

The Directors submit their report together with the audited accounts for the year ended 31 December, 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Group are owning, chartering and operating container vessels for the provision of international and domestic container marine transportation service. The principal activities of the subsidiaries are set out in Note 35 to the accounts.

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

RESULTS

The results of the Group for the year are set out in the consolidated profit and loss account on page 58 of the accounts.

DIVIDENDS

The Directors recommend the payment of a final dividend of RMB0.04 per share, amounting to RMB241,200,000 payable on or before 6 July, 2007.

RESERVES

Movement of the reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity on page 63 and Note 25 to the accounts.

FIXED ASSETS

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 24 to the accounts.

DISTRIBUTABLE RESERVES

In accordance with the PRC Company Law, the Company may only distribute dividends out of its distributable profits (i.e., the Company's profit after income tax after offsetting: (i) the accumulated losses brought forward from the previous years; and (ii) the allocations to the statutory surplus reserve, the statutory public welfare fund and, if any, the discretionary common reserve (in such order of priorities) before payment of any dividend on shares).

According to the Company's articles of association, for the purpose of determining profit distribution, the profit after income tax of the Company is the lesser of its profit after income tax determined in accordance with: (i) the PRC accounting standard and regulations; and (ii) accounting principles generally accepted in Hong Kong.

As at 31 December, 2006, distributable reserves of the Company, calculated based on the above principles, amounted to approximately RMB266,006,000.

PRE-EMPTIVE RIGHTS

Under the articles of association of the Company and the laws of the PRC, no pre-emptive rights exist which require the Company to offer new shares to its existing Shareholders in proportion to their shareholdings.

Report of the Directors

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 146.

PURCHASES, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

H SHARE SHARE APPRECIATION RIGHTS SCHEME

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In accordance with the "Resolution Regarding Adoption and Approval of the H Share Share Appreciation Rights Scheme and Implementation Methods" passed at the Company's second special general meeting in 2005 held on 12 October, 2005, the Company implemented the Scheme as appropriate incentive policy.

The eligible grantees are: the Directors (other than independent non-executive Directors), the Supervisors (other than independent Supervisors), the senior executives of the Company, the head of department of each of the operational and management departments of the Company and the general managers and deputy general managers of the Company's subsidiaries.

The term of the Scheme is ten years. The Rights proposed to be granted account for 2% of the current total issued share capital of the Company, i.e. 120,600,000 units of Rights, which will be granted on three occasions, i.e. an initial grant and two further annual grants. The initial grant

was made on 12 October, 2005, when 30,150,000 units of Rights accounting for 0.5% of the total issued share capital of the Company were granted. Two further annual grants will be made on 1 July, 2007 and 1 July, 2009 respectively.

The stipulated lock-up period for exercising the Rights is two years after the date of grant. Not more than 30%, 60% and 100% of the Rights will vest during the third year, fourth year and fifth year respectively. The Rights can be exercised before the expiration of the term of the Scheme (ten years). The Rights which have not been exercised after the expiration of the term of the Scheme shall lapse.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors who held office during the year and up to the date of this report are:

Executive Directors:

Mr. Li Shaode
Mr. Jia Hongxiang
Mr. Huang Xiaowen
Mr. Zhao Hongzhou

Non-executive Directors:

Mr. Zhang Guofa
Mr. Zhang Jianhua
Mr. Wang Daxiong
Mr. Xu Hui
Mr. Yao Zuozhi

Independent non-executive Directors:

Mr. Gu Nianzu
Mr. Hu Hanxiang
Mr. Wang Zongxi
Mr. Lam Siu Wai, Steven

Supervisors:

Mr. Chen Decheng
Mr. Huang Xinming
Mr. Tu Shiming
Mr. Wang Xiuping
Mr. Hua Min
Ms. Pan Yingli

According to the articles of association of the Company, the term of service of the Directors and Supervisors shall be 3 years.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has a service contract with the Company for a term of 3 years, save for:

- (1) the following Directors (namely Mr. Zhang Guofa, Mr. Huang Xiaowen and Mr. Zhao Hongzhou), and the Supervisor Mr. Huang Xinming, who were appointed for a term commencing from the conclusion of the special general meeting of the Company dated 18 February, 2005 until the conclusion of the AGM on 26 June, 2007;

- (2) the Director Mr. Xu Hui, and the Supervisor Mr. Tu Shiming, who were appointed for a term commencing from the conclusion of the special general meeting of the Company dated 12 October, 2005 until the conclusion of the AGM on 26 June, 2007; and

- (3) the Director Mr. Yao Zuozhi, and the Supervisor Mr. Chen Decheng, who were appointed for a term commencing from the conclusion of the special general meeting of the Company dated 28 August, 2006 until the conclusion of the AGM on 26 June, 2007.

The Company did not enter into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation) with any Director or Supervisor.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

No contracts of significance (as defined in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in which a Director or a Supervisor is or was materially interested, directly or indirectly, subsisted at the end of the year or at any time during the year.

Report of the Directors

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

No contracts or proposed contracts with the Company in which a Director or a Supervisor is or was materially interested in any way, directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Brief biographical details of the Directors, Supervisors and senior management of the Company are set out on pages 21 to 28 of this Annual Report.

Each of Li Shaode, Zhang Jianhua, Wang Daxiong and Zhang Guofa was as at 31 December, 2006 the president, a vice-president, a vice-president and a vice-president respectively of China Shipping, which was a company having, as at 31 December, 2006, an interest or short position in the Company's shares and underlying shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO").

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

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

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

In accordance with the Scheme, nine Directors and three Supervisors have been granted Rights. Details of the Scheme were set out in the circular to Shareholders issued by the Company on 26 August, 2005.

Report of the Directors

As at 31 December, 2006, the Directors' and Supervisors' interests in H shares of the Company were as follows:

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

Report of the Directors

Saved as disclosed above, as at 31 December, 2006, none of the Directors, Supervisors or their associates had any interest in the shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register kept by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code").

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December, 2006, so far as was known to the Directors, the interests or short positions of the following persons (other than Directors or Supervisors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company pursuant to section 336 of the SFO were as follows:

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Name of Shareholder	Class of shares	Number of shares/ underlying shares held	Capacity	Percentage in the relevant class of share capital	Percentage in total share capital
China Shipping (Group) Company	Domestic shares	3,610,000,000 (Long position)	Beneficial owner	100%	59.87%
Li Ka-Shing	H shares	365,637,000 (Long position)	Interest of controlled corporation and founder of a discretionary trust	15.11%	6.06%
Li Ka-Shing Unity Trustee Company Limited	H shares	362,637,000 (Long position)	Trustee	14.98%	6.01%
Li Ka-Shing Unity Trustcorp Limited	H shares	365,637,000 (Long position)	Trustee and beneficiary of a trust	15.11%	6.06%
Li Ka-Shing Unity Trustee Corporation Limited	H shares	365,637,000 (Long position)	Trustee and beneficiary of a trust	15.11%	6.06%
Cheung Kong (Holdings) Limited	H shares	362,637,000 (Long position)	Interest of controlled corporation	14.99%	6.01%
Hutchison Whampoa Limited	H shares	241,758,000 (Long position)	Interest of controlled corporation	9.99%	4.01%
Hutchison International Limited	H shares	241,758,000 (Long position)	Beneficial owner	9.99%	4.01%

Save as disclosed above, as at 31 December, 2006, so far as was known to the Directors, no person (other than Directors or Supervisors) had any interest or short position in any shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company pursuant to section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group purchased less than 30% of its goods and services from its 5 largest suppliers. During the year, the Group sold less than 30% of its goods and services to its 5 largest customers.

For the year ended 31 December, 2006, none of the Directors, Supervisors, their respective associates and any Shareholder (who to the knowledge of the Board owns more than 5% of the share capital of the Company) had any interest in the 5 largest customers or the 5 largest suppliers of the Group.

CONNECTED TRANSACTIONS

Pursuant to Rule 14A.45 of the Listing Rules, details of the following connected transactions of the Group are required to be disclosed in this Annual Report:

- (1) On 10 January, 2006, China Shipping Container Lines (Asia) Co., Ltd. ("CS Asia"), a subsidiary of the Company, entered into a container purchase agreement with Dong Fong International Container (Lianyungang) Co., Ltd.) ("DFIC") whereby CS Asia had agreed to purchase and DFIC had agreed to sell an aggregate of 13,500TEU of steel type general purpose containers at a total cash consideration of US\$18,997,600;
- (2) On 1 April, 2006, the Company entered into a master provision of containers agreement (the "Original Master Provision of Containers Agreement") with China Shipping, under which China Shipping agreed to supply and agreed to procure that its subsidiaries and associates manufacture and supply containers to the Group. The total cash consideration payable by the Group to China Shipping and its subsidiaries and associates shall not exceed: (i) US\$108,870,000 for 2006; (ii) US\$125,050,000 for 2007; and (iii) US\$73,320,000 for 2008;
- (3) On 27 August, 2006, CSHK, a wholly-owned subsidiary of the Company, entered into a share purchase agreement with CS Overseas Logistics, Rich Shipping and CS Agency, under which CS Overseas Logistics, Rich Shipping and CS Agency agreed to sell their respective entire 37.5%, 31.25% and 31.25% shareholding interests in

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Universal Shipping to CSHK at an aggregate cash consideration of HK\$79,766,300;

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- (4) On 25 October, 2006, the Company entered into an agreement with CS Overseas Logistics and China Shipping Logistics Co., Ltd. ("CS Logistics") to establish a joint venture company, Shanghai China Shipping YangShan International Container Land-Warehousing Co., Ltd., in Shanghai, the PRC, for the provision of container storage and various container related services, under which the Company shall contribute RMB32,000,000 in cash and have 50% shareholding interests in the said joint venture company; and
- (5) On 20 November, 2006, Shanghai Puhai Shipping Co., Ltd. ("Shanghai Puhai"), a non wholly-owned subsidiary of the Company, entered into 7 acquisition agreements with Guangzhou Maritime Transport (Group) Co., Ltd. ("Guangzhou Maritime"), under which Shanghai Puhai agreed to purchase and Guangzhou Maritime agreed to sell 7 second-hand container vessels with an aggregate capacity of 1,470TEU at a total cash consideration of RMB54,760,000.

China Shipping is the controlling shareholder of the Company. Therefore, China Shipping and its associate(s) are connected persons of the Company under the Listing Rules. Each of DFIC, CS Logistics, Rich Shipping, CS Agency, CS Overseas Logistics and Guangzhou Maritime is an associate of China Shipping and is therefore a connected person of the Company under the Listing Rules.

The Stock Exchange has granted a waiver (the "Waiver") to the Company for a period of three years ended on 31 December, 2006 from strict compliance with the requirements of (i) disclosure by way of press notices (in respect of the continuing connected transactions as set out on page 184 of the prospectus issued by the Company dated 4 June, 2004 (the "Prospectus"); and (ii) disclosure by way of press notices, circular to Shareholders and/or independent Shareholders' approval (in respect of the continuing connected transactions as set out on pages 185 to 187 of the Prospectus) as stipulated in Chapter 14A of the Listing Rules in connection with those continuing connected transactions. Pursuant to the terms of the Waiver, certain continuing connected transactions were subject to relevant annual caps disclosed in the Prospectus, some of which were revised by the Board and/or the independent Shareholders. Please refer to the Company's announcement dated 24 January, 2007 and the Company's circular dated 16 February, 2007 for more details.

The following tables set out the relevant annual caps (original and revised, where applicable) and the actual annual figures for the year ended 31 December, 2006 in relation to those continuing connected transactions and the transactions under the Original Master Provision of Containers Agreement. Terms used in the following tables shall have the same meanings as defined in the Prospectus, the Company's announcement dated 24 January, 2007 and the Company's circular dated 16 February, 2007, unless the context requires otherwise.

CONTINUING CONNECTED TRANSACTIONS NOT EXEMPT FROM INDEPENDENT SHAREHOLDERS' APPROVAL

Transactions under the	Annual Cap for 2006 (RMB'000)	Actual Figure for 2006 (RMB'000)
1. Master Supply Agreement in respect of products to be provided to the Group	350,000 (revised to 484,000)	474,523
2. (i) First Master Liner and Cargo Agency Agreement; and (ii) Second Master Liner and Cargo Agency Agreement in respect of services to be provided to the Group	455,000 (revised to 494,000)	437,884 (Note 1)
3. Master Liner Services Agreement in respect of services to be provided by the Group	1,281,000 (revised to 1,882,000)	1,661,158
4. (i) First Master Container Management Agreement; and (ii) Second Master Container Management Agreement in respect of services to be provided to the Group	894,000	768,778 (Note 1)
5. Master Time Charter Agreement in respect of vessels etc. to be provided to the Group	926,000	232,650
6. (i) First Master Loading and Unloading Agreement; and (ii) Second Master Loading and Unloading Agreement in respect of services to be provided to the Group	1,045,000	875,888
7. (i) First Master Sub-route Agreement and (ii) Second Master Sub-route Agreement in respect of services to be provided to the Group	1,433,000	164,379
8. Container Leases in respect of containers to be leased to the Group	680,000	400,238 (Note 2)
9. Original Master Provision of Containers Agreement in respect of containers to be purchased by the Group	870,960 (Note 3)	837,731

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Notes:

1. These figures are different from those found in the note on significant related party transactions set out in the notes to the accounts, since subsidiaries of the Company which are connected persons under the Listing Rules, are not considered as related parties for accounting purposes.
2. The figure is based on the actual cash payments made and is therefore different from the figure found in the note on related party transactions set out in the notes to the accounts, since from an accounting perspective, certain leasing of containers have been treated as finance leases and the interest element of such finance leases have been included in the accounts.
3. The cap was initially stated and approved in US\$ and has been converted to RMB at the exchange rate of RMB7.76:US\$1 in this table for ease and consistency of reference.

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CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM INDEPENDENT SHAREHOLDERS' APPROVAL

Transactions under the	Annual Cap for 2006 (RMB'000)	Actual Figure for 2006 (RMB'000)
1. Master Provision of Chassis Agreement in respect of chassis to be provided to the Group	25,000 (revised to 39,500)	39,400
2. Master Ground Container Transport Agreement in respect of services to be provided to the Group	54,000 (revised to 160,000)	152,151
3. (i) First Master Container Management Agreement and (ii) Second Master Container Management Agreement in respect of services to be provided by the Group	18,000	17,712 (Note 1)
4. (i) CSDC Bareboat Charters; and (ii) Master Bareboat Charter Agreement in respect of vessels to be provided to the Group	85,000	76,795
5. Master Ship Repair Services Agreement in respect of services to be provided to the Group	65,000 (revised to 86,000)	58,560
6. Master Provision of Crew Members Agreement in respect of crew members etc. to be provided to the Group	143,000	121,244
7. Master Depot Services Agreement in respect of services to be provided to the Group	29,000 (revised to 33,000)	30,541
8. (i) First Master IT Service Agreement and (ii) Second Master IT Service Agreement in respect of products and services to be provided by the Group	26,000 (revised to 42,213)	42,213
9. (i) First Master IT Service Agreement and (ii) Second Master IT Service Agreement in respect of products and services to be provided to the Group	33,000	27,083
10. Products and Services Master Agreement in respect of products and services to be provided by the Group	2.5% of the revenue ratio	–
11. Products and Services Master Agreement in respect of products and services to be provided to the Group	2.5% of the consideration ratio	–
12. Master Time Charter Agreement in respect of vessels to be provided by the Group	N/A (revised to 8,760)	7,592

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Note:

1. This figure is different from that in the note on significant related party transactions set out in the notes to the accounts, since subsidiaries of the Company which are connected persons under the Listing Rules are not considered as related parties for accounting purposes.

For further details regarding the above continuing connected transactions, please refer to Note 34 to the accounts.

Save for a delay in timely compliance with the announcement and/or independent shareholders' requirements under Chapter 14A of the Listing Rules with regards to:

- (1) the revised annual caps for 2006 for: (a) the First Master IT Services Agreement and the Second Master IT Services Agreement in respect of the provision of products and services by the Group; (b) the Master Ground Container Transport Agreement; and (c) the Master Liner Services Agreement; and
- (2) the renewal of six Container Leases,

(details of which are set out in the Company's announcement dated 24 January, 2007 and the Company's circular dated 16 February, 2007), the Company complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The independent non-executive Directors, Mr. Hu Hanxiang, Mr. Gu Nianzu, Mr. Wang Zongxi and Mr. Lam Siu Wai, Steven, have reviewed the above continuing connected transactions and confirm that these transactions have been entered into:

- (1) in the ordinary and usual course of business of the Company;
- (2) on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

For the purpose of Rule 14A.38 of the Listing Rules, PricewaterhouseCoopers, the auditors of the Company, have also performed certain agreed upon procedures on the above continuing connected transactions and confirmed that the continuing connected transactions disclosed above:

- (1) have received the approval of the Company's board of Directors;
- (2) in relation to those transactions which are revenue generating in nature, are in accordance with the pricing policies of the Company;
- (3) have been entered into in accordance with the relevant agreements governing the transactions; and
- (4) have not exceeded the relevant annual cap disclosed in the Prospectus or the Company's announcement dated 24 January, 2007.

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INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the Listing Rules, each independent non-executive Director of the Company has re-affirmed his independence with the Company. Based on their confirmation, the Company considered that they are independent.

PENSION SCHEME

Details of the Group's pension scheme for the year ended 31 December, 2006 are set out in Notes 2.17 and 9 to the accounts.

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As at 31 December, 2006, the Group had not placed any designated deposits with any financial institution in the PRC, nor had it failed to collect any time deposits upon maturity during the year.

TAX RELIEF AND EXEMPTION

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The Company is not aware that holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Please refer to the Corporate Governance Report on pages 42 to 52 for details.

USE OF PROCEEDS FROM ISSUE OF H SHARES

The Company was successfully listed on the Main Board of the Stock Exchange on 16 June, 2004 and raised a net amount (after issue expenses) of approximately RMB7,159,713,000 by the placing and the public offer of H shares. According to the plan described in the Prospectus, the proceeds were applied as follows:

Planned use of proceeds	Actual use of proceeds for the year ended 31 December, 2006	% used
Approximately RMB2,500 million for acquiring vessels (Note 1)	3,299,580,000	99.99%
Approximately RMB500 million for acquiring containers (Note 2)	–	–
Approximately RMB500 million for injection into Shanghai Puhai Shipping Co., Ltd. by the Company (Note 3)	200,000,000	100%
Approximately RMB3,000 million for repaying bank loans	2,998,250,000	99.94%
Remaining balance used as general working capital	659,530,000	99.97%

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Notes:

1. In light of Note 2 and Note 3, this amount has been adjusted to not more than RMB3,300 million.
2. Resolution was passed at the Company's special general meeting on 12 October, 2005, to change the use of RMB500 million for purchasing containers as originally planned to acquire new vessels.
3. Resolution was passed at the Company's special general meeting on 28 February, 2005, to reduce the capital injection into Shanghai Puhai from RMB500 million as originally planned to RMB200 million, with the remaining amount of RMB300 million for acquiring new vessels and containers.

AUDIT COMMITTEE

Details of the Company's Audit Committee are set out in the Corporate Governance Report on pages 42 to 52.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

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On behalf of the Board

China Shipping Container Lines Company Limited

Li Shaode

Chairman

Shanghai, the People's Republic of China

10 April, 2007