairment of investments in subsidiaries, jointly controlled entities, associates and non-financial assets

Assets that have an indefinite useful life are tested at least 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.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(i) 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.

(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(d) 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(w)(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(w)(iii) below.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(j) Investments

The Group classifies its investments as either financial assets at fair value through profit or loss or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Available-for-sale financial assets

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 investment securities.

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.

Regular purchase and sale of financial assets are recognised on the trade-date-the date on which the Group commits to purchase or sell the assets.

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.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(k) 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 either:

- (a) hedges of the fair value of recognised liabilities (fair value hedge); and
- (b) hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedge)

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 or cash flows 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.

(a) Fair value hedges

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 income or expenses. 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.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

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

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or expenses.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within finance costs.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within other income or expenses.

(c) Derivatives at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit and loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within other income or expenses.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(l) Inventories

Inventories, primarily bunker 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.

(m) 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 expenses.

(n) Cash and cash equivalents

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

(o) 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.

(p) 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.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(q) 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.

(r) 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, otherwise grants with no future related costs are recognised as income in the period in which they become receivable.

(s) 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.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(s) Employee benefits (Continued)

(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.

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. 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.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the equity.

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 are recognised in the equity. These obligations are valued annually by independent qualified actuaries.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(s) Employee benefits (Continued)

(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.

(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 of the subsidiary when the options are exercised.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(t) 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.

(u) 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.

(v) Vessels financing, sale and lease back transactions

A series of financing, sale and leasing back of vessels transactions with bank and financial institutions, which are closely interrelated, negotiated as a single transaction, and takes place concurrently or in a continuous sequence, is considered linked and accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole.

These vessels financing and leasing arrangements are designed to achieve a tax result for the third parties in return for a cash benefit or reduction in the effective loan interest rate offered to the Group and not to convey the right to use the vessels. Such cash benefit is deferred and accounted for as a reduction in the effective interest rate for the borrowings from the bank and financial institutions by amortising the cash benefit over the period from the date of commencement of the vessels financing arrangements to eventual settlement dates.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(v) Vessels financing, sale and lease back transactions (Continued)

Under these vessels financing and leasing arrangements, non-current liabilities have been defeased by the loan receivables, those liabilities and loan receivables (and income and charges arising therefrom) are netted off, in order to reflect the overall commercial effect of the arrangements when viewed as a whole. Such netting off has been effected where a right is held to insist on net settlement of the liability and receivable at any time and where no significant risk is borne in respect of the gross amounts.

(w) 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.

(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 Group. 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 expensed as incurred.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

(w) Recognition of revenue and income (Continued)

(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.

(x) 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 or directors, where appropriate.

(y) 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.

(z) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair value, and subsequently measured at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount required to be settled by the guarantor in respect of the financial guarantee contracts at the balance sheet date.

(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.

Notes to the Consolidated Financial Statements

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 monitors foreign exchange exposure and will consider hedging significant foreign currency exposure by using foreign exchange forward contracts when need arises.

(2) Price risk

The Group is exposed to equity securities price risk because certain of 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.

(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.

Notes to the Consolidated Financial Statements

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(iv) Cash flow and fair value interest rate risk

As the Group has no significant interest bearing assets, other than restricted bank 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, bond 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 and certain bank interest payments.

(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 reports 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 fair value of financial guarantee contracts is determined by reference to the fees charged in an arm's length transaction for similar services or the interest rate differentials charged by lenders on the related borrowings with and without the guarantees granted by the Group.

The fair value of forward foreign exchange contract is determined using quoted forward exchange rates at the balance sheet date.

The carrying values less impairment provision (as applicable) of trade receivables and payables are a reasonable approximation of 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.

Notes to the Consolidated Financial Statements

4 Critical accounting estimates and judgments

Estimates and judgments 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 circumstances.

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(h). 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.

There were no indicators showing any impairment of container vessels as at 31 December 2006.

The carrying amount of containers would be an estimated RMB9,144,000 lower were the discounted rate used in the discounted cash flow were 10% higher and the actual operating profit were 10% lower from management's estimates.

(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.

Were the useful lives differ by 10% from managements estimates, the depreciation expense will increase by RMB222,948,000 or decrease by RMB161,086,000 in the future periods.

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.

Were the residual values differ by 10% from management's estimates, the depreciation expense will have an estimated RMB43,977,000 lower or RMB43,977,000 higher in the future periods.

(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.

The carrying amount of available-for-sale financial assets would be an estimated RMB304,423,000 lower or RMB304,227,000 higher were the discounted rate used in the discounted cash flow analysis and the price/earnings multiple to differ by 10% from management's estimates.

Notes to the Consolidated Financial Statements

4 Critical accounting estimates and judgments (Continued)

(iv) Provision of operating costs

Operating costs, which mainly comprise container and cargo, 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 four 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.

Were the actual expenses of a voyage differ from the estimated expenses by 10%, this will have an estimated RMB152,116,000 lower or RMB152,116,000 higher on the operating costs in the future periods.

(v) 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.

(vi) 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.

Were the actual time proportion to differ by 10% from management's estimates, the Group would increase or decrease gross profit by RMB30,455,000 and RMB30,455,000 if it were longer or shorter.

Critical judgments in applying the Group's accounting policies

Income taxes

Deferred tax liabilities have not been established for the withholding tax that would be payable on the profits of certain overseas subsidiaries to be repatriated outside the overseas countries 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 14).

If those undistributed earnings of the overseas subsidiaries are considered to be repatriated out of the overseas countries, the Group has to recognise deferred income tax charge and deferred income tax liability of RMB275,337,000.

Notes to the Consolidated Financial Statements

5 Revenue and segment information

Revenue represents turnover from container shipping, container terminal operations, container leasing and logistics, net of discounts allowed, where applicable.

	2006 RMB'000	2005 RMB'000 (Restated)
Turnover		
Container shipping and related business (note a)	39,999,174	37,864,210
Container terminal and related business	174,935	106,378
Container leasing (note b)	707,428	1,227,429
Logistics	10,112,413	8,768,330
	50,993,950	47,966,347

Notes:

- (a) Revenue from container shipping include charterhire income under operating leases of RMB297,346,000 for the year ended 31 December 2006 (2005: RMB288,193,000).
- (b) Revenue from container leasing is analysed below:

	2006 RMB'000	2005 RMB'000
Operating lease rentals	703,507	1,223,072
Finance lease income	3,921	4,357
	707,428	1,227,429

- (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 and related business
- Container terminal and related business
- Container leasing
- Logistics
- Other operations that primarily comprise container manufacturing, banking and investment holding

The segment information of freight forwarding and shipping agency for the year ended 31 December 2005 and as at 31 December 2005 has been included in the segment of container shipping and related business to conform with the current year's presentation.

Unallocated income mainly represents corporate 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, 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.

Notes to the Consolidated Financial Statements

5 Revenue and segment information (Continued)

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

	Year ended and as at 31 December 2006						
	Container shipping and related business	Container terminal and related business	Container leasing	Logistics	Other operations	Inter—segment elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue							
External sales	39,999,174	174,935	707,428	10,112,413	—	—	50,993,950
Inter-segment sales	34,300	57,533	1,089,387	54,572	—	(1,235,792)	—
	40,033,474	232,468	1,796,815	10,166,985	—	(1,235,792)	50,993,950
Segment results	1,564,866	208,871	1,112,074	204,010	48,651	—	3,138,472
Profit on disposal of containers (note 26(a))	—	—	672,980	—	—	—	672,980
Share reform	—	—	—	—	(439,707)	—	(439,707)
Finance income							274,354
Finance costs							(988,445)
Unallocated income							205,173
Unallocated expense							(220,475)
Operating profit after net finance costs							2,642,352
Share of profits less losses of							
- jointly controlled entities	4,581	460,888	—	89,761	70,772	—	626,002
- associates	12,221	147,714	—	70,574	593,286	—	823,795
Profit before income tax							4,092,149
Income tax expenses							(923,983)
Profit for the year							3,168,166
Segment assets	26,075,211	1,703,788	9,044,085	5,770,459	726	(295,503)	42,298,766
Jointly controlled entities	34,450	1,949,201	—	367,791	194,708	—	2,546,150
Associates	33,300	1,475,209	—	316,929	3,473,251	—	5,298,689
Available-for-sale financial assets	8,890	2,873,601	—	179,343	67,069	—	3,128,903
Unallocated assets							2,187,632
Total assets							55,460,140
Segment liabilities	14,264,520	1,755,989	2,665,195	3,920,760	738,883	(295,503)	23,049,844
Unallocated liabilities							4,933,588
Total liabilities							27,983,432
Depreciation and amortisation	992,691	22,950	708,585	107,663	4,606	—	1,836,495
Capital expenditure	1,373,562	1,068,103	3,852,949	213,402	19,402	—	6,527,418
Recovery of bad debts	(67,990)	—	—	(4,130)	—	—	(72,120)
Provision for impairment of trade and other receivables	6,561	127	10,909	—	—	—	17,597
Other non-cash expenses	7,112	1,650	30,950	—	1,857	—	41,569

Notes to the Consolidated Financial Statements

5 Revenue and segment information (Continued)

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

	Year ended and as at 31 December 2005 (Restated)						
	Container shipping and related business RMB'000	Container terminal and related business RMB'000	Container leasing RMB'000	Logistics RMB'000	Other operations RMB'000	Inter— segment elimination RMB'000	Total RMB'000
Revenue							
External sales	37,864,210	106,378	1,227,429	8,768,330	—	—	47,966,347
Inter-segment sales	56,027	51,973	1,035,547	48,904	—	(1,192,451)	—
	37,920,237	158,351	2,262,976	8,817,234	—	(1,192,451)	47,966,347
Segment results	5,045,256	208,955	1,278,403	179,890	4,463	—	6,716,967
Profit on disposal of an available-for-sale financial asset (note 26(c))	—	512,117	—	—	—	—	512,117
Finance income							206,324
Finance costs							(877,462)
Unallocated income							108,151
Unallocated expense							(272,290)
Operating profit after net finance costs							6,393,807
Share of profits less losses of							
- jointly controlled entities	4,242	449,012	—	88,775	25,224	—	567,253
- associates	5,567	136,427	—	56,159	519,923	—	718,076
Profit before income tax							7,679,136
Income tax expenses							(733,101)
Profit for the year							6,946,035
Segment assets	26,123,789	422,903	12,622,708	5,146,500	113	(287,838)	44,028,175
Jointly controlled entities	8,297	1,624,257	—	374,149	147,201	—	2,153,904
Associates	24,955	970,232	—	257,093	3,121,367	—	4,373,647
Available-for-sale financial assets	8,945	2,134,744	—	33,894	89,353	—	2,266,936
Unallocated assets							3,190,827
Total assets							56,013,489
Segment liabilities	15,146,697	1,030,500	4,665,640	3,343,637	443,861	(287,838)	24,342,497
Unallocated liabilities							4,745,904
Total liabilities							29,088,401
Depreciation and amortisation	908,597	10,753	886,338	114,500	3,905	—	1,924,093
Capital expenditure	2,989,311	35,791	2,749,623	261,969	7,287	—	6,043,981
Recovery of bad debts	(62,384)	—	(117)	(1,702)	—	—	(64,203)
Provision for impairment							
of trade and other receivables	15,897	—	11,376	2,841	—	—	30,114
Other non-cash expenses	8,527	1,900	16,117	—	1,833	—	28,377

Notes to the Consolidated Financial Statements

5 Revenue and segment information (Continued)

(d) Secondary reporting format – geographical segments

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

Geographical	Segment trade lanes
America	Trans-Pacific
Europe	Asia-Europe
Asia Pacific	Intra-Asia
China domestic	PRC coastal
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 revenue of which is presented as unallocated revenue.

In respect of other activities including container terminals and freight forwarding, shipping agency and logistics, revenue 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 businesses 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 revenue.

	2006 RMB'000	2005 RMB'000 (Restated)
America	13,375,881	12,527,189
Europe	10,075,897	9,524,198
Asia Pacific	6,621,046	6,369,199
China domestic	17,705,808	15,744,945
Other international market	2,507,890	2,573,387
Unallocated	707,428	1,227,429
Total revenue	50,993,950	47,966,347

Notes to the Consolidated Financial Statements

6 Property, plant and equipment

Group

	Buildings	Container vessels	Containers	Trucks, chassis and motor vehicles	Computer and office equipment	Assets under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1 January 2006	1,162,921	25,282,529	16,100,266	779,939	1,125,297	3,204,475	47,655,427
Exchange differences	(8,432)	(445,523)	(406,641)	(247)	(12,323)	(97,736)	(970,902)
Reclassifications	198,022	39,586	—	10,051	163,326	(410,985)	—
Additions	446,393	69,712	3,829,974	300,077	464,563	1,236,366	6,347,085
Disposals/transfers	(5,108)	(725,269)	(9,518,115)	(78,759)	(62,186)	—	(10,389,437)
At 31 December 2006	1,793,796	24,221,035	10,005,484	1,011,061	1,678,677	3,932,120	42,642,173
Accumulated depreciation							
At 1 January 2006	272,524	12,227,418	4,976,589	464,598	627,199	—	18,568,328
Exchange differences	(245)	(184,751)	(113,415)	(236)	(1,213)	—	(299,860)
Charge for the year	61,666	754,315	682,424	81,636	159,909	—	1,739,950
Disposals/transfers	(3,169)	(573,520)	(3,072,561)	(65,866)	(52,264)	—	(3,767,380)
At 31 December 2006	330,776	12,223,462	2,473,037	480,132	733,631	—	16,241,038
Net book value							
At 31 December 2006	1,463,020	11,997,573	7,532,447	530,929	945,046	3,932,120	26,401,135

Notes to the Consolidated Financial Statements

6 Property, plant and equipment (Continued)

Group

	Buildings	Container vessels	Containers	Trucks, chassis and motor vehicles	Computer and office equipment	Assets under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Restated)							
Cost							
At 1 January 2005	1,079,234	25,483,788	14,772,337	845,581	918,072	656,105	43,755,117
Exchange differences	(1,336)	(323,237)	(366,887)	(988)	(8,736)	(11,263)	(712,447)
Reclassifications	29,711	—	—	3,530	118,322	(151,563)	—
Additions	127,487	121,978	2,692,282	131,570	134,599	2,711,196	5,919,112
Disposals/transfers	(72,175)	—	(997,466)	(199,754)	(36,960)	—	(1,306,355)
At 31 December 2005	1,162,921	25,282,529	16,100,266	779,939	1,125,297	3,204,475	47,655,427
Accumulated depreciation							
At 1 January 2005	250,362	11,646,531	4,797,321	469,080	533,101	—	17,696,395
Exchange differences	(15)	(115,596)	(124,769)	(659)	(5,529)	—	(246,568)
Charge for the year	74,474	696,483	875,141	60,001	131,949	—	1,838,048
Disposals/transfers	(52,297)	—	(571,104)	(63,824)	(32,322)	—	(719,547)
At 31 December 2005	272,524	12,227,418	4,976,589	464,598	627,199	—	18,568,328
Net book value							
At 31 December 2005	890,397	13,055,111	11,123,677	315,341	498,098	3,204,475	29,087,099

Notes to the Consolidated Financial Statements

6 Property, plant and equipment (Continued)

Company

	Motor vehicles RMB'000	Computer and office equipment RMB'000	Total RMB'000
Cost			
At 1 January 2006	1,400	5,309	6,709
Additions	836	151	987
At 31 December 2006	2,236	5,460	7,696
Accumulated depreciation			
At 1 January 2006	58	432	490
Charge for the year	253	1,076	1,329
At 31 December 2006	311	1,508	1,819
Net book value			
At 31 December 2006	1,925	3,952	5,877
Cost			
Additions and as at 31 December 2005	1,400	5,309	6,709
Accumulated depreciation			
Charge for the year and as at 31 December 2005	(58)	(432)	(490)
Net book value			
At 31 December 2005	1,342	4,877	6,219

Notes to the Consolidated Financial Statements

6 Property, plant and equipment (Continued)

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 2006			
Cost	2,429,763	434,840	2,864,603
Accumulated depreciation	(1,029,116)	(228,622)	(1,257,738)
	1,400,647	206,218	1,606,865
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

- (b) At 31 December 2006, certain container vessels and containers with an aggregate net book value of RMB8,437,857,000 and RMB Nil respectively (2005: RMB10,748,980,000 and RMB4,126,067,000) were pledged as securities for loan facilities granted by banks or third parties (note 22(h)).
- (c) At 31 December 2006, buildings with net book value of RMB30,923,000 (2005: RMB Nil) were pledged as securities for short-term loan from COSCO Finance Co., Ltd. ("COSCO Finance") (note 25(b)).
- (d) During the year, the Group transferred containers with an aggregate net book value of RMB331,956,000 (2005: RMB131,560,000) to inventories.
- (e) Assets under construction include certain vessels under construction of the Group, which were pledged for banking facilities but were not drawn down as at year ended 31 December 2006. The details are summarised as follows:

A syndicated banking facility of RMB3,015,220,000 (equivalent to US\$386,136,000) was obtained from banks and financial institutions in July 2006 for financing the construction of six container vessels held by the Group. This banking facility is secured by:

- (i) Assignments of the building contracts and instalment refund guarantee issued by a bank for the six container vessels under construction.
- (ii) First legal mortgage over the six container vessels after delivery.
- (iii) Assignment of the charter, charter earnings and rights, requisition compensation and insurance relating to these six container vessels.
- (iv) Pledge of issued shares of certain subsidiaries.
- (v) Bank accounts of certain subsidiaries.

Another two banking facilities with aggregate amount of approximately RMB627,632,000 (equivalent to US\$80,376,000) were obtained in July 2006 for financing 60% of the construction costs of each of the two container vessels to be held by the Group. In connection with these banking facilities, the Group entered into agreements with bank and financial institutions pursuant to which the Group participated in a series of linked transactions including financing, sales and leasing back of two vessels to be held by the Group (the "Vessels Financing Lease Arrangements"). These vessels will be accounted for as property, plant and equipment as the Group will retain all the risks and rewards incidental to the ownership of the underlying assets and enjoy substantially the same rights to its use before or after the Vessels Financing Lease Arrangements.

Notes to the Consolidated Financial Statements

7 Investment properties

	Group	
	2006 RMB'000	2005 RMB'000 (Restated)
At 1 January	22,243	30,081
Exchange differences	(207)	(183)
Disposals	—	(6,580)
Depreciation	(1,075)	(1,075)
At 31 December	20,961	22,243
Cost	38,922	39,148
Accumulated depreciation	(17,961)	(16,905)
Net book value	20,961	22,243

Note: The fair value of the investment properties at 31 December 2006 was RMB38,031,000 (2005: RMB37,756,000).

8 Leasehold land and land use rights

	Group	
	2006 RMB'000	2005 RMB'000 (Restated)
At 1 January	226,227	180,144
Exchange differences	(4,449)	(4,931)
Additions	142,631	56,285
Amortisation	(10,682)	(5,254)
Disposals	(146)	(17)
At 31 December	353,581	226,227

Notes to the Consolidated Financial Statements

8 Leasehold land and land use rights (Continued)

Notes:

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

	Group	
	2006	2005
	RMB'000	RMB'000 (Restated)
In Hong Kong, held on:		
Leases of over 50 years	129,161	130,681
Leases of between 10 to 50 years	1,758	1,934
	130,919	132,615
Outside Hong Kong, held on:		
Leases of over 50 years	9,520	9,091
Leases of between 10 to 50 years	213,142	84,521
	222,662	93,612
	353,581	226,227

- (b) At 31 December 2006, land use rights outside Hong Kong with net book value of RMB12,845,000 (2005: RMB13,598,000) were pledged as securities for loan facility granted by a bank (note 22(h)).

9 Intangible assets

	Group		Company	
	Computer software		Computer software	
	2006	2005	2006	2005
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Cost	511,628	476,976	132	132
Accumulated amortisation and impairment	(382,809)	(299,775)	(40)	(13)
Net book value at 31 December	128,819	177,201	92	119
At 1 January	177,201	189,324	119	—
Exchange differences	(719)	(727)	—	—
Additions	37,702	68,584	—	132
Amortisation	(84,788)	(79,716)	(27)	(13)
Disposal/write-off	(577)	(264)	—	—
At 31 December	128,819	177,201	92	119

Notes to the Consolidated Financial Statements

10 Subsidiaries

	Company	
	2006 RMB'000	2005 RMB'000
Unlisted investments, at cost	8,586,288	6,868,438
Current assets		
Amounts due from subsidiaries (note a)	7,810,772	10,761,230
Current liabilities		
Amounts due to subsidiaries (note a)	(514,189)	(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 the principal subsidiaries at 31 December 2006 are shown in note 41(a) to the Consolidated Financial Statements.

11 Jointly controlled entities

	Group	
	2006 RMB'000	2005 RMB'000 (Restated)
Share of net assets	2,137,740	1,900,298
Goodwill on acquisition (note a)	78,149	80,767
Loans to jointly controlled entities (note b)	330,261	172,839
	2,546,150	2,153,904
Unlisted investments, at cost	4,908,547	4,943,296

Notes to the Consolidated Financial Statements

11 Jointly controlled entities (Continued)

Notes:

- (a) The carrying amount of goodwill on acquisition of jointly controlled entities as at 31 December 2006 mainly represented the goodwill on acquisition of equity interests in Qingdao Qianwan Container Terminal Co., Ltd (“QQCT”) and Nanjing Port Longtan Containers Co., Ltd (“NPLC”) of RMB41,870,000 (2005: RMB43,272,000) and RMB35,396,000 (2005: RMB36,582,000) respectively. The estimated useful lives of goodwill range from 20 years to 35 years (2005: 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 2006 RMB'000	2005 RMB'000 (Restated)
Cost		
At 1 January	80,767	44,185
Additions	—	36,582
Exchange differences	(2,618)	—
At 31 December	78,149	80,767

- (b) The loans to jointly controlled entities are unsecured. Except for loan to a jointly controlled entity of RMB62,196,000 (2005: RMB77,522,000) which bears interest at 1.60% (2005: 1.60%) per annum above the applicable swap offer rate as determined by the Association of Banks in Singapore and is wholly repayable on or before October 2013, the remaining balance is interest free and have no fixed terms of repayment.
- (c) The Company has no directly owned jointly controlled entity as at 31 December 2006 and 2005. Details of the principal jointly controlled entities as at 31 December 2006 are shown in note 41(b) to the Consolidated Financial Statements.
- (d) The financial information below, after making adjustments to conform with the Group's significant accounting policies, 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	Revenue RMB'000	Profits less losses after income tax RMB'000
2006						
COSCO-HIT Terminals						
(Hong Kong) Limited	1,159,202	222,478	(82,436)	(1,139,328)	(491,957)	189,262
Others	4,125,729	1,453,086	(1,282,038)	(2,130,847)	(1,791,576)	436,740
	5,284,931	1,675,564	(1,364,474)	(3,270,175)	(2,283,533)	626,002
2005						
COSCO-HIT Terminals						
(Hong Kong) Limited	1,184,197	234,964	(1,117,900)	(108,988)	(541,827)	229,162
Others	2,213,621	1,201,403	(657,327)	(1,049,137)	(1,748,531)	338,091
	3,397,818	1,436,367	(1,775,227)	(1,158,125)	(2,290,358)	567,253

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

Notes to the Consolidated Financial Statements

12 Associates

	Group	
	2006 RMB'000	2005 RMB'000 (Restated)
Share of net assets	4,906,661	4,258,655
Goodwill on acquisition (note a)	246,146	702
Loans to associates (note b)	145,882	114,290
	5,298,689	4,373,647
Investments, at cost		
- Listed shares in Hong Kong	1,711,581	1,768,899
- Listed shares in the PRC (note c)	1,074,485	—
- Unlisted shares	1,289,352	1,997,814
	4,075,418	3,766,713
Market value of listed shares	8,298,446	1,113,663

Notes:

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

	Group Goodwill	
	2006 RMB'000	2005 RMB'000
Cost		
At 1 January	702	1,556
Partial disposal of equity interest	—	(815)
Additions	245,466	—
Exchange differences	(22)	(39)
At 31 December	246,146	702

The carrying amount of goodwill as at 31 December 2006 mainly represented the goodwill on acquisition of the additional 10% equity interests in Shanghai Pudong International Container Terminals Limited ("SPICT") in June 2006 of RMB245,466,000 (2005: Not applicable).

- (b) Loans to associates are unsecured. Balance of RMB97,882,000 (2005: RMB66,288,000) bears interest at 2% (2005: 2%) per annum above the 10-year Belgium prime rate and has no fixed terms of repayment. The remaining balance of RMB48,000,000 (2005: RMB48,002,000) bears interest at 0.5% per annum above Tokyo Inter-Bank Offered Rate ("TIBOR") (2005: 0.5% above TIBOR) per annum and is wholly repayable on 24 April 2008.
- (c) With the completion of the share reform of China International Marine Containers (Group) Co., Ltd. ("CIMC") during the year (note 28), the Group's investment in CIMC has been redesignated as a listed investment. The Group cannot freely place or trade all of its CIMC shares until the expiry of certain trading restrictions after three years from the implementation date of the share reform of CIMC (the "Trading Restrictions"). The market value of its shares of CIMC of RMB6,785,097,000 as included in the disclosure above has not taken into account the Trading Restrictions.

Notes to the Consolidated Financial Statements

12 Associates (Continued)

Notes: (Continued)

- (d) The Company has no directly owned associates as at 31 December 2006 and 2005. Details of the principal associates as at 31 December 2006 are shown in note 41(c) to the Consolidated Financial Statements.
- (e) 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	Revenue RMB'000	Profits less losses after income tax RMB'000
2006				
Chong Hing Bank Limited (previously known as Liu Chong Hing Bank Limited)	12,849,107	(11,483,029)	(562,272)	101,823
CIMC	3,791,639	(1,654,047)	(5,388,304)	460,003
Others	3,751,817	(2,065,741)	(720,173)	261,969
	20,392,563	(15,202,817)	(6,670,749)	823,795
2005				
Liu Chong Hing Bank Limited	10,559,034	(9,187,527)	407,939	82,120
CIMC	2,762,421	(1,056,494)	5,021,326	455,645
Others	2,914,496	(1,580,294)	(66,245)	180,311
	16,235,951	(11,824,315)	5,363,020	718,076

- (f) A subsidiary provided financial guarantees to an associate of RMB197,591,000 (2005: RMB176,899,000) at 31 December 2006. The Group has not recognised the financial guarantee contracts in the Consolidated Financial Statements as the Directors consider that the relevant impact is not material from the perspective of the financial statements taken as a whole. In addition, the Directors also consider it is not probable that a claim will be made against the Group under any of the guarantees at the balance sheet date.

Notes to the Consolidated Financial Statements

13 Available-for-sale financial assets

	Group	
	2006 RMB'000	2005 RMB'000 (Restated)
At 1 January	2,266,936	2,584,447
Exchange differences	(71,438)	(56,838)
Additions	103,537	329,121
Disposals	(9,594)	(646,124)
Reclassify to associates	—	(68,000)
Net fair value gain recognised in equity	839,462	124,330
At 31 December	3,128,903	2,266,936
Available-for-sale financial assets represent the following:		
Listed securities in Hong Kong (note b)	67,069	89,353
Listed securities in PRC	108,834	8,862
Unlisted investments (note c)	2,953,000	2,168,721
	3,128,903	2,266,936

Notes:

- (a) Available-for-sale financial assets as at 31 December 2006 comprise investments in equity securities of the investee companies and the shareholders' loans advanced to an investee company with the nominal value of RMB410,870,000 (2005: RMB402,994,000). The loan advanced to an investee company is unsecured, interest free and has 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.

Notes to the Consolidated Financial Statements

14 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using taxation rates ranging from 15% to 46% for the year (2005: 15% to 44%).

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

	Group		Company	
	2006 RMB'000	2005 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000
At 1 January	(634,928)	(752,554)	—	—
Exchange differences	6,010	12,714	—	—
Credited to consolidated income statement (note 31)	309,466	104,912	2,381	—
Charged to equity	(44,452)	—	—	—
At 31 December	(363,904)	(634,928)	2,381	—

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 2006, the Group has unrecognised tax losses of RMB147,391,000 (2005: RMB154,472,000) to carry forward, among which will expire as follows:

Year	2006 RMB'000	2005 RMB'000
2006	—	40,424
2007	8,526	8,526
2008	4,663	4,663
2009	11,520	11,520
2010	50,693	50,693
2011	33,447	—

As at 31 December 2006, deferred income tax liabilities of RMB275,337,000 (2005: RMB104,918,000) have not been established for the withholding taxation that would be payable on the undistributed profits of certain subsidiaries primarily operating in the overseas of RMB990,604,000 (2005: RMB387,011,000) as the Directors considered 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.

Notes to the Consolidated Financial Statements

14 Deferred income tax (Continued)

The movement in deferred income 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	Fair value of available-for- sale financial asset RMB'000	Others RMB'000	Total RMB'000
(Restated)						
At 1 January 2005	(1,195,136)	(110,594)	(22,610)	—	(3,656)	(1,331,996)
Exchange differences	24,792	—	—	—	—	24,792
(Charged)/credited to consolidated income statement	156,453	90,608	(177,600)	—	616	70,077
At 31 December 2005 and 1 January 2006	(1,013,891)	(19,986)	(200,210)	—	(3,040)	(1,237,127)
Exchange differences	13,552	—	—	—	5	13,557
(Charged)/credited to consolidated income statement	962,394	19,986	(219,108)	—	3,024	766,296
(Charged)/credited to equity	—	—	—	(46,894)	—	(46,894)
At 31 December 2006	(37,945)	—	(419,318)	(46,894)	(11)	(504,168)

Notes to the Consolidated Financial Statements

14 Deferred income tax (Continued)

Group

Deferred income tax assets

	Tax losses	Accelerated accounting depreciation	Pension liabilities	One-off housing subsidy	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Restated)						
At 1 January 2005	453,476	—	4,360	41,852	79,754	579,442
Exchange differences	(10,536)	—	(428)	—	(1,114)	(12,078)
Charged/(credited) to consolidated income statement	(54,117)	77,255	21,822	3,174	(13,299)	34,835
At 31 December 2005 and 1 January 2006	388,823	77,255	25,754	45,026	65,341	602,199
Exchange differences	(5,851)	—	(835)	—	(861)	(7,547)
Charged/(credited) to consolidated income statement	(379,061)	(48,151)	1,148	(1,132)	(29,634)	(456,830)
(Charged)/credited to equity	—	—	2,313	—	129	2,442
At 31 December 2006	3,911	29,104	28,380	43,894	34,975	140,264

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 2006 RMB'000	2005 RMB'000 (Restated)
Deferred income tax assets	124,342	100,733
Deferred income tax liabilities	(488,246)	(735,661)
	(363,904)	(634,928)
The amount shown in the consolidated balance sheet include the following:		
Deferred income tax assets to be recovered after more than 12 months	96,930	100,413
Deferred income tax liabilities to be settled after more than 12 months	(379,867)	(727,961)

Notes to the Consolidated Financial Statements

15 Finance lease receivables

Group	Gross receivables RMB'000	Unearned finance income RMB'000	Provision RMB'000	Present value of minimum lease payment receivable RMB'000
As at 31 December 2006				
Not later than one year	14,570	(2,843)	(470)	11,257
Later than one year and not later than five years	26,963	(3,537)	(86)	23,340
	41,533	(6,380)	(556)	34,597
Less: Amount included under current assets	(14,570)	2,843	470	(11,257)
	26,963	(3,537)	(86)	23,340

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

At 31 December 2006, the Group entered into 19 (2005: 19) finance leases contracts for leasing of certain containers. The average term of the finance lease contracts is 3 years (2005: 3 years).

The cost of assets acquired for the purpose of leasing under finance leases amounted to RMB63,227,000 (2005: RMB65,990,000) at 31 December 2006.

Unguaranteed residual values of assets leased under finance lease contracts are estimated at approximately RMB55,000 (2005: RMB73,000).

Notes to the Consolidated Financial Statements

16 Deposits and cash and cash equivalents

	Group		Company	
	2006 RMB'000	2005 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000
Non-current portion				
Restricted bank deposits (note a)	96,632	239,988	—	—
Cash and cash equivalents				
Money market fund investments (note b)	62,470	64,562	—	—
Deposits placed with COSCO Finance (note c)	535,205	526,007	—	—
Bank balances and cash - unpledged	7,198,180	9,379,081	631,847	2,262,888
	7,795,855	9,969,650	631,847	2,262,888
Total deposits and cash and cash equivalents (note e)	7,892,487	10,209,638	631,847	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 22(h)).
- Restricted bank deposits mainly include deposits for credit cards, deposits for on-going projects, housing funds and other deposits.
- (b) Money market fund investments are highly liquid investments with original maturities within three months.
- (c) Deposits placed with COSCO Finance, an associate, bear interest at prevailing market rates.
- (d) At 31 December 2006, 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 RMB4,075,559,000 (2005: RMB3,428,182,000).
- (e) The carrying amounts of deposits and cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2006 RMB'000	2005 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000
US dollar	3,330,492	3,659,295	46,124	117,161
RMB	2,787,420	2,554,775	90,691	139,762
EURO dollar	206,239	570,752	—	—
HK dollar	1,121,575	2,236,835	495,032	2,005,965
Other currencies	446,761	1,187,981	—	—
	7,892,487	10,209,638	631,847	2,262,888

The effective interest rates on short-term deposits as at 31 December 2006 were in the range of 0.16% to 6.50% per annum (2005: 1.62% to 4.29% per annum); these deposits have an average maturity of 4 days to 365 days. The bank balances earn interests at floating rates based on daily bank deposit rates.

Notes to the Consolidated Financial Statements

17 Inventories

	Group	
	2006 RMB'000	2005 RMB'000 (Restated)
Bunker	549,942	499,744
Resaleable containers and others	51,600	44,886
	601,542	544,630

18 Trade and other receivables

	Group		Company	
	2006 RMB'000	2005 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000
Trade receivables (note a)				
- third parties	5,580,883	4,505,198	—	—
- subsidiaries of COSCO	1,068,503	670,573	—	—
- jointly controlled entities	252,317	288,176	—	—
- associates	1,773	—	—	—
- related companies	61,847	8,970	—	—
	6,965,323	5,472,917	—	—
Bills receivables (note a)	79,147	105,774	—	—
	7,044,470	5,578,691	—	—
Prepayments, deposits and other receivables	1,218,928	765,595	6,243	3,618
Due from related parties (note c)				
- COSCO	212,121	195,334	—	—
- subsidiaries of COSCO	136,300	207,530	303,013	313,775
- jointly controlled entities	235,173	57,066	—	37,640
- associates	6,598	566	—	—
- related companies	70,825	—	7,172	—
	661,017	460,496	310,185	351,415
	8,924,415	6,804,782	316,428	355,033

Notes to the Consolidated Financial Statements

18 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 2006, the aging analysis of trade and bills receivables is as follows:

	2006 RMB'000	2005 RMB'000 (Restated)
1-3 months	6,434,983	4,876,380
4-6 months	410,625	594,799
7-12 months	199,089	95,741
1-2 years	44,991	41,923
2-3 years	15,611	10,386
	7,105,299	5,619,229
Provision for impairment	(60,829)	(40,538)
	7,044,470	5,578,691

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

	2006 RMB'000	2005 RMB'000 (Restated)
US dollar	3,107,698	2,989,817
RMB	3,264,924	1,782,861
EURO dollar	417,745	419,142
HK dollar	20,564	23,299
Other currencies	233,539	363,572
	7,044,470	5,578,691

- (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.

Notes to the Consolidated Financial Statements

19 Derivative financial assets/liabilities

	Group			
	2006	2006	2005	2005
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Interest rate swaps				
- cash flow hedges (note a)	4,519	2,010	5,853	—
- fair value hedges (note b)	—	34,061	—	16,199
	4,519	36,071	5,853	16,199
Put options (note 28)	—	430,892	—	—
Total	4,519	466,963	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 RMB780,870,000) (2005: US\$100,000,000 (equivalent to approximately RMB807,020,000)) which were committed with the fixed interest rates ranging from 3.88% to 4.90% (2005: 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 RMB1,561,740,000 (2005: US\$200,000,000 (equivalent to approximately RMB1,614,040,000)) which were committed with the interest rates ranging from 1.05% to 1.16% (2005: 1.05% to 1.16%) per annum above the London Interbank Offered Rate ("LIBOR"). These interest rate swap contracts are designated as a hedge of the fair value of the notes issued by a subsidiary of Group (note 22(c)).
- (c) At 31 December 2006, there was no outstanding bunker forward agreements (2005: notional amounts of US\$24,864,000 (equivalent to approximately RMB200,656,000)) entered into by the Group.

20 Share capital and equity linked benefits

(a) Share capital

	2006		2005	
	Number of shares (thousands)	Nominal value RMB'000	Number of shares (thousands)	Nominal value RMB'000
	Registered, issued and fully paid			
Domestic Shares of RMB1.00 each	3,960,756	3,960,756	3,896,000	3,896,000
H shares of RMB1.00 each	2,244,000	2,244,000	2,244,000	2,244,000
As at 31 December	6,204,756	6,204,756	6,140,000	6,140,000

Notes to the Consolidated Financial Statements

20 Share capital and equity linked benefits (Continued)

(a) Share capital (Continued)

A summary of the movements in the Company's issued share capital during the year/period 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
At 1 January 2006	3,896,000	2,244,000	6,140,000
Domestic shares converted from special reserve (note 21(d))	64,756	—	64,756
At 31 December 2006	3,960,756	2,244,000	6,204,756

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 RMB 4.53) 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 Funds was entitled to the net proceeds in connection with the sales of these shares. The net proceeds was paid to the National Social Security Funds during the year.

Notes to the Consolidated Financial Statements

20 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 by the Company's board of Directors on 16 December 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 COSCO Container Lines Company Limited ("COSCON") and its subsidiaries, 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 initial grant of SARs was limited to 10% of the Company's H shares in issue at the date of grant. 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 2006 are set out below.

Category	Note	Exercise price	For the year ended 31 December 2006					Transferred (to)/from other category during the year	Outstanding at 31 December 2006
			Outstanding at 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Number of units of SARs		
Directors	(i), (iv)	HK\$3.195	6,000,000	—	—	—	(600,000)	5,400,000	
	(ii)	HK\$3.588	—	5,400,000	—	—	—	5,400,000	
Supervisors	(i)	HK\$3.195	1,400,000	—	—	—	—	1,400,000	
	(ii)	HK\$3.588	—	1,400,000	—	—	—	1,400,000	
Other continuous contract employees	(i)	HK\$3.195	12,525,000	150,000	—	—	—	12,675,000	
	(ii)	HK\$3.588	—	12,740,000	—	—	—	12,740,000	
Others	(i), (iii), (iv)	HK\$3.195	2,225,000	—	—	—	600,000	2,825,000	
	(ii), (iii)	HK\$3.588	—	2,160,000	—	—	—	2,160,000	
			22,150,000	21,850,000	—	—	—	44,000,000	

Notes to the Consolidated Financial Statements

20 Share capital and equity linked benefits (Continued)

(b) Share appreciation rights (Continued)

Category	Note	Exercise price	As 1st January 2005	For the year ended 31 December 2005			Outstanding at 31 December 2005
				Granted during the year	Exercised during the year	Lapsed during the year	
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), (iii)	HK\$3.195	—	2,225,000	—	—	2,225,000
			—	22,150,000	—	—	22,150,000

Notes:

- (i) The SARs were granted by the Company on 16 December 2005 and are exercisable at any time between 16 December 2007 to 15 December 2015 ("2005 SARs").
- (ii) The SARs were granted by the Company on 5 October 2006 and are exercisable at any time between 5 October 2008 to 4 October 2016 ("2006 SARs").
- (iii) The SARs were granted to certain senior management of COSCO by the Company during the year and are classified in the category of "Others".
- (iv) The SARs granted to a Director who resigned during the year ended 31 December 2006 were reclassified from the category of "Directors" to the category of "Others".

The fair values of 2005 SARs and 2006 SARs at the year end as determined using the Black-Scholes valuation model were HK\$3.4309 per unit and HK\$3.3834 per unit, respectively. The significant inputs into the model were share price of HK\$5.07 at the year end, exercise price, expected life of SARs, expected dividend rate, and risk-free interest rate. The expected volatility of 39.2% is estimated based on historical daily share price of the Company for the year. The intrinsic values of 2005 SARs and 2006 SARs as at 31 December 2006 were HK\$1.875 per unit and HK\$1.482 per unit respectively.

Notes to the Consolidated Financial Statements

20 Share capital and equity linked benefits (Continued)

(c) Share options of a subsidiary

The Group's subsidiary, COSCO Pacific Limited ("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 2006 and 2005 are set out below:

Category	Note	Exercise price HK\$	Outstanding at 1 January 2006	For the year ended 31 December 2006				Outstanding at 31 December 2006
				Granted during the year	Exercised during the year (note (vi))	Lapsed during the year	Transfer (to)/ from other category	
Directors	(iii)	9.54	3,300,000	—	(1,400,000)	—	—	1,900,000
	(iv)	13.75	9,000,000	—	(2,500,000)	—	—	6,500,000
Supervisors	(iii)	9.54	400,000	—	(100,000)	—	—	300,000
	(iv)	13.75	1,000,000	—	—	—	—	1,000,000
Other continuous contract employees	(ii)	8.80	1,154,000	—	(832,000)	—	—	322,000
	(iii)	9.54	7,988,000	—	(3,210,000)	—	—	4,778,000
	(iv)	13.75	38,144,000	—	(14,126,000)	(20,000)	—	23,998,000
Others	(iii)	9.54	910,000	—	(810,000)	—	—	100,000
	(iv)	13.75	9,700,000	—	(6,740,000)	—	—	2,960,000
			71,596,000	—	(29,718,000)	(20,000)	—	41,858,000

Notes to the Consolidated Financial Statements

20 Share capital and equity linked benefits (Continued)

(c) Share options of a subsidiary (Continued)

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

Notes:

- (i) All the outstanding share options of COSCO Pacific were vested and exercisable as at 31 December 2006 and 2005. COSCO Pacific has no legal or constructive obligation to repurchase or settle the options in cash.
- (ii) The share options were granted on 20 May 1997 (the "Offer Date") under the 1994 Share Option Scheme and are exercisable on or before 19 May 2007. The grantees may exercise a maximum of 20% of share options granted in each of the first five anniversary years from the Offer Date and all grantees may reserve their rights to exercise and accumulate their share options exercisable during their employment within the COSCO Pacific group.

Notes to the Consolidated Financial Statements

20 Share capital and equity linked benefits (Continued)

(c) Share options of a subsidiary (Continued)

- (iii) The share options were granted during the period from 28 October 2003 to 6 November 2003 under the 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 2003 Share Option Scheme from 28 October 2003 to 6 November 2003.
- (iv) The share options were granted during the period from 25 November 2004 to 16 December 2004 under the 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 2003 Share Option Scheme from 25 November 2004 to 16 December 2004.
- (v) Option granted to certain directors of a subsidiary who resigned or did not seek for re-election during the year ended 31 December 2005 were reclassified from the category of "Other continuous contract employees" to the category of "Others".
- (vi) The exercise of the 29,718,000 (2005: 15,336,000) share options during the year yielded the proceeds, net of transaction costs, of RMB391,139,000 (2005: RMB179,901,000).
- (vii) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2006		2005	
	Average exercise price per share HK\$	Number of share options	Average exercise price per share HK\$	Number of share options
At 1 January	12.93	71,596,000	12.60	86,932,000
Granted	N/A	—	N/A	—
Exercised	12.97	(29,718,000)	11.08	(15,336,000)
Lapsed	13.75	(20,000)	N/A	—
At 31 December	12.94	41,858,000	12.93	71,596,000

The weighted average closing price of the COSCO Pacific's shares on the dates when the share options were exercised was HK\$17.31 (2005: HK\$15.73) per share.

Notes to the Consolidated Financial Statements

21 Equity

Group

2005

	Equity holders of the Company										
	Share capital	Capital reserve	Special reserve	Other reserve (note f)	Statutory reserve funds (note b)	Investment revaluation reserves	Exchange reserve	Retained profits	Sub-total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005, as previously reported	4,100,000	2,929,994	—	217,814	—	1,030,706	26,131	348,302	8,652,947	7,007,499	15,660,446
Adoption of merger accounting (note 2(a))	—	—	—	1,688	—	—	4,514	933,452	939,654	(46,175)	893,479
At 1 January 2005, as restated	4,100,000	2,929,994	—	219,502	—	1,030,706	30,645	1,281,754	9,592,601	6,961,324	16,553,925
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	2,040,000	7,192,683	—	—	—	—	—	—	9,232,683	—	9,232,683
Share issue expenses	—	(414,886)	—	—	—	—	—	—	(414,886)	—	(414,886)
Profit for the year	—	—	—	—	—	—	—	5,582,059	5,582,059	1,363,976	6,946,035
Release of reserves upon											
-disposal of an available-for-sale financial asset	—	—	—	—	—	(261,381)	—	—	(261,381)	(237,871)	(499,252)
-deemed disposals	—	(4,796)	—	—	—	(6,639)	—	—	(10,435)	141,628	131,193
-disposal of a jointly controlled entity	—	(279)	—	—	—	—	—	—	(279)	—	(279)
Fair value gain on available-for-sale financial assets (note 13)	—	—	—	—	—	64,689	—	—	64,689	59,641	124,330
Recognition of minority interests in relation to certain jointly controlled entities reclassified to subsidiaries	—	—	—	—	—	—	—	—	—	71,940	71,940
Share of reserves of jointly controlled entities and associates	—	—	—	9,631	—	—	—	—	9,631	3,151	12,782
Exchange differences (note e)	—	—	—	—	—	—	(389,296)	—	(389,296)	(140,429)	(529,725)
Contributions from minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	(2,134)	(2,134)
Transfer of reserves (notes b)	—	—	—	—	1,081,763	—	—	(1,081,763)	—	—	—
Transfer of reserves of COSCO Logistics	—	—	—	41,049	—	—	—	(41,049)	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	4,187	4,187
Disposal of shares in a subsidiary	—	—	—	—	—	—	—	—	—	1,937	1,937
Dividends paid to minority shareholders of a subsidiary	—	—	—	—	—	—	—	—	—	(754,953)	(754,953)
Distributions (note 33 (a))	—	—	—	—	—	—	—	(3,952,695)	(3,952,695)	—	(3,952,695)
At 31 December 2005	6,140,000	8,231,032	279,422	52,368	1,081,763	828,375	(384,782)	3,224,513	19,452,691	7,472,397	26,925,088
Representing:											
Capital and reserves	6,140,000	8,231,032	279,422	52,368	1,081,763	828,375	(384,782)	2,426,313	18,654,491	7,472,397	26,126,888
2005 final dividend proposed	—	—	—	—	—	—	—	798,200	798,200	—	798,200
At 31 December 2005	6,140,000	8,231,032	279,422	52,368	1,081,763	828,375	(384,782)	3,224,513	19,452,691	7,472,397	26,925,088

Notes to the Consolidated Financial Statements

21 Equity (Continued)

Group

2006

	Equity holders of the Company										
	Share capital	Capital reserve	Special reserve	Other reserve (note f)	Statutory reserve funds (note b)	Investment revaluation reserves	Exchange reserve	Retained profits	Sub-total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2006, as previously reported	6,140,000	8,231,032	279,422	9,208	1,081,763	828,375	(393,559)	2,260,111	18,436,352	7,508,740	25,945,092
Adoption of merger accounting (note 2(a))	—	—	—	43,160	—	—	8,777	964,402	1,016,339	(36,343)	979,996
As at 1 January 2006, as restated	6,140,000	8,231,032	279,422	52,368	1,081,763	828,375	(384,782)	3,224,513	19,452,691	7,472,397	26,925,088
Profit for the year	—	—	—	—	—	—	—	2,031,016	2,031,016	1,137,150	3,168,166
Release of reserves upon											
-disposal of an available-for-sale financial asset	—	—	—	—	—	2,471	—	—	2,471	(2,471)	—
-deemed disposals	—	(68,791)	—	—	—	(13,616)	(1,207)	—	(83,614)	312,895	229,281
Fair value gain on available-for-sale financial assets (note 13)	—	—	—	—	—	400,418	—	—	400,418	320,712	721,130
Share of reserves of jointly controlled entities and associates	—	—	—	18,167	—	1,610	—	—	19,777	8,629	28,406
Exchange differences (note e)	—	—	—	—	—	—	(273,337)	—	(273,337)	(145,846)	(419,183)
Transfer to other reserve and statutory reserve funds	—	—	—	75,890	594,572	—	—	(670,462)	—	—	—
Conversion to domestic shares (note d)	64,756	214,666	(279,422)	—	—	—	—	—	—	—	—
Contribution from minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	220,897	220,897
2005 final dividend	—	—	—	—	—	—	—	(798,200)	(798,200)	—	(798,200)
Dividends paid to minority shareholders of a subsidiary	—	—	—	—	—	—	—	—	—	(749,831)	(749,831)
Disposal of shares in a subsidiary	—	—	—	—	—	—	—	—	—	(884)	(884)
Acquisition of shares in a subsidiary	—	—	—	—	—	—	—	—	—	(32,244)	(32,244)
Distributions (note 33 (a))	—	—	—	—	—	—	—	(1,816,824)	(1,816,824)	—	(1,816,824)
Actuarial gain/loss charged to equity	—	—	—	—	—	—	—	(3,363)	(3,363)	—	(3,363)
Others	—	—	—	—	—	—	—	4,269	4,269	—	4,269
As at 31 December 2006	6,204,756	8,376,907	—	146,425	1,676,335	1,219,258	(659,326)	1,970,949	18,935,304	8,541,404	27,476,708
Representing:											
Capital and reserves	6,204,756	8,376,907	—	146,425	1,676,335	1,219,258	(659,326)	481,808	17,446,163	8,541,404	25,987,567
2006 dividends proposed	—	—	—	—	—	—	—	1,489,141	1,489,141	—	1,489,141
As at 31 December 2006	6,204,756	8,376,907	—	146,425	1,676,335	1,219,258	(659,326)	1,970,949	18,935,304	8,541,404	27,476,708

Notes to the Consolidated Financial Statements

21 Equity (Continued)

Company

	Share capital RMB'000	Capital reserve RMB'000	Special reserve RMB'000	Statutory reserve funds RMB'000	Accumulated losses RMB'000	Exchange reserve RMB'000	Total RMB'000
Capitalisation upon reorganisation of the Company (notes a and d)	4,100,000	2,489,016	279,422	—	—	—	6,868,438
Loss for the period from 3 March 2005 to 31 December 2005	—	—	—	—	(75,297)	—	(75,297)
Issue of new H shares	2,040,000	7,192,683	—	—	—	—	9,232,683
Share issue expenses	—	(414,886)	—	—	—	—	(414,886)
Distribution	—	—	—	—	(967,926)	—	(967,926)
Exchange difference (note e)	—	—	—	—	—	(185,476)	(185,476)
Transfer to statutory reserve funds (note b)	—	—	—	1,081,763	(1,081,763)	—	—
At 31 December 2005	6,140,000	9,266,813	279,422	1,081,763	(2,124,986)	(185,476)	14,457,536
Representing:							
Capital and reserves	6,140,000	9,266,813	279,422	1,081,763	(2,923,186)	(185,476)	13,659,336
2005 final dividend proposed	—	—	—	—	798,200	—	798,200
At 31 December 2005	6,140,000	9,266,813	279,422	1,081,763	(2,124,986)	(185,476)	14,457,536
2006							
As at 1 January 2006	6,140,000	9,266,813	279,422	1,081,763	(2,124,986)	(185,476)	14,457,536
Loss for the year	—	—	—	—	(115,586)	—	(115,586)
Exchange difference (note e)	—	—	—	—	—	(279,434)	(279,434)
2005 final dividend	—	—	—	—	(798,200)	—	(798,200)
Transfer to statutory reserve funds (note b)	—	—	—	594,572	(594,572)	—	—
Conversion to domestic shares (note d)	64,756	214,666	(279,422)	—	—	—	—
At 31 December 2006	6,204,756	9,481,479	—	1,676,335	(3,633,344)	(464,910)	13,264,316
Representing:							
Capital and reserves	6,204,756	9,481,479	—	1,676,335	(5,122,485)	(464,910)	11,775,175
2006 dividends proposed	—	—	—	—	1,489,141	—	1,489,141
At 31 December 2006	6,204,756	9,481,479	—	1,676,335	(3,633,344)	(464,910)	13,264,316

Notes to the Consolidated Financial Statements

21 Equity (Continued)

Notes:

- (a) Upon the incorporation of the Company on 3 March 2005, the net value of the interests in COSCON and COSCO Pacific Investments Holdings Limited transferred to the Company from COSCO was converted into the Company's share capital of RMB4,100,000,000 of RMB1.00 each with all the then existing reserves eliminated and the resulting difference dealt with in the capital reserve and the special reserve (note 21(d)).
- (b) Statutory reserve funds

As at 31 December 2006 and 2005, the statutory reserve funds comprised of:-

	2006 RMB'000	2005 RMB'000
Statutory surplus reserve	1,065,352	454,370
Statutory public welfare fund	—	454,370
Discretionary surplus reserve	610,983	173,023
	1,676,335	1,081,763

In accordance with the PRC Company Law and the Company's articles of association, the Company is required to allocate 10% of its profit attributable to equity holders of the Company, ("Net Profit") 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 the prior year, in accordance with the PRC Company Law, the Company was required to appropriate 5% to 10% of its Net Profit, as determined in accordance with the 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 was 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 Net Profit for the period from 4 March 2005 to 30 June 2005 as determined in accordance with the PRC GAAP.

On 31 December 2005, an appropriation of RMB281,347,000 to each of the statutory surplus reserve and statutory public welfare fund for the year ended 31 December 2005. Each appropriation represents 10% of the Company's Net Profit for the period from 1 July 2005 to 31 December 2005, as determined in accordance with the PRC GAAP. In 2006, a further appropriation of RMB281,347,000 to the discretionary surplus reserve was approved by the equity holders in the annual general meeting for the year ended 31 December 2005.

In 2006, due to the change in the PRC Company Law, the Company is no longer required to retain the statutory public welfare fund and the accumulated balances of the statutory public welfare fund of RMB454,370,000 was then transferred to the statutory surplus reserve.

On 20 November 2006, the equity holders of the Company approved the appropriations of 10% of its Net Profit for the year ended 31 December 2006 as determined based on the lesser of the Net Profit as determined in accordance with PRC GAAP or HKFRSs to each of the statutory surplus reserve fund and the discretionary surplus reserve.

On this basis, the appropriation was determined as RMB156,612,000 to each of the statutory surplus reserve fund and the discretionary surplus reserve being the amount determined in accordance with the PRC GAAP.

Notes to the Consolidated Financial Statements

21 Equity (Continued)

- (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, the amount of profits available for appropriation for the year was approximately RMB1,566,124,000 (2005: 4,402,099,000), being the amount determined in accordance with the PRC GAAP.

- (d) In the prior year, the Company obtained from the Ministry of Finance an approval pursuant to which the Company was permitted to retain as a special reserve of RMB 279,422,000, the benefit of which was 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.

During the year, the specific reserve was converted into 64,756,000 domestic shares held by COSCO at HK\$4.25 per share.

- (e) 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.
- (f) Other reserve represented appropriation of reserves before the distribution of the dividends by the PRC subsidiaries, jointly controlled entities and associates to the Group in accordance with the PRC Company Law and their articles of associations.
- (g) Statements of adjustments for common control combinations of the Acquired Subsidiaries on the consolidated balance sheets as at 31 December 2006 and 2005

At 31 December 2005

	As previously reported RMB'000	Acquired Subsidiaries RMB'000	Adjustments RMB'000	As restated RMB'000
ASSETS				
Non-current assets	38,597,546	1,579,561	(1,498,888) ^{(i), (ii)}	38,678,219
Current assets	13,078,108	4,368,601	(111,439) ⁽ⁱⁱⁱ⁾	17,335,270
Total assets	51,675,654	5,948,162	(1,610,327)	56,013,489
EQUITY				
Capital and reserves				
Share capital	6,140,000	1,585,333	(1,585,333) ⁽ⁱ⁾	6,140,000
Reserves	11,498,152	746,810	269,529 ^{(ii), (iii)}	12,514,491
Proposed dividends	798,200	—	—	798,200
	18,436,352	2,332,143	(1,315,804)	19,452,691
Minority interests	7,508,740	140,544	(176,887) ⁽ⁱ⁾	7,472,397
Total equity	25,945,092	2,472,687	(1,492,691)	26,925,088
LIABILITIES				
Non-current liabilities	13,222,070	159,930	—	13,382,000
Current liabilities	12,508,492	3,315,545	(117,636) ⁽ⁱⁱⁱ⁾	15,706,401
Total liabilities	25,730,562	3,475,475	(117,636)	29,088,401
Total equity and liabilities	51,675,654	5,948,162	(1,610,327)	56,013,489

Notes to the Consolidated Financial Statements

21 Equity (Continued)

- (g) Statements of adjustments for common control combinations of the Acquired Subsidiaries on the consolidated balance sheets as at 31 December 2006 and 2005 (Continued)

At 31 December 2006

	The Group before Acquired Subsidiaries RMB'000	Acquired Subsidiaries RMB'000	Adjustments RMB'000	At 31 December 2006 RMB'000
ASSETS				
Non-current assets	39,468,117	1,924,421	(3,269,986) ⁽ⁱ⁾⁽ⁱⁱ⁾	38,122,552
Current assets	12,632,228	4,819,623	(114,263) ⁽ⁱⁱⁱ⁾	17,337,588
Total assets	52,100,345	6,744,044	(3,384,249)	55,460,140
EQUITY				
Capital and reserves				
Share capital	6,204,756	1,585,333	(1,585,333) ⁽ⁱ⁾	6,204,756
Reserves	11,777,598	958,347	(1,494,538) ^{(i), (ii)}	11,241,407
Proposed dividends	1,489,141	—	—	1,489,141
	19,471,495	2,543,680	(3,079,871)	18,935,304
Minority interests	8,594,897	137,310	(190,803) ⁽ⁱ⁾	8,541,404
Total equity	28,066,392	2,680,990	(3,270,674)	27,476,708
LIABILITIES				
Non-current liabilities	9,495,561	292,655	—	9,788,216
Current liabilities	14,538,392	3,770,399	(113,575) ⁽ⁱⁱⁱ⁾	18,195,216
Total liabilities	24,033,953	4,063,054	(113,575)	27,983,432
Total equity and liabilities	52,100,345	6,744,044	(3,384,249)	55,460,140

Notes:

The adjustments mainly comprised of:

- (i) Adjustments to eliminate the share capitals of the Acquired Subsidiaries against their investment costs. The difference has been debited to the retained earnings and minority interests as at 31 December 2006 and 2005 respectively.
- (ii) COSCO Logistics is classified as jointly controlled entity by COSCO Pacific as at 31 December 2006 and 2005. Adjustments were made to eliminate the 49% share of net assets value of COSCO Logistics by COSCO Pacific against the related reserves as at 31 December 2006 and 2005 respectively.
- (iii) Adjustments to eliminate the inter-group balances as at 31 December 2006 and 2005.

No other significant adjustments were made to the net assets and net profit of any entities or businesses as a result of the common control combinations to achieve consistency of accounting policies.

Notes to the Consolidated Financial Statements

22 Long-term borrowings

	Group	
	2006	2005
	RMB'000	RMB'000
Bank loans		
- secured (note h)	6,125,557	10,570,648
- unsecured	1,892,903	1,588,449
Secured other loans (note h)	—	61,027
Notes (note c)	2,262,283	2,346,242
	10,280,743	14,566,366
Current portion of long-term borrowings	(1,333,535)	(2,196,863)
	8,947,208	12,369,503

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

	Group	
	2006	2005
	RMB'000	RMB'000
Wholly repayable within five years		
- bank loans	3,691,238	7,920,595
- other loans	—	61,027
	3,691,238	7,981,622
Not wholly repayable within five years		
- bank loans	4,327,222	4,238,502
- notes	2,262,283	2,346,242
	6,589,505	6,584,744
	10,280,743	14,566,366

Notes to the Consolidated Financial Statements

22 Long-term borrowings (Continued)

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

	Group	
	2006 RMB'000	2005 RMB'000
Bank loans		
- within one year	1,333,535	2,173,798
- in the second year	2,565,052	2,222,049
- in the third to fifth years	2,375,658	5,346,415
- over five years	1,744,215	2,416,835
	8,018,460	12,159,097
Other loans		
- within one year	—	23,065
- in the second year	—	24,840
- in the third to fifth years	—	13,122
	—	61,027
Notes		
- over five years	2,262,283	2,346,242
	10,280,743	14,566,366

Notes to the Consolidated Financial Statements

22 Long-term borrowings (Continued)

(c) Details of the notes at 31 December 2006 are as follows:

	Group	
	2006 RMB'000	2005 RMB'000
Principal amount	2,342,610	2,421,060
Discount on issue	(14,829)	(15,325)
Notes issuance cost	(14,056)	(14,526)
Proceeds received	2,313,725	2,391,209
Accumulated amortised amounts of		
- discount on issue	5,802	4,269
- notes issuance cost	5,497	4,043
Effect of fair value hedge	(62,741)	(53,279)
	2,262,283	2,346,242

Notes with principal amount of US\$300,000,000 (equivalent to approximately RMB2,342,610,000) 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 3 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.

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

	Less than one year RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2006				
Total borrowings	7,502,459	450,003	2,328,281	10,280,743
Effect of interest rate swaps	(124,939)	—	(1,561,740)	(1,686,679)
	7,377,520	450,003	766,541	8,594,064
At 31 December 2005				
Total borrowings	12,195,090	25,034	2,346,242	14,566,366
Effect of interest rate swaps	—	—	(1,614,040)	(1,614,040)
	12,195,090	25,034	732,202	12,952,326

Notes to the Consolidated Financial Statements

22 Long-term borrowings (Continued)

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

	2006 RMB'000	2005 RMB'000
US dollar	9,669,748	14,543,374
RMB	610,995	22,992
	10,280,743	14,566,366

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

	Carrying amounts		Fair values	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Bank loans	8,018,460	12,159,097	8,054,479	12,090,767
Other loans	—	61,027	—	60,010
Notes	2,262,283	2,346,242	2,402,440	2,514,012
	10,280,743	14,566,366	10,456,919	14,664,789

The fair values are based on cash flows discounted using a weighted average borrowing rate of 5.4% (2005: 5.2%).

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

	2006		2005	
	US\$	RMB	US\$	RMB
Bank loans	5.1% to 6.8%	5.2% to 6.2%	2.8% to 5.8%	4.7%-5.6%
Other loans	—	—	6.8%	—
Notes	6.0%	—	6.0%	—

(h) 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 and land use rights.
- (ii) Assignment of the charter, rental income and earnings, requisition compensation, insurance relating to certain container vessels.
- (iii) Shares and bank deposits of certain subsidiaries.

At 31 December 2005, certain bank and other loans of RMB2,781,100,000 were also secured by certain containers of the Group, the assignment of the container lease agreements and the rental income thereon, other assets and shares of certain subsidiaries. These bank and other loans were fully repaid during the year.

Notes to the Consolidated Financial Statements

23 Other non-current liabilities

	2006 RMB'000	2005 RMB'000 (Restated)
Provision for one-off housing subsidies and early retirement benefit obligations (note a)	201,643	204,702
Retirement benefit obligations (note b)	69,645	51,225
Deferred income and others	57,022	4,710
	328,310	260,637
Less : current portion included in current liabilities (note 24)	(11,619)	—
	316,691	260,637

Notes:

(a) Movements for the year are as below:

	Provision for one-off housing subsidies		Early retirement benefit obligations		Total	
	2006 RMB'000	2005 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000 (Restated)
At 1 January	184,536	197,436	20,166	31,234	204,702	228,670
Reversal of over provision	(36,343)	(9,035)	(1,593)	—	(37,936)	(9,035)
Addition	40,242	—	—	—	40,242	—
Payments during the year	—	(3,865)	(5,365)	(11,068)	(5,365)	(14,933)
At 31 December	188,435	184,536	13,208	20,166	201,643	204,702

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 a 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.

Notes to the Consolidated Financial Statements

23 Other non-current liabilities (Continued)

Notes:

(b) Retirement benefit obligations

	Group	
	2006	2005
	RMB'000	RMB'000
Balance sheet obligations for:		
Defined benefits (note (i))	21,083	16,975
Post-employment medical benefits (note (ii))	48,562	34,250
	69,645	51,225
Expensed in income statement for (note 35):		
Defined benefits (note (i))	7,250	9,056
Post-employment medical benefits (note (ii))	17,865	34,825
	25,115	43,881

Notes:

(i) Defined benefits

There is a retirement benefit plan operating as defined benefit plan in a subsidiary of the Group. 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.

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

	2006	2005
	RMB'000	RMB'000
Present value of funded obligations	44,648	40,422
Fair value of plan assets	(21,730)	(11,471)
	22,918	28,951
Unrecognised actuarial losses	—	(7,740)
Unrecognised past service cost	(1,835)	(4,236)
Liability in the balance sheet	21,083	16,975

Notes to the Consolidated Financial Statements

23 Other non-current liabilities (Continued)

Notes:

(b) Retirement benefit obligations (Continued)

(i) Defined benefits (Continued)

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

	2006 RMB'000	2005 RMB'000
At 1 January	40,422	34,147
Exchange difference	(1,311)	(959)
Current service cost	4,003	3,070
Interest cost	2,146	1,937
Actuarial loss	(420)	2,429
Benefits paid	(192)	(202)
At 31 December	44,648	40,422

The movement in the fair value of plan assets of the year is as follows:

	2006 RMB'000	2005 RMB'000
At 1 January	11,471	9,055
Exchange difference	(371)	(266)
Expected return on plan assets	1,163	807
Actuarial gain/(loss)	478	(367)
Contribution paid	9,181	2,444
Benefit paid	(192)	(202)
At 31 December	21,730	11,471

The amounts recognised in the income statement are as follows:

	2006 RMB'000	2005 RMB'000
Current service cost	4,003	3,070
Interest cost	2,146	1,937
Expected return on plan assets	(1,163)	(807)
Net actuarial losses recognised during the year	—	94
Past service cost	2,264	4,762
Total expense, included in staff costs	7,250	9,056

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

The actual return on plan assets was RMB1,911,000 (2005: RMB713,000).

The principal actuarial assumptions use are as follows:

	2006	2005
Discount rate	5.75%	5.50%
Expected return on plan assets	8.00%	8.00%

Notes to the Consolidated Financial Statements

23 Other non-current liabilities (Continued)

Notes:

(b) Retirement benefit obligations (Continued)

(i) Defined benefits (Continued)

The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:

	2006	2005
Male	19.4	19.4
Female	19.4	19.4

Plan assets are comprised as follows:

	2006		2005	
	RMB'000	%	RMB'000	%
Equity	12,431	57	6,964	61
Debt	3,897	18	2,273	20
Other	5,402	25	2,234	19
	21,730	100	11,471	100

Expected contributions to the plan for the year ending 31 December 2007 are RMB4,843,000. In developing the overall expected long term rate of return on plan assets assumption, a building block approach was used in which a single rate of return in excess of inflation was added to an appropriate rate of inflation to develop the expected long term rate of return.

	2006 RMB'000	2005 RMB'000
At 31 December		
Present value of defined benefits obligations	44,648	40,422
Fair value of plan assets	(21,730)	(11,471)
Deficit	22,918	28,951
Experience adjustments on plan liabilities	(420)	2,393
Experience adjustments on plan assets	478	(362)

(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 9.5% (2005: 10%) and increase grading down to 5% in 2016 and after.

Other assumptions were as for the defined benefits set out above.

Notes to the Consolidated Financial Statements

23 Other non-current liabilities (Continued)

Notes:

(b) Retirement benefit obligations (Continued)

(ii) Post-employment medical benefits (Continued)

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

	2006 RMB'000	2005 RMB'000
Present value of funded obligations	67,466	63,209
Fair value of plan assets	(2,192)	(624)
	65,274	62,585
Unrecognised actuarial losses	—	(2,427)
Unrecognised past service costs	(16,712)	(25,908)
Liability in the balance sheet	48,562	34,250

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

	2006 RMB'000	2005 RMB'000
At 1 January	63,209	56,821
Exchange differences	(2,048)	(1,536)
Current service cost	6,193	5,915
Interest cost	3,364	3,233
Actuarial loss	(3,252)	(1,224)
At 31 December	67,466	63,209

The movement in the fair value of plan assets of the year is as follows:

	2006 RMB'000	2005 RMB'000
At 1 January	624	618
Exchange differences	(21)	(16)
Expected return on plan assets	48	49
Contributions	1,531	—
Actuarial gain/(loss)	10	(27)
At 31 December	2,192	624

Notes to the Consolidated Financial Statements

23 Other non-current liabilities (Continued)

Notes:

(b) Retirement benefit obligations (Continued)

(ii) Post-employment medical benefits (Continued)

The amounts recognised in the income statement are as follows:

	2006 RMB'000	2005 RMB'000
Current service cost	6,193	5,915
Interest cost	3,364	3,233
Expected return on plan assets	(48)	49
Past service cost	8,356	25,628
Total expense, included in staff costs	17,865	34,825

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

The actual return on plan assets was RMB71,000 (2005: RMB49,000).

The effects of a 1% movement in the assumed medical cost trend rate were as follows:

	Increase RMB'000	Decrease RMB'000
Effect on the aggregate of the current services costs and interest cost	2,985	(2,191)
Effect on the defined benefit obligation	17,083	(12,733)

Plan assets are comprised as follows:

	2006		2005	
	RMB'000	%	RMB'000	%
Equity	1,326	60	377	61
Debt	424	20	109	17
Other	442	20	138	22
	2,192	100	624	100

Expected contributions to post-employment medical benefits for the year ending 31 December 2007 are RMB1,701,000. In developing the overall expected long term rate of return on plan assets assumption, a building block approach was used in which a single rate of return in excess of inflation was added to an appropriate rate of inflation to develop the expected long term rate of return.

	2006 RMB'000	2005 RMB'000
As at 31 December		
Present value of post retirement benefits obligations	67,466	63,209
Fair value of plan assets	(2,192)	(624)
Deficit	65,274	62,585
Experience adjustments on plan liabilities	(3,252)	(1,206)
Experience adjustments on plan assets	10	(27)

Notes to the Consolidated Financial Statements

24 Trade and other payables

	Group		Company	
	2006 RMB'000	2005 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000
Trade payables (note a)				
- third parties	4,124,626	3,112,830	—	—
- subsidiaries of COSCO	1,020,258	945,828	—	—
- jointly controlled entities	252,907	191,463	—	—
- associates	267,511	137,129	—	—
- related companies	27,475	36,645	—	—
	5,692,777	4,423,895	—	—
Bills payables (note a)	52,233	19,758	—	—
	5,745,010	4,443,653	—	—
Other payables and accruals	4,374,750	3,975,231	46,475	24,805
Distribution and dividend payable to COSCO (note (c))	1,213,959	1,794,022	1,213,959	967,926
Due to related parties (note d)				
- COSCO	23,114	117,778	—	—
- subsidiaries of COSCO	937	63,420	40,443	145,918
- related companies	976	—	—	—
	25,027	181,198	40,443	145,918
Current portion of other non-current liabilities (note 23)	11,619	—	—	—
	11,370,365	10,394,104	1,300,877	1,138,649

Notes to the Consolidated Financial Statements

24 Trade and other payables (Continued)

Notes:

(a) At 31 December 2006, the aging analysis of trade and bills payables are as follows:

	2006 RMB'000	2005 RMB'000 (Restated)
1-6 months	5,569,053	4,176,423
7-12 months	65,339	102,010
1-2 years	92,341	118,066
2-3 years	592	21,295
Above 3 years	17,685	25,859
	5,745,010	4,443,653

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

	2006 RMB'000	2005 RMB'000 (Restated)
US dollar	2,915,957	2,269,516
RMB	2,123,914	1,653,336
EURO dollar	332,113	165,401
HK dollar	176,918	138,258
Other currencies	196,108	217,142
	5,745,010	4,443,653

(c) This represented the consideration payable to COSCO in connection with the acquisition of 51% equity interest in COSCO Logistics at 31 December 2006 and dividend payable by COSCO Logistics to COSCO, prior the completion of the acquisition. Balance as at 2005 represented the mandatory and special distribution payable to COSCO.

(d) The amounts due to related companies are unsecured and interest free.

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

Notes to the Consolidated Financial Statements

25 Short-term loans and bond payable

	Group		Company	
	2006 RMB'000	2005 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000
Bank loans - unsecured (note a)	2,781,178	1,773,108	764,261	242,106
Loan from COSCO Finance (note b)				
- unsecured	522,200	356,200	—	—
- secured	13,000	—	—	—
Loan from COSCO (note c)	—	88,000	—	—
Bond payable (note d)	1,509,439	—	1,509,439	—
	4,825,817	2,217,308	2,273,700	242,106

Notes:

- The effective interest rates of short-term loans at 31 December 2006 were in the range of 4.70% to 6.48% per annum (2005: 4.70% to 5.58%).
- The loan from COSCO Finance, an associate, bore interest at 4.70% to 5.85% (2005: 4.70% to 5.02%) per annum as at 31 December 2006. The loan is secured by certain buildings of the Group (note 6(c)).
- The loan from COSCO was unsecured and bore interest at 5.85% per annum (2005: 5.85%). The balance was fully repaid in December 2006.
- On 26 October 2006, the Company issued a short-term bond of RMB 1,500,000,000, which is unsecured, interest-bearing at 3.48% per annum and expires in 364 days after the date of issue. The interest is payable with the principal on the maturity day.
- 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	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
US dollar	1,111,178	886,108	234,261	242,106
RMB	3,714,639	1,331,200	2,039,439	—
	4,825,817	2,217,308	2,273,700	242,106

Notes to the Consolidated Financial Statements

26 Other income

	2006 RMB'000	2005 RMB'000 (Restated)
Dividend income from listed and unlisted investments	169,265	155,371
Rental income from investment properties	9,365	4,953
Subsidy income	224,909	146,091
Proceeds from sale of resaleable containers (note d)	346,738	185,239
Finder's fee (note a)	121,449	—
Gain on disposal of property, plant and equipment		
- containers (note a)	672,980	12,113
- container vessels (note b)	377,060	—
- others	35,398	13,482
Gain on deemed partial disposal of a subsidiary	169,867	48,708
Gain on disposal of available-for-sale financial assets (note c)	54,790	512,117
Gain on disposal of jointly controlled entities and dissolution of an associate	66,426	3,420
Gain on partial disposal of an associate	—	1,458
Fair value gain on interest rate swap contracts – not qualifying as hedges	3,199	32,629
Fair value gain on bunker forward contracts – not qualifying as hedges	—	71,701
Recovery of bad debts	72,120	64,203
Others	143,739	97,072
Total	2,467,305	1,348,557

Notes:

- (a) In 2006, the Group disposed of its containers leased out under operating leases for a cash consideration of approximately RMB6,745,611,000. The Group also received a finder fee of approximately RMB121,449,000 in respect of its services rendered for the entire transaction prior to completion of the disposal on 30 June 2006. In addition, the Group has received an upfront administration fee of approximately RMB58,097,000 from the purchaser pursuant to the agreement. The upfront administration fee of RMB5,818,000 (2005: Not applicable) has been recognised as income during the year and the remaining unearned administration service income of RMB52,279,000 was deferred at 31 December 2006 (2005: Not applicable) and to be recognised over the remaining period of the agreement.
- (b) During the year, the Group disposed of two vessels to a subsidiary of COSCO Group for a total consideration of RMB457,458,000 and another vessel to a third party for a consideration of RMB78,881,000. These disposals resulted in a total gain of RMB345,892,000. Upon the disposal of these vessels, the Group (as charterer) entered into time charter agreements with the subsidiary of COSCO or the third party (as owner) for the vessels for a charter period ranging from 24 to 36 months.
- (c) In 2005, the amount represented gain on disposal of the 17.5% equity interests in Shekou Container Terminals Ltd., to China Merchants Holdings (International) Company Limited in March 2005.
- (d) The relevant cost of resaleable container sold is included in other expenses (note 27).

Notes to the Consolidated Financial Statements

27 Expenses by nature

	2006 RMB'000	2005 RMB'000 (Restated)
Cost of services		
Equipment and cargo transportation costs	14,898,710	12,403,892
Voyage costs	9,253,259	6,509,218
Vessel costs	4,993,383	4,084,148
Freight forwarding and shipping agency costs	15,700,881	14,518,938
Terminal operating and other direct costs	121,083	91,301
Container depreciation and other direct costs	673,176	857,619
Others	379,241	354,788
Total	46,019,733	38,819,904

	2006 RMB'000	2005 RMB'000 (Restated)
Other expenses		
Cost of resaleable containers sold (note 26(d))	(357,772)	(155,026)
Outgoings in respect of investment properties	(477)	(510)
Fair value loss on bunker forward contracts – not qualifying as hedges	(124,063)	—
Exchange losses	(144,879)	(177,152)
Loss on disposal/write-off of property, plant and equipment	(33,168)	(5,604)
Provision for impairment of trade receivables	(17,597)	(30,114)
Others	(57,089)	(81,265)
Total	(735,045)	(449,671)

	2006 RMB'000	2005 RMB'000 (Restated)
Selling, administrative and general expenses		
Administrative staff costs	1,691,518	1,736,282
Depreciation and amortisation	278,352	206,837
Rental expense	135,195	129,640
Office expense	133,287	125,114
Transportation and travelling expense	135,773	123,570
Entertainment expense	132,821	122,083
Legal and professional fees	99,846	156,908
Telecommunication and utilities	75,956	77,742
Others	227,579	302,208
Total	2,910,327	2,980,384

Notes to the Consolidated Financial Statements

28 Share reform

As at 31 December 2005, the Group held 327,402,912 non-publicly tradeable shares of CIMC ("CIMC Non-tradeable Shares"), an associate of the Group. On 25 May 2006, the Group issued 424,106,507 put option certificates (the "Put Options") to all holders of the A-shares of CIMC as accepted inducement for the approval by the holders of the A-shares of CIMC of the conversion of the CIMC Non-tradeable Shares held by the Group into CIMC A-shares which are publicly tradeable on the Shenzhen Stock Exchange in the PRC (the "Share Reform") (note 12(c)). If all the Put Options are exercised in full, COSCO Pacific will have to pay a total sum of approximately RMB4,241,000,000 in cash and COSCO Pacific's equity interest in CIMC will be increased from approximately 16% to 37% after the acquisition.

The Put Options are derivative financial instruments which are initially recognised at fair values and any subsequent changes in their fair values, are debited or credited in the consolidated income statement. The net amount recognised in the consolidated income statement for the current year in connection with the Put Options granted under the Share Reform was RMB439,707,000.

	2006 RMB'000
Initial recognition of Put Options	(1,116,114)
Fair value gain on Put Options granted	676,407
	(439,707)

29 Operating profit

Operating profit is stated after charging the following:

	2006 RMB'000	2005 RMB'000 (Restated)
Charging:		
Auditor's remuneration	37,790	33,811
Amortisation		
- leasehold land and land use rights	10,682	5,254
- intangible assets	84,788	79,716
Cost of bunker and fuel consumed	7,023,552	4,746,101
Depreciation		
- owned property, plant and equipment leased out under operating leases	3,346	496,580
- other owned property, plant and equipment	1,736,604	1,341,468
- investment properties	1,075	1,075
Operating lease rentals		
- container vessels	2,709,940	1,845,413
- containers	761,660	752,510
- land and buildings	142,674	122,349
- other property, plant and equipment	324,747	388,180
Provision for resaleable containers	2,425	—

Notes to the Consolidated Financial Statements

30 Finance income and costs

	2006 RMB'000	2005 RMB'000 (Restated)
Interest expenses:		
- bank loans	735,724	686,586
- bond wholly repayable within one year	9,439	—
- other loans wholly repayable within five years	64	3,115
- loans from COSCO Finance wholly repayable within one year	21,127	6,447
- amounts due to COSCO (note 25(c))	5,581	3,705
- notes not wholly repayable within five years	147,802	132,859
	919,737	832,712
Amortised amount of transaction costs on long-term borrowings	38,724	21,553
Amortised amount of discount on issue of notes	1,705	1,858
Other incidental borrowing costs and charges	28,279	21,339
Finance costs	988,445	877,462
Interest income:		
- deposits with COSCO Finance (note 16(c))	(12,337)	(13,639)
- loans to a jointly controlled entity (note 11(b))	(3,315)	(2,642)
- loans to associates (note 12(b))	(8,225)	(5,441)
- third parties	(250,477)	(184,602)
Finance income	(274,354)	(206,324)
Net finance costs	714,091	671,138

31 Income tax expenses

	2006 RMB'000	2005 RMB'000 (Restated)
Current income tax		
- PRC enterprise income tax (note a)	235,148	773,319
- Hong Kong profits tax (note b)	7,751	5,440
- Overseas taxation (note c)	981,698	60,691
Under/(over) provision in prior years	8,852	(1,437)
	1,233,449	838,013
Deferred income tax (note 14)	(309,466)	(104,912)
	923,983	733,101

Notes to the Consolidated Financial Statements

31 Income tax expenses (Continued)

The Group's share of income tax expenses of jointly controlled entities and associates for the year totalling RMB91,711,000 (2005: RMB93,694,000) and RMB71,238,000 (2005: RMB50,754,000) are included in the consolidated income statement as share of profits of jointly controlled entities and associates respectively.

Notes:

(a) PRC enterprise income tax ("EIT")

The provision for enterprise income tax ("EIT") 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.

(b) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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 20% to 44% during the year (2005: 22% to 44%).

(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:

	2006 RMB'000	2005 RMB'000 (Restated)
Profit before income tax expenses	4,092,149	7,679,136
Less: Share of profits less losses of jointly controlled entities and associates	(1,449,797)	(1,285,329)
	2,642,352	6,393,807
Calculated at a tax rate of 33% (2005: 33%)	871,976	2,109,956
Effect of differential tax rates of other territories	(263)	(340,177)
Effect of preferential tax rates of domestic subsidiaries	(86,574)	(16,390)
Effect of unrecognised deferred tax assets/liabilities on differential tax rate of domestic subsidiaries	—	(492,144)
Income not subject to income tax	(114,293)	(147,455)
Expenses not deductible for taxation purposes	61,596	76,090
Utilisation of previously unrecognised tax losses	(14,480)	(5,212)
Tax losses not recognised	139,744	25,215
Effect of exchange gains/(losses) directly recognised in equity	(82,482)	(32,556)
Effect on deferred tax assets/liabilities due to the change in tax rates	(176,000)	(175,572)
Recognition of deferred tax liabilities on overseas' undistributed profits previously not recognised	244,291	—
Recognition of temporary differences previously not recognised	(3,231)	(88,670)
Reversal of deferred tax assets/(liabilities) previously recognised	4,807	(170,899)
Under/(over) provision in prior years	8,852	(1,437)
Others	70,040	(7,648)
Income tax expenses	923,983	733,101

Notes to the Consolidated Financial Statements

31 Income tax expenses (Continued)

(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.

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 RMB115,586,000 (2005: RMB75,297,000).

33 Distributions and dividends

(a) Distributions

	2006 RMB'000	2005 RMB'000 (Restated)
Distributions to COSCO (note (i))		
- paid	—	1,994,544
- payable	—	1,794,022
	—	3,788,566
Transfer of COSCO Logistics (note (ii))	1,679,636	—
Dividends paid/payable to COSCO (note (iii))	133,586	58,994
Transfer of other subsidiaries	3,602	94,568
Others	—	10,567
	1,816,824	3,952,695

Notes :

(i) Distributions to COSCO

This represented mandatory and special distributions to COSCO of RMB3,788,566,000, in respect of profits of the Group prior to the listing.

(ii) Transfer of COSCO Logistics

This represented consideration paid/payable by the Company for acquisition of 51% interest in COSCO Logistics from COSCO as stipulated in the sales and purchase agreement dated 28 September 2006 and was treated as deemed distribution to COSCO in the Consolidated Financial Statements.

(iii) Dividend paid/payable to COSCO

This represented the dividends paid/payable by COSCO Logistics to COSCO prior to the completion of the acquisition of the 51% interest in COSCO Logistics by the Group.

Notes to the Consolidated Financial Statements

33 Distributions and dividends (Continued)

(b) Dividends

	2006 RMB'000	2005 RMB'000
Final, proposed, of RMB0.09 per ordinary share (2005: RMB0.13)	558,428	798,200
Special, proposed of RMB0.15 per ordinary share (2005: N/A)	930,713	—
	1,489,141	798,200

Note:

At the meeting held on 28 March 2007, the Directors proposed a cash final dividend of RMB0.09 per ordinary share for the year ended 31 December 2006.

In addition, the Directors proposed to issue 1.5 bonus shares for every 10 shares of the Company at par value of RMB1.00 each held by the existing shareholders, totalling RMB930,713,000. The special bonus issue is determined based on the lower of the accumulated distributable profits (after the 2006 final proposed dividend) as at 31 December 2006 determined in accordance with (i) PRC GAAP (ii) HKFRSs.

These proposed 2006 cash final dividend and bonus issue are not reflected as dividend payable or share capital in the Consolidated Financial Statements, but will be reflected as an appropriation of retained profits for the year ending 31 December 2007.

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.

	2006	2005 (Restated)
Profit attributable to equity holders of the Company	RMB2,031,016,000	RMB5,582,059,000
Weighted average number of ordinary shares in issue	6,156,676,974	5,133,972,603
Basic earnings per share	RMB0.32989	RMB1.08728

Notes to the Consolidated Financial Statements

34 Earnings per share (Continued)

Diluted

Basic earnings per share for the year ended 31 December 2006 is the same as the diluted earnings per share as there is no dilutive potential ordinary shares.

Diluted earnings per share for the year ended 31 December 2005 was calculated based on the profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during that 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 21(b)).

	2006	2005 (Restated)
Profit attributable to equity holders of the Company	RMB2,031,016,000	RMB5,582,059,000
Weighted average number of ordinary shares in issue	6,156,676,974	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	6,156,676,974	5,165,265,203
Diluted earnings per share	RMB0.32989	RMB1.08069

35 Staff costs

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

	2006 RMB'000	2005 RMB'000 (Restated)
Crew expenses	551,090	612,978
Wages and salaries	1,857,627	1,865,372
Housing benefits (note a)	89,147	71,804
Retirement benefits costs		
- defined benefit plans (note 23(b))	25,115	43,881
- defined contribution plans (note b)	139,252	104,628
Welfare and other expenses	411,969	393,587
	3,074,200	3,092,250

Notes to the Consolidated Financial Statements

35 Staff costs (Continued)

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.

No forfeited contributions were available as at 31 December 2006 and 2005 to reduce future contributions.

Contributions totalling RMB29,316,605 (2005: RMB32,136,700) payable to various retirement benefit plans at 31 December 2006 are included in other payables and accruals.

- (c) The staff costs disclosed above do not include staff quarters provided to the Company's Directors, supervisors and the Group's key managements during the year. Further details of the Directors, supervisors and key management's emoluments are disclosed in note 36 to the Consolidated Financial Statements.

Notes 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:

	2006 RMB'000	2005 RMB'000
Independent non-executive directors		
- Fees	958	685
Executive and other non-executive directors		
- Fees	1,486	1,639
- Salaries and allowances	7,469	4,564
- Benefits in kind	8,257	322
- Discretionary bonuses	—	22
	17,212	6,547
Supervisors		
- Salaries and allowances	1,523	1,659
- Benefits in kind	2,016	75
- Discretionary bonuses	—	150
- Retirement benefit contributions	19	16
- Others	—	44
	3,558	1,944
Senior management		
- Salaries and allowances	12,283	7,599
- Benefits in kind	2,705	—
- Discretionary bonuses	402	407
- Others	730	61
- Retirement benefit contributions	57	23
	16,177	8,090
	37,905	17,266

Benefits in kind 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 20(b)). During the year, the number of SARs granted to the Directors and supervisors were 5,400,000 (2005: 6,000,000) and 1,400,000 (2005: 1,400,000) respectively.

Notes to the Consolidated Financial Statements

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

(b) Directors' emoluments

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

Name of Directors	Year ended 31 December 2006				
	Fees RMB'000	Salaries and allowances RMB'000	Benefits in kind RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Mr. Wei Jiafu	151	2,716	1,262	—	4,129
Mr. Zhang Fusheng	—	2,522	1,121	—	3,643
Mr. Chen Hongsheng	121	2,231	981	—	3,333
Mr. Wang Futian	162	—	841	—	1,003
Mr. Li Jianhong	305	—	841	—	1,146
Mr. Ma Zehua	163	—	841	—	1,004
Mr. Ma Guichuan	165	—	841	—	1,006
Mr. Sun Yueying	291	—	841	—	1,132
Mr. Liu Guoyuan (note (ii))	128	—	688	—	816
Mr. Li Boxi	202	—	—	—	202
Mr. Cheng Mo Chi	249	—	—	—	249
Mr. Hamilton Alexander Reid	255	—	—	—	255
Mr. Tsao Wenking	252	—	—	—	252
	2,444	7,469	8,257	—	18,170

Notes to the Consolidated Financial Statements

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

(b) Directors' emoluments (Continued)

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

Notes:

- (i) 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.
- (ii) The Director resigned during the year.

Notes to the Consolidated Financial Statements

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

(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	
	2006	2005
Directors	3	—
Employees	2	5
	5	5

The details of emoluments paid to the five highest paid individuals, has included three (2005: Nil) Directors of the Company as disclosed in note 36(b) above. Details of emoluments paid to the remaining two highest paid non-director individuals (2005: five) are as follows:

	2006 RMB'000	2005 RMB'000
- Salaries and allowances	8,714	11,094
- Benefits in kind	1,455	—
- Discretionary bonuses	402	2,132
- Retirement benefit contributions	19	164
- Others	730	—
	11,320	13,390

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

	Number of individuals	
	2006	2005
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 RMB 2,600,000)	—	2
HK\$2,500,001 to HK\$3,000,000 (equivalent to approximately RMB2,600,000 to RMB 3,120,000)	1	—
HK\$4,500,001 to HK\$5,000,000 (equivalent to approximately RMB4,680,000 to RMB5,200,000)	—	1
HK\$8,000,001 to HK\$8,500,000 (equivalent to approximately RMB8,320,000 to RMB 8,840,000)	1	—
	2	5

Notes to the Consolidated Financial Statements

37 Notes to the consolidated cash flow statement

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

	2006 RMB'000	2005 RMB'000 (Restated)
Profit before income tax expenses	4,092,149	7,679,136
Depreciation	1,735,381	1,839,123
Amortisation of intangible assets	84,788	79,716
Amortisation of leasehold land and land use rights	10,682	5,254
Amortised amount of transaction costs on long-term borrowings and discount on issue of notes	40,429	23,411
Dividend income from listed and unlisted investments	(169,265)	(155,371)
Share of profits less losses of		
- jointly controlled entities	(626,002)	(567,253)
- associates	(823,795)	(718,076)
Gain on disposal of available-for-sale financial assets	(54,790)	(512,117)
Interest expenses	919,737	832,712
Interest income	(274,354)	(206,324)
Gain on deemed disposal of a subsidiary	(169,867)	(48,708)
Provision for impairment of trade receivables	17,597	30,114
Recovery of bad debts	(72,120)	(64,203)
Provision for resaleable containers	2,425	—
Interest subsidy received	—	(14,472)
Net gain on disposal of property, plant and equipment	(1,052,270)	(19,991)
Loss on disposal of land use rights	—	17
Gain on disposal of jointly controlled entities and dissolution of an associate, net	(66,426)	(3,420)
Gain on partial disposal of an associate	—	(1,458)
Fair value gain on interest rate swap contracts-not qualifying as hedges	(3,199)	(32,629)
Share reform	439,707	—
Fair value (loss)/gain on bunker forward contracts-not qualifying as hedges	(124,063)	71,701
Other incidental borrowing costs and charges	28,279	21,339
Operating profit before working capital changes	3,935,023	8,238,501
Increase in inventories	406,146	(291,835)
(Increase)/decrease in trade and other receivables	(1,955,120)	1,721,168
Increase/(decrease) in trade and other payables	819,495	(3,087,826)
Decrease in other taxes payable	(54,328)	(75,076)
Decrease in finance lease receivables	13,915	12,744
Increase in other non-current liabilities	62,730	18,103
Cash generated from operations	3,227,861	6,535,779

Notes to the Consolidated Financial Statements

37 Notes to the consolidated cash flow statement (Continued)

(b) Major non-cash transactions

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

(c) Analysis of changes in financing during the year

	Share capital (including capital reserves) RMB'000	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 2006, as restated	8,817,797	16,783,674	—	—	7,472,397	—
Exchange differences	—	(403,541)	—	—	(145,846)	—
Amortised amount of transaction costs on long-term borrowings and discount on issue of notes	—	24,188	—	—	—	—
Addition of subsidiaries	—	530,000	—	—	—	—
Drawdown of borrowings	—	12,235,166	—	—	—	—
Repayment of borrowings	—	(15,560,960)	—	—	—	—
Issue bonds and related interest expense	—	1,509,439	—	—	—	—
Effect of fair value hedge	—	(11,406)	—	—	—	—
Release of reserves upon						
- disposal of an available-for-sale financial asset	—	—	—	—	(2,471)	—
- deemed disposals	—	—	—	—	312,895	—
Fair value gain of available-for sale financial assets	—	—	—	—	320,712	—
Share of reserves of a jointly controlled entity and associates	—	—	—	—	8,629	—
Disposal of share in a subsidiary	—	—	—	—	(884)	—
Minority interests' share of profit	—	—	—	—	1,137,150	—
Dividends paid to minority shareholders of a subsidiary	—	—	—	—	(749,831)	—
Contributions from minority shareholders of subsidiaries	—	—	—	—	220,897	—
Acquisition of shares in minority shareholders	—	—	—	—	(32,244)	—
At 31 December 2006	8,817,797	15,106,560	—	—	8,541,404	—

Notes to the Consolidated Financial Statements

37 Notes to the consolidated cash flow statement (Continued)

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

	Share capital (including capital reserve) RMB'000	Borrowings RMB'000	Amount due to COSCO RMB'000	Minority interests RMB'000
At 1st January 2005, as restated	—	17,768,666	9,105	6,961,324
Proceeds from issue of new H shares	9,232,683	—	—	—
Share issue expenses	(414,886)	—	—	—
Exchange differences	—	(419,282)	—	(140,429)
Amortised amount of transaction costs on long-term borrowings and discount on issue of notes	—	21,553	—	—
Drawdown of borrowings	—	6,342,689	—	—
Repayment of borrowings	—	(6,757,078)	(9,105)	—
Derecognition of finance lease obligations	—	(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	—	—	—	1,363,976
Dividends paid to minority shareholders of a subsidiary	—	—	—	(754,953)
Contributions from minority shareholders of subsidiaries	—	—	—	(2,134)
Acquisition of subsidiaries	—	—	—	4,187
Disposal of shares in subsidiaries	—	—	—	1,937
At 31 December 2005	8,817,797	16,783,674	—	7,472,397

Notes to the Consolidated Financial Statements

38 Contingent liabilities

	2006 RMB'000	2005 RMB'000 (Restated)
Pending lawsuits (note b)	36,482	36,280

Notes:

- (a) 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.
- (b) The Group is subject to other claims in respect of a number of litigations currently under way. At 31 December 2006, 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 liability at 31 December 2006.

39 Commitments

(a) Capital commitments

	2006 RMB'000	2005 RMB'000 (Restated)
Authorised but not contracted for		
Containers	3,705,947	2,562,757
Vessels	—	304,000
Other property, plant and equipment	67,713	145,234
Investments	—	5,675
Intangible assets	3,500	7,918
	3,777,160	3,025,584
Contracted but not provided for		
Containers	307,241	67,233
Vessels	10,285,682	7,395,455
Other property, plant and equipment	391,281	104,018
Investments (note i)	5,732,624	5,744,723
Intangible assets	18,359	11,805
	16,735,187	13,323,234

Notes to the Consolidated Financial Statements

39 Commitments (Continued)

(a) Capital commitments (Continued)

Notes:

(i) The Group's contracted investments as at 31 December 2006 are as follows:

	Group 2006 RMB'000	2005 RMB'000 (Restated)
Investments in:		
- Qingdao Qianwan Container Terminal Co., Ltd.	607,650	839,462
- Antwerp Gateway NV	673,844	654,421
- Dalian Port Container Terminals Co., Ltd	714,855	713,341
- COSCO Ports (Nansha) Limited	1,295,479	2,365,343
- Others	557,736	356,679
	3,849,564	4,929,246
Terminal projects in:		
- Tianjin Port Euroasia Terminal	1,079,998	—
- Shanghai Yangshan Port Phase II	400,000	400,000
- Suez Canal Terminal at Port Said, Egypt	370,913	383,335
- Others	32,149	32,142
	1,883,060	815,477
	5,732,624	5,744,723

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

	2006 RMB'000	2005 RMB'000
Authorised but not contracted for	251,604	67,128
Contracted but not provided for	225,298	59,042
	476,902	126,170

Notes to the Consolidated Financial Statements

39 Commitments (Continued)

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

At 31 December 2006, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	Group 2006 RMB'000	2005 RMB'000 (Restated)
Vessels		
- not later than one year	97,077	15,167
Investment properties and other properties		
- not later than one year	5,470	4,677
- later than one year and not later than five years	6,739	10,498
- later than five years	1,317	1,930
	13,526	17,105
Containers		
- not later than one year	150,768	822,860
- later than one year and not later than five years	471,170	1,898,248
- later than five years	52,907	83,632
	674,845	2,804,740
Other property, plant and equipment		
- not later than one year	12,032	8,643
- later than one year and not later than five years	24,508	21,881
- later than five years	—	—
	36,540	30,524
	821,988	2,867,536

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.

Notes to the Consolidated Financial Statements

39 Commitments (Continued)

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

At 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Company	
	2006 RMB'000	2005 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000
Land and buildings				
- not later than one year	105,916	110,311	4,176	8,352
- later than one year and not later than five years	203,850	178,756	—	4,176
- later than five years	74,364	49,483	—	—
	384,130	338,550	4,176	12,528
Vessels				
- not later than one year	2,558,710	2,206,671	—	—
- later than one year and not later than five years	8,253,466	7,815,862	—	—
- later than five years	7,546,683	7,668,402	—	—
	18,358,859	17,690,935	—	—
Containers				
- not later than one year	577,198	527,576	—	—
- later than one year and not later than five years	1,127,258	1,093,345	—	—
- later than five years	498	1,322	—	—
	1,704,954	1,622,243	—	—
Other property, plant and equipment				
- not later than one year	73,919	25,022	—	—
- later than one year and not later than five years	152,793	25,691	—	—
- later than five years	35,482	5	—	—
	262,194	50,718	—	—
	20,710,137	19,702,446	4,176	12,528

Notes to the Consolidated Financial Statements

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 controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. 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. On that basis, 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 Company and COSCO as well as their close family members.

For the purpose of the related party transaction disclosures, the Directors believe that meaningful information in respect of related party transactions has been adequately disclosed.

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.

Notes to the Consolidated Financial Statements

40 Significant related party transactions (Continued)

	2006 RMB'000	2005 RMB'000 (Restated)
Transactions with COSCO		
Expenses		
Vessel costs		
Subcharter expenses (note a)	152,945	113,236
Others		
Purchase of 51% equity interest in COSCO Logistics and certain equity interests in two other subsidiaries (note t)	1,683,239	—
Transactions with subsidiaries of COSCO and its related entities (including jointly controlled entities and associates)		
Revenues		
Container shipping income (note b)	415,046	392,823
Shipping-related service income (note l)	31,627	15,888
Freight forwarding and shipping agency income (note c)	20,168	35,808
Expenses		
Vessel costs		
Vessel services expenses (note d)	225,745	267,871
Crew expenses (note e)	572,117	603,433
Subcharter expenses (note a)	529,312	495,307
Vessel management expenses (note e)	74,957	75,248
Voyage costs		
Bunker costs (note f)	6,197,664	4,489,521
Port charges (note g)	1,079,944	1,261,996
Equipment and cargo transportation costs		
Commission and rebates (note h)	236,918	229,363
Cargo and transshipment and equipment and repositioning expenses (note i)	258,605	231,659
Transportation and depot services expenses (note j)	93,547	247,743
Management fee expenses (note l)	18,442	21,289
General service expenses (note l)	22,958	22,973
Rental expenses (note l)	40,294	49,099
Others		
Consideration received for the disposal of a subsidiary and assignment of a shareholders' loan (note n)	—	12,760
Purchase of building (note n)	27,900	18,600
Consideration received for disposal of vessels to a fellow subsidiary (note o)	425,650	—
Downpayments for purchase of container vessels (note p)	—	392,100

Notes to the Consolidated Financial Statements

40 Significant related party transactions (Continued)

	2006 RMB'000	2005 RMB'000 (Restated)
Transactions with jointly controlled entities of the Group		
Revenues		
Freight forwarding and shipping agency income (note c)	97,144	98,904
Management fee income (note l)	27,420	21,056
Expenses		
Voyage costs		
Port charges (note g)	1,096,443	1,091,301
Equipment and cargo transportation costs		
Commission and rebates (note h)	1,969	1,336
Cargo and transshipment and equipment and repositioning expenses (note i)	8,934	5,093
Transportation and depot services expenses (note j)	91,745	99,600
Rental expenses (note l)	4,478	4,595
Others		
Purchase of containers (note q)	321,732	301,642
Transactions with associates of the Group		
Revenues		
Freight forwarding and shipping agency income (note c)	2,031	870
Management fee income from an associate (note l)	6,845	5,020
Expenses		
Container freight charges (note l)	12,909	14,562
Transportation and depot services expenses (note j)	34	346
Others		
Proceeds on disposal of a subsidiary to an associate (note r)	49,820	—
Purchase of containers (note q)	1,245,484	866,147
Transactions with minority shareholders		
Revenues		
Management fee income (note l)	15,937	—
Injection of assets and liabilities by minority shareholders of subsidiaries and related subsequent expenses (note s)		
	417,934	—

Notes to the Consolidated Financial Statements

40 Significant related party transactions (Continued)

	2006 RMB'000	2005 RMB'000 (Restated)
Transactions with other state-owned enterprises		
Revenues		
Container shipping income (note b)	5,107,369	2,867,281
Freight forwarding and shipping agency income (note c)	848,119	748,952
Container rental income (note l)	8,295	17,281
Logistics related income (note l)	611,042	404,422
Interest income on bank deposits (note l)	89,859	41,533
Expenses		
Vessel costs		
Vessel services expenses (note d)	65,920	74,497
Voyage costs		
Port charges (note g)	2,877,197	1,365,032
Transportation and depot services expenses (note j)	327,060	337,420
General service expenses (note l)	560	7,320
Interest expense (note k)	351,624	421,314
Logistics related expenses (note l)	129,683	125,321

Notes:

- (a) COSCO and its subsidiaries leased fifteen vessels to COSCON and Shanghai Pan Asia Shipping Company Limited by way of sub-time charter or time charter arrangements. The periods of the sub-time charters are of six to twelve years and the periods of the time charters are of thirty-four to thirty-six months. The daily charterhire rate for each vessel was agreed on a mutual basis.
- (b) COSCON provided the subsidiaries of COSCO and certain state-owned enterprises with container shipping services. These services were charged on a mutually agreed basis, except for the transactions with the subsidiaries of COSCO, which are governed by the terms under Master Solicitation Activities Agreement dated 9 June 2005 (note m) and the underlying execution agreements.
- (c) The subsidiaries of the Group provided the subsidiaries of COSCO, certain jointly controlled entities and certain associates 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 m).
- (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 (note m).
- (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 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 m).

Notes to the Consolidated Financial Statements

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 m).

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

As at 31 December 2006, there was no bunker forward agreement entered into by the Group. As at 31 December 2005, there were notional amounts of outstanding bunker forward agreements of RMB200,656,000 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 bunkers for the year.

- (g) Certain jointly controlled entities of COSCO, certain 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 term based on respective underlying agreements entered into between the Group and the respective related companies or at term governed by the Master Port Services Agreement dated 9 June 2005 (note m).
- (h) Certain subsidiaries of COSCO 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 m) 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 m) and the underlying execution agreements.
- (j) Certain subsidiaries, jointly controlled entities and associates of COSCO 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 m) and the underlying execution agreements or at terms as agreed with the relevant 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) 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 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 may be entered into between the Group and the related party, if appropriate.

Notes to the Consolidated Financial Statements

40 Significant related party transactions (Continued)

- (n) These transactions were conducted at terms as set out in the relevant agreements entered into between the Group and the parties in concern.
- (o) In June 2006, the Group disposed of two vessels to a fellow subsidiary, SOSOC for a consideration of RMB425,650,000, resulting in a gain of approximately RMB290,807,000. The Group has entered into lease agreements to charter in these two vessels at the same day.
- (p) 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.
- (q) 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.
- (r) On 17 July 2006, the Group entered into an agreement with a subsidiary of CIMC to dispose of its entire 20% equity interest in Shanghai CIMC Far East Container Co., Ltd., a then jointly controlled entity of the Group, at a consideration of US\$6,252,000 (equivalent to approximately RMB49,820,000). The disposal resulted in a gain of US\$5,470,000 (equivalent to approximately RMB43,588,000).
- (s) During the year ended 31 December 2006, the minority shareholder of Zhangjiagang Win Hanverky Container Terminal Co., Ltd. ("ZWHC"), a non-wholly owned subsidiary, injected certain port facilities and terminal equipment to ZWHC amounting to RMB171,082,000 (the "Transferred Assets"). The amount of the Transferred Assets, net of the minority shareholder's capital contribution to ZWHC for its capital increase of US\$9,800,000 (equivalent to RMB76,525,000) together with the subsequent expenses incurred between the date of valuation and the date of assets transfer, are repayable to the minority shareholder by ZWHC. Any unsettled balance bore interest at a rate of 5.265% (prior to 30 April 2006: 5.022%) per annum. The related balance repayable to the minority shareholder of ZWHC was fully settled in November 2006. For the capital increase of ZWHC, the Group had also made a capital contribution in cash to ZWHC in proportion to its shareholding.

In addition, the Group established Quanzhou Pacific Container Terminal Co., Limited ("QPCT"), a non-wholly owned subsidiary, in August 2006 and had contributed capital in cash to QPCT in proportion to its shareholding. The minority shareholder transferred certain assets and liabilities to QPCT with an aggregate value of RMB246,852,000 (the "Transferred Net Assets"). The amount of the Transferred Net Assets, after deducting the minority shareholder's capital contribution to QPCT of US\$14,256,000 (equivalent to RMB111,321,000), is repayable to the minority shareholder by QPCT and the balance is unsecured, interest free and has no fixed terms of repayment. As at 31 December 2006, the related unsettled balance payable to the minority shareholder of QPCT amounted to US\$1,050,000 (equivalent to RMB8,199,000).

- (t) On 28 September 2006, the Company entered into an agreement with COSCO to acquire its 51% equity interest in COSCO Logistic for a consideration of RMB1,679,636,000. The acquisition of COSCO Logistics was completed on 25 December 2006.
On 1 January 2006, the Company entered into an agreement with subsidiaries of COSCO to acquire the 100% equity interest in COSCO (HK) Cargo Service Co., Limited and 55% equity interest in COSCO Philippines Shipping, Inc. for an aggregate consideration of HK\$3,462,000 (equivalent to RMB3,603,000).
- (u) On 26 March 2007, the Group has entered into four time charter agreements with a subsidiary of COSCO to charter in four vessels for a period of 119 months to 121 months at a daily charter rate of US\$26,900. The charters will commence upon delivery of the four vessels to the subsidiary of COSCO, two of which are anticipated to take place in April 2010 and two of which in June 2010.

Notes to the Consolidated Financial Statements

40 Significant related party transactions (Continued)

Balances with related parties

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

	2006 RMB'000	2005 RMB'000 (Restated)
Deposits		
- State-owned banks and other state-owned non-bank financial institutions (note a)	4,204,205	5,986,175
Loans		
- State-owned banks and other state-owned non-bank financial institutions (note a)	7,274,256	7,897,694
Trade and other receivables		
- State-owned enterprises (note b)	5,280,045	514,253
Trade and other payables		
- State-owned enterprises (note b)	1,502,974	343,195

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.

Notes to the Consolidated Financial Statements

41 Particulars of principal subsidiaries, jointly controlled entities and associates

At 31 December 2006, the Company had the following principal subsidiaries, jointly controlled entities and associates which, in the opinion of the Directors, materially affect the results and/or assets of the Group.

(a) Subsidiaries

At 31 December 2006, 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
Shares held directly					
¹ COSCO Container Lines Company Limited #	PRC	Container transportation	Limited liability company	RMB2,380,000,000	100%
COSCO Pacific Investment Holdings Limited #	Hong Kong	Investment holding	Limited liability company	500 ordinary shares of HK\$1,000 each	100%
⁴ COSCO Logistics Co., Ltd	PRC	Freight forwarding warehousing, depot and cargo terminal service	Limited liability company	RMB1,582,029,851	76.16%
Shares held indirectly					
COSCO Container Shipping Agency Company Limited	PRC	Shipping agency	Limited liability company	RMB80,000,000	100%
COSCO International Freight Co., Ltd	PRC	Freight forwarding and transportation	Limited liability company	RMB200,000,000	100%
³ COSCO Pacific Limited #	Bermuda	Investment holding	Limited liability company	2,228,684,298 ordinary shares of HK\$0.1 each	51.34%
COSCO Investments Limited #	British Virgin Islands/ Hong Kong	Investment holding	Limited liability company	1 ordinary share of US\$1	100%
Dalian COSCO International Freight Co., Ltd.	PRC	Freight forwarding	Limited liability company	RMB20,000,000	100%
COSCO Tianjin International Freight Co. Ltd.	PRC	Freight forwarding	Limited liability company	RMB20,000,000	100%
COSCO Qingdao International Freight Co. Ltd.	PRC	Freight forwarding	Limited liability company	RMB24,300,000	100%
COSCO Wuhan International Freight Co., Ltd.	PRC	Freight forwarding	Limited liability company	RMB44,680,000	88.32%
COSCO Shanghai International Freight Co., Ltd.	PRC	Freight forwarding	Limited liability company	RMB114,000,000	100%
COSCO Southern China International Freight Co., Ltd.	PRC	Freight forwarding	Limited liability company	RMB50,000,000	100%
COSCO Xiamen International Freight Co., Ltd.	PRC	Freight forwarding	Limited liability company	RMB15,000,000	100%
COSCO Beijing International Freight Co., Ltd.	PRC	Freight forwarding	Limited liability company	RMB5,705,600	100%

Notes to the Consolidated Financial Statements

41 Particulars of principal 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
Shares held indirectly (Continued)					
COSCO Qingdao Container Shipping Agency Co., Ltd.	PRC	Shipping agency	Limited liability company	RMB10,000,000	100%
COSCO Shanghai Container Shipping Agency Co., Ltd.	PRC	Shipping agency	Limited liability company	RMB10,000,000	100%
COSCO Dalian Container Shipping Agency Co., Ltd.	PRC	Shipping agency	Limited liability company	RMB3,000,000	100%
COSCO Xiamen Container Shipping Agency Co., Ltd.	PRC	Shipping agency	Limited liability company	RMB10,000,000	100%
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%
COSCO Seabow International Freight Co., Ltd	PRC	Freight forwarding	Sino-Foreign joint venture	US\$1,000,000	70%
Welly Shipping Company (China) Limited	PRC	Domestic transportation agency	Limited liability company	RMB13,000,000	100%
COSCO Inforamtion and Technology (Shanghai) Ltd.	PRC	Software developing, technical service and supporting	Sino-foreign equity joint venture	US\$250,000	60%
COSCO Container Line Agencies Limited #	Hong Kong	Shipping agency	Limited liability company	1,000,000 shares of HK\$1 each	100%
Wonseong Shipping Co., Ltd. #	Korea	Shipping agency	Limited liability company	50,000 shares of KRW5,000 each	100%
Freightworld Pte Ltd.	Singapore	Shipping agency and freight forwarding	Limited liability company	200,000 shares of SGD1 each	100%
Shanghai Asia-Pacific Container International Company Limited	PRC	Freight forwarding	Limited liability company	RMB39,960,000	57.12%
Shanghai Nanhua International Logistics Company Limited	PRC	Freight forwarding	Limited liability company	RMB17,000,000	76.16%
Shanghai COSCO Logistics Large-scale Transportation Company Limited	PRC	Logistics	Limited liability company	RMB50,000,000	76.16%
COSCO International Air Freight Shanghai Co.,Ltd	PRC	Air freight forwarding	Limited liability company	RMB23,750,000	76.16%
Shanghai COSCO Technical Logistics Company Limited	PRC	Logistics	Limited liability company	RMB80,000,000	57.12%
COSCO Logistics Shanghai Company	PRC	Freight forwarding	Limited liability company	RMB147,500,000	76.16%

Notes to the Consolidated Financial Statements

41 Particulars of principal 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
Shares held indirectly (Continued)					
China Ocean Shipping Agency Shanghai Company Limited	PRC	Shipping Agency and freight forwarding	Limited liability company	RMB18,000,000	76.16%
Nantong Yuantong Container Storage and Transportation Company Limited	PRC	Warehousing, depot and cargo terminal service	Limited liability company	RMB29,012,113	76.16%
China Ocean Shipping Agency Dalian Company	PRC	Shipping Agency and freight forwarding	Limited liability company	RMB19,717,719	76.16%
Dalian Goldenrock ContainerCargo Transportation Service Co., Ltd	PRC	Warehousing depot and cargo terminal service	Limited liability company	RMB27,666,300	57.12%
Qingdao COSCO Logistics Storage and Distribution Company Limited	PRC	Logistics	Limited liability company	RMB25,000,000	76.16%
COSCO Logistics Xiamen Company Limited	PRC	Freight forwarding, warehousing, depot and cargo terminal service	Limited liability company	RMB19,371,238	76.16%
China Ocean Shipping Agency Ningbo Company Limited	PRC	Shipping Agency and freight forwarding	Limited liability company	RMB27,248,461	76.16%
COSCO Logistics Ningbo Company Limited	PRC	Freight forwarding, warehousing, depot and cargo terminal service	Limited liability company	RMB21,001,615	76.16%
China Ocean Shipping Agency Lianyungang Company	PRC	Shipping Agency and freight forwarding	Limited liability company	RMB22,000,000	45.69%
COSCO-Hafei Logistics Company Limited	PRC	Logistics	Limited liability company	RMB26,000,000	45.69%
Tianjin COSCO Logistics Large-scale Transportation Company Limited	PRC	Logistics	Limited liability company	RMB46,831,250	76.16%
COSCO Logistics Beijing Company	PRC	Freight forwarding, warehousing, depot and cargo terminal service	Limited liability company	RMB47,473,579	76.16%
China Ocean Shipping Agency Company Limited	PRC	Shipping Agency and freight forwarding	Limited liability company	RMB113,372,000	76.16%
COSCO Logistics (Hong Kong) Company Limited	PRC	Logistics	Limited liability company	HKD38,789,500	76.16%
China Ocean Shipping Agency Beijing Company	PRC	Shipping Agency and freight forwarding	Limited liability company	RMB10,822,823	76.16%
China Ocean Shipping Agency Shanghai Company Limited	PRC	Shipping Agency and freight forwarding	Limited liability company	RMB180,00,000	76.16%
COSCO Logistics Xiamen Transportation Service Company Limited	PRC	Transportation Service	Limited liability company	RMB4,000,000	76.16%

Notes to the Consolidated Financial Statements

41 Particulars of principal 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
Shares held indirectly (Continued)					
COSCO Pacific (China) Investments Co., Ltd	PRC	Investment holding	Limited liability company	US\$37,496,000	51.34%
COSCO Pacific Finance (2003) Company Limited #	British Virgin Islands/ Hong Kong	Financing	Limited liability company	1 ordinary share of US\$1	51.34%
COSCO Pacific Logistics Company Limited	British Virgin Islands/ Hong Kong	Investment holding	Limited liability company	1 ordinary share of US\$1	51.34%
Florens Container Holdings Limited	British Virgin Islands/ Hong Kong	Investment holding	Limited liability company	22,014 ordinary shares of US\$1 each	51.34%
Quanzhou Pacific Container Terminal Co., Limited [^]	PRC	Operating of container terminal	Sino-foreign joint venture	RMB397,395,746	36.67%
Zhangjiagang Win Hanverky Container Terminal Co., Ltd. [^]	PRC	Operation of container terminal	Sino-foreign joint venture	US\$16,800,000	26.18%
COSCO (Cayman) Mercury Co., Ltd. #	Cayman Islands/ Hong Kong	Investment holding	Limited liability company	50,000 ordinary shares of US\$1 each	100%
Honor River Maritime Inc.	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	2 ordinary share of US\$100 each	100%
Starry Shipping Inc.	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	2 ordinary share of US\$100 each	100%
Pretty River Shipping Inc.	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	2 ordinary share of US\$100 each	100%
Dainty River Shipping Inc.	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	2 ordinary share of US\$100 each	100%
Sky Manna Maritime Inc.	Panama/ Worldwide	Vessel owning and chartering	Limited liability chartering	2 ordinary share of US\$100 each	100%
Golden Cascade Corporation #	Liberia/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
Golden Shore Corporation #	Liberia/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
² Buyihe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
Chaoshanhe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
Chuanhe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	10,000 ordinary shares US\$1 each	100%
² Caiyunhe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	1,000 ordinary shares of US\$10 each	100%
² COSCO Line New Jersey Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	500 ordinary shares of US\$20 each	100%
² COSCO Line New York Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	500 ordinary shares of US\$20 each	100%

Notes to the Consolidated Financial Statements

41 Particulars of principal 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
Shares held indirectly (Continued)					
Daqinghe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
² Hanihe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
Hutuohu Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
² Jingpohe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
² Jinyunhe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	1,000 ordinary shares of US\$10 each	100%
² Luhe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	10,000 ordinary shares of US\$1 each	100%
² Lubahe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
Miyunhe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	1,000 ordinary shares of US\$10 each	100%
² Naxihe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
² Ninghe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	10,000 ordinary shares of US\$1 each	100%
Qiyunhe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	1,000 ordinary shares of US\$10 each	100%
Wanhe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	10,000 ordinary shares of US\$1 each	100%
² Xibohe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
Xinhuihe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
Yangjianghe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
Yongdinghe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
Yuehe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	10,000 ordinary shares of US\$1 each	100%
² Yuguhe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
² Yunhe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	10,000 ordinary shares of US\$1 each	100%
Zhaoqinghe Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%

Notes to the Consolidated Financial Statements

41 Particulars of principal 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
Shares held indirectly (Continued)					
Ziyahe Shipping Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	100 ordinary shares of US\$100 each	100%
Fenghou Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	1,000 ordinary shares of US\$10 each	100%
Haihou Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	1,000 ordinary shares of US\$10 each	100%
Longhou Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	1,000 ordinary shares of US\$10 each	100%
Tianhou Maritime Inc. #	Panama/ Worldwide	Vessel owning and chartering	Limited liability company	1,000 ordinary shares of US\$10 each	100%
² COSCO Charleston Maritime Inc. #	Panama/ Worldwide	Vessel owning	Limited liability company	1,000 ordinary shares of US\$10 each	100%
² COSCO New York Maritime Inc. #	Panama/ Worldwide	Vessel owning	Limited liability company	1,000 ordinary shares of US\$10 each	100%
² COSCO Boston Maritime Inc. #	Panama/ Worldwide	Vessel owning	Limited liability company	1,000 ordinary shares of US\$10 each	100%
² COSCO Norfolk Maritime Inc. #	Panama/ Worldwide	Vessel owning	Limited liability company	1,000 ordinary shares of US\$10 each	100%
² COSCO Asia Maritime Inc. #	Panama/ Worldwide	Vessel owning	Limited liability company	1,000 ordinary shares of US\$10 each	100%
² COSCO Africa Maritime Inc. #	Panama/ Worldwide	Vessel owning	Limited liability company	1,000 ordinary shares of US\$10 each	100%
² COSCO Europe Maritime Inc. #	Panama/ Worldwide	Vessel owning	Limited liability company	1,000 ordinary shares of US\$10 each	100%
² 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	1 ordinary share of HK\$1 each	100%
COSCO Pacific Shipping Limited. #	Hong Kong/ Worldwide	Vessel owning	Limited liability company	1 ordinary share of HK\$1 each	100%
COSCO Indian Ocean Shipping Limited #	Hong Kong/ Worldwide	Vessel owning	Limited liability company	1 ordinary share of HK\$1 each	100%
COSCO Atlantic Shipping Limited. #	Hong Kong/ Worldwide	Vessel owning	Limited liability company	1 ordinary share of HK\$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%
COSCO Container Lines Europe GmbH #	German/Europe	Shipping agency	Limited liability company	EURO1,500,000	100%
COSCO Container Lines Japan Co., Ltd.	Japan	Marine services	Limited liability company	JPY40,000,000	100%

Notes to the Consolidated Financial Statements

41 Particulars of principal 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
Shares held indirectly (Continued)					
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	Investment holding	Limited liability company	2,980,000 shares of US\$1 each	100%
COSCO (Cayman) Golden Company Limited #	Cayman Islands/ Singapore	Treasury	Limited liability company	1,000 shares of US\$1 each	100%

Subsidiaries audited by PricewaterhouseCoopers

^ The directors of the Company consider that the Group has control over these companies through its representatives on the board of directors and voting power in these companies.

1 In June 2005, COSCO Container Lines Company Limited reduced its registered capital from RMB6,100,000,000 to RMB2,380,000,000. Subsequent to year end, the registered share capital of COSCO Container Lines Company Limited increase from RMB2,380,000,000 to RMB 6,088,763,082.

2 Shares of these subsidiaries have been pledged to banks as securities for loan facilities granted (note 22(h))

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 51% of the shares is directly held by the Company during the year.

At 31 December 2006, the Group had direct and indirect 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/ voting power/ profit sharing attributable to the equity holders of the Company
COSCON Italy S.R.L.	Italy	Ocean transportation	Limited liability company	100,000 shares of EURO 1 each	50% 50% 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	25.67%/ 50.00%/ 25.67%
Qingdao Cosport International Container Terminals Co., Ltd.	PRC	Operation of container terminal	Sino-foreign joint venture	RMB337,868,700	25.67%/ 50.00%/ 25.67%
Shanghai CIMC Reefer Containers Co., Ltd. (note a)	PRC	Container manufacturing	Sino-foreign joint venture	US\$31,000,000	10.27%/ 21.40%/ 10.27%

Notes to the Consolidated Financial Statements

41 Particulars of principal 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/ voting power/ profit sharing attributable to the equity holders of the Company
COSCO Ports (Nansha) Limited	PRC	Investment in a container terminal	Limited liability company	US\$10,000	33.94%/66.70%/33.94%
Ningbo Yuan Dong Terminals Ltd.	PRC	Operation of container terminal	Sino-foreign joint venture	RMB390,000,000	10.27%/20.00%/10.27%
Tianjin CIMC North Ocean Container Co., Ltd.	PRC	Container manufacturing	Sino-foreign joint venture	US\$16,682,000	11.55%/20.00%/11.55%
Qingdao Qianwan Container Terminal Co., Ltd.	PRC	Operation of container terminal	Sino-foreign joint venture	US\$199,962,500	10.27%/18.20%/10.27%
Yangzhou Yuanyang International Ports Co., Ltd.	PRC	Operation of container terminal	Sino-foreign joint venture	US\$29,800,000	28.55%/50.00%/28.55%
Yingkou Container Terminals Company Limited	PRC	Operation of container terminal	Sino-foreign joint venture	RMB8,000,000	25.67%/57.10%/25.67%
COSCO-PSA Terminal Private Limited	Singapore	Operation of container terminal	Limited liability company	SGD48,900,000	25.16%/50.00%/25.16%
Nanjing Port Longtan Container Co., Ltd.	PRC	Operation of container terminal	Limited liability company	RMB474,000,000	10.27%/22.20%/10.27%
COSCO Container Lines (Netherlands) B.V.	Netherlands	Shipping agency	Limited liability company	EURO18,000	50.00%/50.00%/50.00%
Qingdao COSCO Konoike Logistics Company Limited	PRC	Freight forwarding, warehousing, depot and cargo terminal services	Limited liability company	RMB32,500,000	38.84%/50.00%/38.84%
COSCONET e-Logistics Co., Ltd	PRC	Warehousing, Depot and cargo terminal services	Limited liability company	RMB30,000,000	37.32%/40.00%/37.32%
Nantong Xinlun International Storage and Transportation Co., Ltd.	PRC	Transportation	Limited liability company	RMB29,803,145	40.20%/50.00%/42.20%

Notes to the Consolidated Financial Statements

41 Particulars of principal 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/ voting power/ profit sharing attributable to the equity holders of the Company
Dalian Jinmen Logistics Company Limited	PRC	Logistics	Limited liability company	RMB38,080,000	41.89%/50.00%/41.89%
Qingdao Ocean Great Asia Logistics Co., Ltd.	PRC	Logistics	Limited liability company	RMB82,867,650	38.84%/50.00%/38.84%
Qingdao QWG Port Logistics, Co., Ltd	PRC	Freight forwarding	Limited liability company	RMB60,000,000	40.00%/40.00%/40.00%

Note:

- (a) The Directors consider that the disposal of the Group's entire equity interest in Shanghai CIMC Far East Container Co., Ltd. to a subsidiary of CIMC was completed in December 2006.
- (b) The Group acquired additional 51% equity interests in COSCO Logistics Co., Ltd in December 2006 and became a non-wholly owned subsidiary of the Group since then.

(c) Associates

At 31 December 2006, the subsidiary of the Group had direct and indirect 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
Shanghai Pudong International Container Terminals Limited	PRC	Operation of container terminal	Sino-foreign joint venture	RMB1,900,000,000	15.40%/30.00%/15.40%
COSCO Finance Co., Ltd.	PRC	Banking and related financial services	Limited liability company	RMB800,000,000	21.82%
Antwerp Gateway NV	Belgium	Operation of container terminal	Limited liability company	EURO14,000,000	10.27%/17.78%/10.27%
China International Marine Containers (Group) Co., Ltd. ("CIMC") (note)	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	8.33%/16.26%/8.33%

Notes to the Consolidated Financial Statements

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

(c) Associates (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/ voting power/ profit sharing attributable to the equity holders of the Company
Dalian Automobile Terminal Co., Ltd.	PRC	Construction and operation of automobile terminals	Limited liability company	RMB160,000,000	15.40%/28.56%/15.40%
Dalian Port Container Terminal Co., Ltd.	PRC	Operation of container terminal	Limited liability company	RMB240,000,000	10.27%/18.18%/10.27%
Chong Hing Bank Limited (formerly known as Liu Chong Hing Bank Limited) ("CHB")	Hong Kong	Banking and related financial services	Limited liability company	435,000,000 ordinary shares of HK\$0.5 each	10.27%/11.10%/10.27%
Shanghai Jihai Shipping Company Limited	PRC	Shipping Agency	Limited liability company	RMB250,000,000	15.23%/20.00%/15.23%
China Ocean Shipping Agency Tianjin Company	PRC	Shipping Agency	Limited liability company	RMB81,489,470	30.46%/42.00%/30.46%
China United Tally Company Limited	PRC	Tally	Limited liability company	RMB46,000,000	24.37%/28.57%/24.37%
Ningbo Harbour Agency and Freight Forwarding Company Limited	PRC	Freight forwarding	Limited liability company	RMB30,000,000	37.32%/33.00%/37.32%

Note:

The Directors of the Company consider that the Group has significant influence over CIMC and CHB through its representatives on the board of directors of CIMC and CHB respectively.

All subsidiaries, jointly controlled entities and associate 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 associate 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.

Subsidiaries audited by PricewaterhouseCoopers.

Notes to the Consolidated Financial Statements

42 Comparatives

The Group has applied merger accounting to account for the purchase of the equity interests in the Acquired subsidiaries during the year, as if the business combination had been occurred from the beginning of the earliest financial years presented. As mentioned in note 2, this has resulted in changes to the presentation of certain items and comparative figures have been restated, accordingly. In addition, certain comparative figures have been reclassified to confirm with the current year's presentation.

43 Events after the balance sheet date

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15%) to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that the Consolidated Financial Statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.

Other than those disclosed above and elsewhere in the Consolidated Financial Statements, there is no other significant subsequent event occurred after the balance sheet date but before the date of this report.