CHINA INTERNATIONAL MARINE CONTAINERS (GROUP) CO., LTD.
(Incorporated in People's Republic of China)

ANNUAL REPORT 2006 (SUMMARY)

Ended Dec. 31, 2006

1. Important Statement

1.1 The Board of Directors, the Supervisory Committee and directors, supervisors and senior management of China International Marine Containers (Group) Co., Ltd. (hereinafter referred to as "the Company") warrant that this report does not contain any false or misleading statements or omit any material facts and all information set forth herein are true, accurate and complete. The summary of annual report 2006 is abstracted from the full text of such report; the investors are suggested to read the full text of such report to understand more details.

1.2 None of the Directors, Supervisors, Senior management demonstrated uncertainty or disagreement about the truthfulness, accuracy, and completeness of this annual report.

1.3 Sun Jiakang, Director of the Company, authorized Li Jianhong, another Director of the Company, to attend and vote on his behalf, and Xiao Zhuoji, one independent Director of the Company, was absent from the Board meeting due to some reasons and did not entrust other director to vote on his behalf.

1.4 Deloitte Touche Tohmatsu CPAs audited the current Financial Report of the Company and issued a standard unqualified Auditors' Report for the Company.

1.5 Mr. Li Jianhong, the Chairman of the Board, Mr. Mai Boliang, the President of the Company and Mr. Jin Jianlong, the General Manager of Financial Management Dept. of the Company, hereby confirm that the Financial Report contained herein are true and complete.

1.6 This report has been prepared in Chinese and English version respectively. In the event of difference in interpretation between the two versions, the Chinese report shall prevail.

2. Company Profile

2.1 Basic information

Short form of the stock	CIMC
Stock code	000039、200039
Listed stock exchange	Shenzhen Stock Exchange
Registered address	R&D Center of CIMC, No. 2 Gangwan Avenue, Shekou Industrial Zone, Shenzhen, Guangdong Province, P.R.C
Office address	R&D Center of CIMC, No. 2 Gangwan Avenue, Shekou Industrial Zone, Shenzhen, Guangdong Province, P.R.C
Post code	518067

Internet web site of the Company	www.cimc.com
E-mail of the Company	shareholder@cimc.com

2.2 Liaison person and liaison method

	Secretary of the Board of Directors	Authorized Representative in Charge of Securities Affairs
Name	*Yu Yuqun*	*Wang Xinjiu*
Liaison address	R&D Center of CIMC, No. 2 Gangwan Avenue, Shekou Industrial Zone, Shenzhen, Guangdong Province, P.R.C	R&D Center of CIMC, No. 2 Gangwan Avenue, Shekou Industrial Zone, Shenzhen, Guangdong Province, P.R.C
Telephone	0755-26691130	0755-26802706
Fax	0755-26826579	0755-26813950
E-mail	shareholder@cimc.com	shareholder@cimc.com

§3. Summary of Accounting Data and Financial Indexes

3.1 Major accounting data

Unit: RMB

	2006	2005	Increase/decrease compared with the last year（%）	2004
Revenue	33,199,629	30,938,522	7.31%	26,557,657
Gross profit	4,671,210	4,695,539	-5.18%	4,396,273
Net profit	2,83	2,807,466	0.96%	2,464,992
Net cash generated from operating activities	9	5,232,159	-81.36%	1,315,196
	At the end of 2006	**At the end of 2005**	**Increase/decrease compared with the end of the last year（%）**	**At the end of 2004**
Total assets	23,335,838	17,020,469	37.11%	16,986,385
Shareholder's equity (excluding minority interests)	12,303,815	9,613,787	27.98%	7,521,276

3.2 Major financial indexes

	2006	2005	Increase/decrease compared with the last year（%）	2004
Earnings per share	1.28	1.39	-7.91%	2.44
Return on equity (%)	23.04%	29.20%	-6.16%	34.17%
Net cash flow per share arising from operating activities	0.44	2.76	-84.06%	1.49
	At the end of 2006	**At the end of 2005**	**Increase/decrease compared with the end of last year（%）**	**At the end of 2004**
Net assets per share	5.55	4.77	16.35%	7.46

3.3 Reconciliation of the Group's profit and total equity attributable to equity shareholders of the Company prepared under International Financial Reporting Standards ("IFRSs") and the PRC Accounting Rules and Regulations

√Applicable *□Non-applicable*

	Profit attributable to equity shareholders of the Company For the year ended31 December 2006 RMB'000	*Total equity attributable to equity shareholders of the Company at31 December 2006* RMB'000
Prepared under the PRC Accounting Rules and regulations	2,771,723	11,117,446
Adjustments to align with IFRSs:		
(i) Adjustment to minority interests	(19,074)	(11,015)
(ii) Adjustment to deferred tax assets	32,445	114,780
(iii) Adjustment to deferred tax liabilities	-	(165,536)
(iv) Adjustment to goodwill and negative goodwill	32,362	10,012
(v) Adjustment to interest capitalisation	448	25,244
(vi) Adjustment to trading securities	(2,151)	35,330
(vii) Adjustment to government grant, net of related costs	59,581	59,581
(viii) Adjustment to available-for-sale equity securities	(24,035)	1,103,570
(ix) Others	(17,011)	14,403
Prepared under IFRSs	2,834,288	12,303,815

§4. Changes in Share Capital and Particulars about Shareholders

4.1 Statement of change in share

Unit: share

	Prior to the change		Increase/decrease (+/-)				Subsequent to the change	
	Number of shares	Proportion (%)	Issuance of new shares	Bonus shares	Capitalization of public reserve	Subtotal	Number of shares	Proportion (%)
I. Shares subject to moratorium	327,402,912	16.23	0	0	32,740,291	32,740,291	360,143,203	16.23
1. Shares held by the State	0	0	0	0	0	0	0	0
2. Shares held by state-owned legal persons	0	0	0	0	0	0	0	0
3. Shares held by other domestic investors	0	0	0	0	0	0	0	0

4. Shares held by foreign investors	327,402,912	16.23	0	0	32,740,291	32,740,291	360,143,203	16.23
Among : Shares held by overseas legal persons	327,402,912	16.23	0	0	32,740,291	32,740,291	360,143,203	16.23
II. Shares not subject to moratorium	1,688,939,170	83.77	0	0	168,893,917	168,893,917	1,857,833,087	83.77
1. RMB ordinary shares (A shares)	605,866,438	30.04	0	0	60,586,644	60,586,644	666,453,082	30.04
Among : Shares held by Senior management	624,624	0.03	0	0	62,462	62,462	687,086	0.03
2. Domestically listed foreign shares (B shares)	1,083,697,356	53.73	0	0	108,369,735	108,369,735	1,192,067,091	53.73
3. Overseas listed foreign shares	0	0	0	0	0	0	0	0
4. Others	0	0	0	0	0	0	0	0
III. Total shares	2,016,966,706	100.00	0	0	201,696,670	201,696,670	2,218,663,376	100.00

Note: *The plan on Dividend Distribution and Capitalization of Capital Reserves for the Year 2005 was implemented by the Company on 20 July 2006, namely, based upon the total 2,016,966,706 shares as at the end of 2005, 1 share will be capitalized from capital reserves for each 10 shares. After the capitalization, the total share number of the Company will climb to 2,218,663,376 shares from 2,016,966,706 shares.*

4.2 Statement of shares held by the top ten shareholders and the top ten tradable shareholders

4.3 Particulars about the controlling shareholders and actual controllers of the Company

4.3.1 Particulars about change in the controlling shareholders and actual controllers of the Company

□Applicable √Inapplicable

4.3.2 Introduction to detail situation for the controlling shareholders and the actual controllers

4.3.3 The property right and controlling relationship between the Company and the actual controller are as follows:

4.2 Statement of shares held by the top ten shareholders

4.2.1 the top ten shareholders

Total shareholders at the end of report year					81,863
Total shareholders at the end of report year					
Name of Shareholder	Properties of shareholder	Share proportion (%)	Shares held at the end of term (shares)	Shares subject to moratorium	Number of share pledged or frozen
1. COSCO Container Industries Limited	Foreign shareholder	16.23	360,143,203	360,143,203	0
2. CHINA MERCHANTS (CIMC) INVESTMENT LIMITED	Foreign shareholder	16.23	360,143,203	0	0
3. CHINA MERCHANTS (CIMC) HOLDINGS LIMITED	Foreign shareholder	6.52	144,702,613	0	0
4. BBH BOS S/A FIDELITY FD CHINA FOCUS FD	Foreign shareholder	2.12	47,037,633	0	Unknown
5. HTHK-TARGET ASIA FUND LIMITED	Foreign shareholder	1.68	37,164,052	0	Unknown
6. PROFIT CROWN ASSET LIMITED	Foreign shareholder	1.66	36,859,756	0	Unknown
7. Bank of Communications-Anshun Securities Investment Funds	Domestic shareholder	1.27	28,088,000	0	Unknown
8. Bank of China-Southern Ever-increasing Stock Open-end Securities Investment Funds	Domestic shareholder	1.01	22,501,660	0	Unknown
9. Long Honour Investment Limited	Foreign shareholder	0.95	21,101,755	0	0
10. CMBLSA RE FTIF TEMPLETON ASIAN GRW FD GTI 5496	Foreign shareholder	0.76	16,818,676	0	Unknown

The top ten shareholders of circulating share		
Name of Shareholder	Shares held at the end of term (shares)	Category of share
1. BANK OF COMMUNICATIONS-ANSHUN SECURITIES INVESTMENT FUNDS	28,088,000	A shares
2. BANK OF CHINA-SOUTHERN EVER-INCREASING STOCK OPEN-END SECURITIES INVESTMENT FUNDS	22,501,660	A shares
3. INDUSTRIAL AND COMMERCIAL BANK OF CHINA-KAIYUAN SECURITIES INVESTMENT FUNDS	15,495,729	A shares
4. CHINA CONSTRUCTION BANK-HUAAN HONGLI STOCK SECURITIES INVESTMENT FUND	9,699,949	A shares
5 GALAXY－CHARTER-CITIGROUP GLOBAL MARKETS LIMITED	9,575,082	A shares
6.China Merchants Bank－FUGUO TIANHE WELL-CHOSEN STOCK SECURITIES INVESTMENT FUND	9,436,242	A shares
7. INDUSTRIAL AND COMMERCIAL BANK OF CHINA-Southern Positive Allocation Securities Fund	8,307,358	A shares
8. INDUSTRIAL AND COMMERCIAL BANK OF CHINA－JIANXIN OPTIMAL SELECTION GROWTH SECURITIES FUND	7,884,969	A shares
9. NATIONAL SOCIAL INSURANCE FUND 109	7,854,678	A shares
10. HAITONG－BANK OF CHINA－FORTIS BANK	7,499,721	A shares
		A shares
1. CHINA MERCHANTS (CIMC) INVESTMENT LIMITED	360,143,203	B shares

2. CHINA MERCHANTS (CIMC) HOLDINGS LIMITED	144,702,613	B shares
3. BBH BOS S/A FIDELITY FD - CHINA FOCU FD	47,037,633	B shares
4. HTHK-TARGET ASIA FUND LIMITED	37,164,052	B shares
5. PROFIT CROWN ASSETS LIMITED	36,859,756	B shares
6. LONG HONOUR INVESTMENTS LIMITED	21,101,755	A shares
7. CMBLSA RE FTIF TEMPLETON ASIAN GRW FD GTI 5496	16,818,676	B shares
8 .DRAGON BILLION GREATER CHINA MASTER FUND	16,046,050	B shares
9. TOYO SECURITIES ASIA LIMITED-A/C CLIENT.	13,846,414	B shares
10. JPMBLSA RE FTIF TEMPLETON CHINA FUND GTI 5497	12,635,746	B shares
Explanation on associated relationship among the top ten shareholders or consistent action	*Among the above top ten shareholders: ANSHUN SECURITIES INVESTMENT FUNDS and HUAAN HONGLI STOCK SECURITIES INVESTMENT FUND are two funds under HUAAN Funds Management Co., Ltd.; Southern Positive Allocation Securities Fund, KAIYUAN SECURITIES INVESTMENT FUNDS and Southern Positive Allocation Fund are three funds under China Southern Fund Management Co., Ltd..* *Among the above top ten shareholders: The 1st and 2nd shareholders are regarded as related and act-in-concert parties. Both of China Merchants (CIMC) Investment Ltd. and China Merchants (CIMC) Holdings Ltd. are the wholly-owned subsidiaries of China Merchants International Ltd.. Neither of the two shareholders is acting-in-concert with any other shareholders in the list as described by Administrative Rules on Information Disclosure about Changing of Shareholding Status.* *It is unknown whether there is any relationship among other tradable shareholders, or whether there is any action-in-concert among them as described by Administrative Rules on Information Disclosure about Changing of Shareholding Status.* *During the report period, both China Merchants (CIMC) Investment Ltd. and COSCO Container Industries Limited, the shareholders of the Company, remained unchanged.*	

The number of shares held by the top ten shareholders subject to moratorium and trading moratorium

Unit: share

No.	Name of shareholders subject to moratorium	Number of shares subject to moratorium held	Date of listing for trade	Number of additional shares could list for trade (Note 1)	Trading moratorium
1	COSCO Container Industries Ltd.	Accounting for 5% of total share capital	May 24, 2007	110,933,168	Note 1, Note 2
		Accounting for 10% of total share capital	May 24, 2008	221,866,337	
		360,143,203	May 24, 2009	360,143,203	

Note 1: COSCO Container Industries Limited undertook: Within 12 months since the first trading day after the share merger reform plan was implemented, COSCO Container Industries Limited would not sell or transfer original nontradable shares held by it through listing and trading in Shenzhen Stock Exchange in line with the relevant regulations.
Note 2: In accordance with the relevant regulations, COSCO Container Industries Limited would sell original nontradable shares held by it through listing and trading in Shenzhen Stock Exchange after

expiration of the aforesaid commitment, but proportion of number of shares could be sold in total shares of CIMC shall not exceed 5 percent within 12 months, as well as not exceed 10 percent with 24 months.

4.3 Particulars about controlling shareholders and actual controller of the Company

4.3.1 Particulars about change in controlling shareholders and the substantial controller of the Company

√ Applicable ☐Non-applicable

4.3.2 Introduction of controlling shareholder and other actual controller

Legal person shareholders holding 10% or above of the total shares

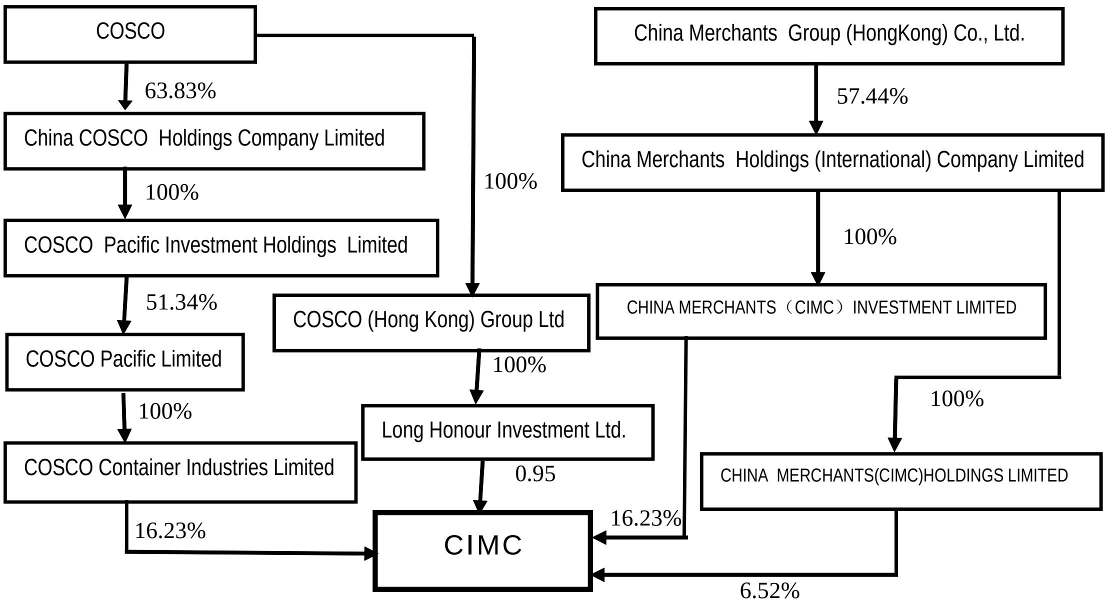
There isn't any shareholder (controlling shareholder) holding 30% or above of the total shares.

Shareholder's name	Proportion	Director	Date of Incorporation	Registered capital	Structure of equity	Business scope
COSCO CONTAINER INDUSTRIES LIMITED	16.23%	Chen Keng, Wang Zhi, Ying Hiafeng	26 April 2004	USD 1	Wholly owned by COSCO Pacific Limited	Investment and Shareholding
CHINA MERCHANTS (CIMC) INVESTMENT LIMITED	16.23%	Du Yongcheng, Wang Zhixian, Lin Wojin	17 January 1995	HKD 10,000	Wholly owned by CMHI	Investment and Shareholding

(1) COSCO Container Industries Limited is a limited company incorporated in British Virgin Islands, and it is a wholly-owned subsidiary of COSCO Pacific Limited. COSCO Pacific Investment Holdings Limited is holding 51.34% equity of COSCO Pacific Ltd., while COSCO Pacific Investment & Holdings Ltd. is the wholly-owned subsidiary of China COSCO Holdings Company Limited, while 63.83% equity of China COSCO Holdings Company Limited was held by China Ocean Shipping (Group) Company. Ended Dec. 31, 2006, COSCO Container Industries Ltd. held 16.23% equity of the Company; Long Honour Investments Limited is a wholly-owned subsidiary of COSCO Hong Kong, and held 0.95% equity of the Company.

(2) China Merchants (CIMC) Investment Limited (formerly China Merchants Container Industry Co., Ltd.) is the wholly-owned subsidiary of China Merchant Holdings (International) Company Limited ("CMHI"). China Merchants Group held 57.44% equity of CMHI. China Merchants Container Industries Co., Ltd. held 16.23% equity of the Company, at the same time, China Merchants (CIMC) Holdings Limited (formerly Fair Oaks Development Limited), a wholly-owned affiliated company of CMHI, held 6.52% equity of the Company, China Merchants (CIMC) Investment Limited and China Merchants (CIMC) Holdings Limited are the wholly-owned subsidiaries of CMHI, thus, CMHI is actually holding 22.75% equity of the Company.

4.3.3 Chart of shareholding relationships among the substantial holders and the Company



5. Particulars About Director, Supervisor, Senior Executive

5.1 Particulars about changes in shares held by Directors, Supervisors and senior executives

Name	Title	Gender	Age	Office term	Share held at the year-begin	Share held at the year-end	Increase or decrease	Reason for change
Li Jianhong	Chairman of the Board	Male	51	Apr. 21, 2004-Apr. 21, 2007	0	0	0	
Zhao Huxiang	Vice Chairman of the Board	Male	51	Apr. 21, 2004-Apr. 21, 2007	0	0	0	
Mai Boliang	Director President	Male	48	Apr. 21, 2004-Apr. 21, 2007 Mar. 16, 2004-Mar. 16, 2007	374,774	412,251	37,477	Transferring capita reserve into share capital
Sun Jiakang	Director	Male	46	Apr. 8, 2005-Apr. 21, 2007	0	0	0	
Wang Zhixian	Director	Male	41	Apr. 8, 2005-Apr. 21, 2007	0	0	0	
Xiao Zhuoji	Independent director	Male	73	Apr. 21, 2004-Apr. 21, 2007	0	0	0	
Han Xiaojing	Independent director	Male	52	Apr. 21, 2004-Apr. 21, 2007	0	0	0	
Zhang Limin	Independent director	Male	52	Apr. 8, 2005-Apr. 21, 2007	0	0	0	
Du Yongcheng	Chairman of the Supervisory Committee	Male	58	Apr. 8, 2005-Apr. 21, 2007	0	0	0	
Ying Haifeng	Supervisor	Male	35	Dec. 29, 2005 Apr. 21, 2007				
Feng Wanguang	Supervisor	Male	60	May 25, 2005-Apr. 21, 2007	0	0	0	
Zhao Qingsheng	Vice-president	Male	54	Mar. 16, 2004-Mar. 16, 2007	0	0	0	
Li Ruiting	Vice-president	Male	59	Mar. 16, 2004-Mar. 16, 2007	249,850	274,835	24,985	Transferring capita reserve into share capital
Wu Fapei	Vice-president	Male	48	Mar. 16, 2004-Mar. 16, 2007	0	0	0	
Li Yinhui	Vice-president	Male	39	Mar. 16, 2004-Mar. 16, 2007	0	0	0	

Liu Xuebin	Vice-president	Male	48	Mar. 16, 2004-Mar. 16, 2007	0	0	0
Jin Jianlong	General Manager of Financing Dept.	Male	53	Mar. 16, 2004-Mar. 16, 2007	0	0	0
Yu Yuqun	Secretary of the Board	Male	41	Mar. 16, 2004-Mar. 16, 2007	0	0	0

6. Report of the Board of Directors

6.1 Discussion and analysis of the whole operation in the report period

(I) Management Discussion and Analysis

1. Operation Review in Report Period

(1) Analysis on overall operation status

In 2006, with the strategic target of "providing the equipment and service for modern transportation" and the goal of "meeting the demand of global customers and creating value for them", the Group achieved sustainable growth for its operating results through deepening the implication of "globalised operation system based on China advantages" and strengthening core competitiveness. In 2006, the Company's major business income reached RMB 33,200 million, and net profit RMB 2,834 million, which respectively increased by 7.31% and 0.96% over the same period last year, and the yield of net asset reached 23.04%.

Unit: RMB Million

Items	At current period	At same period of last year	Rate of increase/decrease (%)
Revenue	33,200	30,938	7.31%
Gross profit	4,671	4,965	-5.18%
Net profit	2,834	2,807	0.96%
Net cash flow generated from operating activities	975	5,232	-81.36%

Note: The major business income enjoys a year-on-year increase due to sales volume increase of containers and vehicles. The year-on-year increase of net profit is principally attributable to the multiple increase of profit from road transport vehicle business, in despite of decline of profitability of containers as well as rising of non-recurrent profit and loss in the first half year. Net cash flow generated from operating activities decreased 81.36% over the same period last year, as the container manufacturing remain massive in the 4th quarter of 2006 as compared to the same period in 2005 with much working capital being used, resulting in significant decline of net cash flow generated from operating activities.

——Macro economy grows healthily and operating environment remain sound

In 2006, the global economy maintained positive momentum with growth rate of 3.8%, and Chinese economy grew over 10% for the full year, which objectively created a great macro environment for the development of the Group.

According to Clarkson, the world container trade maintained rapid growth in 2006, with growth rate amounting to approximately 10.8%. The trade volume of global containers was 117 million TEUs, and the throughput was about 418 million TEUs. As shown by data published by the Ministry of Communications, the throughput of Chinese containers was 93 million TEUs, accounting for 22.24% of that of global containers, representing an increase of 23.4% over the same period last year. According to CI-online, the global shipping capacity for containers continued to expand rapidly in 2006, with additional capacity of 1.396 million TEUs, representing an increase of 13.9%, and the total shipping capacity reached 9.5 million TEUs.

In respect of the operating environment for container industry, new orders for global containers amounted to nearly 3 million TEUs (Source: Container International), representing an increase of over 20% over the last year, with blooming demand. On the other hand, as considerable amount of new capital in 2005 was invested into dry van container manufacturing, the production capacity for the overall industry of dry van container reached 5.8 million TEUs in 2006. The imbalance between the demand and supply in the industry of dry van container further deteriorated, while the supply of main raw materials such as steel and wooden floors was tighter. Furthermore, the fluctuation of international oil price caused the paint price to rise significantly, resulting in massive decline of gross profit for the whole industry. As the plant in Denmark ceased to produce reefer containers, all production bases for global international standard reefer containers were moved to China. As a result, the concentration of the industry was further enhanced, and the competition in the Chinese market was more intensive. With the advancement of the status of China in the international trade division and the manufacturing technology level, the demand for special purpose containers was increasing over years.

In respect of the operating environment for vehicle industry, with the *Several Opinions of the State Council on Accelerating the Invigoration of Equipment Manufacturing Industry* and the 11th Five Year Plan were successively issued in 2006, Chinese economy would be confronted with structural adjustment, and the role of domestic demand-driven would be increasingly remarkable. In 2007, China will fully open logistics area when multinational logistics providers are expected to be more active in participating in the competition in the Chinese logistics market, and the demand for various new high-level vehicle types that comply with international standards is expected to continuously increase. Enlarging investments in infrastructure construction by China will boost the demand for engineering special purpose vehicles. In addition, the state continued to bring the overrun and overload under control, and launched weight-based toll system. These measures further improved the market environment for road transport vehicles. All the above factors are beneficial for the long-term development of the Group’s road transport vehicle business.

——Core business develops in-depthly, and all-round competitiveness increases steadily

Since 1996, the **container business** of the Group has ranked No. 1 in the world in terms of output and sales volume. Its leading position in the industry is increasing, and currently has 13 dry van container bases, 2 reefer container bases and 5 special container bases throughout the major ports in China, with annual production capacity of 2 million

TEUs and nearly 400 product offerings. After four-year's development, **tank container business** has become the largest tank container manufacturer and provider in the world, and its global market share among IMO tank containers was over 50% in 2006. As a strategic resource industry, **container wooden floor** business has 3 production bases, namely Inner Mongolia, Jiashan and Xinhui in the North, East and South of China, respectively, offering great support for the development of the Group's other businesses. **Depot business**, as the strategic extension of container business in service field, has formed 9 depot networks covering domestic major arterial ports, and implemented the industry concept of "providing one-stop and whole life circle products and services to the customers", as well as strengthened and enhanced the leading position of the container business in the industry.

With its inception in 2002, **road transport vehicle business** rapidly formed its operation scale and product series. It constantly improved its base layout and distribution network, and its industry size and position was steadily increased. Currently, it has 13 production bases and 8 4S shops in the Northeast, North, East, South and Northwest of China and America. In 2004 and 2006, it ranked No. 1 in China and No. 1 in the world in terms of total output and sales volume respectively. In 2006, it produced and sold 88,000 special vehicles of various types, and the container chassis exported to America represented over 50% market share in the American market.

The **airport equipment business** made full use of the market opportunities brought by the rapid development of Chinese economy, aggressively forging ahead under fierce competitive environment. As a result, the business achieved rapid development, and has become the largest passenger boarding bridge provider in the world and the first-class aviation warehouse provider in China.

In 2006, the Group had conducted active planning in respect of new businesses including tank equipment, railway container terminal construction, and explored new development space in modern transportation equipment field.

——Industry structure is evidently optimized, and the relevant diversified pattern is basically formed

Over the past five years, the Group's revenue and net profit increased to RMB 33.2 billion and RMB 2,834 million in 2006 from RMB 6.77 billion and RMB 543 million in 2001, representing nearly 4 times and over 4 times growth respectively, with annual average growth rate amounting to 37%, being the fastest development period in 25 years since the establishment of the Group. Apart from high growth of major business income, the Group's industry structure was obviously optimized, and the development prospect of each business was promising, which strengthened its ability to resist the risk of industry periodic fluctuation due to single product.

While the container business maintained its leading position in the industry, the newly launched road transport vehicle business in 2002 rapidly formed its operation scale and product series, and achieved its phase development strategy and planning target in all respects. Meanwhile, its industry size and position was steadily increased, and its output and sales volume ranked No. 1 in the world, becoming the second largest business of the Group. The sales income from this business in 2006 was higher than the total income of the Group in 2001, equivalent to creating another CIMC in five years.

The market share of tank container business, which starts its development in 2002, has ranked No. 1 in the industry in the world. Many offerings from special container business have also ranked No. 1 in the industry. The reefer containers have extended to special reefer containers from standard reefer containers, the market share of which has ranked No. 1 in the industry.

——Implement sustainable development strategy, and become a responsible industry leader

Through establishing a technical development system of "centralized management, distributed research and development and distributed production", a technical innovation system guided by the idea of "innovation pushing forward the value-adding" had come into being. The Company has developed 366 items of container and vehicle new products in the full year of 2006, with technological innovation effects growth of 103% over the same period last year, and applied for 356 patents, including 156 invention patents.

The Company actively participated in the formulation of industry standards, and held or participated in the formulation of 33 items of international, national and industry standards. In December 2006, China Customs as the leader, together with the relevant government authorities and industry associations, announced to formally start the research and development of Chinese smart secure containers and the formulation of the standards. The Company became the leading enterprise for the research and development of smart secure container body and formulation of the standards.

The Company actively adopted new technology and process to develop key projects in environment protection, resource saving and intelligence, such as consolidated power saving reconstruction, paint and waste gas governance, environment protection wooden floor, green paint and vehicle lightweight design. The Company also actively participated in the research and development of Smart Secure Container (SSC) project, and made encouraging progress, leading the industry to healthy development in such directions as environment protection, security, energy saving, intelligence, enhancement of land utilization, occupation sanitation, etc.

Moreover, the Company supported social services and education development through contributing various social services, setting up scholarships for students and teachers in colleges and universities.

——Complete the share equity relocation scheme successfully, and continue to enhance the management level of relationship with investors

In April 2006, the Company successfully completed the share equity relocation scheme upon communication between holders of non-negotiable shares and all other investors of A shares, which won the recognition from the capital market.

The Company kept a good communication with investors, securities analysts and medium with such means as telephone consultation, company investigation, road show on the network, spot recommendation and the company websites. It also enhanced and improved the service for investors continuously. The investor relation management of the Company won consensus recognition from the market and investors.

In 2006, the Company was selected as the *Top 50 Best Growth Listed Companies in 2006* by CapitalWeek, the *CCTV 2005 the Most Valuable Listed Company*, the *Best Investor Relation in 2006* and *China Golden Secretary of the Board of Directors* by the STOCK EXCHANGE EXECUTIVE COUNCIL and Hexun web, and the second *Golden Secretary of the Board of Directors* by New Fortune.

The Company was granted "AA+" in the corporate governance rating conducted by SINO-HAWK CREDIT RATING CO., LTD. and Shenzhen Securities Information Co., Ltd. of Shenzhen Stock Exchange.

The Company was awarded the *Top 150 Asia Listed Companies in 2006* by Business Week Magazine, and awarded the *Top 100 Emerging Global Companies* by Boston Consulting Group.

In addition, the Company was successively selected as the constituent stock of the Dow Jones CBN China 600 Sector Blue-Chip Index and the sample stock of SHANGHAI SHENZHEN 300 INDEX, the first unified index in Chinese securities market.

(2) Major business scope, industry background and operation state

The Company dedicates itself to modern traffic and transportation equipment manufacturing and services. Currently, its major business includes the design, manufacturing, sales and services of such traffic and transportation equipment as containers, road transport vehicles and airport equipment. In addition, a small quantity of real estate is included in the business of the Group.

The Group is the largest container manufacturer in the world, which can produce all of the series of container production and own independent intellectual property rights. Dry van containers, reefer containers, special purpose containers and tank containers are major products.

Road transport vehicle is the new business the Group stress to exploit, which has become the No. 1 manufacturer in China. The total output and sales volume ranked No. 1 in China in 2004, and ranked No. 1 in the world in 2006.

The containers and road transportation vehicles account for over 10% of major business income or profit amount of the Group.

The analysis of the compositions of and changes in major business income and profit is as follows:

Unit: RMB Million

On businesses	Major business income	Major business cost	Gross profit （%）
Containers	25,876	22,681	12.35%
Road transport vehicles	7,121	5,974	16.11%
Others	342	257	24.84%

Inter-segment elimination	-139	-224	-
Total	33,200	28,689	13.59%

On regions	Major business income	Proportion in income (%)	Year-on-year Increase/decrease (%)
America	8,647	26.05	0.18
Europe	11,905	35.86	-3.26
Asia	12,002	36.15	27.05
Others	645	1.94	16.56
Total	33,200	100.00	7.31

Container Business

In 2006, the sale income was RMB 25.876 billion, with a year-on-year decrease of 2.92%. 1,564,100 TEUs were produced and 1,568,900TEUs were sold in total, with a year-on-year increase by 19.90% and 15.24% respectively. Up to the end of the year, 24 containers manufacturing factories were owned by the Company, distributing at 11 major coastal ports or cities in China.

——Normal dry van containers

Normal dry van containers are international standard containers used by various cargos that do not need temperature adjustment.

The Group currently has 15 dry van container bases throughout major ports in China. The container plant in Yangshan of Shanghai, with production capacity of 200,000 TEUs, was put into operation at the end of 2006. Up to the end of the year, the annual output of normal dry van containers of the Group reached 1.8 million TEUs.

In 2006, 1,349,900 TEUs of normal dry van containers were sold by the Group in total and sales income was RMB 17.77 billion, with a year-on-year increase of 12.05% and decrease of 11.01% respectively. The global container orders nearly reached 3 million TEUs, with a year-on-year increase of over 20%. However, the production capacity of the industry of dry van container amounted to 5.8 million TEUs in 2006, due to the rapid growth of the production capacity of dry van containers. The imbalance between the demand and supply in the industry of dry van container further deteriorated, and the average price in the industry declined. Meanwhile, the supply of main raw materials such as steel and wooden floors was tighter, and the fluctuation of international oil price caused the paint price to rise significantly. The cost per container once rose by 40% in the third quarter, resulting in massive decline of gross profit for the whole industry.

——Reefer containers

Reefer containers widely apply to storage and long-distance transportation of primary products such as fruits and vegetables, and foods such as beverages, dairy products and meats. In 2006, 185,000 TEUs of reefer containers were produced in the world, with a year-on-year increase of 7.6%. The price of global reefer containers reached the top in 2004, with slight decline in 2005 and moderate rising in 2006.

Currently, the Group has two manufacturing bases in Shanghai and Qingdao, and the output is over 60,000 TEUs. The Group kept the leading place in this industry. In 2006,101,400 TEUs were sold in total, with a year-on-year increase of 17.42%. The sales income was RMB 3.465 billion, increased by 17.12% compared with the same period last year, and reached a new record in history. Meanwhile, the fluctuation of price of international nonferrous metal materials caused the price of stainless steel, the major raw material of reefer containers, to rise significantly, resulting in rising of production cost and decline of gross profit.

——Tank containers

As one of major storage and transportation vehicles for various gases and liquid cargos of oil, chemical and food industries, tank containers have the advantages of high technical contents, safe and environment-friendly, and can be used for combined transport by rail and sea, and even for door-to-door service. In recent years, the production of tank containers is being moved to China from overseas.

The Group currently has two major manufacturing bases in Nantong and Zhangjiagang. In 2006, the sales income of tank containers was RMB 1.384 billion, with a year-on-year increase of 28.07% respectively. The market share ranked No. 1 in the industry in the world.

——Special purpose containers

Other special container businesses include standard special purpose containers, area special purpose containers, folding containers, special reefer containers and pallet containers (including the tank pallets). The Group's five special container bases were distributed at Dalian, Tianjin, Nantong, Xinhui and Qingdao.

In 2006, the sales income was RMB 3.056 billion with a year-on-year increase of 37.88%. 625,100 TEUs of pallet containers were sold in total, with a year-on-year increase of 36.52%.

——Container wooden floor

Container wooden floor business is the strategic resource industry of the Group, and its production bases were distributed at Xinhui of Guangdong, Jiashan of Zhejiang and Yakeshi of Inner Mongolia. The development of container wooden floor business strengthened the core competitiveness of container business, and provided strong support for vehicle industry.

In 2006, the sales income was RMB 1.315billion, with a year-on-year increase of 98.30%.

——Container comprehensive service

The storage yards and service bases for containers provided services such as transfer, storage, repair, maintenance and retread and reconstruction of dry van containers, reefer containers and special purpose containers for customers.

Based on the concept of providing one-stop and whole life circle products and services to the customers, the container comprehensive service business, as the strategic extension of container business in service field, achieved rapid development. The 9 depot container service business networks covering domestic major arterial ports were established, and the business scope was extended to port container logistics and third party container logistics.

For the full year, the depot service business repaired 134,000 TEUs of containers and handled 2,038,000 TEUs of containers (Note: the above business volume excludes that of Dalian Jilong, Tianjin Zhenhua and Xiamen Haitou. The three share-participating enterprises repaired 126,600 TEUs of containers and handled 2,196,800 TEUs of containers for the full year), with a year-on-year increase of 48.9% and 78.1% respectively. The sales income was RMB 177million, with a year-on-year increase of 614.07%.

Road transport vehicle business

In 2006, the Company sold 88,370 vehicles in total, representing an increase of 66.56% over the corresponding period last year, and recorded sales revenue of RMB 7.121 billion, representing an increase of 67.76% over the corresponding period last year. The production base in the PRC manufactured and sold 80,407 special purpose vehicles in total and recorded a sales revenue of RMB 5.724 billion, representing an increase of 66.89% and 77.70 % respectively over the last year, while the production base in USA sold 7,963 vehicles in the year and recorded a sales revenue of RMB 1.329 billion, representing an increase of 63.34% and 61.45% respectively over the last year. The role of the vehicle business as one of the principal businesses of the Group has been established.

The profitability of the vehicle business improved significantly with a gross profit margin of over 15%; the contributions of the vehicle business to the overall profit of the Company also improved remarkably.

The Company continued to expand its production base through mergers and self-construction. Currently, the Company has thirteen production bases in Shenzhen, Yangzhou, Zhumadian, Jinan, Qingdao, Zhangjiagang, Xinhui, Yingkou, Baiyin, Xi’an, Tianjin and Shanghai in the PRC as well as Indiana in USA with an annual production capacity exceeding 120,000 vehicles, laying a solid foundation for the rapid growth of the vehicle business.

The Company is offering an increasingly diversified range of products and has started to shift more efforts on products with high standards of technology and high added value. The product line of the Company covers five categories of products, including ordinary semi-trailers (container semi-trailer, container chassis and flat semi-trailer), tankers (powder tanker, refueling truck, pressure tanker, low temperature tanker and tank semi-trailer), construction vehicles (dump trucks and cement-stirrer vehicle), vans (van semi-trailer, ordinary van and refrigerated van) and special vehicles (such as car transport vehicles and emergency communication vehicle). The Company is shifting more efforts on special purpose vehicles such as sanitation vehicles and fire-fighting vehicles.

To boost the construction of a vehicle marketing service network, the Group is making great efforts to build up a one-stop full lifecycle vehicle service system, which, with 4S stores as its basis, aims to exploit synergy effects by exploring the regional consolidation in marketing and facilitating the establishment of a unified marketing and service system. In addition to the three 4S stores in Shanghai, Beijing and Shenzhen, the Group has or is preparing to set up 4S stores in Tianjin, Ningbo, Guangzhou, Xiamen and Fuyang. The marketing and service network of the Group in the developed coastal areas in the PRC is forming its shape. By providing integrated marketing service, vehicle 4S stores can meet to the maximum the customized demands of customers for products and services.

In 2006, the research and development system of the Group’s road transport vehicle business continued to develop. The Group has, from the very beginning of basic research and development, carried out technical researches on new materials, new products and new processes with a view to promote the sound development of the road transportation vehicle industry in the PRC and offer safe, environment-friendly and energy-saving road transportation equipments, and has developed a number of leading products with lightweight, highly efficient, energy saving and anti-overload designs. In April 2006, six vehicle models of the Group were included in the first batch of recommended vehicle models for road cargo transportation vehicles and combination vehicles by the Ministry of Communications. Further, the Group has taken an active part in the formulation of the national standards for vehicle industry.

The procurement of the Company of certain components and parts has been globalised and substantial progress has been made in the Company’s efforts to make certain critical parts domestically, which help the Company to improve its management process towards qualified suppliers of domestically made components and parts and establish closer partnerships with major suppliers of components and parts and manufacturers of heavy trucks.

In exploiting overseas markets, the Company has taken an active part in boosting the "Sino-US Interaction" and endeavored to enhance the competitiveness of the products from the production base of CIMC in North America by stepping up the proportion of domestically supplied components and parts in the production base of CIMC in North America while making an effort to export more products to overseas markets.

Airport support equipment

The airport support equipment business of the Group mainly covers the manufacture, sale and service of such products as boarding bridge, air cargo terminal, ship boarding bridge and urban multistory parking garage.

In 2006, the Company sold 75 passenger boarding bridges in total and recorded a sales revenue of RMB 168 million, representing an increase of 5.42% over the corresponding period last year. Passenger boarding bridges of the Group occupied a market share of over 90% in the domestic market and over 40% in the global market, becoming another product of the Group that ranks first in the world.

In April 2006, the four boarding bridges specially made by Group for A380 passenger plane were delivered to France De Gaulle Airport. In December 2006, the Group won an bid to build an equipment system for the air cargo terminal in phase II of Shanghai Pudong Inernational Airport Project, the largest new air cargo terminal in the world. With an total contract sum of 16 million Euros for equipment system, this cargo terminal has an designed annual handling capacity of 1.2 million tons and also a world leading level of automation and intelligence in its equipments.

(3) Suppliers and customers

In the reported period, the purchases of the Group from its five largest suppliers amounted to RMB 14,732,048,000, representing 44.60% of its annual total purchases, and the sales of the Group to its five largest customers reached RMB 7,816,413,000， in aggregate, representing 23.57 % of its annual total sales. None of the major related parties or shareholders holding 5% shares of the Company has any interests in such suppliers or customers.

(4) Analysis of changes in the composition of the assets and expenses of the Company

Unit: RMB million

Items	2005	2004	Increase or decrease (%)
Total assets	23,336	17,020	37.11%
Total liabilities	10,165	6,509	56.17%
Trade and other receivables	7,421	4,410	68.28%
Inventories	4,772	3,435	38.92%
Property, plant and equipment	4,670	4,185	11.59%
Short term bank loans	859	502	71.12%
Long term bank loans	723	436	65.83%
Distribution costs	981	-684	-243.42%
Administrative expenses	1,102	1,014	8.68%
Net financial income and expense	-290	89	-425.84%
Income tax	232	-225	-203.11%
Ratio of liabilities to total assets	43.56%	38.25%	5.31%

The Company maintained favorable main assets indices in the year, with an increase in the ratio of liability to assets and a slight acceleration in the turnover of accounts receivable.

The considerable increase in accounts receivable and inventories was mainly due to the expansion of operations, the relatively large scale maintained for principal business as at the end of the year and more subsidiaries being included in the range of mergers.

The substantial increase in short term and long term borrowings was mainly due to the expansion of operations and more subsidiaries being included in the range of mergers.

The year-on-year decrease in administrative expenses was due to the write-back of provisions for impairment of inventories of approximately RMB 240 million in the first quarter.

The significant decrease in Net financial income and expense was mainly due to the lower financing costs and the increase in exchange gains or losses.

2. Outlook for the Future Development of the Company

The directors of the Company believe that "peace, development and cooperation" will remain as the prevailing themes for the next five years in spite of the increasingly sophisticated global economic environment. Currently, the global economy is undergoing the third wave of globalization which started from the early 1990s and is still flourishing nowadays. This "new globalization" wave is mainly characterized by the redeployment, re-division of labour and reconstruction of the global manufacturing industry. However, the PRC will in a fairly long period possess unsurpassable competitive edges in terms of the factors of production other than technology. The relocation of global manufacturing industry players into the PRC has become an unavoidable trend for the five years to come. The industry transfer brought by the new wave of globalization has been bringing profound changes to the PRC and the world, as a result of which, the traditional growth pattern that focuses on processing and participates in the international division of labour with cheap labour and resources is no longer suitable for a manufacturing industry of equipment that requires higher standards of technologies, and competitions will surely be focused on such fields with higher added values.

In respect of the domestic policy environment of the PRC, the government is committed to fully carry out a "scientific view of development" to construct a harmonious socialist society, build an innovative country and boost the sustainable development of the economy and the society at all levels. In 2006, the *Several Opinions of the State Council on Accelerating the Invigoration of Equipment Manufacturing Industry* and the Eleventh Five-year Plan were issued, outlining the specific goals for economic development of the country by 2010. It is foreseeable that the government will take more macroeconomic measures to streamline the structure of the industry, enhance the upgrading of the industry and improve the capacity of independent innovation of the industry, and the large enterprises in the PRC will further speed up their internal reforms and conversions of operating mechanism to achieve rapid development through such market means as mergers and consolidation.

In view of the changes in the situations of the world economy and the upgrading of the domestic industrial structure, the Group shall take an active part in such changes and upgrading to contribute more to the invigoration of the nation. Firstly, the Group shall take advantage of its international operating capabilities and the strengths of the PRC in manufacturing to participate in the international division of labour and industrial restructuring and thus speed up the construction of a "**globalised operating system based on the competitive strengths of the PRC**". Secondly, at the new stage of the development of the industrial structure of the PRC, the Group shall take every opportunity to explore new markets and seek spaces for future development in line with the new requirements for industrial restructuring.

Capitalizing on the competitive strengths of the PRC, the Group intends to develop into a globalised enterprise group that has a even more solid leading position in the container industry, has leading mainstream vehicle products in the international mainstream market, has a much higher proportion of service revenue in its operating income, has new industry supporting its future development, has competitive edge in brands and resources to create higher values and has a stable platform for globalised operations, and become a more responsible and more environment-friendly leader in the business sector in which it operates that enjoys more respects and more harmonious labor relationships.

(1) Industry Development Trend and Market Outlook

—— Overall demands for containers will grow steadily and special reefer containers and reefer containers will maintain their good momentums for growth

It is expected that the fast growth of the world trade will continue and the trade volume of containers will maintain its momentum for steady growth. The number of containers disposed of will increase steadily. Therefore, the overall demands for containers will continue to maintain a momentum of steady and small growth. The reefer containers and special reefer containers market will continue to maintain a good momentum for continuous and healthy development. However, the dry van containers market, which is influenced by serious superfluity, will face increasingly tough competition.

——Road transportation vehicles market will maintain a steady growth

In respect of the road transportation vehicles market, as the fast economy growth of the PRC is expected to continue in 2007, the growth driven by domestic demands will bring more benefits to the market. Since the logistics industry of the PRC has been fully opened up and large foreign logistics enterprises will speed up their paces to penetrate into the PRC market, the demands for new vehicle models in line with high international standards will be increasing. Along with the increase of investments in infrastructure, demands for special purpose vehicles for construction will increase. Further, as the government is making more efforts to promote the system of charge by weight, applications of new materials and the high efficient and lightweight designs of vehicle models will gain recognitions from customers gradually. It is expected that the overall demands for special purpose vehicles will maintain a good momentum for steady growth.

——Airport support market has more spaces for development

It is expected that, in 2007, the airport construction in the PPC will keep its fast pace, there will still be spaces for exploitation in the international market and the PRC will continue to enjoy its comparative advantages in the manufacturing industry.

(2) Overall operating measures for business development

In respect of the **container business**, the Company will make efforts to enhance its competitiveness to face the fierce competition in the market, lead the healthy and steady development of the industry via improvements in technology and management and reinforce the development of special purpose vehicles to consolidate its leading position in the industry, thus laying a solid foundation for the development of other businesses of the Group. In particular, the Group will take a leading role in the upgrading of environment-friendly, energy-saving, safe and intelligent products, supply chain management, fine management, patents and intelligence property rights protection, labour safety and sanitation and other aspects of the container industry. The Group will seek a service model that can support the development of the principal businesses of the Group so as to enrich its one-stop full lifecycle vehicle service.

In respect of the **vehicle business**, the Company will endeavor to further improve its base network layout and develop mainstream products for mainstream markets to expand its market penetration. Further, the Company will continue to improve its operating model based on the competitive strengths of the PRC and the Sino-US interaction to explore and seek competitive edge from a complete industry chain, and continue to boost the construction of its marketing service system to create a new marketing network model for the special purpose vehicle industry.

In respect of the **tank equipment business**, the Company will boost the construction of the business platform in Europe and endeavor to develop products with international competitiveness by developing new capabilities and product lines and consolidating its world leading ISO tank containers business.

The Company will make efforts to improve its innovation system and innovative capability and facilitate the implementation of its projects for environment-friendly, energy-saving and intelligent products to reduce energy consumption and environmental complaints and boost the upgrading of the industry and its products.

To meet the requirements of a globalised operation in the future, the Company will further reinforce the construction of its human resource system and the work to attract, retain, explore, inspire and reserve talents. With a view to build harmonious labour relationships with its staffs, the Company will enhance the management of labour relationships at all levels and improve the remunerations and benefits of its employees to increase their satisfaction towards the Company. Further, the Company will enhance the management of labour safety to reduce accident rate and pursue the concept of "strengthening the country, enriching the people and realizing common development".

The Company will take steps to construct a systemised brand management system, aiming to build a world-class brand. Also, the Company will further enhance the recognition of the general public on the brand of CIMC and to explore brand values in its investing and financing activities, international and domestic cooperations, mergers, business expansions, government resource development and ordinary business activities.

(3) Capital expenditure and financing plan

According to the market situation, it is estimated that capital expenditure of main projects are investment of about RMB 900 million in container manufacture business, RMB 300 million in container comprehensive service business, RMB 1800 million in road transportation vehicle, and RMB 500 million in other business.

Such expenditures will primarily be funded by its own capital and bank borrowings.

(4) Risk factors for future development

In 2007, developing countries like the PRC and India will maintain their good momentums for strong economic growth, whereas the overall growth of the world economy will slow down. For those major economies like USA, the Europe and Japan, the slowdown will be sharp.

Rises and frequent fluctuations of the price and the supply shortage of primary products such as energy products and industrial raw materials have become a major uncertain factor for the development of the world economy.

Meanwhile, due to the severe global imbalance of current account and strong anticipations for a unilateral appreciation of the RMB, market risks brought by exchange rate changes are becoming more visible.

The principal businesses of the Group are correlated to the development of the world trade and the economic growth of the manufacturing industry and the export of the PRC. Such slowdown of the global economy, fluctuations of the price of energy products and industrial raw materials and changes in the exchange rate of the RMB as mentioned above will have impact on the growth of the Group's business and the efficiency of the Group's operations.

The Group will keep a close eye on the development of the global economy and the changes in the world trade adjust its operating strategy in a timely manner and enhance the management of supply chain and capitals to cope with the changes in the business environment.

6.1.1 Possible accounting policies change and accounting estimate change subsequent to implementation of new accounting standards and the impact on the Company's financial status and operating results

√ Applicable ☐Inapplicable

(1) Analysis of difference between shareholders' equity calculated according to the current accounting standards and that calculated according to new accounting standards on January 1, 2007 from which new accounting standards are implemented:

① Long-term equity investment difference

In accordance with new accounting standards, if there is credit balance for long-term equity investment calculated on equity method on January 1, 2007, except that generated by the merger of enterprises under the same control, credit balance would be written off and retained earnings would be adjusted. As a result, shareholders' equity would be increased by RMB11,479,162.87.

② Financial assets calculated according to fair value whose change is recorded in the current profits and losses and financial assets available for sale

In accordance with new accounting standards, marketable financial assets and financial assets available for sale were calculate based on fair value on January 1, 2007, and retained earnings would be adjusted according to the difference between book value and fair value. As a result, shareholders' equity would be increased by RMB1,138,900,441.41.

③Income tax

In accordance with new accounting standards, income tax would be calculated according to debt method of balance sheet. As for the temporary difference between book value of assets and liabilities and their tax base should be recognized as deferred income tax assets or deferred income tax liabilities according to relevant terms. Retained earnings would be adjusted according to the amount affected. As a result, shareholders' equity would be decreased by RMB50,755,784.95.

④ Derivative financial instruments

In accordance with new accounting standards, derivative financial instruments also should be calculated and recognized based on Accounting Standard No. 22. All the derivative financial instruments involved by the Company confirmed with definition and demands by fair value measurement, which the changes are recorded in current profits and losses. Derivative financial instruments were measured according to fair value by the Company, and retained earnings would be adjusted according to the amount affected. As a result, shareholders' equity would be increased by RMB9,063,196.63.

⑤ Minority interests

In accordance with new accounting standards, the minority interests in the consolidated statements prepared by the Company on December 31, 2006 in accordance with current accounting standards would be stated as shareholders' equity on January 1, 2007. As a result, shareholders' equity would be increased by RMB848,198,143.75 .

(2) Possible accounting policies change and accounting estimate change subsequent to implementation of new accounting standards and the impact on the Company's financial status and operating results:

① Long-term equity investment

In accordance with the current accounting policies, the long-term equity investment in the subsidiaries would be measured based on equity method by the Company, while such investment would be changed to measure based on cost method in accordance with the provisions in Accounting Standard for Business Enterprises No. 2 -- Long-term Equity Investment, when consolidated accounting statements are prepared, such investment would be adjusted on equity method. Thus, the financial status and operating results of the parent company can be reflected more truthfully in financial statements but the consolidation of financial statements by the Company will not be affected.

② Borrowing costs

In accordance with Accounting Standard for Business Enterprises No. 17 -- Borrowing Costs, if general borrowings are occupied for acquiring or constructing or producing assets satisfying conditions of capitalization during the period of capitalization of borrowing costs, interest on general borrowings would be capitalized. This change of policy will increase the scope of the Company's capitalization and the Company's profit and shareholders' equity.

③ Income tax

In accordance with Accounting Standard for Business Enterprises No. 18-- Income Tax, the Company would change the accounting method of income tax from tax payable to balance sheet debt method. Such change of accounting policy would affect the Company's income tax expenses of the current period and thus affect the Company's profit and shareholders' equity.

④ Consolidated financial statements

In accordance with the current accounting policies, the Company would separately state minority interests in the consolidated financial and accounting statements. In accordance with Accounting Standard for Business Enterprises No. 33 - Consolidated Financial Statements, the Company would state minority interests with the item of "minority interests" under shareholders' equity in consolidated balance sheet. The change of such policy would affect the shareholders' equity of the Company.

6.2 **Statement of main business classified according to industry or product**

The analysis of the compositions of and changes in major business income and profit is as follows:

Unit: RMB Million

On businesses	Major business income	Major business cost	Gross profit （%）
Containers	25,876	22,681	12.35%
Road transport vehicles	7,121	5,974	16.11%
Others	342	257	24.84%
Inter-segment elimination	-139	-224	-
Total	33,200	28,689	13.59%

6．3 Particulars about main business classified according to region

On regions	Major business income	Proportion in income (%)	Year-on-year Increase/decrease (%)
America	8, 647	26.05	0.18
Europe	11, 905	35.86	-3.26
Asia	12,002	36.15	27.05
Others	645	1.94	16.56
Total	33,200	100.00	7.31

6．4 **Application of the raised funds proceeds**

√ Applicable ☐Non-applicable

Units：RMB'0000

Unit: RMB 0'000

Total of proceeds	177,090		Total of proceeds utilised in the year		13,360	
			Total of proceeds utilised accumulatively		160,085	
Committed projects	Proposed investment	Changed or not	Planned investment	Actual investment	Progress	Income generated
Reconstruction of dry cargo container factory	32,906	No	32,906	32,906	100%	12,706

Production expansion of regional & special purpose containers	41,350	No	31,755	31,755	77%	9,648
Reefer Container production expansion project	22,106	No	21,162	21,162	96%	3,426
Tank container	14,539	No	14,539	14,539	100%	9,800
Van semi-trailer	23,156	No	23,156	23,156	100%	1,026
Container chassis	19,021	No	19,021	19,021	100%	18,000
Overseas OEM van semi-trailer	24,012	No	22,066	22,066	100%	255
Total	177,090	—	164,605	164,605	100%	54,861

Proceeds remained unutilised as at the end of the reported period amounted to RMB 109.90 million and were used temporarily as working capital.

Particulars about the changed projects
☐Applicable √ Inapplicable

6.5 **Application of the proceeds not raised by issuing share**
√ Applicable ☐Non-applicable

The investment fund of acquisition of part equity interests in new corporation and subsidiaries amounted to RMB 2,139.25 million

6.6 **Explanation of the "Non-standardized Opinion" of Certified Public Accountants by the Board of Directors**
☐Applicable √ Non-applicable

6.7 The preplan of profit distribution and capital public reserve

√ Applicable ☐Non-applicable

As audited by Deloitte Touche Tohmatsu CPAs, the Company recorded a consolidated net profit after tax and minority interests of RMB2,771,723,086.05. Based on the total share capital of 2,218,663,376 shares as at December 31st 2006, the earnings per share was RMB1.2493. The profit distribution and dividend declaration preplan is hereby proposed as: as per the Articles of Association and the current accounting policies of the Company, the accumulative amount of statutory surplus reserves as at December 31st 2006 has exceeded 50% of registered capital, thus the Company would not appropriate statutory surplus reserves for 2006. Adding retained profit of RMB 2,220,316,436.76 as at the beginning of the year, therefore the profit of the year available for distribution to shareholders is RMB 4,992,039,522.81; based on the total share capital of 2,218,663,376 shares as at December 31st 2006, a cash dividend of 3.8RMB (tax included) will be distributed for every ten shares, representing a total dividend of RMB 843,092,082.88.

Preplan for Capitalization of Common Reserves: common reserves are proposed to be capitalized at a rate of 2 share for every ten shares. Upon that, the total share capital of the Company will increase from 2,218,663,376 shares to 2,662,396,051 shares.

7. Significant Events

7.1 Purchase of assets

☐Applicable √ Non-applicable

7.2 Sales of assets

☐Applicable √ Non-applicable

7.3 Material guarantee contracts

√ Applicable ☐ Non-applicable

External guarantee of the Company (excluding the guarantee for the shareholding subsidiaries)						
Name of the Company guaranteed	Date of occurrence (date of agreement signed)	Amount of guarantee	Guarantee type	Guarantee term	Accomplished or not	Guarantee for related party (yes or not)
Total amount of guarantee occurred in the report period						
Total balance of guarantee at the end of the report period						
Guarantee of the Company for the shareholding subsidiaries						
Total amount of guarantee occurred for shareholding subsidiaries in the report period						
Total balance of guarantee occurred for shareholding subsidiaries at the end of the report period						
Total amount of external guarantee of the Company (Including the guarantee for the shareholding subsidiaries)						
Total amount of guarantee						
The proportion of the total amount of guarantee in the net assets of the Company						
Of which:						
The amount of guarantee provided for shareholders, actual controller and other related parties						
Guarantee amount for the debts of the guaranteed companies with an asset-liability ratio of over 70 percent, directly or indirectly						
The amount by which the total guarantee amount exceeded 50 percent of the net assets						
Total amount of the above three guarantees						

7.4 Important related transaction

7.4.1 Related transaction of business operating

√ Applicable ☐Non-applicable

Unit：RMB'000

Related Parties	Selling products and offering labor service to related parties		Purchasing products and accepting labor service from related parties	
	Amount	Proportion (%)	Amount	Proportion(%)
KYH Steel Holding Ltd.	0.00	0.00	14,230.0	67.00%
Yangzhou Maxi-CUBE Tong Composite Co.,Ltd.	0.00	0.00	7,010.0	33.00%
Total	0.00	0.00	21,240.0	100.00%

Among：An amount of RMB0 occurred during the related transactions of the Company selling products or providing labor service to the controlling shareholder or its subsidiaries in the report period.

7.4.2 Related credits and liabilities transaction

√ Applicable ☐ Non-applicable

Unit：RMB'000

Related Parties	Credit for the Company		Liability form Related Parties	
	Amount	Balance	Amount	Balance
Jiangmen CIMC Tianyu Real Estate Co.,Ltd.	7,793.8	2,2670.0	0.00	0.00
New Atlantic Timber (H.K.) Limited	4,892.0	4,892.0	0.00	0.00
Total	12,685.8	27,562.0	0.00	0.00

Among：The volume of funds that the Company supplies for its big shareholders and their subsidiaries is none.

7.4.3 Progress of repayment on the capital occupied as at the end of 2006

☐Applicable √Inapplicable

7.5 Entrusted assets

☐Applicable √ Inapplicable

7.6 Implementation of commitments

☐Applicable √Inapplicable

7.7 Significant lawsuit and arbitration

√Applicable ☐Inapplicable

On Jan. 12, 2007, Ruihua Investment Holding Limited filed a suit against Yangzhou Runyang Logistic Equipment Co., Ltd., CIMC (B.V.I.) Ltd. and Shenzhen Southern CIMC Containers Service Co., Ltd., the subsidiaries of the Company, and claimed against defendants for compensation amounting to RMB 310 million. The relevant announcements were published in *Securities Times, Shanghai Securities News and Ta Kung Pao* on Feb 30, 2007. (No. [CIMC] 2007—001)

8. Report of the Supervisory Committee

Independent opinions of the Supervisory Committee over issues of the Company occurred in 2005

Independent opinions given by the Supervisory Committee on the following issues of the Company:

1. Operation

The Supervisory Committee seriously fulfilled its obligations in accordance with the relevant regulations of the Company Law, the Articles of Association, etc.. In this year, the members of the Supervisory Committee attended all Board meetings. In conformity with relevant laws and regulations, the Supervisory Committee has conducted supervision over the convening procedures and decision-making procedures of the Shareholders' General Meeting and the Board of Directors, the Board's implementation of the various resolutions made by the Shareholders' General Meeting, as well as the decision-making and operation of the Company, etc.. The Supervisory Committee believed that the decision-making procedures this year had been legal, the internal control system had been perfect, and, while performing their duties, neither the Director, nor the President or the senior management went against the Articles of Association of the Company or harmed the Company's benefit. And there were no power abuse or harm done to the Company's interests, or the shareholders' and employees' interests that had been detected.

2. Inspection over the financial status of the Company:

The Supervisory Committee inspected the businesses and financial status of the Company this year, and examined the Annual Financial Report, Interim Report and other documents prepared by the Board. The Supervisory Committee believed that the Financial Report truthfully and justly reflected the financial status and operation achievements of the Company. In the report period, Deloitte Touche Tohmatsu CPA Ltd furnished a standard unqualified Auditors' Report on the Company's Financial Report 2006, and so did KPMG Hong Kong Certified Public Accountants. The Supervisory Committee believed that the auditing opinions given by both Deloitte Touche Tohmatsu CPA Ltd and KPMG Hong Kong Certified Public Accountants had been objective.

3. Utilizing of proceeds raised from the latest financing activity

The Company finished the increase issue of 0.12 billion A shares, which had raised RMB 1.751 billion (issuing expenses deducted). As at December 31st 2006, all investment project committed by the Company has been completed with raised proceeds of RMB 1.646 billion. The raised proceeds remained unutilized amounting to RMB 109 million would be used in working capital of the Company. The Supervisory Committee considered that such raised proceeds were used in accordance with the commitment in the Prospectus on Increase Insurance of A Shares, there was no change in the investment projects, and the use of raised proceeds was in compliance with the requirements of the relevant rules and brought good prospective income for the shareholders.

4. In the report period, an agreement was signed by between the Company and Burg Industries B.V. (hereinafter referred to as "Burg"), which the Company and one of beneficial shareholders of Burg ---- Mr. Peter van der Burg would jointly establish a new company (hereinafter referred to as "Newco") with registered capital of EURO 60 million. Of which, Mr. Peter van der Burg would invest in EURO 12 million, taking up 20% equity of Newco, while the Company would invest in EURO 48 million, taking up 80% equity of Newco. Newco would purchase 100% equity of Burg at the purchasing price of EURO 108 million. The Supervisory Committee considered that it was in compliance with the Company's long-term strategies for development that extension of its existing product line into the fields of static storage tanks and terminal equipment.

The aforesaid purchasing prices of the Company were reasonable, and the transaction was in accordance with legal procedures. No inner transaction or cases that would do harm to part of the shareholders or lead to the loss of the Company's assets has been detected.

5. In the report period, CIMC Holdings (B.V.I.) Limited, a wholly-owned subsidiary of the Company, signed a Share Transfer Contract with COSCO Pacific (China) Investment Limited, which stated that COSCO Pacific (China) Investment Limited would transfer 20% equity of Shanghai CIMC Far East Container Co., Ltd (hereinafter referred to as Shanghai Far East) it held to CIMC B.V.I. Limited at the share transfer price of USD 6.2523 million. Since COSCO Pacific (China) Investment Limited is a wholly-owned subsidiary of COSCO Pacific Limited and its legal representative Sun Jiakang is a director of the Company, further more, COSCO Pacific Limited held 16.23% equity of the Company through its wholly-owned subsidiary COSCO Container Industries Limited. Thus, this event forms a related transaction.

The aforesaid prices of associated transaction of the Company were reasonable, and the transaction was in accordance with legal procedures. No inner transaction or cases that would do harm to part of the shareholders or lead to the loss of the Company's assets has been detected.

9. Financial Report

9.1 Auditor's Opinion

KPMG Certified Public Accountants audited 2006 Financial Report of the Company, and issued unqualified Auditor's Report.

9.２ Income Statement, Balance Sheet and Cash Flow are as follows:

9.2.1 Consolidated income statement for the year ended 31 December 2006

	2006 RMB'000	*2005* RMB'000
Revenue	33,199,629	30,938,522
Cost of sales	(28,528,419)	(26,242,983)
Gross profit	4,671,210	4,695,539
Other income	525,078	290,091
Distribution costs	(981,326)	(684,157)
Administrative expenses	(1,102,529)	(1,013,964)
Other operating expenses	(176,627)	(42,489)
Profit from operations	2,935,806	3,245,020
Finance income and expense	290,261	(89,082)
Share of profits less losses of associates	22,876	16,285
Profit before taxation	3,248,943	3,172,223
Income tax	(232,075)	(224,624)
Profit for the year	3,016,868	2,947,599
Attributable to:		
Equity holders of the Company	2,834,288	2,807,466
Minority interests	182,580	140,133
Profit for the year	3,016,868	2,947,599
Dividends payable to equity holders of the Company attributable to the year:		
Final dividend proposed after the balance sheet date	954,025	766,447
Earnings per share (RMB Yuan)		
Basic	1.28	1.27

9.2.2 Consolidated balance sheet at 31 December 2005

	2006 RMB'000	*2005* RMB'000
Non-current assets		
Property, plant and equipment	4,670,102	4,185,522
Lease prepayments - non-current portion	989,622	638,800
Construction in progress	342,949	236,765
Timber concession rights	65,694	73,905
Intangible assets	30,432	28,649
Goodwill	293,682	105,068
Interest in associates	491,592	159,456
Interest in jointly controlled entity	128,596	-
Finance lease receivable	58,464	68,006
Prepayment for investments	64,819	38,830
Deferred tax assets	114,780	85,843
Other financial assets	1,616,066	291,536
	8,866,798	5,912,380
Current assets		
Lease prepayments - current portion	43,665	15,590
Trading securities	215,634	419,401
Inventories	4,772,042	3,435,181
Trade and other receivables	7,420,827	4,409,694
Cash and cash equivalents	2,016,872	2,828,223
	14,469,040	11,108,089
Current liabilities		
Trade and other payables	7,727,739	4,891,039
Bank loans	859,225	501,520
Current taxation	121,594	129,202
Provisions	565,329	552,086
	9,273,887	6,073,847
Net current assets	5,195,153	5,034,242
Total assets less current liabilities	14,061,951	10,946,622
Non-current liabilities		
Bank loans	725,800	435,650
Deferred tax liabilities	165,536	-
	891,336	435,650
NET ASSETS	13,170,615	10,510,972

	2006 RMB'000	*2005* RMB'000

CAPITAL AND RESERVE

Share capital	2,218,663	2,016,967
Reserves	10,085,152	7,596,820
Total equity attributable to equity holders of the Company	12,303,815	9,613,787
Minority interests	866,800	897,185
TOTAL EQUITY	13,170,615	10,510,972

9. 2. 3 Consolidated cash flow statement for the year ended 31 December 2006

	Note	*2006* RMB'000	*2005* RMB'000
Operating activities			
Profit before taxation		3,248,943	3,172,223
Adjustments for:			
Depreciation		369,785	305,229
Impairment losses of prepayment for investments		-	5,414
Impairment losses of positive goodwill		-	14,447
Amortisation of other intangible assets		5,288	2,945
Amortisation of timber concession rights		5,679	5,839
Gains on recognition of negative goodwill		(165)	(5,917)
Net losses on sale of property, plant and equipment		1,719	10,516
Bank interest income		(79,649)	(58,858)
Finance costs		112,393	126,699
Net gains on disposal of partial interests in subsidiaries		(1,819)	-
Net realised and unrealised gains on trading securities		(327,096)	(26,056)
Dividend income from investments in equity securities		(24,901)	(10,367)
Share of profits less losses of associates		(22,876)	(16,285)
Operating profit before changes in working capital		3,287,301	3,525,829
Increase in lease prepayments		(386,277)	(162,625)
Decrease in long-term receivables		1,750	3,402
(Increase)/decrease in trade and other receivables		(3,128,520)	1,464,108
(Increase)/decrease in inventories		(1,340,151)	1,064,751
Increase/(decrease) in trade and other payables		2,802,718	(347,471)
Increase in provisions		9,615	14,188
Cash generated from operations		1,246,436	5,562,182

Tax paid	(270,958)	(330,023)
Net cash generated from operating activities	975,478	5,232,159

	2006 RMB'000	*2005* RMB'000
Investing activities		
Interest received	82,999	59,379
Payment for the purchase of property, plant and equipment	(237,055)	(239,227)
Payment for the purchase of intangible assets	(8,458)	(15,670)
Payment for construction in progress	(794,898)	(996,642)
Payment for purchase of equity securities	(200,439)	-
Prepayment for investments	(64,819)	(44,244)
Payment for acquisition of associates	(474,706)	(45,021)
Payment for acquisition of minority shareholdings	(344,554)	(42,786)
Loan to an associate	(4,892)	(18,000)
Repayment of loan to an associate	8,829	-
Net cash acquired / (paid) arising from acquisition of subsidiaries	128,118	(6,470)
Net proceeds from / (net payment for) investments in trading securities	524,251	(263,750)
Dividend received from investments in equity securities	14,960	10,367
Dividend received from an associate	2,153	2,257
Dividend received from trading securities	9,941	-
Proceeds from sales of property, plant and equipment	56,016	23,998
Proceeds from dissolution of interest in an associate	-	8,219
Proceeds from sale of partial interest in subsidiaries	12,811	-
Repayment of advances by minority interests	8,959	7,769
Advances to minority interests	-	(5,374)
Net cash used in investing activities	(1,280,784)	(1,565,195)

	2006	*2005*

	RMB’000	RMB’000
Financing activities		
Interest paid	(102,685)	(117,408)
Other borrowing costs paid	(5,433)	(7,191)
Proceeds from new bank loans	9,941,735	11,841,263
Repayment of bank loans	(9,444,526)	(13,399,538)
Capital injection from minority interests	12,704	10,171
Dividends paid to equity shareholders of the Company	(766,447)	(504,241)
Dividends paid to minority interests	(64,053)	(81,391)
Net cash used in financing activities	(428,705)	(2,258,335)
Net (decrease)/increase in cash and cash equivalents	(734,011)	1,408,629
Cash and cash equivalents at 1 January	2,828,223	1,483,165
Effect of foreign exchange rate changes	(77,340)	(63,571)
Cash and cash equivalents at 31 December	2,016,872	2,828,223

9.3 **There are not any changes in Accounting Policies & Accounting Estimates or settlement methods compared with the latest annual report.**

☐ Applicable √ Non-applicable

9.4 **Important Accounting error: content, correction of errors, causes of errors and its effects**

☐ Applicable √ Non-applicable

9.5 **Explanation of change of consolidation scope in the report period compared with the latest annual report.**

√ Applicable ☐Non-applicable

In the report year, the subsidiaries brought into the consolidation scope are as following:

Newly incorporated company ：

Name	**Date of Registering**	**Registered capital**		**Equity held （%）**
1 Jiaxing CIMC Wood Co., Ltd.	2006.01.23	USD	5,000,000.00	100.00
2 Beijing Vehicle Sales & Service Co., Ltd	2006.03.09	RMB	5,000,000.00	100.00
3 Yangzhou Tonglee Reefer Equipment Co., Ltd.	2006.04.14	USD	1,000,000.00	100.00
4 Shanghai CIMC Second Handed Vehicle Agent Co., Ltd.	2006.05.30	RMB	1,000,000.009	8.00

5 Gansu CIMC Huajun Vehicle Co., Ltd.	2006.06.06	RMB	25,000,000.00	75.00
6 Ningbo Zhongze Imports and Exports Trading Co., Ltd	2006.06.12	RMB	5,000,000.00	100.00
7 Tianjin CIMC Vehicle Logistics Equipment Co., Ltd.	2006.08.21	RMB	10,000,000.00	100.00
8 CIMC – SHAC (Xi'An) Special Vehicle Co., Ltd.	2006.09.20	RMB	50,000,000.00	75.00
9 Tianjin CIMC Special Vehicle Co., Ltd.	2006.09.28	RMB	30,000,000.00	100.00
10 Chongqing CIMC Logistics Equipment Co., Ltd.	2006.09.06	USD	8,000,000.00	100.00
11 Ningbo Vehicle Sales Co., Ltd.	2006.11.28	RMB	5,000,000.00	100.00
12 Shanghai CIMC Baojian Vehicle Testing Co., Ltd.	2006.12.18	RMB	3,300,000.00	70.85
13 CIMC Europe BVBA	2006.01.18	EURO	18,550.00	100.00

Purchased company：

Name	**Date of Purchasing**	**Registered capital**		**Equity held** （%）
1 Donghua Container Transportation Service Co., Ltd	2006.06.01	USD	4,500,000.00	70.00
2 Shanghai CIMC Vehicle Testing&Repairing Co., Ltd.	2006.01.01	RMB	1,300,000.00	98.00
3 Yangzhou Tonglee Reefer Container Co., Ltd.	2006.07.01	USD	8,000,000.00	51.00
4 Shanghai Dunhua Container Co., Ltd	2006.06.01	RMB	3,780,000.00	63.00
5 MAXSHINE ENTERPRISE LIMITED	2006.01.01	USD	1.00	100.00
6 Shanghai CIMC Logistics and Services Co., Ltd.	2006.01.01	RMB	5,000,000.00	98.00