



Report of the Directors

The Board have pleasure in presenting their annual report together with the audited financial statements for the year ended 31 December 2005.

Principal activities and geographical analysis of operations

The Company is an investment holding company. The principal activities of its subsidiaries, associates and jointly controlled entities are set out in notes 44, 45 and 46 to the financial statements, respectively.

An analysis of the Group's performance for the current year by business and geographical segments is set out in note 6 to the financial statements.

Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 64.

The Board had declared an interim dividend of 17 HK cents per share, totalling HK\$370 million, which was paid on 21 November 2005.

The Directors have resolved to recommend the payment of a final scrip dividend of 33 HK cents per share, totalling HK\$753 million for the year ended 31 December 2005 by way of an issue of new shares with an alternative to the shareholders to elect to receive the final dividend (or part thereof) in cash in lieu of

such allotment (2004: scrip dividend of 30 HK cents per share by way of issue of new shares equivalent with cash alternative), payable on or around 5 July 2006 to the shareholders whose names appear on the Register of Members of the Company as at the date of the 2006 Annual General Meeting (the "Scrip Dividend Scheme").

Subject to the approval by shareholders in the 2006 Annual General Meeting, a circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or around 8 June 2006. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of the listing of and permission to deal in the new shares to be issued pursuant thereto. It is expected that the final dividend warrants and certificates for the new shares will be despatched to shareholders on or around 5 July 2006.

Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in note 34 to the financial statements.



Property, plant and equipment

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 18 to the financial statements.

Share capital

Details of the movements in share capital of the Company are set out in note 33 to the financial statements.

Distributable reserves

Distributable reserves of the Company at 31 December 2005, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$1,100 million (2004: HK\$1,504 million).

Five year financial summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 25.

Purchase, sale or redemption of shares

The Company and any of its subsidiaries has not purchased, sold or redeemed any of the Company's listed securities during the year.

Directors

The Directors in 2005 were:

Executive Directors:

Dr. Fu Yuning	
	<i>(Chairman & Managing Director – appointed as Managing Director on 31 May 2005)</i>
Mr. Zhao Huxiang	
	<i>(Vice Chairman)</i>
Mr. Li Yinquan	
Mr. Hu Zheng	
Mr. Meng Xi	
Mr. Wang Hong	<i>(appointed on 11 May 2005)</i>
Mr. Yu Liming	
Mr. To Wing Sing	
Mr. Li Yi	<i>(resigned on 31 May 2005)</i>

Independent non-executive Directors:

Mr. Tsang Kam Lan	
Mr. Kut Ying Hay	
Mr. Lee Yip Wah Peter	
Mr. Li Kwok Heem John	
Mr. Koo Kou Hwa	<i>(passed away on 21 January 2005)</i>

In accordance with Articles 91 and 97 of the Company's Articles of Association, Dr. Fu Yuning, Mr. Zhao Huxiang, Mr. Li Yinquan, Mr. Kut Ying Hay and Mr. Wang Hong will retire from the Board at the forthcoming annual general meeting but, being eligible, will offer themselves for re-election.

Each of the independent non-executive Directors has been appointed for a term of three years commencing on 22 March 2005. In addition, the appointment of each of the independent non-executive Directors is subject to retirement by rotation in accordance with the Company's Articles of Association.

The Company has received annual confirmations from each of the independent non-executive Directors in relation to their independence to the Company and considers that each of the independent non-executive Directors is independent to the Company.

Directors' service contracts

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, its holding companies, its fellow subsidiaries or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in securities

As at 31 December 2005, the interests of the Directors of the Company in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO were as follows:



Shares and Share Options in the Company

Name of director	Capacity	Nature of interest	Number of shares in the Company	Number of shares in the Company subject to share options granted ¹	Percentage of aggregate long position in shares to the issued share capital as at 31 December 2005
Dr. Fu Yuning	Beneficial owner	Personal interest	—	1,600,000	0.073%
Mr. Zhao Huxiang	Beneficial owner	Personal interest	—	700,000	0.032%
Mr. Li Yinquan	Beneficial owner	Personal interest	—	700,000	0.032%
Mr. Hu Zheng	Beneficial owner	Personal interest	—	500,000	0.023%
Mr. Meng Xi	Beneficial owner	Personal interest	—	500,000	0.023%
Mr. Wang Hong	Beneficial owner	Personal interest	—	350,000	0.016%
Mr. Yu Liming	Beneficial owner	Personal interest	—	950,000	0.043%
Mr. To Wing Sing	Beneficial owner	Personal interest	—	600,000	0.027%
Mr. Lee Yip Wah Peter	Beneficial owner	Personal interest	134,140	—	0.006%
Mr. Li Yi*	Beneficial owner	Personal interest	—	—	0.000%
			<u>134,140</u>	<u>5,900,000</u>	<u>0.275%</u>

¹ Included share options granted under the Terminated Scheme and the Existing Scheme.

Mr. Li Yi resigned on 31 May 2005

Shares in China Merchants Holdings (Pacific) Limited (“CMHP”), a subsidiary of the Company

Name of director	Capacity	Nature of interest	Number of shares in CMHP	Number of shares in CMHP subject to share options granted	Percentage of aggregate long position in shares to the issued share capital of CMHP as at 31 December 2005
Mr. Zhao Huxiang	Beneficial owner	Personal interest	400,000	—	0.09%

Save as disclosed above and based on the register maintained by the Company under Section 352 of the SFO, as at 31 December 2005, none of the Directors or chief executive of the Company or any of their associates had any interests and short positions in the shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of the SFO) which are required, pursuant to section 352 of the SFO, to be entered in the register or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), to be notified to the Company and the Stock Exchange.

Apart from the share option schemes disclosed below, at no time during the current year was any of the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to

enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share option schemes

(a) Terminated Scheme

Under the share option scheme of the Company adopted on 26 June 1992 (the “Terminated Scheme”), the Directors of the Company may, at their discretion, grant options to any director or employee of the Company or any of its subsidiaries to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares or not less than 80% of the average of the closing prices of the shares of the Company for the five trading days immediately preceding the date of offer of the options. The purpose of the Terminated Scheme was to provide an incentive to the employees and directors of the Group. The maximum number of shares in respect of which



options may be granted may not exceed 10% of the issued share capital of the Company at the time of granting of the options. Under the terms of the Terminated Scheme, a director or employee may only exercise share options granted after he or she has completed two years service with the Group.

The Terminated Scheme was terminated on 20 December 2001 (the "Termination Date") without prejudice to the rights and benefits of and attached to those options granted thereunder which are outstanding as at that date. No further grants were made after the Termination Date. Following the

termination, the provisions of the Terminated Scheme remain in force and effect to the extent necessary to give effect to the exercise of any option granted prior to the Termination Date.

As at 31 December 2005, the total number of shares which may be issued pursuant to exercise of options granted under the Terminated Scheme was 1,050,000 shares, which represented approximately 0.05% of the total issued share capital of the Company as at 31 December 2005.

Details of the outstanding share options as at 31 December 2005 which have been granted under the Terminated Scheme are as follows:

Name	Date of grant	Exercise price HK\$	Options held at 1 January 2005	Options exercised during the year Note	Options lapsed/ cancelled during the year	Other changes during the year	Options held at 31 December 2005
Directors							
Dr. Fu Yuning	1 March 2000	5.054	1,500,000	1,500,000	—	—	—
Mr. Zhao Huxiang	1 March 2000	5.054	1,100,000	1,100,000	—	—	—
			<u>2,600,000</u>	<u>2,600,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
Continuous contract employees							
(I)	1 March 2000	5.054	2,000,000	1,650,000	—	—	350,000
(II)	19 September 2000	5.615	1,050,000	700,000	—	—	350,000
(III)	24 May 2001	5.630	—	—	—	—	—
(IV)	6 July 2001	5.610	700,000	350,000	—	—	350,000
			<u>3,750,000</u>	<u>2,700,000</u>	<u>—</u>	<u>—</u>	<u>1,050,000</u>
			<u>6,350,000</u>	<u>5,300,000</u>	<u>—</u>	<u>—</u>	<u>1,050,000</u>

The above outstanding share options may be exercised at any time during a period of 6 years commencing on the date of grant of the options.

Note:

The weighted average closing market price per share immediately before the dates of which the share options were exercised was HK\$10.98.

(b) Existing Scheme

Under the share option scheme (the "Existing Scheme") approved by the shareholders of the Company at an Extraordinary General Meeting of the Company held on 20 December 2001 (the "Adoption Date"), the Board may, at their discretion, invite any director or employee of the Company or any of its subsidiaries or associates ("Eligible Persons"), to take up options to subscribe for fully paid ordinary shares in the Company subject to the terms and conditions stipulated therein.

In view of the on-going support given to the Company by the CMHK Group (representing China Merchants Holdings (Hong Kong) Company Limited, an intermediate holding company of the Company, together with its subsidiaries (excluding the Group and associated companies), the Board considered that it is in the best interest of the Company to extend the Existing Scheme to directors and employees of members of the CMHK Group. A resolution was passed at the Extraordinary General Meeting held on 27 August 2002 to amend the Existing Scheme to effect such extension of Eligible Persons.

Details of the Existing Scheme are as follows:

(i) Purpose

The purpose of the Existing Scheme is to provide the Company with a flexible means of incentivising, rewarding, remunerating, compensating and/or providing benefits to Eligible Persons.

(ii) Qualifying participants

Any Eligible Person.

(iii) Maximum number of shares

(1) 10% limit

Subject to (iii) (2) and (iii) (3) below, the total number of shares which may be issued upon exercise of all options to be granted under the Existing Scheme and any options granted under the Terminated Scheme must not in aggregate exceed 10% of the shares in issue as at the Adoption Date. Options lapsed in accordance with the terms of the Existing Scheme and the Terminated Scheme will not be counted for the purpose of calculating the 10% limit.

(2) Refreshing the 10% limit

Subject to (iii)(5) below if applicable, the Board may, with the approval of the shareholders in general meeting "refresh" the 10% limit under (iii) (1) above (and may further "refresh" such limit once refreshed in

accordance with the provisions of this rule), provided that the total number of shares which may be issued upon the exercise of all options to be granted under the Existing Scheme and options granted under the Terminated Scheme under the limit as refreshed shall not exceed 10% of the shares in issue at the date on which the shareholders approve the "refreshed" limit. Options previously granted under the Existing Scheme and the Terminated Scheme (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the relevant schemes) will not be counted for the purpose of calculating the limit as "refreshed".

(3) Exceeding the 10% limit

The Board may grant option to any Eligible Person or Eligible Persons specifically identified by them which would cause the limit under (iii) (1) above (including, for the avoidance of doubt, any such limit as "refreshed" under (iii) (2) above) to be exceeded, but only with the approval of the shareholders of the Company in general meeting, and subject always to (iii) (5) below.

(4) Individual limit

- (a) Subject to (iii) 4 (b) below (and subject always to (iii) (5) below), the Board shall not grant any option (the "Relevant Options") to any Eligible Person which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued or to be issued to him under all options granted to him in the 12 month period up to and including the offer date of the relevant options, exceed 1% of the shares in issue at such date.
- (b) Notwithstanding (iii) 4 (a) above, the Board may grant options to any Eligible Person or Eligible Persons causing the limit under (iii) 4 (a) above in relation to such Eligible Person to be exceeded, but only with the approval of the shareholders of the Company in general meeting (with such Eligible Person and his associates abstaining from voting), and subject always to (iii) (5) below.

(5) 30% maximum limit

The number of shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Existing Scheme and the Terminated Scheme to Eligible Persons must not exceed 30% of the shares in issue from time to time.

(iv) Option period

Subject to certain provisions, an option under the Existing Scheme which is vested and has not lapsed may be exercised at any time up to the expiry of 10 years (or less, as the case may be) from the date of grant of the option. The exercise of the options may be subject to any conditions imposed by the Board at the time of offer. The rules of the Existing Scheme do not contain specific provisions for the minimum period which an option must be held before exercise or performance targets applicable to the options.

(v) Payment on acceptance of option

Option-holders are not required to pay for acceptance of an option.

(vi) Exercise price

The subscription price for the shares in respect of which options are granted shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date, the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date and the nominal value of the shares.

(vii) The remaining life of the Existing Scheme

The life of the Existing Scheme is 10 years commencing on the Adoption Date and will end on 19 December 2011.

(viii) Shares available for issue under the Existing Scheme

As at 31 December 2005, the total number of shares which may be issued pursuant to the exercise of options granted under the Existing Scheme was 27,371,000 shares.

As at 31 December 2005, the total number of shares available for issue under the Existing Scheme was 151,537,238 shares, which represented approximately 6.64% of the total issued share capital of the Company.



Details of the share options outstanding at 31 December 2005 which have been granted under the Existing Scheme are as follows:

Name	Date of grant	Exercise price HK\$	Options held at 1 January 2005	Options granted during the year	Options exercised during the year	Options lapsed/ cancelled during the year	Other changes(+/-) during the year	Options held at 31 December 2005
Directors								
Dr. Fu Yuning	11 October 2002	4.985	600,000	–	–	–	–	600,000
	27 October 2004	11.08	1,000,000	–	–	–	–	1,000,000
Mr. Zhao Huxiang	11 October 2002	4.985	300,000	–	300,000	–	–	–
	27 October 2004	11.08	700,000	–	–	–	–	700,000
Mr. Li Yinquan	11 October 2002	4.985	300,000	–	100,000	–	–	200,000
	27 October 2004	11.08	500,000	–	–	–	–	500,000
Mr. Hu Zheng	27 October 2004	11.08	500,000	–	–	–	–	500,000
Mr. Meng Xi	11 October 2002	4.985	700,000	–	700,000	–	–	–
	27 October 2004	11.08	500,000	–	–	–	–	500,000
Mr. Wang Hong*	27 October 2004	11.08	–	–	–	–	+350,000	350,000
Mr. Yu Liming	11 October 2002	4.985	450,000	–	–	–	–	450,000
	27 October 2004	11.08	500,000	–	–	–	–	500,000
Mr. To Wing Sing	27 October 2004	11.08	600,000	–	–	–	–	600,000
Mr. Li Yi**	11 October 2002	4.985	900,000	–	900,000	–	–	–
	27 October 2004	11.08	1,000,000	–	–	1,000,000	–	–
			<u>8,550,000</u>	<u>–</u>	<u>2,000,000</u>	<u>1,000,000</u>	<u>+350,000</u>	<u>5,900,000</u>

* Mr. Wang Hong was appointed as a Director on 11 May 2005. These options were granted to Mr. Wang Hong as an employee of China Merchants Holdings (Hong Kong) Company Limited, the intermediate holding company of the Company.

** Mr. Li Yi resigned on 31 May 2005.

Name	Date of grant	Exercise price HK\$	Options held at 1 January 2005	Options granted during the year	Options exercised during the year	Options lapsed/ cancelled during the year	Other changes(+/-) during the year	Options held at 31 December 2005	
Continuous contract employees									
(I)	The Group	11 October 2002	4.985	2,950,000	–	1,750,000	150,000	–	1,050,000
		27 October 2004	11.08	14,360,000	–	389,000	800,000	–	13,171,000
(II)	The CMHK	11 October 2002	4.985	1,600,000	–	350,000	–	–	1,250,000
	Group	27 October 2004	11.08	6,400,000	–	50,000	200,000	-350,000*	5,800,000
		4 May 2005	15.31	–	200,000	–	–	–	200,000
				<u>25,310,000</u>	<u>200,000</u>	<u>2,539,000</u>	<u>1,150,000</u>	<u>-350,000</u>	<u>21,471,000</u>
				<u>33,860,000</u>	<u>200,000</u>	<u>4,539,000</u>	<u>2,150,000</u>	<u>–</u>	<u>27,371,000</u>

The above outstanding share options can be exercised at any time during a period of 10 years commencing on the date of grant of the options.

Note:

1. The closing price of the share immediately before the date of grant (i.e. 4 May 2005) during the year was HK\$15.3.
2. The weighted average closing price per share immediately before the dates of which the share options were exercised was HK\$15.55.
3. Value of options

The value of the options that were granted under the Existing Scheme as of 4 May 2005 is reasonably

stated by the amount of HK\$3.331 per option. The valuation of each option is based on the closing price of the shares of the Company as at the date of grant of the option or the following trading day if the date of grant falls on either a Saturday or a Sunday.

The methodology applied in valuing each option is the Black-Scholes option pricing model. As the Black-Scholes option pricing model applies to stocks that do not pay dividends, a popular approach was suggested to approximate the option value of dividend-paying stock, that is adjusting the stock price downward by the present value of any dividends that are to be paid before the exercise of option.

In the calculation of the value of an option to be granted under the Existing Scheme, we have made the following assumptions:

- (a) the Eligible Person has the right to exercise the option at any time within the 10-year period from the date of grant to the expiration date of the option (the "Option Period");
- (b) in the event the option is not exercised within the Option Period, the Eligible Person will hold the option until the expiration date of the option;
- (c) if the option is exercised within the Option Period and before the last day of the Option Period, the exercise will happen on the day immediately before any of the ex-dividend dates;
- (d) dividends will be distributed to the Shareholders twice a year. The ex-dividend dates will be on 29 April and 28 September, or the following trading day if 29 April or 28 September falls on either a Saturday or a Sunday;
- (e) the growth rate of the future dividends of the Company will follow the growth rate of earnings per share that are assumed in the Bloomberg Professional service; and
- (f) number of trading days per year is 260.

Given the above assumptions and the inherent limitations of the Black-Scholes option pricing model, shareholders and other investors are hereby warned of the subjectivity and uncertainty of the aforementioned values of the options.

(c) China Merchants Holdings (Pacific) Limited - 2002 Scheme

China Merchants Holdings (Pacific) Limited Share Option Scheme 2002 (the "CMHP 2002 Scheme") was approved and adopted by its members at an extraordinary general meeting held on 30 May 2002. The life of the CMHP 2002 Scheme is 10 years commencing on 30 May 2002. The CMHP 2002 Scheme is administered by the CMHP Remuneration Committee, which comprises the following directors of CMHP:

Dr Hong Hai (*Chairman*)
 Dr Lim Heng Kow
 Mr Jiang Yan Fei

Details of the CMHP 2002 Scheme are as follows:

(i) Purpose

The purpose of the CMHP 2002 Scheme is to provide CMHP with a flexible means of incentivising, rewarding, remunerating, compensating and/or providing benefits to the employees of the CMHP Group.

(ii) Qualifying participants

Confirmed employees, directors of the CMHP Group and employees of associated companies are eligible to participate in the CMHP 2002 Scheme at the absolute discretion of the CMHP Remuneration Committee.

Directors and employees of the CMHP's parent company and its subsidiaries (other than the CMHP Group) are not allowed to participate in the CMHP 2002 Scheme. Controlling shareholders and their associates are also not eligible to participate in the CMHP 2002 Scheme.

(iii) Maximum number of shares

Total number of CMHP shares which may be granted in accordance with the CMHP 2002 Scheme to any of the participants shall not exceed 10% of the total number of CMHP Shares available throughout the entire duration of the CMHP 2002 Scheme.

(iv) Size of Scheme

Total number of shares issued under the CMHP Terminated Scheme and the CMHP 2002 Scheme shall not exceed 15% of CMHP's issued share capital.

(v) Payment on acceptance of option

Option-holders are required to pay S\$1.00 for acceptance of an option.

(vi) Exercise Price

S\$1.00 or such other amount as required by the CMHP Remuneration Committee is payable upon acceptance of an option. Exercise price may be exercised at the market price as well as at a price set at a discount to the market price provided that maximum discount shall not exceed 20% of the market price.

The exercise price shall, in no event, be less than the nominal value of the CMHP Shares.

(vii) Option Period

Options granted with the exercise price set at market price may be exercised after the first anniversary of the offer date. If options are granted with exercise price set at a discount to market price, options may be exercised after the second anniversary of the offer date.

The life span of an option granted to a CMHP non-executive director is 5 years from the offer date. The life span of options granted to an employee or an executive director of the CMHP Group is 10 years from the offer date.

(viii) Options granted during the year

During the financial year, no options were granted under the CMHP 2002 Scheme.

**(ix) Issue of shares under option**

During the financial year, CMHP issued a total of 1,850,000 ordinary shares of S\$0.50 each fully paid at the exercise price of S\$0.50 per share for cash upon the exercise of options granted under the CMHP 2002 Scheme.

(x) CMHP Shares available for issue under the CMHP 2002 Scheme

As at 31 December 2005, the total number of shares which may be issued pursuant to the exercise of the options granted under the CMHP 2002 Scheme was 500,000 CMHP Shares, which represented approximately 0.11% of the total issued share capital of CMHP.

Details of the share options outstanding at 31 December 2005 which have been granted under the CMHP 2002 Scheme are as follows:

Name	Date of grant	Exercise price per share S\$	Options held at 1 January 2005	Options exercised during the year Note	Options lapsed/ cancelled during the year	Other changes during the year	Options held at 31 December 2005
Directors							
Zhao Huxiang	10 February 2003	0.5	400,000	(400,000)	—	—	—
Continuous contract employees							
	10 February 2003	0.5	2,050,000	(1,450,000)	(100,000)	—	500,000

The above outstanding share options can be exercised at any time during a period of 5 or 10 years commencing on the date of grant of the options.

Note:

1. CMHP is a company listed in Singapore. The Company's interest in CMHP as at 31 December 2005 is 71.92%.
2. Since 10 February 2003, CMHP has not issued any share options pursuant to the CMHP Terminated Scheme or the CMHP 2002 Scheme.

Substantial shareholders

As at 31 December 2005, the following persons, other than a Director or chief executive of the Company, have interest or short position in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO:

Long Positions

Name of substantial shareholder	Capacity	Number of shares/ underlying shares held	Total interest	Total interest as percentage of issued shares
China Merchants Group Limited	Interest of Controlled Corporation	1,261,926,264	1,261,926,264 (Notes 1 & 2)	57.50%
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	1,155,007,562	1,155,007,562 (Notes 1 & 2)	52.63%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	1,155,007,562	1,155,007,562 (Notes 1 & 2)	52.63%
China Merchants Union (BVI) Limited	Beneficial Owner	329,509,916	329,509,916 (Notes 1 & 2)	15.01%
Cheer Far Development Limited	Beneficial Owner	526,774,369	526,774,369 (Notes 1 & 2)	24.00%
Blue Sky International Investments Limited	Beneficial Owner	179,060,950	179,060,950 (Notes 1 & 2)	8.16%



Notes:

1. 1,261,926,264 shares held by China Merchants Group Limited represent the aggregate of 329,509,916 shares held by China Merchants Union (BVI) Limited, 526,774,369 shares held by Cheer Far Development Limited, 179,060,950 shares held by Blue Sky International Investments Limited, 103,185,182 shares held by Bluewater International Investments Limited, 84,952,620 shares held by Super Talent Group Limited, 16,477,145 shares held by Best Winner Investment Limited, 19,894,192 shares held by Orienture Holdings Company Limited, and 2,071,890 shares held by Orienture International Financing Limited.
2. China Merchants Group Limited is deemed to be interested in the shares held by its wholly-owned subsidiaries Orienture International Financing Limited, Super Talent Group Limited, Orienture Holdings Company Limited, Best Winner Investment Limited, Bluewater International Investments Limited, Blue Sky International Investments Limited, Cheer Far Development Limited, China Merchants Union (BVI) Limited, China Merchants Holdings (Hong Kong) Company Limited and China Merchants Steam Navigation Company Limited.

Short Positions

Nil

Save as disclosed above, there was no person, other than a Director or chief executive of the Company, who has an interest or short position in the shares and underlying shares of the Company as recorded in the register of the Company kept under section 336 of the SFO.

Connected transactions

During the year ended 31 December 2005, the Group entered into the following transactions, which constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

- (a) On 3 October 2005, the Company and China Merchants Technology Holdings Company Limited, an indirect wholly-owned subsidiary of China Merchants Group Limited ("CMG"), the ultimate holding company of the Company, entered into a sale and purchase agreement for the disposal by the Company of the entire issued share capital of Fair Win Developments Limited, which holds approximately 43.38% of the issued share capital of CMF Technology Fund I Ltd., for a cash consideration of US\$19,470,000 (approximately HK\$151,866,000).
- (b) On 6 October 2005, Pacific Paradise Assets Limited, a wholly-owned subsidiary of the Company, and Modern Terminals Limited ("MTL") entered into a share repurchase agreement whereby MTL repurchased 1,933 ordinary shares of HK\$1,000 each of its issued share capital for a total consideration of HK\$413,674,274.55. MTL is a connected person of the Company as it owns a 40% interest in MTL Chiwan Holdings Limited, which is a subsidiary owned as to 60% by the Company.

- (c) On 14 December 2005, the Company entered into a sale and purchase agreement with China Merchants Holdings (Hong Kong) Company Limited and China Merchants Shekou Industrial Zone Company Limited ("CMSIZ"), each of them is a wholly-owned subsidiary of CMG, and Super Talent Group Limited, an indirect wholly-owned subsidiary of CMSIZ. Pursuant to the agreement, the Company agreed to acquire certain land properties in Shekou, Shenzhen, the PRC for a total consideration of approximately HK\$2,066 million.
- (d) Details of the continuing connected transactions of the Group for the year are set out below:

Name of party	Nature of transaction	Note	Income/ (expenses) HK\$'000
Hempel A/S and its fellow subsidiaries	Royalties charged to the Group	(i), (ii)	(39,954)
	Sales of paints by the Group	(i), (iii)	155,595
	Sourcing services to the Group	(i), (iv)	(3,845)
China Merchants Godown Wharf and Transportation Company Limited ("CMGW")	Rental of use of nine vessels charged to the Group	(v)	(3,024)
China Merchants Property Development Co., Ltd. ("CMPD")	Rental of properties and plants and equipment charged to the Group	(vi)	(10,067)
Euroasia Dockyard Enterprise and Development Limited ("Euroasia")	Rentals of properties at Tsing Yi Terminal charged to the Group	(vii)	(20,285)



Name of party	Nature of transaction	Note	Income/ (expenses) HK\$'000
Hoi Tung Marine Machinery Suppliers Limited ("Hoi Tung")	Rentals of warehouse charged to the Group and transportation service fee charged to the Group	(viii)	(4,050)
	Rentals of properties by the Group	(ix)	2,760
Yiu Lian Dockyards Limited ("Yiu Lian")	Rentals of properties at Tsing Yi Terminal charged to the Group	(x)	(5,589)
	Ship berthing service fee charged to the Group	(xi)	(3,647)
China Merchants Holdings (Hong Kong) Company Limited ("CMHK")	Rentals of properties by the Group	(xii)	16,056
Hong Kong Ming Wah Shipping Co., Ltd ("Ming Wah")	Rentals of properties by the Group	(xiii)	5,580

Notes:

- (i) Hempel A/S (also known as I.C.H. Industrial and Commercial Holding ApS, which is registered as a secondary name) is a substantial shareholder of Hempel-Hai Hong (China) Limited, a non wholly-owned subsidiary of the Group, and hence a connected person of the Company.
- (ii) Royalties were paid by Hempel-Hai Hong (China) Limited to Hempel A/S pursuant to the joint venture agreement

dated 9 October 1991 (as amended) and the Technology and Trademark Licence Agreement dated 15 February 1996 between Hempel A/S, Hai Hong Industry (Shenzhen) Co. Ltd. and Hempel-Hai Hong (China) Limited. Hai Hong Industry (Shenzhen) Co. Ltd. is a wholly-owned subsidiary of the Group and Hempel-Hai Hong (China) Limited is a joint venture company which is owned as to 64% by the Group and 36% by Hempel A/S. Royalties were based on percentages of the net sales of paints and negotiated on an arms-length basis.

- (iii) Hempel-Hai Hong (China) Limited, a 64% owned subsidiary of the Group, entered into a master purchase agreement with Hempel A/S for a term of two years with effect from 1 January 2005. Under the master purchase agreement, Hempel-Hai Hong (China) Limited sold to Hempel A/S and its subsidiaries finished marine paint products. Sales of paints were determined by Hempel-Hai Hong (China) Limited on the basis of its total production costs for the products plus a mark-up and the selling prices in general were no less favourable to Hempel-Hai Hong (China) Limited than the prices Hempel-Hai Hong (China) Limited would obtain from independent third parties on similar terms.
- (iv) Hempel-Hai Hong (China) Limited, a 64% owned subsidiary of the Group, entered into a master sourcing agreement with Hempel A/S for a term of two years commencing on 1 January 2005. Pursuant to the master sourcing agreement, Hempel A/S and its subsidiaries acted as buying agents of Hempel-Hai Hong (China) Limited to source unfinished paint products from third party suppliers. Such sourcing services were charged at a rate of 4% of the purchase price payable Hempel-Hai Hong (China) Limited for the unfinished paint products.
- (v) China Merchants Container Services Limited ("CMCS"), a wholly-owned subsidiary of the Company, entered into various ship leasing agreements with CMGW, a subsidiary of CMG and hence a connected person of the Company, on 1 November 2005 for a term of commencing on 1 November 2005 and ending on 31 December 2007. Pursuant to these agreements, CMGW agreed to lease to CMCS the use of several vessels. The rental paid by CMCS was based on the depreciation charges of the vessels.
- (vi) China Merchants Port Services (Shenzhen) Company Limited ("CMSPS"), a wholly-owned subsidiary of the Group, entered into an agreement with China Merchants Property Development Co., Ltd. ("CMPD") on 8 December 2005 in relation to the lease by CMSPS from CMPD of certain properties and plants and equipment for the operation of the port of Shekou, Shenzhen. The agreement is for a term of 12 months commencing on 1 January 2006 and ending on 31 December 2006. CMPD is an associate (as defined in the Listing Rules) of CMG and hence a connected person of the Company. The rental paid by CMSPS was based on the market value of the properties and depreciation charges of the plants and equipment.
- (vii) CMCS entered into a rental agreement with Euroasia on 1 November 2001 for the use of certain properties owned by Euroasia in connection with the operation of the business of CMCS at Tsing Yi Terminal. Pursuant to a supplemental agreement entered into on 1 November 2004, the rental agreement has been amended to have a term of two years commencing on 1 November 2004 at annual rental of HK\$20,285,000.
- (viii) Hempel-Hai Hong (China) Limited, a 64% owned subsidiary of the Group, entered into a rental and service agreement with Hoi Tung on 1 November 2005 for the rental of warehouse space from Hoi Tung and the provision of cargo management and paint shipping services by Hoi Tung. The agreement is for a term of one year commencing on 1 November 2005. The rental and the management and transportation service fee were charged at negotiated prices based on market rates. Hoi Tung is a subsidiary of CMG and therefore is a connected person of the Company.
- (ix) Universal Sheen Investment Limited ("Universal Sheen"), a wholly-owned subsidiary of the Group, entered into a tenancy agreement with Hoi Tung on 2 April 2004 for the rental of a property for a term of 2 years commencing on 1 March 2004 at a rental charge of HK\$229,536 per month.
- (x) CMCS entered into a rental agreement with Yiu Lian, a wholly-owned subsidiary of CMG and hence a connected person of the Company, on 8 November 2001 for the use by CMCS of certain properties owned by Yiu Lian in connection with the operation of the business of CMCS at Tsing Yi Terminal. Pursuant to a supplemental agreement entered into on 1 November 2004, the rental agreement has been amended to have a term of two years commencing on 1 November 2004 at a rental charge of HK\$5,589,000 per annum.
- (xi) CMCS entered into a ship berthing services agreement with Yiu Lian on 1 November 2005 pursuant to which Yiu Lian provided barges to bring ships into a port. The agreement is for a term of one year commencing 1 November 2005. The ship berthing services charged were by reference to market rates.

- (xii) Universal Sheen, a wholly-owned subsidiary of the Group, entered into a tenancy agreement with CMHK, the intermediate holding company of the Company, on 2 April 2004 for the rental of a property for a term of 2 years commencing on 1 February 2004 at a rental charge of HK\$1,338,168 per month.
- (xiii) Universal Sheen, a wholly-owned subsidiary of the Group, entered into a tenancy agreement with Ming Wah, a wholly-owned subsidiary of CMG, on 2 April 2004 for the rental of a property for a term of 2 years commencing on 1 February 2004 at a rental charge of HK\$465,030 per month,
- (e) The independent non-executive Directors have reviewed the continuing connected transactions set out in paragraph (d) of this section above. In their opinion, these transactions were:
- (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms; and
 - (iii) in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.
- The independent non-executive Directors further opined that:
- (i) in respect of the use of the technology, management knowhow and trademarks of Hempel A/S by Hempel which is referred to in note (ii) of paragraph (d) of this section, the aggregate royalty fee charged to the Group has not exceeded HK\$42,500,000, the annual cap for the year ended 31 December 2005;
 - (ii) in respect of the sale of paint products to Hempel A/S, which is referred to in note (iii) of paragraph (d) of this section, the aggregate amount of sales has not exceeded HK\$185,000,000, the annual cap for the year ended 31 December 2005;
 - (iii) in respect of the sourcing services provided by Hempel A/S, which is referred to in note (iv) of paragraph (d) of this section, the aggregate amount of service fees has not exceeded HK\$3,913,000, the annual cap for the year ended 31 December 2005;
 - (iv) in respect of the leasing of the nine vessels by CMGW to CMCS, which details are set out in note (vi) to paragraph (d) of this section, the aggregate rental has not exceeded HK\$504,000, the cap for the two months' period from 1 November 2005 to 31 December 2005;
 - (v) in respect of the lease by CMSPS from CMPD of certain properties and plants and equipment for the operation of the port of Shekou, Shenzhen, which details are set out in note (vii) to paragraph (d) of this section, the aggregate rental has not exceeded HK\$14,950,000, the annual cap for the year ended 31 December 2005;
 - (vi) in respect of the use of certain properties owned by Euroasia in connection with the operation of the business of CMCS at Tsing Yi Terminal, which details are set out in note (viii) to paragraph (d) of this section, the aggregate rental has not exceeded HK\$20,285,000, the annual cap for the year ended 31 December 2005;

(vii) in respect of the rental of warehouse and the transportation services provided by Hoi Tung, which details are set out in note (ix) to paragraph (d) of this section, the aggregate amount of rentals and service fees for the ten months' period from 1 January 2005 to 31 October has not exceeded HK\$3,834,000, which is the cap for such 10 months' period. The aggregate amount of rentals and service fees for the two months' period from 1 November 2005 to 31 December 2005 has not exceeded HK\$2,900,000, which is the cap for the 1-year period from 1 November 2005 to 31 October 2006;

(viii) in respect of the use of certain properties owned by Yiu Lian in connection with the operation of the business of CMCS at Tsing Yi Terminal, which details are set out in note (x) to paragraph (d) of this section, the aggregate rental has not exceeded HK\$5,589,000, the annual cap for the year ended 31 December 2005;

(ix) in respect of the ship berthing services provided by Yiu Lian, which details are set out in note (xi) to paragraph (d) of this section, the aggregate amount of service fees for the ten months' period from 1 January 2005 to 31 October has not exceeded HK\$3,400,000, which is the cap for such 10 months' period. The aggregate amount of service fees for the two months' period from 1 November 2005 to 31 December 2005 has not exceeded HK\$5,900,000, which is the cap for the 1-year period from 1 November 2005 to 31 October 2006.

The Board of Directors has received a letter from the auditors of the Company stating that the continuing connected transactions set out in paragraph (d) of this section:

- (A) have received the approval of the Company's Board of Directors;
- (B) were in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
- (C) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and
- (D) where applicable, have not exceeded the caps as disclosed in previous announcements.

Management contracts

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

Major customers and suppliers

The aggregate amount of sales and purchases attributable to the Group's five largest customers and suppliers represented less than 30% of the Group's total sales and purchases in 2005 respectively.

At no time during the year had the Directors, their associates or any shareholder (who to the knowledge of the Directors own(s) more than 5% of the Company's share capital) had any interest in these major customers and suppliers.



Public float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Audit Committee

The revised written terms of reference which describe the authority and duties of the Audit Committee were prepared and adapted with reference to "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. On 3 January 2005, the Company has adopted further revised terms of reference for its Audit Committee to comply with the Code on Corporate Governance as set out in Appendix 14 to the Listing Rules.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises four independent non-executive Directors, namely Mr. Tsang Kam Lan, Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter and Mr. Li Kwok Heem John. Four meetings were held during the year.

Subsequent event

Details of subsequent event of the Company are set out in note 43 to the financial statements.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retired and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Dr. Fu Yuning

Chairman

Hong Kong, 3 April 2006