

Corporate Governance Report

The Board has reviewed the corporate governance documents it has adopted and is of the view that such documents have incorporated the principles and code provisions of the "Code on Corporate Governance Practices" (the "CG Code") as set out in Appendix 14 to the Listing Rules.

The Board confirms that, other than as set out below, none of the Directors is aware of any information that would reasonably indicate that the Group was not, at any time during year 2006, in compliance with the code provisions of the CG Code.

A BOARD OF DIRECTORS

1. BOARD COMPOSITION

The Board consists of four Executive Directors, five Non-executive Directors and four Independent Non-executive Directors.

Executive Directors:

Mr. Li Shaode (*Chairman*)
Mr. Jia Hongxiang (*Vice-chairman*)
Mr. Huang Xiaowen
Mr. Zhao Hongzhou

Non-executive Directors

Mr. Zhang Guofa (*Vice-chairman*)
Mr. Zhang Jianhua
Mr. Wang Daxiong
Mr. Xu Hui
Mr. Yao Zuozhi

Independent Non-executive Directors

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

The list of Directors (including names, duties and brief biographies) is shown on the Company's website:

<http://www.cscl.com.cn>.

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Each Independent Non-executive Director of the Company has reconfirmed his independence to the Company in accordance with the Listing Rules. Based on the confirmation, the Company considers that they are independent.

In 2006, the Board has at least three Independent Non-executive Directors in accordance with the Listing Rules, of whom one Independent Non-executive Director has appropriate professional qualifications or accounting or related financial management expertise.

2. RESPONSIBILITIES OF THE BOARD

The Board is responsible for managing the businesses and affairs of the Group with the goal of enhancing shareholder value; to present a balanced, clear and easily comprehensible assessment of the Company's performance, position and prospects as set out in the annual and interim reports, and other price-sensitive announcements and other financial disclosures required under the Listing Rules; and to report to regulators information which is required to be disclosed pursuant to statutory requirements. The 19th meeting of the first session of the Board approved the resolution regarding the examination and approval procedures for Infrastructure, Technology Upgrade and Technological Project, and authorized the General Manager to approve and implement those infrastructure, technology upgrade and technological projects with an unit amount less than RMB2,000,000.

The Board owes fiduciary and statutory duties to the Company and the Group. Other duties include: formulating the overall strategy and policies of the Group, and the establishment of corporate and management goals, major operational measures and risk management policies in accordance with the strategic objectives of the Group; supervision and monitoring of the operational and financial performance of the Group; and approval of expenditure budget and key capital spending, key investments, major acquisitions and disposals of assets, corporate or financial reorganization, major finance consent and management matters.

The Board has set up the Audit Committee and the Remuneration Committee. Please refer to the following paragraphs for the composition and duties of the Audit Committee and the Remuneration Committee. Each committee should present its recommendations to the Board in accordance with its own duties, such recommendations should be ultimately determined by the Board, unless prescribed clearly in each committee's duties.

The Company Secretary provides information regarding the latest developments in relation to the Listing Rules and other applicable regulatory requirements for all Directors. Any Director may require the Company Secretary to arrange independent professional advice at the expense of the Company to assist the Director(s) in discharging his/their duties to the Company effectively.

3. CHAIRMAN AND GENERAL MANAGER

In 2006, Mr. Li Kelin and Mr. Li Shaode served in succession as the Chairman of the Company, and Mr. Jia Hongxiang and Mr. Huang Xiaowen were the General Managers and Executive Directors of the Company. The Articles of Association of the Company requires that the Chairman and the General Manager should perform their responsibilities separately. For the biographies of Mr. Li Shaode, Mr. Jia Hongxiang and Mr. Huang Xiaowen, please refer to "Biographies of Directors, Supervisors and Senior Management".

4. BOARD MEETINGS

The Board held regular board meetings in accordance with paragraph A.1.1. of the CG Code. The Directorate Secretary Office would provide an official agenda of items to be considered and determined by the Board before any Board meeting. Notice would be given at least 14 days before each regular board meeting. Directors may include related matters in the agenda for discussion at the board meeting. The Company Secretary assists the Chairman of the Company to prepare an agenda for each board meeting and ensures it is prepared in accordance with applicable statutory requirements and regulations in relation to the meeting. The ultimate agenda and board papers would be sent to all Directors at least 3 days before the board meeting.

In 2006, the Company held nine board meetings all together, of which 4 were regular meetings and the other 5 were held with the practice of obtaining board consent through the circulation of written resolutions. The average attendance rate was 99.31%. Record of attendance for each Director is set out as follows:

Executive Directors

Directors	Number of Meetings Attended	Attendance Rate
Li Kelin (1 January, 2006 – 28 June, 2006)	4	100%
Li Shaode (28 June, 2006 – 31 December, 2006)	5	100%
Jia Hongxiang	9	100%
Huang Xiaowen	9	100%
Zhao Hongzhou	9	100%

Note: On 26 January, 2006, Mr. Jia Hongxiang was appointed as a vice Chairman of the Board. On 28 June, 2006, Mr. Li Kelin resigned from his positions as, and Mr. Li Shaode was appointed as, the Chairman of the Board and an Executive Director of the Company. Mr. Li Kelin was re-designated as a Non-executive Director of the Company on the same date.

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Non-executive Directors

Directors	Number of Meetings Attended	Attendance Rate
Li Shaode (1 January, 2006 – 28 June, 2006)	4	100%
Li Kelin (28 June, 2006 – 28 August, 2006)	1	100%
Zhang Jianhua	9	100%
Wang Daxiong	9	100%
Zhang Guofa	8	88.9%
Xu Hui	9	100%
Yao Zuozhi (28 August, 2006 – 31 December, 2006)	4	100%

Note: On 28 June, 2006, Mr. Li Kelin resigned from his positions as, and Mr. Li Shaode was appointed as, the Chairman of the Board and an Executive Director of the Company. Mr. Li Kelin was re-designated as a Non-executive Director of the Company on the same date. On 28 August, 2006, Mr. Li Kelin resigned from his position as, and Mr. Yao Zuozhi was appointed as, a Non-executive Director of the Company.

Independent Non-executive Directors

Directors	Number of Meetings Attended	Attendance Rate
Hu Hanxiang	9	100%
Gu Nianzu	9	100%
Wang Zongxi	9	100%
Lam Siu Wai, Steven	9	100%

Any Director with a conflicting interest in any resolution to be considered by the Board should abstain from voting on such resolution.

5. SUPPLY OF AND ACCESS TO INFORMATION

All Directors are entitled to have access to the relevant documents and other information of the Board from the Company Secretary in order to make informed decisions.

6. APPOINTMENT AND RESIGNATION OF DIRECTORS

The Board reviews its structure, size and composition on a regular basis. The appointment of new Directors to the Board is based on formal, considered and transparent procedures.

The Company has not established a Nomination Committee, and the Board itself is responsible for the nomination of new Directors directly. In choosing the candidates for directors of the Company, China Shipping, the controlling shareholder of the Company, will conduct research and review those candidates with related experiences and social connections, and then recommend those candidates to the Board for their consideration. Before holding a meeting, the Board will carefully study the backgrounds of the candidates, and consult and collect information on those candidates where necessary, and then discuss and resolve in the following meeting. Those candidates nominated by the Board will then be submitted to the shareholders' meeting for approval.

Three board meetings were held on 26 January, 2006, 28 June, 2006 and 5 July, 2006 respectively to review and make recommendations in respect of the appointment and resignation of Directors, and the attendance rate was 100%. The attendance of each Director is set out as follows:

Executive Directors

Directors	Number of Meetings Attended	Attendance Rate
Li Kelin (1 January, 2006 – 28 June, 2006)	2	100%
Li Shaode (28 June, 2006 – 31 December, 2006)	1	100%
Jia Hongxiang	3	100%
Huang Xiaowen	3	100%
Zhao Hongzhou	3	100%

Note: On 26 January, 2006, Mr. Jia Hongxiang was appointed as a vice Chairman of the Board. On 28 June, 2006, Mr. Li Kelin resigned from his positions as, and Mr. Li Shaode was appointed as, the Chairman of the Board and an Executive Director of the Company. Mr. Li Kelin was re-designated as a Non-executive Director of the Company on the same date.

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Non-executive Directors

Directors	Number of Meetings Attended	Attendance Rate
Li Shaode (1 January, 2006 – 28 June, 2006)	2	100%
Li Kelin (28 June, 2006 – 28 August, 2006)	1	100%
Zhang Jianhua	3	100%
Wang Daxiong	3	100%
Zhang Guofa	3	100%
Xu Hui	3	100%
Yao Zuozhi (28 August, 2006 – 31 December, 2006)	0	

Note: On 28 June, 2006, Mr. Li Kelin resigned from his positions as, and Mr. Li Shaode was appointed as, the Chairman of the Board and an Executive Director of the Company. Mr. Li Kelin was re-designated as a Non-executive Director of the Company on the same date. On 28 August, 2006, Mr. Li Kelin resigned from his position as, and Mr. Yao Zuozhi was appointed as, a Non-executive Director of the Company.

Independent Non-executive Directors

Directors	Number of Meetings Attended	Attendance Rate
Hu Hanxiang	3	100%
Gu Nianzu	3	100%
Wang Zongxi	3	100%
Lam Siu Wai, Steven	3	100%

7. BOARD COMMITTEES

(1) *Audit Committee*

On 4 March, 2004, resolutions were passed at the third meeting of the first session of the Board to establish the Audit Committee, which consists of two Independent Non-executive Directors, Mr. Wang Zongxi and Mr. Gu Nianzu, and a Non-executive Director Mr. Wang Daxiong. Mr. Wang Zongxi is the Chairman of the Audit Committee. The primary duties of the Audit Committee are: to oversee the integrity of the financial reports, annual and interim reports of the Company, and review the financial control and internal control procedures of the Company.

The Audit Committee held two meetings in 2006 and the average attendance rate was 100%. The annual results and financial report for the year 2005, the interim report for the year 2006 and the Company's internal control system were reviewed in those meetings, and recommendations were presented to the Board for approval.

The attendance rate of each member of the Audit Committee is set out as follows:

Directors	Number of Meetings Attended	Attendance Rate
Wang Zongxi	2	100 %
Gu Nianzu	2	100 %
Wang Daxiong	2	100 %

(2) *Remuneration Committee*

On 30 November, 2005, resolutions were passed at the thirteenth meeting of the first session of the Board to establish a Remuneration Committee of the Board, which consists of two Independent Non-executive Directors, Mr. Wang Zongxi and Mr. Gu Nianzu, and a Non-executive Director Mr. Zhang Jianhua. Mr. Zhang Jianhua is the Chairman of the Remuneration Committee. The duties of the Remuneration Committee are: to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors, Supervisors and senior management, and on the establishment of a formal and transparent procedure for developing policies on such remuneration; to have the delegated responsibility to determine the specific remuneration packages of all Executive Directors, Supervisors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss

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or termination of their office or appointment, and make recommendations to the Board of the remuneration of Non-executive Directors. During 2006, The Remuneration Committee assessed performance of Executive Directors, approved the terms of Executive Directors' service contracts. When performing the above appraisals, the Remuneration Committee considered factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and employment conditions elsewhere in the Group and desirability of performance-based remuneration; reviewed and approved performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time; reviewed and approved the compensation payable to Executive Directors, Supervisors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; reviewed and approved compensation arrangements relating to dismissal or removal of Directors or Supervisors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and ensured that no Director, Supervisor or any of their associates was involved in determining his own remuneration.

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The Remuneration Committee held one meeting in 2006 and the attendance rate was 100%. The resolutions regarding the Directors' and Supervisors' remuneration for 2006 were reviewed in that meeting, and recommendations were presented to the Board for approval. The attendance rate of each member of the Remuneration Committee is set out as follows:

Directors	Number of Meetings Attended	Attendance Rate
Zhang Jianhua	1	100%
Wang Zongxi	1	100%
Gu Nianzu	1	100%

8. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company had adopted the Model Code as set out in Appendix 10 of the Listing Rules as the standard regarding Directors' and Supervisors' securities transactions. The Company confirmed, having made specific enquiries with all Directors and Supervisors, that for the year ended 31 December, 2006, its Directors and Supervisors have complied with the requirements relating to Directors' and Supervisors' dealing in securities as set out in the Model Code.

9. H-SHARE STOCK APPRECIATION RIGHTS SCHEME

To incentivise the Directors, Supervisors, senior management and other important personnel of the Company to work towards the Company's development and in the shareholders' long-term interest, the Company adopted the Scheme on 12 October, 2005. Details of the Scheme are contained in the circular to shareholders of the Company dated 26 August, 2005.

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10. THE TERM OF OFFICE FOR NON-EXECUTIVE DIRECTORS

Non-executive Director	Term of office starting date	Term of office expiration date
Li Kelin	28 June, 2006	28 August, 2006
Li Shaode	3 March, 2004	28 June, 2006
Zhang Jianhua	3 March, 2004	until the conclusion of the AGM for the year 2006, i.e. on 26 June 2007
Wang Daxiong	3 March, 2004	until the conclusion of the AGM for the year 2006, i.e. on 26 June 2007
Zhang Guofa	18 February, 2005	until the conclusion of the AGM for the year 2006, i.e. on 26 June 2007
Xu Hui	12 October, 2005	until the conclusion of the AGM for the year 2006, i.e. on 26 June 2007
Yao Zuozhi	28 August, 2006	until the conclusion of the AGM for the year 2006, i.e. on 26 June 2007

Note: On 28 June, 2006, Mr. Li Kelin resigned from his positions as, and Mr. Li Shaode was appointed as, the Chairman of the Board and an Executive Director of the Company. Mr. Li Kelin was re-designated as a Non-executive Director of the Company on the same date. On 28 August, 2006, Mr. Li Kelin resigned from his position as, and Mr. Yao Zuozhi was appointed as, a Non-executive Director of the Company.

B. ACCOUNTABILITY AND AUDITING

1. EXTERNAL AUDITOR

PricewaterhouseCoopers was re-appointed as external auditors of the Company at the 2005 Annual General Meeting by the shareholders until the conclusion of the next Annual General Meeting.

The Company has paid PricewaterhouseCoopers RMB4,980,000 as remuneration for its auditing service provided for 2006. During the same year, PricewaterhouseCoopers has not provided any non-auditing service to the Group.

2. ACKNOWLEDGEMENT OF THE DIRECTORS AND AUDITORS

The Directors have conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries covering all material controls (including financial, operational and compliance controls and risk management functions).

The Directors have acknowledged their responsibilities for preparing the accounts for the year ended 31 December, 2006.

PricewaterhouseCoopers, the auditors of the Company, has acknowledged its reporting responsibilities in the Auditor's Report on the accounts for the year ended 31 December, 2006.

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C. COMMUNICATION WITH SHAREHOLDERS

The Company has put particular emphasis on communication with shareholders. All information related to the operation, business strategies, and development of the Group is provided in the Company's annual report and interim report. The Company encourages shareholders to attend the Annual General Meeting and each extraordinary general meeting, which should serve as valuable communication forums for each other and with the management.

In 2006, the last general meeting was the second extraordinary general meeting for year 2006 held on 28 August, 2006 at Conference Room No. 1, No 450, Fushan Road, Shanghai. The resolutions passed at the meeting and the results of the poll are as follows:

Resolution	Ordinary/ Special	for	Votes by poll against	abstain
1 Mr. Li Kelin's resignation as a Director	ordinary	3,664,895,655 (99.999%)	30,000 (0.001%)	0 0%
2 Mr. Yao Zuozhi's resignation as a Supervisor	ordinary	3,664,880,655 (99.9988%)	30,000 (0.0008%)	15,000 (0.0004%)
3 Mr. Yao Zuozhi's appointment as a Director	ordinary	3,664,800,255 (99.9966%)	100,400 (0.0027%)	25,000 (0.0007%)
4 Mr. Chen Decheng's appointment as a Supervisor	ordinary	3,664,868,655 (99.9984%)	32,000 (0.0009%)	25,000 (0.0007%)
5 the grant of an unconditional general mandate to issue bonds of up to RMB3,500,000,000	special	3,664,868,655 (99.9984%)	42,000 (0.0011%)	15,000 (0.0004%)